

Oral Statement
by
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Mr. Chairman and members of the Committee, thank you for the opportunity to present the views of the Federal Deposit Insurance Corporation concerning the financial institution regulatory system. I have detailed written testimony to submit for the record. This morning, I will briefly discuss three important points.

Point one: The federal financial institution regulatory agencies are working to make the regulatory process more effective and more efficient, as well as less intrusive in the marketplace. These efforts, which include increased coordination among the regulatory agencies, seek to eliminate overlapping regulation and other inefficiencies. Regulatory and supervisory initiatives affecting more than one agency are developed on an interagency basis or adopted only after significant interagency analysis and coordination. These cooperative efforts strengthen the regulatory process by bringing the differing regulatory perspectives and experiences of the agencies to bear on common problems and initiatives. They also ensure more consistency in policymaking and policy implementation. My written statement includes a large number of recent examples of where we have successfully worked together -- from risk-based capital requirements to examination procedures and from Community Reinvestment Act regulations and examination guidelines to developing an enhanced framework for supervising the U.S. operations of foreign banking organizations (FBOs).

Our efforts in working together are not new. The federal banking agencies have a history of cooperation in addressing issues of mutual interest and concern. With the creation of the Federal Financial Institutions Examination Council (FFIEC) seventeen years ago, cooperation became more formalized. State bank regulators are included in the FFIEC's activities through a state liaison committee of five representatives that participates in quarterly FFIEC meetings. As discussed in detail in my written testimony, the FDIC -- the primary federal regulator of state-chartered banks that are not members of the Federal Reserve System -- has worked closely with state bank regulators over the years to ensure increased coordination in the supervision of

state-chartered banks. Improvements can still be made in the regulatory process, and we are working on them. There are some statutory and regulatory requirements that have not kept pace with changing market conditions and greater supervisory sophistication. We at the FDIC are reviewing every regulation and policy we have on our books. On balance, however, the nation's regulatory structure for depository institutions has displayed, and continues to display, an ability to adapt to changing conditions and to meet new challenges -- an ability to undergo incremental, evolutionary changes to keep pace with changes in the marketplace.

The banking crisis of the 1980's and early 1990's is a good example of how the FDIC, the world's oldest and most effective deposit insurance system, worked cooperatively with federal and state bank regulators to assure that the failure of nearly 1,500 banks did not cause panic and runs on banks, which had been the experience following the dramatic number of bank failures in the 1920's and the early 1930's before the FDIC was established. Under stress, the system worked.

Point two: We need to use a set of guiding principles in weighing changes to the regulatory system -- and particularly in weighing the pros and cons of proposals to consolidate the regulatory agencies. We suggest four such principles. First, the regulatory structure should work to ensure the stability of the financial system and the safety and soundness of individual financial institutions and the deposit insurance system. Second, the structure should encourage, not stifle, innovation and competition. Third, bank supervisory functions should be performed by independent agencies. Fourth, the broader regulatory responsibilities to the financial system of deposit insurance and monetary policy require current and sufficient information on the ongoing health and operations of financial institutions that fall within the safety net for the U.S. financial system. We discuss each of these principles in detail in our written testimony.

Point three: We should evaluate the benefits and costs of major changes in our regulatory structure only after Congressional deliberations on reform of the laws governing the banking and thrift industries. Given the current debate on the powers and activities associated with bank and thrift charters, and the state of flux in the financial services industry, it would perhaps be wise to analyze the impact of unfolding legislative developments before weighing the benefits and costs of any restructuring proposal.

Mr. Chairman and members of the Committee, I appreciate the opportunity to discuss these important issues with you today. I look forward to your questions.

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