



NEWS RELEASE

Comptroller of the Currency
Administrator of National Banks

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Comptroller Hawke Urges New Look at Funding Bank Supervision

CHARLOTTE, N.C. -- Comptroller of the Currency John D. Hawke, Jr. said today that the U.S. must find a new method of funding bank supervision -- one that strengthens both state and federal supervisory agencies and ensures that they have the resources they need to do their jobs.

Mr. Hawke said a new approach is needed in part because of the structural changes that have accompanied industry consolidation and in part because new competitive pressures have forced banks to look carefully at the cost of supervision.

Both the OCC and state supervisory agencies have lost banks and revenue through mergers and "roll-ups," in which a multi-bank organization consolidates its charters. The effect of these changes on state-banking systems, which already spread their expenses over a smaller base of institutions, can be very significant, Mr. Hawke said.

"In 24 of the 50 states, a single large state-chartered institution accounts for 25 percent or more of all state-chartered assets -- and, presumably, more than 25 percent of the total assessment revenues of the state banking authority," he added. "Thus, the loss of a large state bank in those states has the potential for significantly weakening the support for state bank supervision."

The major share of state-bank supervision is shouldered by the Federal Deposit Insurance Corporation and the Federal Reserve Board. In the case of the FDIC, national banks are responsible for 52 percent of the contributions to the insurance fund since the fund was exhausted in 1991.

"Considering that the FDIC spent about \$590 million on state nonmember bank supervision in 1999, national banks can be viewed as having contributed about \$300 million to the FDIC's costs of supervision -- this in addition to the \$384 million in assessments they paid to the OCC for their own supervision," Mr. Hawke said.

One approach that has considerable appeal, Mr. Hawke said, would be to draw on the earnings of the FDIC's insurance funds to defray the cost of both state and federal bank supervision. Under that system, a formula would be devised to allocate money to each of the supervisory agencies based on factors such as the condition, risk profile, size and operating environment of the banks they supervise.

While each agency would be free to impose supplemental assessments if they chose, competitive pressures would work to keep those charges at a minimum, Mr. Hawke said.

An alternative approach would be to rebate to national banks -- or to the OCC, for pass-through to national banks -- the share of their insurance premium that is now devoted to state-bank supervision.

“Such an approach would get national banks out of the business of subsidizing their competitors, with relatively minor impact on FDIC resources,” Mr. Hawke said.

Mr. Hawke said that changing the current method of funding bank supervision is an integral element of deposit insurance reform.

“Separating the actual costs of the FDIC’s supervisory functions from the costs of providing deposit insurance is an essential step toward efficient and rational pricing of both,” he said.

The Comptroller said his goal in speaking out was to stimulate a broad dialogue among all interested parties and policy makers.

“Through such a dialogue, I believe we can develop concrete proposals to overhaul the current system, and replace it with one that supports rather than undermines our ability to achieve common goals,” he said.

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The OCC charters, regulates and examines approximately 2,200 national banks and 56 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.

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