Remarks by
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Some people collect stamps; some people collect coins; I collect sayings by Yogi Berra.

Once, while he was playing for the Yankees, Yogi received a twenty-five-dollar check for a radio interview with sportscaster Jack Buck. Berra glanced at the check, which was inscribed "Pay to Bearer," and promptly complained: "How long have you known me, Jack? This ain't the way to spell my name."

Then there is the quotation that is my personal favorite: "You know," Yogi said, "the future is not what it used to be."

The man could have been a banking consultant.

Banking has long had a reputation for being a business where nothing much changes. Maybe the architecture or style of dress favored by bankers sends this signal -- or perhaps it has something to do with the penchant of bankers toward the reliably concrete rather than the faddishly abstract -- or it could be that -- from the outside -- a business so technically oriented seems to be immutable.

In any event, it is -- as all of us know -- a false impression. Banking has never known a golden age of stagnation, when it did not face change. As Yogi would say, in banking, the future is never what it used to be.

That observation makes the current debate over the future of small banks -- and particularly state-chartered small banks -- all the more interesting.

Because of the technological, legislative, and structural changes that banking is now experiencing, there are those who say that time has by-passed the small bank. Critics were saying the same thing when I went to work at the Federal Reserve Board 10 years ago -- and they were saying much the same thing when

Congress created the Federal Deposit Insurance Corporation in 1933. The critics assumed -- and continue to assume -- that small banks cannot weather change. The critics were wrong then -- and they are wrong, now. Small banks survive by changing with the times.

On occasion, the future has looked bleak -- that is true. That only makes the rebound by small, state-chartered banks all the more impressive. For example, in the five years from 1864 to 1869, the total number of state-chartered banks declined from 1,566 to 247. By the turn of the century, however, the total grew to 6,650 -- explosive growth that inspired the creation of this organization's predecessor, the National Association of Supervisors of State Banks. Again, from 1930 through 1933, more than a quarter of all state-chartered banks failed. With the creation of the FDIC, however, the situation stabilized and only nine banks -- state and national -- failed in 1934.

State-chartered banks have prospered since then. One of the reasons why is the partnership that exists among the FDIC, state supervisors and state-chartered banks -- a partnership that results from our community of interest in preventing bank failures and, thus, losses to the bank insurance fund. This partnership was defined by FDIC Chairman Leo Crowley before the annual convention of state banking supervisory authorities in 1934 -- more than 60 years ago -- and was brought into being largely through his leadership.

At that convention, Crowley invited state bank supervisors to -- and I quote -- "make use of the service which the Corporation can give you" -- and, as an example, he envisioned the day when the FDIC would train state examiners.

It took a while, but his vision came to pass.

There is no doubt that Leo Crowley was a remarkable person. During the Second World War, he held nine other senior government posts in addition to the FDIC Chairmanship -- and despite his awesome wartime responsibilities, he invariably concluded his workday at 5 p.m. I find that impossible with the FDIC job alone.

Through his energy, his talent and his vision, Leo Crowley aided and encouraged the national organization of state supervisors -- in effect, making its executive committee his advisory committee. In doing so, he established the spirit in which the state supervisors and the FDIC have worked for 60 years -- and, indeed, work today.

It was no easy task: In the early 1930s, the emphasis on coordination and the shift of focus to Washington were big changes for state banks and state bank supervisors -- but they changed with changing times, and in so doing, survived and prospered.

I cannot understate the magnitude of the changes we -- bankers and bank supervisors -- face today. Clearly, when one person and a computer on the opposite side of the globe can trigger a failure at the oldest banking company in England; when Congress brings interstate branching into law; when Charlotte, North Carolina, becomes a major banking center; when banks routinely create and hold instruments that were literally inconceivable a decade ago; and when the repeal of Glass-Steagall restrictions becomes a debate not over "if" but over "when and how," the banking landscape is shifting.

I am convinced, however, that if we continue to work together in partnership, state-chartered banks will continue to prosper.

I want to give you an idea today about how the FDIC is responding to changes.

The most immediate shift in the landscape is interstate branching. One of the first things I did when I became FDIC Chairman was to create a Task Force to analyze the impact of the new interstate banking law on the FDIC, the banking industry, and the financial system. From deposit insurance to examinations to bank resolution activities, interstate branching will affect the way the FDIC does business. The Task Force is identifying the specific projects we need to undertake to prepare for the future. It will report its initial findings to me by July.

You have in development the state bank supervisors' response to the interstate legislation -- a plan to establish a seamless regulatory structure to harmonize supervision among the states. I applaud your effort to find a way to adapt state supervision to the new interstate banking reality. I have instructed the FDIC Task Force to coordinate its efforts with state banking regulators, the CSBS, and the Federal Reserve to assure that state-chartered institutions can enjoy the advantages of interstate branching.

In the same light, it is interesting that people in Washington would attempt to erase one of the advantages of the state charter -- examination costs that are generally lower than those for federally chartered institutions -- by proposing that the FDIC charge for its examinations. State nonmember banks already pay for FDIC examinations through deposit insurance assessments -- and those state members and national banks that we examine have paid for their examinations through deposit insurance assessments, too. Someone, somewhere, must think that the principle of equity requires that, when one's basement is flooded, one floods one's neighbor's basement, as well. That is unfair. I oppose any proposal to charge banks for FDIC examinations -- and I will continue to oppose the idea.

Another changing feature of the banking landscape is the emphasis on making bank supervision more effective and efficient.

To that end, I am also committed to improving our examination process and to assuring that our supervision of banks is effective and efficient for the FDIC as well as banks. Last month, I announced that the FDIC would begin surveying bankers for suggestions to improve the quality of examinations. The program is aimed at detecting where the FDIC examination process is burdensome or inefficient and then refining it. The effort is expected to run one year. We will give most of the 3,500 or so FDIC-supervised commercial banks and savings banks undergoing safety and soundness examinations next year a questionnaire at the end of their examinations. The three-page survey will ask bankers about the appropriateness and thoroughness of examination procedures; the quality and professionalism of the FDIC team that conducted the review; and the usefulness of the written and oral reports from the FDIC that discuss examination findings.

Each completed survey will be sent to the FDIC's Director of Supervision. Respondents will have the option to remain anonymous or to give their names so that we can seek follow-up information or clarifications. Participants will also be able to speak with an FDIC senior manager to discuss any additional problems or issues. Quarterly reports on findings from the survey will be distributed to examiners in the field.

The emphasis in this program is on two-way communications, timely analysis and effective follow-up. All are essential if the FDIC is to maintain an efficient supervisory program that works effectively with bankers to encourage safe and sound banking operations in order to keep banks open rather than closing them.

We are also addressing the issue of regulatory burden from another direction: two weeks ago, all the FDIC regional offices conducted a survey of a sample of FDIC-supervised institutions to determine just how costly, and therefore, burdensome, a number of regulations are. The survey sample was designed to reflect asset-size and geographic location. We asked the banks to give us their recent estimations of the annual costs to them of complying with specific regulations. This information will be given to Congress in hearings on regulatory burden, which are likely to be held next month.

Regulatory burden came into being through accretion. Each regulation -- in and of itself -- may have been appropriate when adopted, but taken together the accumulation of regulations became unjustifiably burdensome, and, over time, some regulations became obsolete. It is time-consuming to review each layer of regulation to decide what is needed and what is not -- but it is a process that is essential to assuring that the regulatory system works effectively.

On the fairness side, last month we established a new, formal process under which bankers may appeal supervisory determinations by agency examiners and regional supervisory officials -- including examination ratings, loan loss reserve provisions, and asset classifications.

Under the new guidelines, institutions have 60 days following receipt of such a determination to appeal. The appeal will be reviewed by a committee composed of the FDIC Vice Chairman Skip Hove, the Director of Supervision, the Director of Compliance and Consumer Affairs, the General Counsel and the FDIC Ombudsman. The committee will notify the institution of its decision within 60 days.

Another changing feature in the banking landscape is the explosive growth of capital markets activities at banks.

Late last year, I set up a Task Force to look at the capital markets activities of banks and to make recommendations about how we -- as deposit insurer -- should respond to their growth and growing complexity -- including how we should respond to the potential risks and to problem situations from derivatives and other capital markets activities. In the last five months, we have drawn on a wide-range of participants and observers for information and advice. Our Task Force is producing several reports, including reports on supervisory issues and contingency planning. When the task force's mission is completed, we will have a much better idea of how we, as deposit insurer, are to deal with market-driven changes in the business of banking.

Finally, a key shift in the landscape for banking is that it is less menacing today -- from the perspective of bank failures -- than it appeared a few years ago. As a result, the FDIC must downsize, must cut its costs, must refocus its mission.

When I became FDIC Chairman, I began a process of strategic planning that will guide us in all three areas. We are nearing completion of a strategic plan -- the first in the FDIC's history -- that will shift our focus from closing institutions when they fail to helping institutions stay open by operating in ways that more effectively account for risks in the changing landscape for banks.

These changes in the landscape for banking affect us all -- banker as well as bank supervisor. Some of the changes offer opportunity -- some uncertainty.

It is easy to forget, however, that at one time federal deposit insurance was considered to be a radical experiment -- one opposed by most bankers, even by the small institutions that benefitted from it almost immediately. It is easy to forget that at one time, the home mortgage loan was considered to be far too dangerous a credit for banks to make. It is easy to forget that, more recently, the credit card was considered beneath the dignity of banks to issue. Change is a constant in the banking equation -- it always has been.

In the 1930s, Leo Crowley said that "in the Federal Deposit Insurance Corporation bankers have for the first time an agency concerned with the soundness of the entire banking system and without special interests in any class or segment of the membership of that system." Now, as then, the FDIC brings to the table, if you will, a dual banking perspective: as regulator of state chartered banks, certainly, but also as deposit insurer for all banks, concerned with the safety and soundness of the system as a whole. Having a foot in each world, the FDIC can bridge both.

As Chairman Crowley noted: "The Corporation offers bankers an unprecedented opportunity to develop a much needed uniformity of practices and standards without imperilling their traditional structural set-up." That traditional structural set-up continues to allow the states to be the laboratories where new approaches to banking can be tried and tested. Within the traditional structural set-up, the FDIC continues to enjoy the opportunity to bring state supervisors -- and federal supervisors -- together to work on and work through our common concerns.

During my recent, brief term as Chairman of the Federal Financial Institutions Examination Council, my interest in fostering regulatory cooperation prompted me to seek consistently the State Liaison Committee's position on issues. As Jim Watt, and many of you, will testify, it has also led me to keep my door -- and my telephone lines -- open to state supervisors.

Someday -- I am sure -- we can achieve a seamless system of bank regulation in the United States that will assure bank safety and soundness -- if we work together. We can achieve a system of regulations where benefits outweigh costs -- if we work together. We can achieve a regulatory system where the flexibility of state supervision and the sweep of federal supervision will complement one another -- if we work together. In short, if we work together, we can achieve a future that is better than any one we can create if we work separately. I came here today to tell you personally that I intend to continue to work closely with you so that together we can make the future even better than it used to be.

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