Banking by John Hoefle

Clinton buys the deregulation line

But even as the Treasury promises breaks for bankers, Rep. Henry Gonzalez is moving to tighten regulatory control.

Deputy Treasury Secretary Roger Altman previewed the Clinton administration's plan to further deregulate the already dangerously underregulated U.S. banking system, in a speech March 8 to the Institute for International Bankers. The administration's plan, Altman promised the bankers, "will modernize a series of outdated regulations and examiner attitudes, and make it easier for lenders to lend."

Those "outdated regulations" of which Altman speaks include the Glass-Steagall Act and related measures passed in the wake of the Great Depression of the 1930s—measures specifically designed to reign in some of the more predatory and criminal practices of the big banks. That those regulations are now being vilified as obstacles to the expansion of the banking system, says volumes about the bankers' intentions.

So, too, does the talk of "outdated examiner attitudes." The job of a bank examiner is to verify that the banks' books are honestly kept, that assets and liabilities are properly valued, and that the balance sheets accurately reflect the financial conditions of the banks. Bank examiners are supposed to be guardians of the public trust, but the Clinton administration, like the Bush administration before it, is demanding that they instead be cheerleaders for the bankers. The tendency for some examiners to reveal bad loans, rather than covering them up, is one of the "outmoded attitudes" of which Altman complains.

Altman, it should be noted, came to the administration from the Blackstone Group, one of Wall Street's upper-crust investment firms. Peter Peterson, head of Blackstone, is the chairman of the elite New York Council on Foreign Relations.

The basic thrust of the Clinton plan is to reduce the federal government's regulatory control over the banks, while attempting to boost the faltering real estate market.

Under the proposal, banks ranked in the first two of the five supervisory categories would be freed from many of the rules on lending criteria and loan documentation on certain small-business loans which are based upon the borrower's character and reputation in the community, rather than strictly on his ability to repay. The regulatory agencies will also work together to eliminate duplication and conflicting guidance to banks. The regulators would establish ombudsmen to field complaints from banks about problems with examiners or other officials, as well as complaints from rejected borrowers who believe they were discriminated against.

The Clinton proposal would make it easier for banks to unload their huge holdings of foreclosed real estate—$28 billion as of the third quarter of 1992, the last quarter for which figures have been released. The plan would let banks lend money to someone who buys those foreclosed properties, and carry those loans on their books as normal, performing loans, something the current regulations do not allow. Appraisal requirements will be reduced or even eliminated on smaller loans, and examiners will be ordered not to write down troubled loans to their current market value.

All told, the Clinton proposal will allow the banks more leeway to speculate on real estate and to roll over unpayable loans. It will make a disastrous situation even worse.

Meanwhile, a pair of bills to restructure the federal bank regulatory system has been introduced in the House.

H.B. 1214, the Regulatory Consolidation Act of 1933, was introduced March 4 by House Banking Committee Chairman Henry B. Gonzalez (D-Tex.). Gonzalez's bill would combine the regulatory functions of the Federal Reserve, the Federal Deposit Insurance Corp., the Office of the Comptroller of the Currency, and the Office of Thrift Supervision, into a single new agency, the Federal Banking Commission (FBC). The Federal Reserve would retain its powers as a central bank, and the FDIC would continue to administer the bank and savings and loan deposit insurance funds. The OCC and OTS would be abolished.

Gonzalez said the FBC would be more accountable and responsive to the public, because it would be independent from the Treasury.

"The savings and loan crisis taught us that we must protect the industry and the insurance funds from any attempt by the Executive branch to use bank regulators as willing or unwilling political operatives," he said.

Rep. Jim Leach (R-Iowa), the ranking Republican on the banking committee, introduced a competing bill, H.R. 1227, the Bank Regulatory Consolidation and Reform Act of 1993, which would combine the OCC and OTS into a new Federal Bank Agency. Leach's bill would give the Federal Reserve control over the big banks, while letting the FBA and FDIC divide up the small banks and thrifts.