

## Ralph Nader

Gene Sperling  
Director  
National Economic Council  
The White House  
Washington, D. C. 20504

Dear Gene,

The rapid changes in the landscape of the nation's banking industry makes it all the more important that HR 10 not be voted in the House of Representatives this Congress. The Administration's continued opposition to the legislation is critically important.

As you are well aware, the legislation now pending in the House of Representatives was cobbled together behind closed doors by the Republican leadership of the House and a selected few senior Republicans from the Banking and Commerce Committees.

The current wave of mergers throws a spotlight on the inadequate nature of the nation's overlapping and disjointed regulatory system. Ironically, the proponents of HR 10 have made a bad regulatory system worse by giving in to industry whims to scatter regulation among a half dozen federal agencies and insurance, securities and bank regulators in the 50 states. It is certainly not a system to handle regulation of the new world of mega bank mergers much less the conglomerates contemplated in HR 10.

Already, concerns have been expressed by Deputy Comptroller of the Currency Michael Brosnan about new risks posed by the mergers. Mr. Brosnan, who is in charge of risk evaluation for OCC, was quoted in the *American Banker* as warning:

"Huge institutions will be allowed to make much larger transactions with one customer. It's not just loans, but also bond holdings, foreign exchange transactions and other dealings... If these loans are not managed well, banks could end up with a 'lumpy' portfolio that is more affected by an economic downturn."

He warned that some of the big merged banks might choose to concentrate on too many "big-time global clients." If a big customer defaulted, he said, the resulting publicity would hurt the bank's reputation, leading other customers to question its safety.

It is not only the mergers, but now Congress proposes through HR 10 to add securities firms, insurance companies and industrial corporations into the mix of a holding companies conglomerate. Congress and the Administration need to evaluate these risks and determine what regulatory and deposit insurance structure is needed to protect the banking system and the

**P.O. Box 19312 • Washington, DC 20036**  
**Phone: 202-387-8030 or Fax: 202-234-5176**

taxpayers. This is something that needs to be done before consideration is given to expanded powers, not as an afterthought as was the case with the savings and loan legislation in the 1980s.

It would be foolhardy, indeed, if we adopted the failed policies of Asia -- the crony capitalism -- by allowing the mixing of banking and commerce. True, the baskets of permissible commercial ownership are limited, but as former Federal Reserve Chairman Paul Volcker has warned repeatedly these baskets will grow until the walls between banking and commerce become meaningless. The door should not be opened.

Not only are safety and soundness issues ignored, but consumer and community concerns get extremely short shrift in HR 10. The Community Reinvestment Act (CRA) is further wounded by the legislation's insistence that all non-bank activities be pushed out into affiliates where CRA does not apply. Efforts to expand CRA to the affiliates has been rejected.

The Dingell-LaFalce amendment calling for Treasury to produce a study and "program" to deal with this issue is not an adequate answer. Even if such a study and program are drafted in a timely fashion, the proposal would still require Congressional action if it is to have any meaningful enforcement. Action to extend specific CRA-like requirements for securities and insurance firms should be a condition to be included in HR 10, not left to stand alone as a separate bill in some future Congress.

HR 10 needs to go back to the drawing board. Congress needs to conduct extensive hearings into the risk and the impact of the new mergers. The Administration should undertake a top to bottom study of the regulatory system, expanding on the proposals for agency consolidation put forward by the Treasury Department in 1993-1994.

HR 10 should not go forward. The Administration should continue to oppose the legislation and seek longer-term and better approaches than those the financial industry has drafted in conjunction with a handful of leaders in the Congress.

Sincerely,

*Call anytime -*

Ralph Nader