Remarks by

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It's a pleasure to speak today with members of the Nebraska Bankers Association.

I'd like first to compliment your great state for the remarkable improvements being made in your economy.

Last year, Governor Orr said she wanted to hang a sign on Nebraska that said "Open For Business." I didn't see the sign on the way in from the airport, but it still looks like a lot of people have gotten the message.

Agriculture in the "Cornhusker State" is once again on the fast track, and it has a lot of new company in your economic picture.

Nebraska experienced more than a <u>seven percent increase</u> in manufacturing jobs between February, 1987 and February, 1988. That's the <u>second highest</u> increase shown for <u>any of the twelve</u> midwestern states, and it <u>really</u> shows up well when you realize the national increase was just over <u>one percent</u>!

In some parts of your state, the unemployment rate has dropped from eleven percent to <u>less than four percent</u> in a year's time.

A recent survey of Nebraska businesses conducted by Drake University tells the tale. More than half of the businesses contacted said their general level of activity was higher than last year. Seven out of ten said that both new orders, and delivered orders, were higher.

Inc. Magazine notes that six Nebraska firms are on its list of the fastest growing American companies.

In keeping with that all-American, can-do spirit shown us by such great Nebraskans as "Buffalo Bill" Cody and General Pershing, not to mention Johnny Carson, Henry Fonda, and Fred Astaire -- Nebraska's banks are also on the move.

Between 1986 and 1987, your ROA nearly doubled (.47 to .83). Your ratios of both primary and equity capital to assets were also up, while the percentage of Nebraska banks with earnings losses fell by fifty percent, as did your net charge-offs on loans and leases. Your non-performing assets also dropped by nearly 25 percent.

That's the kind of news that makes the bankers' insurance company feel warm all over.

The NBA is also to be congratulated for progress in your state legislative arena.

A few years ago you helped take action to liberalize state branching requirements. This strengthened your banking industry, and enabled the FDIC to handle troubled banks in your state more easily.

You also deserve high marks for helping with your state's industrial bank problem, as well as for your work to protect local government deposits in banks.

And now is the time to direct that constructive energy toward Washington, and participate in the debate in Congress surrounding new bank legislation.

The opportunity is available and the time is now for you to help wage a fight in the House for states' rights and the DUAL BANKING SYSTEM. The Senate Bill is a start. But as you know, the Bill is far from perfect, and contains two significant threats to states' rights.

First, it would restrict the ability of state chartered banks to pursue state authorized insurance activities. That's a strike against the dual banking system.

Second, it would require new securities activities to be conducted through the holding company, and would prohibit state banks and their subsidiaries from conducting such activities now permitted by the states.

That is strike two against the dual banking system.

The third strike could come if the same pattern is followed in the House bill with respect to real estate activities. And as we are all aware during this baseball season, three strikes and you're out!

These potential strikes against the dual banking system can be challenged when the House Banking Committee takes up financial reform legislation in the near future. It is critical that any legislation that emerges from this process does not undermine the authority of state chartered banks to exercise powers permitted by the states, and maintains the dual banking system.

Federal restrictions should only be imposed on state banks to the extent necessary to maintain a safe and sound banking system that can be insured by the FDIC.

An important benefit of our dual banking system is that it allows the states to tailor their respective banking systems to the particular attributes and needs of their own regions. The result is a banking system that is more responsive to local consumers. A second advantage of the dual banking system is the opportunity it affords the states, as laboratories for change, to develop a variety of innovative approaches to banking problems and issues.

That's why a fundamental principle that guides the FDIC's view of federal banking legislation, in the insurance and other areas, is the preservation of state's rights and the dual banking system consistent with the safety and soundness of the deposit insurance system.

Under the laws of numerous states, including Nebraska, many banks already are in the insurance business.

The FDIC has seen no evidence that insurance activities pose risks that would form the basis for any such restriction.

This analysis led the FDIC to conclude that at this time there should be no federal legislation dealing with insurance activities of state chartered banks. I suggest we give due deference to an old American adage, "If it ain't broke, don't fix it."

We recognize, however, that legislation is being considered to restrict the insurance activities of banks, including those of state chartered banks that are in holding companies. While we do not favor such legislation, there is one approach that we would find less objectionable than others, and less damaging to state's rights and the dual banking system.

That approach is embodied in the proposed amendment by Congressman Kleczka. It would permit state banks and their subsidiaries to engage, within the state, in any insurance activities permitted by state law no matter where the holding company is located. Pursuant to this amendment, the activity limitations contained in the Bank Holding Company Act, including those governing insurance, would not apply to the subsidiaries of state chartered banks that are in a bank holding company system.

We think this is a sound idea, and in fact this goal of preserving the dual banking system should apply to all activities permitted by the states. Of course, safety and soundness, enforced through strict supervision, would be an integral part of permitting such powers.

The debate about banking powers really boils down to how banks will function in the increasingly competitive financial services industry.

Many of the problems plaguing the banking industry -- and helping to send record numbers of insurance claims our way -- were at least aggravated by the growing competition confronting banks, and the erosion of banking's traditional financial intermediation role. The spectacular growth of mutual funds has partially displaced deposits; corporate commercial paper has replaced borrowing by many of the strongest corporations; and the growth of securitization is reducing the need for banks to play a role between borrowers and sources of capital.

Banks need new strategies and powers to strive among these challenges.

A recent article on one of the big nonbank players in the financial service field -- Sears -- quoted one manager as to why he thought Sears could get away with poaching on banking's traditional territory.

The executive's answer was that he believed that banks were not good marketers, and that banks had failed to recognize that banking had changed from being a "bought" service -- to one that had to be marketed and "sold" with increasing aggressiveness and innovation.

It might be instructive to us to look at a famous Nebraksan -- "Buffalo Bill" Cody, and the fact that he owed his long and successful career to his ability to see and react to changes taking place around him.

As most of you know, "Buffalo Bill" first -- very literally -- made a name for himself by harvesting the vast herds of buffalo to feed the crews then building the great transcontinental railroads. As far as supplying meat to the railroads, Buffalo Bill had much in common with banks just a few years ago -- he was the only game in town, and customers had to come to him.

But as the frontier changed and, along with it, the needs of the frontier marketplace, Buffalo Bill adapted. He marketed himself and his skills.

Instead of shooting standing buffalo for meat with his huge fifty caliber rifle, he used his six-shooters to break plates thrown in the air in exhibition. He eventually headlined his own famous "Wild West Show" that toured the east and Europe, and which brought him far more success than buffalo hunting ever had.

"Buffalo Bill" was able to recognize change, and take advantage of it.

The banking market place is changing, but banks can adapt and prosper if we take a page from "Buffalo Bill's" book.

Start with what you know how to do best, change it to fit the times, and banks will do well among their competitors.

As another Nebraskan, General Pershing, once said, "The future is a chain we can all climb, if we grasp it one link at a time."

Thank you, and I would pleased to respond to any questions.