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ADDRESS BY
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BEFORE THE
COMMERCIAL CREDIT CONFERENCE
ALABAMA BANKERS ASSOCIATION
GULF SHORES, ALABAMA
SEPTEMBER 12, 1974

CHANGES IN FDIC EXAMINATION OF STATE NONMEMBER BANKS

A YEAR AGO, BUSINESS WEEK BEGAN ITS SEPTEMBER 15
"SPECIAL ISSUE" ENTITLED "THE NEW BANKING" WITH THE STATEMENT:
"DRAMATIC CHANGE HAS SWEEPED THE ONCE STAID WORLD OF BANKING."
THE WORDS "STODGY" AND "CONSERVATIVE" CAN NO LONGER BE SAID TO
DESCRIBE THE BANKING INDUSTRY IN THE FACE OF COMMERCIALS SUCH
AS "YOU CAN CALL ME IRVING," AND "WE'VE GOT AN ANSWER TO ALL
YOUR BORROWING NEEDS AND THAT ANSWER IS "YES".

PAUL McCracken, IN HIS PREFACE TO A RECENT VOLUME,
THE CHANGING WORLD OF BANKING, STATED:

"THE BANKING LANDSCAPE IS, IN SHORT, CHANGING.
A GOOD STATEMENT OF THE WAY IT LOOKED LAST YEAR
WILL NOT DO FOR THE YEARS AHEAD."

THE FLAVOR OF THE CHANGE IS CAPTURED BY THE TERMINOLOGY USED

1. Bank examination. I. Title.

TO DESCRIBE SOME OF ITS FACETS. ELECTRONIC FUNDS TRANSFER, CREDIT CARDS, NOW ACCOUNTS, LIABILITY MANAGEMENT, EURODOLLAR, FOREIGN EXCHANGE, AND MULTINATIONAL CONGLOMERATE ARE TERMS SELDOM HEARD TWENTY YEARS AGO.

IF DYNAMIC, EXCITING, AND WHAT I REGARD AS BASICALLY HEALTHY CHANGE HAS BEEN ONE DOMINANT THEME IN DISCUSSIONS OF THE BANKING INDUSTRY, ANOTHER HAS CREPT INTO CONVERSATIONS IN RECENT MONTHS -- THAT OF CONCERN. BANKERS HAVE BEEN ACCUSED OF BEING "TOO GREEDY" BY KENNETH RUSH AND WARNED AGAINST "FINANCIAL ADVENTURING" BY ARTHUR BURNS WHO EXPRESSED CONCERN ABOUT "CARELESSNESS THAT HAS CREPT INTO OUR FINANCIAL SYSTEM." DAVID ROCKEFELLER HAS BEEN QUOTED AS SAYING, "...THE SITUATION IS UNCERTAIN ENOUGH SO THAT ONE SHOULDN'T DISCARD THE POSSIBILITY OF PANIC."

IN THIS CLIMATE, THE QUESTION INEVITABLY WILL BE RAISED WHETHER BANK EXAMINATION AND SUPERVISION, WHOSE PURPOSE IT IS TO ASSURE THE SOUNDNESS OF BOTH INDIVIDUAL BANKS AND THE SYSTEM ITSELF, HAVE KEPT PACE WITH THE DYNAMIC "GO-GO" INDUSTRY

WHICH IT SEEKS TO REGULATE. WHILE I SPEAK WITH FIRST-HAND KNOWLEDGE ONLY FROM MY EXPERIENCE AT THE FDIC, IN MY JUDGMENT, DR. McCracken's STATEMENT IS EQUALLY APPLICABLE TO BANK EXAMINATION AND SUPERVISION. AND, AS A RESULT, THE ANSWER IS "YES," THE AGENCIES HAVE KEPT PACE WITH THEIR BANKS.

ULTIMATELY, OF COURSE, "THE PROOF OF THE PUDDING IS IN THE EATING." IN THE MEANTIME, I SHALL OUTLINE BRIEFLY SOME OF THE CHANGES WHICH HAVE OCCURRED, ARE OCCURRING, OR MAY OCCUR IN THE FDIC'S EXAMINATION OF STATE NONMEMBER BANKS, BOTH IN RESPONSE TO DEVELOPMENTS IN THE INDUSTRY AND AS A RESULT OF OUR EFFORTS TO EXAMINE AND SUPERVISE MORE EFFICIENTLY.

AGGRESSIVENESS AND CREATIVITY ON THE PART OF THE INDUSTRY, CURRENT ECONOMIC CONDITIONS, AND THE LESSONS OF RECENT BANK FAILURE ARE ALL RESPONSIBLE FOR SIGNIFICANT CHANGES IN THE FDIC. FOR EXAMPLE, IN RECENT YEARS, STATE NONMEMBER BANKS HAVE APPLIED THE CONCEPT OF LIABILITY MANAGEMENT. WHEN CAREFULLY AND SKILFULLY EXECUTED, THESE TECHNIQUES ARE PROFITABLE AND EFFICIENT. HOWEVER, WHEN EXPENSIVE AND SOMETIMES

VOLATILE MONEY IS INVOLVED, THERE ARE SERIOUS PITFALLS. THE DANGERS ARE, OF COURSE, EXACERBATED WHERE BROKERED DEPOSITS OR OTHERWISE PURCHASED FUNDS ARE USED IN LIEU OF A STABLE DEPOSIT BASE TO FINANCE RAPID EXPANSION. WE HAVE FOUND THAT QUITE OFTEN SUCH PRACTICES GO HAND IN HAND WITH THE MAKING OF HIGH-YIELD HIGH-RISK LOANS. BANKS ABUSING THESE TECHNIQUES ARE VULNERABLE IN A NUMBER OF OTHER RESPECTS. "HOT" FUNDS ARE EASILY LOST IN AN ECONOMY IN WHICH THERE ARE MANY INSTITUTIONS COMPETING FOR FUNDS, AND A SETBACK WHICH WOULD NOT OTHERWISE BE DISASTROUS MAY LEAD TO A LOSS OF CONFIDENCE AND THE OUTFLOW OF SUCH FUNDS.

AS A RESULT, OUR EXAMINERS GIVE CAREFUL ATTENTION TO LIQUIDITY AS REFLECTED ON THE LIABILITY AS WELL AS THE ASSET SIDE OF THE BALANCE SHEET. THIS MEANS, AMONG OTHER THINGS, A FOCUS ON SOURCES OF FUNDS AND ON INTEREST AND MATURITY SCHEDULES. IN ADDITION, THE ONGOING EARNINGS POTENTIAL OF ASSETS, IN LIGHT OF DIFFERENT ASSUMPTIONS ABOUT ECONOMIC CONDITIONS, MUST BE EXAMINED. WHILE THESE FACTORS HAVE ALWAYS BEEN TAKEN INTO

ACCOUNT BY EXAMINERS, THEY ARE RECEIVING SPECIAL ATTENTION IN THE LIGHT OF PRESENT ECONOMIC CONDITIONS. IN ADDITION, FDIC IS ACTIVELY CONSIDERING POLICIES AND EVALUATION PROCEDURES WITH RESPECT TO LIQUIDITY. IT SHOULD BE EXPECTED THAT ANALYSIS WILL BECOME MORE SOPHISTICATED AND STANDARDS MORE RIGOROUS.

IN HIS LETTER INVITING ME TO DISCUSS CHANGES IN FDIC EXAMINATIONS WITH YOU, HOWARD MORRIS SUGGESTED THAT I MIGHT GIVE SPECIAL ATTENTION TO LOAN EVALUATIONS. IF I DO NOT SEEM TO BE FOLLOWING THAT SUGGESTION, THE REASON IS SIMPLE. THE ASSET SIDE OF A BANK'S BALANCE SHEET AND PARTICULARLY ITS LOAN PORTFOLIO HAS LONG BEEN GRIST FOR THE EXAMINER'S MILL. IN 1968, AN FDIC ECONOMIST ESTIMATED THAT OVER TWO-THIRDS OF THE TIME SPENT BY FDIC EXAMINERS IS DEVOTED TO LOAN EVALUATIONS. THE BASIC PRINCIPLES OF CREDIT EXAMINATION ARE WELL KNOWN TO YOU AND REALLY HAVE NOT CHANGED IN RECENT YEARS. THE SUCCESS OF THESE PRINCIPLES IS REFLECTED IN FDIC DIVISION OF LIQUIDATION STATISTICS WHICH INDICATE THAT OF THE 63 BANK FAILURES THAT HAVE OCCURRED SINCE JANUARY 1, 1960, ONLY 6 OR 9.5% HAVE BEEN

THE RESULT OF MANAGERIAL WEAKNESS IN PORTFOLIO MANAGEMENT.

IN CONTRAST, IN 37 OR 58.8% OF THESE CASES, SELF-SERVING TRANSACTIONS WERE A SIGNIFICANT FACTOR. THE MOST DRAMATIC OF THESE WAS, OF COURSE, THE FAILURE OF U.S. NATIONAL BANK IN SAN DIEGO LAST OCTOBER. THE OPERATION THERE WAS CHARACTERIZED BY COMPTROLLER OF THE CURRENCY JIM SMITH AS A "...RIOT OF SELF-DEALING."

IN EFFECT, U.S. NATIONAL BANK WAS NOT ONE BUT TWO BANKS. ONE, AN APPARENTLY SOUND AND EFFICIENT INSTITUTION, SERVED THE SAN DIEGO PUBLIC. THE SECOND PROVIDED CREDIT TO ENTERPRISES RELATED TO OR AFFILIATED WITH THE DOMINANT STOCKHOLDER, IGNORING BOTH SOUND BANKING PRACTICES AND REGULATORY REQUIREMENTS. INVOLVING 200-300 CORPORATE ENTITIES, THESE TRANSACTIONS AMOUNTED TO BETWEEN \$400 AND \$450 MILLION OR 60% OF THE BANK'S LOAN PORTFOLIO. THEY OFTEN WERE NOT HANDLED IN THE ORDINARY COURSE OF THE BANK'S BUSINESS, BUT INSTEAD, WERE PROCESSED BY CERTAIN INSIDERS. THE RESULT WAS THE LARGEST SINGLE BANK FAILURE IN THE HISTORY OF THE COUNTRY.

AND WHILE IT REPRESENTED THE MOST EXTREME CASE, USNB WAS NOT AN ABERRATION AMONG LARGE BANK FAILURES. ON JANUARY 25, 1971, THE SHARPSTOWN STATE BANK IN HOUSTON, TEXAS, WITH ASSETS AMOUNTING TO \$81 MILLION WAS CLOSED. IT WAS THEN THE SECOND LARGEST FAILURE IN FDIC HISTORY. THE PRIMARY CAUSE WAS THE SELF-SERVING ACTIVITIES OF A DOMINANT STOCKHOLDER. THREE WEEKS LATER IT WAS DROPPED TO THIRD PLACE BY THE FAILURE OF BIRMINGHAM-BLOOMFIELD, UNTIL USNB THE LARGEST FAILURE OF AN FDIC-INSURED BANK. THERE SELF-DEALING WAS COMBINED WITH AN UNSAFE AND UNSOUND INVESTMENT POLICY DICTATED BY THE DOMINANT SHAREHOLDER. UNDER THE EFFECTIVE CONTROL OF THE SAME INDIVIDUAL, DETROIT'S BANK OF THE COMMONWEALTH, WITH COMBINED DEPOSITS OF JUST OVER \$1 BILLION AND TOTAL ASSETS OF \$1.26 BILLION, WOULD HAVE FAILED IN 1972 FOR THE SAME REASONS, HAD THE FDIC NOT PROVIDED ASSISTANCE IN THE FORM OF A \$35.5 MILLION INFUSION OF CAPITAL UNDER A PROVISION OF THE ACT WHEREBY THE FDIC CAN ASSIST A TROUBLED BANK UPON A BOARD FINDING THAT "THE CONTINUED OPERATION OF SUCH BANK IS ESSENTIAL TO PROVIDE ADEQUATE BANKING SERVICE TO THE COMMUNITY."

NEEDLESS TO SAY, THE LESSON OF THESE FAILURES HAS NOT BEEN LOST ON EXAMINER PERSONNEL. THE PORTION OF A LOAN PORTFOLIO WHICH INVOLVES EXTENSION OF CREDIT TO INSIDERS OR THEIR INTERESTS, DIRECT OR INDIRECT, WILL RECEIVE ESPECIALLY RIGOROUS EVALUATION TO ASCERTAIN WHETHER THE TERMS AND CONDITIONS OF THE TRANSACTION ARE AT LEAST AS FAVORABLE TO THE BANK AS THEY WOULD HAVE BEEN HAD THE DEAL BEEN NEGOTIATED WITH A NON-INSIDER. MOREOVER, FORMAL REGULATORY REQUIREMENTS ARE LIKELY TO BE FORTHCOMING IN THIS AREA. THE COMPTROLLER'S OFFICE HAS ISSUED FOR COMMENT A PROPOSED REGULATION WHICH WOULD REQUIRE ALL NATIONAL BANK DIRECTORS AND PRINCIPAL OFFICERS TO KEEP ON FILE AT THE BANK A WRITTEN STATEMENT OF THEIR OUTSIDE BUSINESS INTERESTS AND OF ANY EXTENSION OF CREDIT OR OTHER TRANSACTION BETWEEN THOSE INTERESTS AND THE BANK. AT THE FDIC WE ARE ACTIVELY CONSIDERING THIS MATTER AND I HAVE, IN OTHER FORUMS, SUGGESTED THE OUTLINES OF THE SORT OF REGULATION WHICH I WOULD SUPPORT.

PERHAPS THE MOST SIGNIFICANT SOURCE OF INNOVATION IN THE BANKING INDUSTRY AND THUS, CAUSE FOR CHANGE IN OUR EXAMINATION

PRACTICES, HAS BEEN TECHNOLOGICAL ADVANCE IN ELECTRONIC DATA PROCESSING. THE COMPUTER HAS TRANSFORMED THE BUSINESS OF BANKING, FACILITATING, FOR EXAMPLE, A REVOLUTION IN CONSUMER LENDING THROUGH THE CREDIT CARD. WITH THE ADVENT OF ELECTRONIC FUNDS TRANSFER IN ITS VARIOUS PERMUTATIONS AS WELL AS OTHER DEVELOPMENTS, THE IMPACT SHOULD STILL MOVE DRAMATICALLY IN THE DECADE TO COME.

BESIDES ALTERING THE FORM OF MUCH INFORMATION AN EXAMINER RECEIVES AND EXPANDING THE SERVICES A BANK CAN OFFER, AND, THEREFORE, WHAT AN EXAMINER MUST SCRUTINIZE, COMPUTERIZATION DIRECTLY RAISES ITS OWN SAFETY AND SOUNDNESS PROBLEMS. FOR EXAMPLE, WHILE THE BANKING INDUSTRY HAS NOT HAD ITS OWN EQUITY FUNDING SCANDAL, THE COMPUTER RAISES SPECIAL OPPORTUNITIES FOR NOVEL BUT SERIOUS BANK FRAUD. AS A RESULT, EXAMINATION MUST REVEAL ADEQUATE CONTROLS AND SEPARATION OF DUTIES TO MINIMIZE THE LIKELIHOOD OF SUCH CRIME. FURTHERMORE, THE ACCURACY AND ADEQUACY OF PROGRAMS MUST BE CHECKED, THE BANK'S OWN EDP AUDIT FUNCTION EXAMINED, AND QUALITY CONTROL AND MAINTENANCE CAPACITY

WITH RESPECT TO HARDWARE ASSURED. WHERE COMPUTER SERVICES ARE PROVIDED BY A CORRESPONDENT OR A NON-BANKING SERVICE COMPANY, THESE SYSTEMS MUST BE EXAMINED AS WELL. IN SHORT, TO THE EXTENT THAT A BANK MAKES USE OF COMPUTERS, A SEPARATE EDP EXAM IS REQUIRED. SELECTED EXAMINER PERSONNEL ARE GIVEN EXTENSIVE TRAINING TO ENABLE THEM TO PERFORM SUCH EXAMINATIONS.

AT PRESENT, EXAMINATION BY OUR EDP PERSONNEL MUST RELY TO A CERTAIN EXTENT ON THE BANK'S SYSTEM, RAISING THE POSSIBILITY THAT SOME ERROR OR DECEPTION WILL NOT BE DISCOVERED. TO ELIMINATE THIS, THE CORPORATION IS DEVELOPING PROGRAM PACKAGES WHICH AN EDP EXAMINER CAN RUN AGAINST THE BANK'S FILES. A CONSUMER INSTALLMENT LOAN PACKAGE HAS BEEN DEVELOPED AND IS BEING IMPLEMENTED. IN ADDITION TO ALLOWING THE EDP EXAMINER TO PROVE THE BANK'S FIGURES, THE PROGRAM WILL GENERATE EIGHT OR MORE SEPARATE REPORTS THAT ARE USEFUL IN EVALUATING A BANK'S INSTALLMENT LOANS. WORK IS IN PROGRESS ON COMPARABLE PROGRAMS FOR DEPOSIT AND SECURITIES ACCOUNTS.

WHILE WE CAN ONLY SPECULATE AT PRESENT REGARDING THE

SHAPE OF FUTURE EFTS SYSTEMS, IT IS CERTAIN THAT THEY WILL ALSO PRESENT DISTINCT SAFETY AND SOUNDNESS PROBLEMS, REQUIRING COMPLEX EXAMINATION PROCEDURES AND FURTHER SPECIALIZATION ON THE PART OF EXAMINER PERSONNEL.

THERE IS, OF COURSE, ANOTHER SIDE OF THE COIN. WHILE MAKING EXAMINERS' TASKS MORE COMPLICATED IN THESE RESPECTS, THE COMPUTER HAS GREATLY ENHANCED THE CORPORATION'S ABILITY TO COLLECT, STORE, RETRIEVE AND ANALYZE VAST AMOUNTS OF DATA. PERSONNEL AT THE CORPORATION ARE ENGAGED IN A PROJECT WHOSE OBJECTIVE IS THE EARLY IDENTIFICATION OF TRENDS IN BANK PERFORMANCE.

IDEALLY, SUCH A PROGRAM WOULD SERVE AS AN "EARLY WARNING SYSTEM" FOR THE AGENCIES AND THE BANKS THEMSELVES. IN ITS PRESENT STAGE OF DEVELOPMENT, THIS PROGRAM, WHICH IS CALLED FINANCIAL TREND ANALYSIS, UTILIZES DATA ROUTINELY REPORTED TO THE CORPORATION, SUCH AS REPORTS OF CONDITION AND INCOME. IT CALCULATES AND STORES SOME TWENTY RATIOS AND ITEMS WHICH HAVE BEEN DETERMINED BY EXAMINATION PERSONNEL TO BE

POTENTIALLY USEFUL IN SPOTTING SIGNIFICANT TRENDS. WHEN AN EXAMINER WISHES TO COMPARE A BALANCE SHEET ITEM IN A GIVEN BANK WITH THE SAME ITEM IN OTHER BANKS OF A GIVEN DESCRIPTION HE IS ABLE TO DO SO. OR HE MIGHT WISH TO KNOW THE NAMES OF ALL BANKS WITH CAPITAL RATIOS BELOW A SPECIFIED CUT-OFF POINT SUCH AS 5%.

WE FEEL THAT THIS SYSTEM HAS THE POTENTIAL OF SERVING AS A VERY USEFUL TOOL IN SCHEDULING AND ALLOCATING SCARCE EXAMINER RESOURCES AND, AS I HAVE NOTED, WILL ALLOW US TO DETECT SOME DETERIORATING SITUATIONS MORE RAPIDLY.

FURTHER CHANGE IN FDIC EXAMINATION HAS BEEN CAUSED BY THE CHANGE IN NUMBER, AVERAGE SIZE, AND OTHER CHARACTERISTICS OF STATE NONMEMBER BANKS IN RECENT YEARS. SINCE 1960, THE NUMBER OF BANKS AND BRANCHES EXAMINED BY THE FDIC HAS INCREASED BY 50%, GROWING FROM 10,088 TO 16,268 IN 1972. DURING THE SAME PERIOD, THE TOTAL ASSETS OF THOSE BANKS HAVE INCREASED FROM APPROXIMATELY \$75 MILLION TO \$134 MILLION. IN 1950, THE LARGEST STATE NONMEMBER BANK HAD ASSETS OF

NEARLY \$1 BILLION. IN 1972, THAT FIGURE WAS MORE THAN \$3.5 BILLION. MOREOVER, STATE NONMEMBER BANKS ARE INCREASINGLY DIVERSE, RANGING FROM THE SMALL UNIT BANK CATERING TO A FARM POPULATION TO THE SUBSIDIARY OF A MULTI-BILLION FOREIGN BANK CONDUCTING SUBSTANTIAL INTERNATIONAL BUSINESS.

SUCH GROWTH, AND THE CHANGING NATURE OF BANKING, HAVE MADE THE FDIC A BUSIER AND MORE EXCITING CORPORATION. IT HAS REQUIRED, HOWEVER, THAT WE MAKE MORE EFFICIENT USE OF SUPERVISORY RESOURCES POSSIBLE. TWO TRENDS, SPECIALIZATION IN THE EXAMINER RANKS AND THE INCREASED USE OF SAMPLING, RESULT FROM THESE EFFORTS. I HAVE ALREADY NOTED SPECIALIZATION THAT IS AND WILL BE IMPLEMENTED IN THE COMPLIANCE AREA AND IN THE EDP FIELD AND THAT IS LIKELY TO BE REQUIRED BY EXTENSIVE DEVELOPMENT OF EFTS SYSTEMS. IN ADDITION, EACH REGION IS ASSIGNED EXAMINERS WHO HAVE SPECIAL EXPERTISE IN THE EXAMINATION OF TRUST DEPARTMENTS AND THE CORPORATION IS PRESENTLY CONTEMPLATING A PILOT PROGRAM AIMED AT GENERATING COMPARABLE COMPETENCE IN THE EXAMINATION OF INTERNATIONAL OPERATIONS.

EXAMINERS, AS YOU KNOW, HAVE LONG USED SAMPLING TECHNIQUES. IN ADDITION TO THE USUAL RULES OF THUMB, MORE COMPLICATED AND FORMAL MODELS ARE BEING USED IN SAMPLING THE PORTFOLIO OF A LARGE BANK WITH AN EXTENSIVE BRANCH NETWORK AND VARIED ASSET MIX. OTHER FORMS OF SAMPLING, NOT RELATED TO LOAN EVALUATION, ARE UTILIZED NOW OR MIGHT BE APPLIED IN THE FUTURE. IN SOME CASES, SELECTED PORTIONS OF A BRANCH SYSTEM MIGHT NOT BE EXAMINED. IT HAS OFTEN BEEN SUGGESTED THAT IT IS UNNECESSARY TO EXAMINE CERTAIN BANKS ANNUALLY. DEPENDING ON FURTHER EXPERIENCE WITH OUR FINANCIAL TREND ANALYSIS AND OTHER EFFORTS AT DISCERNING PROBLEM BANKS, OR, CONVERSELY, IN SELECTING THOSE BANKS WHICH ARE PERFECTLY HEALTHY, THE CORPORATION MIGHT CONCLUDE THAT ANNUAL EXAMINATION OF ALL STATE NONMEMBER BANKS IS NOT A NECESSARY OBJECTIVE. ALTERNATIVELY, ON THE SAME BASIS, ANNUAL EXAMINATIONS MIGHT BE CONTINUED BUT VARIED IN INTENSITY.

AT THIS JUNCTURE, I SHOULD NOTE ANOTHER CHANGE IN FDIC EXAMINATION THAT THOSE OF YOU REPRESENTING STATE NONMEMBER BANKS MAY HAVE NOTICED AND I HOPE HAVE WELCOMED. THE CORPORATION IS IN THE PROCESS, SOMETIMES KICKING AND SCREAMING, OF HAVING ITS CONSCIOUSNESS RAISED. IN 1964 THE FDIC HIRED ITS FIRST WOMAN EXAMINER. AS OF FEBRUARY 28, 1974, 92 WERE EMPLOYED. WHILE WE HAVE NOT DONE QUITE SO WELL AS ONE MIGHT HOPE, I DO COUNT THIS SIGNIFICANT PROGRESS. AND, SINCE THE CORPORATION IS PLEDGED TO SUBSTANTIAL FURTHER PROGRESS, THIS IS ANOTHER TREND THAT WILL CONTINUE AND, HOPEFULLY, ACCELERATE.

FINALLY, I HASTEN TO EMPHASIZE THAT ONE THING HAS NOT CHANGED AT THE FDIC: THAT IS, OUR BELIEF IN THE VALUE OF THE INDIVIDUAL EXAMINER IN THE BANK EXERCISING HIS INDEPENDENT JUDGMENT ABOUT ITS CONDITION. INQUISITIVE, SKEPTICAL AND CONSERVATIVE IN HIS ASSESSMENTS, YES, SOMETIMES EVEN WRONG, THE GOOD EXAMINER EXERCISES A SUBSTANTIAL DISCIPLINING FORCE IN THE BANK WHICH HE EXAMINES. AS A FORMER BANKER, I CAN TESTIFY TO THE FACT THAT HIS PROBING AND CHALLENGING CAN TELL

THE EXECUTIVE OFFICER OR A BOARD OF EVEN THE MOST WELL-RUN BANK MUCH THAT THEY DO NOT ALREADY KNOW ABOUT THEIR BANK. THUS, IN THE FINAL ANALYSIS, HOWEVER SOPHISTICATED WE BECOME IN OUR SAMPLING TECHNIQUES OR ANALYTICAL MODELS AND HOWEVER SPECIALIZED HE MUST BECOME, THE EXAMINER IN THE FIELD IS THE KEY TO OUR SYSTEM OF EXAMINATION AND SUPERVISION.

HIS TRADITION OF CAUTION -- WHICH SOMETIMES SEEMED EXCESSIVE WHEN I WAS ON YOUR SIDE OF THE DESK -- AND ABSOLUTE INTEGRITY HAS NOT CHANGED. AND, IN MY JUDGMENT, IT IS ONE VERY SUBSTANTIAL REASON THAT CONFIDENCE IN OUR BANKING SYSTEM IS WELL WARRANTED.

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