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Folder Title:
Association of Bank Holding Companies 11/29/90 [OA 7563]

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G	26	21	1	7

ASSOCIATION OF BANK HOLDING COMPANIES \ WILLARD HOTEL
NOVEMBER 29, 1990 \ 1:15 P.M.

LET ME RECOGNIZE YOUR OUTSTANDING CHAIRMAN -- GENE MILLER. MY GOOD FRIEND, LUD ASHLEY. AND ALL THE LEADING LIGHTS OF THE BANKING INDUSTRY HERE TODAY. //

BACK IN FEBRUARY '89, THE MEMBERS OF THIS ORGANIZATION CAME OUT EARLY FOR OUR S&L REFORM BILL. YOUR STRONG SUPPORT HELPED US TAKE A CRITICAL FIRST STEP TOWARD RESTORING THE INTEGRITY OF OUR S&L SYSTEM.

SINCE THEN, SECRETARY NICK BRADY HAS BEEN CONDUCTING A THOROUGH REVIEW OF THE KEY ISSUES AND CONCERNS OF THE AMERICAN BANKING SYSTEM.

WHAT HE'S FOUND IS THE NEED FOR SIGNIFICANT <u>STRUCTURAL REFORM</u> -- REFORMS THAT KEEP PACE WITH THE REVOLUTIONARY CHANGES IN FINANCIAL SERVICES THAT HAVE MARKED THE PAST TWO DECADES. //

TODAY, IN THE AGE OF THE A-T-M AND THE 800 NUMBER -- AND IN THE FACE OF INTENSE COMPETITION FROM NON-BANKS TO MEET CONSUMER CREDIT NEEDS -- WE MUST RE-THINK AND RE-EXAMINE EXISTING REGULATIONS -- AND THE NEED FOR CHANGE. //

THE REGULATORY SYSTEM THAT SERVED US SO WELL FROM ITS INCEPTION IN THE 1930S IS TODAY INCREASINGLY OUTMODED -- AS LIKELY TO PREVENT BANKS FROM STAYING COMPETITIVE AS IT IS TO ALLOW THEM TO SERVE THEIR CUSTOMERS, AND SUSTAIN CONFIDENCE IN THE SYSTEM. //

THE RESULT CAN BE COUNTERPRODUCTIVE: DENYING BANKS THE OPPORTUNITY TO ENTER NEW MARKETS ACTUALLY ENCOURAGES RISKY VENTURES THAT FALL WITHIN THE OLD RULES AND REGULATIONS.

IN JANUARY, THE TREASURY DEPARTMENT WILL MAKE ITS RECOMMENDATIONS ON COMPREHENSIVE BANKING REFORM, INCLUDING PROVISIONS ON DEPOSIT INSURANCE. // THE LEGISLATION WE WILL PROPOSE WILL MAKE A SIGNIFICANT CONTRIBUTION TO THE LONG-TERM HEALTH OF THE BANKING SYSTEM.

ONCE AGAIN, I LOOK TO LUD AND GENE -- AND TO ALL OF YOU HERE TODAY -- TO HELP SECURE SPEEDY PASSAGE OF THIS REFORM PACKAGE IN THE 102ND CONGRESS. // WHAT'S AT STAKE IS NOT JUST THE CONFIDENCE OF THE AMERICAN PEOPLE IN THEIR BANKING SYSTEM -- BUT THE PROFITABILITY AND COMPETITIVENESS OF A KEY AMERICAN INDUSTRY. BECAUSE OUR BANKING SYSTEM CAN NEVER BE TRULY SAFE IF IT IS NOT ALSO ECONOMICALLY SOUND. ///

LUD ASHLEY TELLS ME THE THEME OF YOUR CONFERENCE THIS YEAR IS "MANAGING RISK." I DON'T NEED TO TELL YOU HOW THE EVENTS OF THE PAST FEW MONTHS HAVE CLOUDED OVER OUR CRYSTAL BALLS. FOR THE PEOPLE IN THIS ROOM -- WHO FACE THE CHALLENGE OF MAPPING CORPORATE STRATEGIES IN THIS UNCERTAIN ENVIRONMENT -- THE TASK YOU FACE IS EXTRAORDINARILY COMPLEX. //

I KNOW I'VE BEEN PRECEDED AT THE PODIUM TODAY BY CHAIRMAN BREEDEN OF THE SEC AND CONGRESSMAN JIM LEACH, WHO HAVE SPOKEN ABOUT THE CHALLENGES THAT CONFRONT YOU. THOSE CHALLENGES ARE SERIOUS: <u>INTEREST RATES</u> HIGHER THAN ANY OF US WOULD LIKE THEM TO BE -- CONCERNS ABOUT A <u>CREDIT CRUNCH</u> -- ALL OF THIS AGAINST THE BACKGROUND OF A SLUGGISH ECONOMY. //

[redacted]

I REMAIN <u>CONFIDENT</u> THAT THIS SLOWDOWN WILL RUN ITS COURSE -- AND I AM CERTAIN THAT THE INSTITUTIONS REPRESENTED HERE, AND THE BUSINESS LEADERS IN THIS ROOM -- WILL PLAY A LEADING ROLE IN REVIVING THE ECONOMY AND RETURNING TO THE PATH OF EXPANSION, OPPORTUNITY AND GROWTH. //

ONCE AGAIN, THANK YOU FOR THIS WARM WELCOME -- AND MAY GOD BLESS THE UNITED STATES OF AMERICA.

# # #

POTUS: Brief remarks to The Association of Bank Holding Companies (ABHC)
The Willard Hotel: Thursday, November 29, 1990
1:15 PM.
Contact: Sandy Rinck (Admin. V.P.): 393-1158

-Decsription:
-This is the semi-annual meeting of the ABHC.
-The ABHC (see enclosed materials) represents the top 100 bank holding companies in America. (ie. Citicorp is B.H.C. for Citibank)
-These companies represent 70% of banking assets in United States
-Thomas Ludlow "Lud" Ashley is the President of the ABHC (POTUS friend)
-Eugene "Gene" Miller, President of member company Comerica, is this year's Chairman of ABHC.
-The theme of this meeting will be "managing risk."
-Thursday morning's speeker will be Richard Breeden, who will not stay for POTUS remarks, followed by Congressman Jim Leach, who will stay for POTUS remarks.
-The meeting will be attended by CEO level representatives of each company.

(301) 870-3967.

ASSISTANT SECRETARY

OFFICE OF THE ASSISTANT SECRETARY
FOR PUBLIC AFFAIRS/PUBLIC LIAISON
DEPARTMENT OF THE TREASURY

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NFB Speech before the New York Chapter, Arthritis Foundation Founders' Award Dinner, New York, NY, Nov. 20, 1990

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

TEXT AS PREPARED
EMBARGOED UNTIL 9:00 P.M.

Remarks by
The Honorable Nicholas F. Brady
Secretary of the Treasury
before the
New York Chapter, Arthritis Foundation
Founders' Award Dinner
New York, New York
November 20, 1990

Thank you, Bill (Todd, Chairman, New York Chapter). And special thanks to John Birkelund and Mike Blumenthal, who put this evening together. Also many thanks to Ross Alfieri, who has worked so hard as President of the New York Chapter.

I am proud and honored to receive the Founders' Award from you tonight. This is a very special award from an exceptional group of people. Thanks.

The Arthritis Foundation's New York Chapter makes life easier, and less painful, for millions of Americans and people throughout the world. Every day, arthritis sufferers benefit from the direct results of your contributions, hard work and compassionate understanding for this crippling disease. Very often, the research and technology you support is the difference between pain and comfort.

More than 37 million Americans are affected by arthritis-related diseases. For them, even everyday activities like walking, driving and cooking -- or even holding a pencil -- can be very painful.

And I'm speaking from experience. Last December, I had hip replacement surgery. It was a remarkable operation, and -- thanks to an extraordinary surgeon, Dr. Chit Ranawat, and to Dr. (Charles) Christian and the Hospital for Special Surgery -- I recovered quickly.

And, following a short period, mobility returned. This is important in my line of work. Why, just last week in a game of speed golf with President Bush, I came in second by two and a half lengths.

NB-1037

In a more serious vein, the President believes the Government has an important role in medical research. In fact, President Bush increased funding for the National Institutes of Health by more than 10 percent for 1991, and that includes a $7 million increase for arthritis-related research.

Our arthritis research dollars go a lot further than they otherwise would thanks to the help of the Arthritis Foundation. For example, NIH and the Arthritis Foundation work closely on genetics research that is producing breakthroughs like the gene discovery Dr. Christian mentioned earlier. This kind of public-private partnership can be effective in achieving important advances in medical research.

If I may, I'd like to change the subject for a few minutes and address some other issues of national concern. As you have been reading in the papers, the President is concerned about the weakening in the economy. In fact, last week he met with groups of business and banking leaders, and with the senior banking regulators, to hear their views. He heard that business is softening, although there are areas of strength; and that banks have tightened their lending standards, for a number of reasons. In that regard, I'd like to spend a few minutes this evening to give you the Treasury's perspective on the current climate, particularly as it relates to this country's financial services industry.

We've all been hearing a steady stream of bad news about financial firms -- big write-offs; sharply declining stock market valuations; excessive concentration in real estate loans; and problems with loans to third world countries and LBOs. Twenty years ago, the United States had eight banks among the top 25 in the world, and ten years ago we had four. Now we've got only one.

We also hear that the fund that insures deposits in commercial banks is under stress, and that securities firms are retrenching after a period of unusually rapid expansion. At the same time, the S&L cleanup presents a dark backdrop that adds to the developing gloom.

What should we make of all this? Are we taking too great a counsel from our fears?

Before we get too blue, let's make sure that we are looking at this problem with perspective. I'm not going to paint a rosy scenario, but let's not look only at the negatives. Overall, the banking system is healthy despite some pockets of difficulty.

U.S. banks have over $200 billion in equity capital. And they raised a great deal of equity in the 1980s, despite problem loans in energy, agriculture and the third world, proving that they can build capital even in difficult times. In fact, virtually all of our major bank holding companies now meet the

1992 worldwide standards for bank capital, established by the Bank for International Settlements. That is not the case for the banks of a number of our major international competitors.

Perhaps most important, the banks of 1990 are not the S&Ls of the 1980s. They're as different as chalk and cheese. By a wide margin, the banks have more capital, are more profitable and better managed, and have less risky kinds of assets than the S&L industry.

Our banking system's over $200 billion in equity represents about 6% of total assets. By comparison, the equity capital of the S&L industry was under $10 billion and less than 1% of assets in 1987, the year industry losses mushroomed. Finally, the Federal bank regulators -- the Federal Reserve, the Office of the Comptroller of the Currency, and the FDIC -- are a highly respected group with a solid tradition of professionalism and concern for safety and soundness.

The current situation needs to be analyzed with balance, and also with the benefit of historical perspective. From that viewpoint, our current difficulties reflect a mixture of both cyclical and structural problems.

Part of what is going on now is the business cycle. Many economists say that we are now entering the down phase of the cycle. Commercial real estate markets are overbuilt, and we've had a sharp, temporary increase in the price of oil. Although some industries and regions remain strong, the economy is weakening. In banking, the correction appears to be a particularly sharp one, in part because it follows a lengthy expansion during which the traditional lending standards applied by many banks clearly eroded. Despite all of that, we have weathered this kind of storm before, and we will weather this one as well.

In addition to the cyclical downturn, there is an underlying structural problem that exacerbates these cyclical downturns. I'm referring to the legal and regulatory structure of our financial system. It is outmoded, burdensome and inefficient. And its flaws are an unseen contributor to the negative headlines we are seeing. We need fundamental structural reform, and, as Secretary of the Treasury, I am committed to this goal. Again, let me provide some history.

In the early 1930s, the banking industry entered a period of convulsive failures that was a major factor in causing the Depression. In response, we erected a rigid system of protection around commercial banking. Banks received a number of special benefits, including the federal deposit insurance safety net. At the same time, banks were also prohibited from engaging in anything but the traditional banking activities, mainly lending to individuals and corporate customers. And we left in place a system of laws that effectively prohibited interstate banking. The result was a profitable, relatively safe industry that was protected from competition.

These laws that protected and segmented the industry reflect the reality of a half-century ago. In that era, banks were almost solely responsible for financing business and consumers. They represented the primary means of payment and settlement. Geographically, it was no great handicap for most banks to do intrastate business alone, and it was a great benefit not to have to compete with out-of-state rivals or non-banks. Borrowers looked to local community lenders who understood local markets.

But the last twenty years have simply revolutionized the financial services markets, bringing intense competition to banks and benefits to the consumer. Money market funds with credit card and check-writing privileges now compete directly with traditional bank checking accounts. At the same time, the banks' corporate customers have taken their best business to the securities and commercial paper markets. And individuals increasingly rely on credit extended directly to them by manufacturers and retailers, rather than by banks.

Many of these changes are a result of new technology in information processing across the spectrum of financial institutions. Technology has eaten away at the system of rigid segmentation and protection. It has, in fact, made the financial services industry into one market. In today's world, the automatic teller machine and the 800 number have rendered the restrictions on interstate banking obsolete.

As our banks have faced ever greater competition in their traditional areas, they have had only limited ability to follow their customers as new markets developed. As a result, in an effort to maintain margins, they have found themselves choosing among the more risky and often less attractive kinds of lending -- such as commercial real estate and loans to highly leveraged companies. The result is a system with too much risk and too little profit.

Moreover, the deposit insurance "safety net", by allowing banks to attract funds under Uncle Sam's guarantee, has fostered proliferation of banks and slowed the pace of consolidation. In the United States, we have about 12,500 commercial banks, far more than any of our international competitors. For example, Japan has about 150; the United Kingdom 550; Canada 65; and Germany 900.

There is a hidden message behind the headlines, and it is that it's time to overhaul the system, to address these underlying structural flaws. There is now a developing consensus in Washington and in the markets -- in fact, all over the world -- that the time has come.

The Treasury understands the need for change, and, as some of you are aware, will come forward with a comprehensive proposal in less than two months. Our objective is clear: It is to modernize our financial system, through reforms to the deposit insurance safety net and, just as importantly, to these structural impediments to profitability that have overstayed their welcome.

With the S&L experience fresh in the minds of taxpayers and legislators, the tendency in the current environment will understandably be to focus narrowly on deposit insurance reform, to make sure that banks are safe and sound. But the Administration feels strongly that profitability is a key element of safety and soundness, and that deposit insurance reform should therefore only be considered as part of a package that also addresses the structural flaws that impede profitability.

Most important, we have it in our power to solve the problem. We put these laws on the books; we can and, with Congress' help, we will change them.

Our proposals will be intended to put the entire system on a firmer, more profitable, and thus safer and sounder footing over time. But what about the near term? What can be done about the growing perception that banks are backing away from their fundamental role of meeting the financing needs of American companies, large and small, as well as those of individuals? Here, both the banks and the regulators have a role to play.

Let me offer a word to the banks. I urge you to keep lending to your good customers. I understand the pressures that come from building capital in a softening economy. But let's not overreact to the economy or to the regulators. Your franchise depends upon your continued willingness to stand by your customers. I urge you not to walk away from those whose trust you have worked so hard to earn. And there are many ways to strengthen a balance sheet in addition to shedding loans. I know that it is never easy to cut costs, or even dividends, or to agree to combine with a long-time rival. These are tough solutions to tough problems. But they've got to be faced.

To the regulators, I'd like to say publicly what I've said privately many times: Use some judgment. Apply some balance. Don't use unrealistically negative scenarios in evaluating loans. Don't overreact. Be mindful of the effect your behavior can have on the willingness of banks to take even the reasonable risk of lending to good credits. We need a banking system that is a taker, not a shedder, of such risks.

For our part in the Administration, as I've suggested, we intend to be a strong force for careful but fundamental reform, and for stability in the near term.

Of course, the most important thing that public policy can do to strengthen our financial institutions is to create and maintain an environment of economic stability. In that context, let me say a few words about the recently concluded budget package.

I am mindful that the process was not one of Washington's finest hours. But I am also aware that the final package is one that will do the job of cutting the deficit by $500 billion over five years. This program is not "smoke and mirrors"; it is very real. In fact, it is primarily because it is so real that the process was so very painful. The package included meaningful reform in the budget process which, among other things, puts binding caps on spending, which is the real key to success over time.

In fact, this package is the major change in fiscal policy that we promised the American people and that the international markets have been looking for. In these circumstances I expect that the essential framework has been laid that should promote renewed and welcome stability in exchange markets. And given the global economic situation, policies that promote stability in the dollar exchange rate are a plus, not just for the United States, but for the world economy at large.

Tonight, I want to leave you with the certainty that this Administration recognizes the importance of a banking system which both inspires confidence and is competitively strong here and abroad. Confidence rests on profitable operations which build financial resources. Competitive strength depends on maintaining lending relationships with credit-worthy customers -- relationships that are a cornerstone of the banking system's traditional franchise.

For its part, this Administration is committed to promoting legislation and encouraging regulation which will allow banks to reshape their activities to operate profitably and soundly in a business environment made new by technological change. And I call on bankers to commit themselves to stick by their credit-worthy customers and not relinquish the franchise built so successfully over many years. These dual commitments will strengthen our banking system's position as a worldwide leader.

Thank you very much.

ASSOCIATION of BANK HOLDING COMPANIES

90 OCT 26 P12:21

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ABOUT THE ASSOCIATION OF BANK HOLDING COMPANIES

The Association of Bank Holding Companies (ABHC) is a national association of regional and money-center bank holding companies that was founded in 1958. Originally comprised of 13 bank holding companies, the ABHC has grown to well over 100 member companies that are registered with the Federal Reserve Board pursuant to the Bank Holding Company Act. In the aggregate, ABHC member companies control approximately $1.6 trillion, or over 70 percent, of the country's commercial banking assets.

The ABHC mission is to represent progressive bankers before the Congress, the federal regulatory agencies and the courts. The ABHC is distinct from other national associations in three material respects.

1. **ABHC is action-oriented.** Like other membership organizations, ABHC provides typical association services and support; further, however, the principal goal of the ABHC is to effect change at the national level to benefit member companies. Its structure and membership policies are designed to promote action and to achieve results.

2. **ABHC is CEO-oriented.** The principal link between the ABHC and its member companies generally is through the CEO or second-ranking officer. This arrangement allows for quick and thoughtful decision making. It also provides a forum for banking leaders to work with their peers.

3. **ABHC is focused.** As a representative of progressive bankers, ABHC is united by a common purpose and is uniquely dedicated to issues of common concern to bank holding companies. ABHC is not fractured by splinter groups and does not attempt to address all banking issues. Instead, ABHC targets the most important problems affecting its select membership and addresses them in an effective manner.

The combination of these characteristics defines the ABHC. To be sure, ABHC does hold conventions, sponsor research, issue publications and house a (small) professional staff. However, the greatest asset of the ABHC is its membership. The greatest challenge and the greatest benefit of membership in the ABHC is the opportunity to work through its structure for short- and long-term change benefitting the bank holding company industry.

ASSOCIATION of BANK HOLDING COMPANIES

1990 FALL MEETING
The Willard Hotel
Washington, D.C.

November 28–30, 1990

BUSINESS MEETINGS

Tuesday, November 27

7:30 PM	Officers/Personnel Committee Dinner	Brandeis Room

Wednesday, November 28

8:00 AM	Task Force on Bank Consolidation Breakfast Meeting	Brandeis Room
9:00 AM	Nominating Committee Continental Breakfast Meeting	Garfield Room
10:00 AM	Membership Committee Meeting	Filmore Room
11:00 AM	Emerging Issues Committee Meeting	Taylor Room
12:00 Noon	Legislative Policy Committee Reception & Luncheon Meeting	Pierce Room
3:00 PM	Board of Directors Meeting	Crystal Room
6:00 PM	Reception for all Attendees	Crystal Room

ASSOCIATION of BANK HOLDING COMPANIES

MANAGING RISK IN THE BHC

Thursday, November 29

8:30 AM	**Welcoming Remarks** • Gene Miller, Chairman, ABHC • Lud Ashley, President, ABHC	Ballroom
9:00 AM	**SEC Perspective** • Richard C. Breeden, Chairman Securities and Exchange Commission	
10:00 AM	**Monitoring Governmental Risk** • Karen D. Shaw, Institute for Strategic Development • James P. Murphy, Fleet/Norstar Financial Group, Inc. • Herbert R. Waite, Bank of Boston Corporation	
11:15 AM	**Legislative Risks** • Honorable Jim Leach House Banking Committee	
12:00 PM	**Reception and Luncheon** • Honorable George H. W. Bush President of the United States	Pierce Room
2:00 PM	**Balancing Safety, Risk and Profit** • Bert Ely, Bert Ely & Associates • Robert G. Stevens, Bank Management Partners	Ballroom
3:15 PM	**Examination/Supervisory Risks** • Robert R. Bench, Price Waterhouse • Baldwin B. Tuttle, Milbank, Tweed, Hadley & McCloy	
6:30 PM	**Reception and Dinner** • Honorable Doug Barnard U.S. House of Representatives	Ballroom

ASSOCIATION of BANK HOLDING COMPANIES

MANAGING RISK IN THE BHC

Friday, November 30

8:00 AM	Buffet Breakfast	Crystal Room
8:30 AM	ABHC Business Meeting	Crystal Room
9:00 AM	Regulatory Risks • Edward W. Kelley, Jr., Governor Federal Reserve Board	
9:45 AM	The New BHC CEO • Edward E. Furash, Furash & Co. • Spencer F. Eccles, First Security Corporation • Ronald F. Steinhart, Team Bancshares, Inc.	
10:45 AM	FDIC Perspective • L. William Seidman, Chairman Federal Deposit Insurance Corporation	
11:30 AM	Stock Market Risk • Arthur P. Soter, Morgan Stanley & Co.	
12:15 PM	Adjournment	

ASSOCIATION of BANK HOLDING COMPANIES

1990 FALL MEETING
Willard Hotel
Washington, D.C.

November 28 - 30, 1990

ATTENDANCE LIST

Affiliated Bankshares of Colorado, Inc. Denver, Colorado	Kent O. Olin (Kent) Ronald Moore (Ron)
AmSouth Bancorporation Birmingham, Alabama	John W. Woods (John) C. Stanley Bailey (Stan)
Associated Banc-Corp Green Bay, Wisconsin	H. B. Conlon (Nick)
BB&T Financial Corporation Wilson, North Carolina	John A. Allison (John) Henry Williamson (Henry)
BanPonce Corporation Hato Rey, Puerto Rico	Alberto M. Paracchini (Alberto)
Banc One Corporation Columbus, Ohio	William P. Boardman (Bill) Walter B. Kirkwood (Walter)
The Bank of New York Company, Inc. New York, New York	Deno D. Papageorge (Deno)
BankEast Corporation Manchester, New Hampshire	W. N. DeWitt (Rink) Paul Leaming (Paul)
Bankers Trust New York Corporation New York, New York	James J. Baechle (Jim)
Barnett Banks, Inc. Jacksonville, Florida	Hinton F. Nobles, Jr. (Hinton)
Boatmen's Bancshares, Inc. St. Louis, Missouri	Andrew B. Craig, III (Andy)
Central Bancshares of the South, Inc. Birmingham, Alabama	Harry B. Brock, Jr. (Harry) D. Paul Jones, Jr. (Paul)
Central Fidelity Banks, Inc. Richmond, Virginia	* Carroll L. Saine (Carroll)

*Board of Directors

Centura Banks, Inc. Rocky Mount, North Carolina	* J. Richard Futrell, Jr. (Dick) Robert R. Mauldin (Bob)
The Chase Manhattan Corporation New York, New York	Robert R. Douglass (Bob) Eugene F. Swanzey (Gene)
Citicorp New York, New York	Charles E. Long (Charlie) Richard S. Braddock (Rick)
Citizens Banking Corporation Flint, Michigan	John W. Ennest (Jack)
The Citizens & Southern Corporation Atlanta, Georgia	Hugh M. Chapman (Hugh)
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Crestar Financial Corporation Richmond, Virginia	James M. Wells III (Jim)
Cullen/Frost Bankers, Inc. San Antonio, Texas	* Robert S. McClane (Bob)
Dominion Bankshares Corporation Roanoke, Virginia	* Warner N. Dalhouse (Warner)
European American Bancorp Long Island, New York	Raymond J. Dempsey (Ray)
F&M Financial Services Corporation Menomonee Falls, Wisconsin	Richard P. Klug (Richard)
F.N.B. Corporation Hermitage, Pennsylvania	Peter Mortensen (Pete)
First Alabama Bancshares, Inc. Montgomery, Alabama	J. Stanley Mackin (Stan) Richard D. Horsley (Rick)
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First American Corporation Nashville, Tennessee	James F. Smith, Jr. (Jim)
First Bank System, Inc. Minneapolis, Minnesota	John F. Grundhofer (Jack)

First Busey Corporation Urbana, Illinois	* Douglas C. Mills (Doug) Greg Lykins (Greg)
First City Bancorporation of Texas, Inc. Houston, Texas	Richard W. Wroten (Richard)
First Interstate Bancorp Los Angeles, California	William Sudmann (Bill) William Bogaard (Bill)
First Security Corporation Salt Lake City, Utah	* Spencer F. Eccles (Spence) Robert T. Heiner (Bob)
First Virginia Banks, Inc. Falls Church, Virginia	Robert H. Zalokar (Bob) Paul H. Geithner, Jr. (Paul)
Firstar Corporation Milwaukee, Wisconsin	Roger L. Fitzsimonds (Roger)
Fleet/Norstar Financial Group, Inc. Providence, Rhode Island	James P. Murphy (Jim)
Hawkeye Bancorporation Des Moines, Iowa	Robert W. Murray (Bob)
Huntington Bancshares Incorporated Columbus, Ohio	Zuheir Sofia (Zuheir)
INB Financial Corporation Indianapolis, Indiana	* Thomas M. Miller (Tom) David W. Givens (David)
J.P. Morgan & Co. Incorporated New York, New York	Michael E. Patterson (Michael)
KeyCorp Albany, New York	Walter V. Ferris (Walt)
Lake Shore Bancorp, Inc. Chicago, Illinois	William C. Mitchell (Bill) Robert R. Yohanan (Bob)
MNC Financial, Inc. Baltimore, Maryland	* Daniel J. Callahan III (Dan)
Magna Group, Inc. Belleville, Illinois	* William S. Badgley (Bill) G. Thomas Andes (Tom)
Marine Corporation Springfield, Illinois	Willard Bunn III (Willard) Thomas Cartwright (Tom)
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Merchants National Corporation Indianapolis, Indiana	Randolph P. Wilson (Randy)
Meridian Bancorp, Inc. Reading, Pennsylvania	* Samuel A. McCullough (Sam) John F. Weaber (John)
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Midlantic Corporation Edison, New Jersey	Robert Van Buren (Bob)
NBT Bancorp Inc. Norwich, New York	Donald E. Stone (Don)
NCNB Corporation Charlotte, North Carolina	Timothy P. Hartman (Tim)
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National City Corporation Cleveland, Ohio	* Edward B. Brandon (Ed) William R. Robertson (Bill)
National Westminster Bancorp Inc. New York, New York	John Petts (John)
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Society Corporation Cleveland, Ohio	Robert W. Gillespie (Bob) Roger Noall (Roger)
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Team Bancshares, Inc. Dallas, Texas	* Ronald G. Steinhart (Ron) Terry Kelley (Terry)
U.S. Bancorp Portland, Oregon	* Joshua Green III (Jay)
United Banks of Colorado, Inc. Denver, Colorado	Charles R. Hazelrigg (Chuck)

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Valley Capital Corporation Las Vegas, Nevada	Richard A. Etter (Dick)
Valley National Corporation Phoenix, Arizona	Richard J. Lehmann (Rich)
Vermont Financial Services Corporation Brattleboro, Vermont	John D. Hashagen, Jr. (Rick)
West One Bancorp Boise, Idaho	D. Michael Jones (Mike)

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President of the United States Washington, D.C.	Honorable George H. W. Bush
Bank Management Partners Alexandria, Virginia	Robert G. Stevens (Bob)

Bert Ely & Associates Alexandria, Virginia	Bert Ely (Bert)
Federal Deposit Insurance Corporation Washington, D.C.	L. William Seidman (Bill)
Federal Reserve Board Washington, D.C.	Edward W. Kelley, Jr. (Mike)
Furash & Co. Washington, D.C.	Edward E. Furash (Ed)
Institute for Strategic Development Washington, D.C.	Karen D. Shaw (Karen)
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Morgan Stanley & Co. New York, New York	Arthur P. Soter (Art)
Price Waterhouse Washington, D.C.	Robert R. Bench (Bob)
Securities and Exchange Commission Washington, D.C.	Richard C. Breeden (Richard)
U. S. House of Representatives Washington, D.C.	Honorable Doug Barnard Honorable Jim Leach

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Moss Associates, Inc. Washington, D.C.	Bernard Moss (Bernie)

STAFF

Association of Bank Holding Companies Washington, D.C.	* Thomas Ludlow Ashley (Lud) John S. Rippey (John) Richard M. Whiting (Rich) John F. Betar (John) Sandy Rinck (Sandy) Susan L. Gentry (Susan)

McGroarty/Dooley
November 26, 1990
6:30 pm
[BANK]

PRESIDENTIAL REMARKS: ASSOCIATION OF BANK HOLDING COMPANIES
THE WILLARD HOTEL
NOVEMBER 29, 1990
1:15 P.M.

[Introductory acknowledgements.] Let me recognize your outstanding President -- my good friend, **Lud Ashley.** Gene Miller, Chairman. And all the leading lights of the banking industry here today. //

Spence Eccles? Chair First Sec Corp - Salt Lake City

Frank McKinney Bank One Columbus, OH

Back in February '89, the members of this organization came out early for our S&L reform bill. Your strong support helped us take a critical first step toward restoring the integrity of our failing S&L system. // Since then, ~~we've worked to address key~~ Treasury Sec Brady has been conducting a thorough review of the stet ~~issues and concerns of the~~ American banking system.

In January, the Treasury Department will make its recommendations on comprehensive banking reform, including provisions on deposit insurance. // The legislation we will propose will make a significant contribution to the long-term health of the banking system. Once again, I look to Lud and Gene and all of you to help secure speedy passage of this reform package in the 102nd Congress. What's at stake is not just the confidence of the American people in their banking system -- but the profitability + competitiveness of a key American industry. Because our banking system can never be truly **safe** if it is not also **economically sound**. //

I know I've been preceded at the podium today by Chairman Breeden of the SEC and Congressman Jim Leach, @Pres's speech who have spoken about the challenges that confront you. Those challenges are serious: interest rates higher than any of us would like them to be; concerns about a credit crunch -- all of this against the background of a **sluggish and uncertain economy.** //

The plain fact is that the economy is in difficulty. I didn't come here today to offer an extended economic forecast -- or to sugarcoat our situation. But I can say that I believe the slowdown we're experiencing will not persist -- and I remain confident that this downturn will run its course, and the economy will rebound sometime in the middle of next year. //

Lud Ashley tells me the theme of your conference this year is **"managing risk."** I don't need to tell you how the events of early August have clouded over our crystal balls. // For the people in this room -- who face the challenge of mapping corporate strategies in this uncertain environment -- the challenge you face is extraordinarily complex. That's why, this afternoon, I want to speak to you about the situation in the Persian Gulf: why we're there -- what our aims are -- why we must prevail. //

Let me say at the onset: No President is quick to order American troops abroad. Yet in the aftermath of Iraq's rape of tiny Kuwait -- with the clear and present danger of an Iraqi assault against Saudi Arabia, I made the decision that vital interests required the deployment of American military forces to counter Saddam Hussein. //

Our objectives are clear and unchanging: we seek the withdrawal of all Iraqi forces from Kuwait -- immediately and without condition; the restoration of Kuwait's legitimate government; the safe return of all American hostages; and, finally, security and stability in the Persian Gulf. //

These are our objectives -- the goals we must accomplish. Let me turn now to the reasons why we must succeed.

There are three key reasons why we're in the Gulf today: **First,** to safeguard our national security. **Second,** to stand against aggression. And **third,** to protect innocent lives. // Each reason works together with the others to form a solid case for firm action to stop Saddam Hussein. //

Let's begin with national security. // Yes, oil is a factor. The simple facts are these: by seizing Kuwait, Iraq brought under its control over 20% of the world's proven oil reserves. An additional 25% of the world's reserves are located next door, in Saudi Arabia. Through direct control -- and indirectly, through intimidation -- power over **almost half the world's oil supply** would be concentrated in the hands of a dictator with aggressive designs.

That's more than the power to drive up the price of gas -- it's a stranglehold on global development. All of us -- the industrialized democracies, the emerging democracies of Eastern Europe, and the world's least developed nations -- would find our economies, the engines of social progress and development, held hostage to the whims of one man. //

Those of you who have been working with the emerging democracies in Eastern Europe know the added hardship caused by higher energy costs. For these countries, Iraq's aggression is making this time of transition even more difficult -- with nothing less than democracy at stake. //

But beyond the very real threat to our economic interests, Saddam's invasion of Kuwait poses a serious threat of another sort -- a threat to the emerging international order. That is the reason why we **cannot** allow this aggression to stand. //

Consider our singular circumstances. For the first time in the post-war era, a regional crisis is not playing itself out against the background of the larger superpower conflict. For the first time in the post-war era, the international community is not paralyzed into inaction by East-West conflict. For the first time, therefore, in the post-war era, the world has an opportunity -- to establish in practice, and not just as promise, an international order where the rule of law governs the conduct of nations.

That is why our united response to Saddam's brutal rape of Kuwait is critical. We simply cannot permit his cynical disregard for international norms to go unchecked.

Finally, there's a third key reason why America must act. That is to protect innocent lives: to secure the safe release of the Americans held hostage -- and the well-being of the diplomats at our Embassy in Kuwait, now being starved out by Saddam. And to end the nightmare of the Kuwaiti people -- the men, women and even innocent children subject to such unspeakable horrors. //

The world has seen enough of Saddam Hussein to know what kind of man we're up against. It's true that we do not know with certainty <u>when</u> Saddam will succeed in acquiring nuclear weapons. But we <u>do know this</u>: Saddam has never possessed a weapon that he has not used. //

I can assure all of you here today that I will continue to pursue all diplomatic means at my disposal to see that this crisis comes to a peaceful end. Our sanctions against Iraq, which enjoy widespread support in the international community, are themselves the most significant measure short of war to make clear to Saddam Hussein that we are serious, and we will not compromise our objectives.

There can be no doubt that the United States -- and a united world community -- will not let this aggression stand. [[Ten times, the United Nations has expressed its resolve against aggression by passing resolutions. The time has come for the United Nations to act once more. That is why, today, we urge the U.N. Security Council to keep <u>open all options</u> -- to recognize <u>the rightful use of all means necessary</u> to end Iraq's illegal occupation.]]

How we respond to Iraq's aggression will shape the kind of world we live in. If we succeed, we put future dictators and despots on notice. If we fail, beyond the immediate threat to our national security -- we issue an open invitation to aggression. I am confident that with continued support -- here at home and in the world community -- we will succeed. ///

Once again, thank you for this warm welcome -- and may God bless the United States of America.

# # #

McGroarty/Dooley
November 28, 1990
8:15 am
[BANK]

PRESIDENTIAL REMARKS: ASSOCIATION OF BANK HOLDING COMPANIES
THE WILLARD HOTEL
NOVEMBER 29, 1990
1:15 P.M.

[Introductory acknowledgements.] Let me recognize your outstanding President -- my good friend, **Lud Ashley.** Gene Miller, Chairman. And all the leading lights of the banking industry here today. //

Back in February '89, the members of this organization came out early for our S&L reform bill. Your strong support helped us take a critical first step toward restoring the integrity of our S&L system. // Since then, Secretary Nick Brady has been conducting a thorough review of the key issues and concerns of the American banking system.

What he's found is the need for significant <u>structural reform</u> -- **reforms that keep pace with the revolutionary changes in financial services that have marked the past two decades.** // No longer is the average bank simply a <u>local</u> lending institution, serving a small community of businessmen and consumers. // Today, in the age of the A-T-M and the 800 number -- and in the face of intense competition from <u>non-banks</u> to meet consumer credit needs -- the concept of a nation of local banks has given way to a single financial services market. //

The regulatory system that served us so well from its inception in the 1930s is today increasingly outmoded -- as likely to prevent banks from **staying competitive** as it is to allow them to **serve their customers, and sustain confidence in the system.** // The result can be counterproductive: **denying banks the opportunity to enter new markets actually encourages risky ventures that fall within the old rules and regulations.**

In January, the Treasury Department will make its recommendations on comprehensive banking reform, including provisions on deposit insurance. // The legislation we will propose will make a significant contribution to the long-term health of the banking system. Once again, I look to Lud and Gene -- and to all of you here today -- to help secure speedy passage of this reform package in the 102nd Congress. // What's at stake is not just the confidence of the American people in their banking system -- but the profitability and competitiveness of a **key American industry.** Because our banking system can never be truly **safe** if it is not also **economically sound**. ///

Lud Ashley tells me the theme of your conference this year is **"managing risk."** I don't need to tell you how the events of the past few months have clouded over our crystal balls. For the people in this room -- who face the challenge of mapping corporate strategies in this uncertain environment -- the task you face is extraordinarily complex. //

I know I've been preceded at the podium today by Chairman Breeden of the SEC and Congressman Jim Leach, who have spoken about the challenges that confront you. Those challenges are serious: interest rates higher than any of us would like them to be -- concerns about a credit crunch -- all of this against the background of a **sluggish economy.** //

The plain fact is that the economy is in a slowdown. I didn't come here today to offer an extended economic forecast -- or to sugarcoat our situation. But I can say that I believe the slowdown we're experiencing will not persist.

I remain confident that this downturn will run its course -- that **the economy will rebound sometime in the middle of next year.** // And I am certain that the institutions represented here -- and the business leaders in this room -- will play a leading role in reviving the economy and returning to the path of expansion, opportunity and growth. //

Once again, thank you for this warm welcome -- and may God bless the United States of America.

# # #

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
01. Memo	Larry Lindsey to Roger B. Porter, re: Lud Ashley memo to the President. (2 pp.)	11/27/90	~~P-5~~	

Collection:

Record Group: Bush Presidential Records
Office: Speechwriting, White House Office of
Series: Speech File, Backup
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WHORM Cat.:
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THE WHITE HOUSE

WASHINGTON

November 27, 1990

MEMORANDUM FOR ROGER B. PORTER

FROM: LARRY LINDSEY

SUBJECT: Lud Ashley Memo to the President

This memorandum is in response to your request for comment on Lud Ashley's memo to the President on the state of the banking industry. Ashley is the President of the Association of Bank Holding Companies.

In general, the Administration shares Ashley's analysis of the problem. First and foremost, profitability is key. As Secretary Brady argued a week ago, the best guarantee of a safe banking system is a profitable banking system. (In his remarks the President will say "profitable and competitive" which is a better formulation." Ashley identifies three issues which affect profitability.

1. "A restrictive, 50-year old regulatory yoke."

Any banking reform must include an end to the line of business restrictions which were imposed during the 1930s. This will be necessary both to rationalize the industry and to provide the needed injection of capital. The President can be very reassuring about this issue. We can only hope that the Congress will be so enlightened and not demagogue the issue.

2. "Condition of the Bank Insurance Fund" (BIF)

At present BIF has roughly $10 billion. That will fall quickly enough that by early next year stories will become commonplace that the fund will soon be broke. Brookings will soon be releasing a report saying that a recession will sink the fund. This will prompt calls for action.

The most appropriate source of funds for a recapitalization of BIF is the banking industry through some sort of one time levy. However, if the levy comes out of bank profits or capital, it may cause a serious banking problem at the time that we are trying to increase bank capital.

The Administration is currently thinking through a plan which would recapitalize BIF with bank contributions which would be interest bearing preferred stock. The value of this stock could (if the auditors are obliging) be counted as capital for the banks. This is probably the best solution.

The President should not discuss this option in any depth. It is complicated and even if well informed, he would soon be over his head. Further, we have to think the implications through some more at the staff level before recommending it. The President could say, in an off-the-record setting, that "the staff is considering ways to recapitalize BIF while minimizing any adverse effect on our mutual goal of bank profitability and soundness".

3. "Implicit Promise By Government to Continue to Underwrite the Entire Banking System"

This is the key issue. The banks are mad because the FDIC and BIF funds have been used to pay off uninsured depositors as well as insured depositors. The government has chosen to do this unilaterally. The banks maintain that the insurance premia they have paid would prove adequate had it not been for the decision by the government to pay off the uninsured depositors.

The government regulators have done this because they view a general bailout as cheaper. Uninsured depositors sometimes are other banks or financial intermediaries. A loss of their funds would jeopardize their solvency leading to further bank closings. Further, the implicit guarantee to uninsured depositors may keep "hot" money from moving out of troubled banks, thus potentially keeping these banks afloat. This is known as the systemic risk problem. The layman's term is the "too big to fail" problem.

Any efforts to retract the deposit insurance safety net are pointless unless we address the too big to fail problem. If we announce that some bank has an absolute guarantee, then money will naturally flow to that bank. This not only creates a problem for the rest of the banking system (causing us to insure nearly all deposits), it also causes a problem for the recipient bank which lends less prudently.

There are technical ways of solving the problem. Within a few years, even the largest banks could be liquidated. But, Chairman Greenspan and other regulators are adamantly opposed to a concerted renunciation of the too big to fail principle.

If the President were to announce support for renouncing the too big to fail principle it would have a dramatic positive effect on the banking community and increase support for the Administration, particularly among small independent bankers. It would also be the right policy call. However, it would be a big step. That is the kind of call that someone above my pay grade must make.