Remarks by
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In 1949, the first Hoover Commission Report on Organization of the Executive Branch of Government noted that: Federal-State relations is the cardinal question of our Federal system of government. It is not a question that can be resolved once for all time. Emphasis shifts from generation to generation as the American people fashion their Government to meet the needs of changing times and changing conditions.

It is unlikely that former-President Hoover, Dean Acheson, Joseph Kennedy and the other members of the commission had the dual banking system in mind when they composed those words -- but those words certainly describe the history of the American banking system in the last 130 years. The needs of the public change, and to meet them, the banking system must change. State-chartered banks have prospered by staying abreast of those changes. It has not always been easy.

Again and again, the demise of state banks -- and with it, the dual banking system -- has been predicted, usually by those with an interest in seeing that it happened. The state side of the equation, however, found ways to meet the needs of the American people in changing times and under changing conditions, and in doing so thrived.

For example, following the Civil War -- after the creation of the Federal banking charter -- and after the Federal government imposed a tax on state bank notes to drive state-chartered banks out of business -- the future of state banks looked grim.

By the end of 1866, more than 1,600 banks were operating under national charters -- perhaps three hundred were operating under state charters.

However, in the marketplace, the definition of money was changing -- as bank notes were replaced by bank checks. Moreover, the railroad opened up the Midwest and the West to farming, ranching, commerce and industry. Literally hundreds of times, the train would stop, settlers would pour out of the cars and a town would begin.

At the center of the town would be a bank -- more likely, two or three -- more often than not with state charters. Put simply, the national banking system simply could not keep up with public demand for banking services as millions of Americans sought to develop the vast natural wealth west of the Appalachians.

State chartered banks rebounded, too, in the postbellum South, where the problem was not development of vast potential wealth, but dire poverty.

State-chartered banking grew by popular demand.

From 1865 to 1900, the nations annual output of goods and services increased fivefold, as state-chartered banks built America west of Appalachia and rebuilt America south of the Mason-Dixon line.

In the early 1930s, the popular demand was for a different banking service -- not credit, but security. From 1921 to 1933 inclusive, 16,800 of this country's banks ceased operation.

In Washington, the virtues of bank branching by giant national institutions - - national in charter and, perhaps, also in character -- were being advocated as the answer to instability. Instead, by popular demand, federal deposit insurance was created and our banking system -- the dual banking system -- was saved.

Practically from the moment it opened its doors, the FDIC promoted a working relationship -- teamwork -- with state bank supervisors. Working together made sense then -- and it makes sense now.

Over the years the FDIC and the states have taken many steps to improve cooperation and coordination to meet three common goals: improving supervision, reducing the regulatory burden on insured institutions, and adapting to a banking industry that was itself evolving to meet changing conditions and the publics changing needs. In doing so, we have demonstrated that the relationship between the states and the federal government does not necessarily have to be one of competition or enmity.

Since 1972, the FDIC has provided training to examiners of state banking departments. In 1995, 44 state banking departments participated in such training. More than 400 state examiners attended FDIC schools in each of the last three years.

In 1980, we began a formal effort to expand cooperation between the FDIC and the states. Since that time, working through the CSBS, the Federal Financial Institutions Examination Council, and other avenues, we have addressed alternate examination programs, common examination and application forms, processing examination reports and applications, joint enforcement actions, information exchange, examination training and access to FDICs computerized data base. In my first year as Chairman, I was privileged to chair the FFIEC and work closely with its statutorily established state liaison committee.

In 1992, the FDIC and the CSBS entered into a joint resolution to encourage the negotiation and formation of working agreements on examinations between the FDIC and the state banking departments. The agreements cover who would examine what banks, as well as examination frequency, pre-examination procedures, examination report processing, joint applications, and enforcement actions.

At present, we have entered into written and informal agreements with virtually every state banking department -- we work to the maximum extent possible with every state. The CSBS and the Federal Reserve have entered a similar agreement. In addition, virtually every state banking department has access to the FDICs data base of call reports, examination and structure information; the automated report of examination; and CD/ROM files containing the Uniform Bank Performance Reports, the Uniform Trust Performance Reports and the Division of Supervision examination manual. The FDIC has provided automation support and training to state banking departments. Our data base can make examinations both more effective and less burdensome.

Not too long ago, I read an assessment that -- in setting standards for deposit insurance coverage -- the FDIC in its early years served as a standardizing agency for the banking industry. In working with state banking departments, we -- along with our colleagues at CSBS and the Federal Reserve -- have played a role in promoting greater comparability in bank supervision from state to state.

As did many of my predecessors as FDIC Chairman, I believe that -- working together -- we can provide effective safety and soundness supervision with the greatest possible degree of responsiveness. Those are the objectives in our effort to build a state structure for interstate banking -- a structure wherein the state charter remains relevant and dynamic.

Passage of the Interstate Banking and Branching Act two years ago caught no one by surprise. In fact, under the leadership of the CSBS, the FDIC has participated in the past few years in a nationally coordinated examination of all the constituent parts of the Key Banks system, a multi-state operation, in preparation for coordinated supervision in an interstate environment. Our years of working together prepared us to work together on interstate branching once it became law.

Within two months of my becoming FDIC Chairman, I formed an interstate task force within the FDIC to study how the change in the law would shape the banking industry and how it would affect the FDIC. The task force has been looking at issues ranging from the adequacy of off-site supervisory information to the effect of interstate banking on the Bank Insurance Fund.

It also provides FDIC input and support for the State-Federal Working Group on Interstate Supervision formed in October by the Fed, the FDIC and regulators from California, New York, Utah and Washington state, under the aegis of the CSBS. That working group is following up on the historic protocol among state regulators last spring to allow state-chartered banks that operate across state lines to work with a single state regulator, while providing other state and federal regulators the information necessary to monitor safety and soundness.

The Working Groups purpose is to minimize conflicts and duplication among state and federal regulators in the supervision of interstate, state- chartered banks, bringing us that much closer to a streamlined, seamless system of supervision.

The Working Groups four subgroups are looking at ways to streamline application procedures, coordinate examination procedures and forms, improve and maintain professional examination skills, and leverage the use of technology in interstate banking supervision. They intend to have recommendations prepared this spring.

Thus, you can see that we are moving forward -- together.

About the time the Hoover Commission was delivering its first report nearly fifty years ago, a prominent banker and president of the American Bankers Association remarked that the dual banking system needs no justification -- it works.

The theorists who conceived and crafted the national banking system presented the nation with the question: Do you want a state-chartered banking system or a federally chartered system? It has to be one or the other. Subsequent experience has proved that it does not have to be one or the other. It can be both. That was the practical answer worked out on the frontier and on Main Street -- an answer that recognized the changing needs of the people and the changing conditions in the country.

Does the dual banking system have a future -- or, more to the point, does the state chartered bank have a future?

Absolutely -- and we are not the only people to think so.

There are others of like mind, who have acted on their conviction.

Last year, 102 commercial banks were chartered -- the largest number of new commercial bank charters since 1991 and more than twice the number of banks chartered in 1994. Seventy-five banks -- roughly three-out-of-four - - of the new commercial banks chartered last year chose state charters.

Two-out-of-three of these new charters -- 64 out of 102 -- were state nonmember banks. At the end of 1995, fewer than 30 percent of the nations 9,958 commercial banks had federal charters -- 28.8 percent, to be exact. Clearly, there are bankers who think that the dual banking system - - and the state charter -- have a future.

Historically, there were times when one part of the industry clearly had the initiative and the other part of the industry was spurred to catch up. Those are the times when the dual banking system works best. Without the competitive incentive, banking and bank supervision would likely have become complacent.

The effect of the dual banking system -- unintended, but real -- is that it encourages banks to find better ways to serve the public. An institutional difference strongly supports and encourages competition -- and competition for loyal customers and for strong financial returns is the American way. The virtue of having both state and federal charters is that it allows banks a greater degree of freedom to decide what they are going to do and how they are going to do it. That, too, is the American way. Most of all, in encouraging competition and innovation, the dual banking system benefits the public. That is -- undeniably -- the American way.

Dual banking brings out the best. Americans deserve nothing less.

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