

ONE-BANK HOLDING COMPANIES

Address of

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In the past several weeks, one-bank holding companies have attracted a goodly share of the headlines in the financial press. The Treasury has been asked by the President to study and report to him on this new development. Accordingly, the Treasury is also working with the Federal bank supervisory agencies on the outlines of possible legislation, while Congressman Patman and Senator Proxmire have each introduced bills dealing with one-bank holding companies. There are significant differences between the two bills introduced this week in Congress, and the discussions between the Treasury and the Federal banking authorities have not yet reached the stage where we can talk about the specifics.

About 100 bank-initiated one-bank holding companies -- accounting for more than \$120 billion in banking resources and including many of the largest banks in the country -- have appeared in preliminary or substantially complete form over the past 18 months. These recently announced or newly formed one-bank holding companies are quite different from the majority of the almost 700 one-bank holding companies that had been established previously.

The "traditional" one-bank holding companies have for the most part been relatively small in absolute size and have engaged in only a limited number of so-called nonbank activities, typically on a small scale. They were often established to meet local needs that might not otherwise have been satisfied because of existing institutional or geographical limitations. They have experienced some problems in operation -- but to no greater extent than similarly situated nonholding company banks and in most cases their problems have not been attributable to the holding company form of organization.

Unlike their predecessors, many of the "new" one-bank holding companies have been organized around the larger banks; almost two-thirds of these banks have \$100 million or more in deposits. Accompanying the upsurge in the formation of one-bank holding companies by banks has been a significant pickup in the interest of conglomerate firms in bank acquisitions. The combination of these two developments as well as the current rate of acceleration in the process has made it difficult to assess their impact on the financial community and the public generally.

The recent interest in one-bank holding companies is due to a number of factors. Progressively more effective use of managerial skills has become imperative as the scope and complexity of banking activities have increased in recent years. The holding company form of organization may help to attract and retain top quality management talent and benefit the entire banking complex by facilitating the application of managerial skills in the most efficient manner.

In addition to the prospect of attractive managerial efficiencies, there are also more pedestrian cost advantages that can be derived from operations on a more economical scale or to take advantage of technological innovations. An obvious case in point is the application of computer technology to day-to-day bank operations and to assist bank management in making policy decisions. As an offsetting circumstance that requires study in each instance, the savings that might be achieved through installation of a computer and automation of a bank's operations should not be the primary reason for the expansion of bank activities.

The one-bank holding company engaging in activities related to banking and the provision of financial services can better serve the community, can be as a consequence a more profitable enterprise, and can be in a position to attract capital and thus widen the margin of protection afforded bank customers. On occasion, the holding company form of organization can increase competition in particular banking markets or make additional services available to the public. Such endeavors will tend to reduce the costs of financial services and enrich the variety of services available to bank customers.

Critics of the recent one-bank holding company development have pointed up some problems that could arise within the corporate framework of such enterprises -- for example, possibly increased opportunities to engage in self-dealing. Unfortunately, those individuals tempted to use the holding company device for their own benefit do not hesitate to do so in a bank alone. To deal with such situations, the bank supervisory authorities now have a number of powerful alternatives for remedying bad situations. Under Section 10(b) of the Federal Deposit Insurance Act, the Corporation has the discretionary authority to examine affiliates of insured State nonmember banks when necessary to disclose fully the relations between the bank and its affiliates and the effect of such relations upon the affairs of the bank.

Moreover, Section 18 of our Act extends the safeguards applicable to members of the Federal Reserve System to insured State nonmember banks as well. Neither are permitted to lend, extend credit, invest, engage in

repurchase agreements, or make advances collateralized by capital stock or similar obligations to any one affiliate on an unsecured basis or in an amount exceeding 10 percent of the capital stock and surplus of the bank, or, for all such affiliates, in excess of 20 percent of the capital stock and surplus of the bank. Unsecured loans are also proscribed by law.

In addition to these safeguards against self-dealing and against discrimination in favor of a bank's own affiliates, the Financial Institutions Supervisory Act of 1966 granted the Corporation and the other Federal banking agencies the authority to issue cease and desist orders -- after proper notice and hearing -- to banks that have engaged in or are engaging or may be about to engage in unsafe and unsound practices that would endanger the condition of the banking institution. Pursuant to the same statutory authority, the Federal banking agencies are empowered to remove or suspend officers or directors of banks whose conduct is detrimental to the bank or is in violation of laws and regulations. When less drastic solutions are unable to effect the necessary corrections, the Federal Deposit Insurance Act provides for the termination of insurance coverage. To be sure, this is a drastic remedy but it is a very effective supervisory tool.

Thus, starting with the influence that the regular examination process itself can exert on maintaining a healthy banking system, the Corporation and the other supervisory authorities are presently equipped with a number of alternatives which can be used to deal with special situations -- and they would be effective in coping with problems that may arise if the one-bank holding company were to lead to abuses.

Nevertheless, as the bank holding company situation evolves -- whether composed of one bank or several and on the assumption that similar powers are granted both types, it is essential that the bank supervisory authorities be able to look at the holding company complex in its entirety. Accordingly, it may be necessary to request some strengthening of our supervisory powers in the future in order to correct unsatisfactory situations that develop beyond the reach of present law.

In addition to the direct impact that the formation of one-bank holding companies can have on bank operations and activities, these youthful congeners could have significant effects on bank structure and banking markets and on the degree of concentration of banking and financial resources. Because there appear to be economies that may be achieved by increasing the scale of operations, banks could serve new as well as larger markets. As a consequence banks would tend to grow in size and thereby lower unit costs. Bank holding companies could have a major impact on existing banking structure within a state -- whether it has unlimited or limited branch banking or unit banks only. They could help to establish more competitive conditions in a banking market and provide the public with a wider variety of banking services and choices.

To sum up the current situation, the increase in the number of one-bank holding companies has produced new dimensions in the field of financial services, has been responsible for some useful rethinking of the role of banks in our economy, and also has served to suggest the possibilities for new difficulties in banking supervision. Because the one-bank holding company can have important consequences for the banking and financial system,

the Federal bank supervisory authorities need to maintain a close and continuing observation of their development.

Definition of the permissible types of activities for one-bank holding companies is perhaps one of the thorniest questions that has been presented to the supervisory authorities by this development. The question has not yet been resolved but, as I stated in an earlier speech on this subject, I think banks should be oriented to supplying services to the nation of a financial nature that are consistent with -- and properly related to -- the business of banking. Similarly, one-bank holding companies should generally be brought within a like framework.

A number of existing one-bank holding companies are what might be termed "conglomerate" one-bank holding companies in which the holding company itself is a conglomerate company engaged in various nonbank and nonfinancial activities. As I see it now, these conglomerate one-bank companies, which have owned a bank for many years, should be permitted to retain the bank; divestiture would be difficult and I do not know of any situations where the relationship has been abused to the detriment of the public. Some of the other "traditional" one-bank holding companies have been primarily responsible for the provision of banking services in their own communities and should therefore not be required to divest themselves of activities that might be prohibited to one- and multi-bank holding companies. Use of "grandfather" provisions should be avoided whenever possible because of inherent discriminatory effects, but in these instances divestiture may not be worth the consequent disruption of long-term banking relationships.

On the grounds of parity of treatment, however, both one-bank and multi-bank holding companies should be permitted to engage in the same types of activities. What is an appropriate activity for one bank should not be inappropriate where more than one bank is involved -- quite apart from the question of concentration of financial resources and economic power.

Finally, I would like to comment briefly on the supervisory structure for bank holding companies. The Federal Reserve Board was charged with the responsibility for supervising multi-bank holding companies under the Bank Holding Company Act of 1956. It seems to me that it is appropriate to have a single supervisor at the Federal level to deal with the multi-bank situation. On the other hand, to minimize disruption of present supervisory relationships, it would be desirable for one-bank holding companies to be brought under the supervision of the agency that presently has jurisdiction over the bank.

I believe that one-bank holding companies can serve a useful function in the economy by improving the banking structure, by promoting certain cost and administrative advantages through the holding company device and achieving thereby a more efficient allocation and employment of resources, by an enhanced ability to better serve the financial needs of the community, and, on occasion, by increasing the degree of competition in particular financial or banking markets. Banking, moreover, must be given sufficient flexibility to adapt to -- and meet -- the rapidly changing financial needs of the economy today. As bank supervisors, we need to be involved in this development.

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