



National Association of Industrial Bankers

## FDIC and State Chartered Institutions

### **A direct attack on the dual banking system**

State chartered banks are the bulwark of the nation's economy that, every day, impact millions of families and businesses.

The Federal Deposit Insurance Corporation (FDIC) continues to ignore statutes and regulations by refusing to insure new state financial institutions, or allowing amendments to the charters and business plans to existing chartered institutions. In the last five years, the FDIC is only approved insurance for two (2) charters for a \$17 Trillion economy.

Credit for new entrepreneurs and expanding businesses is impossible to obtain from traditional sources. Americans are securing credit outside of regulated sources because federal agencies make conventional avenues so difficult. Over 60% of credit extended is now outside of regulated sources.

State chartering of banks is an issue that needs to be considered in the realm of states' rights and federalism. Americans willing to risk their capital to establish a bank compliant with existing laws and regulations, in order to extend credit to fellow citizens, should receive a charter from their state and deposit insurance from the FDIC.

### **Myth vs. Reality**

In the aftermath of the Great Recession, the media and commentators paint banks and financial service organizations as corrupt predators who bring mayhem to the nation's economy. Lost in this noise are several fundamental facts:

- Most of the nation's banks –national and state charters- survived the economic downturn, having utilized best practices in operations. (State chartered industrial banks remain the country's safest and soundest.)
- State-chartered banks were a key component of this country's economic success for over a century, by infusing capital into small and medium sized businesses while providing loans to families and small business.
- Recent federal laws and regulations-especially the Dodd Frank Act-are pushing this country towards the Canadian system of six large mega-banks and a few state-chartered smaller banks (as noted above, only two state banks have been chartered and insured since 2007).
- Because of the quiet opposition federal agencies hold towards state-chartered institutions, trillions of dollars are sidelined from acting as credit to start and expand businesses in the country, or are funneled to non-regulated credit operations.
- Unless states pressure the FDIC, the Department of Treasury and Congress, state chartered financial service organizations will diminish and the dual banking system will disappear.

## **A non-existent application process**

The application process to obtain a state charter with FDIC insurance is both rigorous and demanding. This is appropriate. When the FDIC follows statutory and regulatory requirements, the approval process may take anywhere between six months to two years. In the past 9 years, this process was essentially shut down. With two exceptions, de novo banks have not been formed for at least five years and normal application activity has ceased since the fall of 2007. The FDIC is hampering the dual banking system by strangling the process to approve insurance for new state charters, and by refusing allowing existing charters to be modified.

These actions (essentially non-actions) by the FDIC are contrary to the legal requirement that applications be processed on a timely basis. FDIC public statements do not reflect extra rigorous and baseless requirements for state-chartered bank applications. When confronted by state and federal officials regarding the approval of bank applications, FDIC representatives offer a broad and friendly response. They state that any application will be given the proper and appropriate review and consideration in a timely manner.

In reality, high-ranking FDIC officials, when meeting with applicants, are typically antagonistic and hostile towards de novo and existing applications. The FDIC often imposes requirements clearly outside normal or statutory guidelines to strangle state chartered applications.

The FDIC's failure to approved insurance to new state charters, and changes to existing charters, is an obvious effort to wrestle policymaking away from Congress and the states.

## **The safest state banks**

In the past 30+ years, industrial banks, many owned by commercial parents, have compiled the best record of capitalization and profitability of any group of banks in the nation.

During the past 8 years, the FDIC failed to process any industrial bank application. During this time, a moratorium was imposed by administrative fiat without any legal authorization, public announcement, statement of reasons, or opportunity for public input on this very important and damaging policy. No industrial bank application has been approved since 2006.

These states can serve as banking-laboratories for change and demonstrate beyond any reasonable and objective doubts that industrial banks can operate as safe, sound, responsible and beneficial providers of credit.

## **A need for action**

The FDIC and other entities and individuals within the federal government have a quiet agenda to weaken the dual banking system. Notwithstanding the safety and soundness of state-chartered institutions-including Industrial Banks-they are a target for elimination.

America's financial system depends upon state chartered banks (community and industrial) that provide safe and innovative services to millions of consumers and businesses. Therefore, this drive towards national charter consolidation must be exposed and ended. State leaders and sympathetic federal officials must act now to highlight the actions of the FDIC. Further, opportunities must be expanded for capital to be used in state-chartered institutions.

We are asking our representatives in the United States Congress to undertake immediate action to halt a policy that is so ruinous to the economy and to citizens. Americans benefit from a robust system that promotes safe state chartered banking.

For more information go to [IndustrialBankers.org](http://IndustrialBankers.org)

Frank Pignanelli, Executive Director  
801-355-2821

Eris Group, Washington Counsel  
202-546-1765