Remarks by
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I am here today to talk about fairness. One working definition of the idea of "fairness" is "a balance of claims and considerations that shows no undue favoritism." That is pretty dry. I prefer the definition of fairness put forward by the great George Burns when he won an Oscar for best supporting actor in the Neil Simon film "The Sunshine Boys," which he made at the age of 79 in 1975. Burns said: "I don't deserve this Oscar, but I have arthritis and I dont deserve that, either."

Sometimes we get what we do not deserve -- but if the pluses and minuses are balanced, the outcome is fair. For more than a year, we have worked on a solution to the problem of the Savings Association Insurance Fund (SAIF) that would be fair to all the parties involved.

Regardless of whether anyone intended it to be so -- and no one did -- the Savings Association Insurance Fund is a structural defect in the deposit insurance system -- a defect that weakens the whole -- a defect that could prove fatal. You have your immediate concerns about that. I have to worry about it because it is a Federal Deposit Insurance Corporation-insured fund: its weakness affects its members and banks and the 63-year-old reputation of the FDIC for operating a sound deposit insurance fund.

Everyone benefits from a sound deposit insurance system, everyone -- the thrift executive, the banker, and the depositor -- as well as all the indirect beneficiaries: the taxpayer who ultimately guarantees the system and all the people who benefit from the stability in the financial markets and the economy that deposit insurance provides. If you have not been keeping count, that is virtually everyone.

For three generations of Americans, federal deposit insurance -- with the full faith and credit backing of the U.S. government -- has provided a reason for unconditional faith in the banking system. It is a certainty in an uncertain world.

The customer does not differentiate between the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund. The only thing that matters to the customer is the FDIC seal on the window or the door. Anything that tarnishes that seal, anything that tarnishes the FDICs reputation for sound insurance funds, carries the prospect of lessening public confidence in the deposit insurance system as a whole. It is not hard to look ahead to see what will happen if the SAIF problem is not fixed: The BIF recapitalized long before the SAIF. The BIF has more than $1.25 for every $100 of deposits it insures -- at the end of 1995, the SAIF had 47 cents -- and 23 percent of the increase in the SAIF balance in 1995 stemmed from a one-time occurrence: $321 million from reserves no longer needed for projected failures being transferred into the fund. As a result of this wide gulf between BIF and SAIF, a significant differential in the premiums for BIF and SAIF will continue until 2019, without legislation. The ongoing differential provides a strong incentive for SAIF members to seek ways to shift deposits from SAIF to BIF. As ways to shift deposits are found, fewer institutions will carry the load and the SAIF will experience increasing structural weakness.

Indeed, from 1989 through last September, the portion of the SAIF assessment base made up of thrift deposits declined 11 percent annually. The SAIF has grown, but this growth came, not in deposits at thrifts, but from the SAIF-insured deposits acquired by banks. Banks represent a greater and greater portion of the SAIF -- today it is 38 percent. At year-end 1992, it was 14 percent. Stated simply, SAIF is becoming more and more a bank fund.

There is also the problem of thrifts leaving the SAIF fold. Despite a ban on conversions, thrift deposits can -- and do -- shift from the SAIF to the BIF. Today, about 75 SAIF members have BIF-member affiliates and another dozen or so large thrifts are actively pursuing affiliates. In the last quarter alone, one large thrift was able to shift $2.6 billion in deposits to a BIF-affiliate. Using a different route, another thrift was able to exploit an anomaly in the assessment formula to shift more than $3 billion on its books from SAIF to BIF. Together, these shifts actually caused a slight reduction in the BIF reserve ratio -- the first reduction in 12 quarters. Every time a thrift deposit shifts to the BIF, it goes without any reserves. This is a problem, not only for the SAIF, but also for BIF members. Bankers must pay -- if not now, then later -- for the reserves the thrift deposits do not carry. As long as there is an economic incentive to shift deposits from one fund to the other, this will occur. As the pace of deposit shifts from SAIF to BIF increases -- and there is reason to believe the pace will increase if there is no clear prospect of legislation -- these costs will rise. Every SAIF deposit that shifts to BIF weakens the SAIF, increases bank ownership of the SAIF, and dilutes the BIF.

Our solution to the SAIF problem may not be perfect, but it will work and it is fair. Parts of that solution are the least bad choices we could make among worse alternatives. We had to work with the alternatives given us -- and could not work with alternatives denied us. The solution is the best of the possible worlds. Once it is done, the shadow of uncertainty over the insurance fund will fade.

Under that solution, all financial institutions that benefit from FDIC insurance pay. Under that solution, banks pay a pro rata portion of Financing Corporation obligations, which they do not want to do, and thrifts pay a special assessment to capitalize SAIF, which they do not want to do. In return, everyone is assured safe FDIC-insured funds -- a viable SAIF as well as a viable BIF -- the continuing certainty that deposit insurance provides in an uncertain world -- a world where the customer has no reason to distinguish between BIF and SAIF. In addition, it would be a big step toward the merger of the SAIF and the BIF. A common fund will be the best -- and soundest -- of all worlds for everyone.

In the end, given the available alternatives, we put together a solution for the SAIF that works, both in the short term and the long term, a solution based on the merger of the two FDIC funds and the development of a common charter for insured institutions. Given the costs and the benefits to all, everyone will win from this approach. And, significantly for the FDIC, and for the public, the stability of the deposit insurance system will be assured. When in 1989 Congress gave the FDIC the responsibility for the SAIF, it joined the future of the BIF and the SAIF together. They became sister funds -- and what affects one fund affects the other. That is what the words insured by the FDIC are all about.

We have the opportunity to address the SAIF problem -- the structural defect that threatens the deposit insurance system -- a chance to do it right, once and for all. If we let the opportunity pass, we cannot know whether and when we will have such an opportunity again.

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