

**Oral Statement
Of
Andrew C. Hove, Jr.
Acting Chairman
Federal Deposit Insurance Corporation
Before the
Subcommittee on Finance and Hazardous Materials
Committee on Commerce
United States House of Representatives
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Mr. Chairman and members of the Subcommittee, I appreciate this opportunity to present the views of the Federal Deposit Insurance Corporation (FDIC) on efforts to modernize the nation's banking laws, in general, and on H.R. 10, the Financial Services Competition Act of 1997, in particular.

The FDIC insures deposits for up to \$100,000 at more than 11,300 commercial banks, savings institutions and U.S. branches of foreign banks. Insured deposits at these institutions total approximately \$2.7 trillion.

In addition, we also serve as the primary federal regulator for more than 6,300 state-charter institutions that are not members of the Federal Reserve System. By providing assurance to depositors that their insured funds are completely safe, the FDIC has contributed greatly to the stability and health of the banking industry and to the larger financial services industry.

Over three generations, the FDIC has provided tens of millions of Americans with one of the few certainties in an uncertain financial marketplace.

As deposit insurer, we also pay the bill when things go wrong in our banking system. Events of the past decade have demonstrated how costly bank and thrift failures can be. We spent approximately \$36.4 billion to resolve failing banks from 1980 through 1994.

And the General Accounting Office has estimated that, from 1986 through 1995, it cost the thrift industry and the taxpayers \$160 billion to resolve failing thrifts.

Moreover, 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.

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

At the same time, we know that 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.

Modernizing the financial system promises to benefit not just banks but also other financial businesses, such as insurance companies and securities firms. As important, consumers should benefit from a wider array of products, services, and providers. We, therefore, strongly support the principle of modernization, while urging cautious deliberation on how we proceed toward achieving it.

My written testimony today summarizes principles that should govern any financial modernization legislation.

It also addresses several key issues raised by financial modernization proposals and H.R. 10. These are: the extent to which banking and commerce should be allowed to mix; the proper role of the proposed National Council on Financial Services, if Congress decides to create one; customer protection; and capital requirements. I will submit that detailed testimony for the record and I will briefly discuss two practical considerations in the time I have remaining.

One, with respect to removing barriers between banking and commerce, H.R. 10 goes farther than necessary at this time. The bill takes two approaches, a basket approach and a reverse basket approach. The basket approach would allow qualifying bank holding companies (QBHCs) to wholly own commercial firms as long as the commercial firm's revenues do not exceed 15 percent of the QBHC's gross domestic revenue.

Based on the desire to exercise caution, we favor a smaller basket initially -- a five percent standard. As my written testimony discusses in detail, this five percent standard would permit most major securities and insurance companies to affiliate with banks in QBHCs without divesting nonfinancial or commercial activities. At the same time, it would as a first step allow the regulators and banking organizations time to gain experience with a new environment.

A reverse basket is also consistent with this prudent and deliberative approach if -- as in H.R. 10 -- the commercial firms are initially limited to acquisitions of a single bank with under \$500 million in assets, and if the reverse basket is initially limited to five percent of revenues.

Two, while we support the general concept of functional regulation, banking organizations must continue to be supervised for safety and soundness purposes as entities -- just as they are managed as entities -- to prevent problems from slipping through the cracks between jurisdictions.

We need to regulate banking organizations as entities so that we can apply the tools Congress has given us to assure safety and soundness, such as enforcement actions,

wherever there is a problem. And we need to regulate banking organizations as entities so that we can create safeguards prohibiting inappropriate transactions between insured institutions and their subsidiaries and affiliates.

Mr. Chairman and members of the Subcommittee, eliminating the current restrictions on financial activities would strengthen banking and other financial organizations by helping them diversify their income sources, and would promote the efficient, competitive evolution of the financial markets in the United States. I hope my comments today prove helpful as you continue to examine the bill and consider the many difficult issues that modernization raises. The FDIC is ready to assist the Subcommittee. I look forward to your questions.

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