

# SENATE BILL REPORT

## SB 6190

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As Reported by Committee On:  
Financial Institutions & Housing, January 9, 1996

**Title:** An act relating to interstate banking.

**Brief Description:** Authorizing and implementing interstate banking.

**Sponsors:** Senators Prentice, Hale, Fraser, Sutherland, Loveland, Smith, Sellar and Winsley.

**Brief History:**

**Committee Activity:** Financial Institutions & Housing: 1/9/96 [DPS].

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### SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & HOUSING

**Majority Report:** That Substitute Senate Bill No. 6190 be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair; Hale, Roach, Sellar, Smith and Sutherland.

**Staff:** Catherine Mele (786-7470)

**Background:** Federal and state laws distinguish between a "bank" and a "bank holding company." Generally, a bank takes deposits and makes loans. A bank holding company is an organization which owns one or more banks.

Interstate banking occurs when a bank holding company owns and operates banking subsidiaries in more than one state. Each bank subsidiary of a bank holding company has its own capital, board of directors, and management. Under a bank holding company structure, each bank must comply with separate regulatory reporting requirements, and separate supervisory examinations. Each bank is treated as a separate legal entity.

Interstate branching occurs when a single bank acquires and establishes branches in other states. Under interstate branching, a bank does not need to be part of a bank holding company to cross state lines. Interstate branches are offices of the parent bank and share the parent bank's board of directors and management.

Before federal changes to banking law in 1994, Washington law allowed interstate banking only if Washington bank holding companies could acquire another state's banks on a reciprocal basis. Washington law did not specifically authorize interstate branching.

In 1994, Congress passed the Riegle-Neal Banking and Branching Efficiency Act of 1994. Under this law, a state cannot prohibit interstate banking after September 29, 1995. In addition, the federal law authorizes each state to determine whether, and to what degree, it will authorize state-chartered banks to branch interstate. If a state fails to make a

determination, national banks in that state can legally branch interstate after June 1, 1997, but state chartered banks will not have this ability.

In response to the federal law, the House and Senate standing committees on banking, asked the Director of the Department of Financial Institutions to facilitate a consensus response to the federal legislation. The director assembled an industry group to consider the issues raised by Riegle-Neal, and to draft legislation for Washington State. This group, called the Interstate Working Group (IWG), created legislation authorizing and implementing interstate banking and branching in Washington.

**Summary of Substitute Bill:** Washington authorizes interstate branching on June 1, 1996.

Washington banks are authorized to operate branches in other states.

Out-of-state national and non-Washington state-chartered banks are authorized to acquire Washington commercial banks which are at least five years old and operate them as branches. The same out-of-state institutions can acquire savings bank branches, or an entire savings bank.

The Director of the Department of Financial Institutions is authorized to take enforcement actions against unsafe and unsound banking practices against out-of-state state-chartered banks operating branches in Washington.

The director is authorized to work with the other state regulators when practical.

The director may enter supervisory agreements that detail the manner in which an interstate bank is examined and regulated. States are permitted to share bank regulators.

Non-Washington state-chartered banks operating branches in Washington may conduct the same activities in Washington that they conduct in their headquartered state with director approval. Washington state-chartered banks can also conduct these same activities with director approval.

Non-Washington state-chartered banks operating branches in Washington may conduct the same activities as Washington state-chartered banks if these activities are authorized by the headquartered state's laws.

Washington state-chartered banks operating branches in other states may conduct the same activities as the other state's banks if these activities are not prohibited by Washington law.

All consumer protection laws, community reinvestment laws, and fair lending laws apply to all branches in Washington. All Washington state-chartered banks operating branches in other states must comply with the other state's laws concerning consumer protection, community reinvestment, and fair lending.

**Substitute Bill Compared to Original Bill:** The original bill provides a June 1, 1996 effective date for Section 9 only. The substitute bill creates an effective date of June 1, 1996 for the entire bill. Other technical changes are made.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** June 1, 1996.

**Testimony For:** This bill is the result of a banking industry work group called the Interstate Work Group. This group met throughout the year to address issues raised by federal legislation, and to develop this legislation. This bill keeps Washington commercial banks competitive with other states, and helps the Pacific Northwest develop as a key player in the financial community. The powers and authorities provisions promote an atmosphere where financial institutions are responsive to consumer needs. The bill also provides consumer protection because Washington's consumer protection laws apply to all bank branches operating in Washington.

**Testimony Against:** None.

**Testified:** Bill Firstenburg, Bruce Koppe, WA Bankers Association (pro); Scott Gaspard, WA Savings League (pro); Jim Pishue, WA Independent Comm. Bankers Assoc. (pro).