Oral Statement
of
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Chairman
Before the
Subcommittee on Financial Institutions & Consumer Credit
Committee on Banking and Financial Services
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Thank you, Madam Chairwoman, and members of the Subcommittee, I welcome this opportunity to present the views of the Federal Deposit Insurance Corporation on the future of bank supervision and to discuss how we are addressing trends that affect the industry and the regulators.

In the interest of time, I have a detailed written statement to submit for the record. Before turning to your questions, I will briefly describe our approach to bank examination and supervision.

The bank and thrift crisis of the late 1980s and early 1990s taught us a number of lessons. At the FDIC, we took three lessons especially to heart. One -- there is no substitute for regular, on-site examinations of depository institutions. Two -- regulators need sufficient resources to maintain an adequate level of bank supervision. And -- three -- adequate supervision requires a surveillance system that can identify and track emerging risks. Historically, we focused our examination and supervision efforts on determining a bank's current financial condition, rather than on determining the riskiness of the behavior of the bank's management. Our historical approach limited our supervisory responses when we were faced with emerging risks that were not yet evident in a bank's financial statements.

We have taken -- and are taking -- a number of steps to address that limitation by focusing more on risk.

One important step was refining the examination process to emphasize a bank's risk management systems and the risks each individual bank faces. Our refined process allows examiners to look beyond the static condition of a bank to how well it can respond to changing market conditions, given its particular risk profile.

Another important step was our establishing a Division of Insurance in 1995 to monitor trends in both the financial services industry and the economy more intensively. Currently, our Division of Insurance is working closely with FDIC examiners on several initiatives that will help examiners assess emerging risk exposure for individual banks and groups of banks. One such initiative is providing more timely and comprehensive regional economic data to examiners, in part through the publication and distribution each quarter of a Regional Outlook for each of our eight regions.

A third important step is our on-going underwriting standards survey. At the conclusion of each safety and soundness examination, the examiners review underwriting standards with the senior management of the bank and discuss any loans that require particular attention. Our examiners then complete an underwriting survey that requires an assessment of how a bank's underwriting standards on various types of loans have changed since the previous examination. The examiners also assess how those standards compare with standards of other area banks. Results of the underwriting surveys are used to detect emerging trends in the underwriting standards by type of loan and by geographic area. These trends are relayed to examiners in the field and outside banking organizations through various publications such as our Report on Underwriting Practices and our Survey of Real Estate Trends.

These and other initiatives improve the FDIC's ability to identify and monitor risks. To control risks, the Federal Deposit Insurance Corporation Improvement Act called on the regulators to implement Standards for Safety and Soundness that enhance our ability to take supervisory action against risky behavior before it harms the condition of a bank. In 1996, these standards were fully implemented by the agencies and should improve our efforts to address problems before they grow into crises.

Madam Chairwoman and members of the subcommittee, several trends pose supervisory challenges to the banking regulators, including industry consolidation, new technologies, new and complex financial products, globalization of the financial markets, and increasing competition from non-bank financial service providers. Some of these trends could benefit the banking system greatly; all of them carry some risk. They all have important implications for the supervision of banking organizations.

These developments will continue, whether or not there is legislation to modernize the financial system. Our risk-based approach to examination and supervision will allow us to address the changes the future holds and to help provide for a stable banking industry.
Thank you -- I would be happy to address your questions.

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