

AS GIVEN

Opportunity to do some stock taking

REMARKS

by

L. WILLIAM SEIDMAN

for

AMERICAN BANKERS ASSOCIATION

October 23, 1990
Orlando, Florida

Good morning ladies and gentlemen. I appreciate your invitation to speak with you.

It's great to look out and see so many old friends -- looking so prosperous.

You know, this is the fourth time in as many years that I've addressed your annual convention, And I expect it will be the last time I speak to this group -- at least in my capacity as Chairman of your insurance company.

While I'm sure this is a comforting thought for all of us, it's also a thought that inspires a bit of reflection. So I thought I might begin by taking this opportunity to do some stock taking. Confess some of the mistakes I've made during my term as Chairman of your FDIC.

Now when it comes to mistakes I've made, I'm sure you all have your personal favorites, But I think it is an appropriate time to apologize to you for some of the ones I consider most egregious.

Mistake number one was getting off on the wrong foot with the Administration.

I have to confess that my relations with the Administration started with the notorious and ill-timed "toaster" remark. Perhaps you recall that particular gaff of mine. It was lulu!

You see, someone in the administration looking for non-tax revenue enhancers came up with the idea of charging insurance costs directly to the depositors when they opened a new insured account. When reporters asked me what I thought, I said the idea was a novel one -- when a depositor opens an account -- instead of the bank giving him a toaster, it's the other way around. So I referred to it as the reverse toaster tax.

The press loved that one! But some people didn't.

Only later did I learn that Governor Sununu thought the new deposit tax was a great idea. All this resulted in a relationship with the White House which did not help my new friends, the bankers.

Actually, I've had better relations with the press. You see, I've lived by the rule: Never argue with people who buy ink by the barrel, or cable by the mile.

Another mistake I made was that I really didn't understand that some vessels can leak from the top. I had a meeting in the White House which I thought was supposed to be confidential.

When I read all about it in the Washington Post the next day, I realized that the Ship of State had that rare quality.

But I can't leave you with just a look backward. A look forward is hopefully more useful even if less reliable.

Your gathering this year is taking place in an environment that makes the delivery of bad news almost an art form, but we must remember that it's the bad, or negative events that dictate what the media says is news.

Let me begin by saying the news is not all bad. In fact, much of it is so encouraging that it's hard to imagine it's true. If you think about it, you have to be a little bit optimistic - let me illustrate.

1. Just a couple of years ago, could you have imagined that communism would be dead. That Russia would be our ally. That Germany would be reunited. That Poland would be free (of course, President Ford did. He freed Poland in a 1976 Presidential Debate).

2. Could you have guessed that the UN under our leadership would be united against aggression and willing to use force to oppose it.

3. Could you have guessed that the world's largest oil supply would be under the protection of the US and its allies -- no longer available for conquest by aggressors seeking to use it against the developed world.

4. Would you have thought that both political parties would have agreed that we must reduce the budget deficit by 1 trillion dollars over five years. Yes, you could imagine the political battle over how to do it -- but the bottom line is they agreed to reduce the deficit -- and they'll get it done. That's the good news.

Incidentally, one should not despair about democracy's messy processes. They've always been that way. Just read the history of the Constitutional Convention -- for the ultimate in voting blocs, compromise, rhetoric, walk-out, and the like.

The good news is we're on the road to a sounder fiscal policy.

5. Could you believe, if you grew up in Michigan as I did, that you'd ever be able to see the bottom of Lake Michigan in 20 feet of water as you could when I was a kid. You can today! A new clean air act will become law in the next few days. We are making progress in saving our environment, not enough yet, but better than most of the rest of the world.

6. And yes, what about our banking system? How many of the American people would recognize that 90% of all banks are profitable, that 50% of them made more money this year than the record profits of last year, and that the system earned 5 billion dollars in the second quarter of this year.

Friends, the world is not coming to an end.

Now I am not a Pollyanna. We have been on a debt binge. We have our troubles in this country, particularly in the financial system. We have to deal with these problems, but not by displaying panic and fear.

Surely, we have problems in the banking system. One has only to read the newspapers and watch television to see them, and for sure, our friends in the media are giving our problems more than adequate publicity.

Your bank insurance fund is under stress, and unfortunately I cannot report that any improvement is likely in the near future. I can tell you we are solvent, and can handle the failures we can identify at this time. We must address ourselves to these problems, and we must do it together.

You may think we at the FDIC have the most pressing interest in seeing the insurance fund remain sound, but that's not true - it is you, the good bankers who will pay if we can't succeed in dealing with our losses.

Now we all know that good bankers don't bring down the insurance fund and the industry. As your friends in the S&L industry can tell you, the greatest threat to the industry is that relatively small group of operators who have forgotten the old time-tested rules of lending. If the industry doesn't deal with that problem, no amount of supervision, or regulation, can keep an insurance fund solvent.

I suggest we pursue four immediate objectives:

1. We need more capital in banking, and to obtain it we must let corporate America invest. The separation of commerce and finance is no longer viable, or desirable. The bank holding company, a particularly American institution, is as outmoded as the Brontosaurus.

2. Supervision is not working well enough to prevent excessive losses. We will shortly be disclosing some proposals and thoughts on how to make major improvements in supervision. We will need your thoughts and comments on them.

Supervisors can work to improve their techniques, but bankers have to be a part of the solution. Should we double supervisory staffs? Increase regulatory rules? Go back to such standards as not lending on commercial real estate without a take-out? Should we increase disclosure so the market can better do its job? We need your participation.

3. We must find ways to improve how we handle failed, or near-failing, institutions to reduce the costs to the insurance fund.

Our experience tells us that flexibility is necessary. What new tools can we devise? Our, you'll excuse the term, forbearance system, worked well in the farmbelt, but the management consignment program was a debacle for the savings and loans. The Reconstruction Finance Corporation worked during the Great Depression, but those were different days. In whatever course we take, we do need to distinguish between those institutions that are the cause of the system's problems and those that are victims of problems in the system.

4. We can no longer afford the regulatory thrift battles with the resulting inefficiencies they bring. A single federal regulator may be the answer. Or perhaps, a single regulator and a separate single insurer.

This is a difficult area for bankers to provide leadership. After all, what banker wants to pick a fight with the Big Gorilla, i.e. his own regulator?

After five years, I can say -- with my usual candor -- we need to have a more efficient regulatory structure than we now have.

These four elements of change are things we can do to prove to America that we have analyzed our problems and have a solution. I hear again and again, if only the media would not play up the bad news. Forget it, they will because that's their job.

While we need to be positive and tell our story so the media can transmit it, the important objective is act in a way to make clear we understand the situation, and are moving to correct it.

Bankers have always been leaders in this country, and you know actions DO speak louder than words. Now is the time for action.

Well, I've talked about mistakes of the past and about future challenges, and, you know, the one mistake I didn't make was taking this job.

It's been a great experience. It's been a pleasure working with you. In fact, it's been so rewarding, I'm having great trouble in leaving. I've learned that you are, one of America's most honest, ethical and community-minded industries. I've also learned that the future will challenge the best you have to offer, but know you have the ability to meet that challenge and create a new sounder and more efficient banking system.

Good luck.