MARTIN GRUENBERG

It is my privilege to introduce our final keynote speaker for today. FDIC Director Tom Curry. Director Curry has served on the board of the FDIC since January of 2004, and prior to his service at the FDIC, Tom served for nearly 10 years as the banking commissioner of Massachusetts, and he also served a term as the Chairman of the Conference of State Bank Supervisors. And I should note that Tom has been nominated by the president to serve as our next Comptroller of the Currency. I have served on the FDIC board with Tom during my entire tenure here, and there's certainly no one whose judgment on financial regulation I respect more. He brings an extraordinary depth of experience and expertise in financial regulation at both the state and federal level, and there's no one with a firmer grasp from both the state and national perspective on the challenges facing community banks today. So it's my privilege, to introduce to you FDIC Director Tom Curry.

Keynote Speech

THOMAS CURRY, Director, FDIC

Thank you for that very kind introduction, and I also want to acknowledge that I view my tenure on the FDIC board with you as one of the most significant and rewarding professional experiences that I have. You're a real friend and true colleague. What I would like to do today is also to applaud you, Marty, for your leadership in holding this conference today on the future of community banking and making this a key corporate initiative for the FDIC in 2012 and beyond. As an FDIC board member, I share your commitment to pursuing this important policy objective for the banking industry and the regulatory community. Hopefully the FDIC community bank initiative will be an incubator for new research, innovative ideas, and practical solutions that will ensure that the community banks remain a vital part of our financial system. Our nation truly is fortunate to have its uniquely diverse banking system that consists of both large global institutions and locally focused community banks.

As discussed during this morning's first panel, approximately 6,500 of the 7,500 institutions insured by the FDIC are now defined as community banks. The number of community banks in our banking system is unique in comparison to other major countries' banking systems. What is remarkable, however, is the tangible economic impact community banks have on small and rural communities and on small businesses and farms. The outsized role of community banks and small-business lending is even more pronounced in times of economic distress. As we start to emerge from the present economic downturn, a strong and healthy community banking sector which has both the will and the capacity to lend will be a critical engine of economic growth and recovery. As we heard this morning, there are some strong headwinds buffeting community banks. These forces include technology, industry consolidation, capital availability, management succession, and yes, even regulatory compliance issues. Community banks also have been buffeting by the economic downturn, particularly those institutions serving the hardest-hit regions. Unfortunately, three quarters of the approximately 400 banks that have failed in the crisis were community banks. Well-capitalized, well-managed institutions, however, are positioned to ride out the storm. As we emerge from the crisis, we need to examine why this happened, what are the lessons learned, and how we can preserve community banking well into the future. Given the impact of the recent financial crisis on community banks and concerns raised about the potential effects of the Dodd-Frank Act on these institutions, the FDIC believes that there is value in taking a broad-based look at community banks and the issues that will affect their future. In sum, as the primary federal regulator of the majority of community banks, the FDIC hears you and your concerns about the direction economic and regulatory policies are going. We also understand that how these policies are implemented can present both challenges and opportunities for community banks.

I'm going to shift gears a little today and talk about the past. The financial history of the United States may provide some hope to those who may harbor some doubts about the future of community banking. Doubts of this sort are not new. I would like to share with you a quote I came across in preparing for my remarks today. This quote takes us back to the early 1930s, when Congress was considering bank reform legislation, including the federal guarantee of bank deposits, which many banks at the time protested. In the April 1932 issue of *the Southern Banker*, the following quote was found: “These bills constitute the most deadly threat that has been aimed at sound banking principles in this country. It behooves every banker to exercise the limit of this influence to forestall the passage of this or similar legislation. While the motives of those advocating for this legislation are above reproach, practical banking minds can see nothing less than disastrous consequences from the enactment of such legislation."

Over the last 150 years, American banks have faced a series of watershed moments. Each watershed event was marked by a significant financial crisis and a subsequent legislative response that made fundamental changes in the business of banking and how banks were regulated. Let me rattle off some of these events. The pressing need to finance the Union cause in the Civil War spawned the National Bank Act, in 1863 and ‘64. The financial paddock of 1909 spawned the Federal Reserve Act of 1913. The crash of 1929 and the Great Depression spawned the Banking Acts of 1933 and ‘34, and the creation of the FDIC Insurance Guarantee. And finally, the S&L crisis and the rolling regional economic crises of the 1980s spawned the FDIC Improvement Act in 1991. These legislative responses were radical in their day. They restricted or eliminated many long-standing practices, which potentially threatened the profitability or existence of many institutions. These threats were real and potentially dire. What cannot be forgotten, however, is the resilience of banks, particularly community banks, to meet these challenges by adapting to change and responding with game-changing innovation.

Let me elaborate a little using the creation of the National Bank System as an example of how a major statutory change was met with unanticipated resilience by the banking industry at the time. The National Bank Act was expressly designed to supplant the prior currency system that depended upon a hodgepodge of state banks. The act's most favored status for national banks and the subsequent punitive 10 percent tax on state notes, however, did not cause state banks to fade away. The state banks' response to this threat was to adapt and provided the impetus for a very creative innovation in banking. Conventional wisdom at the time held that a uniform currency system issued through the newly chartered national banks that enjoyed a bank note tax advantage would necessarily cause state banks to either convert charter or wither away. History shows that the anticipated outcome failed to materialize. Instead, state banks invented the check, and as a bank note substitute and our dual banking system was born. Similarly, the Federal Reserve Act of 1913 and the banking acts of 1933 and '34 responded to national economic crises with new regulatory structures and financial stabilizing measures in the form of discount window lending and federal deposit insurance coverage. These measures, while major expansions of federal reach into the banking system, provided the stability and confidence to minimize bank panics, and that in turn permitted community banks to serve their communities without fear of recurring economic disruptions. So let us resist the urge to let the present unduly color our view of the prospects for community banking despite the array of economic competitive regulatory and other forces at work that may make the future seem uncertain. Rather, let us used the conference as the starting point to focus on the future of community banks, their unique role in supporting our nation's economy, and the opportunities that they face in this challenge environment. Thank you and I hope you enjoy the rest of the conference.

MARK PEARCE

Thank you, Director Curry. Now it does appear that it's time for a 15-minute break, and if folks could come back in a little bit for our last panel of the day.