Remarks by
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Well good morning everyone. Welcome to the FDIC. We have a very good turnout. I had heard we were turning people away, I wasn't sure if that was a good thing or a bad thing. If Interest Rate Risk -- if people are concerned or if it is just a very topical issue right now, which it clearly is. But I think what we are really trying to do is just get ahead of the curve by talking about this. It is an event in the future to occur and we can talk about proactive ways to manage this additional challenge to the banking industry.

I would like to also thank all of the folks that are here with us via webcast or over the Internet. A lot of people are tuning in as well. I would also like to thank all of our fine staff for all of the hard work they have put into this conference to get it ready. I'm very pleased. Again a very good turnout and really an excellent panel of speakers.

The reason we are here today obviously is to discuss the unique challenges posed to depository institutions by today's historic low interest rate environment. The near zero federal funds rate target that has been maintained, necessarily by the Federal Reserve, since December 2008 has been a huge historical precedent obviously. As in the current situation, zero interest rate policies were instituted in previous episodes in response to the deflationary pressures during severe recessions that followed major financial crises. However, the historical rarity of such episodes and the unique set of conditions associated with each make it difficult to know what lies ahead when the current U.S. zero interest rate policy inevitably ends.

We do know that at some point interest rates must rise. We also know that depository institutions are nearly always impacted by rising interest rates. So managing interest rate risk is really part of their day-to-day business. This problem can become more acute and the vulnerability of banks can rise in periods of highly volatile interest rates or when banks pursue balance sheet strategies that broaden the duration mismatch between assets and liabilities. On the asset side an accumulation of mortgage related assets could present unique risks in an environment such as this. Total holdings of mortgage related assets by FDIC insured institutions have shrunk slightly in recent quarters. However these exposures could increase once again when federal programs aimed at bolstering the housing market are wound down.

On the liability side, a greater reliance in recent years on non-core deposits and wholesale funding products could be making bank-funding costs more sensitive to rising interest rates. A thorough evaluation of Interest Rate Risk must be done at individual institutions and by regulators to determine whether exposures are building in the current environment. We all have a clear interest in evaluating the Interest Rate Risk facing the industry and if there is evidence this risk is building, I think we need to know more about it and how we can defuse it before the pressure causes problems for insured banks and thrifts.

There are many lessons to learn from the current crisis, as we all know too well. One big lesson is that bankers and regulators need to get ahead of the curve to work early and effectively to limit risk accumulations before it is too late and they threaten the financial system and the broader economy. Much of this costly crisis probably could have been avoided in retrospect, hindsight is always 20/20. The industry clearly bears much of the responsibility but regulators do too. We could have and should have used our authority more proactively and aggressively to stop the excesses that grew into a full-blown meltdown.

The risk, the changes in the level of interest rates or changes in the shape of yield curves, could hurt banks and should always be a concern for bankers and for regulators. Rapid changes in rates are especially worrisome because of the adverse impact it can have on bank lending and earning. The emergency government response to the financial crisis was absolutely necessary but it left us with very low short-term rates, steep yield curves and volatile credit spreads.

Some firms have capitalized on this by increasingly using short-term funding for longer-term assets. I'm afraid that the risk of this business model will become all too clear when interest rates rise or the yield curve flattens. Frankly I don't know exactly what the future holds. I am not certain that anybody has a crystal ball accurate enough to make a reliable prediction. But what we do know is that things will be changing.

I am pleased to see some signs of strength in the financial system and that this has allowed the government to slowly become less involved in financial markets. I think we can take some comfort from the progress that we are seeing, but we should not be complacent. I expect that returning to normal might present challenges for some banks that are not prepared. So we need to help make them prepared for the change when it comes.

Our discussions today are an opportunity to understand the implications of today's historic low, short-term rates, where Interest Rate Risk may reside in the system, and how best to prepare for the inevitable increases in interest rates that lie ahead. We will hear about the types and amounts of Interest Rate Risk that exist in both community banks as well as in larger institutions. We will learn about best practices for managing these risks and we'll talk about what regulators will be expecting from the banks as they deal with these risks.

I personally want to learn more about any impediments to addressing excessive Interest Rate Risk exposures that may exist and what we can do to fix that. We have a fantastic group of speakers and panelists who will lead the discussion. We will be getting points of view from across the system with executives from both community banks as well as larger institutions. Other market participants and observers will voice their views as well. We have a panel of senior level supervisors from the banking agencies who will talk about our recently issued advisory on interest-rate risk and what it requires. So I am looking forward to a lively and informative debate and discussion that I hope will prepare us better for the days ahead.