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STATEMENT ON the

"DEPOSITORY INSTITUTION EXAMINATION
IMPROVEMENT ACT OF 1986" and
H.R. 2282, the "TRUTH IN SAVINGS ACT",

PRESENTED TO the

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SUPERVISION, REGULATION AND INSURANCE
of the
House COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
~~HOUSE OF REPRESENTATIVES~~

BY

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CHAIRMAN
FEDERAL DEPOSIT INSURANCE CORPORATION

2128 Rayburn House Office Building
June 4, 1986,
10:00 a.m.

Mr. Chairman,

I appreciate this opportunity to present the FDIC's views on the revised Depository Institution Examination Improvement Act of 1986 -- the Carper-Lundine Bill -- and on H.R. 2282, the Truth in Savings Act. I will deal first with the Carper-Lundine proposal and then turn to H.R. 2282.

I. Carper-Lundine Bill

I thank you, Mr. Chairman, for holding prompt hearings on this important proposal. We appreciate the support expressed by the many co-sponsors of the Bill and the extensive work that went into the current proposal. We strongly support this legislative initiative.

A. Section 2: Personnel Provisions

First, let me deal with the personnel provisions of the Carper-Lundine proposal. The Bill would give us real flexibility to hire employees, set benefits, and establish our own retirement system. The Depository Institutions Examination Council would conduct a survey of financial industry salaries and make advisory pay recommendations that we would study in setting compensation. We welcome these extremely helpful provisions and believe they will give us the tools to continue to improve our supervisory efforts.

The Bill also proposes that in establishing our own new retirement system, we transfer accrued employee and employer contributions into the system. We approve of this proposal, but we believe the Bill also should be clarified to ensure that existing employees' benefits are fully protected and that our employees be given the option to elect which systems to join. This has normally been done when agencies such as the Federal National Mortgage Association are transferred out of the Federal system. In the short time we have had to examine this latest draft, it has not been possible to fully research the retirement area. We will continue our study and we will be happy to work with you in developing any required perfecting amendments.

B. Section 3: Gramm-Rudman-Hollings and Antideficiency Act Provisions

Section 3 of the Bill would exempt the FDIC and the other Federal banking agencies from budget reductions under the Gramm-Rudman-Hollings Act (GRH) and apportionment under the Antideficiency Act. We strongly support these provisions. They would reaffirm the FDIC's historic independent status and ensure that our agency remained subject to control by Congress -- not by the Office of Management and Budget. We have long operated at a substantial annual surplus under our independent status and this is a desirable result not always achieved in government. No one has shown the need for change. With record numbers of banks failing and on the problem list, this is no time to suggest fundamental changes in the operation of the bank regulators.

On several previous occasions OMB has attempted to assert control over our budget, but it has been repeatedly rebuffed by Congress. Now OMB is raising for the first time the novel claim that a 36 year-old law -- the 1950 Antideficiency Act -- authorizes it to apportion our budget. We are convinced that this claim is without legal merit. Nevertheless, if OMB is allowed to go forward, Congress would lose control of our budget. Control of budget detail inevitably permits policy control, and this apparently is the goal of OMB. Thus supervision of the FDIC's operations would effectively pass from Congress to OMB. Budget apportionment requirements could prevent us from responding flexibly to banking sector problems as they arose.

OMB claims as well that GRH is applicable to the "administrative expenses" of the FDIC. This conclusion ignores the fact that insurance assessments from insured banks and investment income are the FDIC's exclusive sources of funds -- and that any reduction in our expenditures will have no real effect on federal expenditure levels.[1] Sixty percent of savings must be rebated to the banks as a reduction of insurance premiums and the rest is placed in trust to meet insurance obligations. OMB's conclusion also ignores legislative history. Senator Packwood, Chairman of the Senate Finance Committee and head of the GRH Senate conferees, stated that "(w)e also exempted numerous other programs on which there was no argument, such as the Federal Deposit Insurance Corporation."[2]

We have been asked to testify before the House Banking Committee's Subcommittee on Oversight on what the potential impact on our operations would be if future GRH reductions were to be implemented. Our testimony will explain that implementation of those reductions would severely impact our supervisory efforts, substantially raise our liquidation costs, and could shake the stability of our financial system. Those changes would result in undermining our statutory responsibility to promote the safety and soundness of the banking system.

Let me furnish some specifics. Absent relief from the rigid requirements of GRH, the FDIC would be unable to fulfill its statutory mission of supervising insured banks in an adequate manner. We anticipate that as a minimum:

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1 The fact that OMB uses the annual change in the FDIC's unobligated balances (cash flows) as a line item to reduce the overall deficit is an accounting artifact that has no practical significance. Moreover, as a matter of law, FDIC funds are not available for use by other government agencies -- and the FDIC does not use other government revenues to fund its operations.

2 131 Cong. Rec. S. 14782 (Dec. 11, 1985).

(1) the supervision of non-problem and, to a considerable extent, problem banks would be sharply reduced; (2) the Division of Bank Supervision's staff of experienced field and supervisory personnel available to address problem bank situations would continue to decline; (3) training of FDIC employees would be greatly curtailed, with an accompanying decline in effectiveness; (4) the temporary assistance routinely supplied by our examiner staff to support deposit payoff and liquidation activities would cease; (5) planning and computerized support efforts and projects known to be needed would have to be delayed or cancelled; and (6) FDIC-subsidized training of State examiners would be sharply cut back.

C. Section 4: Consolidation of Federal Examiner Training

Section 4 of the Bill would establish a Congressional policy for the consolidation of Federal examiner training. The Depository Institutions Examination Council would develop a proposal to implement this policy. We understand the objective of consolidated training, and would note that at present almost all training programs applicable to all the agencies are consolidated within the FFIEC.

We would only add that each regulator will continue to need some flexibility in structuring its training programs because of the diverse nature of the institutions we supervise. We are eager to improve our cooperative efforts and work on a plan to reduce costs and enhance the quality of training.

D. Section 6: Minimum Requirements for State Examinations

The improvement in the quality of state examiners and their respective departments is a policy which the FDIC has always supported. In fact, we played an important role in this area by making available our training facilities to state examination personnel and offering other support services, such as access to the FDIC's data base. We support the thrust of Section 6, but we have some thoughts about how to integrate it with present operations. The FDIC has some form of divided examination program with 32 state banking departments wherein we alternate exams of satisfactory institutions. The agreements take into consideration the differences among state departments and provide a great deal of flexibility for either agency to examine independently any institution it desires. This does involve some judgments about the quality of the state examinations, which are made on a case-by-case basis. Having a Federal entity make formal judgments in this area could strain the good cooperative relationships enjoyed by Federal and state regulators. We must protect against any harm to the present system, while furthering minimum requirements for state examinations.

We would also note that the Conference of State Bank Supervisors has been working to improve the quality of State Examinations and has recently introduced its own accreditation program, which we applaud.

II. Truth in Savings Act

Mr. Chairman, you asked that we also comment on H.R. 2282, the Truth in Savings Act.

The public is currently faced with a plethora of advertised interest rates, and annual yields that are most difficult to understand. They come not just from depository institutions, but from securities firms and other intermediaries not addressed by H.R. 2282. Deregulation of interest rates has been a great boon to consumers, but it has brought confusion. We believe strongly in "truth in savings"; the question is whether Truth in Savings legislation is needed or whether initiatives already underway will provide needed information to the consumer.

Our doubts about the need to legislate at the present time are as follows:

1. Regulators have the authority to issue regulations regarding advertising of rates and are currently working on uniform regulations to govern their advertising.

2. The industry has itself recognized the problem and, under the auspices of the American Bankers Association, it is engaged in a voluntary compliance program to establish advertising standards.

3. By spotlighting misleading advertisements, consumer groups, depository institutions, and the media have been able to counteract many deceptive interest rate claims.

4. The procedures set forth in H.R. 2282 are very similar to those set forth in the Truth in Lending Act. That Act has imposed significant costs on industry, which in turn have been passed on to consumers. Before exposing the industry to costs of this nature, we first would like to see if existing problems can be effectively dealt with through regulation and voluntary action.

III. Conclusion

In summary, we believe the Carper-Lundine Bill is a major step in the right direction for bank regulation, and we support it strongly. We believe truth in savings is necessary, but it may be premature to legislate in this area.

Mr. Chairman, that concludes my testimony. I would be pleased to answer your questions.