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Statement by

The Honorable William M. Isaac
Chairman
Federal Deposit Insurance Corporation

on

S. 1720 - The Financial Institutions Restructuring and Services Act

and

S. 1721 - To Combine the Insurance Funds of FDIC, FSLIC, and NCUSIF.

Presented to

the Senate Committee on Banking, Housing and Urban Affairs
United States Senate

9:30 AM
Friday, October 30, 1981.
Room 5302, Dirksen Senate Office Building

Mr. Chairman, I appreciate the opportunity to appear this morning to present the views of the FDIC on the forward looking bills you have introduced. We commend the Committee's efforts to address broadly the circumstances in our financial markets. We look forward to working with you to resolve our current problems and eliminate artificial barriers to the development of financial services to benefit the public and the American economy in general.

As you know, we have been advocating prompt Congressional approval of the "Regulators' Bill" to provide the deposit insurance agencies with needed flexibility to carry out their statutory responsibilities in dealing with troubled institutions. This bill would give the FDIC additional authority in two significant areas.

First, we are asking for clearer authority to provide direct financial assistance to failing institutions. Second, we are seeking limited authority to arrange interstate takeovers of very large failed institutions.

Currently, a number of FDIC-insured institutions find themselves locked in an interest-rate squeeze between long-term, fixed-rate assets with low yields and volatile, short-term, expensive liabilities. I know I need not detail the situation for members of this Committee. Suffice it to say that the economic conditions that led us to recommend this legislation some time ago have not abated; there is no question of the priority need for this legislation.

Let me emphasize that we do not seek expanded financial assistance authority in order to provide a wholesale "bailout" of troubled institutions. In certain limited instances, however, we believe it makes economic sense to grant financial assistance to institutions rather than to incur the significant costs associated with assisted open or closed bank mergers. The proposed amendment to Section 13(c) of our Act would permit us to employ this approach in limited circumstances without the necessity of determining that an institution is "essential" to its community as required under current law.

The second amendment we are seeking would permit us to effect interstate acquisitions of large, failed financial institutions -- those with approximately $2 billion in assets. This is a very restrictive provision. It applies only to a very large institution that actually fails. Before going out for interstate bids, we must seek the views of the state banking authority. If the state authority objects, it takes a unanimous vote of our bipartisan board of directors before we may proceed. Intrastate and adjoining state bidders are given the right to match the high bid of an out-of-territory high bidder. Finally, the provision contains a very short sunset clause.

We are not crying wolf. We need these two authorities and we need them now, if we are to do our job in an effective manner.

At the same time, we share your view that depository institutions are operating within a regulatory framework that is essentially fifty years old. That framework was fashioned to meet circumstances prevailing at the time and many benefits flowed to our citizens and economy as a result. Times have changed however, and we must get on with the job of restructuring our financial and regulatory systems. For that reason, we applaud your efforts to look beyond the immediate problems and deal with some of the longer-range issues.

Financial markets have been altered by technologies that facilitate virtually instantaneous transfers of funds anywhere within the developed nations of the world. It is no longer possible to insulate our banks and thrifts from intense competitive pressures generated by a wide array of foreign and domestic intermediaries. Moreover, the major economic challenge today is not coping with depression, but dealing with inflation accompanied by high and extremely volatile interest rates.

Mr. Chairman, the bills before this Committee address some of the significant issues before us, but, as you noted in introducing them, there are even larger questions that we hope the Congress will soon address if we are to preserve the strength of our financial system and encourage continuing innovations.

Some of the present laws contain provisions that result in unconscionable inequities. How, for example, can we justify a definition of "bank" in the Bank Holding Company Act that permits Gulf & Western to buy a federally-insured bank simply because it divests the bank of commercial loans? How can we permit Sears to own a federally-insured savings and loan association, a major real estate firm, and an investment banking house, while prohibiting banks from entering these fields? Why should American Express be allowed to acquire a securities firm which in turn owns a federally-insured, nonmember bank while such activities are foreclosed to member banks? Why should we permit National Steel to own the largest federally-chartered savings and loan, which incidentally has branches in three major states, while prohibiting even in-state savings and loan acquisitions by bank holding companies?

We do not automatically assume that the solution to these problems is to dismantle all of the barriers that separate financial intermediaries from each other and from commercial enterprises. Compared to most other nations, we have a relatively diverse economy and financial system, free of excessive concentrations of financial power and the abuses that can accompany such concentrations.

While some of the barriers we have constructed may have outlived their usefulness, some of them may remain valid. We do not believe, for example, that we should permit commercial enterprises to enter the banking business -- however that term is defined -- or vice versa. Nor are we convinced that major insurance companies should own banks or be owned by banks. Nor are we convinced that banks and investment banking firms should be affiliated. We urge the Congress to come to grips with these fundamental questions, shoring up the barriers where appropriate and dismantling them where they are no longer needed.

We also urge the Congress to undertake a comprehensive review of our regulatory agencies and our deposit insurance system. While the present structure has legitimate historical underpinnings, it is becoming increasingly clear that substantial reforms are necessary if we are to keep pace with the dramatic changes occurring in the worldwide marketplace for financial services.

It is not possible to consider all of these issues at this time. We appreciate this Committee's determination to begin the process with the bills before us today. The balance of my statement addresses the specifics of those bills. I will not take the time to present these views orally in detail, but ask that they be made part of the official record. In general, we support the thrust of the bills. We do, however, have some suggested deletions, additions, and amendments.

Briefly, our comments are as follows:

1) We favor enactment of the "Regulators' Bill" in its entirety with two amendments.

2) We favor enactment of the so-called "Pratt Bill" but urge Congress to give further consideration to the advantages enjoyed by thrifts with respect to branching, taxation, and the interest-rate differential.

3) We favor the revenue bond underwriting proposal and the provision permitting bank sponsorship of mutual funds. We suggest the mutual fund proposal have a delayed effective date, perhaps one year, and that the activity be regulated in much the same fashion as bank trust department activities.

4) We favor federal pre-emption of due-on-sale prohibitions and are very sympathetic to a federal override of state usury laws.

5) We favor many of the technical provisions relating to national and member banks, but have serious concerns about others.

6) After more than two years experience with the law, we favor a thorough overhaul of the Financial Institutions Regulatory Act, including abolition of the Federal Financial Institutions Examination Council.

7) We support exemption of International Banking Facility deposits from FDIC insurance and assessments provided certain amendments are made and a sunset provision, not to exceed two years, is included.

8) We oppose an increase in the deposit insurance limit on IRA/Keogh accounts.

9) We favor a complete overhaul of the Truth-in-Lending law, which remains unduly complex and unmanageable.

10) We favor a reexamination of the Community Reinvestment Act, with particular emphasis on adoption of a small-bank exemption.

11) We oppose the provisions further limiting the insurance activities of bank holding companies.

12) We believe the proposal to consolidate the deposit insurance funds has considerable merit, but would prefer to deal with the question at a later date, perhaps early next year.

We will be extremely pleased if Congress is able to adopt a comprehensive bill along lines suggested above before it adjourns this fall. If this cannot be accomplished, we strongly urge that, at the very least, the provisions of the "Regulators' Bill" be adopted. Needless to say, our staff stands ready to assist the Committee in every possible way.

Our more detailed comments follow:

Title I, Parts D & E: Extraordinary Authority Relating to Thrifts and Banks

Part E of Title I contains provisions of the "Regulators' Bill" that I cited earlier, which would give the FDIC expanded authority in two significant areas. First, we are asking for additional flexibility in our authority to provide direct financial assistance to failing institutions. Second, we are asking for limited authority to arrange interstate takeovers of very large failed institutions.

We also request that an additional section 166 be added to Part E of Title I as follows:

Authority of FDIC to Borrow

Section 166 - Section 14 of the Federal Deposit Insurance Act (12 U.S.C. 1824) is amended as follows:

(1) in the fourth sentence by striking out the words "and repayments under this section" and inserting in lieu thereof the following: "from and repayments to the Treasury";

(2) by adding after the last sentence the following: "This section shall not disable the Corporation from borrowing from any Federal Reserve Bank on such terms as may be fixed by the Board of Directors of the Corporation and the Board of Governors of the Federal Reserve System."

Our current statute restricts the FDIC's borrowing authority to the U.S. Treasury. We believe our ability to deal flexibly and expeditiously with a situation of major proportions would be enhanced by the capacity to borrow from the Federal Reserve.

Sections 153 & 163 - Indemnification

With one exception we fully support enactment of the extraordinary authority provisions of this bill relating to both thrifts and banks. We take exception to sections 153 (Part D) and 163 (Part E) that provide for indemnification of the FSLIC by the FDIC for losses incurred through failures of converted savings banks for an unlimited period. We feel strongly that a time limit must be placed on this liability. We have advocated a phased-down liability terminating entirely after five years. It should be remembered that in the event of a failure and conversion, the FDIC assumes the known "bad" assets at the front end so that the resulting institution should be basically sound. It is unreasonable and unacceptable for FDIC to continue to have unlimited liability, without supervisory or liquidation authority for the successor entity.

Title I, Parts A & B: Financial Institutions Restructuring and Services Act of 1981

Parts A and B of Title I are essentially the "Pratt Bill," which would provide expanded asset powers for savings and loan associations and broadened authority to the Federal Home Loan Bank Board. We support these portions of Title I. However, we are compelled to note that their enactment could place banks at somewhat of a competitive disadvantage. Savings and loan holding companies enjoy greater flexibility to engage in non-financial activities than bank holding companies. This disparity will become of more concern as savings and loan asset powers are broadened. Savings and loans also enjoy more liberal branching privileges, an interest rate differential, and some tax concessions that are not available to banks. We urge Congress to consider the potential adverse impact these advantages pose for commercial banks.

Title III: Securities Activities

Section 301 would authorize commercial banks to underwrite municipal revenue bonds. Banks historically have underwritten general obligation bonds, and we believe there is no greater risk involved in their underwriting municipal revenue bonds so long as they are "investment quality." Basically, we see no reason for banks not to deal in revenue bonds on the same basis and subject to the same limitations that apply to dealing in general obligation bonds.

We support a limitation such as that set forth in Section 301 -- i.e., ten percent of capital and surplus. However, we believe it would be preferable simply to authorize the regulators to adopt rules governing these matters rather than to make them a part of the law. Congress must decide whether commercial banks should be permitted to underwrite municipal revenue bonds, but allowing regulators to prescribe the rules by which banks engage in the activity would afford valuable flexibility.

Section 302 would authorize a bank, a bank holding company or a subsidiary thereof, a savings and loan association, a savings bank, or a credit union to organize, sponsor, operate, control or render investment advice to investment companies or to underwrite, distribute, sell or issue securities of any investment companies. This represents a departure from some long-standing domestic principles regarding the separation of commercial and investment banking embodied in the Glass-Steagall Act.

We favor granting this authority for insured banks subject to some basic safeguards. On one hand, as deposit insurers we must be concerned about our insured institutions' involvement in new activities. New activities can involve hazards that may increase risks to depositors by undermining the strength of institutions. On the other hand, we realize that depository institutions are facing increasingly intense competitive pressures from relatively unregulated financial intermediaries. We therefore recommend that depository institutions be granted the authorities proposed in Section 302, with the following modifications.

We propose that banks acting solely in an agency or selling capacity be permitted to do so under the parameters now contained in the bill -- that is when their officers and employees meet regulatory standards with respect to training, experience, and sales practice. Institutions that wish to sponsor, operate, control, or render investment advice to investment companies would be required to receive the approval of the appropriate regulator prior to commencing such an activity. This is the procedure under which banks currently are permitted to offer trust services, which we believe parallel in many ways the operation of an investment company. This approach will afford all institutions at least some ability to offer attractive investment services to their customers, while ensuring that institutions will have the requisite capacity to do so and will maintain a prudent separation between the sponsoring institution and its fund.

In light of current pressures on thrift institutions and in order to allow sufficient time for smaller firms to prepare properly to offer these new services, we suggest Section 302 be adopted with a delayed effective date, perhaps one year.

Title I, Part C - Title IV: Preemption of Due-on-Sale Prohibitions; Credit Deregulation and Availability Act

We favor the preemption of due-on-sale prohibitions so long as all mortgage lenders are affected equally. We foresee that in this changing economic environment mortgage money may be offered by individuals and others not traditionally associated with the mortgage market. To maximize the availability of mortgage money from these sources the preemption should be all inclusive.

We are very sympathetic to the provisions of Title IV, the "Credit Deregulation and Availability Act." We do not believe that usury ceilings serve consumers well, particularly at a time when deposit interest rate ceilings are being deregulated. Usury ceilings, under these circumstances, tend to curtail flows of credit to smaller and higher-risk borrowers. Although the FDIC has always been and continues to be sensitive to the tradition of allowing the states to regulate in this area, Congress might find that the pressures on depository institutions caused by federal deregulation of deposit interest rate ceilings justify the need for a federal override of usury ceilings.

Title II, Part A: Provisions Relating to National and Member Banks

The basic thrust of this portion of the bill is to liberalize certain provisions of the National Banking Act, the Federal Reserve Act and the Depository Institutions Deregulation and Monetary Control Act. While we agree with most sections, there are several sections to which we are opposed or would suggest amendments:

Section 201 - Lending Limits for National Banks

This section raises the statutory lending limit for a single borrower from 10% to 15% of a national bank's unimpaired capital and surplus. We had understood a year or two ago that this proposal would be made in connection with eliminating subordinated debt from the capital structure of national banks. We would have favored the proposal in this context. However, a 15% limit which includes subordinated debt as part of the capital structure could in reality result in a 22.5% limit based on equity.

The rationale for this modification is to eliminate an apparent competitive disadvantage of national banks vis-à-vis their state bank counterparts, as lending limits in some jurisdictions are higher than provided in 12 U.S.C. § 84. In considering this issue, we note that 16 states currently have a comparable 10% limit for unsecured loans. The other 34 states provide for higher nominal limits but a number of jurisdictions exclude undivided profits, reserve for bad debts and subordinated debt from the lending limit base.

In our opinion, the current limitation has served our national banking system well in insuring adequate credit risk diversification. We are particularly concerned that a change in 12 U.S.C. § 84 may simply precipitate an increase in limits by state jurisdictions and potentially result in widespread credit concentrations. Absent compelling evidence that the need for this modification outweighs the possible risk resulting from credit concentrations, particularly as we deregulate interest rates, we oppose this portion of the bill.

Since lending limits are most binding in smaller institutions, perhaps an acceptable alternative might be to allow a higher percentage limit in a smaller bank which is phased down to 10% as the bank grows in size. Another alternative, which we could support, would be to set the limit in all national banks at the lesser of 15% of capital excluding subordinated debt or 10% of capital including subordinated debt.

Section 206 - Venue Provision

This section amends 12 U.S.C. § 94 to retain the existing venue provision only for suits against a national bank for which the FDIC has been appointed receiver. We submit the following technical change to this section to ensure that this provision is limited to claims filed after the FDIC is appointed receiver, and that it would not apply to suits filed prior to that time.

"SEC. 5198. Any action or proceeding based on a claim against the Federal Deposit Insurance Corporation as receiver of a national banking association shall be brought in the district or territorial court of the United States in which such association had its principal place of business, or, in the event any State, county or municipal court has jurisdiction over such an action or proceeding, in the city or county in which that association had its principal place of business."

Section 209 - Bankers' Acceptances

This section increases the aggregate limitation on eligible acceptances to 200% of capital stock and surplus of a member bank (300% with the permission of the Federal Reserve Board) and excludes from the limitation secured acceptances, those acceptances arising from the international shipment of goods where another bank or Edge or Agreement Corporation is liable for reimbursement or those acceptances participated to another bank or Edge or Agreement Corporation.

It is recognized that the current limitations on eligible acceptances are overly restrictive; however, we believe the increase in the limitations proposed in this section is too large, particularly since certain types of acceptance transactions are excluded. As such, we concur with the position of the Federal Reserve Board which calls for an increase in the limitations to 150% of unimpaired capital and surplus and, with Board permission, 200% of capital and surplus. These limitations should cover both secured and unsecured acceptance transactions. To ensure the continued confidence in the acceptance markets, we believe that it is important to allow the Board of Governors to prescribe certain standards including minimum capital requirements, general condition, and level of exposure to risk before allowing an institution to issue acceptances up to the maximum permissible amount. Finally, in the interest of competitive equity, all depository institutions as defined in the Monetary Control Act should be subject to the same rules as member banks.

Section 210 - Banking Affiliates

This section revises Section 23A of the Federal Reserve Act in several material respects. The section would remove existing limitations on transactions among banks that are 80% owned by the same bank or bank holding company. A protective feature governing the exchange of low-quality assets with these banks has been included, while existing limitations on loans to non-bank affiliates and the parent company have been retained albeit with some liberalization of eligible collateral. We also note that Section 210 would close potential loopholes in 23A involving purchases of assets from affiliates and transactions with bank subsidiaries. Finally, this section makes clear the necessity for all transactions to be made on substantially the same terms as those prevailing for transactions with nonaffiliated companies.

These modifications are based on a recognition that inherent structure of many holding companies is essentially a single entity and that unnecessary constraints in the statute ought to be eliminated. At the same time, loopholes that could result in potential abuse should be closed. While we generally support these modifications, we feel the easing of restrictions on transactions among 80%-owned banking affiliates should be accompanied by the long-sought authority to house the responsibility for supervision of the holding company with the primary regulator of the lead bank. We believe that the existing framework for supervision of holding companies, where supervision can be distributed across three federal supervisory authorities, is an inefficient means of scrutinizing transactions among highly integrated holding company groups. Absent this change, we would be reluctant to endorse this provision of Section 210.

Title II, Part B: Financial Institutions Regulatory Act Amendments

In general we support the provisions of Part B, with the following specific reservations:

Section 226 - We believe that loans to officers of subsidiaries of bank holding companies should continue to be subject to existing limitations.

Sections 231 and 232 - We recommend that these reporting requirements be eliminated rather than modified as explained below in our discussion of Titles VIII and IX.

The FDIC also proposes the following additional amendments to the Financial Institutions Regulatory Act (FIRA):

Title VIII of FIRA: Correspondent Accounts

1. We recommend extending the prohibitions on preferential loans by correspondent banks to include the interests of

executive officers, directors and principal shareholders. We believe there is a clear potential for abuse in this area and that this amendment would allow us to deal effectively with the practice.

2. We recommend extending the preferential lending prohibitions to mutual savings banks. The definition of a bank for the purposes of Title VIII covers institutions that accept deposits and make commercial loans. As a result, many mutual savings banks are excluded from coverage. Since all other banking institutions are covered, we recommend extending the prohibitions to include mutual savings banks.

3. We recommend elimination of the Title VIII reporting requirement because the costs of preparing the reports are not justified by their benefits. We believe that instances of abuse can be better identified through the examination process.

Title IX of FIRA: Disclosure of Material Facts

We recommend elimination of this reporting requirement on the grounds that the burden it imposes on the banking industry is not justified by the benefits for supervisory and public disclosure purposes. Review of insider loans is a routine practice at all examinations and the report is not considered necessary to accomplish this task.

Title X of FIRA: Federal Financial Institutions Examination Council (FFIEC)

We recommend that the FFIEC be abolished and that it be replaced by an informal interagency coordinating committee.

The Council's purpose is to prescribe uniform principles and standards for the federal examination of financial institutions thereby promoting examination consistency. Although some limited success has been achieved, on balance we do not believe the Council has operated effectively. It has consumed enormous staff resources from the respective agencies and has probably had a negative effect on interagency relationships. We believe that voluntary interagency coordination would be more effective and efficient.

As we have made clear elsewhere, we believe it is time for Congress to consider restructuring the federal financial institution agencies, and we stand ready to assist in that effort. Our recommendation that the FFIEC be abolished, however, is not dependent on agency reorganization.

Title XI of FIRA: Right to Financial Privacy

We recommend elimination of the restriction on exchange of examination reports among the federal financial institutions regulatory agencies. The current restriction -- which limits exchange of reports to those supervisory authorities that have the authority to examine the institution -- has impeded the free flow of examination information among the five agencies to the detriment of effective supervision. The current restriction can adversely affect our supervisory efforts by limiting the flow of information that is useful for judgmental decisions. It can also create an administrative burden to the extent that customer information must be deleted from examination reports. Given the customary confidential treatment accorded to examination reports, this restriction is considered unnecessary.

Title VII: Miscellaneous

Section 701 would increase the insurance on IRA and Keogh accounts from the present $100,000 to $250,000. We oppose this increase at this time.

Our oppostion at this time is not based upon any fears that such an increase would pose any undue burden on the insurance fund. At the end of 1980, IRA and Keogh accounts represented less than one percent of all insured deposits.

Our objection is based on the fact that we are trying to deregulate our institutions to the maximum extent consistent with safety and soundness. In so doing, we feel it is of the utmost importance that there be a fair degree of market discipline imposed on depository institutions. We are currently engaged in a variety of studies relating to risk-related insurance premiums, co-insurance of larger accounts, and related matters. Our objective is to find ways, if possible, to induce public confidence in our institutions based on the management policies they pursue instead of asking the public to rely completely on the deposit insurance system. We would like an opportunity to complete these studies and make recommendations to you before being subjected to another quantum increase in deposit insurance coverage, albeit for a small percentage of the deposits insured.

Section 702 - International Banking Facilities

The Corporation favors enactment of this provision, which would exempt deposits in International Banking Facilities (IBFs) from FDIC assessments and insurance coverage, with two qualifying comments.

First, certain technical amendments are necessary to make clear that the FDIC, as the insuring agency, is the proper party to determine which obligations should be insured obligations. The amendments also would also authorize the Corporation to issue regulations requiring insured banks to identify to the public any of their uninsured obligations, including IBF obligations, that may cause confusion to the public with respect to their insured status. The proposed amendments are attached.

Second, we believe that the current statutory framework for assessing deposits of insured banks deserves a comprehensive review by the Congress at an early date. For this reason, this section should be adopted with a sunset provision not to exceed two years from the date of enactment. Our reasons for requesting this sunset provision are set forth in recent letters to the Chairman and Senator D'Amato (copy attached).

Sections 703 - 706 - Truth-in-Lending Act Revisions

These sections deal with the Truth-in-Lending Act, as amended. Although we do not oppose these amendments, we would urge the Committee to commit itself at the earliest possible date to a major overhaul of the Truth-in-Lending law with the goal of substantial simplification. The law, despite last year's simplification efforts, continues to pose nearly insurmountable problems for bankers and regulators alike. The law continues to be overly complex in many respects and enforcement remedies are inflexible, leading to illogical and inefficient solutions to problems. We stand ready to assist the Congress in this major undertaking.

We also urge the Congress to reexamine the Community Reinvestment Act with particular emphasis on drafting a small bank exemption. The Act derived from charges that the credit needs of certain urban areas were not being served by local institutions. In our view, the Act has had some utility in urban areas by encouraging financial institutions to better serve the banking public. Unfortunately, the Act was broadly drawn to cover all geographic areas; hence the burden of complying with the statute was thrust upon all financial institutions absent clear evidence that a pervasive nationwide problem existed. Our experience with the administration of the Act strongly suggests that universal coverage of institutions is unnecessary and imposes a cost burden that is not justified by the benefits accruing to the public at large.

Title VI: Property, Casualty, Life Insurance Activities of Bank Holding Companies

Title VI would amend Section 4(c)(8) of the Bank Holding Company Act to restrict insurance activities of bank holding companies and their subsidiaries. This proposal came before the Congress when the Bank Holding Company Act amendments of 1970 were considered. At that time Congress adopted Section 4(c)(8) in its present form -- that is without a specific list of prohibited activities -- and gave the Federal Reserve the authority to decide which activities are a proper incident to banking and, in specific instances, to decide whether the public interest is best served by permitting certain activities. It is our judgment that ten years of experience demonstrate conclusively that the Federal Reserve has exercised this authority with commendable responsibility. Accordingly, there is no need for this proposed restriction.

It is worth noting that competition in the provision of financial services is changing rapidly and has changed substantially since this legislative proposal was first introduced. Since the basic thrust of most titles of this bill is to deregulate, it is inconsistent to consider imposing further restraints on bank holding companies' already limited insurance authorities. This is particularly true given the aggressive marketing of bank-like services on a nationwide basis by two major insurance companies.

For these reasons we oppose the enactment of Title VI. We believe both the public interest and the financial system are best served by its deletion from this bill.

S. 1721: To combine the insurance funds of the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation and the National Credit Union Share Insurance Fund, and for other purposes.

S. 1721 proposes to consolidate the insurance funds of the FDIC, the FSLIC, and the NCUSIF. We believe there is considerable merit to this proposal and hope that it will stimulate constructive discussion on the subject.

On the positive side, we think it is obvious that an insurance fund is strengthened by diversity of risk. Joining the funds spreads the risks both geographically and among diverse financial institutions.

It also is obvious that joining the FDIC fund with those of the FSLIC and the NCUSIF would substantially increase the resources available to the two latter organizations. Some view this postively; others do not. Viewed in terms of the national interest, we consider it a positive factor.

Probably the biggest problem associated with this proposal is the question of what degree of supervisory authority should vest in the insurer and how much should be retained by the primary regulator. This is a significant question and one on which there are divergent views. Part of the answer lies in what new powers are granted by S. 1720 - or similar bills - to the different institutions and how those powers are utilized.

The advisability of combining the insurance funds and ultimately restructuring our regulatory agencies is likely to be influenced in part by what new powers are granted and how they are utilized. We believe it is appropriate to start thinking about these matters and we hope S. 1721 will stimulate that consideration.