

For release on delivery
9:30 A.M. EDT
May 18, 1995

Testimony of
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before the
Subcommittee on Financial Institutions and Consumer Credit
of the
Committee on Banking and Financial Services
United States House of Representatives

May 18, 1995

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I am pleased to be here today to discuss H.R. 1362, the Financial Institutions Regulatory Relief Act of 1995. The Board welcomes its introduction and supports its purpose of relieving costs imposed on our nation's banking system by governmental regulation, particularly when those costs are not offset by corresponding benefits to the safety and soundness of our nation's financial institutions, the protection of bank customers, or the availability of credit.

In my testimony today, I will discuss the Board's efforts to reduce the cost of regulation and why we believe that legislation is necessary to continue those efforts. I will then address those portions of the bill that make major changes to laws administered by the Board, particularly in the area of bank and branching applications, where I believe the bill would significantly reduce burden, and in the consumer area. Finally, I will highlight provisions about which the Board does have concerns. Still, I do not wish these objections in any way to detract from the central message of my testimony: that the nation's banking system needs legislation of the type presented by H.R. 1362.

Appended to my testimony are the Board's comments on certain provisions that are not discussed directly in my testimony.

The Role of Regulation

Banking regulation serves clearly defined purposes. They include protecting the federal safety net and thereby the taxpayer, preserving a strong banking system, minimizing the destabilizing effects on the economy caused by any difficulties in the banking system, providing consumer protection, and ensuring that communities are served by our banking system.

Such regulation, however, cannot succeed if it is designed to eliminate at any cost the possibility of any bank failure -- either a financial failure or a failure to serve customers. Rather, banking regulation must aim to produce at a reasonable cost the banking system that can best serve our economy and the American people. Each requirement, restriction, application,

and report imposed may individually be justified at the time of adoption, but collectively, the amount of regulation created over time can become a significant obstacle for the community banker and, equally important, someone hoping to start a community bank.

As H.R. 1362 recognizes, the aggregate regulatory burden on our nation's banks has become substantial, raising the cost of banking services and thereby encouraging customers to seek less costly loans and services or higher yielding investments from other financial intermediaries that are not subject to the same regulatory requirements. Furthermore, our banks must operate in increasingly competitive financial markets, both domestic and global. The United States can ill afford to handicap its banking institutions with unnecessary and dysfunctional regulation.

The Board believes the time has come to reexamine each of our banking statutes and regulations and decide whether its benefits are commensurate with its costs. The Board believes that there are restrictions in current banking law that cannot pass this test. To address this problem, the Board advocates not only burden relief of the type provided by H.R. 1362 but also reform of anachronistic statutes such as the Glass-Steagall Act, which needlessly and significantly hinders the ability of U.S. banking organizations to compete. We applaud this Committee's recent approval of Glass-Steagall reform, and urge the House to pass H.R. 1062.

Our Efforts at the Board

The recognition that regulatory burden must be reduced is not new at the Board. Since 1978, the Board has maintained a formal program of regulatory review and simplification, and in 1986 the Board established a Regulatory Planning and Review office, charged with ensuring that regulatory proposals minimize the burdens imposed on those that must comply. The Board has long believed that significant reductions can be made in regulatory

burden by eliminating requirements that are redundant or have outlived their usefulness.

The Board has redoubled these efforts in recent years. For example, we have streamlined the applications process by shortening processing times, substituting a notice requirement for an application whenever possible, waiving applications for transactions reviewed by other regulators, and reducing the paperwork that must accompany applications and notices. These changes have reduced both the volume of paper that must be filed by notificants and the time required for the Board to review nonbanking proposals. Of the more than 3,500 applications and notices acted on during 1994, 94 percent were completed within the Board's self-imposed 60-day target, with the average period of review lasting 34 days. In other areas, the Board has worked within the limits of its governing statutes to expand the list of permissible nonbanking activities for banking organizations, to remove outdated restrictions on the conduct of these activities, and to eliminate restrictions that prevented banking organizations from providing discounts to their customers on packages of products.

I have attached to my testimony a more complete list of our initiatives to reduce unnecessary regulatory burden over the past three years.

The Need for Legislative Change

There is a limit, however, to how far we or the other banking agencies can go in rationalizing the regulation imposed on our nation's banks. Although we speak of "regulatory" burden, that term is something of a misnomer. The Board must operate within statutory constraints, and all of our regulations are either required by statute or are necessary to explain or implement a statute. Put simply, we have no choice but to regulate, and in some cases to overregulate.

H.R. 1362 provides the type of statutory changes that would allow a reduction in regulatory burden in many areas without adversely affecting safety and soundness or other important supervisory and policy concerns.

Applications

One of H.R. 1362's most important reforms comes in the applications area, where H.R. 1362 would eliminate federal regulatory review for routine bank acquisitions and branch openings by well-capitalized and well-managed banking organizations that are helping to meet the credit needs of their communities. H.R. 1362 would also allow well-capitalized and well-managed organizations to commence previously approved nonbanking activities without filing an application. The Board's experience in administering these statutory requirements over the past 39 years leads us to endorse these initiatives very strongly.

Currently, the Bank Holding Company Act requires all bank holding companies to obtain Board approval prior to acquiring control of another depository institution or merging with another bank holding company. The bill would eliminate this application requirement for proposals that raise no serious competitive issue and are made by bank holding companies that met specified standards for capital, management, and community reinvestment at their previous examination. The vast majority of such proposals processed by the Board meet these requirements and are routinely approved. Thus, we believe the cost of continuing the applications process in such cases to be unnecessary from a public policy perspective. The bill not only would make the applications process simpler, less burdensome, and more transparent for qualifying banking organizations but also would provide a powerful incentive for banking organizations to achieve and maintain strong capital positions, solid management, and a commitment to the community.

The bill would also eliminate the application process for well-managed and well-capitalized banking organizations that wish to engage in nonbanking activities (such as mortgage banking or securities brokerage) that the Board has already determined to be permissible. The application requirement places bank holding companies increasingly at a competitive disadvantage with other companies that face no similar federal review requirement. The bill also eliminates a hearing provision for nonbanking applications, which is an unnecessary burden given the ample opportunity afforded all parties to make written submissions.

In a similar vein, H.R. 1362 would eliminate branch applications for banks that meet the specified capital, management, and community reinvestment standards. The cost of these applications, which are routinely approved by all the agencies, is not justified when the applicant is well-capitalized, well-managed, and serving its community. Furthermore, H.R. 1362 would eliminate branch applications for ATMs in all cases. The law defining a branch to include an ATM for this purpose is simply an anachronism. Together, these two changes would eliminate the need for a substantial number of branch applications filed with the banking agencies.

Finally, H.R. 1362 would eliminate or modify other applications requirements whose benefits no longer justify their costs, including applications for investment in bank premises and determinations that a bank holding company does not control shares of stock that it divests to certain companies.

I wish to stress the practical, bottom-line importance of these reforms. We estimate that adoption of this proposal would reduce the number of applications filed with the Federal Reserve by at least 50 percent -- eliminating over 1700 applications currently filed with the Board each year and saving the industry untold hours of time and substantial legal expenses.

Consumer Reforms

H.R. 1362 also contains numerous amendments to the consumer protection statutes administered by the Board. While time does not permit me to discuss each of these provisions, I will mention those of particular importance to the Board.

First, section 116 of the bill would reduce the number of institutions required to report HMDA data by raising the asset level at which reporting is mandatory from \$10 million to \$50 million. The Board believes that this step would provide important relief to our nation's community banks without undercutting the goal of the Act.

Second, the bill makes a variety of changes to the Community Reinvestment Act that, collectively, would affect the way the banking agencies administer that Act. Some of these changes, such as the small bank exemption and self-certification, are directed at concerns the agencies addressed in their recently revised CRA regulations. That multi-year effort recognized that the burden imposed on small institutions needed to be reduced, and focused on making the CRA evaluation process more objective, performance-based and predictable. Before changing the rules in this area once again, we believe that Congress should pause to consider whether the agencies' efforts will achieve the objectives of H.R. 1362 in this area. Furthermore, the prohibition on additional reporting would leave the agencies unable to carry out the mandates of the Act through their recently adopted regulations. We believe that if an agency is assigned a responsibility, it should also be granted the tools necessary to fulfill its mandate.

H.R. 1362 also contains CRA reforms not addressed by the agencies' recent efforts, particularly incentives for CRA performance. Section 124 provides that any institution that receives a "satisfactory" or "outstanding" rating is deemed to have met the purposes of the CRA in regard

to community credit needs for purposes of the applications process. The Board endorses the concept of providing incentives to institutions for good CRA performance. As the Board has previously testified, however, it is important to differentiate in the offering of incentives between institutions whose performance may be barely satisfactory and institutions whose performance is close to outstanding. Accordingly, the Board believes that the Congress should add a new rating category of "high satisfactory" to the current four-point rating system and then focus benefits, such as the application relief in Title II of the bill, on institutions at that and the higher "outstanding" level.

Third, the entire Board believes that the Truth in Savings Act could be amended to make compliance less onerous, but is divided on the merits of portions of section 131 of the bill. I and a majority of the Board support the general direction of the bill, which would eliminate some provisions of the Truth in Savings Act and revise others. Section 131 would leave intact the requirement that a depository institution pay interest on the full principal in a consumer's account, thereby barring the use of the investable and low-balance methods in determining interest payments. This requirement, which is already in place for financial institutions generally, benefits consumers without imposing excessive burdens. Section 131 would also continue to prohibit misleading or inaccurate advertising in the promotion of deposit accounts. Such a limitation is valuable in ensuring that consumers are not misled by advertising that, for example, publicizes high "teaser" rates without informing consumers of the limited periods for which they are in effect or of other conditions that will determine the rates actually paid.

Before leaving the consumer area, I would like to make one general observation. Our consumer regulations are quite detailed, more so than one might expect. One reason for this detail, and, ironically, the reason why the industry often demands rather than rejects such detail, is the possibility of civil

liability. Because banks can be liable for any misstep, they ask the Board to clarify every rule and validate every practice. The amendments to the Truth in Lending Act in Title I of the bill, which the Board supports, take an important step toward addressing this problem, but it may also be time for a broader reexamination of whether all the civil liability provisions in the consumer statutes are truly needed to protect consumers.

Other Provisions

Although the Board supports the great majority of the provisions of H.R. 1362, there are two that cause us considerable concern: relaxing the standards for foreign banks operating in the United States to the extent proposed, and transferring authority for administering the Real Estate Settlement Procedures Act (RESPA) to the Board.

Foreign Banks

As currently drafted, H.R. 1362 would amend the Foreign Bank Supervision Enhancement Act of 1991 (FBSEA) to lower the standards under which foreign banks may enter and operate in the United States and to reduce significantly the authority of the Federal Reserve to examine their U.S. operations on a comprehensive basis. The Board opposes these provisions of the bill as drafted.

More specifically, the bill would permit the Board to deny entry to foreign banks only on the very narrow ground that establishment of an office by a foreign bank would place at risk the safe and sound operation of the U.S. financial system -- a standard that even BCCI probably would not have failed. As drafted, the bill would also deprive the Board of important examination authority. Because the activities of the various U.S. banking offices of a foreign bank are often highly intertwined, examinations need to be coordinated not only to avoid duplication of effort but also to ensure a complete and comprehensive picture of the organization, reducing the potential for financial manipulation.

To this end, in 1994 the Federal Reserve and other state and federal bank regulatory authorities that supervise over 90 percent of the assets of U.S. branches and agencies of foreign banks announced a joint program to enhance the supervision of foreign banks.

While the Board believes that these provisions go too far, the Board believes that some provisions of FBSEA should be reevaluated -- most notably the inflexible requirement that the Board not approve an application unless a foreign bank is subject to comprehensive consolidated supervision by home country authorities. This standard has proved a significant barrier to entry for banks from jurisdictions, especially developing countries, that have not yet fully implemented a policy of consolidated supervision. The Board would recommend adding a provision to H.R. 1362 that would allow a foreign bank to open an office in the United States, subject to appropriate safeguards, if the bank's home country is making progress toward consolidated supervision. This amendment would give well-run foreign banks from developing countries an opportunity to establish a presence in the United States under appropriate conditions, while still providing an incentive for home country authorities to continue to implement reforms for consolidated supervision. H.R. 1362 also establishes a deadline for the Board to act on foreign bank applications, a concept the Board endorses.

We would be pleased to work with the Committee on appropriate changes to the foreign bank provisions.

RESPA

H.R. 1362 attempts in a very limited way to improve the administration of the Real Estate Settlement Procedures Act, or RESPA, by transferring regulatory authority from the Department of Housing and Urban Development to the Board. Although such a transfer may have some intuitive appeal because of the Board's Truth in Lending responsibilities, there are

important reasons why the Board is concerned about this provision. First, unlike Truth in Lending, certain portions of RESPA are in essence a price-regulation scheme -- one which the Board lacks expertise to administer and which is foreign to the Board's central bank responsibilities. Second, even if the Board were better suited to the task, simply transferring responsibility from one agency to another does not achieve substantial reform or, necessarily, burden reduction.

Instead, we offer a different solution for RESPA. The Board believes that an in-depth reassessment by the Congress of RESPA's fundamental requirements is more to the point. We believe that the Congress should set aside the very complex issues raised by RESPA for separate hearings that could focus on the substance of RESPA rather than on administrative jurisdiction. There are serious questions to be considered, including, for example, the suggestion by some parties to real estate transactions that RESPA may be stifling innovation and technological advancement from which the public might benefit.

We urge the Congress to undertake such an assessment rather than simply transfer regulatory authority. We believe that the Board is not the appropriate locus for this responsibility.

Closing Thoughts

In closing, I would like to expand on one thought I mentioned earlier: that when Congress or the agencies impose a regulatory burden, there are generally good reasons for doing so at the time. As time passes, however, the reasons for imposing the requirement may subside, but the requirement takes on a life of its own. A good example of this phenomenon is the 60-year-old Glass-Steagall Act, a law that was a response to a time and a financial system that bear little relation to our own.

H.R. 1362 addresses half of this problem by requiring the agencies to reexamine each regulation on a regular basis, a provision the Board endorses. However, as H.R. 1362 elsewhere recognizes, there are some things that only the Congress can do. For that reason, the Board hopes that the Congress would commit itself to a similar reexamination of the banking statutes themselves -- either through the use of sunset provisions where appropriate or, less formally, through periodic oversight hearings on existing statutes and regulatory burden.

**ADDITIONAL VIEWS OF THE FEDERAL RESERVE BOARD
TITLE I -- REDUCTIONS IN GOVERNMENT OVERREGULATION**

Subtitle A -- The Home Mortgage Process

Section 105 -- Alternative disclosures for adjustable rate mortgages

The Board supports this provision and favors expanding its applicability. The provision gives creditors the option of including in their Truth in Lending disclosures a 15-year historical table of index values and other information (which the Act currently requires) *or* a statement that monthly payments may increase or decrease substantially due to increases or decreases in the annual percentage rate. As written, for closed-end credit the option would be available only for "residential mortgage transactions" (defined in the Act as a home purchase loan). The provision should be revised to apply to *all* variable-rate transactions with a term greater than one year secured by a consumer's principal dwelling.

Sections 106-114 -- Provisions relating to disclosures, error tolerances, and rescission rights, and civil liability under Truth in Lending

The Board generally supports the direction of these reforms to resolve issues associated with lender liability for errors in Truth in Lending disclosures. However, the tolerance for the TILA finance charge disclosure in section 108 (one-half of the numerical tolerance corresponding to the tolerance for the annual percentage rate) appears high and could make the finance charge less meaningful as a disclosure of the true dollar amount of the cost of credit. The tolerance in section 115 of S. 650 (of \$100) may be more appropriate.

Section 116 -- Home Mortgage Disclosure Act

Besides exempting depository institutions with \$50 million or less in assets, section 116 would authorize the Board also to exempt from coverage

any institution with assets exceeding \$50 million if the burden of complying outweighed the usefulness of the data to be disclosed. If this provision is enacted, the Board would likely establish general standards for such an exemption, as case-by-case exemptions are not feasible.

In addition, the Home Mortgage Disclosure Act currently authorizes the Board to set a non asset-based exemption standard for nondepository institutions, to exclude from coverage entities that are comparable to the small depositories exempted under the \$10 million asset test. With an increase in the asset-size cutoff for depository institutions, the Board would have to consider adjusting -- in consultation with the Secretary of Housing and Urban Development -- a corresponding exemption threshold for nondepository mortgage lenders.

Subtitle B - Community Reinvestment Act Amendments

Section 124 -- Community input and conclusive rating

The Board generally supports the idea of incentives for improved CRA performance. The approach contained in this section raises several concerns, however. The purpose of the section appears to be to reduce the possibility of delays in the applications process caused by protests by community advocacy groups and other members of the public. Because members of the public could appeal CRA ratings, the approach taken would move the point of contention from the application process, in which *some* banks and holding companies are involved, to the examination process, in which *all* banks are involved. Furthermore, banks are examined by the federal supervisory agencies on a much more regular, and frequent, basis than most of them are involved in the applications process. If appeals of ratings are filed in any significant numbers by community groups and other members of the public, this provision could have the unintended consequence of increasing the burden

on banks and the agencies generally. A more straightforward way of providing incentives for good CRA performance, without inadvertently adding to burden, is to provide that superior performance (as indicated in the testimony, the Board favors a "high satisfactory" rating or better) is conclusive in the applications process.

Section 125 -- Special purpose banks

The Board supports the general thrust of this section, that is, to provide a more appropriate method for evaluating special purpose banks, such as credit card banks. Banks would qualify for this treatment based on whether they generally take retail deposits in amounts of less than \$100,000. The agencies adopted a similar provision, calling for a specialized evaluation approach, in the revised CRA regulations they recently issued. Those regulations cover wholesale as well as "limited purpose" banks, and base the determination of whether a particular bank is wholesale or limited purpose on the type of credit offered, rather than on whether it accepts retail deposits. (Under the regulation, a "wholesale bank" is one that is not in the business of extending home mortgage, small business, small farm or consumer loans to retail customers, and a "limited purpose bank" is one that offers only a narrow product line (such as credit cards or motor vehicle loans) to a regional or broader market). The criteria used in the agencies' revised regulations seem more germane to CRA, since the law primarily concerns credit, and seem likely to apply to more banks than would the deposit criteria of this section. Thus, it may be preferable to use the agencies' approach.

Subtitle C -- Consumer Banking Reform

Section 134 -- Information sharing

This section would allow bank and non-bank subsidiaries of bank holding companies to share customer information, provided that the customer is given the opportunity to object to such information sharing. The Board has no objection to such information sharing, provided that the customer is given an opportunity to object and is fully aware of the extent of sharing that may occur.

Section 135 -- Electronic Funds Transfer Act clarification

This section would exempt from the Electronic Fund Transfer Act any card or device that a person may use to pay for transactions through use of value stored on the card or device itself, except for those transactions where such card or device is actually used to access an account to effect such a transaction. The amendment is directed at so-called "stored value" cards. Such cards are a recent innovation, but could grow significantly.

Stored value cards clearly should not be subject to all the EFTA conditions and requirements. However, given the variety of stored value products currently being developed -- some are on-line products involving large dollar amounts -- the Board believes it is premature to exempt stored value products totally from the EFTA.

Subtitle D -- Equal Credit Opportunity Act Amendments

Section 145 -- Incentives for self-testing

The Board supports encouraging self-testing for compliance with the fair lending statutes by restricting government access to the results. Some reworking of the language is needed, however, to make clear that an agency is not prevented from making a referral to the Attorney General or the Secretary of HUD based on the agency's examination or investigation of an institution.

Moreover, the provision should not bar a referral where a creditor has, through its own analysis or review, identified a possible violation of the ECOA -- but has then failed to take corrective action.

Section 146 -- Credit scoring systems.

This provision is consistent with the Board's interpretation of existing law, to the extent that both existing law and section 146 bar the use of any protected category (other than age) as a factor, and bar the use of any criterion that is the functional equivalent of such a category. The provision is consistent also with the Board's position that a credit scoring system that meets the standards for an "empirically derived, demonstrably and statistically sound credit scoring system" (as defined in the Board's Regulation B) generally avoids problems of *disparate treatment* of applicants.

The Board believes, however, that it would be inappropriate to shield other factors used in credit scoring systems from analysis for *disparate impact*. Whether section 146 is intended to do this is not clear.

Subtitle E -- Consumer Leasing Act Amendments

Sections 151-155 -- Consumer Leasing Act Amendments

The Board supports reform of the Consumer Leasing Act (and in fact is currently reviewing Regulation M, which implements the CLA, under the Board's program of regularly reviewing regulations for improvement). There are, however, some problems with the legislative provisions as drafted -- some of which layer the proposed rules on existing rules, resulting in duplicate disclosure. The Board's staff will submit technical comments separately.

TITLE II -- STREAMLINING GOVERNMENT REGULATIONS

Subtitle A -- Regulatory Approval Issues

Section 206 -- Elimination of approval requirements for divestiture

The Board supports this provision. Current law presumes that a bank holding company that divests shares of any company to a third party investor in a transaction funded by any subsidiary of the bank holding company is presumed to continue to control those shares unless the Board determines that the divestiture is genuine. This provision was intended to prevent sham divestitures, but the application burden imposed on the banking industry has not proven to be worth this requirement. The Board can detect sham transactions through the examination process.

Section 209 -- Elimination of requirement for approval of investment in bank premises for well-capitalized and well-managed banks

The Board supports this provision, which would allow investments up to 150 percent of the bank's capital without federal approval. Applications to invest in bank premises are routinely approved for well-capitalized and well-managed banks. Any possible abuses in this area could still be monitored through the examination process.

Section 210 -- Elimination of unnecessary filing for officer and director appointments

The Board supports this provision, which would narrow an overbroad notice requirement that is currently imposing a large burden on the industry and the agencies. Removing the filing requirement for adequately and well-capitalized banks that are not in troubled condition will reduce the burden without posing risks to safety and soundness.

Section 222 -- Branch closures

The Board has no objection to the substance of these amendments, but notes that an interagency policy statement has already interpreted the branch closing statute as not applying to the closing of ATMs, to the relocation of a branch within the same immediate neighborhood, and to consolidations of more than one branch that otherwise meet the test for a relocation. Section 222 would in essence reconfirm that interpretation, but in different language that could necessitate an additional policy statement, could result in a slightly different interpretation, and could therefore result in confusion.

Section 223 -- Amendments to the Depository Institutions Management Interlocks Act

The Board supports this provision, which would restore the authority of the federal banking agencies to grant relief from the Act's restrictions where appropriate. This section would also adjust the size limit for the small bank exception to account for inflation and industry growth and remove the termination date for interlocks grandfathered by the original Act. The Board supports all these steps.

Section 224 -- Consolidation of appraisal subcommittee

The Board supports the transfer of functions from the Appraisal Subcommittee to the FFIEC. This transfer will save resources without adversely affecting the quality of appraisals. The Board will forward some technical changes regarding the mechanics of the transfer.

Section 225 -- Elimination of recordkeeping and reporting requirements for officers

The Board supports this provision, which would take steps to reduce the paperwork burden associated with the insider lending restrictions of the Federal Reserve Act. The coverage of the insider lending restrictions have been dramatically broadened by FIRREA and FDICIA to treat, for some or all of the insider lending restrictions, insiders of affiliates of a bank as insiders of the bank itself. Thus, for example, the statute currently requires banks to identify and document any loan to a director or officer of even an out-of-state or overseas affiliate. The paperwork burden imposed by this requirement is substantial.

Section 225 would allow the Board to exempt from the requirements of its Regulation O officers and directors of bank affiliates when those officers or directors are expressly excluded from major policymaking functions at the bank, and thus when there is no incentive to extend a loan on preferential terms. Indeed, in most such cases, the person making the loan should be unaware of the borrower's status.

Section 225 would also eliminate various reports that are duplicative or that experience has taught us do not produce useful information.

Section 226 -- Expanded regulatory discretion for small bank examinations

Section 226 would allow, but not require, the agencies to examine smaller institutions as infrequently as every 24 months, instead of 18 months as currently. Although the agencies would retain authority to examine as frequently as necessary, the Board has concerns about this provision. Our experience has been that waiting two years between examinations is too long, and we have some concern that this amendment would increase pressure on the Board and the other agencies to do so.

Section 228 - Identification of nonbank financial institution customers

This section repeals the requirement that the Treasury Department issue regulations requiring each depository institution to identify and report all accountholders who are financial institutions, except other depository institutions and registered broker/dealers. The Board concurs with this proposal. The accountholders covered by such reports include pawnbrokers, investment bankers and investment companies, currency exchanges and issuers of traveler's checks, loan or finance companies, car salesmen, people involved in real estate closings, and the U.S. Post Office. The benefit to combatting money-laundering from such reports is likely to be small; conversely, the burden of establishing and maintaining these records would be significant.

Section 229 -- Paperwork reduction review

While the Board does not oppose conducting the review required by this section, such a review appears already to fall within the mandate of section 229 of the Riegle Community Development and Regulatory Improvement Act of 1994. Placing a portion of that review on a different schedule could complicate the agencies' task.

Section 231 -- Daily confirmations for hold-in-custody repurchase transactions

Section 231 would require the Treasury to revise regulations adopted under the Government Securities Act of 1986 to permit customers of financial institutions to waive the right to receive daily written confirmations of hold-in-custody repurchase transactions. These confirmations serve two functions. First, they advise the customer as to the securities that are the subject of the transactions. Second, currently written confirmations are arguably necessary to ensure that the customer has a right to the securities

under state or federal law in the event of the insolvency of the financial institution. Accordingly, in waiving its rights to confirmations, a customer could be waiving unwittingly important protections otherwise inherent in repurchase transactions.

New state laws applicable to repurchase agreements are currently under consideration. These laws could change the significance of written confirmations. Accordingly, the Board believes that revision of the confirmation requirement should be revisited when these laws have been enacted.

Section 233 -- Country risk requirements

The Board supports these amendments to the International Lending Supervision Act, which would increase agency discretion in setting capital requirements to address country risk and also eliminate an unnecessary reporting obligation.

Section 234 -- Audit costs

The Board supports the elimination of the auditor attestation requirements of section 36(e) of the Federal Deposit Insurance Act, which have increased audit costs for depository institutions without any comparable benefit.

Section 236 -- Culpability standards for outside directors

The Board opposes this section, which would treat outside directors differently by requiring that they act recklessly in order to subject to enforcement actions. It is long-established law that all directors have the same duties and legal obligations, and any misconduct should be judged against the same standards. Financial institutions benefit from having all directors dedicate their efforts to the interests of the institution.

Section 241 -- Second mortgages

This provision would amend the recently enacted Truth in Lending Act rules which govern home-secured loans with rates or fees above a certain threshold (and which go into effect on October 1, 1995). The amendment would make the new rules applicable only to subordinate lien loans. It is not immediately apparent why this revision is being proposed, however, given the clear anecdotal and other evidence presented to Congress at the time the law was enacted -- which showed that the abuses and problems associated with high-cost loans occurred primarily in connection with first-lien refinancings.

Section 301 -- Lender liability

Section 301 would provide lenders, fiduciaries and certain Federal agencies with defenses to claims under Federal environmental legislation. Court decisions have raised concerns among lenders, fiduciaries and Federal agencies that they may be found liable under Federal environmental laws as a result of their normal lending, fiduciary or agency activities and even though they had not assumed responsibility for management of environmental risks of a business or property with which they are involved. While the threat of such liability has done little to prevent pollution of the environment, data suggests that it has affected the availability of credit to environmentally sensitive business and properties.

Regulatory efforts have been unable to provide adequate assurance that forestall concerns about such liability. Accordingly, the Board supports legislation, such as Title III, to curb environmental liability for lenders, fiduciaries and government agencies when they are not directly involved in the pollution of the environment.

Proposed addition to H.R. 1362

The Board urges the Committee to add a provision to H.R. 1362 to clarify the Board's authority over the payments system under the Expedited Funds Availability Act. Specifically, the Act should be amended to clarify that the Board may establish rules allowing banks to resolve check-related disputes in federal or state court.

Recently, a federal court refused to recognize a private right of action between banks arising from a violation of the Board's check collection rules and dismissed the case for lack of jurisdiction. The court interpreted the Expedited Funds Availability Act to require interbank check claims arising under Regulation CC to be settled in an administrative forum rather than in federal court. Under the court's decision, all interbank check disputes must be adjudicated at the agency level, perhaps with recourse to the courts after administrative remedies were exhausted. This interpretation of the Act would substantially increase the involvement of regulatory agencies in the check dispute resolution process. (Currently, no bank regulatory agency has established procedures for resolving interbank check disputes.) The extra step of taking a case to an administrative forum before going to court would slow and complicate the resolution process and turn the Board into a check-collection tribunal.

In addition, the court's interpretation is contrary to historical practice under the Uniform Commercial Code, which anticipates that interbank check disputes may be settled in the court system. The Board's Regulation CC was designed to work in conjunction with the Uniform Commercial Code to allow claims under federal and state law to be resolved in one forum. The Board will provide specific language to amend the Act to ensure that disputes regarding the check collection process can continue to be resolved in the federal or state court system.

**APPLICATIONS PROCESSED BY THE FEDERAL RESERVE SYSTEM
DURING 1994**

Transaction	1994 Total
Bank Holding Company Act Applications	
<u>Bank Acquisitions</u>	
Application to Form a Bank Holding Company 12 USC 1842(a)(1)	298
Application for a Bank Holding Company to Acquire a Bank ^{1/} 12 USC 1842(a)(3)	296
Application for a Bank Holding Company to Merge with Another Bank Holding Company 12 USC 1842(a)(5)	108
<u>Nonbanking Activities of a Bank Holding Company</u> 12 USC 1843(c)(8)	
Notice to Engage <u>de novo</u> in a Listed Nonbanking Activity	158
Notice to Acquire a Company Engaged in a Listed Nonbanking Activity	367
Notice to Engage in, or Acquire a Company to Engage in, an Unlisted Nonbanking Activity	41
Notice to Expand FCM Activities	15
Request by a Bank Holding Company to Extend the Period to Hold Shares Acquired in Satisfaction of a Debt Previously Contracted ^{2/} 12 USC 1843(c)(2)	N/A ^{3/}
Request by a Bank Holding Company for a Determination of Non-Control 12 USC 1841(g)	11

^{1/} In 1994, 135 of these applications were waived because they raised no significant issue and were reviewed by the bank's primary regulator under the Bank Merger Act.

^{2/} Processed by the Reserve Banks under delegated authority.

^{3/} N/A = Data not available.

Transaction	1994 Total
Federal Reserve Act Applications	
Application for Membership in the Federal Reserve System 12 USC 321	92
<u>Federal Reserve Bank Stock</u>	
Application to Acquire Stock in a Federal Reserve Bank 12 USC 282	N/A
Application to Adjust Holding of Stock in a Federal Reserve Bank 12 USC 287	N/A
Application to Cancel Stock in a Federal Reserve Bank 12 USC 287	de minimis
Notice by a State Member Bank to Establish or Operate a Domestic Branch ^{4/} 12 USC 321	1,274
Notice by a State Member Bank to Reduce its Capital Stock 12 USC 329	de minimis
Application by a State Member Bank to Invest in its Premises 12 USC 371d	125
Request by a State Member Bank to Pay a Dividend Exceeding the Dividend Limit 12 USC 56, 60 & 321	0
Application by a State Member Bank to Change the General Character of its Business or Scope of its Corporate Powers 12 USC 322	de minimis
Application by a State Member Bank to Make Certain Public Welfare Investments 12 USC 338a	15

^{4/} These applications recently were streamlined for banks in satisfactory condition, and with satisfactory CRA and compliance records, to a notice procedure requiring one newspaper publication.

Transaction	1994 Total
International Banking Applications	
<u>U.S. Banking Organizations' Operations Abroad</u> Application or Notice by a U.S. Banking Organization to Establish a Foreign Branch 12 USC 601	20
Application or Notice by a U.S. Banking Organization to Make Certain Foreign Investments 12 USC 615 & 1843(c)(13)	34
Application by a U.S. Banking Organization to Act as a Futures Commission Merchant on Certain Foreign Exchanges Requiring Mutual Guarantees 12 USC 615	0
Application by Insured Banks to Invest Abroad Through Sovereign Debt-for-Equity Conversions 12 USC 615	0
<u>Edge or Agreement Corporations</u>	
Application to Establish, or Amend the Articles of Incorporation, of an Edge or Agreement Corporation 12 USC 603, 611 & 619	4
Notice to Establish a U.S. Branch of an Edge or Agreement Corporation 12 USC 611	2
Notice of Change in Control of an Edge Corporation 12 USC 619	3
Application by an Edge or Agreement Corporation to Engage in U.S. Activities that are Not Listed as Permissible in Regulation K 12 USC 615	0
Notice to Engage in U.S. Activities when Foreign Bank Parent of Edge or Agreement Corporation is not Subject to the Nonbanking Limits of the BHC Act. ^{2/} 12 USC 619	0

^{2/} Since 1987, all foreign banks that own Edge Corporations are made subject to the BHC Act. The footnoted provision applies to a limited number of grandfathered foreign banks that acquired Edge Corporations before 1987 and are not otherwise subject to the BHC Act because they have no other U.S. banking presence.

Transaction	1994 Total
Miscellaneous Applications and Notices	
Notice of Change in Control of a State Member Bank or a Bank Holding Company 12 USC 1817(j)	167
Application by a State Member Bank Under the Bank Merger Act 12 USC 1828(c)	124
Application by a Subsidiary Bank of a Bank Holding Company to Merge BIF and SAIF Deposits in One Institution (Oakar Transactions) 12 USC 1815(d)(3)	203
Application by a Bank Holding Company to Acquire a SAIF-Insured Commercial Bank (Sasser Transactions) 12 USC 1815(d)(2)(G)	de minimis
Notification of Changes in Senior Executive Officers and Directors at New or Troubled Bank Holding Companies and State Member Banks 12 USC 1831i	549
Notice by a State Member Bank of a Branch Closing ^{7/} 12 USC 1831r-1	N/A
Request by a State Member Bank to Permit Certain Management Interlocks 12 USC 3206	1
Applications under the Bank Service Corporation Act 12 USC 1865	8
Notice for a Municipal Securities Principal or Representative to Associate with a Bank Municipal Securities Dealer 15 USC 78o-4, 78g & 78w ^{8/}	268
Notice for a Municipal Securities Principal or Representative to Terminate Association with a Bank Municipal Securities Dealer 15 USC 78o-4, 78g & 78w	308
Application for Non-Member Banks to Extend Credit on Registered Securities to Broker-Dealers 15 USC 78h & 78w	2
Requests to Modify the Performance of Commitments or Conditions in Board Orders	27

^{7/} For information purposes only; no Federal Reserve System approval is required.

^{8/} No Federal Reserve System action is required.

Transaction	1994 Total
<u>Redemption of Capital Instruments</u> Notice by a Bank Holding Company to Purchase or Redeem its Equity Securities ^{9/} 12 USC 1844(c)	53
Notice by a State Member Bank or Bank Holding Company to Redeem Perpetual Preferred Stock Constituting Qualifying Capital under the Board's Risk-Based Capital Guidelines	3 ^{10/}
Notice by a State Member Bank or Bank Holding Company to Redeem, Prior to Maturity, Subordinated Debt Constituting Qualifying Capital under the Board's Risk-Based Capital Guidelines	2
Notice by a State Member Bank or Bank Holding Company to Redeem Hybrid Capital Instruments and Mandatory Convertible Debt Securities	0

^{9/} In 1992, the Board eliminated this notice requirement for well-capitalized bank holding companies.

^{10/} This total identifies the number of requesting institutions and does not reflect possible multiple requests from the same institution.

ACTIONS BY THE FEDERAL RESERVE SYSTEM TO EASE REGULATORY BURDEN: 1992-PRESENT

Actions Taken Pursuant to the Bank Holding Company Act

Exempted Certain Bank Acquisitions from Application Requirement 6/23/92

Waived bank holding company application for certain bank acquisitions where the underlying transaction is a bank merger reviewed by the bank's primary regulator under the Bank Merger Act and raise no issues under the Bank Holding Company Act. See 12 C.F.R. 225.12(d)(1).

Streamlined One-Bank Holding Company Formation Process 10/27/94

Replaced application procedure with a 30-day notice procedure for the formation of a one-bank holding company where the shareholders of the bank will acquire the shares of the newly formed bank holding company in substantially the same proportional interest as they held in the bank. See 12 C.F.R. 225.15.

Shortened Waiting Period for Bank Acquisitions and Mergers 10/27/94

Established a procedure to shorten from 30 days to 15 days, with the consent of the Attorney General, the post-approval waiting period for bank acquisitions and mergers. See 12 C.F.R. 225.14(i).

Eliminated Application for Certain Acquisitions of Nonbank Assets 6/23/92

Increased the relative size of nonbank assets (from 20 percent to 50 percent of the acquiring company's assets) that may be acquired by a bank holding company in the ordinary course of business without prior Federal Reserve approval. Such assets must relate to activities the bank holding company previously received approval to conduct. See 12 C.F.R. 225.22(c)(7) and 225.132.

Expanded Expedited Notice Procedure for Small Nonbank Acquisitions 6/23/92 10/27/94

Increased the size of companies engaged in a permissible nonbanking activity that may be acquired with expedited 15-day notice to the greater of \$15 million or 5 percent of the consolidated assets of the acquiring company up to a maximum of \$300 million. See 12 C.F.R. 225.23(e).

Simplified Notice Procedure to Engage in a Permissible Nonbanking Activity 10/27/94

Replaced application requirement with a simplified 30-day notice procedure to engage de novo or through an acquisition in a permissible nonbanking activity listed in Regulation Y. The notice must generally be acted upon within 30 days of receipt of the notice by a Reserve Bank. See 12 C.F.R. 225.23(a)(1) & (2).

Established Notice Procedure to Engage in an Unlisted Nonbanking Activity 10/27/94

Replaced application requirement with a 60-day notice procedure to engage de novo or through an acquisition in nonbanking activities not listed in Regulation Y. See 12 C.F.R. 225.23(a)(3).

Eliminated Pre-Acceptance Period for Nonbanking Applications and Notices 10/27/94

Eliminated 28 day pre-acceptance period for notices involving nonbanking proposals. Previously 12 C.F.R. 225.23(c).

Shortened Public Comment Period for Listed Nonbanking Activities 10/27/94

Reduced from 30 days to 15 days the public comment period for proposals involving nonbanking activities listed in Regulation Y. See 12 C.F.R. 225.23(c)(1).

Amended "Laundry List" of Permissible Non-Banking Activities

• **Expanded Permissible Leasing Activities** 5/14/92

Amended Regulation Y to add certain higher residual value leasing activities. See 12 C.F.R. 225.25(b)(5).

• **Expanded Permissible Investment Advisory Activities** 8/10/92

Amended the Board's interpretive rule on permissible investment advisory activities to allow a bank holding company to broker shares of mutual funds advised by the bank holding company. See 12 C.F.R. 225.125(h).

• **Expanded Permissible Securities Brokerage Activities** 9/4/92

Amended Regulation Y to add full-service brokerage activities to the "laundry list" of permissible nonbanking activities for bank holding companies and to reduce the conditions applied to the conduct of this activity. See 12 C.F.R. 225.25(b)(15).

• **Expanded Permissible Investment and Financial Advisory Activities** 9/4/92

Amended the Board's Regulation Y to add the activities of providing financial advice to state and local governments, providing merger and acquisition advice, and providing financial and transaction advice with respect to interest rate and currency swaps, caps and similar transactions. See 12 C.F.R. 225.25(b)(4).

• **Reduced Prior Approval for Certain FCM Activities** 5/25/93

Issued an interpretation reducing, and in some cases eliminating, the prior approval requirements for bank holding companies proposing to engage in certain futures commission merchant activities. In cases where the prior approval requirement was reduced, a simplified 20-day notice procedure was substituted for the previous application requirement (SR 93-27). See 12 C.F.R. 225.25(b)(18) & (19).

Modified Treatment of Section 20 Companies

• **Modified Section 20 Revenue Calculations** 12/14/92

Adopted "neutral" treatment for revenues derived by a section 20 subsidiary from underwriting and dealing in certain types of mortgage-backed securities.

1/26/93

Adopted an optional indexed-revenue test for section 20 subsidiaries to allow for adjustment of the revenue test in light of changes in the level and structure of interest rates.

• **Permitted Cross-Marketing of Bank-Eligible Securities** 12/14/94

Clarified that a bank or thrift or their subsidiaries may act as riskless principal or broker for customers in buying and selling bank-eligible securities that an affiliated section 20 subsidiary underwrites or deals in, subject to certain limitations.

• **Permitted Underwriting/Dealing in Unrated Municipal Revenue Bonds** 12/5/94

Permitted section 20 subsidiaries to underwrite and deal in unrated municipal revenue bonds.

Adopted Exceptions to the Anti-tying Provisions

1994-95

Established broad classes of exceptions to the anti-tying prohibitions of the Bank Holding Company Act Amendments of 1970 and the Board's Regulation Y to permit banks and bank holding companies to offer customers certain discount arrangements. See 12 C.F.R. 225.7.

• **Traditional Bank Product Exception** **7/27/94**

Extended statutory traditional bank product exception to allow bank holding company affiliates, bank and nonbank, to vary the consideration for a traditional bank product (loan, discount, deposit, or trust service) on the condition or requirement that a customer also obtain a traditional bank product from an affiliate. See 12 C.F.R. 225.7(b)(1).

• **Securities Brokerage Exception** **7/27/94**

Permitted bank holding company affiliates, bank and nonbank, to vary the consideration for securities brokerage services on the condition or requirement that a customer also obtain a traditional bank product from that company or an affiliate. See 12 C.F.R. 225.7(b)(2).

• **Arrangements Not Involving Banks** **12/15/94**

Permitted a bank holding company and/or any nonbank subsidiary thereof to vary the consideration for any of its products or services on the condition or requirement that a customer also obtain any other product or service from that company or from any of its nonbank affiliates. This action generally removed Board-imposed restrictions on tying when no bank is involved in the arrangement. See 12 C.F.R. 225.7(b)(3).

• **Combined-Balance Discounts** **4/19/95**

Established a "safe harbor" to permit a bank or nonbank subsidiary of a bank holding company to offer a combined-balance discount on any product or package of products if a customer maintains a combined minimum balance in deposits and other products specified by the company offering the discount. See 12 C.F.R. 225.7(b)(4).

Eliminated Approval Requirement for Certain Public Welfare Investments

12/2/94

Permitted bank holding companies to make certain public welfare investments without additional approval if they previously received approval to engage in activities that promote community welfare. See 12 C.F.R. 225.127.

Other Actions Affecting Bank Holding Companies

Eliminated Certain Stock Redemption Notices

8/25/92

Eliminated notice for well-capitalized bank holding companies seeking to purchase or redeem their own equity securities. See 12 C.F.R. 225.4.

Modified Real Estate Appraisal Requirements

6/6/94

Increased to \$250,000 the threshold level at or below which appraisals are not required; expanded and clarified the type of transactions that are exempt from the appraisal requirement; narrowed the type of exempt transactions for which evaluations are required; and revised the requirements governing appraisal content and the use of appraisals prepared by other financial services institutions (SR 94-35).
See 12 C.F.R. 225.61 through 225.67.

Reduced Bank Holding Company Reporting Requirements

2/28/95

Reduced annual FR Y-6 reporting requirements for bank holding companies: eliminated requirement to submit consolidated and parent company financial statements; raised requirement for audited financial statements to include only holding companies with assets of \$500 million or more; eliminated requirement to submit nonbank subsidiary financial statements; eliminated requirement to submit certified copies of amendments to organizational documents; eliminated the collection of information on certain insider loans; and eliminated the confirmation of changes in investments and activities. See 60 Federal Register 12,215 (March 6, 1995).

Proposed to Eliminate Non-Control Determinations for Certain Divestitures

3/20/95

Proposed rule to eliminate the need for a bank holding company, under certain circumstances, to obtain a Board determination of "non-control" under section 2(g)(3) of the Bank Holding Company Act for shares or assets that it has sold to a third party with financing. See 12 C.F.R. 225.32. See also 60 Federal Register 15,881 (March 28, 1995).

Actions Taken Pursuant to the Federal Reserve Act

Streamlined Process to Establish a Branch 6/23/92

Replaced application requirement with a streamlined notice procedure for state member banks in satisfactory condition, and with satisfactory CRA and compliance records, to establish or operate a domestic branch. See 12 C.F.R. 208.9.

Modified Treatment of Certain Transactions Between Affiliates 9/4/92

Excluded from section 23A of the Federal Reserve Act transactions between affiliated insured depository institutions that are subject to review under the Bank Merger Act. See 12 C.F.R. 250.241.

Eliminated Prior Approval for Certain Investments in Bank Premises 5/25/94

Eliminated Board approval for a state member bank that meets certain conditions to invest in bank premises in an amount up to 50 percent of its Tier 1 capital. See 12 C.F.R. 208.22.

Eliminated Prior Approval for Certain Public Welfare Investments 11/30/94

Permitted state member banks to make certain investments designed primarily to promote the public welfare without prior approval. See 12 C.F.R. 208.21.

Modified Treatment of Certain Loans to Executive Officers, Directors and Principal Shareholders (Regulation O)

• Loans to Affiliates 12/17/92

Clarified that prohibitions of loans to executive officers contained in section 22(h) of the Federal Reserve Act do not apply to loans made by a bank to its holding company and its affiliates as such loans are covered by section 23A of the Federal Reserve Act. See 12 C.F.R. 215.2(m)(2).

• Aggregate Lending Limits 4/27/93

Adopted three exceptions to the aggregate lending limits: extensions of credit (1) secured by obligations of the U.S. or other obligations fully guaranteed as to principal and interest by the U.S.; (2) to or secured by commitments or guarantees of a department or agency of the U.S.; and (3) secured by a segregated deposit account with the lending bank. See 12 C.F.R. 215.4.

• **Recordkeeping** **2/18/94**

Provided alternatives for tracking loans to insiders of affiliates; eliminated tracking of loans to related interests for some limited purpose banks; increased credit card exemption; added executive officer exemption; and increased non-preferential lending to insiders. See 12 C.F.R. 215.3, 215.4, 215.5 & 215.8.

• **Tangible-Economic-Benefit Rule** **2/18/94**

Clarified the "tangible-economic-benefit rule" to ensure that a bank could continue to make loans to customers to acquire property, goods, or services from a bank insider on non-preferential terms. See 12 C.F.R. 215.3(f).

Modified Certain Procedures to Examine State Member Banks

• **Established Uniform Examination Reports** **11/30/92**

Established, with the other bank regulatory agencies, a uniform report of examination for commercial banks (SR 93-17).

• **Combined Examination and Inspection Reports** **8/17/94**

Established a procedure to issue one combined examination/inspection report for a bank holding company whose lead bank is a state member bank (SR 94-46).

• **Coordinated Examination Schedules** **5/6/94**

Established a procedure to provide state member banks with the option of having specialty examinations (e.g., electronic data processing or trust examinations) concurrently with safety and soundness examinations. Further coordinated inspection of a bank holding company with examination of a state member bank (SR 94-31).

• **Modified Examination Frequency Guidelines**

6/8/94

Expanded use of alternate year exam programs (AEPs) with state banking departments and an 18-month examination schedule for small banks (under \$100 million) (SR 94-36).

12/30/94

Raised asset limit from \$100 million to \$250 million for composite "1" banks that are well-capitalized and well-managed to qualify for the less burdensome 18-month examination schedule. Permitted certain composite "2" banks under \$100 million in assets to qualify for the 18-month examination schedule (SR 94-64).

Adopted Regulatory Exceptions for Banks in Disaster Areas

5/13/92

Established procedures, along with other federal regulators, for the expedited provision of financial services and other help to rebuild areas of Los Angeles and other cities affected by civil disturbances. Efforts to restructure debt or extend repayment terms -- if consistent with safety and soundness -- should not be criticized (SR 92-16).

9/3/92; 11/30/92

Established policy, pursuant to the Depository Institutions Disaster Relief Act to grant regulatory relief from certain statutes and regulations in order to facilitate recovery from major disasters (SR 92-29 & 92-47).

Revised Call Reports

2/6/92

Revised the definition of Highly Leveraged Transactions and phased out the use of the definition after the June 30, 1992 reporting period.

10/21/94

Repealed, pursuant to section 308 of the Riegle Community Development and Regulatory Improvement Act of 1994, the requirement that state member banks publish call reports (SR 94-52).

Actions to Enhance Credit Availability

3/10/93

Issued interagency policy statement to reduce regulatory impediments to credit availability. Specific actions: (1) reduced appraisal burden and improved climate for real estate; (2) reduced unnecessary documentation requirements for small business loans; (3) improved coordination and focus of supervisory examinations; (4) eliminated duplicative examinations; (5) revised reporting requirements for OREO and partially charged-off loans and loans treated as in-substance foreclosures; (5) distinguished between special mention (i.e., OAEM) credits and classified asset categories in supervisory evaluations of banking organizations; and (6) re-emphasized to examiners the contents of previous agency credit availability initiatives (AD 93-23).

6/10/93

Issued second interagency policy statement to announce additional credit availability initiatives which: (1) provided additional guidance for the reporting of in-substance foreclosures (collateral dependent real estate loan need not be reported as foreclosed unless the lender has taken possession of the collateral, although appropriate losses must be recognized); (2) revised non-accrual loan guidelines to return some non-accrual loans to accrual status; (3) provided guidance for regulatory reporting sales of OREO; (4) reaffirmed November 1991 guidelines to ensure that examiners are reviewing commercial real estate loans in a consistent, prudent, and balanced manner; (5) developed a common definition for "Special Mention" assets that separates these loans from loans

warranting adverse classification; (6) issued guidelines to coordinate supervision and examination of bank holding companies, banks, and thrifts, in order to minimize the disruptions and burdens associated with the examination process (AD 93-30).

Established Uniform Real Estate Lending Rule

1/11/93

Adopted, with the other federal banking agencies, a uniform rule on real estate lending by insured depository institutions. The rule (1) requires each insured depository institution to adopt and maintain comprehensive written real estate lending policies that are consistent with safe and sound banking practices; (2) requires banks to establish their own internal loan-to-value limits for real estate loans which should be applied to the underlying property that is collateral for the loan; and (3) allows banks to be exempt from supervisory loan-to-value limits if they renew, refinance, or restructure loans without receiving additional funds (applicable to loans refinanced after 3/19/93) (SR 93-1).

Actions Taken Pursuant to the Truth in Lending Act

Eliminated Impediment to Certain Home Equity Loans

7/92

Issued revised home equity disclosures and created exception to home equity rules under Regulation Z to eliminate conflict between those rules and laws dealing with loans to executive officers of banks. See 12 C.F.R. 226.5b(f)(2)(iv).

Clarified and Updated Regulatory Requirements

3/95

Published periodic updates to the official staff commentary to Regulation Z to facilitate compliance by answering questions and addressing issues raised by covered institutions, including addressing some of the legal uncertainties (following the Rodash decision) surrounding the treatment of various fees and taxes associated with real estate secured loans. See 60 Federal Register 16,771 (1995).

Actions Taken Pursuant to the Equal Credit Opportunity Act

Facilitated Appraisal Reporting Requirements

12/93

In implementing new rules on consumer rights to appraisal reports under Regulation B, provided a sample notification form for use by creditors that do not choose to automatically provide a copy of the report. See 12 C.F.R. 202, Appendix C.

Actions Taken Pursuant to the Electronic Fund Transfer Act

Conducted Zero-Based Regulatory Review **2/94**

Under the Board's policy calling for periodic review of all regulations, proposed revisions to Regulation E to simplify requirements and delete obsolete provisions. See 59 Federal Register 10,684 (1994); 12 C.F.R. 205.

Eliminated Documentation Requirement **3/95**

Eliminated requirement under Regulation E that electronic terminal receipts disclose a unique identifier of a consumer's account, thereby enabling institutions to truncate account numbers and thwart ATM fraud. See 60 Federal Register 15,032 (1995); 12 C.F.R. 205.9(a)(4).

**Actions Taken Pursuant to the
Depository Institutions Management Interlocks Act**

Clarified Prior Approval Requirements **11/18/92**

Clarified that depository organizations seeking exceptions from the Depository Institutions Management Interlocks Act are required to seek approval for an exception only from the primary regulator of the organization in need of management assistance. See 12 C.F.R. 212.4.

Other Statutes/Provisions

Modified Permissible Activities of Foreign Branches of U.S. Banks **9/4/92**

Relaxed restrictions on the ability of foreign branches of U.S. banks to accept deposits from U.S. residents at foreign branch locations (SR 94-49).

Reduced Loan Documentation Requirements **3/30/93**

Reduced documentation requirements for loans to small- and medium-sized businesses and small farms (AD 93-29).

Eliminated Prior Approval Requirement for Oakar Transactions

10/27/94

Eliminated requirement for prior Board approval of certain transactions by banks owned by bank holding companies to acquire a thrift or thrift assets.
See 12 U.S.C. § 1815(d)(3)

Established an Internal Appeals Process

3/24/95

Established an internal appeals process for institutions wishing to appeal an adverse material supervisory determination. See 60 Federal Register 16,470 (March 30, 1995).

Revised Certain Capital Requirements

1/14/92

Permitted bank holding companies to raise additional Tier 1 risk-based capital through the sale of perpetual preferred stock; removed the 25 percent limit under the risk-based capital guidelines for counting for noncumulative perpetual preferred stock.
See 12 C.F.R. Part 208, Appendix A and Part 225, Appendix A.

12/23/92

Amended risk-based capital guidelines, lowering from 20 percent to 0 percent, certain transactions collateralized by cash and OECD central government securities, including U.S. Government agency securities, provided the transactions meet specified criteria.

12/92 (Issued 4/20/93)

Amended risk-based capital guidelines by lowering from 100 percent to 50 percent the risk weight for loans for the construction of 1-4 family residential properties that have been presold.

1/4/93

Amended capital guidelines to allow a higher percentage of certain identifiable intangibles, purchased mortgage servicing rights (PMSRs) and purchased credit card relationships (PCCRs), to be included in the Tier I capital calculation for risk-based and leverage capital purposes.

2/1/95

Proposed amendments, pursuant to section 108 of the Riegle Community Development and Regulatory Improvement Act of 1994, to the capital adequacy guidelines to lower the capital requirement for small business loans and leases (on personal property) that have been transferred with recourse by qualifying banking organizations. Specifically, a banking organization need only include the amount of retained recourse in its asset base, rather than the entire balance of the loans sold, when calculating its capital ratios provided: (1) the transaction is treated as a sale under generally accepted accounting principles (GAAP); (2) the bank establishes a non-capital reserve sufficient to meet its estimated liability under the recourse

arrangement; and (3) the aggregate amount of recourse does not exceed 15 percent of the bank's total risk-based capital or a greater amount established by the Board.

Applications Procedures Generally

Delegated More Authority to the Reserve Banks to Process Applications

8/25/92

Expanded authority of Reserve Banks to process all delegable bank and nonbank applications without Board review. See 12 C.F.R. 265.11.

Reduced Public Notice Requirements

9/4/92

Reduced the newspaper publication requirements for applications involving membership in the Federal Reserve System, establishment of branches of state member banks, bank holding company formations, and the acquisition of a bank by a bank holding company. See 12 C.F.R. 225.14(b)(3) and 262.3(b).



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

ALAN GREENSPAN
CHAIRMAN

May 15, 1995

The Honorable Marge Roukema
Chairwoman
Subcommittee on Financial Institutions
and Consumer Credit
Committee on Banking and Financial Services
House of Representatives
Washington, D.C. 20515

Dear Madam Chairwoman:

Thank you for your letter of May 11 inviting the Federal Reserve to testify on H.R. 1362, the Financial Institutions Regulatory Relief Act of 1995.

I am pleased to advise you that Governor Susan M. Phillips will appear before the Subcommittee on Thursday, May 18, 1995, at 9:30 a.m.

Sincerely,

Signed Alan Greenspan

PTE (G-71, 95-1708)

bcc: G. Baer
L. Leonard
A. Nielsen

For Files
S. PHILLIPS

File Copy

MARGE ROUKEMA, NEW JERSEY, CHAIRWOMAN
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U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
AND CONSUMER CREDIT

OF THE

COMMITTEE ON BANKING AND FINANCIAL SERVICES

ONE HUNDRED FOURTH CONGRESS

2129 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515

(202) 225-2258

May 11, 1995

The Honorable Alan Greenspan
Chairman
Federal Reserve System
20th & Constitution Avenue, NW
Washington, DC 20551

Dear Mr. Greenspan:

On May 18, 1995 the Financial Institutions and Consumer Credit Subcommittee will hold hearings on H.R. 1362, the Financial Institutions Regulatory Relief Act of 1995. The purpose of these hearings is to evaluate the impact that current regulations have on the financial services industry and to what extent any legislative action is needed to remedy any shortcomings in the current regulatory structure. Specifically, we will address these issues using H.R. 1362 as the working document. This bill contains reductions in compliance burdens in such areas as CRA, Truth-in-Lending, RESPA, Truth-in-Savings, small bank exams, bank and bank holding company approval processes, fair lending, lender liability and other areas.

In your testimony, we would like you to address H.R. 1362 in general as well as the following issues.

1. Your views on current Truth in Lending laws as well as the provisions in H.R. 1362. What changes are needed, if any?
2. Do you think that changes in the current CRA and fair lending laws are necessary? If so, are the relevant provisions in H.R. 1362 adequate or overreaching?
3. Is the repeal of the Truth in Savings warranted? If not, should some legislative action be taken to clarify the Act?
4. What are your views on any of the other provisions in the proposed bill?
5. Please feel free to comment on any other suggestions or proposals on regulatory burden relief you feel might be warranted.

The Honorable Alan Greenspan
Page 2
May 11, 1995

The rules of the Committee require that 100 copies of your written testimony be filed with the Committee no later than 24 hours before the hearing. We also respectfully request that you limit your oral testimony to five minutes in length. If you have any questions concerning your appearance before the Subcommittee, please contact Stephen Johnson at (202) 225-2258 or feel free to call me directly. We have attached a copy of a tentative witness list for your convenience.

Thank you for your cooperation. The Subcommittee looks forward to your testimony.

Sincerely,



Marge Roukema
Chairwoman
Subcommittee on Financial
Institutions & Consumer Credit

MR:sj

Enclosure

PRELIMINARY LIST FOR REGULATORY BURDEN RELIEF HEARINGS
MAY 18, 23 & 24, and June 8, 1995

Set forth below is a tentative list of persons interested in testifying before the Financial Institutions and Consumer Credit Subcommittee on the broader issue of regulatory burden relief as well as those matters addressed in the recently introduced Bereuter bill.

DAY I, May 18 - Panel 1 - 9:30 A.M.

Member Panel - Bereuter and McCollum

DAY I, May 18 - Panel 2 - 10:00 A.M

Regulators - Treasury, FRB, FDIC, OTS, OCC

DAY I, May 18, - Panel 3 - After Panel 2

Regulators - HUD, NCUA, Texas Banking Commissioner (CSBS)

DAY 2, May 23 - Panel 1

Trade Associations - ABA, IBAA, ACB, NBA, NAFCU, CBA, Bankers Roundtable

DAY 2, May 23 - Panel 2

Trade Associations - MBA, Realtors, Home Builders, Respro, NAFCU, American Land Title Association

DAY 3, May 24 - Panel 1

- The Enterprise Foundation (Request)
- Neighborhood Housing Services of New York City (Request)
- Dr. Stephen Roberts, Partner in Charge of Peat Marwick's Financial Services Regulatory Advisory Practice
- Heritage Foundation

DAY 3, May 24 - Panel 2

- Michelle Meyers, Consumers Union
- Margo Saunders, National Consumer Law Center (Rodash)
- AARP
- ACORN

In addition to the aforementioned dates, we have reserved the Banking Committee room on June 8 to have additional hearings with an "anecdotal" panel of bankers and customers. We plan to move the bill quickly and have a markup on June 14 and 15, 1995.