Remarks by
Sheila C. Bair Chairman Federal Deposit Insurance Corporation before Women in Housing and Finance Washington, DC
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Good afternoon, everyone. It is a pleasure to be here today. Having been a member of Women in Housing and Finance, I know first hand what a worthwhile organization this is for those of us who work in and around policy-making circles in Washington.

As I look around the room, it is nice to see so many familiar faces and. I also see a lot of new faces. I look forward to having the chance to meet the rest of you during my tenure at the FDIC.

I have been Chairman of the FDIC for just over four months now and people are always asking me how I am settling into the job. I am quick to tell them that I couldn't think of a better time to be at the FDIC. With so many interesting and important issues to grapple with, my job is anything but dull. One of the biggest challenges for anyone working in the public-policy arena is to bring together people with disparate interests to find common ground. As FDIC Chairman, this is something I face each day.

Congress deliberately created an FDIC Board that would represent a diversity of views. By statute, not more than three of the five Board members can be of the same political party. At least one Board member must have State bank supervisory experience. Presently, four of the five Board members are lawyers; four of the five of us have worked on Capital Hill, one of us has been a community banker. Only one of us is a woman, but since I am the Chairman, perhaps that counts double. I am fortunate to head an agency where the glass ceiling was shattered some years ago with the appointment of Ricky Helfer in 1994, followed by Donna Tanoue's appointment in 1998.

Moderating the views of a diverse banking industry, consumers, the FDIC Board of Directors and the Congress, while making progress on our public policy agenda, is often a delicate balance. Compromise can be difficult to achieve, but is necessary to avoid policy stalemates. I am a consensus builder by nature. I have found throughout my career in Washington that when there is disagreement over an issue, there is usually some merit to both sides and that the truth lies somewhere in the middle. Finding that "truth" results in a stronger decision and is overall in the public's best interest. However, I also recognize that there are times when core principles are at stake which cannot be reconciled. At those times, it is more important to remain firm. Fortunately, our Board decisions so far have found the consensus middle. Whether that will continue, I do not know. As I navigate these waters, I have found it important to keep in mind a few guiding principles. Today I would like to share those with you and to talk about how I have tried to apply them to two high profile public policy issues – deposit insurance reform implementation and capital reform.

Guiding Principles for Policy Making

The first guide post I look to when considering public policy issues is the value of a clear and important mission. At the FDIC, this is easy to do. Whether it is through our safety and soundness supervisory process, our efforts to ensure that banks comply with fair lending and consumer protection laws and regulations or our ironclad insurance guarantee, the FDIC's mission is clear and compelling – to protect depositors. This is an important lens through which I view the policy matters that come before the FDIC Board.

The second is to be a good listener. This means building bridges to constituent groups and having an open mind. Public comment is extremely useful in policy making. Understanding how public policy decisions will affect these groups helps to uncover that important common ground.

The third is to know when to stand firm. I don't mean being rigid in your views, but stated another way, it's "know when to hold them."

I also think it is important to be realistic. Keep your goals and principles in view without losing sight of practical realities. Some progress is almost always better than no progress at all. Stated another way, it's "know when to fold them."

Finally, there is no substitute for having colleagues who are dedicated to public service. I am extremely fortunate to have fellow Board members and staff at the FDIC who meet this test.

Implementing Deposit Insurance Reform

Many of you have closely followed the deposit insurance reform effort from the beginning. The Federal Deposit Insurance Reform Act of 2005 did two critical things, aside from merging the two separate insurance funds for banks and thrifts. It improved the FDIC's ability to manage the merged fund, and allowed the FDIC to price premiums properly to more accurately reflect risk. These changes were necessary to improve the long-term stability of the deposit insurance system, improve incentives for effective risk management, and reduce the extent to which safer banks subsidize riskier ones.

Two weeks ago, the FDIC's Board adopted the last of the final rules required to implement this legislation. I will spare you the details today, but I encourage you to attend the brown bag luncheon that Women in Housing and Finance is holding on December 7th. Diane Ellis of the FDIC, who helped develop the final rules, will be discussing them and answering questions.

The FDIC started the reform effort with high level objectives in mind: to adopt a system that is fair, open and transparent and to allow the public an opportunity to weigh in on any changes we proposed. The reform legislation and the new rules the FDIC adopted reflect years of discussion with Congress, bankers, consumers, trade group representatives and other regulators, as well as extensive FDIC staff analysis. All of our rules have been issued for public comment and we have taken the comments seriously.

We made several changes from our proposed rules in response to comments. Let me give you two examples.

First, we simplified the way we charge the largest institutions and revised our proposed assessment system to ensure that small changes in risk would lead to only small changes in their assessment rates. We received several comments on these issues and took them to heart.

We also postponed for three years provisions that would automatically have charged well-capitalized, well-run new institutions higher rates than other well-capitalized, well-run institutions. We also created several exceptions to these provisions when they do take effect. We recognized, as comments pointed out, that new institutions would be facing large jumps in rates. We also recognized that few new institutions will receive any of the $4.7 billion in one-time assessment credits that Congress awarded to recognize the contributions established institutions made to build the insurance funds. Lacking credits, new institutions, unlike established ones, would immediately begin paying the full amount of the higher rates.

I don't think that I'm talking out of school when I tell you that the new rules also reflect compromise among the members of the Board. Yet I am certain that the final rules we adopted were consistent with the principles of each of the Board members. The new rules are clear, simple and properly reflect risk.

For me, that is the reward for the effort it takes to build a consensus. It is hard work, but the ultimate product, representing the thoughts of many, is better. Moreover, I think the ultimate product is more likely to be lasting, since it has widespread support.

Capital Reform

The other reform in the headlines today is capital reform. As we consider what changes are necessary, I believe it is important again to rely on some guiding principles. In my view, a regulatory capital system must require banks to hold sufficient capital to avoid costly draws on the federal banking safety net. The system should avoid undue burden on the banking industry. It should not create a regulatory environment that favors one group of banks over another and it should not interfere with innovation or the evolution of risk management techniques.

On September 5th, the FDIC Board of Directors, along with the other federal banking regulators, voted to publish the Basel II Notice of Proposed Rulemaking (NPR) for public comment. In conjunction with Basel II, the regulators also are developing a more risk-sensitive capital framework for non-Basel II banks, known as Basel IA. We hope to publish our proposal for Basel IA for comment in the near future.

I am sympathetic to the views that the comment periods for Basel II and Basel IA should have sufficient overlap to allow the industry and the public the time to consider the totality of the reforms under consideration. The entire industry, both large and small banks alike, has a stake in the outcome of this process. All interested parties should have the benefit of sufficient time to consider both proposals side by side.

I believe it is appropriate and necessary that we continue to make progress on capital reform. While views and opinions differ about what changes need to be made, there is one area where I will hold them, not fold them: capital reform must not result in significant reductions in capital in the system or in competitive inequities among different types of depository institutions.

I am looking forward to receiving the comments on both proposals and I will approach them with an open mind. I am particularly interested in comments on the question of whether the regulators should allow alternatives to the Advanced Approaches. The U.S. is the only country proposing to make the Advanced Approaches mandatory for some banks. Several large banks have asked to be allowed to use the Basel Standardized Approach for calculating their requirements.

The Standardized Approach links risk weights to external ratings and includes a greater array of risk classes than are included in the current rules. It is simpler and less costly to implement than the Advanced Approaches. In addition, because there is a floor for each risk exposure, it does not provide the same potential for dramatic reductions in capital requirements and therefore would not pose the same issues about competitive inequity. On the other hand, there is the argument that only the Advanced Approaches provide an adequate incentive for strengthening risk measurement systems at our largest banks. Whether our largest banks should be required to use the Advanced Approaches is an important policy issue that will benefit from thoughtful dialogue and debate.

My final comment on the topic of Basel relates to the leverage ratio. This is an example of one of those areas where the FDIC felt it was important to stand firm. The FDIC has long believed that that the leverage ratio is a critically important component of our regulatory capital regime. I am pleased that the other regulators have expressed their support for preserving the leverage ratio. I also believe that an international supplemental capital measure, such as a leverage ratio, would ensure a minimum cushion of capital for safety and soundness throughout the global banking system. I hope that the Basel Committee will give thorough consideration to this question as it takes stock of the approaches currently used by its member countries to ensure a stable base of capital.

Closing Remarks

I hope my remarks today have given you a sense of why I tell people it is an exciting time to be at the FDIC. The rich agenda of public policy issues facing the agency provides both challenging and rewarding work. There is no substitute for getting the issues right. That is why dialogue, collaboration, consensus building and staying focused on our mission keep us on the right track. It can be hard work, but it's worth it.

I would be happy to take any questions you have.

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