DRAFT – NOT FOR RELEASE November 8, 1999

STATEMENT BY THE PRESIDENT

Today I have signed into law S. 900, the Gramm-Leach-Bliley Act of 1999. This historic legislation will modernize our financial services laws, stimulating greater innovation and competition in the financial services industry. America's consumers, communities, and its overall economy should reap the benefits of this Act.

Beginning with introduction of an Administration-sponsored bill in 1997, my Administration has worked vigorously to produce financial services legislation that would not only spur greater competition, but also protect the rights of consumers and guarantee that expanded financial services firms would meet the needs of America's underserved communities. Passage of this legislation by an overwhelming, bipartisan majority of the Congress demonstrates that we have met that goal.

The Gramm-Leach-Bliley Act makes the most important legislative changes to the structure of the U.S. financial system since the 1930s. Financial services firms will be authorized to conduct a wide range of financial activities, allowing them freedom to innovate in the digital age. The Act succeeds in repealing provisions of the Glass-Steagall Act that, since the Great Depression, have restricted affiliations between banks and securities firms. It also amends the Bank Holding Company Act to remove restrictions on affiliations between banks and insurance companies. Finally, it grants banks significant new authority to conduct most newly authorized activities through financial subsidiaries.

Removal of barriers to competition will enhance the stability of our financial services system. Financial services firms will be able to diversify their product offerings and thus their sources of revenue. They will also be better equipped to compete in global financial markets.

Both the Vice President and I have insisted that any financial services modernization legislation must benefit American communities by preserving and strengthening community reinvestment. I am very pleased that the Act accomplishes this goal. The Act establishes an important, prospective principle: banking organizations seeking to conduct new non-banking activities must first demonstrate a satisfactory record of meeting the credit needs of all the communities they serve, including low- and moderate-income communities. Thus, the law will for the first time prohibit expansion into activities such as securities and insurance underwriting unless all of the organization's banks and thrifts maintain a satisfactory or better rating under the Community Reinvestment Act. The Community Reinvestment Act will continue to apply to all banks and thrifts, and any application to acquire or merge with a bank or thrift will continue to be reviewed under CRA, with full opportunity for public comment.

The bill offers further support for community development in the form of a new program, PRIME, to provide technical help to low- and moderate-income micro-entrepreneurs.

The bill includes a limited extension of the CRA examination cycle for small banks and thrifts with outstanding or satisfactory CRA records, but expressly preserves the ability of regulators to examine such banks and thrifts any time for reasonable cause, and does not affect regulators' authority in connection with an application. Finally, the bill includes a requirement for disclosure and reporting of CRA agreements. The legislation and its legislative history have been crafted to alleviate burdens on banks and thrifts and those working to stimulate investment in underserved communities. It is critical that depository institutions and their community partners continue efforts that have led to the highest home ownership rate in our history, particularly with the dramatic increase in recent years in minority and low-income home ownership. I remain committed to ensuring that implementation of these provisions does not in any way diminish community reinvestment, and stand ready to remedy any problems that may arise.

Last May, I proposed a new initiative emphasizing the importance of adopting strong and enforceable Federal privacy protections for consumers' financial information. I am very pleased that the Act provides many of the new protections that I proposed.

Under the Act, financial institutions must clearly disclose their privacy policies to customers up front and annually, allowing consumers to make truly informed choices about privacy protection. For the first time, consumers will have an absolute right to know if their financial institution intends to share or sell their personal financial data, either within the corporate family or with an unaffiliated third-party. Consumers will have the right to "opt out" of such information sharing with unaffiliated third parties. These protections constitute a significant change from existing law, under which information on everything from account balances to credit card transactions can be shared or sold by a financial institution without a customer's knowledge or consent. This can include selling information to telemarketers and other non-financial firms.

Of equal importance, these restrictions have teeth. The Act grants regulators full authority to enforce these privacy protections, as well as new rulemaking authority under the existing Fair Credit Reporting Act. In addition, it establishes new penalties to prevent pretext calling, by which unscrupulous persons use trickery to discover the financial assets of consumers. The Act will do nothing to preempt the ability of States to provide stronger privacy protections.

Although these are significant steps forward, we will continue to press for even greater privacy protections – especially choice about whether personal financial information can be shared within a corporate family. The right of privacy is fundamental to Americans, and to this Administration.

The Act streamlines supervision of bank holding companies and preserves financial regulation along functional lines. Activities generally will be overseen by those regulators who are most knowledgeable about a given financial activity, including the Securities and Exchange Commission for securities activities and State regulators for insurance activities. Given the broad new affiliations permissible under this legislation, I fully expect our regulators to work together to protect the integrity of our financial system. The bill also promotes the safety and soundness of the financial system by enhancing the traditional separation of banking and commerce. The bill limits the ability of thrift institutions to affiliate with commercial companies.

There are provisions of the Act that concern us. The Act's redomestication provisions could allow mutual insurance companies to avoid State law protecting policyholders, enriching insiders at the expense of consumers. We intend to monitor any redomestications and State law changes closely, returning to the Congress if necessary. The Act's Federal Home Loan Bank provisions fail to focus the System more on lending to community banks and less on arbitrage activities and short-term lending that do not advance its public purpose.

S. 900 raises certain constitutional issues with respect to the insurance privacy provisions in Title V. The bill might be construed as contrary to Supreme Court decisions that hold that Congress may not compel States to enact or administer a federal regulatory program. I interpret section 505(c) of the bill, however, as providing States with a constitutionally permissible choice of whether to participate in such a program. Those States that choose to participate will gain the powers listed in Section 505(c); those States that decline will not. When Section 505(c) gives States a choice whether to "adopt regulations to carry out this subtitle", I believe that Congress intended to allow States to accept or decline all of the rulemaking and enforcement obligations assigned to State authorities under Sections 501-505 of the bill. This interpretation is consistent with the explanatory statement in the conference report stating that both the rulemaking and enforcement roles of State insurance authorities are voluntary rather than mandatory.

Section 332(b) of the bill provides for Presidential appointment of the board of directors of the National Association of Registered Agents and Brokers (NARAB) established by the bill in the event that certain stated conditions occur. Because members of the NARAB board would exercise significant Federal governmental authority under those conditions, they must be appointed as Officers pursuant to the Appointments Clause of the Constitution. Under section 332(b)(1) of the bill, the President would be required to make such appointments from lists of candidates recommended by the National Association of Insurance Commissioners (NAIC). The Appointments Clause, however, does not permit such restrictions to be imposed upon the President's power of appointment. I therefore do not interpret the restrictions of section 332(b)(1) as binding and will regard any such lists of recommended candidates as advisory only.

The enactment of this legislation may well occasion a wave of mergers and acquisitions among financial institutions, as occurred in the wake of the enactment of the Telecommunications Act of 1996. S. 900 makes it clear that the antitrust enforcement agencies retain their full authority to review such mergers to ensure that competition is safeguarded for the benefit of consumers and the economy. The bill also makes it clear that normal rules for pre-merger notice and review under the Hart-Scott-Rodino Act, which apply outside the banking industry, will apply to all non-banking aspects of future mergers involving combinations of banks and non-banking entities.

The Gramm-Leach-Bliley Act of 1999 is a major achievement that will benefit American consumers, communities, and businesses of all sizes. I thank all of those individuals who played a role in the development and enactment of this historic legislation.