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Office of Thrift Supervision

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OTS' RETSINAS URGES MODERNIZATION; CITES THRIFT HOLDING COMPANY MODEL

WASHINGTON, D.C., Feb. 13, 1997 - Declaring the time is right for financial modernization, the nation's top thrift regulator urged Congress today in written testimony to embrace the fundamental objective of "enhancing the business opportunities and the market competitiveness of insured institutions, while providing the best possible service to consumers.

"We must grant insured institutions the greatest degree of latitude and flexibility to pursue business strategies that optimize their health and profitability and safeguard the federal deposit insurance funds," asserted Nicolas Retsinas, director of the Office of Thrift Supervision (OTS). Failing to do so "would not only miss an opportunity to enhance financial competitiveness, but also could prove to be a fundamental flaw in our reform efforts." Retsinas' testimony was prepared for a subcommittee of the House Banking Committee.

While acknowledging that mixing banking and commerce is highly controversial and the reason previous attempts at financial modernization have failed, Retsinas emphasized that insured savings associations have for years affiliated with and been owned by myriad commercial entities through the thrift holding company structure. Today there are more than 700 such companies, with some engaged in enterprises as diverse as paper and wood products, food service and state carpenters union pension funds.

"Our limited experience has been that affiliations with commercial firms do not involve inherently greater risk to a thrift than affiliations between a thrift and more traditional `financial services' companies," Retsinas stated.

"They generally have presented no safety and soundness problems to their insured subsidiaries," he added. These parents have infused several billion dollars in equity capital into thrifts...to expand customer services and maintain capital, and in many cases decreased taxpayer exposure to potential federal deposit insurance losses.

Business flexibility is one of four principles Retsinas stated should guide the debate on financial modernization. The other three are:

- Minimize needless transitional and regulatory burdens on insured institutions. Institutions should not have to divest existing, profitable business activities, and they should be able to convert automatically to any new modernized charter, or "opt out" to a state charter.
- Avoid substituting the federal government's judgment about the proper role of the financial services industry for that of the marketplace, absent a compelling safety and soundness concern.
- Maintain a structure that does not hinder or impede the ability of insured institutions to continue to provide community-based financial services. Many consumers prefer banking at a local community-based institution. Institutions that focus on housing finance should not be forced to abandon a business that not only is profitable, but also fulfills a very important public purpose.

Retsinas assured that "applying these principles to whatever financial modernization reforms we consider will help our insured depository institutions to compete effectively in the future. Only after the wisdom of a reform is accepted should regulatory and supervisory structures be addressed."

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