PRESS RELEASE
Federal Deposit Insurance Corporation

Media Contact:
Robert M. Garsson (202-899-6993)

July 17, 1997

FDIC CHAIRMAN SUPPORTS FINANCIAL MODERNIZATION, BUT URGES CAUTION IN MIXING BANKING AND COMMERCE

FOR IMMEDIATE RELEASE

Chairman Andrew C. Hove, Jr. urged Congress today to remove the barriers that prevent affiliations between banks and other financial services providers, but warned legislators to go slow in eliminating the separation between banking and commerce.

"In light of the costs of bank failures for the institutions, for communities and for our economy, we urge lawmakers to exercise prudence in considering any financial modernization proposal, including H.R. 10," he said.

The legislation "goes farther than necessary at this time," he added. Companies that own banks should not be allowed to derive more than 5 percent of their revenue from nonfinancial activities, he added. The House bill now sets the test at 15 percent.

Testifying before the House Commerce Committee's subcommittee on Finance and Hazardous Materials, the FDIC chairman also said:

- The FDIC strongly supports provisions in the legislation that would merge the two insurance funds that back bank and thrift deposits;

- Banking organizations ought to be able to choose the organizational structure - bank subsidiary or holding company affiliate - that best meets their business needs, provided safeguards are in place to protect the insured bank; and

Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

FDIC press releases and other information are available on the Internet at www.fdic.gov, by subscription electronically (go to www.fdic.gov/about/subscriptions/index.html) and may also be obtained through the FDIC's Public Information Center (877-275-3342 or 703-562-2200). PR-48-97

- Safeguards should be created to prohibit inappropriate transactions between insured institutions and their subsidiaries and affiliates.

"Modernization must occur if we are to achieve an efficient and competitive financial services industry that is capable of meeting the needs of a growing and changing economy," Chairman Hove said.

However, he urged caution.

"The FDIC witnessed how the ill-conceived and badly-executed deregulatory program for the savings and loan industry significantly contributed to the crisis in that industry and the bankruptcy of its previous insurance fund, which was not managed by the FDIC," he said.

Last Updated 07/14/1999