REMARKS
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It is great to be in Chicago and I appreciate the opportunity to speak to you today. This conference has contributed much to the development of good banking policy over the years and it is indeed an honor to be with you.

This is my first time at the Bank Structure Conference. I'm the new kid on the block, but I do know the FDIC has benefited from the work you've done. As many of you remember, Chairman Tanoue came here two years ago and talked about deposit insurance reform. Last year, that topic was again on the agenda as the FDIC moved toward firm legislative recommendations.

Today, we have a bill moving in Congress, a broad consensus on many of the issues, and a lot to be proud of. I know we have a ways to go, but momentum is on our side and I want to acknowledge all this conference has contributed to the deposit insurance reform effort.

Today, I want to focus my remarks on how we can improve our efficiency and effectiveness as regulators. And I want to offer some of my observations after eight months on the job as Chairman of the FDIC.

Prior to my current role, I was a banker. As such, my focus was necessarily on growing my business. Dealing with regulators was an unavoidable and necessary consequence of engaging in the business I love. There was a healthy tension between us and that is how it should be. We both made mistakes from time to time, but respect was mutual and the relationship was productive. The debate about who regulated what - and how it all got done - was a Washington issue and pretty far removed from my day-to-day business.

When I came to Washington last August - and to the other side of the table, so to speak - I found the situation more complex than it seemed from my previous vantage point in Amarillo, Texas. Four supervisors, two federal chartering agencies, a central bank, a deposit insurer and a number of state supervisors are all working within a confined space to do a very demanding job.

It did not take me long to get educated about some of the age-old tensions that exist between the different supervisors. At the FDIC, issue number one was the question of backup authority. The OCC was concerned about funding. And the OTS was embarking on a tough era of cost-cutting and downsizing. Interagency policy making was full of process and discussion, but the momentum needed for timely collective decisions was often difficult to achieve. With respect to policy development, our current system sometimes defines the old adage about too many cooks in the kitchen. We might not be spoiling the broth, we are certainly spending more time than we should debating about the recipe.

As I have observed the process over these past few months, I keep coming back to some fundamental questions. Does the current arrangement make sense for today's banking environment? Can we improve our operating efficiency? Can we deliver policy in a more timely manner? Can we preserve what is valuable about the current system while saving the industry some money and doing a better job as charterers, regulators and insurers?

We ought to be talking about these things. It is troubling to me that politics or questions of Washington turf often inhibit a candid discussion of these issues - and perhaps would even inhibit reform. Unlike the banking industry, we have the luxury in Washington of extensive discussion and inaction because we do not have the marketplace to discipline us. Instead, we must discipline ourselves. The longer inefficiencies persist in our regulatory structure, the more we risk losing the trust of the public and the respect of the industry we regulate.

I don't want this to happen on my watch, so I am going to ask these questions.

But let me be clear: we should not go about this willy-nilly. That is why I am starting a conversation today, not proposing a solution. As we look at these issues, we should take care to preserve the strengths in the current system.

Let's discuss a few of those. We should strengthen and preserve the dual banking system. We should preserve supervisory, policy, and regulatory independence. We should continue to add value and stability to the American financial services industry. We should not discourage the entrepreneurial spirit. We should understand and respond to the risks and imbalances in the system. We should be vigilant about the impact of economic events - including fiscal and monetary policy - on the banking business and provide the industry with our concerns and our analysis in a timely manner.

These are all hallmarks of the American bank regulatory structure. We are very good at some of these things. We need to improve on others. But none of these should be threatened by a good discussion about how we are organized.

As good as talking may be, I like action. That is why we have already begun doing what we can at the FDIC to pursue business and policymaking efficiencies - both at home and among the other agencies. Let me outline a few of these.

First, we announced a major restructuring of the FDIC in February. We have streamlined our organizational chart, identified staffing surpluses, and have taken concrete steps to address them.

We have worked with the OTS, the OCC and the Federal Reserve to reach a historic agreement on the question of the FDIC's backup supervision authority. This agreement helps us protect the fund from the greatest risks while respecting the prerogatives of the other agencies.

We are working on a data revolution at the FDIC - leading an ambitious project to modernize the call reporting process and ensure timely and efficient data collection from all banking institutions. We have offered to serve as a central repository for the collection and distribution of banking data.

We are in discussions with the Office of Thrift Supervision to provide basic back-office services like training, library resources, and economists and analysts. The idea is to share work whenever possible and avoid duplication of effort.

And we have worked to build some much needed focus and accountability into the work of the FFIEC. I have tried to use my Chairmanship of that organization to ensure that pressing outstanding items are prioritized, placed on the agenda and resolved. We owe ourselves and the industry no less.

These steps are progress, but we can do so much more. In today's banking industry, innovation is the norm and - in many respects - we regulators have not kept up.

We live in a banking world where large, complex and interconnected organizations span the globe, always coming up with new ways to manage risk and fund the entrepreneurial spirit. This new era is, in so many respects, a wonderful development. So much opportunity - at home and abroad - has come about as a result of these changes.

But I sometimes worry we regulators are riding the tiger - we cannot afford to waste time on the lost efforts of process and procedure in Washington, DC.

In just the past fifteen years, we've seen the number of banks and thrifts in America shrink by more than 40 percent. Just as this historic consolidation was driven by the need for efficiency, it was also dictated by good old fashioned customer service. As much of the population grew more financially sophisticated and the 'interconnected world' became the norm for many of us, the industry was driven to serve this constituency in the financial services marketplace. Nationwide banking, interstate branching, ATMs, the nationwide mortgage system, securitization transactions - all are innovations designed to improve life for the everyday borrower and the everyday depositor.

The question I keep coming back to is this: Why are we regulators any different? The industry we supervise has undergone profound changes to fit shifting consumer preferences and a changing marketplace. Can we learn some lessons from the industry we supervise and, indeed, become more efficient ourselves?

Let's look for a moment at the question of overhead. Why do we all maintain separate offices, separate regional offices, separate administration staffs, separate computer systems, separate contracting offices, separate personnel offices, separate data collection and dissemination facilities, separate economic analysis and research functions and separate training facilities?

I know that all of us - in our own way - are working to become more efficient in our operations. But what about this duplication of effort? We estimate the FDIC, the OTS and the OCC currently spend more than $200 million annually on backroom operations to support our supervisory activities. It is not clear how much is spent by the Federal Reserve System. If we were able to achieve, collectively, a twenty percent reduction in this amount, we could pass on to the industry a savings of at least $40 million per year - and likely much more.

Another problem we talk about sometimes is the question of agency funding. The Comptroller and I have a great working relationship and while we may come at this issue from different perspectives, make no mistake about this: I believe well funded and independent primary supervisors are in the best interest of the FDIC. We certainly do not want to see funding problems jeopardize their ability to do their job.

I am prepared to meet them halfway on this issue. Why can't we work together to eliminate back-office inefficiencies? Further, I would offer to make available more of the FDIC's supervisory resources to help these agencies with troubled banks and thrifts. This would complement all of our interests, it would seem, and allow the agencies to realize some savings themselves.

But - as custodian of the deposit insurance funds - it is difficult for me to go the last mile with respect to the conclusions reached by the Comptroller on this issue. It is hard for me to agree that the insurance funds should be used to fund the Treasury agencies' operations without any accountability to the FDIC's board of directors for how the money is spent. But the other areas I can agree to, and I hope we can make some progress on this going forward.

Finally, I want to spend a moment on policy development. The effective delivery of banking policy is important to our economy, to the marketplace, and to the financial services industry. As the industry moves more quickly to innovate, we need to be able to provide sound and timely guidance.

We have made some progress here. Our Exam Council reforms have allowed us to focus attention fairly quickly on important issues like credit card securitizations, call report modernization, and subprime lending. I believe we have shepherded some of these issues toward consensus more quickly than would have otherwise been possible.

I would like to continue this trend. We must identify the important regulatory questions of the day, communicate with one another, digest the arguments with mutual respect, and move toward consensus. Not doing so is a recipe for ineffectiveness and irrelevance.

So the question of structure is on our minds at the FDIC. I won't stand here and pretend to have all the answers - I have read enough history to know that is not how you make headway on these issues. Rather, I would like to start a conversation with you today about our regulatory structure. A conversation about how we can all work together make it better, how we can save some money, and how we can be more effective in performing our important role in America's economy.

Going forward, the FDIC will be soliciting input on this question from the industry, the academic community and our fellow regulators. We look forward to a productive discussion on these points - a discussion that leads us toward an improved system at the end of the day. We stand ready to help, and I hope you will, too.

Thank you.

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