Remarks By
Chairman Don Powell
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Thank you very much. It's a pleasure to be with you in Salt Lake City for the 101st annual meeting of the Conference of State Bank Supervisors.

Everyone in this room knows that the American banking system is admired and respected throughout the world. Of course, we, at the FDIC, like to think that federal deposit insurance is one of the main reasons that the American banking system is so highly valued. But we also know that the dual banking system, with state and federal regulators working to promote safe, efficient and innovative banks, has also brought great benefits to the American people and to the American economy.

The FDIC became part of the dual banking system in 1933, when our agency was created in response to the banking problems of the late '20s and early '30s. The federal and state supervisory structure of that age proved unable to provide long term financial stability. The FDIC has been able to fill that role - in good times and bad - ever since. The days of depositor panic and bank runs have never reappeared on the American economic scene - even during the worst moments of the last banking crisis. I'm very proud of the FDIC for this often unsung accomplishment - and of the role we play in America's financial stability.

I am also proud that for nearly 70 years, we have enjoyed a very successful relationship with state banking departments. That solid relationship has aided the FDIC in every aspect of our job - as federal insurer of deposits, as primary federal regulator of state nonmember banks, and occasionally, as backup supervisor for all insured banks and savings institutions.

Let me share with you a few examples where the FDIC and the states have worked together to promote a safe, efficient and innovative banking system.

The FDIC currently has formal working agreements with 44 state banking departments that have resulted in such initiatives as alternate examination programs, common examination forms, and joint enforcement actions. We rely on the examination reports of 46 state banking departments to help us protect the deposit insurance funds.

In addition, the coordination and cooperation of state and federal regulators in matters involving state-chartered banks operating across state lines has resulted in a single point of contact for these institutions and a seamless supervisory process. But in today's world, the business of banking isn't just interstate -- it's international. That's why the

FDIC and other federal banking officials regularly meet with our state counterparts to address areas of mutual concern involving U.S. banks and branches with active operations abroad.

There are many more examples of how cooperative efforts of state and federal banking supervisors are paying off.

Examination software developed by the FDIC with assistance from CSBS and the states.
FDIC training of state examiners.
The development of common forms that eliminate duplication and reduce regulatory burden for the industry.
I could go on and on. Let me simply say, however, that when state and federal regulators share and coordinate resources in ways like those I've described, the results are clear. We can expect, and we have achieved, more efficient and more effective supervision, and that can only benefit state-chartered institutions, state banking supervisors, the FDIC, as well as the American people and economy we serve.

On May 10th, I gave a speech at a conference held by the Federal Reserve Bank of Chicago. My main message was that federal banking regulators need to find new ways to improve our own efficiency and effectiveness. I gave the example of how the federal agencies could pass on to the industry millions of dollars each year by reducing the costs of backroom operations to support our supervisory activities. I noted that the FDIC is in discussions with the Office of Thrift Supervision to provide back-office services like training, library resources, and economic analysis. I also said the federal banking agencies must identify the important regulatory questions of the day, communicate with one another, digest the arguments with mutual respect, and move toward consensus.

Let's think about these issues for a minute. Become more efficient and cost-effective. Communicate better. Move toward consensus. Sounds an awful lot like the results of our efforts over the years with you all in the state supervisory arena. My point is this: My regulatory colleagues in Washington and I can learn a great deal from the FDIC's partnership with the state supervisors. And we should.

It is also safe to say that when we do business with the states, there are no turf battles. We have far too much in common and I would suggest our relationship could be a model in this area, too.

One area of common ground is our mutual desire to promote a healthy competitive environment for all banks -- from large conglomerates operating nationwide to small, independent banks devoted to serving rural communities. As we look at the trends in this area, they indicate continued challenges for the small, community-based institutions that we know to be such a vital part of the American banking system.

Here's a very telling and troubling situation, based on research by the FDIC's Kansas City Regional Office. Our analysts have been studying U.S. Census Bureau data for

counties throughout the seven-state region - that's Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota - and the numbers show two parallel trends. Many of the rural counties are experiencing substantial population declines, and many of the banking institutions in these same rural areas are experiencing low rates of deposit and loan growth. Our concern is that if population levels continue to fall in rural areas, some banks may not be viable in rural America or they may choose to increase risk taking just to maintain their loan and deposit bases. Neither scenario would be good for community bankers or their regulators.

The FDIC and our state banking counterparts have a role to play in helping small institutions become more innovative and more efficient - and, in turn, continue to be profitable and serve their communities without taking on added risks for themselves or the FDIC's insurance funds.

What can we do for these institutions? Perhaps the best place to start would be to build on what we have already accomplished in the way of state-federal coordination and cooperation, and to think about what more can be done to promote innovation and efficiency.

One example of where the FDIC and state supervisors have worked closely together involves the FDIC's authority to approve expanded activities for state banks. I'm talking about Section 24 of the Federal Deposit Insurance Act, which was enacted by Congress in 1991. Under Section 24, the FDIC has the authority to permit a state bank or its subsidiary to engage in activities that are permissible under state law but are not permissible for a national bank or national bank subsidiary. There are restrictions on the FDIC's ability to give the green light to expanded activities under Section 24. We could, for example, only permit these activities if the bank meets its capital requirements and if the FDIC determines that the activity does not pose a significant risk to the appropriate FDIC insurance fund.

To date, most of the Section 24 applications reviewed by the FDIC have not been in the category of what you'd call pushing the envelope. Applicants so far have primarily asked for authority to invest in securities or to do real estate investment and development. But we've also approved requests for activities that are a bit, shall we say, unusual for a bank. One bank received FDIC approval in 1994 to acquire a business that tests for personality characteristics and leadership skills. Another bank, also in 1994, got our approval to engage through subsidiaries in printing services and in the production of microfilm. And another bank two years ago received FDIC approval to own a subsidiary with only one non-cash asset -- a steel mold used in the process of bending and installing cable wire.

I'm not here to say that community banks should consider getting into practically every line of work from real estate development to psychological testing. In fact, any deposit insurer who thought that way probably needs some psychological testing of his own. But I do believe that state-chartered institutions, with the encouragement of their state

supervisors, should take a very close look at the opportunities presented by Section 24 as they strive to be innovative and stay competitive in a changing marketplace.

So let me close by saying again that I appreciate what you do for America and for the FDIC. I appreciate our strong working relationship on behalf of our country's banking industry. I believe the future is bright for any bank anywhere in America that is willing to work hard and innovate. The FDIC is willing to listen to new ideas and new approaches, and use our authority to support innovation, competition, profitability and customer service. We at the FDIC look forward to continuing our work with state supervisors and the CSBS to protect and preserve the dual banking system and all it stands for.

Thank you.

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