

AN ADDRESS BY

WILLIAM M. ISAAC, CHAIRMAN
FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D. C.

PRESENTED TO THE

ANNUAL CONFERENCE
NATIONAL ASSOCIATION OF MUTUAL
SAVINGS BANKS

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SIX MONTHS AGO, WHEN I ADDRESSED THE NAMSIB WINTER MEETING IN NEW YORK, I FELT A SENSE OF GUARDED OPTIMISM ABOUT SAVINGS BANKS. MARKET INTEREST RATES HAD DECLINED SIGNIFICANTLY IN THE LATE SUMMER MONTHS AND, IF RATES REMAINED STABLE, WE FELT THE INDUSTRY WOULD REACH A BREAK-EVEN POINT SOMETIME AROUND THE END OF THE FIRST QUARTER OF THIS YEAR. I TOOK THAT OPPORTUNITY TO ANNOUNCE THE PARTICULARS OF THE FDIC'S NET WORTH CERTIFICATE PROGRAM UNDER THE GARN-ST GERMAIN ACT.

TODAY I WILL TALK BRIEFLY ABOUT THE OPERATION OF THE NET WORTH CERTIFICATE PROGRAM, THE EARNINGS OUTLOOK FOR THE SAVINGS BANK INDUSTRY, AND THE NEED TO RECAPITALIZE WEAKENED SAVINGS BANKS. I WILL THEN TURN TO SOME IMPORTANT REGULATORY REFORM ISSUES.

NET WORTH CERTIFICATES

TO DATE, THE NET WORTH CERTIFICATE PROGRAM HAS BEEN REASONABLY SUCCESSFUL. IT HAS ALLOWED SOME INSTITUTIONS, WHICH OTHERWISE MIGHT HAVE BEEN CLOSED, TO REMAIN OPEN. IN FACT, NO SAVINGS BANKS HAVE BEEN CLOSED THIS YEAR. THIS HAS SHIFTED THE SPOTLIGHT AWAY FROM THE SAVINGS BANK PROBLEMS AND INCREASED CONFIDENCE IN THE INDUSTRY AS A WHOLE.

THE FDIC HAS PURCHASED OVER \$195 MILLION IN NET WORTH CERTIFICATES FROM 21 MUTUAL SAVINGS BANKS. BECAUSE WE FELT IT WAS IMPORTANT TO IMPLEMENT THE PROGRAM AS SOON AS POSSIBLE, WE MADE IT FEASIBLE FOR INSTITUTIONS TO BEGIN RECEIVING ASSISTANCE IN LATE

DECEMBER. THUS, QUALIFYING INSTITUTIONS WERE ABLE TO GET ASSISTANCE FOR LOSSES THAT OCCURRED DURING THE MIDDLE TWO QUARTERS OF 1982.

WE WILL CONTINUE TO PURCHASE CERTIFICATES FROM QUALIFIED INSTITUTIONS EVERY SIX MONTHS FOR THE THREE-YEAR LIFE OF THE PROGRAM. IMPORTANTLY, TITLE II EXEMPTS ISSUERS OF NET WORTH CERTIFICATES FROM STATE AND LOCAL FRANCHISE TAXES. FOR JUST THOSE SAVINGS BANKS OPERATING IN NEW YORK CITY, THIS EXEMPTION COULD REDUCE COSTS BY MORE THAN \$100 MILLION OVER THE NEXT THREE YEARS.

THE CERTIFICATES, WHICH ARE SUBORDINATED AND CONSIDERED AS PART OF AN INSTITUTION'S CAPITAL ACCOUNT, BUY TIME. SINCE THE ECONOMIC RECOVERY APPEARS TO BE UNDERWAY AND INTEREST RATES HAVE REMAINED FAIRLY STABLE, THE OUTLOOK FOR PARTICIPATING INSTITUTIONS HAS IMPROVED. SHOULD THESE FAVORABLE CONDITIONS CONTINUE, MANY OF THE INSTITUTIONS PARTICIPATING IN THE NET WORTH CERTIFICATE PROGRAM CAN BE EXPECTED TO SURVIVE. HOWEVER, NET WORTH CERTIFICATES ARE NOT A SUBSTITUTE FOR TANGIBLE CAPITAL. THEY MAY POSTPONE TECHNICAL INSOLVENCY, BUT THEY CANNOT GUARANTEE THE CONTINUED SOLVENCY OF PARTICIPATING INSTITUTIONS OVER THE LONGER TERM.

SAVINGS BANK EARNINGS

LOWER INTEREST RATES HAVE BROUGHT DOWN THE COST OF FUNDS FOR SAVINGS BANKS BY 150 TO 200 BASIS POINTS DURING THE PAST NINE MONTHS. THE INDUSTRY AS A WHOLE PROBABLY BROKE EVEN IN MARCH, AND WHILE BREAKING EVEN IS A SIGNIFICANT IMPROVEMENT COMPARED TO WHAT WE HAVE EXPERIENCED OVER THE PAST TWO YEARS, IT IS HARDLY WHAT IS NEEDED TO REMAIN VIABLE OVER THE LONGER TERM. MOREOVER, EXPENSIVE SIX-MONTH CERTIFICATES HAVE ALL PRETTY MUCH ROLLED OVER INTO LOWER

RATE CERTIFICATES OR MONEY MARKET DEPOSITS SO THAT THE EASIEST EARNINGS IMPROVEMENT HAS ALREADY OCCURRED.

SAVINGS BANKS STILL HAVE SIZABLE MORTGAGE, GINNY MAE AND BOND PORTFOLIOS YIELDING LOW RATES OF INTEREST. THE RATE DECLINES OF THE LAST NINE MONTHS HAVE MATERIALLY REDUCED MARKET DEPRECIATION, BUT FOR MOST INSTITUTIONS IT IS STILL SIZABLE. ALTHOUGH YIELDS ON EARNING ASSETS WILL EVENTUALLY INCREASE UNTIL THEY APPROACH MARKET RATES, THAT MAY TAKE AWHILE AND IN THE INTERIM MANY INSTITUTIONS WILL REMAIN SUBSTANTIALLY EXPOSED TO THE POSSIBILITY THAT INTEREST RATES MIGHT RISE.

ON THE DEPOSIT SIDE THE NEW MONEY MARKET ACCOUNT HAS BEEN TREMENDOUSLY POPULAR, COMPRISING ALMOST 20 PERCENT OF SAVINGS BANKS DEPOSITS. DEPOSIT INFLOWS HAVE INCREASED SUBSTANTIALLY AS A RESULT. THIS SHOULD GIVE YOU AN ADDED OPPORTUNITY TO IMPROVE INCOME BY EARNING A POSITIVE SPREAD ON THE NEW MONEY AND GENERATING FEE INCOME ON LOAN ORIGINATIONS.

WHILE THERE HAVE BEEN SIGNIFICANT PASSBOOK TRANSFERS TO THE NEW ACCOUNT, THEY ARE PROBABLY LESS THAN MOST PEOPLE ANTICIPATED. AT CURRENT RATES, THESE TRANSFERS COST AN EXTRA 300 BASIS POINTS. SAVINGS BANKS STILL HAVE A LOT OF PASSBOOK MONEY AND, OVER TIME, WE HAVE TO EXPECT MUCH OF IT TO TRANSFER TO THE MONEY MARKET ACCOUNT OR BE AFFECTED BY THE ELIMINATION OF RATE CEILINGS. THIS WILL CONTINUE TO BE A DRAG ON EARNINGS, BUT ITS IMPORTANCE WILL DIMINISH DURING THE BALANCE OF THIS YEAR AND BEYOND.

SOME SAVINGS BANKS HAVE A LARGE SHARE OF THEIR DEPOSITS IN VERY HIGH RATE 30-MONTH CERTIFICATES. THESE ARE BEGINNING TO MATURE

AND, OVER THE NEXT TWO YEARS, REPLACEMENT OF THESE HIGH COST DEPOSITS SHOULD OFFSET TO SOME EXTENT THE EFFECT OF SAVINGS DEPOSIT TRANSFERS. THUS, ON BALANCE, WE DO NOT EXPECT CHANGES IN THE DEPOSIT MIX OVER THE NEXT YEAR OR SO TO HAVE MUCH IMPACT ON THE COST OF FUNDS FROM PRESENT LEVELS. WHEN THIS IS COMBINED WITH SLOWLY RISING YIELDS ON EARNING ASSETS, THE RESULT SHOULD BE A GRADUAL INCREASE IN SAVINGS BANK EARNINGS FROM PRESENT LEVELS.

THE NEXT SEVERAL YEARS WILL BE CRITICAL FOR MANY SAVINGS BANKS. OF COURSE, INTEREST RATE DEVELOPMENTS WILL BE VERY IMPORTANT, BUT SO WILL OTHER THINGS. IN A DEREGULATED ENVIRONMENT, INTEREST RATE SPREADS WILL LIKELY NARROW. WHILE SAVINGS BANKS WILL HAVE AN OPPORTUNITY TO DIVERSIFY THEIR LOAN PORTFOLIOS BY TAKING ADVANTAGE OF NEW POWERS, THEY WILL HAVE TO BE CAREFUL TO AVOID INCURRING EXCESSIVE CREDIT RISKS. OUR EXPERIENCE SUGGESTS THAT BANKS MOVING INTO NEW LOAN AREAS FREQUENTLY START OUT BY PICKING UP LOANS REJECTED BY OTHERS.

NONINTEREST EXPENSE WILL BE ANOTHER IMPORTANT VARIABLE. IN A COMPETITIVE ENVIRONMENT WITH NARROW SPREADS, SUCCESSFUL SAVINGS BANKS WILL BE THOSE THAT CAN DELIVER QUALITY SERVICE AT LOW COST.

CAPITAL AND STOCK CONVERSION

ALSO OF CRUCIAL IMPORTANCE WILL BE YOUR LEVEL OF CAPITAL. RECENT EARNINGS IMPROVEMENT HAS REVERSED THE SURPLUS DECLINE FOR MANY SAVINGS BANKS. THERE ARE SAVINGS BANKS WITH STRONG SURPLUS POSITIONS ALONG WITH FAVORABLE AND IMPROVING EARNINGS, BUT THESE ARE IN THE MINORITY. MANY SAVINGS BANKS, WHILE NOT CURRENTLY ELIGIBLE FOR NET WORTH CERTIFICATES, HAVE SEEN THEIR SURPLUS DECLINE TO A

BOOK LEVEL CLOSE TO THREE PERCENT. IT WILL TAKE A VERY FAVORABLE SET OF EVENTS FOR THEM TO EARN THEIR WAY BACK TO A HEALTHY SURPLUS POSITION IN THE NEXT FEW YEARS. FOR THOSE INSTITUTIONS CURRENTLY RECEIVING NET WORTH CERTIFICATES, THAT POSSIBILITY SEEMS EVEN MORE REMOTE. WE CAN FORESEE MANY OR MOST OF THESE INSTITUTIONS GETTING INTO THE BLACK IN A FEW YEARS, BUT WE CANNOT REALISTICALLY ENVISION NEEDED REBUILDING OF SURPLUS THROUGH EARNINGS RETENTION. THAT BRINGS US TO STOCK CONVERSION.

THE GARN-ST GERMAIN ACT HAS MADE IT FEASIBLE TO CONVERT TO STOCK OWNERSHIP IN ANY STATE BY CONVERTING TO A FEDERAL CHARTER, THOUGH THERE MAY BE SOME DISAGREEMENT ABOUT NEW YORK. THE FEDERAL HOME LOAN BANK BOARD HAS SIMPLIFIED ITS PROCEDURES AND SEVERAL STATES ARE IN THE PROCESS OF REMOVING CONVERSION PROHIBITIONS FOR STATE-CHARTERED MUTUALS. THE MARKET, APPARENTLY UNDETERRED BY 1982 LOSSES, SO FAR HAS BEEN RECEPTIVE TO THRIFT STOCK OFFERINGS.

WHILE MOST STOCK CONVERSIONS HAVE TAKEN PLACE AMONG SAVINGS AND LOANS, THERE HAVE BEEN SUCCESSFUL CONVERSIONS OF SAVINGS BANKS IN ALASKA, NEW HAMPSHIRE AND WASHINGTON. INSTITUTIONS THAT HAVE DEPLETED THEIR BOOK SURPLUS, ASSUMING THEY CAN GET BACK TO A BREAK-EVEN OR PROFIT POSITION, CAN RECAPITALIZE THEMSELVES THROUGH CONVERSION. BOOSTING CAPITAL WILL PROVIDE A MEANS OF INCREASING INCOME, AND THE SOONER THAT CAN BE DONE THE SOONER SAVINGS BANKS CAN TAKE ADVANTAGE OF THEIR TAX-LOSS CARRYFORWARD.

STOCK CONVERSION MAY BE THE ONLY WAY THAT MANY OF THE RECIPIENTS OF NET WORTH CERTIFICATES CAN HOPE TO REMAIN INDEPENDENT INSTITUTIONS. IT WILL NOT BE OUR POLICY TO INSIST ON CONVERSION TO

STOCK. MANY MUTUAL INSTITUTIONS HAVE DONE REASONABLY WELL, AND THEY MAY CONTINUE TO DO SO. THIS IS ESPECIALLY TRUE FOR SMALLER INSTITUTIONS OUTSIDE OF MAJOR URBAN AREAS. HOWEVER, OVER TIME SAVINGS BANKS, ESPECIALLY THOSE THAT WISH TO GROW, WILL HAVE TO MEET CAPITAL STANDARDS AND CONVERSION MAY BE THE ONLY WAY THEY CAN DO SO.

WE BELIEVE THAT NEW POWERS CAN BE BETTER HANDLED IN THE CONTEXT OF A BOARD OF DIRECTORS REPRESENTING STOCKHOLDERS WITH A DEFINED FINANCIAL STAKE IN THE ORGANIZATION. MAJOR ACQUISITIONS AND SIZABLE INVESTMENTS SHOULD, WE BELIEVE, BE EXPOSED TO THE MARKET DECISION PROCESS, AND THAT CAN BEST BE PROVIDED BY STOCK OWNERSHIP. WHAT WE ARE SUGGESTING IS THAT THERE IS A PLACE FOR THE MUTUAL INSTITUTION THAT IS COMMUNITY-ORIENTED AND GEARED TOWARD MEETING FINANCIAL NEEDS OF THE LOCAL MARKET, ASSUMING THE INSTITUTION CAN OPERATE WITH A SUFFICIENT SURPLUS CUSHION TO PROTECT THE INSURER. HOWEVER, WE BELIEVE THAT IF YOU WANT TO BE A MAJOR PLAYER IN NATIONAL OR REGIONAL MARKETS AND GET INTO A BROADER RANGE OF FINANCIAL SERVICES, THEN YOU SHOULD BE EXPOSED TO THE DISCIPLINE THAT GOES WITH STOCK OWNERSHIP AND HAVE AVAILABLE THE MEANS OF RECAPITALIZING, SHOULD FUTURE ADVERSITY NECESSITATE IT.

EXPANDED POWERS FOR BANKS

AS YOU KNOW, IN RECENT YEARS, NONBANK COMPANIES HAVE INCREASINGLY ENTERED TRADITIONAL BANK MARKETS, IN MANY CASES BY PURCHASING A BANK OR THRIFT INSTITUTION. HOWEVER, DEPOSITORY INSTITUTIONS ARE PROHIBITED FROM ENTERING MOST OF THE NONBANK MARKETS IN WHICH THESE FIRMS OPERATE.

THE RESULT HAS BEEN THE DEVELOPMENT OF AN INCREASINGLY INEQUITABLE FINANCIAL MARKETPLACE. WHILE WE DO NOT AUTOMATICALLY ASSUME THAT THE SOLUTION IS TO DISMANTLE ALL THE BARRIERS THAT SEPARATE DEPOSITORY INSTITUTIONS FROM OTHER ENTERPRISES, WE RECOGNIZE THAT IT IS NO LONGER POSSIBLE TO COMPLETELY INSULATE BANKS AND THRIFTS FROM THE MARKET PRESSURES GENERATED BY A WIDE ARRAY OF NONDEPOSITORY COMPETITORS.

WE BELIEVE THAT BANKING SHOULD REMAIN SEPARATE FROM GENERAL COMMERCE. IN ORDER TO MAINTAIN THIS SEPARATION WE NEED TO RECAST THE DEFINITION OF A BANK. IT SEEMS CLEAR THAT THE CURRENT DEFINITION HAS LOST MEANING. THE OVERRIDING CHARACTERISTIC THAT BANKS POSSESS, WHICH WARRANTS THAT THEY BE TREATED IN A MANNER SOMEWHAT DIFFERENT FROM OTHER TYPES OF INSTITUTIONS, IS THAT BANKS ACCEPT DEPOSITS FROM THE GENERAL PUBLIC FOR WHICH THE FEDERAL GOVERNMENT HAS ASSUMED THE RESPONSIBILITY OF SAFEGUARDING. THIS RESPONSIBILITY NECESSITATES THAT BANKS BE SUBJECT TO SOME FEDERAL REGULATION AND SUPERVISION, FROM WHICH NONBANKS ARE EXEMPT. WITH THIS IN MIND, IT MAY BE APPROPRIATE TO DEFINE A BANK AS ANY INSTITUTION THAT OFFERS ANY TYPE OF FEDERALLY INSURED DEPOSIT. THIS WOULD CREATE A CLEAR AND USEFUL DISTINCTION BETWEEN BANKS AND OTHER TYPES OF FINANCIAL INSTITUTIONS. S&LS AND SAVINGS BANKS, WHICH FOR ALL INTENTS AND PURPOSES ARE COMMERCIAL BANKS, WOULD BE DEFINED AS SUCH. THE CURRENT "LOOPHOLE," WHICH ALLOWS NONBANK COMPANIES TO ACQUIRE A BANK SIMPLY BY DIVESTING EITHER THE BANK'S DEMAND DEPOSITS OR ITS COMMERCIAL LOAN PORTFOLIO, WOULD BE ELIMINATED.

BEYOND CHANGING THE DEFINITION OF A BANK, WE NEED TO RECONSIDER THE RANGE OF ACTIVITIES IN WHICH A BANK OR ITS AFFILIATES MAY ENGAGE. IN OUR OPINION, A BANK SHOULD BE PERMITTED TO ENGAGE, EITHER DIRECTLY OR THROUGH A BANK SUBSIDIARY OR HOLDING COMPANY, IN THE FULL RANGE OF FINANCIAL SERVICES. ACTIVITIES IN WHICH BANKS ARE CURRENTLY PERMITTED TO ENGAGE, OR ADDITIONAL ACTIVITIES IN WHICH BANKS ACT AS AGENT OR SELL SERVICES, SHOULD BE PERMITTED WITHIN THE BANK ITSELF. AMONG THE ACTIVITIES WE WOULD BE INCLINED TO INCLUDE IN THIS AREA ARE: BROKERAGE ACTIVITIES RELATED TO SECURITIES, REAL ESTATE AND INSURANCE; TRAVEL AGENCY SERVICES; AND DATA PROCESSING SERVICES. POTENTIALLY RISKIER ACTIVITIES, SUCH AS UNDERWRITING SECURITIES, REAL ESTATE DEVELOPMENT, AND UNDERWRITING PROPERTY, CASUALTY AND LIFE INSURANCE, SHOULD BE PLACED IN SEPARATE BANK OR HOLDING COMPANY SUBSIDIARIES. IN ADDITION TO PLACING THE HIGHER RISK ACTIVITIES INTO SEPARATE SUBSIDIARIES, A NUMBER OF SAFEGUARDS WOULD BE NEEDED TO LIMIT INTERCOMPANY DEALINGS, REQUIRE INDEPENDENT CAPITALIZATION AND FUNDING, MINIMIZE CONFLICTS OF INTEREST, AND LIMIT THE OVERALL EXPOSURE OF THE BANKING ORGANIZATION. ONCE IT IS DETERMINED WHAT NEW POWERS ARE TO BE EXTENDED TO DEPOSITORY INSTITUTIONS, IT FOLLOWS THAT ANY COMPANY ENGAGED IN SUCH ACTIVITIES SHOULD BE PERMITTED TO OWN OR AFFILIATE WITH A BANK OR THRIFT AND THAT ANY COMPANY ENGAGED IN IMPERMISSIBLE ACTIVITIES SHOULD NOT.

EXPANSION OF BANK POWERS WILL RESULT IN IMPORTANT BENEFITS TO THE GENERAL PUBLIC BY PROVIDING MORE SERVICES AT COMPETITIVE PRICES. IT IS OUR VIEW THAT THESE BENEFITS, PLUS THE POTENTIAL FOR ENHANCING THE EARNINGS OF BANKS IN A HIGHLY COMPETITIVE ERA,

OUTWEIGH CONCERNS THAT BANKS WILL BE EXPOSED TO HIGHER LEVELS OF RISK. THIS DOES NOT MEAN THAT WE INTEND TO ALLOW BANK RISK-TAKING TO GO UNCHECKED. THE FDIC IS CURRENTLY CONSIDERING A NUMBER OF POLICY CHANGES THAT WILL ENABLE BOTH OURSELVES AND THE PRIVATE SECTOR TO BETTER CONTROL EXCESSIVE RISK-TAKING BY BANKS.

REGULATORY-SUPERVISORY STRUCTURE

BEFORE CONCLUDING I WOULD LIKE TO MAKE SOME COMMENTS ABOUT THE FUTURE STRUCTURE OF DEPOSITORY INSTITUTION REGULATION. AN EXAMINATION OF THE CURRENT REGULATORY SYSTEM REVEALS MANY DISPARITIES AND ANOMALIES, WHICH I HAVE FREQUENTLY DISCUSSED.

AN IMPORTANT FIRST STEP TOWARD THE RATIONALIZATION OF THE REGULATORY SYSTEM WOULD INVOLVE THE MERGER OF THE FDIC AND THE FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION. SIMILARITIES OF OBJECTIVES AND FUNCTIONS FOR THE DEPOSIT INSURANCE AGENCIES AND A GROWING SIMILARITY IN BANKS AND THRIFTS SUPPORT THE NOTION OF A SINGLE INSURANCE FUND. THE FUTURE OF THE FINANCIAL SERVICES INDUSTRY WILL REQUIRE A LARGER, BETTER-DIVERSIFIED INSURANCE FUND AND GREATER FLEXIBILITY IN DEALING WITH TROUBLED OR FAILED INSTITUTIONS, INCLUDING CROSS-INDUSTRY TAKEOVERS. INTERINDUSTRY MERGERS CAN BE EXPECTED TO INCREASE AS BANKS AND THRIFTS SEEK ACCESS TO EACH OTHER'S MARKETS. LOOSE AFFILIATIONS BETWEEN BANKS AND SAVINGS AND LOANS ARE BECOMING MORE AND MORE COMMON, MAKING EFFECTIVE SUPERVISION DIFFICULT.

MERGING THE FUNDS WILL PROVIDE FOR LESS PUBLIC CONFUSION AND GREATER PUBLIC CONFIDENCE IN THE DEPOSIT INSURANCE SYSTEM, AND WILL FOSTER MORE UNIFORMITY OF SUPERVISION, PARTICULARLY WITH RESPECT TO

EXAMINATION TECHNIQUES AND CAPITAL ADEQUACY AND DISCLOSURE REQUIREMENTS. ADDITIONALLY, A MERGER OF THE INSURANCE FUNDS WOULD FACILITATE THE SEPARATION OF THE ROLE OF DEPOSIT INSURANCE FROM CHARTERING AND REGULATION.

THE PRESENT SYSTEM, WHEREBY CHARTERING, REGULATION AND SUPERVISION ARE USED TO PROMOTE ALL ASPECTS OF AN INDUSTRY WHILE AT THE SAME TIME THESE VEHICLES ARE USED TO PROTECT AN INSURANCE FUND, INVOLVES INHERENT CONFLICTS. A CONSEQUENCE COULD BE THE SUBORDINATION OF SAFETY AND SOUNDNESS CONSIDERATIONS TO THOSE OF PROMOTION. THE RESPONSIBILITY OF AN INSURER IS, AND SHOULD BE, SINGULAR -- STABILITY OF THE SYSTEM THROUGH THE SAFE AND SOUND OPERATION OF INDIVIDUAL INSTITUTIONS AND THE PROMPT RESOLUTION OF PROBLEMS.

IN ADDITION TO MERGING THE INSURANCE AGENCIES, OUR REGULATORY SYSTEM URGENTLY NEEDS TO BE REFORMED. IT IS INCREASINGLY INEFFICIENT, INEQUITABLE AND INEFFECTIVE. IN OUR OPINION, THE FINANCIAL AGENCIES AT THE FEDERAL LEVEL SHOULD BE CONSOLIDATED AND REGULATION SHOULD BE ORGANIZED ALONG FUNCTIONAL LINES. THE REGULATORY FUNCTIONS OF THE FEDERAL HOME LOAN BANK BOARD, THE FEDERAL RESERVE AND THE COMPTROLLER OF THE CURRENCY MIGHT BE CONSOLIDATED INTO AN INDEPENDENT AGENCY HEADED BY A BOARD. THAT AGENCY WOULD LICENSE AND REGULATE ALL FEDERALLY CHARTERED BANKS AND SAVINGS AND LOANS AND THEIR HOLDING COMPANIES. STATE-CHARTERED INSTITUTIONS WOULD BE LICENSED AND REGULATED BY THEIR STATE

AUTHORITY, PRESERVING OUR DUAL OR STATE-FEDERAL BANKING SYSTEM. THE FDIC WOULD REMAIN A SEPARATE, INDEPENDENT AGENCY WITH INSURANCE (BUT NOT REGULATORY) RESPONSIBILITIES FOR ALL STATE AND FEDERALLY CHARTERED BANKS AND SAVINGS AND LOANS. IT WOULD HAVE THE RIGHT TO EXAMINE, REQUIRE REPORTS FROM, AND TAKE ENFORCEMENT ACTIONS AGAINST ANY INSURED INSTITUTION OR ITS AFFILIATES, BUT WOULD FOCUS ITS ATTENTION ON PROBLEM AND NEAR-PROBLEM INSTITUTIONS.

THE SUPERVISORY STRUCTURE THAT WE PROPOSE HAS IMPLICATIONS FOR THE PROPER ROLE OF THE FEDERAL RESERVE. WE DO NOT BELIEVE THAT THE EXAMINATION OR SUPERVISION OF BANKS AND BANK HOLDING COMPANIES IS NECESSARY TO THE CONDUCT OF MONETARY POLICY; INDEED, IN A NUMBER OF COUNTRIES SUCH AS GERMANY AND SWITZERLAND, THE TWO FUNCTIONS ARE SEPARATED, AND IN THE U.S. THE FEDERAL RESERVE HAS SUPERVISORY AUTHORITY OVER ONLY 1,000 OUT OF 15,000 BANKS. WHAT THE FEDERAL RESERVE NEEDS IS COMPLETE ACCESS TO INFORMATION AND SOME INPUT INTO THE SUPERVISORY DECISIONS. BOTH OF THESE NEEDS COULD BE MET BY GIVING THE FEDERAL RESERVE A SEAT ON THE BOARDS OF THE CONSOLIDATED AGENCY AND THE FDIC.

CONCLUDING COMMENTS

THE NEXT SEVERAL YEARS PROMISE TO BE A VERY INTERESTING AND IMPORTANT PERIOD FOR MOST SAVINGS BANKS. THE DRAMATIC DECLINE IN INTEREST RATES THAT OCCURRED LAST YEAR HAS GIVEN MANY OF YOU A SECOND LIFE. WE HOPE FINANCIAL MARKET DEVELOPMENTS OVER THE NEXT COUPLE OF YEARS WILL NOT TAKE THAT LIFE AWAY.

THE ENVIRONMENT IN WHICH SAVINGS BANKS OPERATE IS UNDERGOING DRAMATIC CHANGES. WHILE COMPETITION WILL BE GREATER, YOU WILL HAVE MORE OPTIONS AND MORE TOOLS WITH WHICH TO COMPETE. WE SEE EXPANSION OF ACTIVITIES BY BOTH BANKS AND THRIFTS, AND, AS THE DISTINCTION BETWEEN THE TWO TYPES OF INSTITUTIONS DISAPPEARS, WE BELIEVE THEY MUST BE REGULATED UNIFORMLY.

WE ARE, GENERALLY SPEAKING, VERY ENTHUSIASTIC ABOUT DEREGULATION. IT HAS THE POTENTIAL FOR STRENGTHENING DEPOSITORY INSTITUTIONS WHILE AFFORDING THE AMERICAN PUBLIC A WIDER ARRAY OF FINANCIAL SERVICES AT MORE COMPETITIVE PRICES. THE DARK CLOUD ON THE HORIZON RELATES TO THE LEGISLATIVE PROCESS AND WHETHER WE CAN MUSTER THE COURAGE TO DEAL WITH SOME OF THE SIGNIFICANT POLICY ISSUES DEREGULATION RAISES. IF WE ARE TO OPERATE SUCCESSFULLY IN A DEREGULATED ENVIRONMENT, BANKS AND THRIFTS MUST BE GIVEN EXPANDED POWERS AND FUNDAMENTAL REFORMS MUST BE MADE IN OUR SYSTEMS OF INSURANCE AND REGULATION.

IF THESE LEGISLATIVE CHANGES ARE MADE, IF WE HAVE REASONABLE SUCCESS IN CONTROLLING THE FEDERAL DEFICITS AND CONDUCTING MONETARY POLICY, AND IF YOU ARE ABLE TO GRADUALLY BROADEN THE RANGE OF YOUR SERVICES, CONTAIN YOUR COSTS AND STRENGTHEN YOUR CAPITAL POSITIONS, THE FUTURE OF THE SAVINGS BANK INDUSTRY WILL BE BRIGHT AND SECURE.