Remarks by
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Good morning everyone. Thank you James for that very kind introduction. I also want to thank Norma Hart for inviting me to be part of your annual convention. The National Bankers Association and the FDIC have enjoyed a long-standing partnership marked by many common interests and shared successes. I am looking forward to building on our partnership during my tenure as Chairman of the FDIC.

FDIC's Commitment to Minority Banks

Every day, minority-owned institutions demonstrate their commitment to providing entrepreneurial capital, promoting economic revitalization and creating jobs. In this regard, minority-owned institutions have set an example for the rest of the industry – that your commitment is not only good for your communities and customers, but good business as well. And the numbers prove it.

Minority-owned banks are growing – in some areas of the country at a faster rate than non-minority banks. Since 2000, the number of minority-owned banks has grown by over 20 percent at the same time that the industry as a whole has declined by 11 percent. The combined assets of today's 194 minority-owned institutions stand at $190 billion, compared to $74 billion six years ago. Your institutions are doing well, and your balance sheets reflect your importance to the communities you serve – with more than 137,000 loans to small businesses and farms, and 6.3 million deposit accounts on your books as of mid-year 2006.

Yesterday, Sandra Thompson, the Director of our Division of Supervision and Consumer Protection, spoke about some of the ways the FDIC is demonstrating our commitment to preserving and promoting minority banks. Our regional forums for minority bankers play a key role in our efforts to foster better outreach and develop closer relationships. Building on these discussions, the FDIC created the Minority Bankers Roundtable in 2004 to explore additional partnerships between the minority banking community and the FDIC. Six roundtables were held across the country in 2005. In August, the FDIC hosted the first National Minority Depository Institution Conference in Miami. The event was such a success that we are now planning the second national conference to be held next year.

Last week, the Government Accountability Office released a report on the effectiveness of regulatory programs to preserve and promote minority banking. We appreciate the GAO's acknowledgement of the FDIC's efforts in supporting minority banks. However, the report suggests – and we agree – that we can do better in assessing and measuring the results of our efforts. We are committed to continuing to work with you to ensure that our programs meet you needs.

I have been Chairman of the FDIC for just under four months now and people are always asking me how I am settling in. There is a long list of things that make this job interesting and unique, including the opportunity to influence the rich mix of public policy issues facing the FDIC and the banking industry. To be able to do this, I appreciate the opportunity to meet with bankers to talk about issues and hear your suggestions. Your feedback is critical. Today I want to talk about three issues – capital reform, the implementation of the new deposit insurance system, and financial education and economic inclusion. These are three areas where your comments and perspectives can really make a difference.

Capital Reform

You are probably aware that on September 5, the federal banking agencies released the Basel II Notice of Proposed Rulemaking for public comments. As currently proposed, Basel II could result in significant reductions in the risk-based regulatory capital requirements of the large banks. Basel II banks would most likely face lower risk-based capital requirements in all the major asset categories in which community banks are most active. We are concerned about the effect this could have on system stability and on community banks.

The U.S. financial system benefits from a balance between large complex banks, regionally focused banks and community banks. Community banks are an important part of the U.S. financial system. They are integral to their local economies and to the customers they serve– individuals and small businesses alike. Our capital framework should not place community banks at a competitive disadvantage.

The current capital position of the U.S. banking system is a recognized strength that provides a cushion for when economic conditions are less favorable than they are today. U.S. banks have demonstrated over the past ten years that strong bank capital levels are compatible with record profitability. It seems both unnecessary and imprudent to allow significant reductions in industry capital to occur as a result of reform.

We address these two issues by first including a number of essential safeguards in the Basel II proposal to mitigate capital sanctions. Second, in conjunction with Basel II, we are also developing a more risk sensitive capital framework for non-Basel II banks, known as Basel I-A. We hope to publish this NPR very soon. Basel I-A will revise the existing rules for institutions that will not be subject to Basel II. It is intended to be more risk sensitive, provide a feasible and straightforward framework for calculating capital, and limit changes in reporting requirements. I hope the members of the National Bankers Association will weigh in on these critical aspects of both proposals. I look forward to receiving your comments.

Finally, in my view, no discussion of capital reform can be complete without a few words about the leverage ratio. The FDIC has consistently supported the idea 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. In addition, I believe an international leverage ratio would be an important step to ensure a minimum baseline of capital for safety-and-soundness throughout the global banking system. I have taken initial steps to engage the Basel Committee in a dialogue on this, as it takes stock of the approaches currently used by its member countries to ensure a stable base of capital.

Deposit Insurance Reform

Capital reform is not the only reform under consideration today. As you know, the FDIC is currently implementing the deposit insurance reform legislation enacted by Congress earlier this year. I know many doubted that this legislation would ever pass in the absence of a crisis. My observation is that deposit insurance reform would not have been enacted without the kind of open dialogue the FDIC has had with the industry and the trade associations. We greatly appreciate your cooperation and willingness to study and comment constructively during the legislative process and on our proposals as we implement the reforms.

The implementation of the new system is well underway. The Bank Insurance Fund and the Savings Association Insurance Fund have been merged into the new Deposit Insurance Fund. Increased coverage for retirement accounts became effective in April. Coverage for other deposit accounts can be indexed to inflation beginning in 2010.

On Tuesday, the FDIC Board of Directors approved a final rule to implement a one-time assessment credit of $4.7 billion to bank and thrifts. The credit will be used to offset future assessments charged by the FDIC and will recognize the contributions that certain institutions made to capitalize the funds ten years ago. The FDIC Board will take up the other components of deposit insurance reform – including risk-based assessments – next month.

While there are many issues involved in implementing deposit insurance reform, for many of you the most important part is the bottom line: what will you pay? The exact rates will be set by the FDIC Board in early November. Under the proposed base rate assessment schedule, most institutions would be charged an annual rate between 2 and 4 basis points. However, due to recent growth in insured deposits, rates higher than the base rate schedule may be necessary initially. Most of you, of course, will have assessment credits that you can use to offset these premiums. For instance, the average credit for a bank or thrift that helped to build up the insurance fund is about 8 basis points. Thus, if you were assessed 5 basis points in 2007 and 3 basis points in 2008, you would face no real increases in assessments until 2009. If you have not done so, you can get an idea of your potential premium based on our pricing proposal by logging on to the FDIC home page. We have created an assessment rate calculator to help you determine your assessment rate and a search tool to provide a preliminary estimate of your one-time assessment credit amount.

As we begin implementation of a risk-based system, we should all keep in mind that even without the new law, all institutions would be assessed premiums next year since the reserve ratio is already below the 1.25 percent reserve ratio target. What is different is that without the reform law, institutions would not receive credits for their past contributions. Also, depending upon conditions, premium rates could have increased sharply in order to comply with the 1.25 percent target.

Congress intended that in good economic times the fund should grow so that it can withstand periods of financial stress without the need to raise premium rates sharply. Keeping the fund strong now, when industry conditions are favorable, will help ensure that assessment rates remain stable and moderate over the longer term.

I want to assure you, however, that the intent of the new system is not to raise overall revenue. Rather, it is to provide the FDIC Board greater latitude to maintain the fund at a prudent level while spreading the assessment burden more evenly over time and more fairly among insured institutions.

Financial Education and Economic Inclusion

The third issue I want to raise today is one that has benefited, and I hope will continue to benefit from your influence and perspective – improving financial education and economic inclusion.

I am a big believer in financial education. This is an issue I have been involved in for many years, long before I came to the FDIC. I have learned that what works is not rocket science, but the basics. In recent years, the FDIC has offered this important information through a program called Money Smart. It is a free program that focuses on helping low- and moderate-income adults develop money management skills and on introducing them to mainstream banking. We offer English, Spanish, Chinese, Vietnamese, Korean, and Russian versions of Money Smart. The Money Smart curriculum is currently being adapted for children. I hope to further expand this program during my tenure.

As we seek to improve financial education, we also need to ensure that all consumers have reasonable access to full service banking. I believe that banks can provide a gateway into the financial mainstream for those who need these financial services. Bankers know how to build relationships, and relationship-building is essential to bringing those who have a fear or an aversion to financial institutions into the equation. Banks have the infrastructure and the imagination needed to create an array of affordable-lending services to meet the needs of all their customers.

Currently, a large segment of the population relies on a mix of non-bank financial service providers for their needs. Check cashing stores, payday lenders, pawn shops and remittance services provide access to financial services for the underserved. Some of the credit products they offer make no financial sense – take payday loans for instance, where annual interest rates are usually several hundred percent. Most borrowers who use payday loans already have a checking account and a regular paycheck.

I would like to see the banking industry develop small denomination loan products at reasonable interest rates for these borrowers. Common sense tells me that this business has manageable risks and can be profitable, especially if the bank ties regular loan payments to a savings account so that borrowers have an automatic mechanism to build some financial cushion. I would like to work with the industry to find ways to promote both affordable short-term loan products and creative ways to encourage individual and household savings.

I plan to support and build on the work the FDIC has undertaken to promote inclusiveness in the banking system. In recent years, the FDIC has reached out to bring immigrants into the financial mainstream through our New Alliance Task Force. This effort builds partnerships with public, private and non-profit organizations to facilitate connections between underserved consumers and financial institutions seeking new market opportunities. We are committed to building on these efforts to increase participation in the banking industry and look forward to collaborating with you in this area.

Concluding Remarks

I started today by congratulating you on your growth, your financial strength, your service to your communities, your success. I know that your continued success depends upon many things, especially on the future regulatory and competitive environment. That is why getting it right, from capital reform to deposit insurance reform is critical and why your ideas and perspectives are so important to the process. Your future success also depends on continuing to find ways to bring all consumers into the financial mainstream. The partnership that the FDIC and the NBA have shared over these years will help to ensure that financial education and economic inclusion provide that pathway for your future customers. I know that by working together, we will be able to get that right, too. Thank you.

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