



DAY 2

Managing the Crisis: The FDIC and RTC Experience April 29–30, 1998

Introduction

Kate McDermott
Symposium Hostess

It is my distinct pleasure this morning to introduce to you Gail Patelunas. Gail is the Deputy Director of Asset Management for the FDIC's Division of Resolutions and Receiverships. Gail joined the FDIC in 1990 to work on resolving failed financial institutions. As one of the initial members of the former Division of Resolutions, she gained increasing responsibility and became acting director of the Division of Resolutions for the year prior to its merger into the Division of Resolutions and Receiverships. Prior to joining the FDIC, Gail Patelunas worked as a financial analyst with the Board of Governors of the Federal Reserve, Division of Banking Supervision and Regulation. Gail was also a bank stock analyst for Kidder Peabody and a senior manager in KPMG Peat Marwick's bank consulting group.

Ladies and gentlemen, Gail Patelunas.

Welcoming Remarks

Gail Patelunas, Deputy Director, Asset Management
Division of Resolutions and Receiverships, FDIC

Thanks, Kate.

Well, I just want to summarize what we listened to yesterday and some of the things that we heard. We heard a wide variety and array of views and perspectives and also history on the resolution of the banking crisis of the 1980s and early 1990s. This ranged from the general resolution techniques to more specific asset disposition methods and

problems. We also heard some suggestions for future activities and improvements on those techniques which was very good.

Judging from some of the comments we heard yesterday, I suggest that we have a whole other symposium on the cost test. That seems to be a very controversial issue.

Looking back and listening to the comments that I heard yesterday, our efforts seemed to center on maximizing our flexibility and innovation in dealing with the failures in a very constraining environment, both legally and economically. The techniques used to address the resolutions and the failures evolved through trial and error and also as the economic conditions changed and the pace of the failures picked up, and in the FDIC and the private sector, the capabilities changed in absorbing the amount of assets that were thrown off by the failing banks.

Going forward, one of the FDIC's challenges will be to develop a readiness to deal innovatively with potential problems in a continually evolving banking industry which is marked by consolidation unprecedented in size and product diversification. Like Joe Neeley said yesterday, uncertainty is the greatest risk of battle and that will certainly be true for the FDIC in the future.

I was at a financial analyst seminar recently in New York where part of the discussion focused on why banks typically trade at a discount to the market and whether or not this phenomenon is likely to change permanently, given the bank's record earnings, their good credit quality and the stable interest rates. One participant put it very bluntly and very succinctly, and he said, banks speculate on debt with other people's money. This not only explains the reason for a traditional trading discount, but that banks are in a cyclical business and continue to be tied to the economy in the cyclicity. The FDIC must use this information and be ready for the uncertainties that the future brings. In that effort, seminars like this are very useful.

Today, we will hear about the banking crises in other countries and we'll also solicit ideas for future readiness.

The first panel this morning will discuss banking crises in other countries. The moderator is Tom Rose, Senior Deputy Director of the Division of Resolutions and Receiverships. Tom began his FDIC career in 1982 in the Legal Division where he gained progressively increasing responsibilities and was appointed deputy general counsel for the liquidation branch in 1985. Mr. Rose worked closely with the resolution staff, developing policies relating to closed bank and thrift operations and legal issues. In mid-1996, Mr. Rose was appointed senior deputy director of the Division of Resolutions and Receiverships, where he oversees the general operations of the division. Mr. Rose has an undergraduate degree in Political Science from Villanova University and a law degree from Villanova University.

Please join me in welcoming Mr. Rose and his panel.

