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MODERNIZING THE FINANCIAL SYSTEM: RECOMMENDATIONS FOR SAFER, MORE COMPETITIVE BANKS

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FACT SHEET

The Need for Reform

It is time to modernize our financial system to make banks safer and more competitive:

- We must modernize our banking system, updating outmoded laws that date back to the 1930s.
- Banks must be sound to protect depositors and taxpayers.
- A strong, internationally competitive banking system is essential to a strong, growing economy.

The Banking System is Under Stress

- Technology has revolutionized the way financial institutions do business, but our banks are hampered by out-of-date rules.
- Weak banks shrink lending when the economy slows, hurting businesses and costing jobs.
- Our banks are falling behind international competitors: Only one of the 30 largest banks in the world is American, compared to nine of 30, including the top three, just 20 years ago.

The Benefits of Reform

A modern, safe and internationally competitive banking industry will protect depositors and taxpayers, serve consumers, benefit workers and businesses, and strengthen our nation.

Protect depositors and taxpayers:

Depositor confidence and taxpayer protection will result from:

-- A safe, competitive, well-capitalized banking system;

-- limitations on taxpayer exposure to losses from bank failures;

-- and a strong, well-capitalized insurance fund.

Serve consumers:

An efficient, integrated financial services system will mean:

-- Consumers will have access to a wider range of services at the least possible cost.

-- Consumers also will enjoy the convenience of nationwide access to services.

Benefit workers and businesses:

A healthy banking system with strong, competitive banks will ensure:

-- Jobs are preserved because loans are not called at the first sign of economic downturn.

-- Small businesses that lack access to securities markets can count on banks in bad times as well as good.

Strengthen the nation:

A world-class financial services system provides a foundation for a world-class economy:

-- International economic leadership in the 21st century will require an internationally competitive financial services system.

RECOMMENDATIONS

PART ONE: DEPOSIT INSURANCE AND BANKING REFORM

The Administration's deposit insurance recommendations go well beyond the narrow issue of deposit insurance and encompass the entire range of safety, soundness and competitiveness issues facing the banking system. They form a balanced, integrated package that must be considered as a whole. No single recommendation will be effective by itself, and indeed, could be counterproductive if adopted in isolation.

I. Strengthen the Role of Capital

The single most powerful tool to make banks safer is capital. Capital standards need not be raised, but the role of capital can be strengthened. This will discourage excessive risk-taking, reduce the possibility of bank failure, and provide a cushion to absorb losses ahead of the insurance fund and, ultimately, the taxpayer.

Well-capitalized banks are better able to keep lending, rather than shrinking loans to build capital ratios, during economic declines. And they are better able to meet competitive challenges and to take advantage of new opportunities.

Specific Recommendations:

Capital-based supervision, capital-based deposit insurance premiums and capital-based expanded activities (each described further in other sections of the report) will provide incentives for banks to build and maintain strong capital bases and make bank franchises more attractive. In addition, interest rate risk will be added to credit risk as a criterion for risk-based capital standards.

II. Reduce the Overextended Scope of Deposit Insurance

Deposit insurance, originally intended to protect small depositors who could not protect themselves, has been expanded so that large, sophisticated investors receive unneeded protection. This has increased the exposure of taxpayers to possible losses and decreased market discipline on risky banks.

By returning deposit insurance to its original purpose, we

The Principles Governing Reform

First, we will preserve deposit insurance for small savers while protecting taxpayers by reducing the overextended deposit insurance system. Deposit insurance, originally intended to protect small depositors who could not protect themselves, has been expanded so that large, sophisticated investors receive unneeded protection. This reform will restore market discipline over risky activities that have increased the possibility of taxpayer exposure to losses in the banking system.

Second, we 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 include rewarding well-capitalized banks with new activities that will attract still further capital, and taking prompt corrective action to address under-capitalized banks.

Third, we will make banks more competitive by modernizing outdated laws. Technological advances and other innovations in financial markets have put banks at a competitive disadvantage -- at home and abroad -- that has weakened the system and hurt the economy. Changes will allow banks to engage in a broader range of financial services and to operate nationwide.

Fourth, we will strengthen the banking system by making the regulatory structure more efficient. Currently, overlapping regulatory responsibilities lead to confusion and uneven results.

can reduce the possibility that taxpayer funds will be needed to cover depositor losses, while simultaneously reintroducing market discipline that will help curb excessive risk.

Specific Recommendations:

Insured deposits:

"Pass-through" coverage of many types will be eliminated, reducing government protection for large, sophisticated institutional investors.

Brokered insured deposits will be eliminated, ending a practice that has given banks access to large pools of below-market-rate funds that are deposited without concern on the part of the depositor about the safety of the investment.

Individual insurance coverage will be limited to $100,000 per institution after a two-year phase-in period, plus another $100,000 per institution for a retirement account. This change will reduce taxpayer exposure to losses from coverage for wealthier individuals with multiple accounts, including individual, joint and revocable trusts, in a single failed institution.

The FDIC will be required to undertake an 18-month study of the costs and benefits of moving toward a systemwide $100,000 per person insurance limitation. This would more effectively limit taxpayer exposure to losses resulting from coverage of multiple accounts, but should not be implemented until it can be shown that the benefits would outweigh the potentially large administrative costs.

Uninsured deposits:

The government must preserve its ability to protect the banking system and the economy in genuine systemic risk circumstances. But protection of uninsured deposits as a matter of course both expands taxpayer exposure and encourages excessive risk-taking by banks. To limit coverage of uninsured depositors, the FDIC will be permitted to cover uninsured deposits only if that would be the least costly approach. To protect the system in rare instances of systemic risk, the Treasury and Federal Reserve could step in and order that uninsured deposits be covered. This policy would be implemented after three years to allow for an appropriate transition.

Non-deposit creditors:

While protecting uninsured deposits should be the rare exception, coverage of non-deposit creditors should be eliminated.

III. Risk-Based Deposit Insurance

Flat-rate premiums subsidize high-risk, poorly run institutions at the expense of well-run institutions and the taxpayer. There is a perverse incentive to take risks because there is no cost to offset the upside potential.

Specific Recommendations:

First, in the short-term, premiums based on capital levels will reward institutions that build capital to act as a buffer ahead of the insurance fund. In the longer term, a demonstration project may lead to premiums set by private insurance.

IV. Improved Supervision

Even with deposit insurance limits, the insurance fund and the taxpayer remain exposed to possible bank losses. Effective bank supervision can help. Capital standards need not be increased. But because well-capitalized institutions are the safest, regulation should be reoriented towards a system of capital-based supervision that provides rewards and penalties that encourage banks to hold adequate capital.

The rewards of capital-based supervision would be much greater regulatory freedom for well-capitalized banks to expand and engage in new financial activities. The sanctions of capital-based supervision would involve "prompt corrective action" to address problems as capital levels decline, well in advance of insolvency.

Specific Recommendations:

Capital-based supervision would establish five zones for banks based on their capital levels. Those with capital in excess of minimum requirements will be eligible to engage in a broad range of new financial services. Those with less than minimum capital would be subject to increasingly stringent corrective action -- including dividend cuts or even forced sale of the bank -- aimed at preventing failure.

V. Restrictions on Risky Activities

State-chartered banks with federal deposit insurance may be authorized by charter to engage in risky activities that are precluded for national banks. It is important to protect federal taxpayers from such excessive risks while maintaining state regulatory responsibilities under the dual banking system.

Specific Recommendations:

Federal deposit insurance qualifications would prohibit direct investment activities by state banks and limit activities not permitted for national banks.

VI. Nationwide Banking and Branching

Nationwide banking and branching would lead to safer, more efficient and more competitive banks, decreasing taxpayer exposure to losses. The U.S. is the only major industrialized country without a truly national banking system. After 1992, members of the European Community will permit international banking throughout the EC. Not only do we put our banks at an international competitive disadvantage, but we also forego significant safety, efficiency and consumer benefits.

Already, 33 states permit nationwide banking and another 13 permit regional banking. Only four prohibit all interstate banking. So the trend is clearly toward interstate banking. Yet there is almost no authority for interstate branching. Given the cost savings and efficiency arguments for interstate branching, the advantages to consumers and taxpayers of interstate branching are clear.

Specific Recommendations:

Full nationwide banking will be authorized for bank holding companies following a three-year delay. Interstate branching will be authorized for national banks in any state in which the bank's holding company could acquire a bank. Thus, after the three-year delay, full nationwide branching will be permitted.

VII. Modernized Financial Services Regulation

Banks are no longer the protected and steadily profitable businesses they once were. Technological advances and innovations by competing financial services providers have ended their monopoly on transaction accounts and certain types of business credit. They no longer enjoy protected access to low-cost funds from interest rate controls. And old laws that once protected them from competition have become barriers that impede banks from responding to changing market conditions. The result has been declining profitability and increasing bank failures. The losers are not just banks, but also depositors, taxpayers and the overall strength of the economy.

Out-of-date laws must be adapted to permit well-capitalized banks to reclaim the competitive opportunities they have lost to changing markets. Banks with expertise in other financial services should be allowed to provide them for consumers, and other financial services companies with natural synergies with banking should be allowed to invest in banks. This will provide new sources of capital for the banking system and help promote safe, strong, well-capitalized banks.

The proposed changes will be accompanied by safeguards to prevent exposure of the federal deposit insurance fund to these new activities.

Specific Recommendations:

In order to strengthen the banking system, new rules will permit financial affiliates for well-capitalized banks. A new financial services holding company structure will permit a single company to own affiliates engaging in banking, securities, mutual funds and insurance. The new rules will allow commercial firms to own financial services holding companies.

To protect the deposit insurance fund and the taxpayer, only well-capitalized banks will be permitted to engage in new financial activities. 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.

VIII. Credit Union Reforms

The law required a study of adequacy of capital in the credit union industry and insurance fund and of the regulatory structure governing the credit union industry.

Specific Recommendations:

To ensure adequate capitalization of the credit union insurance fund, the double counting of fund assets will be eliminated over 12 years. To provide Administration accountability for credit union regulation, the federal banking regulator will serve on the National Credit Union Administration Board.

PART TWO -- REGULATORY RESTRUCTURING

The current regulatory structure is complicated, overlapping and confusing. Individual institutions often are supervised by several regulators, and bank holding companies rarely have the same regulator as their subsidiary banks.

A redesigned structure should reduce duplication and improve consistency, accountability and efficiency. It should also separate the insurer from the regulator.

Specific Recommendations:

The present four-regulator model (the Federal Reserve, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation and Office of Thrift Supervision) 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. *A new Federal Banking Agency under Treasury will supervise all national banks and their holding companies*. When a holding company owns both state-chartered and national banks, jurisdiction over the entire organization will go to the charterer of the largest subsidiary bank. *The Federal Banking Agency will take over OTS responsibilities on the date it completes assigning thrifts to the RTC*.

The FDIC will be focussed on insurance and resolution of failed institutions.

PART THREE -- RECAPITALIZATION OF THE BANK INSURANCE FUND

The Bank Insurance Fund (BIF) has experienced losses in each of the last three years due to increasing numbers of bank failures. FDIC projects additional losses over the next two years that, under the most pessimistic assumptions, could exhaust the fund's net worth. The FDIC must exercise the authority given to it in the FDIC Assessment Rate Act of 1990 to recapitalize the BIF fund in the near term. Because the FDIC has the authority and because industry participation is essential, a plan to recapitalize the fund ought to be worked out with the industry by the FDIC within the following parameters:

Goals of Recapitalization

1. *The plan should provide sufficient resources*.

2. *It should take into account any impact on the health of the banking system*.

3. *It should rely on industry funds*.

4. *It should use generally accepted accounting principles*.

EXECUTIVE SUMMARY

A sound, internationally competitive banking system is critical to the Nation's economic vitality and the financial well-being of our citizens. Banks provide a safe place for savers to keep their funds. Bank lending has been an important engine for economic growth. Federal deposit insurance and other parts of the "federal safety net" are designed to facilitate these crucial roles for banks.

But this federal safety net has been overextended, and taxpayers are now exposed to substantial losses through federal deposit insurance. We can and should place prudent limits on taxpayer exposure by returning the scope of deposit insurance to its historical purpose -- protecting small, unsophisticated savers. But this alone will not be enough.

In the end, the most effective way to minimize taxpayer exposure is through a strong, competitive, well-capitalized banking system. Deposit insurance reform must therefore bolster the safety and soundness of the U.S. banking system <u>and</u> enhance the competitiveness of the industry -- both aspects of reform are crucial.

<u>Four-Part Problem</u>. Reforms must address four interrelated parts of the current problem: (1) reduced bank <u>competitiveness</u> and financial strength, caused by outdated legal restrictions that have prevented banking organizations from responding to the evolution of financial markets and technology; (2) the <u>overextension of deposit insurance</u>, resulting in excessive exposure for taxpayers and weakened market discipline for banks; (3) a <u>fragmented regulatory system</u> that has created duplicative rules and has often failed to produce decisive remedial action; and (4) an <u>undercapitalized deposit insurance fund</u>.

First, the <u>competitiveness</u> of the banking industry has been undercut by our failure to adapt our banking laws to the evolution of financial markets, which has brought vigorous new competition to markets traditionally served by banks. Advances in technology and information processing, for example, have spurred innovative competitors to develop products that are sometimes superior substitutes for traditional bank products. Consumers have clearly benefitted. But archaic restrictions on both geographic location and financial activities have constrained banks' ability to follow evolving markets, serve customers, and compete effectively.

Having lost traditional customers to new competitors, banks have increased their concentration on remaining customer segments. Weaker banks with virtually unlimited access to federally guaranteed funds have chased too few good lending opportunities, which has created problems for healthier banks: underpriced loans, narrowed spreads, eroded underwriting standards, and incentives to reach for riskier loans within the range of traditional bank activities. The result is diminished profitability, which has undercut the safety and soundness of the banking system.

At the same time, our hamstrung banking organizations have become much less competitive internationally. Twenty years ago, we had eight banks among the top 25 in the world. Now we have none. As our foreign competitors are expanding all over the world, U.S. banks are steadily retreating from the international marketplace.

Second, deposit insurance coverage has expanded well beyond its original purpose of protecting small unsophisticated depositors. It now guarantees the deposits of wealthier individuals, corporations, and large institutional investors. This overextension of deposit insurance has dramatically increased taxpayer exposure.

Overextended deposit insurance has also removed market discipline that should have constrained the increased riskiness of weak banks. Depositors should have shifted funds away from unprofitable, undercapitalized, and risky banks, forcing them to shrink or decrease risk. But with expanded federal insurance and no risk of loss, depositors have been more than willing to supply funds to weaker banks engaged in activities that produce inadequate returns and excessive risk. With so little to lose, these weak, undercapitalized banks have had a perverse incentive to take excessive risk -- the "moral hazard" problem -- exposing the taxpayer to even greater losses.

Third, bank regulation and supervision helps provide a substitute for the market discipline removed by deposit insurance. But in the face of the problems discussed above, our fragmented and archaic regulatory system has not been successful in stemming the weakening of the banking industry. In recent years, banks have experienced record loan losses and failures that are rapidly depleting the deposit insurance fund. There has not always been a satisfactory regulatory mechanism for promptly correcting banking problems. Moreover, with as many as four banking regulators involved in the affairs of a single banking organization, no single regulator has had either the full information or the clear authority and responsibility for the decisive, timely action necessary to deal with weak institutions.

Fourth, the Bank Insurance Fund (BIF) is at its lowest level in history as a percentage of insured deposits. It is projected to decline still further over the next two years. Without an infusion of funds, the Federal Deposit Insurance Corporation (FDIC) could face the problems that plagued the Federal Savings and Loan Insurance Corporation -- too little cash, too many incentives for forbearance, and possible exposure for the taxpayer.

Four Fundamental Reforms. The Administration recommends four fundamental reforms to ensure a safer, more competitive banking system that will continue its role as an engine for productive investment and economic growth. First, to increase bank competitiveness, the proposal would authorize nationwide banking, new financial activities, and commercial ownership of banking organizations -- provided these new owners are willing to maintain well-capitalized banks that protect the taxpayer. Second, to reduce taxpayer exposure and address the loss of market discipline, the proposal would rein in the overexpanded scope of deposit insurance; improve supervision by strengthening the role of capital; and assess risk-based premiums. Third, our fragmented regulatory system would be streamlined. Finally, industry funds would recapitalize the BIF.

Restoring Competitiveness. Nationwide banking and branching will make banks safer through diversification and more efficient through substantially reduced operating costs. But banking organizations must also be allowed to use their expertise to participate in the full range of financial services -- but to do so outside the bank and outside the federal safety net. While appropriate safety and soundness limitations will be needed, the taxpayer can no longer afford the artificial restrictions that constrain a bank's ability to make maximum use of its resources and expertise in serving customers. At the same time, financial and commercial firms must be allowed to affiliate with banks to create a strong, diversified financial services system that can compete head-to-head with diversified financial firms around the world.

Reducing Overextended Insurance Coverage. Overextended insurance coverage must be reined in without reducing the basic protection for small depositors and without losing the benefits of economic stability. Narrowing coverage would reduce the exposure of the taxpayer and reintroduce an important level of market discipline by sophisticated depositors. This limited additional amount of direct market discipline would help deter banks from pursuing risky activities and would direct funds toward sound and profitable banks.

Additional market discipline by itself cannot resolve the problem, however, because deposit insurance will still protect -- and should protect -- a substantial part of each bank's funding base. It is therefore critical to strengthen the role of capital and improve supervision as strong supplements for market discipline. Capital is the single most important protection for the taxpayer. It reduces the incentive of a bank to take excessive risk and absorbs losses ahead of the deposit insurance fund. The proposal would improve supervision by creating a system of rewards and incentives for banks that build and maintain capital -- with prompt corrective action for those that do not. Moreover, permitting financial and commercial companies to own banks will both increase the value of the bank franchise and tap a vast new reservoir of capital for investment in banks.

Finally, assessing risk-based premiums would be another important supplement to direct market discipline. Premiums would vary according to levels of capital, because capital is a crucial measure of risk and because firms should be rewarded with lower premiums for maintaining higher capital. In addition, an FDIC demonstration project would test the feasibility of using private reinsurers to provide market pricing for risk-based premiums.

Streamlined Regulatory System. A streamlined, efficient regulatory system would further supplement market discipline and apply prompt, decisive corrective action to weak and unsound institutions. In addition, for a given banking organization, one federal regulator should have basic regulatory authority, responsibility, and accountability for fundamental banking activities. A simplified and effective regulatory structure is necessary to reduce the taxpayers' exposure through deposit insurance.

<u>BIF Recapitalization</u>. The Bank Insurance Fund must be recapitalized. The FDIC is meeting with industry groups to develop a plan for recapitalization. This Report sets forth objectives that such a plan must satisfy. The Fund must have sufficient resources so that the FDIC can do its job of resolving failed institutions. The Fund should be recapitalized with industry funding. But the recapitalization plan should avoid imposing unnecessary stresses on the banking system in the near term.

All four components of reform are needed to revitalize the nation's banking system. Reining in the overextended scope of deposit insurance, improving regulation, and recapitalizing BIF are insufficient. In the long run, the competitiveness of banking and financial organizations both at home and abroad depends on allowing them to compete efficiently nationwide and in related financial activities. A banking system that is both sound and competitive is crucial to the health of this nation's economy.

SUMMARY OF RECOMMENDATIONS

The Recommendations of this Report are summarized below. Where appropriate, brief explanations are included.

PART ONE – DEPOSIT INSURANCE AND BANKING REFORMS

I. Strengthened Role of Capital

Capital is a crucial tool for making banks safer. The role of capital in the supervisory system would be strengthened through four separate reforms:

A. **Capital-Based Supervision:** Well-capitalized institutions would undergo less intrusive regulation, while undercapitalized institutions would be subject to increasingly stringent restrictions.

B. **Capital-Based Insurance Premiums:** Premiums would be assessed based on an institution's level of risk-based capital.

C. **Capital-Based Expanded Activities:** Well-capitalized institutions would be allowed to engage in newly permitted financial activities through separately capitalized affiliates.

D. **Capital Adjusted for Interest Rate Risk:** Interest rate risk would be included in risk-based capital standards.

II. Reduction of Overextended Scope of Deposit Insurance

Deposit insurance has been extended well beyond its original purpose of protecting small savers. The following reforms are needed to restore coverage to reasonable limits.

A. **Reduce Coverage of Multiple Insured Accounts:** In the short term, depositors would be limited to $100,000 per institution for individual accounts and $100,000 per institution in retirement accounts. The long term goal is limited coverage per depositor across all depository institutions.

B. **Eliminate Certain "Pass-Through" Coverage:** Pass-through coverage would be eliminated for deposits by professionally managed pension plans and for Bank Investment Contracts.

C. **Eliminate Coverage of Brokered Deposits**

D. **Eliminate Coverage of Non-Deposit Creditors**

E. **Limit Coverage of Uninsured Depositors**

1. **Require Least Costly Resolution Method:** The FDIC will not protect uninsured depositors unless it is cheaper to do so.

2. **Systemic Risk Exception:** The Treasury and the Federal Reserve Board will retain the flexibility, in cases where they jointly find systemic risk, to fully protect uninsured depositors.

3. **Improved Liquidity Mechanism:** To improve liquidity when banks fail, uninsured depositors will receive a "final settlement payment" immediately after a failed bank is resolved, rather than waiting for receivership distributions.

4. **Methods to Reduce Systemic Risk:** Technical proposals to reduce systemic risk will be included in the Administration's legislative package.

5. **Three-Year Transition:** To enable the system to adjust gradually, these new policies will be phased in ~~after a~~ three-year delayed effective date.

F. **No Assessments on Foreign Deposits**

III. <u>Risk-Based Deposit Insurance</u>

A. **Premiums Based on Capital Levels**

B. **Premiums Set by Private Reinsurers (Demonstration Project):** The FDIC will conduct a demonstration project to determine the feasibility of using the private insurance sector to help set risk-based premiums.

IV. <u>Improved Supervision</u>

A. **Capital-Based Supervision**

1. **Rewards for Well-Capitalized Banks**

2. **Prompt Corrective Action for Undercapitalized Banks:** Progressively stronger supervisory actions triggered by declines in capital.

3. **Early Resolution for Failing Banks:** Banks resolved before capital is completely exhausted.

4. **Improved capital measurement**

   a. **Annual on-site examinations**

   b. **Accurate reserving for loan losses**

   c. **Increased market value reporting:** More market value disclosure would be required, but market value accounting is inappropriate at this time.

B. **Improved Reporting from Independent Auditors**

V. Restrictions on Risky Activities

A. **Restrictions on Risky Activities of Federally Insured State-Chartered Banks**

1. **Prohibition of Direct Investment Activities:** Direct equity investment in real estate and other commercial ventures, which is already prohibited for national banks, would be prohibited for state banks as well.

2. **Limit Activities Not Permitted for National Banks:** Federally insured state chartered banks would generally be prohibited from engaging in activities not permitted for national banks, unless the state bank is fully capitalized and the FDIC finds that the activities do not create a substantial risk of loss to the insurance fund.

3. **No Limits on Riskless Agency Activities**

VI. Nationwide Banking and Branching

A. **Full Nationwide Banking Authorized for Holding Companies in 3 Years**

B. **Interstate Branching Authorized for Banks**

1. **National Bank Interstate Branching:** Permitted immediately wherever interstate banking is permitted, but no preemption of intrastate branching restrictions.

2. **State Bank Interstate Branching:** Authorized but not required for all states.

VII. Modernized Financial Services Regulation

A. Permit Well-Capitalized Banks to Have Financial Affiliates

1. **Includes Securities, Mutual Funds, and Insurance**

2. **Allow Financial Companies to Own Well-Capitalized Banks**

B. Commercial Ownership of New Financial Holding Companies

C. Safeguards: To protect the insured depository from risks from new activities and to prevent it from subsidizing those activities.

1. **Only for Well-Capitalized Banks**

2. **Safety Net Confined to Bank**

3. **Strict Regulation Focused on Bank**

4. **Financial Affiliates Separately Capitalized**

5. **Functional Regulation of Affiliates**

6. **Funding and Disclosure Firewalls**

7. **Umbrella Oversight**

VIII. Credit Union Reforms

A. Changed Accounting Treatment of Insurance Fund

1. **Eliminate as Asset on Credit Union Balance Sheets**

2. **Gradually Expensed Over Twelve Years**

B. Reorganized Board of National Credit Union Administration

1. **Representative Included from New Federal Banking Agency**

IX. Other Deposit Insurance Recommendations

A. No Assessments on Collateralized Borrowing

B. Uniform Bankruptcy Exemptions

PART TWO – REGULATORY RESTRUCTURING

A. **A Single Federal Regulator for Each Banking Organization**

B. **Federal Reserve to Regulate All State Banking Organizations**

C. **New Federal Banking Agency Under Treasury to Regulate All National Banking Organizations and All Thrifts**

D. **FDIC to Function Solely As Insurer**

PART THREE – RECAPITALIZATION OF THE BANK INSURANCE FUND

The Bank Insurance Fund is under stress and must be recapitalized. The recapitalization should meet these four tests:

A. **It should provide sufficient resources.**

B. **It should take into account any impact on the health of the banking system.**

C. **It should rely on industry funds.**

D. **It should use generally accepted accounting principles.**