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### Comptroller Says Financial Modernization Law Will Strengthen Banking System

WASHINGTON -- Comptroller of the Currency John D. Hawke, Jr. said in a talk before the Exchequer Club of Washington today that the Gramm-Leach-Bliley financial modernization law promises to enhance bank safety and soundness by expanding opportunities for banks to diversify their earnings streams and reduce their heavy reliance on net interest income.

The Comptroller stressed that the new law met a number of important objectives the OCC had set early in the legislative process. It will bring consumers the benefit of lower prices through increased competition; it will advance the safety and soundness of the banking system; and it will allow national banks to achieve product diversification.

Mr. Hawke said Congress had enhanced safety and soundness by rejecting an "affiliates-only" approach that would have diverted earnings opportunities from banks and led to a dissipation of bank resources as banks were forced to upstream funds to support activities of their affiliates. The OCC and others had strongly opposed the affiliates-only approach, warning that it would inevitably weaken insured depository institutions.

The new law also upheld two important principles, Mr. Hawke said. First, national banks may, with no new restrictions, continue to have traditional operating subsidiaries that engage in any activity the OCC determines to be part of or incidental to the "business of banking."

Second, banks are given the flexibility to perform virtually the full range of new activities through either holding company affiliates or new "financial subsidiaries," at their option. The Comptroller said the OCC intends to adopt procedures for national banks to establish new financial subsidiaries that are comparable to the rules that apply to the establishment of holding company units. These rules will be in place upon the effective date of the new financial subsidiary authority, he said.

Restrictions, such as the limit on the size of a bank's financial subsidiary, won't diminish the utility or attractiveness of the bank unit for the overwhelming majority of banking institutions, Mr. Hawke said.

In the area of insurance, Mr. Hawke said national banks have been given significant new authority to sell a full line of products as agent. In particular, he noted that bank subsidiaries will be able to sell insurance products without meeting a "place of

5,000" restriction requiring the bank's agency to be located in a small community.

The law contains significant new privacy protections for bank customers, but didn't go as far as it could have, Mr. Hawke said, noting that it gives consumers the right to prevent their banks from sharing confidential information with unaffiliated companies, but not units owned by the same corporate parent.

"I see no basis for distinguishing between affiliates and non-affiliates in recognizing a right for bank customers to opt out," Mr. Hawke said. "Customers are not likely to draw such a distinction."

"The privacy issue is a potent one and banks have a lot riding on it," the Comptroller added. "Banks that don't pay serious regard to customers' privacy concerns are going to cause themselves real damage. Banks should be competing in terms of the strength of the privacy protections they provide."

Mr. Hawke said that the new law will create "a tremendous community of interest" among banking, securities and insurance companies that will prove important in driving financial legislation in the future.

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The OCC charters, regulates and examines approximately 2,400 national banks and 59 federal branches of foreign banks in the U.S., accounting for more than 58 percent of the nation's banking assets. Its mission is to ensure a safe and sound and competitive national banking system that supports the citizens, communities and economy of the United States.