CHAIRMAN DONALD E. POWELL
FEDERAL DEPOSIT INSURANCE CORPORATION
REMARKS PREPARED FOR DELIVERY TO THE
NEBRASKA BANKERS ASSOCIATION
May 2, 2003

FOR IMMEDIATE RELEASE
PR-40-2003 (05-02-2003)

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Good morning.

It is wonderful to be here in Nebraska, to enjoy your hospitality and your kindness. I especially appreciate the friendship of Skip Hove, a distinguished alumnus of Nebraska banking - he guided our Corporation through some of the darkest days of the banking crisis, and all of us at the FDIC still have a soft spot in our hearts for him. Thank you, Skip, for your contribution to America and to the banking industry.

I also appreciate the opportunity to visit with you today about some of the issues on our plate in Washington, DC. We continue to work hard at our mission of financial stability, good stewardship of the deposit insurance funds, and sound policy leadership for the banking community.

Skip indicated that you would be interested in hearing a little about our progress on the issue of deposit insurance reform and I'd be happy to provide you with an update today on where things stand.

First, a little about the problem. We operate an insurance company whose practices and procedures, which are mandated by law, would not pass the requirements of a private sector insurance firm. For that matter, I'm not sure they would pass an FDIC safety and soundness examination, either.

Here are a few examples of our current business practices:

- First, our product - deposit insurance - has proved its value by bringing us an unprecedented 70-year span of banking free of systemic panics or liquidity crises. Yet, the law currently requires us to provide the product free of charge to more than 90 percent of our customers.

- Further, the system is unfair. We know that all banks are not created equal. They have varying business models and risk profiles. Yet, we are unable to charge more to the riskier institutions, or less to the more conservative ones. Moreover, more than 1,000 institutions were chartered since 1996 - and none of them has paid a dime for deposit insurance.

- Finally, we are required to hold a static reserve that bears little relation to what is going on in the industry or in the broader economy.

The current system is also burdensome. We maintain two separate insurance funds - a vestige of the distant past when there were separate regulators and insurance funds for banks and thrifts. The practical impact of this is separate accounting in your bank and separate accounting in Washington. Not to mention the potential for charging different prices for an identical product.

And the deposit insurance guarantee we've come to depend on as the bedrock of financial stability is withering away over time. Because of inflation, the $100,000 guarantee is worth less than half of what it was when Congress set it more than 20 years ago. And it is worth less every day.

Finally, there is what I like to call the "off balance sheet" risk. The Bank Insurance Fund is very close to the 1.25 premium trigger. Indeed, while we don't expect any precipitous declines, it may well dip a bit below by the end of the year. We can never rule out surprises that would force the FDIC to charge high premiums on the industry at the worst possible time.

This may not happen. But then again it might - the ratio certainly dipped below the 1.25 ratio last year during one of the healthiest years the industry ever had. We've also seen many other good examples in recent years of unexpected events that had huge consequences for the marketplace. The large-scale corporate failures, the bursting of the equities bubble, tough new corporate governance standards, the troubles in the Wall Street institutions - all these arose from events nobody planned for.

It is important to note, however, that the potential liability for banks of steep deposit insurance premiums is something we have foreseen. We recognized this possibility, and developed a plan that is responsible, comprehensive and sets the stage for a secure and affordable deposit insurance program for the next generation. Now we need to go and pass it.

Our plan is simple. We suggest that Congress approve a meaningful risk-based premium system for all financial institutions. We believe we should eliminate the "hard target" for the fund's size and allow the FDIC to manage it within a range - relative to the risks in the industry and the conditions in the broader economy. We believe we should merge the two deposit insurance funds. We believe we should have a fair system of credits to address the institutions that entered the system since 1996 and have paid nothing at all for deposit insurance. And we believe coverage should be indexed so it doesn't continue to lose value over time.

We developed these recommendations over years of research, study and outreach. We worked closely with the industry and with Congress to develop our plan. And, put simply, we believe the time has come to act - not just on part of it, but all of it.

I'm pleased and grateful to report we've made good progress this year - with the leadership of fine folks like Chairman Oxley and Congressman Frank. Nebraska's own Congressional delegation - including Senator Hagel and Congressman Bereuter - has been a big help as well. The House has already acted, passing its bill with 411 members of Congress supporting it, and 11 opposing. So it was a significant show of support for the FDIC and for our reform proposals. We feel fortunate.

There is also some positive news in the Senate, as well. At a hearing earlier this year, Chairman Shelby asked the Treasury and the banking agencies to work on some consensus reforms and forward them to his committee for consideration. We are close to a meeting of the minds with our regulatory brethren, and will be sending him our agreement very shortly. While it isn't appropriate for me to get into the details of the package pending receipt by Chairman Shelby, Senator Sarbanes, and the other members of the Committee, I will say that we are close to putting together a strong package of reforms that would greatly improve the current system. It will certainly be a good starting point for Senate consideration.

So we're making progress and we've got good momentum behind passing a bill this year. Yet, interestingly, we continue to hear arguments, from time to time, that there is no need to act now. We hear that we should wait until there is a crisis to act, or that we should cherry pick bits and pieces from the package - like merging the funds, for example - and pass them separately.

That sounds like a uniquely Washington solution to a pressing problem. Passing a bill that only merges the funds without any of the other important reforms is like putting a legislative band-aid on a compound fracture. We need to solve all of these problems, and not just pick and choose among them based on political expedience or our narrow self-interests.

It is not like we haven't had a thorough discussion about deposit insurance reform. The issues have been fully vetted and discussed among the interested parties for more than three years now. There is broad consensus between the industry and the regulatory community about the problems with the current system and what we need to do to fix them. And there are very real financial consequences in the future for the bankers in this room and around the country - not to mention your depositors and customers--if we do not act now. So, to my way of thinking, the responsible thing to do is act now. We know what the problems are and we know how to address them--why wait?

We at the FDIC are committed to improving the system and we will continue to work toward that goal. Again, we appreciate the leadership shown by Senator Hagel and other members of the Nebraska Congressional delegation. We look forward to working, with you and your banking colleagues throughout the country, to implement an improved deposit insurance program that is better able to meet the challenges of the current financial environment.

Again, thank you for inviting me here today. Thank you for your hospitality. And I hope you all will stop into the FDIC and visit us next time you are in Washington.

Thank you.

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Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. The FDIC insures deposits at the nation's 9,354 banks and savings associations and 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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Last Updated 05/02/2003