NEWS RELEASE

Comptroller of the Currency
Administrator of National Banks

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Comptroller Welcomes Growing Consensus that Fee Disparity Problem Must Be Fixed

Chicago, IL.-- Basic flaws in the allocation of bank supervision costs are a threat to the independence of bank supervisors and to the dual banking system, Comptroller of the Currency John D. Hawke Jr. said today.

"In 2001, the total of supervisory expenditures in this country amounted to nearly two billion dollars -- a substantial sum by any standard," Mr. Hawke said in a speech to the 38th Annual Conference on Bank Structure and Competition. "It's how we raise and allocate that vast sum that introduces irrationality into our system, that potentially undermines its safety and soundness, and destabilizes our dual banking system."

Mr. Hawke noted the promising course of the fee disparity debate. "I'm encouraged to see that there's a growing understanding of these issues, and a consensus that the problems I've been discussing are problems that must be fixed."

Both state supervisors and the OCC must be freed from the uncertainty that currently surrounds their funding, Comptroller Hawke noted. "In half the states, a single bank accounts for 25 percent or more of the asset base on which state supervisors assess fees," Mr. Hawke said. "The loss of such a large bank, through either failure or conversion, could have a crippling effect on a state supervisor's ability to provide quality supervision."

The Comptroller outlined the advantages of a new system that would draw on the earnings of the insurance fund for the cost of state and national bank supervision. "Under our proposal, federal and state agencies would jointly formulate an allocation formula initially calibrated to provide the OCC and state agencies with resources equivalent to their current levels," Mr. Hawke said.

The proposed "baseline" allocation would be adjusted under the formula to take account of changes in the composition and condition of each agency's constituents banks, so that allocations from the fund would be adjusted annually in a way that is automatic and nondiscretionary. "The great benefit of this proposal is that it would significantly reduce, if not eliminate, reliance on the federal subsidy to state banks as a major determinant of charter choice," Comptroller Hawke said. "Banks would then make charter decisions based on such considerations as the quality of supervision and the suitability of the charter for their business objectives -- a far healthier environment for the dual banking system than at present."

Proposals to use appropriated funds to address OCC funding concerns would be a step in the wrong direction, Mr. Hawke told the attendees. "Injecting political considerations into supervision through the appropriations process would clearly run the risk of bringing to bear pressures that could undermine the objectivity and integrity of the critically important work that supervisors perform, and would make the direction and strength of supervision subject to the varying priorities of partisan politics," Mr. Hawke said.

Mr. Hawke pointed out that state banks pay relatively modest fees to the state supervisors, reflecting the comparatively modest role that many states play in the supervision of federally insured state banks. "As a consequence, national banks pay on average two and a quarter times more in supervisory fees than do state banks."

In addition, the Comptroller told the attendees that national banks subsidize the supervision of their state-chartered competitors supervised by the FDIC while the taxpayers bear the costs of supervision delivered by the Federal Reserve to state member banks.

"The FDIC draws on the insurance fund to cover the expenses of supervising state nonmember banks, yet 55 percent of the balance in the fund reflects insurance premiums paid by national banks," Mr. Hawke said. "A similar subsidy is delivered by the Federal Reserve to state member banks, since the costs of Fed supervision are not passed on to the banks they supervise. In this case, however, it is the taxpayers that bear the cost of the subsidy, since the funds that the Federal Reserve draws on to absorb the costs of supervision would otherwise be returned to the Treasury."

The Comptroller voiced his support for both national and state charters. "But while I bow to no one in my enthusiasm for the national charter, the state charter has significant attributes of its own," said Mr. Hawke. "Whatever one's view might be of the relative merits of the two charters, however, I think it's fair to say that the state charter is not in such a state of decrepitude that it needs almost a billion dollars a year in federal subsidies to shore it up--particularly subsidies that are delivered not pursuant to congressional mandate, but through the discretionary decisions of those federal regulators who have a self-interest in maintaining these banks as their constituents."

In expressing the need for change, Mr. Hawke underscored the merits of the present system. "But the changes needn't -- and shouldn't -- be radical ones," Mr. Hawke said. "Ungainly though it is, our system of supervision has been too successful to scuttle. Indeed, our goal should be to strengthen our supervisory system by preserving and enhancing independence."

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