Statement of Senator William Proxmire

Introduction of the Competitive Equality in Banking Act

February 17, 1987

Thank you for coming to this press conference. Today I am proposing an important banking bill for the consideration of the Senate Banking Committee when it meets next week on February 25. I am calling it the Competitive Equality in Banking Act because that is its principal objective.

The bill will have six titles:

(1) It will close the non-bank bank loophole with a grandfather date of July 1, 1983. Cross-marketing and other restrictions would be placed on non-bank banks that are grandfathered;

(2) It authorizes four new securities powers for bank holding companies -- underwriting municipal revenue bonds, mortgage backed securities, commercial paper and mutual funds;

(3) It recapitalizes the FSLIC by authorizing the borrowing of up to $7.5 billion through the financing plan proposed by the U.S. Treasury. Additional amounts would require subsequent Congressional authorization;

(4) It allows federal bank regulators to arrange the sale of failing banks to out-of-state banks if the failing bank is less than $500 million in assets. The concurrence of State banking authorities would have to be obtained;

(5) It strengthens the regulation of credit unions and streamlines their operations; and

(6) It requires the Federal Reserve Board to regulate consumer check-holds as outlined in legislation proposed by Senator Dodd and others.

While this is an ambitious package, all of the items in my proposal have already passed the Senate in one form or another over the last four years. Many have passed the House as well. It is time for the Congress to clear the decks of these unresolved issues so that we can begin examining other issues of great importance to our financial system. For example, it has been suggested that we need to reassess the underlying premises of the Glass-Steagall Act in the light of today's rapidly changing financial environment. Members of the House and Senate have proposed a major overhaul of the Bank Holding Company Act in the form of a Financial Services Holding Company Act. Most recently, Gerald Corrigan, the President of the Federal Reserve Bank of New York has outlined a comprehensive restructuring of the legal framework underlying our financial system.

These are all issues the Committee will examine once we get the non-bank bank loophole issue behind us. But before we can begin this critical re-examination, we must shore up our present legal foundation. The Congress will be in no position to reshape our financial system to serve the public if major decisions are being made every day by the loophole lawyers and their allies in the bank regulatory agencies.

Today, the Congress stands at the cross-roads of financial change. While the issue of non-bank banks may seem arcane and of interest only to bank attorneys, its resolution will have a far reaching impact on our economy and business system.

Essentially, the issue is “who can own a bank?” For over three centuries, the keystone of our banking system has been the separation of banking and commerce. We have enforced this separation for two major reasons: safety and fairness.

We want banks to be safe since they are the custodians of our savings. We enforce safety by limiting the activities of banks and who can run them.

We also want banks to be fair in they way they allocate credit. We insure fairness by requiring that banks be independent of other corporate or industrial enterprises.

Both of these principles are threatened by the non-bank bank loophole. If the Congress fails to close the non-bank bank loophole a radical and irreversible change will occur in our financial system -- change not brought about by deliberate design but by happenstance.

The time for Congressional decision has arrived. If we cannot resolve the limited issues that have dominated our agenda over the last few years, we never will be able to tackle the broader issues involved in the changing character of our financial system.