TESTIMONY OF
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ON
OVERSIGHT OF THE FEDERAL FINANCIAL INSTITUTION REGULATORY SYSTEM
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Mr. Chairman and members of the Committee, thank you for the opportunity to present the views of the Federal Deposit Insurance Corporation on the federal financial institution regulatory system. My testimony has three parts. The first part describes the ongoing efforts to improve bank regulation to make the process more effective and more efficient, as well as less intrusive in the marketplace. These efforts, which include increased coordination among the bank and thrift regulatory agencies, have sought to eliminate overlapping regulation and other inefficiencies historically related to the regulatory structure. The second part discusses guiding principles against which changes in the federal regulatory structure for depository institutions should be judged, as well as some of the benefits of the current system. The third part examines whether this is an appropriate time to make significant changes in the bank and thrift regulatory structure. It concludes that, given the steps already taken by Congress and the regulators, the current debate on the powers and activities associated with bank and thrift charters, and the state of flux in the financial services industry, the benefits and costs of major structural changes should be evaluated following conclusion of Congressional deliberations on reform of the laws governing the banking and thrift industries.

COORDINATION AMONG BANK AND THRIFT REGULATORY AGENCIES

This portion of the testimony summarizes ongoing efforts by bank and thrift regulators to reform the way depository institutions are regulated. Some of these efforts implement Congressional mandates. Others have been initiated by the regulators themselves. These efforts paint the picture of a bank and thrift regulatory structure that, over the long run, has proved to be resilient and responsive to a changing environment.

Coordination Among Federal Regulators

Federal banking agencies have a long history of examining and resolving issues of mutual interest and concern. This informal coordination process became more formalized when the Federal Financial Institutions Examination Council (FFIEC) was established in 1979, pursuant to Title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978. The FFIEC's goals are to prescribe uniform principles, standards, and report forms and to make recommendations to promote uniformity in the supervision of federal financial institutions. The FFIEC coordinates the development of uniform reporting systems and regulations for federally supervised financial institutions and conducts joint training for bank examiners and for members of the banking industry. There are increasing benefits from efforts to enhance the coordination function of the FFIEC.

Through the FFIEC and through other efforts sponsored by the agencies by means of ad hoc task forces and regular interagency meetings at the regional and headquarters levels, regulatory and supervisory initiatives affecting more than one agency are developed on an interagency basis or adopted only after significant interagency analysis and coordination. These cooperative efforts strengthen the regulatory process by bringing the differing regulatory perspectives and experiences of the agencies to bear on common problems and initiatives. In general, they ensure more consistency in policymaking and in the implementation of policies. State bank regulators are included in the FFIEC's activities through a state liaison committee of five representatives that participates quarterly in FFIEC meetings.

Coordination and uniformity have been priorities among the federal bank regulators in developing regulatory initiatives. Some prime examples of such cooperation in attaining consistency are evident in regulatory efforts addressing risk-based capital standards; capital treatment of mortgage servicing rights and transfer of assets with recourse; external audit requirements; accounting reforms; prompt corrective action; revision of the Community Reinvestment Act regulations and examination procedures; guidance to institutions on retail sales of nondeposit investment products; and guidance to institutions on the prevention and detection of money laundering and other financial crimes.

Specifically, the federal regulators have worked together closely in developing risk-based capital standards. The FDIC and other federal regulators have developed an interagency approach to coordinating revisions to risk-based capital standards in order to ensure that those standards are effective and responsive to changing conditions. These standards were first adopted in 1988 in cooperation with other representatives of the Basle Committee on Banking Supervision.

During 1995, the FDIC, the OCC, and the Federal Reserve Board issued amended risk-based capital standards addressing interest-rate risk, treatment of originated mortgage servicing rights, derivatives, and treatment of claims on Organization for Economic Cooperation and

Development-member governments and banks. In addition, the banking agencies issued two proposals which would require a risk-based capital requirement for market risk associated with assets held in the trading account, foreign exchange contracts and commodity contracts. Also, incremental risk-based capital would be required for internal market risk models which are "backtested" and found to be inaccurate. These proposals are expected to be finalized in 1996 with an effective date at the end of 1997.

In implementing these standards, the FDIC is working with other federal regulators to provide consistent supervisory guidance to bankers. For example, in August 1995, the FDIC, the OCC, and the Federal Reserve Board published a proposed joint interagency supervisory policy statement describing a method to measure interest-rate risk. It is anticipated that the final joint agency policy statement on interest-rate risk will be issued this summer.

The agencies also are working on promoting consistency and avoiding overlap in examinations. Recent developments in the banking industry, and the importance of effective assessment and management of the risks from traditional and nontraditional activities, have led to renewed interagency examination of the CAMEL rating system. Proposed changes to the CAMEL system will recognize more fully the industry's new and emerging activities and risks. In addition, the interagency effort has focused on improving the clarity of the risk components and on providing further guidance on those components in order to ensure an effective evaluation of future risks and the adequacy of the bank or thrift's procedures for managing risk. All of these interagency efforts are designed to enable the federal regulators to assess more accurately and more consistently current as well as prospective risks.

Another specific example of interagency coordination is the revision of the Community Reinvestment Act regulations and examinations. The federal bank and thrift agencies worked jointly to conduct public hearings and issue two proposals before issuing a final regulation in May 1995. Joint examination procedures and examination formats were approved in November 1995.

The timing of subsidiary bank examinations and the onsite inspection of the holding company is closely coordinated with the appropriate Federal Reserve Bank. The other federal agencies also share copies of examination reports with the FDIC on insured institutions for which the FDIC is not the primary federal regulator. In addition, the FDIC has agreements with the other federal regulators on using its "backup" authority. These agreements minimize redundancy and burden, while at the same time assure that FDIC examiners participate to the extent necessary in the onsite examination process.

Under Section 305 of the Riegle Community Development and Regulatory Improvement Act of 1994 (CDRI Act), the federal banking agencies are working to develop a system for determining the lead agency responsible for managing the unified examination of a banking organization to minimize the disruptive effects of multiple agency examinations. The system being developed is aimed primarily at the larger banking organizations but also will apply, to the extent practical, to smaller banks.

In its examination of new banking developments in electronic banking, the FDIC also is working closely with other federal banking agencies. The FDIC chairs an interagency working group examining the risks and benefits of electronic banking. Coordination in addressing the issues raised by electronic banking has already led to joint examinations of an existing "virtual bank" and we join with other agencies in conducting reviews at large data servicers, some of which offer home banking services. Interagency evaluation of these issues continues. The FDIC has hosted a symposium on electronic banking sponsored by the Information Systems Subcommittee of the FIEC to focus federal agency efforts on those issues. As the full spectrum of risks and benefits resulting from these technological developments becomes clearer, the FDIC will continue to coordinate its responses with other federal regulators.

Coordination Between Federal and State Regulators

Federal and state regulatory agencies also have worked together for many years to improve coordination and uniformity in many aspects of examination, supervision and regulation and to review and resolve other issues of mutual interest and concern. These efforts have addressed alternate examinations, timely processing of examination reports and applications, common report and application forms, joint enforcement actions, exchanges of information, and coordinated multibank holding company examinations.

As the primary federal regulator of state-chartered banks that are not members of the Federal Reserve System, the FDIC has worked closely with state bank regulators over the years to ensure increased coordination in the supervision of state-chartered banks. As part of that effort, in April 1992, the FDIC and the Conference of State Bank Supervisors (CSBS) entered into a joint resolution to encourage the negotiation and formation of working agreements between the FDIC and the state banking departments on bank supervision and examinations in order to formalize existing informal, cooperative programs. The joint resolution recommended that the working agreements cover such topics as the frequency of examinations, the types of examinations on banks of supervisory concern, pre-examination procedures, the responsibilities of each agency for processing reports of examination and for conducting specialty examinations, the coordination of enforcement actions, the processing of joint applications, and the sharing of supervisory information. As of December 31, 1995, the FDIC had formal working agreements with 41 of the 50 state banking departments and informal

working arrangements with another six. Other federal regulators have entered into similar mutually beneficial working agreements with the states.

The FDIC also has provided various types of assistance to the states, including examiner training, common examination report and application forms, and access to the FDIC's computerized database. As an example, during the last three years the FDIC has provided training to 1,302 state bank examiners from 44 states. These assistance programs have helped to improve the quality of state examination and supervisory programs, thus enabling the FDIC to rely more heavily on the results of independent state examinations.

As a result, in June 1995, the FFIEC adopted a policy statement entitled "Guidelines for Relying on State Examinations." The guidelines were issued pursuant to Section 349 of the CDRI Act. This interagency document describes the current working relationships with the states and sets forth the criteria that a federal banking agency may consider when determining the acceptability of state reports of examination under Section 10(d) of the Federal Deposit Insurance Act.

In May 1995, the 50 state banking departments and the CSBS approved guidelines outlining in general terms the roles and responsibilities of the states in coordinating the supervision and regulation of interstate banking organizations. In October 1995, the FDIC, the Federal Reserve, and the CSBS formed a state-federal working group to streamline and improve the coordination of the examination and supervision of state-chartered banks operating in an interstate environment. The working group's mission is to recommend actions addressing supervisory policies, procedures, and practices that are unnecessarily burdensome or duplicative, and to develop a system of seamless supervision of state-chartered institutions.

Review of Regulatory Burden

The FDIC recognizes that inconsistent, redundant, and overly complex regulations place an excessive and undue regulatory burden on the industry. A study conducted by the FFIEC in 1992 estimated that the annual cost of regulatory compliance may be as high as $17.5 billion, or up to 14 percent of the total noninterest expenses of the banking industry. In a 1992 study conducted by the Independent Bankers Association of America for community banks, the cost of complying with 13 regulatory areas was estimated at $3.2 billion.

An informal survey conducted by the FDIC last year supports the results of those studies. Responses to the FDIC's survey confirm that smaller institutions bear higher proportionate costs from legislative and regulatory requirements than larger ones. The estimated costs incurred from meeting 15 specific regulatory requirements surveyed ranged from over 16 percent of net

income at very small institutions to just over one percent at the largest. The survey also indicates that significant positive cost savings could be achieved if those legislative and regulatory requirements were eliminated. For all recurring regulatory requirements included in the questionnaire, the median cost of compliance per bank was reported to be approximately $40,000 per year.

A variety of new laws and regulations affecting banks in the areas of safety and soundness, crime detection, and consumer protection have imposed a significant cost on the industry. Because of concern about these costs, and to comply with the requirement in Section 303 of the CDRI Act to examine and streamline regulatory requirements, the FDIC and the other federal banking agencies are engaged in an extensive, coordinated review of existing regulations and policies. The goal of the review is to improve efficiency, reduce unnecessary costs, and eliminate inconsistencies and outmoded and duplicative requirements. The FDIC's review is covering all 120 of its regulations and policy statements. While 55 percent of the reviews are being conducted on an interagency basis, the FDIC has made the reduction of regulatory burden and the costs of regulation a primary goal of the agency in every aspect of its work.

The review of regulations is likely to reveal instances requiring Congressional action to eliminate redundant and unnecessary requirements. In Congressional testimony last year on regulatory burden relief, the FDIC recommended specific statutory changes in addition to those proposed in Congress. The FDIC will work with the other agencies to bring additional regulatory relief recommendations to the attention of the Congress.

International Supervisory Initiatives

In international banking supervision, the bank regulatory agencies have developed an enhanced framework for supervising the U.S. operations of foreign banking organizations (FBOs). The FBO program, which was developed by the Federal Reserve in conjunction with the OCC, the FDIC, and various state banking departments, is designed to provide a more efficient, rational, and uniform approach to supervising FBOs. Under the program, the agencies will develop interagency examination plans, improve communication of examination results, and where appropriate, institute coordinated supervisory follow-up actions. In addition, the Federal Reserve will assess annually the combined U.S. operations of each FBO based on discussions and suggestions from the other agencies. These assessments will be shared with the other agencies.

Improving the Examination Process

In March 1995, the FDIC commenced an informal outreach program designed to solicit bankers' opinions and suggestions on how to improve the quality and efficiency of the examination process. This effort is aimed at detecting and changing aspects of the FDIC examination process that may be ineffective, burdensome, or inefficient.

Questionnaires are sent to FDIC-supervised institutions following both safety and soundness and compliance examinations. The questionnaires ask bankers for their opinions about the examination process. For example, over 90 percent of the respondents have stated that safety and soundness examiners focus on the appropriate areas; however, questions have been raised about the efficiency of some aspects of the examination process. Based upon the comments, the FDIC is taking a number of actions to improve the effectiveness and efficiency of the examination process. These include providing bankers with more notice of pre-examination requests for information, making additional efforts to identify examination functions that can be performed more effectively outside the bank, automating aspects of examination procedures in order to increase the effectiveness of onsite examinations, reducing onsite examination hours at banks with lower risk profiles, and increasing the effectiveness of communications between banks and supervisory staff in an effort to keep banks open and operating safely and soundly.

In summary, the picture painted by these Congressional and regulatory initiatives is of a regulatory structure that appears able, in an ever-changing environment, to ensure a safe and sound financial system in the most effective, efficient, and least burdensome manner. Improvements, however, can be made. In particular, there are still some statutory and regulatory requirements that have not kept pace with changing market conditions and greater supervisory sophistication. These cobwebs need to be cleared away. On balance, however, the nation's regulatory structure for depository institutions has displayed and continues to display an ability to adapt to changing conditions and to meet new challenges.

GUIDING PRINCIPLES FOR CHANGE

From time to time, proposals to realign the banking agencies in one manner or another are advanced. See Appendix A for a list of proposals to reform the bank regulatory structure since the 1930's. In most cases, these proposals have not been adopted. The existing regulatory structure has proved to be remarkably resilient. This resilience is due in large part to the structure's ability to undergo incremental, evolutionary changes to keep pace with changes in the marketplace.

The crises of the 1980's as well as the Congressional and regulatory responses to those problems demonstrated that effective regulation must respond to changing conditions. The significant improvements in the regulatory structure and supervisory standards implemented as

a consequence of those crises have created a more effective system. Despite the effectiveness of the existing bank and thrift regulatory structure and its demonstrated ability to evolve, we nevertheless must continue to examine how improvements can be made. Proposals for a restructuring of the banking agencies and their responsibilities should be examined in the context of fundamental principles. We suggest that there are four key principles.

First, the regulatory structure should work to ensure the stability of the financial system and the safety and soundness of individual financial institutions and the deposit insurance system. Second, the structure should encourage, not stifle, innovation and competition. Third, bank supervisory functions should be performed by independent agencies. Fourth, the broader regulatory responsibilities to the financial system of deposit insurance and monetary policy require current and sufficient information on the ongoing health and operations of financial institutions that fall within the safety net for the U.S. financial system.

Ensure Financial Stability and Protect the Safety and Soundness of Financial Institutions and the Deposit Insurance System

Any examination of proposals for restructuring the banking agencies should recognize the critical role played by deposit insurance and regulators in helping the American depository institution system weather the bank and thrift problems of the 1980's and early 1990's. The reliability of deposit insurance provided the bedrock on which public confidence in the financial system was grounded.

In order to maintain our strong deposit insurance system, the FDIC and the other regulatory agencies need adequate examination and enforcement powers. The agencies need the authority to conduct full-scope examinations of depository institutions, both on the premises and from off-site locations using appropriate computerized communication technologies. The authority needs to be sufficiently broad to enable the regulatory agencies to adapt their policies and procedures to changes in technology, in the marketplace, and in the risks facing depository institutions. The regulatory agencies also need sufficient powers to stop unsafe and unsound activities and to prevent the use of insured deposits for activities entailing unacceptable degrees of risk.

As a general matter and for existing conditions, the examination and enforcement powers possessed by the regulatory agencies are adequate. The agencies, however, are constantly alert to changes in the marketplace that might require a reevaluation of the adequacy of a particular regulatory or supervisory authority or group of authorities. Thus, in any broad restructuring of the regulatory agencies, care should be taken to ensure that the surviving agencies have adequate examination and enforcement powers.

Encourage Innovation and Competition

As mentioned above, the regulatory structure should encourage, not stifle, innovation and competition. This principle has two implications. First, the dual banking system, a foundation of the U.S. regulatory structure for depository institutions, should be preserved. The dual federal-state authority, with roots deep in the nation's history, provides a safety valve against outdated or inflexible regulatory controls by either federal or state authorities and has allowed for continued innovation in banking over a number of years. Checking accounts, branch banking, NOW (negotiable order of withdrawal) accounts, and the exercise of insurance powers were among the innovations that originated with state-chartered banks.

Parenthetically, it should be noted that the dual banking system is not static. It can be altered to meet changing conditions. For example, concerns about risky activities of state-chartered thrifts and banks were addressed, respectively, in Section 222 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 and Section 303 of the Federal Deposit Insurance Corporation Improvement Act of 1991.

The second implication of the need for the regulatory structure to encourage innovation and competition is that there should not be a single monolithic federal regulator. A system that employs more than one primary bank regulator is not unique to the United States. Many member countries of the Organization for Economic Cooperation and Development, particularly those with well-developed banking systems, have two or more government bodies engaged in the regulation and supervision of banking institutions. Typically, responsibility for the banking industry is shared between the central bank, the ministry of finance or treasury department, and/or an independent banking agency.

The United States is unique, however, in having the oldest and most effective deposit insurance system in the world. Its ability to resolve more than 1,600 bank failures between 1982 and 1994, without panic or runs on banks, is testimony to its effectiveness.

The existence of multiple federal regulators allows for regulatory alternatives that result in more opportunity for industry innovation and change than would exist under a monolithic regulatory scheme. In seeking to respond to the ever-evolving market, market participants have regulatory alternatives. No one regulatory agency is all-powerful. Competition and debate among the agencies lead to greater scrutiny of the costs and benefits of regulatory actions. In essence, multiple federal regulators provide beneficial checks and balances and ensure necessary regulatory responses to changes in the marketplace and in technology.

Under the current structure in this country, the various regulatory authorities each bring differing perspectives to the supervision of the industry. The FDIC brings the perspective of the deposit insurer and the primary regulator of smaller state-chartered institutions. The Federal Reserve brings the systemic perspective of a central bank and a regulator of banks that

participate in the Federal Reserve System or entities that own banks. The OCC and the OTS bring the perspective of agencies unencumbered with responsibilities other than bank or thrift chartering and regulation. A single regulator whose exclusive concern is, for example, deposit insurance might at times be overly cautious about new powers for banks because of the seriousness of the responsibility to ensure the safety and soundness of the deposit insurance funds. On the other hand, without deposit insurance or systemic concerns being represented in the supervisory community, financial institutions might on occasion be permitted to take risks that later prove to have been excessive. The different perspectives act to maintain balanced supervision rather than to enforce a single outlook.

Maintain Independence

The regulatory structure should be independent. We recommend that, to ensure the independence of the bank and thrift agencies, at least a portion of the structure should be outside cabinet agencies, and terms of agency directors should be fixed. In addition, we believe that an independent deposit insurer must be funded by the regulated industry through assessments, not through appropriated funds.

The Regulators Must Retain Sufficient Tools to Perform Their Missions

In any realignment of the bank and thrift regulatory structure, the regulators must have the tools to perform their missions. Whether those missions include supervising depository institutions, operating the deposit insurance system, or conducting monetary policy, the responsible agency must have the authority to obtain comprehensive information about participants in the financial system and take appropriate enforcement action to preserve the safety and soundness of that system.

The FDIC, for example, requires timely access to information in order to stay abreast of the changing nature of the risks facing depository institutions. There is no substitute for regulatory responsibility and on-site examinations in order to gain a comprehensive understanding of the condition of insured depository institutions. This information is essential to permit the FDIC to predict potential losses to the deposit insurance funds, to set premiums for deposit insurance to cover future losses, and to take necessary enforcement actions to protect the funds. A comprehensive understanding of the potential risks to the deposit insurance funds also requires that the FDIC must have timely and complete information from other banking agencies on all institutions it insures. In addition, the Federal Reserve as the central bank of the United States needs considerable access to information on depository institutions in order to conduct monetary policy effectively and to help manage financial crises.

The OCC and the OTS benefit also from current information on the holding companies that control the institutions they charter. All of the regulatory agencies see benefits in their ongoing coordinated efforts to foresee and respond to changing risks in the banking system. The sharing of examinations, enforcement, and research-derived information is critical to this process.

SHOULD RESTRUCTURING TAKE PLACE NOW?

The preceding fundamental principles should govern any major realignment of the bank and thrift regulatory structure. Is this the appropriate time for such a realignment? I think not. Congress is currently considering a number of measures affecting the banking industry, from expansion of powers to a possible unification of the federal bank and thrift charters. In addition, there are changes taking place in the marketplace including interstate banking, consolidation and the proliferation of various types of electronic banking. All of these matters have an impact on regulatory structure.

As described in this testimony, the current regulatory structure has not remained static over the years, but has, in fact, evolved. Congress and the regulatory agencies have been able to make incremental, evolutionary changes to keep regulation abreast of a changing financial environment and industry. The current structure also allows for an airing of diverse views on the contentious issues presently being debated. Analysis of the impact of unfolding developments is essential before any restructuring proposal is considered.

This is not to say that we should rest on our laurels. As discussed above, the FDIC and the other regulators are currently reviewing regulatory requirements in order to eliminate redundant, overlapping, and unnecessary regulations. This review is likely to reveal instances in which Congressional action may be necessary. If so, we will work with the Congress to review those laws and to recommend appropriate legislation to ensure an effective and efficient regulatory structure.

APPENDIX A -- UNADOPTED RESTRUCTURING PROPOSALS

Major regulatory structure proposals since the deposit insurance component was added in the early 1930s to the federal structure for regulating depository institutions are briefly described in this appendix. The list is limited to proposals not adopted into law.

1. Brookings Study. In the 1930s, the Brookings Institution conducted an analysis of the federal bureaucracy for a Senate committee. Among the recommendations was a proposed reorganization of the bank regulatory structure. The FDIC would have become the principal federal bank regulator. The OCC would have been abolished, and the Federal Reserve's examination and supervision responsibilities regarding state banks would have been transferred to the FDIC.

2. Hoover Commission. In 1949, three Hoover Commission task forces recommended that federal bank regulatory authority be centralized. One task force wanted to transfer the FDIC to the Federal Reserve. The second wanted to transfer the OCC to the Federal Reserve. And the third wanted both the FDIC and the OCC to be folded into the Federal Reserve. The Commission itself opted for a fourth approach. It recommended that the FDIC be transferred to the Treasury Department.

3. Commission on Money and Credit. In 1961, the Commission on Money and Credit, a private study group established by the Committee for Economic Development, recommended that the functions of the FDIC and the OCC be transferred to the Federal Reserve. Subsequent legislative proposals would have merged all three agencies into a single new agency.

4. Advisory Committee on Banking. In 1962, the Advisory Committee on Banking to the Comptroller of the Currency would have removed the Federal Reserve from the bank supervision business. All supervisory authority relating to national banks would have been exercised by the OCC. All such authority relating to state banks would have been exercised by the FDIC, which would have been placed under the Treasury Department. 5. Patman Bill. A proposal in 1965 by House Banking Committee Chairman Wright Patman, H.R. 6885, would have consolidated all federal bank regulation, including deposit insurance functions, in the Treasury Department.

6. Hunt Commission. In 1971, the Hunt Commission, formally titled the Presidential Commission on Financial Structure and Regulation, recommended the establishment of three new independent agencies: (1) the Administrator of National Banks, which would have replaced the OCC; (2) the Administrator of State Banks, which would have assumed the supervisory functions of the FDIC and the Federal Reserve; and (3) the Federal Deposit Guarantee Administration, which would have incorporated the FDIC, the FSLIC, and the credit union insurance agency.

7. Compendium of Major Issues in Bank Regulation. In 1975, the Senate Banking Committee commissioned a series of papers from outside the government on structural reform issues. Several papers recommended that the FDIC become the primary federal bank supervisor, mainly because the deposit insurer has ultimate responsibility for all insured banks. Another proposal called or the creation of a Federal Banking Commission, with responsibility for all bank supervisory activities. A separate division would have carried out insurance procedures.

8. Wille Proposal. In testimony before Congress in 1975, FDIC Chairman Frank Wille proposed the creation of a five-member Federal Banking Board to administer the deposit insurance system. He also called for a Federal Supervisor of State Banks to assume the supervisory functions of the FDIC and the Federal Reserve.

9. FINE Study. In 1975, the House Banking Committee held a series of hearings on regulatory structure. The product of the hearings was a four-volume work entitled Financial Institutions and the Nation's Economy (FINE) "Discussion Principles". The study recommended the establishment of a Federal Depository Institutions Commission to administer all supervisory functions of the FDIC, the Federal Reserve, the OCC, the FHLBB, and the NCUA. Insurance functions would be handled by a subsidiary agency of the commission.

10. Senate Governmental Affairs Committee Proposal. In 1977, the Senate Governmental Affairs Committee recommended the consolidation of the bank regulatory agencies into a single agency. The Consolidated Banking Regulation Act of 1979 would have merged supervisory functions into a five-member Federal Bank Commission.

11. Deposit Insurance in a Changing Environment. In a 1983 study, the FDIC recommended the merger of the FSLIC into the FDIC. In addition, the FDIC recommended that it be removed from all regulatory functions not directly related to safety and soundness. The bank and thrift regulatory and supervisory functions of the Federal Reserve Board, the OCC, and the FHLBB would be consolidated in a new separate agency. The FDIC would have the authority to conduct examinations, require reports, and take enforcement actions, but it would limit its attention to problem and near-problem institutions.

12. Bush Task Group. In 1984, the Task Group on Regulation of Financial Services, chaired by Vice President Bush, produced Blueprint for Reform. The recommendations would have resulted in the reduction of the number of agencies involved in day-to-day bank supervision from three to two. A new Federal Banking Agency would continue the OCC's supervisory responsibilities. The Federal Reserve would take over supervision of all state-chartered banks, except banks in states where the state supervisory authorities were "certified" to perform the function themselves. Except for about fifty international-class holding companies, the federal supervisor -- the FBA or the Federal Reserve -- of a bank would also supervise the parent holding company. The Federal Reserve would supervise the international banks. The FDIC would lose day-to-day supervisory authority. Its responsibilities would be confined to providing deposit insurance, although it would be able to examine troubled banks in conjunction with their primary supervisor. Finally, functional regulation would play a role in that enforcement of antitrust and securities laws would be transferred to the Justice Department and the Securities and Exchange Commission, respectively.

13. Depository Institutions Affiliation Act. The DIAA has been introduced in several Congresses. The Act would establish a National Financial Services Committee consisting of the Chairmen of the Federal Reserve, the FDIC, the SEC, and the Commodity Futures Trading Commission, the Secretaries of Commerce and the Treasury, the Comptroller of the Currency, and the Attorney

General. The committee would seek to establish uniform principles and standards for the examination and supervision of financial institutions and other providers of financial services.

14. Modernizing the Financial System. The regulatory structure recommendations of the 1991 Treasury-led study of the federal deposit insurance system largely followed the recommendations of the 1984 Bush Task Group. The four federal regulator banking model -- the Federal Reserve, the FDIC, the OCC, and the OTS -- would be reduced to two, and the same federal regulator would be responsible for both a bank holding company and its subsidiary banks. A new Federal Banking Agency under the Treasury Department would succeed to the responsibilities of both the OCC and the OTS. The FBA would also be responsible for the bank holding company parents of national banks. The Federal Reserve would have responsibility for all state-chartered banks and their parent holding companies. The Federal Reserve and the FBA would mutually agree on bank holding company regulatory policies. The FDIC would be focused solely on the deposit insurance system and on troubled bank and thrift resolutions.

15. National Commission on Financial Institution Reform, Recovery and Enforcement. In Subtitle F, Title XXV, of the Comprehensive Crime Control Act of 1990, Congress created an independent commission to examine the thrift crisis of the 1980s and to make appropriate recommendations. In its study, Origins and Causes of the S&L Debacle: A Blueprint for Reform, the commission recommended that federal deposit insurance be limited to accounts in "monetary service companies," which could invest only in short-term, highly-rated market securities. A corollary recommendation was that the FDIC be made the sole federal insurer of depository institutions and the sole federal charterer and regulator of insured institutions. The OCC and the OTS would be eliminated. The FDIC would remain an independent agency but would be required to consult regularly with the Federal Reserve and make available to it all pertinent information concerning the condition of insured depository institutions. The Federal Reserve Board would appoint an independent Oversight Board to evaluate new and proposed programs, statutes, rules, and regulations. The Oversight Board would apparently not take actions on its own but would report its findings and recommendations to Congress and the public.

16. H.R. 1227, the Bank Regulatory Consolidation and Reform Act. This 1993 bill, introduced by Representative Leach, would have combined the OCC and the OTS into a separate independent federal banking agency that would regulate (1) all federally chartered thrifts and their holding companies and (2) national banks and their holding companies unless a holding company's assets were above $25 billion. The FDIC would regulate (1) all state-chartered thrifts and their holding companies and (2) state-chartered banks and their holding companies unless a holding company's assets were above $25 billion. Regulation of bank holding companies with assets above $25 billion, and their subsidiary banks, would be by the Federal Reserve Board.

17. H.R. 1214, S. 1633, the Regulatory Consolidation Act. These 1993 bills, introduced in the House by Banking Committee Chairman Gonzalez and in the Senate by Banking Committee Chairman Riegle, would have consolidated federal bank and thrift regulatory functions into a single independent commission, the Federal Banking Commission. The OCC and the OTS would be abolished. The Federal Reserve would continue to manage monetary policy. The FDIC would continue to administer deposit insurance and to exercise conservatorship and receivership functions, but its regulatory duties regarding nonmember banks would be transferred to the Commission. The bills differ in several respects. Under the House bill, the Commission would have seven members: the Secretary of the Treasury, the Chairman of the Federal Reserve Board, the Chairman of the FDIC, and four public members, one of whom would serve as the Commission's Chairman. The five-member FDIC Board of Directors would be comprised of the Chairman of the Commission and four public members, one of whom would be the FDIC Chairman. And the Commission would have a consumer division to enforce consumer protection laws. Under the Senate bill, the Commission would have five members: the Secretary of the Treasury or his designee, a Federal Reserve Board Governor, and three public members. The five-member FDIC Board would be comprised of the Secretary of the Treasury or his designee, the Chairman of the Commission, and three public members, one of whom would be the FDIC Chairman.

18. Clinton Administration. In a November 1993 document entitled "Consolidating the Federal Bank Regulatory Agencies," the Treasury Department proposed the consolidation of federal bank and thrift regulatory functions in an independent Federal Banking Commission (FBC). The proposal is similar to the approaches of H.R. 1214 and S. 1633. The FDIC would be limited to insurance functions, including the handling of failed and failing institutions. The Federal Reserve System would keep its central banking functions but would have no primary bank regulatory responsibilities, although it could participate in the FBC's examination of a limited number of banking organizations most significant to the payment system. The states would remain regulators of the banks they charter. Thus state banks would be regulated by both the FBC and the states. The FBC would have five members: a Chairperson appointed by the President; the Secretary of the Treasury or his designee; a member of the Federal Reserve Board, selected by the Board; and two other Presidentially appointed members. An early 1994 revision of the proposal expanded the Federal Reserve Board's participation to include joint examinations of a sampling of both large and small banks, joint examinations of the largest bank holding companies, lead examinations of holding companies whose main bank was state-chartered, and backup authority to correct emergency problems in any of the 20 largest banks.

19. Federal Reserve Board. In January 1994, Federal Reserve Board Governor John P. LaWare advanced a five-component plan. First, the OCC and the OTS would be merged. The surviving agency would be called the Federal Banking Commission (FBC). Second, the FDIC would be

removed as a regulator of healthy institutions. It would keep its insurance functions. Third, examination by charter would be replaced by the principle of one organization, one examiner. The FBC would examine organizations whose lead depository institution is a national bank or thrift. The Federal Reserve would examine organizations whose lead depository institution is state chartered. Fourth, as an exception to the previous point, a small number of financially important organizations would be treated somewhat differently. The holding companies and nonbank subsidiaries would be regulated and supervised by the Federal Reserve. The bank subsidiaries would be regulated and supervised by the primary regulator of the lead bank. Fifth, the Federal Reserve would remain in charge of holding company rule-making and supervision, as well as the regulation of foreign banks. The FBC would write rules for national institutions, and the Federal Reserve would write rules for state institutions, but the two regulators would be required to make their rules as consistent as possible.

20. H.R. 17, the Bank Regulatory Consolidation and Reform Act. This 1995 bill by House Banking Committee Chairman Leach is similar but not identical to his 1993 proposal, H.R. 1227. The OCC and the OTS would be consolidated into a new independent agency, the Federal Bank Agency (FBA), headed by an Administrator. The new FBA would regulate: all federal depository institutions except depository institution subsidiaries of depository institution holding companies regulated by the Federal Reserve or the FDIC; savings and loan holding companies whose principal depository institution subsidiaries are federal savings associations; and bank holding companies with consolidated depository institution assets of less than $25 billion and whose principal depository institution subsidiaries are federal depository institutions. The FDIC would regulate: all state-chartered non-member depository institutions except depository institution subsidiaries of depository institution holding companies regulated by the FBA or the Federal Reserve; savings and loan holding companies whose principal depository institution subsidiaries are state savings associations; and bank holding companies with consolidated depository institution assets of less than $25 billion and whose principal depository institution subsidiaries are state-chartered non-member depository institutions. The Federal Reserve would regulate: all state-chartered Federal Reserve-member depository institutions except depository institution subsidiaries of depository institution holding companies regulated by the FBA or the FDIC; bank holding companies with consolidated depository institution assets of less than $25 billion and whose principal depository institution subsidiaries are state-chartered Federal Reserve-member depository institutions; and all bank holding companies with consolidated depository institution assets of $25 billion or more.

21. H.R. 1769, Federal Deposit Insurance Act Amendments of 1995. As part of an effort to capitalize the Savings Association Insurance Fund and spread the debt service costs of the Financing Corporation to all FDIC-insured institutions, this bill, introduced by Representative McCollum, consolidates the OCC and the OTS into a new independent agency similar to H.R. 17.

22. H.R. 2363, the Thrift Charter Convergence Act of 1995. As part of an effort to capitalize the Savings Association Insurance Fund and spread the debt service costs of the Financing Corporation to all FDIC-insured institutions, this bill, introduced by Representative Roukema, provides for the conversion of Federal savings associations into banks, the treatment of state savings associations as banks for purpose of Federal banking law, the abolishment of the OTS, and the transfer of OTS employees, functions, and property to the OCC, the FDIC, and the Federal Reserve, as appropriate.

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