



PRESS RELEASE

Federal Deposit Insurance Corporation

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FDIC Chairman Says Action at Federal Level Needed to Preserve Healthy Dual Banking System

Voicing concern about the future of the dual U.S. banking system, FDIC Chairman Donald E. Powell today called for action at the federal level to preserve healthy federal and state banking systems. Noting that the dual banking system is at a crossroads, Powell said: "The share of banking activity conducted through state-chartered banks is dwindling and there is every reason to believe that trend will continue. The issue goes well beyond market share, to fundamental issues about competitive fairness and states' ability to enforce laws protecting consumers."

Speaking to bankers gathered in Palm Desert, California, for the American Bankers Association's Annual Convention, Powell stressed the importance of the dual banking system, noting that it has served the nation well for almost 150 years: "When I think of a strong dual banking system, I think of strong communities," he said. "I think of local and regional engines for economic growth and job creation. I think of choice, innovation and diversity."

Powell said this traditionally strong dual system could be jeopardized as the industry asset share of state-chartered banks continues to decline. Almost 80 percent of the assets of commercial banks with interstate branching networks are in national banks, Powell said.

Under the Riegle-Neal Act, Congress provided that state laws would apply to the interstate branches of national banks in four key areas—intrastate branching, consumer protection, fair lending and community reinvestment—as long as these laws are not preempted by federal law and do not discriminate against national banks on the basis of their charter.

Revisions to the Riegle-Neal Act helped eliminate the disparity between the treatment of national bank branches and state-chartered-bank branches with respect to host state law, Powell said, and those revisions have been codified in the Federal Deposit



Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

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Insurance Act. However, Powell added, additional clarity from the FDIC might be beneficial.

The FDIC held hearings on May 24, 2005, in response to a Financial Services Roundtable petition calling for the FDIC to publish a regulation offering state-chartered banks operating across state lines the same preemption of host state laws that national banks currently enjoy. Those testifying at the hearings offered a wide range of views. Most, however, agreed that recent OCC preemption interpretations have put state banks at a competitive disadvantage in terms of their ability to operate interstate under a uniform set of requirements.

Chairman Powell said that the FDIC Board will consider this issue in the near future. While it is premature to speculate about the outcome of the Board's deliberations, Powell said, "What is absolutely clear to me is that the FDIC, as a federal regulator, has a responsibility to implement *all* existing laws for state-chartered banks. And we should do so in a manner consistent with the letter of the law and intent of Congress, and in a way that is unambiguous for those to whom it applies . . .

"Inaction at the federal level will keep us on the road where states retain their unchallenged regulatory sovereignty—but only over the dwindling fraction of banking activity that is not conducted through federally chartered institutions. It is ironic that if this path is followed in the name of consumer protection, most consumers will end up doing business with federally chartered institutions, and the states' role in consumer protection will have been diminished."

Powell stressed that action at the federal level presents the only real hope of preserving the dual banking system as we have known it in the past. "Even if the FDIC takes regulatory action, however, it may not completely level the playing field for state chartered and national banks," he said. "Ultimately, Congress will have to decide this issue, in my opinion. The important questions of federalism it presents—the ability of banks to effectively compete in interstate commerce and states' interest in consumer protection—call inevitably for congressional decision making."

Congress may choose to level the playing field and preserve the dual banking system, or, perhaps, let the system fade into history, but Powell said he thought the latter option would be a mistake.

The full text of Powell's speech can be found at <http://www.fdic.gov/news/news/speeches/archives/2005/chairman/spsept2605.html>