

Background on the Dual Banking System

Charters to operate banks may be obtained from either state or federal authorities. National banks, which are federally chartered, must join the Federal Reserve System. However, membership in the Federal Reserve System is optional for state-chartered banks.

Under current law, the powers and authorities of state-chartered banks are established by the states, while those for national banks are determined by federal law. State law also governs the activities of direct subsidiaries of state-chartered banks.

National banks are regulated and supervised only at the federal level by the Office of the Comptroller of the Currency. However, state-chartered banks are subject to regulation and supervision at both the state and federal levels. If a state-chartered bank is not a member of the Federal Reserve System (such banks are termed "state nonmember banks"), then its principal federal supervisor is the FDIC. On the other hand, if a state-chartered bank elects to join the Federal Reserve System (such banks are termed "state member banks"), then it is subject to regulation and supervision by the Federal Reserve Board. Thus, the principal federal regulator and supervisor of any individual bank is determined by whether it is a national bank, a state nonmember bank or a state member bank.

Of the approximately 13,700 insured banks in the United States, the FDIC has the principal federal supervisory authority with respect to only the state-chartered nonmember banks. These banks, however, make up approximately 8,000, or about 60 percent, of the total. They account for about one-fourth of the banking industry's assets. The FDIC also is the federal supervisor for about 485 FDIC-insured savings banks. The Federal Reserve Board is the principal federal supervisor for the approximately 1,100 state-chartered member banks. The Comptroller of the Currency supervises about 4,600 national banks.

Banks also may belong to a bank holding company system. Bank holding companies and their nonbanking subsidiaries are regulated by the Federal Reserve Board. The principal reasons for forming a bank holding company are: (1) as a funding mechanism for its subsidiaries; (2) as a vehicle to engage in nonbanking activities that the Federal Reserve has determined, under the law, to be closely related to banking; (3) as a vehicle for interstate operations; and (4) in the case of one bank holding companies, for tax purposes.

Though the banking system and its regulatory structure is admittedly complex, it provides important benefits. Our "dual banking system" provides for local, as opposed to national, jurisdiction over the chartering, powers and activities of state-chartered institutions. Local autonomy permits the states to tailor their respective banking systems to the particular attributes and needs of their own regions and allows them to provide for a banking system that is responsive to local consumers. Another important benefit provided by our dual banking system is the opportunity it affords for developing a multiplicity of innovative approaches to banking problems and issues.