Encourage Competition between Different Types of Depository Institutions

Three major types of depository institutions—banks, thrifts (also known as savings and loans), and credit unions—provide checking accounts, credit cards, loans, and savings instruments for American consumers and businesses. Although credit unions face the highest overall level of government regulation, each type of institution enjoys some special privileges and limits. For example, thrifts can open up new branches most easily, credit unions pay the least taxes, and banks have the fewest restrictions on the type of loans they can make. All of these privileges and restrictions have historical reasons for existing but, for the most part, no longer make sense. In the long, medium, and short terms, a variety of approaches could improve the quality of depository institution regulation in the United States.

In the long term, Congress should strive for a single, liberal federal charter for all institutions to allow customers to enjoy the best of all worlds: thrifts' flexibility to open branches anywhere customers want them; banks' and thrifts' ability to let market forces rather than government determine lending distribution; sensible, universal capital reserve requirements; and credit unions' tax-free status. Institution owners—stockholders for banks and some thrifts, customers for credit unions and other thrifts—rather than legal restrictions, would decide structure and market advantages.

In the medium term, Congress should ease the distinctions between different types of institutions within respective chartering authorities. Lawmakers should allow credit unions to expand their field of membership, while allowing banks the same rights as thrifts to open branches wherever they encounter consumer demand. Over time, such a general easing of regulatory burdens could lay the groundwork for a streamlining of chartering authority.

In the short term, given the current credit crunch—to which the 1970s-era Community Reinvestment Act contributed—Congress should seek to expand credit availability. It should ease restrictions on credit union business lending and simultaneously reduce capital reserve requirements for banks and thrifts.

Repeal of the Community Reinvestment Act would be the ideal situation. However, short of that, Congress should consider allowing banks to qualify as being CRA compliant through a much simpler process with far less room for political interference. This alone would provide a strong inducement to lend.

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