FDIC FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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SEIDMAN URGES CONGRESS TO REVISE INDUSTRY STRUCTURE AS PART OF EFFORTS TO IMPROVE DEPOSIT INSURANCE SYSTEM

Federal Deposit Insurance Corporation Chairman L. William Seidman told Congress today that deposit insurance reform should be accompanied by the elimination of restrictions on where banks can operate, what kinds of firms they can be associated with, and what products and services they can offer.

In testifying before the Senate Banking Committee, Mr. Seidman said that the banking system "can operate safely and soundly only if it can provide competitive services to its customers at a reasonable profit."

Chairman Seidman's recommendations include the following structural changes, which he said would improve the health of the banking system and make the industry more competitive in the U.S. and around the world:

- Eliminate the Glass-Steagall Act, which separates commercial banking from investment banking.
- Remove Bank Holding Company Act restrictions that prevent commercial banks from affiliating with non-financial businesses.
- End restrictions that prevent banks from establishing branches across state lines or from buying banks in other states.

Mr. Seidman stressed, though, that if banks are permitted to offer new products or affiliate with non-financial firms these activities also should come with "the legal assurance of separateness" from insured deposits. Unlike "firewalls" in the sense of prohibiting the sharing of common names and office space, this idea is to set the "assurance of legal status for liability determinations" in order to reduce the potential exposure of the government and the U.S. taxpayer.

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Mr. Seidman urged Congress to consider a three-fold approach to reducing the potential costs of deposit insurance to the taxpayer: limiting the kinds of investments that institutions can make with insured deposits; reducing what the government agrees to insure, perhaps by including new restrictions on the amount of liability per customer without putting the average depositor at unreasonable risk; and changing the structure of the industry.

"The present system is a bad bet for society," Mr. Seidman told the senators. "It can cost too much for the value received."

He added that any statutory changes must continue to promote the stability that the FDIC has worked to bring to the financial system.

"I remind you that nine out of 10 of the largest banks in Texas failed or would have failed without our or other help. The same can be said for two out of the three largest banks in Oklahoma. At the same time, hundreds of other banks failed, and yet the system did not collapse in panic," Mr. Seidman noted.

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