House Legislative Analysis Section

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REDUCE MINIMUM BANK SUPERVISORY FEE

House Bill 4688 as introduced
First Analysis (4-26-95)

Sponsor: Rep. Gary L. Randall
Committee: Commerce

THE APPARENT PROBLEM:

Over the last 10 years, federal and state banking laws have been amended to allow consolidations and mergers of banks across state lines, if certain conditions are met. As a result, the total number of state-chartered banks operating in Michigan has steadily fallen, according to the Financial Institutions Bureau. Whereas in 1985 there were 241 state-chartered depository financial institutions operating in Michigan, today there are only 140. Over this same period, however, the total amount of assets owned by state-chartered banks has risen dramatically, from $34 billion to $90 billion. This has occurred because state-chartered banks with relatively few assets have merged with (that is, were purchased by) multi-billion dollar regional or multinational bank-holding companies. The Banking Code authorizes the FIB to assess state-chartered banks a "supervisory fee" and other examination fees, and to use the revenue generated by the fees to provide regulatory oversight of them; each bank pays a fee based on each $1,000 of its gross assets. Recently, the National Bank of Detroit, Michigan's largest bank with over $23 billion in assets, switched from being a federally-chartered bank to a state-chartered bank, which increased the total pool of assets within the state-chartered bank system even more. This development, along with the general trend in Michigan toward fewer state-chartered banks with more assets, has prompted the FIB to seek legislation lowering the minimum supervisory fee assessed against state banks.

THE CONTENT OF THE BILL:

The Banking Code currently requires each bank regulated under the act to pay an annual "supervisory fee" of not less than seven and one-half cents nor more than 25 cents, as determined by the banking commissioner, for each $1,000 of a bank's gross assets. The bill would amend the act to reduce the minimum amount of the fee to four cents for each $1,000 of total assets reported by the bank on its report of condition for the previous year. The bill would also delete language allowing the commissioner to assess a supplementary fee on a bank, when necessary to conduct examinations of records over and above normal examination procedures. (The provision specifies that the total fee cannot exceed 25 cents per $1,000 of assets.) The bill retains current language specifying that the minimum supervisory fee for a bank cannot be less than $1,000. A bank's fee would be based on its total assets as annually reported to its chartering state or federal regulator; new banks, however, would pay the minimum fee established by the commissioner. The bill would require the commissioner to invoice the fee no later than July 1 of each year, and banks would have to pay it no later than August 15 of that year.

MCL 487.325, 487.441, and 487.442

FISCAL IMPLICATIONS:

The House Fiscal Agency says the bill would have an indeterminate fiscal impact on the state, which would depend on the actual supervisory fee the Financial Institutions Bureau assessed state-chartered banks under the bill's provisions. According to the agency, conversion of NBD, the state's largest bank, to a state charter will add a significant amount to the asset pool. Collecting a fee on that amount will increase revenues to the state; the FIB, however, intends to stay revenue neutral. Though the bill, combined with NBD's conversion to a state-chartered bank, may enable the state to reduce supervisory fees for many banks, the actual fee each pays would ultimately be determined by the FIB. (4-5-95)

The Financial Institutions Bureau says the bill would have minimal fiscal implications for the state as the lower floor proposed for the supervisory fee, combined with the addition of NBD's assets to the state bank asset pool, would enable the department to lower the fee paid by most state banks without affecting overall revenue. (4-5-95)

ARGUMENTS:

For:

The bill would enable the Financial Institutions Bureau, which is charged with regulating state-chartered banks, to respond to a recent decision by the state's largest bank, NBD, to switch from being a federally-chartered bank to a state-chartered bank. Infusion of NBD's $23 billion in state-owned assets into the state bank asset pool will increase the total revenue generated by the supervisory fee assessed each bank (based on each $1,000 of its total assets) by the FIB. In fact, changes to state and federal banking laws that have been made since the mid-1980s have both decreased the number of state-chartered banks operating in the state while also increasing their total asset pool. This trend has made it possible for the FIB to continue to provide proper regulatory oversight of state banks without raising the fee each is assessed for supervisory activities. And with NBD's entrance into the state bank system, the FIB now feels it could lower the minimum supervisory fee that most state banks pay without affecting the overall revenue generated from the fee; the bill would authorize the bureau to do this. The bill also would add other provisions to accommodate NBD's change to state-charter status (e.g., regarding filing of a report which the FIB uses to determine a bank's total assets and, thus, its fee), and would extend the date for when supervisory fees would be due from the date the invoice is received to up to a month-and-a-half after this. And finally, the bill would eliminate a supplementary examination fee which the FIB may charge banks whose exams take longer than normal or require extraordinary exam procedures. According to an FIB spokesman, this fee has rarely ever been assessed and is effectively obsolete.

POSITIONS:

The Financial Institutions Bureau supports the bill. (4-5-95)

The Michigan Bankers Association supports the bill. (4-11-95)

NBD, the state's largest state-chartered bank, supports the bill. (4-12-95)

The Michigan Credit Union League has no position on the bill. (4-5-95)

The Michigan League of Savings Institutions has no position on the bill, as all of its members currently are federally chartered. (4-5-95)