Remarks by
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The face of banking is changing -- obviously -- and that is a point that I will return to. But first, I'd like to talk with you about three challenges the FDIC faces.

1. Working with you, the industry, to help you prepare to become ready for the Year 2000.

2. Remaining alert to -- and addressing -- risks that are emerging as the economy slows.

3. Preparing the FDIC to insure and to supervise banks at a time when the largest players are growing far larger and more complex.

Let's look first at Year 2000 -- or Y2K, as we commonly call it. All of you are aware that federal bank regulators are doing a second round of on-site assessments at every bank in the country. We're also looking at your service providers.
What you may not be aware of, however, is that -- this time -- we are going to be a lot tougher than we were in the first round. The clock is ticking. Time is getting shorter. So if we find a significant problem, we will want it fixed. And if someone wants to argue about it, that's fine, but we will use enforcement actions to persuade the unconvinced. Not because we want to. But because we have to.

Year 2000-related risks are the number one safety-and-soundness concern at the FDIC. One doesn't have to have any inside knowledge to come to that conclusion. It is simply a matter of common sense. From crediting interest to preparing statements to sorting checks to operating ATM machines, banking is computerized. If, as it has been said, money is information, the computer in fact becomes the bank -- the place where money is stored and transactions occur.

That the FDIC and other bank supervisors would focus on Year 2000 readiness should, therefore, come as no surprise.

Before turning to the economy, I want to make one other point concerning Y2K. As the days to January 1, 2000, become fewer, there will be a growing concern about Y2K readiness -- not just about banks, but for all businesses and services that provide the consumer with virtually instant gratification. If you go to the gas station, you expect the pump to work. If you pick up the telephone, you expect to hear a dial tone. If you go to the ATM machine, you expect it to deliver cash. And, by definition, if your expectations are unmet, you become unhappy.

Unlike the gas station and the telephone company, however, banks rest on the foundation of public confidence. You hold the public's money. And the public likes to know that they can get to it when they want it.

In the coming months, your customers will want to know that you have done everything that can be done to become Y2K ready.

You, and we, will need to answer the public's questions.

To that end, the FDIC has provided, and will continue to provide, easy-to-understand consumer information. Information such as this consumer brochure -- in English, and in Spanish.

Working with trade associations, we have provided the industry with three-and-a-half million copies of this brochure -- and will provide more. It is also available as camera-ready copy on our Internet site, if you want to pull it down and print it yourself.

We have other products in the pipeline that we hope will make it easier to answer the public's questions on Y2K.

The general public isn't the only group that has questions about where banking is going. The bank supervisors -- and the FDIC as insurer -- have some questions of our own -- and not just about Y2K. Most analysts believe the U.S. economy is slowing. For some industries, the expansion is already over. The crisis in Asia has sharply reduced the demand for their exports. And the stock market reminds us that nothing lasts forever.

You might have had the experience I did last week, picking up the newspaper and seeing a photograph of a bank run on page one. The bank was in Russia. But in our global economy, that run may affect the U.S. one way or another.

Even without these economic developments, recent banking industry practices give us cause for concern. That concern is only heightened by current economic developments. Underwriting surveys conducted by the three banking regulators all have shown significant weakening of underwriting standards in recent years. In the FDIC's most recent Report on Underwriting Practices, we found that, for the first time since the questionnaire went into use in early 1995, the proportion of banks showing more lenient standards was greater than the proportion showing more stringent standards. Loan pricing continues to be very aggressive. And we are seeing more banks with rapid growth and high concentrations in commercial real estate lending. And in new and untested product lines, such as sub-prime consumer lending. A strong economy can support markets in this area that may not be able to make it in a weaker economy. In late July, the FDIC saw its first significant bank failure in two years. The failure of

"BestBank" in Colorado was the result of sub-prime lending. And the number of problem institutions involved in this area continues to rise.

Weaknesses from the slowing economy have yet to show up on bank financial statements.

In three weeks, the FDIC will announce the financial figures for the banking industry in the second quarter -- and early indications are that the profits for the industry may again set a record. I want to stress, however, that those figures will be historical. We will be looking in the rearview mirror, at where banking has been, not where it is now or where it is going.

If we look ahead, we see warning signs. Where warranted, we are advising banks to alter their direction to avoid such risks. Despite more than seven years of economic expansion, no one can afford to be complacent, and the FDIC least of all.

We are still enjoying the calm, but is it the calm after the last storm or the one before the next one? At the FDIC we have our eyes on the gathering clouds -- and our feet on the ground.

The third challenge the FDIC faces reflects a fundamental shift in the structure of banking in this country. The large, complex institutions now merging and soon to emerge are like nothing we've ever seen. Insuring them -- and supervising them -- will be an unprecedented challenge.

Take the merger of NationsBank and BankAmerica. It will create a bank that contains about 8% of all U.S. bank deposits. It will create a bank that has 4,800 branches and nearly 15,000 teller machines in 22 states. Or the combination of Banc One and First Chicago. It will create a bank that contains about 4% of all U.S. bank deposits. It will have some 2,000 offices in 14 states.

For the FDIC and the deposit insurance funds, the size of banks matters in more ways than one. For example, what concentration of risk does a very large bank present to the insurance fund? How will we examine and supervise such institutions? If a large institution experiences severe problems, how will the FDIC be ready, operationally, to resolve the problems with minimal disruption? To balance the need for stability against the need for long-term market discipline?

One thing is clear -- now more than ever, it will be important to keep information flowing between banks and regulators, and among various regulatory agencies, as well.

Today, I've talked about the three challenges the FDIC is grappling with: Readying banks for the Year 2000; anticipating and addressing risks that arise from a weakening economy; and insuring and supervising larger, more complex institutions.

I said at the beginning of my remarks that the face of banking is changing. So, too, is the face of the FDIC. It is becoming multihued. And it is being shaped by different cultures. The FDIC's profile -- always a strong one -- is becoming ever stronger as new recruits join our seasoned veterans. We are encouraging the creation of a diverse workforce -- by culture, by experience, by gender.

In fact, 70 of the 181 examiners we have recruited this year are minorities. That's almost 40%. The FDIC -- and the nation -- will benefit. Why? Because along with diversity come talent and expertise. New ways of thinking. New ways of acting. New ways of relating to an industry -- and an America -- that are changing every day.

That talent, that expertise, that creativity has never been needed more than now.

The FDIC will continue to search and recruit for the people we need to meet the challenges ahead. There is a promising future at the FDIC for individuals who can contribute to our success -- regardless of their gender, the color of their eyes or the language their grandparents spoke.

I want to thank you for your invitation to speak here today. This luncheon was something that I've looked forward to. It is great to be here with you in Philadelphia, the city of brotherly -- and sisterly -- love.

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