

# SENATE BILL REPORT

## SB 6029

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As Reported By Senate Committee On:  
Financial Institutions & Insurance, February 27, 2007

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

**Brief Description:** Regulating interstate branching.

**Sponsors:** Senators Hobbs, Benton, Berkey and Hatfield.

**Brief History:**

**Committee Activity:** Financial Institutions & Insurance: 2/20/07, 2/27/07 [DPS].

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### SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

**Majority Report:** That Substitute Senate Bill No. 6029 be substituted therefor, and the substitute bill do pass.

Signed by Senators Berkey, Chair; Hobbs, Vice Chair; Benton, Ranking Minority Member; Franklin, Hatfield, Parlette and Schoesler.

**Staff:** Diane Smith (786-7410)

**Background:** In 1994, Congress passed an interstate bank branching act (Riegle-Neal Act), giving states five choices for how to allow interstate bank branching. Washington uses the federally-allowable choice, made by approximately 16 other states, called "reciprocal de novo branching." Under that approach, an out-of-state financial institution is permitted to form branches in Washington State without having first to acquire a bank, provided that the other state's laws permit branching by a Washington State bank or savings bank on equally favorable terms and conditions as Washington offers. Mergers are allowed between domestic stock savings banks and certain out-of-state national banks.

**Summary of Bill:** The definitions of a branch bank and branch savings bank are clarified in relationship to affiliates of the bank or savings bank. If an out-of-state bank or savings bank seeks to engage in banking in Washington, its affiliate must engage only in financial activities if the proposed branch is located on the affiliate's premises.

**EFFECT OF CHANGES MADE BY RECOMMENDED SUBSTITUTE AS PASSED COMMITTEE (Financial Institutions & Insurance):** The recommended substitute bill allows out-of-state banks to establish branches in Washington that are within one mile of a commercial affiliate only to the extent permitted for a Washington bank under state and federal law.

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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.*

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:** PRO: This bill is needed to ensure a competitive marketplace. We want the effect of the bill, but without unintended side effects. We just want to prevent unfair competitive advantage to out-of-state banks. Commerce and finance have been properly separated in Washington since the 1930s. That is not the case in some other states. Allowing the blending of these functions raises major policy issues. One is the compromise of the fiduciary duty of the banking side. Recall what happened to the Japanese system. A second issue is the fact that banking regulators are ill-equipped to regulate non-financial corporations, especially those headquartered out-of-state. Thirdly, there are no firewalls between the parent company and the subsidiary. Recall what happened to the savings and loans. Likewise, remember the forced merger of People's National Bank in the early 1980s due to failure of small loans in California. Don't forget the law of the land: the community reinvestment act. Finally, there is the question whether it is inherently wrong to fund commercial activities with consumer deposits and the reverse.

OTHER: The Federal Deposit Insurance Corporation (FDIC) has ruled that Industrial Loan Companies (ILCs) cannot do this kind of banking for one year. We are in favor of the concept of the bill.

**Persons Testifying:** PRO: Senator Hobbs, prime sponsor; Brad Tower, Washington Independent Community Bankers Association; Mike Edwards, Thurston First Bank; Denny Eliason, Washington Bankers Association.

OTHER: Marc Gaspard, Washington Financial League.