RESTRICTURING LOUISIANA’S BANKING DEPARTMENT

This study of the State Banking Department was prompted by 3 basic concerns. The first of these was a concern for the department’s ability—in terms of budget, staffing, training and procedure—to keep pace with the recent rapid expansion in the economic activity of institutions under its supervision. Another concern was whether the department’s authority and powers of regulation were sufficient to prevent the occurrence of financial institution failures which have been prevalent in a number of states during the past decade.

The final concern was for the department’s ability to exercise professional and objective judgment independently of the influence of patronage politics. During the last half of the 1960’s, a number of major disclosures brought public attention to bear upon various aspects of the banking department’s operation including its chartering, licensing and supervisory functions. Those instances serve as a reminder of the ways in which adverse political influence and political decisions motivated by patronage can be substituted for independent, objective regulation.

There is little that can be done by adding safeguards to the statutes to prevent governors, legislators and other public officials from injecting political considerations into banking department decisions. The solution to this problem requires a voluntary effort by the governor to appoint the most highly qualified commissioner possible and then allow him to perform his duties without political intervention.

The State Banking Department

The Louisiana State Banking Department (LSBD) is composed of 5 divisions each with an administrator and supervised by the state bank commissioner: Banking; Savings and Loan; Small Loan; Sale of Checks; and Credit Unions. In addition, the Securities Commission is also supervised by the bank commissioner.

The legal authority for operating the above divisions is found in Louisiana Revised Statutes, as amended, as follows:

1. Banks and Banking (Title 6, Section 1, et seq.)
2. Homestead and Savings and Loan Associations (Title 6, Section 701, et seq.)
3. The Louisiana Small Loan Law (Title 6, Section 571, et seq.)

The following abbreviations have been used throughout this report: B.E.P.S. (Bank Examination Program Supervisor); C.O.C (Comptroller of the Currency); C.F.A (Certified Public Accountant); F.D.I.C (Federal Deposit Insurance Corporation); F.H.L.B.B (Federal Home Loan Bank Board); F.R.S (Federal Reserve System); F.S.L.I.C (Federal Savings and Loan Insurance Corporation); L.S.B.D (Louisiana State Banking Department); N.C.U.A (National Credit Union Administration); and S.L (savings and loan).
4. Credit Unions (Title 8, Section 641, et seq.)
5. The Sale of Checks Law (Title 6, Section 1031, et seq.)
6. Securities Commission (Title 51, Section 701, et seq.)

The LSBD is charged with the responsibility of supervising and examining all of the following state-chartered and licensed institutions:

- 186 state banks
- 250 bank branch offices
- 102 credit unions
- 50 sale of checks licensees
- 1,841 branch agents (approximately)
- 70 savings and loan associations
- 55 savings and loan branch offices
- 860 small loan licensees

The department does not supervise the federally chartered financial institutions operating in Louisiana which include 50 national banks, 36 federal savings and loan associations and 369 federal credit unions.

THE COMMISSIONER

The Louisiana state bank commissioner is the chief officer of the LSBD and supervisor of savings and loan associations. The commissioner also has authority to license and supervise credit unions, small loan companies and sale of checks companies. In addition, the commissioner is the ex officio commissioner of securities and appoints the other members of that commission. He has the ultimate statutory authority for making supervisory decisions, without further approval being required from the governor.

The governor appoints the bank commissioner, subject to the advice and consent of the Senate, for a term of 4 years.

The qualifications of the bank commissioner and the method of selecting him are closely related. The major consideration is that of providing the department with highly knowledgeable, full-time, experienced, impartial and active leadership.

Nearly half of the states (24) do not require specific qualifications for the banking supervisor. Banking experience, or in some cases alternative bank examination experience, is required in 25 states—no length of time is specified in 2 states; while 3 years is required in 1 state (Louisiana); 5 years in 19 states; and 7 to 10 years in the other 4 states.

Besides 3 years' banking experience, Louisiana law requires that the commissioner also be an expert public accountant familiar with banking transactions. This latter requirement stems from an earlier conception of the banking department role which emphasized accountability. The role of the commissioner has been expanded beyond checking accounts and procedures for compliance with the law. The expanded role should include policy considerations with an active involvement in questions related to the banking industry and the banking code under which it operates. The commissioner must have a depth of experience within the banking industry. Even with the additional tools for supervision recommended in this report, the commissioner's supervisory efforts will continue to be largely effective through persuasion. The availability of stronger measures may strengthen his position, but a working relationship with the banking and other finance industries is a major prerequisite for effective supervision. The present requirement of a minimum of 3 years' active banking experience is not sufficient to provide an adequate background for the commissioner.

It is recommended that the required qualifications for the commissioner be set at 5 years' experience as an officer of a bank during the last 10 years or 10 years' experience in bank examination during the last 15 years. The requirement that the commissioner be an expert accountant should be eliminated as it tends to obscure the nature of his position.

The banking department should be considered in broader terms as a Department of Financial Institutions. Even though the commissioner has responsibility in financial areas other than banking, the recommendation that he have prior experience in banking is based on the fact that banking is the most comprehensive of the financial institutions supervised and comprises all of those activities with which the other institutions may only in part be involved.

It is recommended that the title of the commissioner be changed to "Commissioner of Financial Institutions."

Selection

The method of selecting the commissioner has been questioned by some within the banking industry who have felt that a form of nomination from within the industry might tend to ensure the selection of a capable individual and might more adequately remove the position from political influence.

The present method of appointing the commissioner in Louisiana parallels the method followed in about 40 of the states. As of 1964, in only 10 states was the commissioner appointed by another official or body, such as a commissioner of commerce or a banking board. (In one state the commissioner was elected.) The principle of executive responsibility would dictate that the governor be unencumbered, except as to Senate confirmation, in making the appointment. The interposition of a nominating board or committee would relieve the governor of ultimate responsibility for the selection and would place the commissioner in the role of industry spokesman as opposed to a position intended to balance industry and consumer interests. An upgrading of the requirements for the position would hopefully create a greater likelihood of freedom from political influence in the administration of the department.

A measure of independence is provided the commissioner through the provision fixing his term at 4 years from his induction into office. The statute is not clear as to whether or not the term is concurrent with the governor's. About 15 of the states do not provide a fixed term. On the other hand, 8 of the states have established fixed terms exceeding that of the governor's by 1 to 4 years in an effort to free the position from political control. If it were determined that greater independence was necessary, this method would appear preferable to the interposition of a board or committee of industry representatives.

It is recommended that no change be made in the present method of selecting the commissioner nor in the 4-year term. The statute should be clarified, however, to make the 4-
other states generally run higher than in Louisiana with about 15 states paying less than the $15,120 in Louisiana. In recent years most of the states have increased salaries. Between 1966 and 1968 alone, 40 states raised salaries an average of $3,616. The present salary distribution is as follows:

<table>
<thead>
<tr>
<th>Bank Supervisor Salary</th>
<th>Number of States</th>
</tr>
</thead>
<tbody>
<tr>
<td>$12,000 to $16,000</td>
<td>18</td>
</tr>
<tr>
<td>above $16,000 to $20,000</td>
<td>17</td>
</tr>
<tr>
<td>above $20,000 to $30,000</td>
<td>13</td>
</tr>
<tr>
<td>above $30,000</td>
<td>2</td>
</tr>
</tbody>
</table>

The following selected southern states indicate a considerable range in salaries provided: Alabama, $15,000; Mississippi, $15,000; Oklahoma, $15,000; Arkansas, $16,500; Tennessee, $20,000; Florida, $16,042; $20,956; Georgia, $17,748-$23,796; and Texas, $31,500.

In comparison with other positions in state government the commissioner's salary of $15,120 is low. The insurance commissioner receives $26,530, the executive secretary of the Motor Vehicles Commission receives $18,333, and the state forester receives $17,000.

Salaries of appointed executives should not be fixed by legislation. Where statutory limits are deemed necessary a broad range should be provided to allow for adjustments. The changing economy quickly renders a fixed salary inadequate to secure the type of commissioner which the department requires.

It is recommended that both of the assistant positions be abolished and that the bank commissioner be a full-time position at a salary of not less than $25,000 per year.

It is further recommended that the commissioner's salary be removed from the statutes and be set by the governor in the annual budgeting process.

BANK SUPERVISION AUTHORITY

The Banking Division of the Louisiana State Banking Department has been coping with the problem of a rapidly expanding banking industry. In spite of rapid growth, the banking industry has not suffered a bank failure since 1938—a record few states can claim. The growth in the number and in the size of the banks supervised has placed increasing burdens upon the Banking Division. New and more complex banking procedures, electronic data processing, new bank services, expansion of trust activity and the threat of sophisticated financial manipulation have placed increasing demands upon the department's personnel and on the judgment required to assess and ensure the safety of the banks.

The question which now arises is whether the department with its present powers of regulation, its financial support and its staff will be capable of maintaining effective supervision in the face of the increasing pressures and demands upon it from a growing and more complex industry.

Problems in banking supervision throughout the nation are evidenced by the persisting reports of bank failures, and the experience of Louisiana's neighbor provides a strong argument for examining and reassessing the role of the Louisiana banking department. In Texas, 16 banks have gone into liquidation since 1960. It was, however, the failure of the largest of these, the Sharpstown Bank, which led to a series of major legislative changes aimed at strengthening that state's supervisory functions. The history of the ineffectiveness of the Texas banking commissioner in dealing with what was recognized to be a problem bank invites a comparison with the powers and authority currently held by the Louisiana bank commissioner.

In the wake of the Sharpstown failure, the Texas Legislature moved to provide the commissioner with authority to issue cease-and-desist orders, strengthened his officer-removal power, allowed him to appoint a special supervisor or ultimately a conservator of a bank, and authorized him to regulate the acceptance of brokered certificates of deposit.

A review of the Louisiana bank commissioner's authority reveals that he is in much the same position as the pre-Sharpstown Texas commissioner with little in the way of intermediate tools, except persuasion, without resorting to the ultimate authority, the closing of a bank.

Officer-Removal and Cease-and-Desist Authority

Among the most powerful tools available to a banking department are the authority to remove a bank official or to order a bank to abandon a specific practice. A review of the authority of the Louisiana bank commissioner in these respects is prompted by the rash of financial irregularities as well as bank and savings and loan failures in other states during the 1960's and by the resulting grant of cease-and-desist and officer-removal powers to the federal banking and savings and loan agencies in 1966.

In respect to certain violations of the banking code, which prescribe penalties, the commissioner is required to report these actions to the state attorney general, who directs the proper district attorney to bring suit or
institute criminal prosecutions to enforce the penalties.

Beyond this statutory remedy, the only other definition of the commissioner's authority in correcting unsound banking practices is included in the section of the law dealing with his power to close banks (R. S. 6:383):

Whenever it appears that any state banking association, savings bank, or trust company has repeatedly violated its charter, or that its officers or directors are habitually violating any of the banking laws set out in this Title; or whenever the commissioner has reason to conclude after investigation that any such corporation is in an unsound or unsafe condition to transact the business for which it was organized or that it is unsafe or inexpedient for it to continue business, then the commissioner with the consent and approval of the governor, whenever practicable, may close the bank at once and take possession of its books, property, and affairs and retain possession until its affairs are finally liquidated as provided for in this Chapter, unless the shareholders thereof by voluntary assessment or otherwise relieve the unsound or unsafe condition to the satisfaction of the commissioner, after the demand made upon the president or other managing officer in charge.

This section of the statute provides an unclear, ambiguous description of the commissioner's authority. The commissioner clearly is not given specific authority to remove bank officers. He is authorized, however, to demand the president or managing officer of a bank to correct conditions which place the bank in a position of being unsafe to transact its business. This would appear to be a grant of cease-and-desist authority which might be used in the last instance prior to closing a bank and which includes no provision for enforcing the order (demand) other than the threat of or ultimate closing of the bank. Through interpretation by the department, this section has been used as a grant of cease-and-desist authorization which, depending on the ability and willingness of the commissioner, might be as effectively used as a specific statute. It still depends upon the ultimate threat of closing for its enforcement as no intermediate steps are provided. Absence of a provision for hearings further indicates that the "unsound or unsafe condition" phrase in the section should be interpreted to mean a distress situation placing the bank in imminent danger of closing. A strict interpretation of this statute does not give the commissioner a broad grant of discretionary power to use the cease-and-desist order as a preventative device. In the possible case of an unsound practice which was not specifically prohibited in the code, and which did not place the bank in immediate jeopardy, the commissioner would not be willing to liquidate a bank merely to enjoin the practice.

The federal agencies—the Federal Reserve System (FRS) and the Federal Deposit Insurance Corporation (FDIC)—which have supervisory responsibilities for state banks do have cease-and-desist and officer-removal powers as described below. The use of these powers by the federal agencies would be delayed by the provisions of their authority which require that an effort first be made to allow the state banking department to correct the problem. Because the federal agencies do not charter state banks their ultimate supervisory weapon is the removal of FRS membership or the termination of insurance. Termination of insurance may be tantamount to closing a bank; however, the procedure required to do so, including notice, hearings, etc., may take 10 months. Considering that the federal policy is to allow the state banking department the initial opportunity to deal with bank problems and considering that the state banking department is the chartering agency with the prime responsibility for those banks, it would follow that the state banking department should have the necessary authority to deal promptly with problems as they arise and not merely be a cause for delay in the exercise of that authority by the federal agencies.

Federal Statutes

The Financial Institutions Supervisory Act of 1966 provided the 3 federal bank supervisory agencies and the 2 federal savings and loan supervisory agencies with cease-and-desist and officer-removal powers.

Cease-and-Desist: The appropriate federal agency is authorized to issue a cease-and-desist order with respect to an institution on either or both of the following grounds: (1) An "unsound or unsafe" practice; (2) violation of any statute, regulation or agreement entered into by the institution with the agency. The action complained of may be past, present or future. The order may be permanent or temporary.

The temporary order must be based on the grounds stated above, but in addition the agency must find that continuation of the practice is "likely to cause insolvency" or otherwise seriously prejudice the interests of the bank or its depositors. Here notice is not required and the order is effective upon service and remains in force pending administrative hearings or issuance of a permanent order.

The act provides administrative and judicial safeguards including hearings which must be private unless the agency determines that a public hearing is in the public interest. Judicial review is available to any party against whom an order is issued although commencement of proceedings may not operate as a stay of the order unless specifically provided by the court.

Officer-Removal: The basic framework for the removal of officers or other persons from institutions is essentially the same as that provided for cease-and-desist authority in that the order may be permanent or temporary (suspensions), and administrative and judicial safeguards are provided. There are, however, significant differences.

The federal agency can only take action to remove an officer or director if it finds all 3 of the following conditions to be present: (1) a violation of law, rule or regulation, or of a final cease-and-desist order; or an unsafe or unsound practice; or some other breach of fiduciary duty; (2) a loss or probability of substantial loss or damage to the bank or its depositors; and (3) the act involved is one of "personal dishonesty."

Other Provisions: The above powers are to be exercised by a board in each case rather than by a single individual. In order to ensure this, the comptroller of the currency (COC) must exercise the powers through the Board of Governors of the FRS.

Another provision is that where a state chartered institution is involved, the federal agency cannot issue either a cease-and-desist or removal order without first notifying the state supervisory agency and providing it with an
opportunity to correct the problem situation. Only if the state agency fails to do so within a time period established by the federal agency can the latter proceed with its action. Thus, where the state agency does not have equivalent powers of supervision, the federal exercise of these powers is delayed.

**Other States**

A wide variation in statutory authority for cease-and-desist orders and officer-removal is found among the states. In 1967, 32 states had specific statutory cease-and-desist authority while the remainder of the states, including Louisiana, provided this authority only in connection with involuntary termination or other statutes. Officer-removal authority is found explicitly in 27 state statutes; however, a number of the remaining states may derive this power from statutes relating to bank termination proceedings or other powers. In 1964 survey of banking supervisors, 13 reported that they lacked the power to remove offending personnel from a state bank. A provision for suspension pending hearings, useful in emergency cases, is not explicitly set forth in the typical state statute.

**Recommendations**

It is recommended that the bank commissioner be provided with specific statutory cease-and-desist and officer-removal powers approximating those provisions of the federal Financial Institutions Act of 1966. Grounds for use of these powers should be specifically outlined. Administrative and judicial safeguards should be clearly provided in the authorizing statute including the procedural aspects related to notice, timing and hearings. The hearing requirement would bring these actions under jurisdiction of the Administrative Procedures Act which requires a formal record of proceedings. Such hearings should be private unless the commissioner deems a public hearing necessary. Procedures and safeguards should be differentiated for the use of these powers on a temporary as opposed to a permanent basis.

It is also recommended that the decision to close a bank should be the sole responsibility of the commissioner. The present requirement that a bank closing have the consent and approval of the governor “whenver practicable” is ambiguous and denies the commissioner direct responsibility in the matter. The provision also opens the door for the exercise of adverse political influence in the final decision to close a bank. The reference to approval by the governor should be removed from the statutory provision related to the closing of a bank.

**BANK AND BRANCH CHARTERS**

One of the most sensitive responsibilities of the bank commissioner is that of passing upon applications for new state bank charters and branch offices. It is this area of the LSB’s functions which has, in the past, proven most susceptible to political influence.

**State banks have grown rapidly in Louisiana with total assets doubling during the past decade. (See Table 1.)** Since 1960, 38 new state banks have been chartered, and total assets have grown an average of 10.5 percent annually. In 1971 a record annual increase of 16.3 percent brought total state bank assets just short of $4 billion.

The number of banks has risen gradually, and the more rapid growth in assets has continued to raise the average bank size in terms of resources. Since 1960, the average resources per bank have more than doubled from $7.9 to $21.4 million. However, the rapid creation of branches and drive-in facilities has meant a slower increase in average assets per banking office—from $6.2 to $9.5 million. As of December 1970, the 10 largest banks controlled 36.1 percent of the total assets while the 5 largest had 24.3 percent and the 2 largest shared 14.7 percent.

During the past 9-year period the department has, on the average, investigated and passed on 5 new bank applications and 20 branch applications each year. There appears to be no slackening in the demand for either type of application over this period. Applicants were generally successful in obtaining approval. Of the 44 bank applications, 35 were approved, 3 were denied and 7 more were either withdrawn or were pending. (See Table 2.)

**Bank Applications**

A group of individuals wishing to charter a new state bank must prepare

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**Table 1.**

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Banks</th>
<th>Total Assets</th>
<th>% Annual Asset Growth</th>
<th>Average Assets Per Bank (in Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949</td>
<td>127</td>
<td>$ 577,653,415.00</td>
<td>10.6</td>
<td>$ 4.5</td>
</tr>
<tr>
<td>1950</td>
<td>129</td>
<td>610,525,358.00</td>
<td>12.1</td>
<td>5.3</td>
</tr>
<tr>
<td>1951</td>
<td>130</td>
<td>684,143,117.00</td>
<td>8.5</td>
<td>5.7</td>
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<tr>
<td>1952</td>
<td>130</td>
<td>742,013,788.00</td>
<td>7.2</td>
<td>6.0</td>
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<tr>
<td>1953</td>
<td>132</td>
<td>795,270,957.00</td>
<td>3.4</td>
<td>6.2</td>
</tr>
<tr>
<td>1954</td>
<td>132</td>
<td>822,057,267.00</td>
<td>6.0</td>
<td>6.8</td>
</tr>
<tr>
<td>1955</td>
<td>134</td>
<td>871,703,216.00</td>
<td>6.1</td>
<td>7.3</td>
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<tr>
<td>1956</td>
<td>139</td>
<td>1,012,163,489.00</td>
<td>3.9</td>
<td>7.5</td>
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<tr>
<td>1957</td>
<td>141</td>
<td>1,051,927,291.43</td>
<td>2.2</td>
<td>7.4</td>
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<tr>
<td>1958</td>
<td>145</td>
<td>1,075,492,253.73</td>
<td>8.2</td>
<td>8.0</td>
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<tr>
<td>1959</td>
<td>145</td>
<td>1,163,629,632.31</td>
<td>0.3</td>
<td>7.9</td>
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<tr>
<td>1960</td>
<td>148</td>
<td>1,167,804,136.31</td>
<td>5.7</td>
<td>8.2</td>
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<tr>
<td>1961</td>
<td>150</td>
<td>1,234,403,355.14</td>
<td>6.8</td>
<td>8.6</td>
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<tr>
<td>1962</td>
<td>153</td>
<td>1,318,020,811.75</td>
<td>9.5</td>
<td>9.3</td>
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<tr>
<td>1963</td>
<td>155</td>
<td>1,442,825,359.66</td>
<td>13.2</td>
<td>10.1</td>
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<tr>
<td>1964</td>
<td>152</td>
<td>1,659,093,084.16</td>
<td>14.9</td>
<td>11.2</td>
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<tr>
<td>1965</td>
<td>167</td>
<td>1,875,907,164.54</td>
<td>15.0</td>
<td>12.6</td>
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<tr>
<td>1966</td>
<td>167</td>
<td>2,188,194,403.82</td>
<td>12.4</td>
<td>13.7</td>
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<tr>
<td>1967</td>
<td>179</td>
<td>2,459,822,555.19</td>
<td>12.0</td>
<td>15.2</td>
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<tr>
<td>1968</td>
<td>181</td>
<td>2,754,769,390.64</td>
<td>12.0</td>
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<tr>
<td>1969</td>
<td>182</td>
<td>2,992,720,996.25</td>
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<tr>
<td>1970</td>
<td>182*</td>
<td>3,330,779,061.21</td>
<td>11.3</td>
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<tr>
<td>1971</td>
<td>186</td>
<td>3,983,359,327.28</td>
<td>19.6</td>
<td>21.4</td>
</tr>
</tbody>
</table>

*One bank opened and one bank merged with a national bank.

Source: Louisiana State Banking Department.
Table 2.
Actions on Bank and Branch
Applications, 1963-1971

<table>
<thead>
<tr>
<th>Year</th>
<th>Applications and Number Received</th>
<th>Number of</th>
<th>Approved</th>
<th>Denied</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>For Bank:</td>
<td>1963</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>For Branches:3</td>
<td>15</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>For Bank:</td>
<td>1964</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>For Branches:3</td>
<td>13</td>
<td>18</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>For Bank:</td>
<td>1965</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>For Branches:2</td>
<td>2</td>
<td>19</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>For Bank:</td>
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</tr>
<tr>
<td></td>
<td>For Branches:2</td>
<td>22</td>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>For Bank:</td>
<td>1967</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>For Branches:2</td>
<td>25</td>
<td>20</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>For Bank:</td>
<td>1968</td>
<td>5</td>
<td>3</td>
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<tr>
<td></td>
<td>For Branches:2</td>
<td>22</td>
<td>18</td>
<td>0</td>
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<td></td>
<td>For Bank:</td>
<td>1969</td>
<td>3</td>
<td>3</td>
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<tr>
<td></td>
<td>For Branches:2</td>
<td>20</td>
<td>97</td>
<td>1</td>
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<tr>
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<tr>
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<td>For Branches:2</td>
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<td>15</td>
<td>0</td>
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<td></td>
<td>For Bank:</td>
<td>1971</td>
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<td>4</td>
</tr>
<tr>
<td></td>
<td>For Branches:2</td>
<td>31</td>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>9-Year Totals:</td>
<td>For Bank:</td>
<td>44</td>
<td>35</td>
</tr>
<tr>
<td></td>
<td>For Branches:2</td>
<td>177</td>
<td>160</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Louisiana State Banking Department.

an application following guidelines prepared by the LSBD. The applicants must show proof that they can meet the legal requirements for operating a bank, the most significant being capitalization.

They must also provide evidence of the prospect of operating successfully. An economic study of the area in which the bank is to be located is often included. The profitability of the proposed bank is projected, and the demand for banking services in the community is assessed.

The LSBD investigates each new bank application to verify the applicant's statements and projections and to make an assessment of the qualifications, responsibility and standing of the persons organizing the bank. This investigation is conducted by a senior examiner, usually the chief bank examiner, and normally requires several days in the field.

The FDIC also investigates each bank application to determine whether or not insurance will be granted. The FDIC and LSBD examiner perform a joint investigation; however, each prepares independent recommendations. The state has no law or formal policy as to the relationship between FDIC eligibility for insurance and granting a state charter.

It is recommended that a statutory provision be enacted requiring a proposed new bank to qualify for federal deposit insurance prior to the issuance of a state charter.

The investigator contacts the proposed bank's competitors in the community and prepares a report of findings and makes a recommendation to the commissioner. Any one wishing to contest the application may apply to the commissioner for an informal hearing. As stated above, the commissioner is not required by statute to hold a formal hearing. In practice, all opponents of an application have an opportunity to present their arguments although formal minutes of the hearing are not kept and formal rules of evidence are not adhered to.

The commissioner may then weigh the evidence and approve or deny the application. The application may also be kept active awaiting compliance with changes recommended by the commissioner.

Branching

The procedure for creating a branch office is similar to that for obtaining a bank charter. The investigation is also made jointly with the FDIC. A senior examiner, other than the chief examiner, or the deputy commissioner may be assigned to conduct the investigation.

The number of branches has increased dramatically in recent years even though branching is restricted to the home-office parish. The large majority of the branches are single branches. In several rural parishes, multiparish branching has been allowed by statute.

Chartering Authority

Under existing statutes, the authority to grant new bank charters and branches is centered in the commissioner's office. He is given broad authority to make his determination on an application under very general guidelines. There is a great deal of judgment involved in this type of decision, and a narrower statute specifying grounds or procedure for approval would be inappropriate.

The potential for political influence in this type of decision is great, and the present procedural safeguards are quite limited. The courts have determined that the actions of the commissioner as related to chartering procedures do not fall under the Administrative Procedures Act. (First National Bank of Abbeville et al. v. Clem W. Sehrt.) This decision was rendered on the basis of the lack of a statutory hearing requirement. This provides some savings to the department in not having to have a court reporter prepare an official transcript of hearings and makes the hearings held prior to action on an applicant somewhat informal.

Opponents to an application presently do not have the benefit of a full adversary hearing although they have recourse to the courts. Where an application is strongly opposed, a formal hearing following statutory rules of evidence and the resulting official transcript would be of great assistance to the court in determining if the commissioner's decision was arbitrary. The formal hearing would make all statements part of a permanent record.

There appears to be no compelling justification for exempting the chartering procedure from the provisions of the Administrative Procedures Act.

It is recommended that a formal hearing be provided prior to a final decision upon a bank charter or branch application when so requested by an interested party.

It is further recommended that, in order to limit the use of formal hearings to those cases where there are special problems, the costs of the hearing, including the court reporter and preparation of a transcript, be assessed equally against all parties to the hearing.

The history of bank chartering in Louisiana has evidenced the considerable influence of the governor in the decision process. However well intentioned, the governor's intervention in the approval or denial of a charter application is highly inappropriate. This decision should rest solely with the commissioner and should be based on an objective evaluation of evidence provided by the department's investigation, the applicants and those opposing the application.

No statutory provision can effectively remove the governor from the decision making process.
It is recommended that the governor refrain from taking a public stand on questions related to chartering func-
tions of the LSB and that he disassociate himself from the decision making process.

BANK EXAMINATION

The bank examination is considered the keystone in achieving effective banking supervision. The examination is an independent inspection and review of a bank's operations to determine its solvency and liquidity and the legality of its acts. It verifies and appraises the bank's assets to liabilities, its internal controls and the policies of management.

In addition to the Louisiana State Banking Department there are 3 federal agencies with supervisory responsibilities for banks in Louisiana. The LSB is responsible for examining all state chartered banks annually. The COC examines all national banks twice each calendar year, but the comptroller may waive 1 examination in a 2-year period. In 1971, there were 50 national banks in Louisiana under the jurisdiction of the COC.

The Board of Governors of the FRS is authorized to examine all member banks. In practice it examines only state chartered member banks. The board may accept examinations by state authorities in lieu of its own. Louisiana has 10 state chartered member banks.

The FDIC examines all insured state banks which are not members of the FRS at its discretion. All national banks and FRS member banks are insured, and the FDIC normally accepts FRS and COC examinations for insurance purposes. During 1971 the FDIC carried out 181 examinations in the 172 insured state non-FRS banks in Louisiana. It has been the policy of the FDIC to examine each bank at least once a year.

The LSB has no supervisory authority in respect to national banks. However, it has shared responsibility with the FDIC or both the FDIC and FRS for all state banks except 1 which is neither insured nor a member of the FRS and is solely the responsibility of the LSB.

LSBD Examination Procedure

The LSB is required by statute (RS 6:153) to examine each state bank at least once a year and inquire:

- As to the condition and resources of the company, the mode of conducting business and managing its affairs, the action of its directors, the investment and disposition of its funds, the safety and prudence of its management, the security afforded to those by whom its engagements are held, whether the requirements of its charter and the laws are complied with in the administration of its affairs; and as to other matters as the commissioner may determine.

The commissioner may examine more often than once a year when necessary.

For the most part concurrent examinations are scheduled with the Federal Reserve Banks of Atlanta and Dallas and with the FDIC whenever possible to use the available manpower most effectively. It is doubtful that any of these supervisory agencies would be able to conduct these examinations independently with their present manpower. The LSB does examine about a dozen banks each year independently of the FDIC and several independently of the FRS as checks.

In a concurrent examination the LSB examination team works with the federal team. There is a division of labor so that routine procedures are not duplicated. Both teams, however, appraise risk assets independently and compare their findings. The evaluation of the loan portfolio is the major responsibility of the senior examiners and is the most demanding examination task. Each team prepares a separate report. The report form used by the LSB is identical to the FDIC report and is in fact provided by the FDIC. The report form used by the FRS differs in some respects from that used by the department.

Examiner Workload

A comparison of the LSB and FDIC bank examination staffs indicates a significant difference in the workload of these 2 agencies. During fiscal year 1971, the work force averaging about 19 state bank examiners was required to cover 186 banks while the 25-man FDIC staff was responsible for examining only 174. In order to make all of its required examinations, the FDIC staff was joined by a 6-man team from Arkansas for several weeks at the end of the year. The understaffed LSB was incapable of examining all state banks, and, as a result, 24 were not visited during the year.

When it is determined that examinations must be missed, the commissioner and the chief examiner select a number of those banks with the best operating histories. The reports of the FDIC examinations of these banks are, however, reviewed by the department.

Although annual examinations are required by the statute, the department has interpreted this requirement as being "directive" rather than "mandatory." Given the size of the examination staff, compliance with the statute during the last few years would have been impossible if quality examinations were to be conducted.

Table 3 shows that the LSB has seldom been able to entirely meet

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Banks</th>
<th>No. of Branches</th>
<th>No. of Banks Not Examined</th>
<th>No. of Banks Re-Evaluated</th>
<th>No. of Examiners at End of Biennium</th>
</tr>
</thead>
<tbody>
<tr>
<td>1962</td>
<td>153</td>
<td>94</td>
<td>1</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>1965</td>
<td>155</td>
<td>101</td>
<td>7</td>
<td>1</td>
<td>16</td>
</tr>
<tr>
<td>1964</td>
<td>162</td>
<td>108</td>
<td>2</td>
<td>1</td>
<td>18</td>
</tr>
<tr>
<td>1965</td>
<td>167</td>
<td>119</td>
<td>0</td>
<td>0</td>
<td>16</td>
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<tr>
<td>1966</td>
<td>173</td>
<td>143</td>
<td>0</td>
<td>0</td>
<td>23</td>
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<td>1967</td>
<td>179</td>
<td>158</td>
<td>17</td>
<td>0</td>
<td>23</td>
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<td>181</td>
<td>174</td>
<td>2</td>
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</tr>
<tr>
<td>1969</td>
<td>182</td>
<td>194</td>
<td>6</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>1970</td>
<td>184*</td>
<td>213</td>
<td>23</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>1971</td>
<td>186</td>
<td>230</td>
<td>24</td>
<td>1</td>
<td>20</td>
</tr>
</tbody>
</table>

*One bank opened and one merged with a national bank.
the annual examination requirement. In May of 1970 the department had 24 bank examiners and was working on schedule when an expected budget supplement failed to materialize. All examiners took mandatory vacations for a month, and a few were transferred to other departments. Eventually the staff was cut to a low of 17 resulting in the large number of banks being missed in 1970 and 1971. In addition to the heavy examination workload, the staff is further burdened with a large number of investigations each year of applications for new bank charters and branches.

**Defects in the Current Examination Procedure**

The present system of state bank examination is defective in a number of respects: 1) The examiner workload has been allowed to become unreasonably heavy; 2) There is a sharp contrast between the abilities of the state and federal agencies to provide bank examiners with the salaries, expenses, training and working conditions befitting a highly professional position; and 3) Although much of the work in a concurrent examination is complementary, a great deal of the effort remains duplicative.

In order to overcome defects of the present system and provide a well staffed, highly professionalized bank examination force, 2 basic changes would be required. First, the LSBD would have to be provided adequate financial support, either by dedicating related fees and assessments to the department and freeing it from legislative fiscal control, or by convincing the Legislature of the need to maintain LSBD appropriations at a level equivalent to the revenues produced by its operations. Second, the bank examiner position would need to be upgraded either by providing classification and salary schedules apart from the civil service schedules or establishing a separate, upgraded position classification within civil service.

Strong objection might be made to these 2 solutions particularly the first alternative given in each case. The recommended approach, as outlined below, would require a major departure from the current examination practice; however, it too would require some elements of the changes noted above.

**Proposed Monitoring and Acceptance of Federal Examinations**

It is recommended that the commissioner be provided statutory authority to accept federal bank examination reports in lieu of preparing complete separate examination reports of state banks. It is further recommended that the examiner staff be scaled down over a period of time, through elimination of the assistant examiner positions, and a small report review section and a small but high caliber field staff be developed.

The recommended procedure would allow the commissioner and his staff to continue to be closely involved in the examination process which is essential to effective supervision. It would, however, allow him to shift the routine aspects of examination to the federal examiners, while concentrating on the important judgmental aspects of examination involving the analysis of loan portfolios and bank management.

The field team consisting of 2 or 3 bank examiners would go into a bank with the federal examination team. These examiners would concentrate on loan analysis and checking for compliance with state regulations. The field staff would meet with the bank's officers together with the federal team to discuss any problems disclosed by the examination. The federal report would be signed by the state examiners and transmitted to the report review section with an addenda including the examiner's remarks and any differences of opinion between the state and federal examiners.

The report review section would analyze the report and advise the commissioner as to necessary actions to be taken. The review section would also maintain continuing surveillance over bank operations by analyzing call reports and directors' audits. A rating system should be devised using these various sources of information to enable the field team to know where particular emphasis should be placed. This section would follow up any suggestions or directions to the banks resulting from the examination.

The recommended provision to allow acceptance of the federal examination report in lieu of a state conducted examination in no way reduces the department's involvement in the examination process. State examiners would continue to examine the more important aspects of bank operation but would leave the routine aspects to the federal team. By monitoring the federal examination and making an independent analysis of loans, the department would be able to accept the federal report without necessitating the preparation of a complete separate report with the attendant clerical work. The commissioner would still be able to conduct a full independent examination of a bank if he deemed it necessary.

**Arguments Supporting the Proposal**

The strongest argument for the acceptance of federal bank examinations is that the federal agencies are currently conducting adequate examinations of state banks with greater regularity than is the LSBD. At present, 94 percent of the state banks are examined annually by the FDIC which has a highly professional staff, independent funding, a vital interest in the success of the banks supervised and the willingness and capability to expand its staff to meet any additional burdens caused by the termination of full concurrent examinations. Further, the FDIC and state examinations have utilized the same report form, and the FDIC report appears to cover sufficiently those aspects of bank operations which come under state regulation.

The small number of banks which are not examined by the FDIC does include 4 of the larger state banks—among them the Bank of New Orleans and Trust Company with assets of $250 million. All but 1 of the non-FDIC examined banks are examined by the FRS; however, the FRS examiners, being responsible for relatively few banks in the state, might tend to be less familiar with local credits and state banking regulations than the FDIC examiners. It might be necessary, under the above proposal, to have the full complement of state examiners join the FRS staff in examining the larger FRS member banks. This problem may be resolved in the future at the federal level as there is a move toward centralizing the examination functions of the various federal supervisory agencies into a single agency. Another area which would require continued special attention of the LSBD would be in supervision of bank
holding companies. The FRS, rather than the FDIC, has responsibilities in this field but has not been forceful in effecting supervision.

Another argument is that the proposal would allow the division to eliminate the present assistant examiner positions. This would enable the division to concentrate on developing a smaller group of top level bank examiners. Placing a greater reliance on the federal examiners can be justified by the relative degree of professionalism as measured in the comparison of the state and FDIC examiner training and experience shown in Table 4.

There is a considerable disparity between federal and state salaries for examiners. (See Table 5.) Along with upgrading the examiner positions, salaries should be increased to attract qualified applicants at the Examiner III level to the Banking Division.

The following review of statutory examination provisions in other states indicates that a number of state banking departments are currently authorized to accept federal examinations as a substitute for all or a portion of the required state examinations.

### Table 4.
Comparison of Education and Training of LSBD and FDIC Examiners

<table>
<thead>
<tr>
<th></th>
<th>LSBD</th>
<th>FDIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Examiners in</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Louisiana—Dec. 1971</td>
<td>19</td>
<td>25</td>
</tr>
<tr>
<td>College Training:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>College degree</td>
<td>11</td>
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<tr>
<td>3 years college</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>2 years college</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Postgraduate banking</td>
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<td>6</td>
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<tr>
<td>training</td>
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<tr>
<td>Not known</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Other Training:</td>
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<td></td>
</tr>
<tr>
<td>FDIC-FRS interagency</td>
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<td></td>
</tr>
<tr>
<td>training courses</td>
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<td>16</td>
</tr>
<tr>
<td>AIB or other banking</td>
<td></td>
<td></td>
</tr>
<tr>
<td>correspondence courses</td>
<td>2*</td>
<td>24</td>
</tr>
</tbody>
</table>

*Data from LSBD personnel files may not have disclosed all occasional courses in banking.

### Statutory Examination Requirements in Other States

In approximately 30 states the banking departments are required by statute to examine each state bank annually. The bank commissioner in almost half of these is permitted to accept an examination made by a federal agency in lieu of the required examination, and 1 state permits the substitution of an examination by a certified public accountant. In several states, the state commissioner may exempt FDIC insured banks from state requirements.

In 12 states, 2 examinations must be made annually. In 6 of these a federal examination may be substituted for both of the required examinations, while in the other 6 states a federal examination may replace 1 of the 2 required state examinations.

Several state banking departments are given discretionary authority to examine banks whenever deemed necessary. One state requires a state examination every 6 months; however, 1 such examination may be omitted each year if the bank is FDIC insured. Another state requires 2 examinations every 18 months, but federal examinations may be accepted. In a few states the FRS but not FDIC examinations may be accepted, or vice versa.

Not all of the states which are authorized to accept federal examinations do so as a regular practice; however, several states do so in lieu of all state examinations. One of these, Arizona, details 1 state examiner to join the federal examination team and he signs the resulting “joint” report which is then used for both state and federal supervisory purposes.

In keeping with the foregoing recommendations, present annual bank examination requirements and the powers of the commissioner in conducting examinations should be retained in Louisiana law along with an additional provision allowing the commissioner to accept a federal examination in lieu of the state examination. The commissioner should have full discretion in the matter of acceptance of federal examinations and not be restricted as to frequency or the federal agency involved.

### Call Reports

The call report is a statement of condition which all banks are required to file quarterly with the LSBD and/or the appropriate federal agency providing a means for assessing their operations between examinations.

The 3 federal banking agencies jointly select 4 dates each year for call reports from the banks under their supervision. The LSBD call dates coincide with the federal dates, and the call reports are uniform. Two of the call dates are changed each year and are not announced in advance.

The LSBD is required to publish the official call reports, those for the 2 dates which never change, June 30 and December 31. Thus, the department must publish annually 2 reports of about 200 pages in length.

The expense and effort of publishing the condition reports twice a year appears to be unwarranted considering their limited usefulness. The banks publish call reports in local papers and interested parties may use these without the delay of waiting for the LSBD publication.

The same information can be found in the semiannual statement of condition of all banks in the nation collected and published by 2 private firms. Most banks have copies of these reports, and they could be purchased by the state department.

*It is recommended that the requirement that the LSBD publish call reports twice yearly be eliminated.*

This would result in a great savings in effort and expense to the state.

### Bank Audits

The board of directors of each bank is required to make a full examination...
of the bank every 6 months. According to the statute (RS 6:16):

The report shall contain a statement of the assets and liabilities of the corporation as shown by its books together with any deductions from the assets or additions to the liabilities which the directors or committee see fit to recommend after the examination, and a detailed list of any loans and overdrafts which are considered worthless, doubtful, or insufficiently secured. When the security is insufficient the names and market value of the collateral shall be listed. It shall also contain a statement of any other matter that may affect the solvency of the corporation.

The performance of this examination varies from perfunctory compli-

ance to an independent audit depending upon the bank. With the recommended change in examination procedure by the LSBD, information provided through these self examinations would be useful to the department. To require a full independent audit would place an expensive burden upon the banks; however, the department could devise a form for use by the directors in making the 6-month examinations to provide the review section with pertinent information on a regular basis.

It is recommended that a form be prepared by the LSBD for use in directors' examinations and designed to assure that banks are adhering to state laws and regulations and are solvent.

SAVINGS AND LOAN DIVISION

The Homestead, Building and Loan Division (S&L Division) of the LSBD supervises the 70 state chartered savings and loan associations (S&Ls) from the New Orleans office.

In addition to the LSBD, the Federal Home Loan Bank Board (FHLBB) exercises supervisory authority over S&Ls in Louisiana. The FHLBB supervises the 36 S&Ls with federal charters and, in addition, examines insured state chartered S&Ls in behalf of the insuring agency, the Federal Savings and Loan Insurance Corporation (FSLIC).

The Homestead, Building and Loan Act of 1970 revised the existing statutes, updating the supervisory authority of the LSBD and freeing some of the previous geographical restrictions on S&L branching and lending. The S&L supervisor has broad authority within the revised statutes to regulate state chartered S&Ls.

variations remain in the lending plans of S&Ls throughout the state. This form of supervision provides considerable flexibility in dealing with individual S&Ls.

This flexibility, however, may provide some state chartered S&Ls with a temporary advantage over others. It also makes it more difficult for auditors and examiners to move readily from one S&L to another and places additional demands upon the S&L supervisor. Further, the supervisor is placed in a passive position of waiting for individual S&Ls' requests to lend plan amendments instead of taking an active role through promulgating and publishing general regulations. Often the FHLBB or FSLIC regulations are altered resulting in the need for each state chartered S&L to separately apply for a lending plan amendment to bring its authority in line with that of the federal S&Ls.

It is recommended that the statutes be amended to provide the commissioner with authority to issue general regulations applicable uniformly to all state chartered S&Ls. This rule-making authority should cover those aspects of S&L operation presently regulated by the individual lending plans and should come under the Administrative Procedures Act.

S&L Growth

At the end of 1970, Louisiana ranked 12th in the nation in total assets of state chartered S&Ls (70 S&Ls with $1,697,700,000 in assets) and 34th in federal S&L assets (36 S&Ls with $578,700,000). Louisiana ranked 21st in total federal and state S&L assets. State chartered institutions have assumed a far greater proportion of the state-federal total in Louisiana than in any other state in the nation with the exception of New Jersey.

In the period from December 30, 1960 to June 30, 1971, the state chartered S&L's expanded rapidly with total assets growing from $732.9 million to $1,840.4 million. This growth was not the result of new associations being formed as much as it was an expansion of existing associations. Only 5 new S&Ls were chartered by the state, but of the 55 existing branch offices, 46 were opened during this period.

In the same period, 13 applications for new state S&L charters were investigated and approved by the LSBD. However, 8 of these were not given certificates of authority – 3 pending insurance of shares by the FSLIC and 5 because of denial of insurance by the FSLIC.

The requirement of insurance of shares prior to certification is not provided in the statutes but has become an operating policy of the department. At the present time, all of the active state chartered S&Ls, except 1, are insured.

New S&L applications are investigated by both the division and the FSLIC. Although both follow the same routine, the FSLIC has been less willing to grant approval to S&Ls proposing to operate in an area where other associations have already entered. The LSBD has not denied an application for an S&L during the past 10 years; however, a number of proposals were discouraged prior to formal application where the area was already deemed to be adequately served.

It is recommended that applicants for new state S&L charters be required by statute to qualify for federal share
insurance prior to certification by the LSBD. Formal hearings should be provided upon request, the same as for bank chartering.

S&L Branching

The investigation of branch applications has been an important responsibility of the S&L Division in the past 10 years. In this period, 47 branch applications were investigated. The policy toward S&L branching has been relatively restrictive in that only 1 of the applications was denied.

The current provision allowing branching within 100 miles of the home office will likely encourage further the recent expansion of branching. Presently, branching does not appear to have created any significant concentration in the industry. The 55 branches are distributed among 31 associations, and as of December 31, 1970, the 10 largest S&Ls—ranging from $53.7 million to $88.2 million in assets—held 38.4 percent of the total S&L assets with the largest of these holding only 5.2 percent and the 10th largest, 3.2 percent.

S&L Examination

As in the Banking Division, the required annual examination of S&Ls comprises the major effort of the S&L Division. Louisiana is 1 of the 27 states which does not allow its S&L supervisor to accept federal examinations in lieu of state examinations. Until the end of 1971, the division made concurrent examinations with the FHLBB examiners. The staff of 4 examiners has managed to complete all of the required annual examinations each year; however, the growth of the S&Ls as described above has placed greater demands on a staff which has been given only 1 additional examiner in the past 10 years.

An attempt to measure the examiner workload in comparison with that in other states was complicated by the variety of administrative systems used. However, 19 states were selected which appeared to have separate S&L examination staffs, and the ratio of S&L assets per examiner was determined for each. The range was from $84.7 million to $561.3 million in assets per examiner with Louisiana ranking 4th with $424.4 million.

One important factor affecting examiner workload is the availability of authorization to accept the FSLIC reports which is based on the examination of state chartered S&Ls by the FHLBB examiners. The 3 states which ranked higher than Louisiana in assets per examiner were among those states which accept the FSLIC reports.

Of the 50 states, 23 are authorized to accept FSLIC reports, although in practice at least 7 of these agencies have refused to do so. Six states accept FSLIC reports for insured S&Ls and apparently do not make field examinations at all. In Oklahoma, for example, the 1 S&L examiner merely reviews FSLIC reports and does not carry out field examinations. The Oklahoma bank commissioner reports that this procedure is unsatisfactory to the department, and he is hopeful of assuming field examination authority in the future.

Minnesota is another state which accepts FSLIC reports. The S&L supervisor describes the procedure as follows: a copy of the FSLIC report is sent to the supervisor and it is reviewed and transmitted with criticisms to the S&L board of directors; the supervisor then follows up the correspondence to see that the problems noted have been corrected; the supervisor has made special arrangements with the federal examiners to have them include in their examination reports items related to specific state regulations and statutes; the supervisor retains the privilege of making spot checks or examinations when desired but has not felt it necessary to do so. The result of the procedure in Minnesota has been a great saving in manpower although the supervisor does indicate that there may be a loss of control to a small degree.

In 35 states, examination of insured S&Ls are conducted jointly with the federal examiners. In 29 of these states, the federal form and report are used jointly giving the state agency the opportunity, if it wishes, to merely send a token examiner who signs the federal report. The Louisiana S&L Division in the past has prepared a separate report, even when performing a joint examination.

In January 1973, the FHLBB policy changed from conducting annual examinations to once in 18 to 20 months. This reduces the opportunity for scheduling joint examinations thus placing greater demands upon the S&L Division staff if it is to maintain its annual examination schedule. Also, it may result in a given S&L being subjected to 5 separate examinations in a 36-month period whereas only 3 joint examinations were conducted previously in that period.

A final resolution of the state and federal relationship in supervising S&Ls as well as banks is at present uncertain. The National Association of State Savings and Loan Supervisors has entered into a study with the FSLIC with the hope of establishing procedures whereby the FSLIC might accept state S&L examinations. These procedures most likely would require that the state supervisory agency be certified by the FSLIC after meeting certain standards. This approach is designed to eliminate duplication of effort, reduce the federal agency manning requirements and strengthen the state's supervisory role and its ability to perform that role.

It would appear necessary to retain at least the current departmental examining capability considering the following conditions: (1) the lack of resolution of the state-federal relationship; (2) the dependence of the state supervisory role upon the maintenance of at least a small, well trained cadre of examiners; and (3) the numerous examinations which will be required under current provisions.

It is recommended that the S&L supervisor be given discretionary authority to accept FSLIC reports in lieu of state examinations.

This recommendation would relieve the current increase in the workload occasioned by the discontinuation of joint examinations. The statutory annual examination requirement need not be altered. Thus, during a given year, an S&L might be examined by federal examiners, and this could be accepted by the S&L Division. In the next year, the federal examiners would miss that S&L but the state examiners would come in. The field work of the examiners would be reduced while there would be an increase in office time spent in reviewing FSLIC reports and other documents related to the condition of the S&Ls.

With the recommended discretionary authority, the S&L supervisor would have the flexibility to adjust to any subsequent changes in the state-federal supervisory relationship and would not be required to expand the present examiner force to meet unnecessary statutory provisions. If the FSLIC were to begin certifying state