Oral Statement
of
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Chairman
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before the
Subcommittee on Financial Institutions and Consumer Credit
Committee on Banking and Financial Services
U.S. House of Representatives
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Madam Chairwoman, Congressman Vento, Chairman Leach, and members of the Subcommittee, thank you for the opportunity to testify on proposed legislation to resolve the difficulties facing the Savings Association Insurance Fund (SAIF). I strongly commend you for the interest you have shown in resolving these difficulties and applaud you for your efforts to address them.

I have appeared before the subcommittee twice this year to discuss why the SAIF's difficulties significantly threaten the federal deposit insurance system and the nation's financial system. My written statement today -- which I submit for the record -- summarizes my earlier testimony. All the agencies represented here today have testified that the SAIF's difficulties call for timely Congressional action. Without such action, the continued undercapitalization of the insurance fund is virtually ensured and its insolvency is clearly possible.

Proposed legislation -- the Thrift Charter Conversion Act of 1995 -- would address the SAIF's difficulties. This morning I want to make three important points regarding the legislation.

First, the FDIC supports the bill's efforts to resolve the SAIF's difficulties, a resolution that is imperative. The FDIC has some concerns, however, related to the proposed legislation. These concerns are discussed in detail in my written statement.

Second, the need to shore up the financial position of the SAIF is pressing. We may need to attend to the weak position of the SAIF before completing related actions. In particular, one issue the proposed legislation raises is the merger of the bank and the thrift charters. The FDIC supports such a merger in principle, but recognizes that consideration of the merger issue could delay prompt action on resolving the SAIF's difficulties. If that delay occurs, we recommend that the resolution of the SAIF's financial difficulties be separated for more expeditious action. We support a specific time frame for addressing the remaining issues.

Third, the FDIC should continue to be allowed to set the insurance premiums of individual institutions to reflect the risks they present to the deposit insurance fund. Those banks in an unsafe or unsound condition and those banks involved in strategies likely to lead to losses to the insurance fund are charged higher premiums reflecting the risks they present. This risk- based insurance system -- which was mandated by Congress in 1991 under your leadership, Madam Chairwoman -- discourages banking operations that could result in losses to deposit insurance funds.

The bill could change the FDIC's authority to set, collect, and retain deposit insurance assessments. The proposal could be interpreted as permitting the FDIC to set premiums only to the extent necessary to maintain the reserve ratio at the designated reserve ratio of $1.25 for every $100 of insured deposits. In effect, the bill may require the FDIC to set premiums at zero for all insured institutions -- regardless of the risk an institution presents to the fund -- when the reserve ratio is at 1.25 percent.

The risk-based insurance system represents a significant innovation in banking supervision. It encourages a healthy and stable banking industry. By placing a price tag on operating a bank that is not well-capitalized and not well-managed, it affects bank behavior. A premium that is tied to the risk that an insured institution poses to its insurance fund provides incentive to control risk-taking. The FDIC urges the Subcommittee to retain the current law with respect to its premium setting authority. In addition, we are concerned that limitations in the bill on the FDIC's authority to make assessments above 1.25 percent could prevent the FDIC from collecting assessment income to meet debt service obligations on the bonds issued by the Financing Corporation (FICO). As one of the purposes of the legislation is to assure that the FICO obligation is met, we will be happy to work with the Subcommittee to resolve this issue.

In conclusion, the FDIC urges Congress to act quickly to resolve the problems of the SAIF, while addressing the issues I have outlined today and in my written statement. Again, I applaud you, Madam Chairwoman, Congressman Vento, Chairman Leach and the other members of the Subcommittee for the serious consideration you have given this critical issue. I look forward to your questions. Thank you.

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