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Address before the inter-regional training conference

ADDRESS BY

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FEDERAL DEPOSIT INSURANCE CORPORATION

BEFORE THE

INTER-REGIONAL TRAINING CONFERENCE

NEW ORLEANS MARRIOTT HOTEL
NEW ORLEANS, LOUISIANA

FEBRUARY 17 - 18, 1982

FOR INTERNAL USE ONLY

I TAKE GREAT PLEASURE /IN HELPING TO OPEN /THIS FIRST INTER-REGIONAL EXAMINER CONFERENCE. I HOPE ~~YOU WILL~~^{YOU'LL} FIND IT USEFUL /AS AN EDUCATIONAL PROGRAM /AND AS A MEANS TO MEET YOUR COLLEAGUES FROM OTHER REGIONS /AND EXCHANGE IDEAS.

WHEN I BECAME CHAIRMAN LAST AUGUST, /I PERCEIVED A NEED TO IMPROVE COMMUNICATIONS /THROUGHOUT THE CORPORATION. THE BEST POLICIES CAN BE RENDERED INEFFECTIVE /IF WE FAIL TO CLEARLY ARTICULATE /BOTH THE POLICIES /AND THE REASONS FOR THEIR ADOPTION.

~~WE HAVE~~^{WE'VE} MADE A MAJOR EFFORT /TO IMPROVE COMMUNICATIONS. OUR MANAGEMENT SYSTEM /EMPHASIZES GROUP DECISION-MAKING. TASK FORCES HAVE BEEN FORMED /TO DELVE INTO VARIOUS SUBJECTS. THE FDIC NEWS /HAS BEEN EXPANDED AND IMPROVED. ARD MEETINGS HAVE BEEN REINSTITUTED. ABOUT ONCE EACH MONTH /I AND MEMBERS OF MY STAFF /MEET WITH EXAMINERS AT THE TRAINING CENTER.

THE INTER-REGIONAL CONFERENCES /ARE PART OF THIS EFFORT. I HOPE ~~YOU WILL~~^{YOU'LL} PARTICIPATE IN THEM /ACTIVELY. I ALSO HOPE /YOU^{LL} ~~WILL~~ LET US KNOW AT THE CONCLUSION OF THIS FIRST CONFERENCE /HOW IT MIGHT BE IMPROVED IN THE FUTURE.

~~WE HAVE~~^{WE'VE} JUST CONCLUDED /A YEAR OF TURBULENCE AND UNCERTAINTY /FOR THE INSTITUTIONS WE SUPERVISE AND INSURE. THESE TWO DAYS /OFFER A VALUABLE OPPORTUNITY /TO ASSESS THE FDIC'S ROLE /IN A RAPIDLY EVOLVING ENVIRONMENT /AND TO CONSIDER THE EXTENT AND KIND OF CHANGE /THAT MAY BECOME NECESSARY /IN THE WAY WE FULFILL /OUR TRADITIONAL FUNCTIONS.

THE PERFORMANCE OF DEPOSITORY INSTITUTIONS /CONTINUES TO BE AFFECTED /BY A DECLINING ECONOMY /AND INCREASING PRESSURE /FROM

RELATIVELY UNREGULATED NON-BANK COMPETITORS/OFFERING SUBSTITUTES FOR DEPOSITS AND OTHER TRADITIONAL BANKING SERVICES. THESE FACTORS/ARE ALTERING THE NATURE AND SHAPE/OF THE FINANCIAL SERVICES INDUSTRY,/ AND WHAT WE ARE SEEING NOW/IS ONLY A FORERUNNER OF EVEN GREATER CHANGE.

WITHOUT DOUBT,/THE MOST DRAMATIC DEVELOPMENT/OF THE PAST YEAR FOR THE FDIC/WAS THAT COMPETITIVE AND ECONOMIC PRESSURES/ FINALLY BEGAN TO TAKE A VISIBLE TOLL/ON THE NATION'S THRIFT INSTITUTIONS,/INCLUDING THE 335 MUTUAL SAVINGS BANKS/SUPERVISED BY THE FDIC. FOR THIS SEGMENT OF THE INDUSTRY/THE MODERATE LOSSES SUSTAINED IN 1980/BECAME A DÉLUGE OF RED INK IN 1981,/ PRESENTING THE FDIC WITH ITS MOST SIGNIFICANT CHALLENGE/SINCE ITS FOUNDING NEARLY A HALF-CENTURY AGO.

THE CORPORATION BEGAN ACTIVELY MONITORING/THE SAVINGS BANK INDUSTRY/AND DEVELOPING APPROACHES/TO DEALING WITH FINANCIALLY WEAKENED INSTITUTIONS/WITH THE CREATION EARLY LAST YEAR/OF A SPECIAL INTERNAL STUDY GROUP. THE FIRST FDIC-ASSISTED SAVINGS BANK MERGER/OCCURRED LAST NOVEMBER/AT AN ESTIMATED COST TO THE FDIC/OF \$425 MILLION. SINCE THEN,^{WE'VE} ~~WE HAVE~~ HANDLED THREE MORE MERGERS/AT AN ESTIMATED COST OF \$350 MILLION,/ AND A NUMBER OF OTHERS WILL LIKELY BE NECESSARY.

^{WE'VE} ~~WE HAVE~~ HAD TO DEVOTE/A SIGNIFICANT PORTION OF OUR RESOURCES/ TO DEALING WITH THE SAVINGS BANK PROBLEM,/ AND SO LONG AS INTEREST RATES REMAIN RELATIVELY HIGH/THE SITUATION WILL CONTINUE TO DEMAND OUR ATTENTION. BUT ALL OUR ANALYSES,/ BACKED BY OUR RECORD OF PERFORMANCE IN 1981,/ DEMONSTRATE THAT WE HAVE BOTH THE PERSONNEL/

AND FINANCIAL RESOURCES/TO COPE WITH THIS PROBLEM/WHILE MOVING FORWARD ON OTHER FRONTS.

AS A GENERAL PROPOSITION,/THE PUBLIC CAN BE SERVED BEST/IF FINANCIAL INSTITUTIONS OPERATE IN AN ENVIRONMENT/IN WHICH SIGNALS FROM THE MARKETPLACE,/RATHER THAN GOVERNMENT CONTROLS,/GUIDE THEIR BEHAVIOR. NEVERTHELESS,/OUR OVERALL APPROACH TO SUPERVISION/MUST CONTINUE TO BE SHAPED/BY SOME MAJOR PUBLIC POLICY OBJECTIVES/THAT NECESSARILY REQUIRE GOVERNMENT OVERSIGHT. THESE INCLUDE:

- (1) PRESERVING A SAFE AND SOUND BANKING SYSTEM,
- (2) PREVENTING ABUSIVE TRANSACTIONS/AND AN UNDULY HIGH CONCENTRATION OF FINANCIAL RESOURCES,
- (3) ACHIEVING COMPETITIVE EQUITY/AMONG INDUSTRY PARTICIPANTS, AND
- (4) PROVIDING ADEQUATE SERVICES TO THE PUBLIC.

ATTAINMENT OF THESE OBJECTIVES/REQUIRES THAT WE POSITION OURSELVES/TO DEAL IMMEDIATELY WITH THE PROBLEMS IN THE THRIFT INDUSTRY/WHILE AT THE SAME TIME/CHARTING A LONG-RANGE COURSE/THAT RESPONDS TO THE EVOLUTIONARY FORCES/NOW AT WORK. THE IMMEDIATE NEED/IS FOR A COMPREHENSIVE APPROACH/TO THE THRIFT PROBLEMS.

FIRST,/WE MUST HAVE ~~THE~~ ADDITIONAL TOOLS/~~NEEDED~~ TO DEAL WITH TROUBLED INSTITUTIONS. AS YOU KNOW,/WE SUBMITTED TO CONGRESS LAST YEAR/LEGISLATION KNOWN AS THE REGULATORS' BILL,/WHICH WOULD GIVE US GREATER FLEXIBILITY/IN DEALING WITH TROUBLED INSTITUTIONS/IN THREE IMPORTANT RESPECTS:/IT WOULD MAKE IT EASIER

FOR US TO PROVIDE/DIRECT FINANCIAL ASSISTANCE/TO A FAILING INSTI-
TUTION;/IT WOULD PERMIT US TO ARRANGE INTERSTATE ACQUISITIONS/OF
LARGE FAILED INSTITUTIONS;/AND IT WOULD ALLOW MUTUAL INSTITUTIONS/
TO CONVERT TO STOCK OWNERSHIP/UNDER A FEDERAL CHARTER. WE CONTINUE
TO SUPPORT ENACTMENT/OF THIS LEGISLATION.

SECOND,/CONGRESS MUST ACT TO GIVE THRIFTS/BROADER ASSET
POWERS/AND TO OVERRIDE STATE USURY CEILINGS/AND DUE-ON-SALE
PROHIBITIONS. SUCH LEGISLATION IS NEEDED/TO ENABLE THRIFTS/TO
EARN THEIR WAY OUT OF THEIR CURRENT DILEMMA/AND TO PERMIT THEM
TO FUNCTION EFFECTIVELY/IN A MORE COMPETITIVE WORLD. THE FDIC
IS COMMITTED/TO THE DEREGULATION OF THE FINANCIAL SERVICES
INDUSTRY,/INCLUDING ELIMINATION OF THE THRIFT DIFFERENTIAL,/BUT
I THINK IT'S PLAIN/THAT THRIFTS MUST HAVE BROADER POWERS/IF
THEY'RE TO CARVE OUT A VIABLE ROLE/IN THE FINANCIAL SERVICES
INDUSTRY OF THE FUTURE.

THIRD,/WE MUST GET ON WITH INTEREST RATE DEREGULATION.
AMONG THE THORNIEST/AND MOST EMOTIONAL ISSUES/CONFRONTING THE
FDIC/AND OUR PARTNER REGULATORS/IS THE PHASE-OUT OF INTEREST RATE
CEILINGS. THE DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE/
(DIDC),/ON WHICH I SERVE,/HAS PROBABLY THE MOST THANKLESS TASK
IN WASHINGTON/AS IT STRUGGLES TO ACHIEVE ITS CONGRESSIONAL MANDATE.
OUR JOB IS MADE MORE DIFFICULT/BY THE CONFLICTING SIGNALS/WE
RECEIVE FROM THE CONGRESS. NEVERTHELESS,/THE FAILURE TO PROVIDE
DEPOSITORY INSTITUTIONS/WITH COMPETITIVE DEPOSIT INSTRUMENTS/HAS
CONTRIBUTED TO THE ONGOING OUTFLOW OF FUNDS/FROM BANKS AND THRIFTS/
INTO MONEY MARKET FUNDS AND OTHER NONREGULATED INTERMEDIARIES.

BANKS AND THRIFTS/MUST PROMPTLY BE GIVEN THE MEANS/TO STEM THE OUTFLOW/AND RECAPTURE THOSE LOST DEPOSIT DOLLARS.

FOURTH, ^{I'm}~~I AM~~ CONVINCED/THAT THE THRIFT INDUSTRY/^{LIKELY} WOULD BE IN BETTER SHAPE TODAY/IF MORE REALISTIC ACCOUNTING METHODS/HAD BEEN ADOPTED IN THE PAST. ^{WE'RE}~~WE ARE~~ LOOKING AT POSSIBLE CHANGES/IN ACCOUNTING POLICIES/THAT WOULD ALLOW INSTITUTIONS TO DISPOSE OF/THE LOW-YIELDING ASSETS/THAT ARE SUCH A DRAG ON THEIR EARNINGS/WITHOUT HAVING TO ABSORB THE ENTIRE LOSS/IMMEDIATELY. ~~WE ENVISION~~ ~~THAT~~ THIS KIND OF LOSS DEFERRAL/MIGHT BE PART OF A TRANSITION/ FROM A HISTORICAL COST-BASED ACCOUNTING SYSTEM/TO A ~~GENERAL~~ ^{AT THIS POINT/WE DON'T KNOW IF} ~~MORE~~ MARKET-^{THESE KINDS OF CHANGES ARE FEASIBLE} VALUE BASED SYSTEM. ^{BUT WE'RE}

FINALLY, /WE MAY NEED TO CONSIDER/SOME KIND OF BROAD-BASED CAPITAL INFUSION/~~OR MORTGAGE WAREHOUSING PROGRAM~~ TO PROVIDE ^{EXPORING} TEMPORARY RELIEF/TO STRAPPED INSTITUTIONS. ^{THEM.} STANDING ALONE,/SUCH A PROGRAM WOULD BE HIGHLY UNDESIRABLE;/ HOWEVER, AS ONE FACET OF A MULTI-FACETED APPROACH,/IT COULD GIVE INSTITUTIONS/HAMSTRUNG BY INTEREST RATES/A NEEDED "BREATHING SPELL."

LET ME EMPHASIZE/THAT I DON'T THINK ANY OF THESE FIVE POINTS/ ALONE/IS SUFFICIENT TO SOLVE THE PRESENT CRISIS. TAKEN TOGETHER, HOWEVER,/I BELIEVE THEY PROVIDE A COMPREHENSIVE MEANS/OF REASONABLY DEALING WITH THE PROBLEM.

IN OUR CONCERN/FOR THE IMMEDIATE PROBLEMS WE FACE,/WE CANNOT AFFORD TO IGNORE/^{ER}LONG-RANGE ISSUES. SOME OF THE LONG RANGE ISSUES/COULD ALTER THE VERY DEFINITION OF BANKING. BANKS TODAY/FACE INTENSE COMPETITION/FROM NON-BANK FINANCIAL INTER-MEDIARIES/THAT ARE ESSENTIALLY UNREGULATED. THE CONGRESS/AT

SOME POINT/WILL HAVE TO DEVELOP A RATIONAL DEFINITION/OF WHAT
CONSTITUTES BANKING/AND IMPOSE ^{AN EQUITABLE} ~~A RATIONAL~~ SCHEME OF REGULATION/
ON ALL ORGANIZATIONS THAT ENGAGE IN IT. THE FDIC/HAS AN IMPORTANT
STAKE/IN THE BREADTH OF THAT DEFINITION/AND WE MUST PRESENT
CLEARCUT AND LOGICAL VIEWS ON IT.

AS WE MOVE INTO A DEREGULATED ENVIRONMENT,/A NUMBER OF ISSUES
RELATED TO OUR DEPOSIT INSURANCE SYSTEM/WILL NEED TO BE CONSIDERED.
THEY INCLUDE/RISK-RELATED INSURANCE PREMIUMS,/THE POSSIBILITY OF
HAVING LARGE DEPOSITORS/SHARE SOMEHOW IN THE RISK OF BANK FAILURE/
EVEN WHEN THE FAILURE IS HANDLED BY WAY OF MERGER,/AND REDEFINING
THE BASE OF LIABILITIES/AGAINST WHICH PREMIUMS ARE ASSESSED.

WE ALSO WILL EXPLORE WAYS/TO STREAMLINE AND REDISTRIBUTE/
THE FUNCTIONS PERFORMED BY THE VARIOUS AGENCIES/THAT REGULATE
FINANCIAL INSTITUTIONS. FOR EXAMPLE,/I QUESTION WHETHER IT
MAKES SENSE/TO HAVE THREE FEDERAL AGENCIES INSURING DEPOSITS/
OR TO HAVE FIVE FEDERAL AGENCIES/SUPERVISING FINANCIAL INSTITU-
TIONS. HOWEVER,THE STRUCTURE MAY COME TO BE REORGANIZED,/THE
TALENT AND THE RESOURCES OF THE FDIC/WILL BE FULLY UTILIZED;/
I'M CONFIDENT THAT THIS AGENCY/WILL REMAIN INDEPENDENT/AND WILL
PLAY A CRITICAL ROLE/UNDER ANY REORGANIZATION PLAN/ULTIMATELY
ADOPTED.

CHANGES IN BANKING/AND BANK SUPERVISION/NECESSARILY WILL
REQUIRE/CHANGES IN HOW WE PERFORM/OUR DAY-TO-DAY TASKS. AS
WE SEEK WAYS OF IMPROVING/THE MANNER IN WHICH WE CARRY OUT/OUR
EXAMINATION AND SUPERVISION FUNCTIONS,/IT SEEMS CLEAR/WE WILL

NEED TO PLACE INCREASED RELIANCE/ON THE SOPHISTICATED HELP/COM-
PUTERS CAN GIVE US. A COMMITTEE IS WORKING TO DEVELOP/A LONG-TERM
PLAN/FOR THE CORPORATION/IN THE RELATED AREAS OF AUTOMATION,/
TELECOMMUNICATIONS/AND WORD PROCESSING. IN DBS/A NUMBER OF
EFFORTS ARE IN THE WORKS/TO EXPLORE IDEAS FOR UPGRADING/THE WAY
WE CARRY OUT OUR SUPERVISORY JOB. WE ARE LOOKING/AT EXPANDED
MONITORING SYSTEMS,/MORE SOPHISTICATED FINANCIAL ANALYSIS/ AND
IMPROVING OUR KNOWLEDGE/OF LARGE INSTITUTIONS. REVISED TRAINING
PROGRAMS,/ A NEW MANUAL OF EXAMINATION POLICIES/AND A SHARED BANK/
HOLDING COMPANY EXAMINATION PROGRAM/WITH THE FEDERAL RESERVE AND
THE COMPTROLLER/ARE ALSO ON THE AGENDA.

I'VE TOUCHED BRIEFLY/ON SOME OF THE CONCERNS AND ISSUES/
~~WE HAVE~~ ^{WE'VE} IDENTIFIED AS IMPORTANT/TO THE SUCCESSFUL PERFORMANCE OF
OUR MISSION/IN THE MONTHS AND YEARS AHEAD. IT'S UP TO ALL OF US/
TO CONVERT THE CHALLENGES WE FACE/TO OPPORTUNITIES. I'M CONFIDENT
WE WILL DO SO/IN A WAY THAT CONTINUES/THE FDIC'S TRADITION/OF
EXCELLENCE/AND DEDICATED PUBLIC SERVICE.

AS I NOTED/AT THE FDIC AWARDS CEREMONY LAST DECEMBER/~~IN~~
~~WASHINGTON~~,/THE FDIC OVER THE YEARS/HAS COMPILED A RECORD OF
ACHIEVEMENT/THAT SEEMS TO HAVE EXEMPTED IT/FROM THE GENERAL
PUBLIC PERCEPTION/THAT GOVERNMENT IS MORE OF A BURDEN/THAN A
BLESSING. THE CORPORATION IS MORE OFTEN PRAISED/THAN CONDEMNED/
AND THAT IS THE RESULT/OF DEDICATED AND CAPABLE SERVICE/BY FDIC
EMPLOYEES/WITH A WIDE RANGE OF TALENTS.

YOU/AND YOUR COLLEAGUES WHO PRECEDED YOU/CAN JUSTIFIABLY
CLAIM CREDIT/FOR THE SUCCESSES THAT HAVE NOW EXTENDED/NEARLY
HALF A CENTURY. I WANT YOU TO KNOW/THAT I AND THE OTHER MEMBERS
OF THE BOARD OF DIRECTORS/RECOGNIZE YOUR CONTRIBUTION/AND GREATLY
APPRECIATE/YOUR EFFORTS.