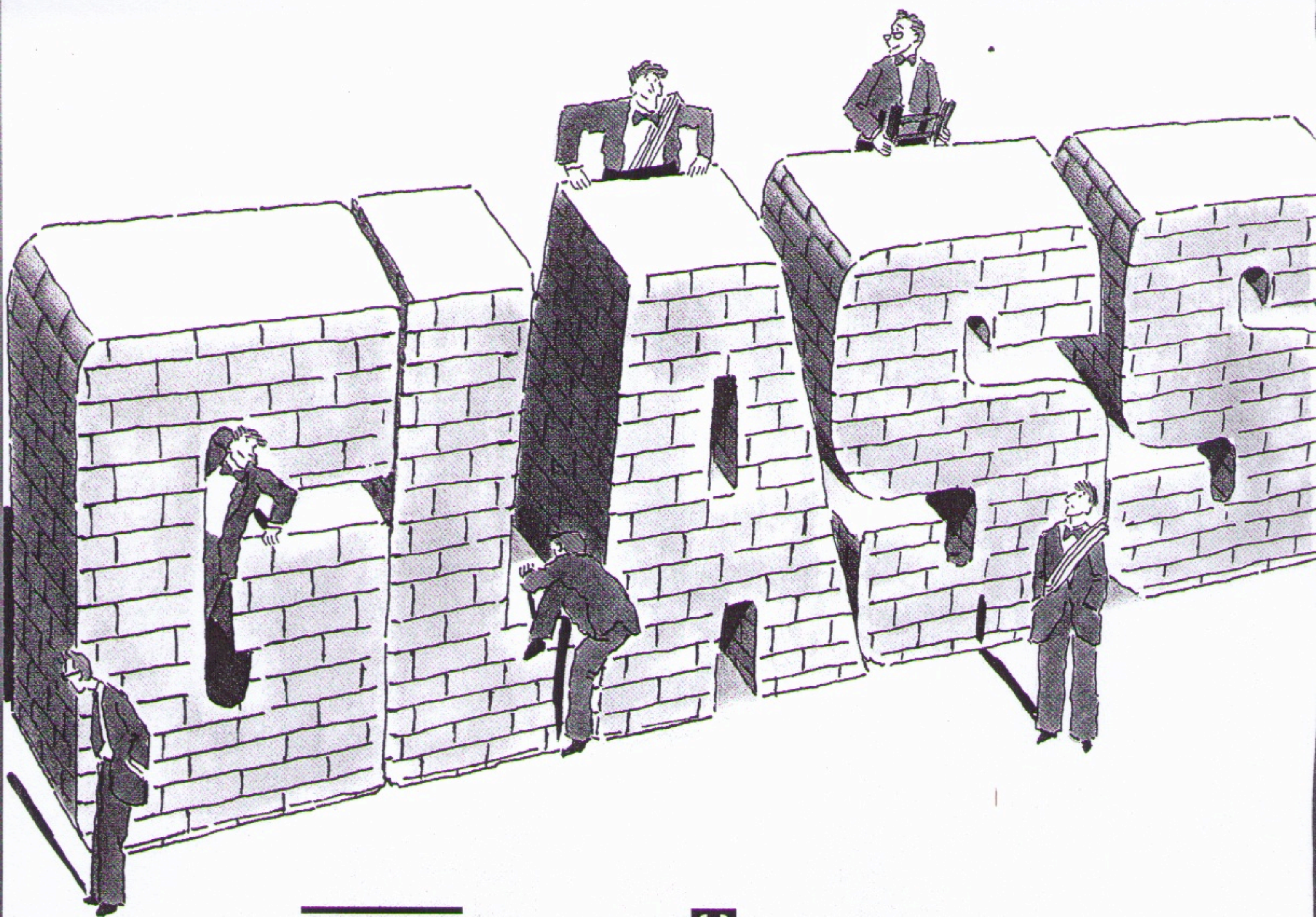


BANKING

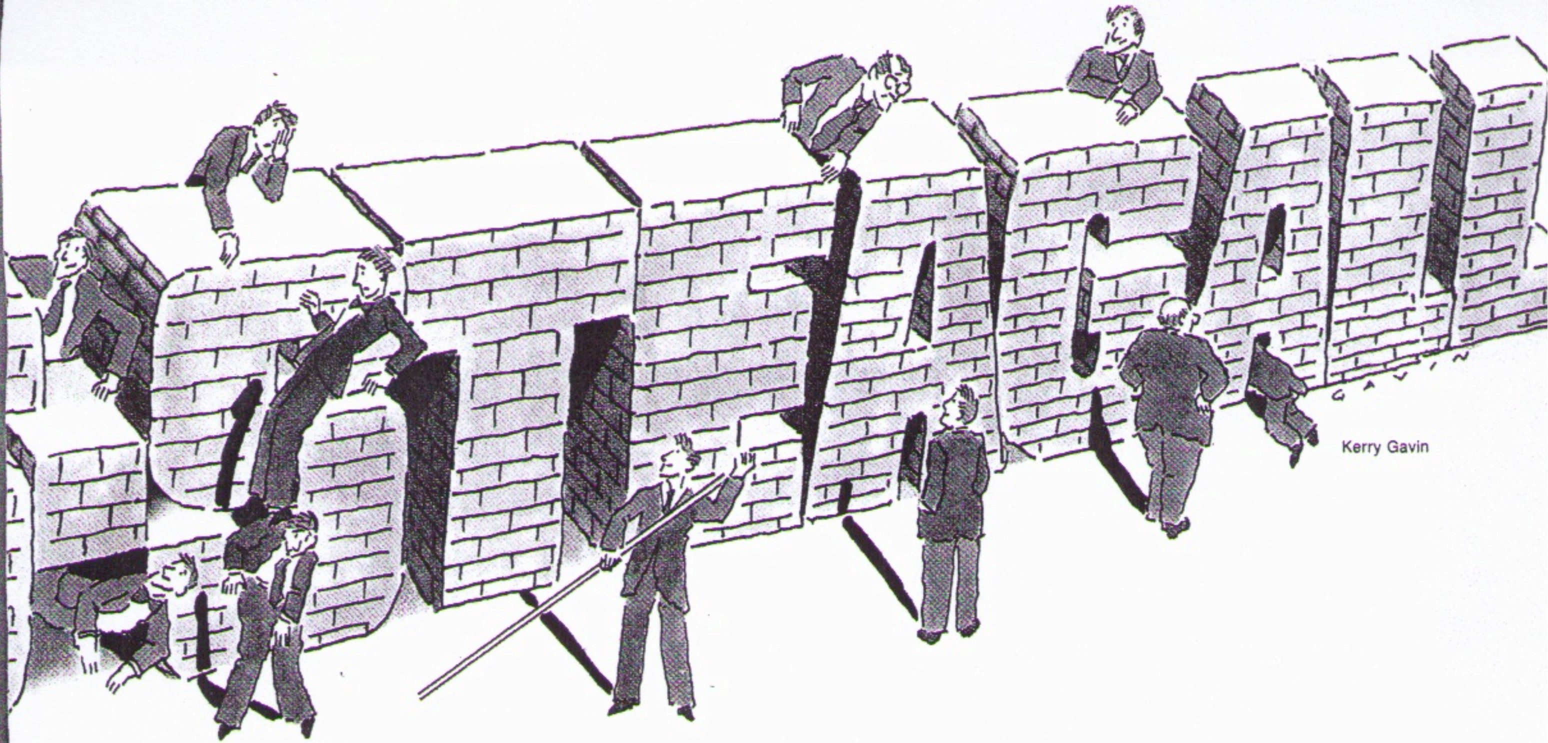
Does Glass-Steagall matter anymore?

It's being steadily eroded by regulatory decisions and banks' deft moves. If Congress doesn't enact legislation soon, it may be too late.

by Suzanna Andrews

To many of the executives gathered at the Securities Industry Association's annual meeting in Boca Raton, Florida, last December, American Express Co. chairman James Robinson III came on like something of a traitor. So, for that matter, did Drexel Burnham Lambert CEO Frederick Joseph, E.F. Hutton & Co. CEO Robert Rittereiser and John Goldsmith, chairman of Prescott, Ball & Turben. As their peers listened in angry silence, the four brokerage executives predicted the demise of the Glass-Steagall Act, the law that for 54 years has pretty much kept commercial banks safely out of their business. As far as Drexel's Joseph was concerned, Glass-Steagall looked like "Swiss cheese." To Prescott's Goldsmith, it had become a "dinosaur." Rittereiser urged his audience to "prepare for a world" without the 1933 law, and Robinson derided Glass-Steagall as "the regulatory version of the Maginot Line." Adding insult to injury, Robinson went on to laud those "entrepreneurial players" who are "writing new chapters in financial history without waiting for a rewrite of the law books."

Many SIA members were furious that the four had effectively been given a platform to assault their industry. To placate them, the SIA hastily arranged a



press conference at which several of its members valiantly rebutted their wayward members. But it was like killing the bearer of bad news, for anyone who left that conference assured that the Depression-era law separating commercial from investment banking was intact did not have a firm hold on reality.

Few topics have fired such frustrating discussion as the issue of whether (or when) Glass-Steagall should be dismantled. But these days the discussion has taken on the characteristics of a theological debate — it is surely passionate but not entirely relevant. Swiss cheese or Maginot Line, Glass-Steagall has already been significantly eroded. Deregulation around the world, a tidal wave of innovative products and the clever legal inventions of scores of financial firms have loosened the five-decades-old grip of Senator Carter Glass and Representative Henry Steagall. "You've got the process working, and the process is irreversible," intones former Citicorp chairman Walter Wriston. Glass-Steagall, adds former counsel for the Office of the Comptroller of the Currency Brian Smith, "has already lost most of its relevance."

Brick by brick

The Glass-Steagall wall separating U.S. commercial and investment banking is weaker today because a brigade of corporations, including Sears, Roebuck and Co., General Electric Co. and Merrill Lynch, has been pulling bricks out of it for some time. But these days there is one group of companies that has a particularly strong interest in seeing the wall crumble altogether — and these, of course, are the large commercial banks. Deeply troubled by what they say is the strangling effect on their business of securitization and nonbank competition, they are showing a new willingness to badger regulators, pressure Congress, interpret the law more aggressively and use whatever loopholes they can find to get what they want. "After so many years of 'you can't do this and you can't do that,' there's been a change in spirit, a readiness to take things into our own hands," comments one senior banker.

The banks have picked up a number of allies, some of them unexpected, in their campaign for financial reform. Among them are such nonbank corporate heavyweights as Ford Motor Co., J.C. Penney Co., Sears and Merrill Lynch. Even smaller banks, long suspicious of their big brethren's ambitions, are jumping on the bandwagon via their Consumer Bankers Association. And the banks' own regulators — Federal Reserve Board chairman Paul Volcker prominent among them — are also urging Congress to act. "I believe that legislation should be adopted promptly to give straightforward authority for bank holding companies to engage in certain underwriting activities," Volcker said last December. He favors granting the banks authority immediately to underwrite commercial paper, mutual funds and mortgage-backed securities, and he believes Washington should consider granting banks what he calls "corporate underwriting" powers. (Banking industry observers believe Volcker would include bonds under that term, but they question his commitment to letting them underwrite equities.)

Congress, as usual, has been dragging its feet. What's different about this round of congressional dithering on Glass-Steagall is that the issue could slip out of Capitol Hill's grasp, and some people are con-

Bob Wagner

Many banks are tired of waiting for Congress to act. "We've got to escalate the fight," says Chase Manhattan chairman Willard Butcher

cerned about the consequences. "The worry is that there'll be too rapid a breakdown before the regulations and the expertise of the institutions catch up," says Jane D'Arista, assistant director of the Morin Center for Banking Law at Boston University.

But waiting for Congress is out of fashion now. "We've got to escalate the fight," opines Chase Manhattan Corp. chairman Willard Butcher. And that is precisely what the banks are doing.

Take the way Chase chose to announce a new product in March: It held a press conference. There's nothing unusual about this except that the product it was trumpeting, the market index investment account, was likely to antagonize the SIA — the self-proclaimed "enforcer of Glass-Steagall" — and the Investment Company Institute, the powerful trade group for the mutual fund industry. Billed as a bank certificate of deposit that carries federal deposit insurance, it has one unusual feature: The return is tied to the performance of the Standard & Poor's 500 stock index. Chase, says treasurer J. Richard Zecher, will manage this portfolio of CDs by hedging with futures and options on the index — not by going directly into the market. From the customer's point of view, however, there is very little to distinguish this from a mutual fund — the management and distribution of which are generally off limits to commercial banks.

Although Chase had little trouble winning approval from the OCC and the Federal Deposit Insurance Corp., it expected to be and was challenged by the ICI, which last month filed suit against the bank for violating Glass-Steagall. But Chase was undaunted; in fact, in the hope of tweaking a few noses, it originally planned to hold its press conference at the New York Stock Exchange.

Other banks are less openly confrontational than Chase in their fight against Glass-Steagall — but no less creative. Citicorp, for example, appears to have devised an ingenious end run around the law that would allow it to deal in equities in the U.S. by passing positions to its foreign affiliates (*Institutional Investor,* February 1987). When Citi bought Vickers da Costa in London last year, it arranged the transaction so that the bank — not the holding company — would buy Vickers's New York office. It then won approval from the deregulation-minded Office of the Comptroller of the Currency, which oversees national banks, for Vickers in New York to continue making an over-the-counter market in foreign stocks. Through Vickers, Citi would then be able to place bid and offered quotes on the NASDAQ market system, but it would have to pass orders on to an offshore affiliate immediately.

Shortly after the OCC approved the deal, however, the Federal Reserve — which regulates Citi's holding company — intervened, worried about possible Glass-Steagall violations. The real reason for the Fed's action, goes the rumor among bank lawyers, is that it felt deceived about the way Citi acquired Vickers in the first place — that is, without revealing its intentions for the New York operation. Citi's deal is on hold right now, but bank lawyers are watching it closely. They say that the Fed's okay could open the way for banks to deal in U.S. stocks as well.

Battering ram

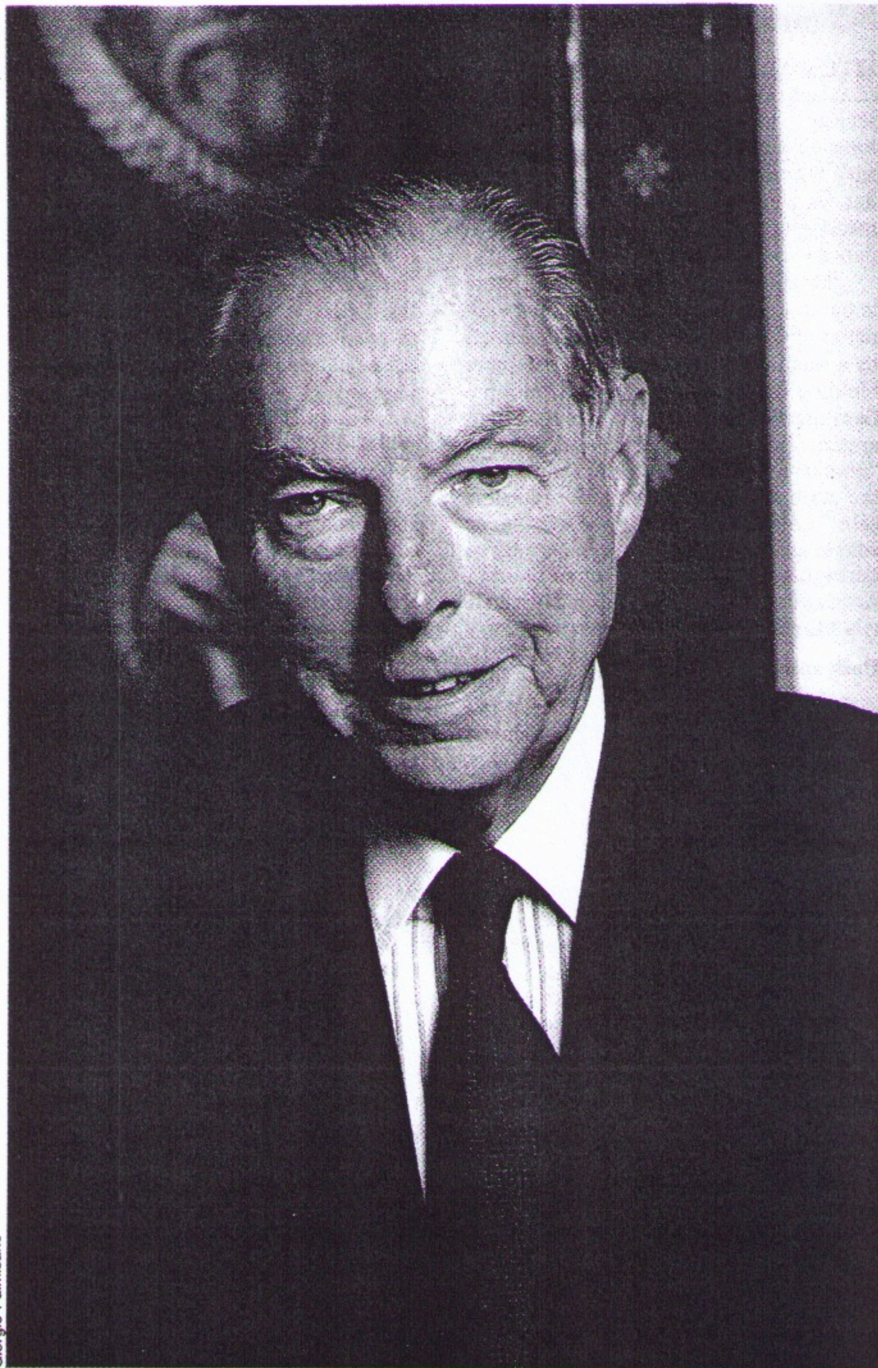
Inroads like the ones attempted by Chase and Citi are only a harbinger of what's to come, and this infuriates some investment bankers. "Vickers is an indication of what the real agenda is here, and that's underwriting corporate debt and equity," says Robert Gerard, Morgan Stanley & Co. managing director and head of the SIA's municipal finance committee. Gerard is right — the banks want that and more, and nothing makes this more obvious than the overseas activities of the large American banks. Indeed, their foreign connections have become their biggest battering ram against the confining walls of Glass-Steagall.

Federal regulations in the U.S. unwittingly knocked a gaping hole in Glass-Steagall by allowing American banks overseas to do pretty much anything permitted

under local laws. As recently as five years ago this was a relatively minor issue, but the worldwide trend toward financial liberalization and the increasing volume of business done overseas is changing that. London's Big Bang, Canada's Little Bang, France's Petit Bang and all the other muffled explosions around the world — in Italy, Japan and West Germany, for example — are beginning to shake Glass-Steagall's foundations.

Through its ownership of London broker Hoare Govett, for example, California's Security Pacific Corp. engages in underwriting and dealing operations around the world. It handles 35 percent of the volume of the Singapore Stock Exchange and 10 percent of Hongkong's. And it is a major partner in the largest underwriters in both Australia and New Zealand. In London, U.S. banks can deal in just about anything under the sun. Chase, for example, claims the biggest share in London's over-the-counter market. In Tokyo, Citi, Chase and SecPac already have licenses to run full-service securities operations, and licenses are likely to be granted shortly to J.P. Morgan & Co., Bankers Trust Co., Manufacturers Hanover Trust Co. and Chemical New York. In Canada, Chase and Security Pacific, among others, are training their sights on buying securities firms after that country's financial system is formally opened next month.

Even overseas, where they are relatively unfettered by U.S. regulations, the banks are displaying a new aggressiveness in their quest for expanded powers. Security Pacific, for one, has found a way to circumvent one of the few restrictions imposed by U.S. laws — limiting the amount of money an American bank can commit to underwriting equities offshore. The Fed limits banks to $2 million per issuer — an amount most bankers term ridiculous — so last October SecPac put together a syndicate of its large U.K. investors (most of them insurance companies) that enables it to underwrite equity issues running into the hundreds of millions of dollars. For a share of the underwriting commissions, the syndicate members help SecPac's Hoare Govett underwrite the amount in excess of $2 million — which they or SecPac then place. "We are the de facto underwriter," says Security Pacific executive vice president and head of merchant banking David Lovejoy. SecPac's elegant two-step has not gone unnoticed by other money center bankers, who suggest that they too are looking for ways to increase their equity underwriting outside of the U.S.



Giorgio Palmisano

Some impatient banks are threatening to shed their banking charters. "The question is," says former Citicorp chairman **Walter Wriston**, *"What is a banking license worth?" His answer: "Less today than yesterday"*

Siren call

As they expand their securities and investment banking operations in Europe and Asia, American banks are gaining expertise and making new contacts with investors and issuers. Finding ways to use these resources in the U.S. could be a siren call that's hard to resist. Right now, for example, bankers are prohibited from distributing in the U.S. the paper that they underwrite overseas except through the limited means of private placements. The laws on this are strict, says Chemical managing director S. Waite Rawls III, but "the temptation is overpowering *now*." And that temptation could lead to new inroads. "We will figure out ways of doing it," says Chase vice chairman Anthony Terracciano. "They may have to be elaborate ways. They may be of limited size. But these products will get distributed globally."

In addition to generating increased pressure on Glass-Steagall, financial liberalization in the rest of the world is creating another worrisome problem for the U.S.: Its banking business is being exported. "It's ludicrous that we're forced to make all of our investment outside the U.S.," says Citi vice chairman and investment banking head Thomas Theobald. Some say that London's Big Bang created thousands of new jobs in the U.K., and that number could increase as heavier competition in the City lowers fees and sucks business from New York. According to John Heimann, Merrill Lynch Capital Markets vice chairman and former U.S. comptroller, the question that must be asked is, "Should the American financial-

"You've got the process working, and the process is irreversible."

services system be so restrained that it loses its preeminence in the world?" Treasury Secretary James Baker III, for one, has warned that the country's restrictive measures could create "a rust bowl" in financial services.

Meanwhile, the Glass-Steagall battle is being fought over mind-numbing subtleties of the law. U.S. banks are governed by a maze of statutes, including the Bank Holding Company Act and the National Banking Act, and some banks maintain armies of attorneys who, says one banker, "pore over all the parenthetical phrases in the state and national laws looking for gaps." Unfortunately for those who prefer simple answers, "the statutes have a lot of ambiguity about them," says Dennis Aronowitz, director of Boston University's Morin Center and a lawyer himself.

Dark corners

One of the dark corners is Glass-Steagall's Section 20. In seemingly innocuous language, it decrees that no Federal Reserve "member bank shall be affiliated . . . with any corporation . . . engaged principally" in dealing or underwriting securities. Citi's lawyers were the first to shine a flashlight into that corner, training the beam on the words "engaged principally." More than two years ago, Citi applied to the Fed to establish a subsidiary that would underwrite commercial paper, mortgage-backed securities, municipal revenue bonds and securities backed by consumer receivables, but not be "engaged principally" in these activities. In short order, numerous banks, including Morgan Guaranty, Bankers Trust and Manny Hanny, followed with their own applications.

This probing into a once obscure area of Glass-Steagall triggered at least one inventive response from Chase Manhattan. Reacting to the Fed's apparent concern about whether such securities as U.S. Treasuries should be included in the subsidiaries' principal business, Chase in January submitted two new applications — for commercial paper and mortgage-backed securities underwriting — that would house Chase's new securities business in two separate subsidiaries that do no other securities business.

But the "engaged principally" prohibition isn't the only area where Glass-Steagall is vague. One of the mysteries of the law today — for those who dissect it — is the question of what exactly constitutes a security. The law at first seems clear in reference to "stocks, bonds, debentures, notes or other securities," says BU's Aronowitz, but by mentioning "other securities," he adds, "Glass-Steagall leaves a lot of room with the new instruments that are being devised." The lines are fuzzy, for example, on such things as collateralized mortgage obligations and will become so on asset sales as that business becomes more and more sophisticated. Indeed, the question of what exactly constitutes a security can be answered much the way former Supreme Court Justice Potter Stewart once tackled the issue of hard-core pornography: He couldn't define it, he admitted, "but I know it when I see it."

The question of whether Glass-Steagall — via its definition of a security — applies has become especially heated in the commercial paper area, where the Fed and Bankers Trust have been in and out of court for nearly six years. While Congress has refused to clarify the law, the commercial banks have lost chunks of competitive ground to the securities industry. Commercial paper has boomed from a $53 billion business ten years ago to $337 billion in January, and much of that growth has come at the expense of the banks' traditional corporate lending business. Concerned about this disintermediation, the Fed became more sympathetic to the banks' drive to underwrite this instrument. In 1980 it ruled on behalf of Bankers Trust that commercial paper was *not* a security and hence not covered by Glass-Steagall prohibitions. The SIA, naturally, sued, and the case has been up to the Supreme Court and then back down for further clarification.

In March, the Fed went even further and approved Chase's January application to underwrite and deal in commercial paper, provided that revenues from that source did not exceed 5 percent of the subsidiary's total revenues. But a week before the Fed issued its decision, the Senate Banking Committee threw a potential monkey wrench into the works. Unable to agree on a broader banking bill that would, among other things, grant the commercial banks new underwriting powers, it approved bare-bones legislation aimed primarily at rescuing the foundering Federal Savings and Loan Insurance Corp.

Clearing the books

But the bill also imposes a one-year moratorium on the approval of new powers for the banks. In granting Chase its new power, the Fed warned that the bank may have to relinquish it if the full Congress passes the committee's bill, which later in the month won Senate approval. The Fed expressed the same reservations as April ended when it authorized Citi, Bankers Trust and Morgan to underwrite a variety of securities, including muni revenue bonds, MBSs and commercial paper. If the Senate bill doesn't pass, bank applications to underwrite corporate issues could be forthcoming this year.

Given Congress's rather dismal track record on controversial banking legislation, passage of the Senate measure is uncertain. Either way, the burgeoning area of relatively new securities backed by such bank assets as mortgages and credit card receivables could be the next focus of conflict over whether Glass-Steagall applies. It's more profitable these days for banks to get these assets off their books and into the hands of investors. Ten years ago, for example, there were about $50 billion of mortgage-related securities in the market; that volume has exploded to more than $500 billion today. Investment banks underwrite and distribute the vast bulk of that huge total, and the commercial banks want a chunk of that business.

Right now the banks are permitted to underwrite mortgage obligations backed by Federal agency paper and — as in the case of OCC-regulated national banks like Citi or SecPac — those backed by mortgages they originate. What they crave, though, is the power to underwrite the securities of private third parties — the flood of mortgages that gush out of their correspondent banks and savings and loans. Several large banks have applied to the Fed for this authority in their Section 20 applications, so officially, at least, they say this is still off-limits to them. "You're reasoning with gut feelings with lawyers. Does it make them comfortable? Right now it makes them uncomfortable," says Citi vice president and head of mortgage finance Douglas Jacobs. Privately, however, bank lawyers contend that a single line in Section 21 of Glass-Steagall that permits them to underwrite and deal in "obligations evidencing loans on real estate" could be read to allow them into this Garden of Eden if the Fed doesn't approve their applications. And the OCC, they say, might well back them in their quest.

Going to the bank regulators doesn't mean smooth sailing through Glass-Steagall to heaven, however. Turf battles between the OCC and the Fed — as in the Citi–Vickers case — can make for some choppy waters. Bankers have much warmer feelings toward the OCC, which, in the words of former comptroller Heimann, has long been "more benign than the Fed." But that hardly matters when the Fed decides to intervene in a case. Even though the OCC supervises national banks, the Fed's decisions rule, thanks to its jurisdiction over bank holding companies.

The Fed's intercessions have more than once raised the wrath of bankers, who accuse it of "power grabbing." The regulator's apparent waffling has also helped create a love–hate relationship with the banks. They cleave to their regulator when it champions their causes — on commercial paper, for example — yet often scorn its indecisiveness and what one banker calls "its midlevel bureaucrats who can't stand change." Indeed, throughout the Section 20 debate, the Fed seemed

horrified at having to make a decision that hit so close to Glass-Steagall's heart. It used every technical gambit available to delay answering, led on, many bankers and lobbyists believe, by the ultimately empty promises from Capitol Hill that Congress would take over and give the banks at least some of the powers they sought.

In fairness to the Fed, it has to be more cautious than the OCC: It has a broader mission. As the nation's lender of last resort, the central bank has to pick up the pieces when there is trouble in the financial system. Moreover, some bankers say that it has become more accommodating recently. They point to its 1986 decision to permit Britain's National Westminster Bank to combine institutional brokerage and investment advice, reversing an earlier decision. Statements by chairman Volcker and by Fed governor Robert Heller urging reform have also been taken as encouraging signs. But although the governors are comfortable with allowing banks into most areas of underwriting, they were also loath, sources say, to take the lead — preferring that Congress decide this issue.

Meanwhile, the large banks are getting fed up with waiting — and losing business to Wall Street and other nonbank companies — and some are threatening to bypass the system altogether by shedding their banking charters. Chase has been the most outspoken bank on the subject, but the likes of Morgan Guaranty, Bankers, Citi, Chemical and some regionals are also toying with the idea. "The question," says Wriston, "is, What is a banking license worth?" His answer: "Less today than yesterday."

Last December, Chase began to put Wriston's question through a battery of profitability tests to determine if it would be better off as a financial-services company *sans* full-service banking. The bank hired Washington's Strategic Planning Associates to scrutinize the profitability of its various businesses and gauge what the impact on its overall return would be if it dumped any of them. "We're finding less reason to be a bank than we thought we would," reports Chase's Butcher. According to initial estimates, Chase last year lost $15 million to $20 million on such pure commercial banking activities as deposit taking. The bulk of the bank's profits, its chairman contends, comes from such sectors as credit cards, consumer finance and trading, where "being a bank makes absolutely no difference."

There is a lot of skepticism about the findings, which are admittedly incomplete. Still to come is an analysis of how Chase would fund its activities if it didn't accept deposits. In any case, neither Butcher nor his peers regard the charter-dropping option as an easy — or particularly desirable — one. It would be an especially traumatic move for banks like Citi that have huge consumer banking franchises. And even wholesale banks like Morgan or Bankers would agonize over losing their ability to offer corporate *banking* products. "It would be like cutting off your right leg," says Bankers Trust executive vice president George Vojta. "We make more money doing what we do now than we would by becoming an investment bank only."

"One of the mysteries of the law — for those who dissect it — is the question of what exactly constitutes a security."

The banks would run into political as well as economic hazards if they decided to opt out: namely, retaliation by Congress and the Federal Reserve. Many bankers believe that if banks try to slip out of the system before Congress is ready to reform it, the legislature could strike back, forcing these institutions to stay put. The Senate has already moved to block two avenues of escape. Its bill would make state-chartered, non-Fed-member banks subject to Glass-Steagall for the first time — thereby closing for at least a year the escape route Morgan Guaranty has been considering, that of becoming a state-chartered bank outside the Fed's reach. The Senate bill would also stymie the formation of nonbank banks by redefining a bank as any institution covered by federal deposit insurance. By closing this loophole, Congress would make it virtually impossible, lawyers say, for banks to drop their charters and still retain their deposit-taking abilities — the route Chase is considering.

Stepped-up pressure

In so doing, Congress would once again be cementing over cracks in the Glass-Steagall wall while refusing to rebuild or dismantle it. But Capitol Hill could be facing new pressures to act. Many bankers believe that another ally — state governments and banking authorities — could be joining their cause. One encouraging sign came in December from New York State's banking supervisors. In a surprise move, the state announced that it interpreted its own "little Glass-Steagall" — a virtual clone of the national law — to allow state-chartered banks to engage in a significant amount of securities underwriting through separate subsidiaries. A short time later New York Governor Mario Cuomo said that he might propose legislation that would further liberalize New York's banking laws.

Practically speaking, there isn't much the money center banks can do to take advantage of New York's generosity. As holding companies, they are bound by the Fed's edicts and, hence, by Glass-Steagall itself — although some bankers hint that there may be ways to comply with federal law and mine New York's pleasures as well. Citi may try to do so. Last month it applied to convert one of its New York banks to a state-chartered institution that would also drop its Fed membership. But even absent any such attempts, initiatives by the states help, says one lawyer, by putting "additional pressure on the government to moderate its stance." Not only Congress, but the Fed too, is going to have to take notice of how the rest of the federation interprets the law. New York's case, says BU's Aronowitz, "indicates that the state with the largest amount of banking resources and that regulates its institutions more closely than anyone else does not think these restrictions are valid."

The longer Congress waits, the more financial innovation and deregulation around the globe are going to press against Glass-Steagall's restraining wall. "We have the whole world changing, and these guys [in Congress] are acting like they're going to control the outcome — and they're not," says Chase's Terracciano. As far as the banks are concerned, they are going to hasten this change — of this even the SIA has no doubt. "The banks are going to try to roil the water as much as they can to give the impression that Glass-Steagall doesn't work," says SIA general counsel and senior vice president William Fitzpatrick. As part of that roiling operation, the American Bankers Association has appropriated $1 million for an advertising effort, called "The Ridiculous Laws" campaign, that takes potshots at Glass-Steagall.

Some U.S. bankers are also counting on the activities of foreign commercial banks in New York to help point up the inconsistencies in the law. While Glass-Steagall all but shuts out U.S. banks, some fifteen foreign banks — including Deutsche Bank and Dresdner Bank of West Germany and the three Swiss giants — have long underwritten and dealt in all manner of securities in the U.S., a privilege grandfathered into the International Banking Act of 1978. Until recently, the foreign institutions kept a low profile, but their global ambitions are changing that (*Institutional Investor,* March 1987).

Union Bank of Switzerland was the first to step out by lead-managing bond issues for Allied-Signal, Transamerica Financial Corp. and Borg-Warner Acceptance Corp. last year. These were the first corporate debt issues in the U.S. to be led by a commercial bank, and others will follow. Swiss Bank Corp., for example, aims to lead-manage corporate debt *and* equity issues this year. As a sign of its commitment, it recently set up a New York–based securities marketing team with a long-range goal of building up sales offices around the U.S. "The American banks are

"Federal regulations unwittingly knocked a gaping hole in Glass-Steagall by allowing U.S. banks overseas to do pretty much anything permitted under local laws."

right on our doorstep [in Europe], underwriting and distributing," notes Guy Burgun, executive vice president of SBC International Securities in New York. "If we can contribute to change here by lead-managing equity issues, then we should do it."

Far from being annoyed at the foreigners' privileges, the American banks appear to relish them. Indeed, foreign bankers say that U.S. banks coming to market these days are more likely to invite them into the syndicates underwriting their issues. Some bankers hope that such deals as UBS's participation in BankAmerica Corp.'s recent $400 million issue of credit card receivables point up the fact that the banks can indeed handle this business without the world falling apart.

Though the banks have made considerable progress on a number of fronts, they still face big obstacles. A little-publicized one is the army of investment bankers who go to great lengths to trip the banks when they step too close to the investment banking line. Many of them are not above writing letters to bank clients telling them, for example, that they shouldn't let Bankers Trust place their commercial paper, because it's against the law (which it isn't). Others have been known to scream to the Fed when they believe the banks get too aggressive in such areas as taking large equity positions in leveraged buyouts. Which firms do this? "I don't want to single out anyone," says Citi's Theobald, "because they all do it."

The SIA's persistent lawsuits and formidable lobbying clout are another stumbling block. The mutual fund and insurance industries, with their considerable influence, are also trying to shore up the Glass-Steagall barriers. But the banks have created some of their own problems. They have, for one thing, presented a very splintered front on the Glass-Steagall issue; while the big banks are all for breaking down the wall, the regionals have in the main been lukewarm to the idea and the small banks have been opposed. This year is the first to witness any kind of cohesion among groups representing small and large banks — partly because the divisive debate over interstate banking has receded into the background and because even the smaller banks are beginning to see how desirable such activities as offering mutual funds and insurance could be. And as far as the banking industry's charm in Washington is concerned, well, it needs a lot of polishing. Says one Washington bank consultant: "The banks don't know how to lobby. They are cheap, and they don't respect the vagaries of the political process."

So far, the politics of Glass-Steagall have been completely unpredictable, as the Senate's latest piece of financial legislation demonstrates. It started out as a reform package and ended up as a rescue operation for the FSLIC and a standstill on everything else. The moratorium on new banking powers distresses bankers, and the fact that it would expire in an election year could be a deadly omen. "It's a dangerous thing, because it's easy in an election year to extend it and maintain the status quo. Furthermore, it serves no purpose," says Morgan Guaranty's senior vice president of planning, Kendall Raine Jr.

Ace in the hole

Still, a growing number of people other than bankers are urging that there be a complete overhaul of the country's financial laws, and this could be the bankers' ace in the hole. "One of the problems with previous proposals is that they were bank-driven and you could see a constituency automatically line up against them," says the Treasury Department's assistant secretary for domestic finance, Charles Sethness. In addition to reform proposals likely to come from the bank trade associations, the FDIC and the Fed, another is expected shortly from the Mayflower Group, a rainbow coalition of more than 50 corporations ranging from most money center banks to Ford, Sears, Merrill Lynch, J.C. Penney and such groups as the Consumer Bankers Association. The group has the Reagan administration's backing — although it's unclear how active that will be.

From any angle, financial reform of the sort people are calling for today is going to be a tortuous process. Hard thought will have to be given to the soundness of the payments system as new players pile in, to the question of who gets deposit insurance, to how far the safety net should extend and to how the whole system should be regulated. Small wonder Congress is dragging its feet. "People don't really understand the complexities of what we're dealing with and would like the whole thing to go away," says Edward Boudreau, senior vice president of John Hancock Insurance, a Mayflower Group member.

The problem is that the issue won't just go away, not if the commercial banks, at least, can help it. "Are the banks going to wait? No," says Chase's Terracciano. "We are going to be a nuisance, we're going to push as hard as we can in any way possible. We will push the law as far as we can." ii

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