Remarks

by

Ricki R. Tigert

Chairman

Federal Deposit Insurance Corporation

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It is always a pleasure for any Chairman of the Federal Deposit Insurance Corporation to speak before a meeting sponsored by the Conference of State Bank Supervisors -- as history shows.

I am also pleased to see so many state legislators here at this joint meeting co-sponsored by the National Conference of State Legislators.

Today I want to talk about the issue of state and federal banking regulation from a broad perspective.

In banking and bank supervision, the past is alive in a way that we rarely find in other businesses and government activities. The Office of the Comptroller of the Currency is a relic of the Civil War. The Federal Reserve System still has as its primary mission providing the economy with the "elastic" monetary supply the Congress desired when it created the central bank in 1913 in response to financial panics around the turn of the century. And -- every day -- the F.D.I.C. underwrites public confidence in the financial system, just as Congress intended when it created us 61 years ago -- by popular demand -- in response to the bank failures of the 1920s and the 1930s.

The past lives on in other ways, too.

One way is in the close relationship between state bank supervisors and the F.D.I.C. -- a relationship created and nurtured by the second F.D.I.C. Chairman, Leo T. Crowley.

Fifty-four years ago, the then-Washington correspondent for The American Banker, U.V. Wilcox, published an insider's look at banking politics in the 1930s titled: The Bankers Be Damned. The title was not a prescription, I hasten to say, but a capsule narrative of the book, which all of you would find interesting, to say the least.

In it, Wilcox noted: "The State Supervisors are, in the main, the visible representatives of that largely forgotten political thesis of states rights."

The federal deposit insurance law, Wilcox said, "practically eliminated the need for state superintendents" -- but Chairman Crowley announced that the executive committee of the state supervisors would become, in effect, his advisory committee.

In fact, Wilcox wrote: Leo T. Crowley "is best exemplified in his aiding and abetting a national organization of the State

Supervisors."

Chairman Crowley -- a giant in his time -- established the spirit in which we -- the state supervisors and the F.D.I.C. -- work today.

The C.S.B.S. and the F.D.I.C. have a special working relationship, and one that I hope to enhance.

As Chairman of the Federal Financial Institutions Examination Council, I will look to the state liaison committee to participate fully as advisors in council meetings, thus providing us with an avenue for state-federal cooperation. Harold Lee, from Wisconsin; Gavin Gee, from Idaho; James Hansen, from Nebraska; Catherine Ghiglieri, from Texas; and Sue Mecca, from Wyoming will bring the views of the states to our meetings and will work with F.F.I.E.C. staff committees.

As many of you know, recent federal legislation -- The Community Development and Regulatory Improvement Act -- called on the F.F.I.E.C. and the federal regulators to coordinate a number of tasks involved in implementing the law. Through the F.F.I.E.C., we have a mechanism in place for states to be a part of this effort. The states are represented on the task force overseeing the projects and we will be looking for ways for the states to participate on the actual groups doing the work -- again reflecting our commitment that the states have the opportunity to play a meaningful role in the process.

I am equally committed to working with state regulators as F.D.I.C. Chairman.

For example, we are forming an F.D.I.C. Task Force on Interstate Banking to examine the strategic issues that arise from the recent changes in Federal law. I have assured C.S.B.S. that we want to coordinate with the state bank supervisors and the C.S.B.S. on your projects in this area.

Further, I note that we have been working with the Federal Reserve and the states to come up with a coordinated approach to examining the U.S. operations of foreign banks, an effort called for by the Federal Deposit Insurance Corporation Improvement Act. Recently, the FDIC joined the Fed, C.S.B.S., the Office of the Comptroller of the Currency, and state commissioners on a nationwide tour -- four cities in four days -- to explain our coordinated effort in this area to more than 1,000 bankers.

The working relationship between the F.D.I.C. and state regulators is a good one in bank supervision as well -- coordinating examinations at state chartered banks -- as I have heard from F.D.I.C. directors of supervision on my visits to seven regional offices of the F.D.I.C. in the past two months.

While it is always a pleasure for any Chairman of the F.D.I.C. to speak before a meeting sponsored by the C.S.B.S., it is a special pleasure for me.

One reason is that, during my seven years at the Federal Reserve, I worked with state authorities -- particularly those in New York and other states actively involved in international banking issues -- and in doing so I developed an appreciation for the depth of expertise the states enjoy.

A second reason arises from the historical vision of the F.D.I.C. -- a vision that goes back to the beginning of our organization as a deposit insurer and as primary regulator of state nonmember banks.

As I said, earlier in my career I was fortunate to spend several years at the Fed. The Fed, as you know, has tremendous credibility -- and for good reason. It is an independent agency in every sense of the term. Decisions at the Fed are based -- not on expedience -- but on expertise and experience. Those decisions are made impartially -- to borrow a phrase "without fear or favor" -- for the benefit of the country as a whole. As I witnessed the Fed at work in calm and in crisis, I came to understand that institutions, like individuals, have to earn respect, and the only way to earn respect is to play straight. The Fed receives the support that it does because it is known to play straight. It cannot operate without that support.

As you know and I know, the Federal Deposit Insurance Corporation plays it straight, as well. After the banking crisis of the 1930s, its independence was of small concern. The insurance assessments went out, the money came in, and, on rare occasions, banks failed. Year after year, the fund grew -- and stability in banking meant stability at, and generally quiet for, the F.D.I.C.

Then the world changed. The failure of Penn Square Bank, the eruption of the developing country debt crisis, and lending problems in the agricultural sector, oil and gas, and real estate revealed cracks -- and connections -- in the financial system that had not been obvious before. They heralded the beginning of a decade of instability in banking -- a decade in which the F.D.I.C.'s independence was tested, but not compromised. That independence was, in fact, solidified. Congress has made it absolutely clear that it intended for the F.D.I.C. to have the necessary power to protect the Bank Insurance Fund -- and by extension, the American taxpayer -- from the kinds of losses that depleted it -- and that decimated the savings and loan fund -- in the 1980s.

Over the last three years the Bank Insurance Fund has been restored by the banks themselves. We have seen stability restored.

Banking has entered a time of rebuilding and renewal. Financial statements picture banking today as stronger than it has been in decades -- and growing stronger. At the same time, we have seen banking enter a time of entrepreneurship and transformation as banks explore new businesses.

Given the good news and innovation, it is easy to lose sight of the fact that banking today remains what it always was -- the business of managing financial risk. Management is necessary because risks change. If banks manage that risk well, they make money -- if they do not manage it well, they may lose money. If banks mismanage risk, others may lose money, including the Bank Insurance Fund.

As the trustee for the insurance funds -- a unique role in our regulatory structure -- the F.D.I.C. is, in effect, the guardian of the nation's bank and thrift deposits.

Before the banking crisis of the 1980s, that seemed not to be such a big deal. A friend of mine came to Washington to work as a banking reporter in the late 1970s. About his third week on the job, he learned that the F.D.I.C. rebated premiums to banks. He asked his bureau chief, a financial writer with more than 25 years experience in journalism, if rebates were a good idea.

The bureau chief responded: "There are nine billion dollars in the deposit insurance fund -- given the way banks are regulated today, it is inconceivable that anything that could happen to banking would cost that much money."

Unfortunately, the 1980s proved that reasoning wrong.

In light of recent experience, our guardianship role is a big deal, indeed.

We have a number of constituencies. Among them are: the financial institutions that fund deposit insurance; the Congress, which created us and sees us as protector of the taxpayer; and the general public, which sees us as guarantor of their savings.

To retain the trust and support of our constituencies, we at the F.D.I.C. must play it straight -- we must make unbiased assessments of risk in the financial system and act upon them -- without fear or favor. Independence gives us legitimacy -- the legitimacy to make difficult decisions.

The integrity of the insurance funds rests ultimately on the integrity of the people who manage them and who assess the risks in the financial system to which the funds are exposed. Whether intentional or unintentional, whether through machination or legislation, attempts to compromise our independence are necessarily attempts to compromise the F.D.I.C's ability to do its job.

In past months, we have seen efforts to make the structure of federal bank supervision more "rational" by consolidating regulatory authorities and ending overlap and duplication. It is hard to argue against the general concept. Efficiency -- economic and otherwise -- is as virtuous a goal in government as elsewhere.

This quest for greater efficiency, however, must preserve the independence of the F.D.I.C. to identify the risks to the system as it sees them -- and that requires continuing authority to conduct on-site bank examinations. It also must preserve the insurance funds from appropriation for other uses and it must assure a dual banking system in fact as well as in word. Otherwise, the quest for efficiency really becomes a quest for regulatory uniformity and expedient funding.

Just what would that mean?

I have a few thoughts.

If the past is prologue to the future, stripping the F.D.I.C. of the tools it needs to protect the insurance fund could have dangerous consequences. Upsetting the current system of checks and balances means that we as the insurer could be writing more checks and could be carrying lower balances.

Using the insurance funds for any purpose other than insuring deposits would drain them -- sooner rather than later. In government, there is always a funding need compelling to someone.

Lastly, if the federal government were to threaten the dual banking system by the form that federal regulation takes, the proving grounds that states have become in financial services would become far less flexible than they have been.

State authorities were responsible for many "firsts" in bank regulation:

In the United States, state banks acting under state authority established the first branches.

State banks were the ones first authorized to offer fiduciary services to customers.

Most recently, had it not been for state compacts, it is unlikely that the impasse on interstate banking -- the subject of this meeting -- would have ever been broken.

The states showed the way.

Moreover, as another one of my predecessors, Frank Wille, former Chairman of the F.D.I.C., said so eloquently almost 20 years ago: "Without new ideas, persistently applied, nurtured and absorbed, any bureaucracy can go through an ossification process just like the petrified forests that long ago stopped producing living trees. This hasn't happened in bank regulation -- or at least not for long -- largely because the number of regulators is so large and the possibility of switching regulators is so widely recognized that new ideas, sooner or later, will have to be considered by even the most resistant of regulatory authorities."

If we have, in effect, one federal regulator for all, we increase the chances that bank regulation will cease to evolve and will cease to be flexible in times of crisis.

We can deal, in large part, with the issue of overlapping jurisdictions at the federal and state levels through greater interagency coordination -- which is what I am striving for as Chairman of the F.D.I.C.

Some people think -- or say that they think -- that there is no future for the dual banking system, regardless of what is done. They think -- or say that they think -- that technology has made state jurisdictions irrelevant in the financial world. The most exuberant of these people say national jurisdictions are irrelevant, too.

Political jurisdictions, however, are frequently arbitrary. We create them to serve a purpose. As long as they are serving their purpose, political jurisdictions are just as real as mountain ranges and other boundaries.

As I have outlined, the dual banking system serves a number of purposes -- and it should be preserved.

In The Bankers Be Damned, Wilcox argued that the dual banking system could have ended 60 years ago because the deposit insurance law "could be used by a despotic individual to override and eliminate any and all local bank supervision."

He wrote: "Popular forces in Washington would have applauded a wider translation of this law, in order to tie the state banks with cables of Federal authority."

That didn't happen, he concluded, because Chairman Leo Crowley valued and supported the dual banking system.

Just as I and my colleagues at the F.D.I.C. value and support it today.

Thank you.

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