

**CHAIRMAN DONALD E. POWELL
FEDERAL DEPOSIT INSURANCE CORPORATION
REMARKS BEFORE THE
WOMEN IN HOUSING AND FINANCE
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Good afternoon. I appreciate the opportunity to speak to such a distinguished audience. I particularly want to thank Kathy James, of the FDIC, for her good work on behalf of Women in Housing and Finance. She makes a valuable contribution to the work we do at the FDIC, and I am glad she's taken time to help your group over the past year as well.

This afternoon, I want to share with you some of my impressions after almost two years in Washington, DC. This has been an eventful time for our country. I think it is useful, from time to time, to pause and consider what the experiences of the past teach us – and especially consider how best to use that knowledge to continue moving forward.

Those of us in the banking regulatory arena are given a high calling. We're here to safeguard confidence in the American banking system by protecting the savings of ordinary Americans. Another important duty is to ensure problems in the financial sector are recognized and handled with the least disruption possible. We owe it to the American people to be vigilant and to get it right.

I've noticed that when progress is made in Washington – on just about any subject you can name – it often comes as a result of crisis. We have seen this sort of change many times in the life of our nation. The FDIC itself was created during the most profound banking crisis this nation has ever seen. Many of the supervisory powers we have today came as a result of the difficulties we faced in the late 1980s and early 1990s. There is nothing wrong with this. Often, dramatic events can point out weaknesses in our system that need addressing – and can provide the impetus to enact much-needed reforms.

In the past two years, we've seen several examples of this sort of change. The Patriot Act and the Sarbanes-Oxley legislation are two important laws that come readily to mind. The horrible events of 9/11, and the corporate governance scandals, convinced even the most skeptical policymakers that something had to be done. And these events convinced many of us that the status quo was not sufficient to handle the newly recognized threats to our economic system and our way of life.

Having made the tough policy calls on the corporate governance issue, we are now moving toward the next very important phase of this recovery process. We have reached a time when good governance, solid accounting, and strong internal controls should be hardwired into the DNA of American business. We've seen many firms treat improving governance like a line of business – with all the determination and singular focus that implies. Now it must become a way of life.

This is vitally important work. If businesses do not accomplish the basic threshold tests of good governance, good accounting, and solid internal controls, they will not be around to enjoy the recovery. The marketplace is littered with examples of companies that were punished mercilessly for failing the basic tests of good corporate citizenship. Cleaning house is also necessary if we are to ensure a stable business environment going forward and if we are to provide investors with the incentive to return.

But it is also important to remember that good corporate governance is not an end unto itself. The purpose of all this housecleaning is to reorient American business to today's environment, and to begin the long road toward sustained profit and investment, improving customer service, and hiring staff.

So I would offer some thoughts to American businesses: If you haven't fixed your accounting, governance, and controls – do it now. The market has not been kind to those companies who are late entrants to the ranks of good corporate citizenship. However, if you have taken responsible steps to solidify your boards, your governance, and your internal systems and controls, then I encourage you to employ the same passion and drive you brought to that effort in the service of revitalizing your core business model and improving your economic performance. This, too, is critical if we are to get our economy moving again.

There are real opportunities in today's market. The benefits of the recovery will flow to those companies that address their problems and position themselves to take full advantage of the emerging rebound. Those who allow their attention to wander will be left behind.

We've found this to be true before. In fact, it reminds me of my own experience as a banker. When our industry was in crisis a decade ago, bankers and policymakers could easily have embarked on an all-consuming spiral of recrimination, blame, and perpetual reorganization. It was a very difficult time for our industry, and there were plenty of opportunities for posturing and endless tinkering. Certainly, some of that did occur. But our industry, in fairly short order, implemented sound policies, cleaned up its act, and got on with the business of good banking. I don't have to outline the benefits of this approach. They are evident in the unprecedented decade-long run of success for the financial services industry.

So it is important to remember that crisis can be profoundly difficult – and even can provide the opportunity to implement much-needed reforms. But if our ultimate goal is a healthy, thriving business sector that innovates, invests, grows and hires, then we must

move beyond the crisis phase and get to work on the fundamentals of designing good products that meet the needs of the marketplace.

You might be justified in asking the question: If crisis decision-making is not perfect, what is? This is a difficult question – and one I've struggled with. No policymaker, and no market participant makes all the right decisions all the time. Trial and error is as much a part of the policymaking process as it is of a corporation's R & D department.

We should, however, strive to be proactive and to curb excesses before significant imbalances occur and while there is opportunity for reasoned study and the thoughtful exercise of leadership. This isn't always easy. The status quo is a powerful force acting against change. Sometimes, however, policymakers act ahead of time to prevent potentially volatile outcomes. This approach requires a combination of foresight, intellectual rigor and leadership – and while these attributes are rarely found in one place, it is nonetheless in our best interest to deal with problems ahead of time rather than in response to the unwieldy pressure of external events.

At this moment, we are faced with two opportunities for thoughtful and principled leadership. The first of these, in my view, is the opportunity to enact a sound deposit insurance reform bill. The problems have been well-documented and I won't belabor the point here. Suffice it to say that our deposit insurance system – designed to protect the individual depositor and to insulate the taxpayer from the risk of systemic bank failures – has flaws that should be addressed. The premium system yields misplaced incentives, new deposits enter the system without paying, and the economic consequences of a large unexpected premium levy would be significant and ill-timed. The issue has been studied for more than three years and we at the FDIC believe it is time to act.

I'm encouraged about the progress we've made during the first half of this year. The House of Representatives tackled this issue, and overwhelmingly voted for reform. The Treasury and the other regulators have weighed in with a proposal to improve the system. We've got good momentum behind a responsible bill – and I remain hopeful the Senate will act and we will get a good deposit insurance reform bill this year.

Another area where we can exercise leadership – and head off bigger problems down the line – is on renewing the Fair Credit Reporting Act provisions set to expire at the end of the year.

This is an important issue. Consumer spending accounts for two-thirds of GDP, and is a key driver of U.S. economic growth. It is also important because we've all come to rely on the convenience of today's credit market. A recent survey of auto lenders in the U.S. revealed that in 2001 almost 85 percent of auto loan applicants received a decision within an hour. Further, the access to credit and the cost of credit is more favorable in the U.S. than in other parts of the world due – in large part – to the relative ease of information sharing between potential credit customers and potential lenders.

What does this mean to ordinary Americans? If you think it only amounts to a mailbox full of credit card solicitations, you're wrong. A recent study concluded that mortgage rates are two full percentage points lower here than in Europe – saving American consumers as much as \$120 billion per year because of the efficiency and liquidity made possible by, among other things, effective credit reporting. Another study examined U.S. practices versus the standards in other parts of the world and concluded that the impact of more limited information sharing fell hardest on those who are “young, have a short time on the job or at their residence, have lower incomes, and are more financially vulnerable.”

So the debate on the FCRA is important to all of us. In the old physician's dictum, we must “first do no harm” to the American consumer or financial sector when considering the reauthorization of the pre-emptions contained in the current law – and we must act before the pre-emptions expire to ensure no negative economic impact. This is an opportunity for leadership on the part of policymakers – and I hope they will seize the moment.

While we will continue to monitor and participate in the thoughtful discussion already underway on this issue, the FDIC believes it is necessary to renew and make permanent these pre-emptions. The advances we've seen in recent years have helped both consumers and lenders – and this better system of credit reporting has removed many inefficiencies from our economy. We should allow this process to continue – and I hope the Congress and the Administration will continue to lead on this important issue.

The issues of deposit insurance reform and the FCRA reauthorization are two areas where a little thoughtful action now can prevent more significant consequences later. I hope we will – in both cases – take affirmative steps, absent crisis, to improve our long-term economic position.

I appreciate your attention and the opportunity to speak here today. I look forward to your questions.

Thank you.

Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. The FDIC insures deposits at the nation's 9,354 banks and savings associations and it promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars – insured financial institutions fund its operations.

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