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FEDERAL DEPOSIT INSURANCE CORPORATION

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[Bank supervision and regulatory reform, S. 71, S. 73, S. 895 and S. 1433.]

Statement by

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Director

before the

Senate Committee on Banking, Housing and Urban Affairs,
United States Senate

May 24, 1977

Mr. Chairman, I appreciate this opportunity to appear on behalf of the Federal Deposit Insurance Corporation to testify with respect to four bills relating to the regulation of banking, S. 71, S. 73, S. 895 and S. 1433.

S. 71

S. 71, 95th Congress, a bill "To strengthen the supervisory authority of the Federal banking agencies over financial institutions and their affiliates," is basically the same as S. 2304, 94th Congress, which was jointly recommended by the FDIC, the Board of Governors of the Federal Reserve System and the Comptroller of the Currency.

One major difference, however, between S. 71 and S. 2304, as recommended by the banking agencies last year, is the addition of section 8 which would subject expenditures of the FDIC, the Comptroller of the Currency and the National Credit Union Administration to the appropriations process. This section was not a subject of hearings during the last Congress, and we had no opportunity to present our opposition before Committee action added it to the original S. 2304. As soon as we discovered what action the Committee had taken, we sent you the attached letter dated April 30, 1976 arguing against this addition to the bill. Because existing congressional oversight procedures have proved adequate, because the FDIC has taken the lead among the banking agencies in expanding oversight procedures, and because proposed section 8 threatens to undermine the critical mission of the FDIC in maintaining public confidence in the Nation's banking system, I urge the deletion of section 8.

As far as FDIC activities are concerned, we are presently subject to periodic financial audits by the General Accounting Office pursuant to section 17 of the Federal Deposit Insurance Act (12 U.S.C. 1827). While, as you are aware, there has been a long-standing difference of opinion between the FDIC and the Comptroller General as to whether this statute requires the FDIC to permit the GAO general access to reports of examination of open banks, there has never been any question but that the GAO has the authority to fully audit our financial expenditures. This authority has been fully exercised every year for the past 32 years, and throughout that period the GAO has never had any substantial criticism of our expenditures or budget process. In fact, the GAO has frequently stated that our internal records and controls are excellent.

As to our past disagreement with GAO over our examination reports, we have recently granted GAO access to them on a trial basis. (See our attached January 26, 1977 letter to Comptroller Staats). Moreover, in recent testimony on a bill to authorize performance audits of the bank regulatory agencies (and thus access to examination reports) by the GAO (H. R. 2176), the FDIC indicated that, with certain amendments designed only to safeguard confidentiality, it would have no problem with being subject to periodic performance reviews. We believe that such periodic GAO performance audits, coupled with continued GAO financial audits and periodic oversight hearings by the responsible committees and subcommittees of Congress, can achieve the congressional objective of holding the FDIC accountable for the efficient performance of its statutory duties, witho the necessity of assuming the risks inherent in subjecting the FDIC to the appropriations process.

Subjecting FDIC to the appropriations process is not, of course, a new proposal. In 1947 your Committee added an amendment to S. 1070 which, if passed, would have accomplished such an end. At the instance of Senator Vandenberg, this amendment was rejected by the Senate. About a month later a similar provision was deleted by the Senate from the Conference Report on another bill (H. R. 3756) by a vote of 83 to 1. A similar provision was also stricken from an appropriations bill (H. R. 4177) in 1949. During the debate on H. R. 3756, Senator Vandenberg stated:

> "The FDIC is on all fours with the Federal Reserve System with respect to the fiscal structure on the American economy. No one has yet had the temerity to propose that the Federal Reserve System should be robbed of its independence and subordinated to a political bureau of the Government. Yet, here is an institution which is even more sensitive with respect to the necessities for its independence and we confront a conference report which for the first time proposes to make it possible for political controls to determine what happens.
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> "I am not so much afraid of what the political controls would do, because I assume that they would have an adequate respect for this institution. But I am saying that the fundamental importance and value of the Federal Deposit Insurance Corporation is psychological; it is the faith that for 15 years America has demonstrated it has in this institution. At the moment when the FDIC is about completing $1 billion of earnings of its own, so that it can eliminate all Government capital, at this time when there is a billion dollars of money available in the treasury of the FDIC, if the American people read that, at long last, in Washington something is going on which indicates that the political powers are restless and will remain restless until they can get their hands upon this great institution, the effect will be most deplorable . . .
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> "I am confining myself to this fundamental conception, because I submit, Mr. President, that the one thing in the economic life of the United States which is basically essential is the maintenance of banking confidence, which is dependent, fundamentally and primarily, upon the continuing independent sanctity of the Federal Deposit Insurance Corporation." (Congressional Record, Vol. 93, Pt. 8, p. 10123.)

What Senator Vandenberg said thirty years ago is no less true today. We are, hopefully, at the end of the most significant crisis in American banking since the Great Depression. The eight largest bank failures in the FDIC's history took place in the 39-month period from October 1973 to December 1976 -- banks whose assets aggregated over 3-1/2 times the assets of all other insured banks closed during the history of the FDIC. In those cases, the FDIC stepped in and, if I must say so myself, admirably performed its function to minimize the disruptive effects of the bank failures. As a result, confidence in our banking system was maintained to a remarkable degree notwithstanding the stresses and shocks of this difficult period. Consequently, this is, in my judgment, a singularly inappropriate time for the Congress to take action which would suggest a lack of confidence in the stewardship of the agency and which might thereby diminish the public confidence which is so critical to the agency's mission.

Another reason, equally if not more true today than in 1950, for not subjecting FDIC to the appropriations process was expressed in the 1950 Conference Report on a bill that became the Budgeting and Accounting Procedures Act of 1950 (H. R. 9038). That report stated that nothing in the bill was intended to affect the FDIC or its funds because:

> "The funds of the Federal Deposit Insurance Corporation are received from assessments on insured banks and are used only for the purposes of deposit insurance. These funds have never been under the Budget and Accounting Act for the reason that they are not Government monies or appropriations and there was no intention of including such funds in this amendment." (H. Rept. No. 303, 81 Cong., p. 2, Congressional Record, Vol. 96, Pt. 10, p. 13988).

Again in 1957 a bill drafted by the Bureau of the Budget that would have subjected the FDIC to the appropriations process (H. R. 8332) was the subject of extensive hearings, but no action was taken thereon. Further efforts of this type were made in 1960 (H. R. 12092), in 1961 (H. R. 6810) and in 1965 (H. R. 10507), but none of these bills were even reported out of committee.

I believe that Congress was correct in rejecting legislative proposals of this nature in the past and I do not believe that anything has changed in recent years to justify any different result now. Senator Vandenberg's concern that these proposals might undermine public confidence in the FDIC and in the Nation's banking system is as valid today as it was in 1947. For example, if the FDIC had been subject to the appropriations process during the past several years, the public would have become aware of the FDIC's conclusion that a number of bank failures were likely during the recent recession because of the increase in the FDIC's Liquidation Division of 100 new personnel versed in liquidating failed banks. It is difficult to imagine a more potentially dangerous circumstance: National recognition before the fact that the FDIC believed it needed to dramatically increase its liquidation staff. It is almost certain that erroneous speculation over the meaning of this conclusion, which no amount of reasoned explanation could have corrected, would have led already very nervous depositors to question the safety of their bank deposits.

The Corporation's ability to debate and reach its conclusions about the direction of the Nation's economy -- and to implement its contingency plans free of the publicity inherent in the appropriations process -- is of significant importance to the Nation's economic health.

It is important to remember that the system of Federal deposit insurance was not established merely to protect individual bank depositors and to mitigate the consequences of specific bank failures. Rather the FDIC and its independent trust fund were conceived by Congress at the depths of the Great Depression as a means of restoring and maintaining confidence in the Nation's banking system. Prior to the establishment of the FDIC, American economic history had been characterized by recurring bank panics which would result in sharp and precipitous contractions of the money supply, often leading to severe economic downturns. However, through the insurance and closely related liquidation functions of the FDIC, public faith and investor confidence have been preserved, benefiting both individual bank customers and the economic climate in general.

In fact, the American Banker headline of April 27, 1976 reported "Gallup Poll Finds Public Faith In Banks Higher Than Last May; 93% Feel Money Is Safe". Significantly, the poll was conducted from February 27 to March 1 of 1976 -- close on the heels of sensational disclosures of problem bank lists and examination reports that many feared would rock public confidence in the banking industry. The Gallup Poll and the reaction of the public generally during this period provide a dramatic indication of the stability of our banking system. While the press, and even some bankers, members of Congress and bank regulators have fretted publicly about the soundness of our bank system, the public -- represented by relatively small investors -- has responded with confidence, not panic, even when faced with apparently imminent failure in particular cases. This confidence -- so critical to the maintenance of economic stability -- reflects, in my judgment, a deep-seated belief in the strength and resiliency of the banking system and in the failsafe system of Federal deposit insurance which buttresses it.

This judgment is one which is shared by two noted and diverse economists -- Professors Milton Friedman and John Kenneth Galbraith. Professor Friedman has stated "Federal insurance of bank deposits was the most important structural change in the banking system to result from the 1933 panic and, indeed, in our view, the structural change most conducive to monetary stability since state bank note issues were taxed out of existence immediately after the Civil War".

A similar assessment was made by Professor Galbraith in his recent book entitled Money: Whence It Came, Where It Went. Dr. Galbraith observed that ". . . the FDIC was what the Federal Reserve had not succeeded in being -- an utterly reliable lender of last resort . . . ." Noting that there had been only about 1,700 bank failures during the 20 years prior to the establishment of the Federal Reserve in 1913, and some 15,500 in the 20 years after its establishment, Dr. Galbraith pointed out: "the anarchy of uncontrolled banking (was) brought to an end not by the Federal Reserve System but the obscure, unprestigious, unwanted Federal Deposit Insurance Corporation". He concluded: "In all American monetary history no legislative action brought such a change as this".

The public perception of the FDIC as a "non-political" agency has also contributed to the absence of bank panics during the past several years. In virtually every instance where the FDIC makes a decision, such as in failing bank situations or in acting on deposit insurance applications, there are winners and there are losers. These decisions have, so far, been made in a way that both winners and losers generally have believed to be free from the taint of politics. This method of operation has strengthened public confidence in the regulation of the banking system since it is perceived to be fair and impartial, and based on the merits of the case alone.

In congressional testimony, former FDIC Chairman Frank Wille stated in this regard:

> "It is no accident, in my judgment, that the three Federal bank agencies have remained over the years relatively untouched by political scandal or intimidation. I fear, however, that this track record could be substantially altered if the . . . FDIC were to be placed on an appropriated funds basis . . . .
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> ". . . I think we must have accountability, but I truly believe that with the thousands of very sensitive and important decisions made by the bank agencies on which many financial interests ride, that it would be a mistake to go through the [appropriations] process . . . . I believe that this will lead to control over personnel and legislative positions and possibly even regulatory decisions themselves.

"I also believe that the temptation may exist to try to influence the actual decisions that the agency must make on individual applications."

In light of the substantial risks involved in destroying the traditional insulation of the Federal deposit insurance program from the political process, such a proposal would be appropriate only if supported by facts demonstrating its overwhelming need. In fact, no such case has been made. Rather, the facts demonstrate quite clearly the wisdom of the existing relationship between the FDIC on the one hand and Congress and the Executive on the other.

What must not be overlooked is that the existing structure has worked. Since establishment of the FDIC, public confidence in the banking system has remained exceptionally high (even in the face of recent economic trauma and adverse publicity), bank failure has been held to a minimum, and dislocation minimized where bank failure has occurred. Indeed, the FDIC has won almost universal acclaim for its handling of recent failures.

Supervisory Powers

The remainder of S. 71 deals with a number of proposals to strengthen the bank supervisory agencies' enforcement powers. These changes were jointly proposed in the last Congress by all three Federal banking agencies. The bill was designed to bolster the ability of the banking agencies to prevent certain types of abuses that in the past have led some banks to fail and others to become problem banks. Subsequent to the forwarding of these proposals to the last Congress, FDIC, as well as the other bank regulatory agencies, began to more actively use the statutory enforcement powers already in existence. Thus, for example, in the past 17 months 64 cease and desist actions against banks were recommended to force the correction of many unsafe and unsound practices, including abusive insider transactions, and to force the correction of violations of many banking and consumer laws. While it may still be too early to assess whether this form of achieving compliance with safe and sound banking practices and applicable laws is truly more advantageous than the jawboning techniques, our preliminary indications are that our actions have produced a remarkably high rate of compliance. In only one of the cases brought during this period, for example, have we been forced to seek court enforcement of a cease-and-desist order because of the bank's noncompliance with it.

Our experience with our cease and desist authority over the past year and a half has not changed substantially our views as to the necessity for the statutory changes we previously requested. In some cases, however, our success with the existing powers indicates that the necessity for the changes may not be as great as we once thought. In other cases, we have attempted, under existing authority, to accomplish certain goals which we previously believed we could only accomplish with new authority. While our use of existing authority in these areas has not yet been challenged or rejected by a court, we nonetheless feel statutory changes to clarify the authority would be most helpful. In other areas, our experience over the past year and a half has led us to suggest certain amendments to the previous submission. We have included these suggestions within our comments below. I will briefly summarize for the Committee the proposals which we previously made and the new suggestions we have for changing them.

Civil Penalities

In a number of areas of bank regulation there is no totally effective deterrent to violation of various limitations and restrictions imposed by

Federal statute. Although such violations can severely affect a bank's safety and soundness, the only sanction a bank faces in some cases is the possible issuance of a cease and desist order requiring it to reverse a particular transaction or to refrain from committing similar future violations. One example is section 23A of the Federal Reserve Act which (in conjunction with section 18(j) of the Federal Deposit Insurance Act) imposes stringent limitations on loans and other dealings between insured banks and their affiliates. However, since there are no specific penalties for violations, a bank holding company or other person experiencing financial pressure may cause a subsidiary bank to violate such restrictions knowing that if the violations are discovered the most severe sanction would be the issuance of a cease and desist order designed to rectify the violation and prevent further transgressions.

While the cease and desist order is quite useful for some purposes, it is not as significant a deterrent to violations of restrictions on interaffiliate or insider lending as a daily money penalty would be. Accordingly, sections 1 and 7 of the bill would authorize the Federal Reserve and the FDIC to impose up to $1,000 per day civil penalties for violations of section 23A of the Federal Reserve Act relating to interaffiliate dealings or section 22 of the Federal Reserve Act covering bank loans to their own executive officers.

In addition, section 6(e) of the bill would authorize the imposition of a civil penalty against any bank or any officer, director, employee, agent or other person participating in the bank's affairs for violation of a cease and desist order or consent agreement which has become final under section 8(b) or (c) of the Federal Deposit Insurance Act. Section 6(e) would provide for a civil penalty of up to $10,000 for each day after the order becomes "final" that the offending bank or individual willfully refuses to obey the order. The authority to impose such a fine for violating a final cease and desist order would serve to emphasize the gravity of such an order and would be in addition to the present authority to seek court enforcement of such orders.

Under section 8(k) of the FDI Act, a cease and desist order does not become "final" unless entered into by consent or until the time has run for filing a petition for review with the appropriate U. S. Court of Appeals and no petition has been filed or perfected, or the petition so filed is not subject to further review by the Supreme Court. In either event, the party must have exhausted the administrative and judicial remedies afforded to him under the Act before the fine would begin to run. If the party then continues to disobey an order, the appropriate agency can apply to the proper U. S. District Court to secure its enforcement. However, the threat of a court enforcement and possible contempt proceedings should not be the only deterrent at this point. The party has been given every opportunity to have his day in court. He should not be allowed to further impede the effect of the order simply to secure another delay and should be subject to a substantial monetary penalty for each day that he does so, as provided in the bill.

In imposing civil money penalties under the bill's provisions, the appropriate bank regulatory agency would be required to take into account the financial resources and the good faith of the bank or person charged with the violation, as well as the history of previous violations. Hopefully, the utility of such penalties would be primarily in their deterrent effect, and the actual imposition of fines could be used sparingly.

Insider Loans

Our experience has indicated the need for more vigorous supervision by bank boards of directors and bank supervisory agencies of transactions between an insured nonmember bank and "insiders" of the bank. Abusive self-dealing has been a significant contributing factor in more than half of all bank failures since 1960, including the failure of 30 nonmember insured banks. Losses as a result of these failures are likely to exceed $175 million. A review of existing and past problem bank cases also reveals abusive self-dealing as a significant source of difficulty. Even where the immediate result is not the bank's failure or its designation as a bank requiring close supervision, an insider transaction that is not effected on an "arm's length" basis may lead to a diminution of the bank's earnings and an erosion of its capital -- thereby increasing the risk of loss to depositors and minority shareholders and ultimately perhaps, to the deposit insurance fund. Also, insider transactions whose terms and conditions cannot be justified constitute a diversion to insiders of resources that properly belong to all shareholders on a pro rata basis, as well as a misallocation of a community's deposited funds.

For these reasons the FDIC on February 25, 1976 adopted a new regulation dealing with insider transactions. The regulation seeks to minimize abusive self-dealing through the establishment of procedures which insure that bank boards of directors supervise such transactions effectively and which better enable FDIC examiners to identify and analyze such transactions. The board of directors of each insured nonmember bank is required to review and approve each insider transaction involving assets or services having a fair market value greater than $20,000 for a bank having assets under $100 million, $50,000 for a bank between $100 and $500 million in assets, or $100,000 for a bank with assets over $500 million. In addition, certain recordkeeping requirements, including a record of dissenting votes cast by members of bank boards of directors, are imposed in order to foster effective internal controls over such transactions by the bank itself and to facilitate examiner review.

In addition to these new regulatory requirements, it is our opinion that more explicit statutory lending limitations on the amount of a bank's loans to its insiders would be helpful in preventing banks from incurring undue risks by lending excessive amounts to insiders and their related business enterprises. Such limits are necessitated by the fact that a bank may be less subject to the restraints imposed by prudence and sound judgment when making loans to its insiders and their related interests than it would be in making loans to unrelated individuals or business enterprises.

Accordingly, we believe further substantive restrictions should be placed on transactions between banks and insiders. Specifically, it would be desirable to amend section 22 of the Federal Reserve Act to impose additional restrictions on loans by a bank to its own officers and directors and to major stockholders and corporations affiliated with such individuals. Accordingly, sections 3 and 7 of the bill would provide that the existing limits under applicable Federal or State law on loans to one borrower would apply with respect to loans by any member or nonmember insured bank to any one of its officers and directors and to any other individual holding more than five percent of its voting securities, including loans to companies controlled by such officer, director, or five percent shareholder. These provisions would require that loans or extensions of credit to any one of its officers, directors or five percent shareholders and to all companies controlled by such person be aggregated and that the aggregate of such credit not exceed applicable Federal or State one-borrower limits.

Administrative Enforcement

While the provisions of the bill discussed above are designed in large part to prevent problem bank situations from developing, the bill also contains several provisions intended to assist in dealing with problem bank situations once they arise. Presently under § 8(e) of the Federal Deposit Insurance Act the appropriate Federal bank regulatory agency is authorized to remove a bank director or officer who has engaged in a violation of a law, rule or regulation, participated in an unsafe or unsound practice, violated a final cease and desist order, or breached his fiduciary duty -- but only if such violation involves personal dishonesty and where substantial financial loss to the bank or other damage to its depositors can be demonstrated. Because of the difficulty of proving circumstances amounting to personal dishonesty, presently we have no power under the law to effectively remove individuals even if they have repeatedly demonstrated gross negligence in the operation or management of the bank or disregard for its safety and soundness.

We realize that the original congressional objective underlying the "personal dishonesty" requirement was to protect bank officers and directors from arbitrary or capricious administrative action. In light of our experience, however, we believe that this protection can be provided in another way while eliminating the necessity of proving personal dishonesty or personal gain. Thus, where the persons disregard of sound banking practices dictates removal, it is necessary to balance the interests of the individual bank officer or director against those of the bank's depositors and shareholders, and ultimately against the public interest in maintaining the integrity of the banking system. To strike this balance, we strongly recommend enacting the provisions of section 6(d) of the bill, which add to the standard of personal dishonesty an alternative standard which would recognize the need to remove those officers and directors whose gross negligence in the operation or management of a bank or whose disregard of its safety and soundness threatens the financial safety of the institution. We believe that the present hearing and judicial review requirements are sufficient to shield bank officers and directors from arbitrary or capricious administrative action.

Recent experience also indicates that a bank may be harmed not only by the misconduct of its own officers and directors but also by the misconduct of others who are in a position to influence its affairs. While we believe we have the power to reach such persons through removal proceedings or through cease and desist action brought against the bank itself, we support the amendments contained in section 6(a) and (c) of the bill, which would clarify our authority in this regard by amending paragraphs (b) and (c) of section 8 of the Federal Deposit Insurance Act to provide expressly that the appropriate regulatory agency may bring cease and desist proceedings against directors, officers, employees, agents and other persons participating in the conduct of the affairs of a bank, as well as against the bank itself as permitted under present law. We believe that clarifying our ability to reach such officers, directors and other persons participating in a bank's affairs through cease and desist orders would result in a greater ability to correct situations which might otherwise result in serious detriment to the bank.

Recommended Amendments -- In addition to the deletion of section 8 of S. 71, we would also like to recommend several amendments to the original provisions of this bill for the reasons indcated below.

(1) Because of the difficulty of proving willfulness, we think that "willful disregard" in the bill's amendments to section 8(e) of our Act should be amended to read "continuing disregard."

(2) We would also urge that the requirement for a finding of "substantial financial loss" to the bank in connection with section 8(e) removal proceedings be deleted from the statute on the ground that such removal proceedings should not be frustrated merely because an officer's or director's violations of law or dishonesty or mismanagement have, either for some fortuitous reason or by design, harmed only bank customers or others dealing with the bank and not the bank itself. In fact, it is very possible that potentially dangerous violations of banking laws or regulations may not, at a given point in time, have caused any loss whatever to the bank or even to its depositors or customers. Two examples would be insider loans or loans in excess of lending limits, neither of which have at a given point in time been classified by examiners.

(3) We also recommend that section 8(e) of our Act be amended to make clear that the resignation of an officer or director in the face of impending removal proceedings does not necessitate termination of such proceedings, as apparently required under present law. The purpose here is to prevent such an officer or director from thwarting

the removal proceedings by resigning and then returning to the bank at a later date after such proceedings have been dropped.

(4) In light of the recent case of Feinberg v. Federal Deposit Ins. Corp., 420 F. Supp. 109 (D.D.C. 1976), holding section 8(g) of our Act unconstitutional because no hearing is provided for therein, we recommend amending section 8(g) to require the agencies to provide hearings immediately after suspending any officer, director or other person under that subsection. The Solicitor General has advised that the Feinberg decision will not be appealed.

S. 73

Presently, section 8 of the Clayton Act (15 U.S.C. 19) prohibits director and employment interlocks between any Federal Reserve member bank and any other competing bank (other than a mutual savings bank) located in the same or a contiguous community and not under common control therewith, except that the Board of Governors of the Federal Reserve System may permit a member bank one such interlock by regulation.

S. 73 would repeal this prohibition in the Clayton Act and replace it with a broader prohibition applicable to interlocks between any commercial bank, savings bank, trust company, savings and loan association, credit union, bank holding company or savings and loan holding company and any other such institution not affiliated therewith if each such institution has an office in the same standard metropolitan statistical area or within 50 miles of the other. In addition, the bill would ban interlocks between any such institution with assets over $1 billion and any other such non-affiliated institution with assets over $500 million, regardless of the location of either. The new interlock prohibitions would be narrowed in one sense, however, to apply only to interlocks at the directorate and management levels. The S. 73 provisions would be enforced by the five financial regulatory agencies with respect to institutions within their primary jurisdictions and by the Justice Department with respect to other (i.e., noninsured depositary) institutions. Also, the Board of Governors of the Federal Reserve System would be given authority to grant regulatory exemptions from the bill's provisions. The bill would take effect five years after enactment.

In 1971 the FDIC proposed legislation regarding employment interlocks between financial institutions. Essentially, our earlier proposal would have expanded section 8 of the Clayton Act to cover interlocks involving an insured bank and any other bank or savings and loan association (or any holding company of either), except that the appropriate Federal bank regulatory agency could permit such interlocks where it found that the existence of such interlocking relationship was the result of common control through stock ownership or the result of a scarcity of experienced management talent. Our proposal would also have authorized the appropriate Federal bank regulatory agency to prohibit by regulation interlocks involving a bank subject to its jurisdiction, regardless of geographic area, where the agency found such interlock tended to lessen competition or where either institution had total assets over $500 million. A copy of our 1971 draft bill in this area is attached for your Committee's consideration.

If your Committee should prefer to follow the S. 73 approach, we would recommend amending S. 73 to provide specifically that one basis for granting exemptions would be where interlocks are necessitated by the scarcity of management talent in smaller communities.

S. 895

S. 895 is the FDIC's so-called "Housekeeping" bill containing a number of legislative recommendations which we believe to be essentially noncontroversial in character. I will mention only the highlights of the bill, suggest one clarifying amendment to the bill, and request the addition of one provision to the bill.

Perhaps the most significant part of the bill is section 1 which would require FDIC consent in connection with the establishment of foreign branches or the acquisition of foreign bank stock by nonmember insured banks. While member banks of the Federal Reserve System are presently required to obtain Federal Reserve Board consent under section 25 of the Federal Reserve Act to branch abroad or to acquire foreign bank stock, no Federal approval is necessary for such actions by nonmember insured banks. Since the foreign activities of nonmember insured banks can clearly affect their safety and soundness and, therefore, have a direct impact on the FDIC's insurance risk, we strongly recommend that this gap in Federal law be closed by giving the FDIC authority over such banks comparable to that which the Federal Reserve has over member banks.

Another significant provision in S. 895 is section 5(b) which would change the definition of "affiliate" in section 10 of the Federal Deposit Insurance Act to conform to the definition of that term presently in section 23A of the Federal Reserve Act. Under the present scope of this term as used in our section 10, the FDIC has authority to examine a bank holding company owning more than 50 percent of the stock of any insured bank, as well as any subsidiary of such holding company. S. 895 would merely expand the definition of "affiliate" for this purpose to also include any bank holding company or subsidiary thereof as defined in the Bank Holding Company Act -- i.e., in effect reducing the stock ownership threshold from 50 percent to 25 percent (or to such lower percentage as the Federal Reserve Board may determine to be effective control). Essentially, therefore, the bill only substitutes the Bank Holding Company Act definition of control for that contained in the Banking Act of 1933 as a measure of the scope of the FDIC's existing authority to examine "affiliates" under section 10 of our Act. Thus, this provision does not create any new type of authority in the FDIC to examine "affiliates," but merely makes a limited and logical extension of already existing authority in this area.

We have one clarifying amendment to suggest to S. 895. Concern has arisen that § 4 of the bill, authorizing the FDIC to issue regulations to carry out any law it administers or enforces, would permit FDIC to issue regulations conflicting with those of other agencies with specific authority to issue substantive rules in the same area (such as that of the Federal Reserve in the truth in lending area). In order to make clear that this could not happen, we suggest adding the following parenthetical at the end of § 4: "(except to the extent that authority to issue such rules and regulations has been expressly and exclusively granted to another regulatory agency)."

We would also recommend adding a section to S. 895 which would amend the enforcement provisions of the Home Mortgage Disclosure Act of 1975 to transfer enforcement jurisdiction as to noninsured savings and loan associations from the FDIC to the Federal Home Loan Bank Board and to give both the FDIC and the FHLBB express authority to conduct investigations (including on-site examinations) and require reports from noninsured institutions subject to their respective enforcement jurisdiction under that Act. Presently, § 305(b) of that Act confers enforcement jurisdiction on the FDIC with respect to both noninsured banks and noninsured savings and loan associations. Authority over the latter would more appropriately reside with the FHLBB. These suggested amendments could be effected by (1) amending § 305(b)(1)(C) to substitute "any other commercial or savings bank" for "any other depository institution"; (2) revising § 305(b)(2) to include reference to "any other savings and loan, building and loan or homestead association (or cooperative bank)" and (3) adding at the end of the second sentence of § 305(c) ": and any such agency may, for such purpose, conduct investigations (including on-site examinations) of and require reports and other data from any institution over which it has enforcement jurisdiction under subsection (b)."

S. 1433

This bill would expand the present conflict-of-interest provisions in the Federal Deposit Insurance Act and the Federal Reserve Act to prevent FDIC Directors (including the Comptroller of the Currency) and Federal Reserve Governors from becoming employed by a bank holding company or an affiliate thereof for a period of two years after they leave office. Present law applies only to employment with insured banks in the case of FDIC Directors and with member banks in the case of Federal Reserve Governors, and then only if such Director or Governor does not complete the full term of office for which he was appointed. S. 1433 would also apply similar prohibitions for the first time to Federal Home Loan Bank Board members and to the Administrator of the National Credit Union Administration. The bill's prohibitions would also cover the voluntary acquisition of any interest or the exercise of any voting rights in any regulated institution or affiliate thereof. I do not oppose S. 1433, but suggest that it be considered in the context of Government-wide regulation of conflicts of interest.

As you know, Senator Ribicoff has recently introduced an Administration bill (S. 1446) to be known as the "Ethics in Government Act of 1977," which, among other things, would strengthen existing prohibitions against appearances by former Government officials before an agency with which they were previously employed on matters that were under such person's official responsibility for a period of two years after termination of Government service (instead of one year as under present law -- 18 U.S.C. 207) and by prohibiting informal as well as formal contacts with such agency. Also, the bill would impose a new and broader ban on formal or informal contact on other matters for a period of one year after the end of Government service. These provisions are designed to prevent the misuse of influence acquired through public service. Moreover, the prohibitions are Government-wide in their applicability and are not limited to the financial regulatory agencies. We believe that logic dictates dealing with these conflict-of-interest questions in the broader, Government-wide context, rather than singling out the financial regulatory agencies for special legislation of this nature. To the extent that they exist, these problems are certainly not limited to the regulators of financial institutions. Accordingly, we support the approach of the Administration's recently introduced bill in this area, and suggest that S. 1433 be considered in the context of that bill.

FDIC Expenditures

Mr. Chairman, at your request we have attached to this statement a schedule showing income and expenses of the Corporation for the ten years ended December 31, 1976, a period which saw the size and complexity of the Corporation grow dramatically. These changes are reflected most graphically in the increase in administrative and operating expenses, from $24.4 million for the year 1967 to $74.8 million for the year 1976. Over two-thirds of the administrative and operating expenses is payroll, which, without regard to increases in personnel, has risen substantially as the result of 11 pay increases during the 10-year period.

The number of persons employed by the Corporation has increased from 1,869 at December 31, 1967 to 3,535 at December 31, 1976. The largest part of the increase in the number of employees is directly related to the increase in the number and size of banks supervised and to the number and size of liquidations we are administering. In addition, a number of employees have been added to deal with relatively new responsibilities given the Corporation during the past few years. For example, while it is difficult to estimate precisely, we believe that the Corporation is spending roughly 230,000 man-hours each year enforcing consumer laws.

The Corporation now supervises 8,980 commercial and mutual savings banks, an increase of 1,200 during the ten-year period. These banks had total deposits of $355.2 billion at year-end 1976, an increase of $246.7 billion during the ten-year period. The Corporation now supervises three times as many banks with deposits over $100 million as the Federal Reserve System, and is approaching the number of banks of this size supervised by the Comptroller of the Currency. More banks with deposits over $1 billion are supervised by the FDIC than by the Federal Reserve System.

At year-end 1976, the FDIC's Division of Liquidation was administering over 72,000 assets with an aggregate book value of approximately $2.6 billion, over $900 million of which was real estate related. The banks which have closed in recent years are considerably larger and more difficult to liquidate than those in earlier liquidations. For example, during the four years from January 1, 1973 through December 31, 1976, 39 insured banks closed with $6.6 billion in assets, compared with the six-year period from January 1, 1967 through December 31, 1972, when 30 insured banks closed with $361 million in assets.

Attachments

FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, D.C. 20429

OFFICE OF THE CHAIRMAN

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

April 30, 1976

Honorable William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20515

Dear Mr. Chairman:

I have learned that the Banking Committee voted yesterday to make the FDIC subject to the appropriations process. That action is profoundly troubling to the Corporation and its Board of Directors, and while I believe you know the general position of the Corporation on that proposition, I feel I should present it more thoroughly so that you and the other Committee Members will understand our view of the full implications of that action.

We are unaware of any major dissatisfaction of the Committee with the Corporation. In many areas, such as disclosure, insider transactions, variable rate deposit instruments, examiner training and development, problem bank prediction, responsiveness to Congressional suggestions and inquiries, etc., we have been the leader among the bank regulatory agencies. We have not resisted your efforts to have GAO audit our performance; on the contrary, we have welcomed it.

With respect to our performance in assisting banks that are failing or in danger of failing, or our general performance as guardians of the deposit insurance fund and administrators of the deposit insurance program, most objective observers will give us very high marks. We understand, for example, that a recent Gallup poll showed that 93 percent of Americans with bank accounts feel their money is safe there. Frankly, even though this poll was apparently funded by the American Bankers Association for that Association's own purposes, we feel the results are a tribute to the FDIC and are a direct result of the Corporation's efforts over the years. No other efforts in the financial or monetary arena have received or could receive such a vote of confidence and approval.

If including the FDIC under the appropriations process was not designed to correct serious abuses or poor performance in our office, then it must be designed to provide better oversight of our activities. We feel we have always been open and candid with the Banking Committee, but nevertheless we can appreciate your interest in more information.

Because of our interest in providing you that information, we willingly have agreed to a GAO performance audit of the FDIC. This audit, which tracks most of the suggestions generated by your staff and sent to the FDIC by you on January 27, 1976, should provide you the information which will permit you a more thorough oversight of our activities. (A copy of that agreement is attached.)

As you know, the financial statements of the Corporation have been audited by the General Accounting Office on an annual basis for over thirty years. With the exception caused by the disagreement between GAO and the Corporation over the desirability of predicting bank failures and possible losses to the deposit insurance fund, and the concomitant reluctance of the Corporation to permit a review of our examination reports for that purpose, GAO has always found the Corporation helpful in assisting it in its annual audit. There have been no instances to my knowledge of GAO raising any questions of irregularity or irresponsibility in the financial dealings or budget expenditures of the FDIC.

Although our budget is not reviewed by OMB or Congressional Committees, our budget decisions are made only after careful analysis within the FDIC. Our budget process begins with the Division Chiefs' preparation of budget recommendations to our Budget Office. That is followed by a review by that Office and our Personnel Office of those recommendations, hearings conducted by a Budget Review Committee internal to the Corporation, detailed recommendations by that Review Committee to the Board of Directors, and finally review and approval by the Board of Directors itself. We have a Controller's Office within the Corporation to which are delegated certain limited responsibilities and authorities with respect to administering the budget adopted by our Board of Directors, and the FDIC Auditor and his audit staff audit both the Corporation's expenditures and each and every liquidation in which the Corporation is participating. During the middle of each fiscal year, a limited budget review and update is held.

Several benefits flow from this procedure. We have no need to pad our budget estimates to allow for cutting by OMB or the Congressional Appropriations or Budget Committees. We have no need to spend unused funds near the end of the fiscal year in order to avoid budget cuts the following year. Our decisions on applications for branches, deposit insurance, merger approvals, etc., and our judgments on hiring, firing, promotions, contracts, etc., can be made on the basis of our professional objective judgment rather than on their possible impact on our ability to gain approval for future budgets. We are able to budget and plan on a long-range basis for programs with long-range benefits. For example, we have developed over a period of many years a training program for bank examiners of which we are very proud. Such a program does not necessarily provide a payoff in the very beginning, but the present need for more and better trained examiners underscores the correctness of the judgment which initiated this program before the need was obvious. We are able immediately to increase our expenditures over budget estimates if an emergency involving a large bank failure occurs. We do not have to wait for a special supplementary appropriation nor do we have to build an unpredictable and probably misleading contingency fund into our budget estimates. Finally, if we decide, for example, that we should hire one hundred more liquidators to administer closed bank receiverships that we see might be developing (as we did about two years ago), we can do that without publicity. As Senator Vandenberg said on the floor of the Senate in leading a bipartisan effort to prevent requiring the FDIC to submit a budget annually to the Bureau of the Budget (the same principle as here):

> ...If the FDIC is doubtful about the year to come and has to build up a large budget in anticipation of its doubts, I know of no surer way to precipitate a crisis in the United States than to have the budget of the FDIC necessarily increased in anticipation of bank failures made public to the world on New Year's each year. (93 Cong. Rec. 10121 (1947)).

Because of the crucial and unique role of the banking system in providing the credit base for our entire economic system, certain related propositions seem clear to the FDIC. First, it is essential that Congress and the public are assured that the financial affairs of the FDIC are managed in a prudent and efficient manner. Second, it is essential that bank depositors remain confident that the FDIC has the financial and managerial ability to meet its responsibilities to deal effectively and promptly with failing banks. Third, it is essential that the general public remain confident that the Federal deposit insurance fund, built up over forty years, will continue to be dedicated to protecting the safety and soundness of the banking industry. Finally, it is essential that the public be confident that the decisions of the FDIC on broad policy issues or on individual bank cases that come before it be decided on a professional, impartial and nonpolitical basis.

I believe that under our existing administrative, financial and budgetary arrangements and procedures, particularly as amended by the addition of a GAO performance audit, these propositions can be supported affirmatively. First, the existing GAO audit and the periodic reports and financial statements published by the FDIC constantly assure the public that the financial affairs of the FDIC are in order. Second, our performance has proved that the Corporation can deal effectively with closed banks. Third, the confidence of the public in FDIC is shown by the total absence of lines outside the doors of Franklin National Bank, U. S. National Bank or Hamilton National Bank when those banks closed. Before the FDIC was created, "runs" on banks were commonplace; now they are practically nonexistent. We believe the Gallup poll I referred to earlier accurately represents the confidence the public has in the FDIC. Finally, the public knows that decisions at the FDIC are not wrongly influenced by the political process since it is an independent agency, not supported by tax funds and not subject to the appropriations process. Change is unnecessary, unwarranted, and may, in fact, weaken the confidence the public now has in FDIC. Again, referring to comments of Senator Vandenberg in the debate referred to before:

> ...No one has yet had the temerity to propose that the Federal Reserve System should be robbed of its independence and subordinated to a political bureau of the Government. Yet, here is an institution which is even more sensitive with respect to the necessities for its independence....
>
> I am not so much afraid of what the political controls would do, because I assume that they would have an adequate respect for this institution. But I am saying that the fundamental importance and value of the Federal Deposit Insurance Corporation is psychological; it is the faith that for 15 years

> America has demonstrated it has in this institution. At the moment when the FDIC is about completing $1,000,000,000 of earnings of its own, so that it can eliminate all Government capital at this time when there is a billion dollars of money available in the Treasury of the FDIC, if the American people read that, at long last, in Washington something is going on which indicates that the political powers are restless and will remain restless until they can get their hands upon this great institution, the effect will be most deplorable. (emphasis added)

Federal deposit insurance has worked. That the American public has confidence in its banking system and knows that its deposits are safe in the nation's banks is due in large measure to the existence of Federal deposit insurance. The integrity of the fund out of which those deposits will be paid in the event of a bank closing is unquestioned; each succeeding Board of Directors of the Corporation since its beginning has proved to be excellent guardians of the fund. Any change in the financial operations of the Corporation or the methods by which the Corporation receives its money to conduct its business may well erode the public's confidence in the fund. We might note in this regard the recent concern being voiced about the soundness and solvency of the Social Security fund. Whether justified or not, similar concern about the integrity of the deposit insurance fund could prove to be unsettling. Without some overwhelming need, carefully and completely delineated, it seems reckless to expose the public's confidence in the banking system to the danger of such erosion of confidence. In a statement by former Chairman Leo T. Crowley (1934-1945) before the Senate Appropriations Committee which was at that time considering placing the FDIC under the appropriations process, this was stated eloquently:

> In the brief span of 14 years, the Federal Deposit Insurance Corporation has banished the fear of bank failures from the minds of the public. It has blazed the trail from hoarded currency hidden in mattresses and tobacco cans to the present time when no one doubts that his bank deposit will be repaid, if not by his bank, then by the Deposit Insurance Corporation. No longer do broken people gather before the closed, cold

> doors of a failed bank and ponder their plight while reading the fatal notice announcing the appointment of a receiver. Instead, when a bank closes, the depositors calmly await the arrival of the claim agents of the Federal Deposit Insurance Corporation who, in a brief period of days, pay off their claims in cash. From the outset, the Corporation has operated successfully and, as a banker, a former Government official, and a businessman, I have always believed that an organization which is operating successfully should not be disturbed or upset by forcing it to change its method of transacting business. To unnecessarily deprive the Federal Deposit Insurance Corporation of its independence and flexibility which its corporate structure was designed to furnish, as is proposed in the pending measure, would, in my opinion, be a very grave mistake.

Former Chairman Wille made much the same statement testifying before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance on his final day as Chairman of the FDIC:

> It is no accident, in my judgment, that the three Federal bank agencies have remained over the years relatively untouched by political scandal or intimidation. I fear, however, that this track record could be substantially altered if the proposed Federal Banking Commission and the FDIC were to be placed on an appropriated funds basis, subject in the first stage of the process to the tender mercies of the White House and the Office of Management and Budget and in the second stage to the varied interests of individual Congressmen. The practical effect of the appropriation process would be to give the political operatives of the White House and the Congress substantial control over the personnel, the day-to-day operations,

and the legislative positions* taken by the Commission and the FDIC, and I need not remind you how sensitive many of these agency decisions can be.

* * *

My own suggestion for change is, as I say, legislative oversight and post-audit by the GAO under specified conditions of confidentiality. I think we must have accountability, but I truly believe that with the thousands of very sensitive and important decisions made by the bank agencies on which many financial interests ride, that it would be a mistake to go through the political process of appropriations reviewed by the White House and then by the Congressional committees. I believe that this will lead to control over personnel and legislative positions and possibly even regulatory decisions themselves.

* * *

It was no secret that during the years of this past Administration and the affairs of Watergate significant efforts were made on the part of the White House to place particular personnel in some of the agencies of government, who were loyal above all things to the incumbent President.

I think it is clear that the Office of Management and Budget has used its power to recommend budget levels in an effort to control the policy direction of agencies. And, in many cases, I think this is appropriate. When you have a regulatory agency, I have severe question that that is appropriate.

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*In this respect, insofar as OMB is concerned, the imposition of the appropriations procedure on the FDIC could have the practical effect of nullifying recent legislation which expressly exempted the FDIC from obtaining OMB clearance before submitting its positions on legislative matters to the Congress.

> I also believe that the temptation may exist to try to influence the actual decisions that the agency must make on individual applications.

To summarize, therefore, our opposition to including the FDIC under the appropriations process is based on (1) a deep concern for the integrity of the deposit insurance program and the independent dedicated fund which supports that program, (2) a fear that public confidence in deposit insurance might erode if the finances of the Corporation become politically controlled, (3) a strong desire to continue the present ability of the FDIC to make its decisions, many of which are extremely sensitive, on an objective, nonpolitical basis, and (4) a need to maintain flexibility in our finances to cover expenditures which may be predictable or unpredictable. The Corporation feels that the recent agreement reached with the General Accounting Office permitting operational audits by GAO provides thorough oversight ability to Congress without the ancillary dangers associated with subjecting the FDIC to the appropriations process.

I am taking the liberty of sending copies of our views as expressed in this letter to the other Members of the Committee. I hope they are helpful to you and the other Members.

Very truly yours,

Robert E. Barnett

Robert E. Barnett
Chairman

Enclosure

FEDERAL DEPOSIT INSURANCE CORPORATION. Washington. D.C. 20429

OFFICE OF THE CHAIRMAN

January 26, 1977

Honorable Elmer B. Staats
Comptroller General of the United States
Washington, D.C. 20548

Dear Mr. Staats:

On April 22, 1976, you and I executed a Memorandum of Agreement between our organizations which provided operating guidelines for your conduct of a review and evaluation of our supervisory operations relating to banks under the jurisdiction of this Corporation. For purposes of that performance audit, the Memorandum of Agreement reversed a position long held by the Corporation on the question of GAO's access to bank examination reports and related records involving operating banks.

More recently, some of your people involved in the audit of our financial transactions have reopened this question with Mr. John J. Early, Director of our Division of Bank Supervision. It is my understanding that these GAO representatives are interested in the Corporation's current and future reaction to a request for continuing access to open bank examination material in the course of your financial audits. As I further understand it, this access in conjunction with your audits of the Corporation's financial transactions might underlie what could be considered as periodic operational audits of our bank examination and related supervisory processes. Such access would make unnecessary your recent qualifications of your audits of the FDIC.

We were not happy that your first draft report on the performance audit was "leaked" but we have no reason to assume your people were the ones who leaked the document. Likewise, we assume you will continue to take all reasonable precautions to avoid future leaks while your reports are in the preparation and editing stages. Certainly your record in this regard with respect to previous audits of our financial condition has been excellent.

Honorable Elmer B. Staats
January 26, 1977
Page Two

As you can tell from my comments to you regarding your draft report on the performance audit, and particularly from the comments of our Division of Bank Supervision, we believe that GAO overlooked what we consider to be some significant actions which the Corporation had taken in bank examination during the past year or two. I attribute this oversight not to any reason other than the speed with which your agency was required to perform a very large and very difficult job.

I am inclined, therefore, to permit GAO to have access to the examination reports of open and operating banks during its annual financial audit of the FDIC provided that the basic terms under which those examination reports are reviewed are consistent with the terms in our Memorandum of Agreement of April 22, 1976. So that both your agency and ours can have a period of time to see whether this new approach is helpful, I would suggest that such access be available for the next three financial audits. In effect, we would be holding in abeyance our traditional arguments during this three-year period during which we judge whether this additional access is helpful to our two agencies.

Very truly yours,

(signed) [illegible] E. Barnett

Robert E. Barnett
Chairman

A BILL

To amend the Federal Deposit Insurance Act to prohibit certain interlocking relationships between insured banks and other financial institutions, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Deposit Insurance Act is amended (1) by redesignating sections 22 and 23 as sections 23 and 24, respectively, and (2) by inserting the following new section immediately after section 21:

"SEC. 22. (a) No director, officer, or employee of any insured bank shall be at the same time a director, officer, or employee of any other financial institution, except that the appropriate Federal banking agency may permit such service as a director, officer, or employee of any other such financial institution where it finds that the existence of such an interlocking relationship is the result of common control through stock ownership or the result of a scarcity of experienced financial talent.

"(b) The foregoing prohibition shall not apply in the case of any one or more of the following:

"(1) Any financial institution more than 90 per centum of the stock of which is owned directly or indirectly by the United States or by any corporation of which the United States directly or indirectly owns more than 90 per centum of the stock.

"(2) Any financial institution which has been placed formally in liquidation or which is in the hands of a receiver, conservator, or other official exercising similar functions.

"(3) A corporation principally engaged in international or foreign banking or banking in a dependency or insular possession of the United States which has entered into an agreement with the Board of Governors of the Federal Reserve System pursuant to section 25 of the Federal Reserve Act.

"(4) Any financial institution which is a bank holding company or a subsidiary thereof if such insured bank is a subsidiary of the same bank holding company.

"(5) Any insured bank which does not have its main office or any branch located in the same city, town, or village as that in which the main office or any branch of such other financial institution is located, or in any city, town, or village contiguous or adjacent thereto: *Provided*, *however*, that the foregoing prohibition shall apply to any insured bank which is authorized to establish any branch or other office in any area in which such other financial institution is authorized to establish any branch or other office.

"(c) The appropriate Federal banking agency may apply the foregoing prohibition to any interlocking relationship, regardless of the geographic area in which such insured bank and other financial institution is located, where the agency finds that the existence of such interlocking relationship may tend to lessen competition substantially [or where the insured bank or other financial institution has total assets in excess of $500,000,000].

"(d) The appropriate Federal banking agency is authorized and directed to enforce compliance with this section and to prescribe such rules and regulations as it deems necessary for that purpose.

"(e) As used in this section:

"(1) The term 'financial institution' means any bank (including a mutual savings bank) or savings and loan association organized under Federal or State law and any bank holding company or savings and loan holding company or subsidiary thereof.

"(2) The term 'bank holding company or subsidiary thereof' means any bank holding company or subsidiary thereof as defined in the Bank Holding Company Act of 1956, as amended.

"(3) The term 'savings and loan holding company or subsidiary thereof' means any savings and loan holding company or subsidiary thereof as defined in section 408 of the National Housing Act."

SEC. 2. Section 8 of the Clayton Act is amended by repealing the first three paragraphs thereof which deal with restrictions on interlocking relationships involving member banks and powers of the Board of Governors of the Federal Reserve System in conjunction therewith.

FEDERAL DEPOSIT INSURANCE CORPORATION
SCHEDULE OF REVENUE, EXPENSE, NET INCOME, AND
THE DEPOSIT INSURANCE FUND OVER 10 YEARS
($000)

	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
Income of FDIC:										
Net Deposit Insurance Assessments	120,640	132,478	144,068	159,324	175,558	188,812	245,944	301,946	278,929	296,500
Investment in U.S. Government Securities	142,302	162,615	191,709	222,693	239,180	277,003	311,056	357,462	394,355	344,099
Other Income	8	(15)	31	648	400	1,484	3,982	8,634	16,024	18,698
Total Income	262,950	295,078	335,808	382,665	415,138	467,299	560,982	668,042	689,308	659,297
Expenses of FDIC:										
Administrative & Operating Expenses	24,405	28,972	33,474	42,228	46,902	49,610	54,448	59,214	67,688	74,849
Provision for Insurance Losses	4,606	2,008	(158)	11,138	6,965	(2,046)	48,577	97,863	27,619	28,001
Non-Recoverable Insurance Expenses	415	363	605	837	983	879	1,336	2,111	2,152	3,861
Total Expenses & Losses	29,426	31,343	33,921	54,203	54,849	48,443	104,361	159,188	97,459	106,711
Net Income	233,524	263,735	301,887	328,462	360,289	418,856	456,621	508,854	591,849	552,586
Deposit Insurance Fund	3,485,486	3,794,221	4,051,108	4,379,570	4,739,859	5,158,715	5,615,336	6,124,190	6,716,039	7,268,625

Schedule II

Insured Non-Member State Banks and Insured Mutual Savings Banks

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
United States - All Offices:											
Banks:											
Non-Member	7,392	7,447	7,511	7,603	7,743	7,884	8,027	8,239	8,448	8,595	8,651
Mutual Savings	332	333	334	331	329	327	326	322	320	329	329
Branches											
Non-Member	3,849	4,166	4,564	5,107	5,589	6,163	6,803	7,624	8,632	9,447	9,927
Mutual Savings	615	671	739	807	894	984	1,112	1,241	1,387	1,568	1,796
Total Deposits: ($000)											
Non-Member	60,244,035	68,075,372	77,529,317	84,701,283	95,565,790	111,857,975	132,942,297	152,826,715	168,452,521	187,031,396	234,400,793
Mutual Savings	48,255,636	52,912,962	56,861,324	58,867,848	62,683,783	71,500,831	80,571,993	84,890,128	86,814,415	98,126,107	120,839,827
Total Insured Bank Closings											
Number	7	4	3	9	7	6	1	6	4	13	16
Deposits ($000)	103,523	10,878	22,524	40,134	54,821	132,152	20,480	971,296	1,575,832	339,630	865,659
Assets ($000)	120,647	11,993	25,154	43,572	62,147	196,520	22,054	1,309,675	3,822,596	419,950	1,039,293
Total Number of Examinations	13,663	13,577	15,483	16,412	17,688	19,173	19,626	19,959	22,699	28,254	29,713