SHADOW
FINANCIAL
REGULATORY
COMMITTEE

Administrative Office
c/o Professor George Kaufman
Loyola University of Chicago
820 North Michigan Avenue
Chicago, Illinois 60611
(312) 915-7075
FAX (312) 915-7003

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For information contact:

George G. Kaufman
312-915-7075

Lawrence Connell
603-224-7711

Statement of the Shadow Financial Regulatory Committee

on

Additional Comment on Deposit Insurance Reform Legislation

September 16, 1991

On May 20, 1991, in Policy Statement No. 70, the Shadow Financial Regulatory Committee generally supported H.R. 2094, a bill that provides for funding the Bank Insurance Fund (BIF) and deposit insurance reform through structured early intervention and resolution. This legislation appears to be stalling in Congress, as various lobbying interests battle over provisions of the bill that affect bank operating powers, in particular, securities and insurance, as well as geographic expansion.

In addition, various misguided schemes that would radically restrict the activities that may be performed by an insured commercial bank confuse the process even more. One of these plans -- the Schumer proposal -- would even reimpose ceilings on deposit interest rates.

Since the Committee's inception over five years ago, it has urged deposit insurance reform. (Statements No. 8, June 9, 1986, No. 16, February 9, 1987, No. 22, November 13, 1987, No. 36, December 5, 1988 and Nos. 39 and 41, February 13, 1989). During the mid-1980s, bickering over the recapitalization of the FSLIC and the restructuring of the regulatory process delayed the resolution of insolvent thrifts. These delays cost taxpayers billions of dollars. Early intervention would have prevented continued speculation and unnecessary excess costs at these insolvent thrifts. Today the BIF is admitted to be economically insolvent and is predicted to run out of cash by the end of the year.

It is critical that Congress not allow deposit insurance reform to languish until next year. Deposit insurance reform should focus on early intervention and resolution, as generally provided in HR. 2094. Mere temporary funding of BIF is not a solution. The Committee believes that deposit insurance reform is an issue of the highest priority and should be enacted without further delay. The Committee also supports broad geographic and operating powers for banks as necessary for efficiency and risk diversification in financial institutions.