

MEMO# 10840

March 30, 1999

HOUSE BANKING COMMITTEE VOTES TO MODERNIZE BANKING LAWS, APPROVES H.R. 10 - FINANCIAL SERVICES REFORM LEGISLATION

1 See Memorandum to the Board of Governors No. 17-99, Federal Legislation Members No. 7-99, Primary Contacts - Member Complex No. 27-99, and Public Information Committee No. 8-99, dated March 18, 1999. 2 See Memorandum to the Board of Governors No. 8-99, Federal Legislation Members No. 5-99, Primary Contacts - Member Complex No. 16-99, and Public Information Committee No. 4-99, dated February 18, 1999. 3 See Memorandum to the Board of Governors No. 5-99, Federal Legislation Members No. 3-99, Primary Contacts - Member Complex No. 7-99, and Public Information Committee No. 2-99, dated February 2, 1999. [10840] March 30, 1999 TO: BOARD OF GOVERNORS No. 22-99 FEDERAL LEGISLATION MEMBERS No. 9-99 PRIMARY CONTACTS - MEMBER COMPLEX No. 33-99 PUBLIC INFORMATION COMMITTEE No. 11-99 RE: HOUSE BANKING COMMITTEE VOTES TO MODERNIZE BANKING LAWS, APPROVES H.R. 10 - FINANCIAL SERVICES REFORM LEGISLATION

The House Banking and Financial Services Committee recently approved H.R. 10, the "Financial Services Act of 1999," by a vote of 51-8. The House committee action came just one week after the Senate Banking Committee approved a similar financial modernization bill.¹ H.R. 10 now proceeds to the House Commerce Committee, which shares jurisdiction over the measure. The Commerce Committee has been granted a 45-day review period, and must act on the bill by May 14. The committee has indicated it will hold hearings on the bill during April and Mike Oxley (R- OH), Chairman of the Commerce Subcommittee on Finance and Hazardous Materials, has said a subcommittee vote on H.R. 10 is scheduled for the week of May 10. H.R. 10 would modernize the nation's financial services regulatory structure by repealing the Glass-Steagall Act's provisions that restrict bank and securities firm affiliations within a bank holding company system. It also allows companies to engage in any financial activities, including mutual fund and insurance agency and underwriting activities. The Institute testified before the House Banking Committee in support of H.R. 10 in early February.² The bill approved by the full committee is similar to H.R. 10 as introduced,³ with regard to provisions that would affect the investment company industry. However, the committee approved some important changes, which are summarized below. Holding Company Regulation Under H.R. 10, the Federal Reserve Board (FRB) would be designated the "umbrella" regulator of both bank holding companies (BHCs) and the new financial services holding companies (FSHCs). The authority of the FRB when exercising its general supervisory authority to regulate, examine or take enforcement action against regulated, non-bank subsidiaries of the holding companyCsuch as investment advisers,

broker/dealers and insurance companies are carefully prescribed. Exceptions exist for certain safety and soundness, payment system, and deposit insurance concerns. The House Banking Committee approved an important change to the original bill that places the same general supervisory limitations that apply to the FRB and the Federal Deposit Insurance Corporation, on to the Office of the Comptroller of the Currency and the Office of Thrift Supervision.

Community Reinvestment Act The bill contains no provisions to extend the Community Reinvestment Act (CRA) to investment companies or other non-bank entities. However, the Banking Committee did approve an amendment that would require the FRB in the future to report to Congress on the impact that financial modernization efforts have had on the operation and efficacy of the CRA. The CRA provisions of H.R. 10 differ significantly from those in the Senate Banking Committee bill and have received bipartisan endorsement. Because of the perceived CRA issues in the Senate version of the bill, the Administration has issued a warning that it would veto the legislation unless these issues are resolved.

Commercial Affiliations H.R. 10 would still not directly allow financial services holding companies to engage in commercial activities. However, the committee approved an amendment that would expand the definition of the term "financial in nature," to include a small amount of "complementary" activities. This will enhance the FRB's flexibility in defining what constitutes permissible activities, which may protect some existing commercial activities of companies that become FSHCs.

Unitary Savings And Loan Holding Companies The committee approved two changes to the provisions regulating unitary savings and loan holding companies (USLHC). H.R. 10 would freeze the number of unitary thrift charters to those existing or under application as of March 4, 1999. Also, the committee approved an amendment that permits the sale of USLHCs to any company whether commercial or financial.

Financial Privacy Requirements H.R. 10 as approved by the House Banking Committee includes several new provisions regarding financial privacy. The first would require financial holding company depository institutions to clearly disclose to their customers the holding company's policy concerning disclosure of customers' information to third parties for marketing purposes. Financial holding companies would also be required to disclose to their customers that they have the right to not have their information shared among affiliates. In addition, the bill now incorporates H.R. 30, the "Financial Information Privacy Act," which would prohibit identity theft by making it a federal crime for any company or individual to fraudulently obtain personal financial information. The bill also includes a provision requiring a study of how well current privacy laws protect the privacy rights of customers of insured depository institutions. * * * * *

In the Senate, Majority Leader Trent Lott (R-MS) recently announced that financial modernization legislation is a high priority for this Congress and that he plans to begin full Senate action on the issue during the week of either May 3 or May 10. We will keep you informed of further developments. Matthew P. Fink President