CHAIRMAN DONALD E. POWELL
FEDERAL DEPOSIT INSURANCE CORPORATION
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Thank you for inviting me here to speak today, I'm honored to be here with you in Florida. Quite a welcome change from the record snowfalls and ice we've been getting back in Washington, DC.

I want to talk to you today about the economy and what I see ahead for banks in the area of corporate governance. Regarding the economy, we've heard a lot of conflicting predictions about the future in recent months from the economists. I'm not an economist, and I am not here to make predictions. Predictions are pretty difficult in an economic climate like the one we have today.

On the other hand, I don't need to be a weatherman to be able to predict that the weather in Amarillo will be hot this summer. I also know from prior experience with business cycles that we still have a lot of challenges ahead of us.

We've been through a rough time over the past two years. The impact of the terrorist attacks on September 11 shook our nation to its core. And the collapse of firms like WorldCom and Enron - and the crisis of corporate governance that followed - has contributed to a loss of investor confidence which continues to plague the stock market. Now we have a new threat: the threat of war. These two factors have created a climate of uncertainty and slowed our recovery from the recession that began in March 2001.

In fact, I believe that the most serious impediment to growth - the kind of growth that will put the economy back on track - is this uncertainty itself.

Risk can be estimated and priced. Uncertainty cannot. As bankers, you know that very well. In a climate of uncertainty, investors, consumers, and business executives tend to postpone important transactions until the future appears more predictable. We saw that back in 1991 at the successful conclusion of the Gulf War, when consumer and business confidence jumped sharply.

Right now, prospects appear good for resolving some of these uncertainties during 2003, and I believe this will eventually lead to improved economic performance. Rules recently introduced by the New York Stock Exchange, the NASDAQ, and the SEC will help define the new corporate operating environment. And we appear to be moving closer to a resolution on the war front. If these twin sources of uncertainty are resolved this year, all indications are that there will be no lasting damage to the economy.

In fact, I am optimistic that we will come out of this stronger than before.

I am optimistic because one of the best lessons in recent memory came out of the economy's experience of the late 1980s and early 1990s. And its worth revisiting that time to draw comparisons between the corporate restructuring currently underway and the restructuring of the banking and thrift industries that occurred during the time of the last recession.

Between the late 80's and early 90's, the FDIC and the RTC resolved over 1,400 banks and thrifts with approximately $550 billion in assets. In 1991, analysts were pessimistic about the pace of the process and the effect of selling a high volume of distressed loans and real estate into weak markets. Bankers were pessimistic too - I know that because I was one of the pessimistic ones. The banking industry faced huge challenges during those tumultuous years.

But to the surprise of many, both the banking industry and the U.S. economy rebounded rather quickly from that restructuring process. In the early 1990s, net income in the banking industry more than doubled and the U.S. economy began a record 10-year expansion.

I remain convinced that one of our country's greatest strengths -- as opposed to many economies in Europe and elsewhere in the world - can be found in our economy's wonderful ability to restructure and reinvent itself, and to make these changes relatively quickly. The ability to see clearly what must be done, and deal decisively with the challenges.

That's what banking regulators and the financial services sector had to do a decade ago. And the current restructuring in our corporate sector presents problems and challenges just as great as those faced by the banking industry in the early 1990s. Over the last several years, almost 900 publicly-traded companies with over $800 billion in assets filed for Chapter 11 bankruptcy protection, including WorldCom and Enron - the two largest bankruptcies in our history.

For a banker who lived through the 1990s, this has a familiar ring.

Yet, despite these difficulties, the good news for corporate America is that both the excess capacity and debt overhang from the late-1990s boom are slowly being worked out of the system. Businesses are making progress cutting costs and cleaning up their balance sheets. I believe all of the pieces are falling into place for the recovery, including monetary and fiscal policies that have greatly supported income growth and consumer spending. And it's very important for all of us not to overdo the pessimism associated with corporate bankruptcies and commercial loan losses.

Because there is a flip side to this. We are experiencing a process of restructuring that is paving the way for economic recovery. I think the U.S. economy will be even better positioned for growth this time, provided we continue to resolve the uncertainty hanging over us - uncertainty over the looming war and lingering uncertainty about important issues of corporate governance.

Let's talk for a moment about corporate governance. It is important to remember that banks learned many lessons a decade ago, and learned them well. As a result, the banking industry has weathered commercial credit losses during the recession perhaps better than could have been expected. As we announced yesterday in our Quarterly Banking Profile, FDIC-insured institutions earned a record $105.4 billion in 2002. That's the first time the combined annual earnings of commercial banks and savings associations topped $100 billion - and let's not overlook the fact that this occurred during the height of last year's corporate governance scandals. In large part, this milestone was reached thanks to you - working in your individual institutions to improve your governance structures, improve your business models and protect your depositors.

Bankers are using modern financial tools, such as derivatives and loan syndications, to spread the risk around the system, limiting the impact on any one institution. Yes, we in the banking industry learned our lessons well, and I believe corporate America can and will do the same.

As far as the uncertainty of corporate governance, a lot of progress is being made. The SEC recently adopted a set of new rules covering corporate disclosure, auditing, and conflicts of interest, as required under last year's Sarbanes-Oxley reform legislation.

These rules come hard on the heels of new rules filed last year by the New York Stock Exchange and NASDAQ that deal with codes of conduct, independent directors, audit committees, and other issues. While there is continued debate about the relative merits of these rules and the need for further reform, we are clearly moving toward an era of greater transparency and restored investor confidence.

Now, the FDIC has received many questions over the last nine months about how the Sarbanes-Oxley Act will impact insured institutions. Let me talk to you for a moment about the new environment we are operating in, and what the FDIC is doing to help banks understand and adjust to this new era.

First of all, the FDIC will issue guidance today to bankers on the "Effect of the Sarbanes-Oxley Act of 2002 on Insured Depository Institutions." Overall, the effect of this law on most depository institutions should be relatively minor, especially to those of you in this room. Many of the new requirements mandated by the Act are already addressed in existing bank regulations and policy statements - many of which were put in place during and after the banking crisis a decade ago.

It is important to remember that Sarbanes-Oxley will primarily affect publicly traded banks. It requires changes in directors' responsibilities, increases audit committee responsibilities, and mandates enhanced disclosures. For those banks over $500 million in total assets that are not publicly traded, the impact of the Act will be focused on those institutions' independent public accountants.

For non-public institutions with less than $500 million, Sarbanes-Oxley generally does not apply. Nevertheless, certain provisions of the Act mirror existing policy guidance related to corporate governance. Other provisions of the Sarbanes-Oxley Act represent sound corporate governance practices that the FDIC encourages non-public institutions to follow to the extent feasible. We always try, however, to take into account an individual institution's size and complexity.

Second, we have implemented a new director-involvement program at the FDIC. Under this program, directors will be invited, on a voluntary basis, to participate in regularly scheduled meetings with examiners. We believe this will be an effective way of keeping directors informed about regulatory issues facing the bank, as well as helping them meet their basic corporate governance responsibilities. This does not mean, however, that I believe directors should be involved in day-to-day bank operations. Those responsibilities clearly should rest on the shoulders of the management team.

Third, we have established a special section on the FDIC's web site called the "Director's Corner," which contains useful and practical guidance from the FDIC and the other banking agencies to help directors fulfill their responsibilities. The "Director's Corner" includes all of our written guidance to date on issues of interest to bank directors - a one-stop-shop for directors looking to access regulatory communications on the subject. The FDIC's "Pocket Guide for Directors," which provides directors with accessible and practical guidance for meeting their duties and responsibilities, is also included in this section. I brought a few copies of the Pocket Guide with me today, they are available in the back of the room if you are interested.

Fourth, over the next year, we will also expand and strengthen our "Directors' College" program, which is sponsored and operated by the FDIC's regional offices and various state banking departments and trade associations. While these colleges are generally aimed at providing training for new directors, I believe they can also be a great refresher course on recent changes in the regulatory environment for long-time directors. We think these efforts can improve corporate governance and keep directors up to date on the latest thinking in the regulatory community.

We believe these efforts, taken together, will accomplish the FDIC's goal of participating in good policy development in Washington and at the same time make sure that directors and officers are getting the tools they need to perform their duties. All the good policies in the world will not be useful if they are not understood or if they are so complex that they drive away good, qualified individuals who would otherwise be willing to serve.

There is much about the present climate of uncertainty we have no control over. At the FDIC, we are doing what we can to contribute to the resolution of uncertainty regarding corporate governance.

I will close by reaffirming my faith that our economy is inherently strong enough to overcome the obstacles to recovery caused by the continuing geopolitical uncertainties and the lingering concerns about corporate governance. Putting these issues behind us will set the stage for a broad based recovery - and continued good health for the nation's banks.

Thank you.

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