

Acting Comptroller Urges Major Overhaul of H.R. 10

WASHINGTON, D.C. -- Acting Comptroller of the Currency Julie L. Williams told the Senate Banking Committee today that a pending financial modernization bill would upset the regulatory balance that has "made our banking system innovative, strong and successful."

Ms. Williams said efforts to modernize the financial system should build upon the best elements of the current system. Unfortunately, she added, a bill passed by the House -- H.R. 10 -- does not meet that test.

"H.R. 10 contains some important and promising steps toward modernizing our financial system," she said in testimony before the Senate Banking Committee. "But it also contains major flaws that, on balance, make it more damaging than progressive.

"H.R. 10 requires a major reconfiguration before it can serve as a framework for our nation's financial system in the next century," she added. "I urge you and your colleagues to take the necessary time and let's fix it so we have it right."

The acting Comptroller said the House-passed bill would make the banking system less safe and less sound by forcing banks to conduct most new activities in holding company affiliates. Both the OCC and the Federal Deposit Insurance Corporation, she said, have concluded that allowing a diversification of activities in bank subsidiaries -- subject to certain appropriate safeguards -- enhances safety and soundness and reduces the risk to the insurance fund.

In addition, Ms. Williams said the new activities contemplated in HR 10 are not inherently more risky than commercial lending.

"Many of the proposed new financial activities in fact have been conducted for years -- safely and profitably -- by subsidiaries of state-chartered banks and by other U.S. bank subsidiaries that operate overseas," she said.

Ms. Williams also said:

It is unlikely that banks enjoy a net subsidy -- an advantage in funding themselves that is not offset by the costs of regulation. Any subsidy that does exist, however, could be controlled by applying the same limitations on funding transactions between banks and their subsidiaries that apply to transactions between banks and their affiliates.

H.R. 10 would require banks to move new activities into holding company affiliates, a step that would undermine the goals of the Community Reinvestment Act by draining assets and income into units not available to support a bank's CRA capacity.

H.R. 10 would damage one of the crucial underpinnings of the U.S. financial system. "A big part of our success has been the

result of letting free markets work and letting businesses decide how to compete most effectively and efficiently -- unless there is a compelling government need to intervene," 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.