**SUMMARY OF STATEMENT BY CHAIRMAN HELFER**
**FEDERAL DEPOSIT INSURANCE CORPORATION**
**ON REGULATORY BURDEN AND RELATED ISSUES**
**MAY 2, 1995, SENATE BANKING COMMITTEE**

The FDIC supports the purposes of H.R. 650, the Economic Growth and Regulatory Paperwork Reduction Act of 1995 and, with a few exceptions, endorses the specific changes in the law.

Chairman Helfer begins her statement by setting forth three specific criteria that should be used to test the necessity for and effectiveness of current laws and regulations. These are: 1) whether the regulations are necessary to ensure a safe and sound banking system, 2) whether the regulations enhance the functioning of the marketplace, and 3) whether the regulations can be justified on strong public policy grounds related to consumer protection.

The Chairman then discusses the results of an informal survey of banks conducted by the FDIC on the potential savings that might be associated with the repeal or modification of specific legislative or regulatory requirements. Next, her statement comments on the legislation introduced by Chairman Shelby, S. 650. Then, she reviews current efforts of the FDIC to alleviate regulatory burden in the safety and soundness and consumer compliance areas -- some commenced at the FDIC's own initiative, others with the impetus of legislation. Finally, she proposes additional statutory changes to further reduce regulatory burden on insured institutions.

## FDIC Survey

Within the past month, the FDIC conducted an informal survey of just over 60 institutions that the FDIC supervises in order to gauge the potential cost savings from the elimination of specific legislative requirements and regulations currently on the books. The regulatory and legislative requirements surveyed included: Truth in Lending and Truth in Savings disclosures, loan data collection and reporting, auditor attestation requirements for bank compliance with laws and regulations, as well as the cost of various applications and notifications. While the survey was informal -- and, therefore, cannot be used to make industry-wide estimates -- the FDIC believes the results support two general conclusions. First, small institutions bear higher proportionate costs than larger ones. Second, the responses clearly suggest that positive cost savings could be achieved if the surveyed requirements were eliminated. Taken together, the FDIC estimates that the savings from completely eliminating all requirements covered in the survey could increase the annual rate of return on assets from 5 to 10 basis points on a pre-tax basis for institutions the FDIC supervises.

**Comments on S. 650**

The FDIC believes that S. 650 is a strong attempt to address regulatory burden and the effectiveness of applicable statutes.

Truth in Lending. The FDIC is supportive of the revisions to TILA prescribed by S. 650.

The Community Reinvestment Act of 1977. The FDIC urges the Subcommittee to allow the agencies to implement the new CRA rule and to evaluate its effectiveness in reducing regulatory burden before instituting further changes to the CRA, such as a small bank exemption and a safe harbor. The new CRA rule should be given an opportunity to demonstrate that it does what the agencies intend -- allow banks, large and small alike, to focus on lending, not on paperwork. If the regulation is effective, there will be more confidence in the CRA ratings and less reason for protest.

Truth in Savings. While the FDIC supports reducing the complexity and regulatory burden imposed by TISA, the agency cautions the Subcommittee that such a sweeping amendment would eliminate some of the initial disclosures that provide meaningful assistance to bank customers in their effort to comparison shop for deposit products. The FDIC recommends that the Subcommittee consider legislation that directs the Federal Reserve Board to review Regulation DD and revise those specific sections that do not enhance the ability of consumers to make informed decisions about deposit products and accounts.

Examinations. The FDIC does not believe it is prudent at this time to extend the maximum permissible examination cycle for certain small institutions from 12 or 18 months to 24 months. It was the FDIC's experience in the mid-1980s, that examination cycles were stretched out for small institutions on the theory that they did not present systemic risk problems. In fact, serious problems developed in the interim and these problems went undetected for some time. In some cases, they ultimately caused significant losses to the deposit insurance funds. The FDIC recommends no change in the law with respect to the examination cycle.

FDIC Board Composition. The FDIC supports the concept of assuring state bank regulatory experience on the FDIC Board. The agency, however, strongly suggests that consideration be given to keeping the Board at five persons for administrative ease, while designating that one of the seats be held by an individual with state bank regulatory experience. This would allow the individual to commit full-time to FDIC matters. The addition of another part-time member to the FDIC Board would result in over half of the board members being part-time.

Other Provisions. The FDIC supports provisions of the bill with respect to branch approvals and closures, notice requirements for new board members or senior executive officers, liberalization of the requirements governing insider lending, abolishment of the Appraisal Subcommittee, review of agency regulations every ten years, repeal of call report requirements for small business and small farm loans, increasing the size of banks required to report under HMDA, and self-testing for compliance with the fair lending laws. The FDIC opposes the provisions of the bill with respect to due process that undermine our ability to protect a bank conservatorship or receivership.

**Current Efforts of the FDIC to Reduce Regulatory Burden**

The testimony also reviews specific burden reduction efforts that the FDIC has already taken. The examples fall in the categories of safety and soundness examinations, compliance examinations, and regulation review and streamlining. In addition, in accordance with section 303 of the Riegle Community Development and Regulatory Improvement Act of 1994, the FDIC initiated a complete review of the agency's regulations and policy statements in an effort to identify those that have become obsolete or those for which the cost to comply substantially outweighs the intended benefits.

**Additional Statutory Suggestions to Reduce Regulatory Burden**

The FDIC offers additional statutory changes that would help reduce regulatory burden without compromising safety and soundness. For example, the FDIC recommends repealing section 39 of the FDI Act that requires federal banking agencies to prescribe operational managerial standards for all insured depository institutions.

The FDIC concludes by urging Congress to continue to review the many laws and resulting regulations that institutions find most burdensome. The review should be subject to the same criteria referred to in the outset of the testimony.