



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

File:
Banking

SECRETARY OF THE TREASURY

February 23, 1994

MEMORANDUM FOR THE PRESIDENT

FROM: Lloyd Bentsen *LMB*

SUBJECT: Bank Regulatory Consolidation--Federal Reserve Role

Next Tuesday, I will be testifying at the Senate Banking Committee regarding the Administration's proposal to consolidate the banking regulators. At the hearing I will present more details on the plan that we have proposed in response to a request from Senators Riegle and D'Amato, and Congressman Gonzalez, in a letter to you. Frank Newman and Gene Ludwig are developing the plan in conjunction with an interagency group, including NEC, OMB, CEA, and NPR. The team agrees that the Administration's proposal is sensible, good public policy for an area that is currently confusing to the public, and economically inefficient. There is also broad public agreement that the current system needs to be fixed, although there are differing views on how to fix it.

As you know, the Federal Reserve has expressed considerable concern--more than they had led us to expect--about the potential loss of supervisory authority for the Fed. And, the Fed has publicly proposed an approach that would actually expand their overall authority. All along, our proposal has envisioned a continuing role for the Fed, especially in the major banks, in cooperation with the new Federal Banking Commission. We do want to be responsive to the Fed's concerns, and Frank and Gene have been working with Alan Greenspan, trying to reach a compromise on these issues. Although progress has been made, there are still significant differences to resolve. (One important matter deals with our belief that there should be uniform enforcement, especially on Fair Lending and the Community Reinvestment Act, without permitting banks to avoid compliance by switching to a different federal regulator).

Alan knows that we would like to reach a compromise with the Fed, but he and his colleagues do not yet seem prepared to meet us halfway. Frank, Gene, and I also met with a number of Senators on the banking committee, and I believe that the Senators are prepared to help promote a balanced agreement.