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Statement of the Shadow Financial Regulatory Committee

On

The Senate's Version of H.R. 10

Sept. 28, 1998

This week the Senate may begin consideration of the Senate Banking Committee's version of H.R. 10, a bill that was passed by the House of Representatives earlier this year. The House bill is bad legislation; the Senate Committee's bill is no better.

In previous statements, the Shadow Committee has commented on some of the elements of H.R. 10 as currently before the Senate. Among other things, the Committee has objected to the requirement that new activities be located only in bank holding company affiliates rather than allowing banking organizations to choose to do these activities in subsidiaries of their banks.

Expansion of the role of the Federal Home Loan Banks (FHLBs). H.R. 10 permits banks with less than \$500 million in assets to borrow from the FHLBs, ostensibly for such things as agricultural loans and rural and community development loans. The Committee opposes this expansion of FHLB lending authority.

In an earlier statement on this subject (Statement No. 144, May 4, 1998), we note that the FHLBs, because of their status as Government Sponsored Enterprises, are able to borrow at subsidized rates just slightly above Treasury rates. Expanding FHLB lending authority, therefore, increases risks to taxpayers and creates harmful competition for private lenders.

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Separation of banking and commerce. A basic premise underlying H.R. 10—that banks should be separated from commerce—is fundamentally flawed. (Statement No. 142, December 8, 1997). Further, to achieve this misdirected policy, the House has made H.R. 10 a welter of compromises among competing groups in the financial services industry, adding needless complexity and insuring additional legislative and regulatory disputes in the future.

If the House had not attempted to maintain a separation between banking and commerce, it could have created a true two-way street in which any company could enter the financial services business without approval of the Federal Reserve Board. The result would have increased competition that would have benefited consumers at all levels.

The Senate Committee's version of H.R. 10 accepts the flawed policies in the House bill, and then makes things worse by enhancing the Fed's discretionary authority over the financial services industry. In particular it authorizes the Fed to reject large acquisitions of non-bank financial businesses if, in the Fed's view, these acquisitions might create an "undue aggregation of resources."

This bill should not be passed, and, if passed, should be vetoed. What it proposes is poorly conceived and is "financial modernization" in name only.