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Comptroller Cautions Community Banks About Shortcomings in Financial Modernization Legislation

ORLANDO -- In his first speech, Comptroller of the Currency John D. Hawke Jr. cautioned today that pending financial modernization legislation, if not structured properly, could give rise to an era of "prolonged marginalization" for community banks.

"In particular, if legislation mandates a rigid, one-size-fits-all format in order to take advantage of new opportunities, banks would be denied the flexibility they need -- today more than ever -- to compete successfully in the financial marketplace," he said in a speech to the American Bankers Association's National Conference for Community Bankers in Orlando, Florida.

"I must say, I find it inexplicable that any agency charged with safeguarding the safety and soundness of banks would insist on a rigid, holding-company-only format that would deprive banks of the opportunity to diversify their earnings and would force resources out of banks to fund new activities in holding companies," the Comptroller told community bankers.

Hindering banks' ability to diversity and sell new products could hurt community banks' central role in the nation.

"Banks are not just about loans and deposits," he said. "They are crucial to the social fabric of a community as well as its economy. They help transmit shared values: the values of thrift and industry, performance and stability, and service to the community. They teach us through example that doing the best we can for ourselves and our families requires the financial and moral support of the community behind us."

Community banks have been successful, he said, because they know their customers and are capable of responding quickly to changes in the local business environment. "You bring the attributes small business people seek in a financial provider: local ownership, quick decision-making, accessible senior management, outstanding service, and intimate understanding of their business and their market."

However, Mr. Hawke said, legislation now under consideration in the House could profoundly affect the future of community banks.

Mr. Hawke noted that HR 10 would impede the ability of banks to diversify their sources of income, particularly in the area of fee-producing products and services which are becoming increasingly important to banks.

HR 10, now being debated in Congress, he said, has the potential to diminish banks as financial services providers and replace them with financial services holding companies made up of separate, specialized product providers.

"It could signal the end of the era of the full-service, integrated financial provider," the Comptroller added.

As an example, the Comptroller noted that insurance is a product needed by all bank customers. The sale of insurance as an agent involves little or no financial risk, does not require a significant investment of capital and is a logical outgrowth of the financial activities banks already engage in. In addition, since many Americans may have less insurance than they need, bank entry into insurance sales would benefit consumers.

However, Mr. Hawke noted that HR 10 would place a number of obstacles in the path of bank insurance sales. It would set out 13 specific areas -- including advertising, licensing and disclosure rules -- in which states could discriminate against banks in favor of nonbank insurance providers.

Furthermore, any bank in a community of more than 5,000 persons would be required to form a holding company or subsidiary to sell insurance as an agent. And those that wanted to offer products in a principal capacity would be limited to only those products approved by the OCC prior to Jan. 1, 1997.

"This means not only that banks could never become innovators of insurance products, but it also means that their ability to offer innovative banking products that may have some insurance elements in them could be severely curtailed," the Comptroller said.

Constraints on bank activities will inevitably weaken the insured institutions, Mr. Hawke said. They would negatively impact the ability of banks to diversify earnings opportunities and would make them less capable of effectively competing in the marketplace.

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