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CEO Alert

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TO: ABA Member CEOs

FROM: Ed Yingling, ABA President

Diane Casey-Landry, ABA Chief Operating Officer

RE: **Treasury "Blueprint for a Modernized Financial Regulatory Structure"**

Background. Treasury convened a conference on capital markets competitiveness in March 2007, at which industry and policymaker participants concluded that the current regulatory structure is an impediment to a more competitive financial services sector. With that as a catalyst, Treasury Secretary Henry Paulson launched a major study to reform the regulatory structure, culminating in the release today of a sweeping 200-page report outlining short-, intermediate- and long-term recommendations.

Content. Among the recommendations are the long-term, significant restructuring of the financial regulatory system and the phase-out of the federal thrift charter and its regulator. It would also create a new federal Mortgage Origination Commission to evaluate, rate and report on the adequacy of each state's system for licensing and regulating participants in the mortgage-origination process. Longer term, the proposal suggests reconstituting the FDIC as a federal insurance guarantee corporation.

Analysis. There are some extremely troubling provisions in the blueprint:

— The long-term reorganization of the financial regulatory system into a cluster of agencies would likely cripple the dual banking system by undermining state charters and making it difficult for them to run a business. All banks with deposit insurance would be subject to direct customer protection regulations by the proposed new "Business Conduct Regulator," with broad powers that would supplant state supervisors.

— The federal thrift charter would be phased out; the OTS, which would be rendered defunct, would be swept into the OCC. As long as homeownership remains a high priority — and ABA believes that it must — we need to promote and finance traditional home ownership.

Even before Treasury held its press conference this morning unveiling its blueprint, we issued a statement, based on an advance copy of the proposal's executive summary, opposing these two recommendations. "For nearly 150 years, our dual banking system of state and national banking charter options has been a source of innovation and vitality that has served banking customers well. Almost 70 percent of banks today hold state charters, all of which are jeopardized by the provisions of the blueprint."

The thrift charter is a strong point in our financial system, converting savings into new home opportunities. "We are no more ready to abandon the thrift charter than we are to abandon the American family dream of living in a house that [they] own," our statement said.

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The proposal is not without its good points. Uniform and universal mortgage standards, effectively enforced, are needed for all firms. Better information must accompany any regular access to borrowing from the Federal Reserve. We welcome support for an optional federal charter for insurers.

Given the uncertainties in the market, Treasury's focus should be on addressing immediate problems — problems associated with mortgage originations by inadequately supervised brokers, the nature of information needed by the Federal Reserve in connection with expanded access to its funding facilities, and strengthening coordinated efforts to encourage economic growth. The Treasury proposal's short-term recommendations touch on these, but they could easily get lost in more wide-ranging discussions that push regulatory restructuring, but don't provide regulatory improvement.

There is also a very real concern that the proposal provides for no regulatory relief and appears to add to the regulatory burden and complication of an already overburdened system.

What's next. The timing of this proposal is highly unusual since it comes so late in the Bush administration and in the midst of a housing crisis. Treasury's intention is to leave behind a blueprint for reform, but there's not enough time left for the blueprint to move far from the table. The report may generate some hearings and possibly the expansion of the President's Working Group on Financial Markets, another of its proposals. But much will be left to the succeeding administration — and it is unlikely that a new administration would want to wade into the swamp of regulatory restructuring.

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