

News from Senator

BOB DOLE



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FOR IMMEDIATE RELEASE
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STATEMENT OF SEN. BOB DOLE
PRESENTED TO
U.S. SENATE COMMITTEE ON BANKING, HOUSING & URBAN DEVELOPMENT
MARCH 6, 1986

I'M HERE TODAY AS A SENATOR FROM KANSAS CONCERNED ABOUT THE CONDITION OF THE BANKING INDUSTRY IN MY STATE AND REGION. THE MATTERS WE ARE DISCUSSING TODAY ARE OF THE HIGHEST PRIORITY. I WOULD SUGGEST THAT WE MUST DECIDE RIGHT AWAY WHETHER WE WANT TO WORK TOGETHER TO CRAFT POSITIVE SOLUTIONS TO THE PROBLEMS, OR WHETHER WE JUST WANT TO DEMAGOGUE THE ISSUE. I SUGGEST WE WORK QUICKLY TO PROVIDE SOME RELIEF WHERE IT IS NEEDED.

I WOULD REITERATE TO THE CHAIRMAN AND ALL MEMBERS OF THE COMMITTEE THAT I WILL DO EVERYTHING POSSIBLE TO SCHEDULE TIME ON THE SENATE CALENDAR - PERHAPS YET THIS MONTH - FOR LEGISLATION PROVIDING RELIEF TO COMMERCIAL BANKS WHICH THE COMMITTEE MAY REPORT OUT. BUT I WOULD STRESS MY HOPE THAT WE CAN APPROACH THIS IN A SPIRIT OF BI-PARTISANSHIP. BECAUSE THE SENATE SCHEDULE FOR THE NEXT SEVERAL MONTHS IS ALREADY EXTREMELY CROWDED, MATTERS WHICH REPRESENT THE PROMISE OF PROTRACTED DEBATE MUST NECESSARILY FALL IN LINE BEHIND THOSE ALREADY ON THE SENATE CALENDAR. SO AGAIN, I HOPE WE CAN WORK TOGETHER TO FIND SOLUTIONS WHICH ARE HELPFUL AND WHICH HAVE A REAL CHANCE OF BEING IMPLEMENTED.

SOME FELT WE SHOULD HAVE ADDRESSED THE ISSUE OF RELIEF FOR COMMERCIAL BANKS DURING CONSIDERATION OF FARM CREDIT LEGISLATION IN DECEMBER. INDEED, THERE MAY A STRONGER CASE FOR PROVIDING RELIEF TO BANKERS WHO HAVE PUT THEIR OWN CAPITAL AT RISK THAN TO THE FARM CREDIT SYSTEM. IN ANY EVENT, WE DID ADDRESS THE FARM CREDIT SYSTEM REFORMS, AND IT IS INCUMBENT UPON US NOW TO LIKewise ADDRESS THE COMMERCIAL BANK SIDE OF THE EQUATION. I ANTICIPATE A SCENARIO UNFOLDING LATER THIS YEAR INVOLVING DEBT RESTRUCTURING TO OUR ENERGY PRODUCING LATIN AMERICAN FRIENDS. AND I MUST SAY THAT I WILL HAVE A HARD TIME EXPLAINING TO THE CITIZENS OF MY STATE WHY WE KEEP RENEGOTIATING FOREIGN DEBT WHEN WE CAN'T SIMILARLY PROVIDE RELIEF TO OUR DOMESTIC BANKING INDUSTRY. SO I HOPE WE KEEP OUR PRIORITIES IN ORDER.

THERE WERE APPROXIMATELY 120 BANK FAILURES IN THE U.S. LAST YEAR. THIRTEEN OF THOSE WERE IN KANSAS. AT THE END OF 1985, THERE WERE SEVERAL HUNDRED MORE BANKS ON THE PROBLEM LIST. WHEN WE STARTED THE YEAR, WE KNEW THAT WE WERE ALMOST CERTAIN TO HAVE A NUMBER OF ADDITIONAL BANK FAILURES IN 1986 - PRIMARILY AG BANKS. BUT WE ALL KNOW WHAT HAS HAPPENED TO OIL PRICES SINCE JANUARY AND THE EFFECT THAT WILL HAVE ON BANKS WHO HAVE BEEN LENDERS TO THAT INDUSTRY. AND OF COURSE PROBLEMS IN THAT SECTOR HAVE LED TO OTHERS, SO WE KNOW THAT ANY BANK WITH A HIGH CONCENTRATION OF FOREIGN OR REAL ESTATE LOANS WILL REQUIRE CLOSE SCRUTINY THROUGHOUT THE YEAR. CONTRARY TO THE BELIEFS OF SOME, COMMERCIAL BANKING PROBLEMS ARE NOT ISOLATED TO SMALL GEOGRAPHICAL AREAS OR TO ANY ONE INDUSTRY.

IN SOME CASES, LENDERS MAY HAVE MADE OVERLY OPTIMISTIC ASSUMPTIONS ABOUT COMMODITY PRICES. SOME WOULD ARGUE THEY ARE

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NOW GETTING WHAT THEY DESERVED. IN OTHER CASES, THE SAME CAN'T BE SAID. I WOULD LIKE TO BE ABLE TO TELL YOU, MR. CHAIRMAN, THAT I KNOW HOW TO DRAW THE LINE SO THAT WE CAN ONLY PROVIDE AID TO THOSE BANKS WHICH WERE GENERALLY WELL MANAGED BUT VICTIMIZED BY UNFORESEEABLE DEVELOPMENTS IN THE WORLD MARKETPLACE. I WOULD LIKE TO BE ABLE TO DRAW SUCH A LINE, BUT I CAN'T. ALL I KNOW IS THAT WE CAN'T SAVE EVERY LOAN OR EVERY BANK. TO DO SO WOULD REQUIRE THAT WE BAIL OUT EVERY INDUSTRY WHICH IS CURRENTLY EXPERIENCING DIFFICULTIES. WE DON'T HAVE THAT RESPONSIBILITY; NOR WE DO HAVE THE RESOURCES. BUT WHAT WE CAN DO IS PROVIDE SOME LIMITED AID WHICH WILL HAVE A STABILIZING EFFECT ON THE FINANCIAL INDUSTRY AS A WHOLE.

I HAVE VISITED WITH A NUMBER OF EXPERTS KNOWLEDGEABLE IN THIS FIELD OVER THE PAST SEVERAL MONTHS. WE HAVE DISCUSSED A WIDE VARIETY OF OPTIONS, FROM GREATER FORBEARANCE ON ONE END OF THE SPECTRUM TO INTEREST RATE AND PRINCIPAL BUY-DOWN SCHEMES ON THE OTHER. MANY OF THESE PROPOSALS TO AID COMMERCIAL BANKS ARE OFTEN REFERRED TO AS SIMPLY SCHEMES TO "BAIL OUT THE BANKERS". AND I AGREE: WE MUST AVOID SIMPLY BAILING OUT THE BANKERS.

AT THE SAME TIME IT MUST BE RECOGNIZED THAT IN MANY CASES, WHEN THE LOCAL BANK CLOSES, THE COMMUNITY DRIES UP. IT IS AS SIMPLE AS THAT. THERE ARE EXAMPLES ALL THROUGHOUT THE FARM BELT. THERE MAY SOON BE EXAMPLES THROUGHOUT THE ENERGY PRODUCING SOUTHWEST. IN MY VIEW, WE NEED TO SEARCH FOR RESPONSIBLE WAYS TO AID COMMERCIAL BANKS WHERE IN DOING SO, WE ARE KEEPING ALIVE ENTIRE COMMUNITIES - ENTIRE COMMUNITIES WHICH ARE COMPRISED OF FARMERS, ENERGY PRODUCERS AND OTHER SMALL BUSINESSMEN AND WOMEN WHOSE ACCESS TO COMMERCIAL CREDIT WOULD BE SERIOUSLY JEOPARDIZED BY THE ABSENCE OF A COMMUNITY BANK.

STABILIZING BANK CAPITAL

REPRESENTATIVES OF THE THREE FEDERAL BANK REGULATORY AGENCIES (FDIC, COMPTROLLER OF THE CURRENCY, AND THE FEDERAL RESERVE) HAVE ALL ADOPTED CAPITAL STANDARDS WHICH ESSENTIALLY PROVIDE THAT BANKS SHOULD MAINTAIN A CAPITAL RATIO OF AT LEAST 6 PERCENT. A DECLINE IN THIS RATIO HAS OCCURED AT MANY BANKS AS MANAGEMENT HAS BEEN FORCED TO TAP CAPITAL IN ORDER TO ABSORB LARGER THAN ANTICIPATED LOAN LOSSES.

WHILE I WILL NOT QUARREL WITH THE CAPITAL TO ASSET RATIO THAT MUST BE MAINTAINED, I FEEL IT IS IMPERATIVE TO REMEMBER THAT A BANK'S CAPITAL IS ESSENTIALLY A CUSHION AGAINST HIGHER THAN ANTICIPATED LOSSES. MEMBERS OF THIS COMMITTEE MAY HEAR A LOT ABOUT HOW IRRESPONSIBLE IT IS TO LOWER CAPITAL REQUIREMENTS, OR TO DEFER LOAN LOSSES SO THAT ADDITIONAL CAPITAL IS NOT IMPAIRED. BUT IF WE ASSUME THAT THE UNDERLYING ECONOMIC CONDITIONS WHICH HAVE ADVERSELY AFFECTED AGRICULTURAL AND ENERGY BANKS WILL STABILIZE AND IMPROVE IN THE NEXT FEW YEARS, OFFERING SOME TEMPORARY MEASURES TO STABILIZE BANK CAPITAL - EITHER THROUGH RELAXATION OF CAPITAL REQUIREMENTS OR MORE FORGIVING ACCOUNTING PRACTICES AFFECTING CAPITAL ACCOUNTS - MAKES GOOD SENSE. AND IT IS CONSISTENT WITH WHAT I PERCEIVE TO BE THE PURPOSE OF BANK CAPITAL REQUIREMENTS.

IN MY VIEW, THERE IS MUCH TO BE SAID IN THE CURRENT ECONOMIC CLIMATE FOR ALLOWING A BANK TO AMORTIZE ITS LOAN LOSSES OVER A 5 YEAR PERIOD. THE EXPERTS CAN ARGUE ABOUT THE TECHNICAL ASPECTS, BUT IT SEEMS TO ME IT SIMPLY PROVIDES A BANK SOME BREATHING ROOM UNTIL ECONOMIC CONDITIONS IMPROVE. LENDERS AND BORROWERS WOULD HAVE THE OPPORTUNITY TO ADJUST TO A CHANGED ECONOMIC ENVIRONMENT, WHETHER IN THE AGRICULTURE OR ENERGY SECTOR. AND, IMPORTANTLY, LENDERS WOULD BE MORE INCLINED TO RESTRUCTURE PROBLEM LOANS AS THEY WOULD NOT HAVE TO IMMEDIATELY ABSORB THE LOSSES ASSOCIATED WITH SUCH ACTIONS. THIS WOULD PROVIDE MUCH NEEDED RELIEF TO BORROWERS, AND WOULD SERVE TO INCREASE THE DOLLARS AVAILABLE FOR LOANS.

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WHILE I FAVOR AN AMORTIZATION OF LOAN LOSS PROGRAM, I DON'T FEEL IT SHOULD BE AN OPEN ENDED PROGRAM. IT SHOULD BE LIMITED TO THOSE BANKS THAT NEED IT TO AVOID FALLING BELOW CAPITAL REQUIREMENTS. AND IN MY VIEW, IT SHOULD BE LIMITED TO THOSE BANKS WHO ARE IN TROUBLE DUE TO AN EXCESSIVE CONCENTRATION OF EITHER AGRICULTURE OR ENERGY LOANS. ONE FORMULA TO BE CONSIDERED IS TO ALLOW AMORTIZATION OF LOAN LOSS TREATMENT TO BANKS WHERE COMBINED AGRICULTURAL OR ENERGY RELATED LOANS COMPRISE AT LEAST 25 PERCENT OF A BANK'S LOAN PORTFOLIO. AND I FEEL THERE SHOULD BE AN AGGREGATE LIMIT ON THE AMOUNT OF LOSSES DEFERRED - TO 75% OF THE BANK'S CAPITAL, FOR EXAMPLE.

IN MY VIEW, A BANK SHOULD HAVE TO AFFIRMATIVELY SUBMIT A PLAN TO THE APPROPRIATE REGULATORY AGENCIES OUTLINING HOW THE AMORTIZATION PROGRAM WOULD AFFECT THE BANK AND STEPS THE BANK INTENDS TO TAKE TO AVOID FURTHER DETERIORATION IN ITS FINANCIAL CONDITION. IF THE REGULATORS ARE OF THE OPINION THAT THE BANK WILL INEVITABLY FAIL EVEN IF ALLOWED TO DEFER LOAN LOSSES, THERE SEEMS TO ME TO BE NO REASON ALLOW A BANK TO UTILIZE THIS LOAN LOSS DEFERRAL APPROACH. THE REGULATORS CAN UNDOUBTEDLY DEVELOP OTHER WAYS TO TARGET THE AVAILABILITY OF AN AMORTIZATION OF LOAN LOSS PROGRAM - SUCH AS LIMITING SALARY INCREASES OR PREVENTING DIVIDEND DISTRIBUTIONS DURING THE PERIOD OF PARTICIPATION IN THE PROGRAM - AND I URGE THAT THEY BE GIVEN AUTHORITY TO PUT SOME TEETH INTO THE PROGRAM. I WILL LEAVE IT TO THEM TO COME UP WITH THE SPECIFICS.

EXPANDED FDIC AUTHORITY TO PREVENT BANK CLOSINGS

I HAVE BRIEFLY DISCUSSED WITH FDIC CHAIRMAN BILL SEIDMAN WAYS IN WHICH THE FDIC COULD ACT MORE QUICKLY WHERE A BANK FAILURE IS IMMINENT. AT PRESENT, THE FDIC MUST SIMPLY WAIT FOR THE BANK TO CLOSE BEFORE THEY CAN ACT. I ADVOCATE GIVING THEM AUTHORITY TO ACT PRIOR TO CLOSING. HOPEFULLY THEY CAN DEVELOP A SYSTEM OF LOCATING POTENTIAL BIDDERS BEFORE THE DOORS TO THE BANK ARE CLOSED AND DEPOSITORS ARE FRIGHTENED. IN SOME CASES IT MAY BE MORE COST EFFICIENT FOR THE FDIC TO ACTUALLY PAY A BANK TO TAKE OVER THE LOAN PORTFOLIO RATHER THAN TO MANAGE THE PORTFOLIO ITSELF.

MORE BUYERS OF TROUBLED INSTITUTIONS

IF WE ARE SERIOUS ABOUT KEEPING THE COMMUNITY BANK OPEN, WE MUST EXAMINE THE RESTRICTIONS PRESENTLY PLACED ON POTENTIAL BUYERS OF THE BANK. IN SOME CASES WHERE BRANCHING IS NOT ALLOWED, THE BRANCHING REQUIREMENTS EFFECTIVELY SERVE TO CLOSE THE COMMUNITY BANK. HOPEFULLY THESE PROBLEMS CAN BE CURED BY THE STATE LEGISLATURES INVOLVED. AND BANKS OR THRIFTS OF LESS THAN \$500 MILLION ARE OFTEN PREVENTED FROM ACQUIRING A FAILED BANK, EVEN WHERE THERE ARE NO BUYERS AT ALL AND THE BANK IS DESTINED TO CLOSE.

WHILE MANY OF THE BANKERS IN MY STATE WILL DISAGREE WITH ME - FOR REASONS THAT I DO NOT TOTALLY UNDERSTAND - WE MUST CONSIDER ALLOWING AN EXPANDED NUMBER OF INSTITUTIONS TO ACQUIRE FAILED AND FAILING BANKS - IF, THAT IS, THE ALTERNATIVE IS THE EVAPORATION OF BANKING SERVICES IN A GIVEN COMMUNITY. BANKS AND THRIFTS BOTH, WITHIN AND OUTSIDE THE STATE, SHOULD BE GIVEN THE RIGHT TO PROVIDE FINANCIAL SERVICES BEFORE THE BANK IS PERMANENTLY CLOSED. I BELIEVE WE CAN FASHION PROTECTION FOR LOCAL BIDDERS BY PERHAPS EVEN GIVING THEM THE RIGHT TO MATCH ANY OUTSIDE BID.

THIS IS AN EMOTIONAL ISSUE AMONG MANY BANKERS. BUT AGAIN, I HAVE SEEN ENTIRE TOWNS DRY UP WHEN THE BANK CLOSSES. AND I AM MORE CONCERNED ABOUT MAINTAINING BANKS, AND COMMUNITIES, THAN BANKERS.

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CONCLUSION

MR. CHAIRMAN, I HAVE JUST TOUCHED ON A COUPLE OF AREAS. THERE ARE A VARIETY OF THINGS WE CAN DO TO AID TROUBLED COMMERCIAL BANKS. I WOULD NOTE THAT THE AMERICAN BANKERS ASSOCIATION AND THE INDEPENDENT BANKERS ASSOCIATION DON'T ALWAYS SEE EYE TO EYE - AS THE CHAIRMAN WELL KNOWS - BUT THEY HAVE FORMED A TASK FORCE WHICH HAS RECOMMENDED AN AMORTIZATION OF LOAN LOSS PROGRAM AS THE CENTERPIECE OF THEIR RELIEF PACKAGE. IN THE COURSE OF THESE HEARINGS, THE COMMITTEE WILL UNDOUBTEDLY DISCUSS A VARIETY OF ADDITIONAL WAYS TO PROVIDE RELIEF TO COMMERCIAL BANKS. SOME HAVE SUGGESTED THAT THE SITUATION JUSTIFIES A BROAD "NEW POWERS" BILL. AND WHILE SOME DIVERSIFICATION IN LENDING PRACTICES MAY HAVE, IF UTILIZED JUDICIOUSLY, HELPED PREVENT THE CURRENT SITUATION FROM DEVELOPING, THAT IS NOT THE SOLUTION TO THE PROBLEM NOW THAT WE'RE HERE.

SOONER OR LATER, THE POINT WILL BE MADE THAT THE BEST AND FAIREST WAY TO HELP THE BANK IS TO HELP THE BORROWER. WE WILL UNDOUBTEDLY HAVE AN OPPORTUNITY TO DISCUSS INTEREST RATE BUY-DOWN SCHEMES. I HAVE MYSELF BEEN EXPLORING A PRINCIPAL WRITE-DOWN SCHEME COMBINED WITH A GUARANTEE. ALL OF THESE COST MONEY, DIRECTLY OR INDIRECTLY. BUT WE'RE NOT TALKING ABOUT THE EXTENSION OF ADDITIONAL FARM CREDIT HERE. WE'RE TALKING ABOUT WAYS TO ENSURE THE CONTINUATION OF BANKING SERVICES IN COMMUNITIES ACROSS ECONOMICALLY DISTRESSED PARTS OF AMERICA.

BUT IF WE CAN REACH SUBSTANTIAL AGREEMENT IN SOME OF THESE OTHER AREAS, I AM NOT ADVERSE TO EXPLORING THEM AS PART OF A BILL TO AID TROUBLED COMMERCIAL BANKS. OUR FIRST PRIORITY SHOULD BE AGREEING ON MEASURES WHICH CAN HELP PREVENT THE CLOSING OF BANKS WHERE POSSIBLE. AND THE BANKING EXPERTS IN MY STATE TELL ME THAT A SIMPLE LOAN LOSS AMORTIZATION PROGRAM OVER 5 YEARS WOULD ALLOW MOST BANKS THERE TO HOLD ON UNTIL WE FIND OUT WHETHER IN FACT THE ECONOMY WILL IMPROVE. THAT IS A GAMBLE WE SHOULD TAKE, IN MY OPINION.

SO I URGE THE COMMITTEE TO ACT QUICKLY ON A BILL WHICH HOPEFULLY DOESN'T CONTRIBUTE TO THE DEFICIT PROBLEM AND WHICH CAN BE ACTED ON QUICKLY. THOSE OF US WITH A DIRECT INTEREST IN THE SUBJECT WILL CONTINUE TO PARTICIPATE IN THE DEVELOPMENT OF A PACKAGE WHICH CAN HELP STABILIZE BANKS AND COMMUNITIES IN THE SHORT TERM. BUT AGAIN, WE MUST DECIDE NOW WHETHER WE WANT TO TRY TO PROVIDE SOME RELIEF WHICH WILL KEEP COMMUNITY BANKS OPEN - OR WHETHER WE WANT TO JUST HAVE AN ISSUE TO TALK ABOUT. I SUGGEST WE TRY TO BE HELPFUL.