'Main Street' attacks Bush banking reform

by Steve Parsons

Terming the Bush administration's plan for banking reform "a prescription for disaster," the Independent Bankers Association of America (IBAA) has mobilized a broad array of organizations to kill at least what it sees as the worst aspects of the proposed legislation. The grouping has dubbed itself the "Main Street Coalition," and is comprised of 13 diverse organizations, including the Conference of State Bank Supervisors; the National League of Cities and National Conference of State Legislatures; four rural and farm organizations; the American Insurance Association and National Association of Professional Insurance Agents; and associations of engineers, retail druggists, and public accountants.

The IBAA, which represents some 6,000 smaller community banks, has targeted several provisions of the bill: the retention of the "too big to fail" doctrine, where virtually all deposits and assets of larger banks are de facto guaranteed by the government; cuts in deposit insurance; imposition of interstate branch banking; and the elimination of Glass-Steagall prohibitions on combining banking functions with insurance and securities underwriting.

Blueprint for disaster

Jack W. Dickey, chairman of the IBAA's Agriculture-Rural Affairs Committee, recently castigated the Bush bill as reflecting "a strong Wall Street bias" and for being "a blueprint for the massive consolidation of economic and financial power." He predicted that the measure, if passed by Congress, would drive deposits out of rural banks into the largest institutions, which would be protected under the "too big to fail" doctrine.

According to Dickey, the Bush administration bill would put a cap of $100,000 on one regular and one retirement account on federal deposit insurance, which would "make second-class citizens of depositors in small towns and rural America." During the farm crisis of the 1980s, he charged, depositors in agricultural banks lost money on uninsured deposits, while in the recent failures of the National Bank of Washington and the Bank of New England, the Federal Deposit Insurance Corp. guaranteed every penny of depositors' accounts—even those over the $100,000 account limit.

Interstate branch banking could reduce the availability of credit to farmers, ranchers, and small businesses, says Dickey. "The local bank office is often bypassed in favor of corporate headquarters when it comes to making loan decisions. Clearly, when loan-making authority is taken away from local bank officials, community needs aren't given the same consideration as bottom line corporate earnings."

Bush's proposed elimination of the separation of banking and commerce, Dickey charged, "could do to small banks what corporate farms have done to family farmers. . . . Since political power inevitably follows financial power, enactment of this package would enhance the ability of New York and other big city financial corporations to influence U.S. farm policy. With farm state representation already diminished by congressional reapportionment, the intrusion of non-agricultural corporate interests would clearly be unwelcome."

Although the IBAA's lobbying effort is intense, the Main Street Coalition has thus far offered no alternative. It has written a letter to congressmen, meekly asking them to "look hard at the impact of the bill" on their communities. The IBAA and some members of the coalition have thrown their support behind an alternative banking bill submitted by Senators Robert Dole (R-Kan.), Nancy Kassebaum (R-Kan.), and James Sasser (D-Tenn.), which does not mandate interstate banking nor cut deposit insurance. Purporting to be an attack on the insolvent big banks and "too big to fail" doctrine, Dole's bill calls for slapping deposit insurance premiums on the offshore branch deposits of big banks, and would give the FDIC authority to assess insurance premiums on other bank assets.

The Dole legislation, however, would be used against the very community banks that the IBAA wants to protect. Local banks could be capriciously assessed higher premiums to cover their non-deposit assets. This alone could drive many out of business, since, unlike major banks such as Chase Manhattan or Citibank which recently received an infusion of Saudi capital, they have little political access to substantial capital funds with which to back their assets or the higher premiums.

But far more ominous is a provision in Dole's bill stipulating "early financial intervention" by regulators, allegedly to minimize potential losses to the FDIC and taxpayers. Regulators would be mandated to take "prompt corrective action to curtail investments" by banks "that pose a risk" to FDIC funds. This means that regulators could be ordered into targeted banks that are in no danger of failing, but are deemed political opponents of the Treasury and Bush administration, or obstacles to the ambitions of Wall Street financial operations.

Such banks could be eliminated under the barest legal pretext, as has already occurred with several savings and loans. By contrast, even though most money center banks are hopelessly bankrupt and are admittedly the greatest threat to both the FDIC and taxpayer, only the most meager wrist-slapping actions have been taken so far—and you can be sure that no one in this Congress, and certainly not Bob Dole, is about to hit them hard in the future.

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