

GUIDANCE ON FINANCIAL MODERNIZATION

November 3, 1999

Q: The Senate may vote as early as today on the Financial Modernization conference report. The House will vote tomorrow. Are you urging Democrats to support the bill? Are you satisfied with the bill's provisions on community reinvestment and privacy? How do you respond to community groups and privacy advocates (and the NYT's editorial) that suggest that you sold short and accepted harmful compromises on Community Reinvestment and Privacy?

A: General

Yes, I am urging all members of the Congress to support the legislation. I believe that the conference report will:

- bring lower costs, more choices, and better protections for consumers;
- promote continued investment in America's communities; and
- provide new opportunities for our financial institutions to compete in the global marketplace.

If we fail to enact this bill now, banks will merge with insurance and securities firms without any consideration of their CRA record and without any privacy protections for consumer financial information. We need to seize this historic moment.

But we will not rest. We will continue to press for even greater privacy protections -- especially effective choice about whether personal financial information can be shared with affiliated companies. There also are other, consumer protection issues that we may need to address quickly, including whether mutual insurance companies are able to avoid state law protections for their policyholders.

CRA

On the CRA issue, I was prepared to veto the legislation if it failed to establish an important new prospective principle: ~~banking organizations seeking to use new non-banking powers must meet their CRA obligations.~~ The conferees met our demands. As a result, thousands of cases where banks want to get involved in securities and insurance activities, previously exempt from CRA review, will for the first time be covered.

We also fought to eliminate wholly unacceptable measures that would have weakened CRA and dramatically narrowed other objectionable provisions. Over the last week, we also reached agreement on legislative history that will help to ensure that the sunshine provisions are interpreted in a way that prevents undue burdens on the community groups.

I want to stop to take a moment to be clear about one thing: I have enormous respect and gratitude for the community groups throughout this country that work to spur new investment in our underserved communities. These organizations have helped banks to meet their community reinvestment obligations by finding the profitable business opportunities that exist for them in their own communities.

Consumer Protections and Privacy

Regarding privacy, compare what's in this bill to the status quo. Today, much of Americans' personal financial data is freely shared and sold. Mergers between large banks and insurance and securities firms happen every day without ANY limitations on the sharing of information between

those firms. If this bill is blocked, sharing will continue without the protections this bill provides.

The Senate bill had no privacy protections and the House bill did not go far enough. We accomplished much in getting additional protection beyond the House bill. This is a good first step, but we must not rest. We will continue to press for even greater privacy protections -- especially effective choice about whether personal financial information can be shared with affiliated companies

Background: On May 4th, you proposed that Congress provide consumers both notice and choice before their information was shared with anyone. The bill provides notice before information can be shared with affiliates or third parties, but provides consumers a chance to opt-out only before information is shared with third parties. There is no choice about information sharing with affiliated firms. Banks told us that they would bring down the bill over that. Given where we started, this is an achievement; but clearly it leaves important gaps unfilled.

Q: How do you respond to those who argue that, by removing the barriers to bank integration with securities and insurance, we risk another savings and loan crisis or a run of bank failures like in the depression?

A: Much has changed since the Depression and the original passage of the Glass-Steagall law that this bill would revise, most notably, passage of the securities laws, creation of the SEC, active regulatory and enforcement activities by that agency, similar state legislation and regulation of insurance underwriting and sales, and stronger bank regulation. This "functional regulation" is preserved and strengthened by this bill.

Moreover, the legislation puts in place effective "firewalls" between banks and their securities and insurance affiliates and subsidiaries.