

**Remarks
By
Chairman Donald E. Powell
Federal Deposit Insurance Corporation
Before
The National Bankers Association
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Good afternoon.

I am excited to be here in New Orleans to help celebrate the National Bankers Association's 75th anniversary. Since coming to the FDIC, I have met with your President, Norma Hart, several times and I had lunch with some of the NBA's officers in January of this year. I have enjoyed the opportunity to get to know you and your organization.

I want to begin today by talking a little about some of the issues on our plate that might be of interest to you and to the communities you serve.

First and foremost, I want to discuss how the business of banking has held up over the course of the recent downturn in our economy. This is a matter of great interest to us at the FDIC - as it is to you.

For the most part, we have seen remarkable strength in the industry. The reforms in business model and corporate governance put in place after the last crisis have put the industry in a good position to weather this economic storm. We see strong earnings, decent growth and strong capital ratios - more than a year-and-a-half into this slowdown. In fact, banks and thrifts reported record earnings in the second quarter of 2002 - combined net income of \$27.3 billion. Improved noninterest income, lower provisions for loan losses, increased gains from securities sales, and relatively low growth in noninterest expenses all contributed to the earnings record.

There are problems, to be sure. Credit quality continues to deteriorate as the cycle matures. Net charge-offs on commercial and industrial loans continue to rise. In fact, we don't expect significant recovery in credit quality until corporate profits come back and overall corporate indebtedness declines from current levels.

There may be some good news on this front. Recent earnings reports suggest that the trend of declining corporate profits may have run its course. After five consecutive

quarters of negative year-over-year growth in earnings from continuing operations, companies in the S&P 500 Index reported positive earnings growth of 1.4 percent in the second quarter of 2002. However, corporate bankruptcy filings remain at record levels. Ratings downgrades also continue to outnumber upgrades. In the first half of 2002, Moody's downgraded roughly 4.4 companies for every company it upgraded. The main reasons for rating downgrades have been poor profitability and high leverage.

I am encouraged by what seems to be an improvement in underwriting standards at many financial institutions. A number of surveys show that lenders have improved their internal lending procedures over the course of this economic downturn.

In the overall economy, the signals are mixed. Real gross domestic product grew by 5.0 percent in the first quarter of 2002 but fell to 1.1 percent growth in the second quarter. Economic surveys conducted by the group Blue Chip Economic Indicators indicate that the recovery is intact and they forecast that the economy will grow by 3.2 percent next year.

I realize that many of these numbers are overall averages that do not take into account the variations in individual communities and institutions. I also realize that many of you serve communities that face challenges that go beyond those faced by the overall economy. So I have asked our folks to prepare a summary of the economic conditions in each of the NBA's member communities. We'll make that available to you today.

Another issue I'd like to discuss with you is the FDIC's new Policy Statement regarding Minority Depository Institutions. Our new program is structured to foster better outreach and closer relationships with minority institutions. Every year, a member of our regional management team will offer to meet with each FDIC-supervised minority institution to discuss issues of interest to you and your directors. After every FDIC examination of a minority-owned bank, we will offer to have staff members come back to the bank a few months later to provide technical assistance on any matters raised during the examination.

As many of you already know, the FDIC is hosting regional forums to discuss issues facing minority institutions. We have received a good deal of positive feedback from the meetings we held in Memphis, Chicago, Dallas, and Atlanta. The forums give us an opportunity to listen to your perspectives and give you a chance to get to know the regulators in your area. Planning is underway for events in San Francisco and New York. The forums are being held with the other banking agencies, and we hope you will consider attending.

We have also created a Minority Depository Institutions Web page. It contains the entire text of the new Policy Statement, performance information on each minority bank, and an automated tool that allows users to create custom peer group analysis. The Web page also has contact information for our coordinators in each Regional Office and the Washington Office, and links to other government and private programs that may benefit you and your customers.

In conjunction with the new Policy Statement, we issued additional guidance to examiners regarding the program. The guidance stresses that examiners should recognize the distinctive characteristics and differences in core objectives of all financial institutions and consider those unique factors when evaluating an institution's financial condition and risk management practices.

The guidance states that examiners should not place undue emphasis on Uniform Bank Performance Report peer analysis. Profitability relative to industry averages is important; however, the evaluation of earnings performance should consider the trend and stability of earnings, the sources of the bank's income, the need for capital augmentation, and the quality of management's budgeting systems.

The guidance also recognizes that many minority depository institutions - like many smaller community banks - have difficulty raising deposits from their local market. These banks may use certain wholesale funding sources to offset the shortage of local deposits. When prudently managed, these funds can be beneficial to banks. However, there are potential risks associated with this strategy, and it is your responsibility to establish systems for identifying, measuring, monitoring, and controlling those risks.

Another issue we're working on in Washington is a comprehensive review of the Community Reinvestment Act. I have met with my fellow regulators on several occasions to discuss this review. One important issue likely to be of interest to you is our efforts to clarify when an institution can receive favorable CRA consideration for investing in, or providing assistance to, minority institutions outside of its assessment area. The FDIC's stance is that favorable treatment should be granted for investment in minority depository institutions regardless of location. In fact, we already review these situations on a case-by-case basis to determine if favorable consideration can be granted. The 2002 CRA regulatory review is now underway. The interagency task force plans to issue a proposal to revise the CRA rules - or issue additional guidance - later this year. We would like to take that opportunity to clarify interagency policy on the assistance to minority depository institutions outside of a bank's assessment area. Obviously, if you have thoughts on this, we'd like to hear them.

Another issue we're working on at the FDIC is financial education. I know this is a subject that is close to your heart. I can assure you it is close to ours.

We are never going to fully address the issues of payday lending, predatory lending or full consumer access to needed credit without ensuring that the most needy among us are fully aware of their financial options. If we could educate our neediest citizens - and our friends who immigrate here in search of a better life - of the benefits of a relationship with an FDIC-insured institution, your job - and mine - would get a whole lot easier.

We have worked hard on this effort over the last year. We have developed a fine product called Money Smart - and have been working hard to make sure you and your fellow bankers around the country know about it. This program is designed to address

the needs of low- and moderate- income people and bring them into a healthy banking relationship. I know of at least two NBA member banks who are involved with our Money Smart program - International Bank of Chicago and International Bank of Commerce in Brownsville, Texas. I would like to see a hundred percent participation from the NBA by your next convention.

Let me give you an example of how one bank is using Money Smart. IBC, in Texas, is putting together a plan to use the Money Smart curriculum in connection with their free checking accounts. The bank is also taking advantage of Money Smart's flexibility by using the program in connection with a HUD grant for an Individual Development Account program he is administering. In Chicago, International Bank is promoting financial education by sponsoring Money Smart classes in conjunction with the Chinese Chamber of Commerce to deliver the curriculum in Chicago's Chinatown.

Millions of Americans do not have an account relationship with a traditional financial institution. Many of these "unbanked" - estimated at anywhere from 10 to 13 percent of U.S. households - are minority individuals. You are on the front lines of this battle, and I believe you can make a tremendous impact. Many unbanked consumers use so-called "fringe banks." The costs of using their products and services far exceed that of traditional bank accounts. I adamantly believe financial education is perhaps the best way to attack the problem of predatory lending, because when people understand the financial system and their rights and responsibilities, they are less likely to be victimized by unscrupulous lenders. Let us work together to reach into the unbanked and underserved communities and to equip people to achieve and sustain the American dream.

Many of your institutions already serve communities that traditionally have been underserved by other financial institutions. I applaud you for that. In reality, you could probably teach us a thing or two about educating financial customers. What I am asking is - if you haven't already, take a look at our program and consider using Money Smart in your efforts to improve financial education in your communities.

You can't beat the price: it is free. All we need from you is your commitment to make it work and use it to make a difference in your communities.

One final point I'd like to leave you with: please take advantage of the opportunities to leverage the resources of the FDIC to help you and your institution. Our minority banking program is a good one, and I hope you will continue to take advantage of opportunities to solicit our help. If you have questions regarding loan review procedures, CRA, Call Report preparation, corporate governance or internal controls, call us. If you would like a member of our staff to give a presentation at a community meeting, call us. I do not claim to have all the answers, but we have associates who are experts in their selected fields. And we want to share that expertise. If you have other ideas, let us know. We will listen.

Again, I want to extend my special thanks to Norma Hart for extending the invitation to speak today. I hope we can continue to work together in the cause of healthy, vibrant communities and a safe and sound banking system.

Thank you.

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Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. The FDIC insures deposits at the nation's 9,480 banks and savings associations and it promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars—insured financial institutions fund its operations. FDIC press releases and other information are available on the Internet at www.fdic.gov or through the FDIC's Public Information Center (800-276-6003 or (703) 562-2200).

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