FINAL BILL REPORT
SHB 2125

PARTIAL VETO
C 2 L 96
Synopsis as Enacted

Brief Description: Authorizing and implementing interstate banking.

Sponsors: By House Committee on Financial Institutions & Insurance (originally sponsored by Representatives L. Thomas, Wolfe, Beeksma, Sterk, Robertson, Honeyford, Chandler, Smith, Pelesky, Kessler, Dyer, D. Sommers, Huff, Radcliff, Dellwo, Scheuerman and Cooke).

House Committee on Financial Institutions & Insurance
Senate Committee on Financial Institutions & Housing

Background: In 1994, the federal Riegle-Neal Interstate Banking and Branching Efficiency Act (Riegle-Neal) was adopted. This act significantly changes federal banking law regarding interstate banking and branching.

Federal law distinguishes between a "bank" and a "bank holding company" (BHC). Generally, a bank is an institution that takes deposits and makes commercial loans. A BHC is an organization that owns one or more banks.

Prior to Riegle-Neal, a state-chartered bank could branch only to the extent allowed by state law; with a few exceptions, a state-chartered bank could not branch into another state. A federally-chartered bank could branch intrastate only to the extent allowed by state law; it could not branch into another state. Federal law allowed a BHC to own one or more banks in its home state and, to the extent allowed by state law, to own banks in states other than its home state. The banks that are owned by a BHC and are located in different states were required to maintain much of their individuality, including separate boards and operations, separate capitalization, and state-specific accounts. (Some exceptions allowed interstate banking when a failed institution was involved or when the headquarters was moved up to 30 miles and into another state.)

Prior to Riegle-Neal, interstate banking generally was accomplished through BHCs. All states except Hawaii allowed out-of-state BHCs to acquire banks in their states, often provided that the BHC's home state reciprocated. Although most states, including Washington, allowed acquisition of banks in their states by BHCs based in any other state, 15 states limited acquisition to BHCs from specific regional states.

Riegle-Neal allows the following: (1) BHCs may acquire existing banks in any state, provided the BHCs are adequately capitalized and managed, and subject to concentration limits and existing state "age of institutions" limits; (2) banks affiliated with (owned by) the same BHC may take deposits, close loans, and conduct other activity for each other's customers, even though the banks are located in different states; and (3) effective, June 1, 1997, a bank may acquire a bank or a branch in another state and consolidate both into branches of one bank (rather than keep them separate legal entities), and existing bank networks with banks in more than one state may be converted into branches of one bank.

States can opt out of interstate branching if done by June 1, 1997. A state cannot opt out of interstate banking through BHCs. A state can prohibit all out-of-state banks from acquiring branches in that state by opting out, or it can limit the method of branching into that state. However, banks in a state that opts out are then barred from branching interstate.

States can opt into interstate branching earlier than June 1, 1997.

State laws on consumer protection, intrastate branching, fair lending, anti-trust, and community reinvestment apply to in-state branches of out-of-state banks (including national banks). A state cannot discriminate against out-of-state banks.

Summary: The state of Washington authorizes interstate branching beginning June 6, 1996.

Out-of-state banks may enter Washington by acquiring an existing bank; out-of-state banks cannot enter Washington by acquiring a single branch of a Washington bank or by establishing a new branch of the out-of-state bank in Washington (de novo). Any Washington bank acquired by an out-of-state bank must be at least five years old (this applies to commercial banks, but does not apply to savings banks).

Any acquisition of a Washington bank by an out-of-state bank cannot result in control of more than 30 percent of total deposits in this state, unless the concentration limit is waived by the Director of the Department of Financial Institutions (this applies to commercial banks, but does not apply to savings banks). State laws concerning community reinvestment, consumer protection, fair lending, intrastate branching, and anti-trust apply to all branches in Washington, including those of out-of-state banks.

The powers of Washington banks may be increased by allowing out-of-state banks to bring home state powers into Washington that exceed Washington law, and by allowing Washington banks to have those additional powers, provided the Director of the Department of Financial Institutions does not consider the imported powers a threat to the safety and soundness of banks.

Washington bank branches located in other states are granted the powers allowed by the host state to bank branches in that state, unless a particular power is prohibited by Washington law; however, the Director of the Department of Financial Institutions can waive the Washington prohibition if the Director finds the particular power does not threaten the safety and soundness of the bank.

The Director of the Department of Financial Institutions is authorized to enter into supervision and examination agreements with other states to streamline and coordinate regulation of interstate banks.

Partial Veto Summary: The partial veto removes the emergency clause.

Votes on Final Passage:

House	96	0
Senate	37	0

Effective: June 6, 1996