FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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STATE-FDIC COOPERATIVE INITIATIVES IN BANK SUPERVISION

Address by
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Federal Deposit Insurance Corporation

presented to the

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Conference of State Bank Supervisors

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It's good to be here today to discuss my favorite subject -- the divided examination program.

In all my years of government never have I seen a program do so much, so well, so fast.

Today we have 18 States participating and 3,200 one and two rated banks covered by the program.

The returns in economy and efficiency for both the States and the FDIC are enormous and the benefits to the covered banks in reduced burden are substantial.

The concept of the program is simple: the FDIC and the States jointly identify banks not of supervisory concern and divide them equally for the purpose of examination. The State examines one half, the FDIC the other, and we exchange reports. The next year we switch halves.

Bill Isaac, John Heimann and I are all totally committed to the divided examination program, and we are constantly looking for means to improve and expand it.

Today I announce a new element designed to accelerate the momentum we have already achieved.

Starting immediately, the FDIC will offer free of charge "road show" education classes to examiners of States in the divided examination program.

The classes will be tailored to State needs and requests. We are ready to work with participants in the divided examination program to tailor an individual training program to meet the individual needs of States.

The FDIC will provide classroom space, instructors and materials. We will conduct the schools for individual States or groups of States at locations that are convenient to the State examiners and cost-effective from a travel standpoint. We will also pay costs of acquiring course materials for any training program now conducted under auspices of the Federal Financial Institutions Examination Council that is requested as a "road show" class. Our Training Center staff will work with individual States or groups of States, to schedule, organize and implement "road show" programs. There will be class-size minimums for various courses, and students must have prerequisite training and experience. Our intention is to make available to States a comprehensive, convenient and inexpensive training program for their examiners.

During the past year we have experimented with the "road show" concept and have found it cost effective and well received. A version of our Advanced Course in Bank Analysis was conducted for Massachusetts and Michigan examiners. Next month we will conduct a similar course for Georgia examiners. Recently, we held a specially tailored EDP training program for New York and New Jersey examiners.

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Quinton Thompson and Jim Sexton of our Division of Bank Supe. with us in Houston and will be available to discuss further details with the of you who are interested.

Our motive is simple: If we are relying on State examination in the divided examination program, we have a stake in the best trained State examina tion force possible. We are seeking to promote a highly professional, motivat and stable examination force to serve the needs of bank supervision at the Federal and State levels. Our action today is a demonstration of the importanc we attach to the divided examination program.

I want to make it very clear that the FDIC has no intention of giving up its bank examination duties. We cannot within the mandate of the law, and we would not if we could. We believe that our responsibility as the insurer of bank deposits demands that we exercise a strong, effective bank supervision function to promote the safety and soundness of the banking system and reduce the risk to the insurance fund. The divided examination program is one way in which we carry out that responsibility.

I suggest that CSBS not waste any further time and effort on futile backward-looking resolutions on this subject.

The cooperation and economies we achieve by dividing our examinations is going to become increasingly important as we continue to feel the pinch of budget and manpower restraints arrayed against ever increasing workload and responsibilities. Just last week I received a letter from OMB suggesting we reduce our work force by five percent this year and a further eight percent next year. I know that many States feel a similar squeeze. Divided examination is the ripple of the present and the wave of the future and I urge you all to join us in this endeavor.

The Federal Reserve System is now going to a divided examination program for its member banks. The program was adopted as a Federal Reserve policy by the Board of Governors in mid-March. The Board is giving the individual Federal Reserve Banks authority to work out agreements in their areas. Negotiations on formal participation agreements are already underway with a number of States.

The FDIC has for many years encouraged and supported examiner training for State banking departments. Since the establishment of our Bank Supervision Training Center in 1970, approximately 1,750 State examiners from all 50 States have attended FDIC and FFIEC courses at our Rosslyn, Virginia, facility. Another 220 State examiners are expected to attend classes this year.

The new "road show" program is in addition to, not in lieu of, the traditional support FDIC has given to State examiner training.

Today I commit our continued contribution to the State - CSBS-FDIC scholarship program in 1982. In addition to providing facilities, materials and instructors, the Corporation, by participating since 1972 with CSBS in the scholarship program, has shared the cost of subsistence, lodging and transportation for State examiners attending Corporation training programs. Since January 1, 1976, CSBS and FDIC have each paid 40 percent and the State 20 percent. This is true this year for the 220 State examiner students.

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For 1982, we again are prepared to contribute our 40 percent to the program at the same 220-student level. All FDIC and FFIEC courses will be available to you. We will rely on CSBS to screen the applications and recommend students to us. So long as there is balance, we will accept the recommendations.

Today the FDIC conducts 10 schools, and the FFIEC conducts seven schools. There is no tuition charge for FDIC schools; the FFIEC charges $35 per day per student.

The FDIC offers a wide array of courses. Among them are two basic courses in bank examination -- School for Assistant Examiner and School for Senior Assistant Examiner. They are both excellent schools, and we have noted that few States send examiners to them. We have been wondering why. We will be offering them through 1982. I'd like to commend them to you and suggest that you consider recommending students for these schools, particularly from divided examination States.

Some background on how we evolved into the divided examination program may be useful.

The FDIC and State banking departments have long enjoyed cooperative working relationships. Over the years, we have performed joint and concurrent examinations, or we have coordinated our independent examinations to assure proper time intervals between them. We have exchanged information, and we have generally maintained a unified and mutually supportive position in dealing with problem institutions or situations.

Until recent years, however, we had carried out our cooperative programs in a manner which usually required the physical presence of representatives of each agency, as if we were functioning independently. We both persisted in maintaining annual examination schedules. We frequently duplicated each other's efforts. In general, we paid too little attention to the cost effectiveness of our programs and the burden on those institutions not in need of special attention.

It was obvious that we had to find ways to do a better job. The burgeoning demands of the late 1970's and early 1980's required it. All of us, as bank supervisors, have to deal with massive growth and changes in the banking industry, new responsibilities imposed on us by law, and increasingly tight constraints on budget and personnel.

As a first step, the FDIC joined with three States -- Georgia in 1977, and Missouri and New Jersey in 1978 -- in arrangements in which we alternated examinations of better managed banks.

We entered into similar agreements with Illinois, Michigan and North Dakota in 1979 and then with Nebraska and New York in 1980.

In the spring of 1980, I had a very productive meeting with the Commissioners of those eight States. In June of 1980, I followed up with a letter to each of you Commissioners, or your predecessors, inviting you to investigate the possibility of a similar arrangement for your States. From this nucleus the divided examination program grew.

Its keynote from the beginning has been flexibility. There is no single, rigid nationwide structure to which all States must conform. States have negotiated with us on cooperative efforts of various kinds that suit their individual needs and accommodate the needs of the FDIC. The program is voluntary. It is working because of its own merits. Cooperation is to the mutual advantage of the State and the FDIC.

In the past year, these other States have joined in divided examination agreements with the FDIC: Alabama, California, Kansas, Massachusetts, Minnesota, Nevada, North Carolina, South Dakota, Utah and West Virginia.

Today more than 30 percent of all banks supervised by the FDIC are covered by a divided examination program. This is an increase of 60 percent in the number of covered banks since my 1980 meeting with the original eight States and my first invitation to the other States. A few more States are expected to enter into divided examination agreements with us shortly. Several other States are actively evaluating the feasibility of a program.

The benefits of the divided examination program are obvious. By conducting fewer examinations, both the State and FDIC conserve resources which can be used to focus on our other responsibilities. Well managed banks are less burdened by examination. Banks with problems receive the same or even increased attention by the State and the FDIC through our joint supervisory efforts. In this way, we are able to maintain our vigilant supervision of problem institutions and relieve the burden on the great majority of our banks which are well managed and sound. The divided examination program makes for an efficient reallocation of supervisory resources.

While the examination program offers the greatest potential for savings, we are also undertaking other initiatives to improve the quality and efficiency of programs. In 1980, Quinton Thompson and his staff reviewed all the FDIC's application forms -- for insurance for new banks, branches, relocations, mergers, trust powers and remote service facilities. They were seeking ways to reduce the information requests to those that are absolutely essential. The group developed core application forms designed for joint usage by FDIC and the State. In this way, the bank would be required to complete only a single form. Our core forms are offered to all States. If they don't suit your specific needs, we are willing to see if we can tailor one with you that will. If we can develop a mutually acceptable form, we will print and supply it to your State at no charge to you.

Thus far, we have reached agreements on use of common application forms with 17 States. We expect 11 more States to join with us soon, and, if you'll pardon the expression, we are still taking applications.

The forms are only one aspect of the cooperative applications program. Our Regional Directors also will work with participating States in every way possible to coordinate investigations and other application routines. We want to achieve the fastest possible processing of a bank's proposal from acceptance of the application through to the final decision.

We are participating in several other cooperative programs with States.

Computerized Data Base Access

At present, 10 States have computer terminals that tap into the FDIC's data base that is open to divided examination States. These States have immediate access to key financial and structural information on banks they respectively supervise. Available information includes call report and summary of deposit data on all banks and, for insured nonmember banks, examination data (including State examination data for States participating in the divided examination program) and information from the FDIC's Integrated Monitoring System (IMS). The IMS allows us to monitor insured nonmember banks between examinations and provides indications when a bank is beginning to experience difficulties. Hardcopy IMS reports which facilitate in-depth bank analysis are available on a quarterly basis and are received by six States. Forty States annually receive the FDIC's Comparative Performance Report, which provides both trend information and peer group comparisons for insured non-member banks -- information that is useful in planning for and conducting examinations.

Joint Enforcement

In 44 States, the State Commissioner and FDIC participate jointly in some or all enforcement actions. We consult with all State authorities, as required by law, before issuing a cease and desist order or a less formal memorandum of understanding. We are continuing to work to expand this cooperative effort.

Legal Drafting Assistance and Regional Typing Assistance

Two additional cooperative programs offered to States in the divided examination program are: (1) providing technical assistance to States seeking to change State law for the purpose of improved State-Federal cooperation; and (2) providing typing assistance to States via our four Regional Typing Centers located in Minneapolis, Omaha, Kansas City and Dallas. These centers will handle most of the examination report typing for FDIC and may be used by States in the divided examination program at no charge for examination reports. We estimate that the system will be fully phased-in within four to five years. It is already improving the time it takes to get a completed typed examination report back to the bank from the time the examination is concluded.

I believe enthusiastically that we are embarked on an effective and cost efficient cooperative effort. We at the FDIC invite those of you not already participating to join with us in these efforts when it is practical and feasible and when there is no sacrifice in the quality of supervision. We recognize that the program is not for everyone. Quite frankly, not all States possess qualifications to enter into such programs. Sometimes a given program cannot be completely implemented, even when the State is fully qualified. In one case, we mutually decided not to change our present system in which State and FDIC examiners combine forces to examine large banks because this is more efficient than alternating the examination assignment.

This is not the usual situation. But this instance does illustrate our flexible approach to cooperative efforts. We must consider all reasonable ideas and adopt only those programs which offer the State and FDIC the greatest economies and highest quality of supervision.

To succeed in our effort, we must, first, make effective supervison our primary consideration. Second, we must be flexible in the design and implementation of our programs. Third, we must strive to maintain open communications between our agencies. If any one of these key ingredients is missing, our efforts will fall short.

I have delegated to Quinton Thompson -- and he in turn has delegated to our 14 Regional Directors -- broad authority and responsibility to develop and implement individual divided examination agreements with States. One major lesson from the past is that we cannot draft a single program for nationwide implementation and expect it to represent the most effective approach in each of the States and other jurisdictions. We must approach our task on a State-by-State basis. Obviously, each of us must adhere to those broad policy guidelines which are vital to meeting our own responsibilities. But then, within those parameters, must let our professional staffs, who work with each other on a day-by-day basis, develop the specifics.

This is the way our cooperative programs are structured. Within broad guidelines, FDIC Regional Directors are free to work out specific agreements with each State. This allows leeway to accommodate special situations and individual requirements. For example, in one State, we have a divided examination agreement which covers only one field office. In some States, we have agreed to size limitations on banks subject to alternate examinations; in other States there is no limitation. Elsewhere, both the State and FDIC have the option of sending at least one person along on the other's examination. In each of our agreements, each participant is free at any time to remove any bank from the previously agreed list of those subject to alternate examinations or to propose a bank for addition to the list. It is this type of flexibility that makes our program effective.

We must strive to create programs that stand on their own merit, that will survive and continue to function even after the individuals who started them are gone. One major problem hampering State-FDIC cooperation in the past has been the turnover of top officials and inflexibility of staff in both State banking departments and FDIC.

I am the fifth Chairman of the FDIC in the past five years. Since January 1975 there have been 103 changes in State Banking Commissioners with 38 of these changes occurring in 27 months since I became Chairman. Only five Commissioners who were in office during my first term with the FDIC a decade ago are still serving.

Frequently, a change at the top has meant a change in attitude, to the detriment of our cooperative efforts. A new FDIC Chairman or a new State Commissioner might decide that more cooperation or less cooperation was desirable. Too often such attitudes would represent little more than personal preference or personal pique. What we want to do is create programs that are so effective that no incoming official will dare to change them for arbitrary reasons. We want flexible programs that can change and adapt to

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meet changed circumstances. But throughout it all, we want to cultivate a commitment to the most effective supervision possible. We want the staffs of our respective agencies to receive a constant signal to be effective and efficient, no matter who is at the top.

This is our responsibility to the banking public we all serve. I pledge our total commitment at the FDIC. I ask your help in this effort.

DIVIDED EXAMINATIONS

Divided examination agreements covering 3,201 banks are in effect between FDIC and the following 18 states:

	Number of Banks Covered		Number of Banks Covered
Alabama	164	Nebraska	331
California	108	Nevada	5
Georgia	332	New Jersey	79
Illinois	567	New York	151
Kansas	47	North Carolina	42
Massachusetts	30	North Dakota	124
Michigan	145	South Dakota	80
Minnesota	500	Utah	41
Missouri	533	West Virginia	30

Agreements with four more states are under active negotiation.

COMMON APPLICATION FORMS

Agreements on common application forms have been reached with the following states:

Alaska	Nevada
Georgia	New Mexico
Hawaii	North Carolina
Idaho	North Dakota
Kentucky	Oregon
Maine	South Dakota
Michigan	Utah
Minnesota	Washington
Missouri	West Virginia

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