FDIC STREAMLINES APPLICATION PROCEDURES FOR STATE-CHARTERED BANK SUBSIDIARIES

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To paraphrase Mark Twain, recent reports of the decline of the U.S. dual banking system are greatly exaggerated.

As we all know, one of the greatest strengths of the American banking system is the fact that it is a “dual” banking system. Bankers have long had the freedom to choose to do business under a state or national charter, and thus, under a state or national regulatory structure.

In recent years, some states have authorized state banks to engage in activities such as insurance sales and underwriting, and real estate investment and development. Several states have adopted legislation authorizing state banks to invest up to a given percentage of their assets in unspecified nonbanking activities.

As the staff has noted, the ability of state banks to exercise many of these powers is now limited by federal law, which generally restricts state banks to the same type of activities conducted by national banks. Activities beyond those may be undertaken only if the FDIC determines that they entail no significant risk to the deposit insurance fund and a bank is in compliance with capital standards. In other words, the FDIC has the authority, within those safety and soundness parameters, to facilitate an insured state nonmember bank’s exercise of the powers granted by the laws of its chartering state.

Today, I strongly urge the Board to adopt the proposed rules. By doing so, the FDIC would make clear that, in implementing Section 24 and the intent of Congress, the FDIC supports the exercise of state-chartered banking activities that are authorized by state authorities, provided those activities do not jeopardize the safety and soundness of the U.S. banking system or present a significant risk to the deposit insurance fund.