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NEWS RELEASE

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FDIC CHAIRMAN URGES BANKERS TO SUPPORT PENDING LEGISLATION

FDIC Chairman L. William Seidman today urged members of the Kentucky Bankers Association to actively support passage of Senate bill S. 2752. Seidman said: "The House and Senate must get together and send this critical piece of banking legislation on to the President."

Addressing the group in Louisville, Chairman Seidman explained that the bill would provide the FDIC important new authority to deal with mounting bank failures. It would continue and expand the FDIC's authority to arrange emergency interstate mergers, as well as allow the agency to own and operate failed banks as "bridge banks" until permanent solutions can be found. The bill would also reaffirm the independence of the FDIC from the Office of Management and Budget's control. Chairman Seidman stressed the importance to the FDIC of maintaining flexibility to deal swiftly with problems in the banking industry.

Seidman encouraged the banking industry to support the legislation because it also provides for recapitalization of the Federal Savings and Loan Insurance Corporation. "The FSLIC plan is better than using tax dollars or a forced merger of the FSLIC and the FDIC," Seidman said.

Noting a heavy legislative agenda, Chairman Seidman expressed concern that passage of S. 2752 might be jeopardized particularly if Congress were to renew debate over the "nonbank bank" issue. Such debate would not produce agreement, he noted, and, for all practical purposes, is unnecessary since the Comptroller of the Currency has agreed to defer any new charter approvals until the next Congress.

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AN ADDRESS BY

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WASHINGTON, D.C.

BEFORE THE

KENTUCKY BANKERS ASSOCIATION

OUR MISSION AND THE CONGRESS

Louisville, Kentucky
September 8, 1986

Good morning ladies and gentlemen and thank you for inviting me here. It is an honor to be introduced by Congressman Hubbard, a respected member of the House Banking Committee. I'd like to take the time you have given me to call your attention to some pressing matters in Washington, which I feel are of great importance to the entire banking industry.

Today Congress returns to complete action on any legislation considered essential before adjourning around October 3. It will be an exceptionally busy month. Any bill that is not perceived to be critical will be abandoned and will have to be reintroduced when a new Congress convenes after the November elections.

High up on each member's list is the much publicized tax reform legislation. Also, there will be heated debate on the question of increasing the federal government's debt limitation. And related to the question of debt, Congress must decide whether to legislate budget cuts called for by the Gramm-Rudman-Hollings Act.

In the midst of all these discussions, Congress must also consider appropriation bills to keep the federal government rolling until next year. As you can tell, Congress has some very important issues to deal with. There is also a bill which I consider of crucial importance to the banking industry which should not be allowed to go by the wayside.

This brings me to my subject. Senator Garn has sent a most important proposal to the Senate floor. The House and Senate must get together and send this critical piece of banking legislation on to the President.

Senator Garn's bill would accomplish four things.

First, it would continue and enhance our ability to deal with large failing institutions when in-state options are severely limited. This is an objective strongly endorsed by all federal bank supervisors in the so-called Regulators' Bill.

Second, it would give us authority to create bridge banks. This would give us more time to find better solutions for resolving large and small bank failures.

Third, it would reaffirm the FDIC's authority to respond promptly to problems in the banking industry as they arise. It would recognize the insurance fund represents your contribution to the banking industry, not tax dollars subject to OMB control.

Finally, it would provide for the recapitalization of FSLIC in a way that would not involve tax dollars or your insurance fund.

Please allow me to elaborate on these provisions.

Fortunately, people here in Kentucky have not grown accustomed to the FDIC taking over banks. Only two banks have failed this year, and only three since 1983. I am sure you are aware, though, bank failures nationwide could approach 160 by the end of this year. And more than 1400 banks are now on our problem list. Hardly a day goes by that another institution doesn't gain that dubious distinction.

I certainly hope the failure rate here remains low so the FDIC never becomes a major employer or confronts the problems it faces elsewhere in finding bidders for failed banks. Our ability to obtain bids in other states, however, does affect bankers here. The savings the FDIC realizes by avoiding a payoff situation benefits you because your insurance fund's costs are minimized.

The Senate bill would expand the FDIC's options for locating bidders to buy failing banks. It would give us the authority we sometines need to bring out-of-state investors into the bidding process.

Our current authority to arrange interstate acquisitions is very limited and expires September 15. Today we can go out of state for a buyer only when an institution has $500 million or more in assets and it has been closed. Moreover, the current law does not provide authority for dealing with failing banks of multibank holding companies.

The Senate Banking Committee has agreed to lower the $500 million size threshold to $250 million. The $500 million threshold is too high of a hurdle, as most troubled banks are considerably smaller.

In addition, upon determination by the pertinent chartering authority that a bank is failing, the FDIC would be authorized to arrange an open bank acquisition. Such an opportunity means franchise value would be less eroded by the flight of bank customers and tax benefits may be retained. This would be reflected in bids from potential purchasers, thereby reducing the costs to your insurance fund.

The Senate bill also recognizes situations where a failing bank is an integral part of a larger banking organization. It would expand the scope of interstate acquisition authority to include bank holding companies when the failing bank is over $250 million and represents a significant portion of the organization.

Today, potential bidders may be discouraged from bidding on a failing bank if they cannot also acquire key affiliates. The value of a failing bank is diminished when separated from its network. This raises the Fund's costs. Moreover, the dismemberment of an established system could be very disruptive to the affected local community.

Some in Washington have viewed the proposal on emergency acquisitions as legislation intended to help oil patch and farm states. With Texas, California and others moving toward interstate banking, these skeptics are wondering whether the power to arrange interstate mergers is actually needed.

Certainly many of the troubled banks now confronting the FDIC are located in oil patch and farm states. But it wasn't long ago that New England--now a booming region--suffered widespread unemployment as its industrial base shrunk. The great steel towns of Pennsylvania have weathered many economic cycles. And the boom and bust cycle typical of a coal producing region is not unknown in this state.

No region of the country is immune when it comes to changing economic cycles. Nor are banks now that they are operating within a highly competitive environment.

Even with new emergency acquisition authority, however, putting together a satisfactory solution for a failing bank in a short period of time will not always be possible. In such situations a bridge bank--an institution owned and operated for a limited time by the FDIC--would help us arrange an orderly return of the bank to the private sector. The Senate bill would let us establish such bridge banks.

With more time, potential buyers would have an opportunity to assess their risks and hopefully acquire more of a failed bank's assets. This would minimize disruption to banking services and keep funds flowing to borrowers until a more permanent solution can be arranged. Creditors, the affected community, the insurance fund and the banking industry all would benefit.

The bill also would reaffirm that the FDIC, not the OMB bureaucracy. has the authority to determine how the banking industry's funds are spent. As some of you may know, OMB has suddenly decided that an obscure, 36-year old law called the Antideficiency Act gives it the right to control the FDIC's budget.

We know--and Congress has repeatedly recognized--the FDIC's operations are completely funded by our customers. Bankers pay for the confidence the FDIC seal instills in depositors. Today the FDIC has the flexibility to deal swiftly with troubled conditions in the banking industry. Let's keep it that way|

It makes little sense to me why we should seek OMB's blessing before spending the banking industry's money on banking industry problems. The importance of maintaining budgetary discretion cannot be overstated--not only for dealing with bank failures but for monitoring and controlling the risks to the insurance fund.

Currently, our examination force is stretched far too thin. As some of you may have read in Friday's Wall Street Journal, we are not getting into our banks as often as we should. Nationwide, nearly one-half of our examinations are over two years old.

In certain regions, such as the Southwest, the figure is well above 75 percent. Examinations two, three, or more years old have questionable value. They hardly represent an adequate basis for monitoring the condition of a banking institution.

We feel more frequent examinations will help management identify problems in time to effect a solution. If current trends continue, there could be one bank on our problem list for each FDIC examiner by the time Congress reconvenes in January. We need the flexibility to provide for an adequate examiner staff. I hope you and your congressman agree with me on that.

Before closing, I would like to touch on one more feature of the Senate bill which may not be critical to the FDIC's operations but nonetheless should be supported by the banking industry. It is the recapitalization plan for the Federal Savings and Loan Insurance Corporation.

Many have taken their shots at our financial institution competitors in the S & L industry. Regardless of the differences--or lack of--between commercial banks and S & Ls, the public today looks primarily to what rate an institution is paying on deposits and whether it is a federally insured institution. Little effort is made to determine whether the seal displayed on a financial institution's door belongs to the FSLIC or the FDIC.

The plan now in the Senate would be a workable approach for recapitalizing FSLIC without requiring a direct infusion of taxpayer funds. Critical dollars would be contributed to the FSLIC fund. This infusion would replenish past losses and provide the Bank Board with the resources it needs to deal with its troubled institutions.

The FSLIC recapitalization plan is a workable approach for preserving confidence in <u>all</u> federally insured financial institutions. Moreover, it is far preferable to another alternative--a forced merger of the FSLIC and

FDIC. If FSLIC is not allowed to work out its own problems there are few alternatives. A merger of the insurance funds may become unavoidable.

I hope I have impressed upon you the importance of the Senate bill to the FDIC--and to the banking industry. We would like to see this bill quickly enacted. Unfortunately, any banking bill runs the risk of getting bogged down if Congress renews the debate over the question of nonbank banks. For all practical purposes, the nonbank bank issue has been delayed until the next Congress by the agreement of the Comptroller of the Currency to defer any new charter approvals until that time.

Debate on nonbank banks would only delay enactment of this essential legislation. It would not achieve nonbank bank legislation, for there is little chance of an agreement being struck on that issue. The debate would only spoil passage of a very desireable bill.

In concluding, I want to stress that you have a direct interest in each feature of the bill sent by Senator Garn to Congress. This legislation will reduce the operating costs of your insurance fund at a time when the demands being placed on the Fund and the FDIC staff are increasing. It also would make clear that the FDIC insurance fund is intended to serve the needs of the banking industry. I encourage you to let your congressmen know you support this crucial legislation.

Thank you.