

W E L C O M E

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Yours is a noble, albeit frequently misunderstood, occupation. For many bankers, particularly junior ones, the examiner is like Elbert Hubbard's auditor.

I say "noble" advisedly. While the primary thrust of every examination is pro bono publico, for the public good, it has a secondary but very important private enterprise benefit. It is to these I would like to direct your attention for a few minutes. The review of a bank's operation and its balance sheet by a skilled examiner has many real benefits for management and stockholders. Detection of defalcations is an obvious one. Less obvious, but more important perhaps, is the disclosure of potentially dangerous trends in credits, asset mixes, and capital ratios. In the main, I believe these are appreciated by bankers, especially those with a lively appreciation, born of experience, of how vulnerable a bank really is. As one banker who operates a small holding company observed to me, "I want the examiners to turn over every piece of paper we have. They are the best assistants I have in policing the credit policies in our small shops."

Yet we have our critics.

The criticism originates in two ways. The first of these is born of an ignorance of the public objectives and private benefits to be derived from an examination. Only time and exposure cures this one. We can do little to forestall this type of criticism. The examiner can only grit his teeth, try to smile sweetly, and do the best possible job.

The other source we can control, for it originates with us. There are many points of potential friction that can become abrasive. These are a few of them:

(1) Criticism for criticism's sake. Insurance examiner story. Our objective should be objective. We want to fairly set forth the financial condition of the bank. This means a qualitative appraisal of what is material and what is not. Save your ammunition for the big game.

(2) Do not look for the least creditable motive in analyzing an action of bank management. To use the hunting analogy again -- don't make sound shots.....just because the bushes rustle, don't assume there is an elk there.....it may be your horse or your best friend. In my former career of serving the business community, I found there was no limit to the variety of wrong decisions businessmen could make -- with the best of motives. The banker's decision likewise may have been a bad one -- unwise or perhaps technically illegal -- but do not leap to the conclusion that the motives were discreditable.

We in regulatory agencies, either within a government structure or one slightly to one side, have a service obligation which has been emphasized as recently as two weeks ago in a special request from the President to the heads of the various agencies of the federal government. In discharging our public responsibilities, let us remember the service obligation. This means maintaining an objectivity towards our work -- a sense of proportion. Banks exist only to serve the public. They have no God given right to exist, much less survive, if they fail in that service function. By the same token, we exist only to see that they remain financially sound, so they will continue

to provide the demanded service. We exist to serve -- and we must never forget it.

As part of our desire to expand our service to member banks, with the broader objective of strengthening the banking system in the Ninth District, we are currently offering a functional cost analysis, about which you will hear more shortly.

Next Friday, there will be a meeting here of representatives of the State Bankers Associations, C.P.A. Associations, and the regulatory agencies to explore mutual areas of interest. Our objective is not to find new areas of income for CPA's and expense for banks, but the impact of new hardware, accounting language, and income taxes, on the average small bank have made internal control and audit a necessity, rather than the luxury they have been regarded. Hopefully, we will be able to act together to outline areas of discussion and interest for continuing dialogues in each state.

Now to functional cost