

**Remarks by
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The Federal Deposit Insurance Corporation was designed to make sure the U.S. banking system could perform its vital role even in the most difficult of times. No one has ever lost a penny of an FDIC-insured deposit in our sixty-five year history. That is an enviable record. We should not underestimate the enormous reservoir of trust and confidence it has inspired.

As Franklin D. Roosevelt said in his very first fireside chat: "[t]here is an element in . . . our financial system more important than currency, more important than gold, and that is the confidence of the people."

Banking rests on public confidence and public confidence rests on deposit insurance.

As deposit insurer for our nation's banks and savings institutions, the FDIC must focus its attention on trends, sectors, and activities that pose risks to the insurance funds. The U.S. banking industry -- and the FDIC -- face a number of such risks.

The most immediate risk is the year 2000. Y2K presents all of us with a non-negotiable deadline. We are committed to meeting that challenge, and are encouraged by the early results of reviews of insured institutions.

As of July 31, 1998, 94 percent of all FDIC-insured institutions were making satisfactory progress toward achieving year 2000 readiness, five percent were rated "needs improvement," and less than half of one percent -- 37 institutions out of 10, 092 -- were rated "unsatisfactory."

Nevertheless, there is more to be done: testing systems and contingency planning.

I want to underscore one important point about the FDIC, the American public, and you. The FDIC's protection of insured deposits will not be affected by the year 2000. If a bank or thrift institution should fail because of year 2000 problems, insured deposits will be covered - no ifs, ands, or buts.

Because of the FDIC, the depositor can put money in an insured account with the assurance that it is safe -- the money will be returned if the bank fails, regardless of the reason.

I have a message today for the public: the FDIC was there for our grandparents . . . The FDIC was there for our parents . . . The FDIC is there for you.

What does that mean for bankers?

When the public sees the FDIC symbol on your door, it can be confident that the full faith and credit of the U.S. government stand behind the insured money in your bank. This is a message that we all need to be giving the public.

If year 2000 readiness were the only risk we had to concern ourselves with, it would be enough, but it is not. We all see the warning signs in the U.S. and global economies, signs such as: stressed economies in Asia, Eastern Europe, and Latin America, reduced demand for our exports, and severe drought in portions of the Southwest and Midwest.

Most analysts agree that the U.S. economy is slowing. As Federal Reserve chairman Greenspan has noted twice in the last month: "it is just not credible that the United States . . . can remain an oasis of prosperity unaffected by a world that is experiencing greatly increased stress."

We need to pay close attention to these warning signs. Bankers who base their lending decisions on continued strong economic growth should consider how their business strategies may play out in an economic downturn.

At the same time we are seeing economic warning signs, the FDIC is concerned about evidence of the increasing risk at some banks.

Underwriting surveys conducted by the FDIC, Federal Reserve and the OCC all show weakening of underwriting standards.

Additionally, loan pricing has been aggressive. Some banks have grown rapidly, some banks have high concentrations in traditionally risky lending, and some banks have high concentrations in new products, such as subprime lending.

We know that banking is the business of taking calculated risks. But we also know the challenge for bankers and the FDIC is to guard against risks that simply don't make sense for FDIC-insured institutions.

In an effort to get a better handle on risk, the FDIC and our sister agencies have developed a risk-focused approach to supervision. This approach zeroes in on a bank's high risk areas. And as we all know, today's practices determine tomorrow's condition.

As insurer, the FDIC has another tool to help persuade banks to avoid excessive risk. That tool: risk-based premiums. As you know, this system was put in place in 1993. The system was effective in rewarding banks that had remained sound and those that returned to a safe and sound condition quickly.

Today, one of the critical areas of focus for the FDIC as insurer is to assure that the risk-based premium system contributes toward our common goal of avoiding an excess buildup of risk. To do this, we must reconcile our growing concerns about overall trends with the fact that our risk-based premium system does not show signs of increased risk.

During this period when concerns have been raised regarding increasing risk in the industry, there has been no increase in the percentage of institutions classified into the riskier categories of our premium system.

How can this be?

First, it might be argued that regulators' concerns about trends are overblown. However, regulators are not the only ones expressing these concerns -- we hear these concerns from bankers and other market participants.

We cannot afford to be complacent about these warning signs.

Second, it may be that these trends do not show up in the risk-based system because current bank practices do not result in undue exposure to these risks. I would expect, given the hard lessons of the last crisis, that for the vast majority of banks this is the case.

But it is important to be sure.

That is why I have asked FDIC staff to make sure that the premium system reflects what the risk-focused supervisory process is telling us.

Over the coming months we will explore this issue within the FDIC - and with our sister agencies and you. We'll be asking questions such as: are supervisors identifying banks whose condition is good, but whose practices make them "outliers" in terms of underwriting, concentration of risk, or undisciplined growth?

These would be practices that the typical banker would agree are imprudent, even recognizing the competitive pressures banks face. If supervisors are identifying these banks, the risk-based premium system should reflect this. The result would be that these "outlier" banks would be asked to pay for the risks they pose to the rest of you.

The large majority of banks operate in a way that would allow them to survive extremely adverse conditions.

Some banks, however, engage in practices that jeopardize their survival when confronted with the normal ebb and flow of economic growth. We should provide them with a financial incentive to improve their practices. It would be in your interest -- and our interest -- and the public's interest.

With all the challenges we face -- year 2000, economic uncertainty, emerging risks -- the FDIC must continually find ways to improve our communications with our sister agencies -- and with you. We never forget that people make the difference. People always do.

So we communicate with the industry in a variety of ways: outreach meetings, conferences, meetings in Washington, publications. We are considering ways to build on these efforts -- and especially ways to work together with you in further refining the risk-based premium system.

We face a number of risks, but we face them together -- and I want you to know that my door will always be open to the industry on any matter that affects bankers.

Thank you.

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