

also championed the William D. Ford Federal Direct Loan Program.

Prior to becoming a government relations officer, Mr. Butts served the University as an admissions counselor and assistant director of admissions in 1964–67, assistant director of the Educational Resources Information Center I Counseling and Personnel Services in 1969–71, director of Student Orientation in 1967–77, and director of Student Financial Aid in 1971–77.

He also worked as Deputy Assistant Secretary for Student Assistance with the U.S. Department of Education in the late 1970s. More recently, he has served as a member of both the National Commission on Responsibilities for Financing Postsecondary Education and of the Advisory Committee on Student Financial Assistance.

Mr. Butts earned a Bachelor of Science degree in English, economics, and secondary education from Eastern Michigan University in 1959, and a Master of Science degree in education in 1964 and Ph.D. doctoral candidate certification in 1974, both from the University of Michigan. He was a first lieutenant in the U.S. Army in 1960–63.

I applaud Mr. Butts' accomplishments and express my deep gratitude for his commitment to the well-being of students and to colleges and universities in Michigan and nationally. I congratulate Mr. Butts, a trusted adviser and friend, on this special occasion, and wish him a healthy and rewarding retirement.

THE COMMUNITY BANK TILT TO
FINANCIAL MODERNIZATION
LEGISLATION

HON. JAMES A. LEACH

OF IOWA

IN THE HOUSE OF REPRESENTATIVES

Monday, November 1, 1999

Mr. LEACH. Mr. Speaker, during every stage in its development, financial modernization legislation has had controversial elements for all of the parties concerned. Differences will always remain between and within the banking, insurance, and securities industries. But it should be clear that in the final analysis the Gramm-Leach-Bliley Act which will be considered this week, relatively speaking, tilts in favor of the nation's community banks and the customers they serve.

Seven areas deserve particular mention:

1. Unitary Thrifts. While the financial modernization legislation provides for increased competition in the delivery of financial products, it repudiates the Japanese industrial model and forestalls trends toward mixing

commerce and banking. The unitary thrift loophole which allows commercial firms to control smaller S&L charters has been closed. Not only will no new unitaries be chartered, but those in existence cannot be sold to commercial firms. This means that the signal breach of banking and commerce that exists in current law is plugged, which has the effect of both stopping the potential "keiretzu" of the American economy and protecting the viability, and therefore the value, of community bank charters. As close observers of the process understand, at many stages in consideration of bank modernization legislative, powerful interest groups attempted to introduce legislative language which would have allowed large banks to merge with large industrial concerns—i.e., to provide that Chase could merge with General Motors or Bank of America with Amoco. Instead, this bill precludes this prospect and, indeed, blocks America's largest retail company from owning a federally insured institution, for which an application is pending. Federal Home Loan Bank System reforms.

2. The FHLB charter is broadened to allow community banks to borrow for small business and family farm lending. The implications of this FHLB mission expansion are extraordinary. In rural areas it allows, for the first time, community banks to have access to long-term capital comparable to the Farm Credit System, which like the Federal Home Loan Bank System is empowered as a Government Sponsored Enterprise to tap national credit markets at near Treasury rates. The bill thus creates greater competitive equity between community banks and the Farm Credit System and greater credit cost savings for farmers. With regard to the small business provision, the same principle applies. If larger financial institutions choose to emphasize relationships with larger corporate and individual customers, the ability of community banks to pledge small business loans as collateral for FHLB System advances will allow them to serve comprehensively a small business and middle class family market niche. Most importantly, if the present trend continues of American savers putting less money in banks and more in non-insured deposit accounts, such as money-market mutual funds, this FHLB reform assures community banks the liquidity—at competitive costs—they will need for generations to come.

3. Additional Powers. In recent years, sophisticated money-center banks have developed powers, under Federal Reserve and OCC rulings, that have allowed them to offer products which community banks in many states are frequently precluded from offering. This bill allows community banks all the powers as a matter of right that larger institutions

have accumulated on an ad hoc basis. In addition, community banks for the first time are authorized the right to underwrite municipal revenue bonds.

4. Regulatory relief. The legislation provides modest regulatory relief for banks with assets under \$250 million. Those with an "outstanding" Community Reinvestment Act rating will be examined for compliance only every 5 years, while those with a "satisfactory rating" will be reviewed every 4 years.

5. Special provisions. For a bill of the magnitude for this one, there are surprisingly few special interest provisions. The Congress held the line to assure that breaches of imprudent regulation were not provided to specific institutions, therefore protecting the deposit insurance fund, to which community banks disproportionately provide resources, and the public, which is the last contingency backup.

6. Prohibition on deposit production offices. The legislation expands the prohibition on deposit production offices contained in the Reigle-Neal Interstate bill to include all branches of an out-of-state bank holding company. This prohibition ensures that large multi-state bank holding companies do not take deposits from communities without making loans within them.

7. Competition. The power under the act will provide community banks a credible basis to compete with financial institutions of any size or any speciality and in addition to offer, in similar ways, services that new entrants into financial markets, such as Internet or computer software companies, may originate.

In a competitive world in which consolidation has been the hallmark of the past decade, the framework of this bill assures that community banks have the tools to remain competitive. If larger institutional arrangements ever become consumer-unfriendly or geographically-concentrated in their product offerings, the powers reserved for community banks will ensure competitive viability and, where needed, incentivize the establishment of new community-based institutions.

What the new flexibility provided community banks means in that small businesses in the most rural parts of America will be provided access to the most up-to-date, sophisticated financial products in the world, delivered by people they know and trust. Without financial modernization legislation, the trend towards commerce and banking, as well as more faceless interstate banking, will be unstoppable. Community based institutions need to be able to compete with larger institutions on equal terms or growth and economic stability in rural America will be jeopardized.