Statement

of

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Office of Thrift Supervision

concerning the

FINANCIAL REGULATORY RELIEF AND ECONOMIC EFFICIENCY ACT

before the

Committee on Banking, Housing and Urban Affairs
United States Senate

March 10, 1998

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I. Introduction

Mr. Chairman and members of the Committee, good morning and thank you for the invitation to discuss the Financial Regulatory Relief and Economic Efficiency Act of 1997 ("FRREEA"). We at the Office of Thrift Supervision ("OTS") are continually looking for ways to reduce regulatory burden on the institutions we regulate while fulfilling our statutory mission to protect their safety and soundness. We support the FRREEA and the goals it seeks to achieve.

Unnecessary regulatory burden is always a drag on insured depository institutions. Its impact today, however, is perhaps even more significant, as increased technology and quickening competition in the financial services industry compel institutions to streamline and improve their efficiency in order to survive. As regulators, we have an obligation to allow the institutions we supervise as much flexibility as possible in running their businesses, subject, of course, to prudent oversight of safety and soundness and compliance with laws that have other critical goals. This approach helps institutions to better serve the credit and banking needs of their local communities.

I want to thank Senators Shelby and Mack, co-sponsors of the FRREEA, for their continuing focus on reducing the regulatory burdens imposed on insured depository institutions. Reducing regulatory burden helps institutions maintain their flexibility and competitiveness in operating their businesses. The Senators and their staffs have invested substantial time and effort on this bill, and their contributions to this important regulatory initiative are much appreciated.

By design, thrifts generally are very good at providing community-focused financial services and products. Given their specialty in financing residential home mortgages, thrifts often have well-established, deep ties in their local communities. Those contacts, coupled with thrifts' recently expanded ability to meet a wide variety of community credit needs, have enabled many thrifts to become model, community-based financial services providers. Even in this time of mega-mergers and nationwide franchises, millions of consumers and businesses prefer to do business with a local institution that they know and that knows them. Legislation that furthers thrifts' and banks' ability to more effectively serve the credit needs of their entire community is good government and good business.

The FRREEA is the latest example of recent legislative initiatives to streamline and modernize the regulation of federally insured depository institutions. These efforts have produced the Riegle Community Development and Regulatory Improvement Act of 1994 ("CDRIA"), the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, and the Economic Growth and Regulatory Paperwork Reduction Act of 1996 ("EGRPRA"). Each of these laws has had a significant positive impact on thrifts' and banks' ability to operate their businesses with less interference from regulators.

EGRPRA, the most recent example, contains a number of provisions that allowed institutions, and savings associations in particular, to operate with greater regulatory flexibility. By increasing the ability of thrifts to make small business, credit card, education and consumer loans, EGRPRA is enabling thrifts to meet a wider variety of their communities' credit needs, and is enhancing their value as participating members of healthy, thriving neighborhoods.

II. Major Provisions of the Bill

A. Thrift Community Credit Enhancement Provisions

The proposed legislation builds upon the legacy of EGRPRA with two provisions that will allow thrifts to more ably and effectively provide financial products and services to their local communities. In combination, the provisions—dealing with thrift service companies and thrifts' community development investment authority—will enhance the contributions thrifts can make to the development and vitalization of their communities.

Another provision, not currently in the bill, but which my staff recently discussed with Senate Banking Committee staff, would advance thrifts' community development efforts even more. This initiative would update thrifts' authority to invest in small business investment corporations and grant thrifts the same authority to invest in small business investment corporations currently enjoyed by national and state-chartered banks.

1. Thrift Service Company Safety and Soundness and Community Development Enhancements (§ 105)

In our view, the proposed thrift service company amendment is one of the strongest features of the bill. It will help with the Year 2000 computer issue and will enhance thrifts' ability to participate in critical community development activities going forward.

Critically, the amendment would provide OTS the authority to examine the operations of companies that provide services for savings associations, their subsidiaries, or affiliates. This authority parallels that of the other federal banking agencies under the Bank Service Company Act. It is also substantially similar to the power granted the OTS in H.R. 3116, which recently passed by voice vote in the House and, I am pleased to note, was passed on the Senate floor by voice vote on Friday, March 6. That bill, which Senators Bennett and Dodd of this Committee were instrumental in securing passage of, is particularly important to our continuing efforts to prepare the thrift industry for Year 2000 computer compliance.

We applaud the Senators' leadership on this important issue. Regardless of how the authority to examine service providers is conferred, we believe it is critical that we be given that authority as soon as possible.

In the past, the lack of examination authority over service providers has hindered the OTS's ability to monitor savings associations' participation in electronic funds transactions and in dealing with Year 2000 computer problems. This provision would resolve these problems and would greatly assist the OTS in its efforts to ensure that savings associations are prepared for the turnover to the Year 2000.

The provision would also remove the current requirements that a federal thrift may only invest in a service corporation that is chartered in the savings association's home state and that a service corporation's stock must be available only for purchase by savings associations. Historically, these requirements have impeded thrifts' ability to make community development investments.

For example, a federal thrift cannot currently use its service corporation authority to invest jointly with a national bank in a community development corporation. Thrifts have to go through the cumbersome step of setting up a second-tier service corporation to invest in community development financial institutions and national, multi-bank community development corporations. We believe the expense of this process has discouraged thrift community development investments. Modifying the thrift-only ownership requirement will facilitate the formation of effective partnerships between thrifts and banks with other community groups to promote community development, while diversifying risk. We understand that there may be some concern with the breadth of our proposed change and have suggested modifications that would more effectively target community development investments.

2. Thrift Community Development Investment Authority (§ 201)

Another feature of the bill, § 201, would promote thrifts' ability to contribute to the growth and stability of their local communities by updating thrifts' statutory authority to make community development investments. This provision replaces obsolete statutory cross-references that have caused confusion about thrifts' ability to invest in community development projects and companies.

Under current law, a savings association may invest a specified amount of its assets in real estate or loans secured by real estate located in certain areas receiving concentrated development assistance by a local government under Title I of the Housing and Community Development Act of 1974. The concept of community development assistance under Title I programs has changed since thrifts were given the existing, but outdated, statutory authority. As a result, investment opportunities that meet the technical requirements of the statute are virtually nonexistent, and we have found it difficult to promote the spirit and intent of Congress' determination to allow thrifts to make such community development investments.

The proposed amendment would replace the obsolete statutory cross-references with the same statutory language that currently defines the types of community development investments that can be made by national banks and state member banks, i.e., investments "for the primary purpose of promoting the public welfare." This change, along with removing the above-referenced service corporation investment restrictions, should provide federal thrifts with community development investment authority similar to that available to national banks.

3. Thrift Small Business Investment Company Authority

Another provision that we believe would be a useful addition to the FRREEA is to restore to thrifts the authority to invest in small business investment companies ("SBIC"). Updating this authority is important, and we urge that such a provision be included in the bill. Such authority would give thrifts another tool to enhance their ability to serve their communities' banking needs.

Amendments made in 1996 by EGRPRA to the Small Business Investment Act effectively nullified thrifts' ability to invest in SBICs, but left unchanged the ability of national banks and state-chartered banks to make such investments. We urge the Committee to provide thrifts the same SBIC investment authority as national and state-chartered banks. Updating thrifts' authority to invest in SBICs will enhance their ability to provide capital to small businesses, the backbone of any business community. Making more credit available to local business, in turn, strengthens local communities and neighborhoods.

B. Thrift Liquidity Requirement (§ 103)

Section 103 of the FRREEA would repeal § 6 of the Home Owners' Loan Act ("HOLA"), which requires that a savings association hold liquid assets in an amount no less than 4 and up to 10 percent, as determined by the OTS Director, of their total demand deposits and borrowings payable within one year. The amendment would remove the liquidity requirement for federal thrifts and make conforming amendments to the HOLA investment provisions' definition of "liquidity investments" to ensure that such investments would still be authorized, though no longer required.

For many years now, the OTS has been of the opinion that the liquidity requirement for thrifts no longer served its original purposes and should be eliminated. Thrifts' liquidity will still be an important component of the CAMELS rating system, as it is for banks. Accordingly, we are pleased that the bill proposes eliminating the outdated liquidity requirement that thrifts are still subject to.

C. Uniform Dividend Notice Requirement (§ 104)

Section 104 of the bill would repeal the requirement that savings associations owned by savings and loan holding companies (“SLHC”) provide the OTS with 30 days’ advance notice of the payment of any dividend. It is our understanding that the Committee is considering replacing this section with a uniform dividend notice requirement applicable to thrifts and national banks.

The new provision would amend the HOLA and the Revised Statutes to provide that all savings associations and national banks, respectively, must provide 20 days’ advance notice to their respective federal regulator of a proposed declaration of dividends above a certain amount. The amendment would not impede the federal regulators’ ability to disapprove the distribution of a particular dividend and promulgate regulations to set whatever additional criteria they determine are appropriate.

Under current law, different statutory requirements on dividends apply to savings associations and national banks. For instance, as noted above, savings associations owned by SLHCs now must provide the OTS with 30 days’ advance notice of the payment of any dividend. Moreover, no statutory notice requirement applies to savings associations controlled by individuals or owned by bank holding companies. By contrast, national banks are statutorily required to obtain approval only to declare a dividend in excess of the aggregate of the bank’s current year-to-date and preceding two years’ retained income. In January of this year, OTS proposed revisions to our capital distribution regulations that would align our dividend notification requirements more closely with those of the banking agencies.

The new statutory uniform dividend provision would further standardize the procedures for declaring dividends, and reduce regulatory overlap and confusion by subjecting all federally chartered institutions to the same requirements. Substituting a notice requirement for prior approval requirements should also reduce regulatory burden on both federal thrifts and national banks.

D. Mutual Holding Company Provision (§ 209)

Another provision of the bill would substantially revise the HOLA's existing mutual holding company ("MHC") provisions. For several reasons, the OTS recommends that the Committee defer consideration of this provision at this time.

The current statutory model for chartering MHCs was enacted at a time when there was a great need for capital infusions in the thrift industry. The statutory provisions sought to strike a delicate balance between the rights of mutual account holders and newly authorized stockholders. We believe that the process we have developed to charter MHCs strikes this balance. Our approach has allowed mutual thrifts substantial flexibility in forming corporate structures that bring in additional capital while protecting and preserving the interests of the stakeholders of mutual thrifts—their depositors.

Over time, the OTS has modified and refined its rules to accommodate changes in circumstances. Responding to some of the same concerns that underlie § 209, the OTS just yesterday published revisions to our MHC regulations. The major issues addressed in the new rule are the chartering authority for intermediate MHCs and MHC dividend and stock repurchase policies.

In considering these issues, it is important to understand the peculiar nature of thrift mutual-to-stock conversions. There is, simply put, a very significant price—with recent market conditions making the numbers even more significant—paid to the institution, or to those who have the knowledge and financial ability to buy into the initial offering, for a franchise value that often has been built up over decades. Our goal is to keep as much of the preconversion franchise value as possible with the institution, its community, and its true depositor base—people who frequently do not fully understand or have the financial ability to take advantage of the opportunity offered in the initial public offering.

In 1987, seeking to provide mutual thrifts the ability to raise capital while preserving their mutual ownership, Congress enacted legislation establishing the MHC structure. Two years later, Congress clarified that MHCs must be federally chartered and regulated, thereby enabling the OTS to assure that the unique attributes of mutuality are effectively maintained unless and until there is a full conversion to stock form. The clarification also avoided problems with a state regulating a MHC that is the repository of a federally chartered thrift's mutual members' legal and economic interests. These include ensuring that MHC dividend and stock repurchase policies do not unfairly disadvantage former mutual depositors whose only continuing interest in an institution is through their "ownership" of the MHC.

Our new regulation provides MHCs the flexibility to form intermediate or subsidiary holding companies. The rule provides mutual thrifts increased flexibility to establish corporate structures that enable them to take advantage of market opportunities while at the same time protecting the unique rights of mutual depositors and preserving our supervisory ability to deal with troubled institutions.

The rule also continues our policy that all entities in the corporate chain between the former mutual savings association and the MHC that is still owned by depositors must be federally chartered and regulated. The new rule likewise continues a policy that scrutinizes dividend waivers and prohibits multi-class stock structures that can elevate the interests of new minority shareholders of the thrift over the interests of the mutual depositors. At the same time, the rule provides greater flexibility for stock repurchases. We believe these changes are consistent with the MHC statute that Congress adopted in 1987, which in our experience has worked reasonably well.

We urge that the industry be given an opportunity to work with this new rule before considering wholesale changes in the underlying statutory structure. In particular, as I will describe, we have concerns with four parts of § 209: provisions authorizing a MHC's subsidiary stock holding company to be state-chartered; allowing an intermediate stock holding company to have two classes of stock, differentiated only by dividend rights; limiting subscription rights to voting shares issued in connection with the initial reorganization of a mutual thrift; and providing stock subscription rights only to mutual account holders who have voting rights.

First, the reason we require an intermediate stock MHC to be federally chartered derives from its unique hybrid structure—part mutual, part stock. The OTS has attempted to ensure that the interests of a MHC's mutual members are not diminished or exploited to create windfalls for more sophisticated third parties acquiring a stock interest in the structure. Permitting a state-chartered corporation to control a federal thrift in a MHC structure could diminish the OTS's ability to regulate the corporate governance provisions of the intermediate holding company, and create potential conflicts between federal and state regulation. Moreover, this would substantially reduce the agency's ability to regulate the MHC structure to protect the rights of its mutual members.

Requiring such an intermediate MHC to be federally chartered also protects the OTS's ability to seek the appointment of a trustee as receiver of the company whenever a parent MHC, an intermediate MHC, or a thrift subsidiary is in default. This ensures that the receiver of a MHC has maximum flexibility to liquidate the assets of the stock holding company to ensure that any losses to the FDIC as insurer are minimized.

OTS has no objection to a full state MHC structure – a state-chartered MHC, state-chartered intermediate stock MHC, and a state-chartered savings bank. The MHCs in that structure would be bank holding companies regulated by the Federal Reserve Board. We have never stood in the way of converting to state charters.

Second, we are concerned about permitting an intermediate stock MHC or thrift subsidiary to issue two classes of voting stock with identical features except for dividend rights. In essence, the proposal would permit all of the earnings generated by a thrift subsidiary or intermediate stock holding company to be paid as dividends to minority shareholders, with no dividend payments to the MHC and its mutual members. In our view, this would amount to an inappropriate diversion of the earnings of a savings association to the minority stockholders at the expense of the MHC and its account holders. It would also effectively absolve a MHC's board of directors of their fiduciary duty to determine that a dividend waiver is in the best interest of a MHC's members.

Third, we are troubled by a provision in § 209 that would operate to limit mutual account holders' subscription rights to voting shares issued in the initial MHC reorganization of the thrift. In effect, this would permit a thrift to issue, in a subsequent conversion offering, a substantial portion of its conversion shares to individuals who have no relationship with the thrift, and would unfairly exclude the association's account holders in the offering. In our view, this would negate the fundamental, traditional right of mutual account holders' priority subscription rights in the context of a conversion.

We note that our new rule provides greater flexibility in this area and relieves some of the major concerns we have with § 209. Breaking from past policy requiring mutual account holders to receive priority subscription rights in all cases, including stock-for-stock merger transactions, the new rule provides that the OTS will consider properly valued stock-for-stock merger transactions without requiring that account holders receive priority subscription rights. We believe this is an effective compromise that will eliminate unnecessary restrictions on the operations of MHCs while protecting the interests of mutual account holders.

Finally, we are concerned with a provision of § 209 that would allow subscription rights to extend only to mutual account holders who have voting rights under the subsidiary thrift's charter. We are not aware of any instance, other than supervisory cases, where the OTS or its predecessor has limited depositors' subscription rights in such a manner. We believe this provision of § 209 would represent a fundamental departure from the historical treatment of depositors in mutual-to-stock conversions. Moreover, we are not aware of any instance where the granting of subscription rights, without reference to voting rights, has limited a mutual institution in either converting to stock form or forming a MHC. As such, this aspect of § 209 appears to be unnecessary, particularly given the legitimate interests of mutual depositors.

Accordingly, we again ask that the Committee defer consideration of § 209 and give the OTS and the industry time to work with the new rule to address these concerns.

III. Other Provisions of the Bill

A. Repeal of Anti-tying Restrictions (§ 204)

Section 204 would repeal the anti-tying provisions in the Bank Holding Company Act that prohibit a bank from conditioning the extension of credit or furnishing of services on the customer obtaining certain other services from the bank or bank holding company. It is our understanding that the intent of this provision is to authorize bank pricing discounts to customers who elect to obtain a bundle of services or financial products from an institution. We note, however, that as drafted § 204 may be construed much more broadly than what was intended. Accordingly, we recommend that the proposed statutory language be revised to reflect the apparent intent of the provision, as described herein, and we believe it appropriate that the same authority be extended to thrifts.

B. Elimination of Thrift Multistate Multiple Holding Company Restrictions (§ 106)

Section 106 would eliminate the restriction on interstate acquisition of savings associations by a multiple SLHC. Under current law, a bank holding company may own thrift subsidiaries in separate states, but a SLHC may not, unless one of three exemptions is applicable. In addition, federal thrifts, as well as savings associations in various states, may expand into additional states through branching. In light of these factors, we believe the branching restriction on multiple SLHCs is obsolete and its statutory repeal is therefore appropriate.

C. Noncontrolling Investments by Savings and Loan Holding Companies (§ 107)

Section 107 would allow a SLHC to acquire or retain a 5 to 25 percent non-controlling interest of another SLHC or savings association, subject to the approval of the OTS. Under current law, a SLHC may acquire or retain a less than 5 percent interest in a SLHC or savings association, and with approval, may acquire a 5 to 25 percent controlling interest in a SLHC or savings association. We are aware of no policy reason to bar non-controlling levels of ownership between 5 and 25 percent and we therefore support this provision.

In addition, the ability to make non-controlling investments in thrifts will assist institutions engaging in a qualified stock issuance ("QSI") authorized under HOLA § 5(q). Under current law, pursuant to a QSI, an undercapitalized thrift may sell up to 15 percent of its stock to a SLHC to improve the capitalization of the issuing thrift.

Although QSIs are designed so that "control" of a savings association may not exist, there is some question whether the cross-guarantee liability provision in the Federal Deposit Insurance Act ("FDIA") would apply to investments made through QSIs. The cross-guarantee provision applies if there is common control of subsidiary depository institutions under the FDIA. To resolve this question, we have proposed report language strongly urging the FDIC to grant waivers from cross-guarantee liability, on a case-by-case basis, where, as with a QSI, a SLHC is making a non-controlling investment in an unrelated insured depository institution. We believe this language will provide clarity on this issue, as well as expand the sources of new capital for undercapitalized thrifts.

D. Agency Review of Competitive Factors in Bank Merger Act Filings (§ 305)

Section 305 eliminates the requirement that each federal banking agency request a competitive factors report from the other three banking agencies as well as the Attorney General when a filing is made under the Bank Merger Act. The amendment would decrease that number to one banking agency and the Attorney General, who would continue to be required to consider competitive factors of each merger transaction. The amendment further provides that a federal banking agency may not disapprove a merger transaction unless it considers certain specifically identified issues, several of which focus on the level of small business lending by other institutions, both depositories and nondepositories.

The OTS strongly supports the reduction in the number of competitive factors reports. In our view, the vast majority of proposed mergers do not raise anti-competitive issues and multiple reports, even for those that do, are unnecessary.

We have serious concern, however, about the list of specific factors that a federal banking agency must consider before disapproving a merger transaction. For example, and particularly for thrifts whose presence in housing financing can be critical to a community, it is not clear why the availability of small business loans merits more emphasis than other types of credit, such as residential mortgage loans. The federal banking agencies already have broad authority to consider whatever anti-competitive factors they consider appropriate, including those on the list in the bill, and we urge that this flexibility be retained

E. Call Report Simplification (§ 210)

Section 210 requires the federal banking agencies jointly to develop a system allowing insured depository institutions and their affiliates to electronically file reports and statements and to make such reports and statements available to the public electronically. It also requires the federal banking agencies, consistent with safety and soundness, jointly to develop a single form of core information required to be submitted to each agency and to simplify instructions for call reports. Finally, it requires each federal banking agency to review the information required by schedules supplementing core call report information and to eliminate requirements that are not warranted by safety and soundness, or other public purposes.

Although we support the intent of this provision, we note that these requirements are identical to those set forth in § 307 of the Riegle Community Development and Regulatory Improvement Act of 1994 ("CDRIA"). An interagency task-force already exists and is actively dealing with these issues. Accordingly, we recommend that this provision be eliminated as superfluous.

The OTS has taken numerous steps to satisfy the requirements of § 307 of the CDRIA. First, we have completely modernized our financial reporting process for the thrift industry, resulting in a more efficient reporting process, reduced industry reporting burden, increased customer service, and substantial savings for the OTS and the thrift industry. Starting March 1993, all financial reports have been filed electronically. The OTS also significantly reduced data requirements to eliminate items no longer essential for supervisory oversight.

Second, the FDIC maintains a data bank for Thrift Financial Report ("TFR") and Call Report information submitted by depository institutions.[1] The general public may access this data bank via the Internet. (There is a hot-link on the OTS web page to this site.) Institutions can also obtain copies of TFR forms and filing instructions from OTS's web page.

Third, this past year, OTS staff, in consultation with an industry working group, reviewed, updated and clarified the TFR Instruction Manual. At the industry's request, a new Glossary section has been added to the manual which provides basic explanations of terms used in connection with completing the TFR. We anticipate that the new instructions will be available to the industry in time for filing 1998 TFRs.

Fourth, an interagency task force under the auspices of the FFIEC has been developing potential approaches for a uniform call report. The task force has developed a working draft core balance sheet and income statement format that banking and thrift organizations use for public financial reporting purposes as the framework for the core report. This format was adopted to reduce regulatory burden.

In fact, the OTS began reviewing ways to relieve the reporting burden on thrifts even before the CDRIA was enacted. The improvements to our system for collecting, compiling and studying industry data have resulted in an estimated cumulative savings to the industry of $20 million since 1993. For their efforts, members of OTS's Financial Reporting Division were awarded a 1997 Hammer

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[1] Section 341 of CDRIA required FFIEC to study the feasibility of establishing and maintaining a data bank for reports submitted by depository institutions to federal banking agencies.

Award from the Vice-President's National Performance Review Program. This is just an example of our continuing commitment to reducing the reporting burdens imposed on the institutions we regulate.

F. Management Interlocks (§ 114)

Under current law, there is an exception from the management interlocks prohibitions for directors of diversified SLHCs. Such directors may, upon giving notice to the appropriate federal banking agency, also serve as directors of any nonaffiliated depository institution or depository institution holding company. An agency can deny the exception request if it determines: (i) dual service would lessen competition; (ii) dual service would lead to substantial conflicts of interest or unsafe and unsound practices; or (iii) the holding companies failed to provide adequate information.

Section 114 of the FRREEA broadens the existing exception from "directors" to "management officials." Under the Management Interlocks Act, "management officials" include employees or officers with management functions, directors, or trustees of business trusts. Thus, the effect of the proposed change would be to enable officers of diversified SLHCs, as well as directors, to apply for, and obtain, an exception from the Management Interlocks Act.

We have some concerns with this provision. There are numerous circumstances in which it is appropriate to grant dual service exceptions for officers of diversified SLHCs. However, there is a legitimate concern about dual service by holding company officers whose routine duties involve the subsidiary savings association. In our view, the current statutory bases for denying an exception request would not cover this situation. For example, the exception for substantial conflicts of interest may not apply to a dual officer. Accordingly, if this provision is enacted, we would suggest that it include an amendment to the Management Interlocks Act to add a basis for denying an exception request if an officer's routine duties involve the holding company's subsidiary thrift.

In addition, we note that existing § 207 of the Management Interlocks Act, as amended by the EGRPRA, authorizes the federal banking agencies to issue regulations that would permit dual service by management officials of any holding company, provided such service would not result in a monopoly or substantially lessen competition. The agencies are working on a proposed rulemaking to implement this statutory provision. The regulation, which should be published soon, would give the federal banking agencies the flexibility to deny an exception request if an interlock would reduce competition.

We believe that the pending rulemaking is a better way to achieve the result that would be mandated by the proposed statutory amendment in § 114 because it would apply to all holding companies, not just diversified holding companies, and would provide the agencies greater flexibility to deny applications that might decrease competition.

G. Deposit Broker Notification (§ 108)

Section 108 would eliminate the requirement that a deposit broker file a written notice with the FDIC before soliciting or placing any deposit with an insured depository institution. We support this provision. The regulatory burden of the current law is high and the requirement is of questionable value. The information contained in the written notice required under current law is available from other sources, such as Thrift Financial Reports and Bank Call Reports.

Moreover, monitoring during examinations should achieve the desired result and, if that monitoring uncovers problems, brokered deposits restrictions can be imposed.

H. Parity Provisions

The bill also contains various provisions clarifying and enhancing the powers and authority of national banks. Although the OTS does not oppose those provisions, we believe that if banks are authorized to make structural changes, the legislation should apply with equal force to savings associations.

Examples of these provisions are section 112, which allows a national bank, subject to certain conditions, to merge or consolidate with its subsidiaries or non-bank affiliates, and section 602, which clarifies that national bank-to-state bank conversions and state bank-to-national bank conversions do not terminate deposit insurance. To the extent that these provisions, or others like them, confer new flexibility on national banks, they should apply equally to savings associations.

IV. Conclusion

As I emphasized at the outset of my testimony, the OTS is committed to reducing existing regulatory burden wherever we have the ability to do so. I believe the FRREEA is consistent with this objective, and we are pleased and appreciative that many of the reforms we have long desired are included in the bill. The FRREEA will further free thrifts from unnecessary regulatory requirements and allow them to more efficiently and effectively serve the full range of credit needs of their local communities. I thank Senators Shelby and

Mack for their leadership on this issue and we look forward to working with the Committee to shape the best possible regulatory burden reduction legislation.