FDIC
Speeches

The dual banking system.

Remarks by

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Thanks for inviting me back to my former Hometown of Phoenix to speak to this ABA Leadership conference.

When you are castigating the FDIC chairman for ineptitude and non-responsiveness -- remember I gave up this beautiful place to go to D.C.

As Bismarck might have said had he viewed the banking legislative scene today, "great decisions are not made through speeches -- even by the Chairman of the FDIC -- but rather by Blood and Bloody Bankers."

I want to start by congratulating you and your people for the job they've been doing in banking legislation -- Their Process and their Constitution. The banking industry has built the most valuable tool in Washington -- MOMENTUM -- THE BIG MO for new legislation -- and its time to use it or lose it in the House.

The Senate Bill is a start and is likely the best bankers can get with regard the repeal of Glass-Steagall and the addition of new powers. But as you know, the Bill is far from perfect. In the area of insurance activities for banks, the Bill should carry a sign -- "Beware, detrimental to the DUAL BANKING SYSTEM".

That is the big issue now. How do we keep the powers and protect against limitations to the Dual Banking System.

The Senate Bill represents a compromise of many forces. It is only a beginning. New and different compromises will be struck in the House. Your BIG MO should be used to go on the offensive. Keep the powers won in the Senate and take advantage of new opportunities in other areas in the different environment in the House.

The focus in the Senate was on securities activities and Glass-Steagall -- an area in which the federal government already has a large presence. Insurance activities were on the table only at the 11th hour -- and behind closed doors at that. Real estate activities were nowhere to be seen.

Moreover, Chairman Proxmire's stewardship made it a foregone conclusion that the holding company vehicle would be the only structure allowed to house new activities.

The House is a different ballpark. Insurance and real estate -- which traditionally have been the domain of state regulators -- are on the front burner along with Glass-Steagall. And, while

the holding company structure seems to be the preference in House, is principally because of inertia and a "go with the flow" attitude. No deeply held position, like Proxmire's, can be found. Many would prefer that banks have a choice -- the dual banking system choice.

So, the banking industry should try to win some of the issues lost in the Senate, and win some not even tried in the Senate.

After all, the best defense is a strong offense.

And that is where the BIG MO comes in.

The Banking industry needs to use its MOMENTUM to preserve states' rights and the rights of state chartered banks. In a word, the battle in the House is to get a bill that preserves and enhances the advantages of the dual banking system, while keeping the powers won the Senate.

First, in the insurance area, the federal presence won by the insurance industry in the Senate is unfair, anti-competitive, and bad for banking. At the very least an amendment that would permit states to determine whether they would allow out-of-state holding companies to own banks that conduct insurance activities should be incorporated. This provision probably commanded a majority in the Senate, but was never voted on because it was part of the Senate Committee compromise. There is no need to live by that bargain with the Doddian devil in the House.

Second, in the real estate area, keep the right of the states to determine what real estate powers will be granted banks. No real estate legislation is needed.

Third, provide the arguments that show that a reassessment should be made of how fair and appropriate additional consumer provisions are in a banking environment no longer dominated by geographically isolated banking units. For example, how appropriate is CRA to special purpose banks -- like those that are exclusively wholesale or credit card oriented? Furthermore, why should banks alone -- and not other financial services providers -- be subject to public service requirements, such as government check cashing and lifeline banking? Let your friendly competitors have a piece of the CRA action. The proposed compromise to allow big banks to pay for new powers with acceptance of consumer requirements is great if you can get it -- but I doubt it has the wings to fly.

Fourth, ask for legislation that insures the national banking system has a fair competitive position. The insurance provision in the House, as Comptroller Clarke has so ably discussed, are totally unfair to national banks.

The fifth and overall objective throughout this debate is to ensure that the DUAL BANKING system and states' rights survive

this Congress. Toward that end, nothing would be more helpful than to make it absolutely clear by legislation that nonbanking subsidiaries of state banks in holding company systems are not subject to regulation by the Federal Reserve under the Bank Holding Company Act.

A solid political coalition for this effort to preserve states' rights seems possible. It would include the CSBS, the IBAA, the National Governors' Conference, the National Conference of State Legislatures, your organization, and your non-fed regulators.

Nothing is more important to achieving new powers and keeping your momentum than insuring that the "federal safety" net does not apply to bank holding companies.

Otherwise, new activities in holding companies, such as securities activities, will be protected. Spreading the "safety net" to subsidiaries of the holding company, while asking for new securities powers, could give Congressman Dingell and his Committee a reason -- yes a valid reason -- to kill the bill. The FDIC's treatment of certain large Texas banks demonstrates our resolve not to extend the federal "safety net" to holding companies -- shareholders and creditors alike.

The FDIC guaranteed that all depositors and other general creditors of First Republic's bank will be fully protected, but the FDIC made it clear that these guarantees DO NOT extend to the holding company creditors or shareholders.

Furthermore, the assistance the FDIC provided First Republic was guaranteed by the holding company and its affiliate banks, and was collateralized by a pledge of certain assets of the holding company.

Our experience with First City has demonstrated that creditors of multi-bank holding companies can try and force us to subsidize their holdings, by threatening to destroy our assistance plans, if we do not agree to their unfair demands.

We are seeking legislation that would allow us to meet this challenge by allowing all banking subsidiaries to be consolidated into one bank where necessary to protect the insurance fund in our assistance transactions.

Please take a look at our proposal -- it may become very important to achieving new powers.

All of these real world developments have only served to reinforce our belief that the fundamental approach we presented in our study, "Mandate for Change," is valid. That is, the government should supervise and regulate the banks, and leave the nonbanking subsidiaries and holding companies out of bank supervision.

Looking beyond the current legislation, the banking industry needs to get ahead of the curve on the issues surrounding the FSLIC insolvency and merger of the funds. A new president,

whoever he is, will likely act on this issue early in his honeymoon period. "Get the tough ones behind you in the first 100 days" is common advice to a new President. And this is certainly a tough one in which bankers will be importantly involved. I don't want to distract you from the BIG MO of current legislation with this <u>future</u> problem -- but this future is not far off -- about 9 months.

Let me make 4 points:

First, before any action is taken, someone needs to determine what the likely real cost of fixing FSLIC will be.

Second, if there is any merger it should begin with an administrative merger designed to provide common industry standards and coordinated property disposal policies.

Third, any financial merger down the road which involves some level of taxpayer assistance should use all the resources of the savings and loan industry first. This should include from the Federal Home Loan Banks and Freddie Mac.

Fourth, the most appealing political solution would be to abandon independent funding of insurance trust funds, use the FDIC's $18 billion to help clean up the mess, and consolidate all regulators.

This so-called solution would rely on current appropriations to fund the future, put the whole process into the budget, and keep the insurance premiums as tax revenues.

Let's have a better plan than that ready for the new President.

In closing, let me repeat what we've said since the Banking Bill Battle began. The Momentum is with you keep it going. Only when the Battle is concluded, do you want to stop to evaluate the results. At that time you can determine whether the product is worth the price being charged.

Save that for later. For now, let's all focus on a House bill that includes most of the good things in the Senate version, plus preserves the good things provided by the dual banking system.

Thank you.