

PRELIMINARY DRAFT
FOR INTERNAL USE

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"THE IMAGE OF BANKING"

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ADDRESS BY

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BEFORE THE

ANNUAL CONVENTION OF THE
PENNSYLVANIA BANKERS ASSOCIATION
① WASHINGTON, D. C.

MAY 29, 1978, 40 ①

WE FREQUENTLY HEAR COMMENTS ABOUT THE IMAGE OF BANKING -- AND ALMOST AS FREQUENTLY, THESE COMMENTS ARE FOLLOWED BY SUGGESTIONS OR AN INQUIRY ON HOW TO IMPROVE THAT IMAGE -- AND ONLY SLIGHTLY LESS FREQUENTLY, THE ANSWERS TO THESE INQUIRIES CENTER ON TECHNIQUES OR PUBLIC RELATIONS CAMPAIGNS.

BANKS DO PLAY A RATHER SPECIAL ROLE IN OUR ECONOMY. THEIR LIABILITIES ARE OUR MONEY SUPPLY. A SIGNIFICANT PART OF GOVERNMENT ECONOMIC POLICY IS IMPLEMENTED THROUGH THE CENTRAL BANK. WHILE A SIGNIFICANT SHARE OF FINANCING OCCURS OUTSIDE THE BANKING SYSTEM, BANKS ARE STILL A MOST IMPORTANT SOURCE OF PRIVATE FINANCING AND IN MANY AREAS ARE PRACTICALLY THE ONLY SOURCE OF LOCAL BUSINESS FINANCING. GOVERNMENT REGULATION, STATE AND FEDERAL, TAKES ACCOUNT OF THE SPECIAL ROLE OF BANKS, AND THE EXTENT OF REGULATION SUGGESTS THAT THE IMAGE WHICH BANKING PRESENTS TO GOVERNMENT IS EXAGGERATED AND OVERBLOWN. ENTRY INTO THE BUSINESS HAS BEEN RESTRICTED AND BANKS ARE INSULATED FROM COMPETITION AMONG THEMSELVES THROUGH LIMITATIONS ON DEPOSIT INTEREST PAYMENTS AND RESTRICTIONS ON VARIOUS ASPECTS OF PORTFOLIO

POLICIES. WE EXAMINE BANKS NOT ONLY TO SEE THAT THEY ARE OBEYING THE LAW, BUT TO PREVENT OR DISCOURAGE THEM FROM BEHAVING IN A MANNER INCONSISTENT WITH THEIR OWN BEST INTEREST. ACCORDINGLY, CARTER GOLEMBE RECENTLY SUGGESTED THAT BANK REGULATION IS BASED ON THE ASSUMPTION THAT BANKERS ARE STUPID.

SINCE BANK LIABILITIES ARE OUR MONEY SUPPLY AND BECAUSE BANKERS OPERATE SUBSTANTIALLY WITH OTHER PEOPLE'S ASSETS AND BECAUSE MOST OF THESE ARE INSURED BY A FEDERAL AGENCY, THERE IS OBVIOUSLY A LEGITIMATE BASIS FOR SOME GOVERNMENT REGULATION DESIGNED TO LIMIT INSIDERS AND OTHER ABUSES AND TO IMPOSE LIMITS ON THE RISKINESS OF OPERATIONS.

MOST OF THESE REGULATIONS ARE THE DIRECT AND LOGICAL RESULT OF THE IMAGE OF BANKING AS PERCEIVED BY LEGISLATORS AND REGULATORS. AS ONE OF THOSE REGULATORS, I HAVE SOME DEFINITE IMPRESSIONS AND OPINIONS ABOUT THE IMAGE OF BANKING

AND WAYS FOR MAINTAINING OR IMPROVING IT. I WOULD LIKE TO SHARE SOME OF THEM WITH YOU TODAY BECAUSE I BELIEVE THAT THE IMAGE OF BANKING IS EXTREMELY IMPORTANT TO THE SUCCESS OF YOUR ACTIVITIES AS BANKERS AND OF MINE AS A BANK REGULATOR. IT INFLUENCES THE MEMBERS OF THE NATIONAL AND STATE LEGISLATURES WHO ESTABLISH AREAS OF RESPONSIBILITIES FOR US REGULATORS AND PERMISSIBLE AREAS OF ACTIVITY AND RESPONSIBILITIES FOR BANKERS. I NEED NOT BELABOR THE FACT THAT IT AFFECTS OUR PRIDE IN OUR WORK, THE SATISFACTION WE DERIVE FROM IT AND, IN TURN, THE QUALITY OF OUR PERFORMANCE. THIRDLY, BOTH OF THE FIRST TWO INFLUENCE THE CONTRIBUTIONS OF THE BANKING SYSTEM TO THE ECONOMIC GROWTH AND STABILITY OF OUR NATION.

THE IMAGE OF BANKING REALLY IS A REFLECTION OF THE OPINIONS CONCERNING BANKS AND BANKERS HELD BY PERSONS HAVING VARYING DEGREES OF KNOWLEDGE OF THE SERVICES PROVIDED OR OF THE BANKERS PROVIDING THEM. THE DEGREE OF ACCURACY DEPENDS UPON THE KNOWLEDGE AND EXPERIENCE OF THE PERSON FORMULATING THE OPINION AND THE CLOSENESS AND FREQUENCY OF HIS CONTACTS WITH

BANKERS, HIS SKILL IN OBSERVING, AND HIS ABILITY TO REASON. ACCURATE OR NOT, THOUGH, BOTH BANKERS AND REGULATORS MUST CONSIDER THESE OPINIONS WHEN FORMULATING COURSES OF ACTION.

AS A STARTING POINT FOR DISCUSSING THE VARIOUS IMAGES THAT BANKING MAY HAVE, LET ME HARK BACK TO A VERY INTERESTING SESSION AT THE SPRING MEETING OF THE COUNCILS OF THE AMERICAN BANKERS ASSOCIATION LAST MONTH. THE SUBJECT OF IT WAS "WHOSE BANK IS IT?" THE DISCUSSION LEADER INTERESTINGLY AND PROVOCATIVELY SUGGESTED ONE AT A TIME THAT THE FOLLOWING GROUPS ALL HAD INTERESTS IN AND CLAIMS TO BANKING:

1. THE BANK REGULATORS
2. DEPOSITORS
3. BORROWERS
4. EMPLOYEES
5. MANAGEMENT
6. OWNERS (AND IN MAKING NOTES, I BELIEVE THAT I ADDED "PRESENT AND PROSPECTIVE")
7. DIRECTORS (AND AGAIN, I ADDED "ESPECIALLY OUTSIDE DIRECTORS").

THE PROVOCATIVE PART ON THINKING ABOUT IT, WAS THAT EACH OF THESE GROUPS DID HAVE A DEFINITE INTEREST IN, AND PERHAPS A CLAIM ON, SOME ASPECTS OF THE OPERATION OF THE BANKING SYSTEM.

THAT IS A FAIRLY LENGTHY LIST, AND YET THERE ARE TWO ADDITIONS THAT SHOULD BE MADE TO THE LIST, AND PERHAPS OTHERS THAT COULD BE. THOSE OF US WHO FOLLOWED THE HEARINGS AND SUBSEQUENT DISCUSSIONS OF THE BANKING AND OTHER FINANCIAL AFFAIRS OF BERT LANCE WOULD QUICKLY ADD THE MEDIA TO THAT LIST. WE MIGHT EVEN PARTICULARIZE IT A BIT MORE BY SINGLING OUT THE TELEVISION INDUSTRY FOR SPECIAL ATTENTION, ESPECIALLY FOLLOWING THE RECENT CBS SERIES ON BANKING -- WHICH DID NOT SEEM TO PRESENT AN ACCURATE PICTURE OF THE BANKING INDUSTRY. THEN, THOSE WHO ARE CONCERNED WITH LEGISLATIVE MATTERS, AS MOST OF US ARE, ALSO WOULD QUICKLY ADD LEGISLATORS TO THAT LIST. WE HAVE SPENT MUCH TIME SINCE THE LANCE HEARINGS IN TESTIFYING BEFORE VARIOUS CONGRESSIONAL COMMITTEES ON PROPOSED LEGISLATION, SOME OF WHICH HAD ITS GENESIS IN THE LANCE HEARINGS. OR, THE HEARINGS PROVIDED A VEHICLE FOR LEGISLATIVE PROPOSALS IN WHICH

THE LEGISLATOR ALREADY WAS INTERESTED.

OBVIOUSLY, WE CANNOT DISCUSS THE THOUGHTS OF ALL OF THESE GROUPS, SO LET'S CONSIDER THE IMPRESSIONS OF THE MOST IMPORTANT GROUP ON THE LIST, THE CUSTOMERS FOR BANK SERVICES, OR TO PUT IT A BIT MORE BROADLY, "THE PEOPLE." IN MOST PLACES IN THE UNITED STATES BANKERS ARE MORE DEPENDENT UPON CUSTOMERS THAN CUSTOMERS ARE ON BANKERS. FURTHERMORE, THE IMAGE THEY HAVE OF BANKING HELPS DETERMINE THE STATUTORY FRAMEWORK WITHIN WHICH YOU AND I OPERATE.

THREE RECENT OPINION SURVEYS REFLECT HELPFULLY TO US THE IMAGE OF BANKING HELD BY YOUR CUSTOMERS. THE FIRST WAS A STUDY OF AMERICAN OPINION MADE RECENTLY FOR U.S. NEWS & WORLD REPORT (BY MARKETING CONCEPTS, INC. OF WASHINGTON, D. C.) AND REPORTED IN THE FEBRUARY 20, 1978 ISSUE OF THAT PUBLICATION. THIS STUDY RELATED TO BUSINESS IN GENERAL, BUT IT DID HAVE A SECTION APPLYING TO THE OVERALL EVALUATION OF 31 SEPARATE INDUSTRIES, OF WHICH BANKING WAS ONE. THE OPINIONS OF ABOUT 5,900 AMERICAN CONSUMERS WAS THAT AMERICAN BUSINESS IS STRONGEST IN:

1. DEVELOPING NEW PRODUCTS
2. PROVIDING PRODUCTS AND SERVICES
THAT MEET PEOPLE'S NEEDS
3. HIRING MEMBERS OF MINORITY GROUPS
4. PAYING GOOD WAGES
5. COMMUNICATING WITH STOCKHOLDERS
6. IMPROVING THE STANDARD OF LIVING
7. PRODUCING SAFE PRODUCTS
8. PROVIDING STEADY WORK, AND
9. MAINTAINING STRONG COMPETITION.

ON THE OTHER HAND, THEY BELIEVE THAT BUSINESS WAS WEAKEST IN:

1. COMMUNICATING WITH CUSTOMERS
2. BEING INTERESTED IN CUSTOMERS
3. COMMUNICATING WITH EMPLOYEES
4. PROVIDING VALUE FOR MONEY
5. CONTROLLING POLLUTION
6. DEALING WITH SHORTAGES
7. HELPING SOLVE SOCIAL PROBLEMS
8. BEING HONEST IN WHAT IS SAID ABOUT PRODUCTS
9. CONSERVING NATURAL RESOURCES

DO YOU BELIEVE THAT THESE ENUMERATIONS PORTRAY RELATIVELY ACCURATELY THE OPINION OF AMERICAN BUSINESS HELD BY YOUR CUSTOMERS? IF SO, DO YOU BELIEVE THAT THESE MAY ALSO APPLY TO A LARGE EXTENT TO THE AMERICAN BANKS? I DON'T KNOW IF THEY ARE ENTIRELY ACCURATE, BUT I CAN TELL YOU THAT READING THEM LEAVES ME WITH A FEELING SOMEWHAT AKIN TO THAT WHICH I HAVE ON SOME SUNDAYS WHEN OUR MINISTER HAS PREACHED A POWERFUL SERMON THAT HAS COME ENTIRELY TOO CLOSE TO HOME.

IF YOU THINK THESE LISTS ARE REASONABLY ACCURATE, IT'S WORTH WHILE RAISING THE SECOND QUESTION. THAT IS, DO YOU BELIEVE THEY ARE FAIRLY DESCRIPTIVE OF OPINIONS CONCERNING BANKING IN PARTICULAR? IF YOU DO, AND I PERSONALLY DO, THEN IT'S WORTH WHILE TO ASK A THIRD QUESTION, NAMELY, HOW DO YOU SUPPOSE THAT BANKING RANKED AMONG THE 31 INDUSTRIES COVERED IN THE STUDY? THESE SOCRATIC QUESTIONS ARE INTENDED TO AROUSE YOUR CURIOSITY, TO STIMULATE YOUR THINKING, AND TO INCREASE YOUR PLEASURE WHEN YOU HEAR THAT BANKING WAS RANKED THIRD OUT OF THE 31 INDUSTRIES COVERED. IT HAD AN AVERAGE RATING OF 4.93 POINTS OUT OF A

TOTAL POSSIBLE 7. AIRLINES WERE FIRST WITH AN AVERAGE RATING OF 5.47, FOLLOWED BY ALUMINUM COMPANIES. BUT LET'S NOT BE COMPLACENT OR SATISFIED, FOR BANKS WERE FOLLOWED CLOSELY IN THE NUMBER 4 SLOT BY SAVINGS AND LOAN ASSOCIATIONS WITH AN AVERAGE RATING OF 4.91. FURTHERMORE, WE ARE TWO PLACES OUT OF FIRST. I WON'T REFER BACK TO THE LIST OF THINGS AMERICAN INDUSTRY IS BELIEVED TO DO WELL, FOR MOST OF US READILY REMEMBER THE NICE THINGS SAID ABOUT US. BUT LET'S LOOK AT THE REPUTED WEAKNESSES: COMMUNICATING WITH CUSTOMERS AND EMPLOYEES, BEING INTERESTED IN CUSTOMERS, HELPING SOLVE SOCIAL PROBLEMS, AND BEING HONEST. I DON'T QUESTION THE HONESTY OF MOST BANKERS, BUT MOST OF US AT TIMES COULD TAKE A FEW LESSONS IN THE OTHER DEPARTMENTS. AND IF WE DID, BANKING COULD BE IN THE NUMBER 1 POSITION.

SIGNIFICANT DIFFERENCES EXIST BETWEEN THE RESULTS OF THE U.S. NEWS AND WORLD REPORT POLLS AND ANOTHER ONE WHICH WAS RELEASED LAST WEEK. THIS SECOND WAS CONDUCTED BY THE GALLUP ORGANIZATION. IN IT VARIOUS ORGANIZATIONS WERE RANKED ACCORDING TO PUBLIC OPINION ON THEIR EFFORTS TO MAKE THE COMMUNITY A BETTER

PLACE TO LIVE. I WAS STARTLED TO SEE THAT CITY BANKS WERE RANKED THIRTEENTH AMONG THE NINETEEN INSTITUTIONS AND ORGANIZATIONS IDENTIFIED. INTERESTINGLY, THE RATING SMALL TOWN RESIDENTS GAVE THEIR BANKS WOULD HAVE PLACED THEM TENTH ON THE LIST - EXACTLY IN THE MIDDLE. CHURCHES RANKED FIRST FOLLOWED BY LOCAL SERVICE CLUBS AND NEIGHBORHOOD GROUPS. HOWEVER, THE RELATIVE RANK OF BANKERS WAS MUCH HIGHER IN THE CATEGORY OF HONESTY AND ETHICAL STANDARDS. THERE THEY STOOD FIFTH IN A LIST OF TWENTY OCCUPATIONAL GROUPS. ONLY CLERGYMEN, MEDICAL DOCTORS, ENGINEERS, AND COLLEGE TEACHERS WERE RANKED HIGHER. FURTHERMORE, MR. GALLUP SAID THAT FIFTY PERCENT OF THE AMERICAN PUBLIC BELIEVE BANKS DO A "GOOD JOB" FOR THE NATION, THIRTY-SEVEN PERCENT "FAIR" AND NINE PERCENT SAY A "POOR JOB".

POLLS AT BEST ARE ESTIMATES BUT THERE HAS TO BE A MESSAGE FOR US IN ONE THAT RANKED CITY BANKS THIRTEENTH IN A LIST OF NINETEEN INSTITUTIONS AND ORGANIZATIONS BEING GRADED ON THE BASIS ON THEIR EFFORTS TO MAKE THE COMMUNITY A BETTER PLACE TO LIVE. PERHAPS THE MESSAGE SIMPLY IS THAT BANKERS MUST DO A BETTER JOB

OF LETTING THE PUBLIC KNOW WHAT THEY'RE DOING TO HELP DEVELOP THEIR COMMUNITIES, FOR I BELIEVE FROM PERSONAL EXPERIENCE AND FROM OBSERVATIONS OF OTHERS THAT BANKERS DEVOTE A LARGE PART OF THEIR TIME TO THE IMPROVEMENT OF THEIR LOCAL COMMUNITIES. THE SPARKPLUG IN GROUPS WORKING FOR COMMUNITY BETTERMENT SO FREQUENTLY IS THE LOCAL BANKER. WHAT I'M SAYING IS THAT I CANNOT QUESTION THE ACCURACY OF THE POLL REPORTED BY MR. GALLUP, BUT I QUESTION THE ACCURACY OF THE IMPRESSION REPORTED IN THE POLL.

A THIRD, MORE DETAILED SURVEY OF THE FINANCIAL INDUSTRIES, AS DISTINGUISHED FROM BUSINESS OR OTHER ORGANIZATIONS IN GENERAL, WAS CONDUCTED IN NOVEMBER-DECEMBER 1977 BY THE UNIDEX CORPORATION OF BLOOMINGTON, INDIANA. THIS STUDY CENTERED ON FINANCIAL INSTITUTIONS. IT COMPARED BANKS, SAVINGS AND LOAN ASSOCIATIONS AND MUTUAL SAVINGS BANKS (WHICH WERE LUMPED IN THE SAME CATEGORY), CREDIT UNIONS, FINANCE COMPANIES, AND FINANCIAL SUBSIDIARIES OF AUTO MANUFACTURERS. APPROXIMATELY 2,000 HOUSEHOLDS IN 35 DIFFERENT LOCALES THROUGHOUT THE COUNTRY WERE COVERED. ONLY PERSONS WHO HAD USED OR WERE FAMILIAR WITH TWO OR MORE OF THESE TYPES OF

LENDING INSTITUTIONS WERE INCLUDED. THE QUESTIONS CENTERED AROUND EIGHT FACTORS BELIEVED TO BE IMPORTANT IN DECIDING THE TYPE OF FINANCIAL INSTITUTION TO WHICH THE PERSON WOULD GO. THOSE FACTORS IN DESCENDING ORDER OF IMPORTANCE TO THE CUSTOMERS ARE:

1. LOW INTEREST RATES
2. HONESTY (THE CHARACTERISTIC ON WHICH BANKS STOOD HIGH ON THE GALLUP POLL JUST MENTIONED. THE OTHER CHARACTERISTIC - TRYING TO MAKE THE COMMUNITY A BETTER PLACE TO LIVE - IS NOT INCLUDED IN THIS SURVEY).
3. CONFIDENTIALITY
4. LIKELIHOOD OF HAVING YOUR LOAN REQUEST APPROVED
5. WILLINGNESS TO HELP IF YOU HAVE TROUBLE IN MAKING A PAYMENT
6. FRIENDLINESS
7. SPEED OF APPROVAL, AND
8. CONVENIENCE OF LOCATION,

YOU WILL BE PLEASED TO HEAR THAT (COMMERCIAL) BANKS STOOD FIRST AMONG FINANCIAL INSTITUTIONS IN SEVEN OF THESE EIGHT CATE-

GORIES. BUT HEAR ME OUT -- CREDIT UNIONS STOOD FIRST ON THE FACTOR GIVEN THE GREATEST IMPORTANCE, LOW INTEREST RATES, AND BANKING STOOD SECOND. IN ALL OTHER RESPECTS, CREDIT UNIONS RANKED SECOND IMMEDIATELY BEHIND COMMERCIAL BANKS. THIS OBSERVATION IS PARTICULAR SIGNIFICANT BECAUSE OF THE INFLUENCE THAT THE RECOGNITION FACTOR, OR EXPERIENCE WITH A PARTICULAR TYPE OF FINANCIAL INSTITUTION, HAD ON THE RESULTS OF THE SURVEY. ALMOST EVERYONE INCLUDED IN THE SURVEY HAD USED OR WAS FAMILIAR WITH BANKS (99.1 PERCENT). SAVINGS AND LOAN ASSOCIATIONS AND SAVINGS BANKS CAME SECOND IN ORDER OF FAMILIARITY, AND CREDIT UNIONS WERE IDENTIFIED BY ONLY SLIGHTLY OVER A HALF OF THE RESPONDENTS. SINCE THE SURVEY DEPENDED ON A COMPARISON OF THOSE TYPES OF FINANCIAL INSTITUTIONS WITH WHICH THE PERSON WAS FAMILIAR, OBVIOUSLY CREDIT UNIONS GOT INTO THE "HORSE RACE" ONLY A LITTLE OVER HALF AS OFTEN AS DID COMMERCIAL BANKS. INDEED, THE SUMMARY OF FINDINGS POINTED OUT THAT "IF THE DEGREE OF FAMILIARITY AND USAGE WITNESSED BY CREDIT UNIONS. . . WERE THE EQUIVALENT OF THAT ENJOYED BY BANKS, CREDIT UNIONS WOULD CLEARLY BE THE MOST PRE-

FERRED AS A LENDING SOURCE." SO , WHILE WE MAY BE PLEASED WITH THE EVALUATION OF THE SERVICES OF COMMERCIAL BANKS, THERE IS NO CAUSE FOR SMUGNESS OR COMPLACENCY.

THERE IS NOT TIME HERE TO GO INTO THE DETAILS OF THESE SURVEYS, BUT I COMMEND THEM TO YOU FOR YOUR OWN SEPARATE STUDY. MY REACTION TO TWO OF THE SURVEYS PERHAPS CAN BE CHARACTERIZED AS BEING SATISFIED BUT NOT REASSURED, BUT TO THE GALLUP POLL IT IS SURPRISE AND ALARM. I BELIEVE THAT BANKERS ARE DOING A GOOD JOB IN SERVING THE PUBLIC, BUT I ALSO BELIEVE THAT YOU CAN DO A BETTER ONE. AND, YOU OWE IT TO YOUR CUSTOMERS AND TO YOURSELVES TO PERFORM WITH A MAXIMUM DEGREE OF EFFICIENCY. THE PLACE TO BEGIN IS IN YOUR OWN BACKYARDS; AND YOU CAN BEGIN BY CHOPPING OUT THE WEEDS OF UNIMAGINATIVE, INEFFICIENT, OR INDIFFERENT BANKING SERVICES, AND BY CULTIVATING THE GOOD PLANTS WHICH MEET THE NEEDS AND CONVENIENCE OF THE PUBLIC IN YOUR MARKET AREA FOR SUCH SERVICES. AND, FOR GOODNESS SAKE, LET THE PUBLIC KNOW WHAT YOU ARE DOING AND HAVE DONE.

A MORE COMPREHENSIVE AND A MORE PRAGMATIC TEST OF THE IMAGE OF BANKING IS THE LEGISLATION WHICH HAS BEEN ENACTED IN THE PAST NINE YEARS, ESPECIALLY IN THE AREA OF CONSUMER PROTECTION. APPROXIMATELY A DOZEN ACTS OF THIS TYPE HAVE BEEN PASSED IN THE LAST TEN YEARS BEGINNING WITH THE TRUTH IN LENDING ACT IN 1968 AND ENDING WITH THE COMMUNITY REINVESTMENT ACT IN 1977.

YOU MIGHT RATIONALIZE THAT SOME OF THESE LAWS WERE PUSHED THROUGH BY MEMBERS OF CONGRESS AND THAT THEY ARE NOT AN ENTIRELY ACCURATE PORTRAYAL OF THE IMAGE OF BANKERS HELD BY THE PUBLIC. BUT AT THE SAME TIME THEY HAVE TO REPRESENT THE IMAGE TO SOME EXTENT BECAUSE WE LIVE IN A POLITICAL DEMOCRACY AND LEGISLATORS USUALLY DO NOT ACT CONTRARY TO THE VIEWS OF THEIR CONSTITUENTS. WITH A DOZEN CONSUMER PROTECTION LAWS ENACTED IN THE LAST TEN YEARS THERE HAS TO BE SOME SUBSTANCE TO AND SOME SUPPORT FOR CONGRESSIONAL ACTION. TO ME THEY INDICATE THAT BANKERS ARE NOT UNIVERSALLY LOVED AND RESPECTED FOR THEIR CHARAC-

TER AND GOOD WORKS.

SO MANY CONSUMER PROTECTION LAWS HAVE BEEN ENACTED (AND REGULATIONS FORMULATED TO CARRY THEM OUT) AND SOME OF THEM ARE SO COMPLEX WE'VE HAD TO START SEPARATE COMPLIANCE EXAMINATIONS. IF YOU HAD YOUR "DRUTHERS" YOU PROBABLY WOULDN'T HAVE A COMPLIANCE EXAM. INDEED, PERHAPS YOU WOULD HAVE NO CONSUMER PROTECTION LAWS OR REGULATIONS TO ENFORCE THEM; BUT THAT IS NOT ONE OF THE ALTERNATIVES. WE DO HAVE THE LAWS, AND CONGRESS HAS GIVEN THE BANK REGULATORY AUTHORITIES RESPONSIBILITY FOR ADMINISTERING THEM. WE DO SO TO THE BEST OF OUR ABILITY AND THEREFORE HAVE MOVED TO SEPARATE COMPLIANCE EXAMINATIONS.

WE RECOGNIZE THAT THERE ARE SOME PROBLEMS FOR YOU IN SEPARATE EXAMINATIONS, BUT WE DO BELIEVE THAT THE CURRENT SHIFT IS BETTER FOR BANKS AS WELL AS FOR THE REGULATORS. SEPARATING OUT THE CONSUMER PROTECTION COMPLIANCE ACTIVITIES FROM THE REGULAR EXAMINATION GIVES US AN OPPORTUNITY TO CONDUCT BETTER SAFETY AND SOUNDNESS EXAMINATIONS AND ALSO TO CONDUCT BETTER

COMPLIANCE EXAMINATIONS. THE LATTER CURRENTLY ARE TAKING CONSIDERABLE TIME BUT THEY MAY NOT REQUIRE AS MUCH IN THE FUTURE. YOU SEE WE ARE USING THE COMPLIANCE EXAMINATION AS AN EDUCATIONAL TOOL AS MUCH AS AN ENFORCEMENT DEVICE. EXAMINERS ARE SPENDING AN APPRECIABLE PORTION OF THEIR TIME DISCUSSING THE REQUIREMENTS AND PROCEDURES FOR COMPLIANCE WITH THE VARIOUS CONSUMER PROTECTION LAWS.

AFTER A ROUND OR TWO OF THIS NATURE YOUR STAFFS SHOULD BE WELL ACQUAINTED WITH THE VARIOUS LAWS AND REGULATIONS SO OUR EXAMINER STAFF SHOULD NOT NEED TO SPEND AS MUCH TIME IN THE EDUCATIONAL EFFORT AS IT IS CURRENTLY.

AS LONG AS WE'RE DISCUSSING THE COMPLIANCE EXAMINATIONS LET ME GIVE YOU SOME CHEERFUL NEWS. I'VE JUST BEEN READING THE 1977 ANNUAL REPORTS OF THE FDIC REGIONAL DIRECTORS. THEY SHOW THAT BANKS REALLY ARE TRYING TO COMPLY. WE ARE FINDING MORE VIOLATIONS, BUT THAT IS TO BE EXPECTED WITH A SEPARATE, SPECIALIZED EXAMINATION AND MORE TIME IN WHICH TO CONDUCT IT. MORE

SIGNIFICANT THAN THE INCREASE IN NUMBER OF VIOLATIONS IS THE OPINION OF THE EXAMINERS THAT THESE ARE TECHNICAL RATHER THAN DELIBERATE, SUBSTANTIVE VIOLATIONS OR ATTEMPTS TO EVADE THE LAW. WITH TIME AND EXPERIENCE THESE MATTERS SHOULD BE STRAIGHTENED OUT AND THE NUMBER OF VIOLATIONS SHOULD DECREASE SIGNIFICANTLY.

THE EXAMINATION PROCESS IS A DYNAMIC ONE WHICH WE CONTINUALLY TRY TO IMPROVE. FOR EXAMPLE, WE HAVE TAKEN AT LEAST NINE NEW INITIATIVES IN IT IN THE PAST TWO OR THREE YEARS. THEY ARE:

1. WE ARE PLACING INCREASED EMPHASIS ON BANKS' POLICIES AND MANAGEMENT AND LESS EMPHASIS ON INDEPENDENTLY VERIFYING MATTERS THAT ALREADY ARE CHECKED BY INTERNAL OR EXTERNAL AUDITORS OF THE BANK AND THAT DO NOT THREATEN THE BANK'S SOLVENCY.

2. THE SEPARATE COMPLIANCE AND ELECTRONIC DATA PROCESSING EXAMINATIONS ARE EXAMPLES OF AN ATTEMPT TO GAIN THE BENEFITS OF SPECIALIZATION.

3. WE HAVE DEVISED AN INTEGRATED MONITORING SYSTEM

FOR USE AS AN "EARLY WARNING" SYSTEM DESIGNED TO ALERT THE CORPORATION BETWEEN EXAMINATIONS TO A DETERIORATING SITUATION BEFORE IT ASSUMES SERIOUS PROPORTIONS.

4. WE ARE PARTICIPATING ALONG WITH THE OTHER TWO BANK REGULATORY AGENCIES IN AN ANNUAL REVIEW OF SHARED CREDITS. THIS SAVES TIME AND ASSURES A UNIFORM CREDIT EVALUATION FOR ORGANIZATIONS WITH LINES OF CREDIT IN A NUMBER OF FINANCIAL INSTITUTIONS.

5. AUTOMATED BANK EXAMINATION PROGRAMS AND SAMPLING TECHNIQUES ENABLE EXAMINERS TO CONDUCT EXAMINATIONS IN LESS TIME WITHOUT LOWERING STANDARDS.

6. PLACING RESPONSIBILITY FOR THE SOUND OPERATION OF THE BANK SQUARELY ON THE SHOULDERS OF THE BOARD OF DIRECTORS.

7. TO STRENGTHEN THE SELF-REGULATORY PROCESS WE'VE INCREASED THE NUMBER OF TIME THAT OUR EXAMINERS MEET WITH EACH BANK BOARD. THE EXAMINER-IN-CHARGE NOW MEETS WITH THE BOARD OF DIRECTORS AS A ROUTINE PART OF EVERY EXAMINATION WHETHER OR NOT THE BANK HAS SERIOUS PROBLEMS. THAT WAY THE DIRECTORS ARE SURE TO HEAR ABOUT ANY PROBLEM HE SEES. AT THE SAME TIME HE CAN

RESPOND TO ANY QUESTIONS THAT THE MEMBERS OF THE BOARD MAY HAVE, ALL IN THE INTEREST OF A SAFE AND SOUND RESPONSIVE BANKING SYSTEM.

8. TO CUT DOWN ON THE NUMBER OF EXAMINATIONS WE HAVE TRIED VARIOUS SORTS OF COOPERATIVE EXAMINATIONS WITH THE STATE BANKING AUTHORITIES. IN PENNSYLVANIA WE HAVE USED THE CONCURRENT FORM OF EXAMINATION, I.E., ONE IN WHICH THE STATE EXAMINERS AND THE FDIC EXAMINERS GO IN AT THE SAME TIME AND PARTICIPATE JOINTLY IN AN EXAMINATION. TWO SEPARATE REPORTS ARE WRITTEN UP, AS CONTRASTED WITH THE SINGLE REPORT THAT IS PREPARED IN THE CASE OF A JOINT EXAMINATION. DURING 1977 APPROXIMATELY 45% OF OUR EXAMINATIONS IN PENNSYLVANIA WERE CONDUCTED CONCURRENTLY WITH THE STATE AND ONLY 55% WERE INDEPENDENT FDIC EXAMINATIONS.

9. AND FINALLY, WE DO NOT EXAMINE AS OFTEN THOSE BANKS THAT WE CONSIDER TO BE THE SOUNDEST AND BEST MANAGED. WE ALSO HAVE DEVELOPED A MODIFIED OR SHORT FORM OF EXAMINATION WHICH WE USE SOMETIMES IN THE BETTER BANKS. ⁹ THESE IMPROVEMENTS IN THE EXAMINATION PROCESS ARE IMPORTANT BECAUSE THEY CAN HELP YOU RUN A SOUND, AGGRESSIVE BANK MEETING THE BANKING NEEDS AND CONVENIENCE

OF THE PEOPLE IN YOUR COMMUNITY. IF YOU DO, BANKING WILL HAVE A GOOD IMAGE, FOR IMAGE IS MERELY A REFLECTION OF THE WAY YOU RUN YOUR BANKS AND THE WAY YOU MEET THE CREDIT NEEDS OF YOUR COMMUNITIES.

WE NEED NOT BELABOR THE IMPORTANCE OF THE IMAGE OF BANKING TO YOU AS AN INDIVIDUAL, TO ME AS A REGULATOR, TO THE BANKING SYSTEM AND TO THE ECONOMY AS A WHOLE. WE KNOW WE NEED THE BEST POSSIBLE IMAGE FOR BANKING. WITH PERSPECTIVE, INTEREST, AND ENERGY YOU AND THE OTHER BANKERS CAN IMPROVE THAT IMAGE SO THE INDUSTRY ENDS UP IN THE NUMBER ONE SLOT THE NEXT TIME A POLL IS TAKEN.