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THE WHITE HOUSE

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File

Banking

MEMORANDUM FOR BOB RUBIN

FROM: Ellen Seidman EL

SUBJECT: Meeting with CEOs from Association of Reserve City Bankers

You are scheduled to meet on Friday, October 22 with the CEOs of several major banks, who are here under the auspices of the Association of Reserve City Bankers (ARCB). ARCB, an amalgam of the prior organization of that name and the Association of Bank Holding Companies, represents about 110 of the largest banks and bank holding companies in the country.

The CEOs will be attempting to get the Administration to strongly support interstate branching legislating in testimony Frank Newman and Gene Ludwig are giving on October 26 and November 2. Their goal is to get a clean bill through Steve Neal's subcommittee this year while avoiding any Senate action. On substance we should support the proposal (see discussion below) as efficient, risk-reducing and pro-consumer. There are, however, a few political problems, such as Senator Dodd's interest in tying interstate to restriction of banks' insurance powers and the traditional anti-interstate positions of community groups and small banks.

It would therefore be useful to use the meeting to:

- o guage the strength of their support for interstate, and particularly what they will do if Senator Dodd attempts to attach any insurance restrictions to a bill;
- o assess the group's ability to respond to concerns about loss of community focus and concentration of bank market power (see below); and
- o ensure that the group knows that our support for interstate comes with an understanding that the banks will at least continue and, preferably, enhance local service following consolidation.

Background

The form of legislation the bankers support is the least disruptive to states' rights and the interests of small independent banks: the right to consolidate into one bank already-existing and newly purchased branches in multiple states, where states retain both the right to define the initial interstate branching rules and the right to opt out of allowing consolidation. There is no question that this will decrease administrative and examination costs of banks and regulators and, in multistate metropolitan areas like DC, increase customer service by allowing cross-state deposits. Encouraging cross-state diversification should also reduce systemic risk.

The major substantive arguments against the legislation are that consolidation would hasten the demise of independent community banks; move bank management further away from smaller communities with branches, resulting in reduced local service; and increase tendencies to bank concentration. While there are probably some markets where this would occur, the experience of New York and California, where large multi-branch banks coexist with much smaller institutions, suggests the problem is exaggerated. Moreover, in some areas the presence of a national bank will increase the availability of credit over what could be provided by leveraging local deposits alone. Vigorous branch-oriented CRA enforcement (which is where the bank regulators are headed), plus reasonable enforcement of the antitrust laws (which is where the Justice Department is headed) will further reduce possible negative impacts.