Remarks
by
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before
Women in Housing and Finance
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By blood and upbringing, I am heir to a long tradition in American life, the tradition of populism, and particularly that strain of populism that arose in Tennessee, where I was raised. Populism is the civic philosophy that the government belongs to all the people -- not just to the entrenched and well-financed establishment. To borrow a phrase, government is "of the people, by the people, for the people."

We Tennessee populists recognize that there are things government must do, but we demand that government be effective, efficient and responsive -- that government get the job done well with the least cost. The Tennessee gloss on populism is a bias toward independent thinking -- a willingness, even a passion, to confront conventional wisdom and to reexamine every assumption. Populism is not a political ideology. What links us together is a shared vision of the open relationship that should exist between citizen and state.

Why would a populist such as myself want to head a large government agency -- and particularly an agency that was -- of necessity -- undergoing a difficult period of transition? I gave the answer two-and-a-half years ago in my first speech to Women in Housing and Finance: I wanted to serve at the Federal Deposit Insurance Corporation (FDIC) in order to help an important American institution move from an illustrious past to an even more illustrious future.

I wanted to be at the FDIC because I believe it is among the most valuable public assets we -- the American people -- have. It has brought peace of mind to tens of millions of Americans over three generations by protecting their savings. In fact, it is the one Federal banking agency created by popular demand. By insulating banks from runs and panics, it has stabilized the financial system of the United States.

In fact, it has contained the two greatest banking crises this country has experienced in this century. Nevertheless, the FDIC needed to transform itself from the crisis management and damage control that it had, of necessity, focused on in the 1980s into an organization devoted to identifying risks to the insurance funds and trying to prevent significant problems from occurring. For me, who had spent a career dealing with banking issues, the attraction of heading the FDIC at this critical time was undeniable.

For me, as a populist, the challenge of shaping the FDIC so that it could do an even better job of assuring economic stability for the American people in the future was magnetic.

Before this group, which includes friends of many years, I set out the FDIC's priorities. These priorities would bring change at the FDIC -- and they would also assure continuity with the more than 60-year mission of the FDIC in providing stability to the financial system.

These priorities are: one, assuring the integrity of the deposit insurance system; two, helping banks stay open and serving their customers and communities, rather than closing them; three, managing the FDIC the way that businesses are managed; and four, keeping the FDIC independent. With the dedication and hard work of the outstanding men and women of the FDIC, with whom I am honored to have served, the Corporation has achieved the goals we identified.

We put the crisis of the past behind us and prepared for the future.

Last September, Congress addressed the last significant issue remaining from the banking and thrift crisis of the 1980s and early 1990s: capitalization of the Savings Association Insurance Fund (SAIF). In capitalizing the SAIF, Congress repaired a structural defect in the deposit insurance system that threatened not only that insurance fund, but the strength of the deposit insurance system as well.

The legislation last September assured Americans that their deposits would be protected -- that the words "insured by the FDIC" would continue to provide certainty in an uncertain financial world, just as they have for more than sixty years. Achieving a solution to the problems of the SAIF was critical to the FDIC's mission. Today, both FDIC funds -- and the deposit insurance system -- are strong, with the combined total for both the SAIF and the Bank Insurance Fund (BIF) of just under $36 billion, the largest reserves in FDIC history.

I thank all of you here who worked to be a part of that solution.

For those of you who heard last year -- during the legislative debate over capitalizing the SAIF -- that I devoted too much attention to the merits of the issue -- as one lobbyist told me -- I have one answer. For important issues of public policy affecting many Americans, the merits should be where we start, and, if we are lucky, as we were last year, where we end up.

The second priority at the FDIC has been helping to keep banks open and serving their communities rather than closing them. Given the 1,617 bank failures we experienced from 1980 through 1994, the need for enhanced bank supervision, including better risk assessment, could not have been clearer.

Nevertheless, in recent years there have been questions about the value of bank supervision.

Given our current, extraordinarily stable economic environment -- and the tremendous profits that banks have been able to make as a result -- this criticism should come as no surprise for memories can be short in good times. Strong and effective supervision and regulation may appear to some people as less necessary when banks are prosperous. After all, a high tide lifts all ships, but when the tide runs out and economic strains reveal weaknesses, no one questions the need for banking supervision.

In fact, quite often, there are calls for more supervision and regulation -- sometimes the result seems a lot like closing the barn door after the cows got out, as we say in Tennessee.

For that reason, I continue to have reservations about legislation enacted in 1991 that limits the discretion of bank regulators to deal with prudential problems in individual institutions during times of stress. I believe strong banking supervision -- like sound banking -- involves good judgment and common sense. Limiting the exercise of that judgment prevents the application of common sense when it is most needed.

The research that FDIC economists and analysts have done in connection with a project analyzing the lessons we should have learned from the banking and thrift crises of the 1980s and early 1990s shows that as many as 143 institutions that remain open and are healthy today could have failed before 1991 if the prompt corrective action standards (PCA) for closing banks in the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) had then been in place.

It is even more difficult to contemplate what would have happened in the financial system in 1983, when more than 100 percent of the capital of the ten largest U.S. banks was exposed to sovereign borrowers that could not meet debt service obligations on their loans, if PCA standards had then been imposed on bank regulators. We worked our way out of the sovereign debt crisis because bank regulators had the discretion, judgment, common sense and time to address the problems. Today, the ten largest U.S. banks are among the best capitalized multinational banks in the world!

FDICIA was right, however, in requiring the FDIC to use the least costly method for resolving bank failures because that requirement imposes more obligation on shareholders and large creditors to discipline problem institutions, and reduces the moral hazard of deposit insurance.

Our goal at the FDIC of course is to build a system that will allow us to address problems before they cause significant losses to the insurance funds.

To achieve that goal, we created a Division of Insurance, staffed with analysts and economists in Washington and in each of our eight regions. They identify, monitor, and assess risks in the financial system and the economy and provide economic and financial data to our examiners, as well as early warnings to bankers of negative trends in the industry and the economy through quarterly reports covering each of the eight FDIC regions in the nation.

Moreover, our research division is exploring the use of bank performance data to enhance our efforts for monitoring banks off-site -- and particularly determining whether we can improve models for monitoring bank performance by aligning banking data and data on economic markets more closely. In that way, we might be better able to forecast regulatory downgrades.

In addition, we established a diagnostic approach to bank examinations that monitors and assesses existing and emerging risks at insured institutions, in part by developing a tiered-examination approach that targets risk management practices at institutions under examination. This approach factors economic and other data into risk evaluations of those institutions. We also automated a substantial portion of the examination process, which allows us to improve the quality and efficiency of examinations, while reducing the time we spend in banks on examinations by a third.

As I noted earlier, to give us a base of knowledge from which to understand future problems, we initiated a systematic analysis into the causes of bank and thrift failures between 1980 and 1994. Draft papers were reviewed by outside experts at a symposium in January and the final report on this analysis will be published later this year. This will give everyone who cares about safety and soundness in banks a basis in fact for future research and assessments of risk to the banking industry and the deposit insurance funds.

The third priority has been managing the FDIC as businesses are managed.

Managing government does not have to be an oxymoron. In the past two-and-a half years, we have introduced practices that are common at successful private sector corporations.

Why is this important?

Given the harm that bank failures can cause communities and the damage that too many failures can have on the economy, how the FDIC manages itself has the potential to affect every American.

Successful managers perform four functions: One, they choose their objectives and create formal plans to achieve them. Two, they organize their businesses to achieve their goals. Three, they enlist the support of their employees in achieving the goals. Four, they control their operations to stay on course with the plans that were developed.

For the first time in its history, the FDIC two years ago adopted a five-year, corporate strategic plan. At the FDIC, nothing is paid for through the budget unless it has been approved in the operating and business plans that implement the strategic plan. All decisions are made using stringent cost/benefit analyses. This link between planning and budgeting is new to the FDIC.

Our planning guided us directly into the second function of management: organizing operations to achieve strategic objectives.

The greatest change in the organization over the past two-and- a-half years does not appear on an organizational chart. Rather, it has been a change in corporate culture, which today enlists everyone who can contribute to the resolution of a problem or the development of a policy, regardless of their division or office.

The third function of management is enlisting people in the organization to work toward achieving its goals. The staff of the FDIC in offices across the country suggested many of the operational innovations we have instituted in implementing our strategic plan. The executives and management officials of the Corporation are now held explicitly accountable for channeling the staff's drive for achievement into productive, effective avenues.

The fourth, and last, function of management is controlling operations to stay on course. Our managers are required to compare where they are with where they should be to meet their financial responsibilities using sound internal controls and to meet their operational objectives using benchmarks of progress in the corporate plans.

We established a board-level Audit Committee, which monitors the internal control systems of the FDIC, to make certain that financial standards are met.

We created an Office of Internal Control Management to assure that any operational problems are discovered and addressed quickly. We became one of the few large government agencies to incorporate all income and expense flows into one general ledger. In the process we incorporated into a single integrated financial management system more than 100 separate accounting systems from both the FDIC and the Resolution Trust Corporation (RTC), which was merged into the FDIC at the end of 1995, as required by law.

At that time, we absorbed more than 2,000 employees and $7.7 billion in assets to be liquidated from the RTC, with little or no disruption to FDIC operations.

Just as a well-managed business would do, we required that each one of our divisions and offices justify staffing levels by workload. The FDIC's workload has declined significantly over the past five years as the economy and the condition of the banking industry have improved dramatically.

Accordingly, it was necessary to break our work down into its elements, analyze the staff needed to do the work well, and then reduce the staff of the FDIC significantly based on workload indicators that are regularly reevaluated. Since late 1994, when I came to the FDIC, we have downsized staff by 36 percent to just under 9,000 today. We sought to do this in the most humane way that we could -- through two generous buyouts that would help our staff in their transition from the FDIC to their next jobs or to retirement and through individual job placement assistance.

We have also reduced FDIC expenditures from $1.8 billion in 1994 to $1.1 billion in 1996 -- not counting money appropriated by Congress to complete the resolution of past thrift failures -- a decline of 40 percent.

In business, many of the steps the FDIC has taken would be routine; in a governmental setting, however, they were not. The FDIC has found that sound management leads not just to cost savings but to improvements in the service we provide the public, including a vast increase in information available to the public on the Internet on all insured financial institutions..

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, a research resource, and 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 may be apocryphal, but it suggests an important point: In my view, nothing but the best is good enough for government work. The public deserves nothing less. With proper management, government can be a low cost provider of high quality service.

The fourth priority that I have had has been assuring the FDIC's independence.

Our ability to do our job rests on our independence. Independence gives us legitimacy and credibility.

We must make unbiased assessments of risk in the financial system -- and act upon them without fear or favor. Moreover, the integrity of our two insurance funds rests ultimately on the integrity of the people who manage them and of the people who assess the risks to which the funds are exposed.

When bank regulators speak -- particularly the FDIC as insurer -- we should do so straightforwardly and without bias or political goals.

When we point out a problem, we want people to believe it is a problem. That belief must rest on trust -- and that trust must rest on integrity. Our actions affect the well-being of every American. Therefore, the only interest the bank regulatory agencies should serve is the public interest.

As I said at the beginning, I am a populist.

The link that joins all populists is the shared vision of the relationship between citizen and state -- the vision that there are areas in which the government can make the lives of people better than they otherwise would be, if government is effective and efficient. Where government is not the best vehicle to accomplish a goal, it can nevertheless encourage effective responses to problems in the private sector.

My model has always been Andrew Jackson -- the essence of a Tennessee populist -- who, as one of his biographers wrote, left Washington a better place than he found it.

Jackson once said: "Our government is founded upon the intelligence of the people."

I believe that government officials insult that intelligence only at their peril.

Jackson once wrote: "If [government] would confine itself to equal protection, and, as Heaven does its rains, shower its favors alike on the high and the low, the rich and the poor, it would be an unqualified blessing." That is, government should serve all Americans, not just those with well-financed lobbyists.

I realize that I am talking about the merits of issues here -- but I believe that for Americans -- government should be about the merits. Why else does government exist?

Thank you.

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