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Summary of Statement of
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Mr. Chairman and members of the Subcommittee, I appreciate this opportunity to discuss the financial modernization legislation you now have under consideration. The issues you face are exceedingly difficult. The financial services marketplace has changed significantly since Congress last enacted legislation as comprehensive as the proposal now before you. The challenge is to design a new framework that gives the financial services industry true flexibility to evolve with a changing marketplace and respond to consumer needs, but preserves the successful elements of our current system. I commend you, Mr. Chairman and members of the Subcommittee, for grappling with this difficult but very important challenge.

In recent years, the Office of the Comptroller of the Currency has undertaken regulatory and supervisory actions that I believe are necessary to ensure the long-term safety and soundness of the National Banking System and ensure that national banks are able to fulfill the role that Congress envisioned for their support of the American economy. These actions include our approach toward insurance sales by banks and our revised Part 5 regulation, which details the process by which banks can apply to engage, through operating subsidiaries, in activities that are part of or incidental to the business of banking. But actions by regulators are not, and cannot be, a substitute for legislation that accomplishes meaningful financial modernization.

The House Banking Committee has made a significant effort to design a new regime to govern the financial services industry. However, in my view, the proposed legislation falls short in certain critical areas. I am concerned that it would lead to increased regulatory burden, restrict organizational flexibility, and limit competition by imposing unnecessary restrictions on firms. Therefore, I believe that further efforts are required to arrive at a proposal that truly promotes the interests of the American consumer and economy.

One of my principal concerns with H.R. 10 is that it will create unnecessary regulatory burden and redundancies. In particular, the bill would establish a Financial Services Council whose members would have sweeping authority over the banking system and bank supervision, even though most of them would have no responsibility for federal supervision of the banking industry. The council represents an additional, unnecessary layer of regulation on top of the activities of existing supervisory agencies.

In addition, H.R. 10 would impose unnecessary and costly restrictions on organizational choice. It would not allow bank subsidiaries to engage in the same range of new financial activities permitted for bank holding company affiliates, even though it would subject them to all the safeguards necessary to protect a bank's safety and soundness from any new risks that could result from new types of activities conducted in a subsidiary. This imbalance in permitted activities would make the bank operating subsidiary an inferior structure for financial modernization and would create incentives for banking organizations to shift growing, new activities to holding company affiliates.

Forcing new lines of business that are responding to the newest customer needs to be conducted in holding company affiliates has troubling long-term ramifications for the health of banks generally. Either the assets and income stream of the bank itself will dwindle away, or the bank will reach farther out on the risk curve. In either case, what will result is a destabilized hollow bank that is less safe and sound. Furthermore, if growth and new lines of business in banking organizations are forced to occur in holding company affiliates and not allowed in bank operating subsidiaries, that growing base of activities and earnings is not available to support a bank's CRA efforts. Over the long term, the requirement to conduct more profitable activities outside the bank is likely to cause a significant reduction in the relative portion of assets in the banking industry that are available to support the CRA.

Rather than promoting true modernization that enhances competition, H.R. 10 would limit competition by imposing unnecessary restrictions on insurance activities of national banks. It would freeze the ability of national banks to provide insurance as principal as of January 1, 1997 and endanger their ability to provide future banking products if they were labeled "insurance" by a state regulator. In addition, the current authority of national banks and their subsidiaries to sell title insurance would be terminated. Finally, a new self-regulatory organization, the National Association of Registered Agents and Brokers" (NARAB), would be created if a majority of the states did not adopt uniform licensing standards for insurance sellers within 3 years. NARAB would have authority to set licensing standards that discriminate against banks. These discriminatory standards would have full force and effect even if they prevented banks from selling insurance as explicitly authorized under current law.

H.R. 10 would also diminish safety and soundness. For example, the reported bill provides that an insurance company that owns or is affiliated with a bank could not be required to provide financial support to that bank if the bank's state insurance regulator objected. Thus, the bill puts protection of the insurance company above protection of the federal deposit insurance funds.

Finally, H.R. 10 would create an uneven playing field in the financial services arena. Specifically, bank holding companies that are predominantly financial would be subject to Federal Reserve oversight, but bank holding companies that are predominantly commercial would not -- even though the risks to the deposit insurance fund would be at least as great from commercial companies that own banks. In addition, the Federal Reserve could set different capital standards for different types of holding companies -- even if these differences disadvantaged companies engaged predominantly in one type of financial activity.

Insurance firms would be permitted to own banks as subsidiaries, but banks would not be allowed to own insurance firms as subsidiaries. Existing thrifts and their holding companies could continue to engage in activities they now conduct even though the activities would be prohibited for other banks and their holding companies. And state thrifts would continue to exist and could have broader powers and activities than state and national banks. These competitive inequities between different segments of the financial services industry are precisely the kinds of constraints on full and effective competition that financial services modernization is designed to eliminate.

The issues presented by financial modernization are exceedingly difficult. Often, they can become quite contentious. I commend the Banking Committee for its efforts to address and resolve these issues. Unfortunately, I must conclude that H.R. 10, in its current form, does not adhere to the principles that I believe are essential for financial modernization. Moreover, the bill does not further the safety and soundness of the National Banking System so that it may continue to serve the citizens, communities and economy of the United States. I realize that drafting legislation of this magnitude is a formidable task, and I appreciate your continued efforts to ensure that these concerns are addressed.