

HP

79

M E M O R A N D U M

TO: All members, House Labor and Commerce Committee

FROM: Committee Staff

DATE: February 4, 1985 Monday

SUBJECT: Overview, HB 79, "Financial Institution Exams"

On Monday, February 4, 1985, from 1:15 to 2:45 pm, in Room 102 of the Capitol Building, the House Committee on Labor and Commerce will hold hearings on HB 79: "An Act relating to financial institution examinations"

There is no companion legislation in the Senate, but this bill is identical to HB 116 that passed the House last year by 33-6, and passed in the Senate Labor and Commerce Committee, but died in Senate Finance in the 11th hour of the legislature.

This bill has also been in the legislature in previous sessions, but it did not have the clause in it eliminating required annual exams and replacing it with exams at the commissioner's discretion. This was formerly a major concern of the banks, and now they are more supportive of the bill with the discretionary clause in it, as it allows fewer exams for them. Currently, in addition to state exams, the banks undergo regular review from the federal examiners.

The bill is an attempt to balance the administration's current needs of making financial institution exams pay their own way (the Division has had to lay off some of its examiners) against the fact that by raising those fees too high, it can cause a hardship on the smaller institutions such as finance companies, credit unions, and savings and loans. If a fee is too high, and a smaller institution is charged too high a fee, the cure may end up being worse than the disease. An additional consideration is that some financial institutions, like credit unions, are not profit-making organizations.

In most cases it is the banks who are currently exceeding the current limit of \$7,500 and they can most afford it. Some of these costs go up to \$25,000 +. By upping the fee to \$12,000, some of these costs are retrieved, but the smaller companies don't get beaten on it (see the Department's Fiscal Note analysis chart on page 3). Additional backup from the Dept. of Commerce in their January 31, 1985 letter from Willis Kirkpatrick shows that a bank of \$50,000,000 assets would be assessed an average among the states of \$6,360 for a bank exam; while the new federal charge for banks in this range is \$13,726.

The bill does give discretionary power to determine exams to the commissioner through regulation, and takes it away from the legislature to determine it by statute. It thus allows the department to focus on problem inst. rather than stable inst. Banks are rated from a high 1 to a low of 5 on the CAMEL rating--Capital, Assets, Management, Earnings, Liabilities, so banks rated 1 and 2 would not need to be examined. These stable institutions are reviewed regularly by the federal government; another option here might be to require a 36 or 48 month review rather than an 12 month one.

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 18, 1985

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
Pouch V
Juneau, AK 99811

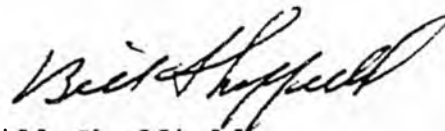
Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill which increases the fee that the commissioner of commerce and economic development may assess a financial institution for investigation and examination costs. It raises the existing maximum of \$7,500 to a maximum of \$12,000 per examination. The fee increase is necessary because costs associated with these examinations have risen more than 50 percent since 1978 when the \$7,500 maximum fee was first established.

The bill also eliminates the requirement in current law that state banks be examined by the department annually. Examination of a bank under the bill is left to the discretion of the commissioner. This will allow the department to focus on problem banks and will free banks that are in stable condition from unnecessary paperwork and examination costs.

An additional, technical amendment is included in sec. 1 of the bill, rewriting but not changing the substance of the last sentence of AS 06.01.010(b).

Sincerely,



Bill Sheffield
Governor

REQUEST
 Bill/Resolution No.: HB 79
 Title: An Act relating to
financial institution examinations
 Sponsor: _____
 Requestor: Governor
 Date of Request: _____

FISCAL DETAIL
 Agency Affected: Commerce & Econ. Dev.
 Program Category Affected: _____
Consumer Protection
 BRU, Program or Subprogram(s) Affected:
Banking, Securities and Corporations

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
500 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
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REVENUE	-0-	24.6	24.6	24.6	24.6	24.6
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FUNDING: (Thousands of Dollars)

GENERAL FUND	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

POSITION TYPE	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

Please see attached fiscal note analysis.

Prepared By: Willis F. Kirkpatrick Phone: 465-2521
 Division: Banking, Securities and Corporations Date: 12/21/84
 Approved by Commissioner: Richard A. Lyon Date: 12.5.84
 Agency: Commerce & Economic Development

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

7/1/84

Almost all (82%) of the financial entities regulated and examined by the Division of Banking, Securities and Corporations pay for most if not all of the cost of their examinations. With the exception of credit unions and one small savings and loan association, the \$7,500 maximum allowable charge rarely covers the cost of an examination of those financial entities that are classified "depository financial institutions," i.e. banks (see Exhibit A).

The increase of the limit from \$7,500 to \$12,000 would not only cover the increased costs of doing examinations since the \$7,500 was set back in 1977, but this increase would also provide a more equitable sharing of the examination costs by the larger financial institutions.

It is urged that the assumption of increased revenues not be classified program receipts. To tie examinations of financial institutions to a program receipt requirement has the effect of assuming that all examinations can be scheduled alike and are predictable as to length of time and expense. In order to be effective in the determination in safety and soundness, the agency must have the latitude to concentrate in those areas of concern. To meet program receipt requirements would choke the very purpose for the examinations.

Financial Institution	Asset Size (in Millions)	Type of Exam	Cost of Exam	Amount Paid by Instit.	% of Cost Recv.	Propos. Limit 12,000	% Paid Based on 12,000
Bank	582.8	Joint	12,542	7,500	60	12,000	95
Bank	425.5	Joint	13,230	7,500	56	12,000	91
Bank	342.1	Joint	7,812	7,500	96	7,812	100
Bank	236.0		20,554	7,500	36	12,000	58
Bank	178.0		25,848	7,500	29	12,000	46
Bank	102.8	Joint	12,478	7,500	60	12,000	96
Mutual Savings Bank	81.5		5,083	5,083	100	5,083	100
Bank	69.0		11,283	7,500	66	11,283	100
Bank	44.8	Joint	4,311	4,311	100	4,311	100
Savings & Loan	40.0	Visit.	525	525	100	525	100
Savings & Loan	25.2		6,132	6,132	100	6,132	100
Savings & Loan	7.7		1,601	1,601	100	1,601	100
Bank (New)		New					
Credit Union			5,721	5,721	100	5,721	100
Credit Union		Joint	1,603	1,603	100	1,603	100
BHC (1-a)			253	253	100	253	100
BHC (1-b)			182	182	100	182	100
BHC (2)			1,309	1,309	100	1,309	100
BHC (3)			612	612	100	612	100
BHC (4)		New					
BHC (5)		New					
Trust			895	895	100	895	100
Trust		New					
Finance Company			264	264	100	264	100
Finance Company			290	290	100	290	100
Finance Company			392	392	100	392	100
Finance Company		New					
Finance Company		New					
Finance Company		New					
Premium Finance Co.			384	384	100	384	100
Premium Finance Co.			684	684	100	684	100
Premium Finance Co.			407	407	100	407	100
Premium Finance Co.			407	407	100	407	100
Premium Finance Co.			676	676	100	676	100
Premium Finance Co.			392	392	100	392	100
Premium Finance Co.			712	712	100	172	100
Premium Finance Co.			229	229	100	229	100
Premium Finance Co.			241	241	100	241	100
Premium Finance Co.			615	615	100	615	100
Premium Finance Co.			679	679	100	679	100
Premium Finance Co.			598	598	100	598	100
			138,944	87,697	63%	114,292	92%

Joint = Joint examination with appropriate federal insuring agency
 Visitation = Short examination for a specific area of concern
 New = Fees received under Investigations - Examinations due next cycle

FROM THE OFFICE OF
 REP. MIKE NAVARRE
 FOR YOUR INFORMATION

HB 79 FILE CONTENTS

- 1) Overview - Committee Staff
- 2) Bill Summary -- Legislative Reporting Service
- 2) Governor's Transmittal Letter
- 3) Fiscal Note -- Dept. of Commerce
- 4) Sectional Analysis
- 5) Backup tables supplied by the Dept. of Commerce
 - a) Annual Assessment/Examination Fees by States
 - b) New federal charges just developed for bank exams
 - c) Frequency of examination by various state
 - d) Disposition of funds received by the states

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INTRODUCTION OF BILLS (House)(cont'd)

HB 78, (cont'd)

without unduly burdening the legislature with the task. This authority was granted to the department last year by ch. 100 SLA 1984 for fees involved in licensing dental hygienists and dentists.

The second and third sections of the bill authorize the department to set the fees and penalties by regulation to reflect costs, after consulting with the appropriate licensing board. Most of the remaining sections of the bill delete the current statutory fees and make other appropriate changes to statutes in the chapters concerning the various occupations affected.

I request your support for this bill which will greatly increase the efficiency and reduce the net cost of our occupational licensing programs.

Bank
Examinations
(fees charged)

HOUSE BILL NO. 79, by the Rules Committee by Request of the Governor. Relates to fees for bank examinations (see accompanying letter). Immediate effective date.

Introduced January 18 and referred to Labor & Commerce, then to Finance.

In his letter accompanying the bill Governor Sheffield stated:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill which increases the fee that the commissioner of commerce and economic development may assess a financial institution for investigation and examination costs. It raises the existing maximum of \$7,500 to a maximum of \$12,000 per examination. The fee increase is necessary because costs associated with these examinations have risen more than 50 percent since 1978 when the \$7,500 maximum fee was first established.

The bill also eliminates the requirement in current law that state banks be examined by the department annually. Examination of a bank under the bill is left to the discretion of the commissioner. This will allow the department to focus on problem banks and will free banks that are in stable condition from unnecessary paperwork and examination costs.

An additional, technical amendment is included in sec. 1 of the bill, rewriting but not changing the substance of the last sentence of AS 06.01.09(b).

Insurance Fees
& Licenses
(increasing)

HOUSE BILL NO. 80, by the Rules Committee by Request of the Governor. Increases current fees collected by the Division of Insurance (see accompanying letter). Immediate effective date.

Introduced January 18 and referred to Labor & Commerce, then Finance.

In his letter accompanying the bill Governor Sheffield stated:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill raising current fees collected by the division of insurance, Department of Commerce and Economic Development, under AS 21.

The statutes currently setting fees for the division of insurance do not provide adequate revenue to the state to

SECTIONAL ANALYSIS OF HB 79: "An Act relating to financial institution examinations," by Rules by Request of the Governor; by Committee Staff.

Section 1 The Department of Commerce and Economic Development will begin charging banks fees that better reflect the true cost whenever they do a bank exam. However, there is an upper limit to the amount of cost assessed for this exam, which has been raised in this bill from \$7,500 to \$12,000.

The phrase "must be" has merely been added as a matter of technical clarification by the AG's office to make it clearer that the fees not only have to be paid to the Department, but have to be received in 30 days.

Further, the assessment of fees has to be paid by the financial institution within 30 days of their receipt of the assessment. The language change makes it clearer that the counting of 30 days is a matter of when the institution receives the notice of assessment, not when the assessment was drawn up or mailed.

Section 2 Changes the current statutes so that all bank exams would be at the discretion of the Department, and not annually required.

Section 3 The above changes only apply to bank exams commencing after the effective date of this bill.

Section 4 Immediate effective date

STATE OF ALASKA

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

DIVISION OF BANKING, SECURITIES, SMALL LOANS & CORPORATIONS

BILL SHEFFIELD, GOVERNOR

POUCH D
JUNEAU, ALASKA 99811

Banking & Securities 465-2521
Corporations Section 465-2530

ANCHORAGE

Corporation Information 563-2163

January 31, 1985

Honorable Mike Navarre, Chairman
House Labor and Commerce Committee
Alaska State House
Pouch V
Juneau, Alaska 99811

Attention Roger Poppie

Dear Representative Navarre:

RE: House Bill 79
Fees on Examination

I've enclosed the information you requested on HB 79. Please note that this information relates only to the examination and regulation of commercial banks. There is a large portion of the examiners' time spent on other than banking examinations, i.e., investigations of applications, complaints, interpretation of banking laws, and research on current events in deregulation.

Exhibit A is a breakdown by states of Annual Assessment/Examination Fees of commercial banks. The average assessment for a bank of \$50,000,000 is \$6,360; banks of \$100,000,000 in size is \$11,590; and over \$500,000,000 is \$50,765. These amounts are only ranges and do not take into consideration the additional fees noted in the exhibit.

Exhibit B is a publication just received on the new charges that Comptroller of Currency levies on nationally-chartered commercial banks. Table 1 on page 2 sets out the semiannual assessment. Banks with \$50,000,000 in assets would be charged \$13,726 annually. Those of \$100,000,000 would be charged \$22,676, and \$500,000,000 would have a \$67,976 annual assessment. See page 5, Exhibit B. These assessments are paid whether they are examined or not. Number 1 and 2 rated banks are examined only every 36 months.

Honorable Mike Navarre


-2-

January 31, 1985

Exhibit C is a table on the frequency of examination by various states. Exhibit D shows the disposition of funds received by the states.

I hope this covers the areas of your request. If I can be of any other assistance, please let me know.

Sincerely,



Willis F. Kirkpatrick
Director

WFK/me1935M
13185B
Enclosures

cc: Commissioner's Office, DCED

**ANNUAL COMMERCIAL BANK ASSESSMENT/EXAMINATION FEE,
BY SIZE OF BANK, SEPTEMBER 30, 1983**

State	Asset size of bank					
	10M	25M	50M	100M	500M	1 B
Alabama	3,240	3,100	8,200	14,400	53,800	98,800
Alaska ¹⁰	(¹⁴)	(¹⁴)	(¹⁴)	(¹⁴)	(¹⁴)	(¹⁴)
Arizona ²	700	1,750	3,500	7,000	35,000	70,000
Arkansas	2,025	3,563	5,188	7,138	23,188	43,188
California ⁶	n/a	n/a	n/a	n/a	n/a	n/a
Colorado ³	n/a	n/a	n/a	n/a	n/a	n/a
Connecticut ³	n/a	n/a	n/a	n/a	n/a	n/a
Delaware ^{5, 10}	n/a	n/a	n/a	n/a	n/a	n/a
Florida	2,000	4,100	7,600	14,600	70,600	140,600
Georgia ^{4, 10}	4,750	6,700	10,000	15,000	39,000	69,000
Guam	(¹⁴)	(¹⁴)	(¹⁴)	(¹⁴)	(¹⁴)	(¹⁴)
Hawaii	(¹⁴)	(¹⁴)	(¹⁴)	(¹⁴)	(¹⁴)	(¹⁴)
Idaho ^{7, 10}	4,350	7,200	11,950	17,950	57,950	102,950
Illinois ¹⁰	1,770	3,570	6,320	10,820	38,820	63,820
Indiana	2,120	3,270	4,270	6,270	22,270	62,270
Iowa ¹⁰	500 ¹⁵	1,100 ¹⁵	1,600 ¹⁵	2,500 ¹⁵	3,300 ¹⁵	3,300 ¹⁵
Kansas ⁶	n/a	n/a	n/a	n/a	n/a	n/a
Kentucky ¹⁵	500	1,250	2,500	5,000	25,000	50,000
Louisiana ¹	650	1,325	2,450	4,700	22,700	45,200
Maine ^{5, 10}	n/a	n/a	n/a	n/a	n/a	n/a
Maryland	1,720	2,920	4,920	8,920	40,920	80,920
Massachusetts ¹⁰	710	1,775	3,550	7,100	35,500	71,000
Michigan	1,050 ¹⁵	2,625 ¹⁵	5,250 ¹⁵	10,500 ¹⁵	52,500 ¹⁵	105,000 ¹⁵
Minnesota	(⁵)	(⁵)	(⁵)	(⁵)	(⁵)	(⁵)
Mississippi	1,560	3,810	7,560	15,060	75,060	150,060
Missouri	1,304	3,261	6,522	13,045	65,224	130,448
Montana	1,600	3,400	6,400	12,400	60,400	120,400
Nebraska	500 ¹⁵	1,250 ¹⁵	2,500 ¹⁵	5,000 ¹⁵	25,000 ¹⁵	50,000 ¹⁵
Nevada ^{1, 10}	2,200	5,200	10,200	20,200	100,200	140,200
New Hampshire	(¹⁴)	(¹⁴)	(¹⁴)	(¹⁴)	(¹⁴)	(¹⁴)
New Jersey	300 ¹⁵	750 ¹⁵	1,500 ¹⁵	3,000 ¹⁵	15,000 ¹⁵	30,000 ¹⁵
New Mexico ¹	950	2,075	3,950	7,700	37,700	75,200
New York ^{5, 10}	n/a	n/a	n/a	n/a	n/a	n/a
North Carolina ²	1,273	3,073	6,073	12,073	60,073	120,073
North Dakota	1,250	3,125	6,250	12,500	62,500	125,000
Ohio	1,700	4,250	8,000	15,000	60,000	100,000

Continued from preceding page.

State	Asset size of bank					
	10M	25M	50M	100M	500M	1 B
Oklahoma	1,450	3,250	6,650	13,150	65,150	130,150
Oregon ¹⁰	2,500 ¹⁵	6,250 ¹⁵	12,500 ¹⁵	25,000 ¹⁵	125,000 ¹⁵	250,000 ¹⁵
Pennsylvania ¹⁰	815 ¹⁵	1,490 ¹⁵	2,615 ¹⁵	4,865 ¹⁵	22,865 ¹⁵	45,365 ¹⁵
Puerto Rico	2,000	5,000	10,000	20,000	100,000	200,000
Rhode Island ^{6, 10}	n/a	n/a	n/a	n/a	n/a	n/a
South Carolina	1,559	3,896	7,793	15,586	77,929	155,858
South Dakota ⁹	1,800	3,900	7,400	14,400	70,400	140,400
Tennessee ⁶	n/a	n/a	n/a	n/a	n/a	n/a
Texas ⁶	n/a	n/a	n/a	n/a	n/a	n/a
Utah ^{10, 11}	3,300	5,590	7,340	10,840	30,840	45,840
Vermont ^{3, 5}	n/a	n/a	n/a	n/a	n/a	n/a
Virginia ^{8, 12}	3,275	5,900	10,275	15,275	51,525	90,275
Washington ^{10, 13}	3,530 ¹⁵	5,840 ¹⁵	9,840 ¹⁵	17,840 ¹⁵	59,385 ¹⁵	101,900 ¹⁵
West Virginia ^{6, 10}	n/a	n/a	n/a	n/a	n/a	n/a
Wisconsin	580 ¹⁵	1,450 ¹⁵	2,900 ¹⁵	5,800 ¹⁵	29,000 ¹⁵	58,000 ¹⁵
Wyoming ¹⁰	3,400	5,800	9,000	15,000	63,000	123,000 ¹⁵

¹Plus \$50 per branch.

²Special examinations: \$100/day/examiner.

³Assessment based on asset size, to balance banking dept. budget.

⁴Plus \$300 per branch.

⁵Based on asset size, plus hourly fee.

⁶Based on assets; information not available.

⁷Plus \$100 per branch.

⁸Hourly fee on trust exams.

⁹Plus \$200 per branch.

¹⁰There is an assessment/examination fee for bank holding companies also.

¹¹Plus \$150 per branch.

¹²Plus \$250 per branch.

¹³Plus \$75 per branch.

¹⁴Hourly fee.

¹⁵Plus hourly fee.

1058 1-11-85

New Matters

90,433

Increased Semiannual Assessment Schedule for National Banks

National Banks—Assessment Fees—Semiannual Schedule—Examination Costs—Increase—OCC Amendment.—The Comptroller of the Currency increased the rates in its semiannual assessment schedule for national banks to reflect the costs of examination attributable to a particular bank. As in the old schedule, the marginal assessment rate of an individual bank in the new schedule will decrease as its asset size increases. In addition, the Comptroller of the Currency will offset declines in the overall average assessment rate due solely to inflationary growth in bank assets by indexing the schedule annually to changes in the general price level.

Back reference: ¶ 60,542.

[OCC Notice]

DEPARTMENT OF THE TREASURY

Comptroller of the Currency

12 CFR Part 8

[Docket No. 84-37]

Assessment of Fees; National Banks; District of Columbia Banks

AGENCY: Comptroller of the Currency, Treasury.

ACTION: Final rule.

SUMMARY: The Office of the Comptroller of the Currency ("Office") is increasing the rates in its semiannual assessment schedule for national banks, District of Columbia banks, and federally licensed branches and agencies. Unchanged for eight years, the old schedule failed to produce revenue sufficient to cover operating costs, which were boosted by inflation, an increase in responsibilities, and a modernization of bank examination techniques. The new schedule, like the old one, conforms to this Office's philosophy that the assessments paid by a bank should reflect, to the extent possible under existing statutory provisions, the costs of supervising it. On a per-dollar-of-assets basis, those costs decline as bank size increases. Therefore, in the new schedule, like the old one, the marginal assessment rate of an individual bank decreases as its asset size increases. In addition, the Office will offset declines in the overall average assessment rate due solely to inflationary growth in bank assets by indexing the schedule annually to changes in the general price level. The new schedule replaces the current assessment schedule and its temporary 12-percent surcharge for assessment fees due on January 31, 1985, and following payment dates.

EFFECTIVE DATE: January 31, 1985.

FOR FURTHER INFORMATION CONTACT: Roger Tufts, Financial Economist, Economic and Policy Analysis Division (202) 447-1924 or Jonathan Rushdoony, Attorney, Legal Advisory Services Division (202) 447-1880, Office of the Comptroller of the Currency, 490 L'Enfant Plaza East, SW., Washington, DC 20219.

SUPPLEMENTARY INFORMATION: The Office was created by Congress for the purpose of regulating the national banking sys-

tem. Under the National Bank Act, 12 U.S.C. 1 *et seq.*, the Office is responsible for ensuring the national banks comply with all applicable laws and operate in a safe and sound manner.

The Office's responsibilities are accomplished through the examination of supervised institutions and affiliated entities. Under 12 U.S.C. 482 and 3102, this Office is directed to recover the costs of its operations by assessing fees on all national banks, District of Columbia banks, and federal branches and agencies of foreign banks. On November 14, 1984, the Office accordingly published a notice of proposed rulemaking (Docket No. 84-36) in the *Federal Register*, 49 FR 45102, that would revise the assessment schedule in order to yield sufficient revenue to meet the Office's future costs of operation, as currently projected in its budget.

Section 482 requires that those assessments be made in proportion to a bank's assets or resources and that the rate of assessments be the same for all banks of the same asset size. The current and new assessment schedules fulfill that statutory requirement. *First National Bank of Milaca v. Heimann*, 572 F.2d 1244 (8th Cir. 1978).

Following publication of the notice of proposed rulemaking in the *Federal Register*, the Office sent a Banking Bulletin containing the proposal to the chief executive officer of each national bank. The purpose of that Banking Bulletin, dated November 20, 1984, was to ensure that each national bank received direct and timely notice of the proposed changes and to explain the reasons for them.

As stated in that proposal, the revisions change none of the current schedule's basic characteristics, *i.e.*, the use of asset size to determine the amount assessed and the use of marginal assessment rates that decrease as the asset size of a bank increases. The revision more closely implements the Office's relative cost coverage philosophy and addresses the problems caused by the combination of a declining marginal rate schedule and inflation of the type and extent experienced since 1976.

Comments

Comments on the proposal were solicited both by the *Federal Register* notice of proposed rulemaking and by the issuance of the Banking Bulletin to each national bank. The Office requested that comments be received no later

Federal Banking Law Reports

¶ 86,145

90,434

New Matters
Increased Semiannual Assessment Schedule for National Banks

1058 1-11-85

than December 14, 1984. In response, 19 comments were received. Most came from small national banks (those under \$500 million in assets) which were opposed to the proposal as drafted. Several specific concerns were raised. All but three commenters espoused the belief that the additional costs incurred by the Office to examine banks requiring special supervisory attention should not be paid by clean, well-run banks.

To better align Office supervisory costs and assessments, a large majority of all commenters suggested that the assessment schedule should be based on the direct costs attributed to examining a particular bank not its asset size. This Office is aware of the inequities identified by those commenters. As the statute currently reads, however, the Officer is not authorized to charge a higher assessment to banks that are experiencing difficulties.¹ Revising the assessment schedule to a direct-cost basis would require an amendment to 12 U.S.C. 482, a change explicitly suggested by six commenters. Although a statutory change is not a feasible alternative to the current revision, the Office intends to review its long-term revenue needs and consider requesting Congress for a statutory change as part of that review.

Six commenters questioned the diligence in controlling costs. As explained in the proposal, the Office has sought to offset the effects of inflation and increased responsibility by restructuring and modernizing its operation, employing resources more effectively and providing better service. In fact, the Office has estimated that, without the restructuring and modernization efforts, it would have needed a much larger staff to carry out its responsibilities.

In the same vein, three commenters thought Office expenses should be lower because their

institutions are receiving full-scale, comprehensive examinations less frequently. These comments refer to the Office's revised examination priority schedule that calls for on-site examinations less frequently at smaller, well-run banks and more frequently at large and/or special supervision banks. In conjunction with changes in the examination priority schedule, however, came a commitment to move toward more off-site monitoring of bank performance. This required a large initial investment in systems and computer hardware that will produce cost savings in the years ahead.

After consideration of the issues raised by the commenters, it is clear that implementation of the suggestions of most commenters requires changes in the law. While a change in the law along the lines suggested by the commenters may permit adoption of a revenue system that is perceived to be more equitable, a statutory change would take considerable time and the current financial position of the Office requires prompt action. The Office is, therefore, implementing the assessment schedule as proposed in the Federal Register on November 14, 1984 (See table 1). It will be used in determining the assessment fees to be paid by national banks on January 31, 1985, and July 31, 1985. Thereafter, the schedule will be revised annually in accordance with the indexing procedure described below. The indexing procedure will insulate the assessment schedule from distortions caused by any future inflation. Such distortions would result in deficits that could impair the Office's ability to meet its responsibility of maintaining the safety and soundness of the national banking system.

TABLE 1.—PROPOSAL FOR SEMI-ANNUAL ASSESSMENT SCHEDULE FOR JANUARY AND JUNE 1985

If the bank's total assets (consolidated domestic and foreign subsidiaries) are—		The semi-annual Assessment is—		
Over—	But not over—	This amount—	Plus	Of excess over—
Million	Million			Million
0	\$1.7	0	0.001000	0
\$1.7	15	\$1,700	.000125	\$1.7
15	85	3,363	.000100	15
85	165	10,363	.000065	85
165	835	15,563	.000055	165
835	1,670	52,413	.000045	835
1,670	5,010	89,988	.000040	1,670
5,010	16,695	223,588	.000034	5,010
16,695	33,390	620,878	.000032	16,695
33,390		1,155,118	.000021	33,390

¹ The Office is authorized to conduct and charge separately for each examination after the second one conducted

in a single calendar year. For those examinations, an hourly fee is imposed.

¶ 86,145

U.S. Commerce Clearing House, Inc.

Special Studies

Executive Order 12291

The aggregate effect of the rule on the economy is estimated to be \$15 million in 1985. This amount represents the difference in expected assessment revenues between the current and new schedules. The aggregate amount will be spread among all national banks and federal branches and agencies, some 4,900 institutions. Institutions of similar size will face the same impact. Thus, the effect of the revision is unlikely to put competing institutions at a disadvantage with one another or with other competing suppliers of financial services. Finally, the rule is not envisioned as having significant adverse impacts on the ability of U.S.-domiciled national banks to compete with foreign competitors. This is due to the fact that, generally, only the largest institutions in the national banking system compete directly with foreign banks, and the effect of the rule on their earnings is slight.

Accordingly, this Office has concluded that the rule does not meet any of the conditions set forth in Executive Order 12291 for designation as a major rule. Consequently, a regulatory impact statement has not been prepared.

Regulatory Flexibility Act

This Office is sensitive to the impact of the rule on small entities; therefore, pursuant to the Regulatory Flexibility Act, Pub. L. No. 96-354, 94 Stat. 1164, 5 U.S.C. 601-612, a preliminary regulatory flexibility analysis was prepared. No information received by the Office altered the conclusions of that analysis. Consequently, the final regulatory flexibility analysis is not appreciably different from the preliminary one. Copies of the final analysis may be obtained by writing to: Communications Division, Office of the Comptroller of the Currency, 490 L'Enfant Plaza East, SW., 3rd Floor, Washington, D.C. 20219. Telephone (202) 447-1800.

To summarize that analysis, this Office has endorsed the principle of relative cost coverage whereby a bank will be assessed in relation to

the costs of examination attributable to that bank. As a group, banks with under \$500 million in assets are currently not assessed an amount sufficient to recover the cost of their examination, regulation, and supervision. Assessments on banks with over \$500 million in assets have, in effect, been providing a cost subsidy for the examination of those smaller banks. In order to reduce this subsidy and to implement further the Office's relative-cost-coverage principle, the new schedule moves smaller-sized banks toward 100 percent relative cost coverage (see Table 2).

TABLE 2. RELATIVE COST COVERAGE

[Current versus revised assessment schedule]

Bank size (millions)	Index* current	Index* revised	Number of banks
\$0 to \$10 . . . . .	.33	.38	348
\$10 to \$50 . . . . .	.41	.43	2,284
\$50 to \$100 . . . . .	.63	.67	1,082
\$100 to \$500 . . . . .	.95	1.01	935
\$500 to \$1,000	1.21	1.23	101
\$1,000 to \$3,000	1.23	1.20	106
\$3,000 to \$10,000	2.11	1.98	54
\$10,000 to \$20,000	1.83	1.66	6
Over \$20,000	3.63	3.44	10

* This indices represent the 1984 relative cost coverage under alternative assessment schedules. The index is defined as the proportion of total revenue the Office receives from banks in a size category divided by the proportion of examination costs attributable to those banks. An index value of less than one indicates that banks are paying less than their proportional share of Office costs.

The revised schedule is not designed to achieve 100 percent relative cost coverage because of the greater impact that would have on banks with less than \$100 million in assets. In addition, although the impact of the revised schedule on bank earnings is larger for small banks, the reduction in earnings, in absolute terms, is minimal (see Table 3).

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TABLE 3.—ASSESSMENT INCREASES FOR SELECTED BANK SIZES

Bank size (millions)	Semi-annual assessment			Revised			Current			Change (percent)	Annualized impact on ROA (basis points)	
	\$2	\$10	\$50	\$100	\$500	\$1,000	\$5,000	\$10,000	\$20,000			\$100,000
	\$1,736	\$2,736	\$6,600	-\$11,336	\$33,868	\$55,836	\$222,166	\$382,248	\$726,638	\$2,553,926	618	64
	1,125	2,125	5,025	8,825	28,825	81,425	199,425	368,425	689,425	2,369,425	29	64
											938	29
											2,413	27
											5,063	18
											8,413	18
											23,763	12
											23,823	6
											37,213	5
											184,503	8
											-3,065	-018

Annualized impact on Return on Assets (ROA) = Change in Semi-Annual Assessment/Total Assets; assumes a 50 percent tax rate

National Bank's - Assessment Example
1985

\$50,000,000 in Assets

15 MM	=	3,363	
35 MM x .000100	=	<u>3,500</u>	
semi-annual	=	6,863	x 2 = 13,726
annual	=	\$13,726	

\$100,000,000 in Assets

85 MM	=	10,363	
15 MM x .000065	=	<u>975</u>	
semi-annual	=	11,338	x 2 = 22,676
annual	=	\$22,676	

\$500,000,000 in Assets

165 MM	=	15,563	
335 MM x .000055	=	<u>18,425</u>	
semi-annual	=	33,988	x 2 = 67,976
annual	=	\$67,976	

REQUIRED FREQUENCY OF BANK EXAMINATIONS,
SEPTEMBER 30, 1983

11 ² DIC	Joint ² w/FRS
78	16
3	5
0	0
11	0
0	0
0	0
1	0
0	0
0	0
8	19
16	0
0	4
0	0
45	27
0	0
0	0

ncy in which each

1 both prepare and

State	Every 12 mo.	Every 18 mo.	Other	FDIC and/or FRS exam. acceptable in lieu of State exam. by Statute
Alabama	X			Yes
Alaska	X			Yes
Arizona			Once every 2 years	Yes
Arkansas			Once every 2 years	No
California			Once every 2 years	No
Colorado	X ¹			No
Connecticut			As often as deemed necessary ²	No
Delaware	X			No
Florida		X		Yes
Georgia	X			Yes
Guam	X			Yes
Hawaii		X		No
Idaho		X ³		Yes
Illinois	X			No
Indiana			As often as deemed necessary	Yes
Iowa		X		No
Kansas	X			Yes
Kentucky			Once every 2 years	Yes
Louisiana	X			Yes
Maine		X		Yes
Maryland	X			Yes
Massachusetts			Once every 2 years	No
Michigan	X			Yes
Minnesota	X			Yes
Mississippi	X			Yes
Missouri	X			Yes
Montana	X ⁴			Yes
Nebraska			No time requirement ⁵	Yes
Nevada		X		Yes
New Hampshire		X		No
New Jersey			At discretion of Commissioner ⁵	No
New Mexico	X			Yes
New York	X			Yes
North Carolina	X			Yes
North Dakota		X ²		Yes
Ohio	X			No

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Continued from preceding page.

State	Every 12 mo.	Every 18 mo.	Other	FDIC and/or FRS exam. acceptable in lieu of State exam. by Statute
Oklahoma		X ⁶		Yes
Oregon	X			Yes
Pennsylvania	X			Yes
Puerto Rico	X			Yes
Rhode Island	X			Yes
South Carolina		X ²		Yes
South Dakota			Once every two years	Yes
Tennessee	X			Yes
Texas	X			Yes
Utah			As Commissioner considers necessary ⁷	Yes
Vermont			Once every three years ⁸	No
Virginia		X		No
Washington	X			Yes
West Virginia		X		Yes
Wisconsin	X			Yes
Wyoming	X			Yes

¹In practice, banks are examined every 18-20 months.

²In practice, banks are examined every 12 months.

³In practice, banks are examined every 12-15 months.

⁴In practice, banks are examined every 16½ months.

⁵In practice, banks are examined every 2 years.

⁶In practice, banks are examined every 6 months.

⁷In practice, banks are examined every 18 months.

⁸In practice, banks are examined every 15 to 18 months.

**DISPOSITION OF RECEIPTS FROM FEES AND ASSESSMENTS,
SEPTEMBER 30, 1983**

In the following states, all revenues are deposited into the State's general fund and the annual budget for the banking department is appropriated by the legislature.

Alaska	Louisiana	New Mexico
Arizona	Maryland	New York ²
Arkansas ⁵	Massachusetts	North Dakota
Colorado	Minnesota	Oklahoma
Georgia	Missouri	Puerto Rico ⁷
Guam	Montana	Rhode Island
Hawaii	Nevada	South Carolina
Idaho	New Hampshire	Vermont
Iowa	New Jersey	Wyoming

In the following states, all revenues collected are deposited into a special fund to be used only for the expenses of the banking department, but the annual budget of the department is subject to approval by the legislature:

Alabama	Kentucky	Oregon
California	Maine	Pennsylvania ⁴
Connecticut	Michigan	South Dakota
Delaware ¹	Mississippi	Utah
Florida	Nebraska	Virginia
Illinois	North Carolina	West Virginia
Indiana	Ohio	Wisconsin ³
Kansas		

In the following states, all revenues collected are deposited with and controlled by the banking department:

Tennessee²
Texas⁶
Washington

¹Except for bank charters, license fees, and franchise tax collections.

²Fiscal operations of banking department are reviewed annually by the legislature.

³90% of revenue is deposited into a special fund; 10% goes into general fund.

⁴Subject to approval by the governor's office.

⁵Funds can only be used by banking department, but are deposited in general fund.

⁶Annual budget approved by Finance Commission.

⁷First \$1,100,000 deposited into general fund, remainder in special fund.

BILL = HB116
ROOT = HB0116
BILL ROOT: HB0116
BILL NUMBER: HB116

INTRODUCED: 1/24/83
REFERRED: LABOR & COMMERCE AND FINANCE
LEGISLATIVE SPONSOR:
BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR
BILL HEADING:
IN THE HOUSE

HOUSE BILL NO. 116
IN THE LEGISLATURE OF THE STATE OF ALASKA
THIRTEENTH LEGISLATURE - FIRST SESSION
A BILL

TITLE: FOR AN ACT ENTITLED:
"AN ACT RELATING TO FINANCIAL INSTITUTION EXAMINATION FEES

AND ASSESSMENTS; AND PROVIDING FOR AN EFFECTIVE DATE."
TEXT: BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* SECTION 1. AS 06.01.010(B) IS AMENDED TO READ:

(B) THE COMMISSIONER SHALL ASSESS EVERY FINANCIAL INSTITUTION, AND EVERY APPLICANT TO ESTABLISH A FINANCIAL INSTITUTION, A FEE FOR THE ACTUAL EXPENSES INCURRED BY THE DEPARTMENT IN CONNECTION WITH ANY EXAMINATION OR INVESTIGATION, WHETHER REGULAR OR SPECIAL. THE FEE SHALL INCLUDE THE PROPORTIONATE PART OF THE SALARIES AND COST OF EMPLOYEE BENEFITS OF THE EXAMINERS WHILE CONDUCTING EXAMINATIONS OR INVESTIGATIONS AND WHILE PREPARING REPORTS OF THEM, AND TRANSPORTATION COSTS AND PER DIEM OF EACH EXAMINER WHILE AWAY FROM HIS DUTY STATION. HOWEVER, THE COST TO THE FINANCIAL INSTITUTION IN CONNECTION WITH AN EXAMINATION MAY NOT EXCEED \$12,000 OR \$7,500 PER EXAMINATION. THE ASSESSMENT SHALL BE MADE BY THE COMMISSIONER AS SOON AS FEASIBLE AFTER THE EXAMINATION OR INVESTIGATION HAS BEEN COMPLETED. ALL ASSESSMENTS SHALL BE PAID TO AND MUST BE RECEIVED BY THE DEPARTMENT BY EACH INSTITUTION WITHIN 30 DAYS AFTER THE FINANCIAL

INSTITUTION RECEIVES OR RECEIPT OF NOTICE OF THE ASSESSMENT.

* SEC. 2. THE \$12,000 MAXIMUM ASSESSMENT FOR EXAMINATIONS OF FINANCIAL INSTITUTIONS ENACTED IN SEC. 1 OF THIS ACT APPLIES TO EXAMINATIONS OR INVESTIGATIONS COMMENCED ON OR AFTER THE EFFECTIVE DATE OF THIS ACT.

* SEC. 3. THIS ACT TAKES EFFECT IMMEDIATELY IN ACCORDANCE WITH AS 01.10.070(C).

END OF DOCUMENT

BILL = CSHB116(FIN)

ROOT = HB0116

BILL ROOT:
HB0116

BILL NUMBER:
CSHB116(FIN)

INTRODUCED:
1/27/84

REFERRED: RULES

ORIG SPONSOR:
RULES/GOVERNOR

SPONSOR: BY THE FINANCE COMMITTEE

BILL HEADING:
IN THE HOUSE
CS FOR HOUSE BILL NO. 116 (FINANCE)
IN THE LEGISLATURE OF THE STATE OF ALASKA
THIRTEENTH LEGISLATURE - SECOND SESSION
A BILL

TITLE: FOR AN ACT ENTITLED:
"AN ACT RELATING TO FINANCIAL INSTITUTION EXAMINATIONS"

CSHB116FIN DOCUMENT= 2 OF 2 PAGE = 2 OF 3
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WHILE CONDUCTING EXAMINATIONS OR INVESTIGATIONS AND WHILE
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CSHB116FIN DOCUMENT= 2 OF 2 PAGE = 3 OF 3
DEPARTMENT BY EACH INSTITUTION WITHIN 30 DAYS AFTER THE
FINANCIAL INSTITUTION RECEIVES RECEIPT OF NOTICE OF THE
ASSESSMENT

* SEC. 2. AS 06.05.025(C) IS AMENDED TO READ:

(C) BANKS REGULATED UNDER THIS CHAPTER ARE
SUBJECT TO AT LEAST ONE EXAMINATION A YEAR. ADDITIONAL
EXAMINATIONS MAY BE CONDUCTED AT THE DISCRETION OF THE
COMMISSIONER.

* SEC. 3. THE \$12,000 MAXIMUM ASSESSMENT FOR
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ACCORDANCE WITH AS 01.10.070(C).

HB116FIN DOCUMENT= 2 OF 2 PAGE = 1 OF 3

BILL = CSHB116(FIN)

ROOT = HB0116

ALL ROOT:

HB0116

ALL NUMBER:

CSHB116(FIN)

INTRODUCED:

1/27/84

REFERRED: RULES

LEGISLATIVE SPONSOR:

RULES/GOVERNOR

SPONSOR: BY THE FINANCE COMMITTEE

ALL HEADING:

IN THE HOUSE

CS FOR HOUSE BILL NO. 116 (FINANCE)
IN THE LEGISLATURE OF THE STATE OF ALASKA
THIRTEENTH LEGISLATURE - SECOND SESSION
A BILL

TITLE: FOR AN ACT ENTITLED:

"AN ACT RELATING TO FINANCIAL INSTITUTION EXAMINATIONS

HB116FIN DOCUMENT= 2 OF 2 PAGE = 2 OF 3

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CSHB116FIN DOCUMENT= 2 OF 2 PAGE 2 PART OF THE

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ACCORDANCE WITH AS 01.10.070(C).

0601 * END OF DOCUMENTS IN LIST - ENTER RETURN OR ANOTHER COMMAND.

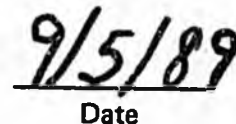


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