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[Fast Changing Environment of Bank
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An address by

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Washington, D.C.

Before the

CONFERENCE OF STATE BANK SUPERVISORS,
NATIONAL CONFERENCE OF STATE LEGISLATURES,

② Washington, D.C.
① December 9, 1985,

THE FAST CHANGING ENVIRONMENT OF BANK SUPERVISION

GOOD AFTERNOON. THANK YOU, MR. MADSEN, FOR YOUR KIND INTRODUCTORY REMARKS. I AM PLEASED AND HONORED TO HAVE THIS OPPORTUNITY TO SPEAK WITH YOU TODAY.

MY SUBJECT TODAY - THE FAST CHANGING ENVIRONMENT OF BANK SUPERVISION.

SOON WE WILL BEGIN A NEW YEAR, BUT IF HISTORY IS A RELIABLE GUIDE WE WILL CONTINUE TO SEE DEVELOPMENTS IN THE BANKING INDUSTRY OUTPACE OUR ABILITY TO KEEP ABREAST OF THE MARKETPLACE.

CONGRESS ONCE AGAIN WILL HAVE THE OPPORTUNITY TO DEBATE THE ISSUES CONFRONTING THE FINANCIAL SERVICES INDUSTRY: INTERSTATE BANKING, THE EVOLUTION OF THE LIMITED SERVICES BANK, AND THE QUESTION OF WHETHER TRADITIONAL FINANCIAL INSTITUTIONS SHOULD BE PERMITTED TO ENGAGE IN NEW, FINANCIALLY-RELATED ACTIVITIES.

1. CHANGES IN THE ENVIRONMENT

I'M HOPEFUL THAT WE WILL SEE SOME ACTION FROM CONGRESS. PERHAPS THEY WILL PROVIDE NEW ASSET POWERS FOR THE BANKING INDUSTRY, OR IN THE AREA OF DEPOSIT INSURANCE, SOME CHANGES SO THAT THE FDIC CAN EFFECTIVELY DEAL WITH A RELATIVELY LARGE NUMBER OF BANK FAILURES THAT APPEAR TO BE IN THE CARDS IN THE YEARS AHEAD.

ITS EVEN POSSIBLE WE MAY SEE FUNDAMENTAL REFORM IN THE DEPOSIT INSURANCE SYSTEM--SUCH AS THE ABILITY TO ESTABLISH A RISK-SENSITIVE PREMIUM STRUCTURE. AS A REGULATOR AND INSURER, I THINK IT WOULD BE DESIRABLE TO HAVE THE DEPOSIT INSURANCE SYSTEM FUNCTION AS NEARLY AS POSSIBLE AS A MARKET-DRIVEN INSURER WOULD. A RISK BASED SYSTEM WOULD REQUIRE THE FDIC IDENTIFY AND MONITOR THOSE INSTITUTIONS THAT EXPOSE THE INSURANCE FUND TO ABOVE AVERAGE LOSSES. JUST AS IMPORTANTLY, IT WOULD BE A WAY TO LET BANK MANAGEMENT KNOW THEIR INSTITUTION'S LOSS EXPOSURE EXCEEDS THAT OF THEIR PEERS. WHETHER THEY RESPOND OR NOT IS ANOTHER QUESTION, BUT THE RED FLAG IS IMPORTANT THESE DAYS NOW THAT THE SUPPLY OF DIRECTOR AND OFFICER LIABILITY INSURANCE IS VANISHING.

CERTAINLY WE WILL SEE THE EFFECTS OF THE SUPREME COURT DECISION ALLOWING REGIONAL BANKING COMPACTS BY THE STATES. THE ENVIRONMENT FOR SUPERVISION WILL BE CHANGED IN LARGE MEASURE BY THE ADVENT OF LARGE REGIONAL BANKS OPERATING IN A NUMBER OF STATES.

BANK SUPERVISION WILL NEVER BE THE SAME AS INTERSTATE BANKING AND NEW BANKING ACTIVITIES TAKE HOLD NATIONALLY.

SOME OF YOU MAY KNOW THAT BEFORE JOINING THE FDIC A FEW MONTHS AGO I HAD THE PRIVILEGE OF WORKING WITH GOVERNOR BRUCE BABBIT AND THE LEGISLATORS IN ARIZONA ON THE QUESTION OF INTERSTATE BANKING. LIKE

MANY OF YOU HERE FROM STATE LEGISLATURES, WE GREW WEARY WATCHING CONGRESS AGONIZE OVER INTERSTATE BANKING. A NATIONWIDE BANKING MARKETPLACE IS ALREADY HERE.

IN ARIZONA, WE DECIDED THAT FULL INTERSTATE BANKING IS GOOD FOR ARIZONA. AND I THINK THAT APPROACH IS PREFERABLE TO CONGRESS DECIDING WHAT IS GOOD FOR A SPECIFIC STATE. NOW THAT THE LEGALITY OF REGIONAL BANKING HAS BEEN UPHOLD BY THE SUPREME COURT, MANY STATES ARE MAKING DECISIONS ON WHERE THEY WANT TO BE POSITIONED IN THE FINANCIAL MARKETPLACE. SOME ARE OPTING FOR FULL INTERSTATE BANKING, WHILE OTHERS ARE DECIDING TO JOIN REGIONAL COMPACTS. I THINK THE DIRECTION WE AS A NATION ARE MOVING IS APPROPRIATE. EACH STATE IS EXERCISING ITS RIGHT TO MAKE ITS OWN DECISIONS. AND THE PROCESS IS GIVING US AS GOOD A RESULT AS WE COULD HOPE FOR.

I THINK YOU CAN SAFELY SAY I FAVOR THE COMPETITION STATE DETERMINATION IS BRINGING TO OUR BANKING SYSTEM, WITH REGARD TO BOTH GEOGRAPHIC EXPANSION AND ASSET DEREGULATION, BUT IT WILL GREATLY CHANGE THE DUAL BANKING SYSTEM AND BANK SUPERVISION WITH RESPECT TO NEW BUSINESS ACTIVITIES BY BANKS, MANY QUESTION WHETHER THE FDIC WILL IN THE FUTURE ATTEMPT TO RESTRICT BANKS THAT ARE AUTHORIZED BY THEIR CHARTERING STATES TO ENGAGE IN A BROAD ARRAY OF FINANCIAL ACTIVITIES. WE SHOULD PERMIT BANKS TO OFFER A FULL RANGE OF SERVICES SO THEY CAN COMPETE WITH LESS REGULATED PARTICIPANTS IN THE FINANCIAL SERVICES MARKETPLACE. DON'T EXPECT ROADBLOCKS FROM THE FDIC TO COUNTER EFFORTS BY THE STATES TO ENACT POWERS THAT WILL HELP

BANKS TO IMPROVE THEIR PROFITABILITY. BUT DO EXPECT THAT WE WILL ATTEMPT TO KEEP SUCH ACTIVITIES FROM JEOPARDIZING THE SOUNDNESS AND STABILITY OF A DEPOSITORY INSTITUTION.

AS AN INSURER, I WANT A PROFITABLE INDUSTRY. HOWEVER, THE FDIC WILL EXPECT NEW ACTIVITIES TO BE CONDUCTED IN A SAFE AND SOUND MANNER. SOME ACTIVITIES--SUCH AS SECURITIES UNDERWRITING--REPRESENT SUFFICIENT RISK TO MERIT REQUIRING BANKS TO ESTABLISH SEPARATE SUBSIDIARIES. EXPECT THE FDIC TO TAKE THAT APPROACH WHEN NECESSARY. BUT VIEW IT AS AN ATTEMPT BY AN INSURER TO MINIMIZE RISK EXPOSURE, NOT AS AN EFFORT BY A FEDERAL REGULATOR TO CURTAIL STATE AUTHORIZED ACTIVITIES.

2. NEED FOR SUPER SUPERVISION

THE CHANGED BANKING ENVIROMENT, THE EVOLUTION OF REGIONAL BANKING AND THE EXPANSION OF BANK POWERS HIGHLIGHTS THE NEED FOR SOUND AND IMPROVED SUPERVISION OF OUR BANKING SYSTEM. AT THE STATE LEVEL, THE INTEREST IN ENHANCING THE COMPETITIVENESS OF FINANCIAL INSTITUTIONS REQUIRES A CORRESPONDING INCREASE IN THE STATES' COMMITMENT TO ADEQUATELY SUPERVISE. CSBS HAS INITIATED AN OUTSTANDING PROGRAM FOR IMPROVING THE QUALITY OF STATE REGULATION, AND WE AT THE FDIC WOULD LIKE TO VIEW THE STATES AS OUR PARTNERS. IT IS IMPORTANT THAT STATE LEGISLATORS PROVIDE THEIR BANKING DEPARTMENTS WITH ADEQUATE MANPOWER, SALARIES, AND SUPERVISORY TOOLS AS PART OF THE BANK

DEREGULATION EFFORT. SAFETY AND SOUNDNESS IS MOLDED BY SUPERVISION. AND SUPERVISION IS ONE AREA WHERE THE NEEDS INCREASE WITH DEREGULATION.

AS A FEDERAL REGULATOR, I BELIEVE THE NEED FOR GOOD COMMUNICATION AND COOPERATION WITH STATE BANKING AUTHORITIES IS MORE IMPORTANT THAN EVER BEFORE. NOT ONLY TO ASSURE THAT OUR VALUABLE AND LIMITED PERSONNEL RESOURCES ARE UTILIZED IN THE MOST EFFICIENT MANNER POSSIBLE BUT ALSO TO ASSURE THAT A SAFE AND SOUND BANKING SYSTEM IS MAINTAINED. WHAT PEOPLE DO NOT REALIZE IS THAT THE CHANGES BROUGHT ON IN THE MARKETPLACE ARE ALSO CREATING NEW CHALLENGES FOR BANK REGULATORS IN EFFECTIVELY SUPERVISING INSTITUTIONS IN THIS DEREGULATED ENVIRONMENT.

3. FDIC - STATE COOPERATIVE EFFORTS

FROM A POLICY STANDPOINT, WE HAVE TAKEN A NUMBER OF STEPS TO ASSIST STATE DEPARTMENTS IN FULFILLING THEIR SUPERVISORY ROLES. THE STATE-FDIC COOPERATIVE EFFORT, WHICH BEGAN IN 1974 UNDER FORMER CHAIRMAN FRANK WILLE AND WAS EXPANDED IN 1980 UNDER FORMER CHAIRMAN IRVINE SPRAGUE, PRESENTLY HAS 32 STATES PARTICIPATING WITH THE FDIC, 30 OF WHICH HAVE FORMAL WRITTEN AGREEMENTS WITH US. THE FRAMEWORK OF THE FDIC-STATE COOPERATIVE EFFORT CONSISTS OF SEVEN PROGRAMS: DIVIDED EXAMINATIONS, STATE EXAMINER TRAINING, LEGAL ASSISTANCE, JOINT ENFORCEMENT ACTIONS, COMMON APPLICATION FORMS, COMMON EXAMINATION FORMS AND ACCESS TO THE FDIC COMPUTERIZED DATABASE. I WOULD LIKE TO BRIEFLY DISCUSS EACH OF THESE AREAS WITH

YOU SINCE A NUMBER OF CHANGES HAVE OCCURRED THE PAST COUPLE OF YEARS WHICH HAVE AFFECTED THESE PROGRAMS TO ONE DEGREE OR ANOTHER ALSO, I SHOULD EXPLAIN WAYS IN WHICH WE CAN FURTHER STRENGTHEN OUR LINES OF COMMUNICATION AND SUPERVISION.

DIVIDED EXAMINATION PROGRAM

THE DIVIDED EXAMINATION PROGRAM ESSENTIALLY INVOLVES DIVIDING WELL-RUN BANKS INTO TWO GROUPS. THE FDIC EXAMINES BANKS IN ONE GROUP AND A STATE EXAMINES BANK IN THE OTHER GROUP. EACH YEAR THE REGULATORS SWITCH GROUPS. ONLY THE HIGHEST RATED BANKS QUALIFY FOR THE PROGRAM. THOSE BANKS RATED 3, 4 OR 5 UNDER THE UNIFORM FINANCIAL INSTITUTIONS RATING SYSTEM CONTINUE TO BE SUPERVISED BY BOTH AGENCIES AS IN THE PAST. ALL BANKS CONTINUE TO BE SUBJECT TO REVIEW UNDER THE FDIC'S OFFSITE MONITORING SYSTEMS, INCLUDING AN ANNUAL ASSESSMENT OF THEIR FINANCIAL CONDITION. IN THIS WAY, A BANK'S OPERATIONS CAN BE SCRUTINIZED EVEN WHEN EXAMINERS ARE NOT IN THE BANKS. EACH AGENCY RETAINS ITS PREROGATIVE OF EXAMINING ANY BANK AT ANY TIME.

THE DIVIDED EXAMINATION PROGRAM IS HELPFUL IN COORDINATING THE TIMING OF FDIC-STATE EXAMINATIONS. AND IT IS HELPING US AVOID FULL-SCOPE EXAMINATIONS OF WELL-RUN BANKS EVERY 12 MONTHS. THERE ARE A NUMBER OF REASONS WHY THIS IS IMPORTANT: (1) THE NUMBER OF PROBLEM BANKS HAS INCREASED DRAMATICALLY SINCE 1980; (2) THE FDIC HELD THE LINE ON INCREASING ITS EXAMINATION STAFF OVER THIS PERIOD IN RESPONSE TO GOVERNMENTWIDE BUDGET CUTTING MEASURES; AND (3) WE

HAVE REFOCUSSED OUR ATTENTION TOWARD THOSE FDIC INSURED INSTITUTIONS, REGARDLESS OF THEIR CHARTER, WHICH POSE THE GREATEST THREAT TO THE INSURANCE FUND. UNFORTUNATELY THE NET RESULT IS THAT STATE BANKING DEPARTMENTS HAVE HAD TO SHOULDER MORE OF THE BURDEN OF ONSITE EXAMINATIONS OF SATISFACTORY BANKS WHILE THE FDIC HAS DIRECTED ITS PERSONNEL RESOURCES TOWARDS THOSE INSTITUTIONS BELIEVED TO BE OF GREATEST FINANCIAL RISK. WE EXPECT THIS TREND TO CONTINUE, AND RECOGNIZE IN THE PROCESS THAT IT WILL REQUIRE THE STATES TO BOLSTER THEIR BANKING DEPARTMENTS AND ESTABLISH STABLE FUNDING SOURCES IN ORDER TO ASSURE THAT THE SUPERVISORY CHALLENGES BROUGHT ON BY THE CHANGES IN THE MARKETPLACE ARE MET. THIS WILL BE NO EASY TASK, BUT I CAN ASSURE YOU THE FDIC STANDS READY TO ASSIST STATE BANKING DEPARTMENTS, WHERE POSSIBLE.

[LATER ON IN THE CONFERENCE I EXPECT BILL TAYLOR OF THE FEDERAL RESERVE WILL BE TOUCHING ON THE RECENT CHANGES MADE IN THEIR EXAMINATION PROGRAM. IT CALLS FOR AN INCREASED LEVEL OF SUPERVISION OF STATE MEMBER BANKS WITH INDEPENDENT STATE EXAMINATIONS PLAYING AN INCREASINGLY IMPORTANT ROLE.]

AT THIS POINT, I WOULD LIKE TO MAKE A COUPLE OF COMMENTS ABOUT CSBS'S STATE BANKING DEPARTMENT ACCREDITATION PROGRAM. TO DATE, THREE STATES--ILLINOIS, IOWA AND NEW YORK--HAVE BEEN ACCREDITED. THE ACCREDITATION PROGRAM IS DESIGNED TO STRENGTHEN STATE BANKING DEPARTMENT CAPABILITIES TO ASSURE THE SAFETY AND SOUNDNESS OF BANKING WITHIN EACH RESPECTIVE STATE. I APPLAUD THAT EFFORT. AND, AS I MENTIONED EARLIER, THE FDIC INTENDS TO CONTINUE TO EMPHASIZE

OUR ROLE AS INSURER AND DEEMPHASIZE OUR ROLE AS A GENERAL PURPOSE REGULATOR OF STATE BANKS. WE INTEND TO DEFER TO STATE AUTHORITIES WHENEVER POSSIBLE. HOWEVER, WE WILL BE PREPARED TO EXAMINE ANY FDIC INSURED INSTITUTION THAT NEEDS TO BE REVIEWED.

WHILE A LOT HAS BEEN ACCOMPLISHED IN IMPROVING THE QUALITY OF STATE BANKING DEPARTMENTS, MUCH WORK STILL REMAINS. LET'S NOT KID OURSELVES -- A CRITICAL FACTOR IN THE QUALITY OF ANY ORGANIZATION IS BEING ABLE TO PAY COMPETITIVE SALARIES -- BEFORE THIS CAN BE ACCOMPLISHED, STABLE FUNDING SOURCES MUST BE ASSURED. STATE LEGISLATURES ARE GOING TO HAVE TO COME TO GRIPS WITH THIS PROBLEM. THE STAKES ARE TOO HIGH TO WAIT FOR A CRISIS TO OCCUR BEFORE SOMETHING IS DONE.

EXAMINER TRAINING

ONE AREA WHERE STATE BANKING DEPARTMENTS HAVE BEEN INCREASING THEIR EFFORTS IS IN THE AREA OF TRAINING. FOR 1985, APPROXIMATELY 600 STATE EXAMINERS FROM 43 STATES AND PUERTO RICO AND THE VIRGIN ISLANDS WILL HAVE PARTICIPATED IN TRAINING SESSIONS SPONSORED BY EITHER THE FDIC OR THE FFIEC. THIS IS A SIGNIFICANT INCREASE OVER 1984, WHEN 370 EXAMINERS ATTENDED SUCH SESSIONS.

THE PROJECTIONS FOR 1986 INDICATE THAT 46 STATES, PUERTO RICO AND THE VIRGIN ISLANDS WILL NOMINATE 890 STATE EXAMINERS TO ATTEND THE VARIOUS TRAINING COURSES OFFERED AT THE FDIC TRAINING CENTER IN ROSSLYN, VIRGINIA. THIS COMMITMENT TO TRAINING INDICATES THAT STATE

BANKING DEPARTMENTS ARE SERIOUS ABOUT IMPROVING THE SKILLS OF THEIR EXAMINERS. I SHOULD POINT OUT THAT OF THE 600 STATE EXAMINERS ATTENDING IN 1985, ABOUT 200 WERE PARTIALLY FUNDED BY THE CSBS.

WE RECOGNIZE THE IMPORTANCE OF KEEPING EXAMINERS UP-TO-DATE ON THE CHANGES OCCURRING IN THE BANKING INDUSTRY AND INTEND TO CONTINUE TO MEET THE TRAINING NEEDS OF BOTH STATE AND FEDERAL EXAMINERS.

LEGAL ASSISTANCE PROGRAMS

ANOTHER AREA WHERE THE FDIC HAS PROVIDED ASSISTANCE TO THE STATES IS OUR LEGAL ASSISTANCE PROGRAM. WHILE THIS IS NOT A FORMAL PROGRAM TO HELP IN DRAFTING STATE STATUTES, THE FDIC HAS PROVIDED TECHNICAL ADVICE ON PROPOSED STATE BANKING LAWS AND COMMENTS ON ANY PROPOSED STATUTES THAT AFFECT THE FDIC. AREAS WHICH WOULD FACILITATE THE DIVIDED EXAMINATION PROGRAM INCLUDE STATE AUTHORIZATION FOR THE EXAMINATION OF AFFILIATES AND BANK SERVICE CORPORATIONS OR SIMILAR ENTITIES. ALSO, SOME STATE BANKING DEPARTMENTS NEED INVESTIGATIVE POWERS, SUBPOENA POWERS, AND AUTHORITY FOR THE EXAMINATION OF HOLDING COMPANIES.

A SECOND AREA OF STATE BANKING LAW WHICH MAY BE IN NEED OF REVIEW IS ENFORCEMENT AUTHORITY STATE REGULATORS NEED TOOLS SIMILAR TO THE FEDERAL POWERS CONTAINED IN SECTION 8 OF THE FEDERAL DEPOSIT INSURANCE ACT. THESE POWERS INCLUDE CEASE-AND-DESIST AUTHORITY, BANK OFFICER REMOVAL, AND THE ABILITY TO ASSESS CIVIL MONETARY

PENALTIES FOR CERTAIN VIOLATIONS OF LAW. IN ORDER TO IMPLEMENT THESE POWERS, THE STATE BANKING DEPARTMENTS WOULD NEED RULEMAKING AUTHORITY TO ESTABLISH DUE PROCESS PROCEDURES.

STATE LIQUIDATION LAWS ALSO MAY BE IN NEED OF REVIEW. WE ARE PREDICTING APPROXIMATELY 120 PLUS BANK FAILURES THIS YEAR AND PERHAPS A SIMILAR NUMBER NEXT YEAR. THE DAYS WHEN ONLY A DOZEN BANKS OR LESS FAILED IN ANY GIVEN YEAR ARE GONE AND ARE NOT EXPECTED TO RETURN IN THE NEAR FUTURE. STATE LAWS WHICH FACILITATE PURCHASE AND ASSUMPTION TRANSACTIONS -- SUCH AS BRANCHING ABILITY -- WILL MAKE BOTH OUR JOBS EASIER AND MINIMIZE THE DISRUPTIONS TO THE COMMUNITY.

THESE ARE JUST A FEW OF THE AREAS IN WHICH THE FDIC CAN OFFER TECHNICAL ASSISTANCE.

JOINT ENFORCEMENT PROGRAM

AN IMPORTANT ASPECT IN OUR OVERALL COOPERATIVE EFFORTS WITH THE STATES IS OUR JOINT ENFORCEMENT PROGRAM. THE FEDERAL AND STATE AGENCIES JOIN TOGETHER ON MEMORANDUMS OF UNDERSTANDING WITH BANKS AND ON FORMAL ENFORCEMENT ACTIONS. A MEMORANDUM IS A WAY OF FORMALIZING A COMPREHENSIVE CORRECTIVE PROGRAM WITH A BANK'S BOARD WITHOUT THE NECESSITY OF A FORMAL ADMINISTRATIVE PROCEEDING. THE JOINT MEMORANDUM TELLS A BANK'S BOARD THAT BOTH THE FEDERAL AND STATE AUTHORITIES SUPPORT A GIVEN COURSE OF ACTION. AT PRESENT, WE CONSULT WITH STATE AUTHORITIES, AS REQUIRED BY LAW, BEFORE ISSUING

CEASE-AND-DESIST ORDERS AND INFORMALLY CONSULT WITH EACH OTHER ON LESS FORMAL MEMORANDUMS OF UNDERSTANDING. COORDINATION IN THE ENFORCEMENT AREA NOT ONLY PROVIDES FOR A MORE UNIFIED FRONT TO THE INSTITUTION BUT ALSO ENHANCES COMMUNICATION AMONG ALL THREE PARTIES. I BELIEVE IT IS AN ESSENTIAL INGREDIENT IN PROVIDING GOOD SUPERVISION.

COMMON APPLICATIONS AND REPORT FORMS

A FEW YEARS AGO, THE FDIC EMBARKED ON A PROGRAM TO DEVELOP COMMON APPLICATION FORMS COMPATIBLE WITH STATE AND FEDERAL NEEDS. TODAY APPROXIMATELY 25 STATES UTILIZE A COMMON APPLICATION FORM.

PROCESSING PERIODS ALSO HAVE BEEN DRASTICALLY CUT AND THE FDIC BOARD HAS DELEGATED APPROVAL AUTHORITY ON MOST APPLICATIONS TO THE REGIONAL DIRECTORS. NOW ONLY THOSE APPLICATIONS INVOLVING A POLICY MATTER AND SOME APPLICATIONS RECOMMENDED FOR DISAPPROVAL ARE FORWARDED TO THE FDIC BOARD.

ACCESS TO THE FDIC'S COMPUTER DATABASE

WHILE APPLICATION FORMS HAVE BEEN STREAMLINED, BANK FINANCIAL REPORTING IS ANOTHER MATTER. IN THE PAST, THE FINANCIAL INFORMATION PROVIDED BY BANKS WAS USED PRINCIPALLY FOR MACROECONOMIC PURPOSES AND ANALYZING OVERALL TRENDS IN THE INDUSTRY. TODAY, THE REPORTS OF CONDITION AND REPORTS OF INCOME ("CALL REPORTS") PLAY AN INTEGRAL ROLE IN THE INDIVIDUAL SUPERVISION ACCORDED A PARTICULAR INSTITUTION. AND STATES CAN ACCESS THE FDIC'S COMPUTERIZED DATABASE.

CURRENTLY, 27 STATES ACCESS OUR COMPUTER DATABASE ON A SHARED COST BASIS. THE BANKING DEPARTMENT IN EACH PARTICIPATING STATE HAS A TERMINAL THAT GIVES IT IMMEDIATE ACCESS TO A WEALTH OF KEY BANKING INFORMATION CONCERNING THE BANKS SUPERVISED BY THAT DEPARTMENT. THE STATE CAN OBTAIN CALL REPORT, INCOME REPORT AND SUMMARY OF DEPOSIT INFORMATION ON ALL BANKS AND, FOR STATE NONMEMBER BANKS, EXAMINATION DATA FROM THE FDIC'S EXTENDED MONITORING SYSTEM. HARD COPY UNIFORM BANK PERFORMANCE REPORTS WHICH FACILITATE A FINANCIAL ANALYSIS OF THE INSTITUTION ARE ALSO AVAILABLE ON A QUARTERLY BASIS.

THE STATE BANKING DEPARTMENT CAN OBTAIN THE SAME INFORMATION FOR ALL ITS STATE MEMBER BANKS FROM ITS LOCAL FEDERAL RESERVE BANK.

A GREAT DEAL OF OFFSITE MONITORING INFORMATION IS AVAILABLE AND 27 STATES ALREADY HAVE ACCESS TO THIS INFORMATION. I WONDER, HOWEVER, HOW MANY OF THOSE STATES ARE TAKING FULL ADVANTAGE OF THIS VALUABLE SUPERVISORY TOOL? FOR STATE REGULATORS, THE DEVELOPMENT OF OFFSITE MONITORING SYSTEMS TO COMPLEMENT ONSITE EXAMINATIONS IS A MUST.

FFIEC EXAMINATION REPORT

I AM SURE SOME OF YOU HAVE WONDERED WHAT HAS HAPPENED TO THE INTERAGENCY EXAMINATION REPORT SCHEDULED TO HAVE BEEN IMPLEMENTED ON SEPTEMBER 1. AT PRESENT, EACH FEDERAL AGENCY IS HOLDING OFF IMPLEMENTING THE NEW EXAMINATION REPORT AS A RESULT OF THE COMPTROLLER'S ANNOUNCEMENT AT THE LAST FFIEC MEETING THAT THEY WERE LOOKING INTO IMPLEMENTING A NEW EXAMINATION PROGRAM WHICH WOULD

RENDER THE INTERAGENCY REPORT OBSOLETE. THE FDIC IS RELUCTANT TO IMPLEMENT A NEW EXAMINATION REPORT IF IT IS NOT GOING TO BE TRULY AN INTERAGENCY REPORT. THE FUTURE OF THE INTERAGENCY REPORT WILL HAVE TO BE IRONED OUT BY THE FFIEC.

NEW DIRECTIVES

WE ARE PREPARED TO TALK WITH YOU ABOUT NEW INITIATIVES IN COOPERATION, PARTICULARLY AS WE MOVE TOWARD SOME REGIONAL TYPE BANKING. WHAT ARE YOUR SUGGESTIONS?

OVERALL SUPERVISION

COMMUNICATION AMONG REGULATORS AND BANKERS IS MORE IMPORTANT THAN EVER BEFORE. WHILE I HAVE FOCUSED ON RELATIONS BETWEEN THE FDIC AND THE STATES, STATE-TO-STATE COORDINATION IS ONE ISSUE THAT WILL BECOME MORE IMPORTANT AS INTERSTATE BANKING COMES DOWN THE ROAD. SOME STATES ARE ALREADY INITIATING DISCUSSIONS IN THIS AREA. THE IDEA OF SHARING STATE EXAMINATION DATA WITH OTHER STATES MAY REQUIRE LEGISLATIVE CHANGES. IT IS AN AREA TO LOOK AT AND ONE WHICH WE HOPE WE CAN HELP BY PROVIDING A FOCAL POINT FOR COOPERATION.

OUR NATION HAS BEEN WELL-SERVED FOR OVER A CENTURY BY THE DUAL BANKING SYSTEM. I BELIEVE IT HAS BEEN VERY VALUABLE IN HELPING TO FOSTER AN INNOVATIVE FINANCIAL STRUCTURE. WE BELIEVE THE FEDERAL GOVERNMENT MUST BE VERY CAREFUL NOT TO UNDERMINE THE DUAL CHARTERING SYSTEM.

FOR REGULATORS, THE CHANGING ENVIRONMENT IS CREATING NEW CHALLENGES IN SUPERVISION. COORDINATION AMONG ALL OF THE REGULATORY AGENCIES WILL BE IMPERATIVE IF WE ARE TO DEVELOP EFFECTIVE, COST EFFICIENT WAYS TO SUPERVISE INSTITUTIONS IN THE 1980S AND BEYOND. WE STAND READY TO ASSIST STATE BANKING DEPARTMENTS IN MEETING THESE CHALLENGES.