ASSOCIATION OF RESERVE CITY BANKERS

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BOCA RATON, FLORIDA

FSLIC -- FDIC

THE DEPOSIT INSURANCE OF THE FUTURE

THIS MORNING I WOULD LIKE TO MAKE A FEW BRIEF COMMENTS ABOUT YOUR INSURANCE FUND AND ITS RELATION TO FSLIC -- AND THE S&L INSDUSTRY. A MERGER OF THE FUNDS IS SAID BY SOME TO BE EASY AND INEVITABLE. H.L. MENCKEN SAID, "THERE IS ALWAYS AN EASY SOLUTION -- NEAT, PLAUSIBLE, AND WRONG."

POINT 1: AS WE HAVE STATED MANY TIMES, THE FDIC IS OPPOSED TO A MERGER OF THE DEPOSIT INSURANCE FUNDS, BUT THIS IS NOT A TOTAL ANSWER TO A VERY REAL PROBLEM. MORE ON THAT LATER. FIRST, LET ME REVIEW THE STATUS OF THE FDIC FUND. THE FDIC FUNDS ARE NOT "FREE FUNDS" AVAILABLE TO SOLVE FSLIC'S PROBLEMS. OUR RESERVES ARE

NECESSARY TO MAINTAIN A SAFE LEVEL OF PROTECTION FOR THE BANKING INDUSTRY. IN "NO WAY" COULD WE HANDLE THE FSLIC PROBLEMS -- OUR RESOURCES ARE BEGINNING TO SHOW SOME STRAIN FROM CURRENT CONDITIONS.

OUR RATIO OF RESERVES TO INSURED DEPOSITS IS DROPPING. AS OF YEAR END 1986, THE RESERVE DECLINED TO $1.12 PER $100 OF INSURED DEPOSITS FROM JUST UNDER $1.20 A YEAR EARLIER. INSURED DEPOSITS GREW ABOUT 8.7% LAST YEAR. IF WE PROJECT A SIMILAR GROWTH RATE FOR 1987, AND ASSURE NO GROWTH IN THE $18.2 BILLION FUND, THEN THE PROJECTED RATIO OF THE FUND TO INSURED DEPOSITS AT YEAR-END WILL DROP TO

ABOUT 1%. AT THE RATE BANKS ARE FAILING (69 FAILURES AND 2 ASSISTANCE TRANSACTIONS THIS YEAR -- AS OF LAST FRIDAY -- MAY 1) WE WILL BE LUCKY TO KEEP THE FUND FROM SHRINKING IN 1987.

AS YOU MAY ALREADY KNOW, THE CONGRESS HAS INDICATED THAT THE FEDERAL DEPOSIT INSURANCE FUND SHOULD NOT DROP BELOW 1.1% OF INSURED DEPOSITS WHEN PAYING MANDATORY ASSESSMENT REBATES -- WHICH I NEED NOT REMIND YOU HAVE NOT BEEN FORTHCOMING RECENTLY. TODAY, THE FDIC FUND IS SINKING TO THE 1.1% THRESHOLD. IT MAY EVEN BE BELOW IT AT THE MOMENT.

HOWEVER, THERE IS SOME GOOD NEWS. OUR PROBLEM BANK LIST HAS HOVERED AROUND 1500 FOR THE LAST 6 MONTHS. A YEAR AGO, IT WAS INCREASING AT THE RATE OF ONE BANK A DAY. PERHAPS WE HAVE BEGUN TO PEAK OUT -- AT LEAST UNDER CURRENT ECONOMIC CONDITIONS.

POINT 2: SO, I STRESS THAT THE FDIC IS SOLVENT. IT CAN AND WILL HANDLE REASONABLY FORSEEABLE PROBLEMS. WE HAVE -- YOU HAVE -- A SOUND AND VIABLE DEPOSIT INSURANCE FUND. ON THE OTHER HAND, IT IS NOT AN UNLIMITED RESOURCE THAT CAN BE CALLED UPON TO SHORE UP THE DEPLETED FUND OF ANOTHER FUND.

POINT 3: CONSIDER THE SCOPE OF THE S&L INDUSTRY'S FSLIC PROBLEM. THE FHLBB HAS ESTIMATED THAT ABOUT $23 BILLION (PRESENT VALUE COST) WILL BE NEEDED TO RESOLVE SELECTED PROBLEM S&LS. THIS ESTIMATE DOES NOT INCLUDE RESOLUTION OF THE PROBLEMS OF ALL INSOLVENT S&LS, OR MARGINALLY SOLVENT INSTITUTIONS. IT ALSO DOES NOT REFLECT THE EFFECTS OF INCREASES IN INTEREST RATES NOW TAKING PLACE.

NO WONDER INCREASING NUMBERS OF WELL-RUN THRIFTS ARE CONSIDERING JOINING THE FDIC. WE HAVE RECENTLY RECEIVED A DOZEN APPLICATIONS FROM S&LS SEEKING FDIC INSURANCE. A NUMBER OF OTHERS HAVE

EXPRESSED INTEREST IN CONVERSION. SEVERAL OF THESE ARE RELATIVELY LARGE IN SIZE.

A QUICK REVIEW OF AVAILABLE FINANCIAL DATA INDICATES THAT AS MANY AS 30% OF THE S&LS, HOLDING 15% OF THE INDUSTRY'S ASSETS, MEET THE FDIC'S CAPITAL STANDARDS. THESE ARE THE STRONG AND VIABLE INSTITUTIONS. SHOULD THEY AND OTHERS EXIT THE FSLIC, WHAT REMAINS ARE ONLY THE WEAK THRIFTS. A FURTHER WEAKENED FSLIC CANNOT HOPE TO REGAIN SOLVENCY.

WE ALSO NEED TO CONSIDER DEMANDS UPON FDIC RESOURCES SHOULD LARGE NUMBERS OF INSTITUTIONS SEEK TO CONVERT. SHOULD 30%

OF THE S&LS TRANSFER TO OUR FUND, OUR RESERVES TO INSURED DEPOSITS RATIO WOULD DECLINE ABOUT 10% TO ABOUT .9% OF DEPOSITS.

GOOD INSURANCE BUSINESS PRACTICE WOULD REQUIRE THAT A TRANSFEREE BRING WITH IT SUFFICIENT "RESERVE FUNDS" TO MAINTAIN THE INSURANCE RESERVES AT APPROPRIATE LEVELS. THIS IS NOT REQUIRED, HOWEVER. THE RESULT IS THAT EVEN WITHOUT A MERGER, SUCH TRANSFERS WOULD WEAKEN THE FDIC RESERVES.

FURTHER WEAKNESS WOULD CERTAINLY CALL FOR EXAMINATION OF THE NEED FOR ADDITIONAL PREMIUM SURCHARGES FOR THE

BANKS. THUS, THE HEIGHTENED INTEREST IN CONVERTING TO FDIC INSURANCE SUGGESTS THAT WE NEED TO CLARIFY OUR APPROACH TO GRANTING FEDERAL DEPOSIT INSURANCE AND OR THE RULES FOR TRANSFER.

A LARGE NUMBER OF S&L TRANSFERS FROM FSLIC CAN BECOME A "BACK DOOR MERGER" WITH POOR RESULTS FOR ALL.

THE FDIC FUND WILL BE SERIOUSLY WEAKENED. ITS PREMIUMS WILL INCREASE. FSLIC WILL NOT BE RECAPITALIZABLE. AND, WE HAVE NO LEGAL WAY TO PREVENT THIS RESULT UNLESS CURRENT LEGISLATION IS CHANGED. THE "EXIT FEE" IN THE HOUSE BILL IS SO LOW THAT AN S&L CAN RECOVER THE

COST IN ABOUT 3 YEARS AT CURRENT FDIC PREMIUM RATES.

FURTHER, THERE IS TALK OF "CAPITAL FORBEARANCE" IN ADMISSION STANDARDS -- SOME PEOPLE HAVE LOOKED AT THE FORBEARANCE WE HAVE GIVEN TO FDIC-INSURED SAVINGS BANKS. THIS IS TRUE, WE DO ALLOW A NUMBER OF SAVINGS BANKS TO OPERATE WITH LESS THAN DESIRED CAPITAL LEVELS. IT SHOULD BE NOTED, HOWEVER, THAT THESE INSTITUTIONS WERE <u>ALREADY</u> INSURED BY THE FDIC, THEY WERE NOT SEEKING ADMITTANCE TO THE SYSTEM.

OVER THE LAST FEW YEARS, THE FDIC HAS GRANTED FEDERAL DEPOSIT INSURANCE TO

ABOUT 300 NON-INSURED INSTITUTIONS OF VARIOUS TYPES RANGING FROM CO-OPERATIVE BANKS IN MASSACHUSETTS TO THRIFT AND LOAN ASSOCIATIONS IN CALIFORNIA. WE CAN THINK OF NO INSTANCE WHERE WE COMPROMISED OUR ADMISSION STANDARDS. AT THE LEAST, WE HAVE NO INTENTION OF COMPROMISING THEM NOW!

BUT, IT WILL TAKE MORE THAN OUR TRADITIONAL ADMISSION STANDARDS TO MAINTAIN SOUND FDIC RESERVES. A LARGE NEW S&L MEMBERSHIP WILL REQUIRE ADDITIONAL FUNDING -- FROM SOMEWHERE.

ANOTHER THREAT TO THE FDIC'S FUTURE HEALTH IS FORBEARANCE LANGUAGE IN THE

HOUSE BILL. WITHOUT GOING INTO ALL THE DETAILS, THE PROVISIONS CAN BE DESCRIBED AS UNWISE AND UNWORKABLE BECAUSE THEY LEGISLATE THE JUDGEMENT OF OUR SUPERVISORY PROCESS. FORBEARANCE WOULD BE MANDATED BY LEGISLATION -- OVERRIDING THE DISCRETION OF THE PROFESSIONAL REGULATORS. IT REQUIRES AN UNWIELDY APPEALS PROCESS WHICH CAN PREVENT WEAK OR ILL-MANAGED INSTITUTIONS FROM BEING CLOSED.

SUCH PROVISIONS ARE DISTURBING TO ALL REGULATORS BUT PARTICULARLY TO THE FDIC BECAUSE IT APPEARS THAT SUCH PROVISIONS MAY APPLY TO THE MANY FEDERAL SAVINGS BANKS WHICH ARE INSURED BY US. THE FSLIC

RECAPITALIZATION EFFORT WILL ALSO BE SABOTAGED BECAUSE WELL-MANAGED THRIFTS WILL SEEK TO MOVE TO THE FDIC INSURANCE FUND WHERE MOST WEAK INSTITUTIONS WILL NOT BE SO PROTECTED.

CONCLUSION

IN CONCLUSION, LET ME SAY THAT SOME FORM OF JOINT OPERATION OF THE FUNDS MAY OCCUR IN THE FUTURE. IN MY VIEW, THE FUNDAMENTAL CONDITIONS THAT MUST BE MET FIRST ARE:

1. A SOUND RECAPITALIZATION PLAN FOR FSLIC,

2. A CLEAR DEFINITION OF THE SPECIAL MISSION OF THRIFTS, AND

3. COMMON REGULATORY STANDARDS.

IN FACT, IF THE FDIC IS CALLED UPON TO HELP THE FSLIC - BANK BOARD, WE SHALL TRY TO DO SO IN EVERY WAY EXCEPT A FINANCIAL MERGER. IF SOME KIND OF MERGER IS FORCED UPON US, THEN I WOULD SUGGGEST THE CONGRESS EXAMINE CREATING A <u>COMMON BOARD OF DIRECTORS</u> WITHOUT ANY OTHER CHANGES. SUCH A BOARD WOULD OPERATE THE TWO FUNDS IN THE MOST EFFICIENT MANNER WHILE SEEKING LONGER-RANGE SOLUTIONS.

BUT, LET'S ALL HOPE REASON PREVAILS AND NO MERGER IS IN OUR FUTURE.

THAT'S A HIGH HOPE -- <u>THAT REASON PREVAILS</u>, IN TODAY'S LEGISLATIVE ENVIRONMENT.

BUT, "REASON" IN LEGISLATIVE MATTERS IS THE RESULT OF POLITICAL POWER. I HOPE YOU AND THE S&LS WILL "REASON" TOGETHER ON THE MATTERS OF COMMON CONCERN.

TOGETHER THE STRONG BANK AND S&L LEADERSHIP CAN FIND MUCH THEY CAN AGREE UPON -- AND MUCH THEY CAN ACCOMPLISH. THE INSURED DEPOSIT INSURANCE INDUSTRY

NEEDS TO REASON TOGETHER IF THEY WANT TO PROVIDE A SOLUTION, RATHER THAN RECEIVE AN UNPALATABLE RESOLUTION OF THEIR COMMON PROBLEM.