



State of Washington
DEPARTMENT OF FINANCIAL INSTITUTIONS
DIVISION OF BANKS

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Date: June 13, 2008
To: Chief Executive Officer
From: Brad Williamson, Director – Division of Banks
Regarding: Fee Increase Rule Making

The 2008 Washington State Legislature recently passed EHB 3381, which was signed by Governor Gregoire. This legislation requires new regulatory responsibilities for the Division of Banks (DOB). The Legislature increased DOB's revenues for hourly examination fees and asset assessments to help fund its new regulatory responsibilities and support current levels of operations. Further, the Legislature provided DOB with the ability to assess interstate assets of Washington State chartered financial institutions, to offset the loss of interstate bank fees as a result of recent changes in federal law.

While the new law gives the DOB the right to increase fees without stakeholder input or rulemaking, I believe the best course of action is to hold rulemaking to provide industry input into the process. This letter is to provide a brief explanation of the DOB's finances and need for the fee increases.

Last Fee Increase 2002

The Division of Banks last increased fees in 2002. Obviously operating costs have continued to rise since that time; and important costs associated with personnel, information technology, and travel have increased significantly. DOB's operational costs now exceed revenues despite travel reduction and other cost savings programs that have been implemented. In fiscal year 2007, DOB experienced an operating deficit of \$205,500 and projections of significantly higher deficits are anticipated in future periods without fee increases.

The DOB's history of fee increases has been conservative. DOB has increased fees only five times since 1990, and its increases have been far below the rate of inflation or those permitted under the I-601 fiscal growth factor limits. In addition, the DOB's fee increases compare favorably with the Office of the Comptroller of the Currency and the Office of Thrift Supervision who have increased their assessments by 12.6% and 13.2%, respectively since 2002.

Revenue Losses

Several significant occurrences have decreased DOB's revenue stream. In 2005, the largest Washington State chartered financial institution shifted to a federal charter. This resulted in a loss of revenue totaling over \$313,000 annually. Several other Washington state chartered financial institutions have been acquired by federally chartered institutions, which further decreased DOB revenue.

In 2006, federal legislation largely eliminated the ability of DOB to impose fees on out of state banks. The loss in revenue associated with this change totaled over **\$90,000**.

Cost Control Initiatives

The Division of Banks has undertaken initiatives to control costs. As I have indicated in previous communications, DOB has taken extensive efforts to reduce travel and risk focus examinations. This effort to reduce the number of examination hours conducted on-site has resulted in reduced overnight travel and time spent in banks. We have also attempted to reduce operating expenses by taking advantage of new technologies and working with our federal counterparts to streamline the examination process.

Proposed Fee Increase

The recent legislation (House Bill 3881) authorizes DOB to increase fees by the 2008 I-601 Fiscal Growth Factor, 5.53%. The proposed fee increase applies to semi-annual asset assessments and examination hourly charges.

Current and proposed increases in asset assessments are as follows:

Current Assessment Rate	Proposed Assessment Rate *
Total Assets (TA) < \$500 million = .000016549 of TA	.000017464
TA \$500 million to \$1 billion = .000015869 + \$8,274	.000016746 + \$8,731
TA \$1 billion to \$10 billion = .000015631 + \$16,208	.000016495 + 17,104
TA over \$10 billion = \$156,887	\$165,562

* It is important to note that asset assessments will be based on Total Assets under the proposed increase. Previously, out of state assets were excluded from the assessment calculation.

Current and proposed increases in hourly examination fees are as follows:

	Current	Proposed
Regular Examinations	\$ 76.38	\$ 80.60
Specialty Exams (IT & Trust)	\$105.79	\$111.64

Summary

The Division of Banks strives to provide excellent regulation to Washington State chartered financial institutions. We have operated at a deficit for the past year and projections indicate larger deficits will continue indefinitely without an increase in revenue. While this is not an optimal time for the financial industry to absorb additional expenses, the very issues facing the banking industry result in higher regulatory costs for the DOB. To remain the top-notch regulator we believe ourselves to be, an increase in fees is necessary.

We believe that State regulation is by far the best regulatory structure available to a community oriented bank, and a state charter remains a bargain when compared to the federal charter alternative. Our estimate is that even with the proposed increases, Washington State regulatory fees are approximately 30% of what is paid to the OCC or OTS.

Formal notice regarding the proposed fee increase will be sent to your institution within the next several weeks. The notice will include the location of a hearing to discuss the increase and provide an address where comments on the fee increase can be mailed.