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**Insurance, Financial Services &  
Consumer Protection Committee**

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**HB 2286**

**Brief Description:** Regulating interstate branching.

**Sponsors:** Representatives Simpson, Kirby, Williams, Kelley and Hunt.

**Brief Summary of Bill**

- Alters definitions of "branch" for out-of-state banks and savings banks.
- Permits a branch of an affiliated out-of-state bank or a savings bank to be located on the affiliate's premises only if the affiliate engages in specific financial activities.

**Hearing Date:** 2/21/07

**Staff:** Jon Hedegard (786-7127).

**Background:**

The Department of Financial Institutions (DFI) regulates Washington's state-chartered commercial banks, stock savings banks, mutual savings, alien banks, and savings and loans.

Federal law allows states to choose from several approaches in regulating interstate branches of out-of-state banks. A state may:

- allow an out-of-state entity to have in-state branches without imposing requirements;
- allow an out-of-state entity to have in-state branches only if the state where the entity is chartered or has its principal place of business has reciprocal requirements. This is called "de novo" branching;
- allow an out-of-state entity to have in-state branches if it acquires a domestic bank. There is often a requirement that the purchased bank must have been in business for a fixed period of time before the acquisition;
- impose strict barriers on out-of-state entities that seek in-state branches; or
- prohibit an out-of-state entity from having in-state branches.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

In 1996, the Legislature permitted interstate branching by out-of-state banks and savings banks through the acquisition of an entire domestic bank that has been doing business for at least five years. There is an exception to this general requirement; an out-of-state commercial bank may charter a de novo savings bank as a subsidiary and merge the savings bank into the commercial branch as a branch.

In 2005, the Legislature permitted an out-of-state bank or savings bank to establish branches in Washington on the same or less favorable terms as are imposed on Washington-chartered banks or savings banks seeking to establish branches in the state where the institution is chartered or has its principal place of business. If the other state allows for a de novo branch for a Washington-chartered bank, then an out-of-state bank may have a de novo branch under the same terms. If another state imposes a requirement that a Washington bank must acquire existing branches, similar terms will apply to the banks from that other state.

For out-of state banks, "branch" is defined as an office of a bank through which it receives deposits, other than its principal office. Any of the functions or services authorized to be engaged in by a bank may be carried out in an authorized branch office.

For savings banks, "branch" is defined as an established office or facility other than the principal office, at which employees of the savings bank take deposits. "Branch" does not refer to a machine permitting customers to leave funds in storage or communicate with savings bank employees who are not located at the site of that machine, unless employees of the savings bank at the site of that machine take deposits on a regular basis. An office of an entity other than the savings bank is not established by the savings bank, regardless of any affiliation, accommodation arrangement, or other relationship between the other entity and the savings bank.

### **Summary of Bill:**

#### Out-of-state banks

"Branch" is defined as a place of business, other than the principal office of a bank, operated by the bank or by an affiliate of the bank, through which the bank receives deposits or establishes an arrangement for the affiliate to place deposits or to facilitate the placement of deposits of third parties with the bank.

An out-of-state bank is permitted to have a branch located on the premises of an affiliate of the bank if the affiliate only engages in activities that are:

- financial in nature under 12 U.S.C. Sec 1843(K); or
- permitted for the affiliate under 12 U.S.C. sec. 1467(c)(9)(C).

The director of the DFI may not approve of a de novo branch of an out-of-state bank if the de novo branch is located on the premises of an affiliate of the bank unless the affiliate only engages in activities that are:

- financial in nature under 12 U.S.C. Sec 1843(K); or
- permitted for the affiliate under 12 U.S.C. sec. 1467(c)(9)(C).

#### Savings banks

"Branch" is defined as an established office or facility other than the principal office of the savings bank, operated by the savings bank or an affiliate of the savings bank, at which employees

of the savings bank take deposits or there exists an arrangement for the affiliate to place deposits or to facilitate the placement of deposits of third parties with the savings bank. The term "branch" does not refer to a machine permitting customers to leave funds in storage or communicate with savings bank employees who are not located at the site of that machine, unless employees of the savings bank at the site of that machine take deposits on a regular basis. An office of an entity other than the savings bank is not established by the savings bank, regardless of any affiliation, accommodation arrangement, or other relationship between the other entity and the savings bank.

"De novo branch" is defined as a branch of a savings bank which is originally established by the savings bank as a branch and does not become a branch of the savings bank as a result of:

- the acquisition of another bank or a branch of another savings bank; or
- a merger, consolidation, or conversion involving any such savings bank or branch.

A savings bank is permitted to have a branch or a de novo branch located on the premises of an affiliate of the bank if the affiliate only engages in activities that are:

- financial in nature under 12 U.S.C. Sec 1843(K); or
- permitted for the affiliate under 12 U.S.C. sec. 1467(c)(9)(C).

**Appropriation:** None.

**Fiscal Note:** Requested on February 19, 2007.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.