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United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

February 5, 1987

Mr. Willard C. Butcher
Chairman and Chief Executive Officer
The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, New York 10081

Dear Bill:

I very much enjoyed our meeting last Friday. As a follow-up to that meeting, I believe it might be useful to set forth my objectives on the immediate banking bill I will be proposing to the Committee later this month and on further actions involving bank deregulation.

Assuming I can get the strong backing of the major banking trade associations, I am prepared to submit to the members of the Committee a balanced package providing for the recapitalization of the FSLIC, the so-called regulator's bill on emergency acquisitions, limited securities powers for bank holding companies, the closing of the non-bank bank loophole, and a consumer checkhold bill.

These measures will closely track the progress already achieved by the Committee under Senator Garn's able leadership. My package will not, however, include the Dodd amendment which both Sen. Garn and I opposed. I will continue to oppose the Dodd insurance amendment.

I am strongly committed to the attainment in 1987 of Congressional passage of the four new securities powers discussed in our meeting -- underwriting municipal revenue bonds, mortgage backed securities, and commercial paper, and offering mutual funds. As you are well aware, I am but one vote out of 18 on the Committee, but I intend to do everything possible to insure the success of this effort right through the conference process.

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I understand my position on the Federal Reserve's consideration of the pending applications by banking institutions to engage in limited securities activities has caused some concern within the banking community. I think I can appreciate that concern, and I share your sense of frustration that the Congress has not yet acted on these issues.

At the same time, I hope you can appreciate my strong view that these matters should be decided by the Congress and not by a regulatory agency. As the Chairman of the Senate Banking Committee which has the ultimate responsibility for our banking laws, there is no other position I could responsibly take.

I am equally and as strongly committed to closing the non-bank bank loophole and restoring some sense of stability to our present legal system for regulating banks. I know that some members of the banking community see nothing wrong in letting financial services firms into banking and allowing banks to engage in all financial services. They are willing to face the competition, as long as it is a two-way street, and I can certainly appreciate the logic of that position.

Unfortunately, the practical reality is that the Congress is not yet prepared to authorize sweeping new powers for bank holding companies. Indeed, the last major banking bill enacted into law -- the Garn St Germain Act of 1982 -- actually prohibited bank holding companies from engaging in insurance activities. This was not an antiquated law enacted over 50 years ago in another era. It came just over four years ago.

Because of these realities, I fail to see how keeping the non-bank bank loophole open is in the best interest of banking. Indeed, it seems to me that a failure to close the loophole is a prescription for even greater inequity in our financial system. It will allow large diversified financial services firms (and even retailers) to combine banking with other financial services in a manner that regulated bank holding companies cannot match.

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Like it or not, the non-bank bank loophole has dominated the Banking Committee's agenda for the last four years. And like it or not, it will continue to dominate the agenda unless and until it is definitively resolved by the Congress. In the meantime, there are many important issues in banking that we should be examining that are going unexamined because of the continuing debate over non-bank banks. It is time the Committee and the Congress got on with its business and resolved this issue once and for all.

Assuming that we can move forward and enact a balanced package that provides limited securities powers and closes the non-bank bank loophole, I am prepared to hold wide ranging hearings this year on the changing structure of our financial services industry and what additional changes may be needed to allow banks to remain competitive.

As you know, I have some doubts on whether we need to make wholesale changes in the Glass-Steagall Act and the Bank Holding Company Act. I cannot pledge to you that I will agree with all of the arguments you and other banking leaders may make on the need for change. What I can pledge is that I will keep an open mind as the Banking Committee reviews the issue and I will allow the Committee to work its will.

While it is by now ancient history, you may recall that Regulation Q was the most hotly debated banking issue in the 1970's. For many years, I was an ardent supporter of Regulation Q -- perhaps its strongest supporter on the Committee -- because I believed it helped to assure a stable supply of affordable mortgage credit. But as we saw, the system simply didn't work as intended. I changed my view as did other members of the Congress and I led the successful fight to phase out Regulation Q in 1980.

I only bring this up to show that positions can and do change in response to factual arguments. I am beholden to no special interest on the issue of expanded bank powers. If I can be convinced that expanded bank powers are in the public interest, I will help lead the charge for further change. Moreover, once we get the non-bank bank issue behind us, I will afford the banking community ample opportunity to make its case.

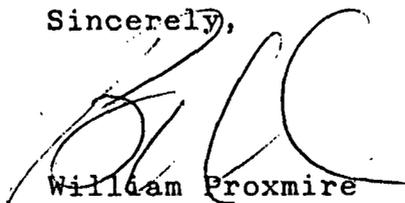
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So that there is no misunderstanding, I should mention that there are other issues on my mind with which you may have some disagreement. These include the issue of FDIC premiums on foreign deposits and concentration caps on bank mergers. I intend to pursue these issues as well over the next several months. It is not my intention, however, to encumber the immediate legislation being considered by the Committee with these items.

It seems to me the balanced package I will be asking the Banking Committee to consider is of great importance to the banking industry. To be sure, it does not go nearly far enough in the direction of expanded powers that many members of the banking industry might consider desirable. But it is a first step and one which only the Congress can take. Until Congress takes that first step, none of the more sweeping changes that you and others have advocated will come about.

I urge you and your colleagues to work with us in getting this balanced package through the Committee and the Congress. If we fail to resolve successfully the limited issues we have struggled with over the last few years, we certainly will not be able to tackle the broader issues of financial restructuring that are of deep concern to you and others within the banking community.

Sincerely,



William Proxmire
Chairman, Senate Banking Committee