

0005 451

State Capitol
Room 2032
Sacramento, CA 95814-4900
TEL (916) 651-4008
FAX (916) 327-2186

District Offices
400 South El Camino Real, Suite 630
San Mateo, CA 94402
TEL (650) 340-8840
FAX (650) 340-1661

Hiram W Johnson State Office Building
455 Golden Gate Avenue, Suite 14200
San Francisco, CA 94102
TEL (415) 557-7857
FAX (415) 557-7864

SENATOR.SPEIER@SEN.CA.GOV

WWW.SEN.CA.GOV/SPEIER

California State Senate

SENATOR JACQUELINE SPEIER

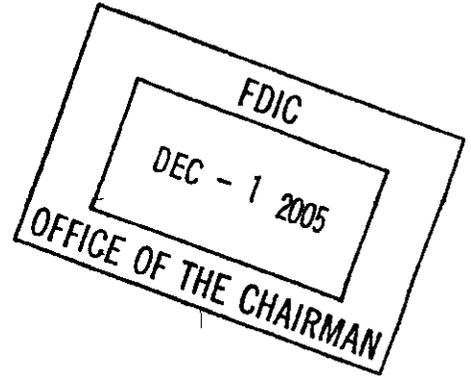
REPRESENTING SAN FRANCISCO AND SAN MATEO COUNTIES



COMMITTEES
CHAIR
Banking, Finance
and Insurance
Select Committee on
Government Cost Control
MEMBER
Appropriations
Education
Joint Committee on
Legislative Audit

November 17, 2005

Mr. Don Powell, Chairman
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429-9990



RE: Opposition to Notice of Proposed Rulemaking on Interstate Banking and Federal Interest Rate Authority (12 CFR Parts 331 and 362)

Dear Mr. Powell:

As Chairs of the California State Assembly Banking and Finance Committee and the California State Senate Banking, Finance, and Insurance Committee, we write to strongly oppose the regulations proposed by the FDIC on October 6, 2005 (Federal Register Volume 70, No. 198, October 14, 2005, pp. 60019-60031). Specifically, we refer to your rules providing that a state bank's home state law governs the interstate activities of state banks and their operating subsidiaries to the same extent that the National Bank Act governs a national bank's interstate business. The stated intent of the regulations is to establish parity between national banks and state-chartered banks in interstate activities and operations. We believe it will do just the opposite by undercutting the ability of states to regulate the activities that occur within their borders.

The FDIC's proposal would pose a significant threat to consumer protection and to the dual banking system. By exempting state-chartered banks from state consumer protection laws if a federal regulator has determined that national bank subsidiaries are exempt, state banks' operating subsidiaries and loan offices would be free from the need to comply with host-state laws. This could lead some state bank regulators to loosen their oversight in order to attract more charters, which, in turn, may threaten the safety and soundness of the institutions chartered in those states. In short, your proposed regulations are likely to create a race to the bottom. We are extremely concerned at this development and urge you not to adopt these regulations in the interest of consumer protection.

We also take issue with your belief that the regulations will strengthen the dual banking system. We strongly agree about the importance of and need for a dual system, but we believe that any



competitive imbalance that exists between state and federally-chartered financial institutions is attributable to the January 2004 regulations issued by the Office of the Comptroller of the Currency (OCC). Those regulations, considered by many to have gone too far toward preempting states, have made it difficult to keep state bank charters attractive for larger banks. We echo the concerns of one individual who testified in opposition to your proposed rulemaking (Federal Register, October 14, 2005, page 60021) and believe that the "cure for any imbalance is for Congress or the OCC itself, under new leadership, to roll back the OCC regulations, not to use them as a model for the state banking system," as your proposed regulations would do.

The implications of your proposal are quite serious. We believe your actions have the potential to: 1) send a powerful message that depository institutions of all kinds are above state consumer protection laws; 2) undermine consumer confidence in the dual banking system; and 3) make it more difficult for consumers to obtain credit and other financial services on fair terms by removing a number of important protections that various states have adopted over time to protect their residents.

Once again, we urge you to acknowledge the important role that states have to play in regulating the financial activities that occur within their borders and to reconsider your proposed rulemaking actions. Please do not hesitate to contact either of us at the numbers listed below if you wish to discuss this matter in more detail.

Very truly yours,



JACKIE SPEIER
Chair, Senate Banking, Finance & Insurance Committee
(916) 651-4102



RONALD CALDERON
Chair, Assembly Banking & Finance Committee
(916) 319-3081

KJS/RC:ear