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"A PERSPECTIVE ON BANKING DEREGULATION"

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ADDRESS BY

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BEFORE THE

ANNUAL CONFERENCE OF
THE NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS
① PITTSBURGH, PENNSYLVANIA

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AMERICANS ARE CONCERNED ABOUT GOVERNMENTAL REGULATION GENERALLY, BUT DIVIDED VERY OFTEN ABOUT WHAT TO DO SPECIFICALLY. THERE IS, ON THE ONE HAND, A RECOGNITION THAT REGULATION IS COSTLY: IT RAISES PRICES AND CONTRIBUTES TO INFLATION AND IT SOMETIMES MEDDLES NEEDLESSLY IN PRIVATE DECISION-MAKING. ON THE OTHER HAND, THERE IS ALSO A RECOGNITION THAT REGULATION IS NECESSARY IN A COMPLEX ECONOMY, SOMETIMES TO PROTECT WEAK, DISADVANTAGED, OR UNAWARE CITIZENS, OR TO MAKE ECONOMIC MARKETS FUNCTION BETTER.

TO BE SURE, AMERICANS WILL OFTEN FIND REASONS FOR FAVORING REGULATIONS ADVANTAGEOUS TO THEMSELVES, BUT EVEN AT THAT I PERCEIVE A CONSENSUS IN FAVOR OF LESS REGULATION. AND THE CONSENSUS GOES BEYOND THE BUSINESS COMMUNITY. CONSUMER ADVOCATES, TOO, UNDERSTAND THE EFFECTS OF REGULATION IN RAISING PRICES CONSUMERS MUST PAY. NONETHELESS, THEY ARE WARY OF ACCEPTING TOO QUICKLY THE CRY OF HIGH COSTS FOR FEAR THAT IT IS A "CRY OF WOLF" TO BE RAISED AGAINST ANY PROPOSAL NO MATTER HOW MERITORIOUS. IN ANY CASE, BOTH THE DESIRE FOR LESS REGULATION AND THE CONFLICT OVER WHERE TO DRAW AN APPROPRIATE LINE HAVE SPURRED A REASSESSMENT OF THE ABILITY OF COMPETITIVE MARKETS TO PROVIDE FAIR AND EQUITABLE RESULTS AND ALSO SPURRED A SEARCH FOR LESS COSTLY BUT MORE EFFECTIVE FORMS OF REGULATION.

BANKERS HAVE BEEN REGULATED FOR A FAR LONGER TIME AND IN MORE DETAIL THAN MOST OTHER BUSINESSMEN. AND I WOULD JUDGE THEY HAVE BEEN MORE TOLERANT OF REGULATION, IN PART BECAUSE THEY ARE USED TO IT AND IN PART BECAUSE THEY RECOGNIZE THAT BANKING IS AFFECTED WITH THE PUBLIC INTEREST MORE THAN OTHER BUSINESSES. HOWEVER, IN MY RECENT MEETINGS WITH BANKERS THEY HAVE BEEN TESTY AND AGGRESSIVE ON THE ISSUE OF REGULATION. AND IF THERE IS A GENERAL DRIFT TOWARD LESS REGULATION, THEY BELIEVE THAT BANKING REGULATION IS GOING AGAINST THE TREND.

TODAY I WOULD LIKE TO PROVIDE SOME PERSPECTIVE ABOUT REGULATION IN BANKING SO THAT WE MAY UNDERSTAND SOMEWHAT BETTER THE CONFRONTATION BETWEEN OVER-REGULATION AND DEREGULATION IN BANKING. I WOULD ALSO LIKE TO DISCUSS WHAT THE FDIC HAS BEEN DOING ABOUT THE PROBLEM, AND HOW BANKERS MAY BE CONSTRUCTIVE IN MINIMIZING REGULATORY BURDENS.

DEPOSITORY INSTITUTIONS IN THE UNITED STATES CAME UNDER REGULATION EARLY IN THE NATION'S HISTORY. THE STATE GOVERNMENTS WERE THEN THE REGULATORS, THOUGH TO BE ACCURATE THE TWO BANKS

OF THE UNITED STATES EXERCISED SIGNIFICANT DISCIPLINE AT TIMES OVER THE NOTE ISSUE OF STATE CHARTERED BANKS, EVEN THOUGH NOT THROUGH DIRECT REGULATION. DIRECT FINANCIAL REGULATION OF BANKS AT THE FEDERAL LEVEL BEGAN IN 1863 WHEN THE NATIONAL BANKING ACT CREATED THE OFFICE OF THE COMPTROLLER OF THE CURRENCY, ORIGINALLY WITH THE HOPE OF STRANGLING THE STATE SYSTEM, ULTIMATELY TO SHARE RESPONSIBILITY WITH IT. TODAY BANKING AND THRIFT INSTITUTIONS FALL UNDER THE JURISDICTION OF AT LEAST FIVE FEDERAL BANK REGULATORY AGENCIES: THE COMPTROLLER OF THE CURRENCY, THE FEDERAL RESERVE BOARD, THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE FEDERAL HOME LOAN BANK BOARD AND THE NATIONAL CREDIT UNION ADMINISTRATION. AND THESE SUPPLEMENT, OFTEN OVERLAP, THE STATE SUPERVISORY SYSTEM.

THE MOST IMPORTANT REASON FOR REGULATING BANKS IS TO INSURE THE SAFETY OF CHARTERED INSTITUTIONS, BUT BANK REGULATORS HAVE BEEN ASSIGNED OTHER MISSIONS AS WELL. THE PRESERVATION OF COMPETITION IS ONE OF THE OTHER IMPORTANT GOALS. TO THAT END, FOR EXAMPLE, BANK REGULATORS REVIEW PROPOSED MERGERS AND

HOLDING COMPANY ACQUISITIONS. BANK REGULATION ALSO PLAYS A ROLE IN ENCOURAGING HOME BUILDING. INDEED, THE SAVINGS AND LOAN INDUSTRY WAS DEDICATED BY LAW AND REGULATION TO THAT PURPOSE AT THE TIME OF ITS REBIRTH IN THE 1930's AND SOME IN THE INDUSTRY CONTINUE TO CLING TENACIOUSLY -- AND TOO NARROWLY IN SOME RESPECTS -- TO THAT MISSION. IN THAT REGARD, SAVINGS BANKS, TOO, HAVE BEEN A BULWARK OF HOUSING FINANCE, BUT THEY HAVE UNDERSTOOD THE NEED TO WIDEN THEIR MISSION TO MEET THE FINANCIAL NEEDS OF CONSUMERS. IN RECENT YEARS THE PROTECTION OF INVESTORS AND OF CONSUMERS HAVE COME TO THE FORE AS GOALS WHICH SOCIETY WANTS BANK REGULATORS TO HELP ACHIEVE. FINALLY, ONE OF THE OLDEST RESPONSIBILITIES OF BANK REGULATION, NEWLY EMPHASIZED, IS TO CONTROL IRRESPONSIBLE AND FRAUDULENT BANKING. IN ANY CASE, THE PERCEPTION OF MANY BANKERS THAT BANK REGULATION HAS UNTIL THE LAST FEW YEARS BEEN DEDICATED TO A ONE AND ONLY GOAL -- BANK SAFETY -- IS INCORRECT. IN FACT, THE GOALS HAVE BEEN MULTIPLE AND EVOLVING, AND THE EMPHASIS CHANGES AS THE AMERICANS BECOME MORE CONCERNED ABOUT ACHIEVING ONE GOAL OR ANOTHER.

A PRIMARY SOURCE OF THE INCREASED REGULATION IN BANKING IS A SERIES OF FAIRLY RECENT CONSUMER CREDIT PROTECTION STATUTES. THE FIRST OF THESE -- THE CONSUMER CREDIT PROTECTION ACT -- INCLUDES FOUR WELL KNOWN TITLES: TRUTH-IN-LENDING (INCLUDING FAIR CREDIT BILLING AND CONSUMER LEASING), EQUAL CREDIT OPPORTUNITY, FAIR CREDIT REPORTING, AND FAIR DEBT COLLECTION PRACTICES. IN ADDITION, THERE ARE SEPARATE ACTS COVERING FAIR HOUSING, REAL ESTATE SETTLEMENT PROCEDURES, AND HOME MORTGAGE DISCLOSURE. THESE LAWS HAVE LOADED A GREAT MANY NEW COSTS ON BOTH THE REGULATORS AND THE PRIVATE SECTOR. THE REGULATORS HAVE HAD TO HIRE AND EDUCATE PERSONNEL, PREPARE MANUALS, CONDUCT HEARINGS, DESIGN FORMS AND KEEP BOTH CONSUMERS AND BANKERS INFORMED OF CHANGES IN THE IMPLEMENTING REGULATIONS. IN ORDER TO MEET ITS EXTENSIVE RESPONSIBILITIES UNDER THE ACT, THE FDIC BEGAN IN 1977 TO CONDUCT SEPARATE COMPLIANCE EXAMINATIONS, AND WHETHER BANK REGULATORS ARE CONDUCTING SEPARATE EXAMINATIONS OR NOT, THE EXAMINATION COSTS THEY INCUR TO MEET THEIR CONSUMER PROTECTION RESPONSIBILITIES ARE MUCH HIGHER TODAY THAN THEY WERE ONLY A FEW YEARS AGO.

BANKS HAVE ALSO INCURRED COSTS. BANKS HAVE HAD TO HIRE AND TRAIN STAFF; TO DEVELOP NEW PROCEDURES, PRINT NEW AND EVER-CHANGING FORMS; TO PROVIDE FOR ADDITIONAL LEGAL SERVICES TO INTERPRET THE LAWS AND REGULATIONS AND PERHAPS, DEFEND AGAINST SUITS; AND THEY HAVE BEEN SUBJECTED TO HEAVIER RECORDKEEPING REQUIREMENTS.

ALL THIS EFFORT HAS HAD PUBLIC BENEFITS. USE OF THE UNIFORM TERM APR, ANNUAL PERCENTAGE RATE, HAS MADE SHOPPING FOR CREDIT MUCH EASIER THAN IT WAS. INDEED, THE MANY WAYS IN WHICH THE PRICE OF CREDIT WAS STATED BEFORE THE ACT MADE COMPARISON OF CREDIT COSTS VIRTUALLY IMPOSSIBLE EXCEPT FOR HIGHLY SOPHISTICATED CITIZENS WHO HAD MORE THAN A PASSING KNOWLEDGE OF FINANCIAL ARITHMETIC. THE OTHER TITLES TO THE ACT ALSO EFFECTED WORTHWHILE ENDS -- THE OUTLAWING OF DISCRIMINATION IN THE GRANTING OF CREDIT, THE MAINTENANCE OF ACCURATE CREDIT HISTORY INFORMATION, ^{FAIR} ~~LAW~~ PROCEDURES FOR THE COLLECTION OF DEBTS, THE PROTECTION OF HOME BUYERS IN MAKING THE LARGEST PURCHASE OF THEIR LIVES AND THE PLACING ON THE RECORD THE

PERFORMANCE OF DEPOSITORY INSTITUTIONS IN MAKING HOME MORTGAGE LOANS.

THE CRITICAL QUESTION IS WHETHER THE BENEFITS ISSUING FROM THESE VARIOUS ACTS HAVE BEEN WORTH THE COST. THAT IS A DIFFICULT QUESTION WHICH IS UNDER STUDY, BUT I THINK THERE IS BROAD AGREEMENT THAT THE TRUTH-IN-LENDING REGULATIONS NEED TO BE SIMPLIFIED. THESE REGULATIONS ARE SIMPLY TOO COMPLEX FOR BANKERS TO ADMINISTER, AND TOO DIFFICULT FOR CONSUMERS TO UNDERSTAND. SENATOR PROXMIRE HAS BEEN CONSIDERING REVISION OF THE STATUTE TO HELP EFFECT SIMPLICATION AND WE SUPPORT THAT INITIATIVE. OTHER FEATURES OF THE CONSUMER PROTECTION STATUTES AND REGULATIONS WOULD ALSO BENEFIT FROM A CLOSE REVIEW OF THEIR ADVANTAGES AND DISADVANTAGES, NOT TO EMASCULATE THEIR EFFECTIVENESS, BUT RATHER TO FIND MORE EFFECTIVE AND LOWER COST WAYS OF SECURING THE DESIRED ENDS.

I THINK, TOO, THAT BANKERS SHOULD APPRECIATE THAT THE UNDERLYING PHILOSOPHY OF TRUTH-IN-LENDING RELIES ON MARKET FORCES AND ^{NOT} ~~NO~~ REGULATORY MANDATE TO EFFECT THEIR ENDS. DISCLOSURE

IS THE KEY SO THAT BUYERS WILL BE BETTER INFORMED AND WILL MAKE BETTER CHOICES IN THE MARKET BY DEALING WITH LOW COST, EFFICIENT CREDITORS AND BY REFUSING TO DEAL WITH HIGH COST, INEFFICIENT CREDITORS. ^{AS TOOLS OF REGULATION} ~~DISCLOSURE AS A TOOL OF REGULATION AND REQUIREMENTS FOR MINIMUM STANDARDS OF FAIRNESS IN CREDIT DEALINGS ARE MUCH TO BE DESIRED OVER WHAT MIGHT HAVE BEEN -- MANDATED ASSET ALLOCATION, OR THE SETTING OF RATES.~~

INDEED, I CANNOT RESIST A COMMENT ON THE REGULATION OF INTEREST RATES WHICH FINDS BANKERS DEPLORING LOAN RATE CEILINGS AND SUPPORTING DEPOSIT RATE CEILINGS. SOMEHOW THE DEDICATION TO FREE MARKETS MELTS TOO EASILY IN THE WARM SUN OF PERSONAL ADVANTAGE. AS TO MY OWN VIEWS, YOU KNOW THEM WELL. THE ELIMINATION OF USURY CEILINGS AND DEPOSIT CEILINGS WOULD BE BENEFICIAL. I DO NOT THINK ANYONE OUGHT TO TELL A BANKER WHAT HE SHOULD PAY FOR MONEY OR CHARGE ON LOANS AS LONG AS HE OPERATES IN VIGOROUSLY COMPETITIVE MARKETS. I HAVE GREAT FAITH IN THE COMPETITIVE SYSTEM IN MOST CASES TO DICTATE FAIR PRICES ON BOTH SIDES OF THE BALANCE SHEET. THE ISSUE OF THE DIFFERENTIAL, I MIGHT ADD, DESPITE ALL THE HEATED RHETORIC, IS AN

OFF-LYING SQUABBLE, SOMETHING AKIN TO THE BATTLE OF NEW ORLEANS WHICH WHILE IT EMPLOYED SIGNIFICANT RESOURCES AND WAS WAGED WITH GREAT STYLE, WAS IN FACT A SIDESHOW.

THE REGULATORY AGENCIES ARE NOW FACED WITH IMPLEMENTING THE COMMUNITY REINVESTMENT ACT. TO THAT END THE FEDERAL AGENCIES HELD A SERIES OF HEARINGS IN SEVEN CITIES AROUND THE COUNTRY. THE ACT DECLARES THAT THE CONCEPT "CONVENIENCE AND NEEDS" OF THE "COMMUNITY" EMBRACES MEETING THE CREDIT NEEDS OF THE COMMUNITY WITH PARTICULAR EMPHASIS ON THE CREDIT NEEDS OF LOW INCOME AND MODERATE INCOME NEIGHBORHOODS. THE CONGRESS GAVE US A TOUGH JOB TO DO. HOW DOES ONE DEFINE A "COMMUNITY"? AND WHAT IS A "CREDIT NEED"? FOR A STATEWIDE BRANCH SYSTEM, IS ITS "COMMUNITY" THE ENTIRE STATE OR IS IT THE SERVICE AREAS FOR EACH OF ITS BRANCHES? IF A LARGE FRACTION OF DEPOSITS OF A BANK ORIGINATES OUTSIDE THE STATE IN WHICH IT IS LOCATED, IS ITS "COMMUNITY" INTERSTATE AS WELL? SHOULD WE RELY ON DEFINED GEOGRAPHICAL BOUNDARIES SUCH AS COUNTIES OR STANDARD METROPOLITAN STATISTICAL AREAS?

LOAN DEMAND IS EASY ENOUGH TO IDENTIFY: IT IS A CREDITWORTHY BORROWER STANDING AT A LOAN OFFICER'S DESK. BUT HOW DOES ONE DETERMINE A LOAN NEED? IF A CREDIT NEED IS AN UNVOICED DESIRE OF BORROWERS WHO ARE OTHERWISE CREDITWORTHY, HOW DO WE AS REGULATORS SATISFY THE STATUTORY MANDATE THAT SUCH NEEDS BE MET? ARE THE CREDIT NEEDS TO BE BROADLY CONSTRUED TO REPRESENT ALL THE CREDIT NEEDS IN THE COMMUNITY FOR WHATEVER PURPOSE: BUSINESS NEEDS, PERSONAL NEEDS, MORTGAGE NEEDS OR NARROWLY CONSTRUED TO BE INNER-CITY MORTGAGE NEEDS? WHAT DOES THE REGULATOR DO ABOUT A WHOLESALING INSTITUTION WHICH HAS LITTLE DEVELOPED CAPACITY TO SERVICE THE PERSONAL AND MORTGAGE LOAN MARKETS?

FINALLY, HOW DOES ONE DESIGNATE LOW TO MODERATE INCOME NEIGHBORHOODS AND WHAT IMPLICATIONS DOES LENDING IN SUCH NEIGHBORHOODS HAVE FOR THE SAFETY OF INSTITUTIONS? THAT PERHAPS IS THE ISSUE WHICH IS OF MOST CONCERN TO BANKERS. HOWEVER DIFFICULT IT MAY BE SIMPLY TO DESIGNATE LOW AND MODERATE INCOME NEIGHBORHOODS, I ASSURE YOU THAT IT IS NOT THE INTENT OF

THE LAW AND IT WILL NOT BE THE EFFECT OF THE REGULATIONS THAT FINANCIAL INSTITUTIONS WILL BE INDUCED TO MAKE UNSOUND LOANS. THAT DOES NOT MEAN THAT BANKS AND THRIFT INSTITUTIONS SHOULD NOT REVIEW THEIR UNDERWRITING STANDARDS TO MAKE SURE THEY ARE NOT OVERLOOKING SOUND CREDITS IN LESS PROSPEROUS COMMUNITIES.

INDEED, IT IS MY SURMISE THAT IF THERE ARE SOUND CREDITS IN INNER-CITY NEIGHBORHOODS WHICH ARE NOT BEING FINANCED, THE PROBLEM IS PRIMARILY ONE OF MARKETING. THE ECONOMIC DISTANCE BETWEEN WILLING LENDERS AND ANXIOUS BORROWERS MUST BE BRIDGED BY INTELLIGENT, COOPERATIVE, AND HARDHEADED INTERMEDIARIES WHO UNDERSTAND THE NEEDS OF BORROWERS AND THE RESPONSIBILITIES OF LENDERS. AND GOVERNMENTAL AUTHORITIES -- STATE, LOCAL AND FEDERAL -- CANNOT STAND OUTSIDE OF THE PROCESS. THEY ARE RESPONSIBLE IN PART FOR THE QUALITY OF LIFE IN THE COMMUNITY WHICH MAKES IT AN ATTRACTIVE PLACE FOR PRIVATE INVESTMENT. I WOULD HOPE THAT THE ACT WOULD STIMULATE THE ACTIVE COOPERATION OF BANKERS AND COMMUNITY GROUPS AND GOVERNMENT. THAT APPROACH HOLDS THE PROMISE OF BENEFITS TO DECLINING NEIGHBORHOODS MUCH

BEYOND THOSE WHICH WOULD FLOW FROM A GRUDGING ACQUIESCENCE TO THE REQUIREMENTS OF THE LAW.

WE LISTENED TO A GREAT DEAL OF TESTIMONY. MUCH OF IT WAS UNCONSTRUCTIVE. MANY BANKERS AND STATE COMMISSIONERS, RANKLING UNDER THE PROSPECT OF MORE REGULATION, OFTEN SHOOK THEIR FISTS AT THE LAW INSTEAD OF OFFERING A HAND IN THE WAY OF POSITIVE SUGGESTIONS WHICH MIGHT HELP US DO THE JOB TO WHICH THE STATUTE BINDS US. INDEED, ONE OF THE WAYS YOU AS BANKERS CAN DO SOMETHING CONSTRUCTIVE ABOUT BURDENSOME REGULATION IS TO SEND US THOUGHTFUL COMMENT ON PROPOSED REGULATIONS. WE READ THEM. AND THE FILES ARE FULL OF UNISSUED REGULATIONS AND THE BINDERS ARE FULL OF REVISED REGULATIONS WHICH ATTEST TO THE EFFECTIVENESS OF BANKERS' COMMENTS IN THE PAST.

THE AGENCIES ARE LOOKING TOWARD PROPOSING REGULATIONS IMPLEMENTING THE ACT BY JULY 1. THE AGENCY STAFFS ARE CURRENTLY WORKING DILIGENTLY CONSIDERING HOW WE MIGHT BEST EFFECT THE INTENTION OF CONGRESS, BUT IT IS TOO EARLY TO TELL THE FORM OF FINAL REGULATIONS. AT ONE END THERE ARE THOSE WHO WOULD LIKE

TO BITE THE BILLET AND PROVIDE SUBSTANTIVE ANSWERS TO THOSE DIFFICULT QUESTIONS ABOUT "CREDIT NEEDS" AND "COMMUNITY." AT THE OTHER END, THERE ARE THOSE WHO WOULD PREFER TO HAVE EACH BANK ANSWER THESE QUESTIONS IN A WAY WHICH IT BELIEVES MAKES SENSE FOR ITS OWN MARKETS WITHIN THE FRAMEWORK OF AN AFFIRMATIVE MARKETING PROGRAM. EACH BANK WOULD SUBMIT ITS PLAN TO ITS REGULATOR FOR REVIEW AND WOULD ALSO DISCLOSE IT TO THE PUBLIC. EXAMINATIONS WOULD THEN MONITOR THE APPROVED PLAN FOR COMPLIANCE AND THE BANK'S RECORD WOULD BE TAKEN INTO ACCOUNT IN CONNECTION WITH APPLICATIONS TO BRANCH, TO MERGE WITH ANOTHER INSTITUTION AND TO EXPAND IN OTHER WAYS NAMED IN THE ACT.

AS FOR MY OWN POSITION, I AM PHILOSOPHICALLY INCLINED MORE TOWARD THE LATTER APPROACH THAN THE FORMER. DURING THE CONGRESSIONAL DELIBERATIONS IT WAS STATED THAT BANKS WOULD BE ABLE TO COMPLY WITH THE LAW WITHOUT ANY ADDITIONAL RECORDKEEPING. WHILE THAT STATEMENT MAY HAVE BEEN EXCESSIVELY SANQUINE, I WOULD LIKE TO SEE US MAKE IT AS CLOSE TO REALITY AS POSSIBLE. IN ANY CASE, FINAL DECISIONS AWAIT FURTHER WORK BY THE STAFFS OF THE

AGENCIES AND POLICY LEVEL CONSIDERATION BY THE AGENCY HEADS.

THE CORPORATION IS ALSO ENGAGED IN A STUDY OF STATE AND FEDERAL REGULATION OF COMMERCIAL BANKING. THE STUDY'S PRIMARY FOCUS IS THE OVERLAP OF THE TWO SYSTEMS OF REGULATION AND ONE OF ITS IMPORTANT PURPOSES IS TO DEVELOP POLICY OPTIONS FOR ELIMINATING DUPLICATION, THUS REDUCING REGULATORY COSTS TO THE AGENCIES AND TO REGULATED INSTITUTIONS. WHILE THE STUDY DOES NOT SPECIFICALLY ADDRESS THE REGULATION OF SAVINGS BANKS, ITS FINDINGS, I AM SURE, WILL BE RELEVANT TO SAVINGS BANKS.

EACH STATE CHARTERED BANK, SAVINGS AS WELL AS COMMERCIAL, HAS TWO BANK REGULATORS, ITS STATE AUTHORITY AND EITHER THE FEDERAL RESERVE OR THE FDIC. EVERY APPLICATION FOR A NEW ~~BANK~~^{BRANCH,} A MERGER, A CHANGE OF CAPITAL AND FOR MANY OTHER CORPORATE ACTIONS MUST TYPICALLY BE PASSED ON BY TWO AUTHORITIES, OFTEN WITH DELAY, INCONVENIENCE AND HIGH COST. EVERY SUCH BANK IS ALSO SUBJECT TO DUAL EXAMINATION. THE STUDY WILL ADDRESS THESE ISSUES AND OTHERS WITH THE HOPE OF MAKING REGULATION MORE COST EFFECTIVE AND LESS BURDENSOME TO BANKS.

EACH AGE INDEED, THE FDIC HAS ~~ALSO~~ BEEN WORKING FOR SOME YEARS IN IMPROVING THE EFFICIENCY AND EFFECTIVENESS OF EXAMINATIONS. BECAUSE OF THE INCREASED RESPONSIBILITIES FOR CONSUMER PROTECTION AND THE INCREASED COMPLEXITY AND RISKINESS OF THE BANKING ENVIRONMENT, THE DEMANDS ON EXAMINATION HAVE INCREASED SUBSTANTIALLY DURING THE PAST DECADE. BUT, WE HAVE ECONOMIZED BY RE-THINKING OUR MISSION AND OUR METHODS. WE HAVE, FOR EXAMPLE, SHIFTED EXAMINATION TIME AND RESOURCES AWAY FROM THE WELL-RUN BANK IN FAVOR OF EXPENDING GREATER EFFORTS ON THE BANK IN LESS SATISFACTORY CONDITIONS.

DEPARTMENT THE FDIC HAS ALSO BEEN EXPERIMENTING WITH ALTERNATIVE METHODS OF PERFORMING THE EXAMINATION FUNCTION IN ORDER TO REDUCE THE AMOUNT OF TIME SUPERVISORY PERSONNEL ARE ACTUALLY IN THE BANK. FOR MANY YEARS, THE FDIC AND STATE AUTHORITIES IN MANY STATES HAVE CONDUCTED EXAMINATIONS JOINTLY OR CONCURRENTLY. IN THE JOINT EXAMINATION THE TWO AGENCIES ISSUE ONLY A SINGLE REPORT; IN THE CONCURRENT EXAMINATION, THE WORK OF THE EXAMINATION IS SHARED. BUT TWO REPORTS ARE ISSUED. EITHER ARRANGEMENT SAVES

EACH AGENCY MANPOWER AND ELIMINATES THE BURDEN ON THE BANK OF A SECOND VISIT.

AN EXPERIMENT TO ELIMINATE STATE AND FEDERAL OVERLAP IN THE EXAMINATION FUNCTION WAS STARTED IN FEBRUARY 1974 WITH THE IMPLEMENTATION OF THE WITHDRAWAL PROGRAM. UNDER THIS ARRANGEMENT, THE FDIC WITHDREW FROM THE EXAMINATION OF HALF OR MORE OF THE STATE NONMEMBER BANKS IN THE STATES OF IOWA, GEORGIA AND WASHINGTON AND ACCEPTED REPORTS OF EXAMINATION COMPLETED BY STATE EXAMINATION PERSONNEL. THIS PROGRAM WAS DESIGNED TO STUDY THE SUCCESS OF RELYING SOLELY ON STATE BANKING DEPARTMENTS FOR THE PERFORMANCE OF THE SAFETY AND SOUNDNESS EXAMINATION.

THE EXPERIMENT EVOLVED INTO A THIRD ARRANGEMENT, KNOWN AS THE DIVIDED EXAMINATION. UNDER THIS PROGRAM THE STATE AND FEDERAL REGULATORS ALTERNATE THE CONDUCT OF THE EXAMINATION AND EXCHANGE REPORTS. FOR WELL RUN BANKS THIS ARRANGEMENT WILL MEAN FEWER TOTAL VISITS. THUS FAR, THREE STATES HAVE BEEN ENLISTED IN THE PROGRAM: GEORGIA, NEW JERSEY AND MISSOURI.

THE DIVIDED EXAMINATION PROGRAM IS BEING MONITORED TO DETERMINE HOW EXTENSIVELY IT CAN BE APPLIED.

THE STUDY IS IN THE FACT-GATHERING STAGE SO I HAVE NO FINDINGS OR CONCLUSIONS TO REPORT, BUT PRELIMINARY INVESTIGATIONS SUGGEST RICH POSSIBILITIES FOR THE MORE EFFECTIVE DOVETAILING OF STATE AND FEDERAL EFFORTS. IT IS MY VIEW THAT THE DUAL SYSTEM HAS BEEN AN EFFECTIVE ONE, BUT IT HAS BEEN BURDENED BY A LAYERING OF STATE AND FEDERAL SUPERVISION WHICH HAS MADE IT MORE COSTLY THAN IT SHOULD BE. I AM HOPEFUL THAT THE STUDY MAY LAY OUT APPROACHES FOR STREAMLINING THE SYSTEM WHILE PRESERVING ITS STRENGTHS AND PERHAPS SET A STANDARD FOR CREATIVE STATE AND FEDERAL COOPERATION THAT MAY SERVE AS A MODEL FOR OTHERS.

DEREGULATION WILL NOT COME EASILY. EACH LAW, REGULATION AND SUPERVISORY PRACTICE HAD A RATIONALE AT ITS INCEPTION AND VERY OFTEN EACH HAS DEVELOPED A CONSTITUENCY WHICH RESISTS ITS REPEAL OR AMENDMENT. IF WE ARE TO MAKE PROGRESS, ALL OF US MUST TAKE A FRESH VIEW AND BE WILLING TO COMPROMISE. BANKERS MUST BE WILLING TO RELY MORE ON MARKETS -- EVEN WHEN IT MAY HURT; THEY

MUST BE WILLING TO PARTICIPATE IN EFFECTING PUBLIC POLICY GOALS -- WHATEVER THOSE GOALS MAY BE AND WHETHER OR NOT THEY FAVOR THE GOALS SOUGHT. BUT, BE ASSURED THERE IS A WAY, AND THERE IS A BETTER WAY, TO IMPLEMENT GOALS. YOUR CONSTRUCTIVE PARTICIPATION IN THE PROCESS CAN ONLY HELP US FIND THE BETTER WAY. HOLDING YOURSELF ALOOF FROM THE PROCESS SIMPLY LEAVES THE FIELD TO OTHERS.

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