Remarks by
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I grew up in Smyrna, Tennessee -- southeast of Nashville -- and down the road a piece from Murfreesboro -- home of Middle Tennessee State University -- a town of about 50,000 people now, but one that was smaller when I was growing up. If you were among my neighbors back then and you wanted a home mortgage, you went to Murfreesboro Federal Savings and Loan -- one of hundreds of Federal S&L's created in the mid-1930s after Congress passed the Home Owners Loan Act. In fact, from the beginning of 1934 to mid-1935 -- hardly a boom time for any other business -- nearly 450 new federal savings and loan associations were chartered -- and more than 300 state-chartered institutions were converted. At that time, the newly created Federal Home Loan Bank Board actively promoted the formation of new federal S&Ls by having its employees go from town to town to persuade local businesspeople to organize new institutions.

Murfreesboro Federal grew along with the town. Reflecting some of the changes your industry has gone through, it is now known as Cavalry Banking -- A Federal Savings Bank. Ed Loughry, Cavalry Banking's President and CEO, is here today. I have it on good information that Cavalry Banking is still working to build Murfreesboro.

When I think of the Savings Association Insurance Fund, I think of institutions like Cavalry Banking.

Of course, I also think of institutions like Great Western and Home Savings, too, and after the last two weeks or so, I must say I am thinking about them a lot -- as I have told Jim Montgomery and Charlie Rinehart.

As I have said on a number of earlier occasions, the thrift industry has a problem capitalizing SAIF and a SAIF problem is a problem for the Federal Deposit Insurance Corporation. In other

created two types of institutions whose SAIF assessments cannot be used to meet FICO interest payments -- so-called Oakar and Sasser institutions. Because neither is both a savings association and a SAIF member, the law says their SAIF premiums cannot go toward the FICO obligation.

If things remain much as they have been in recent years, the SAIF has been projected to capitalize in 2002. You know and I know, however, that the assumptions under which that projection was made are not now likely to come to pass -- and, in fact, these assumptions were a baseline analysis against which alternative assumptions could be measured, not predictions of certainty.

One thing is certain, however: the FICO obligation will run into debt service problems. It is a question of when, not a question of whether. This is true regardless of whether the entire SAIF assessment base were available to meet the FICO obligation or only part of the base. Debt service problem on FICO bonds will come much sooner without assessments from Oakar and Sasser institutions. In fact, we have just now analyzed the fourth quarter 1994 numbers, and they show that during all of 1994 Oakar deposits jumped from $139.8 billion to 180.2 billion. While at the end of the third quarter, 1994, Oakar institutions held 23 percent of the SAIF assessment base, at the end of the fourth quarter, they held 25.2 percent. Sasser institutions continued to represent 7.4 percent of the base.

With 33 percent -- a third -- of the SAIF-insured deposit base unavailable to meet FICO obligations and with the deposit base shrinking at 2 percent annually -- the average rate in recent years -- there are likely to be debt service problems as early as 2005. If the base shrinks at 4 percent, the problems hit in 2001. At 6 percent, they hit in 1999. At 8 percent, they hit in 1998.

Like the crack in the radiator that triggers the recall of a make and model of automobile, the FICO problem is a structural flaw. It is embedded in the SAIF system. It will not go away by itself -- and the FDIC has no legal authority to fix it. SAIF can be fixed now -- or it can be fixed later -- but it must be fixed.

Let me suggest, however, that there is a certain urgency in the matter.

We may soon see Bank Insurance Fund-insured institutions created to receive deposits from savings institutions so that the insurance coverage of those deposits could shift from SAIF to the BIF. The motive behind creating these institutions, of course, is to enjoy the lower insurance premiums that may apply to BIF institutions later this year, if the FDIC Board votes a lower premium rate for BIF-insured institutions. As you know, if current conditions continue, we expect BIF to recapitalize at the

"Great," said the reporter, "and how would you drain the oceans?"

Rogers replied: "Don't ask me, I'm in policy, not operations."

It is easy to develop policy in the abstract and in a vacuum -- we can always come up with simple and compelling answers that will not work. It is coming up with an answer in the messy real world -- the world in which Cavalry Banking does business -- that is difficult.

Further, the SAIF/FICO problem illustrates the difficulties that arise when you premise a solution on assumptions and the assumptions later go awry. Of course, when facing an uncertain future, the best we can do is make assumptions that are logical and reasonable.

A number of policy prescriptions have been proposed to deal with the SAIF/FICO problem. On the surface, some may appear feasible, but they all carry with them disadvantages as well as advantages -- and all would require legislation by Congress.

Basically, they all look to three groups to pay for the problem, either separately or in combination. Those groups are the savings associations, the commercial banks, and the taxpayers.

Several proposals require tapping the commercial banking industry for funds to service the FICO obligation -- including a proposal that this organization supports. On this point, the GAO report I mentioned earlier notes: "Arguments have been made that any option that involves the banking industry contributing to service the FICO interest obligation is unfair to the industry. These arguments contend that the FICO obligation was incurred during the thrift crisis of the 1980s and, as such, is an obligation of the thrift industry. However, there are also arguments that those thrift institutions that comprise today's thrift industry still exist because they are healthy, well-managed institutions that avoided the mistakes made by many thrifts in the 1970s and 1980s that ultimately led to the thrift debacle. As such, they argue, they should be no more responsible for the FICO interest burden than the banking industry."

I agree wholeheartedly with that statement in the GAO report. The banks and thrifts of today did not cause the S&L crisis. In fact, we can all agree on this point -- and we are still left with the question: What do we do about the FICO problem and an undercapitalized SAIF?

Another proposal is to make Oakar and Sasser assessment revenue available to meet FICO obligations. That approach would slow capitalization of the SAIF, however, without solving the fundamental problem. FICO bonds will run into debt service problems regardless.

I do not expect your witness on Friday to be entirely disinterested -- much less a saint -- no offense, Jim Montgomery -- but my fellow FDIC Board members and I would appreciate it greatly if you were to give us the benefit of your best thinking to help us work through this difficult problem -- a problem that we share.

All I can say at this point is that we are analyzing the options -- costing them out. We do not have a solution -- we have not made any decisions -- we are leaving the door open. While I do not have a recommendation at this time, I do expect to come forward with one, or several.

Thank you.

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