Remarks by
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There's an old Persian fable about three noblemen who keep stumbling upon wondr surprises. In the course of their travels together, they find themselves -- unexpec of course -- on the paradise island of Serendip. As the author John Barth explains, don't reach Serendip by plotting a course for it. You have to set out in good faith elsewhere and lose your bearings serendipitously."

History is full of happy accidents and unpredicted outcomes. Christopher Colum discovered the New World instead of an alternate route to Asia. Alexander Graham Be working on a hearing aid for his wife when he hit upon the idea for the telephone. in Housing and Finance, which began twenty years ago as a group of five professional networking at lunch, is today an organization of men and women, more than 700 strong have become a major force on the local and national scene. I congratulate you on yo anniversary.

Serendipity has also played an important role in the evolution of our financia When Congress created the national banking system in 1863, it didn't intend for stat national banks to coexist as they do today. Indeed, it was Congress's original expe -- and fervent wish -- that the national charter would be so attractive that it woul drive all others from the field. When market forces failed to do the job, Congress to provide the necessary push in the form of a tax on state banks. But that didn't either, and neither did various other proposals down through the years to unify the charter. Like the cat with nine lives, the state banks survived and the dual bankin system flourished. Not coincidentally, so has our nation's economy.

With hindsight, it's clear that attempts to suppress dual banking were both fut and ill-advised. Our system of charter and supervisory options may not conform to a predetermined model of bureaucratic organization. It may lack simplicity and well-d orderly lines of authority. But it does reflect fundamental values cherished by Ame competition, federalism, and freedom of choice. It seems to me, in other words, tha dual banking system has persisted as an institution, despite its complexities and de efforts to eradicate it, because it's an authentic reflection of what we believe -- we practice -- as a people. Balancing supervisory authority between Washington and states has contributed to a responsive, innovative, and stable banking system capabl accommodating the full diversity of our economic life -- a system that's the envy of world.

One reason the system has thrived is that, after coming to a belated appreciati its value, Congress intervened at critical intervals to maintain a healthy balance a ensure that the state and national bank charters kept pace with one another. Throug legislation, Federal regulators and national banks obtained the authority to match innovations and incentives coming from their state counterparts. For example, in re to urgent pleas from the Comptroller of the Currency, Congress in 1927 passed the Mc Act, granting national banks branching powers roughly equivalent to those already en by many state banks. And it relaxed other legal restrictions -- such as those barr national banks from offering safe deposit boxes and making most real estate loans -- were eroding the value of the national bank franchise.

At the same time, Congress has been cautious about encroaching on the authority the states to charter and empower banks. For example, excepting only insurance unde the states have been left free to allow their banks to engage in activities not perm for national banks so long as the FDIC determines the activity would not pose a sign risk to the insurance fund.

Let me add that this process has not been a one-way street. Many states have en "wild card" statutes -- laws that allow state-chartered banks to exercise powers ava to national banks.

Nor -- despite what some critics say -- has the process been a "race to the bot " Back in early 1960s, under Comptroller James J. Saxon, the OCC concentrated on upg the qualifications and skills of its examination force. This led to calls from stat and action by state supervisors to match these improvements. The quality of examina improved significantly on both sides, and the whole dual banking system emerged the for it.

In short, what former Federal Reserve Board chairman Arthur Burns called -- in memorable if misleading terms -- "a competition in laxity" between state and Federal authorities -- has actually been a textbook case of federalism in action. The compe tension between state and national authority has produced a safe and sound banking s efficient and effective supervisory regime, and regulatory structures capable of ada the demands of an evolving marketplace.

The point is that, while the dual banking system today is healthy and strong, i requires care and feeding to keep it that way. History shows that the absence of ne legislation -- or the enactment of the wrong kind of legislation -- can do it real

We happen to be at one of those critical crossroads when Congress seems to be m toward action on comprehensive banking legislation. I'm concerned, however, that so current legislative proposals would upset the balance between state and national ban context of the dual banking system. Last year's version of H.R. 10, for example, co profusion of provisions that would have discriminated--wholly unjustifiably--against banks, and some of the most ardent proponents of financial modernization continue to Congress to impose discriminatory restrictions on national banks.

You have all heard the arguments about the pros and cons of operating subsidiar Some have argued that Congress should deprive national banking organizations of the to choose the format that suits their needs best in the name of containing some ethe elusive "subsidy." On the other hand, the FDIC -- the agency with the greatest inter preserving the safety and soundness of banks -- has consistently made the point that sub advances safety and soundness, by allowing banks to diversify their income strea to husband their resources, rather than forcing revenue and capital out of the bank benefit Fed-regulated holding companies.

I don't want to embroil you again in the esoterica of op subs. But I do want t on the impact on the dual banking system of the position proposed by the anti-op sub

First of all, for some reason, this camp seems to be opposed to op subs only wh apply to newly authorized financial activities conducted by national banks. Despite about spreading the alleged "subsidy" and their claim that op subs generally are in with safety and soundness, they have not proposed to apply a similar blanket prohibi state-chartered banks. They seem willing to accept a structure in which the states relatively free to permit new activities for state banks, subject only to the FDIC determination that no risk is presented to the insurance fund, while flatly prohibit comparable new activities for national bank subsidiaries.

How can we explain this inconsistency? Political realism -- to put the best li it -- is one possibility. The 50 state banking systems constitute a formidable po force that would surely mobilize in opposition to any overt proposal that op subs fo banks should be outlawed in the manner proposed for national banks.

But any apparent advantage for state banks may be short lived. If those who wa put national banks in an organizational straitjacket succeed in doing so -- ostensib name of curtailing the spread of some "subsidy" -- how long do you think it would be someone got the idea of applying the same limits to state banks? After all, if a sub exists, and if the op sub presents a safety and soundness issue, it's hard to see wh rationale would support legislation that arbitrarily allows some banks to own subsid but not others, based on the source of their charter.

Please don't misunderstand me. I am not by any means suggesting that limits sh be placed on state bank op subs. I am in favor of freedom of choice -- a fundamenta principle of the dual banking system -- for state as well as national banks. The st have, with the concurrence of the FDIC, authorized a variety of activities for state chartered banks, and I think they should be permitted to do so. My point is simply the states cannot be complacent in the face of proposals to restrict the activities national banks. To paraphrase John Donne, the bell tolls for them, too.

While the debate on this issue has focussed on those proposals that would expli discriminate against national banks, opponents of the op sub have, to be fair to the selectively proposed that Congress should do additional damage to the dual banking s by cutting back on some of the powers of state banks through a new expansion of Glas Steagall. Despite the fact that a foundation stone of financial modernization legis has been the repeal of provisions of Glass-Steagall, those opposed to op subs have a tried to extend the reach of section 21 of Glass-Steagall. Section 21 as it now exi prohibits a deposit-taking institution from engaging in securities underwriting in t entity. It does not reach relationships with affiliates -- sister companies or subs -- that might engage in securities activities. Those relationships have been govern sections 20 and 32, the very sections everyone agrees ought to be repealed.

The consequence of extending section 21, as the anti-op sub forces have propose be to outlaw securities activities for all bank subsidiaries -- state and national a Unlike sections 20 and 32, section 21 is not limited in its reach to member banks of Federal Reserve System. This would effectively nullify the existing power of state engage through subsidiaries in securities underwriting -- an activity the FDIC has a found not to pose a risk to the insurance fund.

Why, it should be asked, more than 65 years after Glass-Steagall was enacted; a when it is almost universally regarded as obsolete and eminently repealable; at a ti section 20 affiliates of member banks have engaged in securities underwriting under Reserve jurisdiction for a number of years without apparent problems, should it be d necessary to prohibit the same securities activities for bank subsidiaries, state an alike?

More to the point, why should Congress accept such a proposal to cut back on po that a number of states have already granted to their banks? To put the kindest face this proposal is not only retrogressive, but quite inconsistent with a decent respec dual banking system. Once again, state banks should take care that they know for wh bell tolls.

There are other gratuitous ways in which various versions of the legislation wo violence to the dual banking system. For example, in some versions of financial modernization legislation, national banks and their subsidiaries would be barred fro title insurance, while state banks and their subsidiaries could continue to sell tit insurance. In addition, while a majority of states currently permit state banks to agents for the sale of insurance, with no restrictions on the size of the locality i they operate, all the pending versions of financial modernization legislation would perpetuate the archaic "place of 5,000" limit on the ability of national banks to ac insurance agents.

I'm sure there are some state banks that might welcome and support these provis It's hard not to feel like a winner when you come out ahead of the other guy.

But I believe state banks and their supervisors would be terribly shortsighted ignored the implications of these discriminatory provisions. Once the precedent is established of accepting anticompetitive provisions -- whether they involve operati subsidiaries, product restrictions, activity limits, or discrimination among types o -- everyone is fair game.

For more than a century, the fortunes of state and national banks have been ine linked. That is still true today. State banking interests should keep in mind that strength has traditionally also been their strength and vice versa. Competition can inconvenient and even painful in the short term, but its long term benefits are inca Without the competition we provide each other, without the stimulus we generate to i and innovate, we may all be threatened with stagnation. And that's not in the inter the American people.

At the outset of my remarks, I suggested that the remarkable resilience of the banking system over the years derives from the fact that it's a true expression of o national character. Above all, we Americans are a pragmatic people; we embrace what The dual banking system is around today not because it was part of anyone's master p but because it's helped us attain our goal of a buoyant, prosperous economy. We sho think twice -- or three times -- before enacting legislation that would cause profou injury to an institution that has been so instrumental in helping us achieve our nat success.

Thank you.