Remarks by
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Today is the sixty-third anniversary of the bleakest day for banking in American history. Sixty-three years ago today -- March 6, 1933 -- all banking activities in the United States were suspended by Presidential proclamation.

In closing the nation's banks, the White House merely confirmed reality. By failure or by state action, almost every bank in the country had already been closed -- it was Nevada, in fact, that in late 1932 began a wave of statewide banking moratoria that culminated in the federal banking holiday. From January 1, 1930, to January 1, 1933, more than 5,000 banks suspended operations -- most of them small, state-chartered, and independent. Banking had hit bottom.

Congress specifically and intentionally threw small, independent banks a life-line -- saving the independent bank and, with it, the dual banking system. Its means of rescue was the Federal Deposit Insurance Corporation.

You do not have to take my word for that -- you have the words of Congressman Henry Steagall of Alabama, Chairman of the House Banking and Currency Committee, the father of the FDIC, who in May, 1933, on the floor of the U.S. House of Representatives, argued for passage of legislation to create deposit insurance.

He said: "This bill will preserve independent, dual banking in the United States to supply community credit, community service, and for the upbuilding of community life. That is what this bill is intended to do."

Of course, it did more. It met the public's need for a basic measure of economic security -- savings would be safe. It restored public confidence in the financial system, and in doing so averted likely financial catastrophe and social upheaval. In 1934 -- the year after the FDIC was created -- nine insured banks failed.

More recently, bank deposit insurance allowed the American economy to absorb the failure of almost 1,500 banks since 1982 with no runs, no panics, and no banking holiday.

Unique among the banking agencies, the FDIC was created by popular demand. It enjoys widespread popular support -- in the minds of many bank customers, what separates you from your competitors is the FDIC seal on your window and your door. In that regard, Federal deposit insurance puts every bank in the country on the same competitive footing -- from the largest in New York and California to the banks of Clarinda, Iowa, population 5,000, the hometown of Dennis Geer, the FDIC's chief operating officer -- and the banks of Hershey, Pennsylvania, population 12,000, the hometown of William Longbrake, the FDIC's chief financial officer -- and the banks of Ada, Oklahoma, population 16,000, the hometown of Leslie Woolley, the FDIC's director of policy.

Our people remember where they came from -- and remember where the FDIC came from, too -- Congressman Henry Steagall's desire to preserve the independent banks of this country.

The commercial banks we regulate -- 6,044 of them -- on average have $154 million in assets and half of them have 25 or fewer employees. These state-chartered, nonmember banks remind us -- every day -- of the importance of community banking in America -- or rather, the importance of community banking to America.

The banking crisis of the late 1980s and early 1990s reminded all of us that our banking system rests on the public confidence that federal deposit insurance provides. In one way or another, everything we are doing at the FDIC is aimed at assuring the viability of the deposit insurance system.

First and foremost, we are working to make sure that we have the funds to make the system solid. Thanks to you and your colleagues, the Bank Insurance Fund is in the strongest position since 1971, the last time bank deposit insurance covered 1.25 percent of insured deposits. Your recapitalization of the BIF reflects both idealism and realism -- idealism because of your contribution to the common good -- and realism because you realized that as long as the fund remained undercapitalized, a shadow of uncertainty fell over banking.

I have always been straight-forward and direct with you -- after all, banking itself is built on trust and you deserve nothing less than honesty in return -- so I will come directly to the point. When in 1989 Congress gave the FDIC the responsibility for the Savings Association Insurance Fund, 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 "insured by the FDIC" is all about.

As long as the SAIF is weak -- absolutely and in relation to the BIF -- the shadow of uncertainty remains over banking. Regardless of whether anyone intended it to be so -- and no one did -- the SAIF is a flaw in the deposit insurance system. Whether the effects are obvious or not, its weakness undermines the FDIC seal you have on your door.

I have to worry about that, not only because the SAIF's weakness affects its members, but also because its weakness affects you and the 63-year-old reputation of the FDIC for operating a sound deposit insurance fund. We have spent more than a year designing and constructing a solution to the SAIF problem.

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, such as the $14 billion in unused funds left when the Resolution Trust Corporation closed, which I favored using and the IBAA favored using. The solution is the best of the possible worlds. Once it is done, the shadow of uncertainty over the insurance fund will fade.

As part of the solution, banks have been asked to pay two-and-a-half cents, the lowest premium in the FDIC's history prior to the new premium structure that took effect on January 1, under which many of you pay an effective on-going premium of zero. In return for the banks participation in the solution, they would avoid the dilution of the BIF as SAIF members accelerate a shift in deposits from SAIF to BIF in response to the current significant premium differential, a shift that increases the structural unsoundness of the SAIF.

To be blunt, every time a thrift deposit shifts to the BIF, it goes without any reserves. Bankers must pay for the reserves the thrift deposits do not carry.

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. Everyone will win from this approach. And, significantly for the FDIC, the stability of the deposit insurance system will be assured.

We are addressing the viability of the deposit insurance system in a number of other ways as well. Two big examples are: one, reforming regulation and supervision to enhance safety and soundness while reducing burden and cutting costs, and, two, managing the FDIC as if it were a business, in part by bringing cost/benefit analyses into everything we do.

We are quite aware that everything we do is a cost for you. Of course, reducing the premiums that banks pay for insurance lightened the costs and the burden for banks.

In contrast, the regulatory burden on the banking industry grew incrementally over time -- rule by rule, requirement by requirement, report by report.

The cumulative effect of this incremental growth makes it difficult for banks to perform their job -- the job of supporting a strong and competitive economy.

Further, the costs of complying with regulations hit smaller banks harder than larger banks. In fact, an informal survey we conducted last year found that the cost of regulatory compliance for the very small institutions we questioned equaled more than 16 percent of their net income -- while the cost of compliance equaled just over one percent of net income at the largest banks we surveyed.

As I noted earlier, one half of the banks that the FDIC supervises have 25 or fewer full-time employees. One-quarter have the equivalent of 13 or fewer. Because of these limited staff resources, the complexity and sheer volume of regulatory and legislative requirements necessarily weighs more heavily on smaller institutions than on larger ones.

The time has come to scrape off the barnacles that have attached to banking regulation over time.

As I have said many times, I enthusiastically support much of the legislation pending in Congress that would reduce the regulatory burden on banks. We need to hold regulation to a strict cost/benefit test.

The Congress and the regulators must identify those laws and regulations that can be modified, streamlined or eliminated without adversely affecting the safety and soundness of the banking industry or necessary protections for consumers of financial services.

As you know, Congress in 1994 told the bank regulators to review the rules and requirements they have on their books. Early last year, I initiated a complete review of the FDIC's 120 regulations and policies to identify those that have become obsolete or those where the cost to comply substantially outweighs the intended benefits. I am committed to having a set of regulations and policies devoid of unnecessary burden.

To seek public participation in this effort -- to give you the opportunity to participate in the review at the earliest possible time -- we published a notice in the Federal Register that provided a schedule for completing the reviews of each regulation and policy -- and we sent that notice to the CEOs of FDIC-supervised banks.

The FDIC's review project is a large and complex undertaking, but we are making significant progress. We already have proposals under review for 116 of the 120 regulations and policies. The other four are expected shortly. I have asked our new director on the FDIC Board, Joe Neely, to shepherd the review effort to completion so that it receives constant attention and direction at the Board level. Joe began his 15-year career as a banker in Grenada, Mississippi, population 11,000, and he earned a reputation as a strong state Commissioner of Banking in Mississippi before coming to the FDIC.

By September 23, when we report to Congress on our progress, Joe expects to be able to say what specific steps we have taken -- or will take -- for each and every one of the 120 regulations and policies under review.

As important as this effort is, however, regulatory relief means more than cleaning out what is no longer needed. It also means improving what is left. We are doing that, too, and we are doing it by using common sense.

Common sense is shaping the approach we are taking to risk assessment -- reducing the regulatory burden and making our risk assessment process more effective, while promoting safety and soundness.

I want to stress one important point here. The changes I am talking about today do not replace our traditional approach -- they enhance it.

We are leading with our strength. The FDIC has a remarkable resource -- a treasury of historical and current data on the banking industry. We also have a wealth of economic and analytical expertise. As you know, the FDIC -- and our sister agencies, the Comptroller of the Currency and the Federal Reserve -- generate this data on the banking and thrift industries as a by-product of regulatory and monetary policy functions.

Historically, however, we have all found it difficult to bridge the gap that separates the macro -- or big picture -- perspective of economics from the micro perspective of bank examinations to translate data into directions that examiners can use in institutions with differing levels and types of risk exposures. We are bridging that gap -- to enhance our examination process and the useful information we provide to you -- in a number of ways.

In terms of regulatory burden, leveraging our statistical and analytical resources will help examiners focus their efforts so that they can increase the effectiveness of examinations and stay on site only as long as necessary to address the risks that individual institutions present. It will also provide a basis for notices to banks on economic and other macro trends that may affect the way that you do business so you will have an opportunity to respond to changing circumstances before problems develop.

As a first step in bridging the gap, I created a Division of Insurance at the FDIC that will collect, analyze, and disseminate information -- both internally and externally -- on current and emerging risks. The new division will work closely with our examiners, economists, financial analysts and other FDIC staff -- as well as with the same types of analysts at the other regulatory agencies and in the private sector -- to monitor, assess and address risks in the banking system. It will send economic and analytical information to banks to help management address trends or weaknesses before they become problems.

We are engaged in a loan underwriting survey of our examiners to develop information on the level of -- and trends in -- credit risk. This survey will result in a forward assessment of current credit underwriting standards. We are pulling together systematically the data we have on bank failures in the 1980s and 1990s and are developing a new, improved model on bank failure rates that takes economic factors into account.

We are field testing an automated examination package that will allow us to do a significant amount of analysis off-site. This package will produce at least four benefits. One, bankers will have us on-site for a shorter time. Two, examiners will spend less time traveling away from home and more time comparing notes with colleagues in field offices. Three and four, by leveraging technology, this approach will improve the quality of supervision and hold down the FDIC's costs of operations.

That is where we are today.

Where we are headed is toward a diagnostic approach to bank examinations -- a combination of observation with factual findings from our analytical and technological innovations that together will be similar to what evolved in medicine over decades.

The result will be a more effective and accurate assessment of an institution's ability to identify, measure, monitor and control its risks, as well as a structured framework for discussing specific strengths, weaknesses, and possible improvements with management and boards of directors.

To that end, we are developing "decision charts" for our examiners to use that will provide more structure and consistency to the risk assessment process. The decision charts -- for credit risk, interest rate risk, operational risk, and so on -- outline a diagnostic process. This involves a graduated approach to examinations based upon the level of risk at the institution -- on a risk by risk basis. If no symptom is found in one risk area, the examiner would shift attention to the next area. The charts are a tool that will lead to more analytical and more fact-based thinking. In short, using this approach, the scope and focus of our bank examinations will become more a flow of risk evaluations -- some based on economic data and all based on the individual facts of each financial institution -- and less a checklist of procedures to be followed.

Just as practitioners in medicine specialize, we are creating "risk specialists" on emerging risk areas. We will enhance our supervisory expertise by making these specialists available where new risk areas emerge in the course of an examination or in analyzing aggregate examination information. We will start by creating risk specialists in the areas of interest rate risk management and capital market accounting -- events in those areas are moving so quickly, it is a full time job for someone to keep up with them.

We are also creating "case managers" in our supervisory regions who will specialize in specific institutions. They will review all off-site data and regulatory findings concerning these institutions to assess the risk they pose to the insurance fund. They will also provide one contact with FDIC for a bank's management.

Just as medical literature, the X-ray machine, and the CAT-scan did not replace the physician, but allowed the physician to do his or her job better and faster, the innovations I have talked about today will allow us to do our job better and faster.

In talking about examinations, I want to point out that -- for a number of years -- proposals that the FDIC explicitly charge for its examinations have been made. We charge now -- the costs of our examinations have always been included in the insurance assessment. I have opposed -- and will continue to oppose -- the idea that we explicitly charge banks for our examinations.

In all of the efforts I have discussed, we -- and you -- have benefitted from the continuing dialogue the FDIC is now having with the industry. Experience in the last year has shown that dialogue between banks and the FDIC enhances -- not impedes -- supervision and regulation by assuring that everything we do comports with the facts and the real world.

Assuring the viability of the deposit insurance system is of critical importance -- and we will do the best job we can in assuring it. I may be biased, but I believe that federal deposit insurance is an asset for every banker in this room -- every banker in the industry -- every bank depositor in the country.

Sixty-three years ago today -- on March 6, 1933 -- banking hit bottom -- public confidence in banking had melted as wax melts in a fire -- but banking began to rebound. Years of drift ended. The search for practical answers to the banking crisis began with a desire to preserve the existing banking system. The FDIC was one of the answers -- and some have said the most important one.

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. Proposals to privatize deposit insurance are not likely to provide that certainty. The FDIC will continue to make sure that faith in the banking system is justified.

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