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**YOUR VIEW: HOWARD F. PITKIN**

## **Proposed Regulations Harmful To Small Banks**

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While health care reform is grabbing the headlines, there is a debate about potentially harmful regulation of community banks that's receiving less attention, but is critical to the financial health of our country, states, communities and citizens. At the heart of the debate is the role of the states, whose officials have promoted a diverse local system with a priority on local economic development and consumer protection. Federal government regulators have gotten close to very large banks under a global centralized system. These models are not necessarily mutually exclusive, but, in the past year, through big bank bailouts and with proposed federal legislation, the scale is tipping heavily in one direction — and it's not toward your smaller local bank or you.

Recently, the Senate Banking Committee proposed a reform plan to create a single federal regulator in response to the current financial crisis and economic downturn. This centralization of authority would increase the fragility of the banking system by leading to industry consolidation and destroy the diversity that has proved so resilient during this recession.

Further, the interests of the consumer and community banks will be subordinate to the business goals and other concerns of a handful of mega-banks. The supervisory policies espoused by such a single regulator would target the mega-banks because that is where the most risk of potential problems and taxpayer expense exists. These mega-bank policies would overburden smaller institutions in terms of compliance and expense, and place regional and community banks at a severe competitive disadvantage. If our federal government encourages further consolidation of the banking industry to include fewer, yet larger, institutions, it will threaten and possibly destroy the dual banking system. Weakening or ending the dual-banking system will be nothing short of catastrophic for America's financial industry, citizens and economy.

For more than 150 years, our nation has been well served by the dual banking system, made up of state and federal chartering authorities. Typically, the state authorities charter and regulate smaller community and regional banks. This is not a historical accident. The states are closer to their communities and have fostered and often fought for a banking system that is local. Although federal authorities also charter banks and have responsibility for some community banks, they tend to supervise larger regional, national and global banks and their holding companies. This division of regulator responsibility between state and federal authorities has led to a diverse banking industry — in terms of charter type, size and functions of individual institutions. Connecticut is home to a few larger banks, but it has a long history of community banks that are closer to their customers and generally offer more personal services.

The policies being pursued by our elected officials in Washington appear to be directed toward consolidating authority in the federal government. This would be at the expense of our

Constitution's revered system of checks and balances, which prevents overbearing regulation of business and protects citizens from big government.

Federal and state authorities use a coordinated approach to supervise state-chartered banks that has efficiently used regulatory resources and yielded the benefits of multiple regulatory perspectives. This structure has encouraged creativity and innovation among agencies to form charters that are both prudent and appealing. Under one regulator, this innovation and diversity will be lost at a time when it is vitally needed.

During times such as these, it is prudent to have more regulatory "cops on the beat," as opposed to removing regulators through consolidation. Consumers and the industry will best be served by more coordination and cooperation between state and federal regulators and not consolidation of banking regulation.

While members of Congress are on their August recess, it is encouraging to see them holding so many town hall meetings as Americans look for answers to questions about government policies. Hopefully, when our elected officials return to Washington, they will continue listening to the people and less to those who promote special interests.

**•Howard F. Pitkin is the state banking commissioner.**

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