THE WHITE HOUSE

Office of the Press Secretary

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Garn-St. Germain Depository Institutions Act of 1982 (H.R. 6267)

FACT SHEET

SUMMARY

The President today signed the Garn-St. Germain Depository Institutions Act of 1982. This bill is the most important piece of financial legislation to be passed by the Congress in fifty years. The landmark legislation is the result of extensive deliberations among the Executive Branch, the Congress, the Federal financial regulators, and the financial community. The bill is deregulatory in both spirit and substance. It provides the means by which depository institutions -- commercial banks, savings and loan associations, mutual savings banks, and credit unions -- can compete effectively in the financial community in the highly competitive, less regulated environment of the future. In particular, due to the severity of financial problems now facing the thrift industry, the major provisions of the bill contain short-term and long-range remedies to ensure the lasting viability of this vital segment of our financial community.

BACKGROUND

The legislation is the culmination of almost two decades of public debate, and Executive Branch and Congressional study of the deregulation of the nation's financial system. The first major step in that process was legislation provided in the 96th Congress which phased out restraints on the amount of interest depository institutions could pay to their customers. That legislation also provided some authority for banks and thrift institutions to operate with more flexibility on the asset side of their balance sheets. H.R. 6267 is a further step in the process of deregulation.

Extensive hearings held by the House and Senate Banking Committees during this Congress provided convincing evidence of the need for greater flexibility in our regulated financial framework. Specifically, the hearings demonstrated that: (1) we must provide the thrift and bank insurance agencies with better tools to handle the problems so clearly evident in our financial system today; (2) we must provide banks and thrifts with a deposit instrument that will allow them to compete with unregulated financial institutions by offering consumers -- the small savers -- a further opportunity

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to secure a market rate on their deposits; and (3) depository institutions must have more flexibility to generate earnings on the asset side of their balance sheets to be able to pay the higher cost of their deposits.

THE GARN-ST. GERMAIN DEPOSITORY INSTITUTIONS AMENDMENTS OF 1982

The President's three-point program to aid the thrift industry comprises the key provisions of H.R. 6267. In addition, provisions that provide banks and credit unions with additional flexibility are included in the legislation.

The three elements of the President's program are:

(1) Expansion of Thrift Institution Asset and Liability Powers. The legislation provides the thrift industry with expanded lending and investment powers, which give the industry greater flexibility to restructure and operate profitably. These new powers are critical if the industry is to avoid a repetition of the kinds of financial problems that they are currently experiencing. In addition, the bill directs the Depository Institutions Deregulation Committee (DIDC) to offer a new deposit account within sixty days of enactment of the bill that will allow all depository institutions to compete directly with money market funds.

(2) Net Worth Assistance. The legislation establishes a three-year program whereby the Federal Deposit Insurance Corporation (FDIC) and the Federal Savings and Loan Insurance Corporation (FSLIC) may purchase "net worth certificates" from troubled depository institutions in exchange for promissory notes according to a prescribed formula that covers a partial portion of losses. The certificates would be considered capital and for that reason would increase the net worth of the affected institutions. This assistance will not require budget outlays, however, unless an institution defaults. This provision is intended to provide thrift institutions that are otherwise well managed with a way to improve their net worth positions until the temporary losses caused by inflation, high interest rates, and over-regulation can be brought under control.

(3) Deposit Insurance Agency Flexibility. This provision broadens the powers of the FDIC and the FSLIC to assist troubled depository institutions, including authority to arrange for interstate and interindustry acquisitions. Priority is given to in-state mergers with the same type of institution. The powers of the National Credit Union

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Administration (NCUA) are also expanded to enable them to merge and assist troubled credit unions. Taken together, these provisions will afford the various regulatory agencies substantial flexibility in arranging the mergers of troubled or failing institutions, with less cost to Federal insurance funds.

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