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Office of Thrift Supervision

NEWS

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GOVERNMENT SHOULD ENSURE BANKING HAS POWERS AND TOOLS TO COMPETE

WASHINGTON, D.C., May, 22, 1997 - If the government wishes to maintain a strong banking industry, it must make sure that banks and thrifts have the powers and tools they need to continue to compete effectively, Office of Thrift Supervision Director Nicolas Retsinas said today in testimony before the House Banking Committee.

Declaring that "the insistent push of the market and new technologies will continue to alter our financial system," Retsinas said, "Our failure to account for change could result in government rules that impede, rather than unfetter, the ongoing evolution of our financial markets. If we intend to keep up, then we must adapt our rules and laws to today's - and tomorrow's - developing marketplace."

Retsinas said there is no ideal time to act, but "this is...the ideal time to debate and discuss the issues" because both the banking and thrift industries are in a period of sound profitability. Out of the debate on financial modernization have emerged several issues of "great importance" to thrift institutions, he added.

One issue is the merger of the two deposit insurance funds which, he said, should be an integral part of any charter reform. "Operating separate insurance funds for what is the same product is wasteful and potentially costly to the federal government and to the depositors they insure."

Another of the "more vexing issues" concerns how the financial services company of the future will structure its various business enterprises. "Embedded in these issues is legitimate concern over maintaining and protecting the insurance funds and the fundamental integrity of our financial system. Perhaps the most contentious...is whether to remove the activities restrictions" placed on bank holding companies. He noted that because thrift holding companies are not subject to the same restrictions, their experience and that of OTS in regulating them "have become a topic of intense interest."

He urged Congress not to force unitary thrift holding companies to divest profitable, safe non-bank businesses. Although holding company experience is limited, they have posed no safety and soundness risk to their thrift subsidiaries or to the federal insurance fund. The regulatory structure for thrift holding companies also is unique, being the only segment of the banking industry "that enjoys a single federal regulator for both its insured institutions and their holding companies. In our experience, this arrangement has worked well." OTS currently regulates 102 unitary thrift holding companies, owning 73 thrifts, that engage in non-bank activities.

Regarding the view of some that thrifts' traditional focus on mortgage lending increases risk, Retsinas countered, "There is ample evidence that residential mortgage loans present a much lower credit risk than commercial loans. We in the United States have always recognized the value of promoting home ownership. A concentration in residential mortgage lending is thus good business and good for our communities. Institutions should not be encouraged to abandon a profitable lending line that also serves an important public purpose."

He also said that some in the thrift industry have voiced a strong desire to make sure the concept of mutual ownership is not lost in the process of financial modernization. OTS currently regulates more than 500 such institutions, most of which operate in mutual form by choice and at a profit. "They should not be forced to change their fundamental corporate structure for reasons unrelated to their business strategy," Retsinas declared.

At the same time, government must adopt rules "that provide certainty to community-based lending institutions that play a crucial role in America's local business and civic communities. Preserving the viability of small, local institutions is vitally important to the future economic health of those communities," he said.

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The Office of Thrift Supervision (OTS), a bureau of the U.S. Treasury, regulates and supervises the nation's thrift industry. OTS' mission is to ensure the safety and soundness of thrift institutions and to support their role as home mortgage lenders and providers of other community credit and financial services.

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