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COMMITTEE ON BANKING AND FINANCIAL SERVICES

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March 28, 1997

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The Honorable John Hawke
 Under Secretary
 Department of Treasury
 1500 Pennsylvania Avenue, NW
 Washington, DC 20220

Dear Jerry,

I appreciate the discussion we had over lunch regarding financial services modernization legislation. While obviously differences remain, the big picture is that we are more in consonance than at odds. I am absolutely convinced that structured the right way, significant financial services reform can pass this Congress. But this is not foreordained. Powerful private parties may find reasons to object or if they are too accommodated, the general public may register its concerns. The balance is ever shifting.

In any regard, differences of judgment remain on the necessity of banking organizations engaging in certain commercial activities and I can be expected to differ with aspects of the Administration's approach. This being noted, it is my view that if the Administration intends to go down this road, it would be helpful if some of the safeguards outlined by you today were incorporated into Treasury's proposal, such as the prohibition on the largest banks buying commercial firms (and, I would add, visa versa), and if the baskets were as small as possible.

With regard to authorizing wholesale financial institutions, it is my view that if you allow financial services holding companies some leeway on commercial affiliations (i.e., baskets), wholesale banks are no longer needed. As you know, I have not been a great enthusiast of the wholesale financial institution concept, but have made it a provision of bills I have introduced as a technique to accommodate securities firms' investment strategies and as a preferable way to achieve investment banking support. But I see no national interest in precipitating big banks to leave the banking structure, nor in allowing new options for foreign institutions (bank or nonbank) to have access to the payment system via a noninsured commercial bank.

With regard to the Frist amendment and thrift charter conversion, I am completely in concurrence with Treasury's judgment that there should be as few inequities possible in the financial services playing field and that all institutions should come under similar

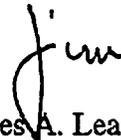
The Honorable John Hawke
Page 2

charters. In this regard, as you noted, a lot of outside parties are fast figuring out the advantages of the unitary thrift charter, which makes the case for timely action compelling. As for the legislative deadline for submission to Congress of charter reform legislation, I do not object to a couple of weeks delay. However, I would be concerned if it were much longer. The greater the delay, the greater the obstreperous of powerful private sector parties.

I am heartened by Treasury's intent to retain the present regulatory structure concerning holding company regulation and state regulation of national bank insurance activities. As you know, both the Alliance bill and the Financial Services Council bill do away with the Federal Reserve as holding company regulator and are silent on state regulation of bank insurance activities. Without state regulation of insurance it is inconceivable that insurance industry support can be garnered for the bill.

Commerce and banking aside, I am optimistic we can reach consensus on the vast majority of the most important issues. It should be clear, however, that on charter conversion very powerful interests will line up behind very troubling amendments and, ironically perhaps, our best chance to prevail may be to work closely with Ken Guenther whose IBAA members should be strongly with us on this issue. Indeed, charter conversion is one of a number of reasons community banks should either be supportive or neutral on bank modernization, as long as it doesn't go too far.

Sincerely,



James A. Leach
Chairman