Remarks by
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It is always a great pleasure for me to be among my friends in the ICBA. As a former community banker, I know what special people are here in this room and what important roles you play in the economic life of our nation.

In the banking business, times are surely good. Our industry is riding a wave of unprecedented success. The FDIC just released the year-end 2004 numbers for the industry last week, which showed that insured institutions earned $123 billion last year, a new record. And this was the fourth consecutive year of record earnings for the industry.

The number of problem institutions – those with the poorest supervisory ratings – is extremely low by historical standards. Only 80 insured institutions out of almost 9,000 are currently on the problem list.

In 2004, the banking industry achieved three milestones that are truly revealing:

- total assets of insured institutions surpassed $10 trillion;
- the industry's equity capital exceeded the $1 trillion mark;
- and the average size of an FDIC-insured institution climbed above $1 billion.

Times are good, indeed.
So what is there for bankers – and, particularly, community bankers – to be concerned about?

Let me start with regulatory burden, which is a concern for all banks, but particularly for community banks given the disproportionate impact on smaller institutions.

I'll mention two important efforts in progress to reduce regulatory burden, both of which deserve your attention and involvement. The first is a legislative effort we call "EGRPRA," which is an interagency project led by the FDIC's Vice Chairman, John Reich. I can tell you that the banking industry has no better advocate in the regulatory community on this issue than John. He is absolutely committed to working with the other banking agencies to reduce unnecessary burden.

John and his team are working closely with the industry. The ICBA and other trade groups have submitted a number of proposals, including several that would reduce reporting requirements, streamline certain types of applications, and simplify Privacy Act notices. We are generally supportive of your proposals, and now need your help to build consensus among all the interested parties in order to solidify a final set of proposals that John can present to the Congress.

I urge you to lend your support and your active participation to the EGRPRA effort.

The second area under regulatory burden that's getting a lot of our attention involves a set of items that would not require legislation to fix. It's about the things we as regulators can do today. Here let me focus on CRA. In the past two weeks, the Federal Reserve, OCC and FDIC agreed on a proposal that would reduce the burden of CRA compliance on community banks without diluting in any way the public policy objectives of CRA.

You heard me mention a moment ago that the average size of an FDIC-insured institution is now more than $1 billion dollars. The proposal would raise the small bank threshold to $1 billion to eliminate CRA data collection and reporting of small business, small farm and community development loans. It would also rationalize the performance tests to allow for more flexibility in meeting CRA goals.

Let me be clear on one point about this: Our proposal does not exempt any banks from complying with the requirements of CRA. Our hope and belief is that the result will be a more cost-effective, less burdensome and more efficient CRA compliance process for community banks. I urge you to take a close look at the proposal and let us know what you think.

When I was in banking, we used to talk a lot about the importance of an independent and otherwise effective loan review officer. That's still important. In today's regulatory environment, however, it's clear that bankers need to be equally concerned about their compliance officers. Look at the issues on the front burner today, like privacy, identity theft and, of course, BSA.

This is the number one issue for many community bankers, which is as it should be given the importance of the subject. The FDIC is fully committed to helping law enforcement thwart the misuse of the financial system by criminals and terrorists.

Realistically, a permanent "full court press" on BSA issues is the only responsible policy position the regulators can take given the threats at large in our world today. Bankers need to accept that, and adopt and embrace such an attitude themselves.

The devil, of course, is in the details. Bankers have raised many practical concerns and issues about BSA related to uniform supervisory procedures across agencies, defensive filing of SARS, CTR filing requirements, and so forth.

The regulatory community is working hard on these issues and is conducting extensive outreach to ensure that effective, two-way communication informs this process. In fact, the FDIC along with the Treasury Department, other regulators, and law enforcement agencies will be hosting outreach events in the next few weeks. Watch the FDIC web site – fdic.gov -- for details and, while you're there, you might want to register for our on-line subscription service to stay informed on these and other important issues.

Let me also mention that in the area of identity theft, the regulators have come together and are finalizing interpretive guidance on financial institutions' response programs for unauthorized access to customer information and customer notice. The guidance highlights customer notice as a key feature of an institution's response program. It provides that a financial institution should provide notice to its customers whenever misuse of sensitive customer information has occurred or there is a reasonable possibility that it will occur.

Another set of important issues pertains to regulatory capital requirements. You have all heard about Basel II. Many of you probably feel that the issues regarding Basel can be summarized like this: Basel is for large banks, it will lower their capital requirements and give them a competitive advantage, and you are against it.

As you know we at the FDIC take bank capital very seriously. We are working with our fellow regulators to issue two important documents for comment by midyear. One will be an NPR to implement Basel II. Another is an ANPR for changes to capital requirements for all other banks and thrifts in the U.S.

You will be able to compare those documents side by side and judge the competitive impact for yourself. It is possible there will be situations where identical assets would receive very different capital requirements, depending on whether they are held by a large Basel bank or by a community bank.

Will these differences have any important effects?

- For loan pricing -- maybe not.
- For returns on equity -- probably.
- For where loans end up being held in banks of different sizes -- probably.
- For consolidation of the industry -- again probably.

In any case, if the regulators are requiring very different capital across banks for identical assets, you are going to need to make sure you get a satisfactory answer as to why that makes sense.

As the head of an agency that has responsibility for the insurance funds and that supervises many of our nation's community banks, you can be sure I feel responsible for the quality of the overall package of proposed regulations that comes forward this summer. You can and should hold me accountable for it.

A closely related issue is the FDIC's role in examination activities for deposit insurance purposes. As deposit insurer, the FDIC has the responsibility to assess the risks posed to the insurance funds by all insured institutions. As the underlying risk-drivers affecting the insurance funds evolve, so does the information the FDIC needs to assess those risks. This is especially true for the large, complex institutions where our risk is increasingly concentrated.

You may have read that our board recently took action to ensure that the FDIC has access to the information needed to assess risks posed by large, complex institutions. And you may have read commentaries arguing that the FDIC is adding an unwarranted layer of additional supervision, or you may have heard worries from some bankers that we are going to override the judgments of primary regulators regarding Basel implementation.

I would like to say two things about this issue. First, it does not affect community banks at all, only large, complex institutions. Second, regarding the institutions affected, the impact is likely to be nothing more than refinements and enhancements to interagency information sharing and mutual cooperation on selected activities.

In short, this issue is about information sharing and not about additional supervision. The FDIC is seeking arrangements for sharing information among agencies that will best serve the needs of the deposit insurance system and the public as we move forward, and we are confident that these arrangements can be developed cooperatively with our fellow regulators.

Speaking of large, complex institutions, it appears that lawmakers are poised to take action on the GSEs. GSEs are important to you because many of you do business with them. They are important for another reason, too - if a GSE failed, creditors with significant exposure may bear significant costs. So you should care whether GSE risks are properly managed. Proper regulation and supervision of these entities is important.

What does proper supervision mean to the FDIC?

- One, a safety and soundness regulator should not be dependent on appropriations.
- Two, a safety and soundness regulator needs the ability to regulate and supervise capital adequacy.
- Three, a safety and soundness regulator must have the ability to appoint a receiver.

A well functioning receivership program is one of the reasons the U.S. banking system historically has been so resilient at putting problems behind it and moving forward, without significant economic disruption. By promptly removing non-viable institutions from the competitive playing field, a build-up of risk is avoided. On the other hand, not dealing decisively with large troubled financial institutions can contribute to national economic slumps.

A receivership, properly employed, is a targeted and efficient way to divide up the costs of a failure in whatever way Congress prescribes. Our experience is that, done properly, this can be accomplished quickly and non-disruptively, with most assets and the viable parts of the business put in the hands of an acquirer.

I can't give a speech on issues you should care about without mentioning deposit insurance reform. This issue is being considered once again by the Congress – I'll testify in the House next week – and we need your help to get deposit insurance reform over the goal line. As you know, we want only to merge the funds, price risk better, distribute the burden of deposit insurance assessments more fairly across banks and more evenly over time, and index coverage so that it does not erode in value. These are reforms that have always made sense, they still do, and we need your support to pass this important legislation.

Finally, let me close with a word about the future of community banking. Community banking represents a smaller share of the pie by many measures these days, but it is alive and well, and community bankers have shown the ability to adapt to profound, dramatic changes in their business environment.

My observation is that we live in a world where such change is now ordinary. It's the norm. So my advice is to continue to adapt No one is better than community bankers at understanding their customers' needs, especially the unique needs of small businesses and consumers. But both needs and wants continue to evolve. Your customers will expect your array of products and services to keep pace. And because technology is continually reshaping the marketplace, customers will demand that your delivery of these products and services is state of the art.

These are significant challenges, but I am confident that community bankers are equal to the task.

Thank you.

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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 8,975 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.

FDIC press releases and other information are available on the Internet at www.fdic.gov and may also be obtained through the FDIC's Public Information Center (877-275-3342 or (703) 562-2200).

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