TREASURY NEWS

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SECRETARY NICHOLAS F. BRADY
REMARKS TO THE PRESS
FINANCIAL SERVICES REFORM
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One of the key goals of the Treasury is to ensure that we have a strong economy in order to maintain and improve the standard of living for all Americans, and also so we can compete effectively in an increasingly global economy. So the issue today is not banking reform per se, but rather a significant step in achieving this more fundamental objective.

Today, our banking system is under stress. Technology is changing the way financial institutions do business, but our banks are hampered by out-of-date laws. The laws that govern financial services should deal with the real world in which banks and other financial institutions must operate.

American families look to banks, thrifts and credit unions to finance homes and cars and to save for their children's education and their own retirement. American businesses look to these same institutions for funds to expand and create jobs. And a strong, internationally competitive U.S. financial system is essential to a strong, growing economy.

This chart shows that the major laws governing banking in this country date back to the thirties and forties. Yet the seventies and eighties have produced stunning technological changes and other innovations that have changed the face of the financial system.

Bank credit cards, ATM cards and the 800 number allow people to access banking services across state lines and around the world, but banks themselves are constrained by outmoded rules. Bank competitors can offer innovations, such as money market funds and commercial paper, that put banks at a competitive disadvantage at home and abroad.

Today, as this chart shows, only one of the 30 largest banks in the world is American. Just 20 years ago, the three largest and nine of the top 30 banks were American.

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We must modernize our banking laws to deal with the reality of the marketplace, not just for the banks, but for the country. A weak banking system hurts the economy, particularly during difficult economic times. Weak banks are forced to pull back just when their good customers need them most. When loans stop at the first sign of an economic downturn, jobs are lost. Businesses must be able to count on banks in bad times as well as good.

There can be no doubt that fundamental reform is needed. The banking system is safe, but it is not as efficient and competitive as it ought to be. If we expect to exert world economic leadership in the 21st century, we must have a modern, world-class financial services system in the U.S.

First, the Administration's plan will preserve basic deposit insurance protection for every small saver in America. There will always be a safe place for Americans to invest for the future. But the plan will limit taxpayer exposure to possible losses by reducing the overexpansion of deposit insurance.

Originally intended to protect small depositors who could not protect themselves, deposit insurance has expanded to cover large, sophisticated investors who are able to evaluate investments and protect themselves.

This chart shows the growth of insured deposits and therefore increasing exposure of the insurance fund to possible losses. One bank recently advertised that a family of three could receive $1.2 million of insured deposits in one institution by using their system of multiple accounts.

To address this, the Administration's plan will prevent multiple accounts in a single institution. It will end pass-through coverage for institutional investors. It will eliminate brokered deposits which are used by weak banks to avoid a marketplace test in raising funds from depositors. And it will limit protection of uninsured depositors to genuine cases of systemic risk.

Second, the plan will make banks stronger and safer by strengthening the role of capital -- not by raising capital standards, but with a plan to attract capital to the banking industry. This will discourage excessive risk-taking, reduce the possibility of bank failure, and provide a cushion to absorb losses ahead of the insurance fund.

Improved and more frequent supervision will be based on capital levels, with rewards for well-capitalized banks and prompt corrective action when capital falls below minimum levels. And risk-based deposit insurance premiums will be phased in as a further incentive to build capital.

Well-capitalized banks are better able to keep lending during economic declines, and they are better able to meet competitive challenges and take advantage of new opportunities.

Third, the Administration's plan will make banks more competitive by modernizing outdated laws like the one that restricts interstate banking and branching. A California bank can open a branch in Birmingham, England, but not in Birmingham, Alabama. And after 1992, English and German banks will be able to move freely back and forth within the European Community. But American banks can't even branch across state lines.

This map shows that 33 states now permit interstate banking -- meaning a bank holding company from out-of-state can own a bank through a subsidiary in these states. Another 13 states permit regional banking. Only four states totally prohibit interstate banking.

So the trend in the states is clearly to permit interstate banking. It has become a question not of whether, but of how. The plan will permit interstate banking and branching because there are substantial cost savings and efficiencies that will benefit taxpayers, consumers and depositors.

Similarly, laws must be changed to permit banks to reclaim the profit opportunities they have lost to changing markets. The plan will allow banks to affiliate, on a two-way street basis, with a broad range of financial firms through the formation of financial services holding companies.

To protect the deposit insurance fund and the taxpayer, only companies that own well-capitalized banks will be permitted to engage in new financial activities. In addition, only the bank will have access to deposit insurance, strict regulation will be focused on the bank, and the new financial activities will be in separately capitalized affiliates with no access to the federal safety net.

Fourth, the plan will strengthen the banking system by making the regulatory structure more efficient. The current regulatory structure is complicated, overlapping and confusing. Individual institutions often are supervised by several regulators, and are governed by conflicting regulations. And bank holding companies rarely have the same regulator as their subsidiary banks.

The current four-regulator structure will be simplified to two, with the same regulator responsible for a bank holding company and its subsidiary bank. The Federal Reserve will supervise all state-chartered banks and their holding companies. The Comptroller of the Currency and the Office of Thrift Supervision will be combined under Treasury and will supervise all national banks and all thrifts and their holding companies.

Finally, the Treasury report includes principles which should govern the FDIC's efforts to recapitalize the Bank Insurance Fund. The FDIC is working with the industry on a plan under the authority given to FDIC in the FDIC Assessment Rate Act of 1990.

All in all, these changes and reforms are essential to the future. They will address the reality of the modern financial marketplace and create a U.S. banking and financial system that is internationally competitive, that will protect depositors and taxpayers, serve consumers, and strengthen the economy.

Now, I'll be glad to take your questions.

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