Remarks by
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There are many monuments in Texas commemorating historical events. But none of the monuments identify the State of Texas as the "ground zero" of the banking crisis of the 1980s and early 1990s. Those of you who were here then know: It was.

From 1980 through 1989, 425 banks in Texas failed -- including nine of the state's 10 largest bank holding companies. One of the reasons the crisis did not turn into catastrophe was the FDIC. Where possible, the FDIC nursed sick banks back into health. Where possible, the FDIC brought in capital from the outside. And when the FDIC couldn't do one or the other, it found other ways to resolve bank failures.

It was a shining moment for the FDIC. But today that is history.

We should be proud of what the FDIC accomplished -- 10 years ago and more. Reflecting on the FDIC's past accomplishments gives all of us context for the issues we now face, as well as a priceless and enduring sense of community.

But trying to relive the past -- or to rest on one's laurels -- would be a huge mistake. We must keep our focus on the future.

I. Changing Conditions

Whether the FDIC remains a vital part of the regulatory structure of this country will depend on how we address changes in the industry and emerging risks.

Our mission will remain the same: to maintain public confidence in the safety and soundness of insured institutions -- by insuring deposits, examining and supervising banks, and managing receiverships.

Our Corporate vision will also remain the same: to be an organization dedicated to identifying and addressing existing and emerging risks. But how we accomplish that mission -- how we make our Corporate vision a reality -- must change with changing conditions in the financial services industry.

Consider these changing conditions:

a. Consolidation

First, industry consolidation and its effect on the deposit insurance funds. In 1984, 42 banking institutions held 25% of domestic deposits. Today, six banking companies do. The 50 largest banks and thrift companies control 60% of the industry's assets. The 170 largest companies hold 80% of the total assets of the industry. This exposure to the fate of a few large banks is unprecedented in the Corporation's history.

b. Technology

Second, the effect of technology. In banking we have a different world today than we had when the crisis blew through the Southwest a decade ago. Technology has eliminated many barriers of time and space, as well as eroding legal and regulatory barriers. Even the smallest financial institution today must operate within the global marketplace and face competition no one dreamed of only a decade ago.

Although the vast majority of banks are still traditional, community-oriented depository lending institutions, there are many more niche players today. As a result of these and other trends, banks can get into trouble faster than they could ten or fifteen years ago.

c. Emerging Risks

Third, emerging economic risks. From Los Angeles to New York, the recent crisis in Asia is taking a toll. As our upcoming regional Economic Outlook will discuss, that crisis has reduced exports to Asia from the Dallas region. Agriculture, manufacturing, and wholesale trade have suffered. Moreover, weak industrial production in Asia has resulted in a lower demand for oil. Coupled with a worldwide oil glut, that decline in demand has pushed oil prices down significantly. These trends -- along with this summer's drought -- has slowed regional job growth dramatically, though job growth in the region continues to outpace that of the nation as a whole.

No one can say how extensive the spillover from the Asian crisis will be on our economy -- an economy that is proving itself extremely resilient. But we can assume there will be problems. And from these problems there may be an impact on banks.

d. Y2K

Finally, the Year 2000 problem presents us with a nonnegotiable deadline. You and your colleagues have done a tremendous job in focusing the attention of bankers on the Year 2000 problem, and in developing materials to inform consumers about the Year 2000.

The results of the second round of on-site assessments have been mixed. Examiners are finding deficiencies -- manageable, but deficiencies nevertheless. Among them are poor documentation of test plans and poor preparation of contingency plans or in some cases, non-existent contingency plans. There is still time for these and other

deficiencies to be addressed. But we will have to work to assure that they are addressed in a timely manner.

Y2K is our top priority. Every division and office is being asked to contribute to the Y2K effort. That does not mean, however, that we can focus on Y2K exclusively. Other emerging risks demand our attention, too. We cannot afford to address the Year 2000 problem, only to allow other problems to grow. We must be vigilant and alert to both Y2K and other emerging risks. We cannot allow ourselves to be distracted by other issues.

II. Not a Quiet Time/Importance of Field Examiners

Make no mistake. This isn't a quiet time at the FDIC. We may not be managing a banking crisis, but we must do everything within our power to fulfill our responsibilities. We are insuring and supervising an industry that is both experiencing a structural transformation and a slowing of the economy. The challenges are different, but they are just as real. And we must engage them with the same degree of commitment the FDIC gave the banking crisis a decade ago.

In doing so, you act as the eyes and ears of the Corporation. To perform its mission, the Corporation must assess risks. Each and every field examiner must contribute to that assessment, and each and every field office supervisor must assure that the assessments he or she receives are accurate -- and complete. You are on the front lines. You see issues -- and problems -- before they surface in any other way, before they surface on an institution's financial statement.

Our success as a Corporation rests on you identifying and communicating issues and problems early, and exercising the full weight of your good judgment and decision-making authority. And on you quickly moving issues up to the regional office and, if necessary, to Washington.

III. Priorities

I have established three immediate priorities for the Corporation -- and each addresses risk.

The first is to focus on Year 2000 -- it is the top risk. The second is to identify, address and articulate emerging risks, as the economy slows. And the third is to refine the risk-based premium system so that it better reflects -- and addresses -- the risks at individual institutions.

Risk-based insurance premiums aren't just designed to protect the insurance funds. They are a tool that helps persuade banks to avoid excessive risk and are central to our program of bank supervision. Each of these priorities makes our Corporate vision a reality.

Both DCA and DOS need to reflect the changing industry in the job that you do and in how you do it. Changing conditions raise 3 issues -- issues that are critical to both divisions.

First, in light of the larger institutions that consolidation is creating, the concentration of risks to the insurance fund, new methods of delivering financial services, and the effect of financial modernization, how should the FDIC change?

Second, how can we make our information management process more efficient and effective? We must find better ways to obtain, combine and use examination, supervision, and market information in our supervisory and compliance processes and in assessing risks to the insurance funds.

Third, given the emerging risks, given the changes in the industry, are we using our people most effectively and efficiently? What measures can be taken to reduce administrative burdens and to allow our examiners to devote more of their time assessing risks, which is, after all, the job that DOS and DCA examiners are charged with?

IV. No Surprises

The FDIC's analysis of the banking failures in the Southwest during the 1980s reached a number of conclusions, but one stood out: "Banks generally do not fail suddenly. The process of bank failures takes many years to develop. Failure is the result of decisions and strategies implemented at least four or five years beforehand. These strategies and decisions are the underlying causes of either success or failure in difficult economic times."

I draw another lesson from the experience of the '80's. In the eighties, supervisors had time working for us -- and we still had a banking crisis. The banking environment is far less forgiving now than it was then. If we do not constantly watch for problems, they will surprise us. And the Corporation cannot afford to be surprised.

V. Conclusion

You have a history of accomplishment that you can be proud of. Your dedication to the job that you do -- your devotion to the mission of the Corporation and the American people -- is extraordinary.

You have technological tools that give you advantages no one dreamed of when the banking crisis hit the Southwest in the eighties. But today, we are confronted with a far more complex, and far more dynamic and challenging financial services industry.

We have our work cut out for us. The Corporation's future -- our future -- is at stake. Let's meet the challenges head on, in the finest traditions of the FDIC.

Thank you.

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