

Public Hearing

before

SENATE MANAGEMENT, INVESTMENTS AND
FINANCIAL INSTITUTIONS COMMITTEE

and

ASSEMBLY FINANCIAL INSTITUTIONS COMMITTEE

"Impact of the Federal 'Riegle-Neal Interstate Banking
and Branching Efficiency Act of 1994,' Pub.L. 103-328,
on future banking practices in this State"

LOCATION: First Floor Conference Room
Thomas Edison State College
Trenton, New Jersey

DATE: February 16, 1995
10:00 a.m.

MEMBERS OF SENATE COMMITTEE PRESENT:

Senator Peter Inverso, Chairman
Senator John P. Scott
Senator John "Jack" Casey
Senator Bernard F. Kenny, Jr.

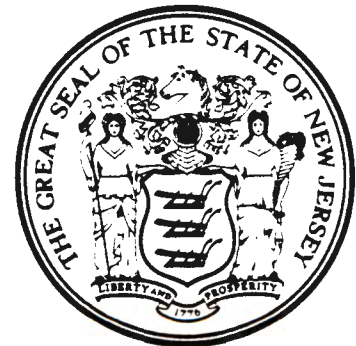
MEMBERS OF ASSEMBLY COMMITTEE PRESENT:

Assemblyman Monroe Jay Lustbader, Chairman
Assemblyman Christopher Bateman, Vice-Chairman
Assemblyman Steve Corodemus
Assemblyman Willie B. Brown
Assemblyman LeRoy J. Jones

ALSO PRESENT:

Joseph P. Capalbo
Theodore C. Settle
Office of Legislative Services
Aides to the Committees

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PETER INVERSO
Chairman

DICK LAROSSA
Vice-Chairman

JOHN P. SCOTT
JOHN "JACK" CASEY
BERNARD F. KENNY, JR.

New Jersey State Legislature

SENATE STATE MANAGEMENT, INVESTMENTS AND
FINANCIAL INSTITUTIONS COMMITTEE
LEGISLATIVE OFFICE BUILDING, CN-068
TRENTON, NJ 08625-0068
(609) 292-9106

NOTICE OF PUBLIC HEARING

The Senate State Management, Investments and Financial Institutions Committee and the Assembly Financial Institutions Committee will jointly hold a hearing on the impact of the federal "Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994," Pub.L.103-328, on future banking practices in this State.

The joint hearing will be held on **Thursday, February 16, 1995 at 10:00 AM** in the **First Floor Conference Room of the Thomas Edison State College** in the building at the corner of State and Barracks Streets, Trenton, New Jersey.

Of special concern to the committees will be testimony concerning foreign bank entry into the State through merger, acquisition or de novo. However, the committees are interested in testimony with respect to all aspects of the federal "Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994" and its potential impact on banking in this State.

The public may address comments and questions to Joseph P. Capalbo, Committee Aide, Senate State Management, Investments and Financial Institutions Committee, (609) 292-9106, or Theodore C. Settle, Committee Aide, Assembly Financial Institutions Committee, (609) 984-0445. Persons wishing to testify are asked to call Lynn G. Rogers, secretary, at (609) 292-9106 or Cynthia Petty, secretary, at (609) 984-0445 in order to sign up. Those persons presenting written testimony should provide 20 copies on the day of the hearing.

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to the committee aide(s) listed above

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SENATOR PETER A. INVERSO (Senate Chairman): Ladies and gentlemen, we would like to begin the hearing. Thank you. We're sorry for being a bit late in getting the hearing started.

As you all know, we are here today to continue our hearings on the impact of the Federal Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 as it relates to banking practices in this State. Of course, of special concern to us today will be testimony concerning foreign bank entry into the State through merger, acquisition, or de novo. However, the Committee is interested in testimony with respect to all aspects of the Federal Act and its potential on banking in New Jersey.

At our last hearing, Commissioner of Banking, Elizabeth Randall, testified that it would not be possible for a state to discriminate unfairly against a foreign bank that may want to apply for entry. The issue of fairness is uppermost in our minds. Our Committee is concerned with fairness issues such as reciprocity of entry and whether we, as a State government, can mandate such reciprocity on an individual basis where the reciprocity will require Federal legislation. We are also concerned with crafting legislation that will provide for economic growth and business development, as we move toward a global economy and an international marketplace.

We cannot afford to hang back as other states aggressively pursue international business. The moving into the international banking marketplace must mean more choice and better service for customers, not an abandonment of the needs of New Jersey's consumers.

I would like to thank you for your presence here today. It looks like it is going to be a fairly long and spirited hearing. We welcome that, because it is certainly an important threshold that we find ourselves on with regard to how we poise this State going forward with regard to not only

banking by foreign banks that are chartered outside of the State, but foreign banks that are chartered in other countries, not only in the United States.

Monroe?

ASSEMBLYMAN MONROE JAY LUSTBADER (ASSEMBLY CHAIRMAN):

Thank you, Peter.

Good morning. Following the meeting of October 24, 1994, it became very apparent that there were many interests out there that wanted to be heard. We felt, in the interest of being circumspect, that we should have another hearing, so Chairman Inverso and myself decided to have this hearing.

Our goal here today is to get as much input as possible. We realize the importance of the issues that are at stake here. We realize that what we are doing here will take us into the next century and will affect banking in the long run. So it is very important that we listen to you. That is our goal here.

To the extent that some of the thoughts you may plan to give us when you testify have been made and you feel it would be redundant, we would appreciate it if you would defer, because of the volume of witnesses we have today. Of course, everyone is at liberty to submit a written statement, either to augment what they are saying today, or in lieu of their oral testimony.

I welcome all of you this morning, as does Senator Inverso. Thank you.

SENATOR INVERSO: Does anyone else wish to make a comment of the Committee members? (no response) Thank you.

Today, our first person to testify will be our Commissioner of Banking, Commissioner Elizabeth Randall.

COMMISSIONER ELIZABETH RANDALL:
Good morning, everyone. Can you hear me all right?

SENATOR INVERSO: Fine. We can't see you, though. That's better.

COMMISSIONER RANDALL: Thank you.

Chairman Inverso, Chairman Lustbader, and all members of the Senate and Assembly Committees: I appreciate the chance to come before you today and, in essence, kick off this day of testimony, which I anticipate will be a fascinating one, and one in which you will hear many different opinions -- points of view. I am sure you will come to the conclusion that reasonable people can differ on issues. I am going to begin by giving you my perspective, specifically on the issue you are seeking to address today; that is, foreign banking.

At the last hearing we had, as you alluded to, I told you that I believe New Jersey should opt in, and opt in early, to interstate banking and branching. Today's testimony is somewhat more narrow in its focus, and is directed toward the impact of the entry of foreign banks into this State. If we opt in, we will, in effect, be allowing foreign banks to enter into New Jersey. The Federal Interstate Banking and Branching Act prohibits states that opt in from treating foreign banks differently than they treat our domestic banks. Therefore, our State law, which, as you know, has been on the books since 1948, which prohibits foreign banks from entering New Jersey, has effectively been undermined by the Federal Riegle-Neal law.

In considering what will happen now that our State prohibition has been undermined by the Federal law, we have a choice. The way I see the choice is this: We can, through our opt-in legislation, create a climate that affirmatively encourages foreign bank entry, or we can create a climate which discourages foreign bank entry. So the issue is not whether foreign banks will be allowed to come to New Jersey. I see the issue as, how attractive we can make New Jersey to foreign banks.

Specifically, if we opt in and allow de novo entry, we will be creating a climate that is inviting to foreign banks.

However, if we opt in via entry by acquisition only, we will be discouraging those same banks from locating here. Let me give you my reasons why:

Since foreign bank branches are not FDIC insured, they are prohibited from accepting more than 1 percent of retail deposits. Hence, if a foreign bank that wants to come into our State is forced, through acquisition, to buy an existing branch of an existing New Jersey bank, it will have to go through a lengthy and rather expensive process of divesting that acquired branch of its retail deposits. Such is obviously not the preferred mode of entry for an institution that needs to come in and begin its business. The first thing it does not want to do is have to come into the State and strip the branch they have just paid for of its retail base.

Therefore, I would urge the Legislature and these Committees to recommend opting in early, and to do so on a de novo basis to attract foreign banks to locate here. Governor Whitman has repeatedly stated that New Jersey is open for business, and the statistics show that the business of foreign banking is, indeed, big business right across the Hudson, and throughout the United States.

As of December 31, 1993, which is the last year for which figures are available, 252 foreign banks maintained branches or agencies in New York, with total assets of \$537 billion. New York State alone, which welcomes foreign banks, accounts for over 71 percent of foreign banking assets held in the U.S. With opt-in legislation permitting foreign bank entry into New Jersey, we have the potential to attract a segment of this growing business.

In addition to New York, many other states, including some of our neighbors, Pennsylvania, Connecticut, and Delaware, as well as California, Illinois, Georgia, and Florida also permit foreign banks to operate within their borders, and, as a result, have reaped the benefits of their presence. Not only

does this industry bring needed jobs and revenue to a state, but it provides some credit services that our domestic banks do not.

U.S. operations of foreign banks bring direct economic benefits to our local economy and the national economy as a whole. According to the Federal Reserve data, foreign banks employ at least 114,000 people in this country. Additionally, these banks utilize office space, and their operating and capital expenditures contribute to overall economic growth.

Moreover, international banks provide important financial benefits to the United States, including increased credit for U.S. borrowers. International banks have been a key source of business lending in the U.S., have complemented lending by U.S. banks, and have given U.S. and foreign businesses additional sources of credit.

Foreign banks also provide credit support to local governments and other U.S. borrowers, which enables them to increase their bonding capacity. As of December 31, 1992, U.S. operations of international banks had issued over \$22 billion in outstanding letters of credit and similar instruments on behalf of municipalities and other government subsidiaries.

U.S. operations of international banks also contribute to the depth and liquidity of wholesale interbank markets, including markets for government securities and foreign exchange. Those banks also play a key role in facilitating international trade between this country and other countries. Because of its knowledge of its home country, its markets, and its home country economic conditions, an international bank is frequently in the best position to finance exports of U.S. goods to their home country.

Despite the attributes of foreign banking, you will hear some arguments today against allowing foreign bank entry into New Jersey. Some bankers may argue that foreign banks will lure away their customers, destroying their businesses and

communities. However, foreign banks typically do not engage in local retail banking. In fact, under the Foreign Bank Supervision Enhancement Act, enacted by Congress in 1991, foreign bank branches in this country are prohibited from accepting retail deposits -- as I alluded to earlier -- that is, deposits of under \$100,000 insured by the FDIC. Therefore, a foreign bank presence would pose little threat to the retail banking business in which most local New Jersey banks engage.

Furthermore, foreign banks would enhance competition in the commercial credit and international finance areas. Competition, as a general rule, only serves to benefit the consumer by forcing banks to offer better prices and service to attract customers. Only those banks which do not fulfill the needs of their customers would, in essence, be potentially harmed by foreign bank entry.

Local bankers may also object to a foreign bank presence in New Jersey on reciprocity grounds. Proponents of this view argue that a foreign bank should not be permitted to branch here if a U.S. bank would not be permitted to branch into that bank's home country. This issue, although important, is not an issue we can deal with at the State level. I would note, however, that Congress is in the process of addressing this reciprocity issue. Congressman Leach, Chair of the House Banking Committee, has already introduced legislation that would allow regulatory agencies to disapprove applications from foreign banks whose home countries are deemed to discriminate against U.S. institutions.

I believe New Jersey's proposed foreign bank statute within the opt-in legislation should allow foreign banks to branch here de novo through branches, agencies, or representative offices, or through the establishment of domestic subsidiary banks. Foreign banks are already permitted to branch -- as I have mentioned -- into New York, Pennsylvania, and Connecticut, and these powers to come in

through branches, agencies, and subsidiaries mirror the powers granted by the Federal Reserve under the Foreign Bank Supervision Enhancement Act. In addition, there is a local supervisor located at the Fed Reserve who is given the supervisory power over foreign banks when they do come in to do business in the State. So each application of a foreign bank to establish a presence in the United States must be approved by the Fed. Since Federal supervisory authority, as well as our neighboring states, have determined that with proper oversight foreign banks benefit local customers, I believe New Jersey should join them and reap some of the potential economic benefits our neighbors have already reaped.

The Department of Banking also believes that New Jersey's statute governing supervision of foreign banks should vigilantly protect our consumers. Although the Fed is obligated to annually examine foreign bank operations doing business in this country for safety and soundness, I believe New Jersey, as the local licensing authority, should also. I would request that, like our neighboring states, New Jersey impose a requirement that all foreign banks pledge a percentage of their assets to be held within this State to protect local consumers in the unlikely event that a foreign bank must liquidate its New Jersey operations.

Increased globalization in the marketplace has forced the issue of international banking to the forefront. Since foreign banks play a large role in international trade, their presence in this State is important for New Jersey's presence in this market. NAFTA and GATT have illustrated Washington's push towards promoting international trade, and this proposal provides New Jersey with an opportunity to increase its visibility in the world marketplace.

With our educated workforce and our prime location in the Northeast Corridor of this country, we can play a very pivotal role in this business, particularly with regard to the

71 percent of the national foreign banking business which is done right across the Hudson River.

The question, I think, is do we want to be left behind as our neighboring states push towards the 21st century and its opportunities? I believe this proposal will provide New Jersey with the opportunity to increase its presence in international banking, and in the marketplace as a whole. The Department of Banking, and I as Commissioner, believe the people of New Jersey deserve this opportunity and, therefore, I request your support in lifting New Jersey's 50-year ban on foreign banking.

The final point I would like to make is that opting in early to interstate banking on a de novo basis will be beneficial to New Jersey beyond the issue of foreign banking. Since Federal savings banks and Federal savings and loans are already allowed to branch interstate de novo in this country, I believe commercial banks should be afforded the same opportunity. Therefore, passing opt-in legislation permitting de novo entry would not only attract foreign banks to locate in New Jersey, but would give our State-chartered savings banks and State-chartered savings and loans parity with their federally chartered counterparts. I ask you, also, to keep in mind that de novo entry does not preclude entry by acquisition. This merely allows a choice between the two modes of entry into this State.

I thank you for providing me with the opportunity to testify overall on the ramifications of this proposal. I would specifically like to thank the two Chairs for their willingness in coordinating this hearing, and each of the Senators and Assemblymen for attending today. I look forward to hearing the rest of the testimony, and to working with you on this legislation.

Thank you.

SENATOR INVERSO: Thank you, Commissioner.

I have a question: The states you mentioned early on in your comments -- Pennsylvania, Connecticut, Delaware, California, Illinois, Georgia, and Florida -- do they permit de novo entry exclusively?

COMMISSIONER RANDALL: If we know, I will ask staff, some of whom are here, because some have-- For example, Delaware has permits for foreign banking, but right now does not have a foreign bank that has chosen to locate there. So we would have to look at those that have a fair amount of business. Let me ask you if we know, from a staff point of view?

UNIDENTIFIED SPEAKER FROM AUDIENCE: I believe that New York, California, Pennsylvania, and Illinois permit de novo entry.

SECOND UNIDENTIFIED SPEAKER FROM AUDIENCE: And Florida.

COMMISSIONER RANDALL: So it would appear--

SENATOR INVERSO: So Georgia does not?

UNIDENTIFIED SPEAKER FROM AUDIENCE: Georgia I am not sure of.

SENATOR INVERSO: Okay. And Connecticut does?

SECOND UNIDENTIFIED SPEAKER FROM AUDIENCE: Yes.

SENATOR INVERSO: Okay, thank you.

The other thing is I have a comment: I was able to glance through the report of the Superintendent's Advisory Committee on Transactional Banking Institutions -- the New York Superintendent. Their recommendations seem to shy away from encouraging subsidiaries to form, on the basis that once you have a subsidiary, obviously its lending capacity and potential are limited to the capitalization of that subsidiary, where when you have a foreign bank, it does it by branching or agency. In essence, the resources and capital structure of the parent bank are behind that arrangement, and could allow for,

you know, a more active involvement in loan transactions, import/export activity, and that kind of thing. But in your comments, you have not precluded -- or you kind of put subsidiaries on the same platform as you would branches and agencies.

COMMISSIONER RANDALL: I would support both types of entry. Obviously, a domestic subsidiary is somewhat more limited, as you point out, in terms of its capacity to provide services. I think you have the choice to review each and every type of foreign bank operation, be it through a branch, an agency operation, or a domestic subsidiary. You can look at the fine points of what each can provide, but I would suggest that, as a starting point, perhaps the most broad approaches be explored, with an eye toward seeing why it might -- what justification there might be for eliminating the branch or the agency concept, and just restricting it to domestic subsidiary.

SENATOR INVERSO: Say, like, in essence, provide the option for any form of organization that they choose.

COMMISSIONER RANDALL: The broadest approach is the one I endorse.

SENATOR INVERSO: All right.

ASSEMBLYMAN LUSTBADER: Commissioner, you mentioned community responsibility. I was looking at the same report the Senator was referring to -- the report of the Superintendent's Advisory Committee on Transactional Banking Institutions -- in which they point out that 25 percent of the commercial lending comes from foreign banking sources in this country. So, obviously, it is an important issue.

I understand that the Federal law prohibits foreign banks from FDIC insured retail deposits. If that is the case, how does that impact on the CRA issue?

COMMISSIONER RANDALL: I think you will hear some mention that it is considered a problem that CRA, on its own terms, cannot be applied to those institutions that do not have

FDIC insurance. My response is twofold: I would say that it is not just foreign banks that potentially are not subject to CRA. In other words, a domestic bank that chooses not to have FDIC insurance would also not be subject to CRA. So it is simply a function of whether or not the insurance is in place, because that is what triggers CRA.

I do think there is an argument to be made that CRA types of obligations are important enough that there should be some mechanism in place to see that the principles apply to all institutions. The legal impediment, of course, is that if an institution goes without the FDIC insurance, which, in effect, the foreign bank really cannot acquire from our government, then there is no way in which the CRA law is going to apply to them. But I think we can look at it as an issue on a State level. Keep in mind, I think it requires-- The answer to that question requires a revisiting of the philosophy of the CRA law, as it was enacted in 1977, which goes back to the notion that if you are going to be taking primarily retail deposits from the residents in the community where you are located, you have an obligation, under the CRA philosophy, to make a commitment back to that neighborhood in which you are located, because you are taking their money through their checking accounts and their savings accounts.

If, in fact, the business -- the nature of the foreign bank business is going to be substantially different and is not going to be really in the retail area, we have to decide whether or not the underpinning of CRA is exactly the same as applied to the type of wholesale business that some of these foreign banks are most likely to engage in.

ASSEMBLYMAN LUSTBADER: Commissioner, in your opinion, do you think we have the jurisdiction to make a change in that, or does the Federal government preempt our ability to cross that line, so to speak?

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COMMISSIONER RANDALL: We have plenty of attorneys, I think, here today with their views on this. I think, from a Federal standpoint, we would be precluded from asking that CRA, as a law, be applied to foreign banks. That is strictly a function of the fact that they can't get the insurance, don't have it, and, therefore, are not subject to CRA.

I think, though, that there are possibilities in terms of other laws, be they national or State, which might follow the CRA philosophy, but would be more tailored to the wholesale foreign bank operation. But CRA, as it currently exists, in my view, cannot be applied to these institutions.

ASSEMBLYMAN LUSTBADER: Committee questions?

SENATOR INVERSO: I have one other question.

ASSEMBLYMAN LUSTBADER: Oh, you have one?

SENATOR INVERSO: Yes. I'm sorry.

Commissioner, I want to throw this question at you, and I guess it is a fundamental question, or a fundamental concern with New Jersey banks. The aspect of the diminution in franchise value of New Jersey banks as a result of de novo entry, as opposed to, obviously, acquisition and merger-- How significant is that as a consideration in where our State needs to be relative to dealing with, euphemistically, the global economy to help encourage export activities, and so on? How do we weigh that on the scale?

COMMISSIONER RANDALL: Well, I'm sure I won't be the last person to comment on this important point. I am sensitive to the fact that there are existing institutions that have labored here for many, many years and value their shareholders, value that business and the charter that goes with it. Perhaps, potentially, more competition is seen as somewhat diluting the ultimate value of the charters that currently exist in this State.

While I am sensitive to that observation, I simply sit in a different seat from some of those people, and view the

issue more from the perspective of our future path, our future job growth, and where New Jersey sits in the economic picture, as far as the Northeast and the Northeast Corridor as a whole are concerned. Here is where we also get into the issue not of foreign banks alone, but of de novo branching by some of our other large U.S. domestic institutions, like a Nation's Bank, a Bank One, some of the large banks that we all know are currently not located in New Jersey.

Again, I look at it this way: Come 1997, if we do not opt in -- come 1997 anyway -- those types of large institutions will have the ability to consolidate their State operations and have but one national headquarters. If we do not opt in and potentially allow de novo, I think we discourage those domestic U.S. banks as well from choosing New Jersey as a potential national headquarters for their operations.

So, again, I think it is-- While I am sensitive to the issue you raise, I simply look at things differently in terms of the future of our State, our State job growth, and our economic long-range picture.

SENATOR INVERSO: A fair enough response. Thank you.

ASSEMBLYMAN BROWN: Mr. Chairman, I have a question.

SENATOR INVERSO: Yes, Assemblyman Brown?

ASSEMBLYMAN BROWN: Through you, Mr. Chairman, Commissioner, is there any kind of a forecast as far as the time frame? You indicated in your statement that it is important that we act, you know, as soon as possible. Would it be six months versus twelve months? Do you have any kind of figures that show it would be more advantageous six months earlier than the next six months, or are we going until 1997 if we decide to do this, based on the competition from the other states, like Pennsylvania, Connecticut, and what have you?

COMMISSIONER RANDALL: That is a good question, Assemblyman. My own philosophy here is that I would love to be first, as a State, at least in this region, in opting in,

because I think it sends all the right signals to potential newcomers. We are very closely tracking what our immediate neighbors are doing in their state legislatures. Most of the northeastern states, through their banking commissioners, have told me that their legislators are leaning toward opting in, and opting in early, prior to 1997.

So if we look at our immediate region, there is a bit of a race that is on. I will say I am very pleased that we have had two hearings now on this topic, and some of the other neighboring states, while they are talking about proposed legislation, I do not think they have had two hearings as we have. So, at this point, we are a little ahead of the curve and where I would think we might want to be. But my personal thought would be that, if at all possible, you consider a time frame of this year in terms of trying to get something to the Governor for her consideration on how New Jersey should opt into the Federal opportunities.

ASSEMBLYMAN BROWN: Thank you.

SENATOR INVERSO: Senator Scott?

SENATOR SCOTT: Thank you, Mr. Chairman.

Commissioner, you mentioned a 1 percent figure, that foreign banks are prohibited from accepting more than 1 percent of retail deposits. Is that 1 percent of their assets?

COMMISSIONER RANDALL: Of your deposits if you--

SENATOR SCOTT: A foreign bank, are they limited to 1 percent of evaluation for retail banking?

COMMISSIONER RANDALL: It's deposits, is it not?

UNIDENTIFIED SPEAKER FROM AUDIENCE: Yes, deposits.

COMMISSIONER RANDALL: Right, your deposit base can be no more than 1 percent of retail in nature if you do not carry the FDIC insurance.

SENATOR SCOTT: Some of these foreign banks are very big in the international market. I have a concern, because a couple of years ago we had a domestic -- a United States

problem, in that the Bank of New York acquired National Community, and there was a veritable blood bath of employees on the New Jersey side. I think you are probably aware of it, since you are from Bergen County, and that is where the blood bath took place.

My concern would be that if we allow a major bank, and I have no idea of the size of some of them, really, except that they are extremely large, compared to some of our domestic banks-- They would have the capacity, perhaps, to go into retail banking statewide without much problem, because of the total valuation. They have the money and resources to do that. At that point, at the expense, perhaps, of our domestic banks, they could have a direct impact. While at that time there would be some local banks that would go out of business through the impact, my overall concern, however, is that five years, ten years down the road, as the world situation -- and they are dealing with the world -- of global economy-- We are not, though, here in Rutherford. We are concerned with the few towns around us. They could pull out, without much regard to what is happening in New Jersey -- in Rutherford, Lyndhurst, and North Arlington.

If they dropped 60 or 70 employees in District 36, it really would not bother them, because, hell, they would have London, Paris, Rome, Tokyo, and Hong Kong. They are talking about big dollars, billions of dollars, and tens of thousands of people.

Commissioner, I would really be concerned with that. I wonder how we are going to protect the New Jersey smaller banks and the people who work in New Jersey's small banks? We would like to keep them. We don't want to see a big guy come in, wipe them out, and then leave, because you are not going to be able to stop them, no matter what you think we can do.

COMMISSIONER RANDALL: I understand your concern. I suppose we need some information. Some of the bankers here

today might actually be able to give you a fair assessment of how large that 1 percent might actually be, because that certainly is a fair question to ask. They may be limited, but I think your question is, even if it is 1 percent of a large figure, that still enables some of these banks to compete in the retail arena. Then, assuming they set up that type of an operation and they leave, some jobs might go as well.

The jobs impact here is -- I am not sure -- perhaps not as dramatic as we might think by virtue of this proposal. What I am talking about here is the fact that we have had a downsizing phenomenon in the financial services industry for the last few years, in any event. That is without opt in, without de novo. We have clearly had a merger and acquisition trend which is very strong. I think many would agree that it is probably not going to dissipate. It may slow up a little bit, but the trend of consolidation in this country, and in this State, has resulted in some unfortunate reductions in force. That is across-the-board. That phenomenon is probably something that is a function of the changing technology in the financial services area, and other trends which are probably the subject of an economic study.

I guess my only thought is that it warrants looking at, but I have not drawn a conclusion myself as to whether or not what we are talking about here would necessarily contribute to more job loss.

SENATOR SCOTT: If we have the 1 percent-- If we could find out what 1 percent of some of the banks would translate to, we then maybe would be able to make a determination as to what type of impact they would make on the community banking service people in New Jersey. Wherever they end up, if the dollar amount is big enough, they will have made a major impact on the small community or small area.

I hope someone has some sort of a number on that so we at least can find out what we are looking at for investment. One percent does not sound like much, but 1 percent of what?

COMMISSIONER RANDALL: I have a point of information here: We are talking about 1 percent of U.S. liabilities, as far as what the definition of the 1 percent is.

My final thought on the retail aspect here is that, to the extent that there might be some retail business engaged in, I look at that as a potentially good thing for consumers in terms of enhanced competition. In other words, you are talking about one more entity that is willing to jump in and compete in the marketplace known as New Jersey for that retail business. I will say I think there is the potential for some people -- some of our residents who live in this State now who do not take advantage of financial services and bank services, to go to an institution. Maybe it is a question of someone identifying with the home country institution that is not currently now here. There are still many people in this country, and I daresay some in New Jersey, who do not trust financial institutions. They do not trust banks. They keep their money in the mattress someplace.

SENATOR SCOTT: I guess they have a pretty good reason. Banks have not been notoriously sympathetic to the individual depositor when they go belly-up or when they switch markets, and so on and so forth. Not being a banker, I don't understand the global lending procedures when they are talking about hundreds of billions of dollars. A Senator's pay precludes us from doing that. We have to stand alone and try to get our 2 percent interest.

But I am concerned about that 1 percent. What is it in dollars? How much can they actually invest in New Jersey? Can they pick my district? Can they go to Newark someplace, eliminate some local bank that is working with the people in Newark, or Rutherford, or wherever it may be-- They come in, take away that business, and close that bank because it can't compete. The international bankers do not really care about Newark or Rutherford. They do not really care. It is a dot on

the world map. If it disappears, it means nothing to them. They are busy building a hydroelectric plant in India, or on the top of the Himalayans, or whatever with the hundreds of billions of dollars they have invested.

We are concerned because they are our people. They are the ones who come to us and say, "Gee, I have to buy a home. I have a small business. I need a \$100,000 loan," or whatever it may be. That is my concern: that these people will come in and take over an area, which would be very easy to do when you are talking about the dollars. That 1 percent concerns me. If I had some idea of what the possibilities are of them coming in and playing a major part in a real small pond-- There would be a huge crocodile, not a frog, in a very tiny pond. They could suck that pond dry, and walk out and leave a mess for us and for the people we represent.

That is the simple concern I have.

SENATOR INVERSO: Commissioner, with regard to the 30 percent of deposits within the State limitation, could that be broken down geographically so as not to provide the kind of concentration that Senator Scott is concerned about? Can we take a look at that?

COMMISSIONER RANDALL: We could look at a type of change to our existing limitation that might address that concern.

SENATOR INVERSO: In other words, if we could possibly look at it geographically, or demographically, because he might have a point there.

ASSEMBLYMAN LUSTBADER: In the past few years, the main decisions that have resulted in mergers have been made by boards of directors of the various banks. They, in effect, have consolidated the market on their own, you know, without foreign intervention. If a board of directors decides to take an offer to be bought out, they accept that, I would assume that the people who work in that bank would be at risk. Yet,

you know, it is the local domestic board of directors that makes the decision, not a foreign bank.

So, I mean, by and large, all of the consolidation that has been taking place in the last few years is a product of a board of directors of our domestic banks in New Jersey.

SENATOR SCOTT: I understand that, Monroe. The problem I have, as I said, is in the case of the Bank of New York coming in and taking over National Community, which has its headquarters -- which was founded in Rutherford. There was a blood bath in there of employees of National Community. Many people had spent 20 or 30 years with the company, and they were just gone; they were history. And that is an American bank.

Here we are talking about foreign banks coming in, which really could not care less about the American way of life, or anything else. They will pull out just like that.

SENATOR INVERSO: Senator Scott, I think Commissioner Randall's response when she commented is what I had in mind. You have seen significant downsizing occurring in the industry, irrespective of that. I am not suggesting that that is not a factor, but if I may read the numbers to you-- This was a series run in The Star-Ledger in 1989 on the State's commercial banks: 43,340 employees; September 30, 1994, 29,179.

SENATOR SCOTT: We certainly do not want to add to that.

SENATOR INVERSO: No, no, we don't, but the phenomenon that has occurred -- and it is something we have to take a look at--

I was going to ask you, Commissioner, is it possible for your staff to pull together some numbers from the states that had the foreign banks come in de novo, as to what the employment numbers were prior and what they were after? When you read information on New York, it looks like, you know, foreign banks have been a fairly significant source of employment. Now, I don't know. That may be misleading, in

that they employ a number of people, but those people could have been employed anyway if that marketplace were available to the New York banks, let's say. If we could have some information we could use as a benchmark for comparison purposes, I would appreciate it.

COMMISSIONER RANDALL: Certainly. We will look at the other states.

SENATOR INVERSO: Are there any other questions? Mr. Corodemus?

ASSEMBLYMAN CORODEMUS: Thank you, Mr. Chairman.

Good morning, Commissioner. I am a layperson to the banking community, and I have a very simple question which maybe you can give me a simple answer to.

I think the question on my mind is, if existing banking was a pie, if we go through this entry of foreign banks, are we going to be dividing up this same pie into smaller pieces, or do you envision a larger pie? If it is a larger pie, how many banks do we need to make that a larger pie? Can you venture an opinion on whether we would be unable to reach a larger market without de novo, or can it be done by acquisition alone?

COMMISSIONER RANDALL: I think the pie would definitely be larger. I mean, how much is maybe a function of some economists' viewpoints and an analysis of the international trade business we have, and how much further we think we can go with that? So I think the pie would enlarge somewhat. I think the acquisition requirement-- If we limit our form of entry to acquisition, we will not be opening up the doors to as many foreign banks as might otherwise choose to come in.

So the pie, I don't think, will get as large if we limit ourselves to entry by having to acquire an existing New Jersey institution. So the pie will expand or contract, I

think, depending on how you choose to draft the legislation, de novo versus acquisition.

ASSEMBLYMAN CORODEMUS: Through the Chair, if I may follow up, has the Department done any type of estimates of what needs there are unmet in the State of New Jersey with the current banking facilities we have, and how many more banks, or how many more assets have to be brought into the State to meet that demand?

COMMISSIONER RANDALL: No, we have not gone that far yet, Assemblyman, but I think that is a good point. What we are really trying to get to-- Your question is: Have you done a projection on what you think the impact is going to be -- what the economic impact would be here if we opened the doors as widely as we have the potential to open them? We are going to coordinate with the Department of Commerce, Division of International Trade, because we need some of their help. If we think this is where the action is, and the growth opportunity is, we have to work with them in terms of developing some of those projections.

ASSEMBLYMAN CORODEMUS: I know Mr. Coe is here. I am going to be asking him the same question. Maybe he can provide the answers from the business perspective. But I don't think anyone wants to go through this whole business just for the sake of bringing one bank in, or just providing a marginal additional service to our existing consumers. That is my question. I have no perspective on this issue.

COMMISSIONER RANDALL: I think it is possible, again, that our domestic banks will tell you that they now, to a certain extent, have the ability to have an international banking department to develop some of those credit services that might enhance export. But I see this as merely, then, allowing more competition in that arena, by allowing those one or two foreign banks to come in, and essentially complement what some of our domestic banks may now offer.

SENATOR INVERSO: Anything else?

SENATOR CASEY: Yes, Mr. Chairman.

SENATOR INVERSO: Senator Casey.

SENATOR CASEY: First of all, I would like to commend you on a very good presentation, but I think something you put in writing needs to be cleared up. Again, it is a very small portion.

You mentioned that some local bankers -- and I met one yesterday -- worry about us getting foreign banks okayed to come in here, when they will not give us an okay to go into their country. I think you also mentioned that Congressman Leach, Chairman of the House Banking Committee, is now looking at this. I would hope, as a member of this Committee and a member of the State Senate, that you would keep us well-informed. I would hate to pass a bill like this next week, next month, and have a congressional committee down there in Washington come out and tell us that a company which has brought a foreign bank into this city is already on that list.

Number one, I would like to ask what happens if we get this okay and then the congressional thinks they can grandfather? I would ask you, as the Commissioner, to keep us well-apprised of how this Washington bill is going, so that we may look ahead at foreign bank interests in this country, and we can have some input. When we go back to our consumers, they don't just worry about bankers, they worry about everything else -- agriculture and everything else. I think we ought to keep abreast of this, and I hope you will commit. So if you have to put it in writing, I ask you to keep us well-informed. I want to know how the Washington bill is going before we go ahead and possibly make some mistakes.

COMMISSIONER RANDALL: Absolutely. I even believe that Congressman Torricelli has expressed interest in pursuing and supporting the reciprocity issue. And of course, we have our delegation leader, Congresswoman Roukema, who is working

very closely with Congressman Leach now on the Banking Committee as one of its sub-chairs. So we have some good information we can keep on top of.

SENATOR CASEY: Otherwise, a very good presentation..

COMMISSIONER RANDALL: Thank you.

SENATOR INVERSO: Assemblyman Jones.

ASSEMBLYMAN JONES: Thank you, Mr. Chairman.

Good morning, and welcome, Commissioner. Just one quick question concerning the criteria for entry: Has the Department engaged in an analysis that would, perhaps-- Would you care to elaborate on what you would see as an outline for one's entry criteria into New Jersey from a foreign banking perspective?

COMMISSIONER RANDALL: We are working very closely with New York, because of their extensive multiyear experience in supervising the applicants of foreign banks. Once they get in, they do regular examinations in conjunction with the Federal Reserve. So the mechanism is essentially in place as far as supervising the safety and soundness of these institutions, because, as I mentioned, the Federal Reserve will examine them.

We would like, as a State, to take a very aggressive role in terms of what information they have to give us when they come in and who their officers and personnel will be. All the information that is standard that any applicant for a bank charter would need to give us, similar information should be given to us here at the State level so we know who is coming in, where they are going to be located, and what they are going to be doing. The good news is, we have at our, I think, ready disposal some expert information. Probably the most active and best experienced state in the country, and in this area, is New York. We have a very good working relationship with them. Our staff is going to travel into New York to spend a day with them going through the issues of: What does the application

actually look like? We have to set up here an office that would supervise -- specifically supervise foreign banks. This is a new area, but of course, if you look to New York, the largest division in their office is the Foreign Bank Supervision Office. We do not have one, as we speak, because we have had no need for one. But we have, I think, the best model in the country right across the Hudson River to look at.

ASSEMBLYMAN JONES: Would that call for expansion within your Department, or would you be doing more with less?
(laughter)

COMMISSIONER RANDALL: Absolutely not.

SENATOR INVERSO: It is not in the budget at this point, is it?

I am delighted to hear that New York is cooperating with us on this. I suppose they do not view this initiative on our part as of major competitive concern.

COMMISSIONER RANDALL: Well, I would say, certainly, that they have been very professional about it, and have given us all the information we need. The only thing we have offered to do is make the trip to New York, since they have all the expertise over there. But, truly, we have not sensed any resistance at all.

SENATOR INVERSO: Great.

Thank you, Commissioner. I think that's it.

ASSEMBLYMAN LUSTBADER: Thank you, Commissioner.

ASSEMBLYMAN BROWN: The Governor had nothing to do with the cooperation, obviously.

SENATOR INVERSO: What's that?

ASSEMBLYMAN BROWN: The Governor had nothing to do with the mutual cooperation.

ASSEMBLYMAN LUSTBADER: Thank you, Commissioner. We appreciate it. Keep in touch.

The next witness will be W. Stuart Cameron, Vice President/Director of Government Relations, New Jersey Bankers Association.

W. S T U A R T C A M E R O N: Good morning. I have brought Mike Spicer along with me. In case we get into some technical legal questions, I have brought my right-hand legal adviser with me.

I would like to first thank you for the opportunity to come before you this morning. As already mentioned, my name is Stu Cameron. I come before you this morning on behalf of the New Jersey Bankers Association, which represents the State's commercial banking industry.

First, we wish to thank the Legislature, through both the Senate and Assembly Banking Committees, for having the foresight to allow open dialogue on the role New Jersey will play under the Federal Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. This national process will shape the future of banking in our State, as well as the entire nation, well into the 21st century. Today's discussion on foreign bank entry into New Jersey is an integral dimension of that process; however, we maintain that the method of entry and its ramifications need to be carefully studied before any plan is adopted for New Jersey.

At present, the Association supports foreign bank entry by acquisition only of existing full-service banks and opposes de novo entry. This position was reported before you at your October 24, 1994 joint hearing and remains unchanged. In fact, recently our Executive Committee, in the name of fairness, decided to test the waters of the entire bank membership by survey. As of late yesterday, with more returns expected, 44 percent of the membership has responded. Thus far, 62 percent -- 24 -- of the respondents oppose permitting de novo branch entry by out-of-state banks, while favoring foreign bank entry into New Jersey only through acquisition of an existing full-service bank; 23 percent -- 9 -- oppose foreign bank entry of any kind. These respondents represent banks of all sizes headquartered throughout the State, so it is

not just the small community banks now that have responded so far. It is a mixture of all sizes. The remaining 15 percent is divided among only three banks which favor de novo foreign bank entry, and four banks are either neutral or have no position on the issue.

Both the current and past position of NJBA is consistent with the dominant anti-de novo sentiment reflected in this current survey trend.

NJBA suggests that when it comes to the foreign bank entry question, New Jersey not just focus on what neighboring states are doing, but rather conduct an economic impact analysis projecting at least five years out to determine what is the best legislative tact for New Jersey. This would help determine if inviting foreign bank entry into an already overbanked State would have a positive or negative impact on the State's economy. According to 1994 findings by banking research consultants Sheshunoff Associates, New Jersey ranks first in having more bank branches per square mile than any other state in the nation; more than double of second ranked Massachusetts. New Jersey ranks 10th nationwide, with 1.299 branches per 1000 households. The point is, foreign bank entry into the State by acquisition appears more doable than de novo entry.

NJBA is also concerned with the preservation and protection of the State's community banks. How committed will foreign banks be to New Jersey long term? Will they stand by their borrowers as our community banks have through thick and thin, during economic downturns, as well as upturns? Care should be given to ensure that de novo foreign bank entry not jeopardize the well-being of existing community banks. And I appreciate the comments Senator Scott made along those lines a few moments ago. Apart from the entrepreneurial dimensions of profitability, interests that are common to all businesses, domestic and foreign, we must not allow those existing small

bank franchises, which reinvest their proceeds back into their local communities, provide a sound source of local employment, serve as a constant financial support system for small business through the relatively easy accessibility of their decision makers, to be trampled under by a foreign bank de novo entity which enters the marketplace under a different set of rules, which creates an arena of unfair competition, which undermines the franchise value of the existing bank entity, and which cherry picks market share.

It is this type of scenario that must be avoided at all costs. It is the overwhelming sentiment of our commercial banks that the best way to avoid the potential of this type of possible catastrophe from occurring in New Jersey, is to allow foreign bank entry by acquisition only. We have seen the existing out-of-state acquisition process work well in New Jersey, as demonstrated by: the National Westminster, New York acquisition of First Jersey National in 1988; the Chemical Bank, New York acquisition of Horizon Bancorp in 1989; and the CoreStates Financial, Philadelphia acquisition of New Jersey National Bank in 1986. This approach has faired well in the past for the State. Why change now?

Foreign bank entry by the acquisition of existing franchises helps assure a level playing field in the marketplace, as the foreign entity acquiring the home state bank must live under the same rules under which the acquired bank was historically governed, and that includes CRA requirements.

A considerable number of banks are also concerned about foreign bank entry in terms of where profits end up. Will profits be reinvested in the New Jersey economy, or will New Jersey dollars be exported out-of-state or to foreign capitals? If this is the case, will the benefits justify the trade-off? The economic analysis aforementioned could help

toward determining if the end justifies the means for the citizens of New Jersey.

We also mention another issue that should be considered; namely, the issue of reciprocity, which has already been noted earlier. In order to assure New Jersey banks of reciprocal consideration, we suggest that the Governor and the Legislature closely monitor Federal developments regarding international rights of reciprocity for U.S. banks. That is the old problem, as we have seen in other dimensions of trade, where it is one thing for foreign entities to come into our marketplace and sell their products, but when we want to take our products over there, they don't want to know anything about it, or they create a real tough quota system so that we can't sell our products abroad. We do not want a similar scenario to take place with regard to U.S. banks, especially New Jersey banks, which may be desirous, in return, of being able to go over into those other nations to sell their bank products and services.

As part of this discussion, we would be remiss if we did not address our concern as to New Jersey's readiness to take on an aggressive interstate, domestic, and foreign campaign to attract banks to headquarter here. We concur that the intent is a noble one; however, the question is, "How ready are we?" It is one thing to put out the welcome mat for banks to headquarter here, but it is another matter to get out-of-state entities to accept the invitation to cross the threshold. In order to translate the good intention into reality, we believe New Jersey must take some immediate concurrent legislative and regulatory action.

First, all New Jersey banking laws and regulations which duplicate, overlap, or conflict with Federal laws and regulations must be repealed as part of the State's interstate law package, as outlined in the testimony offered by Richard F. Ober, Jr., Executive Vice President and General Counsel, United

Jersey Bank at the October 24, 1994 joint hearing of this Committee. On this point, we wish to thank Commissioner Randall and the Banking Department for beginning some preliminary work, especially in the area of conforming to the new Federal Truth in Savings Law. Part of the problem is you have so many-- You have a Federal version; you have a State version. It creates a lot of confusion in the marketplace, when really only one version is wholly necessary. That is something that really needs to be worked on. If we want to attract other people to come into New Jersey and headquarter, as well as retain the folks who are already here, then it is absolutely imperative that we simplify the process and get rid of the duplication.

Second, the State's foreclosure process is in dire need of a major overhaul to make New Jersey more attractive to outside investors and banks. The two- to two and a half-year long process is about the worst in the nation. While we really need major revision in our foreclosure law, we strongly urge the quick passage of A-2081, which provides a nonjudicial foreclosure approach for contractual recovery of commercial loans in default. Twenty-eight other states have already enacted such procedures.

Third, in order to attract the credit card business back to New Jersey, the repeal of usury laws would be in order. In this instance, New Jersey should allow competition in the marketplace, within the context of free enterprise, to determine rates. If you go down the road and cross over to Wilmington, Delaware, you will see where a lot of the credit card business disappeared to, part of which used to be part of New Jersey's. Now it went out-of-town and out-of-state because of the severe usury laws we have in this State.

Fourth, New Jersey should keep current in adopting Uniform Commercial Code -- U.C.C. -- laws as set forth by the Uniform Law Commissioners. We have too frequently, in recent

years, lagged behind the rest of the nation in this regard. This is especially important in the area of interstate banking and branching. And I would also like to thank the Governor for signing Articles 3 and 4 into law yesterday, and thank the Legislature for having the foresight to help New Jersey get on the bandwagon of U.C.C. in getting some forward progress done in that regard. But we need more of it. This is just the beginning of that.

Fifth, the dual banking system needs to be preserved in New Jersey by maintaining the autonomous integrity of the Banking Department. To combine this self-sustaining Department with another department or departments of different interests would be a major disincentive for attracting outside entities to headquarter in New Jersey.

Sixth, bank powers should be broadened in the area of insurance and securities, in keeping with federally granted powers. Real estate appraisal requirements should also be parallel with Federal regulations.

Seventh, New Jersey must continue to maintain environmental liability protection safeguards for fiduciaries and lenders to encourage more lending. The Governor and the Legislature should also do whatever they can to gain similar protections on the Federal level. First lien protections for banks should also be sustained.

Eighth, tax incentives should be maintained and expanded to encourage investment in the State economy. As for interstate banking and branching, the taxing authority issue should be addressed: "How do New Jersey tax laws impact out-of-state banks versus how do their tax laws impact New Jersey banks engaged in their state or country?"

In conclusion, we ask you to limit foreign bank entry into the Garden State through acquisition of an existing full-service bank only. Further, in order to help protect and retain banks currently headquartered in New Jersey, as well as

for the purpose of attracting other banks to establish headquarters here, both foreign and domestic, we ask that legislation be quickly adopted reflective of our recommendations. In doing so, to the benefit of fellow New Jerseyans, we envision out-of-state financial entities crossing the State's threshold to call New Jersey their home.

ASSEMBLYMAN LUSTBADER: Thank you, Mr. Cameron.

Are there any questions from the Committee?

SENATOR INVERSO: Mr. Chairman, just one thing.

Thank you for the litany of things that we need to address. Certainly, as you know, I am committed to working with you and the bankers to hopefully get some of these things implemented. I think they are all in need of action. Hopefully, with as much time as we have with our Committee agenda, on my side of the aisle I am sure, and Chairman Lustbader on his side of the aisle, we will be cooperative in trying to move some of these along. I mean, you are absolutely right about some of these things, absolutely right.

MR. CAMERON: Thank you for that. Are there any other comments or questions?

ASSEMBLYMAN LUSTBADER: Assemblyman Brown?

ASSEMBLYMAN BROWN: Yes. Through you, Mr. Chairman, I guess there appears to be somewhat of a dilemma on the part of the banks now. All of the banks of New Jersey are trying to figure out the makeup of the Bankers Association. There seem to be some differences among the bankers who are currently in New Jersey. Could you kindly give a brief summary, or explanation of why there is some disparity, which is normal, I am sure, for some businesses? Could you give me a quick comparison of the banks you represent and some banks which are in opposition to your position?

MR. CAMERON: Well, as far as our organization is concerned, Assemblyman Brown, we represent the commercial banking industry, which is the largest entity of banks in the

State, that has well over \$100 billion in assets in New Jersey. I will allow the other entities to speak for themselves in terms of their particular interests and why they disagree. I know that if they are given the opportunity today -- some are here -- to speak to that, I am sure--

I will say that from the commercial banking industry, even though I made mention that the survey that was taken did show that there was some disagreement within our own groups, they were really in the minority. We were talking about 3 out of our nearly 100 banks in the State that had no problem with de novo entry. However, the overwhelming percentage did have a serious problem with de novo entry. In fact, nine, or 23 percent of those reporting indicated that they were absolutely opposed to foreign bank entry, period. Sixty-two percent indicated that they had a very serious problem with de novo entry, and felt it should be done by acquisition only.

So I think as far as our organization is concerned, there is an overwhelming sense, and a consistent sense -- this is not brand-new; it is a sense that has been around for a long time -- that we absolutely oppose de novo entry into New Jersey by foreign banks.

ASSEMBLYMAN BROWN: Thank you, Mr. Chairman.

ASSEMBLYMAN LUSTBADER: Assemblyman Jones?

ASSEMBLYMAN JONES: Thank you, Mr. Chairman.

Stu, let me just commend you on a very well-laid-out presentation. Just a question or two on some of the components of it.

Early on, you recommended that there be an economic impact analysis, projected at least five years out, to determine what the best legislative tact for New Jersey was. Then, you seemed to go on and talk about what the impact of foreign banks into New Jersey would be from a long-term perspective.

Has there been some economic impact analysis done by your Association that we might be provided with?

MR. CAMERON: The short answer to that question is, "No." That is one of the reasons why-- We haven't heard of any such analysis by us or by any other entity to date. We feel that would provide some very good data to serve as a basis for making this very vital decision as to whether or not we do entry through acquisition versus de novo. We can only go with what our folks have said, based on their experience being in New Jersey, living in New Jersey, paying taxes in New Jersey, and doing everything that needs to be done in order to keep a good economy in New Jersey. We can only talk from that vantage point.

However, to have a third party, or whomever, come in to make a total assessment, to our knowledge, that has not been done by us, and it certainly has not been done by any other entity that we are aware of at this present time.

ASSEMBLYMAN JONES: Okay. As I read your statement and listened to you, just some of the sightings that were made relative to the impact of foreign banking entry into New Jersey seemed to lend some suggestion that perhaps there was some analysis done, but, no, there wasn't. You recommended that there be a third party engaged, you know, hopefully without any cost to the State, to provide such a document.

MR. CAMERON: I would also suggest, too, if I may, that it be done as quickly as possible, because there is a time frame involved here. You know, this is not intended for the sake of trying to drag it down; this is for the sake of trying to come up with the best conclusion possible to benefit the State and its citizens, as well as to help the Legislature make this decision.

ASSEMBLYMAN JONES: Okay. The other question I have: As you discussed some of the points, you alluded to CRA requirements. The Commissioner discussed the CRA, and said

that there were some glitches with respect to how CRA impacted foreign banks which hinged on Federal insurance, and she talked about perhaps there being a new philosophy of how CRA should be approached. That sort of suggested to me that perhaps from a New Jersey standpoint, we might need to be looking at crafting specifically CRA requirements that would pertain to the State of New Jersey, much as there exists in other states such as Connecticut, New York, and perhaps some of the other states, that would begin to embrace these loopholes not only for foreign banks, but for domestic banks that may or may not be impacted positively from a consumer standpoint and an investment standpoint by the CRA.

Would your Association be supportive of such a move toward a State CRA program, or regulation?

MR. CAMERON: I should say that our banks have worked very diligently in this regard. In fact, I should also say that even before CRA came along, a lot of our folks were engaged in CRA-type things anyway, so that was not new to us. However, I think one of the things that we would have to be careful about, would be that we do not create another duplicative situation, similar to what I alluded to in terms of the litany of 13 or so bills where there is duplication between Federal and State.

ASSEMBLYMAN JONES: Right.

MR. CAMERON: Then it creates confusion and everything else, and makes it a more difficult process to go through. However, if there is a way-- I do not know legally, so I will have to turn to our counsel, possibly, to react to if there is a way that you can be sure that so-called foreign bank entrance follows the same types of CRA requirements that the rest of our banks do, without discriminating, you know, in doing so. I think that is something that our legal folks really have to advise us on. I could see that if you create-- If you go outside the arena in creating CRA requirements for those people

who do not take deposits, now you are creating a unique situation. I don't know what that means in terms of its ramifications going across and affecting others, as well as the foreign folks.

ASSEMBLYMAN JONES: Right. Thank you.

ASSEMBLYMAN LUSTBADER: Stu, do you see any opportunity for a consensus on the issue? I see in your statement that you talk about various other issues that are, you know, in a remote sense, related to the issues, such as the State's foreclosure process. But, do you see any commonality on which you can build a consensus on the issue in your group, or do you feel that the various opinions are so arrayed that you cannot build a bridge?

MR. CAMERON: Well, I never like to be a pessimist. I don't like to say that we can't build bridges, and so forth. This is an issue that has been around for a long time, and the results have been consistent throughout. Some people feel very strongly. I think there was a time, in fact, when our Association took the position that they did not want any foreign bank entry, period, not even by acquisition. So there has been some movement just in that regard.

So I can say that, you know, I think we have to assure those folks who have been here, without any equivocation, that they are not going to get the carpet pulled out from underneath them. That is going to take-- I don't know if I want to say that some of our people are from Missouri, sort of "show me," but I think it has to be absolutely proven to them that they have absolutely no threat whatsoever.

You know, one thing, even though we talked about the 1 percent on deposits, what happens after folks arrive and they get settled in? The next thing you know they are out lobbying for 2 percent, 5 percent, 10 percent, 20 percent. Does that become, you know, sort of like the foot in the door? Then, what comes next? I mean, there are some unknowns here that

build anxiety. But I will not say in a simple answer -- a short answer to you -- that we will close our eyes and close our ears. We are always happy to talk. We have always had a wonderful relationship with the Banking Department, and we hope to continue to have that relationship. We hope there will be continued dialogue on the issue.

But I can only tell you what the sentiment is today and how we feel. It is also absolutely paramount that the litany of things that are listed today be taken seriously, and that some action be taken as soon as possible on it.

ASSEMBLYMAN LUSTBADER: Thank you.

SENATOR INVERSO: Stu, I have a question for you: Can you share with us your survey results? When are you going to close the window on the respondents submitting their responses?

MR. CAMERON: Well, we are trying to do that as soon as we can. We were hoping, in fact, to have it done, but there have been some folks that we have not heard from, and we don't know what that means. We don't know if it means they don't care. We don't know if it means that they are waiting to talk to the boards of directors before they take an official position, and they only meet, as you know, maybe once a month, twice a month, or whatever it is, and that takes some time.

But we would like to have that wrapped within the month, if we could, to get a final result. I am sure we would be happy to share it with you.

SENATOR INVERSO: So by the end of the month do you think you will have it completed and available to us?

MR. CAMERON: We will continue to push in that direction.

SENATOR INVERSO: And you will list the banks by asset size, number of employees, things of that nature?

MR. CAMERON: Yes, yes. I don't have those exact numbers with me today, but I will tell you that we have done some of that preliminary work on the ones that are in already.

SENATOR INVERSO: Okay. I appreciate that. Thank you.

ASSEMBLYMAN BROWN: Mr. Chairman?

ASSEMBLYMAN LUSTBADER: Assemblyman Brown?

ASSEMBLYMAN BROWN: I don't know whether to refer to the Assemblyman as Chairman or the Senator as Chairman. But through you, Mr. Chairman, I guess my question is-- You mentioned the word "unknown." I think that is probably something we will have to deal with on the Committee -- the unknown.

Some of the analysis you gave on the current position of the banks and their support-- I am concerned about whether they are basing their opinions and their position on the current status, things as they are today. Have you all taken into consideration the argument about competition? Once you get complete foreign bank entry not only into New Jersey, but into all the surrounding states, what impact will that competition have on the current banks that would like to remain status quo, or just like foreign bank entry only based on acquisition? I think there is some forecasting that probably needs to be done for the benefit of all of us, and especially the banking community and the people. We are concerned about who will benefit the most.

Is it fair to remain status quo and just deal with that, as opposed to, you know, foreign bank entry into New Jersey, as opposed to all the other surrounding states having foreign banking? How would we be-- You know, will those jobs and everything still be protected? What are we looking at? Will we still have the same community relationship as Senator Scott talked about? Will the resources be there, you know, based on that competition? I think that is something I would like to be more clear on.

I do not expect you to do it today, but I think it is something that we probably need to address at one point, like, what does the future actually hold, as opposed to the present?

MR. CAMERON: Well, I can say that we have been successful in New Jersey. I think it was cited that there are almost 300 foreign entities in New York alone as we speak, but New Jersey has done rather well without them. Our acquisition process which is in place seems to have succeeded. I think the question arose, "Why change that now?"

ASSEMBLYMAN BROWN: Okay.

ASSEMBLYMAN LUSTBADER: Thank you. We appreciate it.

MR. CAMERON: Thank you very much.

SENATOR INVERSO: Our next speaker will be Gary Welsh, Director, Regulatory Advisory Services, Price Waterhouse.

G A R Y M. W E L S H: Chairman Inverso, Chairman Lustbader: Thank you very much for inviting me here today and giving me this opportunity. I hope my views and the information I am providing will be helpful to the Committee as you consider legislation to allow foreign banks to establish branches or agencies in the State of New Jersey.

I think it is important to focus on the fact that foreign banks have expanded into U.S. markets for the same reasons that U.S. banks have expanded overseas; that is, to service investments and operations of their home country customers, to finance international trade between their home country and the United States, to participate in our very important wholesale borrowing, lending, and foreign exchange markets, and to diversify their operations. The vast majority of foreign banks have chosen to conduct business through unincorporated branches and agencies, which must be licensed by State or Federal authorities and approved by the Federal Reserve Board.

Under Federal law, branches and agencies are not eligible for Federal deposit insurance and generally cannot accept retail deposits. Because such offices cannot be insured or accept retail deposits, they are not subject to the Community Reinvestment Act. However, branches and agencies are

subject to Federal antidiscrimination and consumer protection laws and are otherwise regulated, supervised, and examined on the same basis as U.S. banks under the principle of national treatment.

Now, I think it is important-- There is always a lot of speculation about what foreign banks may do, and I think the best source of information is to look at what, in fact, they are doing in the United States. Available statistics on the operations of foreign bank branches and agencies in the United States underline the fact that their business is overwhelmingly conducted in U.S. international and large wholesale markets. The principal funding sources for branches and agencies are borrowings in U.S. money markets and large certificates of deposit. Their total amount of demand deposits and smaller certificates of deposit are negligible, representing less than 1 percent of total U.S. bank deposits in these categories.

Contrary to some popular misconceptions, foreign bank branches and agencies are not importers of capital to the United States. In fact, at year end 1992, branches and agencies had in excess of \$100 billion in loans to U.S. borrowers over deposits from U.S. persons. Thus, U.S. deposits do not generally flow out of branches and agencies to fund operations outside the United States; instead, on a net basis, branches and agencies borrow funds from abroad to support their lending operations in this country. On balance, branches and agencies of foreign banks provide new sources of capital to commercial borrowers in the United States, not abroad. In other words, as one of the Assemblymen noted, they expand the pie of available funds to U.S. borrowers.

On the asset side, the story is similar, as branches and agencies, for a number of reasons, are basically limited to serving large commercial customers. They have no source of retail deposits; they have a very limited geographical presence. When you look at foreign banks in other states, you

find that basically they have one office in a major international center in that state, and they have no established U.S. customer base. For the most part, they are buyers, not originators, of commercial loans. That is important. For example, large U.S. banks originate almost 85 percent of large syndicated loans in the United States. Foreign bank branches and agencies are the largest buyers of these loans. The benefit this provides to the U.S. market is that by purchasing these loans from U.S. banks, it, number one, makes it easier for U.S. banks to service their customers, and two, it frees up additional credit at U.S. banks to service additional U.S. customers.

While smaller community banks -- and you heard it today -- have, at times, expressed concern that foreign bank branches and agencies would compete for local borrowers, there is simply no evidence of such competition. As noted, branches and agencies cannot accept retail deposits; they do not have branch systems within states; and they confine their activities to the large wholesale customers. This is clearly confirmed by a recent statistical report by the Federal Reserve, which stated that almost all commercial loans by branches and agencies of foreign banks are in amounts greater than \$1 million. In contrast, the Federal Reserve indicated that over 8000 U.S. community banks reported that 95 percent or more of their total business loans were in amounts less than \$1 million. Community banks service this market down here; the foreign banks service this market up here. There is absolutely no reason for a community bank to fear that a foreign bank is going to try to take its base of customers away.

Now, what are the benefits of foreign bank branches and agencies? Well, first of all, foreign banks, particularly European banks, have been in the business of international banking for centuries. What they have brought to the U.S. market is significant expertise in international trade and

project finance, which has benefited not only our large exporting companies, but also smaller exporters. Now, when many U.S. banks pulled out of international trade finance in the 1980s due to the LDC debt problems, it was the foreign banks that made up the difference, and they continued to finance U.S. trade in the 1980s. Now the situation is turned around. U.S. banks have come back to international trade finance, but foreign banks still play a very important role in the particular sector.

The most immediate reason why foreign banks want to come to the U.S. and why they will want to come to New Jersey, is to service their home country customers. That is where the benefit to New Jersey comes in, because what they end up doing is financing investment from abroad in New Jersey, and financing the expansion of foreign-owned businesses in New Jersey. That creates additional capital; it creates additional jobs; it creates additional economic expansion in the State. Again, the pie gets bigger, not smaller.

Finally, foreign banks are important to the development of international capital and financial markets in the United States. If you want to take a look at a possible model-- New York is probably not a good model, because New York is unique. But take a look at Miami. Miami first made a concerted effort to begin to attract foreign banks in the 1980s. Since then, Miami has become one of the major international financial centers in this hemisphere, fueled largely by the operations of foreign banks in Miami. When you go to see regional banks in Miami, they will tell you that foreign banks are some of their best customers, because they buy their loans, they provide them services, and they are very active in supporting the growth of international trade through Miami.

In conclusion, I hope my remarks have been of assistance today. If we can provide any further information, I would certainly be glad to do so.

SENATOR INVERSO: Are there any comments or questions for Mr. Welsh? (no response) Have you given us copies of your remarks?

MR. WELSH: Unfortunately, I did not bring enough, but I did give some to your aide.

Thank you.

SENATOR INVERSO: We will have copies made and will circulate them.

Thank you very much, Mr. Welsh.

ASSEMBLYMAN LUSTBADER: Our next witness will be Richard F. Ober, Jr., Executive Vice President, General Counsel, United Jersey Bank.

R I C H A R D F. O B E R, J R., E S Q.: Good morning. Chairman Inverso, Chairman Lustbader, Senators, Assemblypersons: Thank you for the opportunity to testify today. My name is Rick Ober, and I have been General Counsel at United Jersey Banks for the last 19 years. United Jersey is the largest State-chartered bank headquartered in New Jersey, with about 36 percent of the deposits of commercial banks regulated by the New Jersey Department of Banking.

We do not think of ourselves as a local retail bank. For example, we have an International Department employing at least 40 people. We certainly are in the business of lending to businesses, lots of loans, over \$1 million. Frankly, we are less worried about foreign banks taking deposits than lending to businesses. We make money on loans, not on deposits. That bank loan pie, the commercial bank share, business lending pie, has decreased over 60 percent in the last 20 years, with regard to Assemblyman Corodemus' question.

You may recall that on October 24, 1994, in addition to my bad hair joke, I urged that New Jersey needed to repeal usury laws and a multitude of other burdensome and duplicative regulations that have made New Jersey a less than attractive choice for banks, many of whom will have the ability to make

that choice for the first time under the Interstate Banking Act. At that time, I gave you a list. Stu Cameron pointed out that not only did our Banking Commissioner and her staff move ahead and propose the repeal of the one item on my list where the New Jersey provision was a regulation, rather than a statute, but they went further and proposed simplification of a second regulation to conform to the new Federal Truth in Savings Act. So the Commissioner has made a start, and I hope the Legislature will follow suit, particularly on the usury front. I know it is a political hot potato, but I honestly do not believe that there is any consumer in New Jersey who gets a loan at a lower rate because of usury protection.

Now to the subject of foreign bank activities in New Jersey. I have attached to my testimony -- of which I believe you have copies -- some articles from "American Banker" about foreign banks operating in the U.S. UJB's position is that it favors the opening of New Jersey to foreign banks and domestic banks by acquisition, but not de novo. Like the Commissioner, I urge you to start with a vision of what you believe the best banking landscape for the State of New Jersey would be five years from now -- I guess that is the year 2000 -- and work back from there to figure out what New Jersey should do today about foreign bank entry. I am not sure anyone has described such a vision. The recommendations of the New Jersey Economic Master Plan do not provide a clear picture of what the State needs. That is probably the fault of the banking industry for failing to get out there to testify at those hearings.

I would like to go back a little bit and remind you of the financing of the Meadowlands Sports Complex. If you will recall, the New York banks had signed up to buy the original bond issue to build Giants Stadium, and backed out at the last minute under pressure from the Governor of New York. The larger New Jersey banks stepped in and bought the bonds, and

suffered with them for several years until the racetrack put the Meadowlands on a sound financial footing.

If the middle-sized banks like United Jersey, MidLantic, Summit, Commerce, Sovereign, and Valley National get squeezed to the point they have to sell out, there won't be any banks with substantial financial strength that owe their primary allegiance to New Jersey, that will buy Meadowland bonds or pony up for the New Jersey Community Loan Fund or the New Jersey Vietnam Veterans Memorial, banks that know that what's good for New Jersey is good for the banks. There won't even be political contributions from their political action committees to support the exciting and vibrant politics of our State. We are all seeing the effects--

SENATOR INVERSO: Do you want to mention the people you have mentioned here in your written testimony as being supported?

MR. OBER: Sure. I think I have mentioned two Republicans and two Democrats -- "vibrant politics of our State, which can elect a Frank Lautenberg on one side and a Bret Schundler on the other, a Christie Whitman on one hand, and a Doug Palmer on the other. I mean--

SENATOR INVERSO: Since we are here in Trenton, I thought we should mention Mayor Palmer's name.

MR. OBER: Certainly.

We are all seeing the effects of some top pricing in the credit card business: increased competition and "teaser" rates. I suspect that before too long, 8 or 10 banks and nonbanks will control this business completely in the United States. Then prices will go up and stay up. MidLantic and UJB already sold out their credit card businesses. We sold to Harris Trust, which is owned by a Canadian bank. We just couldn't compete with their market power.

Our friends at Chemical Bank came into New Jersey with a big bang, buying Horizon Bancorp a few years ago. Now

they are selling off the southern part because it doesn't fit their latest strategic plan. Like Senator Scott, I am concerned about how important a part New Jersey will play in the strategic plan being developed in London, Madrid, Frankfurt, Hong Kong, Korea, Australia, or Japan.

The Japanese banks had captured the majority of the letter of credit business a few years ago by underpricing everybody. The Commissioner testified that this was good, but that is business we lost. They were not financing their home country customers, they were financing our municipalities. Now the Japanese have practically disappeared. In my Appendix, an "American Banker" article says: "Many big Japanese banks, hit hard by mounting problem loans at home, are cutting back on their U.S. operations. Bank of Tokyo, the biggest foreign bank in the United States, for example, cut its assets by more than 12 percent, to \$45 billion. In an even more dramatic move, Australia's Westpac Bank, confronted with enormous losses in its home market, decided to close five of its six U.S. offices and massively reduce its U.S. balance sheet."

As I said, we are not opposed to having foreign banks come into New Jersey. We just believe that they need to make a commitment to New Jersey. If we make it easy for out-of-state, especially foreign banks, to open up a branch at minimal expense and with no real commitment or resources, and subject to almost no New Jersey banking regulation, to skim the profitable cream of the New Jersey business in good times -- maybe letters of credit, for example -- and to disappear in bad times, we will just make it too unprofitable for the middle-sized New Jersey banks to continue independent. We will go from credit crunch to-- Now the bank regulators are saying we are lowering credit standards because there is cut-throat competition for loans.

From a regulatory point of view, what is a branch of a foreign bank created de novo in New Jersey? It is just a

branch of a New York branch of a foreign bank. Who is in charge? Where are the records? Who is regulating it? The recent Banca Nazionale del Lavoro scandal in Atlanta, where an out-of-control branch of an Italian bank made billions of dollars of unauthorized loans to Saddam Hussein before Iraq invaded Kuwait, of which \$350 million -- \$350 million of those loans to Iraq had been guaranteed by the United States Department of Agriculture. That can happen. A branch manager there who was taking kickbacks had a parallel accounting system -- the now famous "gray book" -- to hide the transactions. Of course, after that, Banca Nazionale del Lavoro closed its Atlanta and Miami offices and downgraded its Chicago and Los Angeles offices.

Other recent scandals involving foreign banks in the U.S. include: the Bank of Credit and Commerce International, the infamous "BCCI," which pleaded guilty to laundering \$32 million on behalf of Columbian drug dealers and brought down Clark Clifford; Banco de Occidente; the Bank Leu of Switzerland, also pleading guilty to laundering drug money; and the Reverend Sun Myung Moon's attempt to buy the Diplomat National Bank, which got the SEC after him.

UJB thinks the price of entry of a foreign bank into New Jersey should be a pretty substantial commitment of resources. It should write a check for the purchase of a New Jersey bank. National Westminster bought First Jersey Bank, that's a substantial commitment. Banco Santander has bought more than 25 percent of First Fidelity, that's a substantial commitment. Of course, First Fidelity has moved its headquarters to Elkton, Maryland, recently. But to open an office with just a few people just across the Hudson River in New Jersey so you can qualify for New Jersey business, that is not a commitment.

An example of what I am thinking of is that an Australian bank just announced last week its acquisition of

Michigan National, a \$10 billion regional bank. Now, I do not believe they are going to get rid of FDIC insurance and close 150 branches. If they found a loophole like NatWest, Marine Midland, and the Japanese-owned banks in California, then we should find a loophole. All of those banks are subject to all of the Community Reinvestment Act requirements.

It may be suggested that UJB's position is counter to free enterprise and free trade, the American way, that consumers always benefit by unfettered competition. I would respond by pointing out that the U.S. has laws like the Robinson-Patman Act, which prohibits predatory pricing, and the antidumping laws, which prevent unfair competition. These are designed to keep a big company from lowering prices until it bankrupts its competitors and it has a monopoly, and then raising prices even higher. I believe the United States is much better off when Toyota is building cars in Kentucky or Tennessee and supporting the local Little League and PTA, than back when Toyota was selling cars to its own citizenry at higher prices, and "dumping" them at lower prices on the U.S. market. What are the consequences of predatory pricing? Chrysler headed for bankruptcy and had to be bailed out by the U.S. government.

To state UJB's position:

We are opposed to foreign or domestic bank entry by de novo branching or acquisition of just a branch. We think they should buy a whole bank, and thus become subject to full regulation, including community reinvestment, in New Jersey.

We are opposed to amendment or repeal of Section 19.L or Section 316 of the New Jersey Banking Act, which would allow that.

We favor amendment of Section 345 of the Banking Act to allow a foreign entity to acquire the stock of a New Jersey bank.

New Jersey is the most overbanked State in the nation. You have heard testimony about that. So we do not need more bank branches, complete with drive-ins and vaults, built in New Jersey. When banks fail or close branches because of lack of profitability, they are not useful for much else. I do know of a chicken place up on Route 27 that is in a former bank branch. I wonder if they use those old tubes to send the drumsticks out. But I digress.

We want banks that have made a commitment to New Jersey. We have agreed to an amendment to Section 19.2 of the Banking Act, which would allow National Westminster, or NatWest, to do most of its London branch business -- which is in New York now -- here, by using its New Jersey bank as an agent, because it owns a New Jersey bank. We think it is short-sighted to throw New Jersey open to de novo branching by out-of-state U.S. or foreign banks to come in and skim the cream in good times and provide no support to the State in hard times.

Think about the banking industry you want in New Jersey in the year 2000. You have the power to shape that industry. Please decide what legislative actions will support your vision, and take those actions, whether they be reduction of regulations or taxes or opening New Jersey to acquisitions, but not de novo entry.

Thank you very much for the opportunity to testify. I will try to answer any questions you may have.

ASSEMBLYMAN LUSTBADER: Mr. Ober, you mentioned several times that you are opposed to foreign banking de novo. You want foreign banking by acquisition only. Am I correct on that?

MR. OBER: Yes, sir.

ASSEMBLYMAN LUSTBADER: Okay. Isn't that kind of toothless? In other words, in effect what you are saying is that because of the dynamics of acquiring a bank -- for a

foreign bank to acquire a bank in New Jersey and have to strip it, would not make any economic sense anyway, would it?

MR. OBER: Well, I am not, perhaps, as expert on foreign banking laws as someone from Price Waterhouse, but I do not understand how one of the largest banks in Australia can buy a \$10 billion, probably the 55th largest bank-holding company in the country, Michigan National -- last week, we were the 41st largest. I do not believe they will be stripping the deposits out of a 150-some-branch bank. I don't know exactly what the rule is. They say that branches and agencies cannot have FDIC insurance. Maybe the answer is, if you buy a whole bank, you can. But NatWest has not stripped the FDIC insurance out of its branches in New Jersey; Marine Midland has not done it. There are lots of banks in California that are owned by the Japanese that have full branch systems and FDIC insurance.

ASSEMBLYMAN LUSTBADER: Thank you.

Are there any questions from the Committee?

ASSEMBLYMAN BROWN: Just, I guess -- I don't know if it is a question or a comment.

ASSEMBLYMAN LUSTBADER: Assemblyman Brown.

ASSEMBLYMAN BROWN: Through you, Mr. Chairman, you mentioned a Toyota/Chrysler issue, or something, I think. What happened, I think-- Didn't Toyota build a better car, and they forced Chrysler to make a better car, and that whole scenario?

MR. OBER: It certainly seemed, in that era, that Japanese engineering was superior. I don't know that I believe that Japanese workmanship is superior, but Japanese engineering was at that time. That was certainly a consideration in the competition between the domestic and Japanese manufacturers. But a second consideration was also the dumping question, and the question of were they to invade the United States market selling at lower costs than they were selling in Japan. As you may recall, ultimately the Japanese agreed to so-called

voluntary restrictions on the number of cars they shipped into the United States.

ASSEMBLYMAN BROWN: My only comment was the observation that it appeared that because of that kind of competition, they forced Chrysler to make a better car -- to provide a better made car, so the competition was good for the consumers. That is just a personal thing I was curious about.

MR. OBER: Well, they forced Chrysler into bankruptcy, and the taxpayers ended up having to guarantee their recovery.

When I suggest that we--

ASSEMBLYMAN BROWN: That was just a comment. I did not want an answer. It was irrelevant to the issue.

MR. OBER: Okay, if you think so.

ASSEMBLYMAN JONES: Mr. Chairman?

MR. OBER: Assemblyman Jones?

ASSEMBLYMAN JONES: I must be recognized by the Chairman.

MR. OBER: Yes, sir.

ASSEMBLYMAN LUSTBADER: Assemblyman Jones.

ASSEMBLYMAN JONES: Thank you, Mr. Chairman.

Mr. Ober, in your presentation you mentioned a number of scandals involving, you know, foreign banks. That just ignited some curiosity I had relative to policies, how these policies may impact the foreign bank secrecy laws, and whether or not you would have any opinion relative to the Bank Secrecy Act and how it may apply to foreign banks with respect to them defeating the United States criminal investigations procedures in the advent of some of these scandals you mentioned.

MR. OBER: I certainly want to correct any misimpression -- looking back -- I may have given by suggesting that foreign banks, or any but a few bad apples among the foreign banks, are not good citizens.

ASSEMBLYMAN JONES: I did not get that impression, by the way. I know there is a dilemma relative to banking

secrecy, and I know New York has had-- As they continued to develop their foreign banking environment, there was specific mention made to how they would address certain standards that, perhaps, were deficient, as they pertain to the information sharing between foreign banks and the government.

I was wondering whether or not you had any views relative to that issue.

MR. OBER: Yes, I do, if I can sort of sneak up on it a little bit. There are lots of foreign banks that are good citizens of this country -- NatWest, Marine Midland, and I mentioned a bunch of others, the Harris Bank. The reason for mentioning some of those things which have been happening -- and Banco del Lavoro was probably one of the best examples -- is that, if you have a bank here, you have a bank with a president, a treasurer, a charter, records, and people in charge, I believe it is a lot better -- a lot easier to get compliance, and a lot easier to regulate. There is a commitment that if there is a problem, it will be fixed; that a single agency of a foreign entity where all the bosses are in Rome or Frankfurt, or wherever, is much more likely to get, you know, off the farm. I mean, it happens to United States banks, too.

But since the issue we are debating, to some degree, is the difference between letting sort of single office agencies in, which everybody has told you are not going to be competitive and aren't going to be so big, versus making somebody come in and make a commitment by a bank, I think I would suggest that the risk is higher of having problems if you just have an agency there. The New Jersey Banking Department is going to New York to learn from them how to regulate them after Banco del Lavoro and the BCCI scandals. One of the articles in the packet I gave you says New York went and rewrote their whole regulation of foreign banks, and now they

have, I guess, more regulators regulating the foreign banks than the domestic banks in New York.

ASSEMBLYMAN JONES: And certainly, just for the record, you know, my inquiry was not intended to suggest that there was anything wrong, but it was more so from a standards perspective, and going back to the question I had asked the Commissioner relative to criteria for entry. This would merely be one of the components for discussion on the criteria of entry, in terms of standards that would be -- that a bank would be expected to meet if, indeed, they were considering access into the New Jersey banking environment. It was only that. I just wanted to include that for the record, to make sure that the intent of the inquiry was not misunderstood.

MR. OBER: Certainly. I think my proposal is, instead of crafting a special law and then hanging a whole list of things and maybe forgetting something, if they have to buy a charter, they are subject to all of them.

ASSEMBLYMAN JONES: Thank you.

SENATOR INVERSO: Thank you, Mr. Ober.

Ladies and gentlemen, we have been through four speakers. Obviously, this is a very important subject and we don't want to diminish how important it is, but we need to speed up the process somewhat. If the following speakers could -- and we have 12 to go -- possibly summarize their presentations, hopefully having provided us with copies of their written presentations, we will have an opportunity to review those. If you could just basically summarize-- If you have a short written statement, of course you are free to read it.

Our next speaker will be Samuel Damiano, President, New Jersey Council of Savings Institutions.

SAMUEL J. DAMIANO: Thank you, Mr. Chairman.

Anticipating the recommendation that we be brief, may I direct you to the last page of my comments. Rather than bore

you with a lot of detail, I will simply state that we are, indeed, a 150-plus-year-old industry. While we are State-chartered savings banks experiencing some diminishment, if you will, of our industry, primarily through acquisitions by domestic banks, we, nevertheless, support interstate branching on a reciprocal basis. We are very emphatic in our support for de novo branching. There may be some need to explain exactly what we mean when we say "de novo branching."

By listening to the conversations here, we seem to have mixed what I think are apples and oranges vis-a-vis foreign bank branching versus domestic bank branching. We certainly oppose the requirement that entry into the State be exclusively through acquisition. We are evenly divided on the matter of foreign bank entry into New Jersey and, as the Commissioner so eloquently alluded to in her comments early on, we believe parity to be extremely important.

To that end, I took the liberty of attaching to my summary a news release that came out of the Office of Thrift Supervision, the supervisory agency that regulates federally chartered institutions, among others. If you will just glance at that heading and look at the very last line of the second paragraph, you will see that not only can we branch across State lines with a Federal charter, but we can provide services across State lines without approval.

I don't mean to shift gears on you and kind of take the focus of the previous speakers into a different direction, but I think what is challenging this Committee, among other things, is the very hard decision of whether or not parity is, in fact, a reality. State-chartered institutions are being threatened, in my perception, and certainly in the view of our industry, by the attractiveness of a Federal charter. The Federal charter attractiveness, unless it is met through a parity response by entities such as this, will continue to bring those deposits into such institutions. That means that

fewer banks would come to you with an interest in seeing State legislation addressed in any way, shape, or form. Their interest will be with the United States Congress, and it will be with their Federal regulators.

Some day, if this is allowed to permeate the system, we will address the consumers by simply referring them to some 800 number in Washington, D.C. I don't think that is the intent of this body. It is certainly not something that our industry would support. We may not be of any help to you on the foreign bank discussion, but we clearly are in favor of de novo branching. And, to repeat myself, we strongly support the idea of parity in the interest of protecting the dual banking system. In simple terms, that means preserving State banking.

I thank you.

ASSEMBLYMAN LUSTBADER: Thank you. We appreciate it.

SENATOR INVERSO: Are there any questions from the Committee for Mr. Damiano? (no response)

I think, obviously as the Commissioner said, and we reiterate, we are committed to parity.

MR. DAMIANO: Thank you very much, and I wish you well.

ASSEMBLYMAN LUSTBADER: Just supplementing Chairman Inverso's remarks, if you feel you would like to submit a written statement in lieu of oral testimony today, be assured that that statement will be reviewed thoroughly. So those of you who are running against time constraints can consider that.

Our next witness will be Bruce Coe, President, New Jersey Business and Industry Association.

B R U C E G. C O E: Thank you.

Good morning, Senators, Assemblymen. The economy of New Jersey is doing better. January of this year, we had 169 new members join our Association, the best single month since back in the spring of 1986.

ASSEMBLYMAN BROWN: How many banks?

MR. COE: Pardon?

ASSEMBLYMAN BROWN: How many additional banks?

MR. COE: None of them were banks, but I appreciate the fact that you are dealing with a really tough issue. To me, it is the toughest issue since health care reform back in 1992. I think we ended up doing the right thing then.

One of the things I think is helpful is to sort of look back in time. I mean, when you are trying to say, "What is the best thing to do for the next 10 years for New Jersey and for banks?" what has been going on for the last--

I was once on the Board of Directors of Ryan, Beck & Company, which is an investment bank headquartered in New Jersey, which, as most of you know, has done an awful lot of capital raising for New Jersey banks. They publish a research report. This is the one dated April, 1988, which I will leave with you. It has the assets of every publicly owned bank and every publicly owned thrift as of December 31, 1987. So that's, like, seven years ago. It is really interesting. If you look at the thrifts, you will see that of all of the assets of the thrifts in New Jersey, two-thirds were held by the largest three, namely, City Federal, \$10.8 billion; Carteret Bancorp., \$5.9 billion; Howard Savings Bank, \$4.8 billion. These are thrifts.

SENATOR CASEY: Excuse me, sir, I am sorry to interrupt you. You keep mentioning-- Do we have anything we can refer to?

SENATOR INVERSO: He is going to supply that to us.

SENATOR CASEY: Okay, very good.

MR. COE: I am going to pass this around to you.

SENATOR INVERSO: We will have copies made.

MR. COE: But, I mean, if you add those together, that's, like, \$22 billion that was in those big three thrifts, and we all know what happened, I think, to City Federal, to Carteret, and to Howard. They all failed. They're gone.

New Jersey State Library

It is interesting, though. There were only two other thrifts back then -- I know we are not talking about thrifts, but it is relevant -- that had assets of more than \$500 million, only two others, and those three-- Think of those numbers.

A similar concentration in the commercial banking industry back then: There were 14 commercial banks that had assets of over \$1 billion. Three of those, namely, First Fidelity, MidLantic, and UJB, had two-thirds of all the commercial banking assets in New Jersey, on December 31, 1997 (sic). So the question raised was, "Bruce, tell us about all the other commercial banks back in 1988 that had over \$1 billion," not First Fidelity's \$29 billion, not MidLantic's \$17.7 billion, and not UJB's \$10.1 billion. Tell us about all the others that had assets over \$1 billion.

There were 11 of them. There were 11 of them. Seven have been acquired since then, including Senator Scott's mentioning of National Community, which, by the way, back then was the fourth largest bank in New Jersey, with assets of \$3.8 billion. Horizon was acquired; Central Jersey Bancorp. was just acquired; and Citizens First Bancorp. was just acquired. The Constellation Bancorp. was acquired last year. It goes on and on and on. If you read this morning's Star-Ledger, HUBCO, which is a publicly owned holding company, has just acquired a New Jersey bank.

Ten years ago, there were 15,000 commercial banks in the United States. Today, there are probably 10,000. In another 10 years, there will be fewer than 5000. I raise a question to you: If you want to make money by investment, what should you buy? Well, you should have bought Bancorp. New Jersey two months ago at 29 -- that's a New Jersey savings bank -- because it was just acquired by UJB for something north of 40. Or you should have acquired -- and then fill in all these other names. Right now, the question is: What is it going to

look like 10 years from now? Will UJB still be UJB as we know it today, or will it be part of some major national bank holding company, whether it is through Bank of New York, NatWest -- or fill in all the others.

So the point of the whole story is, change in banking is going on at an extraordinarily rapid pace. Federal regulators have moved it along at a very rapid pace. Studies have been done, in turn, of foreign banks, you know, whether the acquisition subsidiary is the way to go, or whether branch agency is the way to go. I do not fear foreign banks. I have known foreign banks for the last 40 years. Some of them are pretty good; some of them are not very good. I personally think that UJB, First Fidelity, and others can compete with foreign banks, particularly in the sense that foreign banks aren't going to come here and open a lot of branches. If they do that, they are going to do it through acquisition, which is what many would like. It is nice to think that there might be another 10 or 15 large foreign-controlled banks that might acquire us, if we are the board of directors of XYZ Company, because maybe they will bid more than the Bank of New York. Maybe they will bid more than the Bank of America.

But the facts are that what they want to do, through these agencies or banks, is not compete with community banks, not accept retail deposits. They are limited by-- It is 1 percent of the assets in that branch, Senator. It is not 1 percent of the assets of a worldwide bank. It is 1 percent of the assets of whatever branch they have in New Jersey. It can be less than \$100,000.

So it is clearly going to be-- It is done primarily for sophisticated reasons: first for sophisticated commercial reasons, sophisticated international trade reasons. What they really bring is in some ways available to us, because all you have to do is take the train to New York, and they are all there -- the Argentine bank, all the Swiss banks, Japanese

banks, they are all there with the knowledge. But why do you have to go to New York to gain that knowledge? Some of them would like to come to New Jersey. NatWest is already in New Jersey. They did it through acquisition, as you know. They have also, by the way, were the ones that were acquiring -- did acquire Citizens First, and are acquiring Central Jersey Bancorp., right now. But that is through their subsidiary. But they want to bring their headquarters over from New York to New Jersey. They want to add 175,000 square feet of used space and move a lot of jobs over here. I think that is terrific.

So the question is, well, if we were -- name the bank, a Japanese or a Swiss bank -- what is our motive for coming to New Jersey if we just open an agency office, or a branch? Our motive would be the same as why CoreStates acquired First Jersey National. If we wanted all those branches, assimilating all those retail deposits-- Senator, that is what National Community Bank offered, one thing, to the Bank of New York: a whole lot of branches with a whole lot of receptacles to bring cash in for them to lend. They did not need all the top management and, you're right, they got rid of them. They kept the people in the branches, but they did not need all those top management people. That phenomenon is going on-- It has nothing to do with foreign banks. That is going to happen anyway.

But the foreign banks do not want those retail offices bringing cash in. They don't use U.S. deposits, except for some modest ones. They use it as the gentleman from Price Waterhouse said. The advantage they bring to having a branch in New Jersey, in my opinion-- You should know, by the way, that I am going to be in serious trouble with some of my members for testifying here today. Not one of those foreign banks is a member of our Association, not one. The UJB is; in fact, a whole lot of banks are, and this is a divisive issue in the banking community. But I don't think they have anything to

be afraid of. I think they are afraid, they are cautious. But I think the foreign banks, in establishing small agencies, will compete with not one community bank in New Jersey. Carnegie Bank, up on Alexander Road, is going to thrive whether or not a Swiss bancorp opens an agency office in New Jersey. I promise you that.

So it is really a question of, what they could offer to middle-sized manufacturers. It is true that New Jersey banks have international departments, and they are good. But by the same token, if you-- The Counsel for the Philippines was in my office yesterday, and he loaded me up with all of the Soloman Brothers and Morgan Guarantee material, in-depth analysis of the Philippines. That is a lot of wonderful information.

Well, if you call on a foreign bank and you are interested in a merger, a supplier over there, how to market in that country -- your country, whatever the country, London -- Great Britain, that is, Japan-- It is helpful to talk to foreign bankers. As I mentioned, you can do it today. You have to take the train to New York.

So, in summary, I think that for New Jersey to be the last industrialized State to have such restrictive legislation, is wrong. I think that foreign banks will not interfere with the New Jersey banking industry. I think the consolidation of the industry is going to continue independent of foreign banks. That has nothing to do with it. I mean, they may well make an acquisition, much like NatWest did -- they can do things like that -- but the consolidation is going to continue, whether we like it or not. I think the immediate advantage of having NatWest bring a significant extension to Jersey City -- into New Jersey -- is of paramount importance.

That completes my testimony. Thank you.

SENATOR INVERSO: Thank you, Bruce.

Are there any questions? (no response)

Mr. Coe, will you supply us with that chart?

MR. COE: This is a history course on all of the New Jersey banks which are no longer independent. This is dated April '88. It has the assets as of December 31, 1987.

SENATOR INVERSO: First Fidelity now has what, \$36 billion.

ASSEMBLYMAN LUSTBADER: Thirty-three.

SENATOR INVERSO: Well, it says here "\$36 billion," in The Star-Ledger. UJB, \$15 billion, and MidLantic, \$13 billion.

MR. COE: The UJB is up from \$10 billion to \$15 billion.

SENATOR INVERSO: That is pretty good growth.

The next speaker will be Robert Bostrom, General Counsel, NatWest BanCorp.

D A L E J. F L O R I O, ESQ.: Chairmen and members of the Committee: My name is Dale Florio. We represent NatWest Bancorp. With me is Bob Bostrom, General Counsel for NatWest Bancorp. I just want to make my initial comment, and then I will turn it over to Mr. Bostrom.

Earlier, what you heard today-- Some of it was somewhat inflammatory concerning foreign banks. Some of it, quite frankly, was inaccurate. We would hope that Mr. Bostrom can set the record straight on a number of items.

Bob?

R O B E R T B O S T R O M, ESQ.: Thank you, Dale.

Good afternoon, I guess. We thank you for your indulgence in perservering through what has been a longer-than-usual morning, I guess, for you at one of these hearings.

Chairman Inverso, Chairman Lustbader, distinguished Committee members: I am not going to really get into what had been my formal prepared testimony, partially in deference to the time, and partially in deference to the fact that we have circulated a rather lengthy "White Paper," which does respond

to a number of the observations and concerns that have been raised here this morning, and which I am sure you will hear raised again.

What I thought I would do, though, is-- I jotted down, as I was sitting in the audience this morning, the seven or eight points which seemed to have raised a high degree of concern on your part. I thought I would try to go through them very briefly and offer you a response to them. If I may, I would like to just preface that by saying, I started out as an attorney with the Federal Reserve Bank of New York. I spent 12 years in private practice in New York City representing foreign banks before I joined NatWest about two and a half years ago. I think I have a reasonably good feel for what foreign banks do, both from a business point of view, as well as how they are regulated. I hope you will offer that degree of experience a little bit of credibility as I try to walk through some of the statements that were made this morning, and try to offer you a slightly different perspective.

The first one relates to FDIC insurance and the earlier discussion that ensued about the 1 percent. If I may, I would like to just clarify very quickly and say, that although the 1 percent exemption from FDIC insurance does exist, it is, as Bruce Coe indicated, limited to 1 percent of the liabilities of the domestic branch, not the foreign parent.

Secondly, the simple fact that a foreign bank branch is allowed to accept 1 percent of its total liabilities in deposits of less than \$100,000 does not mean that they are insured. They are not insured. No deposit at a foreign bank branch or agency, since 1991, can be insured. Typically, in practice, the reason that this exemption was originally put into place was to honor the desires of a foreign bank branch or agency to provide deposit-taking capability to its employees, to citizens from the home country who are here working in an embassy or UN office, and to provide services for employees of

other international governmental organizations. That was typically the reason. It was originally a 5 percent basket -- I shouldn't tell you, but I will -- which was amended in 1991 as part of the Foreign Bank Supervision Enhancement Act, and reduced to 1 percent. There are still regulations which will be issued on that by the FDIC, but I did want you to understand that this was not a massive, gaping loophole that in any way, shape, or form allowed a foreign bank branch to enter the retail deposit market in New Jersey, or anyplace else in the United States.

There was a discussion about the fact that if a foreign bank were allowed to enter the State through the office of a branch or agency, that somehow that would discourage, and perhaps eliminate the opportunity, or the desire, or the incentive for a foreign bank to enter by acquisition. I guess all I can say is, that simply is not true. If you look at the experience of foreign banks in the U.S., you will find that those which choose to operate in the wholesale markets, the national markets -- and I will talk more about this in a minute in the competitive issue -- they singly, solely, and always operate through a branch or agency. Those that are chosen to make an investment in the U.S., for that investment to be in the retail U.S. banking business, have chosen to enter through a domestic bank subsidiary.

I would also add, I am not aware of any of the eight or nine major foreign bank/domestic bank subsidiary operations. They all have parallel branch or agency operations. In those parallel branch or agency operations, they engage in their national wholesale commercial lending and capital markets operations. So almost without exception, those two types of operations are very much divorced and split off from each other, and that is the case with NatWest, as well.

The next observation was -- or I guess a question-- Some discussion ensued as to whether or not, by allowing

foreign banks in, we would expand the pie, or simply have more competition for the same size pie. This also gets us into the competition issue. Virtually all foreign banks that operate in the U.S., operate in the national wholesale commercial markets. That is not to say that there are not exceptions from time to time. Some foreign bank branches have chosen to go, what we call "down market," out of the Fortune 400 or 500 corporation lending business. It has been an exception to the rule, and I think what Mr. Welsh testified to earlier is supportive of this. Typically, the market is national in scope. It is a wholesale commercial corporate lending business. And in the same way that a bank branch from New York might compete for the business of Johnson & Johnson, you might as well get them in New Jersey, where they are paying taxes and employing New Jersey residents and citizens, providing multiplier effects in the economy, rather than have them do that from outside of New Jersey. They will do it. They are doing it from one source or another.

So I think you will find the pie will expand, because those foreign banks will not necessarily compete in the middle-market lending business for New Jersey corporations. Again, I cannot guarantee that none will. Some have, and some will continue to do so. But, generally, the predominant focus of their market is national and wholesale in scope. They are competitors, if you will, of the Chemical Banks of the world: Bankers Trust, City Bank, Bank of America, Nations Bank, the major national lending banks.

I guess I would also indicate on the issue of competition, that the foreign banks are lending to New Jersey corporations -- already are -- as part of large syndicates to the major corporations which are headquartered in New Jersey. We do not believe that the community banks face any threat from foreign bank entry, because of the fact that they are not entitled, or able to receive FDIC insurance.

We can speculate as to potential changes in the future. Stu mentioned that tomorrow the Federal government could increase the 1 percent to 2 percent, 5 percent, 10 percent. Yes, I guess it could happen. Most likely -- the trend has been just the opposite -- foreign banks have become increasingly subject to more regulation, and have been increasingly pushed out of the retail business. Witness the change from 5 to 1.

On the issue of CRA, obviously, any foreign bank that has a domestic bank branch is completely and fully subject to CRA, as well as all other applicable regulations, and the same applies to a foreign bank branch or agency. A branch or agency is subject to all regulation and laws in the U.S. that apply to the type of business it engages in, because it does not engage, and is prohibited by law from engaging in retail deposit taking, and that is a criteria for CRA. CRA does not apply to foreign banks at the Federal level.

My own personal view is that to unilaterally impose CRA obligations on foreign bank branches or agencies in New Jersey would be counterproductive, because of the fact that you would be the only State that unilaterally, outside of the Federal scheme, would impose CRA requirements at the State level on foreign bank branches and agencies. I would hasten to add that NatWest Bancorp, its bank, which is subject to CRA, has a "One" rating. It is a very good corporate citizen. It is a very good, dedicated, and loyal resident -- corporate resident of the State of New Jersey -- and New York, I might add -- and it works very hard at that.

With respect to the comments made about Banca Nazionale del Lavoro and BCCI, it is very difficult to react to. I can simply give you four quick points:

- 1) There have been no similar scandals since then, and there were none before then. It is not a widespread incident. It was an aberration.

2) We could point to just as many headlines, if not significantly more involving U.S. banks and savings and loans in the last 10 years.

3) Since 1991, with the enactment of the Foreign Bank Supervision Enhancement Act, there have been hightened regulations, so that if regulation was insufficient at the time, it has clearly been changed.

(4) New York -- I respectfully disagree with Rick -- did not rewrite its entire foreign banking law in response to the BNL and BCCI incidents. Changes were made that were relatively minor. A long report was issued by the Superintendent's Committee on Transnational Banking, which isolated some specific incidents where change could be made, but it generally significantly supported the State regulatory system. What happened was that an additional-- I guess a double check was imposed upon them at the Federal level, so that now any foreign bank seeking to establish a branch or agency has to first go through the regulatory process either with the State, if it seeks a State charter, or with the Office of the Comptroller of the Currency, if it seeks a national charter. In addition to that, it must also apply to the Federal Reserve.

In addition, as a result of the Foreign Bank Supervision Enhancement Act, there is now a dual examination and supervisory structure put into place, so that not only does the primary regulator, be it the State or the OCC, examine and supervise a branch or agency, but the Federal Reserve, in addition to and parallel to, undertakes and subjects the foreign bank branch or agency to the very same process.

I guess in conclusion, before being ready to respond to any questions you may have, I would like to point out that the key thing in this whole process is to really bring the balance sheet, the income of the branch or agency, to the State of New Jersey. That is what provides significant tax revenue;

that is what provides significant jobs; and that is what provides significant economic development for the State.

The "back office" amendment, back in 1991, I guess it was, was certainly a positive step in the right direction. But, in effect, that allowed jobs to be brought in a fairly limited number, but none of the income from the revenue generated by the branch or agency. The key to economic development here is to bring the tax revenue in, to bring the income in. The foreign bank branches or agencies typically operate on a national basis. Their income is generated from loans to borrowers throughout the country, but this is where the tax base would be.

I am ready to answer any questions you may have.

ASSEMBLYMAN LUSTBADER: Thank you.

SENATOR INVERSO: Are there any questions from the Committee? (no response)

ASSEMBLYMAN LUSTBADER: We appreciate it. We will review your statement, and I am sure there will be some questions among the Committee members. If they cannot be resolved, we will get back to you.

MR. BOSTROM: Thank you. We appreciate the opportunity to be here.

ASSEMBLYMAN LUSTBADER: The next witness will be Yung Soo Yoo, CEO, Vitac Optical Company, and Chairman of the International Trade Task Force, New Jersey Economic Master Plan Commission.

Y U N G S O O Y O O: Thank you.

Chairman Inverso, Chairman Lustbader, distinguished members of the Committee: As the Chairman of International Trade Task Force, New Jersey Economic Master Plan Commission, I am very pleased to join your Committee's public hearing today.

The major focus of the International Trade Task Force Committee was to design both a short- and long-term strategy to develop New Jersey's international trade potential.

In accomplishing this goal, we investigated other countries' and other states' international business initiatives, as well as New Jersey's existing programs and those of other agencies and organizations presently operating in our office.

From the three public hearings and more than a dozen committee meetings over the last 10 months, we have learned two key factors which are needed most by small- and mid-sized businesses: the right information and access to financing on international trade. Our study focused on these areas and some new initiatives to strengthen the New Jersey economy.

To give a perspective to our challenge, let me give you some measures of the direct impact of international trade on the economic health of New Jersey. For example, for each \$1 billion of export sales, there is the approximate equivalent of 20,000 jobs. Considering that the latest figures estimate that New Jersey's exports stand at approximately \$14.5 billion per year, which equates to 290,000 jobs, continued reliance on our international markets is imperative. This estimate embraces direct employment only. It does not include spin-off employment attributable to export-related activity. The spin-off effect could easily result in another 464,000 jobs. Conservatively, this would raise export-related employment to an estimated 754,000 jobs, or 18.3 percent of the State's employment base.

During the last four years, New Jersey exported over \$40 billion. Of this amount, the New Jersey Economic Development Authority assisted in the export financing of only \$10 million, which is 0.00075 percent. Export financing through New Jersey commercial banks is extremely difficult for small- and mid-sized industries.

The leading American center for foreign banks is the New York/New Jersey metropolitan region. There are 450 offices of foreign banks, with assets at \$603 billion, or greater than

two-thirds of foreign banking in the entire United States. The region accounts for 53 percent, or \$115 billion, of the commercial and industrial loans made by foreign-owned banks. However, there is no single foreign bank in New Jersey.

A special example is South Korea. South Korea is ranked seventh as a trading partner with the United States for exports, representing \$14.776 billion, and eighth in imports, representing \$17.123 billion in 1993. There are no statistics available about how much New Jersey banks participated in financing the above transactions.

In New York City, there are 18 Korean banks conducting most of the international transactions for the large Korean corporations. Korean businesses located in New Jersey must go to New York City for banking services.

I, therefore, urge Governor Christine Todd Whitman to be the quarterback not only for export and reverse investment, but also to invite foreign banks to be located in New Jersey. I ask you to join Governor Whitman in creating jobs for New Jersey through international trade by removing the old barriers of international business like New York, Pennsylvania, and Connecticut.

Since I was told at 5:30 yesterday afternoon about testifying, there are some errors in my written statement. I wrote until 10:00 last night, hence the errors there, but all in all we need a foreign bank. We invite industry into our State, with no bank facilities, even airlines. Even the Korean Airline didn't come. We have 100,000 residents here. That is what I am looking at as well.

So, Senator Scott, we need a foreign bank here. This is not the big pie. These are totally different pies.

Thank you.

SENATOR INVERSO: I think one of the telling things in your testimony here, Mr. Yoo, is that we have had \$40 billion in export activity over four years.

MR. YOO: Yes.

SENATOR INVERSO: And the New Jersey Economic Development Authority assisted in \$10 million of that \$40 billion.

MR. YOO: Ten million dollars.

SENATOR INVERSO: Yes, of the \$40 billion, the Economic Development Authority assisted in only \$10 million. I understand. I was just wondering how much of the balance -- which is virtually all of it -- was done by New Jersey banks.

MR. YOO: We do not have any specific statistics, Senator, but very little. I included the Japanese and Korean business groups, small or big, and they go to New York.

SENATOR INVERSO: Yes.

MR. YOO: You know, why not here? I spent four hours yesterday just to get to the New York Bank, whereas just five minutes away from my office is the Rutherford Bank. So this is inconceivable inconvenience. I wish we had a public hearing like this 10 years ago. The Asian and Pacific markets are greater than the U.S. altogether. That is where the money is. We have to get after it.

ASSEMBLYMAN LUSTBADER: Unfortunately, the Federal legislation took about 10 years to get enacted. That was our problem.

MR. YOO: All right. Now is the time for New Jersey to get started.

ASSEMBLYMAN BROWN: Mr. Chairman?

ASSEMBLYMAN LUSTBADER: Assemblyman Brown?

ASSEMBLYMAN BROWN: You said you spent four hours to get to New York. Are you suggesting that that could be part of the reason you only got \$10 million out of the \$40 billion? If you could have gotten it here, you could have gotten it faster.

MR. YOO: See, the foreign banks are expert on international trade. They know what it takes. For example, if a New Jersey industry or business received a letter of credit,

\$100,000, in a foreign country that is a very liberal credit. Against that, they lend the money for export. A New Jersey bank requires additional collateral, in addition to that letter of credit. So here we do not have any choice about going to New York, where they accept the letter of credit. Plus, New Jersey EDA does not help in these situations, so where do we go? Naturally, we go where we can get the credit line.

ASSEMBLYMAN LUSTBADER: Thank you, sir. We appreciate it.

MR. YOO: Thank you very much.

ASSEMBLYMAN LUSTBADER: The next speaker will be Lewis Hurd, CRA organizer for New Jersey Citizen Action.

L E W I S H U R D: Good morning, Chairmen, Senate and Assembly. I will be very brief. Afterward, I will give you copies of my statement.

My name is Lewis Hurd, and I am the Committee Reinvestment Act organizer for New Jersey Citizen Action, the State's largest consumer coalition. Over the last nine years, we have been working with banks in an effort to increase the access to low, moderate, and minority residents.

New Jersey Citizen Action is concerned that there will be an increase in concentration of money and power in fewer and fewer banks. This is something that we worry about. Right now, several New Jersey banks are leading the way in improving banking services to the cities, and have developed leaders within their own organizations who are really dedicated to improving lending patterns in urban communities. There is no guarantee that these people will have power and will control decision making, as banks grow into mega-giant corporations.

Interstate branching makes it much easier for expanding banks to enter new markets on a selective basis by "cherry picking" the branches they buy from other financial institutions.

Interstate branching may result in the siphoning off of deposits from our communities, more branch closings, and the loss of credit and deposit services, as banks pick and choose where they want to do their business.

New Jersey Citizen Action can expect to see big banks from outside this region buy bigger banks in our State. Regional banks will become nationwide banks. There might be a scaling back or phasing out of the regional headquarters that some banks maintain in New Jersey. Jobs will be lost. There is absolutely no guarantee that the savings that the banks realize through internal consolidations will be passed on to consumers.

Our question is: Will banks from other countries come into New Jersey and have to comply with the current CRA obligations?

If New Jersey is to opt into the provision of this law, then the New Jersey Department of Banking must become a vigilant advocate of the consumer, particularly low, moderate, and minority borrowers. The Department must be adequately funded and staffed with people who are experienced and are sensitive to the needs of the community. Eliminating lending discrimination must become a priority and strong regulations must be passed to guarantee that as banks get bigger they do get better.

I will hand out copies of my statement. It will be more detailed than what I have said here.

Are there any questions?

ASSEMBLYMAN LUSTBADER: Thank you.

Committee questions? (no response)

Thank you, Mr. Hurd.

SENATOR INVERSO: Our next speaker will be Nancy Mantel, Director, R/ECON, Economists.

You have already spoken, right, Mr. Florio?

MR. FLORIO: But I want to put Dr. Mantell's role here in perspective. She is, as you said, Director of R/ECON, Center for Urban Policy Research of Rutgers University. She was asked to prepare a study on the economic effects of NatWest moving its wholesale operations from New York to New Jersey, recognizing, I think, what Mr. Boston said earlier that, what New Jersey misses out on at the present time, are the balance sheets that could come across the river to New Jersey. So Dr. Mantell did a little research, and she is going to present that today.

N A N C Y H. M A N T E L L, Ph.D.: The report that I did is attached to the "White Paper" from NatWest, so I am going to just give you the highlights of it.

What we did was--

SENATOR INVERSO: Could you please speak more into the microphone? I am having trouble hearing you.

DR. MANTELL: Sure.

SENATOR INVERSO: The other one.

DR. MANTELL: What we did was look at what the impact would be of moving the 757 jobs that are currently in New York City at this particular branch of NatWest, to New Jersey. The results are-- It is a straightforward economic impact and tax revenue analysis. We did it using our economic model of New Jersey, which is done through the Center Program Policy Research at Rutgers.

The impact would be on employment in New Jersey, on income, and on retail sales, all the kinds of things that go with jobs. What we found was that the 757 jobs that would be moved would result, after a few years -- probably about three years -- in an additional 1300 jobs for the State of New Jersey, around 750 from NatWest, and the remainder produced by the multiplier impacts of the move. Those other jobs would be in retail and in services, and a few in finance. They would lead to increases in income in the State, increases in retail

sales in the State, and increases in tax revenues in the State. I would assume that the tax revenue benefits would be the thing that you would be most interested in.

We found that over the initial four-year period, we would be adding around \$24 million in tax revenues to the State, primarily in personal income taxes, corporate taxes, and sales taxes, and also, at the local level, mostly in property taxes. In the long run, we would be adding about \$8 million per year in current dollars -- in 1995 dollars -- every year to the State's revenue.

That is the gist of the paper. I did a small revision, which I think you will be getting to add to what is in the "White Paper." But those are the major facts.

MR. FLORIO: I would just emphasize to the members of the Committee that that is just NatWest. It is not intended to be--

DR. MANTELL: Yes, it is just for that one branch.

SENATOR INVERSO: Is there any downside to NatWest moving in from a personnel standpoint -- an employee standpoint?

DR. MANTELL: Well, the particular branch already has almost 30 percent of its employees living in New Jersey. We looked at the distribution of employment for securities firms and banks in Jersey City which are already there, and we found that 67 percent of the employees were New Jersey residents. So we assume that about 50 percent of the current employees would move to New Jersey, or those jobs would be taken by New Jersey residents. So it would be a positive impact, and that is where the property taxes would come in.

SENATOR INVERSO: Assemblyman Brown?

ASSEMBLYMAN BROWN: The fact that you have 757 positions coming in and usually have that kind of transition, won't there be some, what may be consolidations of some of the existing jobs that are currently there now by NatWest? These people could be replaced?

DR. MANTELL: This is a specific unit of NatWest.

ASSEMBLYMAN BROWN: Actually an additional, or--

DR. MANTELL: This is moving a whole group from the city, presumably to Jersey City.

ASSEMBLYMAN BROWN: Yes, but what impact would it have on the existing employees you have here now?

DR. MANTELL: I have no idea. I don't think it would have any.

ASSEMBLYMAN BROWN: You could be bringing 757 from New York and maybe getting rid of 1000 from New Jersey.

DR. MANTELL: No, no, no. It is a separate unit.

MR. FLORIO: This is the wholesale banking entity. This would be totally separate, with separate responsibilities. Therefore, it would require the full amount.

ASSEMBLYMAN BROWN: I got a sense of that, but I just wanted it made clear for the record.

DR. MANTELL: It would not be taking away jobs that are already here. It would simply be additional jobs.

SENATOR INVERSO: May I ask this: Without any change in the law -- and we welcome NatWest-- What is there about the law change that makes the move more palatable and more opportune for NatWest, and for New Jersey?

MR. FLORIO: Let me just take a shot at that -- at providing an answer.

New Jersey's workforce is better educated. The tax rates are lower than in the city. So from a business operation standpoint bringing this wholesale group over is a better opportunity for them. Without a change in the law, they can stay in New York and continue to provide wholesale services, both in New Jersey and everywhere else in the country, but because of the law, they are not allowed to do that. So it is probably more a quality of life, better standard of living, better access to a pretty solid workforce that makes it more attractive from a business operation standpoint.

Quite frankly, it is easier to go from downtown New York, where they are located now-- It is faster to come across the river through the PATH to Jersey City. There is just a series of logistical costs of operations that makes it much more attractive to come to New Jersey, but they can't do that because of the current law. And, as I said, with them comes their balance sheet, and Dr. Mantel has indicated that.

ASSEMBLYMAN JONES: Mr. Chairman?

SENATOR INVERSO: Yes, Assemblyman Jones?

ASSEMBLYMAN JONES: Thank you.

The speaker before you, Mr. Hurd, talked about the element of cherry picking and the impact that would have, particularly on, possibly, urban centers and the minority workforce, which, right now-- There is a high degree of unemployment among the minority workforce. So when we are talking about job creation, you know, there is going to be a certain degree of sensitivity relative to the urban core and its impact -- hopefully a positive impact -- on the unemployed minority workforce.

When you are laying out the numbers, 757 jobs that would be moving -- and I understand that this is NatWest -- from New York to New Jersey-- You know, hopefully that would have some impact on that segment of the population in terms of creating employment opportunities. I understand that New Jersey currently has an unemployment rate that is higher than the national average, and that would have some relative impact -- favorable impact -- on New Jersey's unemployment rate.

But what I don't quite hear you saying, is that the number of jobs that are coming over are clearly jobs that would be a new birth, a new creation of job opportunities for New Jerseyans, as opposed to just 757 jobs being transplanted from New York to New Jersey, and not having an impact on New Jerseyans -- not creating job opportunities for New Jerseyans -- and, furthering that, not creating job opportunities for the unemployed minority workforce.

Then I would just like to understand, if I could just get this-- You indicated there would be a multiplier effect, and the multiplier effect would basically take those 757 jobs and create twice as many, or almost less than twice as many, 1300 job opportunities. How does all that come together? How do you touch on this issue of minority employment?

DR. MANTELL: When you bring new jobs to anyplace, okay -- this is not specifically New Jersey, this is anyplace -- what happens is, you are bringing in income. When you bring in that income, that money is spent in the place where the new jobs are. That money, essentially, multiplies, and it brings in other kinds of jobs. It creates the opportunity for new jobs in retail, new jobs in office services, all those kinds of things that help an office environment to survive.

ASSEMBLYMAN JONES: Oh, so you were not necessarily talking about what is in the NatWest family, but--

DR. MANTELL: No, no, NatWest would bring in the 750-odd jobs.

ASSEMBLYMAN JONES: --that would be the anchor institution for--

DR. MANTELL: Right. The other 600 would be in services, possibly in finance and in retail, and they would be servicing those people, and would have further multiplier effects. So those would be from the community, presumably.

MR. FLORIO: I might add on that, Assemblyman, that if you are working in New York right now for NatWest, those jobs are coming, but there may be people who choose not to come across the river, because maybe they currently live in Connecticut. So those positions come over, and there may be opportunities for those people who choose not to come to New Jersey-- Part of those 750-odd positions might be available then to folks in New Jersey. Presumably, as NatWest settles in -- as their foreign banking group now settles in, that group

may grow and may also present opportunities for professionals in New Jersey, as well.

ASSEMBLYMAN JONES: I was just trying to zero in on, using the figure 757 because that is the NatWest represented number, how many of that number, those people who decide to opt out of the transfer to New Jersey, you know -- even though New Jersey is just a hop, skip, and a jump across the river -- those individuals who may want to opt out and become unemployed or seek employment elsewhere, would probably be somewhat less likely and be very insignificant in terms of the total number of jobs available for New Jerseyans.

DR. MANTELL: Well, we did look at the distribution of employment in the current branch, which is in Manhattan. About 25 percent of the jobs were from the New York suburbs or from Connecticut. Those people would probably be the ones least likely to move with the job, so those jobs would provide opportunities for New Jersey residents to come into NatWest in that particular unit. But, you know, you can't say that just because you live in Brooklyn you are not going to come to Jersey City. So, who knows?

ASSEMBLYMAN JONES: Lastly, let me just go back to where Mr. Hurd was going in identifying employment opportunities for those among the ranks of the unemployed.

Do you envision any employment training programmatic incentive within this transplanting of jobs from one locale to another?

DR. MANTELL: I cannot respond to that at all.

ASSEMBLYMAN JONES: I am just curious.

MR. FLORIO: I cannot answer that. I am wondering if that is just not applicable. If you have people coming from New York, they are coming over in those positions, so there may not be a need for the--

ASSEMBLYMAN JONES: Going back to the example you gave relative to those who would not be opting to--

MR. FLORIO: That 25 percent that possibly may not want to come over? It depends on what level job they have. They could be clerical; they could be middle- to senior-management.

ASSEMBLYMAN JONES: Have we identified the levels of jobs within the 757?

DR. MANTELL: We know what the average salary is.

ASSEMBLYMAN JONES: What would that be?

DR. MANTELL: The average salary is about \$100,000.

ASSEMBLYMAN JONES: So we are not talking about, you know, average people.

DR. MANTELL: But that is the average salary.

MR. FLORIO: It would seem to me that the folks less likely to come across would be the administrative and clerical who figure, "Well, why go to New Jersey if I was working in New York?" Those positions probably would be the ones most available to those in the community.

ASSEMBLYMAN JONES: Okay.

ASSEMBLYMAN LUSTBADER: Thank you. We appreciate it.

The next witness will be Jim Meredith, Vice President, New Jersey Savings League.

J A M E S M E R E D I T H: Good afternoon. As you mentioned, I represent the New Jersey Savings League, which is a trade organization representing 81 savings and loans and savings banks in the State of New Jersey. I guess of the three banking groups in the State, we are unique in the sense that we have both State-chartered and federally chartered institutions.

Just briefly, as we testified at the October joint hearing on this issue, the New Jersey Savings League recommends that State law be amended to permit interstate branching through merger, acquisition, or de novo for all banks and savings institutions, on a reciprocal basis with other states. As has been mentioned, federally chartered savings institutions are currently authorized to branch nationwide via any of these

methods. We believe, as has been mentioned earlier, in parity with State-chartered institutions.

Our interpretation of the Riegle-Neal Interstate Banking and Branching Act of 1994 is that whatever interstate powers are given to State banks must also be extended to foreign banks. On that basis, we recommend that foreign banks be authorized to enter New Jersey on the same basis as other banks.

I thank you for this opportunity to testify.

ASSEMBLYMAN LUSTBADER: Are there any questions? (no response)

SENATOR INVERSO: Thank you, Mr. Meredith.

ASSEMBLYMAN LUSTBADER: Thank you.

SENATOR INVERSO: Just for the benefit of the Committee, which has endured this lengthy meeting, we are ordering some cold cuts and some rolls, and we should be wrapping up very soon. So there should be something to eat when we are finished here.

George Taber, Editor, New Jersey Business Newspapers. I can put the face with the voice.

G E O R G E M. T A B E R: Thank you very much, Mr. Chairman.

As you said, my name is George Taber. I am Editor of New Jersey's Business Newspapers. We have two editions: One is Northern New Jersey Business and the other Central New Jersey Business. I am also the business commentator for the radio station New Jersey 101.5.

Our newspapers have already taken an editorial stand on this issue, and I am leaving behind copies of the editorial we published in the December 14 issue. The headline does not leave much doubt about where we stand. The editorial is entitled "It's Time to Join the World."

Banking, both in the United States and around the world, is changing dramatically. Billions of dollars can flow

from one continent to another in a matter of nanoseconds. Financial crises in one country can have an impact far beyond its borders. Recent developments in Mexico are clear proof of that. Like it or not, technology has made the financial world one world.

Banking in the United States, as anyone who follows business knows, is also changing dramatically. Federal legislation is in the process of wiping out the rigid financial structure set up during the Depression.

Today, it seems like you can't open a newspaper without reading about another bank merger somewhere. This development is changing the face of American banking. In New Jersey, for example, there are now 87 banks, while there were 126 as recently as the beginning of 1990. In the future, the United States is going to have fewer, but stronger banks, and you can take that prediction to the bank. New Jersey can be part of the revolution, or it will be part of the road as the revolution marches right over us.

The potential benefit of opening New Jersey to foreign banks is great. One of the most impressive development projects in the State in recent years has been the rebirth of the Hudson River Waterfront in Jersey City. It's a real pleasure to stand at Exchange Place these days and look across at lower Manhattan and up at the impressive buildings on this side of the river. The number of major financial institutions that have chosen to set up offices in that area is impressive.

But you won't see many foreign names. The only ones that are there, of course, are those institutions that have found a loophole around our laws. On the other hand, across the river in New York City, there are some 200 international banking operations. If one of them gets fed up with all the problems of doing business in New York City, it could always go up to Connecticut, like the Swiss Bank Corporation has announced that it will do. That state -- Connecticut --

welcomes them. But the Swiss Bank Corporation could not come to New Jersey. That makes no sense at a time when computers have destroyed borders. If you will let international banking operations join American companies like Merrill Lynch and Dow Jones, which are already in Jersey City, this State can continue making New Jersey a major financial center.

There are some important issues involved in changing this law, such as the question of whether foreign banks could set up new offices or would be forced to buy local banks. I will leave these issues to people more competent in banking than myself, but from the point of view of the international banking revolution and the economic development of our State, I hope you will revise the 1948 law, and let New Jersey join the world.

Thank you for your attention.

SENATOR INVERSO: I guess the crux of it is, we intend to do that. The question is, de novo, acquisition, or merger? That is the crux of it.

MR. TABER: I think the testimony that was made this morning has already made it very clear that the banks that come here-- They are here to serve primarily large institutional clients. They are not serving small clients. They are not making home loans. They are here to serve American corporations that want to go abroad, and they are here to serve foreign companies that want to come to New Jersey. I think it is very clear.

SENATOR INVERSO: Are there any other questions for Mr. Taber? (no response)

Thank you.

ASSEMBLYMAN LUSTBADER: Thank you.

MR. TABER: Thank you very much.

ASSEMBLYMAN LUSTBADER: The next speaker will be Peter Murphy, Hudson County Chamber of Commerce.

P E T E R T. D. M U R P H Y: Good afternoon, Senator Lustbader and Assemblyman Peter Inverso.

ASSEMBLYMAN LUSTBADER: It is just the opposite. Don't get me in trouble.

MR. MURPHY: Excuse me.

ASSEMBLYMAN LUSTBADER: He's the Senator; I'm the Assemblyman. I mean, if I don't straighten this out--

SENATOR INVERSO: I was supporting this bill before you said that. (laughter)

MR. MURPHY: May I have one of those sandwiches and some coffee that you guys have back there? I would appreciate that at this moment.

I do appreciate, though, the opportunity of coming among this group from both the Senate and the Assembly to discuss this issue. I have been trying, like everyone else in the last half hour, to consolidate my statement, which has already been passed around to all of you.

I would like to tell you just a bit about myself. My name is Peter Murphy. I am President of the Hudson County Chamber of Commerce, and have been such for approximately four years. Prior to that, I spent nearly a quarter of a century in the commercial and retail banking industry in the State of New Jersey; and prior to that, for a number of years, in the retail/commercial banking industry in the City of New York.

I would like to focus on the economic opportunity that this discussion presents to us here in New Jersey, and certainly particularly in Hudson County. I know my very good friend, Senator Bernie Kenny, understands, on a firsthand basis, what has happened in my own backyard, which is Hudson County where I live, and in particular Jersey City, and which certainly can spread throughout the rest of the State of New Jersey.

Some of the statistics you have already heard; some of them I hope are new; and, overall, I hope they are helpful to

you in your decision-making process. Let me say out front that I am clearly in favor of de novo banking by foreign banking entities from other areas of the United States and abroad.

As has already been stated, foreign banks add significant economic opportunity to New Jersey residents. As of 1992 -- the end of 1992 -- nearly 115,000 people worked in that industry in the United States. They generate, either directly or indirectly, great economic benefits, as has already been stated, to the locales where they are located. For example -- and it has already been mentioned -- the NatWest organization in Jersey City has had a significant economic, a positive economic impact on Jersey City, adding to the stability and growth of Hudson County overall.

Corporate tax revenues in the Fiscal Year ending 1992 -- foreign bank taxes alone in New York City -- amounted to close to \$200 million. Rental office space, again as of the end of December 1992-- Dollars spent on rentals by foreign banks in New York City alone covered nearly 48 million square feet of space. This certainly adds to the stability of the economic base with regard to rental space.

Let me just mention the fact of competition. I said earlier that I was in the banking business in New Jersey for a number of years. I was very well-aware of the fact that foreign banks were already here. They don't have offices, but they are here. They are here today. They were here two years ago, three years ago, five years ago, ten years ago, twenty years ago. There is no need to be fearful of that competition. It has had only a beneficial impact on the State of New Jersey over that period of time.

In short, New Jersey's current business prohibition against foreign banks conducting business in this State only denies New Jersey the benefits that these businesses have to offer, including increased employment opportunities and tax revenues.

New Jersey is now the only major commercial/industrial State in this region to prohibit international banks from establishing branches and agencies within its borders. This outdated law severely limits the opportunity for international banks to conduct business in New Jersey, and denies to the State of New Jersey -- our State -- the opportunity to become a major financial center, both domestically and internationally. Again, and you have heard it before earlier today, the most recent example is the Connecticut example with the Swiss Bank Corporation relocating 2000 jobs, with \$14 million in anticipated tax revenues.

Now, if I might just address the question of employment and the transfer of jobs, in Hudson County that has been a significant question over the last number of years; whether or not the impact of the Merrills, the Pershings, the Payne Webbers, the First Chicagos, the Dow Joneses, and all the other related companies have actually done anything for the local job market? The answer to that is "Yes." It has not happened as fast as many of us would like it to have happened, but most of that had to do with a bad economy all around.

Since we have been pulling out of a fairly poor economic era recently, both nationally and in this region, we have seen a significant uptake in the hiring of local people. The qualifications must be there. They must always be there, because the kinds of jobs we are talking about bringing over to New Jersey from New York do require high level skills and background. But these companies certainly are willing, and are already involved in developing the local skill base. I can attest to that because, through our local Chamber, we worked very closely with them in connecting them to the local educational institutions, to make sure curriculum are in place to do just those things.

Now I would like to talk about a particular bank; that is, the NatWest Bank. Now, I have done a little bit of

independent investigation of NatWest. They were formerly the First Jersey National Bank, as you know, and were bought by NatWest PLC, and are a wholly owned subsidiary. I picked this bank for a couple of reasons.

Number one, they are headquartered in Jersey City, in Hudson County. They are a large employer. They are a wholly owned subsidiary of a foreign bank, and certainly are looking toward this type of positive legislation. Also, and probably most importantly to add credibility to my testimony, I never worked for that bank.

Just a couple of bullets as I understand it from my investigation: The NatWest proposal is anticipated to generate in excess of \$13 million in State tax revenues by the year 1998, or \$13 million in constant '95 dollars. The NatWest proposal is anticipated to create approximately 1305 jobs in New Jersey -- in New Jersey -- over the next three years, and there will be a turnover in those jobs. Some people will choose not to come, and, through natural attrition, there will be job openings that will be available to others.

New Jersey wages and salaries would be \$93.9 million higher by the year 1997, dollars that will be spent here, on this side of the Hudson River. Retail sales would increase in excess of \$28 million in the first three years following the proposed relocation, and I think one or two of the prior speakers talked to the multiplier effect of those kinds of dollars.

The New Jersey State gross product is likely to increase by nearly \$32 million in the first year alone of this proposed NatWest relocation, and rise to approximately \$150 million by 1997. So if you apply a 10 percent give, or plus on that, I think you will see that there are some significant economic development prospects and impact in a very positive way that would derive out of international banking coming to New Jersey.

New Jersey State Library

Naturally, I hope that Hudson County and Jersey City will get their share of this. I don't think you can blame me for that, but I have to honestly say that we would hope that the entire State would share in that new wealth and in that new potential for jobs and economic development.

For all of these reasons, I would personally urge you to positively consider this legislation, and send, once again, a very dramatic message that our Governor just last night said again: New Jersey is truly open for business.

I am finished with my statement. I appreciate this opportunity. If there are any questions, I would be glad to take them.

SENATOR INVERSO: Assemblyman Brown?

ASSEMBLYMAN BROWN: Just one quick observation: If it is only Hudson County that is going to benefit, what advantage does the rest of the State have, in dollars?

MR. MURPHY: Well, you know--

SENATOR INVERSO: That was rhetorical, don't worry about it.

MR. MURPHY: Tax revenues obviously don't stay in all of New Jersey. They come down here, and then they get redistributed. So I think right away there is that. And certainly, relocations are not always in one spot.

SENATOR INVERSO: But I gather from your comments, if NatWest chose, for instance, to reside in Mercer County, you would still be supportive of this initiative.

MR. MURPHY: Surely, absolutely. (laughter)

SENATOR INVERSO: I would be a lot more supportive.

Are there any other questions or comments? (no response)

MR. MURPHY: Thank you very much.

SENATOR INVERSO: Thank you.

ASSEMBLYMAN LUSTBADER: Thank you.

Chris Paladino, President, New Brunswick Development Corporation. Is he here?

UNIDENTIFIED SPEAKER FROM AUDIENCE: He's not here.

ASSEMBLYMAN LUSTBADER: Are we waiting for him, or did he leave?

UNIDENTIFIED SPEAKER FROM AUDIENCE: We think he's here someplace.

ASSEMBLYMAN LUSTBADER: Oh, here he is. Now you have to talk faster. \

CHRISTOPHER PALADINO: I'm sorry. I will be even shorter.

SENATOR INVERSO: That's okay. We're down to two speakers after you.

MR. PALADINO: Thank you for the opportunity. I will be very brief.

I want to comment just briefly on the ability to use a de novo entry as an economic development tool in the State of New Jersey. I have been involved in economic development, probably, for the last six years. Prior to serving as President of the New Brunswick Development Corporation, I headed up the commercial real estate development process for the New Jersey Economic Development Authority. Over the last four years, we were very successful in attracting a number of financial institutions to New Jersey. Some of them were: First Chicago, Neiman Brothers, Brown Brothers, Harriman, and NatWest during that period of time. We had extensive negotiations with others that were not as successful, Pru Securities and Bank of America.

In each one of those instances, though, there was always some State regulatory or statutory provision that always became an issue. With the help of the Legislature and the administration, we were always able to resolve whatever stumbling blocks there were. What we have here is a barrier.

We are really excluding an entire part of the financial market from participating in New Jersey.

I think the Connecticut experience with Swiss Bank Corporation bringing 2000 jobs to Stamford, Connecticut, shows that quality of life and quality of workforce have as much influence on a company's decision about where to move than, let's say, necessarily, direct proximity to New York City. I do not think this is necessarily just a Jersey City issue, therefore.

New Brunswick is a business center that appreciates the benefit, both economically and from an image perspective, of having a multinational corporation in our backyard, that being Johnson & Johnson. Over the past several months, I have had at least two major international financial institutions start to explore New Brunswick as a possible relocation. I think that shows that this is not necessarily just a Jersey City issue, but is an issue for the entire State; that where we have a productive workforce, good urban settings, good suburban settings, there is an entire market out there that we should take advantage of.

In New Brunswick, it is not necessarily just only jobs, ratables, and marquee value, but I think we are seeing the attraction of major international financial institutions as an opportunity to attract a wide variety of business relationships that can follow a major international relocation. I mean, I just think of the possibilities with Dutch banks, Swiss banks, and German banks in the pharmaceutical industry alone, being able to utilize those contacts and those relationships for manufacturing possibilities in the City of New Brunswick, in Middlesex County, in particular.

I really think the legislation that permits the de novo entry will go a long way toward strengthening New Jersey's economy and providing people who are working in economic development at the local level with a new tool. I think the

Legislature has demonstrated that whenever they have been shown that there was an impediment to opening New Jersey up to business, they have been able to remove that impediment, and I think this is a perfect opportunity to continue on that course.

Thank you.

SENATOR INVERSO: Thank you.

Are there any questions for Mr. Paladino? (no response)

MR. PALADINO: Thank you.

ASSEMBLYMAN LUSTBADER: Thank you.

Ashby Hilsman, Partner, Marks & Murase.

A S H B Y H I L S M A N, ESQ.: Thank you very much.

Chairmen, members of the Committee: I, too, will abbreviate my remarks in the interest of time.

I want to thank you for giving me the opportunity to testify before you today.

I live in the Town of Haworth, in Bergen County, New Jersey. I formerly served as a Senior Attorney with the Federal Reserve at the Federal Reserve Bank of New York and in Washington, D.C. I am currently a partner in the international law firm of Marks & Murase. I have worked with both U.S. banks and foreign banks.

I am appearing before you today as a private citizen, however. I took this opportunity to share my experiences and my views with the Committee to assist in its important work of revising the New Jersey banking law, in light of the passage of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994.

There are three key points that I would like to stress to the Committee -- or the Committees, should I say? -- as it considers the issue of whether or not to permit foreign bank entry into New Jersey:

1) New Jersey plays a major role in the increasingly global economy, and it should continue to play that role.

2) The presence of foreign banks in New Jersey will stimulate job growth and economic activity.

3) Most foreign banks entering New Jersey generally will not compete with local New Jersey banks.

The expansion of foreign banks into New Jersey will increase jobs by bringing in new business, that is, increasing the pie, and increasing the banking business conducted in this State.

Foreign banks have expanded their operations in the United States in recent years. Foreign banks' operations have grown, in large part, in response to the growth in foreign investment in, and trade with the United States. Foreign banks, as others have said, have been especially active in wholesale activities, which include: trade finance, commercial loan syndications, swaps, and foreign exchange activities.

Foreign banks generally operate through direct wholesale branches and agencies which cannot engage in the business of retail banking. Specifically, over 80 percent of U.S. assets of foreign banks are held in direct wholesale branches and agencies. These branches and agencies cannot offer Federal insurance on their deposits. Moreover, they are prohibited from taking retail deposits of less than \$100,000, except in certain limited exceptions, which have been discussed here already. Therefore, from both a legal and business perspective, wholesale branches and agencies of foreign banks do not compete with domestic retail banks. Some foreign banks do, however, own State-chartered bank subsidiaries which engage in retail banking, including deposit taking and consumer loans.

The predominant reason for a foreign bank to open an office in New Jersey is to better service the New Jersey-based operations of their home country customers and to establish back-office operations, thereby taking advantage of the lower costs of doing business.

New Jersey, over the past few decades, has become the preferred place of business for a large number of foreign nonbank businesses. For example, New Jersey has become the State of choice for Korean companies operating in the United States. Mr. Yoo discussed that briefly before. Currently, over 50 Korean companies have established their American headquarters in New Jersey. New Jersey has also become the center of the Japanese consumer electronics, camera, and office equipment industry in America. Companies from Britain, France, and Germany are also major foreign presences in New Jersey. Foreign firms that come to New Jersey -- as Mr. Yoo mentioned -- usually obtain their banking services from New York City offices of their home country bank.

Foreign banks that set up offices in New Jersey to better service the existing foreign clients will be moving new business into New Jersey, creating new employment. They will not be taking away business from retail New Jersey banks. Instead, their presence will actually increase the banking business -- increase that pie -- in the State and will result in new jobs.

Just to finish my remarks, in brief, I would like to say that New Jersey banks should really not be frightened -- should not be afraid of the foreign bank business, because they are focusing on wholesale banking. It is essential, however, that New Jersey permit de novo branching and banking. The main reason is because most foreign banks interested in coming to New Jersey will engage in wholesale banking. They will not want to go and acquire retail branches through acquisition of a going concern. Therefore, they will continue to maintain their offices in New York City, servicing their clients from that city. New Jersey does not benefit.

If New Jersey wants to encourage foreign banks to come to this State, I would recommend that you go ahead and pass

legislation that would permit de novo entry of branches and agencies and de novo entry for bank subsidiaries.

That concludes my remarks. Thank you very much.

Do you have any questions?

SENATOR INVERSO: Are there any questions or comments? (no response)

We appreciate it.

ASSEMBLYMAN LUSTBADER: The last witness, if he is here, will be Mike Hollan. He had left. Did he come back? (no response)

SENATOR INVERSO: We have no other speakers scheduled. Would anyone else care to say something? Yes, sir?

ROBERT J. MULLIGAN: Thank you.

My name is Bob Mulligan. I am First Senior Vice President of Valley National Bank. We are in opposition to de novo branching. As you started the day off by speaking about fairness, I would like to address the issue of fairness -- fairness of shareholders' value.

The shareholders of Valley National Bank, and I am sure the shareholders of most banks in New Jersey, are largely New Jersey citizens. They live, work, and vote in New Jersey. They have a vested interest in their banks. To allow de novo branching would really be to cheapen the franchise value of our banks. If we are then attractive in the New Jersey marketplace as to have this kind of interest, then let the banks pay to enter New Jersey. Let them buy existing New Jersey banks.

The banks in New Jersey have also been good CRA partners. We do not believe that de novo branching, even though they are going to provide just limited banking services, should be exempt from that. Just like that saying that has become popular: "If it walks like a duck, and it talks like a duck, it's a duck," well, if you are going to call yourself a "bank," then you should be responsible for all of those responsibilities that go with the name "bank."

Those were my two basic issues, but as I sat and listened today, there were a couple of things that I did not understand. We had a lot of speakers speak on behalf of NatWest, and NatWest has been a very, very good corporate neighbor. Tom Stanton, who was a courageous leader of First Jersey, made an investment in Jersey City years ago that nobody would have made at the time. NatWest continued that. What I did not understand today was that NatWest can do everything they want to do in New Jersey today without a de novo branch. What I also did not understand was, they gave us a lot of statistics on how attractive New Jersey is as a marketplace; how they would move jobs from New York City. Yet, last year, I guess New Jersey was not that attractive, since they moved their operations center to Scranton, Pennsylvania, and took numerous jobs with them. Somehow that is inconsistent with what they were saying today.

Those were my comments. Would anyone like to ask a question?

SENATOR INVERSO: Are there any comments or questions? (no response)

Thank you, a valid point.

Anyone else at this point in time? (no response)

Well, we thank you for coming. We will certainly digest and review the data that has been presented to us. This is a very critical, crucial proposition. We recognize the impact it will have currently and long term.

There is one thing I think I would like to comment on: It seems to me -- and I want to discuss this with the Committee -- that there ought to be some assessment of the economic impact of the proposition to permit foreign banks either by acquisition or de novo. We have gotten a lot of information, certainly, but I think I would like to have something from the State. From Economic Development, Commerce, and Banking we ought to be able to pull something together so

that we can have a better framework to assess truly these benefits. I believe the benefits are many, but I have not seen them kind of synthesized in one place so that all of us have that information and are able to deal with this issue going forward.

I know we want to move with dispatch. I do not want to suggest that this is in any way going to hold up the process, but I do think that within the next 45 days or so -- 60 days -- perhaps we could have this information available to us, so that at the point at which legislation is ready for Committee hearings, the Committee will have the opportunity-- Our respective Committees will have separate hearings at that point, as the legislation is moved. But I think we need to have that information.

I don't know about you, Chairman Lustbader.

ASSEMBLYMAN LUSTBADER: Yes, I agree. Also, I would like to reflect on where we are going from here a little bit. I think our next step will be to finish the drafting of the legislation, which is in process now, and then we are going to schedule some Committee hearings. I'm sure Chairman Inverso and I will be scheduling these hearings to give you another opportunity to address the opt-in legislation as it is promulgated. To the extent necessary, we will do as many hearings as necessary to get a full hearing on this issue, to make sure we get it right the first time. So you can look forward to further input.

We appreciate everyone, including the Committee members, coming today and spending the time. We found it very profitable. We will review your statements, and we will try to factor in all your concerns so we can address everyone's interests here, and not just one side -- or the parochial interests of one or two.

I thank you.

ASSEMBLYMAN BROWN: Mr. Chairman, I would just like to--

ASSEMBLYMAN LUSTBADER: Yes?

ASSEMBLYMAN BROWN: I would just like to make a suggestion. I think it would be helpful for the Committee members to really start to talk about supporting legislation. The ones with the various different positions, I think it is incumbent upon them to maybe create a dialogue among themselves so it is not like a win/lose kind of thing; so that everyone will have something of their interests, rather than just having one side a loser and one side a winner. Everyone can probably benefit from it. I would like to think we all want to do what is in the best interest of the citizens of New Jersey. So it is incumbent upon the ones with different views to try to communicate with each other to see how they can work out some compromises, which would make it a lot easier for a lot of us.

SENATOR INVERSO: Yes, a good point. There are things that need to be done relative to the duplication of regulatory positions and things of that nature that Stu Cameron pointed out in his presentation, and I know the Commissioner is going to address and our Committees will address. The dialogue will still be there. The lines of communication need to be open as this thing moves forward, we can assure you of that.

Other than that--

ASSEMBLYMAN LUSTBADER: Thank you.

SENATOR INVERSO: The food is coming momentarily for Committee members, for the people who have not passed out.

(HEARING CONCLUDED)

APPENDIX

**STATEMENT OF
GARY M. WELSH
PRICE WATERHOUSE LLP
REGULATORY ADVISORY SERVICES
BEFORE A JOINT HEARING OF
THE ASSEMBLY FINANCIAL INSTITUTIONS COMMITTEE
AND
THE SENATE MANAGEMENT & FINANCIAL INSTITUTIONS
COMMITTEE
OF
THE STATE OF NEW JERSEY**

FEBRUARY 16, 1995

My name is Gary M. Welsh and I am a Director of the Regulatory Advisory Services group of Price Waterhouse. I am pleased to appear before the Committees today to discuss the very unique role played by branches and agencies of foreign banks in U.S. wholesale and international banking markets. I hope my views and the information provided herein are helpful to the Committees as they consider legislation that would allow foreign banks to establish branches or agencies in the State of New Jersey.

The Nature of Foreign Bank Operations in the U.S.

Foreign banks have expanded into U.S. markets for the same reasons that U.S. banks have expanded abroad -- to service investments and operations of their home country customers, to finance international trade between their home country and the U.S., to participate in wholesale borrowing, lending and foreign exchange markets, and to diversify their operations. The vast majority of foreign banks have chosen to conduct business through unincorporated branches and agencies, which must be licensed by State or Federal authorities and approved by the Federal Reserve Board.

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Under Federal law, branches and agencies are not eligible for federal deposit insurance and generally cannot accept retail deposits. Because such offices cannot be insured or accept retail deposits, they are not subject to the Community Reinvestment Act (CRA). However, such offices are subject to federal anti-discrimination and consumer protection laws and are otherwise regulated, supervised and examined on the same basis as U.S. banks under the principle of national treatment.

Available statistics on the operations of foreign bank branches and agencies in the United States underline the fact that their business is overwhelmingly conducted in U.S. international and large wholesale markets. The principal funding sources for branches and agencies are borrowings in U.S. money-markets and large certificates of deposit. Their total amount of demand deposits and smaller certificates of deposit are negligible, representing less than 1% of total U.S. bank deposits in these categories.

Contrary to popular misconceptions, foreign bank branches and agencies are net importers of capital to the United States. At year-end 1992, branches and agencies had in excess of \$100 billion in loans to U.S. borrowers over deposits from U.S. persons. Thus, U.S. deposits do not generally flow out of branches and agencies to fund operations abroad; instead, on a net basis, branches and agencies borrow funds from abroad to support their operations in the U.S. On balance,

branches and agencies of foreign banks provide new sources of capital to commercial borrowers in the U.S., not abroad.

On the asset side, the story is similar, as branches and agencies for legal, business and practical reasons are basically limited to serving large commercial customers. With no source of retail deposits, a very limited geographical presence (foreign banks generally establish one office in a State's major financial center[s]) and no established U.S. customer base, branches and agencies are for the most part buyers, not originators, of commercial loans. For example, large U.S. banks originate almost 85% of syndicated commercial loans in the U.S. These syndicated credits are multimillion dollar or even billion dollar credits for large U.S. companies. Foreign bank branches and agencies are the largest group of buyers of these loans, accounting for perhaps 50% of the participant market. The purchase of U.S. loans by foreign banks makes it easier for U.S. banks to finance their commercial customers and increases the amount of such financing that is ultimately available to U.S. borrowers.

While smaller community banks have at times expressed concern that foreign bank branches and agencies would compete for local borrowers, there is simply no evidence of such competition. As noted above, branches and agencies cannot accept retail deposits, do not have branch systems within states, and confine their activities to the large wholesale and international lending markets. This is clearly

confirmed by a recent statistical report by the Federal Reserve Board, which stated that almost all commercial loans by branches and agencies of foreign banks are in **amounts greater than \$1 million**. In contrast, the Federal Reserve indicated that 8,208 U.S. community banks reported that 95% or more of their total business loans were in original **amounts less than \$1 million**. Accordingly, there is simply no lending competition between U.S. community banks and branches and agencies of foreign banks.

The Benefits of Foreign Bank Branches and Agencies

Foreign banks, particularly European institutions, have practiced international banking for centuries. They have thus brought to the U.S. market significant expertise in international trade and project finance that has benefitted both large and small U.S. exporters. When many U.S. banks pulled out of international markets in the 1980s, foreign banks became a critical source of trade finance. While U.S. banks have come back to export finance, foreign banks remain among the largest and most important providers of such services, which are critical to both national and local economic growth.

The most immediate reason why foreign banks come to the U.S. is to finance investment and expansion by their home country customers in the U.S. market. Accordingly, branches and agencies play a crucial role as financial intermediaries

in facilitating the flow of investment capital and jobs to the U.S. market from abroad.

Foreign banks are also important to the development of international capital and financial markets in the U.S., as perhaps best demonstrated by the explosive growth of Miami as a major international financial center over the past decade. Being part of both the NorthEast and Mid-Atlantic banking markets, New Jersey is a significant headquarters for banking in the region, and the presence of foreign banks will add important depth and international expertise to New Jersey as a banking center.

I hope my remarks have been of assistance and I would be pleased to answer any questions that the members may have.

TESTIMONY OF RICHARD F. OBER, JR.
EXECUTIVE VICE PRESIDENT, GENERAL COUNSEL
AND SECRETARY
UNITED JERSEY BANK
BEFORE THE
SENATE STATE MANAGEMENT, INVESTMENTS
AND FINANCIAL INSTITUTIONS COMMITTEE
AND THE ASSEMBLY
FINANCIAL INSTITUTIONS COMMITTEE

February 16, 1995

Good morning, Senators and Assemblypersons. Thank you for the opportunity to testify today. My name is Rick Ober, and I have been General Counsel at United Jersey Banks for the last 19 years. United Jersey Bank is the largest state-chartered bank headquartered in New Jersey, with about 36% of the deposits of commercial banks regulated by the New Jersey Department of Banking. My purpose today is to speak briefly about the entry of foreign banks into New Jersey in the context of the new Interstate Banking Act, from the perspective of New Jersey's largest State-chartered bank.

But first, I'd like to update you briefly on activity since my testimony before you on October 24, 1994. You may recall that on that occasion, in addition to my bad hair joke, I urged that New Jersey needed to repeal usury laws and a multitude of other burdensome and duplicative laws and regulations that made New Jersey a less than attractive choice for banks, many of whom will have

the ability to make choices between states for the first time under the Interstate Banking Act. At that time I gave you a list of 13 duplicative and overlapping federal and New Jersey laws and regulations.

I'm pleased to tell you today that not only did our Banking Commissioner and her staff move ahead and propose repeal of the one item on my list where the New Jersey provision was in a regulation rather than statute, but they went further and proposed simplification of a second regulation to conform to the new federal Truth in Savings law. So the Commissioner has made a start, and I hope the Legislature will follow suit, particularly on the usury front. I know it's a political hot potato, but I don't believe that there is any consumer in New Jersey who gets a loan at a lower rate because of usury protection. I have no problem with the criminal usury law, which provides an ability to prosecute what amounts to frauds. But we've got a patchwork of banking laws which provide routes around usury laws for most of our lending activities, a patchwork which is very complex and expensive, and if you hit a pothole, it results in a very expensive lawsuit. So national banks and credit unions use special provisions applicable to them, everybody gets out of the credit card and other high-cost lending activities in New Jersey, and we lose jobs and increase credit costs for the rest of New Jersey's consumers. Please look carefully at that subject.

Now to the subject of foreign bank activities in New Jersey. I've attached to my testimony as an Appendix some articles from the American Banker about foreign banks operating in the U.S. retrieved by computer. You can read these later. Page references to these articles appear in my written testimony; I'll skip over them this morning, except for a few quotes.

I urge you to start with a vision of what you believe the best banking landscape for the State of New Jersey would be five years from now, I guess that's the year two thousand, and work back from there to figure out what New Jersey should do today about foreign bank entry. I'm not sure anyone has described such a vision. The recommendations of the New Jersey Economic Master Plan do not provide a clear picture of what the state needs. That's probably the fault of the banking industry, for failing to get out there and testify at the hearings. Well, we're here now to testify. The general predictions out there are for more consolidation, with lots of small community banks still filling local needs and a relatively few large banks, probably with interstate operations, the so-called super-regionals. The middle-sized banks, or regionals, will be under a lot of pressure and many are predicting their consolidation into the super-regionals. United Jersey is considered one of the larger regionals.

Now, since I'm repeating old stories like the credit card migration to Delaware, I'd like to remind you of another one, the financing of the Meadowlands Sports Complex. If you'll recall, the New York banks had signed up to buy the original bond issue to build Giants Stadium, and backed out at the last minute under pressure from the Governor of New York. The larger New Jersey banks stepped in and bought the bonds, and suffered with them for several years until the race track put the Meadowlands on a sound financial footing.

If the middle-sized New Jersey banks like United Jersey and Midlantic and Summit and Commerce Bank and Sovereign and Valley National get squeezed to the point they have to sell out, there won't be any banks with substantial financial strength who owe primary allegiance to New Jersey, that will buy Meadowland bonds or pony up for the New Jersey Community Loan Fund or the New Jersey Viet Nam Veterans Memorial, banks who know that's what's good for New Jersey is good for their bank. There won't even be political contributions from their Political Action Committees to support the exciting and vibrant politics of our state, which can elect a Frank Lautenberg and a Bret Schundler, a Christie Whitman and a Doug Palmer.

We're all seeing the effects of this in the credit card business; increased competition and "teaser" rates. I suspect that before too long eight or ten banks and non-banks will control this business completely. Then prices will go up and stay up. MidLantic and UJB already sold out their credit card businesses. UJB sold to Harris Trust, owned by a Canadian bank. We just couldn't compete with their market power.

Our friends at Chemical Bank came into New Jersey with a big bang, buying Horizon Bancorp a few years ago; now they're selling off the southern part because it doesn't fit their latest strategic plan. Well, how important a part do you think that New Jersey will play in a strategic plan being developed in London or Madrid or Frankfurt or Hong Kong or Korea or Australia or Japan? The Japanese banks had captured the majority of the letter of credit business a few years ago by underpricing everybody. Now they've practically disappeared. On page A-16, a 1983 article says:

... many big Japanese banks, hit hard by mounting problem loans at home, are cutting back on their U.S. operations. Bank of Tokyo, Ltd., the biggest foreign bank in the United States, for example, cut its assets by more than 12%, to \$45 billion. In an even more dramatic move, Australia's Westpac Banking Corp., confronted with enormous losses in its home market, decided to close five of its six U.S. offices and massively reduce its U.S. balance sheet.

If we make it easy for out-of-state and especially foreign banks to open up a branch at minimal expense and with no real commitment of resources and subject to almost no New Jersey banking regulation, to skim the profitable cream of the New Jersey business in good times and disappear in bad times, we'll just make it too unprofitable for the middle-sized New Jersey banks to continue independent. We'll gyrate from credit crunch to lowering credit standards due to cutthroat competition, that's what the bank regulators are accusing us of today.

From a regulatory point of view, what is a branch of a foreign bank created de novo in New Jersey. It's just a branch of a New York branch of a foreign bank. Who's in charge? Where are the records? Who's regulating it? The recent Banca Nazionale del Lavoro scandal in Atlanta, where an out-of-control branch of an Italian bank made billions of dollars in unauthorized loans to Saddam Hussein before Iraq invaded Kuwait, of which \$350 million, **\$350 million in loans to Iraq had been guaranteed by the United States Department of Agriculture.** [Pages A-2 to A-7]. The branch manager, Mr. Drogoul, who was taking kickbacks, "construct[ed] a parallel accounting system - the now

famous 'grey book' - to hide the transactions." [A-6] Not surprisingly Banca Nazionale del Lavoro closed its Atlanta and Miami offices and downgraded its Chicago and Los Angeles offices.

Other recent scandals involving foreign banks in the U.S. include the Bank of Credit and Commerce International, the infamous "BCCI", which pleaded guilty to laundering \$32 million on behalf of Columbian drug dealers and brought down Clark Clifford, Banco de Occidente, and Bank Leu of Switzerland, also pleading guilty to laundering drug money [A-9, A-10], and the Reverend Sun Myung Moon's undisclosed attempt to buy Diplomat National Bank [A-17].

UJB thinks the price of entry of a foreign bank into New Jersey should be a pretty substantial commitment of resources; it should write a check for the purchase of a New Jersey bank. National Westminster bought First Jersey Bank, that's a substantial commitment. Banco Santander has bought more than 25% of First Fidelity, that's a substantial commitment. But to open an office with a few people just across the Hudson River in New Jersey so you can qualify for New Jersey business, that's not a commitment.

It may be suggested that UJB's position is counter to free enterprise and free trade, the American way, that consumers always benefit by unfettered competition. I would respond by pointing out that the U.S. has laws like the Robinson-Patman Act, which prohibits predatory pricing, and the Anti-Dumping laws. These are designed to keep a big company from lowering prices until it bankrupts its competitors and it has a monopoly, and then raising prices even higher. I believe the United States is much better off when Toyota

is building cars in Kentucky or Tennessee and supporting the local little league and PTA, than when Toyota was selling cars to its own citizenry at higher prices, and "dumping" them at lower prices on the U.S. market. What are the consequences of predatory pricing? Chrysler headed for bankruptcy and had to be bailed out by the U.S. government.

To state UJB's position succinctly:

We're opposed to foreign or domestic bank entry by de novo branching or acquisition of just a branch, we think they should buy a whole bank and thus become subject to full regulation, including community reinvestment, in New Jersey.

We are opposed to amendment or repeal of Section 19.L and Section 316 of the New Jersey Banking Act, which would result in foreign banks being allowed to branch into New Jersey.

We favor amendment of Section 345 of the Banking Act to allow a foreign entity to acquire the stock of a New Jersey bank.

To remind you for a moment of the testimony of my colleague, George Soltys, at your October hearing:

New Jersey is the most overbanked state in the nation. There is a bank branch every two square miles in New Jersey, and since we aren't allowed to build branches in areas like the Pinelands, branches are even more crowded elsewhere in the state. In Connecticut, Massachusetts and Rhode Island, there's a bank branch every three or so square miles. To put that in perspective, bank customers in Illinois, Indiana, Michigan and California get by with one branch every fourteen or more square miles. [Page A-1].

So we don't need more bank branches, complete with drive-in's and vaults, built in New Jersey. When banks fail, or close branches because of lack of profitability, they aren't useful for much else, though I know of a chicken place on Route 27 that's in a former bank branch.

But I digress. We want banks that have made a commitment to New Jersey. We've agreed to an amendment to Section 19.2 of the Banking Act that would allow National Westminster, or NatWest, to do most of its London branch business here through the agency of its New Jersey bank, because it owns a New Jersey bank. We think it's short-sighted to throw New Jersey open to de novo branching by out-of-state U.S. or foreign banks to come in and skim the cream in good times and provide no support to the state in tough times.

Think about the banking industry you want in New Jersey in the year 2000. You do have the power to shape that industry. Decide what legislative actions will support your vision. And take those actions, whether they be reduction of regulations or taxes or opening New Jersey to acquisitions but not de novo entry.

Thank you again for the opportunity to testify. I will try to answer any questions you may have.

rfointerstate:testimon2

Rank	State Name	1994 Population	1994 Households	Total Institutions	Total Branches	Total Bank Branches	Area in Square Miles	Institutions per Square Mile	Branches per Square Mile	Bank Branches per Square Mile
1	New Jersey	7,915,280	2,875,272	647	3,735	2,219	7,419	0.087	0.503	0.299
2	Massachusetts	6,012,972	2,257,914	669	2,605	1,108	7,838	0.085	0.332	0.141
3	Connecticut	3,275,195	1,234,001	385	1,698	664	4,845	0.079	0.350	0.137
4	Rhode Island	999,362	378,509	76	346	175	1,045	0.073	0.331	0.167
5	Delaware	707,864	264,796	103	310	209	1,955	0.053	0.159	0.107
6	Maryland	5,008,060	1,842,229	367	2,087	1,394	9,775	0.038	0.214	0.143
7	Illinois	11,760,900	4,340,426	2,018	4,028	2,153	55,593	0.036	0.072	0.039
8	Pennsylvania	12,088,344	4,605,134	1,450	5,751	3,578	44,820	0.032	0.128	0.080
9	Ohio	11,149,084	4,228,095	1,113	4,904	3,017	40,953	0.027	0.120	0.074
10	New York	18,248,700	6,751,969	1,170	5,948	3,694	47,224	0.025	0.126	0.078
11	Hawaii	1,186,692	383,238	148	527	258	6,423	0.023	0.082	0.040
12	Indiana	5,752,928	2,156,703	663	2,512	1,766	35,870	0.018	0.070	0.049
13	Wisconsin	5,072,574	1,900,774	934	2,404	1,341	54,314	0.017	0.044	0.025
14	Florida	13,849,741	5,516,455	828	5,518	3,503	53,937	0.015	0.102	0.065
15	Tennessee	5,151,582	1,973,648	617	2,194	1,596	41,220	0.015	0.053	0.039
16	Iowa	2,823,048	1,088,843	810	1,568	1,097	55,875	0.014	0.028	0.020
17	Michigan	9,521,288	3,525,968	808	3,546	2,444	56,809	0.014	0.062	0.043
18	Louisiana	4,313,195	1,541,837	612	1,762	1,172	43,566	0.014	0.040	0.027
19	West Virginia	1,826,545	707,798	325	724	499	24,087	0.013	0.030	0.021
20	Kentucky	3,814,122	1,439,942	535	1,609	1,171	39,732	0.013	0.040	0.029
21	Virginia	6,563,063	2,446,266	527	2,963	2,117	39,598	0.013	0.075	0.053
22	Georgia	7,020,384	2,581,646	746	2,596	1,953	57,919	0.013	0.045	0.034
23	Missouri	5,262,100	2,027,323	809	2,145	1,490	68,898	0.012	0.031	0.022
24	New Hampshire	1,129,184	420,682	104	508	174	8,969	0.012	0.057	0.019
25	Minnesota	4,550,733	1,724,103	840	1,634	1,197	79,617	0.011	0.021	0.015
26	North Carolina	7,019,142	2,690,192	489	3,260	2,225	48,718	0.010	0.067	0.046
27	California	31,546,601	11,005,449	1,440	8,906	5,093	155,973	0.009	0.057	0.033
28	Vermont	579,094	218,276	84	312	206	9,249	0.009	0.034	0.022
29	Alabama	4,221,932	1,587,753	452	1,587	1,189	50,750	0.009	0.031	0.023
30	Kansas	2,543,745	972,989	719	1,303	928	81,823	0.009	0.016	0.011
31	South Carolina	3,678,846	1,339,645	241	1,436	989	30,111	0.008	0.048	0.033
32	Oklahoma	3,251,236	1,251,105	531	1,078	713	68,679	0.008	0.016	0.010
33	Texas	18,276,705	6,551,685	2,023	4,843	2,926	261,914	0.008	0.018	0.011
34	Arkansas	2,441,646	931,559	377	1,068	816	52,075	0.007	0.021	0.016
35	Mississippi	2,659,929	949,609	304	1,233	928	46,914	0.006	0.026	0.020
36	Nebraska	1,613,762	618,724	491	917	638	76,878	0.006	0.012	0.008
37	Colorado	3,630,585	1,421,485	566	1,032	608	103,730	0.005	0.010	0.006
38	Washington	5,345,474	2,062,640	349	1,994	1,136	66,582	0.005	0.030	0.017
39	Maine	1,241,451	473,954	157	656	371	30,865	0.005	0.021	0.012
40	North Dakota	634,353	241,028	221	434	297	68,994	0.003	0.006	0.004
41	Utah	1,892,307	590,946	220	642	447	82,168	0.003	0.008	0.005
42	South Dakota	719,616	269,378	201	456	304	75,898	0.003	0.006	0.004
43	Oregon	3,076,269	1,197,841	205	1,136	739	96,003	0.002	0.012	0.008
44	Montana	848,637	327,303	221	333	179	145,556	0.002	0.002	0.001
45	Idaho	1,120,679	403,302	114	465	320	82,751	0.001	0.006	0.004
46	New Mexico	1,640,014	590,934	158	495	399	121,365	0.001	0.004	0.003
47	Arizona	4,000,398	1,503,441	127	989	823	113,642	0.001	0.009	0.007
48	Wyoming	473,863	177,412	104	177	109	97,105	0.001	0.002	0.001
49	Nevada	1,431,731	556,861	60	375	258	109,806	0.001	0.003	0.002
50	Alaska	610,350	210,580	27	142	119	570,374	0.000	0.000	0.000

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NEW JERSEY COUNCIL OF SAVINGS INSTITUTIONS

10 ROONEY CIRCLE, SUITE 170, WEST ORANGE, NEW JERSEY 07052-3356 • (201) 325-3600 • TELECOPIER (201) 325-1682

THURSDAY, FEBRUARY 16, 1995

SENATE STATE MANAGEMENT, INVESTMENT
AND FINANCIAL INSTITUTIONS

AND

ASSEMBLY FINANCIAL INSTITUTIONS

REMARKS OF

SAMUEL J. DAMIANO, PRESIDENT

CHAIRMAN
Donald C. Sims
President & Treasurer
Union County Savings Bank
Elizabeth, New Jersey

FIRST VICE CHAIRMAN
Paul M. Pantozzi
President & CEO
Princeton Savings Bank
Princeton City, New Jersey

SECOND VICE CHAIRMAN-TREASURER
D. Russell Taylor
President & CEO
The Parkway Savings Institution
Patway, New Jersey

THIRD VICE CHAIRMAN
John J. ...
...
...
...
...

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Our association, on behalf of the state chartered savings banks, first went on record in support of interstate branching in 1993. At that time we indicated support for immediate introduction of state legislation allowing state chartered institutions parity with their federal counterparts on a state by state reciprocal basis. Federal thrifts can branch in any state, and have the ability to establish de novo branches. Our interests were essentially to achieve parity with our federal counterparts and to do so as quickly as is possible.

Having said that, our organization has reaffirmed its support for immediate introduction of state legislation that will provide, on a reciprocal basis, the ability for state chartered financial institutions to branch in other states. We fully expect that any office located outside New Jersey will be subject to the provisions of that state and New Jersey would accordingly require the same of an out-of-state institution locating here. This would be applicable to all aspects of banking including taxation.

As to the specific issues, we recently completed a sampling of our members to determine their viewpoints related to the subject of this hearing. The question of de novo branching, which directly relates to parity with our federal counterparts, received the majority in favor although there were several who were uncertain as to the merits of de novo branching.

To reiterate, those in favor of interstate branching believe that state chartered institutions should enjoy powers identical to their federal counterparts. To that end, members noted that parity is very important, with those feeling parity was somewhat important placing a close second.

To sum up, the respondents 1) support interstate branching on a reciprocal basis, 2) support de novo branching, 3) oppose the requirement that entry into the state be exclusively through acquisition, 4) are evenly divided on the matter of foreign bank entry into New Jersey, and 5) believe parity is very important.

As I suggested, this is a sampling of our membership which includes state chartered savings banks, chartered as far back as 150 plus years ago, as well as state chartered savings banks that were formerly savings and loan associations. The participants represent an estimated \$11 billion of assets. Approximately \$7 billion of which are invested in New Jersey residential and commercial loans.

PRINCETON PUBLIC AFFAIRS GROUP, INC.
PUBLIC AND GOVERNMENT AFFAIRS COUNSEL

THE PRINCETON HOUSE
160 WEST STATE STREET
TRENTON, NEW JERSEY 08608
(609) 396-8838

512 11TH STREET, S.E.
WASHINGTON, D.C. 20003
(202) 785-2203
FACSIMILE (609) 989-7491

DALE J. FLORIO
BRADLEY S. BREWSTER
HON. PETER J. McDONOUGH
HON. JOHN F. RUSSO
SUSAN A. DOCTORIAN

DAVID G. KOSTINAS
THOMAS J. KELLY
DAVID J. MURRAY
LAWRENCE B. WEITZNER
DONALD M. SCARRY, PH.D.
DEBRA A. HART, APR
CHIP STAPLETON

MEMORANDUM

TO: Members of the Senate Management, Investments and Financial Institutions
Committee and the Assembly Financial Institutions Committee

FROM: Dale Florio and David Smith

DATE: February 16, 1995

RE: *Information on Foreign Banking*

As you know, we represent NatWest Bancorp, who will participate in today's Joint Committee Meeting on the "Riegle-Neal Interstate Banking and Branching Act of 1994" and the options that New Jersey has under that Act.

A key issue in deciding to accommodate interstate branching is the means by which it can be accomplished; through purchasing an existing bank or bank branch, or to branch "de novo." Under the terms of a "de novo" entry, an out-of-state bank would only have to meet the requirements of opening a branch as a condition of entry to the state. NatWest supports the "de novo" approach.

For your review, attached please find a "white paper" on foreign banking, background information on New Jersey "Opt-In" legislation and an ABA magazine article on the issue.

As you can see, the issue of foreign banking is a complex issue with many considerations. Hopefully, you will agree that the "de novo" approach is the best avenue for New Jersey to take. If we can be of any further assistance, please do not hesitate to contact us.

February 16, 1995

TESTIMONY OF LEWIS HURD

CRA ORGANIZER, NEW JERSEY CITIZEN ACTION

Before a Joint Hearing - Senate State Management, Investments and Financial Institutions Committee and the Assembly Financial Institutions Committee on the impact of the federal "Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994"

Executive Committee:
 Michael DeLuca, (Chair)
 Ironbound Community Corporation
 Bernadette Shuchter, (Vice Chair Program)
 International Union of Electrical Workers, District 3
 Donna Monroe, (Vice Chair Outreach)
 Young Black Democratic Organization
 Ed Murphy, (Secretary/Treasurer)
 International Association of Machinists, Local 1445
 Dudley Burdge
 Communication Workers of America, Local 1038
 John Clark
 Metropolitan Ecumenical Ministry
 Lara Dasher
 N.J. State A.P.R.I.
 Deborah Hanwell Piggins
 WCA State Council
 Betty Rosenstien
 Communication Workers of America, Local 1037
 Ron Silberman
 Council of N.J. State College Locals, AFT
 Bob Stem
 International Ladies Garment Workers Union,
 N.J. Region

Partner Members:
 Vincent Altieri
 N.J. State Federation of Teachers
 John Atlas
 National Housing Institute
 Marilyn Bach-Nunez
 Hudson County Housing Resource Center
 Ron Baiman
 Democratic Socialists of America
 Fernando Canzales
 Communication Workers of America, Local 1040
 John Carmon
 New Directions
 Peter Cole
 Industrial Union Council, AFL-CIO
 Rodney Emerson
 Communication Workers of America, Local 1031
 Evanoff
 United Senior Alliance
 Jeffrey Gordon
 AFSCME-Council 1
 Joe Graves
 Newark Teachers Union
 Joe Harston
 South Jersey A.P.R.I.
 Reginald Jackson
 St. Matthews AME Church
 Lena Johnson-Hendrix
 Communication Workers of America, Local 1033
 Ron Kautman
 Communication Workers of America, District 1
 Ron King
 Communication Workers of America, Local 1032
 K Kourambis
 Bergen Coalition of Retirees, Seniors & Disabled
 McLawin
 Bergen Central Trades & Labor Council, AFL-CIO
 Ed Morrison
 International Union of Electrical Workers, District 3
 Rick Morissy
 H.A.N.D.S., Inc.
 Brent Perrotto
 United Electrical Workers Union Local 417
 Bob Morais Pote
 New Party
 Ron Pransky
 N.J. Tenants Organization
 Bruce Reynolds
 Praxis Life/Art
 Schulman
 Communication Workers of America, Local 1034
 Ed Smith
 Black Urban Alliance
 Ed Silva
 Communication Workers of America, Local 1039
 Bernadette Taylor
 Communication Workers of America, District 1
 Terrell
 United Auto Workers, Region 9
 Dennis Testa
 N.J. Education Association
 Bill M. Thomas
 Middlesex County Economic Opportunities Corp.
 Ronald Tuff
 Paterson Task Force for Community Action
 Weir
 Carpenters Local 2098

My name is Lewis Hurd and I am the CRA organizer for New Jersey

Citizen Action, the state's largest consumer coalition. Over the last nine years we have been working with banks in an effort to increase the access to low and moderate and minority residents.

Citizen Action is extremely concerned about the effect the "Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994" will have on the citizens of New Jersey.

As interstate mergers and acquisitions of a bank or branch take place, as out-of-state banks move into New Jersey and, as foreign banks cross the ocean and settle into our state, there is absolutely no guarantee that service to New Jersey's residents, particularly in low and moderate minority communities, will improve.

There is absolutely no guarantee that lending discrimination will decrease.

There is absolutely no guarantee that as these banks get bigger, they will get better.

Main Office
 400 Main Street
 Hackensack, New Jersey 07601
 (201) 488-2804

Central Jersey
 46 Paterson Street
 New Brunswick, New Jersey 08901
 (908) 246-4772

South Jersey
 556 Haddon Ave.
 Collingswood, New Jersey 08108
 (609) 869-0007

Phone Project
 94 Church Street
 New Brunswick, New Jersey 08901
 (908) 246-4075



There will be an acceleration of the already rapid pace of consolidation in banking. Eventually, it will mean fewer and bigger banks, layoff among bank employees and probably less control of lending by local bankers.

New Jersey Citizen Action is concerned that there will be an increase concentration of money and power in fewer and fewer banks. This is something that we worry about. Right now several New Jersey banks are leading the way in improving banking services to the cities and have developed leaders within their own organizations who are really dedicated to improving lending patterns in urban communities. There is no guarantee that these people will have power and control decision-making, as banks grow into mega giant corporations.

Large coast-to-coast banking giants will be able to consolidate their operations into a single institution, decision-making is likely to become more centralized, and therefore more removed from our communities. This will make it harder for local groups like New Jersey Citizen Action to get nationwide institutions to respond to their particular needs and local conditions. Reclaiming our distressed communities requires meaningful involvement of banks, not bank managers living hundreds of miles away.

Interstate branching is purely and simply a gift for the LARGE banks; in fact, most community banks oppose interstate branching. In addition, 1992 and 1993 were the most profitable years ever in the history of American banking. Why, after a \$300 billion bailout and record profits are we giving them a gift which works against consumer and community interests?

Interstate branching makes it much easier for expanding banks to enter new markets on a selective basis by "cherry picking" the branches they buy from other financial institutions.

Interstate branching can lead to the loss of valuable information currently reported on the Statement of Condition Reports to the regulators on the lending activities of banks on a state-by-state basis.

Interstate branching may result in the siphoning off of deposits from our communities, more branch closings, and the loss of credit and deposit services, as banks pick and choose where they want to do their business.

We can expect to see big banks from outside this region buy bigger banks in our state. Regional banks will become nationwide banks. There might be a scaling back or phasing out of the regional headquarters that some banks maintain in New Jersey. Jobs will be lost. There is absolutely no guarantee that the savings that the banks realize through internal consolidations will be passed on to consumers.

According to Paul Nadler, a Professor of Finance and Economics at Rutgers Graduate School of Management, "Big banks snatch defeat from the jaws of victory. They have a way of turning customers off." You must make a commitment that this does not happen.

Will banks from other countries come into New Jersey and have to comply with the current CRA obligations?

If New Jersey is opt into the provision of this law then the New Jersey Department of Banking must become a vigilant advocate of the consumer, particularly low and moderate, and minority borrowers. The department must be adequately funded and staffed with people who are experienced and are sensitive to the needs of the community. Eliminating lending discrimination must become a priority and strong regulations must be passed to guarantee that as banks get bigger they do get better.



411 North Avenue East • Cranford, NJ 07016-2444 • (908) 272-8500
Telecopier (908) 272-6626

**STATEMENT OF
JAMES MEREDITH, VICE PRESIDENT
NEW JERSEY SAVINGS LEAGUE**

**BEFORE A JOINT HEARING OF
THE SENATE STATE MANAGEMENT, INVESTMENTS AND FINANCIAL
INSTITUTIONS COMMITTEE AND
THE ASSEMBLY FINANCIAL INSTITUTIONS COMMITTEE**

February 16, 1995

**The Impact of the Federal "Riegle-Neal Interstate Banking
and Branching Act of 1994," Pub. L. 103-328, on future banking
practices in New Jersey**

On behalf of the New Jersey Savings League, the trade association for 81 of New Jersey's savings banks and savings & loan associations with assets of over \$34 billion, we appreciate the opportunity to present our views and recommendations with regard to the impact of the Riegle-Neal Interstate Banking and Branching Act of 1994 ("the Act") on future banking practices in New Jersey.

As we testified at the October 24, 1994 Joint Hearing on this issue, the New Jersey Savings League recommended that state law be amended to permit interstate branching through merger, acquisition or de novo for all banks and savings institutions, on a reciprocal basis with other states, effective at the same time that the new interstate acquisition authorization takes effect (September 29, 1995). While the State can either act to permit interstate branching or prohibit such branching, if it does nothing, national banks will be able to branch into and out of New Jersey effective June 1, 1997, while state-chartered institutions will not be allowed to do so.

Federally chartered savings institutions are currently authorized to branch nationwide via merger, acquisition or de novo branching. One of New Jersey's state chartered savings institutions has already changed to a federal charter to take advantage of this authority and another has applied to change charters for the same reason. Extending this authority to state-chartered institutions would give all institutions the flexibility to branch in the manner best-suited to their institution and to the particular situation.

Our interpretation of the Riegle-Neal Interstate Banking and Branching Act of 1994 is that whatever interstate powers are given to state banks must also be extended to foreign banks. On that basis, we recommend that foreign banks be authorized to enter New Jersey as the same basis as other banks. Federal savings institutions are currently authorized to do interstate branching by any of those methods.

To the extent that the New Jersey Department of Banking believes that it needs additional authority to regulate and properly supervise New Jersey branches of out-of-state or foreign institutions, we recommend that the state legislature grant such authority. We do not believe, however, that New Jersey needs any further consumer protection laws in connection with interstate branching as adequate protections are included in current laws and in the provisions of the Act which seek to prohibit out-of-state institutions from using New Jersey offices to simply obtain deposits without striving to meet the credit needs of the local community in New Jersey.

Thank you for the opportunity to testify.

February 16, 1994

Statement of George M. Taber

My name is George Taber. I am editor of the New Jersey BUSINESS newspapers. We have two editions—Northern New Jersey BUSINESS and Central New Jersey BUSINESS. I am also the business commentator for the radio station New Jersey 101.5.

I am very pleased to be here today to talk about a very important issue facing New Jersey. This is the question of permitting foreign banks to set up in New Jersey.

Our newspapers have already taken an editorial stand on this issue, and I am leaving behind copies of the editorial we published in the December 14 issue. The headline doesn't leave much doubt about where we stand. The editorial is entitled "It's Time to Join the World."

Banking both in the U.S. and around the world is changing dramatically. Billions of dollars can flow from one continent to another in a matter of nanoseconds. Financial crises in one country can have an impact far beyond its borders. Recent developments in Mexico are clear proof of that. Like it or not, technology has made the financial world one world.

And there is no stepping back. It may make someone feel good to think of the movie *It's a Wonderful Life* and how George Bailey and his financial institution saved the people of Bradford Falls. But the world has moved on from that idyllic past that never really existed in the first place. Technology has torn down barriers to finance, and those barriers will never go up again. If anything, the on-rush of technological developments means that old barriers of states or nations will be more and more irrelevant. A foreign bank, the Bank of Santander, is already the largest shareholder in the biggest bank in New Jersey, First Fidelity. It is fruitless to try to stop the revolution.

Banking in the United States, as anyone who follows business knows, is also changing dramatically. Federal legislation is in the process of wiping out the rigid financial structure set up during the Depression. It's interesting to think back on how much American banking has changed in just a few years. In the late 1970s, when I lived in Texas, no bank there was allowed to have more than one branch. That was only 15 years ago.

Today it seems like you can't open a newspaper without reading about another bank merger somewhere. This development is changing the face of American banking. In New Jersey, for example, there are now 87 banks, while there were 126 at the beginning of 1990. Again we can think back to the good old days of George Bailey, but those days aren't coming back. The U.S. has had a terribly fragmented banking system, especially in comparison with countries like Japan or Britain. That is one of the reasons that U.S. banks have fallen behind in international financial competition. In the future the U.S. is going to have fewer and stronger banks, and you can take that prediction to the bank. Again New Jersey can be part of the revolution or it will be part of the road as the revolution marches right over us.

In light of those two trends, the internationalization of banking and the consolidation of American banks, you are now considering the issue of allowing foreign banks to operate in the Garden State. This would revise the basic banking law dating back to 1948. A couple of months ago, I tried to find out who and why that was put into the basic banking act. No one could tell me why, although perhaps I didn't ask enough people.

The potential benefit of opening New Jersey to foreign banks is great. One of the most impressive development projects in the state in recent years has been the re-birth of the Hudson River waterfront in Jersey City. It's a real pleasure to stand at Exchange Place these days and look across at lower Manhattan and up at the impressive buildings on this side of the river. The number of major financial institutions that have chosen to set up offices in that area is impressive.

But you won't see many foreign names. The only ones that are there are those institutions who found a loophole around our laws. On the other hand, across the river in New York City there are some 200 international banking operations. If one of them gets fed up with all the problems of doing business in New York, it could always go up to Connecticut like the Swiss Bank Corporation has announced it will do. That state welcomes them. But it could not come to New Jersey. That makes no sense at a time when computers have destroyed borders. If you will let international banking operations join American companies like Merrill Lynch and Dow Jones in Jersey City, this state can continue making Jersey City a major financial center.

There are some important issues involved in the changing the law, such as the question of whether foreign banks could set up new offices or would be forced to buy local banks. I will leave those issues to people

more competent in banking than myself. But from the point of view of the international banking revolution and the economic development of our state, I hope that you will revise the 1948 law—and let New Jersey join the world.

fox



HUDSON COUNTY
Chamber of Commerce

February 9, 1995

The Hon. Peter A. Inverso
Chairman, Senate State Management
Investments and Financial Institutions Committee
Legislative Office
900 Kuser Road
Hamilton Township, N.J. 08619

Dear Assemblyman Inverso:

I understand that you will shortly be considering proposed legislation that will enable foreign (non-U. S.) banks to open branches and agencies in the State of New Jersey. This letter is intended to express our strong support for this proposal.

Foreign banks with offices in the United States provide a variety of benefits to the states in which they conduct business. These benefits include, perhaps first and foremost, increased employment opportunities for the citizens of the states in which such offices are located. As of December 31, 1992, foreign banks in the United States employed approximately 114,900 individuals. The presence of foreign banks in a community also generates indirect economic benefits resulting from the increase in economic activity that occurs there. For example, the existence of NatWest's national bank subsidiary in Jersey City has had a positive effect on the stability and growth of the Hudson County economy. The operations of foreign banks also generates sizable corporate tax revenues for the states in which they operate, in addition to the personal income taxes and sales taxes paid by their employees. In fiscal year 1992, the taxes foreign banks paid to New York City alone amounted to approximately \$197 million. In addition, through the acquisition and rental of office space, which as of December 31, 1992 amounted to approximately 48 million square feet of space, foreign banks help maintain the value of commercial real estate in the localities where they maintain operations.

Foreign banks do not pose a competitive threat to New Jersey's community banks. The overwhelming majority of foreign banks only compete in the United States in the "wholesale" banking market. They do not conduct retail



HUDSON COUNTY
Chamber of Commerce

- Page 2 -

operations involving the general public, and, in fact, are legally precluded from accepting retail deposits at their branch and agency offices. Enabling foreign banks to establish branch and agency offices in New Jersey also would not add to the competition that the larger New Jersey banks face at the wholesale level because foreign banks with offices in New York already compete against New Jersey institutions for wholesale business.

In short, New Jersey's current prohibition against foreign banks conducting business in the state only denies New Jersey the benefits that these businesses have to offer, including increased employment opportunities and tax revenues, without any commensurate benefit in terms of protecting New Jersey financial institutions from competition. New Jersey clearly stands to gain by welcoming foreign banks to the New Jersey business community.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Peter T. D. Murphy".

Peter T. D. Murphy
President

PTDM/mts

cc: Gualberto Medina, Esq., Commissioner,
Department of Commerce and Economic Development

Elizabeth Randall, Commissioner,
Department of Banking



HUDSON COUNTY
Chamber of Commerce

February 9, 1995

The Hon. Monroe Jay Lustbader
Chairman, Assembly Financial Institutions Committee
Legislative Office
2 West Northfield Drive, Suite 212
Livingston, N.J. 07039

Dear Senator Lustbader:

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HUDSON COUNTY
Chamber of Commerce

- Page 2 -

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Very truly yours,

A handwritten signature in dark ink, appearing to read "Peter T. D. Murphy".

Peter T. D. Murphy
President

PTDM/mts

cc: Gualberto Medina, Esq., Commissioner,
Department of Commerce and Economic Development

Elizabeth Randall, Commissioner,
Department of Banking

TESTIMONY BEFORE A JOINT HEARING
OF THE
NEW JERSEY SENATE STATE MANAGEMENT,
INVESTMENTS AND FINANCIAL INSTITUTIONS
COMMITTEE
AND THE
NEW JERSEY ASSEMBLY
FINANCIAL INSTITUTIONS COMMITTEE

BY

ASHBY HILSMAN

FEBRUARY 16, 1995

Chairmen and members of the Committees, I want to thank you for giving me the opportunity to testify before you on foreign bank entry into New Jersey. I live in the Town of Haworth in Bergen County, New Jersey. I formerly served as Senior Attorney with the Federal Reserve at the Federal Reserve Bank of New York and in Washington D.C. I am currently a partner of the international law firm of Marks & Murase. I have worked with both U.S. banks and foreign banks.

I am appearing before the Committees as a private citizen. I am taking this opportunity to share my experiences and views with the Committees to assist their important work revising New Jersey's Banking Law in light of the passage of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Riegle-Neal").

There are three key points that I wish to stress to the Committees as they consider the issue of whether or not to permit foreign bank entry into New Jersey:

1. New Jersey plays a major role in the

increasingly global economy and it should continue to play such role.

2. The presence of foreign banks in New Jersey will stimulate job growth and economic activity.

3. Most foreign banks entering New Jersey generally will not directly compete with local New Jersey banks.

The Role of New Jersey in the Global Economy

During the past two decades, New Jersey increasingly has become a center for international economic activity. In 1993, for example, exports of goods and services from New Jersey exceeded \$11 billion. New Jersey businesses export to all parts of the globe, including to Asia, Europe, Canada and Latin America.

Moreover, New Jersey has become the headquarters for the U.S. operations of many foreign firms. Foreign-owned businesses from Europe, Asia and Latin America are directly responsible for over 100,000 jobs in our state according to the Bergen Record.

Indeed, over the past few decades, both the Republican and Democratic governments in New Jersey have aggressively courted foreign businesses to set up shop here. New Jersey's main attraction is its highly qualified, hard working citizens, reasonable real estate prices and an attractive business environment. Moreover, Governor Whitman is currently working

hard to make New Jersey an even more attractive place to do business in the difficult economic climate of the 1990s.

International trade and commerce is good for New Jersey. It means jobs for the citizens of New Jersey. Jobs with local businesses selling abroad and jobs with foreign-owned companies operating in New Jersey.

Yet, in the face of the clear benefits of international trade, New Jersey has erected barriers to foreign banks. With few exceptions, foreign financial institutions cannot operate their businesses in New Jersey.

The reasons for these restrictions go back to a time when foreign trade was minimal and the banking industry was primarily subject to state regulation. In the 1970s and 1980s, the banking industry experienced a revolution. Consumers demanded better access to interest bearing accounts in the form of NOW accounts and money market funds, and demanded a greater choice of loans. Corporate customers turned away from traditional bank funding for more competitive rates in the public markets. Banking became a fast moving, competitive industry. Foreign banks have become an integrated part of that competitive banking industry.

As the banking industry has changed, so too have federal and state laws, rules and regulations. Foreign banks are now under the full supervision of federal regulators and the federal laws and regulations on safety and soundness and consumer protection.

Increased Employment and Economic Activity

The expansion of foreign banks into New Jersey will increase jobs by bringing in new business and by increasing the banking business conducted in the state.

Foreign banks have expanded their operations in the United States in recent years. Their share of U.S. banking assets nearly doubled from 12 percent in December 1990 to 23 percent in June 1992. The growth in foreign banks' U.S. business has added to the liquidity of the U.S. market while expanding borrowers access to credit. Foreign banks' operations have grown in large part in response to the growth in foreign investment in and trade with the United States. Foreign banks have been especially active in wholesale activities, which include trade finance, commercial loan syndications, swaps and foreign exchange activities.

Foreign banks generally operate through direct wholesale branches and agencies which cannot engage in the business of retail banking. Specifically, over 80% of U.S. assets of foreign banks are held in direct wholesale branches and agencies. These branches and agencies can not offer federal insurance of their deposits. Moreover, they are prohibited from taking retail deposits of less than \$100,000, except in certain limited exceptions, and rarely offer consumer loans. Therefore, from both a legal and business prospective, wholesale branches and agencies of foreign banks do not compete with domestic retail banks. Some foreign banks do, however, own and operate state

chartered bank subsidiaries which engage in retail banking including deposit taking and consumer loans.

The predominant reason for a foreign bank to open an office in New Jersey is to better service the New Jersey-based operations of their home country customers and to establish back office operations, thereby taking advantage of the lower costs of doing business.

New Jersey has become the preferred place of business for a large number of foreign businesses. For example, New Jersey has become the state of choice for Korean companies operating in the United States. Currently, over 50 Korean companies have established their American headquarters in New Jersey. New Jersey has also become the center of the Japanese consumer electronics, camera and office equipment industry in America. Companies from Britain, France and Germany also constitute major foreign presence in New Jersey. Foreign firms that come to New Jersey usually obtain their banking services from the New York City offices of their home country bank.

Foreign banks that set up offices in New Jersey to better service the existing foreign clients will be moving new business into New Jersey. They will not be taking away business from New Jersey retail banks. Instead, their presence will actually increase the banking business in the state and result in more new jobs in New Jersey.

New Jersey Banks Should Not Be Afraid

New Jersey based retail banks should not be afraid that foreign banks will take away their business because they will not be competing for the same business. Of course, in some cases, the U.S. subsidiaries of foreign banks may compete with New Jersey banks. Ethnic banks may seek to compete for retail customers in certain ethnic communities. Yet, in an era of reducing government restrictions and leveling the playing field so that business can compete fairly, a little more competition is not a bad thing. Moreover, any increased competition, even though limited, will benefit all New Jersey consumers of banking services in the form of better service and more competitive rates on deposits and loans. In fact, as you are aware, one of the goals of Riegle-Neal is to increase competition thereby benefiting all consumers of banking services.

In addition, foreign banks could also provide New Jersey domestic businesses with services tailored to international trade. Most foreign banks seek to specialize in the businesses they know, namely their clients from their home country and those doing business in their home country. Domestic companies seeking to engage in international trade could benefit greatly by the services offered by foreign banks such as letters of credit and other trade services in the foreign bank's home country.

Form of Entry

Under the provisions of Riegle-Neal, a foreign bank would be permitted to acquire an existing New Jersey bank in the

same manner as a domestic bank holding company could acquire a such a bank. However, as discussed above, the preferable route for most foreign banks would be to establish a direct branch or agency, which can be only done by a change in the New Jersey law. In addition, those foreign banks wishing to engage in retail banking may prefer to establish a de novo bank in New Jersey, instead of taking over an existing bank, which can also only be done by a change in the New Jersey law.

From New Jersey's perspective, permitting foreign banks to establish direct branches and agencies and de novo subsidiaries would make entry into New Jersey more attractive and thus would bring greater benefit to New Jersey. Further, the establishment of branches, agencies and de novo bank subsidiaries require the hiring of new employees, thereby directly increasing employment.

With the passage of Riegle-Neal, foreign banks, like many domestic banks are assessing their overall U.S. business strategy. If New Jersey fails to bring in foreign banks in the coming year, it will lose a valuable opportunity to increase jobs and to advance New Jersey's position as in the global economy.

I thank you for the opportunity to address you on a subject of such importance to New Jersey.

DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

Statement before the Joint Hearing of the Assembly Financial Institutions
Committee and the Senate Management and Financial Institutions Committee
February 16, 1995

Michael Hollan, Legislative Liaison, DOC&ED

609-984-2326

Thank you. I am Michael Hollan, Legislative Liaison for the Department of Commerce and Economic Development. I am here today at the request of Commissioner Gualberto Medina. The commissioner is strongly in favor of allowing foreign banks to operate in New Jersey.

Enabling these banks to participate in New Jersey's economy would greatly aid our efforts to provide jobs and low taxes for our citizens. We know this because that is exactly what has occurred in other parts of our country, where foreign banks are allowed to do business.

Across our country, foreign banks employ more than 110,000 people as of 1992. These employees pay taxes, purchase goods and stimulate local economies.

Unfortunately, New Jersey does not, as of this time, share in the benefits of foreign banking. By blocking such foreign participating we are denying our citizens economic opportunities they deserve.

Just across the state border, in NYC, foreign banks are already doing business, much of it in New Jersey. The only difference is that the Big Apple, not the Garden State, enjoys most of the benefits.

Allowing foreign banks to do business in NJ would create jobs, indirect economic activity, personal incomes taxes, corporate income taxes and sales tax revenues. It would help the real estate sector by the leasing and purchasing of currently unused square footage, firming statewide commercial real estate prices.

It is also important to remember that allowing foreign banks to do business in our state does not pose a competitive threat to NJ banks because foreign banks are barred from retail operations involving the general public. They only compete in the "wholesale" market. And, in fact, as I stated before, are already doing so from neighboring states.

In summation, our position at the Department of Commerce and Economic Development is quite clear: Allowing foreign banks to do business in New Jersey will benefit our state's economy, create jobs and increase state revenues. The commissioner heartily endorses this effort.

Thank you.