

Remarks of Donald R. Meyer
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California Department of Financial Institutions
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Thank you for inviting me to join you today and to be part of this outstanding panel. I feel like I am amongst old friends. IFIAC has been fortunate to have Joe Raffetto as its Chairman this past year and I look forward to working with Rob Stebbins.

Some history to put foreign banks in California in perspective.

According to Financing an Empire – The History of Banking in California by Dr. Ira B. Cross, the first foreign bank to open in California was the Commercial Bank of India, a British bank that opened an agency office in San Francisco in 1863 and closed in 1866. The British & California Banking Company Ltd., opened in 1864 and closed in 1866. Bank of British North America opened in 1864. In 1918 it was succeeded by British American Bank, the predecessor of Bank of Montreal, which still maintains a representative office in California. Bank of British Columbia, operated from 1864 until 1901 when it was absorbed by the Canadian Bank of Commerce, predecessor to our oldest licensee, the Canadian Imperial Bank of Commerce.

According to our records, the first foreign banking corporation licensed by the State Banking Department was the Russo-Chinese Bank, St. Petersburg, Russia. It incorporated December 10, 1895 and a San Francisco branch was authorized on April 5, 1904. When the State Banking Department took over from the Board of Bank Commissioners in 1909, Russo-Chinese Bank received License # 24. It voluntarily closed on 11/15/1910, and its business was taken over by Wells Fargo Nevada National Bank, one of the predecessors to Wells Fargo Bank, N.A.

All of these institutions came to California because of trade finance which remains the primary reason for foreign banks to establish offices in California.

Turning to the present day we find that California, with the fifth largest gross domestic product in the world (surpassing France last month) and 33.8 million people, attracted significant foreign trade and investment. The 1999 U.S. Department of Commerce Benchmark Survey reported fixed capital investment in California from foreign sources of over \$115 billion.

Eighteen of the top 25 world banking firms have a commercial bank presence in California. Eighty-seven percent of foreign bank assets in the United States are in state-chartered entities.

There are currently 50 agencies and branch offices of foreign banks doing business in California and 18 foreign banks have representative offices. It appears from call reports that at midyear 2001, foreign branches and agencies made 25.8% of the commercial and industrial loans reported statewide. Some of these loans may be to entities located outside California.

As of 6/30/01, assets of state-chartered banks that were subsidiaries of international banks totaled around \$28.6 billion which is around 22% of the total assets of all state-chartered banks.

Foreign banks with agency and branch offices in California continued to decline from the high point reached a decade ago. Total assets were down 29.9% from \$27.4 billion at yearend 1999 to \$19.2 billion at midyear 2001. Loans outstanding were down 32.8% over the same period, from \$24.1 billion to \$16.2 billion, while deposits edged down from \$5.9 billion to \$3.0 billion, a 49.2% decline. Total operating income was down 4.2% from \$2.4 billion in 1999 to \$2.3 billion in 2000. The number of banks with state-licensed agencies and branch offices at midyear 2001 was 50, down from 57 at yearend 1999, a decline of 12.3%.

These dwindling numbers show just how strategic global business realignments, the Internet, and financial modernization laws allowing the formation of financial holding companies combining banking, securities and insurance have changed the face of the financial services industry.

It is interesting to note that several major financial institutions (Credit Suisse First Boston, Deutsche Bank - Alex Brown and UBS Paine Webber) are no longer considered foreign banks because of their restructuring to take advantage of recent changes in federal statutes.

Foreign financial institutions have been important to California's economy in the past when they financed trade in furs, hides and lumber. They will be important in the future in financing trade in computers, software and biotech.

As you heard from the representative of the state's Trade, Commerce and Technology Agency, the Davis Administration wants to work together with you.