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Comptroller Warns that Pending Financial Modernization
Legislation
Could "Do Violence" to Dual Banking System

WASHINGTON -- Comptroller of the Currency John D. Hawke, Jr. said today that the dual banking system that has served the United States well could be jeopardized by pending financial modernization legislation.

In a speech to the professional organization, Women in Housing and Finance, Mr. Hawke said a number of provisions in legislative proposals discriminate against national banks, and he added that it would be shortsighted of state banks and their supervisors to ignore the implications of these discriminatory provisions.

"Once the precedent is established of accepting anticompetitive provisions -- whether they involve operating subsidiaries, product restrictions, activity limits, or discrimination among types of banks -- everyone is fair game," he said.

If limits on national bank powers are adopted, he said, "how long do you think it would be before someone got the idea of applying the same limits to state banks?"

Mr. Hawke noted that while much of the debate has focussed on the national bank operating subsidiary issue, "opponents of the op sub have, to be fair to them, selectively proposed that Congress should do additional damage to the dual banking system by cutting back on some of the powers of state banks through a new expansion of Glass-Steagall."

The effect of that proposal, which would extend Section 21 of the Glass-Steagall Act, would be to outlaw securities activities for all bank subsidiaries -- state and national alike, Mr. Hawke said.

"Why should Congress accept such a proposal to cut back on powers that a number of states have already granted to their banks?" Mr. Hawke asked. "To put the kindest face on it, this proposal is not only retrogressive, but quite inconsistent with a decent respect for the dual banking system. Once again, state banks should take care to know for whom the bell tolls."

Although the extension of Section 21 would hurt state-chartered banks, many of the limits on bank powers in some proposals would only affect national banks. For example, national banks and their subsidiaries would be barred from selling title insurance, while state banks would not.

In addition, while a majority of states currently permit state banks to act as agents for the sale of insurance without regard to size of the locality in which they operate, the legislation

would perpetuate the archaic "place of 5,000" limit on the ability of national banks to act as insurance agents.

Such proposals, Mr. Hawke said, "do violence to the dual banking system."

In his speech, Mr. Hawke said the dual banking system reflects fundamental values cherished by Americans: competition, federalism, and freedom of choice. Balancing supervisory authority between Washington and the states has contributed to a responsive, innovative, and stable banking system capable of accommodating the full diversity of our economic life -- a system that's the envy of the world, he added.

" It seems to me, in other words, that the dual banking system has persisted as an institution, despite its complexities and despite efforts to eradicate it, because it's an authentic reflection of what we believe -- and what we practice -- as a people," he said.

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