



PRESS RELEASE

Federal Deposit Insurance Corporation

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FDIC CHAIRMAN TANOUE WARNS BANKERS: TIME IS OF THE ESSENCE FOR DEPOSIT INSURANCE REFORM

FOR IMMEDIATE RELEASE

There are signs that the window of opportunity for deposit insurance reform may be closing, FDIC Chairman Donna Tanoue said Monday in a speech to America's Community Bankers in Seattle.

Among the signs she listed were rising household debt burden, rapid escalation of home prices dwarfing income growth, more cities at risk for overbuilding commercial real estate, rising corporate default risk across industries, and volatility in the stock market.

"I don't need to remind any of you that these challenges are being faced in an environment where net interest margins continue to be squeezed by increasingly competitive deposit markets and a relatively flat yield curve," Chairman Tanoue said.

She also stressed that the sudden failure of a single, medium-sized thrift institution could result in all other thrifts having to pay high deposit insurance premiums again.

"If all this sounds like a prediction of gloom and doom, it is not. It is a reminder that we must be prepared for more challenging times ahead," Chairman Tanoue said.

She said that the thrift industry represented at the convention "is - for the most part - an industry of survivors, survivors who had to struggle to contribute significant premium income throughout the crisis years and were then required to capitalize a new insurance fund - paying more than half of industry income in 1996."



Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

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She noted that a thrift institution that had doubled in size over the past 15 years to \$1 billion in assets and that had conducted a typical thrift business would have paid more than \$20 million during that time to meet its deposit insurance obligations.

On the other hand, a thrift that began business in 1996 and had grown from \$250 million to more than \$3.1 billion today has paid only \$2 million.

Last April, Chairman Tanoue announced that the FDIC was undertaking a comprehensive review of deposit insurance to address flaws in the system, emphasizing that while insured deposits were safe, the system could be made fairer and more efficient.

She told the bankers in Seattle Monday: "I've said before that the time to fix our roof is when the sun is shining. If you pitch in, the work can be done before the next storm hits."

A copy of the speech is attached.

Attachment: Remarks By Donna Tanoue Chairman Federal Deposit Insurance Corporation Before America's Community Bankers
