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There's an old Persian fable about three noblemen who keep stumbling upon wonders. In the course of their travels together, they find themselves -- unexpectedly -- on the paradise island of Serendip. As the author John Barth explains, don't reach Serendip by plotting a course for it. You have to set out in good faith elsewhere and lose your bearings serendipitously."

History is full of happy accidents and unpredicted outcomes. Christopher Columbus discovered the New World instead of an alternate route to Asia. Alexander Graham Bell, working on a hearing aid for his wife when he hit upon the idea for the telephone, in Housing and Finance, which began twenty years ago as a group of five professional networking at lunch, is today an organization of men and women, more than 700 strong have become a major force on the local and national scene. I congratulate you on yo anniversary.

Serendipity has also played an important role in the evolution of our financial system. When Congress created the national banking system in 1863, it didn't intend for state national banks to coexist as they do today. Indeed, it was Congress's original expectation and fervent wish that the national charter would be so attractive that it would drive all others from the field. When market forces failed to do the job, Congress to provide the necessary push in the form of a tax on state banks. But that didn't either, and neither did various other proposals down through the years to unify the charter. Like the cat with nine lives, the state banks survived and the dual banking system flourished. Not coincidentally, so has our nation's economy.

With hindsight, it's clear that attempts to suppress dual banking were both futile and ill-advised. Our system of charter and supervisory options may not conform to a predetermined model of bureaucratic organization. It may lack simplicity and well-defined lines of authority. But it does reflect fundamental values cherished by American competition, federalism, and freedom of choice. It seems to me, in other words, that dual banking system has persisted as an institution, despite its complexities and defying efforts to eradicate it, because it's an authentic reflection of what we believe -- we practice -- as a people. Balancing supervisory authority between Washington and the states has contributed to a responsive, innovative, and stable banking system capable of accommodating the full diversity of our economic life -- a system that's the envy of the world.

One reason the system has thrived is that, after coming to a belated appreciation of its value, Congress intervened at critical intervals to maintain a healthy balance and ensure that the state and national bank charters kept pace with one another. Through legislation, Federal regulators and national banks obtained the authority to match innovations and incentives coming from their state counterparts. For example, in response to urgent pleas from the Comptroller of the Currency, Congress in 1927 passed the McAct, granting national banks branching powers roughly equivalent to those already enjoyed by many state banks. And it relaxed other legal restrictions -- such as those barring national banks from offering safe deposit boxes and making most real estate loans -- were eroding the value of the national bank franchise.

At the same time, Congress has been cautious about encroaching on the authority of the states to charter and empower banks. For example, excepting only insurance under the states have been left free to allow their banks to engage in activities not permitted for national banks so long as the FDIC determines the activity would not pose a sign...
risk to the insurance fund.

Let me add that this process has not been a one-way street. Many states have enacted "wild card" statutes -- laws that allow state-chartered banks to exercise powers available to national banks.

Nor -- despite what some critics say -- has the process been a "race to the bottom." Back in early 1960s, under Comptroller James J. Saxon, the OCC concentrated on upgrading the qualifications and skills of its examination force. This led to calls from state and federal authorities to match these improvements. The quality of examinations improved significantly on both sides, and the whole dual banking system emerged the other side for it.

In short, what former Federal Reserve Board chairman Arthur Burns called -- in memorable if misleading terms -- "a competition in laxity" between state and Federal authorities -- has actually been a textbook case of federalism in action. The competition between state and national authority has produced a safe and sound banking system, efficient and effective supervisory regime, and regulatory structures capable of adapting to the demands of an evolving marketplace.

The point is that, while the dual banking system today is healthy and strong, it requires care and feeding to keep it that way. History shows that the absence of needed legislation -- or the enactment of the wrong kind of legislation -- can do it real damage.

We happen to be at one of those critical crossroads when Congress seems to be moving toward action on comprehensive banking legislation. I'm concerned, however, that so current legislative proposals would upset the balance between state and national bank context of the dual banking system. Last year's version of H.R. 10, for example, profusion of provisions that would have discriminated--wholly unjustifiably--against banks, and some of the most ardent proponents of financial modernization continue to call for Congress to impose discriminatory restrictions on national banks.

You have all heard the arguments about the pros and cons of operating subsidiaries. Some have argued that Congress should deprive national banking organizations of the flexibility to choose the format that suits their needs best in the name of containing some elusive "subsidy." On the other hand, the FDIC -- the agency with the greatest interest in preserving the safety and soundness of banks -- has consistently made the point that flexibility advances safety and soundness, by allowing banks to diversify their income streams, rather than forcing revenue and capital out of the banks to benefit Fed-regulated holding companies.

I don't want to embroil you again in the esoterica of op subs. But I do want to make the point on the impact on the dual banking system of the position proposed by the anti-op sub camp.

First of all, for some reason, this camp seems to be opposed to op subs only when they apply to newly authorized financial activities conducted by national banks. Despite the fact that spreading the alleged "subsidy" and their claim that op subs generally are in with safety and soundness, they have not proposed to apply a similar blanket prohibition to national banks. They seem willing to accept a structure in which the states are relatively free to permit new activities for state banks, subject only to the FDIC determination that no risk is presented to the insurance fund, while flatly prohibiting comparable new activities for national bank subsidiaries.

How can we explain this inconsistency? Political realism -- to put the best light on it -- is one possibility. The 50 state banking systems constitute a formidable political force that would surely mobilize in opposition to any overt proposal that op subs for national banks should be outlawed in the manner proposed for national banks.

But any apparent advantage for state banks may be short lived. If those who want to put national banks in an organizational straitjacket succeed in doing so -- ostensibly in the name of curtailing the spread of some "subsidy" -- how long do you think it would be
someone got the idea of applying the same limits to state banks? After all, if a sub
exists, and if the op sub presents a safety and soundness issue, it's hard to see wh
 rationale would support legislation that arbitrarily allows some banks to own subsid
but not others, based on the source of their charter.

Please don't misunderstand me. I am not by any means suggesting that limits sh
be placed on state bank op subs. I am in favor of freedom of choice -- a fundamenta
principle of the dual banking system -- for state as well as national banks. The st
have, with the concurrence of the FDIC, authorized a variety of activities for state
chartered banks, and I think they should be permitted to do so. My point is simply
the states cannot be complacent in the face of proposals to restrict the activities
national banks. To paraphrase John Donne, the bell tolls for them, too.

While the debate on this issue has focussed on those proposals that would expli
discriminate against national banks, opponents of the op sub have, to be fair to the
selectively proposed that Congress should do additional damage to the dual banking s
by cutting back on some of the powers of state banks through a new expansion of Glas
Steagall. Despite the fact that a foundation stone of financial modernization legis
has been the repeal of provisions of Glass-Steagall, those opposed to op subs have a
tried to extend the reach of section 21 of Glass-Steagall. Section 21 as it now exi
prohibits a deposit-taking institution from engaging in securities underwriting in t
entity. It does not reach relationships with affiliates -- sister companies or subs
that might engage in securities activities. Those relationships have been govern
sections 20 and 32, the very sections everyone agrees ought to be repealed.

The consequence of extending section 21, as the anti-op sub forces have propose
be to outlaw securities activities for all bank subsidiaries -- state and national a
Unlike sections 20 and 32, section 21 is not limited in its reach to member banks of
Federal Reserve System. This would effectively nullify the existing power of state
engage through subsidiaries in securities underwriting -- an activity the FDIC has a
found not to pose a risk to the insurance fund.

Why, it should be asked, more than 65 years after Glass-Steagall was enacted; a
when it is almost universally regarded as obsolete and eminently repealable; at a ti
section 20 affiliates of member banks have engaged in securities underwriting under
Reserve jurisdiction for a number of years without apparent problems, should it be n
ecessary to prohibit the same securities activities for bank subsidiaries, state an
alike?

More to the point, why should Congress accept such a proposal to cut back on po
that a number of states have already granted to their banks? To put the kindest face
this proposal is not only retrogressive, but quite inconsistent with a decent respec
dual banking system. Once again, state banks should take care that they know for wh
bell tolls.

There are other gratuitous ways in which various versions of the legislation wo
violence to the dual banking system. For example, in some versions of financial
modernization legislation, national banks and their subsidiaries would be barred fro
title insurance, while state banks and their subsidiaries could continue to sell tit
insurance. In addition, while a majority of states currently permit state banks to
agents for the sale of insurance, with no restrictions on the size of the locality i
they operate, all the pending versions of financial modernization legislation would
perpetuate the archaic "place of 5,000" limit on the ability of national banks to ac
insurance agents.

I'm sure there are some state banks that might welcome and support these provi
It's hard not to feel like a winner when you come out ahead of the other guy.

But I believe state banks and their supervisors would be terribly shortsighted
ignored the implications of these discriminatory provisions. Once the precedent is
established of accepting anticompetitive provisions -- whether they involve operati
subsidiaries, product restrictions, activity limits, or discrimination among types o
-- everyone is fair game.

For more than a century, the fortunes of state and national banks have been ine
linked. That is still true today. State banking interests should keep in mind that
strength has traditionally also been their strength and vice versa. Competition can
inconvenient and even painful in the short term, but its long term benefits are inca
Without the competition we provide each other, without the stimulus we generate to i
and innovate, we may all be threatened with stagnation. And that's not in the inter
the American people.

At the outset of my remarks, I suggested that the remarkable resilience of the
banking system over the years derives from the fact that it's a true expression of o
national character. Above all, we Americans are a pragmatic people; we embrace what
The dual banking system is around today not because it was part of anyone's master p
but because it's helped us attain our goal of a buoyant, prosperous economy. We sho
think twice -- or three times -- before enacting legislation that would cause profou
injury to an institution that has been so instrumental in helping us achieve our nat
success.

Thank you.