FDIC NEWS RELEASE

FEDERAL DEPOSIT INSURANCE CORPORATION

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FDIC CHAIRMAN URGES INCREASED RELIANCE ON MARKETPLACE DISCIPLINE

FDIC Chairman William M. Isaac today called for increased marketplace discipline as the key to controlling destructive competition and excessive risk-taking in the banking industry.

He told the Independent Bankers Association of America meeting in San Diego, California, there are two options, in a deregulated banking environment, to control risk-taking and assure that deposits flow to the vast majority of banks which are prudently operated.

"We can adopt countless new laws and regulations to govern every aspect of your operations and hire thousands of additional examiners to monitor and enforce compliance. Or, we can seek ways to increase marketplace discipline. The FDIC clearly prefers to allow the marketplace to function to the maximum extent possible. We are flatly opposed to unnecessary regulations."

Chairman Isaac cited current and possible future FDIC actions he believes will encourage marketplace discipline:

. Providing increased information to the banking public. "This is the reason we have decided to make public the new call report data on interest rate sensitivity and nonperforming loans and why we are considering additional disclosure covering matters such as insider lending practices and enforcement actions," he said.

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. Revising the procedures for handling bank failures to require that large depositors (those over the insurance limit) share in the risk of loss even when a failed institution is merged into another bank.

Mr. Isaac called for strengthening and simplifying the regulatory system by consolidating the federal regulators of financial institutions into an independent agency headed by a board. Under this concept the FDIC would remain a separate agency with insurance responsibility for all state- and federally chartered banks and savings and loan associations. All securities regulation would be handled by the Securities Exchange Commission, antitrust enforcement would become the exclusive province of the Justice Department, and consumer compliance matters would be administered by the Federal Trade Commission.

Mr. Isaac reassured the bankers about the strength of the FDIC insurance fund. While acknowledging a significant increase in the number of problem banks and bank failures, he said the problems were anticipated and were handled in a manner that maintained public confidence in the system.

He said the FDIC insurance fund is sound and growing despite the extraordinary cost of handling recent bank failures, amounting to about a billion dollars in each of the past two years. "At the beginning of 1981, the fund totalled $11 billion; today it exceeds $14 billion, after absorbing the full impact of over 60 failures. FDIC revenue from assessments and interest on investments will approach $3 billion this year," he said.

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