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Remarks by
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before the
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Thank you.

As most of you have figured out, Washington is a city frozen in the past.

In some respects, the past is literally carved in stone there. For example, one bank of windows in the Chairman's office at the FDIC overlooks the Old Executive Office Building -- which President U.S. Grant commissioned in 1871. The other bank of windows overlooks the palatial Corcoran Gallery of Art, which, by coincidence, also opened in 1871. Mr. Corcoran, the banker who paid for the gallery, made a fortune selling U.S. government securities abroad during the Mexican War of 1847-48, and wanted to use the money to benefit the city. So I always keep in mind that the view from where I sit was shaped by a war fought nearly 150 years ago.

Washington is also frozen in the past in other ways.

For example, not too long after I moved to Washington to work at the FDIC, I was walking down a major street when I ran into a crowd of people staring up at a man teetering on the edge of a ledge ten flights up. Within seconds, the police arrived, and one young officer raised a bullhorn and shouted in a thick Southern accent: "Don't jump . . . remember your wife."

"I don't have a wife," the man replied.

"Don't jump . . . remember your children," the young officer shouted.

"I don't have any children," the man replied.

"Don't jump," the officer called out, "remember Robert E. Lee."

"Robert E. Lee?" the man said, "who is he?"

"Where are you from?" the officer shouted.

"Wisconsin," the man replied.

The officer shouted: "Jump!"

Further, in one significant way, Washington is not only frozen in the past, Washington perpetuates it: Washington is a company town -- that company is government -- the product that company produces is policy -- policy that is embedded in law and regulation. The law and regulations remain long after the problems they address become history. Thus, the past reverberates into the present. And with the passage of time, these reverberations can become distorted. Further, government's original response is sometimes too blunt for the problem at hand -- using an ax when a scalpel would do. And sometimes it is simply inappropriate -- applying a remedy to the wrong problem -- or to where there is no problem to remedy.

Nobody is perfect -- right? Everyone makes mistakes -- right? Yes -- but mistakes embedded in law -- carved into stone -- will continue in force until they are erased.

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What makes matters worse is that it is often the job of government to do the dirty work -- to take out the garbage. Nobody likes to do that. And government sometimes goes to extreme lengths to keep the production of garbage to a minimum.

Now these musings about the government didn't come out of thin air. Rather, they were prompted by my thinking about the savings and loan crisis of the 1980s -- and how that crisis continues to affect us today.

Go back a few years -- the numbers were shocking. Hundreds of thrifts closing. In 1988 alone, 205 thrifts closed, with losses that came to $13.4 billion. Major, and unexpected, losses were to follow. In 1989, the savings and loan industry had by far its worst year to date -- losses totaling $19 billion -- worse than anyone had expected. There was no money to pay off depositors. And no knowledge of how long or how deep the crisis would go before it was played out. We were looking into a black hole.

Fear -- especially fear of the unknown -- resulted in the passage of the Financial Institutions Reform, Recovery and Enforcement Act in 1989 . . . FIRREA . . . the law that created the Resolution Trust Corporation. The law gave the FDIC the job of managing the federal deposit insurance fund for savings and loans. And -- significantly -- the law assigned to the FDIC the role of backup enforcement authority for savings associations. Congress decided to give us these responsibilities because we were the independent cop whose principle objective was to protect the fund.

As a result of FIRREA, the black hole was explored, mapped, quantified -- and we've come a very long way in filling it in -- an expensive job, but one that appears to be nearing completion.

Nevertheless, the S&L crisis lives on -- in people's minds and in the law.

Indeed, some have called the S&L crisis the greatest political scandal in American history -- and predict that the taxpayer will be thinking about it for years to come.

Clearly, the Federal Deposit Insurance Corporation Improvement Act -- the title says it all -- was just as much a reaction to the S&L crisis of the 1980s as it was a reaction to bank failures.

Today the banking industry is living with the S&L crisis and its aftermath -- just as the FDIC is living with the crisis and its aftermath.

Like the ghost of a relative in an old southern Gothic novel, it haunts our existence.

At the FDIC it can be seen in pressures being brought to bear on us to reform the way that we do things -- reforms to address errors we didn't commit -- reforms that in many cases we are already undertaking on our own initiative -- not to address past errors -- but simply because they make sense.

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We follow good managerial processes. Which doesn't mean they can't be improved upon. They can -- and we are always trying to improve them.

For example, we've appointed a chief financial officer. And we've established computerized information and management systems so that we can move toward keeping our books in real time.

We have centralized our management process for professional liability law suits. And all such cases are reviewed by the the FDIC Board before they are brought.

There are many other examples.

Now the matter isn't whether each individual proposed reform makes sense or not. Congress wants some assurances from the FDIC as the administrator of the Savings Association Insurance Fund that the FDIC will use the billions of dollars funding SAIF both wisely and prudently. As we've always done, the FDIC will report to Congress and subject itself to Congressional oversight.

But the matter isn't simply one of technicalities.

We have to ask the question: Do we want to continue to have an <u>independent</u> Federal insurer?

It's not an academic question.

We saw what happened in the 1980s when thrift supervision and insurance activities of the Federal Savings and Loan Insurance Corporation were politicized. The bill for that lack of independence -- the bill for the industry and the taxpayer -- will run into the hundreds of billions of dollars.

Independence is an absolute -- not a question of degree -- not a little more or a little less. Either you are independent or you are not. Micromanaging how we do things by statute wouldn't lessen our independence -- it would ultimately eliminate it.

Micromanaging also brings to mind another place where the S&L crisis lives on: Section 132 of FDICIA. While many of the provisions of FDICIA clearly have been useful and have encouraged many banks to improve their capital standing, section 132 has always been problematic. That section of the law requires the agencies to adopt standards relating to internal controls, loan documentation, credit underwriting, interest rate exposure, asset growth and management compensation. This provision was -- and is -- thought-provoking -- for the regulator as much as for the regulated.

In fact, we Federal regulators asked for public comment on the provision last July <u>before</u> we drafted regulatory proposals to bring the provision into effect -- comment on the general direction in which we should go.

The FDIC <u>alone</u> received 335 comments on the provision. Many of them told us what to do with the standards -- in suggestive detail.

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Seriously, though, concerns in the industry were clear. And we had our own concerns.

There used to be a saying in the late 1960s: you cannot legislate morality. Well, I cannot offer an opinion on that, but based on my 30 years as a banker I can say that you cannot legislate managerial competence. No lawmaker has ever been able to transform dross into gold.

The goals of section 132 may be laudable, but good managers already perform the activities the provision mandates, and poor managers won't be persuaded to perform them just because they are required to by law.

Often, bad managers are bad managers simply because they don't care.

In addition, the effect of the standards that section 132 calls for are likely to be harmful.

Why?

They are overly constraining and inflexible, and, as a consequence, they may adversely affect credit availability. The standards would apply to all banks without regard to size or past performance. In fact, we think it would be impossible to draft standards that would meet the demands of section 132 without micromanaging the bank.

These concerns that have led us to conclude that section 132 should be repealed -- or at least reshaped to give the regulators discretionary authority over the standards.

How long will the S&L crisis -- and its aftermath -- continue to be with us?

How long will the hangover continue to pound?

As my colleague Fed Chairman Alan Greenspan once said: "Fundamentally, the future is unknowable."

That's Fedspeak for "No one has any idea what is going to happen."

The past lives on in Washington -- sometimes for a long time.

There are hopeful signs, however, that the spillover from the S&L crisis may recede so that it stops washing over the commercial banking industry and its regulators. As the year ended, the Bank Insurance Fund had recovered almost $7 billion and, as a result, neared solvency. It neared solvency even taking into account large reserves set aside for future bank failures. It neared solvency, in part, because of low interest rates and, I believe, good management by the FDIC.

But it is also clear that the banking industry paid its own way out of its troubles of the late 1980s and early 1990s -- in contrast to what happened with the S&Ls.

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The bailout of the S&L industry cost the taxpayers billions and billions.

Resolutions of bank failures has cost the taxpayer not one, single, dollar.

So even though the S&L crisis continues to haunt Washington, at least bankers and bank regulators can make the persuasive argument that the S&L experience is far different from that of commercial banking. As different as vinegar and wine. And you cannot judge one by the other.

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