



NEWS RELEASE

Comptroller of the Currency
Administrator of National Banks

NR 2002- 84

FOR IMMEDIATE RELEASE
October 22, 2002

Contact: Robert M. Garsson
(202) 874-5770

Comptroller Hawke Says Reforming the System of Funding Bank Supervision Would Improve Safety and Soundness and Strengthen Dual Banking System

PINEHURST, N.C. -- Comptroller of the Currency John D. Hawke, Jr. said today that the most serious flaw in the current system of funding bank supervision is that it undermines safety and soundness and the health of the dual banking system.

“Fairness aside, perhaps the most damning indictment of our current funding arrangement is that it undermines the very purposes for which it was established: the safety and soundness of all commercial banks and the health of our system of dual chartering options for those same banks,” Mr. Hawke said in a [speech](#) to the North Carolina Bankers Association.

The current funding system makes it more difficult to deal with problem banks in times of stress, the Comptroller said, because it forces supervisors to raise assessments at a time when banks can least afford them.

“It seems difficult to defend a funding system that, in times of economic stress, forces supervisors to turn to well-managed banks for the resources supervisors need to deal with problem institutions – another kind of unfair subsidy. But that’s exactly what our current system does with regard to national banks,” he said.

The Comptroller warned that the existing system also poses a serious threat to state bank supervisors, particularly in states where one institution accounts for a large share of the assets held by state-chartered banks. Because large banks typically subsidize the supervisory costs of smaller institutions, the supervisory agencies in those states would lose a disproportionately large share of their revenue if a large bank left the state system.

“Consider the vulnerability of half of the state banking departments, in which a single state bank accounts for more than 25 percent of the bank assets under state supervision,” Mr. Hawke said. “In eight states – including North Carolina – a single state bank accounts for more than 50 percent of the assets under state supervision. In any of those states, the loss of a large bank, to conversion, merger, or failure, could be devastating.”

The OCC has proposed that the system of funding bank supervision, which was introduced in the horse and buggy days, be overhauled to eliminate the discriminatory arrangement that provides

-more-

subsidies to one favored class of banks and forces national banks and taxpayers to foot the bill.

The reforms proposed by the OCC would have very significant benefits for state supervisors, Mr. Hawke said, because they would eliminate the need for states to directly assess their banks. Instead, all bank supervision would be funded through earnings on the Bank Insurance Fund, which has been built up with premiums paid by all banks. Currently, the fund's income is used to pay for the supervision of state-chartered banks only, even though more than half the fund's income is attributable to premiums paid by national banks.

Much of the support for the current system, he said, seems to spring from the mistaken notion that the state bank system could not survive without the massive subsidies it now receives.

“But that needn't be the case, and I don't believe it would be,” the Comptroller said. “The state bank charter is not in such a state of decrepitude that it needs \$1 billion a year in federal subsidies to shore it up – and I am surprised that the supervisors of state banks would implicitly take a contrary view.”

State banking is strong, Mr. Hawke said, and would remain strong under a fair system of supervision funding.

“For much more than a century, against far longer odds than it faces today, state banking has competed successfully through the application of grit, innovation, supervisory responsiveness, and other qualitative attributes that have unfortunately been cheapened in the current obsession with assessments,” he said.

“I am convinced that we can restore fairness of our system of supervisory funding, maintain the vitality of state supervision, and reinvigorate the system of dual chartering that contributed so significantly to the proud and productive history of commercial banking in our country,” Mr. Hawke added.

#

The OCC charters, regulates and examines approximately 2,100 national banks and 52 federal branches of foreign banks in the U.S., accounting for more than 55 percent of the nation's banking assets. Its mission is to ensure a safe and sound and competitive national banking system that supports the citizens, communities and economy of the United States.