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Acting Comptroller Discusses Questions Raised by "Mega-Mergers"

WASHINGTON -- Acting Comptroller of the Currency Julie L. Williams said today that the large institutions being created through this year's "mega-mergers" raise a number of questions that must be addressed if the combinations are to be successful.

Success, she said, requires an abiding commitment on the part of the merging institutions to the fundamentals of risk management and customer care.

"And we have found that strong supervision has an important role to play at every step along the way -- in alerting banks to the pitfalls they face, in sharing our experiences about dealing with those pitfalls, and in safeguarding the public's ongoing interest in their safety and soundness," she added.

Ms. Williams said that shortly after the first of the large mergers was announced last Spring, she convened a group of OCC examiners most experienced in large bank mergers to review the challenges the combining institutions would face and how such challenges have successfully been dealt with in the past.

For example, one challenge institutions face after a merger is retaining key staff. It is imperative, Ms. Williams said, that bank management develop clear plans before the merger is announced to ensure the retention and continuity of expert staffing.

Bank managers also need to be aware of the possibility that new and larger concentrations can result from mergers, Ms. Williams said. However, depending on the balance sheet of the combining companies, there can actually be a reduction in the new company's exposure. For example, the new balance sheet may be more geographically dispersed, with less exposure to regional or local downturns. Conversely, the new company may become more exposed to national or international economic events than before the merger.

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Ms. Williams said these considerations become even more important as the types of combinations possible in the banking industry may soon expand significantly. Congress is currently considering legislation, the Financial Services Competition Act of 1998, that would eliminate or reduce many restrictions on affiliations between commercial banks, investment banks and insurance companies.

The OCC's experience in supervising large institutions shows how imperative it is that the bank regulatory agencies have adequate authority to assess how the safety and soundness of the regulated institution is affected by activities conducted by, or transactions with these newly permitted types of affiliates, Ms. Williams said.

"Inexplicably, H.R. 10 does not do this," she added.

"We in the United States should have learned our lesson on this score," she said. "The savings and loan crisis of the 1980s should have taught us that a significant expansion in powers in a banking organization must not be coupled with a decrease in the safety and soundness authority of bank regulators.

Ms. Williams noted that in hearings last week to explore the near collapse of a hedge fund, Long Term Capital Management, members of Congress admonished the financial regulatory agencies to be more vigorous in taking steps to ensure that risks affecting any single institution are fully understood and, where excessive, promptly addressed.

"That is why it seems inexplicable that Congress would attach provisions to H.R. 10 that place new roadblocks in the way of bank regulators" when they seek information from or seek to examine aspects of operations of securities firms or insurance companies that are subsidiaries or affiliates of a bank in order to evaluate how the safety and soundness of the bank is affected by activities of such a subsidiary or affiliate, she said.

Under the pending legislation, regulators could act only after they acquired hard evidence that a safety and soundness problem or a violation of the law already existed.

"By that time, damage to the bank or its reputation could have already occurred," Ms. Williams said. "Such restrictions on bank regulators' ability to prevent problems are unprecedented and should not be coupled with a new statutory framework authorizing expanded powers in banking organizations. If this legislation moves forward, these provisions clearly must be fixed."

Ms. Williams said cooperation and information-sharing among regulators is crucial to maintaining effective and credible oversight of the complex institutions that will become increasingly commonplace in the new world of banking.

"No regulator's role should be -- nor need be -- compromised to achieve that result," she said.

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The OCC charters, regulates and examines approximately 2,600 national banks and 66 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.