

BANKING REFORM, ROUND ONE

Summary of key actions as of early July

Issue	Treasury Department proposal	House Banking Committee bill	Implications for savings institutions
Interstate branching	Allow national banks to establish branch systems across state lines.	Would allow national banks to branch into any state three years after law is enacted.	Would make local institutions more attractive candidates for acquisition by a national bank. Would end unique advantage of federally chartered institutions, which can branch across state lines with approval of the Office of Thrift Supervision.
Commercial ownership	Permit commercial firms to own banks through "diversified holding companies."	Adopts Treasury proposal.	Would, in effect, eliminate a current distinction between commercial ownership of thrift holding companies, which is permitted, and commercial ownership of bank holding companies, which is not permitted.
Sales of insurance and securities	Allow "financial services holding companies" to own securities and insurance subsidiaries, in addition to commercial banks and savings institutions.	Adopts Treasury proposal on securities subsidiaries, but insurance affiliates would have to be held outside the financial services holding company by a diversified holding company.	Savings institutions may lose some competitive advantages in states where they have fewer restrictions on insurance and securities activities than commercial banks. National banks, however, would lose their right to market insurance nationwide from small towns.
Deposit insurance limits	Restrict individuals to \$100,000 coverage for regular accounts and \$100,000 for an individual retirement account at each institution. Also seeks to end coverage for brokered deposits and pension funds.	Retains current regulation allowing individuals to exceed \$100,000 in coverage via joint and trust accounts. Would also retain coverage at well-capitalized institutions for brokered deposits and pension funds.	Would mean no change in current rules on brokered deposits but would introduce new capital-based restrictions on pension fund balances.
Regulatory restructuring	Create a single Office of Depository Institutions Supervision in the Treasury Department, with the Federal Reserve Board expanding its supervisory role to state-chartered non-member commercial banks.	Deletes all reference to regulatory restructuring. The matter was referred to a subcommittee (see related article on page 15).	Preserves the OTS in its current form, pending further action.

IN FOCUS

MORE HURDLES AHEAD FOR BANKING REFORM

Proposals now pass to other House committees and to Senate Banking

Despite the Bush Administration's firm commitment to passage of banking reform legislation, House and Senate actions continue to reshape the direction of landmark proposals.

While rejecting Treasury Department proposals on deposit insurance and regulatory restructuring, the House Banking Committee passed H.R. 6 in late June, which contains several provisions that would eliminate 60-year-old restrictions on bank activities.

These provisions, sought by the Treasury, would allow interstate branching, commercial ownership of banks, and affiliations with securities and insurance firms (see table at left).

But, some of the provisions in H.R. 6 drew immediate criticism from lawmakers on other House committees that were expected to review the measure.

The provision allowing commercial ownership of banks has been blasted by Rep. John Dingell, (D, Mich.), chairman of the House Committee on Energy and Commerce, which claims jurisdiction over securities and insurance matters.

Linking commerce and banking would result in "entangled fiduciary duties," Dingell said.

Rep. Cardiss Collins (D, Ill.) has criticized provisions in the bill allowing affiliations between banks and insurance companies.

Collins, who chairs the committee's Subcommittee on Commerce, Consumer Protection and Competitiveness, said insurance activities by banks would be a risk to safety and soundness.

In July, Senate Banking Committee Chairman Donald Riegle (D, Mich.) issued a draft measure calling for broad financial restructuring.

The draft, which launches committee work on a bill that will be sent to the full Senate later this year, would prohibit commercial ownership of banks.

Other provisions of the Riegle bill would:

- Allow interstate branching within three years of enactment, unless a state votes not to adopt the change.
- Allow a merging of commercial and investment banking.
- Grant the Federal Deposit Insurance Corporation \$70 billion in new borrowing authority to bolster the flagging Bank Insurance Fund. (H.R. 6 would grant authority to borrow \$30 billion.)
- Ban deposit insurance on brokered deposits. (H.R. 6 would insure these only at well-capitalized institutions.)
- End the "too big to fail" policy by 1995 (also in H.R. 6).
- Merge the Office of the Comptroller of the Currency and the Office of Thrift Supervision into an independent agency

that would regulate both national banks and savings institutions.

The Treasury proposal had called for a merger of the OCC and OTS but wanted the new agency to remain within the Treasury Department.

FARING WELL

Savings institutions have won some victories in the first round of debate on banking reform, says J. Denis O'Toole, executive vice president for government affairs at the U.S. League of Savings Institutions, Washington, D.C.

According to O'Toole, H.R. 6 contains several provisions sought by the U.S. League and other trade groups, including:

- An amendment to give greater credit for liquidity and consumer lending in the qualified thrift lender test.


Specifically, H.R. 6 would increase the amount of liquid assets that could be deducted to compute portfolio assets, increase the includable amount of consumer loans from 5% to 10% of assets, and count stock in the Federal Home Loan Banks and federal secondary mar-

ket agencies as QTL assets.

- A provision giving the Federal Deposit Insurance Corporation "backup" authority to regulate national banks, as it has for all savings institutions.
- An exemption for savings institutions operating under a capital plan from a provision requiring regulators to take control of institutions whose capital falls below 2% of assets.
- Authority for savings institutions to acquire commercial banks.

The Senate draft contains similar provisions. In particular, it would reduce the required level of qualified thrift assets from 70% to 65%, while also allowing greater credit for liquidity and consumer loans.

The U.S. League supports broad-based banking reform as the best strategy for developing legislation that also contains provisions to meet specific savings institution needs, says O'Toole.

He adds H.R. 6 would apply some of the provisions of the Financial Institutions Reform, Recovery and Enforcement Act to state-chartered banks. 

Edited by Joseph Harrington

CALENDAR OF EVENTS

UNITED STATES LEAGUE

Sept. 4-6	Compliance Conference	Washington, D.C.
Sept. 11-13	Compliance Conference	Chicago, Ill.
Sept. 15-17	Compliance Conference	Atlanta, Ga.
Sept. 25-27	Compliance Conference	San Francisco, Calif.
Oct. 27-30	99th Annual Convention	Washington, D.C.
Oct. 30-31	Directors Conference	Washington, D.C.

State League Annual Conventions

Aug. 25-28	Iowa League Minnesota League North Dakota League South Dakota League (combined meeting)	Brainerd, Minn.
Sept. 4-7	Wyoming League Idaho League Montana League Utah League (combined meeting)	Jackson, Wyo.
Sept. 5-7	West Virginia League	White Sulphur Springs, W. Va.
Sept. 8-11	Washington League Oregon League (combined meeting)	Blaine, Wash.
Sept. 13-15	Savings Banks Association of Maine	Dixville Notch, N.H.

Sept. 15-17	Florida League	Lake Buena Vista, Fla.
Sept. 15-18	Illinois League Kentucky League Tennessee League (combined meeting)	White Sulphur Springs, W. Va.
Sept. 15-18	Missouri League	Kansas City, Mo.
Sept. 18-22	South Carolina League	Orlando, Fla.
Sept. 22-25	Massachusetts League	Dixville Notch, N.H.
Sept. 25-26	Wisconsin League	Milwaukee, Wis.
Sept. 25-29	California League	San Diego, Calif.
Sept. 29-Oct. 2	New England League Connecticut League (combined meeting)	Hilton Head, S.C.
Sept. 29-Oct. 3	New York League	Hot Springs, Va.
Oct. 6-8	Ohio League	Columbus, Ohio
Oct. 6-9	Louisiana League	Charleston, S.C.
Oct. 26-29	Savings Banks Association of Connecticut	West Palm Beach, Fla.
Nov. 20-23	Savings Banks Association of New York State	Orlando, Fla.

Since dates and locations are subject to change, readers are advised to verify meeting details with the sponsoring organization before making airline or other arrangements.