FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

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Comments on S. 2298 and the General Issue of Bank Regulatory Reform

Submitted by

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to the

Committee on Banking, Housing and Urban Affairs
United States Senate

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Starting in January, a top-level staff group within the Federal Deposit Insurance Corporation has been attempting to identify significant and demonstrable points of friction within the present Federal bank regulatory structure which might justify recommendations for major Congressional reform. That group has also reviewed the Federal supervisory experience over the past five years in dealing with large problem banks and a number of large bank failures to determine if that experience might justify similar recommendations. Finally, the group has attempted to analyze the potential advantages and disadvantages of a single Federal bank regulatory agency which might exercise all of the powers which are today vested in the Comptroller of the Currency and the FDIC as well as the examination and supervisory powers presently vested in the Federal Reserve System.

Stated succinctly, the group has identified only two significant and demonstrable points of friction within the present structure: one relating to different agency attitudes toward bank acquisitions under the Federal Bank Merger Act, the other relating to the overlapping authority of the Federal Reserve System in connection with one-bank holding companies in which the only bank subsidiary is either a national bank supervised by the Comptroller of the Currency or a nonmember bank supervised by some state banking department at the state level and the FDIC at the Federal level. As the Committee will recognize, neither of these items had anything to do with the failure or near failure of United States National Bank, Franklin National

Bank or Security National Bank. The group further found that the existing agency structure was not a significant factor in any of the recent failures which have been so widely publicized and that a different bank agency structure at the Federal level would not necessarily have prevented any of them. This finding reflects, I am sure, the truism that no agency will be any better than its leadership or the men and women who staff it.

If recent bank failures provide no justification in fact for structural reform of bank regulation at the Federal level, the case for a consolidated bank agency which combines all the powers of the three existing agencies must rise or fall on the weight which Congress attaches to its respective advantages and disadvantages. The creation of such an agency would be such a far-reaching and dramatic change in the existing order of things that I believe the Committee might find useful our staff's summary of the pros and cons of such an agency.

ARGUMENTS IN FAVOR OF A CONSOLIDATED FEDERAL BANK REGULATORY AGENCY OUTSIDE THE FEDERAL RESERVE SYSTEM

1. Simplification of Administration; Improved Internal and External Communication. A consolidated agency would provide a single focal point for Congressional and Administration contact on matters of bank regulation and supervision. Additionally, all public inquiries on matters of banking and bank regulation could be addressed to the single agency. All agency actions and decisions would originate, presumably, from a single Administrator or a single Board. Instead of 14 FDIC regions, 14 National bank regions and

12 Federal Reserve Districts (few of which are today identical) a much simpler regional setup could be achieved.

2. Elimination of Monetary Policy as a Conflicting Goal. The fact that the scope of responsibilities differs among the three Federal banking agencies results in a number of internal conflicts with respect to the handling of supervisory problems. This is thought by many to be a particular problem for the Federal Reserve System whose principal function is the formulation and implementation of monetary policy. These observers believe that where the implementation of monetary policy goals is combined with regular bank examination and supervision, the former will always be viewed as more important than the latter and will prevent a consistent, evenhanded approach to matters of bank supervision. This problem would be reduced by setting up a single bank regulatory agency divorced from monetary policy responsibilities.

3. Economy and Efficiency of Operation. Considerable economy could be achieved by combining the legal, research, training and other Washington Office functions of the three existing bank regulatory agencies. There would be a reduction in senior agency staff time spent communicating with and keeping current with the activities of other agencies.

More efficient use could be made of examiner time, training and specialized capabilities. A single agency would eliminate differences in the form and substance of reports of examination and would be able to issue uniform instructions to all examiners. Travel time of examiners could be reduced, and in many instances where it has not heretofore been feasible, all banks within a particular community could be examined simultaneously. A single agency could make more efficient use of specialized expertise to handle complicated credits and to concentrate on such areas as trust activities, international departments and foreign offices of insured banks, certain data processing and other areas of automated activity, and compliance with Federal and state statutes in the consumer protection area. Economy could be achieved through a single training program which would not only reduce existing duplication, but facilitate the development of more advanced and specialized training.

A single agency would eliminate differences in reports filed by insured banks, thereby eliminating some duplication or redundant effort in administering and processing such reports, in computer costs and in publication costs.

4. Elimination of Actual or Potential Policy Conflicts. A single agency which was expected to treat all insured banks alike, regardless of charter, would bring totally uniform treatment in such matters as rules, regulations, standards and procedures. For example, a single, rather than three separate guidelines on a subject, such as insider transactions, could be effected. Also, uniform application of statutory powers, such as cease and desist powers, would result. Banks would also be subject to greater uniformity with respect to loan classifications, policies on capital

adequacy and other areas related to bank examinations. Consolidation of this kind would also result in a single policy on chartering, branching and mergers.*/

5. Facilitating the Handling of Failing Banks. It has been alleged that the involvement of three Federal banking agencies in the handling of some failing banks prolongs and overly complicates an appropriate resolution of the problem. A single agency probably could reduce the time involved. Under present arrangements, it is difficult to consider all alternatives more or less simultaneously, because the three agencies have somewhat different powers related to solving these problems (e.g., the Comptroller has considerable flexibility in arranging a national bank merger which does not require special Government financial assistance or guaranties, while the Federal Reserve can provide liquidity assistance and the FDIC can provide other types of financial assistance to insured banks regardless of charter).

6. Improved Regulation of Bank Holding Companies, Their Affiliates, and Certain Other Bank Relationships. A single Federal bank agency would have responsibility for examining banks and their holding company affiliates, thereby facilitating a more complete picture of the entire operation and the assessment of the overall risk exposure of the holding company and its

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*/ The Comptroller is the only Federal banking agency having chartering and branching authority, but the FDIC and to a lesser extent the Federal Reserve each play an important role in the establishment and branch expansion of State banks.

affiliated banks and nonbank businesses. Under present arrangements the Federal Reserve has certain regulatory authority over the activities of holding companies whose principal assets may be banks subject to the regulation of the other two Federal banking agencies.

When Congress addressed the bank holding company issue in 1970 and concentrated regulatory authority within the Federal Reserve, Congress was primarily concerned with the range of permissible nonbank but bank-related activities to be made available to such holding companies. In more recent years issues related to financial arrangements of holding companies and their impact on bank risk have become more important than permissible activities, and the present regulatory arrangement does not seem to be well suited to deal with these issues. Even apart from the holding company framework, there exist in today's banking system many complicated financial arrangements associated with joint ventures and shared credits where the present Federal regulatory structure makes it difficult to get a complete picture of a bank's risk exposure in a particular transaction. A single agency could ameliorate this situation.

7. Gains to Banks and Bank Customers from a Single Federal Agency. Differences in regulations, in examination standards and reporting requirements among the Federal banking agencies may result in different treatment of similar situations and, as a result, in some inequities. In addition, there are costs imposed on the banks and the public in having to work with and understand these differences.

8. Adjusting to a Rapidly Changing Environment. Rapid changes have been occurring in banking in recent years -- for example, in such developments as the growth of bank-related activities across state lines through holding companies, innovations in the payment system and the growing importance of international operations in the activities of large banks -- and there is no reason to assume that this process will decelerate. A single Federal banking agency may be in better position to command the technical and specialized resources and to exercise the administrative flexibility necessary to cope with this changing environment.

ARGUMENTS AGAINST A CONSOLIDATED FEDERAL BANK REGULATORY AGENCY THAT COMBINES ALL THE EXAMINATION, SUPERVISION AND REGULATORY POWERS OF THE THREE EXISTING FEDERAL AGENCIES

1. The Present System Has Worked Reasonably Well. Despite what appears to be a cumbersome structure on paper, the present system, for the most part, has worked well. In considering the substantial revision necessary to bring about a single all-powerful agency, it is important to realize that such a consolidation would involve a considerable disruption in orderly operations and that it might take years for a smooth-running agency to be established. The cost of this disruption should be weighed against the assumed benefits of such a single agency.

2. Such an Agency Will Not be a Panacea. A single all-powerful agency will not assure uniform and quality performance in all examinations and in all supervisory activities. Quality differences will persist. Our own study of the examination process suggests that there are regional and quality

differences within each agency which may exceed interagency differences. With respect to improving the flow of information, greater interagency coordination, even within the present system, might accomplish much of what could be accomplished through a single agency. Under the present system there may be considerable room for improving examination techniques and improving the allocation of supervisory resources, and we have been devoting considerable effort in this direction at the FDIC. However, a single agency will not, by itself, bring about such improvements.

3. Concentration of Power and the Elimination of Regulatory Choice. Creating a single all-powerful agency would concentrate an extraordinary amount of power within a single unit of government. Banks and the public could be subject to relatively arbitrary or relatively inflexible behavior. One advantage of the present system or one containing more than a single agency is that such a system provides Congress and the agencies themselves with an informed group of potential critics which have no vested financial interests in the outcome of a particular course of action. This is a luxury that has not always been available in the case of other Government regulatory agencies, whose critics generally have come from the industry being regulated.

While the existing Federal and state agencies have at times appeared to be competing in their attempts to accommodate banks under their immediate supervision, differences in agency policy, sometimes influenced by the threat of a shift in supervisor(s), have also performed a positive role in limiting unreasonable, inflexible or arbitrary behavior on the part of one or more of these agencies. Not all "agency shopping" has been contrary to the public interest. Indeed, there are numerous instances where the opposite has occurred, where the initial agency was not sufficiently receptive to public need or changing practice or where it was too strongly influenced by the existing banking establishment, as for example in its chartering or branching policies. In such instances a change of supervisory authority by the dissatisfied bank or its organizers may well have been in the public interest. The availability of a choice among supervisory authorities has, of course, been the lifeblood of the dual banking system in this country.

4. Benefits of Diversity. While a single all-powerful agency could more readily support specialized training and research, this may be outweighed by the potential benefits from the diversified and somewhat independent efforts of three separate Federal agencies, just as it is by the diversified and independent efforts of some state banking departments. There may be a greater tendency to experiment and to be receptive to change with three such agencies than with only one, since the odds are high that at least one of the three might be receptive to experimentation and change at any point in time. This is likely to be the case not only from the standpoint of developing examination and supervisory techniques, but also from the standpoint of accepting and encouraging innovation in banking practices. In the past this potential for flexibility and experimentation on a state-by-state basis or by separate agencies has produced substantial public benefit, and it is likely to do so in the future.

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Director LeMaistre and I */ believe it would be a grave mistake to consolidate the existing powers of all three Federal bank agencies into one single all-powerful agency of the type described, largely because we believe it would eliminate any meaningful choice between the regulatory options now available to the nation's insured banks. We believe that over the years the banking public has benefitted from the flexibility in chartering and supervision which that choice entails and that it should not be lightly discarded.

Such a consolidation represents one extreme, however, of the broad spectrum of proposals which might appropriately be considered by the Congress if it determines that significant change should be made in the existing structure of bank regulation at the Federal level. We believe, for example, that it may be possible to achieve many of the advantages of greater centralization without giving up the meaningful regulatory choice to which we have referred.

A CENTRALIZATION PROPOSAL WHICH PRESERVES A REGULATORY CHOICE

This morning I am prepared to offer such an intermediate proposal -- a proposal which could realize a significant number of the benefits which ought to flow from a greater centralization of bank regulatory functions at the Federal level, yet retains what I believe to be the key benefits of innovation, state-by-state diversity and protection against bureaucratic rigidity and inflexibility

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*/ The Comptroller of the Currency, who serves <u>ex officio</u> as the third member of the FDIC Board of Directors, will no doubt be expressing his separate views on the general subject of bank regulatory reform, and nothing in this statement should be construed as reflecting the views of his office on any facet of bank regulatory reform.

which flow from the regulatory choice presently available to almost all insured banks. Unlike a number of other variants on regulatory consolidation that have been advanced, this one could be easily and quickly implemented with very little disruption of existing personnel and procedures. It maintains a spirit of controlled competition between regulatory officials, thereby encouraging internal review and better regulatory performance. Finally, it has the virtue of being susceptible to further evolution in the light of actual experience with its benefits and deficiencies and in the light of ongoing developments in the financial structure, such as more intensive competition between commercial banks and thrifts, more extensive interstate banking and more comprehensive depositor service through EFT facilities and wire transfer systems. Briefly stated, it contains these elements:

1. <u>The Office of the Comptroller of the Currency would be continued</u> with only two significant modifications in its existing powers and jurisdiction. The first would authorize the Comptroller to approve or deny nonbank acquisitions by one-bank holding companies in accordance with Regulation Y § 225.4 where the only bank subsidiary of the holding company is a national bank and would similarly place in the Comptroller's Office full examination and supervisory powers over each such one-bank holding company. The second significant modification I would recommend would be to transfer jurisdiction over mergers and similar types of acquisitions where the resulting bank is a national bank to the multi-member board described below.

2. <u>The bank examination and supervisory powers of the Federal Reserve System and the FDIC dealing with State-chartered banks would be</u>

combined in a new office, headed by a single administrator, as suggested by the Hunt Commission. This official, who would serve a five-year term like the Comptroller's, might be named the "Federal Supervisor of State Banks." He too should be authorized to approve or deny nonbank acquisitions by one-bank holding companies in accordance with Regulation Y § 225.4 where the only bank subsidiary of the holding company falls within his jurisdiction (i.e., where it is State-chartered) and to conduct all Federal examination and supervisory activities with respect to such a holding company. Jurisdiction over mergers and similar types of acquisitions where the resulting bank is a State bank would be transferred to the multi-member board described below.

3. A five-member Federal Banking Board would be created, with three ex officio members: the Comptroller of the Currency, the Federal Supervisor of State Banks, and a Governor of the Federal Reserve System designated for this purpose by the Board of Governors. The two remaining members would be appointed by the President and confirmed by the Senate for terms of five years each, one of whom the President would designate as Chairman. The powers of this Board should be limited to those necessary to implement uniform national policy in the regulation of the nation's banks and should be very carefully and specifically detailed by the Congress in its enabling legislation.

Since I believe the Congress has already indicated the desirability of a uniform national policy in the following areas, I would assume that each of them would be administered by the proposed Federal Banking Board: (i) the Federal deposit insurance program, including the present liquidation and receivership functions of the FDIC, the present financial assistance authority of the FDIC with respect to banks in danger of closing, and the powers of the FDIC relating to the custody, control and investment of the FDIC trust fund; (ii) the bank holding company powers presently vested in the Federal Reserve Board -- other than those related to one-bank holding companies which I would assign to the Comptroller of the Currency or the Federal Supervisor of State Banks, i.e., the power to approve or deny specific nonbank acquisitions of one-bank holding companies in accordance with Regulation Y § 225.4 and the responsibility to examine and supervise such one-bank holding companies and all of their affiliates; (iii) bank acquisitions which presently fall under the Bank Merger Act; (iv) the promulgation of uniform regulations applicable to all insured banks which the Congress has heretofore assigned to the Federal Reserve Board, such regulations to be enforced in the case of national banks by the Comptroller of the Currency and in the case of State banks by the Federal Supervisor of State Banks; */ and (v) the collection of basic financial data and other essential information from insured banks which is needed on a uniform basis regardless of charter.

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*/ Examples of such regulations include those relating to nonbank activities under the Bank Holding Company Act and those promulgated or to be promulgated under the Truth-in-Lending Act, the Fair Credit Billing Act, the Equal Credit Opportunity Act, and the Federal Trade Commission Improvements Act.

Obviously, the availability of a multi-member Board for these basic purposes might prompt the Congress to review other statutes which contemplate tripartite rulemaking and enforcement, such as the Bank Protection Act, but in my view Congressional additions to the powers of the Federal Banking Board should be strictly limited to those where the need for uniformity is obvious and convincing. To assign all matters of substance to this Board, even if national uniformity is not required, would only serve to detract from the flexibility and vitality that is possible with separate national and state banking systems.

4. The Federal Banking Board should have certain powers of oversight in the examination and supervision of insured banks. My proposal contemplates the continued examination of national banks by the Comptroller of the Currency and the examination of State banks by the Federal Supervisor of State Banks in conjunction with state banking departments. The proposed Federal Banking Board would, however, be administering the deposit insurance program and it should routinely examine a small percentage of both national and State banks annually in order to evaluate the quality of the examination reports it receives on a regular basis from their respective supervisors. For this purpose, it will need a modest number of experienced and well-trained examiners and support personnel whose ranks it can supplement by temporary details from the Office of the Comptroller and the office of the Federal Supervisor of State Banks. The Board should also have the power

to synchronize examinations of all bank subsidiaries and affiliates of multi-bank holding companies, even though the actual bank examination work is performed by the Comptroller of the Currency and the Federal Supervisor of State Banks. In addition, the Board should have full authority to co-ordinate, synchronize and supervise the workout of systemwide problems in multi-bank holding companies.

5. The Federal Banking Board should maintain close working relationships with the Federal Reserve System as the nation's central bank. These relationships are likely to be multi-faceted in view of the Federal Reserve's role as "lender of last resort," formulator of monetary policy and the nation's representative among central banks of the world. This is one reason why the Federal Banking Board I am proposing has among its members a Governor of the Federal Reserve Board, but more explicit relationships will be necessary. The Federal Reserve System should be authorized, for example, to continue to collect from all member banks the information necessary for the formulation and implementation of monetary policy, while the Federal Banking Board would be charged with the duty to develop, compile and transmit any other information on the banking system which the Federal Reserve needs in the formulation of monetary policy or in its overseas relations. The Federal Reserve System should have regular input into the decisions of the Comptroller of the Currency, the Federal Supervisor of State Banks and the Federal Banking Board with respect to the activities of foreign banks and their affiliates in this country as well as

the activities of U. S. banks overseas. Emergency borrowings from the Federal Reserve discount window should be available to member and non-member banks alike upon certification by the Federal Banking Board that they are in danger of failing and that such assistance is necessary for a temporary period until a merger, a receivership sale or some other orderly resolution of the bank's problems is arranged. The Federal Banking Board, in turn, should be authorized to guarantee the repayment of such borrowings to the Federal Reserve System out of the resources of the Federal deposit insurance fund which the Federal Banking Board will be administering.*/ The Federal Banking Board should also be required by law to keep the Federal Reserve System fully informed with up-to-date information as to the financial condition of all such banks engaged in emergency borrowing from the Federal Reserve's discount window. These special provisions would not affect other types of borrowing by member banks from the discount window.

6. <u>The Federal Banking Board should pay all costs of examination and supervision incurred by the Comptroller of the Currency and the Federal Supervisor of State Banks and should have further authority to defray the expenses of qualified state banking departments which take over by contract</u>

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*/ The authority to guarantee such emergency borrowings from the Federal Reserve may make an increase desirable in the amount, presently $3 billion, which the FDIC (and the proposed Federal Banking Board in the future) can draw from the United States Treasury on demand, over and above the assets available in the Federal deposit insurance fund.

any of the examination or supervisory functions of the Federal Supervisor of State Banks. These expenses can be readily absorbed, without the appropriation of tax revenues raised from the general public, in the gross annual income derived by the Federal Banking Board from Federal deposit insurance premiums paid each year by the nation's insured banks and from the investment income of the Federal deposit insurance fund accumulated since 1934.

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It is obvious that this proposal has two basic features. One attempts to accommodate the demands for greater centralization at the Federal level with the traditions and potentials of our existing system of national and state banks. The other removes the Federal Reserve Board from day-to-day decision-making in matters of banking regulation and supervision when its principal job is and will no doubt remain the formulation and implementation of monetary policy. A word about each of these matters is necessary.

Over the years, the fact that competing banks could be chartered and regulated under either Federal or state law has resulted in significant benefits to the American public by way of financial service and convenience. For qualified people seeking to enter the banking business, a turn-down by the Comptroller or the local State Supervisor was not necessarily the end of the line. Many banks which have survived and prospered would not be in business today if an alternative means of entry had not been possible initially. This is only one example, but perhaps the clearest, of how public convenience and needs can be served despite an initial denial by a different regulator. Although many innovations in banking service since 1960 have been encouraged by rulings of successive national bank authorities, only to be authorized thereafter by state supervisors or state legislatures for State-chartered banks, it would be well to remember that the first branches were established by State banks acting under state authority, the first real estate loans were made by State banks and State banks were the ones first authorized to offer fiduciary services to their customers. Moreover, one cannot disregard current state efforts in the area of electronic funds transfer, consumer protection and financial reform. In this last regard, I think it highly significant that Maine has already implemented the essential elements of the reforms proposed by the Hunt Commission and contained in the Administration's proposed Financial Institutions Act. Some banking innovations spread only from one state system to another, frequently with variations suggested by experience or a different banking environment. When it functions properly, the dual banking system is both pro-consumer, in the sense that it fosters the introduction of services bank customers need or desire, and pro-competitive, in the sense that a liberal policy in one system with respect to new charters, new branches or new services can permanently disrupt a confortable status quo in a given service area with obvious benefits to local bank customers.

A properly functioning dual banking system is also a significant protection against unreasonable, inflexible or arbitrary regulatory conduct, as is voluntary membership in the Federal Reserve System. Without new ideas, persistently applied, nurtured and absorbed, any bureaucracy can go through an ossification process just like the petrified forests that long ago stopped producing trees. This hasn't happened in bank regulation, or at least not for long, largely because the number of regulators is so large and the possibility of switching regulators is so widely recognized that new ideas, sooner or later, will have to be considered by even the most resistant of regulatory authorities. Competition among bank regulators, in other words, can be a healthy thing if it leads to better examining techniques, better administrative procedures, improved financial services for the public, or a more competitive banking environment.

Accordingly, I believe our system of national and State banks, separately chartered and regulated, is worth preserving. This accounts for the prominence I would continue to give to the Office of the Comptroller and for the role I would envisage for the proposed Federal Supervisor of State Banks vis-a-vis state banking departments. While the Comptroller's Office has been on the defensive in the past two years because of the widely publicized failures and near failures of large national banks, numerous reforms have been instituted and there seems now to be a general alertness to problem situations and a determination to deal with them forcefully that augurs well for the future. Many state banking departments continue to be plagued by low salaries, inadequate numbers of experienced examiners and underfunding generally, but the number of departments capable of taking over a significant portion of the state bank examination and supervisory load now supplied by Federal Reserve and FDIC personnel could be substantially increased with Federal funding from the income stream of the FDIC as contemplated by my proposal. The consolidation proposals now pending in the Congress all seem to contemplate the exact same treatment of national and State banks at the Federal level, an homogenization which in my view would, over time, destroy the vitality of the dual banking system.

I think it imperative, however, that the insuring agency, which in my proposal is the Federal Banking Board, should have the power to spot-check by actual examination each year a small percentage of State and national banks. This will enable the Board to monitor the quality of the examination reports it receives on a regular basis from the Comptroller's Office, from the Federal Supervisor of State Banks and conceivably from qualified state banking departments in states where the Federal Supervisor of State Banks has withdrawn, in whole or in part, from the examination and supervision of State banks. This explicit examination power should help keep both national bank and State bank examining forces on their toes and should provide an additional incentive beyond the dual system itself to keep the immediate supervisors of both types of banks fully responsive to new developments in banking and to emerging public needs. Moreover, I would envision that when significant inadequacies are found in the available supervisory tools, the Federal Banking Board would convey to the Congress and otherwise make public its views and recommendations.

The removal of the Federal Reserve Board from day-to-day decision-making in matters of banking regulation and supervision is overdue. In that regard, I share the view expressed by former Vice Chairman Robertson almost ten years ago, and echoed by Governor Bucher earlier this year, that "Supervision is too important a function in itself to be the Federal Reserve's part-time job." If that was true prior to the enactment of the 1970 Bank Holding Company Act Amendments and the various "consumer protection" laws the Board is now administering, it is even more persuasive today.

The basic problem, of course, is that where the implementation of monetary policy goals is combined with bank regulation and supervision, the former will always be viewed as more important than the latter and the temptation or threat is ever present to use the powers of regulation and supervision to reward banks for their cooperation or to penalize banks for their lack of cooperation with the Board's most recent view of its monetary policy goals. Since those goals change with some frequency, the likelihood of a consistent, evenhanded approach to matters of bank regulation and supervision over any length of time is very much in doubt. Whereas prior to 1970, this was a special concern only of large State member banks which the Federal Reserve System actually examined or of member banks forced to the discount window, it is now the concern of every bank in a holding company system.

A majority of the present Board of Governors has stated that "Now, more than ever before . . ." the nation's central bank "needs to be involved in the process of bank regulation and supervision" since "the Fed's key roles as monetary policy-maker and as lender of last resort reach into territory conditioned by prevailing bank supervisory and regulatory policies. Each of those sets of public policies affects the effectiveness of the other. Their close coordination is much to be desired." */ The proposal I am making recognizes the need for close coordination, but it does not concede the necessity for monetary policy purposes of day-to-day involvement by the Board of Governors in bank examination, bank holding company decisions or the implementation of numerous "consumer protection" laws. So far as I am aware, my view of these matters is shared by most knowledgeable observers outside the System and by quite a few within it.

Without elaborating in detail, which I will file with the Committee in due course, I believe that my proposal also deals effectively with the following problems of bank regulation at the Federal level:

-- It provides a more logical regulatory framework for dealing with the expansion and soundness of one-bank holding companies, a holding company group which is likely to increase significantly in number and importance as more and more states move to full statewide branching.

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*/ July 20, 1975, testimony of Governor Holland before the Subcommittee on Financial Institutions, Supervision, Regulation and Insurance of the House Banking, Currency and Housing Committee.

-- It centers in a multi-member board, where the Federal regulators of national and State banks can both be heard, full responsibility for the development and regulation of multi-bank holding companies and for promulgating the permissible nonbank activities of all bank holding companies.

-- It centers in the same multi-member board responsibility for developing uniform standards to govern the acquisition of two or more insured banks, regardless of the technical form of the acquisition and regardless of the charter status of the resulting bank.

-- It creates a better mechanism than exists today for the total coordination of regulatory efforts to resolve the problems of failing banks, including a limited power in the proposed Federal Banking Board to oversee the examination quality of the Comptroller's Office and the office of the Federal Supervisor of State Banks. */

The proposal does not attempt to resolve some important, but currently peripheral, issues in bank regulation today, such as (i) whether the power to set deposit rate ceilings should continue to reside in three different Federal agencies or should be transferred exclusively to the Federal Reserve as the nation's central bank; or (ii) whether the concept of "membership" in the Federal Reserve System should be replaced by uniform reserves

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*/ Several other aspects of my proposal would also centralize and improve the handling of failing banks. These include the centralization within the Federal Banking Board of (1) the present authority of the FDIC to provide financial assistance to failing banks; (2) the authority to certify to the Federal Reserve System the need for emergency discount window borrowing, the monitoring of banks in that situation, and the authority to guarantee to the Federal Reserve System that such emergency borrowings will be repaid; and (3) bank merger decisions and decisions on multi-bank holding company acquisitions which are sometimes essential for the resolution of a failing bank problem.

and equal access to Federal Reserve facilities; or (iii) whether in due course the regulatory structure and insurance programs for savings and loan associations and credit unions should be melded into the proposed Federal Banking Board. My proposal assumes that these matters will remain temporarily as they are, pending more detailed and concentrated study of the interrelationships which would be changed if Congress moves away from the existing order in any one of these areas.

I believe, however, that my proposal would be compatible with and could be adjusted to most of the solutions which have been offered on these controversial matters. In that sense, the regulatory restructuring I am proposing should be considered an interim structure, susceptible of further evolution in the light of experience and future developments in financial competition and service. If thrift institutions receive enlarged powers both on the asset and liability side and the protections they presently enjoy, like the Regulation Q differential, are in time removed, they should be subject to regulation and reserve requirements similar to those imposed on commercial banks. If EFT developments or the interstate activities of banks and bank holding companies present difficult or insoluble problems of regulation for state banking departments, I would expect a significant shift of authority over large State banks to take place as between state supervisors and the Federal Supervisor of State Banks; at the same time, the nationwide jurisdiction and capabilities of the Comptroller's Office may become an increasingly powerful incentive for such banks to assume a national charter.

None of us can be clairvoyant about the future activities of deposit institutions in this country ten, fifteen or twenty years hence. The pace of change is accelerating, in my judgment, not slowing down. What we need is a regulatory structure that works well under a wide variety of circumstances, that remains receptive to new ideas, that can endure stress and still stay flexible in the light of the new technology which is constantly enlarging the reach of our financial institutions. The proposal I am making today may, I hope, be a contribution to that end.

I would conclude by stating that the FDIC is not wedded to the existing bank regulatory structure. It is quite prepared to see its own powers and responsibilities significantly changed if the Congress believes such changes are likely to lead to a more rational system of bank regulation in behalf of the American public. This is a complex area, however, for legislative reform, and I would urge the greatest care and deliberation on the part of the Committee as it proceeds.