



Banking Insider

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Banks may someday face new out-of-state competitors

When Walter Wriston was head of Citicorp in the late 1970s, the giant bank holding company illustrated its annual report cover with a map of the United States. The states were surrounded by brick walls, but the walls were starting to crumble.

It was Citicorp's way of predicting the new age of interstate banking.

"Wriston knew that the U.S. system was antiquated and out of step with world countries," said William Martin, CEO of Service1st Bank and then a high-level banking regulator who oversaw multinational banking at Citicorp's bank Citibank.

The Citicorp CEO "knew the U.S. needed true national banking companies," Martin said.

The last few walls fell in July when President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act, which promised to protect consumers from bankers and the country from Wall Street.

A little noticed provision in the 2,300-page Dodd-Frank banking reform bill threw open the doors to Nevada and every other state that once tried to limit interstate branching.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 had set the rules for crossing state lines. Under Riegle-Neal, states could opt into interstate branching, which meant inviting out-of-state bankers to join the feast as long as the open door swung both ways. In other words, your banks can come to our state if our banks can start operations in your state.

Nevada, Arizona and some other states just said no.

Before Dodd-Frank became law, out-of-state banks that wanted to compete in Nevada were compelled to buy an existing 5-year-old or older bank in Nevada.

That's what City National Bank of



JOHN LOCHER | LAS VEGAS REVIEW-JOURNAL FILE PHOTO
Then-Illinois Sen. Barack Obama and current Connecticut Sen. Christopher Dodd are shown in November 2007 at the Cox Pavilion in Las Vegas' at a Democratic presidential candidate debate. Dodd is a sponsor of a measure that changes branching rules for out-of-state banks.

Los Angeles accomplished by acquiring Business Bank of Nevada in 2007. It's also how Plaza Bank of Irvine, Calif., gained entry to Nevada. The Federal Deposit Insurance Corp. in July sold Plaza Bank assets and deposits from

failed SouthwestUSA Bank of Las Vegas.

Out-of-staters didn't need to make an acquisition to establish branches in rural areas and compete for cowboys, farmers and miners. But you didn't

even think about opening a branch in Clark County or Washoe County, where Reno is, unless you wanted to buy a bank in Nevada.

1st International Bank of Houston did just that, establishing branches in the Armargosa Valley near Death Valley and in Pahrump. When the Financial Institutions Division balked about granting 1st International permission for a Las Vegas bank, the bank found an Assembly member willing to sponsor a bill allowing 1st International to break into the Las Vegas market. After some negotiations, the bill was passed.

Dodd-Frank eliminates the need for that kind of dispute. Out-of-state banks can ignore the rural areas and go straight to the big cities without acquiring an existing local bank.

However, Congress limited interstate banking to only the strongest financial institutions.

The Financial Institutions Division also said it will not approve any out-of-state branches under the Dodd-Frank bill until a court rules that the federal statute trumps the state law.

Nobody expects a thundering herd of banks to head for Nevada anytime soon, given the state's top ranking for unemployment and foreclosures.

When the tarnish finally comes off the Silver State's economy, however, the local banks that struggled through the bad times may meet some unwelcome competitors who came to the dance without a date.

William Uffelman, chief executive officer of the Nevada Bankers Association, figures some newcomers will decide to buy a bank in Nevada.

By acquiring an existing Nevada bank, out-of-staters can rely on the staff of the acquired bank to keep some loyal customers.

Otherwise, Uffelman said: "You show up in town, and nobody knows who you are."

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