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[Current Banking Issues]

REMARKS BY

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BEFORE THE

93rd ANNUAL CONVENTION of the
UNITED STATES LEAGUE OF SAVINGS INSTITUTIONS

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I am happy to have this opportunity to speak with you today.

I know my talented predecessor Bill Isaac was happy his replacement finally reported to work. He did a great job but he did leave a very busy Federal Deposit Insurance Corporation with a "few" items of unfinished business. I am looking forward to working on them with the very able staff of the Corporation.

Our meeting today is fortunate for me. Being new on the job, I can share only first impressions with you about some of the issues now before the financial services industry. Despite the subtle differences, the public views banks and savings institutions as one industry. That means we all are facing decisions. Being here gives me an early opportunity to hear some of your views about the options.

Before giving you my perception of our upcoming agenda, let me say that I am delighted to see savings institutions and commercial banks are enjoying a very profitable year. Nothing is more welcome to an insurer than a client industry in sound and prosperous economic condition. We shall work with you to promote continued success. It's good to see a business that turns a healthy profit!!

I don't need to be reminded by anyone that thrift institutions have had too many tough years. Deposit rate deregulation came at a time of double digit inflation. As consumers, we should be grateful for the billions of dollars we have earned in interest on our deposits. But your institutions paid dearly for that public benefit.

For many of you, the moderate inflation rates and the relatively strong housing market have helped in a profitable restructuring. And the tools Congress provided for the savings industry are assisting others.

The net worth certificate program Congress created in 1982, for example, has turned out to be a useful transition tool for both the FDIC and the Federal Home Loan Bank Board. For the present, we may have a continuing need for it. In the long-run, we shall hope that it will become unnecessary.

Currently, about 28 savings banks are using the FDIC's net worth certificate program. As was intended, it is buying time.

The recent reorganization of the Bowery Savings Bank is only one example of where time helped regulators and private investors resolve portfolio problems without depriving customers of banking services. With Bowery, the time made a private solution possible at reasonable cost to the FDIC and the financial community.

Having said we need regulatory and statutory programs that help you, as private businessmen and women, adjust to changes in public, I would like to share my thoughts on some of the decisions confronting us.

I want to briefly touch on two regulatory issues that are of interest to all financial institutions, regardless of the type of charter they hold. Then, I have a few thoughts to share with you about the deposit insurance funds.

BROKERED DEPOSITS

As you all know, the FDIC and the Federal Home Loan Bank Board have been working together on a common approach for regulating the volume of out-of-territory deposits flowing to financial institutions. In this age of electronic banking, brokerage and listing services have proven the concept of market-area is becoming less meaningful -- at least as far as gathering deposits is concerned.

Financial institutions have found that using brokers or listing services is an exceptionally efficient way to transfer or obtain funds. Some managers have demonstrated they are unable to responsibly use the service, but others are benefitting. They have a nationwide teller network which generates deposits to their specifications.

Our existing supervisory mechanisms cannot adequately track this nationwide teller network. And the supervisory concerns are frequent enough to require a regulatory response. The solution we previously proposed was too effective, it eliminated the benefits of the evolution of the financial marketplace. I'm sure it's not the only option worth pursuing. We shall be exploring other ways of preventing abuse while retaining the benefits of the larger marketplace.

DISCLOSURE

Public disclosure is another troubling issue for the regulators, banks and the savings industry. The Comptroller of the Currency last week proposed new disclosure requirements for national banks.

The Comptroller would have national banks issue what is essentially an annual report, similar to that already distributed by publicly traded corporations. I applaud the Comptroller's efforts. We should accept the fact that some form of additional disclosure is inevitable.

As a businessman, I believe the markets work best when good information is readily available.

I recognize that public disclosure is a very touchy issue for financial institutions. In Ohio and Maryland, the disclosures of management problems became a media event, and the broad impact was unfortunate.

But depository institutions depend on public confidence and should earn the public trust by providing information about their operations. I'm not sure how much needs to be disclosed or in what form it should be presented. But there are legitimate accounting and operational questions which should be open to public scrutiny.

We shall be reviewing this whole question at the FDIC. Our goal will be to seek disclosure policies which strengthen the industry and assure it of the confidence of the American people.

THE INSURANCE FUNDS

One issue getting a lot of attention in the news media and Congress is the condition of the Federal Savings and Loan Insurance Corporation.

Banks and savings institutions have an established deposit insurance system. Both can use some change after the insurance needs of banks and savings institutions are carefully examined.

I think the S&L Fund has performed remarkably well, given the tasks it has had to deal with throughout this decade. It's an insurance fund that has had to support a massive industry restructuring.

The FSLIC has taken many hits, large and small, but its liquidity can be restored. I think your future demands close attention to the details about how that restoration is executed.

One option is to merge the FDIC and the FSLIC. Frankly, we already have plenty to do at the FDIC, but we certainly want to do what we can to be helpful. I am not sure a merger is the right approach for insuring financial institutions that choose to undertake minimal commercial loan-making activities.

The FDIC is structured to underwrite diverse commercial banking activities. Savings institutions that have decided to avoid asset specialization can apply for FDIC insurance. If the thrift industry continues as a different kind of financial institution, it should have its own fund if this is financially possible.

The Federal Home Loan Bank Board is finding the use of special management teams, drawn from the industry, is useful for containing the FSLIC's future liabilities. The proposed 406 program is an interesting concept for managing a large liquidation burden. We have a great deal of experience in the liquidation business, perhaps we can be of help to the FSLIC in this area.

If experience proves that the FSLIC must receive additional financial resources, then the tough decision will be before you. Will the resources come from the thrift industry, the federal treasury, or some other institution such as the FDIC?

An industry contribution to the FSLIC deserves careful consideration. The potential for regular special assessments is a real, but painful, alternative.

As an independent insurer, I don't want to speculate about what it would be like to operate with congressionally appropriated funds. It certainly would be a step in the wrong direction in my opionion -- it would give the government rights which I would hope could be left to the private sector.

As far as the FDIC is concerned, we shall be ready to be of whatever aid we can be under the circumstances. If Congress decides we should take additional actions to be of assistance, we will be prepared to do so.

I urge all of you to participate in the debate on deposit insurance reform. Deposit insurance and the health of our financial services industry are important to the economic well-being of our Nation. None of us can afford to be observers. We must all join forces and be part of the solution.

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