



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JOHN P. LAWARE
MEMBER OF THE BOARD

June 14, 1990

TO: Board of Governors
Presidents of Reserve Banks

SUBJECT: Straw Poll on Deposit Insurance Reform

I thought you might be interested in the summary of responses to my straw poll on deposit insurance reform. Recall that the options were drawn from the Board staff's May presentation of the issues as revised by President Guffey's suggestion of an option for a voluntary narrow bank (as a substitute for an insured bank) for those organizations choosing wider asset powers. Respondents were asked to rank the staff's suggestions on a one to ten scale, with "one" indicating highest preference and "ten" the least preference. Some respondents found the options too confining and I have found it necessary to add a "general comments" column to encompass their other views and suggestions. I hope I have done so fairly and accurately. Virtually all of us have in mind more than one option, e.g., prompt resolution and higher capital, and most of us felt bound by our perceptions of the possible.

That having been said, relative rankings were quite similar for the *totals* (page 4) of the numerical rankings of all Presidents and the four responding Governors. Both sets of respondents liked best prompt resolution, higher capital, and the use of subordinated debentures. Required voluntary banks was the least preferred by both Governors and Presidents, followed by privatization of insurance and voluntary narrow banks by Presidents and, for Governors, coinsurance over a lowered deposit insurance cut-off and privatization. The most frequently mentioned general comments involved improved supervision (or more frequent examinations), abolishing too-big-to-fail, adopting market value accounting, and limiting deposit insurance to one account per customer.

A handwritten signature in cursive script, appearing to read "John P. Laware".

Attachment

**Summary of Straw Poll
of
Deposit Insurance Reform**

Governor/ President	Privitiza- tion of In- surance	Risk-based Premiums	Narrow Banking		Coinsurance over		Higher capital	Sub. Deb.	Prompt resol.	General Comments
			Req.	Vol.	\$100,000	Less than \$100,000				
Chairman Greenspan	--	--	--	--	--	--	--	--	--	--
Vice Chairman Johnson	--	--	--	--	--	--	--	--	--	--
Gov. Seger	--	--	--	--	--	--	--	--	--	--
Gov. Angell	9	5	6	5	4	6	1	3	5	Preference to combine higher capital with risk-based insurance.
Gov. Kelley	5	3	8	6	7	8	4	4	1	--
Gov. LaWare	10	3	9	9	7	8	2	6	1	--
Gov. Mullins	4 (for small subset)	9	10	1	9	9	1	2	1	Eliminate insurance for banks choosing expanded powers; prohibit coverage of uninsured liabilities; eliminate pass-through insurance and "too-big-to- fail."
Pres. Syron	10	2	8	2	9	9	2	2	1	Improve supervision; prohibit pass-through insurance.

Governor/ President	Privitiza- tion of In- surance	Risk-based Premiums	Narrow Banking		Coinsurance over		Higher capital	Sub. Deb.	Prompt resol.	General Comments
			Req.	Vol.	\$100,000	Less than \$100,000				
Pres. Corigan	10	8	10	10	10	10	1	5	2	Frequent exams; banks with new powers must have above minimum equity and large loan-loss reserves.
Pres. Boehne	10	5	10	5	2	10	1	2	1	Support of coinsurance limited to prompt resoution; supports greater reliance on supervision and on market value accounting; supports limit to one insured account per person and premium or foreign deposits.
Pres. Hoskins	5	5	10	10	5	1	5	5	1	1--Preferred (cap insurance at \$50,000 with coinsurance thereafter and commit to close capital-weak banks). 5--Acceptable. 10--Useful if no reform.

Governor/ President	Privitiza- tion of In- surance	Risk-based Premiums	Narrow Banking		Coinsurance over		Higher capital	Sub. Deb.	Prompt resol.	General Comments
			Req.	Vol.	\$100,000	Less than \$100,000				
Pres. Black	10	5	8	8	2	7	4	3	1	Improve supervision; abolish too large to fail; forbearance should be proscribed; supports market value accounting. In longer run, lower insurance coverage and shift to narrow bank.
Pres. Forrestal	10	5	10	1	10	10	1	1	.1	One insured account per person; eliminate brokered accounts.
Pres. Keehn	7	3	10	8	10	6	1	1	1	Supports progressive regulatory discipline as capital ratios decline, as well as reduction of \$100,000 coverage.
Pres. Melzer	10	5	10	5	10	3	1	5	1	One insured account per person.
Pres. Stern	9	6	8	8	1	2	2	5	3	Coinsurance reduces uncertainty about possible loss.

Governor/ President	Privitiza- tion of In- surance	Risk-based Premiums	Narrow Banking		Coinsurance over		Higher capital	Sub. Deb.	Prompt resol.	General Comments
			Req.	Vol.	\$100,000	Less than \$100,000				
Pres. Guffey	10	2	10	1	8	2	7	8	3	Voluntarily selected narrow bank is likely to be alternative only to larger banks; these institutions would have to develop liquidity backstops.
Pres. Boykin	10	4	10	10	4	1	1	5	1	Greater reliance on market value accounting and more frequent examinations.
Pres. Parry	9	2	10	10	2	8	3	3	1	Greater reliance on market value accounting; abolish too big to fail; minimize supervisory discretion with prompt resolution.
TOTALS										
Governors (4)	28	20	33	21	27	31	8	15	8	-
Presidents (12)	110	52	114	78	73	69	29	45	17	-
GRAND TOTAL	138	72	147	99	100	100	37	60	25	--

NOTE: The lower the number, the more it is preferred.