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AN ADDRESS BY

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BEFORE THE

NEW YORK LEAGUE OF SAVINGS INSTITUTIONS

OUR MISSION AND THE CONGRESS

Boca Raton, Florida
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Good morning ladies and gentlemen and thank you for inviting me here. It is an honor to come before you, particularly during this prosperous year for savings institutions.

A few days ago The Wall Street Journal reported operating profit of state-chartered savings banks in New York more than doubled during the second quarter to $115 million. The Journal also noted the net worth to deposit ratio rose to a positive 6.57 percent.

Things have come a long way since 1981, when only 7 percent of the FDIC-insured savings banks in this state reported any earnings.

I'm delighted to say all of the savings banks the FDIC insures in New York reported net income during the first quarter of 1986. I'm hopeful this trend will continue.

The good fortune you are experiencing ties in with the main topic of my discussion today. On September 15, the net worth certificate program expired along with some emergency powers I will be discussing in a moment. But, first let me share some thoughts about the net worth certificate program.

As you know, the FDIC was authorized to offer net worth certificates in 1982. You may not remember though, the FDIC strongly resisted the concept. Fortunately, Congress showed the wisdom not to agree with us--the program probably saved the insurance fund billions.

In this state alone, 25 savings banks with over $40 billion in assets received $674 million in net worth certificates. For many of these banks, their assets were worth 20 to 30 percent less than book--a bad time to liquidate. Now net worth certificates are being repaid; only 13 New York institutions are participating and net worth certificates are down to $512 million.

I'm convinced the net worth certificate program proved to be a valuable tool, helping you and the FDIC through some pretty tough times.

But, the FDIC lost more than the certificate program on September 15. Another important tool which helped reduce the FDIC's costs in dealing with ailing commercial banks also expired. That tool is our authority to cross state boundaries, when necessary, to seek bidders for large failing banks.

As many of you know, we are encountering an increasing number of cases where few or no bids to acquire a failed bank are submitted to the FDIC. A payoff of insured depositors is unsettling for the affected community. And it is costly to the insurance fund. The option to seek buyers from out of state can reduce our costs, which directly benefits you.

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 an industrialized 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.

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 commercial bankers have taken their shots at their 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 our 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.