NEWS RELEASE

Comptroller of the Currency
Administrator of National Banks

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Comptroller Hawke Urges Congress to Address Unfair Treatment of National Banks in Deposit Insurance System

WASHINGTON -- Comptroller of the Currency John D. Hawke, Jr. urged a House Financial Services subcommittee to address an inequity in the deposit insurance system that requires national banks to pay a large share of the cost of supervising state-chartered institutions.

"For every dollar the FDIC spends on the supervision of state banks, national banks, by our estimates, effectively contribute about 55 cents," Mr. Hawke said in testimony before the subcommittee on Financial Services and Consumer Credit. By contrast, he said, national banks pay the full cost of their own supervision.

The Comptroller said a key principle in deposit insurance reform is that an individual institution's premiums should be closely related to the expected costs those institutions impose on the insurance funds. Reform should eliminate subsidies so that healthy, well-managed banks do not bear the costs and risks of less well-managed institutions.

"Similarly, bank supervision should not be based on a system of subsidies--such as those embedded in the current deposit insurance system--that results in national banks paying a substantial portion of the FDIC's cost of supervising state banks," the Comptroller said.

"The OCC believes that reform of our system of deposit insurance should recognize that the *current* system requires that national banks cover a significant portion of the cost of supervising state nonmember banks," he added. "Because one of the main purposes of bank supervision is to protect the insurance fund, ensuring that supervision is funded in a fair and equitable manner is inextricably related to the subject of deposit insurance reform."

Because the FDIC currently funds Federal supervision of state nonmember banks, the OCC believes the system should be extended to cover the costs of both state and national bank supervision from the Bank Insurance Fund, Mr. Hawke said.

"This would ensure that all supervisors have access to the resources needed to deal with stresses in the system, and could eliminate the perverse situation we have today in which our resources can be significantly depleted at the very time when the heaviest supervisory demands may be placed on us," Mr. Hawke added.

Mr. Hawke also told the panel:

- The Bank Insurance Fund and the Savings Association Insurance Fund should be merged to enable the FDIC to operate more efficiently and reap the benefits of diversification.
- Deposit Insurance premiums should be made more sensitive to risk.
- Congress should eliminate the requirement that premiums for the lowest-risk banks be set at zero when the fund's reserve ratio exceeds 1.25 percent of insured deposits.
- The existing designated reserve ratio of 1.25 percent should be eliminated and the FDIC should be given the power to decide how large the fund should be based on its evaluation of risks.
- An increase in deposit insurance coverage from the current $100,000 is unnecessary.

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