

*Speech*  
*Banking*  
*17*  
Address before the inter-regional training  
conference

ADDRESS BY

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FEDERAL DEPOSIT INSURANCE CORPORATION

BEFORE THE

INTER-REGIONAL TRAINING CONFERENCE

NEW ORLEANS MARRIOTT HOTEL  
NEW ORLEANS, LOUISIANA

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FOR INTERNAL USE ONLY

I TAKE GREAT PLEASURE /IN HELPING TO OPEN/THIS FIRST  
INTER-REGIONAL EXAMINER CONFERENCE. I HOPE ~~YOU WILL~~<sup>YOU'LL</sup> FIND IT  
USEFUL/AS AN EDUCATIONAL PROGRAM/AND AS A MEANS TO MEET YOUR  
COLLEAGUES FROM OTHER REGIONS/AND EXCHANGE IDEAS.

WHEN I BECAME CHAIRMAN LAST AUGUST,/I PERCEIVED A NEED TO  
IMPROVE COMMUNICATIONS/THROUGHOUT THE CORPORATION. THE BEST  
POLICIES CAN BE RENDERED INEFFECTIVE/IF WE FAIL TO CLEARLY  
ARTICULATE/BOTH THE POLICIES/AND THE REASONS FOR THEIR ADOPTION.

~~WE HAVE~~<sup>WE'VE</sup> MADE A MAJOR EFFORT/TO IMPROVE COMMUNICATIONS.  
OUR MANAGEMENT SYSTEM/EMPHASIZES GROUP DECISION-MAKING. TASK  
FORCES HAVE BEEN FORMED/TO DELVE INTO VARIOUS SUBJECTS. THE  
FDIC NEWS/HAS BEEN EXPANDED AND IMPROVED. ARD MEETINGS HAVE BEEN  
REINSTITUTED. ABOUT ONCE EACH MONTH/I AND MEMBERS OF MY STAFF/  
MEET WITH EXAMINERS AT THE TRAINING CENTER.

THE INTER-REGIONAL CONFERENCES/ARE PART OF THIS EFFORT.  
I HOPE ~~YOU WILL~~<sup>YOU'LL</sup> PARTICIPATE IN THEM/ACTIVELY. I ALSO HOPE/YOU'<sup>LL</sup>  
~~WILL~~ LET US KNOW AT THE CONCLUSION OF THIS FIRST CONFERENCE/  
HOW IT MIGHT BE IMPROVED IN THE FUTURE.

~~WE HAVE~~<sup>WE'VE</sup> JUST CONCLUDED/A YEAR OF TURBULENCE AND UNCER-  
TAINTY/FOR THE INSTITUTIONS WE SUPERVISE AND INSURE. THESE  
TWO DAYS/OFFER A VALUABLE OPPORTUNITY/TO ASSESS THE FDIC'S ROLE/  
IN A RAPIDLY EVOLVING ENVIRONMENT/AND TO CONSIDER THE EXTENT AND  
KIND OF CHANGE/THAT MAY BECOME NECESSARY/IN THE WAY WE FULFILL/  
OUR TRADITIONAL FUNCTIONS.

THE PERFORMANCE OF DEPOSITORY INSTITUTIONS/CONTINUES TO BE  
AFFECTED/BY A DECLINING ECONOMY/AND INCREASING PRESSURE/FROM

RELATIVELY UNREGULATED NON-BANK COMPETITORS/OFFERING SUBSTITUTES FOR DEPOSITS AND OTHER TRADITIONAL BANKING SERVICES. THESE FACTORS/ARE ALTERING THE NATURE AND SHAPE/OF THE FINANCIAL SERVICES INDUSTRY,/ AND WHAT WE ARE SEEING NOW/IS ONLY A FORERUNNER OF EVEN GREATER CHANGE.

WITHOUT DOUBT,/THE MOST DRAMATIC DEVELOPMENT/OF THE PAST YEAR FOR THE FDIC/WAS THAT COMPETITIVE AND ECONOMIC PRESSURES/ FINALLY BEGAN TO TAKE A VISIBLE TOLL/ON THE NATION'S THRIFT INSTITUTIONS,/INCLUDING THE 335 MUTUAL SAVINGS BANKS/SUPERVISED BY THE FDIC. FOR THIS SEGMENT OF THE INDUSTRY/THE MODERATE LOSSES SUSTAINED IN 1980/BECAME A DELUGE OF RED INK IN 1981,/ PRESENTING THE FDIC WITH ITS MOST SIGNIFICANT CHALLENGE/SINCE ITS FOUNDING NEARLY A HALF-CENTURY AGO.

THE CORPORATION BEGAN ACTIVELY MONITORING/THE SAVINGS BANK INDUSTRY/AND DEVELOPING APPROACHES/TO DEALING WITH FINANCIALLY WEAKENED INSTITUTIONS/WITH THE CREATION EARLY LAST YEAR/OF A SPECIAL INTERNAL STUDY GROUP. THE FIRST FDIC-ASSISTED SAVINGS BANK MERGER/OCCURRED LAST NOVEMBER/AT AN ESTIMATED COST TO THE FDIC/OF \$425 MILLION. SINCE THEN,<sup>WE'VE</sup> ~~WE HAVE~~ HANDLED THREE MORE MERGERS/AT AN ESTIMATED COST OF \$350 MILLION,/ AND A NUMBER OF OTHERS WILL LIKELY BE NECESSARY.

<sup>WE'VE</sup> ~~WE HAVE~~ HAD TO DEVOTE/A SIGNIFICANT PORTION OF OUR RESOURCES/ TO DEALING WITH THE SAVINGS BANK PROBLEM,/ AND SO LONG AS INTEREST RATES REMAIN RELATIVELY HIGH/THE SITUATION WILL CONTINUE TO DEMAND OUR ATTENTION. BUT ALL OUR ANALYSES,/ BACKED BY OUR RECORD OF PERFORMANCE IN 1981,/ DEMONSTRATE THAT WE HAVE BOTH THE PERSONNEL/

AND FINANCIAL RESOURCES/TO COPE WITH THIS PROBLEM/WHILE MOVING FORWARD ON OTHER FRONTS.

AS A GENERAL PROPOSITION,/THE PUBLIC CAN BE SERVED BEST/IF FINANCIAL INSTITUTIONS OPERATE IN AN ENVIRONMENT/IN WHICH SIGNALS FROM THE MARKETPLACE,/RATHER THAN GOVERNMENT CONTROLS,/GUIDE THEIR BEHAVIOR. NEVERTHELESS,/OUR OVERALL APPROACH TO SUPERVISION/MUST CONTINUE TO BE SHAPED/BY SOME MAJOR PUBLIC POLICY OBJECTIVES/THAT NECESSARILY REQUIRE GOVERNMENT OVERSIGHT. THESE INCLUDE:

- (1) PRESERVING A SAFE AND SOUND BANKING SYSTEM,
- (2) PREVENTING ABUSIVE TRANSACTIONS/AND AN UNDULY HIGH CONCENTRATION OF FINANCIAL RESOURCES,
- (3) ACHIEVING COMPETITIVE EQUITY/AMONG INDUSTRY PARTICIPANTS, AND
- (4) PROVIDING ADEQUATE SERVICES TO THE PUBLIC.

ATTAINMENT OF THESE OBJECTIVES/REQUIRES THAT WE POSITION OURSELVES/TO DEAL IMMEDIATELY WITH THE PROBLEMS IN THE THRIFT INDUSTRY/WHILE AT THE SAME TIME/CHARTING A LONG-RANGE COURSE/THAT RESPONDS TO THE EVOLUTIONARY FORCES/NOW AT WORK. THE IMMEDIATE NEED/IS FOR A COMPREHENSIVE APPROACH/TO THE THRIFT PROBLEMS.

FIRST,/WE MUST HAVE ~~THE~~ ADDITIONAL TOOLS/~~NEEDED~~ TO DEAL WITH TROUBLED INSTITUTIONS. AS YOU KNOW,/WE SUBMITTED TO CONGRESS LAST YEAR/LEGISLATION KNOWN AS THE REGULATORS' BILL,/WHICH WOULD GIVE US GREATER FLEXIBILITY/IN DEALING WITH TROUBLED INSTITUTIONS/IN THREE IMPORTANT RESPECTS:/IT WOULD MAKE IT EASIER

FOR US TO PROVIDE/DIRECT FINANCIAL ASSISTANCE/TO A FAILING INSTI-  
TUTION;/IT WOULD PERMIT US TO ARRANGE INTERSTATE ACQUISITIONS/OF  
LARGE FAILED INSTITUTIONS;/AND IT WOULD ALLOW MUTUAL INSTITUTIONS/  
TO CONVERT TO STOCK OWNERSHIP/UNDER A FEDERAL CHARTER. WE CONTINUE  
TO SUPPORT ENACTMENT/OF THIS LEGISLATION.

SECOND,/CONGRESS MUST ACT TO GIVE THRIFTS/BROADER ASSET  
POWERS/AND TO OVERRIDE STATE USURY CEILINGS/AND DUE-ON-SALE  
PROHIBITIONS. SUCH LEGISLATION IS NEEDED/TO ENABLE THRIFTS/TO  
EARN THEIR WAY OUT OF THEIR CURRENT DILEMMA/AND TO PERMIT THEM  
TO FUNCTION EFFECTIVELY/IN A MORE COMPETITIVE WORLD. THE FDIC  
IS COMMITTED/TO THE DEREGULATION OF THE FINANCIAL SERVICES  
INDUSTRY,/INCLUDING ELIMINATION OF THE THRIFT DIFFERENTIAL,/BUT  
I THINK IT'S PLAIN/THAT THRIFTS MUST HAVE BROADER POWERS/IF  
THEY'RE TO CARVE OUT A VIABLE ROLE/IN THE FINANCIAL SERVICES  
INDUSTRY OF THE FUTURE.

THIRD,/WE MUST GET ON WITH INTEREST RATE DEREGULATION.  
AMONG THE THORNIEST/AND MOST EMOTIONAL ISSUES/CONFRONTING THE  
FDIC/AND OUR PARTNER REGULATORS/IS THE PHASE-OUT OF INTEREST RATE  
CEILINGS. THE DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE/  
(DIDC),/ON WHICH I SERVE,/HAS PROBABLY THE MOST THANKLESS TASK  
IN WASHINGTON/AS IT STRUGGLES TO ACHIEVE ITS CONGRESSIONAL MANDATE.  
OUR JOB IS MADE MORE DIFFICULT/BY THE CONFLICTING SIGNALS/WE  
RECEIVE FROM THE CONGRESS. NEVERTHELESS,/THE FAILURE TO PROVIDE  
DEPOSITORY INSTITUTIONS/WITH COMPETITIVE DEPOSIT INSTRUMENTS/HAS  
CONTRIBUTED TO THE ONGOING OUTFLOW OF FUNDS/FROM BANKS AND THRIFTS/  
INTO MONEY MARKET FUNDS AND OTHER NONREGULATED INTERMEDIARIES.



BANKS AND THRIFTS/MUST PROMPTLY BE GIVEN THE MEANS/TO STEM THE OUTFLOW/AND RECAPTURE THOSE LOST DEPOSIT DOLLARS.

FOURTH, <sup>I'm</sup> ~~I AM~~ CONVINCED/THAT THE THRIFT INDUSTRY/<sup>LIKELY</sup> WOULD<sup>1</sup> BE IN BETTER SHAPE TODAY/IF MORE REALISTIC ACCOUNTING METHODS/HAD BEEN ADOPTED IN THE PAST. <sup>WE'RE</sup> ~~WE ARE~~ LOOKING AT POSSIBLE CHANGES/IN ACCOUNTING POLICIES/THAT WOULD ALLOW INSTITUTIONS TO DISPOSE OF/ THE LOW-YIELDING ASSETS/THAT ARE SUCH A DRAG ON THEIR EARNINGS/ WITHOUT HAVING TO ABSORB THE ENTIRE LOSS/IMMEDIATELY. ~~WE ENVISION~~ ~~THAT~~ THIS KIND OF LOSS DEFERRAL/MIGHT BE PART OF A TRANSITION/ FROM A HISTORICAL COST-BASED ACCOUNTING SYSTEM/TO A ~~GENERAL~~ <sup>AT THIS POINT/WE DON'T KNOW IF</sup> ~~MORE~~ MARKET-<sup>THESE KINDS OF CHANGES ARE FEASIBLE</sup> VALUE BASED SYSTEM.

FINALLY, /WE MAY NEED TO CONSIDER/SOME KIND OF BROAD-BASED <sup>BUT WE'RE</sup> CAPITAL INFUSION ~~OR MORTGAGE WAREHOUSING PROGRAM~~ TO PROVIDE <sup>EXPLORING</sup> TEMPORARY RELIEF/TO STRAPPED INSTITUTIONS. <sup>THEM.</sup> STANDING ALONE,/SUCH A PROGRAM WOULD BE HIGHLY UNDESIRABLE;/ HOWEVER, AS ONE FACET OF A MULTI-FACETED APPROACH,/IT COULD GIVE INSTITUTIONS/HAMSTRUNG BY INTEREST RATES/A NEEDED "BREATHING SPELL."

LET ME EMPHASIZE/THAT I DON'T THINK ANY OF THESE FIVE POINTS/ ALONE/IS SUFFICIENT TO SOLVE THE PRESENT CRISIS. TAKEN TOGETHER, HOWEVER,/I BELIEVE THEY PROVIDE A COMPREHENSIVE MEANS/OF REASONABLY DEALING WITH THE PROBLEM.

IN OUR CONCERN/FOR THE IMMEDIATE PROBLEMS WE FACE,/WE CANNOT AFFORD TO IGNORE/<sup>ER</sup> LONG-RANGE ISSUES. SOME OF THE LONG RANGE ISSUES/COULD ALTER THE VERY DEFINITION OF BANKING. BANKS TODAY/FACE INTENSE COMPETITION/FROM NON-BANK FINANCIAL INTER-MEDIARIES/THAT ARE ESSENTIALLY UNREGULATED. THE CONGRESS/AT

SOME POINT/WILL HAVE TO DEVELOP A RATIONAL DEFINITION/OF WHAT  
CONSTITUTES BANKING/AND IMPOSE <sup>AN EQUITABLE</sup> ~~A RATIONAL~~ SCHEME OF REGULATION/  
ON ALL ORGANIZATIONS THAT ENGAGE IN IT. THE FDIC/HAS AN IMPORTANT  
STAKE/IN THE BREADTH OF THAT DEFINITION/AND WE MUST PRESENT  
CLEARCUT AND LOGICAL VIEWS ON IT.

AS WE MOVE INTO A DEREGULATED ENVIRONMENT,/A NUMBER OF ISSUES  
RELATED TO OUR DEPOSIT INSURANCE SYSTEM/WILL NEED TO BE CONSIDERED.  
THEY INCLUDE/RISK-RELATED INSURANCE PREMIUMS,/THE POSSIBILITY OF  
HAVING LARGE DEPOSITORS/SHARE SOMEHOW IN THE RISK OF BANK FAILURE/  
EVEN WHEN THE FAILURE IS HANDLED BY WAY OF MERGER,/AND REDEFINING  
THE BASE OF LIABILITIES/AGAINST WHICH PREMIUMS ARE ASSESSED.

WE ALSO WILL EXPLORE WAYS/TO STREAMLINE AND REDISTRIBUTE/  
THE FUNCTIONS PERFORMED BY THE VARIOUS AGENCIES/THAT REGULATE  
FINANCIAL INSTITUTIONS. FOR EXAMPLE,/I QUESTION WHETHER IT  
MAKES SENSE/TO HAVE THREE FEDERAL AGENCIES INSURING DEPOSITS/  
OR TO HAVE FIVE FEDERAL AGENCIES/SUPERVISING FINANCIAL INSTITU-  
TIONS. HOWEVER,THE STRUCTURE MAY COME TO BE REORGANIZED,/THE  
TALENT AND THE RESOURCES OF THE FDIC/WILL BE FULLY UTILIZED;/  
I'M CONFIDENT THAT THIS AGENCY/WILL REMAIN INDEPENDENT/AND WILL  
PLAY A CRITICAL ROLE/UNDER ANY REORGANIZATION PLAN/ULTIMATELY  
ADOPTED.

CHANGES IN BANKING/AND BANK SUPERVISION/NECESSARILY WILL  
REQUIRE/CHANGES IN HOW WE PERFORM/OUR DAY-TO-DAY TASKS. AS  
WE SEEK WAYS OF IMPROVING/THE MANNER IN WHICH WE CARRY OUT/OUR  
EXAMINATION AND SUPERVISION FUNCTIONS,/IT SEEMS CLEAR/WE WILL

NEED TO PLACE INCREASED RELIANCE/ON THE SOPHISTICATED HELP/COM-  
PUTERS CAN GIVE US. A COMMITTEE IS WORKING TO DEVELOP/A LONG-TERM  
PLAN/FOR THE CORPORATION/IN THE RELATED AREAS OF AUTOMATION,/TELECOMMUNICATIONS/AND WORD PROCESSING. IN DBS,/A NUMBER OF  
EFFORTS ARE IN THE WORKS/TO EXPLORE IDEAS FOR UPGRADING/THE WAY  
WE CARRY OUT OUR SUPERVISORY JOB. WE ARE LOOKING/AT EXPANDED  
MONITORING SYSTEMS,/MORE SOPHISTICATED FINANCIAL ANALYSIS/AND  
IMPROVING OUR KNOWLEDGE/OF LARGE INSTITUTIONS. REVISED TRAINING  
PROGRAMS,/A NEW MANUAL OF EXAMINATION POLICIES/AND A SHARED BANK/  
HOLDING COMPANY EXAMINATION PROGRAM/WITH THE FEDERAL RESERVE AND  
THE COMPTROLLER/ARE ALSO ON THE AGENDA.

I'VE TOUCHED BRIEFLY/ON SOME OF THE CONCERNS AND ISSUES/  
~~WE HAVE~~ <sup>WE'VE</sup> IDENTIFIED AS IMPORTANT/TO THE SUCCESSFUL PERFORMANCE OF  
OUR MISSION/IN THE MONTHS AND YEARS AHEAD. IT'S UP TO ALL OF US/  
TO CONVERT THE CHALLENGES WE FACE/TO OPPORTUNITIES. I'M CONFIDENT  
WE WILL DO SO/IN A WAY THAT CONTINUES/THE FDIC'S TRADITION/OF  
EXCELLENCE/AND DEDICATED PUBLIC SERVICE.

AS I NOTED/AT THE FDIC AWARDS CEREMONY LAST DECEMBER/~~IN~~  
~~WASHINGTON~~,/THE FDIC OVER THE YEARS/HAS COMPILED A RECORD OF  
ACHIEVEMENT/THAT SEEMS TO HAVE EXEMPTED IT/FROM THE GENERAL  
PUBLIC PERCEPTION/THAT GOVERNMENT IS MORE OF A BURDEN/THAN A  
BLESSING. THE CORPORATION IS MORE OFTEN PRAISED/THAN CONDEMNED/  
AND THAT IS THE RESULT/OF DEDICATED AND CAPABLE SERVICE/BY FDIC  
EMPLOYEES/WITH A WIDE RANGE OF TALENTS.



YOU/AND YOUR COLLEAGUES WHO PRECEDED YOU/CAN JUSTIFIABLY  
CLAIM CREDIT/FOR THE SUCCESSES THAT HAVE NOW EXTENDED/NEARLY  
HALF A CENTURY. I WANT YOU TO KNOW/THAT I AND THE OTHER MEMBERS  
OF THE BOARD OF DIRECTORS/RECOGNIZE YOUR CONTRIBUTION/AND GREATLY  
APPRECIATE/YOUR EFFORTS.