Remarks by
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President Franklin Roosevelt once began an address to the Daughters of the American Revolution not too many blocks from here with the words: "My fellow immigrants."

In the same spirit, I would like to begin today by addressing you as "my fellow credit underwriting analysts." We have a lot in common. That is no accident. As a banking regulator -- and a deposit insurer -- we at the FDIC care about credit underwriting, too.

The FDIC has been lauded as the most successful program of the New Deal. It stabilized a financial system under extreme stress. More recently, it received credit for preventing the banking crisis of the late 1980s and early 1990s from ending in catastrophe. Throughout that crisis, it did what Congress intended the FDIC to do: It maintained confidence in the financial system. It insured the public's confidence in banks -- no one lost a single penny of an FDIC-insured deposit -- and this protection cost the taxpayer nothing whatsoever. The FDIC assured an orderly process to liquidate failed bank assets, which prevented panic and maintained the stability of the financial system.

The agency has not changed much since Congress created it. It faces the new millennium doing much of what it did during the New Deal: examining banks, liquidating the assets of failed banks, and providing insurance coverage for bank depositors.

From several perspectives, that is a good thing. For example, over three generations, deposit insurance has brought peace of mind to tens of millions of depositors, who no longer had reason to fear the failure of their banks.

More important, by insulating banks from runs and panics, deposit insurance stabilized the U.S. financial system and helped facilitate the Federal Reserve's efforts to manage the money supply. Because of our success, we have become a model to other nations interested in establishing deposit insurance operations and particularly so in recent years, a reflection both of the turn to free markets around the world and of the heightened awareness that free financial markets are, by definition, built on assuming risk.

Moreover, as events not too many years ago again reminded us, the safety and soundness of banks influences the economy. That influence is substantial, direct, and often immediate. Therefore, our efforts to strengthen the safety and soundness of banks are aimed not just at protecting the deposit insurance funds -- as important as that is -- they also look to stabilizing and strengthening the economy as a whole.

If the FDIC did not exist, it would be only logical to create it.

Ideas are not like diamonds however -- they are good for a limited time, not forever.

To stay current and relevant, every organization requires a periodic reexamination to determine where it needs to adapt to changing circumstances. Otherwise, organizations become trapped in the past. Robert Sobel, the business historian, has pointed out that the British government created a position in 1803 calling for a man to stand on the Cliffs of Dover with a telescope and to ring a bell if he saw Napoleon coming. The British government abolished that position 142 years later.

To adapt to a changing financial industry and economy, we at the FDIC are examining everything we do and viewing the familiar as if we have never seen it before.

Before I became FDIC Chairman just over a year ago, I looked at the organization as if it were new -- as if I had never seen it before -- even though I had been involved in financial issues including as a bank regulator for more than 15 years. I asked myself: Would it be better -- for the public, for the financial system, and for the economy -- if we put our efforts into helping banks stay open to serve their customers and communities rather than into liquidating them after they failed? And would it be better if we took greater advantage of technological and managerial developments to do our job more effectively? The answers were clear: yes and yes.

As part of our implementation of the first strategic plan in the history of the agency, we recognized the need to address new and growing demands on the FDIC.

We concluded that we needed to expand our perspective by identifying, monitoring and assessing the macro-risks to the banking system -- in addition to addressing institution specific risk as we have traditionally done. We decided that we needed to use technology and information available from inside and outside the FDIC more effectively. In addition, we needed to reposition the FDIC to leverage our considerable expertise in new ways.

To implement the strategic plan, we developed an operating plan with 151 specific initiatives, some devoted to enhancing our ability to focus on risks in advance. One of those projects seeks to determine how we can learn from the experience of the late 1980s and early 1990s to enhance our understanding of the causes of bank failures.

In addition, we created a Division of Insurance to monitor risks and recommend responses to problems so that banks can alter their behavior before there are failures and losses to the insurance funds.

The new Division of Insurance will ultimately have a small, highly-trained staff -- probably fewer than 100 in Washington and our regional offices -- who will analyze economic, financial and banking developments in order to focus on the macro-problems of the banking system that have implications beyond individual institutions.

To that end, the Division of Insurance will complement other FDIC efforts -- in supervision, research and elsewhere -- to identify, monitor and address risks to financial institutions and the insurance funds. It will look at the big picture by analyzing data generated by the FDIC, by other government agencies and by the private sector.

We are not attempting to eliminate all bank failures -- we cannot -- risk is a part of conducting a business. Zero failures would suggest too much regulation. Instead, we are trying to avoid the bank failures that foretell larger losses to the insurance funds by providing earlier warnings of impending problems. This approach should give financial institutions the opportunity to take effective evasive action when we see problems coming and before significant losses occur. Had our Division of Insurance been in operation 15 years ago, could we have foreseen the real estate buildup of the 1980s or warned of how changes in the federal tax law would help bring the commercial real estate market down? No one can say for sure, but having the institutional resources would have made those assessments more likely.

In short, what we are trying to do is to make the future more predictable in order to promote stability and to give bankers additional analytical tools to use in making decisions. We expect to be the agency that provides a clear and useful reading to the public on the industry -- where the problems are, where the industry is, and where it is going.

We certainly do not begin at zero in our effort -- let me give you an example of why not.

As you know, every quarter we report on the state of the banking industry -- as an industry -- in the Quarterly Banking Profile -- which some people have called the report card on banking. We have done so

for 35 consecutive quarters and will issue our 36th QBP tomorrow. In terms of comprehensive scope and timeliness, no other publication comes close to portraying the dynamics of the industry. The QBP divides the industry by size and geography and reports on 16 analytical ratios and a host of diagnostic and descriptive measures. You -- and anyone else -- can get it off our home page on the Internet. The number of users accessing our commercial web page after the last QBP -- more than 700 -- equaled one-fifth of our mailing list -- a number sure to grow.

What will we say when we release the third-quarter 1995 QBP tomorrow? I will give you a preview.

News stories in recent months have noted reports of rising delinquencies and losses in home mortgage loans and other loans to consumers. Third-quarter data show some evidence of rising short-term delinquency rates on bank home mortgage portfolios in the third quarter, but show little sign of more serious problems. With the exception of consumer credit, the third quarter Call Report figures do not substantiate significant increases in delinquencies or losses at commercial banks. This may mean that bank loans are stronger than loans made by nonbanks. However, our economists tell me that it is difficult to compare banks with other institutions using the available information. Some of the data is based on samples and some are based on the number of loans delinquent as compared with the amount of delinquent loans. Higher delinquency levels may be explained by these different measurements. Or, it is possible that banks, which have employed more stringent lending standards in recent years, now have less in common with nonbank consumer and mortgage lenders. It is too early to tell.

Recent improvements in commercial bank profitability have depended increasingly on income from consumer lending, as net interest margins have come under pressure and gains from reduced loss provisions have dried up. Credit-cart loans, for example, account for only 7.8 percent of commercial bank loans, but have produced 12.1 percent of all loan interest income this year. They also generate a disproportionate share of noninterest income. The slight deterioration in the consumer portion of bank loan portfolios that began in the second half of last year may not yet be cause for any great concern. Credit card loans are loans where the credit risk is diverse -- where defaults by a few borrowers cannot have a significant adverse impact on lenders. Further, the very high yields on these loans permit much higher charge-off rates before profitability is threatened.

On the other hand, data obtained from the American Bankruptcy Institute show a rising trend in individual bankruptcies so far this year, when economic conditions -- such as unemployment and interest rates -- have been relatively benign. That rising trend in individual bankruptcies foretells either greater deterioration in the future or an increased willingness of consumers to take personal bankruptcy -- or both.

Further, we must also keep in mind the very rapid growth in the amount of consumer credit that banks have made available in recent years. If -- in addition to consumer loans on the books -- we consider credit card loans that have been securitized and sold, as well as unused credit-card commitments, banks now have more than $1.6 trillion in actual and potential lending exposure to consumers, more than double the level just four years ago.

We are watching this trend closely for several reasons. One is the fact that, over this year, loans to individuals -- that is to say, credit card and other installment loans -- have been the only category of loans to experience a significant rise in delinquencies. By delinquent loans, I mean loans that are 30-89 days past due. As the QBP we will announce tomorrow will report, the delinquency rate on these loans in the third quarter passed the 2 percent level for the first time since 1992.

Historically, it is a small uptick, but an uptick nevertheless.

The QBP is a highly visible example of the exemplary work the FDIC performs.

I have been told that the saying, "it's good enough for government work," harkens back to the early industrial era. At that time, government was an innovator and a research resource. It was also -- as it is today -- a customer of private enterprise.

Government's purchasing standards then were as high or higher than those of business. When contractors produced products that met the government's standards, they would say that the products were "good enough for government work."

The story suggests an important point. Nothing but the best is good enough for government work. As the quality of the Quarterly Banking Profile illustrates, the men and women of the FDIC are dedicated to delivering the best. That is our tradition and one we will carry forward. We will build upon our successes and enhance our risk assessment skills so we can continue doing our job well in the face of a rapidly changing financial system.

Thank you.Last Updated 06/29/1999