NEWS RELEASE

Comptroller of the Currency
Administrator of National Banks

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Comptroller Hawke Urges FDIC Reforms To End Inequitable Treatment of National Banks

WASHINGTON -- Comptroller of the Currency John D. Hawke, Jr., praised the Federal Deposit Insurance Corporation today for beginning a full-scale review of the deposit insurance system and called for reforms to end the inequitable treatment of national banks.

"The longstanding practice of using insurance premiums paid by all insured institutions to defray the FDIC's costs of routine bank supervision of state nonmember banks is not only inequitable, but it deprives the FDIC of an important source of market discipline over its use of resources," Mr. Hawke said in a speech to the Exchequer Club, a professional organization based here.

Last year, Mr. Hawke said, almost half of the $1.2 billion generated by the FDIC to pay for its operations -- about $600 million -- was used to defray the cost of supervising state chartered banks. Because the FDIC's Bank Insurance Fund is over-capitalized, very few banks are paying premiums and the agency's reveue is derived primarily from investment income.

Mr. Hawke said that the Office of the Comptroller of the Currency spent $398 million last year to supervise about 2,300 banks that together accounted for about 58 percent of the industry's assets.

Over the same period, the FDIC spent $590 million for the supervision of state banks that are not members of the Federal Reserve System, while the Federal Reserve spent $280 million on the supervision of the remaining state institutions. Adding in the $160 million spent by the states, more than $1 billion is spent on state bank supervision.

"There, in the difference between the $160 million spent by the states and the $1 billion total cost of state bank supervision, is the inequity -- a funding gap the major part of which is paid by those national banks that have contributed to the FDIC insurance fund and that maintain reserves with the Fed," Mr. Hawke said.

Most of the FDIC's share of state-bank supervision is actually paid by national banks, which have contributed 53 percent of the funds in the deposit insurance fund.

“I think fair-minded people would agree that there is an inherent inequity in a system that requires national banks to pay the OCC for their supervision and then to pay again to support the cost of supervising some of their competitors, the state nonmember banks,” the Comptroller added.

While not endorsing any one solution to deal with the inequities in the current system, the Comptroller mentioned a number of possible options that have been proposed in the past.

For example, the Office of Management and Budget has proposed that the FDIC and the Fed simply assess state-chartered banks for the cost of supervision. While this is the most straightforward approach, it is politically unrealistic, Mr. Hawke said.

Some have suggested that the OCC alternate examinations of national banks with the FDIC. However, Mr. Hawke said that would only add to the FDIC’s costs and do so in a most inefficient way, since both agencies would have to maintain a capacity to examine the same set of national banks. In that case, he said, the sum of the parts would inevitably be greater than the whole.

Another solution would be for the FDIC to unbundle the two components of its fees. The first, charged to all banks, would cover the risk-adjusted cost of deposit insurance; the second would cover the FDIC’s cost of supervision, and would be paid only by banks whose primary federal supervisor is the FDIC.

The inequity of using national bank contributions to the FDIC to pay for the costs of state bank supervision could also be remedied by rebating to national banks -- or to the OCC, for pass-through to national banks -- an amount equal to their contribution to the cost of federal supervision of state banks, Mr. Hawke said.

“Which of these approaches is the most sensible? I don’t have an answer to that question for you today,” Mr. Hawke said. “My purpose in discussing the issue here is simply to raise awareness of its importance and to encourage public dialogue on an issue that we believe must be considered in the context of deposit insurance reform.”

In a system of risk-related premiums, the Comptroller added, “deposit insurance premiums should pay for deposit insurance. And non-insurance costs should be paid on a similar efficient basis.”

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