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THE CURRENT BANK-MERGER MOVEMENT:

AN ECONOMIC APPRAISAL

DISSERTATION

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PREFACE

Any large-scale research project requires the aid and cooperation of many persons. This study is indeed no exception, as it reflects the kind assistance and constructive criticism of several parties. To my major adviser, Professor Frances W. Quantius, I extend my deepest appreciation for her counsel and for her patient, helpful reading of the dissertation. I also thank the following members of the Department of Economics, The Ohio State University, for their helpful suggestions: Professor Clifford L. James, Professor David M. Harrison and Professor Emeritus Charles A. Dice. My gratitude extends also to the Ohio Bankers Association for providing access to the Rand McNally International Bankers Directory. Finally, I am indebted to Mrs. Reuben G. Miller, who typed the dissertation and assisted in the presentation of the statistical data.

TABLE OF CONTENTS

CHAPTER	PAGE
I. INTRODUCTION	1
Industrial Concentration and Commercial	
Bank Mergers	2
Aim of the Study	5
Definitions of Concepts	6
Significance and Purpose of the Study . . .	9
Methods of the Study	11
Organizational Plan of the Study	13
II. BRIEF HISTORY AND PRESENT STATUS OF THE BANK-	
MERGER MOVEMENT: 1946-1954	15
Place of Origin in the United States	15
Years of Greatest Activity	24
Number and Type of Participating Banks . . .	30
Legal Aspects of Bank Mergers	39
Summary	54
III. ECONOMIC FACTORS CONTRIBUTING TO BANK MERGERS:	
CHANGES IN THE BANKING MARKET	59
Prevention of Bank Failures	59
Enhancement of Market Positions	62
Diversification of Operations	65
Economies through Branches	74

	iv
CHAPTER	PAGE
Dynamic Demands upon Banks	78
Return to Traditional Commercial Banking	
Role	106
Expansion of Loan Limits	117
Summary	129
IV. ECONOMIC FACTORS CONTRIBUTING TO BANK MERGERS:	
NON-BANK COMPETITION AND FINANCIAL FACTORS .	131
Competition from Mutual Savings Banks . . .	132
Competition from Savings and Loan	
Associations	139
Competition from Life Insurance Companies .	144
Competition from Governmental Agencies . . .	147
Financial Factors Contributing to Bank	
Mergers	152
Summary	160
V. NON-ECONOMIC FACTORS CONTRIBUTING TO BANK	
MERGERS	161
General Antitrust Legislation	161
Specific Merger Statutes	163
Branch Banking Statutes	169
Impact of Laws upon Mergers	172
Problem of Adequate Management	182
Summary	187

CHAPTER	PAGE
VI. BENCHMARKS OF BANK MERGERS: A SAMPLE	
STUDY	190
Background of the Sample Study	191
Preliminary Observations	193
Ratios Underlying Bank Mergers	198
Summary	216
VII. IMPACT OF BANK-MERGER MOVEMENT UPON BANKING	
CONCENTRATION	220
Group Banking	228
Chain Banking	236
Relation of Bank-Merger Movement to the	
Nature of Banking Competition	237
Regulation of Bank Mergers	244
The Road Ahead	254
Summary	255
VIII. SUMMARY AND CONCLUSIONS	259
Net Appraisal of the Merger Movement	263
BIBLIOGRAPHY	268

LIST OF TABLES

TABLE	PAGE
I. Number of Mergers Involving National Banks by Geographical Region and State, United States, 1946-1953	20
II. Number of Mergers Involving National Banks for Period 1946 to 1953 Expressed as a Percentage of Number of Active National Banks, by Geographical Region and State, United States, December 31, 1953	21
III. Number of Banks Ceasing Operations through Merger Transactions and Annual Percentage Change in Number of Banks Ceasing Operations through Merger Transactions, United States, 1946-1954	25
IV. Amount and Percentage Distribution of Banking Assets in New York City by Bank or Merged Institution, December 31, 1954	29
V. Number of Banks Ceasing Operations through Merger Transactions by Class of Banks, United States, Annually, 1946-1954	31
VI. Number and Resources of Commercial Banks Absorbed in Transactions Involving National Banks, by Type of Transaction, United States,	

TABLE	PAGE
January 1, 1950 to May 1, 1955	33
VII. Number and Percentage Distribution of Banks	
Merged with 47 Banks, by Asset Size, United	
States, January 1, 1950-Mid-1952	38
VIII. Status of State Legislation Governing the	
Merger and Conversion of State Banks into	
National Banks under National Charter,	
August 1, 1955	52
IX. Requirements of States' Laws Governing Mergers	
between State Banks	53
X. Mergers of Insured Banks Effectuated under	
Auspices of the Federal Deposit Insurance	
Corporation, Annually, 1935-1954	63
XI. Short-term Claims on Foreigners Reported by	
Banks and Traders, United States, Selected	
Years	75
XII. Short-term Claims on Foreigners, by Federal	
Reserve District, United States,	
December 31, 1954	75
XIII. Relative Importance of Foreign Business of	
Selected Leading Banks, United States,	
December 31, 1954	76
XIV. Number of Banking Offices Closed, Classified	
by Various Reasons for Closure, United	
States, Annually, 1950-1954	79

TABLE

PAGE

XV.	Number of Absorbed Banks, Conversions of Absorbed Banks, Acquisitions of Existing Branches by State Member Banks, United States, January, 1950-May, 1955	80
XVI.	Distribution of Bank Deposits by State and by Geographical Region, United States, Selected Dates, 1947-1954	89
XVII.	Percentage Distribution of Bank Deposits by State and by Geographical Region, United States, Selected Dates, 1947-1954	92
XVIII.	Index of Volume of Bank Deposits by State and by Geographical Region, United States, Selected Dates, 1947-1954	95
XIX.	Amount of Percentage Change in Total Deposits of Selected Standard Metropolitan Areas, United States, December 30, 1950 and June 30, 1954	99
XX.	Number and Percentage Distribution of the 556 Banking Offices, New York City, December 31, 1954	104
XXI.	Amount and Percentage Distribution of Loans and Investments of All Commercial Banks, United States, Annually, 1946-1954	108
XXII.	Business Loans of Member Banks, by Business of Borrower, 1955 and 1946	112

TABLE	PAGE
XXIII. Sources and Uses of Corporate Funds, United States, Annually, 1946-1954	121
XXIV. Condensed Sources and Uses of Funds for 198 Large Manufacturing Corporations, Annually, 1950-1955	124
XXV. Business Loans of Member Banks, by Size of Borrower, United States, 1946 and 1955 . .	126
XXVI. Principal Assets of All Mutual Savings Banks, United States, Annually, 1946-1954 .	133
XXVII. Growth in the Number of Accounts and Deposits of Commercial Banks and Savings Banks in New York State, 1940-1954	137
XXVIII. Selected Assets and Savings Capital of Savings and Loan Associations, United States, Selected Years, 1948-1955	140
XXIX. Amount and Percentage Distribution of Assets of Life Insurance Companies, by Type of Asset, United States, Annually, 1946-1954 .	146
XXX. United States Government Financial Data on Major Lending and Related Insurance and Guarantee Programs, June 30, 1953	150
XXXI. Number of Banks Closing Operations by Conversion into Branches through Merger Transactions, by Class of Bank, United States, Annually, 1946-1954	174

TABLE

PAGE

XXXII.	Number of Branch Banks Established by Conversion of Banks Involved in Merger Transactions, by Class of Bank, United States, Annually, 1946-1954	175
XXXIII.	Number of De Novo Branches and Number of Branches Established by Conversion of Commercial Banks Involved in Merger Transactions, United States, Annually, 1946-1954	176
XXXIV.	Number of Mergers Involving National Banks, for Period 1946 to 1954 Expressed as a Percentage of Number of Active National Banks by State and Legal Grouping, United States, December 31, 1946	179
XXXV.	Reasons for Sale and Number of Cases in Which Reason Was Given for Voluntary Liquidation of 169 National Banks, United States, January 1, 1950-May 1, 1955	186
XXXVI.	Name and Location of Absorbing Banks That Participated in Two or More Merger Transactions Involving National Banks, January 1, 1954-April 30, 1955	194
XXXVII.	Number of Merger Transactions and Number of Absorbed Banks in Cities Recording Two or More Merger Transactions Involving National	

TABLE

PAGE

	Banks, Classified by Head-Office Location of Absorbing Bank, January 1, 1954- April 30, 1955	196
XXXVIII.	Distribution of Individual Ratios of Total Assets of Absorbed Bank to Total Assets of Absorbing Bank, 166 Merger Transactions Involving National Banks, January 1, 1954- April 30, 1955	199
XXXIX.	Distribution of Capital-Deposit Ratios of Absorbed and Absorbing Banks Participating in 166 Merger Transactions Involving Na- tional Banks, United States, January 1, 1954-April 30, 1955	201
XL.	Arithmetic Averages of Individual Capital- Deposit Ratios of Member Banks, 1954, and of Absorbing and Absorbed Banks Partici- pating in 166 Merger Transactions Involv- ing National Banks, January 1, 1954- April 30, 1955	203
XLI.	Distribution of Capital-Deposit Ratios of Absorbed Banks Expressed as Percentages of Capital-Deposit Ratios of Absorbing Banks, 166 Merger Transactions Involving National Banks, January 1, 1954- April 30, 1955	204

TABLE

PAGE

XLII.	Distribution of Capital-Risk Asset Ratios of Absorbed and Absorbing Banks Participating in 166 Merger Transactions Involving Na- tional Banks, United States, January 1, 1954-April 30, 1954	207
XLIII.	Arithmetic Averages of Individual Capital- Risk Asset Ratios of Member Banks, 1954, and of Absorbing and Absorbed Banks Partic- ipating in 166 Merger Transactions Involv- ing National Banks, January 1, 1954- April 30, 1955	208
XLIV.	Distribution of Loan Ratios of Absorbed and Absorbing Banks Participating in 166 Merger Transactions Involving National Banks, United States, January 1, 1954- April 30, 1955	211
XLV.	Arithmetic Averages of Individual Loan Ratios of Member Banks, 1954, and of Absorbing and Absorbed Banks Participating in 166 Merger Transactions Involving National Banks, United States, January 1, 1954- April 30, 1955	212
XLVI.	Absorbed Banks: Capital-Risk Asset Ratios Compared with Loan Ratios, 223 Banks Ab- sorbed in 166 Merger Transactions Involving	

TABLE

PAGE

	National Banks, United States, January 1, 1954-April 30, 1955	214
XLVII.	Absorbing Banks: Capital-Risk Asset Ratios Compared with Loan Ratios, 166 Absorbing Banks in 166 Merger Transactions Involving National Banks, United States, January 1, 1954-April 30, 1955	215
XLVIII.	Change in Concentration of Banking Industry, United States, 1939-1954	223
XLIX.	Percentage of Total Assets Owned by Selected Groups of Banks, 16 Financial Centers, United States, June 30, 1954	225
L.	Population, Number and Total Resources of National and State-Chartered Banks Absorbed by Other National and State-Chartered Banks from January 1, 1950, to December 31, 1955, Number and Total Resources of All Banking Offices, by State, Year-end 1955	226
LI.	Bank Holding Companies under 25 Per Cent Measure of Control, Number of Banking Of- fices and Deposits, by States, December 31, 1954	230

CHAPTER I

INTRODUCTION

One of the basic characteristics of a complex and interrelated economy such as that of the United States is one of continuous change and growth. Economic activity in the United States affords many interesting as well as significant developments in important institutions and processes. One very active force within the everchanging economic scene is the banking system. United States banks stand, as it were, at the center of American economic life, be this at the national level or at the community level.

The history of banking in the United States offers many examples of the prominent part that banks have taken in the swift stream of economic events. The banking sector has been a vital economic force from the time of the first commercial bank in the United States up to the relatively sophisticated operation of our present-day monetary and credit system. The current setting of banking in the United States continues to exhibit far-reaching changes. One of these changes is evidenced by the increasing number of mergers among banks. Indeed, as one financial observer among many has commented:

Banking mergers primarily are born through efforts of the banks concerned to keep abreast of changing con-

ditions which affect them and which in turn are a reflection of changes in the communities of which the banks are a part.¹

¹Ed Tyng, "Bank Mergers Motivated by Necessity to Branch Out," The Journal of Commerce, March 31, 1955, p. 1.

I. INDUSTRIAL CONCENTRATION AND COMMERCIAL BANK MERGERS

Any consideration of the current bank-merger movement in the United States must be oriented to the particular economic framework existing in American society. The industrial economy of the United States is marked by a significant degree of industrial concentration in many industries. More specifically, at year-end 1952, out of a total of 267,000 manufacturing establishments, employing an aggregate of 15,944,379 employees, and accounting for a total value added by manufacture of \$108.5 billion, 5,179 or less than 2 per cent of the total number of these manufacturing establishments accounted for \$56.3 billion or 51.9 per cent of the total value added by manufacture.²

²Figures computed from data contained in U.S. Department of Commerce, Statistical Abstract of the United States, 1954 (Washington, D.C.: Government Printing Office, 1954), p. 816, table 978.

Additional evidence of industrial concentration is

available. In 1950, the 200 largest United States manufacturing concerns accounted for 40.5 per cent of the total value of product of all United States manufacturing enterprises.³ Closer scrutiny of the concentration of total

³U.S. Federal Trade Commission, Report on Changes in Concentration in Manufacturing, 1935 to 1947 and 1950 (Washington; D.C.: Government Printing Office, 1954), p. 17.

output found within specific manufacturing industries produces an even sharper picture of industrial concentration. In 1949, the U.S. Department of Commerce, using data from the 1947 Census of Manufactures, made a study of the proportion of output concentrated in the largest manufacturing companies in the United States.⁴ This latter investigation

⁴The results of this Department of Commerce study were transmitted in a letter from the Secretary of Commerce to the Chairman of the House of Representatives Subcommittee on the Study of Monopoly Power, with attachments, December 1, 1949. Contained in U.S. Congress, House Committee on the Judiciary, Study of Monopoly Power, Hearings before the Subcommittee on Study of Monopoly Power, 81st Congress, 1st Session, Serial No. 14, Part 2-B, pp. 1436-1456.

pointed out the following proportions of the total value of industrial shipments made by the four largest companies within each particular industry; motor vehicles and parts (55.7 per cent), wholesale meat packing (41.3 per cent), steel works and rolling mills (44.7 per cent), petroleum

refining (37.3 per cent), tires and inner tubes (76.6 per cent), organic chemicals (47.0 per cent), cigarettes (90.4 per cent), copper refining and drawing (60.1 per cent).

An important operative factor inherent in industrial concentration has been, and continues to be, the mergers occurring among industrial companies. In a recent article in Fortune magazine titled "The Urge to Merge," William B. Harris, states:

Although solid figures are scarce, it appears that since 1945 there have been some 7,500 mergers important enough to be noted by financial journals or services. Value of the companies merged probably approaches \$15 billion to \$20 billion. That is roughly 10 per cent of the \$185.5 billion value currently placed on net current assets of all industrial corporations. Corporate formation appears to go on vigorously (there were 740,000 industrials last year [1953], compared to 450,000 in 1945), but it is certain that the merger movement has resulted in whittling down the population of independent corporations in the \$1 million net-worth league and increasing the size of larger companies.⁵

⁵William B. Harris, "The Urge to Merge," Fortune, November, 1954, p. 103.

Vis-à-vis this high number of industrial mergers in the post-World War II period, United States banks have also participated in many mergers. During the five-year period 1950 to 1954, inclusive, a total of 598 banks have gone out of existence as a result of various agreements to combine.⁶

⁶"Bank Mergers and Consolidations," statement by Chairman Martin of the Board of Governors of the Federal

Reserve System before the Antitrust Subcommittee of the Committee on the Judiciary of the House of Representatives on June 13, 1955, contained in Federal Reserve Bulletin, June, 1955, pp. 642-47.

Between the years 1940 and 1949 a total of 544 unit banks were absorbed in transactions involving national banks.⁷

⁷Statement of R. M. Gidney, Comptroller of the Currency, before the Antitrust Subcommittee of the House Committee on the Judiciary (May 17, 1955), p. 5. (Mimeographed copy.)

From the beginning of 1950 to May 1, 1955, national banks were parties to a total of 494 merger agreements involving approximately \$13.5 billion in resources.⁸ Quite clearly,

⁸Ibid., pp. 6 f.

the increasing incidence of bank mergers and consolidations has occurred in an economic scene already marked by numerous industrial mergers.

II. AIM OF THE STUDY

The recent increase in bank mergers has evoked much comment as to both its principal contributory factors and its ultimate implications for the economy. Basically, the aim of this study is to present a general economic appraisal of the current bank-merger movement, a movement which has gained special impetus during the post-World War II

period. An intensive consideration of the major economic factors contributing to the movement affords the necessary backdrop against which these bank mergers can be evaluated. The contributory factors are examined both for their economic significance and for their aid in the formulation of benchmarks for bank regulatory policy. The increasing trend toward mergers among banks has an important bearing upon the status of competition among banks. This study considers some of the salient elements involved in the competitive structure of banking in the United States. Finally, estimates are made of the future course of bank mergers.

III. DEFINITIONS OF CONCEPTS

The general term "merger" has been used in various ways. The concept can refer to the more specific forms of joining two or more operating companies such as "merger", "consolidation", "absorption", and "purchase"; the generic term "merger" might also include such general expressions as "combination", "acquisition", and "amalgamation".⁹ The

⁹Cf. the various terms subsumed under the definition of "merger" by J. Fred Weston, The Role of Mergers in the Growth of Large Firms (Berkeley, California: University of California Press, 1953), p. 3.

differences among these latter terms are at most technical

or legal. Most writers on corporate finance distinguish between a merger and a consolidation on the basis of the continued existence of one of the parties to the agreement. In a merger transaction one of the companies party to the agreement is eliminated as a separate corporate entity.¹⁰

¹⁰For a technical explanation of a merger see: Arthur S. Dewing, The Financial Policy of Corporations (fifth edition, Vol. II; New York: The Ronald Press Company, 1953), p. 856 f.; Henry E. Hoagland, Corporation Finance (third edition; New York: McGraw-Hill Book Company, Inc., 1947), p. 622 f.

A consolidation, on the other hand, results in the abolition of the separate corporate entities of the combining companies through the establishment of a new corporation that issues new capital stock and operates under a new charter.¹¹

¹¹Ibid.

In its publication Banking and Monetary Statistics, the Board of Governors of the Federal Reserve System uses the terms "consolidation" and "absorption" synonymously to mean "the corporate union of two or more going banks into one bank which continues under a single charter, whether new or old."¹² Here the concept of a consolidation is ex-

¹²Banking and Monetary Statistics (Washington, D.C.:

Board of Governors of the Federal Reserve System, 1943), p. 14.

panded in meaning. Another device whereby two or more companies might be joined is through the cash purchase of assets and assumption of liabilities. In a purchase transaction sufficient assets are bought by the purchasing company to offset the liabilities assumed from the selling company. The selling company institutes liquidation proceedings and distributes the cash from the sale transaction, plus any remaining assets, among its shareholders. A modification of the latter transaction arises when the purchasing company obtains all of the assets and liabilities of the seller by offering a fixed price per share of the latter's capital stock. In these two types of sales transactions the corporate existence of the selling company is terminated.

Selected definition of merger. For the purposes of this study, the term "merger" is used in its broad sense to include all of the various specific methods of combining companies that were discussed in the preceding section. A merger, as defined in this study, is any form of combination whereby two or more going banks are joined under a single charter and a single management. Although there are legal and technical differences among the various specific forms of combination, the essential economic result is the same: the combined banks are brought under the stipulations

of one charter and of one management. The selected definition of a merger will enable a more extensive use of statistical data compiled by various governmental and quasi-governmental agencies.

The ultimate justification for the broad definition of a merger, however, is based on the economic consideration that the various types of combination do effectuate a centralized control over two or more going companies.

IV. SIGNIFICANCE AND PURPOSE OF THE STUDY

The sharp increase in the number of bank mergers during the post-World War II period evidences a significant structural change within the United States banking system. The bank-merger movement might be expected to result from the widespread industrial and commercial growth and concentration within the economy. Similar developments have occurred in other countries, Great Britain, for example. In terms of the aggregate number of operating banks, the number of bank mergers constitutes a small percentage of the total number of banks doing business today. In his report to the Antitrust Subcommittee of the House Committee on the Judiciary on May 17, 1955, the Comptroller of the Currency indicated that for the period January 1, 1950 to May 1, 1955, the total number of merger transactions involving national banks constituted less than 3½ per cent

of the total number of active banks in this country.¹³

¹³Statement of R. M. Gidney, op. cit., p. 7.

On a narrower geographic basis, however, the appearance of bank mergers has been particularly conspicuous in Pennsylvania, California, Washington, Oregon, Indiana, New York, and the District of Columbia.¹⁴ Many of the larger

¹⁴Ed Tyng, "Banks 'Urge to Merge' Intensifies," The Journal of Commerce, March 30, 1955, p. 1.

cities in the country are witnessing a rising number of consolidations among banks. New York City, for example, had fourteen bank mergers during the seven year period 1948 to 1954.¹⁵ This increasing trend toward bank mergers has

¹⁵"14 Bank Mergers Here Within Last 7 Years," The New York Times, January 14, 1955, p. 33.

brought forth many and varied views as to the contributory factors and significance of the general movement. There is an evident need for an objective description and appraisal of the current rise in bank mergers.

A particularly meaningful contribution of the study of these recent bank mergers lies in the construction and application of certain economic tests of bank mergers.

These economic benchmarks serve as initial guideposts toward the end of making a net appraisal of the concentrative activity of banks. The movement affects both the banking system itself and also, more importantly, the general economy. Of particular moment are the implications of the merger movement for the competitive setting of banking in the United States. To what degree does competition actually exist within the banking system? Then, too, what is the effect of bank mergers upon the competitive structure of the United States banking system? These latter questions must be raised and considered prior to the formation of any policy suggestions and the estimation of the future course of the merger movement among United States banks.

V. METHODS OF THE STUDY

The contemporary nature and setting of the consolidating activity among banks requires the use of varied methods of analysis and investigation. Primary emphasis rests on an examination and appraisal of the over-all trend toward bank mergers. The rationale of such an aggregative approach is that the current wave of mergers represents a change in the general structure of American banking. The study of each specific bank merger constitutes an individual case-study in itself. A strict adherence to the case-study method would provide little or incomplete background for appraising the movement's effect upon the institution

of banking and upon the general economic system. Where suitable, however, certain references are made to regional groups of banks to provide examples and illustrations for the analysis. The case of bank mergers in New York City is examined, especially in view of the prominence given to recent mergers there.

An integral part of an economic appraisal of the trend toward bank mergers consists of the surveying of the intangible factors operative in the movement. Of practical necessity, not all of the factors contributing to bank mergers can be precisely ascertained and measured. The area of opinion formed by governmental and supervisory officials, bankers, and academicians can afford valuable insight into the contemporary setting of the movement. The many functions and decisions involved in banking are enacted in a mixed framework of bankers' opinions, supervisory regulations and changing economic conditions. Qualitative and descriptive analysis examines these intangibles of the merger movement.

In this study, extensive use is made of the statistical sources provided by such governmental and quasi-governmental agencies as the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. Whenever available, source materials contained in Congressional hearings are used. Private sources of information are also

examined, namely, data contained in bankers' directories, financial newspapers, and technical journals.

The statistical data for the study aid in the formulation of quantitative measures of the movement and its effects upon the banking structure. The data refer generally to an aggregative group, or groups, of banks, with no exact identification of individual banks except where specific examples are presented.

VI. ORGANIZATIONAL PLAN OF THE STUDY

In the economic appraisal of the current bank-merger movement a definite organizational pattern is followed. The present chapter explains the aims, methods and significance of the study. The subsequent chapter contains the essential historical background of the merger activity among banks from 1946 to 1954. Chapter II indicates where, when, how, and how many banks have been involved in the merger movement and its current status. The following three chapters, Chapters III, IV, and V, present the core of the study wherein the significant economic and non-economic factors contributing to the movement are examined. The quantitative and qualitative survey of contributory factors is followed by the presentation in Chapter VI of certain general statistical tests of bank mergers. Chapter VII appraises the impact of the merger movement upon banking concentration in the United States. In addition,

the latter chapter offers tentative policy proposals toward bank mergers, as well as an estimation of the course and future extent of concentrative activity among banks. The final chapter, Chapter VIII, summarizes the principal findings and conclusions of this study.

CHAPTER II

BRIEF HISTORY AND PRESENT STATUS OF THE BANK-MERGER MOVEMENT: 1946-1954

I. PLACE OF ORIGIN IN THE UNITED STATES

Within the past three decades the number of banks in the United States has undergone a substantial decline, from an aggregate of 28,257 at year-end 1925 to 14,367 on December 31, 1954.¹

¹Banking and Monetary Statistics (Washington, D.C.: Board of Governors of the Federal Reserve System, 1943), p. 16; Federal Reserve Bulletin, July, 1955, p. 775.

Some of the decrease in the number of banks emanated from the widespread bank suspensions that occurred prior to and during 1933 as a partial "result of an 'overbanked' situation in the country."² Since 1933, the continued but

²Statement of R. M. Gidney, Comptroller of the Currency, before the Antitrust Subcommittee of the House Committee on the Judiciary (May 17, 1955), p. 5. (Mimeographed copy.)

less rapid decline in the number of the United States banks has reflected principally an increase in the number of

mergers among banks. William McChesney Martin, Chairman of the Board of Governors of the Federal Reserve System, has indicated in testimony before the Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary of the Senate: "Since 1933 the merger movement has been the major factor in the gradual decline in the total number of banks."³

³Statement by Chairman Martin on June 24, 1955, p. 1. (Mimeographed.) Mr. Martin had uttered the same view in his earlier statement before the Antitrust Subcommittee of the Committee on the Judiciary of the House of Representatives, June 13, 1955, contained in "Bank Mergers and Consolidations," Federal Reserve Bulletin, June, 1955, p. 642.

Although the rising tempo of mergers in the post-World War II period has affected the general structure of banking in the United States, the incidence of combinations among banks has not been uniform throughout the country. Various cities, states and regions have experienced a large number of bank mergers whereas other locales have recorded few or no such agreements. New York City, for example, was the center of 17 merger transactions involving state banks during the period 1946 to 1954, inclusive.⁴ The latter

⁴New York State Banking Department, Recent Bank Mergers in New York City, a Statement to the Antitrust Subcommittee of the Committee on the Judiciary, House of Representatives, June 8, 1955, p. 54.

number of mergers constituted about 18 per cent of the total number of 95 mergers involving state banks in New York State during the period 1946-1954, inclusive.⁵ Fur-

⁵Ibid.

thermore, during the latter period the State of New York recorded a total of 24 mergers between banks in the same locality, of which number of mergers 17 were in the largest city of the state.

The "money capital" of the United States and of the world, New York City, is not the sole center evidencing increased banking concentration. Other significant centers where large proportions of the banking business are being transacted by no more than the four largest banks include: Providence, Rhode Island; Pittsburgh, Pennsylvania; Minneapolis, Minnesota; Cleveland, Ohio; Boston, Massachusetts; Chicago, Illinois; Detroit, Michigan; Dallas, Texas; Atlanta, Georgia; Richmond, Virginia; Kansas City, Missouri; St. Louis, Missouri; Baltimore, Maryland; Philadelphia, Pennsylvania; Washington, D.C.⁶ The cities

⁶U.S. Congress, House Committee on the Judiciary, Bank Mergers, Hearings before Antitrust Subcommittee, 84th Congress, 1st Session, on H. R. 5948, July 5 and 6, 1955, Serial No. 7 (Washington, D.C.: Government Printing Office, 1955), p. 2.

listed above are important banking and commercial centers with large aggregates of population, so that as a general rule the larger the city the more frequently bank mergers occur.⁷

⁷Ed Tyng, "Rising Need for Branches Prompts Merger of Banks," The Journal of Commerce, April 4, 1955, p. 1.

The legal stipulations governing the establishment of bank branches are also influential in the merger activity of banks.⁸ However, Chapters III, IV, and V of this study

⁸Federal Reserve Bank of Philadelphia, "The Branch and Merger Movement in the Third Federal Reserve District," Business Review, Part I, August, 1954, p. 6.

will specifically examine the impact of the various factors contributing toward bank mergers.

On a state-by-state basis, the incidence of bank mergers produces an even more varied pattern than that evidenced by cities. The bank-merger movement has been active in varying degrees in different areas. For the period 1947-1953, inclusive, the twelve states leading in the number of bank mergers included in descending order of the number of mergers: Pennsylvania, New York, New Jersey, Ohio, California, Michigan, Washington, Maryland, Indiana,

Connecticut, Kansas, and Massachusetts.⁹ The line-up of

⁹Ibid., 5.

states evidences the significance of absolute levels of commercial and industrial activities, with more heavily populated industrial states being the main areas of bank mergers.

Table I presents a breakdown by state and geographical region of the number of merger transactions involving national banks for the eight-year period 1946 to 1953. The pattern of merging activity involving national banks resembles that for mergers among banks of all types. The Middle Atlantic region, which includes the highly populous states of New York, New Jersey, and Pennsylvania, has the largest number of mergers involving national banks for the period 1946 to 1953. The East North Central, Pacific, and New England regions follow the Middle Atlantic region in descending order of the number of mergers involving national banks. Of course, the number of mergers in Table I are given in absolute terms. It might be more meaningful to relate the number of mergers involving national banks to the number of active national banks at year-end 1953. Table II presents the number of mergers involving national banks during 1946-1953 as a percentage of the total number of active national banks on December 31, 1953.

TABLE I

NUMBER OF MERGERS INVOLVING NATIONAL BANKS BY GEOGRAPHICAL
REGION AND STATES, UNITED STATES, 1946-1953

Geographical region and state	Number of mergers	Geographical region and state	Number of mergers
United States, total	360	District of Columbia	1
		Virginia	2
New England, total	31	West Virginia	2
Maine	1	North Carolina	4
New Hampshire	2	South Carolina	1
Vermont	2	Georgia	1
Massachusetts	10	Florida	2
Rhode Island	6		
Connecticut	10	East South Central, total	6
		Kentucky	4
Middle Atlantic, total	171	Tennessee	0
New York	53	Alabama	1
New Jersey	29	Mississippi	1
Pennsylvania	89		
		West South Central, total	12
East North Central, total	47	Arkansas	0
Ohio	19	Louisiana	0
Indiana	14	Oklahoma	5
Illinois	5	Texas	7
Michigan	5		
Wisconsin	4	Mountain, total	14
		Montana	1
West North Central, total	21	Idaho	6
Minnesota	9	Wyoming	2
Iowa	2	Colorado	0
Missouri	3	New Mexico	0
North Dakota	1	Arizona	2
South Dakota	1	Utah	3
Nebraska	1	Nevada	0
Kansas	4		
		Pacific, total	35
South Atlantic, total	23	Washington	14
Delaware	2	Oregon	7
Maryland	8	California	14

Source: For years 1946 to 1951, inclusive, tabulated from data compiled by U.S. Congress, House Committee on the Judiciary, Bank Mergers and Concentration of Banking Facilities, 82d Congress, 2d Session (Washington, D.C.: Government Printing Office, 1952), pp.57-62; years 1952 and 1953 compiled from Annual Reports of the Comptroller of the Currency.

TABLE II

NUMBER OF MERGERS INVOLVING NATIONAL BANKS FOR PERIOD
1946 TO 1953 EXPRESSED AS A PERCENTAGE OF NUMBER OF
ACTIVE NATIONAL BANKS, BY GEOGRAPHICAL REGION AND
STATE, UNITED STATES, DECEMBER 31, 1953

Geographical region and state	Number of mergers (1)	Number of active banks (2)	Percentage (1÷2)
United States, total	360	4,856	6.3 %
New England, total	31	283	11.0
Maine	1	32	3.1
New Hampshire	2	51	3.9
Vermont	2	37	5.4
Massachusetts	10	114	8.8
Rhode Island	6	5	120.0
Connecticut	10	44	22.7
Middle Atlantic, total	171	1,132	15.1
New York	53	354	15.0
New Jersey	29	197	14.7
Pennsylvania	89	581	15.3
East North Central, total	47	918	5.1
Ohio	19	235	8.1
Indiana	14	124	11.3
Illinois	5	387	1.3
Michigan	5	77	6.5
Wisconsin	4	95	4.2
West North Central, total	21	720	2.9
Minnesota	9	177	5.1
Iowa	2	96	2.1
Missouri	3	77	3.9
North Dakota	1	39	2.6
South Dakota	1	35	2.9
Nebraska	1	124	*-
Kansas	4	172	2.3

*Less than 1 %.

TABLE II (continued)

Geographical region and state	Number of mergers (1)	Number of active banks (2)	Percentage (1÷2)
South Atlantic, total	23	474	4.9 %
Delaware	2	11	18.2
Maryland	8	58	13.8
District of Columbia	1	9	11.1
Virginia	2	133	1.5
West Virginia	2	74	2.7
North Carolina	4	46	8.7
South Carolina	1	25	4.0
Georgia	1	52	1.9
Florida	2	66	3.0
East South Central, total	6	260	2.3
Kentucky	4	90	4.4
Tennessee	0	74	0
Alabama	1	71	1.4
Mississippi	1	25	4.0
West South Central, total	12	734	1.6
Arkansas	0	53	0
Louisiana	0	39	0
Oklahoma	5	199	2.5
Texas	7	443	1.6
Mountain, total	14	194	7.2
Montana	1	38	2.6
Idaho	6	11	54.5
Wyoming	2	25	8.0
Colorado	0	77	0
New Mexico	0	26	0
Arizona	2	3	66.7
Utah	3	9	33.3
Nevada	0	5	0
Pacific, total	35	141	24.8
Washington	14	33	42.4
Oregon	7	18	38.9
California	14	90	15.6

Source: Table I and Annual Report of the Comptroller of the Currency, 1953.

Measuring the number of mergers involving national banks for the period 1946-1953 as a percentage of the number of active national banks on December 31, 1953, produces some different standings from those results obtained through an analysis of the absolute number of mergers involving national banks. The relative measure of mergers would adjust, at least partially, for the absolute differences arising from such factors as size, population, and level of commercial and industrial activities of the various regions and states.

Results contained in Table II indicate that for the period studied the Pacific states reflect the greatest relative number of bank mergers involving national banks. The Middle Atlantic region is second with a relative measure of 15.1 per cent, followed by New England with 11.0 per cent, the Mountain region with 7.2 per cent, the East North Central region with 5.1 per cent, and the South Atlantic region with 4.9 per cent.

Individual states also show changes in relative standings of mergers involving national banks as compared with the absolute standings given in Table I. The absolute standings in descending order of the number of mergers include: Pennsylvania, New York, New Jersey, Ohio, Indiana, Washington, and California. On a relative basis, however, the order changes to the following array of states: Rhode Island, Arizona, Idaho, Washington, Oregon, Utah, and

Connecticut.

II. YEARS OF GREATEST ACTIVITY

Admittedly, the period of the study covers a relatively short span of time, namely, the nine years between 1946 and 1954, inclusive. In the period, however, the merger movement has taken on a greater intensity in the more recent years, 1952, 1953, and 1954. In the latter three years there was a decrease of 423 banks as a result of mergers, consolidations and absorptions.¹⁰ For the six-

¹⁰Federal Reserve Bulletin, February issues, 1953-1955.

year period covering 1946 to 1951, inclusive, 509 banks ceased operations through various merger agreements.¹¹

¹¹Ibid., February issues, 1947-1952.

Examination in Table III of the annual number of banks terminating business through merger transactions indicates a mixed pattern for the initial six years of the study. The number of banks ceasing operations through mergers has gradually declined from 1946 to 1948, rising to a high of 92 for 1950, and then declining to 83 in 1951. The number of bank mergers shows a rising trend beginning

TABLE III

NUMBER OF BANKS CEASING OPERATIONS THROUGH MERGER
TRANSACTIONS AND ANNUAL PERCENTAGE CHANGE IN
NUMBER OF BANKS CEASING OPERATIONS THROUGH
MERGER TRANSACTIONS, UNITED STATES
1946-1954

Year	Number of banks	Percentage change
1946	95	--
1947	84	- 12 %
1948	76	- 10
1949	79	+ 4
1950	92	+ 16
1951	83	- 10
1952	100	+ 20
1953	116	+ 16
1954	207	+ 78

Source: Federal Reserve Bulletin, February issues,
1947-1955.

in 1952, reaching a record peak of 207 by the end of 1954, the highest number of banks ceasing operations through mergers since 1931.¹² The number of mergers among banks

¹²See Banking and Monetary Statistics, p. 53.

exhibited an increase of 78 per cent in 1954 as compared with the preceding year's figure. For the first four months of 1955 the number of bank mergers stood at 81.¹³

¹³Statement by Chairman Martin of the Board of Governors of the Federal Reserve System, June 24, 1955, loc. cit.

Current developments. Against the background of the widespread increase in bank mergers throughout the United States there appear the interesting and localized developments among banks in New York City. Merger agreements among New York City banks are significant because of the city's role in the financial structure of the United States and of the rest of the world. In addition, bank mergers in New York City have tended to highlight and underline public attention upon the over-all movement. From the beginning of 1948 to the end of April, 1955, a total of 18 New York City banks have lost their identity through merger trans-

actions.¹⁴

¹⁴The names of the banks involved in these merger agreements in New York City were as follows:

Acquiring Bank	Absorbed Bank
1948:	
1. Chemical Bank & Trust Co.	1. Continental Bank & Trust Co.
2. Bank of New York	2. Fifth Avenue Bank
1949:	
1. Marine Midland Trust Co.	1. Bank of Yorktown
2. Manufacturers Trust Co.	2. National Bronx Bank
3. New York Trust Co.	3. Fulton Trust Co.
1950:	
1. Bankers Trust Co.	1. Title Guarantee & Trust Co.
2. Bankers Trust Co.	2. Lawyers Trust Co.
3. Manufacturers Trust Co.	3. Brooklyn Trust Co.
4. Bankers Trust Co.	4. Flushing National Bank
1951:	
1. Chemical Bank & Trust Co.	1. National Safety Bank & Trust Co.
2. Bankers Trust Co.	2. Commercial National Bank
1953:	
1. Bankers Trust Co.	1. Bayside National Bank
2. Manufacturers Trust Co.	2. Peoples Industrial Bank
1954:	
1. Chemical Bank & Trust Co.	1. Corn Exchange Bank Trust Co.
End of April 1955:	
1. National City Bank	1. First National Bank
2. Bank of Manhattan Company	2. Bronx County Trust Co.
3. Bank of Manhattan Company	3. Chase National Bank
4. Bankers Trust Co.	4. Public National Bank & Trust Co.

Source: The New York Times, January 14, 1955, p. 33; The New York State Banking Department, Recent Bank Mergers in New York City, p. 11.

Many of the combinations among New York City banks have involved large amounts of banking assets. Of particular note are the following mergers which took place between October, 1954, and April, 1955: Chase National--Bank of

Manhattan--Bronx County Trust, National City--First National, Chemical Bank and Trust--Corn Exchange, Bankers Trust--Public National. The latter merger transactions involved about \$19.5 billion in assets and over 57.5 per cent of the banking facilities in New York City.¹⁵ The large

¹⁵U.S. Congress, House Committee on the Judiciary, Bank Mergers, p. 2.

scale of the New York City mergers emphasizes the key position of the city in the financial world.

The four recent bank mergers in New York City can be described more adequately in terms of their impact upon the concentration of banking assets among the city's banks. Table IV shows the effect on asset concentration of the mergers that occurred in the seven month period between October, 1954 and April, 1955. To afford comparability of the data, the table is derived from the various individual banks' asset holdings as of December 31, 1954, unless otherwise noted.

The merger of the Chase National Bank into the Bank of the Manhattan Company, which had previously absorbed the Bronx County Trust Company, raised Chase National's share of total New York City banking assets from a little less than 17 per cent to about 22 per cent for the combined bank.

TABLE IV

AMOUNT AND PERCENTAGE DISTRIBUTION OF BANKING ASSETS
IN NEW YORK CITY BY BANK OR MERGED INSTITUTION,
DECEMBER 31, 1954

Name of bank or merged institution	Total assets (in millions)	Percent of total assets
Chase National Bank	\$5,669	16.7 %
Bank of Manhattan Co.	1,629	4.8
Bronx County Trust Co.	76	.2
Chase Manhattan Bank	\$7,374	21.7 %
National City Bank	5,767	17.0
First National Bank	713	2.1
First National City Bank	\$6,480	19.1 %
Manufacturers Trust Co.	3,026	8.9
Guaranty Trust Co.	3,016	8.9
Chemical Bank & Trust Co.	2,081	6.1
Corn Exchange Bank & Trust	821	2.4
Chemical Corn Exchange Bank	\$2,902	8.5 %
Bankers Trust Co.*	2,207	6.5
Public National Bank & Trust*	562	1.7
Bankers Trust Co.	\$2,769	8.2 %
Hanover Bank	1,766	5.2
Irving Trust Co.	1,574	4.6
New York Trust Co.	849	2.5
J. P. Morgan & Co., Inc.	830	2.4
Sub-total	\$30,586	90.0 %
Forty-four other banks	3,387	10.0
Total, all New York City	\$33,973	100.0 %

*Banks were merged before December 31, 1954. Assets estimated from October 7, 1954, Call Report.

Source: New York Clearing House data computed by the New York State Banking Department, Recent Bank Mergers in New York City, p. 11.

According to Table IV National City Bank, which absorbed the First National Bank, increased its proportion of New York City banking asset holdings from 17 per cent to over 19 per cent for the resulting institution. A total of \$821 million in banking assets was added to Chemical Bank and Trust Company's holdings as a result of the latter's absorption of the Corn Exchange Bank and Trust Company on October 15, 1954. The latter transaction brought the resulting bank's asset holdings to 8.5 per cent of the total banking assets of New York City.

III. NUMBER AND TYPES OF PARTICIPATING BANKS

During the period studied, mergers have been enacted among banks of various classes, as shown in Table V. Banks that are members of the Federal Reserve System have been more active in merging than have been nonmember banks, with the exception of the years 1947, 1950, 1951. Again, within the general category of member banks, national banks were involved in more mergers each year than were the state member banks. The increase in the number of national banks ceasing operations through merger transactions has been noticeable especially during 1953 and 1954, in which years 63 and 94 national banks, respectively, were absorbed through mergers. Of course, the varying number of mergers within different classes of banks would be influenced by the absolute differences in the total number of banks in

TABLE V
NUMBER OF BANKS CEASING OPERATIONS THROUGH MERGER TRANSACTIONS
BY CLASS OF BANKS, UNITED STATES, ANNUALLY, 1946-1954

Year	All banks	Commercial and stock savings banks and nondeposit trust companies						Mutual savings banks	
		Member banks			Nonmember banks			Insured	Noninsured
		Total	Total	National	State member	Total	Insured	Noninsured	
1946	95	94	55	40	15	39	36	3	1
1947	84	84	41	26	15	43	36	7	---
1948	76	75	47	30	17	28	24	4	1
1949	79	77	48	31	17	29	29	---	2
1950	92	91	39	27	12	52	49	3	---
1951	83	82	40	27	13	42	33	9	---
1952	100	100	58	38	20	42	37	5	---
1953	116	115	80	63	17	35	29	6	---
1954	207	206	120	94	26	86	82	4	1

Source: Federal Reserve Bulletin, February issues, 1947-1955.

each class.¹⁶

¹⁶The numerical standing of the various classes of banks as of December 31, 1954, was as follows:

National member banks	4,789
State member banks	1,871
Nonmember commercial banks	7,183
Mutual savings banks	<u>527</u>
All banks	14,370

Federal Reserve Bulletin, July, 1955, pp. 775, 777.

Nonmember commercial banks, which comprise about one-half of all the banks in the United States, accounted for considerably less than half of all the banks ceasing operations through mergers during the period 1946-1954, inclusive.

The statement of the Comptroller of the Currency before the Antitrust Subcommittee of the House Committee on the Judiciary on May 17, 1955, presented data on the number and total resources of commercial banks absorbed in transactions involving national banks for the period January 1, 1950 to May 1, 1955. The results of the Comptroller of the Currency's findings are given in Table VI.

Out of the total of 494 commercial banks absorbed in transactions involving national banks, 376 commercial banks were absorbed by national banks. The remaining 118 commercial banks given in Table VI were absorbed in various ways by state chartered banks. Stated differently, national banks absorbed approximately three out of every four com-

TABLE VI

NUMBER AND RESOURCES OF COMMERCIAL BANKS ABSORBED
IN TRANSACTIONS INVOLVING NATIONAL BANKS,
BY TYPE OF TRANSACTION, UNITED STATES,
JANUARY 1, 1950 TO MAY 1, 1955
(Resources in millions of dollars)

Number of banks	Type of transaction	Total resources
64	National banks consolidated with and into other national banks	\$935
19	National banks merged with other national banks	953
101	National banks purchased by the national banks	1,116
184	Sub-total	\$3,004
65	State chartered banks consolidated with and into national banks	1,451
10	State chartered banks merged with national banks	161
117	State chartered banks purchased by national banks	608
192	Sub-total	\$2,220
50	National banks consolidated or merged with state chartered banks	7,464
68	National banks purchased by state chartered banks	790
118	Sub-total	\$8,254
494	Totals for absorbed banks in trans- actions involving national banks	\$13,478

Source: Statement of R. M. Gidney, Comptroller of
the Currency, before the Antitrust Subcommittee of the
House Committee on the Judiciary, May 17, 1955, pp. 6 f.
(Mimeographed)

mercial banks that had been absorbed in transactions which involved national banks for the period January 1, 1950 to May 1, 1955.

The above table also indicates the types of commercial banks that have been absorbed during the period. National banks were absorbed more frequently than were state chartered banks. The total number of 494 absorbed commercial banks with total resources of \$13,478 million included 302 national banks holding \$11,258 million in resources. The remaining 192 absorbed commercial banks were state chartered banks accounting for \$2,220 million in bank resources. The Comptroller emphasized that he had no data available on the number and amount of resources of state banks absorbed by other state banks.¹⁷

¹⁷Statement of R. M. Gidney, op. cit., p. 7.

Finally, an examination of Table VI shows that banking resources held by state chartered banks were augmented through the absorptions of national banks by the state banks. A total of 118 national banks with total resources of \$8,254 million was absorbed by state chartered banks, whereas 192 state chartered banks absorbed by national banks held only \$2,220 million in banking resources. The upshot is that a net figure of more than \$6 billion in banking resources was brought under state banks' jurisdic-

tions. The latter result would arise primarily from the larger national banks absorbed by state institutions. In his statement before the Antitrust Subcommittee of the House Committee on the Judiciary, the Comptroller of the Currency stressed that:

The importance of these transactions has been accentuated, of course, by the several larger mergers which were recently consummated in New York City, in which three national banks with total resources of over 6.9 billion were absorbed by other banks.¹⁸

¹⁸Ibid.

Information available on bank mergers indicates generally that many of the absorbed banks are relatively small, as measured by asset or deposit holdings.¹⁹ On the other

¹⁹"Bank Mergers and Consolidations," op. cit., p. 642. For the purposes of the study banks are divided into the following size groups: large (total deposits or total assets over \$100 million); medium (between \$10 million and \$100 million in total deposits or total assets); small (under \$10 million in total deposits or total assets).

hand, large banks have been very active in absorbing banks in recent years. The Chairman of the Board of Governors of the Federal Reserve System told the Antitrust Subcommittee of the Committee on the Judiciary of the House of Representatives on June 13, 1955, that:

In the five-year period from 1950 to 1954, both inclusive, there was a decrease of 598 banks as the

result of mergers, consolidations, and absorptions. Of this number 274 were absorbed by large banks having total assets of 100 million dollars or more; and of the banks so absorbed 153 had total assets of less than 10 million, 88 had assets of from 10 million to 50 million; and 33 had assets of more than 50 million.²⁰

²⁰Ibid.

A survey of the bank-merger movement in the Third Federal Reserve District by the Federal Reserve Bank of Philadelphia produced findings similar to those offered by the Chairman of the Board of Governors. For the period 1947 to mid-1954, inclusive, there were 66 mergers between banks in the district.²¹ According to the Philadelphia

²¹Federal Reserve Bank of Philadelphia, loc. cit.

study small banks comprised two-thirds of the absorbed banks. Large and medium-sized banks were prominent as absorbing banks: in one out of every three mergers during the period, large banks with deposits exceeding \$100 million absorbed other banks; in over 50 per cent of the mergers the absorbing bank had deposits between \$10 million and \$100 million; only a seventh of the mergers had small banks act as absorbing units.²²

²²Ibid., p. 8.

Earlier studies of the types and sizes of banks involved in mergers indicated that large banks were active as absorbing banks, while a high proportion of absorbed banks were small or medium-sized institutions.²³ For example, in

²³See, for example, U.S. Congress, Senate Select Committee on Small Business, Concentration of Banking in the United States, Staff Report of the Board of Governors of the Federal Reserve System Submitted to the Subcommittee on Monopoly, 82d Congress, 2d Session, September 10, 1952 (Washington, D.C.: Government Printing Office, 1952), p. 7; U.S. Congress, House Committee on the Judiciary, Bank Mergers and Concentration of Banking Facilities, A Staff Report to Subcommittee No. 5, 82d Congress, 2d Session (Washington, D.C.: Government Printing Office, 1952), p. 24.

the period from January 1, 1950, to mid-1952, a total of 91 banks was absorbed by 47 banks each with asset holdings exceeding \$100 million.²⁴ Out of the total of 91 absorbed

²⁴U.S. Congress, Senate Select Committee on Small Business, loc. cit.

banks, 45 banks or about 50 per cent of the total number of banks had assets of less than \$100 million; 39 of the absorbed banks were medium-sized institutions; only seven of the absorbed banks had assets exceeding \$100 million. The number and asset size of the 91 absorbed banks are summarized in Table VII.

TABLE VII
 NUMBER AND PERCENTAGE DISTRIBUTION OF BANKS MERGED
 WITH 47 BANKS, BY ASSET SIZE, UNITED STATES,
 JANUARY 1, 1950-MID-1952

Asset size (in millions)	Number of absorbed banks	Percentage distribution
Under \$2	7	7.7 %
2- 5	17	18.7
5- 10	21	23.1
10- 25	26	28.5
25- 50	6	6.6
50-100	7	7.7
Over 100	7	7.7
Total	91	100.0 %

Source: U.S. Congress, Senate Select Committee on Small Business, Concentration of Banking in the United States, 82d Congress, 2d Session (Washington, D.C.: Government Printing Office, 1952), p. 7.

IV. LEGAL ASPECTS OF BANK MERGERS

All mergers taking place among banks are enacted within a definite legal framework formed by the laws and regulations of the various bank supervising agencies. A brief summarization of the principal legal stipulations governing bank mergers affords information on how bank mergers are initiated and established. It should be remembered, however, that the plan of merger originates within the banks themselves. Many internal negotiations and terms of merger are settled between the boards of directors of the participating banks. Generally, once the plan of merger is approved by the boards of directors of the banks, the plan comes under the purview of the supervising authorities. Subsequent to the satisfaction of all statutory requirements, the plan is approved by the stockholders of the merging banks.

Role of Federal Supervisory Agencies. The office of the Comptroller of the Currency is the oldest operative Federal agency that must give approval to certain mergers among banks. The Comptroller of the Currency approves mergers under a national charter, either between national banks or between national and state banks.²⁵ The earliest

²⁵40 Stat. 1043 (1918), 12 U.S.C. 33; 44 Stat. 1224 (1927), 12 U.S.C. 34a.

statutory authority enabling national banks to consolidate with or merge into other banks was contained in the Act of November 7, 1918. Under the provisions of the latter Act, as amended by the McFadden Act of February 25, 1927,²⁶

²⁶44 Stat. 1224 (1927), 12 U.S.C. 34a.

national banks could consolidate with other national banks, and with state banks under a national charter. A national bank, however, could not combine directly with a state bank under a state charter. A national bank desiring to merge under state charter was compelled to forego its national charter, liquidate, and dispose of its business to the state bank. In effect a "one-way street" existed as far as mergers and consolidations among national and state banks were concerned.

Frequently, the dissolution of a national bank desiring to merge or consolidate with a state bank was made unattractive by the potential incurrence of a heavy tax liability for capital gains. The significant point is that:

Such liability for taxable gains, as well as other types of taxes, can conceivably develop into an obstacle standing in the way of complete duality between national and state banks. This is true especially in cases where a substantial portion of

the capital of a national bank under liquidation shows a capital gain.²⁷

²⁷Thomas B. Paton, "Conversion, Merger and Consolidation Legislation--'Two-Way Street' for National and State Banks," The Banking Law Journal, January, 1954, p. 15.

In 1946, for example, two Pennsylvania state banks with combined assets of approximately \$1 billion merged with national banks under national charters rather than incur a heavy tax liability by dissolving the national banks and then merging under state charter. The merged institutions had planned originally to operate under state charter. Ibid.

It was not until August 17, 1950, that the National Bank Conversion Act was passed permitting national banks to combine directly with state banks, without initially dissolving the national bank.²⁸ The Act provided, among other

²⁸Public Law 706, 81st Congress, 2d Session, chapter 729 (1950), 12 U.S.C. 214c.

things, that the approval of the Comptroller of the Currency was not required for mergers of national and state banks under state charter so long as state banking law did not require prior approval of mergers of state banks with national banks under national charter. A national bank may merge with a state bank under state charter without encountering a large tax liability because the Act provided specifically that the resulting state bank is the same business and corporate entity as the national bank.

The following are pertinent sections of the Act of

August 17, 1950, establishing a "two-way street" for mergers between national and state banks.

Sec. 2. A national banking association may, by vote of the holders of at least two-thirds of each class of its capital stock, convert into, or merge or consolidate with, a State bank in the same State in which the national banking association is located, under a State Charter . . .

Sec. 3. The franchise of a national banking association as a national banking association shall automatically terminate when its conversion into or its merger or consolidation with a State bank under a State Charter is consummated and the resulting State Bank shall be considered the same business and corporate entity as the national banking association, although as to rights, powers, and duties the resulting bank is a State bank . . .

Sec. 4. No conversion of a national banking association into a State bank or its merger or consolidation with a State bank shall take place under this Act in contravention of the law of the State in which the national banking association is located; and no such conversion, merger or consolidation shall take place under this Act unless under the law of the State in which such national banking association is located State banks may without approval by any State authority convert into and merge or consolidate with national banking associations under limitations or conditions no more restrictive than those contained in section 2 hereof with respect to the conversion of a national bank into, or merger or consolidation of a national bank with, a State bank under State Charter.²⁹

²⁹As amended by 66 Stat. 590 (1952), 12 U.S.C. 214c. Since the passage of the National Bank Conversion Act, there have been 50 consolidations of national banks with State banks under State Charter. On the other hand, there were 75 instances of consolidations and mergers of State banks with national banks under national charter. Statement of R. M. Gidney, op. cit., p. 3.

Under section 18 (c) of the Federal Deposit Insurance Act of 1950, the Comptroller of the Currency must give prior written consent to mergers or assumptions of liabilities of insured banks under state Charter when the capital stock or surplus of the resulting or assuming bank will be less than the total capital stock or total surplus, respectively, of all participating banks. The Comptroller's consent is required only when the assuming bank is a national bank or District of Columbia bank, or when the resulting bank is a District of Columbia bank.³⁰

³⁰ 66 Stat. 599-601 (1952), 12 U.S.C. 34b and 34c.

The most recent statutory provision governing mergers involving national banks is the National Bank Merger Act, approved July 14, 1952. The Act, which amended the Act of November 7, 1918, extended the power of national banks to merge with other banks under national charter. A significant feature of the Act is the elimination of the right of dissenting shareholders in the absorbing bank to require cash payment for their shares. Of course, at least two-thirds of the participating banks' shareholders must approve the merger. The abolition of the right of dissenting shareholders in the receiving bank to obtain the assessed value of their shares "was designed for use only in cases in which a large bank is absorbing a much smaller

bank."³²

³²Statement of R. M. Gidney, op. cit., p. 4. Prior to the enactment of the statute a House Report mentioned that the right of dissenting shareholders in the absorbing bank to receive payment for their shares could be a possible obstacle to mergers of small banks with large national banks having many shareholders. H. Rept. 2421, 82d Congress, 2d Session (1952), p. 2.

Any merger proposal requiring the prior approval of the Comptroller of the Currency entails the consideration of various qualitative factors before consent is given. The Comptroller of the Currency has stressed that:

In the matter of mergers and consolidations, we feel that it is our duty under the law not to have a fixed policy, either in favor or in opposition, since we believe that the law requires us to weigh the merits of each individual case, after determining that it may legally be effected, in deciding whether our approval should be given. It is our job to pass upon the proposals which are brought to us by the management of the banks concerned. When our approval is requested for a merger or consolidation, we consider whether the proposal is fair and equitable to the stockholders of the banks, whether the resulting institution will be capably managed, soundly capitalized and in a sound asset condition, and whether there is adequate reason of any kind as to why the merger or consolidation should not be permitted. We could not properly carry out our responsibilities if we had a prejudice for or against mergers generally.³³

³³Statement of R. M. Gidney, Comptroller of the Currency, before the Antitrust Subcommittee of the Senate Committee on the Judiciary (June 24, 1955), p. 2. (Mimeographed.) Italics not in the original.

Then, too, the Comptroller of the Currency and the other federal supervisory agencies participate in informal discussions with banks contemplating possible mergers. In some instances, the informal sessions have discouraged some banks from pursuing merger proposals. Here the federal agencies exert moral suasion over some planned mergers.³⁴

³⁴For example, in testimony before a Congressional Subcommittee, the Comptroller of the Currency mentioned two examples of banks stopping merger plans after informal discussions with his office. One proposal involved the merger of the only two banks in a town of 12,000. The other merger plan was simply described as "a quite large one in the Southwest." U.S. Congress, House Committee on the Judiciary, Bank Mergers, p. 77.

In addition to the Comptroller of the Currency, other federal bank supervisory agencies must give their approval to certain merger transactions. The Board of the Federal Reserve System, under section 18 (c) of the Federal Deposit Insurance Act, must give prior written approval to merger, consolidation, and assumption agreements between insured banks when the resulting or assuming bank is a state member bank with aggregate capital or aggregate surplus less than the total capital or total surplus of the participating banks.³⁵ A resulting state member bank must

³⁵64 Stat. 873 (1950), 12 U.S.C. 1828c.

also receive permission from the Board of Governors to acquire branches through a merger transaction.

It must be emphasized, however, that advance approval of the Board of Governors is required only when there is a reduction in the aggregate capital or aggregate surplus of the resulting state bank. Many bank mergers involving state member banks do not require the prior approval of the Federal Reserve authorities.³⁶ In the past five years,

³⁶The merger of the Chase National Bank and the Bank of the Manhattan Company in New York City is a case in point. The resulting bank was a state member bank, but the aggregate capital and aggregate surplus were such that the Board of Governors of the Federal Reserve System did not have to give advance approval to the merger.

only half of the 162 cases of mergers and consolidations involving state member banks required the advance approval of the Board of Governors of the Federal Reserve System.³⁷

³⁷Statement of J. L. Robertson, Board of Governors of the Federal Reserve System, contained in U.S. Congress, House Committee on the Judiciary, Bank Mergers, p. 53.

Just as the Comptroller of the Currency weighs several factors in passing on proposed mergers, so does the Board of Governors. Not only is the proposed merger's effect on competition and monopoly in banking examined, but also such factors as the adequacy of the resulting bank's capital structure, the competency of its management,

its earning potential, and the general needs of the community.³⁸

³⁸Statement of Chairman Martin of the Board of Governors of the Federal Reserve System, June 24, 1955, op. cit., p. 7.

The Board of Governors of the Federal Reserve System also has authority to enforce banking institutions' compliance with section 7 of the Clayton Act. Section 7 of the Act, as amended, prohibits mergers through stock or asset acquisitions that may substantially lessen competition or tend to create a monopoly.³⁹ Banks, however, come under

³⁹64 Stat. 1125 (1950), 15 U.S.C. 18.

the provisions of the Act only through mergers accomplished by stock acquisitions. Mergers taking place through the acquisitions of bank assets are not subject to the restrictions of the Act.

Finally, certain bank mergers and consolidations require the advance approval of the Federal Deposit Insurance Corporation. The Federal Deposit Insurance Act of 1950 provides specifically that the Corporation must give prior written consent to any merger, consolidation or assumption agreement between an insured bank and a non-

insured bank.⁴⁰

⁴⁰64 Stat. 873 (1950), 12 U.S.C. 1828c.

Furthermore the Act requires that:

No insured bank shall (i) merge or consolidate with an insured State bank under the charter of a State bank or (ii) assume liability to pay any deposits made in another insured bank, if the capital stock or surplus of the resulting or assuming bank will be less than the aggregate capital stock or aggregate surplus, respectively, of all the merging or consolidating banks or of all the parties to the assumption of liabilities, at the time of the shareholders' meetings which authorized the merger or consolidation or at the time of the assumption of liabilities, unless the Corporation gives prior written consent if the assuming or resulting bank is to be a nonmember insured bank (except a District bank).⁴¹

⁴¹Ibid.

In granting approval of mergers coming under its jurisdiction, the Corporation considers the same general factors mentioned by the Comptroller of the Currency and the Board of Governors of the Federal Reserve System. The factors include: adequacy of the capital structure of the resulting bank, future earnings prospects, the nature of the management, and the convenience and needs of the community.

A resulting state nonmember insured bank may establish and operate branches acquired through a merger transaction only with prior written consent of the Federal

Deposit Insurance Corporation.⁴² It has been previously

⁴²64 Stat. 873 (1950), 12 U.S.C. 1828d.

mentioned that not all mergers and consolidations require the prior approval of a federal bank-supervisory agency. A resulting bank, however, frequently acquires branches through a merger transaction. The addition of the branches acquired through a merger agreement must receive prior written approval by the appropriate bank-supervisory agency according to whether the resulting bank is a national bank or District of Columbia bank, a state member bank, or a state nonmember insured bank.⁴³

⁴³The Chase National-Bank of Manhattan merger did not require advance approval of the Board of Governors, although it was necessary for the resulting state member bank to obtain permission from the Board to establish as branches those offices that had formerly been operated as branches of the Chase National Bank.

Role of the state supervisory agencies. The individual states' bank-supervisory agencies must give approval to certain mergers and consolidations involving state banks. Prior approval by the particular state agency is necessary before a merger comes under the jurisdiction of a federal

supervisory agency.⁴⁴ Approval of the state agency is not

⁴⁴Statement of J. L. Robertson, Board of Governors of the Federal Reserve System, contained in op. cit.

final, however, when the resulting bank is an insured bank or a member bank.⁴⁵

⁴⁵Ibid.

An important exception to the requirement of state approval of mergers involving state banks is that provided by legislation permitting state banks to merge with national banks under national charter without permission of state authorities. The latter legislation meets the requirement of the National Bank Conversion Act, as amended, whereby national banks may merge with state banks without approval of the Comptroller of the Currency so long as state law provides for the complementary right of state banks to merge with national banks under national charter without state approval.

Since the passage of the Act providing for a "two-way street" for transfers between the two banking systems, at least 33 states have enacted the necessary complementary

legislation.⁴⁶ Table VIII contains the current status of

⁴⁶Letter to the writer from John René Vincens, Assistant Counsel, The American Bankers Association, August 1, 1955.

state legislation governing the merger and conversion of state banks into national banks under national charter.

A total of 33 states have specific legislation permitting the merger of state banks with national banks without permission of state authority. The nature of six states' banking laws is such that complementary legislation may be required to establish a "two-way street" for transfers between national and state banking systems. The states of Delaware, Georgia, Iowa, Kansas, Mississippi, North Dakota, Rhode Island, South Dakota, and West Virginia have no expressed or implied prohibition against mergers of state banks with national banks under national charter.

Many of the individual states have provided legislation for mergers among state banks. The pattern of statutes governing mergers of state banks is similar for most states and follows much of the procedure established by federal law. Significant requirements of state law on mergers of state banks are summarized in Table IX.

The several states' banking laws usually provide for varied and general standards to govern the approval of mergers among banks. The specific standards cover a wide

TABLE VIII

STATUS OF STATE LEGISLATION GOVERNING THE MERGER
AND CONVERSION OF STATE BANKS INTO NATIONAL
BANKS UNDER NATIONAL CHARTER
AUGUST, 1, 1955

States with laws permitting merger or conversion without permission of state authority:

Arizona	Maryland	Ohio
Arkansas	Massachusetts	Oklahoma
California	Minnesota	Oregon
Colorado	Missouri	Pennsylvania
Connecticut	Nebraska	Tennessee
Florida	Nevada	Texas
Idaho	New Hampshire	Utah
Illinois	New Jersey	Vermont
Indiana	New Mexico	Virginia
Kentucky	New York	Washington
Maine	North Carolina	Wyoming

States with no statutes expressly or impliedly prohibiting the merger or conversion of a state bank with or into a national bank:

Delaware	Kansas	Rhode Island
Georgia	Mississippi	South Dakota
Iowa	North Dakota	West Virginia

States that may require legislation to permit state banks to merge with or convert into national banks without permission of any state authority:

Alabama*	Montana**
Louisiana**	South Carolina**
Michigan**	Wisconsin*

*Apparently, permission of state authority is required.

**No indication that state law is silent on subject of merger and conversion or on requirement of state permission for mergers and conversions.

Source: Letter to the writer from John Rene Vincens, Assistant Counsel, The American Bankers Association, August 1, 1955; American Bankers Association, Legal Department, Merger and Conversion Legislation (Memorandum), April 6, 1955.

TABLE IX
 REQUIREMENTS OF STATES' LAWS GOVERNING
 MERGERS BETWEEN STATE BANKS

States requiring approval of majority of shareholders:

Alabama	Minnesota
Indiana	Pennsylvania
Kentucky	Tennessee

States requiring approval of two-thirds of shareholders:

Arkansas	Michigan	North Dakota
California	Mississippi	Ohio
Connecticut	Montana	Oregon
Georgia	Missouri	Texas
Idaho	New Jersey	Virginia
Illinois	New Hampshire	Vermont
Kansas	New York	Washington
Massachusetts	North Carolina	Wisconsin

States requiring approval of banking commissioner:

Alabama	Maryland	North Dakota
Arkansas	Massachusetts	Ohio
California	Michigan	Oregon
Colorado	Minnesota	Pennsylvania
Connecticut	Missouri	South Dakota
Delaware	Mississippi	Tennessee
Florida	Montana	Texas
Georgia	Nebraska	Vermont
Idaho	New Hampshire	Washington
Illinois	New Jersey	West Virginia
Indiana	North Carolina	Wisconsin
Kansas		Wyoming

Source: American Bankers Association, Special Committee on Model State Banking Code, Tentative Draft Model State Banking Code, September, 1948, p. 96.

range of criteria: Indiana law, for example, simply provides that approval may be granted at the discretion of the banking commissioner; Texas law, on the other hand, states that the interest of depositors, creditors, stockholders and of the public must be safeguarded, and the resulting bank must have an adequate capital cushion with equitably distributed capital stock.⁴⁷

⁴⁷American Bankers Association, Special Committee on Model State Banking Code, Tentative Draft Model State Banking Code, September, 1948, p. 94 f., note 2.

V. SUMMARY

Since 1933 the bank-merger movement has been the principal factor accounting for the gradual decline in the number of United States banks. The merging activity of banks has increased especially in the post-World War II period, with 207 banks ceasing operations through mergers in 1954, the largest number since 1931.

When viewed from point of origin, the incidence of bank mergers produces a varied pattern. Many of the larger cities have recorded frequent bank mergers, with New York City being a good case in point. In terms of the absolute number of bank mergers, the more heavily populated and industrialized states and regions account for the greatest share of bank mergers. Relating the number of bank mergers

to the number of active banks in states and regions affords a different view of the main areas of bank mergers. A relative measure of bank mergers permits a more realistic appraisal of the impact of mergers in various localities by allowing for absolute differences in sizes, population, and industrial and commercial activities.

Generally, during the period studied, member banks have been more active in merging than have been nonmember banks, while in turn more national banks were involved in mergers than were state member banks. Merger transactions involving national banks during the period January 1, 1950, to May 1, 1955, indicate that more state banks were absorbed under national charter than were national banks absorbed under state charter. State banks, however, acquired a net amount of approximately \$6 billion in banking assets as a result of absorption of national banks.

On the basis of size of bank, available statistics indicate that generally the large-and-medium-sized banks are more active as absorbing units than are the small banks. On the other hand, small banks contribute the highest proportion of absorbed banks.

Mergers among banks are enacted according to the existing laws and regulations of the bank-supervisory agencies. The oldest federal supervisory agency, the Comptroller of the Currency, has jurisdiction over all mergers under national charter, either between national banks or

between national and state banks. The Comptroller also passes on the acquisition of assets of a national or an insured state bank by either a national or a District of Columbia bank.

The National Bank Conversion Act of August 17, 1950, established a "two-way street" for mergers between national and state banks, whereas previously national banks could not combine directly with state banks. The Act permits national banks to merge with state banks without the approval of the Comptroller of the Currency so long as state law provides a complementary right governing mergers of state banks with national banks under national charter. At least 33 states have statutes establishing a "two-way street" for mergers between national and state banks.

According to the Act of July 14, 1952, dissenting shareholders in an absorbing national bank do not have the right to demand cash payment for their shares. The change in the law was established especially for those cases where the absorbing national bank has many shareholders.

Section 18 (c) of the Federal Deposit Insurance Act of 1950 provides that the merger, consolidation or assumption of liabilities of an insured bank must receive prior approval of a federal bank-supervisory agency when the resulting or assuming bank will have aggregate capital stock or aggregate surplus less than the total capital stock or total surplus, respectively, of the participating

banks. The Board of Governors of the Federal Reserve System has jurisdiction where the resulting bank is a state member bank; the Federal Deposit Insurance Corporation must give prior approval where the resulting bank is a nonmember insured bank; the Comptroller of the Currency passes on transactions where the resulting bank is a national bank.

In addition, the Federal Deposit Insurance Corporation must give approval to any merger between an insured bank and a noninsured bank. The Board of Governors of the Federal Reserve System also has authority to enforce compliance by banking institutions with section 7 of the Clayton Antitrust Act. Only bank mergers involving the acquisition of bank stock come under the provisions of the latter Act.

The various federal bank-supervisory agencies also exert moral suasion over planned mergers by holding informal discussions with the interested parties before any formal merger action is initiated.

In appraising merger proposals, the federal supervisory authorities consider such intangible factors as the effect upon competition and monopoly in banking, the adequacy of the resulting bank's capital structure, the ability of the continuing management, earning potential, and general community needs.

Although not all bank mergers require the express approval of a federal agency, many resulting banks acquire

bank branches through a merger transaction. The operation of the newly acquired branches frequently requires the prior consent of the proper federal bank-supervisory agency.

States' requirements governing the merger of state banks generally follow the procedure established by federal regulations and laws.

CHAPTER III

ECONOMIC FACTORS CONTRIBUTING TO BANK MERGERS:

CHANGES IN THE BANKING MARKET

Various economic forces are inherent in the merger movement among banks. One or more economic factors may contribute to any one merger transaction. Each bank merger presents its own specific contributory elements. This study, however, examines the principal economic factors operative in the over-all merger movement, be these initiating causes or facilitating conditions. No attempt is made to investigate every economic motivation for mergers among banks.

I. PREVENTION OF BANK FAILURES

A major economic factor contributing to bank mergers, especially in the early Thirties, was the prevention of bank failures. At that time, suspension of operations was often the only alternative to a merger transaction.¹

¹For example, the years 1930 and 1931 each recorded more than 700 bank mergers. During these two years, decreases in the number of commercial banks as a result of consolidations and absorptions amounted to 769 and 798, respectively. See Banking and Monetary Statistics (Washington, D.C.: Board of Governors of the Federal Reserve System, 1943), p. 52 f.

At the present time the number of bank mergers initiated to prevent insolvency is quite small. In certain cases the Federal Deposit Insurance Corporation facilitates such "rescue" mergers by advancing funds to the absorbing bank, if such action will prevent a loss to the Corporation.² The Annual Report of the Federal Deposit Insurance

²The Federal Deposit Insurance Corporation is permitted to pursue such action under express statutory authority: 49 Stat. 684, Public No. 305, 74th Congress, 1st Session (1935), 12 U.S.C. 264n (4); 64 Stat. 873, Public Law 797, 81st Congress, 2d Session (1950), 12 U.S.C. 1823e.

Corporation for 1945 explains the procedure for aiding in the merger of weak insured banks:

Under the Banking Act of 1935 the Corporation was also given the power to make advances to facilitate the merger or consolidation (including sale with assumption of liabilities) of an insured bank with another insured bank. This power may be used only when such action will reduce the risk or avert a threatened loss to the Corporation. In affecting a consolidation, acceptable assets of the merging bank are transferred to the absorbing bank and the Corporation makes available enough cash so that the amount of the assets and the cash equals the amount of liabilities assumed by the absorbing bank. When the transaction is completed, the Corporation sends a letter to each depositor explaining what has happened. There is no interruption in banking service to depositors or customers of either bank.³

³Federal Deposit Insurance Corporation, Annual Report, 1945, p. 15.

Mergers aimed at strengthening tottering insured banks have received the approval of the Corporation, even though a strict interpretation of existing legislation would prohibit such transactions. H. Earl Cook, Chairman of the Federal Deposit Insurance Corporation, testified before a Congressional subcommittee that:

There have been many instances in which the Corporation has approved transactions in the best public interest for safe and sound banking involving merger, consolidation and acquisition transactions, which, under a strict interpretation such as has been applied to the language of the Clayton Act, would have been prohibited.

There are peculiar circumstances in the merger of banks sometimes . . . where a bank which is in a weakened condition which is likely to fail, if merged with a stronger bank, there may be just 2 banks in the town and the result may be 1 bank. In a small community, sometimes all it can support properly is one bank. You may call it a monopoly if you please
 . . . 4

⁴U.S. Congress, House Committee on the Judiciary, Bank Mergers, Hearings before Antitrust Subcommittee, 84th Congress, 1st Session, on H. R. 5948, July 5 and 6, 1955, Serial No. 7 (Washington, D.C.: Government Printing Office, 1955), p. 61. In earlier Congressional hearings Royal L. Colburn, General Counsel of the Federal Deposit Insurance Corporation, offered substantially the same view of certain mergers approved by the Corporation. Cf. U.S. Congress, House Committee on the Judiciary, Current Antitrust Problems, Hearings before Antitrust Subcommittee, 84th Congress, 1st Session, June 7, 8, 10, 13, 14, 15, and 17, 1955, Part III, Serial No. 3 (Washington, D.C.: Government Printing Office, 1955), p. 2185.

The number of cases where the Federal Deposit Insurance Corporation has been required to initiate the assump-

tion of deposits of weak insured banks has been extremely limited in recent years. As indicated by Table X, there have been no more than five instances in any one year of the post-World War II period in which the Corporation's financial assistance has been provided to facilitate the merger of a defaulting insured bank.

Of course, the data contained in Table X would not reflect those merger transactions completed under the Corporation's approval, but without its financial aid. In the latter cases, at least partial consideration is given toward strengthening the declining condition of one of the parties to the merger. The weakened bank may not have reached the tenuous condition where financial aid is required to consummate the merger. Mergers completed with the financial assistance of the Corporation constitute prima facie evidence of the impending bankruptcy of the absorbed bank.

II. ENHANCEMENT OF MARKET POSITIONS

Any examination of the economic factors contributing to the bank-merger movement must look beyond the purely protective type of merger transacted under the financial auspices of the Federal Deposit Insurance Corporation. In a more positive sense, the over-all merger movement is explicable in terms of the attempts of many individual banks to augment their market positions. Like industrial and commercial firms, banks must pay attention to the mainte-

TABLE X

MERGERS OF INSURED BANKS EFFECTUATED UNDER AUSPICES OF THE FEDERAL
DEPOSIT INSURANCE CORPORATION, ANNUALLY, 1935-1954
(Amounts in thousands of dollars)

Liquidation status and year of absorption	Number of banks	Estimated FDIC disbursement	Recoveries	Estimated additional recoveries	Losses*
Total	179	\$194,978	\$226,544	\$1,089	\$13,618
Status:					
Active	35	108,031	124,444	1,089	9,068
Terminated	144	86,947	102,100	--	4,550
Year:					
1935	1	2,865	2,149	23	965
1936	27	6,725	6,649	7	1,003
1937	25	7,116	6,973	--	1,025
1938	24	21,387	25,048	--	1,241
1939	28	41,573	57,801	16	1,359
1940	24	69,239	82,810	328	3,330
1941	7	11,602	12,626	69	383
1942	14	9,213	9,892	--	--
1943	1	1,672	1,744	--	--
1944	1	1,099	1,136	--	--

TABLE X (continued)

Liquidation status and year of absorption	Number of banks	Estimated FDIC disbursement	Recoveries	Estimated additional recoveries.	Losses*
1945	1	1,768	1,865	--	--
1946	1	265	276	--	--
1947	5	1,724	1,709	209	74
1948	3	2,990	2,547	--	641
1949	4	2,552	2,325	7	384
1950	4	3,986	2,864	109	1,421
1951	2	1,885	1,892	--	98
1952	3	1,369	642	80	817
1953	2	5,042	5,265	63	50
1954	2	906	331	178	430

*Includes estimated losses in active cases. Not adjusted for interest or allowable return, which was collected in some cases in which the disbursement was fully recovered.

Source: Federal Deposit Insurance Corporation, Annual Report, 1954, p. 170.

nance of a relatively strong and viable market position. Such a market position is at least partially dependent upon the flexible response of the bank to the changing demands of the community and of the general economy. Bank-merger activity has been one way of responding to the changing economic complex in which banks operate.

More specifically, as one observer has indicated:

. . . the changes that have occurred in banking, and which have brought bank mergers about, are quantitative, measured in growth of commercial units in size and scope; qualitative as measured by distribution of national income among groups of the population, and locational, reflecting decentralization of business, movement to the suburbs and away from crowded city centers which have become hopelessly entangled in traffic and parking problems.⁵

⁵Ed Tyng, "Bank Merger Incentives Are Still Strong," The Journal of Commerce, April 19, 1955, p. 2.

III. DIVERSIFICATION OF OPERATIONS

A specific reaction on the part of merging banks toward the enhancement of their market positions has been their desire to achieve more balanced or complementary types of business. Various sources have indicated the factor of diversification as a facilitating incentive for mergers among banks. The Comptroller of the Currency has referred to several examples of bank mergers aimed at attaining a more balanced business so as to "meet the needs

of a community which was rapidly expanding."⁶

⁶U.S. Congress, House Committee on the Judiciary, Current Antitrust Problems, Part I, Serial No. 3, pp. 469 f., 472. The examples referred to by the Comptroller were the merger of the First National Bank of New York and the National City Bank of New York, and the series of acquisitions by the Franklin National Bank and the Meadow Brook National Bank, both of the latter in Nassau County, New York.

An informal survey conducted by Banking magazine of the opinions of the three federal bank-supervisory agencies --Federal Reserve, Comptroller of the Currency, Federal Deposit Insurance Corporation--indicated that one of the agencies, which remained unidentified, termed the incentive for diversification as the second most significant contributory factor in bank mergers.⁷

⁷Lawrence Stafford, "Washington Views of the Reasons for Bank Mergers," Banking, June, 1955, p. 128.

Other observers view many bank mergers as a response to "the growing need for diversification"⁸ or "dictated by

⁸George E. Cruikshank, "Critics Call Merger Trend Monopolistic; Bankers Claim It's Spurring Competition," The Wall Street Journal, March 10, 1955, p. 10.

prospects of acquiring a good trust, securities or foreign

business."⁹

⁹Ed Tyng, "Bank Mergers Motivated by Necessity to Branch Out," The Journal of Commerce, March 31, 1955, p. 6.

Trust operations. An expanding and profitable area to which many banks have gained admittance via the merger route is the trust business.¹⁰ Trust business in commercial

¹⁰The trust business of banks gained initial impetus during the Twenties, during which time many mergers were instigated to establish banks quickly in this comparatively new area. See Charlotte P. Alhadeff and David A. Alhadeff, "Recent Bank Mergers," Quarterly Journal of Economics, November, 1955, p. 503.

banks may be divided into the two general categories of accounts--personal or corporate. Personal accounts would include such items as estates, testamentary and living trusts, guardianships, pension and profitsharing trusts, and agency and custody accounts.

Trust functions for corporate accounts would involve bond trusteeships and agency functions, such as serving as registrar, transfer agent, coupon and bond-paying agent, and dividend-disbursing agent for corporate security issues.

Exact figures are unavailable on the total value of trust assets held by commercial banks, but an informed

estimate places the amount at approximately \$50 billion.¹¹

¹¹Richard P. Chapman, President of the Trust Division of the American Bankers Association, and President of the Merchants National Bank of Boston, offered this estimate in an opening address to the 37th Midwinter Trust Conference in New York City, February, 1956. Contained in The American Banker, February 8, 1956, pp. 8 ff.

Evidence of the relative upsurge in trust business among banks is afforded by the results of a survey of the 1954 annual reports of 275 bank and trust companies concerning the latter's holdings of trust assets. Of the 275 annual reports studied, 199 specific citations were made on the volume of trust assets under administration. From the 199 institutions' references to trust activities, 195 indicated an increase in the amount of trust assets under their administration, with 28 cases of all-time highs being attained. Only four institutions indicated a decline in trust assets handled by them.¹²

¹²"Trust Assets Advance in 1954", Trusts and Estates, March, 1955, pp. 229-232; April, 1955, pp. 343-347.

Of particular moment within the general area of commercial banks' trust activities has been the recent rapid rise in the number of pension and other employee benefit plans and in the dollar volume of the trusts thus established. As of December 31, 1954, approximately 3,100 com-

mercial banks, out of a total of 13,840 such banks in the United States, exercised trust powers.¹³ Of the former

¹³"Supervision of Bank Administration of Pension Trusts," Federal Reserve Bulletin, August, 1955, p. 880.

group of banks, some 65 are substantial enough to hold personal trust assets (including pension, health and welfare trusts) exceeding \$100 million.¹⁴

¹⁴Ibid.

It is this group of 65 institutions that administers the major part of employee trust funds held by banks. Much of this latter business is handled by banks in New York City and in other larger centers, where certain banking institutions have developed large-scale experience in the administration of personal trusts.¹⁵

¹⁵Ibid.

A preliminary report of the New York State Superintendent of Banks underlines the impressive growth of pension and other employee welfare funds administered by New York banks--both state and national. In 1936, banks in New York handled 54 employee benefit funds totaling \$296 million; by the end of September, 1955, this activity in-

volved 2,560 funds aggregating approximately \$7.5 billion.¹⁶

¹⁶Contained in The American Banker, January 10, 1956, p. 7.

Of the absolute increase in these trust funds between 1936 and September, 1955, 95 per cent of the increase took place since 1940, and 64 per cent since 1950.¹⁷ These employee

¹⁷Ibid.

welfare funds are presently administered by a total of 91 New York banks.

Foreign operations. Another way in which certain banks, particularly banks in the large city centers, have diversified their operations is through merger with institutions maintaining overseas branches and engaged in extensive foreign banking transactions. The National City--First National merger in New York City during the early part of 1955 offers a case in point where the varied foreign operations of the former were joined with the specialized domestic activities of the latter institution. The First National Bank of New York had no domestic or foreign branches. The National City Bank, however, had 57 overseas branches and was engaged in widespread foreign

banking activities.¹⁸ Subsequent to the merger transac-

¹⁸Letter of Ray M. Gidney, Comptroller of the Currency, to Representative Emanuel Celler, March 14, 1955, p. 2. (Mimeographed.)

tion, the resulting bank, now called the First National City Bank of New York, has opened foreign branches in Monrovia, Liberia, Beirut, Lebanon and Cairo, Egypt--thus bringing its total overseas branches to 60 in 21 countries.¹⁹

¹⁹Harry V. Odle, "Upsurge in Foreign Financing," Burroughs Clearing House, November, 1955, p. 89 f.

A similar participation in foreign banking operations was accorded to the Bank of Manhattan of New York as a result of its absorption of the Chase National Bank of New York in April, 1955. The Chase National had 18 foreign branches and, since 1950, its deposits in foreign branches increased from \$262 million to \$448 million.²⁰

²⁰Ibid.

The Chase Manhattan Bank was instrumental in the organization of the privately owned American Overseas Finance Cor-

poration in June, 1955.²¹ The latter agency, which is the

²¹Chase Manhattan Bank, Report to Stockholders, Annual Meeting, December 6, 1955, pp. 24-25. The corporation is owned by the Chase Manhattan Bank, the Chemical Corn Exchange Bank of New York, the First National Bank of Boston, the Mellon National Bank and Trust Company of Pittsburgh, and the National Bank of Detroit.

first private institution of its kind in the United States, "specializes in medium-term credits to finance export trade in machinery and equipment for capital improvements in foreign countries."²²

²²Ibid.

An increase in membership in the Bankers Association for Foreign Trade, a group that includes only banks with foreign departments, is indicative of increasing participation in foreign operations by United States banks. When organized in 1921, the Association had only 10 members; today the Association comprises 112 member banks from 24 states, the District of Columbia, Hawaii and Puerto Rico.²³

²³Odle, op. cit.

During 1954, there were evident signs of greater interest by United States banks in financing international transactions. In the year 1954, outstanding short-term

credit to foreigners reported by commercial banks increased \$360 million.²⁴ Table XI shows that the increase during

²⁴Frank M. Tamagna and Stephen H. Axilrod, "United States Banks and Foreign Trade Financing," Federal Reserve Bulletin, April, 1955, p. 357.

1954 was the largest of any recorded during the postwar period and that the amount of banks' short-term claims on foreigners was at the highest level since 1931.

The outstanding foreign credits given in Table XI

. . . represent primarily sums disbursed and outstanding under credit arrangements between United States banks and their foreign offices, correspondents, and clients, but they also include claims arising from transactions between United States and foreign businesses and individuals (exclusive of financing extended by business companies to their foreign branches or subsidiaries). Holdings of foreign long-term securities are excluded.²⁵

²⁵Ibid., p. 358.

Commercial banks also extend credits to foreigners, other than through those transactions that give rise to claims of a short-term nature. These other credits comprise mainly financial transactions fully secured by gold or equivalent collateral, or credits created as a result of guaranty or commitment of the United States Government.²⁶

²⁶Ibid., p. 359.

Within the United States, the principal area of origin for the major part of foreign financing during 1954--both by banks and traders--was the New York Federal Reserve District. The two Federal Reserve Districts of San Francisco and Chicago follow in that order of importance. Table XII indicates the volume of short-term claims on foreigners, as of December 31, 1954, for each Federal Reserve District.

Another aspect of the foreign operations of United States banks is presented in Table XIII, which indicates the proportion of total business accounted for by foreign operations for 15 leading banks at year-end 1954. Ten leading New York City banks had foreign deposits that constituted 14 per cent of their total deposits, while foreign credits comprised only 7 per cent of total loans and bills discounted. The remaining five banks outside the New York Federal Reserve District had ratios of 5 and 4 per cent, respectively.

IV. ECONOMIES THROUGH BRANCHES

Another factor that should be considered in the light of banks strengthening their market positions through mergers is the fact that certain economies can be derived from the absorption of "ready-made" banking facilities. Various experts have indicated the high cost of establishing new branches or offices, and how merger transactions

TABLE XI

SHORT-TERM CLAIMS ON FOREIGNERS REPORTED BY BANKS
AND TRADERS, UNITED STATES, SELECTED YEARS
(In millions of dollars)

End of year	Total	B a n k s		Traders
		for own account	for collection	
1954	1,252	950	302	584
1953	890	642	248	493
1952	1,019	574	445	504
1951	968	664	304	498
1950	898	692	206	456
1948	829	N.A.	N.A.	393
1938	594	N.A.	N.A.	640
1931	1,103	N.A.	N.A.	N.A.

N.A. Not available.

Source: Federal Reserve Bulletin, April, 1955, p. 359.

Note: Preliminary data. Excludes claims reported by Federal Reserve banks.

TABLE XII

SHORT-TERM CLAIMS ON FOREIGNERS, BY FEDERAL RESERVE
DISTRICT, UNITED STATES, DECEMBER 31, 1954*
(In millions of dollars)

Federal Reserve district	Banks**	Traders**	Total
New York	724	610	1,334
San Francisco	166	32	198
Chicago	16	98	114
Cleveland	9	53	62
Boston	20	23	43
Richmond	--	24	24
Philadelphia	3	17	20
Dallas	8	10	18
Atlanta	2	9	11
Minneapolis	--	6	6
St. Louis	2	3	5
Kansas City	--	1	1
All districts	950	886	1,836

*Preliminary data. Excludes claims reported by Federal Reserve banks.

**Items held for collection by banks on behalf of their domestic customers have been excluded from bank claims and included with trade claims.

Source: Federal Reserve Bulletin, April, 1955, p. 361.

TABLE XIII

RELATIVE IMPORTANCE OF FOREIGN BUSINESS OF SELECTED
LEADING BANKS, UNITED STATES, DECEMBER 31, 1954

(Dollar amounts in millions)

Item	10 New York City banks*	5 banks out- side New York district**	Total 15 banks
Assets			
Total loans and bills discounted	\$11,660	\$6,720	\$18,380
Claims on for- eigners***	785	248	1,033
Ratio, claims to total (per cent)	7	4	6
Liabilities			
Total deposits	\$26,300	\$13,300	\$39,600
Deposits of for- eigners	3,737	725	4,462
Ratio, foreign deposits to total (per cent)	14	5	11

*Banks in New York Federal Reserve District that reported deposit liabilities to foreigners of 100 million dollars or more.

**Banks outside the New York Federal Reserve District that reported deposit liabilities to foreigners of 20 million dollars or more.

***Excludes items held for collection.

Source: Federal Reserve Bulletin, April, 1955,
p. 364.

Note: Data include wholly owned subsidiaries of these banks.

can meet this problem. One observer stresses that:

To build and equip a string of branches is of course very expensive in the days of stratospheric construction costs. Then, too, there is the expense and trouble of hiring and training workers to staff the offices. Merger with a going concern has become--and will likely continue to be--the most practical approach.²⁷

²⁷Cruikshank, op. cit.

The latter view is corroborated by another financial writer who states:

Often it is improbable that a bank branch, built from the ground up, be profitable for a period of one to five years, not only because of the high cost of operating but because of the high cost of suitable real estate. Here mergers are an answer.²⁸

²⁸Ed Tyng, "Bank Mergers Motivated by Necessity to Branch Out," op. cit.

Hearings conducted by the Antitrust Subcommittee of the House Committee on the Judiciary have also specified the use of the merger device as an economical means for obtaining operating branches.²⁹

²⁹See the statement of John J. McCloy, Chairman of the Board of Directors of the Chase-Manhattan Bank, who emphasized "the high costs involved in establishing new branches" as a facilitating element in mergers; contained in U.S. Congress, House Committee on the Judiciary, Bank Mergers, p. 25.

The Comptroller of the Currency alluded to the desire of absorbing banks to obtain operating facilities through merger. The Comptroller also offered the merger

of the National Bank of Washington and the Hamilton National Bank during 1954 as a specific example of the wish to acquire "needed" branches by the former institution. See U.S. Congress, House Committee on the Judiciary, Current Antitrust Problems, Part I, Serial No. 3, pp. 464, 478.

Table XIV highlights the use of mergers to obtain "ready-made" banking facilities. The latter table shows the number of banking offices closed for various reasons in the five year period 1950-1954. Of the 807 offices closed during the period, 600 offices were closed as a result of merger transactions. Out of the 600 offices so absorbed, 494 offices, or about 83 per cent, were succeeded by branches. Only 106 banks closed as a result of absorption by the other institutions were not succeeded by branches.

Table XV contains additional evidence of the acquisition of existing offices via the merger technique. The latter table shows that between January, 1950, and May, 1955, state member banks converted 140 absorbed banks to branches and acquired 258 existing branches as a result of merger.

V. DYNAMIC DEMANDS UPON BANKS

The movement toward enhancing banks' market positions through mergers can find possible outlets in those institutions engaged in comparatively new areas of financing. These growing areas would include: "V" loans, term loans, "stand-by" commitments, revolving credit loans,

TABLE XIV

NUMBER OF BANKING OFFICES CLOSED, CLASSIFIED BY VARIOUS REASONS
FOR CLOSURE, UNITED STATES*, ANNUALLY, 1950-1954

Year	Offices closed**	Total	B a n k s			Branches discontinued
			Liquidated or suspended***	Succeeded by branches	Absorbed banks Not succeeded by branches	
1950	136	112	19	73	20	24
1951	121	97	16	59	22	24
1952	138	115	14	84	17	23
1953	159	130	14	97	19	29
1954	253	216	7	181	28	37
Total	807	670	70	494	106	137

*Includes continental United States and other areas.

**Includes banks and branches.

***Includes a few cases of institutions taken out of tabulations; and in 1950, 6 banking offices in the possessions formerly tabulated as banks that were reclassified as branches.

Source: Annual Reports of the Federal Deposit Insurance Corporation, 1950-1954, with the subitem of banks absorbed not succeeded by branches derived as a residual, contained in U.S. Congress, House Committee on the Judiciary, Current Antitrust Problems, Part III, Serial No. 3, 84th Congress, 1st Session, (Washington, D.C.: Government Printing Office, 1955), p. 2192.

TABLE XV

NUMBER OF ABSORBED BANKS, CONVERSIONS OF ABSORBED BANKS,
ACQUISITIONS OF EXISTING BRANCHES BY STATE MEMBER
BANKS, UNITED STATES, JANUARY, 1950-MAY, 1955

Year	Number of absorbed banks	Number of banks converted to branches	Acquisitions of existing branches
1950	25	20	33
1951	30	24	28
1952	27	24	13
1953	29	25	10
1954	27	26	96
1955 (4 months)	24	21	78
Total	162	140	258

Source: U.S. Congress, House Committee on the
Judiciary, Current Antitrust Problems, Part III, Serial
No. 3, 84th Congress, 1st Session (Washington, D.C.:
Government Printing Office, 1955), p. 2167.

accounts receivable financing, equipment financing, and consumer credit loans of various types.³⁰ Indeed, as one

³⁰For a specific discussion and explanation of these various types of bank lending see J. Brooke Willis, "United States," Banking Systems, Benjamin H. Beckhart, editor (New York: Columbia University Press, 1954), pp. 874-83; G. W. Coleman, "Lending and Investment Practices of Commercial Banks," Law and Contemporary Problems, Vol. 17, Winter 1952, pp. 108-27, esp. Part IV.

observer has commented, American banks "have shown remarkable ingenuity in designing new financing techniques for the effective use of credit."³¹

³¹Willis, op. cit., p. 909.

Such new lending activities, which reflect banks' responses to dynamic demands, have an important relation to the merger movement of commercial banks. In this latter realm, merger transactions serve two purposes: (1) easy access to comparatively new types of lending that would otherwise be highly expensive for a single bank to initiate, and (2) an opportunity to diversify banking services. Many alert banks have recognized the need to bring their services to the customer, or as some observers have called it, to engage in "retail banking."³²

³²See David Rockefeller, "Banking's New Look," The Commercial and Financial Chronicle, March 24, 1955, p. 1418;

statement by George A. Mooney, Superintendent of Banks of the State of New York, contained in U.S. Congress, House Committee on the Judiciary, Current Antitrust Problems, Part III, p. 2001; Morris A. Schapiro, speech before 8th annual convention of the Financial Analysts, contained in The American Banker, May 11, 1955, p. 9.

David Rockefeller, an officer of the Chase National Bank, which later merged with the Bank of Manhattan, has defined "retail banking"

. . . to describe certain banking services made available to the general public on a convenient and reasonable basis. These services include popular checking accounts with no minimum balance requirements, savings accounts, personal loans on a monthly repayment basis, money orders, Christmas clubs, and safe deposit facilities.³³

³³Rockefeller, op. cit., pp. 1377 and 1418.

Continuing in his explanation, Mr. Rockefeller has emphasized that the movement toward retail banking reflected a change in the business attitudes of bankers. Banks have become more "sales conscious" and now seek out new, profitable lines of business.³⁴

³⁴Ibid.

The impetus toward achieving more "retail banking" lines via merger has been particularly evident in New York City, where traditionally many of the old-established banks have engaged primarily in wholesale banking, i.e. accommo-

dation of large corporate and personal accounts.³⁵ Quite

³⁵Statement by George A. Mooney, contained in U.S. Congress, House Committee on the Judiciary, Current Anti-trust Problems, Part III, p. 2001.

correctly, the New York City case shows that banks expanding their service of the small consumer maintained more favorable growth positions than those banks that relied primarily on handling large accounts.³⁶

³⁶Ibid., p. 2002.

The New York City banks are not alone in their attempts to provide a wider range of service to the public. Many other banks throughout the country

. . . are in a squeeze. This squeeze is tighter for those "wholesale banks" which lend money at rates that are most affected by the regulated money market. To work out of the squeeze, banks are forced to increase and diversify their business, and cut costs. To do this, they must reach a wider public, do retail business as well as wholesale, and give more service to more people at less cost. Wider operations make possible new efficiencies as larger volume and increased revenues justify modern equipment, and hence, ultimately lower unit costs. Small banks, for example, cannot afford expensive electronic equipment.³⁷

³⁷Schapiro, op. cit.

Many specific examples can be mentioned to indicate

the use of the merger technique by banks desirous of expanding their services to meet the growing demands of their communities. A case in point concerns the mergers of several relatively small banks with the Franklin National Bank and the Meadow Brook National Bank, both of these latter institutions being located in Nassau County, Long Island.³⁸

³⁸These two banks, which consummated at least eight mergers in the post-World War II period, have received increasing public attention. Interest in the merger activity of banks in Nassau County arose chiefly as a result of correspondence between Representative Emanuel Celler of New York and Ray M. Gidney, Comptroller of the Currency, concerning the competitive impact of such mergers upon banking activity in the county. See copies of letters between Representative Celler and the Comptroller in U.S. Congress, House Committee on the Judiciary, Current Anti-trust Problems, Part I, pp. 473-76.

The absorbed banks were generally limited in their extension of new banking services for various reasons. Lack of adequate skilled personnel, inability to obtain a sufficient volume of operations in new service lines and conservative banking policy constituted the major obstacles to initiating new banking lines.³⁹

³⁹See statement of Arthur T. Roth, President of the Franklin National Bank, Franklin Square, Long Island, N.Y., contained in ibid., Part III, p. 2262.

Subsequent to the merger transactions, the Franklin National Bank was able to extend new services into those

communities formerly served by the absorbed banks. These new and expanded lines included specialized loans for small business, installment loans, mortgage loans (including FHA loans and GI loans), mortgage servicing and a charge account plan. The latter service, the specialized charge account, represents an innovation in banking service that has benefited both merchant and customer. Under the plan, which utilizes a specially designed sales slip, participating merchants selling on time to approved customers discount these sales slips at the bank. The bank, in turn, credits the merchant's account with the proceeds. At the end of each month, the bank bills the customer directly for the aggregate amount of all purchases made from participating merchants during that month.⁴⁰ The plan has enabled small

⁴⁰Ibid.

merchants to offer a charge-account service that is competitive with the credit service afforded by branches of large metropolitan stores. The customer, on the other hand, enjoys the use of a convenient and economical device for paying many small bills with a single check.

Indeed, the foregoing example emphasizes the fact that commercial banks are highly service-oriented. New and expanded banking services are constantly being demanded by individuals. Only those banks that are responsive to their

customers' demands will maintain and strengthen their positions in the banking market. For many small banks the only recourse for meeting the pressure of enhanced customers' needs has been through the merger device.⁴¹

⁴¹U.S. Congress, House Committee on the Judiciary, Current Antitrust Problems, Part I, p. 465.

A concomitant feature of the dynamic demands made upon the banking system is the problem arising from population shifts within the country. Stated differently, many banks have encountered significant shifts in the population groupings within regions which they serve. Especially in the post-World War II period, many banks have witnessed a pronounced movement of people into outlying or suburban areas. Then, too, certain metropolitan areas and geographical regions have experienced varying rates of growth in their populations.

More pertinently, from a banking viewpoint, shifts in population would be reflected, at least partially, in the varying pattern in which bank deposits have grown and been diffused in various areas of the country. Some factors, other than population movements, that are operative within the changing distribution of deposits throughout the country include the dispersion of industrial plants and the varying economic impact upon different areas of large

governmental defense expenditures.⁴²

⁴²Statement by Walter J. Braunschweiger, executive vice president of the Bank of America NT & SA, San Francisco, contained in The American Banker, May 11, 1955, p. 1 f. See also Herbert Bratter, "The Economic State of the Union," Banking, February, 1955, p. 138; statement by Charles C. Abbot, Dean of the Graduate School of Business, University of Virginia, at meeting of National Federation of Security Analysts, May 10, 1955, contained in Tyng, "Bigger Bank Mergers Forecast," Journal of Commerce, May 11, 1955.

The establishment of new industrial plants has been particularly evident in Texas and in the Southern States, and on the Pacific Coast. Government defense expenditures have been felt mainly in those regions containing aircraft and electronic production facilities.⁴³

⁴³Statement by Braunschweiger, loc. cit.

The distribution of total bank deposits among the various states and geographical regions has undergone some marked changes in recent years. Certain geographical regions now account for a higher proportion of total bank deposits in the United States than formerly; for example, the West South Central States, the East North Central States and the South Atlantic States. The increase in relative holdings of total bank deposits in these regions, of course, has brought a decrease in the relative shares of other geographical areas.

The New England region, as Tables XVI and XVII show, now holds a smaller proportion of total bank deposits in the United States than the region did at the end of 1947. An outward movement of population, coupled with waning economic activity (particularly in the textile mill towns) have contributed to the decline in the area's proportionate holdings of the nation's deposits.

The data in Table XVII do not emphasize the significant differences in the rates of change in deposits among the various regions, since the absolute amount of deposits in the United States has shown an appreciable increase between December 31, 1947 and mid-1954. Table XVIII highlights the varied rates of change in deposit holdings among the regions by expressing deposit amounts as a percentage of deposits held on December 31, 1947. Between the end of 1947 and mid-1954, total bank deposits increased from about \$137 billion to approximately \$200 billion or a relative increase of 45 per cent.

A comparison of the national average percentage increase in deposits with the relative changes recorded for specific geographical regions indicates that five out of the nine regions exhibited a percentage increase in deposits less than the national average increase. The remaining regions, as shown in Table XVIII, experienced relative increases in deposits that exceeded the national average. These latter regions included the West South Central,

TABLE XVI

DISTRIBUTION OF BANK DEPOSITS BY STATE AND BY GEOGRAPHICAL REGION,
UNITED STATES, SELECTED DATES, 1947-1954
(In millions of dollars)

Geographical region and state	December 31, 1947	June 30, 1949	December 30, 1950	June 30, 1954
United States, total	\$137,108	\$132,055	\$175,296	\$199,505
New England, total	11,641	11,483	13,367	14,968
Maine	649	647	686	802
New Hampshire	509	502	556	653
Vermont	316	311	341	381
Massachusetts	6,620	6,529	7,692	8,399
Rhode Island	949	908	1,044	1,103
Connecticut	2,598	2,586	3,048	3,630
Middle Atlantic, total	48,449	47,605	61,753	69,962
New York	34,147	33,562	44,393	50,650
New Jersey	4,496	4,463	5,451	6,218
Pennsylvania	9,806	9,580	11,909	13,094
East North Central, total	25,627	24,845	33,389	38,005
Ohio	6,329	6,183	8,083	9,276
Indiana	2,622	2,489	3,322	3,861
Illinois	9,654	9,304	13,038	14,415
Michigan	4,439	4,352	5,829	6,938
Wisconsin	2,628	2,517	3,117	3,515

TABLE XVI (continued)

Geographical region and state	December 31, 1947	June 30, 1949	December 30, 1950	June 30, 1954
West North Central, total	10,917	10,120	14,181	15,642
Minnesota	2,459	2,277	3,099	3,478
Iowa	2,027	1,823	2,368	2,611
Missouri	3,119	2,981	4,584	5,034
North Dakota	489	442	564	593
South Dakota	464	402	504	534
Nebraska	1,082	983	1,375	1,447
Kansas	1,277	1,212	1,687	1,945
South Atlantic, total	10,176	9,673	13,182	15,140
Delaware	466	446	623	614
Maryland	1,749	1,664	2,073	2,335
District of Columbia	944	896	1,162	1,261
Virginia	1,490	1,464	2,015	2,335
West Virginia	777	823	950	1,058
North Carolina	1,418	1,221	1,899	2,011
South Carolina	590	523	672	778
Georgia	1,373	1,254	1,780	2,030
Florida	1,369	1,382	2,008	2,718
East South Central, total	4,464	4,046	5,766	6,344
Kentucky	1,314	1,133	1,617	1,727
Tennessee	1,481	1,391	2,061	2,318
Alabama	1,035	950	1,271	1,432
Mississippi	634	572	817	867

TABLE XVI (continued)

Geographical region and state	December 31, 1947	June 30, 1949	December 30, 1950	June 30, 1954
West South Central, total	7,756	7,539	11,889	13,747
Arkansas	666	607	847	888
Louisiana	1,221	1,183	1,835	2,165
Oklahoma	1,163	1,148	1,736	2,049
Texas	4,706	4,601	7,471	8,645
Mountain, total	3,219	2,977	4,113	4,897
Montana	464	430	582	635
Idaho	384	337	443	484
Wyoming	202	191	271	300
Colorado	981	888	1,216	1,424
New Mexico	231	219	361	442
Arizona	355	335	471	632
Utah	461	445	590	711
Nevada	141	132	179	269
Pacific, total	14,814	13,765	17,654	20,978
Washington	1,998	1,812	2,283	2,543
Oregon	1,285	1,137	1,502	1,662
California	11,531	10,816	13,869	16,593

Source: Board of Governors of the Federal Reserve System, Distribution of Bank Deposits by Counties and Standard Metropolitan Areas, July, 1951 and January, 1955; Distribution of Bank Deposits by Counties, July, 1948 and December, 1949.

TABLE XVII

PERCENTAGE DISTRIBUTION OF BANK DEPOSITS BY STATE AND BY GEOGRAPHICAL
REGION, UNITED STATES, SELECTED DATES, 1947-1954

Geographical region and state*	December 31, 1947	June 30, 1949	December 30, 1950	June 30, 1954
United States, total	100.00	100.00	100.00	100.00
New England, total	8.49	8.70	7.63	7.50
Maine	0.47	0.49	0.39	0.40
New Hampshire	.37	.38	.32	.33
Vermont	.23	.24	.19	.19
Massachusetts	4.83	4.94	4.39	4.21
Rhode Island	.69	.69	.60	.55
Connecticut	1.89	1.96	1.74	1.82
Middle Atlantic, total	35.34	36.05	35.23	35.07
New York	24.91	25.42	25.32	25.39
New Jersey	3.28	3.38	3.11	3.12
Pennsylvania	7.15	7.25	6.79	6.56
East North Central, total	18.69	18.81	19.05	19.05
Ohio	4.62	4.68	4.61	4.65
Indiana	1.91	1.88	1.90	1.94
Illinois	7.04	7.05	7.44	7.23
Michigan	3.24	3.30	3.33	3.48
Wisconsin	1.92	1.91	1.78	1.76

TABLE XVII (continued)

Geographical region and state*	December 31, 1947	June 30, 1949	December 30, 1950	June 30, 1954
West North Central, total	7.96	7.66	8.09	7.84
Minnesota	1.79	1.72	1.77	1.74
Iowa	1.48	1.38	1.35	1.31
Missouri	2.27	2.26	2.62	2.52
North Dakota	.36	.33	.32	.30
South Dakota	.34	.30	.29	.27
Nebraska	.79	.74	.78	.73
Kansas	.93	.92	.96	.97
South Atlantic, total	7.42	7.32	7.52	7.59
Delaware	.34	.34	.36	.31
Maryland	1.28	1.26	1.18	1.17
District of Columbia	.69	.66	.66	.63
Virginia	1.09	1.11	1.15	1.17
West Virginia	.57	.62	.54	.53
North Carolina	1.03	.92	1.08	1.01
South Carolina	.43	.40	.38	.39
Georgia	1.00	.95	1.02	1.02
Florida	1.00	1.05	1.15	1.36
East South Central, total	3.26	3.06	3.29	3.18
Kentucky	.96	.86	.92	.87
Tennessee	1.08	1.05	1.18	1.16
Alabama	.75	.72	.73	.72
Mississippi	.46	.43	.47	.43

TABLE XVII (continued)

Geographical region and state*	December 31, 1947	June 30, 1949	December 30, 1950	June 30, 1954
West South Central, total	5.66	5.71	6.78	6.89
Arkansas	.49	.46	.48	.45
Louisiana	.89	.90	1.05	1.09
Oklahoma	.85	.87	.99	1.03
Texas	3.43	3.48	4.26	4.33
Mountain, total	2.35	2.25	2.35	2.45
Montana	.34	.33	.33	.32
Idaho	.28	.26	.25	.24
Wyoming	.15	.14	.15	.15
Colorado	.72	.67	.69	.71
New Mexico	.17	.17	.21	.22
Arizona	.26	.25	.27	.32
Utah	.34	.34	.34	.36
Nevada	.10	.10	.10	.13
Pacific, total	10.80	10.42	10.07	10.52
Washington	1.46	1.37	1.30	1.27
Oregon	.94	.86	.86	.83
California	8.41	8.19	7.91	8.32

*Totals do not add up to 100.00 % as result of rounding.

Source: Table XVI.

TABLE XVIII

INDEX OF VOLUME OF BANK DEPOSITS BY STATE AND BY GEOGRAPHICAL
REGION, UNITED STATES, SELECTED DATES, 1947-1954
(1947 100.00)

Geographical region and state	December 31, 1947	June 30, 1949	December 30, 1950	June 30, 1954
United States, average*	100.00 %	96.31 %	127.85 %	145.51 %
New England, average*	100.00	98.64	114.83	128.58
Maine	100.00	99.69	105.70	123.57
New Hampshire	100.00	98.62	109.23	128.29
Vermont	100.00	98.42	107.91	120.57
Massachusetts	100.00	98.63	116.19	126.87
Rhode Island	100.00	95.68	110.01	116.22
Connecticut	100.00	99.54	117.32	139.72
Middle Atlantic, average*	100.00	98.26	127.46	144.40
New York	100.00	98.29	130.01	148.33
New Jersey	100.00	99.27	121.24	138.30
Pennsylvania	100.00	97.70	121.44	133.53
East North Central, average*	100.00	96.95	130.29	148.30
Ohio	100.00	97.69	127.71	146.56
Indiana	100.00	94.93	126.70	147.25
Illinois	100.00	96.37	135.05	149.31
Michigan	100.00	98.04	131.31	156.30
Wisconsin	100.00	95.78	118.61	133.75

TABLE XVIII (continued)

Geographical region and state	December 31, 1947	June 30, 1949	December 30, 1950	June 30, 1954
West North Central, average*	100.00	92.70	129.90	143.28
Minnesota	100.00	92.60	126.03	141.44
Iowa	100.00	89.94	116.82	128.81
Missouri	100.00	95.58	146.97	161.40
North Dakota	100.00	90.39	115.34	121.27
South Dakota	100.00	86.64	108.62	115.09
Nebraska	100.00	90.85	127.08	133.73
Kansas	100.00	94.91	132.11	152.31
South Atlantic, average*	100.00	95.06	129.54	148.78
Delaware	100.00	95.71	133.69	131.76
Maryland	100.00	95.14	118.52	133.50
District of Columbia	100.00	94.92	123.09	133.58
Virginia	100.00	98.26	135.23	156.71
West Virginia	100.00	105.92	122.27	136.16
North Carolina	100.00	86.11	133.92	141.82
South Carolina	100.00	88.64	113.90	131.86
Georgia	100.00	91.33	129.64	147.85
Florida	100.00	100.95	146.68	198.54
East South Central, average*	100.00	90.64	129.17	142.11
Kentucky	100.00	86.23	123.06	131.43
Tennessee	100.00	93.92	139.16	156.52
Alabama	100.00	91.79	122.80	138.36
Mississippi	100.00	90.22	128.86	136.75

TABLE XVIII (continued)

Geographical region and state	December 31, 1947	June 30, 1949	December 30, 1950	June 30, 1954
West South Central, average*	100.00	97.20	153.28	177.24
Arkansas	100.00	91.14	127.18	133.33
Louisiana	100.00	96.89	150.29	177.31
Oklahoma	100.00	98.71	149.27	176.18
Texas	100.00	97.77	158.75	183.70
Mountain, average*	100.00	92.48	127.77	152.13
Montana	100.00	92.67	125.43	136.85
Idaho	100.00	87.76	115.36	126.04
Wyoming	100.00	94.55	134.16	148.51
Colorado	100.00	90.52	123.95	145.15
New Mexico	100.00	94.81	156.28	191.34
Arizona	100.00	94.37	132.68	178.03
Utah	100.00	96.53	127.98	154.23
Nevada	100.00	96.32	126.95	190.78
Pacific, average*	100.00	92.92	119.17	141.61
Washington	100.00	90.69	114.26	127.28
Oregon	100.00	88.48	116.89	129.34
California	100.00	93.80	120.28	143.90

*Weighted arithmetic mean of items in same column.

Source: Table XVI.

Mountain, South Atlantic, and East North Central States.

On an individual state basis, including the District of Columbia, a total of 29 states lagged behind the national average relative increase in deposits. Of the 20 states that experienced relative increases above the national average, nine such states were in the West South Central and Mountain regions. An examination of selected metropolitan areas affords an even more varied pattern of changes in deposits held by banks. Table XIX presents the percentage change in deposits between year-end 1950 and mid-1954 for selected metropolitan areas. The latter changes are obscured when regional and state averages are considered.

Within the changed setting emanating from the growth and decline of different geographical areas, bankers were aware that people living in outlying sections required that banking services be brought to them, rather than relying on former head-office locations to provide facilities.⁴⁴

⁴⁴Ed Tyng, "Banks 'Urge to Merge' Intensifies," op. cit., pp. 1 & 6.

Many progressive banks have been quick to recognize the condition that the composition of our social and economic life compells banking to be highly retailed in providing easy access to the many services required by depos-

TABLE XIX

AMOUNT OF PERCENTAGE CHANGE IN TOTAL DEPOSITS* OF SELECTED STANDARD
METROPOLITAN AREAS, UNITED STATES, DECEMBER 30, 1950 AND
JUNE 30, 1954
(Amount of deposits in thousands of dollars)

Metropolitan area and geographical region	Amount of deposits		Percentage change
	December 30, 1950	June 30, 1954	
Northeast region			
Albany-Schenectady-Troy	\$906,528	\$1,212,592	33.8 %
Atlantic City	104,842	123,618	17.9
Boston	4,890,774	5,283,956	8.0
Buffalo	1,493,391	1,867,451	25.0
Harrisburg	249,562	289,791	16.1
New York-Northeastern			
New Jersey	42,465,480	47,943,003	12.9
Philadelphia	5,307,399	5,877,529	10.7
Pittsburgh	3,061,201	3,294,232	7.6
Rochester	713,766	852,154	19.4
Stamford-Norwalk	294,276	406,382	38.1
Trenton	315,360	363,849	15.4
Wilkes Barre-Hazelon	309,585	317,204	2.5
North Central region			
Akron	335,348	406,014	21.1
Chicago	10,233,766	11,268,798	10.1
Cincinnati	1,132,612	1,204,855	6.4
Cleveland	2,576,264	2,923,517	13.5

TABLE XIX (continued)

Metropolitan area and geographical region	Amount of deposits		Percentage change
	December 30, 1950	June 30, 1954	
Columbus	558,764	701,850	25.6
Detroit	3,621,764	4,203,395	16.1
Fort Wayne	212,636	252,954	19.0
Indianapolis	869,249	976,800	12.4
Kansas City, Missouri	1,492,039	1,657,274	11.1
Milwaukee	1,181,459	1,300,778	10.1
Minneapolis-St. Paul	1,762,869	1,943,915	10.3
St. Louis	2,488,634	2,760,319	10.9
South Bend	177,773	204,767	15.2
Toledo	442,844	509,952	15.2
Southeast region			
Atlanta	839,954	970,024	15.5
Baltimore	1,519,544	1,660,876	9.3
Charleston, West Virginia	212,236	243,690	14.8
Charlotte	318,937	333,551	4.6
Jacksonville	367,084	456,822	24.4
Miami	480,502	661,878	37.7
Richmond	511,718	565,994	10.6
Washington, D.C.	1,430,434	1,627,921	13.8
Wilmington	543,661	528,337	- 2.8
South Central region			
Birmingham	395,155	453,138	14.7
Dallas	1,385,581	1,862,369	34.4
Fort Worth	490,069	596,436	21.7
Houston	1,375,091	1,665,139	21.1

TABLE XIX (continued)

Metropolitan area and geographical region	Amount of deposits		Percentage change
	December 30, 1950	June 30, 1954	
Louisville	630,061	693,338	10.0
Memphis	594,665	593,901	- 0.1
Nashville	395,864	463,742	17.1
New Orleans	808,668	972,496	20.3
Oklahoma City	440,590	520,235	18.1
Tulsa	469,664	587,308	25.0
West region			
Albuquerque	114,892	146,379	27.4
Denver	719,358	848,125	17.9
Los Angeles	5,376,124	6,554,066	21.9
Phoenix	263,993	359,257	36.1
Portland	844,620	957,208	13.0
Sacramento	477,511	525,424	10.0
Salt Lake City	374,064	453,219	21.2
San Diego	425,766	588,504	38.2
San Francisco-Oakland	4,704,157	5,569,757	18.4
Seattle	1,064,077	1,215,595	14.2

*Including interbank and governmental deposits.

Source: Board of Governors of the Federal Reserve System, Distribution of Bank Deposits by Counties and Standard Metropolitan Areas, December 30, 1950, pp. 123-125; June 30, 1954, pp. 123-126.

itors, borrowers, and other customers of the banks.⁴⁵

⁴⁵John M. Chapman and Ray B. Westerfield, Branch Banking (New York: Harper & Bros., 1942), p. 276 f.

The banking community has readily recognized the need for responding to these shifts in population, as exemplified in the comment of an executive vice president of the Bank of America, NT & SA, who stressed the impetus upon "the larger commercial banks to acquire or establish branches . . . so they can cater to customers who now just won't come to Wall Street."⁴⁶

⁴⁶Statement by Walter J. Braunschweiger, loc. cit. Cf. Federal Reserve Bank of Philadelphia, "The Branch and Merger Movement in the Third Federal Reserve District," Business Review, January, 1955, pp. 6-9, for a lucid discussion of locational factors in the establishment of bank branches in the Third Federal Reserve District. The latter study classified sections within and around the City of Philadelphia on the basis of population change between 1940-1950. It was learned that about 61 per cent of all new branches in the area were located in sections of average or fast growth; 23 per cent of all offices obtained via merger were located in these growing sections.

The expense and difficulty of establishing branch locations to service growing areas have pressured many banks into acquiring existing facilities through the process of merger. The latter phenomenon has been well illustrated in the case of certain mergers among New York City banks that took place during late 1954 and early 1955. Several

large city banks were able to strengthen lagging positions in the growing retail banking area through merger with institutions that had extensive branch facilities. In this way the participating banks achieved a rapid adaptation to the population shifts occurring within the metropolis.

Table XX presents the distribution of banking offices among certain New York City banks that have participated in merger transactions. The data are given as of December 31, 1954, even though three out of the four mergers shown in the table occurred after that date. Further examination of these mergers emphasizes their complementary nature. The merger of the Corn Exchange Bank and Trust Co. into the Chemical Bank and Trust Co. produced an institution with 98 offices, or 17 per cent of the total outlets in New York City. Prior to the merger, the Chemical Bank had three times the assets of the Corn Exchange Bank, but less than a fourth of the latter's banking offices.⁴⁷

⁴⁷U.S. Congress, House Committee on the Judiciary, Current Antitrust Problems, Part III, p. 2003.

The Chase-Manhattan merger, which resulted in the creation of the second largest commercial bank in the United States, is a graphic example of an extremely complementary union between two branch systems. Prior to the merger transaction, the Chase National Bank's offices were

TABLE XX

NUMBER AND PERCENTAGE DISTRIBUTION OF THE 556 BANKING
OFFICES, NEW YORK CITY, DECEMBER 31, 1954

Name of bank or merged institution	Number of offices*	Percent of total
Manufacturers Trust Co.	112	20
Corn Exchange Bank & Trust Co.**	79	14
Chemical Bank and Trust Co.	19	3
Chemical Corn Exchange Bank	98	17
Bank of Manhattan Co.	58	10
Chase National Bank	29	5
Bronx County Trust Co.	9	2
Chase Manhattan Bank	96	17
National City Bank	71	13
First National Bank	1	0
First National City Bank	72	13
Public National Bank & Trust Co.	25	4
Bankers Trust Co.	17	3
Bankers Trust Co.	42	7
All others	136	26
Total	556	100

*Limited offices are excluded.

**Since banks were merged before December 31, 1954, figures are based on October 7, 1954 data.

Source: Quarterly Call Reports, December 31, 1954, and Federal Reserve Bank of New York, compiled by Superintendent of Banks of State of New York, contained in U.S. Congress, House Committee on the Judiciary, Current Anti-trust Problems, Part III, 84th Congress, 1st Session (Washington, D.C.: Government Printing Office, 1955), p. 2003.

located mainly in Manhattan, with the exception of one in the Bronx and one in Brooklyn.⁴⁸

⁴⁸Chase-Manhattan Company, Report to Stockholders for the Annual Meeting, December 6, 1955, p. 19.

The Bank of Manhattan Company, which had previously absorbed the Bronx County Trust Co., held a system of offices that was predominantly in other boroughs of New York City. In its annual report to its stockholders, the Chase-Manhattan Bank stressed the complementary significance of the merger:

To keep pace with the increasing requirements of the great middle income group, as well as the pronounced tendency of the population to move out from the center of cities, a bank must not only offer a full range of services, but it must also offer them in as convenient and attractive locations as possible.⁴⁹

⁴⁹Ibid.

The merger of the National City Bank with the First National Bank added the latter's sole office to the 71 offices of the former. Evidently considerations for achieving a complementary branch system were not of primary importance. The First National Bank, however, found ready entrance into a diversified holding of offices as a result of its absorption by the National City Bank.

Characteristics similar to those involved in the Corn Exchange-Chemical merger are found in the acquisition of the Public National Bank and Trust Co. by the Bankers Trust Co. The latter institution, long a traditional "Wall Street" bank with four times the resources of Public National, added the 25 offices of the absorbed institution to its own holdings of 17 offices. The Bankers Trust had acquired most of these 17 offices following World War II.⁵⁰

⁵⁰U.S. Congress, House Committee on the Judiciary, Current Antitrust Problems, Part III, p. 2004.

Commenting on the merger transaction in its Annual Report, the management of the Bankers Trust Company concluded:

Not only did we acquire a well-located network of 25 banking offices, almost all in neighborhoods in which we had not hitherto been represented, but we also gained some 200,000 depositors and other customers, large and small, and a staff of approximately 1,600 people, experienced in the business of retail banking.⁵¹

⁵¹Bankers Trust Co., Annual Report, 1955, p. 4.

VI. RETURN TO TRADITIONAL COMMERCIAL BANKING ROLE

Not all of the significant factors that impinge upon the bank-merger movement are equally discernible. Some forces that have an expansive impact upon the merger phe-

nomenon are basically quite subtle and intangible in nature. One such pervasive element that has influenced banks to merge has been the recent transition of the banking system to its traditional role: namely, the accommodation of private credit needs. The monetization of private debt, rather than of public debt, is rapidly becoming the major factor affecting the operations of the commercial banking system. The banking system, to be sure, still holds a large amount of governmental securities. Nevertheless, it is the rising demand for private credit that has constituted a silent, but growing, pressure upon the banking community. The merger device has afforded one means for adapting to these changing needs and conditions.

A marked shift has occurred in the composition of the earning assets of the commercial banking system, as shown in Table XXI. The volume of loans made by commercial banks did not increase appreciably until 1947, primarily because of private use of liquid assets accumulated during the war period. Rising inflationary pressures, as reflected in increasing commodity prices and wages, plus the high level of business activity augmented business' resort to bank borrowings in 1948.⁵² In this latter year, loans

⁵²Institute of International Finance, "The Increased Dependence of Business on the Commercial Banks," The I.I.F. Bulletin, No. 175, March 4, 1952, p. 3.

TABLE XXI

AMOUNT AND PERCENTAGE DISTRIBUTION OF LOANS AND INVESTMENTS OF ALL
COMMERCIAL BANKS, UNITED STATES, ANNUALLY, 1946-1954
(Amounts in millions of dollars)

End of year	Loans	A m o u n t		Total	Loans	Percentage distribution		Total*
		U.S. Gov't obligations	Other securities			U.S. Gov't obligations	Other securities	
1946	31,122	74,780	8,091	113,993	27.30	65.60	7.10	100.00
1947	38,057	69,221	9,006	116,284	32.73	59.53	7.74	100.00
1948	42,488	62,622	9,189	114,298	37.17	54.79	8.04	100.00
1949	42,965	67,005	10,227	120,197	35.75	55.75	8.51	100.00
1950	52,249	62,027	12,399	126,675	41.25	48.97	9.79	100.00
1951	57,746	61,524	13,339	132,610	43.55	46.39	10.06	100.00
1952	64,163	63,318	14,143	141,624	45.31	44.71	9.99	100.00
1953	67,593	63,426	14,668	145,687	46.40	43.54	10.07	100.00
1954	70,619	68,981	16,316	155,916	45.29	44.24	10.46	100.00

*Totals do not necessarily add to 100.00 % as result of rounding.

Source: Federal Reserve Bulletin, June, 1950, p. 697; June, 1955, p. 665.

constituted over 37 per cent of total earning assets of commercial banks, an increase of 10 percentage points since 1946.

Business activity took a decided spurt following the Korean outbreak, bringing forth even more use of bank loans. The subsequent defense build-up, enhanced by rising private demand, has made loans account for about 45 per cent of total commercial bank earning assets, as of the end of 1954. U.S. Government securities have constituted a gradually declining proportion of total earning assets, so that after 1951 loans and discounts exceeded holdings of these securities. At the same time commercial banks have expanded the amount of other securities in their portfolios, particularly those of states and local governments.

Viewed from another aspect, during the eight-year period 1947-1954, total assets of all United States banks exhibited an average annual rate of growth of 4.1 per cent.⁵³

⁵³Federal Deposit Insurance Corporation, Annual Report, 1954, p. 38.

The average growth rate per year for loans and discounts was 12 per cent, with a variation of less than 3 per cent in 1949 to almost 22 per cent in the subsequent year. U.S. Government securities, on the other hand, showed an average annual decrease of over 1 per cent during the period,

ranging from a decrease of 9 per cent in 1948 to an increase of 7 per cent in 1954. Holdings of obligations of states and political subdivisions registered an average annual growth of over 14 per cent for the period, the greatest relative increase for any one particular asset category.⁵⁴

⁵⁴Ibid.

A survey of the business loans of member banks by the Board of Governors of the Federal Reserve System further substantiates the increased role of banks in their traditional role of commercial lending.⁵⁵ The investigation

⁵⁵See "Business Loans of Member Banks," Federal Reserve Bulletin, April, 1956, pp. 327-40, for summary article describing major characteristics of business lending by member banks.

covered reports on about 190,000 individual loans made by a representative sample of 1,900 banks, as of October 5, 1955. On the latter date, member banks held 1.3 million commercial and industrial loans, aggregating \$30.8 billion.⁵⁶ Compared with the findings of a similar survey

⁵⁶Ibid., p. 328.

conducted by the same agency, as of November 20, 1946,

dollar loan volume had jumped $2 \frac{1}{3}$ times, and the number of business loans had doubled. Between 1946 and 1955, a changing pattern of business loans appears among various borrowers, as shown in Table XXII.

Whereas, in 1946, loans to manufacturing and mining concerns comprised approximately 43 per cent of the outstanding amount of loans in the survey, the comparable figure was 37 per cent in the 1955 survey. The greatest decline in the distribution of loans within the manufacturing and mining group was recorded by the food, liquor and tobacco companies whose holdings dipped from 12 to 6 per cent of total business loans. This latter change reflects seasonal influences and lower agricultural prices as compared with late November, 1946, the time of the previous survey of member bank lending.⁵⁷

⁵⁷Ibid.

Loans to wholesalers (including commodity dealers) increased only about one-sixth as much as other business loans, accounting for 10 per cent of total dollar amount in 1955, as contrasted with 18 per cent in 1946. The amount of loans extended to retailers accounted for the same proportion of total loan volume at both dates. Retail trade still receives the greatest number of business loans made to any one industry group.

TABLE XXII

BUSINESS LOANS OF MEMBER BANKS, BY BUSINESS OF BORROWER*, 1955 AND 1946
(Estimates of outstanding loans)

Business of borrower	Amount of loans				Number of loans			
	In millions of dollars		Percentage distribution		In thousands		Percentage distribution	
	1955	1946	1955	1946	1955	1946	1955	1946
All business	30,820	13,189	100.0	100.0	1,317	673	100.0	100.0
Manufacturing and mining, total	11,283	5,650	36.6	42.8	225	116	17.1	17.2
Food, liquor, and tobacco	1,838	1,536	6.0	11.6	36	18	2.7	2.7
Textiles, apparel, and leather	1,689	484	5.5	3.7	31	16	2.3	2.4
Metals and metal products	3,235	1,629	10.5	12.4	59	29	4.5	4.3
Petroleum, coal, chemi- cals, and rubber	2,646	1,061	8.6	8.0	28	13	2.2	1.9
Other	1,875	939	6.1	7.1	72	40	5.4	5.9
Trade, total	6,539	3,883	21.2	29.5	517	341	39.2	50.7
Retail	3,476	1,472	11.3	11.2	411	253	31.2	37.6
Wholesale**	3,063	2,411	9.9	18.3	105	88	8.0	13.1
Other, total	12,998	3,656	42.2	27.7	575	216	43.7	32.0
Sales finance companies	2,872	779	9.3	5.9	13	7	1.0	1.0
Transportation, commu- nication, and other public utilities	2,906	1,222	9.4	9.3	44	38	3.4	5.6

TABLE XXII (continued)

Business borrower	Amount of loans				Number of loans			
	In millions		Percentage		In thousands		Percentage	
	of dollars		distribution				distribution	
	1955	1946	1955	1946	1955	1946	1955	1946
Construction	1,691	446	5.5	3.4	105	43	7.9	6.4
Services	1,783	490	5.8	3.7	239	76	18.2	11.3
Other nonfinancial***	3,745	719	12.2	5.4	174	52	13.2	7.7

*Data for 1946 were reported in "Business Loans of Member Banks," Federal Reserve Bulletin, March, 1947. Additional articles summarizing the results of the 1946 survey appeared in the May, June, July, and August, 1947 issues of the Bulletins.

**Totals for 1955 include 8,900 loans to commodity dealers amounting to \$751 million. These loans were included in wholesale trade in 1946 and not separately reported.

***Totals for 1955 include 75,600 loans to real estate concerns amounting to \$2,405 million. These loans were included in "all other" in 1946 and not separately reported.

Source: "Business Loans of Member Banks," Federal Reserve Bulletin, April, 1956, p. 329.

Real estate concerns, relatively small borrowers in 1946, received loans totaling \$2.4 billion in 1955 and held 8 per cent of the amount and 6 per cent of the number of all business loans.⁵⁸ These figures highlight the great

⁵⁸Ibid., p. 328 f.

increase in construction activity since 1946. Sales finance companies and service concerns increased their borrowings at about double the rate for business loans generally. Expanded installment purchases of consumers' durables are reflected in the sales finance figures, while service enterprises have experienced rapid growth in the postwar period.

The foregoing data corroborate the view of one financial writer who observes:

. . . it was not until 1945 that the phenomenally sharp rise in business loans got under way. The problem of the business loan is therefore a postwar problem. Perhaps as much as 40 per cent of the rise occurring resulted from an expansion in term loans. The greater part of the remaining increase resulted from the financial requirements of the rising dollar volume of inventories and accounts receivable. About 10 per cent of the total loan increase financed the credit needs of new firms.⁵⁹

⁵⁹Benjamin H. Beckhart, "An Analysis of the Business Loans of Commercial Banks in the United States, 1933-1951," Proceedings of the First International Credit Conference,

Vol. III (Rome: Associazione Bancaria Italiano, 1953),
p. 372.

Some observers have stressed the rising dependence of business upon banks as a factor stimulating the merger movement among banks. The latter conclusion is reached in the following manner:

Banks with large capital resources and a relatively small volume of risk assets will endeavor to absorb smaller institutions with adequate capital funds in relation to their risk assets. The ratio of capital resources to risk assets is very important in the case of small banks because, as a general rule, the smaller institutions make loans to small and medium-sized business concerns, which at times may be of poorer quality than the loans made by large banks to large and nationally known corporations. Moreover, a large bank doing business over a wide area is in a much better position to diversify its risks than the smaller banks whose loans are concentrated in one community. In addition, the volume of savings deposits of the large banks, with certain notable exceptions, such as where no mutual savings banks exist, is usually relatively small. Hence their holdings of mortgages or of long-term securities generally constitute a smaller percentage of the total earning assets than is the case with the smaller banks, which of necessity must hold a larger proportion of higher-income yielding assets. The merger movement has been pronounced since the end of the war, and if business becomes more dependent on the commercial banks this movement will continue at an accelerated pace.⁶⁰

⁶⁰Institute of International Finance, op. cit., p. 13. Willis has pointed out the relatively general lack of diversification of risks within many banking units and suggests that consolidation of units and the enlargement of capital funds afford "the best solution of this problem." Cf. Willis, "United States," op. cit., p. 909.

Other writers have modified the above view as to why banks are being pressured into mergers. It is maintained that a high capital-deposit ratio is not a basic factor operative in mergers. The high capital-deposit ratio is evidence, however, of the lagging growth of specific banks in relation to banks in general.⁶¹ A high capital-deposit

⁶¹Charlotte P. Alhadeff and David A. Alhadeff, "Recent Bank Mergers," op. cit., p. 515.

ratio is merely a sign of the retarded growth of a bank, and thus it is concluded that the fastest way for lagging banks to strengthen their growth positions is to absorb other banks, thereby enhancing assets and earnings. Then, too, the acquiring banks do not accord much significance to the relationship of the capital-deposit ratios of the absorbed banks to their own capital positions.⁶²

⁶²Ibid. Morris A. Shapiro offers essentially the same analysis in his examination of mergers among New York banks. Shapiro, however, contends that banks with the high capital-deposit ratios tend to acquire banks with low capital-deposit ratios. Cf. Morris A. Shapiro, "Earnings Power and Merger Trend of New York Banks," The Commercial and Financial Chronicle, March 16, 1950, p. 1127; "Bank Mergers in New York City," The Commercial and Financial Chronicle, September 21, 1950, p. 1101. See also Federal Reserve Bank of Philadelphia, "The Branch and Merger Movement in the Third Federal Reserve District," op. cit., January, 1955, p. 5.

The Alhadeffs' study, among other things, compared the capital-deposit ratios of absorbed banks with the capital-deposit ratios of absorbing banks in 208 merger transactions between January, 1953 and mid-1954. The re-

sults showed that: preponderantly, the absorbing banks acquired banks with highly similar capital-deposit ratios.

VII. EXPANSION OF LOAN LIMITS

Granting the increased dependence of business upon banks, it would follow that certain banks have utilized the merger device for expanding their legal loan limits. Generally, the banking regulations stipulate that the maximum amount that may be loaned to one borrower on an unsecured basis is limited to 10 per cent of a bank's capital and surplus. Any increase in the capitalization of a bank, whether accomplished through merger or through the retention of earnings, would permit expanded accommodation of large borrowers.⁶³

⁶³It is conceivable that a merger may result in a diminution of capital funds; for example, a purchase of assets involving the payment of a premium above book value.

Although the desire to achieve increased lending limits cannot be viewed as a "major initiating factor" in bank mergers, it nevertheless serves as an advantageous feature in appraising the merits of a specific merger proposal.⁶⁴ Then too, the expansion of loan limits may be the

⁶⁴Charlotte P. Alhadeff and David A. Alhadeff, "Recent Bank Mergers, op. cit., p. 512. A former officer

of a national bank that was acquired by the Franklin National Bank, Nassau County, Long Island, indicated in a letter to the latter bank's president that inability to augment capital funds served as a facilitating factor in the merger transaction. See letter by Warren A. Schneider to Arthur T. Roth, contained in U.S. Congress, House Committee on the Judiciary, Current Antitrust Problems, Part III, pp. 2269-71, esp. 2270.

major factor involved in specific bank mergers.⁶⁵

⁶⁵A study by the Federal Reserve Bank of Philadelphia attributes the merger of several "fairly substantial" Philadelphia banks to the wish to expand lending capacity to meet the growing needs of the Delaware Valley area. "New large accounts" were subsequently attracted to the resulting larger institutions. See Federal Reserve Bank of Philadelphia, "The Branch and Merger Movement in the Third Federal Reserve District," op. cit., January, 1955, p. 3; March, 1955, p. 4.

The recent New York City bank mergers afford an example of the consideration given to the enhancement of loan limits.⁶⁶ Between 1929 and 1948, banks in New York

⁶⁶See statement by George A. Mooney, Superintendent of Banks of the State of New York, contained in U.S. Congress, House Committee on the Judiciary, Current Antitrust Problems, Part III, p. 2004.

City increased their maximum loan limit by 70 per cent, in contrast to an even sharper expansion in the assets of large corporations that constitute a particularly important

area of lending among the city's banks.⁶⁷

⁶⁷Ibid. Using selected large corporations' growth in total assets as a criterion of "potential borrowing needs," the Superintendent of New York banks found it difficult to discover "any (corporation) with a rate of growth not in excess of that shown by the lending limits of New York City banks."

The widely publicized Chase-Manhattan merger of early 1955 is an interesting case whereby the maximum loan limit of a bank was increased appreciably as a result of a merger. Prior to its merger with the Bank of Manhattan, the Chase National Bank had been expanding its loan limit by about 75 per cent between 1939 and 1954.⁶⁸ Whereas the

⁶⁸Ibid.

Chase National had a single-loan maximum of \$35 million, the resulting bank commanded a loan limit of \$50 million, an increase of 42 per cent.

Similarly, several officers of the Chemical Corn Exchange Bank, which had resulted from the merger of two large New York City banks, recognized the need for augmenting loan limits:

With the continuing expansion of our national economy, commercial banks will be called upon to provide larger lines of credit than have been necessary in the past. A study of the growth of eight large corporations reveals that net sales of these companies between 1940 and 1953 increased 365 per

cent whereas, during the same period, their net working capital increased only 147 per cent. This situation, which we believe is typical of American industry in general, spells greater opportunity for the banking business, particularly where capital and surplus are sufficient to extend large lines of credit.⁶⁹

⁶⁹Chairman N. Baxter Jackson, Vice Chairman John R. McWilliam and President Harold H. Helm contained in "The Top of the Financial News--What They Are Saying," Bankers Monthly, February, 1955, pp. 7 & 8.

Impact of internal financing. Any appraisal of banks' incentives to increase maximum loan limits through merger operations must be tempered by the recognition of corporations' resort to internal financing. "Plowed back" or retained earnings comprise an important source of corporate funds. In 1946, for example, internal sources accounted for \$11.4 billion out of a total of \$19.5 billion of funds used by corporations, as shown in Table XXIII. For the year 1954, internal financing provided \$19.5 billion of the \$20.5 billion used by corporations in the United States. During the nine-year period between 1946 and 1954 internal sources supplied no less than half of the total funds used in any one year.

Changes in bank loans and mortgage loans to corporations exhibited a mixed pattern during this same period. The immediate postwar year of 1946 saw corporate bank loans increase by \$3.9 billion, only to be followed by a declining

TABLE XXIII

SOURCES AND USES OF CORPORATE FUNDS, UNITED STATES, ANNUALLY, 1946-1954*
(Billions of dollars)

Source or use of funds	1946	1947	1948	1949	1950	1951	1952	1953	1954**
Uses:									
Plant and equipment outlays	12.5	17.0	18.8	16.3	16.9	21.6	22.4	24.1	22.5
Inventories (change in book value)	11.2	7.1	4.2	- 3.6	9.8	9.4	1.8	2.6	- 3.5
Change in customer net receivables***	1.1	3.1	2.8	.9	5.0	2.0	2.4	.7	2.5
Cash and U.S. Government securities	- 4.7	1.0	1.0	3.2	4.5	2.8	.3	1.2	- 1.5
Other assets	- .6	--#	.2	--#	.3	.6	.8	.4	.5
Total assets	19.5	28.2	27.0	16.8	36.5	36.4	27.7	29.0	20.5
Sources:									
Internal									
Retained profits and depreciation allowances	7.2	11.4	12.4	7.6	12.4	9.1	7.5	8.3	7.0
Depreciation and amortization allowances	4.2	5.2	6.2	7.1	7.8	9.0	10.1	11.2	12.5
Total internal sources	11.4	16.6	18.6	14.7	20.2	18.1	17.6	19.5	19.5

TABLE XXIII (continued)

Source or use of funds	1946	1947	1948	1949	1950	1951	1952	1953	1954**
External									
Change in federal income tax liability	- 1.6	2.1	1.0	- 2.2	7.2	4.4	- 2.6	.9	- 4.0
Other liabilities	2.1	1.5	.4	.5	1.0	1.9	2.0	.8	--#
Change in bank loans and mortgage loans	3.9	3.3	1.8	- 2.3	2.6	5.4	3.1	.4	- 1.0
Net new issues	2.4	4.4	5.9	4.9	3.7	6.3	7.9	7.3	6.5
Total external sources	6.8	11.3	9.1	.9	14.5	18.0	10.4	9.4	1.5
Total sources	18.2	27.9	27.7	15.6	34.7	36.1	28.0	28.9	21.0
Discrepancy (uses less sources)	1.3	.3	- .7	1.2	1.8	.3	- .3	.1	- .5

*Excludes banks and insurance companies.

**Estimated to nearest half-billion dollars; by Council of Economic Activity.

***Receivables are net of payables which are therefore not shown separately.

#Less than 50 million dollars.

Source: Economic Report of the President, January, 1955, p. 193.

Note: Detail will not necessarily add to totals because of rounding.

amount of increase so that in 1949 corporate borrowings from banks dipped \$2.3 billion. Much of the latter decline can be explained by the fairly severe recessionary adjustment of that year, particularly underlined by the smallest investment of corporations for any one year in the postwar period. Subsequent to 1949, bank loans increased by substantial amounts up to 1952. An increase of only \$400 million in bank loans was recorded in 1953, followed by a decrease of about \$1 billion in 1954.

The significance of individual large banks' attempts to broaden maximum loan limits via merger can be appraised more specifically by examining the financing of large corporations in recent years. Table XXIV presents the condensed sources and uses of funds for 198 large manufacturing corporations between 1950 and 1955. The accommodation of the credit needs of such large corporations would place most pressure upon the maximum loan limits of banks. Here again, the data in the table indicate the important role of internal financing in meeting the credit needs of large corporations. The use of banks loans by these large manufacturing corporations exhibited marked variation for the period, ranging from a decline of \$763 million in 1954 to an increase of \$775 million during 1951.

All of the foregoing analysis of corporate sources of funds must not overshadow, however, the appreciable postwar shift in the distribution of member bank loans

TABLE XXIV

CONDENSED SOURCES AND USES OF FUNDS FOR 198 LARGE MANUFACTURING CORPORATIONS,
ANNUALLY, 1950-1955
(In millions of dollars)

Account	1950	1951	1952	1953	1954	1955
Outlays for fixed and working assets	5,340	9,125	7,681	7,338	6,332	9,024
Plant and equipment	3,735	5,654	6,733	6,780	6,853	7,051
Other working assets, net*	1,605	3,471	948	558	- 521	1,973
Funds from operations and tax accruals	7,922	7,426	4,258	7,582	5,722	10,573
Net from operations	5,573	5,479	5,432	6,731	7,136	9,078
Increase in accrued federal taxes	2,349	1,947	- 1,174	851	- 1,414	1,495
External financing	- 226	1,920	2,697	486	535	1,087
Net new security issues	- 122	1,144	2,066	893	1,298	1,012
Bank loans	- 104	775	631	- 407	- 763	76
Increase in liquid assets***	2,356	221	- 725	730	- 75	2,636

*Consolidation of following items: inventories, receivables minus trade payables; and other uses and other assets minus current liabilities and other sources.

**Consolidation of following three items: mortgages, bonds, other liabilities; preferred stock; and common stock.

***Liquid assets comprise the two items cash and Government securities.

Source: Robert R. Moss, "Financing of Large Corporation, 1951-55," Federal Reserve Bulletin, June, 1956, p. 582.

among borrowers of varying size. A Federal Reserve survey of the commercial and industrial loans of member banks conducted in October, 1955, underscores member banks' increasing accommodation of intermediate-sized borrowers.⁷⁰

⁷⁰James B. Eckert, "Business Loans of Member Banks," Federal Reserve Bulletin, April, 1956, p. 330 f.

Between 1946 and 1955, as shown in Table XXV, firms with assets of \$250,000 to \$5 million accounted for a substantially higher proportion of the total amount and total number of business loans made by member banks participating in the survey. Although the relative amount of loans to concerns with assets of \$50,000 to \$250,000 dipped, the number of such loans jumped up sharply.

Large borrowers (those with assets of \$5 million or over) held about the same relative position in 1955 as in 1946. Even though the absolute amount and number of business loans to concerns with assets of less than \$50,000 increased over the period, their relative importance declined. These latter loans declined from 65 to 46 per cent of the number and from 9 to 6 per cent of the amount of total loans outstanding. The shift in lending to the intermediate-sized firms between the two dates reflects mainly the general rise in the valuation of business

TABLE XXV
 BUSINESS LOANS OF MEMBER BANKS, BY SIZE OF
 BORROWER, UNITED STATES, 1946 AND 1955
 (Percentage of total)

Size of borrower (total assets in thousands of dollars)	Amount of loans		Number of loans	
	1955	1946	1955	1946
All borrowers	100.0	100.0	100.0	100.0
Under 50	5.5	9.2	46.2	64.5
50 - 250	14.5	16.4	35.6	24.0
250 - 5,000	34.3	29.0	14.5	8.3
5,000 and over	45.2	44.3	1.9	1.7
Not ascertained	.6	1.2	1.8	1.5

Source: "Business Loans of Member Banks," Federal Reserve Bulletin, April, 1956, p. 331.

Note: Details may not add to totals because of rounding.

assets, and the growth in over-all business volume.⁷¹

⁷¹Ibid.

Also, in the immediate postwar period, a large proportion of the businesses consisted of new and reestablished small concerns. Then as businesses matured, internal and nonbank funds became more available.

Another factor to be appraised in banks' relations with business borrowers is the use of credit lines. A credit line may be defined as "generally an informal understanding between the borrower and the bank as to the maximum amount of credit which the bank will provide the borrower at any one time."⁷² Credit lines extended by banks

⁷²Caroline H. Cagle, "Credit Lines and Minimum Balance Requirements," Federal Reserve Bulletin, June, 1956, p. 573. The term "credit line" is sometimes used to refer to a firm commitment to lend to a customer. The latter, however, is generally legally binding, and entails explicitly defined terms and conditions, including a certain fee-charge for the service. Ibid., p. 573 f.

would not be reflected in data on business loans. However, the Federal Reserve survey of October 5, 1955, of member bank business lending underlines the prevalent use of credit lines. Of the 2,000 banks participating in the survey,

56 per cent reported that they granted credit lines.⁷³ The

⁷³Ibid., p. 574. The sample included all member banks holding deposits of \$50 million and above, and a declining proportion of each smaller size class.

proportion of banks extending credit lines varied directly with the size of bank; almost all banks with deposits of \$100 million and above extended credit lines, while only 38 per cent of the sample banks within the "under \$20 million deposits" group extended credit lines.⁷⁴

⁷⁴Ibid.

Three general criteria apply to the size of credit lines extended: creditworthiness of the borrower, generally prevailing business and credit conditions, and legal loan limits.⁷⁵ Expanded loan limits as a result of merger

⁷⁵Ibid., p. 575.

could thus serve as a partial factor in increasing credit lines for particular business borrowers. Of course, the extension of larger credit lines would not necessarily mean that the banks' customers would fully utilize them. Nevertheless, many business borrowers esteem an expanded line

of credit.⁷⁶

⁷⁶Albert G. Hart, Money, Debt, and Economic Activity (second edition; New York: Prentice-Hall, Inc., 1953), p. 204.

VIII. SUMMARY

Various economic factors have impelled banks to merge in recent years. The latter elements can serve as either initiating or facilitating conditions in specific merger transactions.

The number of mergers aimed at preventing bank failures has been quite small in recent years. In certain cases, the Federal Deposit Insurance Corporation facilitates such "rescue" mergers by advancing funds to the absorbing bank, if such action will prevent a loss to the corporation.

More positively, the bank-merger movement reflects the attempts of many banks to enhance their market positions. The enhancement of market positions via merger arises from moves to diversify operations, particularly in such expanding areas as trust business and foreign trade financing. The merger device enables rapid and economical entrance to new types of lending, for example, the growing field of "retail banking." Several important mergers among banks in New York City evidenced the impetus toward obtain-

ing more "retail banking" lines.

Bank mergers afford a means for acquiring "ready-made" banking facilities for absorbing banks, many of whom have experienced significant population shifts in the areas served by them. An important aspect of shifting population groups has been the pronounced movement of people into outlying and suburban areas.

Another force that has had an expansive impact upon the merger phenomenon has been the return of commercial banks to their traditional role of commercial lending. The monetization of private debt is rapidly becoming the major factor affecting the operations of the commercial banking system. Many banks, encountering lagging growth in deposits and business, have utilized the merger technique as a convenient means for improving their positions.

The growing dependence of business upon banks has taxed the maximum individual loan limits of certain banks. The expansion of loan limits has constituted a significant facilitating feature for specific bank mergers.

The implications of the rising dependence of business upon banks must be tempered by the recognition of the enhanced role of internal financing in providing funds for business. However, a survey conducted by the Federal Reserve System underscored member banks' increasing accommodation of intermediate-sized borrowers.

CHAPTER IV

ECONOMIC FACTORS CONTRIBUTING TO BANK MERGERS:

NON-BANK COMPETITION AND FINANCIAL FACTORS

Another important economic factor that has impinged upon particular banks in varying degrees has been the stepped up competition from non-bank lenders. Commercial banks thus encounter rivalrous actions not only from within the banking system, but also from external groups. The increased role of non-bank lending has been especially pronounced in the postwar period. The impact of this latter development constitutes another subtle element in the atmosphere surrounding particular bank mergers.¹ Many

¹See testimony of Ray M. Gidney, Comptroller of the Currency, before Antitrust Subcommittee of the Committee on the Judiciary, contained in U.S. Congress, House Committee on the Judiciary, Current Antitrust Problems, Hearings before Antitrust Subcommittee, 84th Congress, 1st Session, Part I (Washington, D.C.: Government Printing Office, 1955), p. 479. Also see testimony by George A. Mooney, Superintendent of Banks of State of New York, ibid., p. 1981. Mr. Mooney stressed that "competition from nonbank sources is always a basic fact in appraising competitive conditions" in banking.

banks, experiencing the rising pressure of outside competitors, have resorted to the merger device to maintain a strong position in certain lending areas.

Some of the important private non-bank competitors of commercial banks would include mutual savings banks, savings and loan associations, and life insurance companies.² One of the purposes of this chapter is to present

²Ibid., p. 479.

a discussion of the three principal non-bank lenders, with reference to their influence upon the competitive setting of commercial banks.

I. COMPETITION FROM MUTUAL SAVINGS BANKS

Mutual savings banks, which are the oldest savings institutions in the United States, have no stockholders but are conducted for the benefit of depositors.³ The geo-

³Erwin W. Boehmler et al, Financial Institutions, (revised edition; Homewood, Illinois: Richard D. Irwin, Inc., 1956), p. 340.

graphical location of mutual savings banks is largely concentrated in the New England and Middle Atlantic seaboard states. As of the end of 1954, all but 17 of the 527 mutual savings banks in the United States were located in the latter two regions.⁴ Table XXVI indicates some of the

⁴Ibid. During the past two generations, very few new mutual savings banks have been established.

TABLE XXVI

PRINCIPAL ASSETS OF ALL MUTUAL SAVINGS BANKS,
UNITED STATES, ANNUALLY, 1946-1954

(In millions of dollars)

End of year	Cash	U.S. Gov't obligations	Other securities	Loans
1946	818	11,778	1,400	4,526
1947*	886	11,987	1,718	4,944
1948	878	11,476	2,233	5,686
1949	873	11,428	2,394	6,578
1950	797	10,868	2,342	8,137
1951	886	9,819	2,579	9,862
1952	918	9,422	3,231	11,349
1953	983	9,184	3,701	12,925
1954	1,026	8,748	4,123	14,998

*At year-end 1947, 8 banks with total loans and investments of \$34 million were transferred from mutual savings category.

Source: Federal Reserve Bulletin, various issues.

changes in mutual savings banks' principal assets since World War II. Federal government securities comprise an important asset of mutual savings banks, but the outstanding amount of these securities' holdings has gradually moved down since 1946. Loans made by these banks, however, have increased appreciably. At year-end 1946, total loans aggregated \$4,526 million; eight years later, the figure reached \$14,998 million. Practically all of the loans are mortgage loans. Mortgage lending by mutuals is similar to the real estate credit granted by life insurance companies: primarily for large-scale real estate purposes such as apartment houses and commercial properties.⁵

⁵Ibid., p. 343 f.

The extremely heavy concentration of mutual savings banks in the eastern part of the United States would create more competitive pressure for commercial banks in that region than in other areas of the country. The latter conclusion is borne out in data compiled by the Superintendent of Banks of the State of New York.⁶ New York State has

⁶See statement of George A. Mooney, contained in U.S. Congress, House Committee on the Judiciary, Current Antitrust Problems, Part III, pp. 2011-2017.

129 mutual savings banks with total deposits of \$15,492

million, as of December 31, 1954; national figures for the same date are 527 banks and \$26,351 million in deposits.⁷

⁷Boehmler, op. cit., p. 341.

Using year-end figures for 1940 and 1954, commercial banks' total assets in New York State increased from \$24,059 million to \$41,940 million, a percentage increase of 74.3 per cent.⁸ During the same period, savings banks'

⁸U.S. Congress, House Committee on the Judiciary, Current Antitrust Problems, Part III, p. 2011.

total assets in New York State rose by 165.6 per cent from \$6,463 million to \$17,165 million.⁹ Savings banks in New

⁹Ibid.

York State compete most directly with commercial banks in the area of mortgage lending. As of December 31, 1954, mutual savings banks held 54 per cent or \$6,539 million of the total mortgages on properties located within the state. Commercial banks, on the other hand, held \$1,686 million, or 13.9 per cent, of the total amount of mortgages.¹⁰

¹⁰Ibid., p. 2017. The data for commercial banks represent total mortgage holdings since no breakdown on location of property is available. The savings banks' fig-

ures are based on data available on the September 20, 1954, call date.

Further evidence of the rivalry between savings banks and commercial banks appears in the competition for savings deposits. Dr. Marcus Nadler, a contemporary financial writer, has stressed the importance of savings deposits as a factor in lending operations, and as a result many commercial banks have attempted to offset lagging increases in such deposits by merger transactions.¹¹ These deposits,

¹¹Statement contained in The American Banker, May 28, 1956, pp. 1 & 11.

according to Nadler, have taken on an "investment character," and therefore are very sensitive to the rate of interest paid by an individual institution. Nadler suggests "that the growth--and often survival--of a bank depends on its ability to maintain and increase its savings deposits."¹²

¹²Ibid.

The situation in New York State affords an excellent example of various financial institutions' attempts to augment their holdings of savings deposits. Table XXVII highlights the growth in the number of accounts and deposits of commercial banks and of savings banks in New York State

TABLE XXVII

GROWTH IN THE NUMBER OF ACCOUNTS AND DEPOSITS OF COMMERCIAL BANKS
AND SAVINGS BANKS IN NEW YORK STATE, 1940-1954
(Dollar amounts in millions)

Type of institution and account	Number of accounts (thousands)			Amount of deposits or shares		
	Dec. 31, 1940	Dec. 31, 1954	Per cent increase	Dec. 31, 1940	Dec. 31, 1954	Per cent increase
Commercial banks (state-chartered only)*						
Demand**	1,556	2,837	82.3	\$8,015	\$13,693	70.8
Special interest***	1,613	2,025	25.5	873	1,914	119.2
Savings banks, regular#	6,033	7,785	29.0	5,672	15,421	171.9

*Includes state banks, trust companies, industrial banks, and private bankers. National-bank data on number of accounts and on amount of special interest deposits not available.

**Accounts of individuals, partnerships, and corporations.

***Excludes club, commercial, governmental, and interbank time accounts.

#Excludes school and club accounts. Payroll accounts are included.

Source: Compiled by Superintendent of Banks of New York State, contained in U.S. Congress, House Committee on the Judiciary, Current Antitrust Problems, Part III, 84th Congress, 1st Session (Washington, D.C.: Government Printing Office, 1955), p. 2013.

between 1940 and 1954. Savings banks, although exhibiting about the same relative increase in the number of accounts as commercial banks, expanded their deposits \$9,749 million, a percentage increase of 171.9 per cent.¹³ Commer-

¹³U.S. Congress, House Committee on the Judiciary, Current Antitrust Problems, Part III, p. 2013.

cial banks, however, expanded their savings deposits from \$873 million at year-end 1940 to \$1,914 million on December 31, 1954, a relative increase of 119.2 per cent.

Currently, savings banks in New York State pay a dividend rate of at least 2½ per cent, with over one-third of such banks, paying a dividend rate as high as 2¾ per cent. State-chartered commercial banks, three-quarters of whom paid thrift customers a rate of one per cent or less in 1951, have increased their interest rates on special interest accounts. Today, about two out of three state-chartered commercial banks pay 2 per cent or more.¹⁴

¹⁴Ibid. Many of the first commercial banks to adopt the higher rate are located in New York City.

Indeed, commercial banks in New York State have shown a quick response to rate increases of savings banks.

II. COMPETITION FROM SAVINGS AND LOAN ASSOCIATIONS

Another volatile competitive element surrounding commercial banks' lending activities is that posed by the operations of savings and loan associations. These associations are cooperative thrift groups that are chartered by either federal or state government.¹⁵ As of December 31,

¹⁵The associations are known by various designations in different parts of the country: "cooperative banks," "building and loan associations," and "homestead associations." Federal Reserve Bank of New York, "Savings and Loan Associations in the Mortgage Market," Monthly Review, July, 1956, p. 94.

1954, nearly 16.5 million persons held share accounts aggregating over \$27 billion in approximately 6,000 savings and loan associations throughout the United States.¹⁶ Ac-

¹⁶Boehmler, op. cit., p. 353; Federal Reserve Bulletin, June, 1956, p. 619.

tive associations are found in every state of the union (including the District of Columbia), and almost every community of 10,000 persons or above has an association.

Savings and loan associations have experienced very rapid growth in recent years, as Table XXVIII shows. The savings capital of the associations rose from over \$7

TABLE XXVIII

SELECTED ASSETS AND SAVINGS CAPITAL OF SAVINGS AND LOAN ASSOCIATIONS,
UNITED STATES, SELECTED YEARS, 1948-1955
(In millions of dollars)

End of year	Total*	A s s e t s			Other***	Savings capital
		Mortgages**	U.S. Gov't obligations	Cash		
1945	8,747	5,376	2,420	450	356	7,365
1948	13,028	10,305	1,455	663	501	10,964
1949	14,622	11,616	1,462	880	566	12,471
1950	16,893	13,657	1,487	924	733	13,992
1951	19,222	15,564	1,603	1,066	899	16,107
1952	22,660	18,396	1,787	1,289	1,108	19,195
1953	26,733	21,962	1,920	1,479	1,297	22,846
1954	31,736	26,193	2,021	1,980	1,472	27,334
1955	37,880	31,584	2,381	2,087	1,763	32,305

*Includes gross mortgages with no deduction for mortgage pledged shares.

**Net of mortgage pledged shares.

***Includes other loans, stock in the Federal Home Loan Banks and other investments, real estate owned and sold on contract, and office building and fixtures.

Source: Federal Reserve Bulletin, June, 1956, p. 619.

billion at the end of 1945 to over \$32 billion at year-end 1955. In this same period, the associations have enlarged their share of total institutional savings from 8 per cent to 18 per cent.¹⁷

¹⁷Institutional savings are defined as the sum of shares in savings and loan associations, of time and savings deposits with commercial and mutual savings banks, and of life insurance companies' reserves. See Federal Reserve Bank of New York, "Savings and Loan Associations in the Mortgage Market," op. cit.

The substantial additions to savings capital, plus advances obtained primarily from the Federal Home Loan Bank System, have enabled the associations to become important mortgage lenders.¹⁸ Reference to Table XXVIII (see above)

¹⁸At the end of 1955, FHLB advances totaled \$1,412 million, while borrowings from commercial banks amounted to \$146 million. Ibid.

indicates that at the end of 1955, 83 per cent of the associations' total assets were in mortgages on nonfarm property. The ratios of nonfarm mortgages to total assets for other important lenders on this date include: mutual savings banks, 56 per cent; life insurance companies, 30 per cent; commercial banks, 9 per cent.¹⁹

¹⁹Ibid., p. 95.

Investments in real estate loans are generally limited to first mortgage loans and property improvement loans on homes and small apartments in the local areas served by the associations.²⁰ About 77 per cent of all nonfarm mort-

²⁰Boehmler, op. cit., p. 355.

gages held by the associations are of the conventional type, as compared with federally insured and guaranteed loans. Similar ratios computed for mutual savings banks, life insurance companies, and commercial banks are 43 per cent, 54 per cent, and 58 per cent, respectively.²¹ The

²¹Federal Reserve Bank of New York, "Savings and Loan Associations in the Mortgage Market," op. cit.

high degree of conventional lending in the associations' mortgage activity arises from close personal contact with borrowers. Then, too, the high liquidity feature of U.S. Government underwritten mortgages is less attractive to savings and loan associations than it is to other mortgage lenders. In addition, the associations enjoy wider loan limits on conventional loans than do other lenders.²²

²²Ibid., p. 96.

Savings and loan associations have become increasingly more competitive with commercial banks in recent years. Commercial bankers have recognized the rising pressure of the associations, particularly as the latter have enhanced their holdings of savings capital.²³ Other ob-

²³See statement by Gaylord Freeman, Vice President of the First National Bank of Chicago, at a seminar session of the School of Banking of the South, Baton Rouge, La., contained in The American Banker, June 7, 1956, p. 4. Freeman attributed much of the competitive nature of savings and loan associations to their ability to pay a higher rate of return as a result of the high proportion of savings capital held in long-term, high interest-bearing mortgages. Freeman also stressed the associations' more liberal legal provisions for establishing reserves for bad debts as compared with commercial banks.

servers have emphasized that associations "now enjoy greater liberties in the location of offices than do banks."²⁴ Improved public offices and extensive advertis-

²⁴Statement by William J. Kinnaman, President of the New Jersey Bankers Association, in a press conference at the New Jersey Bankers Association's 53rd annual convention, Atlantic City, May 23, 1956, contained in The American Banker, May 25, 1956, p. 9.

ing, especially as to the safety and liquidity of share accounts in savings and loan associations, reflect the latter's vigorous competition for savings funds.²⁵

²⁵An interesting, if not amusing, aspect of associa-

tions' publicity efforts involves their

. . . use of the word "deposit" in their advertising and promotion while banks have just as vigorously lobbied against their access to this magic word. Most modern savings and loan associations have dropped or suppressed the "share" account terminology; they prefer to speak of "savings" accounts. And while they can't call the dividend payments on these accounts "interest," savings and loan managers seldom protest if customers make the mistake of using this phrase.

Cf. Roland I. Robinson, "Saving and Savings Institutions," contained in Financial Institutions, edited by E. W. Boehmler, p. 353.

III. COMPETITION FROM LIFE INSURANCE COMPANIES

Commercial banks are also encountering increased competition in lending from insurance companies, who "are now the largest creditors of American industry."²⁶ Life

²⁶Boehmler, op. cit., p. 374. There are currently about 900 legal-reserve life companies in the United States.

insurance companies have become important institutional investors with individuals' increased resort to life insurance purchases as a form of saving. In fact, life insurance is the principal type of long-term saving for more families than any other type of long-term saving.²⁷

²⁷Institute of Life Insurance, Life Insurance Fact Book, 1955, p. 6. The total of family savings in life

insurance policies at the end of 1954 was \$69 billion.

Insurance companies, which enjoy greater freedom in their investment decisions as compared with other savings groups, carry a high proportion of long-term investments in their portfolios. The contractual liability of life insurance, of course, permits these institutions to invest at long-term.

Today, a large part of the assets of U.S. life insurance companies consists of business securities, as shown in Table XXIX. In recent years, insurance companies have become important purchasers of direct placements of corporate capital issues. In 1954, three-fourths of the net increase in outstanding corporate bonds are estimated to have been acquired by these institutions.²⁸ Between 1946 and

²⁸Boehmler, op. cit., p. 374.

1954, these institutions have reduced greatly their holdings of U.S. Government securities. At year-end 1954, federal government securities made up less than 11 per cent of total life insurance company assets.

On the other hand, mortgage lending by insurance companies has become a major factor in their investment activities. In the initial postwar year of 1946, insurance companies held \$7,155 million of their assets in mortgages;

TABLE XXIX

AMOUNT AND PERCENTAGE DISTRIBUTION OF ASSETS OF LIFE INSURANCE COMPANIES
BY TYPE OF ASSET, UNITED STATES, ANNUALLY, 1946-1954

Year	U.S. Gov't securities	All other Gov't bonds	Amount (in m i l l i o n s)					Total
			Securities of business and industry	Mortgages	Real estate	Policy loans	Other assets	
1946	21,629	1,946	13,024	7,155	735	1,894	1,808	48,191
1947	20,021	1,982	16,144	8,675	860	1,937	2,124	51,743
1948	16,746	2,339	20,322	10,833	1,055	2,057	2,160	55,512
1949	15,290	2,523	23,179	12,906	1,247	2,240	2,245	59,630
1950	13,459	2,607	25,403	16,102	1,445	2,413	2,591	64,020
1951	11,009	2,658	28,204	19,314	1,631	2,590	2,872	68,278
1952	10,252	2,522	31,646	21,251	1,903	2,713	3,088	73,375
1953	9,829	2,576	34,570	23,322	2,020	2,914	3,302	78,533
1954	9,070	3,030	37,462	25,976	2,298	3,127	3,523	84,486
P e r c e n t a g e d i s t r i b u t i o n								
1946	44.9	4.0	27.1	14.8	1.5	3.9	3.8	100.0
1947	38.7	3.8	31.2	16.8	1.7	3.7	4.1	100.0
1948	30.2	4.2	36.6	19.5	1.9	3.7	3.9	100.0
1949	25.6	4.2	39.0	21.6	2.1	3.7	3.8	100.0
1950	21.0	4.1	39.7	25.1	2.2	3.8	4.1	100.0
1951	16.1	3.8	41.4	28.3	2.4	3.8	4.2	100.0
1952	14.0	3.4	43.1	29.0	2.6	3.7	4.2	100.0
1953	12.5	3.3	44.0	29.7	2.6	3.7	4.2	100.0
1954	10.7	3.6	44.4	30.7	2.7	3.7	4.2	100.0

Source: Institute of Life Insurance, Life Insurance Fact Book, 1955, pp. 60-61.

by 1954, this figure had jumped to \$25,976 million. Stated differently, mortgages comprised 14.8 per cent of these institutions' total assets in 1946; eight years later, this relative proportion had changed to 30.7 per cent, an increase of over 15 percentage points.

It is in the area of real estate lending that these savings institutions would pose the greatest competitive threat for commercial banks. Sometimes, however, insurance companies participate in a lending syndicate with one or more banks. The division of loans among banks and insurance lenders usually arises for a term loan of maturity longer than that handled by banks.²⁹

²⁹Robinson, The Management of Bank Funds (New York: McGraw-Hill Book Company, Inc., 1951), p. 193.

IV. COMPETITION FROM GOVERNMENTAL AGENCIES

Any extensive consideration of the competitive role of non-bank lenders requires an examination of federal credit and lending policies. Such an examination encounters great obstacles especially as a result of the varied, and often times conflicting, purposes and policies followed by the federal government. In addition, it is important to remember that:

Government lending is not limited to the lending of money. The Government's guarantee, when it

is held by private people, is no less a pledge of the public credit than is the Government's direct loan paid out in cash; each is the undertaking to risk the Government's funds in a venture managed by private parties. For this reason, no important distinction is made . . . between the direct lending of public funds and the indirect lending which occurs when the Government guarantees a private lender that a private borrower's debt will be paid with interest at maturity.³⁰

³⁰Commission on Organization of the Executive Branch of the Government, Task Force Report on Lending Agencies, February, 1955, p. 7.

The major purposes for which the United States Government carries on lending, insuring and guaranteeing programs would include at least six areas. These six sectors, along with specific examples for each are listed as follows:³¹

³¹The major part of the material for this section is taken from a study made by a task force of the so-called "Hoover Commission" on the organization of the executive branch of the Government. See ibid., p. 97 f.

1. The establishment of mutual credit institutions with the aim of enhancing the availability of credit and the stability of certain credit systems; for example, the Federal Reserve Banks, the Federal Home Loan Banks, and banks supervised by the Farm Credit Administration.

2. The formation of mutual credit insurance programs "as experiments in the underwriting of institutional stability," for example, the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, and the mortgage underwriting activities of the Federal Housing Administration.

3. The increase of national industrial productive ability for mobilization requirements; for example, the Reconstruction Finance Corporation, the General Services Administration, the various military departments, and the Export-Import Bank.

4. The facilitation of the conduct of foreign affairs; for example, the Foreign Operations Administration.

5. The provision of credit to private individuals and business concerns for purposes other than those connected with war, foreign affairs, or national security; for example, the Small Business Administration and the Veterans Administration.

6. The subsidization of certain activities of individuals or business enterprises; for example, the operations of the Farmers Home Administration and the Public Housing Administration.

By mid-1953, the total amount of loans outstanding for the above mentioned purposes exceeded \$15 billion.

Table XXX presents the breakdown of the latter amount by major purpose and by specific agency.³² At the same time,

³²The data in Table XXX are necessarily restricted to all major active federal lending, loan guarantee, and loan insurance programs as of June 30, 1953, the most recent date for which adequately complete information is available. Since the latter date, the dollar volume of same programs has been modified, for example, the termination of the Reconstruction Finance Corporation, which was succeeded by the establishment of the Small Business Administration.

outstanding federal insurance and guarantees aggregated approximately \$152 billion, of which sum over \$25 billion was backed by U.S. Government credit.

This examination of the extent of the federal government's lending, guaranteeing and insuring activities

TABLE XXX

UNITED STATES GOVERNMENT FINANCIAL DATA ON MAJOR LENDING AND RELATED
INSURANCE AND GUARANTEE PROGRAMS, JUNE 30, 1953
(Amounts in millions of dollars)

Major purpose or special agency	Loans outstand- ing	Extent of authority for additional lending	Insurance and guarantees outstanding	
			Backed by Gov't credit	Not fully or directly backed by Gov't credit
To assist in financing housing, home building, and home ownership:				
Administrator of the Housing and Home Finance Agency	99.6	1,296	-----	-----
Federal National Mortgage Association	2,497.7	1,204	-----	-----
Home Loan Bank Board and Federal Home Loan Banks	718.3	125	-----	-----
Federal Savings and Loan Insurance Corp.	-----	750	-----	18,620
Federal Housing Administration	36.8	-----	15,574.7	-----
Public Housing Administration	587.4	845	748.9	1,122.4
To assist veterans, mainly in connection with home ownership:				
Veterans' Administration	210.9	-----	8,461	-----
To assist in financing agriculture and farm ownership and improvement:				
Banks supervised by the Farm Credit Adm.				
Federal Land Banks	1,135.8	-----	-----	-----
Federal Intermediate Credit Banks	823.8	34	-----	-----
Banks for Cooperatives	319.1	6	-----	-----
Production Credit Corporations	-----	54	-----	-----

TABLE XXX (continued)

Major purpose or special agency	Loans outstand- ing	Extent of authority for additional lending	Insurance and guarantees outstanding	
			Backed by Gov't credit	Not fully or directly backed by Gov't credit
Federal Farm Mortgage Corporation	20.3	500	-----	-----
Farmers' Home Administration	645.0	-----	56	-----
Rural Electrification Administration	2,011.3	560	-----	-----
Commodity Credit Corporation	874.6	3,138	287.9	-----
To insure accounts of depositors in com- mercial banks:				
Federal Deposit Insurance Corporation	-----	3,000	-----	106,509
To assist in financing domestic business enter- prises and certain other borrowers:				
Reconstruction Finance Corporation	1,052.0	1,361	-----	-----
Defense Materials Procurement Agency	68.0	816	-----	-----
Army, Navy, Air Force and others under the V-loan programs	5.2	-----	666.2	-----
To assist in financing foreign trade:				
Export-Import Bank of Washington	2,547.2	2,408	-----	-----
Mutual Security Agency	1,529.7	217	-----	-----
To assist Indians and Indian tribes:				
Bureau of Indian Affairs	13.3	-----	-----	-----
Together	15,196	16,314	25,794.7	126,251.4

Source: Commission on Organization of the Executive Branch of the Government, Task Force Report on Lending Agencies, p. 99.

does not imply that all such policies are directly competitive with commercial bank lending. The analysis does point up, however, a highly significant element that contains distinct competitive undertones for the commercial banking system. Government lending activities tend to become institutionalized and to be extended beyond the period of pressing need and often have appeared to be competitive with reasonably suitable private facilities.³³

³³Robinson, "Financial Aspects of Government," contained in Financial Institutions, edited by E. W. Boehmler, p. 600.

V. FINANCIAL FACTORS CONTRIBUTING TO BANK MERGERS

The atmosphere in which many bank mergers have transpired contains various intangible factors, which, though not immediately apparent, nevertheless operate as facilitating elements in merger transactions. One such factor emanates from the peculiar financial conditions surrounding many banks in recent years. More specifically, the stocks of many banking institutions have been selling on the open market at substantial discounts from their book values. Book value of bank stock is basically a conservative estimate of the intrinsic worth of a bank since many bank assets are highly liquid and certain assets are carried at

greatly depreciated amounts, for example: valuation reserves against loans, writedowns of securities, bank fixtures and buildings.

Discounted prices of bank stocks. The widely prevailing discounts on bank shares have been attributed to the low earnings of commercial banks as compared with the earnings of concerns in other lines of activity.³⁴

³⁴For a lucid and well documented espousal of this thesis see Richard E. Speagle, "Bank Stocks at a Discount," Harvard Business Review, January, 1951, pp. 99-106, esp. p. 99 f; also Richard P. Chapman, "The Banker's Dilemma," ibid., July-August, 1953, pp. 51-59, esp. pp. 52-54. Other observers at least stress inferior earnings as one factor affecting the discounted prices of bank shares. Cf. U.S. Congress, House Committee on the Judiciary, Bank Mergers and Concentration of Banking Facilities, p. 20; testimony by Comptroller of the Currency, Ray M. Gidney, contained in U.S. Congress, House Committee on the Judiciary, Current Antitrust Problems, Part I, p. 462; Tyng, "Banks 'Urge to Merge' Intensifies," op. cit., p. 6.

According to this latter view,

. . . the prevalent discounts at which bank shares stand below book value reflect the judgment of the market that assets employed in the banking industry do not earn the rate which, in the light of alternative investment opportunities of comparable risk, they should return.³⁵

³⁵Speagle, op. cit., p. 102.

The substantial discounts from book value existed for the stocks of many banks from 1937 to the end of

1954.³⁶ In effect, the security market appraised most com-

³⁶Ed Tyng, "Shareholders Profit from Bank Mergers As Undervalued Reserves Are Cashed In," The Journal of Commerce, April 12, 1955, p. 6.

mercial banks "as worth more dead than alive."³⁷ In such a

³⁷Speagle, op. cit., p. 9.

setting it is not surprising to find that:

Mergers have therefore proven an attractive remedy to offset the undervaluation of bank shares by the general security market since upon consolidation with another bank, the shareholders of the merged bank have been able to obtain the assessed value of their holdings in place of the bid price in the open market.³⁸

³⁸U.S. Congress, House Committee on the Judiciary, Bank Mergers and Concentration of Banking Facilities, p. 21; Cf. Speagle, op. cit., p. 105.

The above observation is supported by information compiled by the Comptroller of the Currency on the reasons for the voluntary liquidations of national banks. Between 1941 and 1950, inclusive, 361 national banks were placed in voluntary liquidation.³⁹ In 36 of these cases, one of

³⁹Compiled from Comptroller of the Currency, Annual Report, 1950, p. 28.

the reasons given for liquidation was the desire of shareholders to liquidate stockholdings.⁴⁰ Other factors listed

⁴⁰U.S. Congress, House Committee on the Judiciary, Bank Mergers and Concentration of Banking Facilities, p. 18. It must be remembered that in many cases more than one reason prompted the liquidation of the national banks.

by the Comptroller are closely related to the latter reason. In 89 cases, the reason for sale came under the general heading of "uneconomic banking units," which included such factors as overbanked towns and insufficient earning power.

Attractive selling prices loomed as an important reason in the voluntary liquidation of 169 national banks between 1950 and May 1, 1955.⁴¹ During this period, 65

⁴¹See U.S. Congress, House Committee on the Judiciary, Current Antitrust Problems, Part I, p. 462 f.

cases, or 38 per cent of the total number of liquidations, reported attractive sales terms as constituting one of the reasons for terminating operations. In all of the latter cases, the shareholders received terms that were at least equal to the book value of assets, with many cases reporting premium prices on a "fair value" basis.⁴² Then again,

⁴²Ibid.

21 cases listed the weak earning capacity of the absorbed bank as a reason prompting sale.

A study of 66 mergers between banks in the Third Federal Reserve District from the beginning of 1947 to mid-1954, points up the generally attractive terms received by the absorbed banks. The investigation of the terms of mergers and purchases in the district made use of four measures: book value of capital accounts, earnings, dividends, and market value of stock.⁴³

⁴³Federal Reserve Bank of Philadelphia, "The Branch and Merger Movement in the Third Federal Reserve District," op. cit., November, 1954, p. 15. The study computed the contributions of participating banks toward the book value, earnings and dividends of the resulting institutions. Then, on the basis of the terms of the mergers, computations were made of the receipts that shareholders of the participating banks would obtain from the combined banks. For transactions involving purchases, the absorbed banks' book values were compared with cash receipts. For merger transactions, market values of stock were adjusted by the merger terms, and comparisons made between stocks of absorbed banks and stocks of acquiring banks. Ibid.

According to the study, absorbing banks paid premiums above book value for acquired banks. Typically, the absorbed bank's shareholders received \$1.05 in cash or book value in the combined institution for every dollar of book value foregone.⁴⁴ The terms of merger had a greater effect

⁴⁴Ibid., p. 17. The results summarized in this section are drawn from the findings of the Federal Reserve Bank of Philadelphia.

on stockholders of absorbed banks than on those of absorbing institutions due to the latter's generally greater size.

Net current earnings afford an excellent measure of stockholders' participations in the terms of mergers. In the typical merger in the Third Federal Reserve District, shareholders of the absorbed bank received a substantial premium above book value, namely, \$1.21 of earnings in the combined institution for one dollar of earnings received previously. Dividends, which admittedly are affected by non-recurring items and payout policy, typically exhibited the largest premium for stockholders in absorbed banks: \$1.51 in dividends of the resulting institution as compared with one dollar prior to merger. Finally, the stockholders of absorbed banks generally received about \$1.30 in market value of stock in the resulting institution for every dollar of market value given up.

Summarizing the benefits derived by the stockholders of the absorbed bank in the typical merger, the study added:

Not only did the merger give them more value in a going concern--ownership of greater book value and higher earnings and dividends per share--but it gave them a chance to sell their new stock in the market for a considerably better price than they could have gotten for their old stock. And because their new

stock was usually in a considerably larger bank, it probably had a much broader market.⁴⁵

⁴⁵Ibid., p. 18.

Financial prestige. One element in the financial considerations operative in the bank-merger movement, though admittedly highly intangible and difficult to pinpoint precisely, is that of banker prestige. The drive on the part of individual banks and bankers to achieve high standing in their ranks--as measured by such factors as volume of business and salary--can find rationalization in the attainment of the other ends involved in mergers.⁴⁶

⁴⁶An unidentified federal bank-supervisory agency underlined the significance of prestige as a working force in bank mergers. See Stafford, "Washington Views of the Reasons for Bank Mergers," op. cit., p. 128.

A recent governmental study of bank mergers stresses the peculiar role of prestige:

Seldom does any single reason compelling mergers operate to the exclusion of others, especially when by nature a merger necessarily involves two competing institutions, each with directors of divergent interest and shareholders of diverse opinions. Thus, the financial factors which have encouraged the bank-merger trend should not cause one to overlook the fact that many bank consolidations have been primarily the outgrowth of a deliberate effort on the part of certain banks to expand their banking facilities, add to their capital and deposits, and, in general increase their

over-all financial strength in the economy. This has been one of the principal reasons behind the merger activities of a number of large and rapidly expanding banks.⁴⁷

⁴⁷U.S. Congress, House Committee on the Judiciary, Bank Mergers and Concentration of Banking Facilities, p. 22.

Any appraisal of the role of prestige in such a dynamic area as commercial banking must be tempered with the realization that:

Prestige undoubtedly plays a part in the desire for bigger banks, but here we get into the territory of the psychologist. Perhaps more important than size for its own sake is growth for its own sake. As one banker put it, there is a ferment going on in a growing institution which gives the bank life and brings out the best it has to offer.⁴⁸

⁴⁸Federal Reserve Bank of Philadelphia, "The Branch and Merger Movement in the Third Federal Reserve District," op. cit., January, 1955, p. 3.

Indeed, the resort to bank mergers might be characterized in certain instances as "a pure case of Schumpeterian innovation" that permits ready response to the changing needs of a dynamic economy.⁴⁹

⁴⁹Alhadeff labels branch banking, for example, as "a pure case of Schumpeterian innovation" that provides cost advantages associated with such innovation. See Alhadeff, "The Market Structure of Commercial Banking in the United States," Quarterly Journal of Economics, February, 1951, p. 82.

VI. SUMMARY

Commercial banks have resorted to merger operations as a way of meeting the rising competitive pressure of certain non-bank lenders. Mutual savings banks, savings and loan associations, and life insurance companies comprise three major private competitors of banks. The latter institutions compete most directly with commercial banks in various types of mortgage financing. In addition, the three private groups are increasing rivals of banks for holding individuals' savings. Savings and loan associations are particularly keen competitors for savings capital.

The various lending, insuring, and guaranteeing programs of the federal government also constitute a volatile element in the competitive atmosphere surrounding commercial banks.

Finally, many specific bank mergers have emanated from the peculiar financial conditions surrounding most commercial banks in recent years. The desire of holders of discounted bank stocks to liquidate their holdings has facilitated mergers in certain areas. Considerations of financial prestige form an intangible facilitating element in many bank mergers, particularly in the larger city centers.

CHAPTER V

NON-ECONOMIC FACTORS CONTRIBUTING TO BANK MERGERS

Although the current bank-merger movement reflects primarily the adaptation of commercial banks to changing economic conditions, other factors also impinge upon the merger technique. Certain non-economic elements provide the tone and the setting in which mergers transpire. Any extensive examination of the over-all movement necessarily involves the consideration of these other factors. Among these factors, legal factors, both general and specific, and the requirements of adequate, sound management are of broad significance. This chapter presents a description and appraisal of the major non-economic factors contributing to bank mergers.

I. GENERAL ANTITRUST LEGISLATION

All bank mergers occur within a legal context. The statutory regulations of the various bank-supervisory agencies thus serve as a limiting factor surrounding the bank-merger movement.¹ An examination of the legislative his-

¹For a summarization of the laws and regulations of the various bank supervising agencies see section entitled

"Legal Aspects of Bank Mergers" contained in Chapter II of this study.

tory of merger statutes indicates a gradually eased legal atmosphere in which mergers may occur.

The earliest legislation affecting bank mergers was contained in the two general antitrust acts: the Sherman Act of 1890 and the Clayton Act of 1914. The former statute prohibits combinations in restraint of trade, attempts to monopolize, or the monopolistic control of trade or commerce. Any merger, regardless of how accomplished, is illegal if proof is established that the transaction has actually resulted in an unreasonable lessening of competition.²

²U.S. Congress, House Committee on the Judiciary, Corporate and Bank Mergers, Interim Report of the Antitrust Subcommittee (Subcommittee No. 5), Pursuant to H. Res. 22, 84th Congress, 1st Session (Washington, D.C.: Government Printing Office, 1955), p. 31 f.

Section 7 of the Clayton Act was enacted to forestall mergers outside the reach of the Sherman Act, by forbidding mergers accomplished through stock acquisitions where the effect may be a substantial lessening of competition or a tendency to monopoly. With regard to bank mergers, concurrent responsibility for enforcement of the section rests

with the Attorney General and the Federal Reserve Board.³

³Antitrust actions against bank mergers have been practically nonexistent, with the sole exception of the Federal Reserve's unsuccessful proceeding under Section 7 of the Clayton Act against the Transamerica Corporation. Ibid., p. 32 f. See latter source for a brief summarization of the Transamerica case. The limited nature of federal antitrust regulation of bank mergers derives partially from the nonexistence of a precedent for effective enforcement of the two antitrust acts against banks. Cf. A. A. Berle, Jr., "Banking under the Anti-Trust Laws," Columbia Law Review, 49:589-606, May, 1949; M. L. Ramsey, "Banks and the Antitrust Laws: An Unresolved Problem," American Bar Association Journal, 37:427-30, June, 1951.

II. SPECIFIC MERGER STATUTES

The passage of the Consolidation Act of 1918, as later amended by the McFadden Act of 1927, marked the first in a series of steps facilitating bank mergers within and across jurisdictional boundaries.⁴ Under the provisions of

⁴Charlotte P. Alhadeff and David A. Alhadeff, "Recent Bank Mergers," Quarterly Journal of Economics, November, 1955, p. 531.

the latter Act, national banks could consolidate with other national banks, and with state banks under a national charter. Direct combinations of national banks with state banks under state charters were not permitted until the enactment of the so-called "two-way street" law of August 17, 1950. Prior to the passage of the latter Act, a national

bank desiring to merge under state charter was compelled to forego its national charter, liquidate, and dispose of its business to the state bank.

The existence of an "one-way street" for mergers between national and state banks before 1950 constituted a significant obstacle to proposed mergers, "especially in cases where a substantial portion of the capital of a national bank under liquidation shows a capital gain."⁵ Tax

⁵Thomas B. Paton, "Conversion, Merger, and Consolidation Legislation--'Two-Way Street' for National and State Banks," The Banking Law Journal, January, 1954, p. 15.

considerations are given close attention in merger negotiations. In a merger, stockholders of the acquired bank do not incur a tax liability for capital gains on new shares received in exchange for old shares.⁶ In a purchase of as-

⁶Federal Reserve Bank of Philadelphia, "The Branch and Merger Movement in the Third Federal Reserve District," Business Review, November, 1954, p. 14.

sets transaction, the absorbed bank's shareholders may be compelled to pay capital gains taxes on cash received for their shares.⁷

⁷Ibid. A cash purchase deal involves a liability for capital gains taxes in the case where the shareholders of the absorbed bank gain a profit. A transaction estab-

lishing payment partially in cash and partially in stock raises complex problems. In the latter instance, it is necessary to determine what proportion of the cash payment represents a accumulated earned surplus that is taxable to the shareholders, and what proportion is a return of capital. Cf. Ed Tyng, "Bank Mergers Facilitated by Federal, State Statutes," The Journal of Commerce, April 6, 1955, p. 2.

The significance of the "two-way street" law derives from the fact that shareholders of a national bank desiring to merge with a state bank under the latter's charter are not first compelled to liquidate their holdings. In fact, some observers indicate that:

In most cases, stockholders don't want cash; they would rather continue as owners of the surviving bank, particularly since they usually get a better return than they have been getting. In short, stockholders of the absorbed bank have tended to favor a merger over a purchase. In many cases, of course, this may be overcome by making the purchase price sufficiently attractive.⁸

⁸Federal Reserve Bank of Philadelphia, "The Branch and Merger Movement in the Third Federal Reserve District," loc. cit. The study indicated the increased resort by banks in the Third Federal Reserve District to the merger, rather than purchase, device subsequent to the passage of the Act of August 17, 1950. A total of 66 combinations occurred among banks in the District in the seven and a half years between 1946 and mid-1954. Of the latter number 28 transactions, or approximately 40 per cent of the total, were purchases of assets. Prior to the enactment of the "two-way street" law, three-fourths of the combinations resulted through purchases. After the law was passed, however, about one-third of the acquisitions were made via purchase agreements. Ibid., p. 11 f.

In late December of 1950, the Celler-Kefauver anti-merger bill was enacted into law.⁹ The latter Act extended

⁹64 Stat. 1125; Public Law 899, 81st Congress, 2d Session, (1950); 15 U.S.C. 18.

the prohibitions of Section 7 of the Clayton Act to mergers achieved by the acquisition of assets.¹⁰ Stock and asset

¹⁰Prior to 1950, most mergers were accomplished through stock purchases. Mergers via the acquisition of assets were relatively unimportant before that time. Cf. House Report 1417, 84th Congress, 1st Session (1955), p. 3.

The predominance of stock acquisitions was explained in a House Judiciary Committee report to accompany the Celler-Kefauver bill:

It is much easier to purchase stocks than assets. This is especially true in the case of holding companies which mushroomed during this early merger movement, since the holding company can readily exchange some of its shares for the stock of the company to be absorbed. Moreover, stock acquisitions are peculiarly suitable in any era which is characterized by the flotation of enormous amounts of watered stock. The prevailing method of promoters in bringing together these huge consolidations was to form a great holding company, which would then issue under its own name vast amounts of stock. Part of the stock so issued would be used to pay off the owners of the separate companies absorbed in the consolidation. The greater the amount of watered stock, the easier it was to absorb companies through the medium of stock transfers.

See House Report 1191, 81st Congress, 2d Session, (1949), p. 4.

acquisitions by nonbanking corporations subject to the

jurisdiction of the Federal Trade Commission came within the purview of the amended section. Banks were not covered:

Because of the revisions made in subsequent versions of antimerger bills . . . it became impracticable to include within the scope of the act (Celler-Kefauver Act) corporations other than those subject to regulations by the Federal Trade Commission. Banks, which are placed squarely within the authority of the Federal Reserve Board by section 11 of the Clayton Act, are therefore circumscribed insofar as mergers are concerned only by the old provisions of section 7, and certain additional statutes which do not presently concern themselves substantively with the question of competition in the field of banking.¹¹

¹¹U.S. Congress, House Committee on the Judiciary, Bank Mergers and Concentration of Banking Facilities, p. vii. Several congressional bills have been submitted that would provide the Board of Governors of the Federal Reserve System and the Attorney General with equal authority to move against both asset and stock acquisitions by banks. Two bills, which were pending in the House Banking and Currency Committee in 1955, included H.R. 2115 and H.R. 6405. Representative Emanuel Celler of New York introduced H.R. 5948 to the House Committee on the Judiciary on May 2, 1955. Senator Sparkman introduced a similar bill, S. 2075, to the Senate Judiciary Committee on May 25, 1955. Cf. U.S. Congress, House Committee on the Judiciary, Corporate and Bank Mergers, p. 33.

The most recent legislation tending "to expedite the merger process" was the Act of July 14, 1952, which broadened the power of national banks to combine with other banks.¹² A significant feature of the latter Act was the

¹²U.S. Congress, House Committee on the Judiciary, Bank Mergers and Concentration of Banking Facilities, p. 24.

elimination of the right of dissenting shareholders in the

absorbing bank to require cash payment for their shares.¹³

¹³This right had been a statutory privilege of dissenting shareholders of acquiring banks for over 30 years. Ibid., p. 25.

Of course, at least two-thirds of the participating banks' shareholders must approve the merger. The modification in the law was designed for those transactions involving the absorption of small banks by large banks.

Although the foregoing brief review of federal merger legislation indicates a tendency toward the easing of the legal framework in which mergers transpire, other more intangible factors have contributed to the same result. One less overt element limiting federal regulation of bank mergers emanates from the uncertain atmosphere surrounding the particular benchmarks to be applied in appraising mergers.¹⁴ It can be argued, of course, that the administra-

¹⁴Charlotte P. Alhadeff and David A. Alhadeff, "Recent Bank Mergers," op. cit., p. 523.

tive decisions of federal and state officials can serve as indirect restrictions on bank mergers. Nevertheless, the Chairman of the Board of Governors of the Federal Reserve System appraised the uncertainty element as follows:

It is apparent, therefore, that present statutory provisions with respect to bank mergers and consolidations do not provide effective means for the prevention of mergers and consolidations which may result in a lessening of competition or a tendency to monopoly. Even in those cases in which consent is necessary, the law does not specifically require the Comptroller of the Currency, the FDIC, or the Board, in determining whether to grant or withhold consent, to consider whether the proposed merger or consolidation will lessen competition or tend to a monopoly or to consider any other specific standards or guides.¹⁵

¹⁵Letter to the Chairman of the House Committee on the Judiciary, dated June 26, 1952, contained in U.S. Congress, House Committee on the Judiciary, Bank Mergers and Concentration of Banking Facilities, p. 25.

III. BRANCH BANKING STATUTES

Another legal factor affecting the bank-merger movement is the existing pattern of federal and state statutes governing branch banking. Some banking observers term the prohibition against interstate branch banking as a highly potent restriction on bank mergers.¹⁶ In addition, the

¹⁶Charlotte P. Alhadeff and David A. Alhadeff, "Recent Bank Mergers," op. cit., p. 523. Other writers allude to the branch banking law as a limiting factor upon bank mergers. Cf. Tyng, "Bank Mergers Facilitated by Federal, State Statutes," loc. cit.; Federal Reserve Bank of Chicago, "Bull Market in Mergers," Business Conditions, July, 1955, p. 14; Federal Reserve Bank of Philadelphia, "The Branch and Merger Movement in the Third Federal Reserve District," op. cit., November, 1954

acquisition of banks via merger and their subsequent conversion into branches occur within the framework of branch banking legislation. Branch banking statutes also regulate the conversion or transfer of branches acquired through merger. Accordingly, the various federal and state laws relating to branch banking modify the geographical pattern and incidence of merger transactions throughout the United States.

The present section describes the federal and state laws governing branch banking, and then relates the latter laws to their impact upon the bank-merger movement.

Federal law. The various federal statutes governing branch banking accord to national banks a competitive basis similar to that enjoyed by state chartered banks.¹⁷ The

¹⁷Federal Reserve Bank of Philadelphia, "The Branch and Merger Movement in the Third Federal Reserve District," loc. cit., November, 1954.

legal rights granted to national banks in the establishment of branches are therefore closely linked to those given to state banks by states' statutes.

Upon the approval of the Comptroller of the Currency, a national bank may establish and operate new branches in the following two cases:

- (1) Within the limits of the city, town or village in which said association is situated, if such

establishment and operation are at the time expressly authorized to State banks by the law of the State in question; and (2) at any point within the State in which said association is situated, if such establishment and operation are at the time authorized to State banks by the statute law of the State in question by language specifically granting such authority affirmatively and not merely by implication or recognition, and subject to the restrictions as to location imposed by the law of the State on State banks.¹⁸

¹⁸Board of Governors of the Federal Reserve System, Compilation of Federal and State Laws Relating to Branch Banking within the United States, July 1, 1951, p. 2, hereafter cited as Compilation.

The Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation apply similar limitations and restrictions to the establishment of branches by state member banks and insured state nonmember banks, respectively, as the Comptroller of the Currency does to national banks.¹⁹

¹⁹Ibid., p. 3.

Finally, the conversion or transfer of branches acquired through a merger agreement must receive prior written approval by the appropriate bank-supervisory agency according to whether the resulting bank is a national bank or District of Columbia bank, a state member bank, or an in-

sured state nonmember bank.²⁰

²⁰Cf. statement by Chairman Martin of the Board of Governors of the Federal Reserve System before the Subcommittee on Antitrust and Monopoly of the Senate Committee on the Judiciary, June 24, 1955, p. 6. (Mimeographed.)

Federal statutes relating to branch banking are closely integrated with the legislation of the several states. At the present time, 18 states, including the District of Columbia, permit branch banking on a state-wide basis.²¹ A total of 17 states allow branch banking within

²¹Compilation, p. 1.

limited areas. The remaining 14 states either prohibit branch banking or have no legislation regarding branch banking.²²

²²Ibid.

IV. IMPACT OF LAWS UPON MERGERS

Chapter III of the study emphasized that banks' desires to obtain "ready-made" branches play a significant role within the merger movement. Banking offices are obtained through merger either by converting absorbed banks into branches or by transferring acquired branches to the

absorbing institutions. The number of banks ceasing operations by conversion into branches via merger transactions has risen steadily in recent years, as shown in Table XXXI. Whereas some 55 banks ceased operations annually in the immediate postwar years, the number soared to a new high of 176 during the year 1954. Table XXXII shows the ultimate disposition among the various classes of banks, of the absorbed banks converted into branches during the period 1946-1954. The latter table underlines the predominant conversion of absorbed nonmember banks into branches of member banks.

Although the number of absorbed banks converted into branches has increased appreciably during the postwar period, the number of de novo, or newly, established branches has been even greater. Table XXXIII shows that no more than 34 per cent of the total number of additional commercial banks' branches in any one year of the postwar period have been established via conversion of absorbed banks.

Nevertheless, the foregoing data do not greatly discount the significance of legal considerations in initiating bank mergers. According to some writers:

A de novo branch must satisfy the regulatory authorities of the "need" for its existence, and that it is not always easy when other banks already exist in the area. Moreover, it would be difficult to obtain authorization for as many de novo branches as could be obtained in a large, multi-bank merger. Indeed, some state laws make it easier to acquire a

TABLE XXXI

NUMBER OF BANKS CLOSING OPERATIONS BY CONVERSION INTO BRANCHES THROUGH
MERGER TRANSACTIONS, BY CLASS OF BANK, UNITED STATES,
ANNUALLY, 1946-1954

Year	All banks	Commercial and stock savings banks and nondeposit trust companies						Mutual savings banks		
		Member banks			Nonmember banks			Insured		Noninsured
		Total	Total	National	State member	Total	Insured	Noninsured	Insured	Noninsured
1946	54*									
1947	55	55	30	19	11	25	23	2	--	--
1948	56	56	37	21	16	19	18	1	--	--
1949	59	58	38	24	14	20	20	--	1	--
1950	71	71	32	21	11	39	38	1	--	--
1951	59	58	33	22	11	25	22	3	--	1
1952	82	82	49	32	17	33	31	2	--	--
1953	93	92	68	54	14	24	20	4	--	1
1954	176	175	102	80	22	73	71	2	1	--

*Total not broken down by class of bank.

Source: Federal Reserve Bulletin, February issues, 1947-1955.

TABLE XXXII

NUMBER OF BRANCH BANKS ESTABLISHED BY CONVERSION OF BANKS INVOLVED IN MERGER
TRANSACTIONS, BY CLASS OF BANK, UNITED STATES,
ANNUALLY, 1946-1954

Year	All banks	Commercial and stock savings banks and nondeposit trust companies					Mutual savings banks		Insured	Noninsured
		Total	Member banks		Nonmember banks		Total	Insured		
			Total	National	State member			Noninsured		
1946	54	54	45	22	23	9	7	2	--	--
1947	55	55	46	30	16	9	9	--	--	--
1948	56	56	50	31	19	6	6	--	--	--
1949	59	58	46	27	19	12	11	1	1	--
1950	71	71	59	39	20	12	12	--	--	--
1951	59	58	48	23	25	10	10	--	--	1
1952	82	82	72	49	23	10	9	1	--	--
1953	93	92	81	57	24	11	10	1	1	--
1954	176	174	127	101	26	47	47	--	2	--

Source: Federal Reserve Bulletin, February issues, 1947-1955.

TABLE XXXIII

NUMBER OF DE NOVO BRANCHES AND NUMBER OF BRANCHES ESTABLISHED BY CONVERSION
OF COMMERCIAL BANKS INVOLVED IN MERGER TRANSACTIONS, UNITED STATES
ANNUALLY, 1946-1954

Year	Number of branches			Percentage distribution		
	De novo	Converted	Total	De novo	Converted	Total
1946	141	54	195	72.3	27.7	100.0 %
1947	147	55	202	72.8	27.2	100.0
1948	152	56	208	73.1	26.9	100.0
1949	158	58	216	73.1	26.9	100.0
1950	179	71	250	71.6	28.4	100.0
1951	234	58	292	80.1	19.9	100.0
1952	215	82	297	72.4	27.6	100.0
1953	280	92	372	75.3	24.7	100.0
1954	341	174	515	66.2	33.8	100.0

Source: Federal Reserve Bulletin, February issues, 1947-1955.

bank and convert it into a branch than to open a de novo branch.²³

²³Charlotte P. Alhadeff and David A. Alhadeff, "Recent Bank Mergers," op. cit., p. 517. John J. McCloy, Chairman of the Board of Directors of the Chase-Manhattan Bank of New York, referred to the use of the merger device as a means of overcoming supervisory reluctance against the establishment of de novo branches in New York City. Cf. U.S. Congress, House Committee on the Judiciary, Bank Mergers, p. 24 f.

However, the criterion of "need" can also be applied to the proposed establishment of branches through the conversion of absorbed banks. In early November, 1955, the Superintendent of Banks of the State of New York vetoed two proposed mergers among New York State banks. The one proposal, which had been submitted to the Superintendent of Banks on an informal basis, involved the merger of the Marine Midland Trust Company of Central New York, whose head-office is in Syracuse, with the Auburn Trust Company of Auburn, N.Y. The Banking Department of the State of New York indicated that the proposed merger would have upset the competitive balance between the \$21,478,000 Auburn Trust Company and the \$16,800,000 National Bank of Auburn, the sole banks in the latter city.

The formally proposed second transaction concerned the merger of the Ramapo Trust Company in Rockland County into the County Trust Company of White Plains, Westchester County. The Superintendent of Banks characterized the latter proposal as possibly modifying the underlying character of the unit banking system in Rockland County. The Superintendent called for presently operating banks in Rockland County to be given the opportunity to prepare to meet the anticipated increased needs of expected suburban developments in the county. Cf. Leif H. Olsen, "Banking Mergers Encounter Snag," The New York Times, November 13, 1955, pp. 1 & 2 F.

Then, too, some states do not permit the establishment of de novo branches in certain instances, while at the same

time allowing for entry through acquisition.²⁴

²⁴Charlotte P. Alhadeff and David A. Alhadeff, "Recent Bank Mergers," op. cit., p. 522. The branch banking laws of the States of New Jersey and New York are two good cases in point. Cf. Compilation, pp. 17-20.

The various states' laws governing the scope of branch banking constitute another limiting legal factor upon the acquisition of branches via merger. Given the desire to obtain "ready-made" banking facilities, banks contemplating merger must consider their individual states' statutes relating to the geographical limits on branches. Federally chartered banks would, of course, be equally subject to these various laws, just as are state chartered institutions. Table XXXIV indicates that the merger activity of national banks during the nine-year period 1946-1954 was more pronounced in those states permitting state-wide or limited-area branch banking, as compared with those states prohibiting or having no legislation on branch banking.

Expressing the number of mergers involving national banks during the period as a percentage of the number of active national banks at year-end 1946 affords an index of merger activity during the nine years. States allowing state-wide branch banking exhibited the highest rate of merger activity involving national banks. In the latter

TABLE XXXIV

NUMBER OF MERGERS INVOLVING NATIONAL BANKS, FOR PERIOD
1946 TO 1954 EXPRESSED AS A PERCENTAGE OF NUMBER OF
ACTIVE NATIONAL BANKS BY STATE AND LEGAL GROUPING,
UNITED STATES, DECEMBER 31, 1946

(To nearest tenth of a per cent)

States permitting state-wide branch banking	Number of mergers	Number of active banks	Percentage
Arizona	3	3	100.0
California	26	92	28.3
Connecticut	12	50	24.0
Delaware	3	13	23.1
District of Columbia	3	9	33.3
Idaho	7	15	46.7
Maine	2	33	6.0
Maryland	10	63	15.9
Nevada	1	5	20.0
North Carolina	5	45	11.1
Oregon	11	23	47.8
Rhode Island	7	9	77.8
South Carolina	1	23	4.3
South Dakota	1	35	2.9
Utah	3	12	25.0
Vermont	2	39	5.1
Virginia	3	131	2.3
Washington	17	38	44.7
All states	117	638	18.3

States prohibiting branch banking	Number of mergers	Number of active banks	Percentage
Colorado	0	77	0.0
Florida	2	60	3.3
Illinois	6	373	1.6
Kansas	6	174	3.4
Minnesota	9	181	5.0
Missouri	3	81	3.7
Nebraska	2	127	1.6
Texas	11	434	2.5
West Virginia	4	76	5.3
Wisconsin	4	95	4.2
All states	47	1,678	2.8

TABLE XXXIV (continued)

States permitting branch banking with- in limited areas	Number of mergers	Number of active banks	Percentage
Alabama	2	66	3.0
Arkansas*	1	50	2.0
Georgia	1	49	2.0
Indiana	17	126	13.5
Iowa*	2	97	2.1
Louisiana	1	33	3.0
Massachusetts	13	121	10.7
Michigan	6	78	7.7
Mississippi	1	24	4.2
Montana	1	39	2.6
New Jersey	31	216	14.3
New Mexico	0	23	0.0
New York	74	392	18.9
North Dakota*	2	41	4.9
Ohio	27	239	11.3
Pennsylvania	118	657	18.0
Tennessee	1	70	1.4
All states	298	2,321	12.8

States with no legis- lation regarding branch banking	Number of mergers	Number of active banks	Percentage
Kentucky**	7	93	7.5
New Hampshire	2	51	3.9
Oklahoma	7	200	3.5
Wyoming	2	26	7.7
All states	18	370	4.9

*Only "offices," "agencies" or "stations" for limited purposes as distinguished from "branches" permitted under certain circumstances.

**Court decisions permit establishment of offices or agencies to receive deposits and cash checks.

Sources: Summary of state branch banking laws from Board of Governors of the Federal Reserve System, Compilation of Federal and State Laws Relating to Branch Banking within the United States (July 1, 1951), p. 1; number of mergers from Table I and Annual Report of Comptroller of Currency, 1954; number of active national banks from Annual Report of Comptroller of Currency, 1946, p. 122 f.

group, particularly active states included Arizona, Rhode Island, Oregon, Idaho, Washington, and California.²⁵

²⁵It is important to note that the computed percentages accord equal weight to all merger transactions, regardless of how many banks may be involved in any one bank merger. For example, in 1954, the simultaneous absorption of 14 banks by a large San Francisco bank was counted as a single merger. The latter transaction thus receives the same weight as the absorption of one bank by another bank. Additional examples may be given: during 1954, a large national bank in Portland, Oregon, acquired 5 banks in one merger transaction; and 11 additional banks were absorbed in a subsequent merger agreement. Cf. Comptroller of the Currency, Annual Report, 1954, pp. 49 f.

States permitting branch banking within limited areas exhibited a merger rate of 12.8 per cent during the period.²⁶ Merger activity in these states ranged from no

²⁶States in this group have varied regulations, but branches are generally restricted to locations near the main office, or to centers with inadequate banking service.

mergers in New Mexico to 18.0 per cent in the State of Pennsylvania. On the other hand, states prohibiting branch banking had less than 3 per cent of their national banks participate in mergers during the period. West Virginia showed the highest rate of participation for any state in this group. The four states having no branch banking laws indicated a relatively low merger rate of 4.9 per cent.

The foregoing data do not imply that the status of

branch banking legislation is the sole or major factor impelling banks to merge.²⁷ The branch banking statutes do,

²⁷For example, states prohibiting branch banking generally have more banking offices per thousand population than do other states with more liberal branch banking laws. According to the Comptroller of the Currency, the latter fact may be explained by the generally rapid increase in population in many of the states permitting branch banking. Cf. Address of Ray M. Gidney, Comptroller of the Currency, before annual meeting of the National Association of Supervisors of State Banks at Chicago, September 21 and 22, 1955, contained in The American Banker, September 28, 1955, p. 57.

however, comprise varying limits within which economic motives for merger can be satisfied.

V. PROBLEM OF ADEQUATE MANAGEMENT

Another element must be added to the complex picture of the legal factors operative in bank mergers. Though intangible and difficult to pinpoint quantitatively, the increasing pressure upon banks, particularly the smaller institutions, to find adequately trained personnel has precipitated mergers among banks. Merger often proves attractive to both the absorbed and absorbing institutions participating in a combination. The managements and directorates of many absorbed banks are often beset by problems of superannuation and inadequate, ill-trained replacement

personnel.²⁸ On the other hand, the heads of the larger

²⁸Federal Reserve Bank of Philadelphia, "The Branch and Merger Movement in the Third Federal Reserve District," op. cit., January, 1955, p. 6. The latter study conservatively estimated that management problems were partially operative in at least one-half of the 66 merger transactions included in the investigation.

absorbing banks are generally more able than the smaller banks to pursue a more adequate and attractive personnel policy.²⁹ Various informed observers have recognized the

²⁹Ibid. The Federal Reserve Bank of Philadelphia's examination of 66 merger transactions in the Third Federal Reserve District lends credence to this view. According to the study, acquiring banks of all sizes generally paid higher average salaries than did absorbed banks. Ibid., pp. 5 f.

problem posed by inadequate management for banks, and of the relation of the latter difficulty to the merger movement.³⁰ An informal survey of the three federal bank-

³⁰Cf. Comptroller of the Currency, Annual Report, 1950, p. 3; Tyng, "Bank Mergers Solve Compensation Problems," op. cit., April 18, 1955, pp. 2 & 5; Harry V. Keefe, Jr., at banking conference sponsored by the Merchants National Bank of Boston, contained in The American Banker, May 2, 1955, p. 5. Stressing the role of the management factor in many recent bank mergers, Mr. Keefe indicated that banks are not keeping pace with industry in the level of salaries offered to college men entering the banking field. He made reference to the average annual starting salaries of graduates of the 1953 class of the Harvard Business School: Manufacturing, \$5,086; marketing, \$4,569; commercial banking, \$4,066.

Fred F. Florence, former president of the American Bankers Association, estimated the executive personnel needs of commercial banks in the United States. On the basis of the current number of banks and bank employees, at least 5,000 employees are elevated to executive status annually. Mr. Florence expressed the view that some one thousand new bank presidents are required by commercial banks each year. Cf. The American Banker, May 11, 1955, p. 1.

supervisory agencies evoked the view of one unidentified agency that the desire to obtain competent management to succeed present management constituted the most significant single factor promoting bank mergers.³¹

³¹Stafford, "Washington Views of the Reasons for Bank Mergers," op. cit., p. 128.

In his annual report for 1950, the Comptroller of the Currency well expressed the views of many writers when he emphasized that:

Banks are finding that the manpower requirements of the armed services, plus those resulting from the expanding activities of industry and commerce, are tending to syphon off bank employees. Even more serious, in some situations, is the fact that too many small banks are managed solely by aging officers, with no adequate replacement personnel in their organizations. In such cases, upon the death or retirement of key personnel, the directors are unable to find, or consider they cannot afford, competent management from outside sources. As a result, an increasing number of such banks are being absorbed by others. In certain areas, particularly where State-wide branch banking is permitted, this is causing a steady reduction in the number of small unit banks and ever-greater concentration of banking resources under the control of relatively few large institutions. Everyone interested in local banks,

and particularly bank directors, would do well to place greater emphasis on measures designed to correct this weakness, knowing that a bank without adequate management has only two possible destinations--absorption or failure.³²

³²Comptroller of the Currency, loc. cit. Several years later, in his testimony before the Antitrust Subcommittee of the House Committee on the Judiciary, the Comptroller offered two specific examples of mergers instigated by management problems. In one unidentified case, the absorbed bank had deposits between \$1 million and \$1.2 million. Up to the time of its acquisition the absorbed bank was run by a gentleman who had earned \$3,000 per year, and who had been aided by one assistant earning \$2,000 a year. The second case involved the absorption of the Washington Loan and Trust Co. by the Riggs National Bank, the largest commercial bank in Washington, D.C. The Comptroller stressed the former institution's failure "to provide top successor management" as a basic factor in the merger transaction which proved to be "an advantageous move for both its shareholders and customers." Cf. U.S. Congress, House Committee on the Judiciary, Current Antitrust Problems, Part I, pp. 459, 478.

The above view is corroborated by data compiled by the Comptroller of the Currency on the reasons for the voluntary liquidation of 169 national banks from 1950 to May 1, 1955. The various reasons for sale and the number of cases in which a specific reason was given, are summarized in Table XXXV. In examining Table XXXV, it is important to remember that several reasons prompted many of the sales. A large percentage of the 169 cases of voluntary liquidation was partially influenced by management considerations. Management considerations, broadly defined, include the following specific reasons contained in

TABLE XXXV

REASONS FOR SALE AND NUMBER OF CASES IN WHICH REASON
WAS GIVEN FOR VOLUNTARY LIQUIDATION OF 169 NATIONAL
BANKS, UNITED STATES, JANUARY 1, 1950-MAY 1, 1955

Reason for sale	Number of cases in which reason was given	Percentage of 169 cases
1. Management problems	68	40
2. Attractive prices	65	38
3. Identical owners desires to combine banks	33	20
4. Weak earning capacity (of selling bank, of course)	21	12
5. Closely held banks-owners de- sired to retire from banking	9	5
6. Managements considered the services of a larger bank necessary to serve community	7	4
7. To achieve a more effective competitive status	7	4
8. Overbanked communities	5	3
9. Uneconomic banking units	4	2
10. Embezzlement	4	2
11. To obtain fringe benefits for officers and employees	4	2
12. To avoid control of banks by undesirable persons	3	2
13. To avoid Federal Reserve restrictions	2	1
14. Reluctance to raise needed capital	2	1
15. Miscellaneous	5	3

Source: U.S. Congress, House Committee on the Judi-
ciary, Current Antitrust Problems, Part I, p. 463.

Table XXXV: "management problems," "closely held banks-owners desired to retire from banking," "to obtain fringe benefits for officers and employees," "to avoid control of banks by undesirable persons." Taking the latter reasons together, about one-half of all the cases of voluntary liquidation indicated management problems as operative in the decisions to sell.

VI. SUMMARY

In addition to economic factors, other forces impinge upon the merger movement. The major non-economic factors contributing to bank mergers are of two types: legal and those involving personnel management considerations.

The legal atmosphere in which mergers transpire serves as a limiting element upon the use of the merger device in response to changing economic needs. Legal limitations on mergers among banks have been gradually reduced over the years. In addition, no precedent exists for the effective enforcement of the Sherman Act and of the Clayton Act against commercial banks.

Specific merger statutes have made mergers more legally accessible to banks. The Consolidation Act of 1918, as later amended by the McFadden Act of 1927, permitted the consolidation of national banks with other national banks and with state banks under national charter.

The "two-way street" law of August 17, 1950, allowed the direct combination of national banks with state banks under state charter. The passage of the latter Act forestalled the need for initial liquidation of a national bank desiring to merge under state charter, thus avoiding the incurrence of capital gains tax liabilities by the liquidating shareholders.

The Celler Antimerger Act of 1950, which extended the prohibitions of section 7 of the Clayton Act to mergers achieved by the acquisition of assets, does not apply to commercial banks. Only commercial bank mergers via stock acquisitions are subject to the old provisions of section 7 of the Clayton Act.

Most recently, the Act of July 14, 1952, eliminated the right of dissenting shareholders in the absorbing bank to require cash payments for their shares. Uncertainty of the bank-supervisory agencies concerning the particular benchmarks to be applied in appraising mergers also tends to reduce the legal impediments against bank mergers.

Existing branch banking statutes affect the geographical pattern and incidence of mergers through their regulation of the conversion of absorbed banks into branches and the transfer of branches acquired through merger. Federal laws relating to branch banking are closely integrated with the several states' statutes. At the

present time, 18 states, including the District of Columbia, permit branch banking on a state-wide basis. A total of 17 states allow branch banking within limited areas. The remaining 14 states either prohibit branch banking or have no legislation regarding branch banking.

The number of banks ceasing operations by conversion into branches via merger transactions reached a new high of 176 during 1954. The establishment of de novo branches, however, exceeds those branches established via conversion of absorbed banks. Nevertheless, the satisfaction of the "need" criterion of supervisory officials in the establishment of de novo branches often makes easier the conversion of absorbed banks into branches.

During the nine-year period 1946-1954, states allowing branch banking, either on a state-wide or limited-area basis, exhibited an appreciably higher rate of merger activity among national banks than did states prohibiting or having no legislation regarding branch banking.

Personnel management difficulties have also precipitated mergers among banks, particularly the absorption of relatively small banks by larger banks that pursue a generally more attractive and enlightened personnel policy. Data compiled by the Federal Reserve Bank of Philadelphia and the Comptroller of the Currency underscore the significance of the management factor in many merger transactions.

CHAPTER VI

BENCHMARKS OF BANK MERGERS: A SAMPLE STUDY

An integral part of this study is the examination and appraisal of the salient factors contributing to the merger movement among banks. Chapters III, IV, and V presented the significant economic and non-economic elements inherent within the over-all movement. The general qualitative nature of the analysis affords a suitable backdrop against which a more specific investigation can be undertaken.

The present chapter embodies a sample study of a representative number of merger transactions, with the aim of establishing tentative benchmarks or standards that can be used in appraising bank mergers. Of course, such benchmarks can be applied only as an initial part of a broader examination which allows due consideration for intangible, qualitative elements. The latter reservation is especially significant in the analysis of any particular bank merger.

The basically stable nature of the banking industry, however, justifies the use of the sample technique. Horace Secrist, a close observer of banking developments, offers the following view on the enduring aspects of banking:

Fundamental interrelations in banking are persistent--they are the outcome in part of custom,

legal restrictions and imposition, competition, and economic and trade demands. Banking, year after year is conducted in much the same way, carrying over from time to time a substantial residue of practices and policies incident to a slowly changing business world. Adjustments in keeping with economic conditions and with particular needs are constantly being made, but these for the most part are met in a common way. No bank is wholly unaffected by nor is it able fundamentally to alter its position with respect to conditions as they are, conditions for which it with others of its class is responsible.¹

¹Horace Secrist, Banking Ratios (Stanford University, California: Stanford University Press, 1930), p. 3.

I. BACKGROUND OF THE SAMPLE STUDY

Essentially, the study examines 166 merger transactions involving national and state banks between January 1, 1954 and April 30, 1955.² These merger transactions com-

²In each case, at least one national bank was a party to the merger agreement, either in an absorbed or an acquiring capacity.

prise the absorption of 223 individual banks by 138 other banks. The names and locations of the participating banks were obtained from information submitted by the Comptroller of the Currency to the Antitrust Subcommittee of the House Committee on the Judiciary.³

³U.S. Congress, House Committee on the Judiciary,

Corporate and Bank Mergers, Interim Report of the Antitrust Subcommittee (Subcommittee No. 5), Pursuant to H. Res. 22, 84th Congress, 1st Session (Washington, D.C.: Government Printing Office, 1955), Appendix 2, esp. pp. 177-184.

The Rand McNally International Bankers Directory provided the source for the balance sheets of each of the participating banks.⁴ The most recent balance sheets of

⁴Rand McNally International Bankers Directory, First edition, 1955; Final edition, 1954; First edition, 1953. Ostensibly, the direct approach of the questionnaire technique could afford more significant data--both quantitative and qualitative--than that derived from an analysis of balance sheets. The former approach, however, is beset with several serious limitations: the small sample of banks responding to the questionnaire, the difficulty of extracting frank replies to survey questions, and the unavailability of operating ratios of individual banks. See Charlotte P. Alhadeff and David A. Alhadeff, "Recent Bank Mergers," Quarterly Journal of Economics, November, 1955, p. 504, fn. 3.

absorbing and absorbed banks were used, that is, balance sheets available immediately prior to the year in which a specific merger transaction occurred. The latter technique allows for strict comparability of data and of derived ratios for acquiring and absorbed banks, in spite of the different dates on which the various merger agreements took place.

The computed ratios include the following: (1) the ratio of total assets of absorbed bank to total assets of absorbing bank; (2) capital-deposit ratios for both absorbed banks and absorbing banks; (3) the ratio of the ab-

sorbed bank's capital-deposit ratio to the absorbing bank's capital-deposit ratio; (4) capital-risk asset ratios for both absorbed banks and absorbing banks; (5) the ratio of total loans and discounts to total assets for both absorbed banks and absorbing banks. Finally, several of the latter ratios are combined to emphasize particular relationships.

II. PRELIMINARY OBSERVATIONS

As an introduction to the presentation and analysis of the computed ratios, certain preliminary observations arise from an examination of the merger transactions. Of the 138 absorbing banks, 14 institutions were "repeaters," i.e., acquiring banks that participated in more than one merger transaction during the period. These 14 banks accounted for 40 out of the total of 166 merger transactions, or 24.1 per cent of the total number of mergers involving national banks between January 1, 1954 and April 30, 1955. Table XXXVI lists the specific "repeater" banks and the number of merger agreements in which each participated.

On the basis of individual banks then, the 166 merger transactions involved the absorption of 223 specific banks by 138 other individual banks. The 138 individual absorbing banks comprised 124 institutions each transacting only one merger agreement, and 14 other institutions each trans-

TABLE XXXVI

NAME AND LOCATION OF ABSORBING BANKS THAT PARTICIPATED
IN TWO OR MORE MERGER TRANSACTIONS
INVOLVING NATIONAL BANKS,
JANUARY 1, 1954-APRIL 30, 1955

Name and location of absorbing bank	Number of merger transactions
Meadow Brook National Bank, Freeport, New York	6
Anglo California National Bank, San Francisco, California	4
First National Bank, McKeesport, Pennsylvania	4
Franklin National Bank, Franklin Square, New York	4
Peoples First National Bank and Trust, Pittsburgh, Pennsylvania	3
United States National Bank, Portland, Oregon	3
First National Bank, Louisville, Kentucky	2
First National Bank, Portland, Oregon	2
First Seneca Bank & Trust Co., Oil City, Pennsylvania	2
National Bank of Westchester, White Plains, New York	2
First Western Bank & Trust Co., San Francisco, California	2
Mellon National Bank & Trust Co., Pittsburgh, Pennsylvania	2
National City Bank, Troy, New York	2
Seattle First National Bank, Seattle, Washington	2
Total	40

Source: Tabulated from data contained in U.S. Congress, House Committee on the Judiciary, Corporate and Bank Mergers, Interim Report of the Antitrust Subcommittee (Subcommittee No. 5), Pursuant to H. Res. 22, 84th Congress, 1st Session (Washington, D.C.: Government Printing Office, 1955), Appendix 2, pp. 177-184.

acting more than one merger agreement.⁵

⁵It should again be noted that a merger agreement or transaction implies the absorption of one or more separate banks by another bank at a particular time. Of the total of 166 merger transactions studied, 26 transactions involved the simultaneous absorption of two or more banks. The largest number of banks absorbed in any one merger transaction was 14.

In addition, certain cities throughout the United States exhibited greater merger activity involving national banks than did other cities. Stated differently, cities serving as the head-office locations of absorbing banks reflected a varied pattern in terms of concluded merger agreements. Table XXXVII presents those cities that recorded more than one merger transaction involving national banks during the period.

The list of 22 "multi-merger" cities reflects several factors. All of the particular cities are located in relatively heavily populated regions that contain many surrounding towns or villages. Population movements to outlying areas or towns thus serve as a factor stimulating the absorption of banks in these growing areas. The latter observation finds support in the results contained in Table XXXVII. Of the total of 130 banks absorbed in the 78 merger transactions, 110 banks were located outside the head-office cities of the acquiring banks. Only 20 absorbed institutions were located in the same cities as the acquir-

TABLE XXXVII

NUMBER OF MERGER TRANSACTIONS AND NUMBER OF ABSORBED
BANKS IN CITIES RECORDING TWO OR MORE MERGER TRANS-
ACTIONS INVOLVING NATIONAL BANKS, CLASSIFIED BY
HEAD-OFFICE LOCATION OF ABSORBING BANK,
JANUARY 1, 1954-APRIL 30, 1955

Head-office of absorbing bank or banks	Number of merger trans- actions	Number of absorbed banks		
		Total	Within head-office city	Outside head-office city
Baltimore, Maryland	2	2	2	0
Chicago, Illinois	2	2	2	0
Dallas, Texas	3	3	3	0
Franklin Square, N.Y.	3	5	0	5
Freeport, New York	5	5	0	5
Los Angeles, Calif.	3	3	0	3
Louisville, Ken.	2	2	0	2
McKeesport, Penna.	4	6	0	6
Newark, New Jersey	2	2	1	1
New York, New York	3	3	3	0
Oil City, Penna.	4	5	0	5
Philadelphia, Penna.	5	8	2	6
Phoenix, Arizona	2	2	0	2
Pittsburgh, Penna.	6	16	0	16
Portland, Oregon	5	22	1	21
San Francisco, Calif.	10	23	0	23
Santa Cruz, Calif.	2	2	2	0
Seattle, Washington	5	9	2	7
Troy, New York	3	3	0	3
Washington, D.C.	2	2	2	0
White Plains, N.Y.	3	3	0	3
Wilmington, Del.	2	2	0	2
All cities	78	130	20	110

Source: Tabulated from data contained in U.S. Congress, House Committee on the Judiciary, Corporate and Bank Mergers, Interim Report of the Antitrust Subcommittee (Subcommittee No. 5), Pursuant to H. Res. 22, 84th Congress, 1st Session (Washington, D.C.: Government Printing Office, 1955), Appendix 2, pp. 177-184.

ing banks. The following cities, as shown in Table XXXVII, witnessed mergers among banks within the same city: Baltimore, Maryland; Chicago, Illinois; Dallas, Texas; Newark, New Jersey; New York City; Philadelphia, Pennsylvania; Portland, Oregon; Santa Cruz, California; Seattle, Washington; and Washington, D.C. These intra-city mergers have occurred in localities containing relatively many banks.

The data of Table XXXVII also reemphasize the varied nature of the several states' branch banking laws. The merger activity of cities located in the states of New York, Pennsylvania, California and Oregon is relatively pronounced. Two of the latter states--New York and Pennsylvania--permit limited area branch banking, while California and Oregon allow state-wide branch banking. Merger operations to achieve "ready-made" branch offices can occur more freely in those states with more liberal branch banking statutes.

On the basis of head-office location of the absorbing bank, the remaining 88 merger transactions involved the absorption of 93 banks. Of the latter, 29 absorbed banks were located within head-office cities, while the balance of the absorbed banks was located outside head-office cities. Cities recording more than one merger transaction involving national banks thus showed a higher proportion of the absorbed institutions lying outside the head-office cities of the acquiring banks than did those cities recording a single merger transaction during the period.

III. RATIOS UNDERLYING BANK MERGERS

In the appraisal of bank mergers, several ratios are useful in examining the over-all standing of a group of merger transactions. These ratios include the following: size ratio, which permits a precise view of the comparative asset sizes of participating banks; capital-deposit ratio, a benchmark which affords a measure of the safety cushion provided by capital funds; capital-risk asset ratio, an even more precise and realistic device for judging capital adequacy in the light of credit risk confronting banks; loan ratio, which provides a rough gauge of the efficient and productive use of banking resources; earnings position, as a way of measuring an important stimulus for banks to enter into merger agreements.

The averages computed from the individual banks' ratios are useful primarily for studying the financial results of operations of individual banks, particularly those of banks participating in merger transactions.

Size ratio. Generally, the acquired banks in the 166 merger transactions were considerably smaller than the absorbing banks. Of the 223 absorbed banks, as shown in Table XXXVIII, only 15 institutions were as large or larger than the acquiring institutions. Stated differently, 194 or 87.0 per cent of the total number of absorbed banks each

TABLE XXXVIII

DISTRIBUTION OF INDIVIDUAL RATIOS OF TOTAL ASSETS OF
 ABSORBED BANK TO TOTAL ASSETS OF ABSORBING BANK, 166
 MERGER TRANSACTIONS* INVOLVING NATIONAL BANKS,
 JANUARY 1, 1954-APRIL 30, 1955
 (To nearest tenth of a per cent)

Ratio of total assets of absorbed bank to total assets of absorbing bank	Number of cases
0.0- 9.9%	128
10.0- 19.9	30
20.0- 29.9	20
30.0- 39.9	10
40.0- 49.9	6
50.0- 59.9	2
60.0- 69.9	1
70.0- 79.9	4
80.0- 89.9	3
90.0- 99.9	4
100.0-109.9	1
110.0-119.9	0
120.0-129.9	2
130.0-139.9	2
140.0 and over**	10
Total	223

*The total of 166 merger transactions involved the absorption of 223 banks by 138 individual banks. Each absorbed bank's total assets were expressed as a percentage of the total assets of the absorbing bank.

**Includes the following ratios: 145.8, 173.1, 178.4, 184.7, 185.7, 332.0, 343.6, 547.1, 1382.7, 1710.4.

Source: Computed from data compiled by Comptroller of Currency, contained in U.S. Congress, House Committee on the Judiciary, Corporate and Bank Mergers, Interim Report of the Antitrust Subcommittee, Pursuant to H. Res. 22, 84th Congress, 1st Session (Washington, D.C.: Government Printing Office, 1955), Appendix 2, pp. 177-184.

held total assets that were 50 per cent or less of the total assets held by each of the absorbing banks. The arithmetic mean of all of the individual banks' size ratios was 40.9 per cent, or, if the 10 size ratios above 140 per cent are excluded from the computations, a modified arithmetic mean of 18.5 per cent is obtained.⁶

⁶The modified arithmetic mean is the more significant figure in this case, since the arithmetic mean is an average that is greatly influenced by extremely high values.

It should be noted that arithmetic averages of the operating ratios of individual banks may differ from corresponding ratios computed from aggregate dollar amounts. Such differences arise from the equal weighting accorded to each bank's figures in calculating the averages whereas the figures of the many small and medium-sized banks carry little weight in the aggregate dollar amounts.

The median of the 223 individual banks' ratios is 8.7 per cent, indicating that at least one-half of the absorbed banks each held total assets that were 8.7 per cent or less of the acquiring bank's total assets.

The comparatively small size of the absorbed banks underlines the use of the merger technique by the larger banks to offset lagging growth positions.

Capital-deposit ratio. The distribution of capital-deposit ratios for absorbed and absorbing banks is similar for both types of banks. The data in Table XXXIX provide these results: arithmetic mean of individual capital-deposit ratios, 9.5 per cent for absorbed banks, 9.2 per

TABLE XXXIX

DISTRIBUTION OF CAPITAL-DEPOSIT RATIOS OF ABSORBED AND
 ABSORBING BANKS PARTICIPATING IN 166 MERGER TRANS-
 ACTIONS INVOLVING NATIONAL BANKS, UNITED STATES,
 JANUARY 1, 1954-APRIL 30, 1955

(To nearest tenth of a per cent)

Ratio of total capital funds to total deposits	Absorbed banks	Absorbing banks
2.0- 3.9 %	2	0
4.0- 5.9	21	17
6.0- 7.9	70	51
8.0- 9.9	61	44
10.0-11.9	28	32
12.0-13.9	13	8
14.0-15.9	12	4
16.0-17.9	6	6
18.0-19.9	5	1
20.0-21.9	3	1
22.0-23.9	0	0
24.0-25.9	0	0
26.0-27.9	2	0
28.0 and over*	0	1
Total	223	165**

*Includes ratio of 37.0 %.

**Although there were only 138 individual absorbing banks, the capital-deposit ratio was computed for the absorbing bank in each of the 166 merger transactions, thus affording the larger number of ratios for absorbing banks. One absorbing bank was engaged solely in trust operations and held no deposits.

Source: Data computed from sample of banks.

cent for absorbing banks; the median of individual capital-deposit ratios is 8.6 per cent for each group of banks.

The capital position of banks participating in the merger transactions during the period compares favorably with that of all Federal Reserve member banks for 1954, as Table XL shows. The merging banks exhibited, on the average, higher capital-deposit ratios than did member banks with the exception of those member banks in the two lowest deposit-size classifications.

In addition, the study of the 166 merger transactions indicated no pronounced tendency for absorbing banks to acquire banks with relatively higher capital-deposit ratios. Table XLI presents the distribution of the capital-deposit ratios of individual absorbed banks expressed as a percentage of the capital-deposit ratios of individual acquiring banks. In most cases, absorbing banks merged with institutions holding similar capital-deposit positions. Apparently, the enhancement of capital accounts via the merger route was not a significant over-all factor operative in the merger transactions studied. The latter observation finds support in the computation of averages of the individual ratios contained in Table XLI. The arithmetic mean is 114.5 per cent, while the modified arithmetic mean, which excludes the 16 extremely high ratios above 190 per cent, is 104.0 per cent. The median ratio for the data is 103.1 per cent.

TABLE XL

ARITHMETIC AVERAGES OF INDIVIDUAL CAPITAL-DEPOSIT
RATIOS OF MEMBER BANKS, 1954, AND OF ABSORBING
AND ABSORBED BANKS PARTICIPATING IN 166 MERGER
TRANSACTIONS INVOLVING NATIONAL BANKS,
JANUARY 1, 1954-APRIL 30, 1955

Type of bank and deposit-size (in millions)	Arithmetic average of individual banks' capital-deposit ratios
Member banks:	
\$1 and under	12.7 %
1- 2	10.4
2- 5	9.1
5- 10	8.1
10- 25	7.6
25- 50	7.0
50-100	6.7
Over 100	7.2
All groups	8.8 %
Absorbing banks	9.2 %
Absorbed banks	9.5 %

Source: Federal Reserve member banks' data taken from Federal Reserve Bulletin, June, 1955, p. 713; absorbing and absorbed banks' data computed from sample study.

TABLE XLI

DISTRIBUTION OF CAPITAL-DEPOSIT RATIOS OF ABSORBED
BANKS EXPRESSED AS PERCENTAGES OF CAPITAL-DEPOSIT
RATIOS OF ABSORBING BANKS, 166 MERGER
TRANSACTIONS INVOLVING NATIONAL BANKS,
JANUARY 1, 1954-APRIL 30, 1955

Capital-deposit ratio of absorbed bank expressed as a percentage of capital-deposit ratio of absorbing bank	Number of cases
20.0- 29.9 %	2
30.0- 39.9	0
40.0- 49.9	3
50.0- 59.9	10
60.0- 69.9	11
70.0- 79.9	17
80.0- 89.9	28
90.0- 99.9	34
100.0-109.9	22
110.0-119.9	21
120.0-129.9	17
130.0-139.9	13
140.0-149.9	10
150.0-159.9	5
160.0-169.9	10
170.0-179.9	3
180.0-189.9	1
190.0 and over*	16
Total	222**

*Includes the following ratios: 206.6, 206.9, 210.6, 213.6, 214.6, 218.1, 220.8, 225.2, 234.0, 264.6, 272.2, 274.0, 275.6, 279.5, 313.3, 363.6.

**One absorbing bank was engaged solely in trust operations and held no deposits. Hence, no capital-deposit ratio could be computed.

Source: Computed from sample study.

Capital-risk asset ratio. Another meaningful ratio that can be used in appraising the merger transactions is the capital-risk asset ratio. Risk assets include all assets other than cash items and United States Government securities. The exclusion of the latter two groups of assets permits a more realistic assay of the capital adequacy of banks, since capital funds basically provide a cushion behind depositors' claims against banks.

Utilization of the capital-risk asset ratio marks an attempt to measure credit risk rather than capital-market risk. The former risk is concerned with the possibility of default or non-payment of interest and principal. Capital-market risk, on the other hand, refers to the likelihood of fluctuating prices and interest rates--from which Government securities are not immune. Banks, however, hold mainly short-terms, thus reducing the impact that any given change in interest rates will have on security prices. Even granting a possible appreciable drop in Government securities' prices, banks would not necessarily be compelled to sell these securities. Member banks can borrow from the Federal Reserve at par on their Government securities. Such borrowing, which is often shunned by banks, is a privilege and not a right. As such, recourse to this approach is dependent on the Federal Reserve's appraisal of the specific conditions affecting member banks applying for accom-

modation.

A comparison of the distributions contained in Table XLIII shows that, generally, the absorbing banks reflected lower capital-risk asset ratios than did the acquired banks. The true and modified arithmetic means of the individual absorbed banks' capital-risk asset ratios were 23.4 per cent and 22.1 per cent, respectively. Similar calculations for the acquiring banks afford a true arithmetic mean of 18.9 per cent and a modified mean of 17.3 per cent. The medians of the individual banks' capital-risk asset ratios were 19.3 per cent for absorbed banks and 16.7 per cent for acquiring banks.

As a group, then, the absorbing banks acquired banks that on the average had a higher capital-risk asset position. Table XLIII compares the average standing of absorbed and absorbing banks with the averages of individual member bank capital-risk asset ratios, by size of bank.

The arithmetic average of individual absorbing banks' capital-risk asset ratios is 1.8 percentage points less than that for all groups of member banks. On the other hand, the arithmetic average of individual absorbed banks' capital-risk asset ratios exceeds that for all groups of member banks by 2.7 percentage points. The absorbed banks' average ratio compares favorably with all but the averages for the two smallest size groups of member banks. On net balance, then, absorbing banks as a group enhanced their

TABLE XLII

DISTRIBUTION OF CAPITAL-RISK ASSET RATIOS OF ABSORBED
AND ABSORBING BANKS PARTICIPATING IN 166 MERGER TRANS-
ACTIONS INVOLVING NATIONAL BANKS, UNITED STATES,
JANUARY 1, 1954-APRIL 30, 1955

Ratio of capital funds to risk assets	Absorbed banks	Ratio of capital funds to risk assets	Absorbing banks
5.0- 9.9 %	4	8.0- 9.9 %	4
10.0-14.9	49	10.0-11.9	18
15.0-19.9	67	12.0-13.9	32
20.0-24.9	41	14.0-15.9	21
25.0-29.9	17	16.0-17.9	21
30.0-34.9	19	18.0-19.9	21
35.0-39.9	6	20.0-21.9	15
40.0-44.9	7	22.0-23.9	11
45.0-49.9	5	24.0-25.9	5
50.0-54.9	1	26.0-27.9	6
55.0-59.9	2	28.0-29.9	3
60.0 and over*	5	30.0-31.9	4
		32.0-33.9	0
		34.0 and over**	5
Total	223	Total	166

*Includes the following ratios: 65.2, 68.2, 70.9, 80.4, 114.3.

**Includes the following ratios: 42.3, 65.0, 34.9, 50.0, 173.0.

Source: Data computed from sample study.

TABLE XLIII

ARITHMETIC AVERAGES OF INDIVIDUAL CAPITAL-RISK ASSET
RATIOS OF MEMBER BANKS, 1954, AND OF ABSORBING AND
ABSORBED BANKS PARTICIPATING IN 166 MERGER TRANS-
ACTIONS INVOLVING NATIONAL BANKS,
JANUARY 1, 1954-APRIL 30, 1955

Type of bank and deposit-size (in millions)	Arithmetic average of individual banks' capital-risk asset ratios
Member banks:	
\$1 and under	28.4 %
1- 2	24.7
2- 5	21.5
5- 10	18.8
10- 25	17.6
25- 50	16.2
50-100	15.4
Over 100	16.0
All groups	20.7 %
Absorbing banks	18.9 %
Absorbed banks	23.4 %

Source: Federal Reserve member banks' data taken from Federal Reserve Bulletin, June, 1955, p. 713; absorbing and absorbed banks data computed from sample study.

capital-risk asset positions as a result of their merging activity.

Loan ratio. Also relevant is a comparison of absorbed and absorbing banks with regard to their operations in extending loans and discounts. As one writer aptly states: "loans . . . must be considered as the primary form of output of commercial banks."⁷ An examination of the

⁷David A. Alhadeff, Monopoly and Competition in Banking (Berkeley and Los Angeles: University of California Press, 1954), p. 61.

proportion of total resources that the two groups of banks devote to loan production affords a rough gauge of efficiency "in utilizing resources in a directly productive (i.e., earning)manner."⁸

⁸Ibid., p. 55.

Caution must be used in appraising loan ratios for different banks in that

. . . it is important to recognize that a comparatively small loan output by an individual branch or unit bank is not presumably evidence of output restriction deliberately framed to raise prices in local loan markets. The proportions of loans and other output are a function not only of market structures but also of portfolio policy and, indeed, of general business policy. What may appear on the surface as evidence of monopolistic restriction of output may be nothing more than a different judgment on sound bank manage-

ment--and such judgment has basically no connection with concentration.⁹

⁹Ibid., p. 76.

The distribution of loan ratios for absorbed and absorbing banks given in Table XLIV shows that a greater proportion of the acquiring banks fell into the higher loan ratio classes than did the absorbed banks. In aggregate terms, the arithmetic average of individual absorbed banks' loan ratios was 31.8 per cent, while that for absorbing banks was 36.6 per cent. The median of the individual banks' loan ratios was 32.3 per cent for absorbed banks and 37.3 per cent for absorbing banks.

As Table XLV indicates, absorbing banks as a group were more active lenders than any size group of member banks. Acquired banks, on the other hand, had an arithmetic average of individual loan ratios that was lower than those for all size groups of member banks other than the two intermediate size groups with deposits between \$5 million and \$25 million.

If it is granted that one of the basic functions of commercial banks is to accommodate the sound and legitimate credit needs of borrowers, then the absorbing banks, as a group, indicate a more active performance of this function than do absorbed banks, as a group.

TABLE XLIV

DISTRIBUTION OF LOAN RATIOS OF ABSORBED AND ABSORBING
BANKS PARTICIPATING IN 166 MERGER TRANSACTIONS
INVOLVING NATIONAL BANKS, UNITED STATES,
JANUARY 1, 1954-APRIL 30, 1955

Ratio of total loans and discounts to total assets	Absorbed banks	Absorbing banks
0.0- 4.9 %	1	0
5.0- 9.9	6	0
10.0-14.9	9	2
15.0-19.9	18	3
20.0-24.9	28	11
25.0-29.9	32	23
30.0-34.9	37	27
35.0-39.9	37	37
40.0-44.9	28	37
45.0-49.9	19	19
50.0-54.9	5	4
55.0-59.9	3	3
Total	223	166

Source: Computed from sample study.

TABLE XLV

ARITHMETIC AVERAGES OF INDIVIDUAL LOAN RATIOS OF
MEMBER BANKS, 1954, AND OF ABSORBING AND ABSORBED
BANKS PARTICIPATING IN 166 MERGER TRANSACTIONS
INVOLVING NATIONAL BANKS, UNITED STATES,
JANUARY 1, 1954-APRIL 30, 1955

Type of bank and deposit size (in millions)	Arithmetic average of individual banks' loan ratios
Member banks:	
\$1 and under	36.2 %
1- 2	34.2
2- 5	32.5
5- 10	31.7
10- 25	31.6
25- 50	32.1
50-100	33.1
Over 100	34.1
All groups	32.7 %
Absorbing banks	36.6 %
Absorbed banks	31.8 %

Source: Federal Reserve member banks' data taken from Federal Reserve Bulletin, June, 1955, p. 713; absorbing and absorbed banks' data computed from sample study.

Earnings position. A final test that can be applied in examining the bank-merger movement is that of earnings experience of participating banks. Relatively, low earnings may serve as a stimulus for banks to enter into merger agreements--either as absorbing or absorbed institutions--as a way of expanding deposits and, hence, earnings.

No detailed earnings data were available for the individual banks participating in the 166 merger transactions studied. However, the study by the Federal Reserve Bank of Philadelphia of the bank-merger movement in the Third Federal Reserve District indicated that generally high capital-risk asset ratios were associated with low loan ratios and low earnings positions.¹⁰

¹⁰Federal Reserve Bank of Philadelphia, "The Branch and Merger Movement in the Third Federal Reserve District," Business Review, January, 1955, p. 5.

As a rough approximation then, tentative conclusions might be made about the earnings positions of absorbed and absorbing banks by comparing the individual capital-risk asset ratios with the individual loan ratios for each of the two groups of banks. Tables XLVI and XLVII present the latter comparison, and indicate that generally a larger proportion of the absorbing banks with relatively low capital-risk asset ratios had relatively higher loan ratios

TABLE XLVI

ABSORBED BANKS: CAPITAL-RISK ASSET RATIOS COMPARED WITH LOAN RATIOS, 223 BANKS ABSORBED
IN 166 MERGER TRANSACTIONS INVOLVING NATIONAL BANKS, UNITED STATES,
JANUARY 1, 1954-APRIL 30, 1955

Capital- risk asset ratio	Number of banks	Ratio of loans and discounts to total assets											
		0.0- 4.9	5.0- 9.9	10.0- 14.9	15.0- 19.9	20.0- 24.9	25.0- 29.9	30.0- 34.9	35.0- 39.9	40.0- 44.9	45.0- 49.9	50.0- 54.9	55.0- 59.9
5.0- 9.9 %	4	--	--	--	--	--	--	--	--	1	2	1	--
10.0-14.9	49	--	--	--	1	--	7	8	14	8	10	1	--
15.0-19.9	67	--	--	--	5	7	13	12	9	13	6	1	1
20.0-24.9	41	--	--	--	4	8	6	5	11	4	--	2	1
25.0-29.9	17	--	2	4	3	2	1	3	1	1	--	--	--
30.0-34.9	19	--	1	1	3	4	2	4	1	1	1	--	1
35.0-39.9	6	--	--	--	--	2	1	2	1	--	--	--	--
40.0-44.9	7	--	--	1	2	--	2	2	--	--	--	--	--
45.0-49.9	5	1	1	1	--	1	--	1	--	--	--	--	--
50.0-54.9	1	--	--	--	--	1	--	--	--	--	--	--	--
55.0-59.9	2	--	--	2	--	--	--	--	--	--	--	--	--
60.0 and over*	5	--	2	--	--	3	--	--	--	--	--	--	--
Total	223	1	6	9	18	28	32	37	37	28	19	5	3

*Includes following ratios: 65.2, 68.2, 70.9, 80.4, 114.3.

Source: Computed from sample study.

TABLE XLVII

ABSORBING BANKS: CAPITAL-RISK ASSET RATIOS COMPARED WITH LOAN RATIOS, 166 ABSORBING BANKS
IN 166 MERGER TRANSACTIONS INVOLVING NATIONAL BANKS, UNITED STATES,
JANUARY 1, 1954-APRIL 30, 1955

Capital- risk asset ratio	Number of banks	Ratio of loans and discounts to total assets										
		5.0- 9.9	10.0- 14.9	15.0- 19.9	20.0- 24.9	25.0- 29.9	30.0- 34.9	35.0- 39.9	40.0- 44.9	45.0- 49.9	50.0- 54.9	55.0- 59.9
5.0- 9.9 %	4	--	--	--	1	--	--	--	2	1	--	--
10.0-14.9	54	--	--	--	3	8	5	15	14	5	4	--
15.0-19.9	57	--	--	1	2	6	7	15	12	11	--	3
20.0-24.9	30	--	2	--	4	4	5	5	9	1	--	--
25.0-29.9	11	--	--	--	1	3	6	1	--	--	--	--
30.0-34.9	6	--	--	1	--	2	2	--	--	1	--	--
35.0 and over*	4	--	--	1	--	--	2	1	--	--	--	--
Total	166	--	2	3	11	23	27	37	37	19	4	3

*Includes following ratios: 42.3, 50.0, 65.0, 173.0.

Source: Computed from sample study.

than did absorbed banks. Initially, it can be concluded that absorbing banks, as a group, exhibited more favorable earnings positions than did the group of absorbed banks. The latter statement would be subject, of course, to many specific exceptions when individual merger agreements are examined. The analysis of the merger transactions proceeds, however, in aggregate terms rather than on a case by case basis.

The acquiring banks represented generally a more active group of lending institutions that afforded opportunities for more intensive and more remunerative use of capital funds.

IV. SUMMARY

The present chapter comprised a sample study of a representative group of 166 merger transactions involving national banks during the period January 1, 1954 to April 30, 1955. The aim of the study was to establish tentative benchmarks or standards that may be used in appraising bank mergers.

The names and locations of the participating banks were obtained from information submitted by the Comptroller of the Currency to the Antitrust Subcommittee of the House Committee on the Judiciary. The Rand McNally International Bankers Directory provided the source for the balance sheets of each of the participating banks.

The 166 merger agreements comprised the absorption of 223 individual banks by 138 other banks. Of the absorbing institutions, 14 were "repeaters," i.e., acquiring banks that participated in more than one merger transaction during the period. These "repeater" banks accounted for 40, or 24.1 per cent, of the total number of mergers involving national banks.

In addition, on the basis of head-office location of absorbing banks, 22 cities recorded more than one merger transaction involving national banks. The 22 "multi-merger" cities registered 78 merger transactions involving 130 absorbed banks, 110 of which were located outside the head-office cities of acquiring banks. The remaining 88 merger transactions within single-merger cities comprised the absorption of 93 banks, with 64 of the latter being located outside the head-office cities of acquiring banks.

Several significant ratios were used in analyzing the sample of merger transactions. Arithmetic averages and medians of individual banks' ratios were also computed and, in some cases, compared with similar averages for member banks, classified by deposit size.

Utilization of a size ratio showed that 194, or 87 per cent, of the total number of absorbed banks each held total assets that were 50 per cent or less of the total assets held by each of the absorbing banks. The comparatively small size of the absorbed banks underlines the use of

the merger technique by the larger banks to offset lagging growth positions.

The distribution of capital-deposit ratios for absorbed and absorbing banks was similar for both types of banks. The capital position of banks participating in the merger transactions during the period compared favorably with that of all Federal Reserve member banks for 1954. In most cases, absorbing banks merged with institutions holding similar capital-deposit positions. Apparently, the enhancement of capital accounts via the merger route was not a significant over-all factor operative in the merger transactions studied.

A comparison of the distributions of risk-asset ratios for both groups of banks indicated that, on net balance, absorbing banks as a group enhanced their capital-risk asset position as a result of their merging activity.

As a group, absorbing banks were more active lenders than acquired banks taken as a group. Acquiring banks, on the average, also exhibited a more active performance of the lending function than did any size group of member banks.

Relatively low earnings may serve as a stimulus for banks to enter into merger agreements--either as absorbing or absorbed institutions--as a way of expanding deposits and, hence, earnings. No detailed earnings data were available for the individual banks participating in the merger

transactions studied. A study of bank mergers by the Federal Reserve Bank of Philadelphia indicated that generally high capital-risk asset ratios were associated with low loan ratios and low earnings positions.

A comparison of individual capital-risk asset ratios with individual loan ratios for each of the two groups of banks showed that generally a larger proportion of the absorbing banks with relatively low capital-risk asset ratios had relatively higher loan ratios than did absorbed banks. Initially then, it can be concluded that acquiring banks represented a more active group of lending institutions that afforded opportunities for more intensive and more remunerative use of capital funds.

CHAPTER VII
IMPACT OF BANK-MERGER MOVEMENT UPON
BANKING CONCENTRATION

Any net appraisal of the bank-merger movement necessarily involves a consideration of the movement's impact upon concentration in banking. Concentration refers to the share of total banking business conducted by the largest banks. A realistic view of concentration in banking must also include such factors as changes in the number of banks, the scope of branch, chain and group banking, the role of non-bank competitors, and the geographic distribution of banks.¹

¹See Doris M. Eisemann, "Extent of Concentration in Banking," Banking, October, 1955, p. 48.

At year-end 1955, a total of 13,737 commercial banks operating 6,738 branches, or a total of 20,475 banking offices, served the banking needs of approximately 165 million people.² On an average basis, then, one commercial

²Appendix to statement of L. A. Jennings, First Deputy Comptroller of Currency, contained in U.S. Congress, Senate Committee on Banking and Currency, Regulation of Bank Mergers, Hearings before a Subcommittee on S. 3911, 84th Congress, 2d Session, June 12 and 18, 1956 (Washington, D.C.: Government Printing Office, 1956), pp. 15-25,

esp. p. 17. The data for this section, unless otherwise noted, are drawn from this source.

bank services each 12,000 of population, and, if branch offices are included, each 7,700 of population has one banking office.

As of December 31, 1941, the United States had a total of 14,423 banks operating 3,592 branches or a total of 18,015 banking offices. In the next fourteen years, at year-end 1955, these changes in banking facilities occurred: a decrease of 686 in the number of commercial banks, an increase of 3,146 in the number of branches, and an increase of 2,460 in the number of banking offices. On December 31, 1955, the banking system comprised 13,737 banks operating 6,738 branches, or a total of 20,475 banking offices. The proportions of total commercial bank deposits held by the 100 largest commercial banks at the two dates were 55.3 per cent and 46.8 per cent, respectively. The top 100 commercial banks now hold a smaller proportion of the nation's banking resources as compared with their position on December 31, 1941.

Another type of comparison offers a different insight into the nature of banking concentration. At year-end 1940, 90 national banks out of a total of 5,150 national banks each held total assets above \$50 million, and accounted for 63 per cent of all the resources in the na-

tional banking system. Fifteen years later, on December 31, 1955, national banks with resources in excess of \$50 million numbered 780 out of the total of 4,700 national banks, and controlled 60 per cent of all national banks' resources. The 100 largest commercial banks thus face substantial competition from the increased number of larger banks.³

³Ibid.

Table XLVIII presents an over-all view of changes in the pattern of banking concentration within the United States. The table shows the variation in the share of total deposits held by each percentile group of banks for the fifteen-year period 1939-1954, and for the recent year 1953-1954.

As compared with pre-World War II standings, the share of deposits held by the largest banks decreased, while the small and medium-sized banks enhanced their proportionate holdings of total deposits. On a relative basis, then, large banks became smaller while the small banks grew.

For the period 1953-1954, however, the largest banks exhibited a higher concentration of deposit holdings, primarily at the expense of medium-sized banks' holdings. The smallest banks' shares of deposits remained constant for

TABLE XLVIII
CHANGE IN CONCENTRATION OF BANKING INDUSTRY
UNITED STATES, 1939-1954

Percentile ranking of banks		Percentage of total deposits held by class			Change in share of total deposits held	
		1939	1953	1954	1939-1954	1953-1954
Largest	2 %	62.8	56.8	57.9	- 4.9	1.1
Next	3 %	11.8	10.7	10.4	- 1.4	- .3
Next	5 %	6.5	7.2	6.9	.4	- .3
Next	10 %	6.9	8.4	8.4	1.5	0
Next	10 %	3.6	5.3	5.0	1.4	- .3
Next	10 %	2.4	2.6	2.7	.3	.1
Next	10 %	1.9	2.5	2.3	.4	- .2
Next	10 %	1.4	2.4	2.3	.9	- .1
Next	10 %	1.0	1.6	1.6	.6	0
Next	10 %	.8	1.1	1.1	.3	0
Smallest	20 %	.9	1.4	1.4	.5	0
Total		100.0	100.0	100.0	xx	xx

Source: Doris M. Eisemann, "Extent of Concentration in Banking," Banking, October, 1955, p. 49, based on data from Federal Deposit Insurance Corporation, annual reports.

the year period. The change in the share of total deposits held by the largest 2 per cent of the banks amounted to an increase of only 1.1 percentage points. The spurt in bank mergers during 1954 is a partial factor bringing about this slight shift in concentration.⁴

⁴Eisemann, op. cit., p. 144.

The varied pattern of banking concentration in 16 major financial centers is shown in Table XLIX. In each of these centers the largest bank held at least 22 per cent of the city's total bank assets, ranging from a low of 22 per cent in New York City to a high of 61.0 per cent in Pittsburgh, Pennsylvania. In all of the cities the two largest banks held more than 40 per cent of all commercial bank assets, and in each of the cities the four leading banks owned more than 60 per cent of total banking resources. In appraising these figures it should be noted that in each case borrowers in the major cities had access to at least five alternative sources of bank credit.

On the basis of individual states, merger activity had a varying impact on the concentration of bank assets. Table L relates the number and total resources of banks absorbed during the six-year period 1950-1955, to the total number of banking offices and total banking resources within each state at year-end 1955. During the period, a total

TABLE XLIX

PERCENTAGE OF TOTAL ASSETS OWNED BY SELECTED
GROUPS OF BANKS, 16 FINANCIAL CENTERS,
UNITED STATES, JUNE 30, 1954

Name of city	Largest bank	Two largest banks	Four largest banks	Remaining banks Number	Percentage holdings of assets
New York City	22.0	41.6	60.3	28	39.7
Providence, R.I.	57.7	93.3	98.0	1	2.0
Pittsburgh, Pa.	61.0	79.2	87.3	17	12.7
Minneapolis, Minn.	39.7	76.0	87.1	14	12.9
Cleveland, Ohio	47.7	72.3	97.1	5	2.9
Boston, Mass.	57.2	71.6	83.1	9	16.9
Chicago, Illinois	34.1	66.9	84.6	9	15.4
Detroit, Michigan	46.5	65.9	90.1	5	9.9
Dallas, Texas	32.8	64.9	84.4	22	15.6
Atlanta, Georgia	33.2	63.9	92.1	9	7.9
Richmond, Va.	31.6	55.9	83.5	7	16.5
Kansas City, Mo.	34.3	53.7	75.0	24	25.0
St. Louis, Mo.	28.0	53.5	68.3	24	31.7
Baltimore, Md.	24.0	44.9	76.6	7	23.4
Philadelphia, Pa.	24.7	44.6	68.6	20	31.4
Washington, D.C.	26.3	43.0	60.0	15	40.0

Source: Compiled and computed by New York State Superintendent of Banks, contained in U.S. Congress, House Committee on the Judiciary, Corporate and Bank Mergers, pp. 185-188.

TABLE L

POPULATION, NUMBER AND TOTAL RESOURCES OF NATIONAL AND
STATE-CHARTERED BANKS ABSORBED BY OTHER NATIONAL AND
STATE-CHARTERED BANKS FROM JANUARY 1, 1950, TO
DECEMBER 31, 1955, NUMBER AND TOTAL RESOURCES
OF ALL BANKING OFFICES, BY STATE, YEAR-END 1955

State	Population (in thousands)	Absorbed banks		All banking offices		
		Number	Total resources (thousands)	Number of banks	Number of branches	Total resources (thousands)
Alabama	3,075	3	\$28,427	237	41	\$1,827,628
Alaska	173	1	1,893	18	14	160,801
Arizona	1,006	3	13,095	11	91	825,542
Arkansas	1,806	2	1,769	233	24	1,134,572
California	13,302	86	1,003,324	149	1,177	20,829,248
Connecticut	2,275	23	329,346	169	124	4,441,422
Delaware	398	9	107,126	32	38	815,758
District of Columbia	864	2	170,814	17	49	1,493,178
Georgia	3,658	5	30,339	395	52	2,556,606
Idaho	617	7	45,964	36	66	577,740
Illinois	9,500	6	77,665	919	0	16,820,650
Indiana	4,401	18	289,524	477	163	4,531,033
Iowa	2,728	5	12,338	665	162	2,917,112
Kansas	2,087	12	16,459	601	0	2,195,461
Kentucky	3,043	18	55,422	367	81	2,187,799
Louisiana	2,967	3	77,718	175	113	2,767,877
Maine	917	6	36,977	91	95	988,636
Maryland	2,709	13	295,258	160	184	2,809,347
Massachusetts	5,089	10	233,764	366	327	10,572,598
Michigan	7,360	29	427,575	420	376	8,411,164
Minnesota	3,215	7	11,765	681	6	4,039,438
Mississippi	2,132	7	35,353	197	96	1,098,418
Missouri	4,180	10	404,030	603	1	5,871,882
Montana	646	1	1,615	113	0	747,238
Nebraska	1,398	5	83,211	420	1	1,639,809
Nevada	234	3	17,486	6	27	313,370
New Hampshire	565	1	1,548	110	3	844,964
New Jersey	5,505	41	535,183	320	271	7,436,268
New Mexico	804	1	518	51	25	558,824

TABLE L (continued)

State	Population (in thousands)	Absorbed banks		All banking offices		
		Number	Total resources (thousands)	Number of banks	Number of branches	Total resources (thousands)
New York	16,368	137	\$9,998,567	638	1,151	\$61,642,613
North Carolina	4,345	10	52,702	220	324	2,688,065
North Dakota	649	3	2,798	154	24	670,985
Ohio	9,122	47	485,923	626	377	11,020,885
Oklahoma	2,189	8	6,432	385	0	2,429,380
Oregon	1,697	31	253,176	50	144	2,020,797
Pennsylvania	11,315	164	2,265,076	825	496	15,611,613
Puerto Rico	2,269	1	3,766	10	61	430,203
Rhode Island	852	9	645,114	18	84	1,345,115
South Carolina	2,310	7	24,604	149	81	926,886
South Dakota	684	2	1,840	171	53	638,014
Tennessee	3,466	4	6,544	299	132	2,866,136
Texas	8,670	10	242,670	931	0	10,809,762
Utah	798	7	41,103	51	40	881,209
Vermont	382	8	30,182	69	25	464,436
Virginia	3,621	6	45,885	316	160	2,904,158
Washington	2,602	34	151,931	107	205	2,942,763
West Virginia	2,026	2	1,243	181	0	1,215,263
Wisconsin	3,750	2	863	557	150	4,019,146
Wyoming	314	1	1,467	53	0	359,182
Total	164,083	830	\$18,607,392	13,849	7,114	\$237,300,994

Source: Prepared by Office of the Comptroller of the Currency, contained in U.S. Congress, Senate Committee on Banking and Currency, Regulation of Bank Mergers, 84th Congress, 2d Session (Washington, D.C.: U.S. Government Printing Office, 1956), pp. 21-25.

of 830 banks with assets totaling over \$18,607 million was absorbed by other national and state-chartered banks. These figures represented 6.0 per cent and 7.8 per cent, respectively, of all the states' banks and aggregate banking resources as of December 31, 1955. Most recent figures for the year 1956 are as yet unavailable, but indications suggest a further enhancement of banking concentration via merger.

I. GROUP BANKING

Another means by which banking concentration can be achieved is through the device of group banking. In simple terms, group banking exists where two or more banks are controlled by a holding company which itself may or may not be a bank.⁵ The intrinsic nature of the group relationship

⁵Ross M. Robertson, "The Structure of Banking in the Eighth District: Chains, Groups and Interindustry Competition," Monthly Review of Federal Reserve Bank of St. Louis, October, 1956, p. 114.

In his book The Economics of Group Banking, Palmer T. Hogenson uses this broad definition:

Group banking is the ownership and control of a group of individual banks by a corporate holding company, control of bank shares by a trustee or a group of trustees, or control through a majority ownership of bank shares for investment purposes. See Palmer T. Hogenson, The Economics of Group Banking (Washington: Public Affairs Press, 1955), p. 3.

derives from use of the corporate device to obtain control of banks whether by direct purchase of stock or by the

exchange of holding company stock for that of individual banks.⁶

⁶Robertson, loc. cit.

The requirements for achieving "effective" control of two or more banks are difficult to determine. The Bank Holding Company Act of 1956, however, defines a "bank holding company" to mean

. . . any company (1) which directly or indirectly owns, controls, or holds with power to vote, 25 per centum or more of the voting shares of each of two or more banks or of a company which is or becomes a bank holding company by virtue of this Act, or (2) which controls in any manner the election of a majority of the directors of each of two or more banks, or (3) for the benefit of whose shareholders or members 25 per centum or more of the voting shares of each of two or more banks or a bank holding company is held by trustees; and for the purposes of this Act, any successor to any such company shall be deemed to be a bank holding company from the date as of which such predecessor company became a bank holding company.⁷

⁷Public Law 511, Chapter 240, 84th Congress, 2d Session, H. R. 6227, contained in Federal Reserve Bulletin, May, 1956, p. 444.

Table LI shows that at the end of 1954, some 163 groups in 41 states, Alaska, and the District of Columbia owned or controlled 25 per cent of the stock of one or more banks. These groups held 1,440 banking offices comprised of 541 banks and 899 branches, and total deposits of

TABLE LI

BANKS HOLDING COMPANIES UNDER 25 PER CENT MEASURE OF CONTROL, NUMBER OF BANKING
OFFICES AND DEPOSITS, BY STATES, DECEMBER 31, 1954

State	Number of cases	Number of banking offices			Deposits (in thou- sands of dollars)	Per cent of offices to those of all commercial banks in same state	Per cent of deposits to those of all commercial banks in same state
		Banks	Branches	Total			
Alabama	2	3	--	3	6,260	1.12	0.40
Alaska	1	1	--	1	4,092	3.85	2.77
Arizona	2	2	28	30	207,688	32.26	29.92
Arkansas	4	6	3	9	61,728	3.56	6.27
California	12	15	103	118	1,567,257	9.39	8.70
Connecticut	2	4	--	4	51,147	2.07	2.53
District of Columbia	3	3	11	14	317,284	21.21	23.75
Florida	7	17	1	18	508,228	7.93	17.20
Georgia	7	27	19	46	840,173	10.20	38.21
Idaho	1	1	27	28	173,038	27.45	32.50
Illinois	9	13	--	13	400,621	1.43	2.64
Indiana	1	2	--	2	51,345	.32	1.28
Iowa	3	10	1	11	189,749	1.33	7.01
Kansas	3	4	--	4	6,291	.66	.31
Kentucky	1	2	12	14	176,613	3.23	8.98
Maine	2	3	7	10	38,743	6.71	7.26
Massachusetts	5	29	130	159	2,310,743	38.97	48.95
Minnesota	6	108	6	114	2,191,022	16.64	63.06

TABLE LI (continued)

State	Number of cases	Number of banking offices			Deposits (in thou- sands of dollars)	Per cent of offices to those of all commercial banks in same state	Per cent of deposits to those of all commercial banks in same state
		Banks	Branches	Total			
Missouri	15	28	—	28	2,208,475	4.67	41.74
Montana	2	19	—	19	302,471	17.27	44.02
Nebraska	1	5	—	5	150,032	1.19	9.68
Nevada	1	2	17	19	216,580	63.33	77.37
New Hampshire	5	13	—	13	148,620	16.67	46.09
New Jersey	6	8	22	30	273,002	5.61	4.89
New York	16	32	217	249	7,254,969	16.47	19.55
North Carolina	2	3	28	31	158,224	5.89	6.80
North Dakota	3	34	5	39	228,758	22.03	36.68
Ohio	12	30	21	51	635,485	5.29	6.82
Oklahoma	3	4	—	4	41,712	1.04	1.95
Oregon	1	1	68	69	784,731	37.30	45.11
Pennsylvania	15	24	—	24	187,209	1.92	1.54
Rhode Island	3	6	16	22	124,795	30.56	15.55
South Carolina	1	1	—	1	15,259	.45	1.82
South Dakota	3	12	22	34	192,672	15.38	32.58
Tennessee	5	15	22	37	379,207	8.83	14.82
Texas	12	22	—	22	1,516,660	2.38	15.77

TABLE LI (continued)

State	Number of cases	Number of banking offices			Deposits (in thou- sands of dollars)	Per cent of offices to those of all commercial banks in same state	Per cent of deposits to those of all commercial banks in same state
		Banks	Branches	Total			
Utah	2	4	18	22	364,361	25.29	46.22
Vermont	1	2	--	2	3,701	2.56	1.27
Virginia	2	2	--	2	10,749	.44	.42
Washington	5	11	81	92	811,249	31.94	34.72
West Virginia	5	5	--	5	12,306	2.73	1.16
Wisconsin	2	7	14	21	803,779	2.98	21.97
Wyoming	1	1	--	1	3,434	1.89	1.03
<hr/>							
Total, 41 states, Alaska, and District of Columbia	163	541	899	1,440	25,930,462	xxxx	xxxx

Source: U.S. Congress, Senate Committee on Banking and Currency, Control of Bank Holding Companies, Hearings before a Subcommittee on S. 880, S. 2350, and H. R. 6227, 84th Congress, 1st Session, July 5, 6, 7, 11, 12, and 14, 1955 (Washington, D.C.: Government Printing Office, 1955), p. 60.

approximately \$26 billion. The 163 holding companies accounted for 7.98 per cent of all commercial banking offices and 15.28 per cent of all commercial bank deposits in the 41 states, Alaska, and the District of Columbia. Relating the groups' figures to those for all commercial banks in the United States and Alaska produces ratios of 7.21 per cent and 14.02 per cent, respectively.⁸ The data include

⁸U.S. Congress, Senate Committee on Banking and Currency, Control of Bank Holding Companies, Hearings before a Subcommittee on S. 880, S. 2350, and H. R. 6227, 84th Congress, 1st Session, July 5, 6, 7, 11, 12, and 14, 1955 (Washington, D.C.: Government Printing Office, 1955) p. 60.

50 banks with 234 branches and total deposits of about \$11.6 billion which control, or are closely related to, other banks included within Table LI. If these 50 controlling banks were excluded from the figures, the controlled banks comprise 1,156 banking offices with over \$14 billion of deposits, or 5.79 per cent and 7.75 per cent, respectively, of the totals for all commercial banks in the United States and Alaska.⁹

⁹Ibid.

The Bank Holding Company Act of 1956, approved May 9, 1956; has two major purposes: the regulation of the future growth of bank holding companies and the requirement of

their divestiture of nonbanking assets.¹⁰

¹⁰The Act, also known as the Spence-Robertson Act, was viewed differently by various sources. Senator A. Willis Robertson, one of the sponsors of the measure, termed it as "the most significant banking statute that has been enacted since the Banking Act of 1935." See A. Willis Robertson, "The Bank Holding Company Act," Banking, June, 1956, p. 42.

Mr. F. N. Belgrano, current head of the Transamerica Corporation, the world's largest bank holding company, contended that such legislation would have the effect of lessening competition in banking and creating monopolistic effects in certain states. See F. N. Belgrano, Jr., "Bank Holding Company Legislation and Competition," Banking, January, 1956, p. 34.

The statute marks the end of a period of over twenty years in which arose several legislative attempts to establish an act specifically regulating bank holding companies. The Banking Act of 1933 contained a provision that affected a small number of companies and that dealt principally with the economic soundness of the holding companies and their affiliates. In 1938 and 1941 Senator Carter Glass unsuccessfully proposed amendments to the Banking Act of 1933 relating to holding companies. Senator Robertson unavailingly sponsored similar legislation in 1949, 1950, and 1953.¹¹

¹¹Robertson, loc. cit.

Briefly, the Act requires approval of the Board of Governors of the Federal Reserve System for any holding

company to acquire an additional bank within its home-office state. A hearing must be held on the proposed acquisition should the Comptroller of the Currency object, in the case of a national bank, or in the event of state supervisory objection, where the proposed acquisition is a state-chartered bank.¹²

¹²For specific wording of Act see Federal Reserve Bulletin, May, 1956, pp. 444-449. See Robertson, op. cit. pp. 42, 157 ff. for summarization of principal features of the Act.

Regardless of specific supervisory disapproval, the Federal Reserve must consider five criteria in ruling on the proposed application of a holding company: (1) the financial background of the company and involved bank; (2) the financial prospects of the involved parties; (3) the character of management; (4) the convenience and requirements of the communities located in the area of the proposed acquisition; (5) the impact of the proposed acquisition upon the public interest, upon the character of the banking system and the competitive setting of banks.

Any decision by the Federal Reserve may be appealed to the appropriate United States Circuit Court of Appeals. The Act prohibits the interstate expansion of holding companies unless the laws of the entered state specifically permit acquisitions by "foreign" holding companies. No such permission exists as yet. Assuming the passage of en-

abling legislation, any bank holding company crossing state lines would be compelled to follow the procedure governing intrastate acquisitions.

The divestiture provisions of the Act imply a prohibition against purchase of nonbanking assets and require the disposal of present nonbank holdings within two years.

Specific exemptions and exclusions of the Act cover several aspects: out of a total of 163 holding companies owning 25 per cent or more of the stock of one or more banks, 117 are exempted because in each case holdings are in one bank; the non-inclusion of any company registered under the Investment Company Act of 1940 prior to May 15, 1955; the exclusion of partnerships and testamentary trusts from the definition of a holding company rules out an undisclosed number of such group organizations, for example, the testamentary trust of Alfred I. duPont which owns some 20 separate banks.¹³

¹³See John Donoghue, "The Spence-Robertson Act," Burroughs Clearing House, June, 1956, p. 92.

II. CHAIN BANKING

Results similar to those obtained under group banking may be achieved through chain banking. A bank chain consists of a number of separately chartered banks under the control of the same individual or group of individuals.

Effective single control of several banks arises through stock ownership by individuals or through the medium of interlocking directorates or interlocking officerships. Of course, the financial position of the owners constitutes a significant limitation upon the scope of a bank chain, with control usually ending upon the death of the individuals or being diffused among their heirs.¹⁴

¹⁴U.S. Congress, Senate Committee on Banking and Currency, Bank Holding Legislation, Hearings on S. 76 and S. 1108, Part I, June 10-12, 1953, 83rd Congress, 1st Session (Washington, D.C.: Government Printing Office, 1953), p. 35.

III. RELATION OF BANK-MERGER MOVEMENT TO THE NATURE OF BANKING COMPETITION

An important aspect of the bank-merger movement's impact upon banking concentration is the relation of the movement to competition in banking. Various observers view bank mergers as a source of increasing encroachment upon free competition among banks.¹⁵ Inherent within the latter

¹⁵For example, Ben H. Ryan, President of the Independent Bankers Association of America, termed certain bank mergers in New York City as "horrible," and stressed that "Mergers by the very nature of the word in my estimation are meant to lessen competition . . ." See testimony of Ben H. Ryan at hearings before the Antitrust Subcommittee of the House Committee on the Judiciary, contained in U.S. Congress, Current Antitrust Problems, Part I, p. 438; U.S.

Congress, House Committee on the Judiciary, Bank Mergers, p. 48.

In a letter to Ray M. Gidney, Comptroller of the Currency, Representative Emanuel Celler, Chairman of the House Committee on the Judiciary, decried bank mergers in New York City and Long Island and warned that

If the present trend is not stopped, obviously there will ultimately be but a few banks which, inevitably, as the history of banking in other countries has clearly demonstrated, will wind up in a nationalization of the banking system.

Contained in U.S. Congress, House Committee on the Judiciary, Current Antitrust Problems, Part I, p. 476.

appraisal is the implicit assumption that heretofore banking was an industry closely approximating the purely competitive type. Pure competition implies, of course, the existence of a large number of sellers producing a homogeneous product so that no one seller has an influence upon market price. Then, too, entry and exit are completely free under conditions of pure competition.

More correctly, the market structure of commercial banking in the United States is one of monopolistic competition.¹⁶ Professor Lester V. Chandler, in undertaking a

¹⁶See Lester V. Chandler, "Monopolistic Elements in Commercial Banking," The Journal of Political Economy, February, 1938, p. 1; Alhadeff, "The Market Structure of Commercial Banking in the United States," Quarterly Journal of Economics, February, 1951, p. 65.

study of the banking market, cautions that:

. . . important elements of monopoly exist in the commercial banking system, even in the absence of collusive agreements, and that it is the theory

of monopolistic competition, rather than the theory of pure competition, that is the more useful in explaining the rates of interest on bank loans to customers, the rates of interest paid to bank customers on time and savings deposits, and the price paid by customers for other banking services.¹⁷

¹⁷Chandler, loc. cit. Another departure from pure competition in banking, according to Alhadeff, is the lessening of independent action of local bankers through their correspondent banking relationships. Alhadeff, op. cit., p. 68.

The high degree of regulation and supervision, whether state or federal, imparts a significant modifying feature to the competitive setting of banks. The three federal bank-supervisory agencies and the American Bankers Association have attested to the highly regulated and supervised nature of banking.¹⁸ The diverse aspects of

¹⁸See U.S. Congress, House Committee on the Judiciary, Regulation of Bank Mergers, pp. 14-15, 35-36, 46, 89.

banking regulation and supervision include: entry of new banks, covering such factors as capital requirements, character of proposed management, competitive situation, likelihood for successful operation; establishment of additional branches, which is governed generally by the same requirements relating to the organization and chartering of a new bank; merger operations; restrictions on types and amounts of loans; specification of investment powers; maximum in-

terest payments on savings deposits; prohibition of interest payments on demand deposits; precise definition of demand and savings deposits for regulatory purposes; maintenance of general capital requirements; ownership of banking facilities and other real property; stipulations governing the selection and duties of directors; limitations on interlocking directorates; conduct of securities' underwriting function; the authorization and exercise of trust powers; liquidation procedures.¹⁹

¹⁹Ibid., p. 89 f.

In the light of the preceding discussion, it is imperative then that the appraisal of bank-merger activity must consider additional factors other than the state of numerical competition in an area. Important elements to be examined in any bank-merger proposal comprise the following: the nature of the assets, capitalization and management of the resulting institution; the composition of the prospective absorbed bank's assets and its management group; the equitability of the merger plan to the participating banks' stockholders; the effect on the banking convenience and needs of the community concerned; the meeting of all legal requirements. The latter factors constitute aspects of a "workable competition" approach which, though necessarily involving the evaluation of intangible

factors, indicates the narrowness of an evaluative criterion based solely on the "numbers" approach to competition.

Many bank officials and observers indicate the significance of this "workable competition" concept. William McChesney Martin, Chairman of the Board of Governors of the Federal Reserve System, suggests the consideration of other factors in appraising bank mergers:

. . . it is important to bear in mind that lessening of competition and tendency toward monopoly are not the only factors which must be considered in connection with various banking transactions including mergers and consolidations. There are other factors which also have an important bearing upon the public interest and which must be taken into account in such cases, such as the adequacy of a bank's capital structure, the competency of its management, its future earnings prospects, and the needs of the community. The Board of Governors of the Federal Reserve System must, of course, give proper weight to these factors in discharging its functions under the law; and it is understood that similar factors are considered by the Comptroller of the Currency and the Federal Deposit Insurance Corporation in performing their respective statutory responsibilities. There have been in the past and there can well be in the future instances in which the over-all public interest would clearly be served by a merger or consolidation even though it may incidentally tend to lessen competition.

It should also be borne in mind that, in the light of existing provisions of Federal law relating to bank mergers and consolidations, Congress has apparently contemplated that not all such mergers and consolidations are objectionable but, on the contrary, that there may be many such transactions which, subject to supervisory approval are justified and desirable in the public interest.²⁰

²⁰Statement by Chairman Martin before the Antitrust Subcommittee of the Committee on the Judiciary of the House

of Representatives on June 13, 1955, contained in Federal Reserve Bulletin, June, 1955, p. 644.

Inherent within Mr. Martin's statement is the advocacy of use of a criterion of public welfare in screening bank mergers. For similar views see letter of H. E. Cook, Chairman of the Federal Deposit Insurance Corporation, to Percival F. Brundage, Director of Bureau of the Budget, contained in U.S. Congress, Senate Committee on Banking and Currency, Regulation of Bank Mergers, p. 8. J. Stewart Baker, "Changing Times for Banking" (an address before the National Association of Supervisors of State Banks at the Mark Hopkins Hotel, San Francisco, California, October 19, 1956, p. 7, manuscript).

The complexities involved in the application of a strict "numbers" test for appraising bank mergers are suggested in the unsuccessful case brought by the Federal Reserve Board under section 7 of the Clayton Act against the Giannini interests controlling Transamerica. Briefly, the Federal Reserve charged violation of the section through Transamerica's acquisition of 48 banks with 645 offices in 5 Western states.²¹ The Board of Governors of

²¹For a brief résumé of the Federal Reserve's proceeding against Transamerica see U.S. Congress, House Committee on the Judiciary, Corporate and Bank Mergers, pp. 32-33.

the Federal Reserve System, first finding that the competitive market area for commercial banks was basically the local community in which they operate, held Transamerica's acquisitions in violation of section 7 of the Clayton Act and ordered divestiture of a number of banks. The Third Circuit Court of Appeals reversed the Board's ruling on the

ground that the Board had not proved probable lessening of competition between participating banks in any local area, and indeed the Court rejected evidence on that issue. Of the 48 banks acquired by Transamerica 38 were located in single-bank communities. The Court also did not uphold the Board's ruling that Transamerica's acquisitions tended toward monopoly in the five-state region. Maintaining that the latter conclusion was unsupported by the evidence, the Court stressed that the conclusion was also inconsistent with the Board's use of the local community as the area of competition.

Testimony offered by C. Canby Balderston, Vice Chairman of the Board of Governors of the Federal Reserve System, before a subcommittee of the Senate Committee on Banking and Currency emphasizes the inherent difficulties of utilizing a "control of assets" standard in evaluating competition among a city's banks. Mr. Balderston likened the problem to judging a spectrum.²² Queried on his opin-

²²See U.S. Congress, Senate Committee on Banking and Currency, Regulation of Bank Mergers, p. 41.

ion of six banks' control of 60 per cent of a city's deposits, the Vice Chairman retorted:

If there were 6 banks, 6 commercial banks, all strong, all large enough to accommodate the largest customers in the community, I would feel that the community was well served. But the problem is more

complex than can be answered on the basis of simple figures. We have asked that a study be made in one of the western communities to determine the criteria by which to judge too little competition and too much. It is a very complex . . . ²³

²³Ibid.

IV. REGULATION OF BANK MERGERS

The discussion of the preceding section indicated the highly supervised and regulated nature of the banking industry and the unsuitability of the application of a strict numbers test in appraising the competitive impact of bank mergers. Indeed, it has been strongly suggested that important banking factors must necessarily be evaluated in conjunction with the more limited competitive elements to achieve a realistic, workable policy governing bank mergers.

It is thus recommended that the banking laws be amended so as to require the prior written consent of the particular federal bank-supervisory agency for any merger transaction that results in a continuing or absorbing bank subject to the supervision of one of the three federal agencies. In judging any merger proposal, the supervisory agency having jurisdiction should consider not only competitive effects but also the soundness of the assets, capitalization and management of the resulting institution,

the nature of the prospective absorbed bank's assets and management, the equitability of the merger plan to the stockholders concerned, the effect on the banking convenience and needs of the community, the meeting of all legal requirements.

In order to achieve uniform standards, the ruling supervisory agency should be required to seek the views of each of the other two supervisory agencies on the competitive impact of the merger proposal. A permissive clause would allow optional recourse of the agencies to the opinions of the Attorney General on the competitive and monopolistic aspects of the planned merger. The final decision to grant or withhold consent must reside, however, in the supervisory agency having jurisdiction in a particular case.

It should be noted that the recommendation places responsibility for appraising bank mergers directly in the hands of the three federal supervisory agencies who are intimately familiar with the many specialized and highly technical facets of banking throughout the country. The evaluation of bank mergers is thus incorporated in the task of bank supervision, which, in turn, is importantly related to monetary policy.²⁴

²⁴The recommended change in the banking statutes would not apply to those relatively few merger transac-

tions involving solely noninsured state banks. The proposed legislation does cover, of course, those noninsured state banks absorbed by banks coming under the jurisdiction of any one of the three federal bank-supervisory agencies. Presently, there are only 481 noninsured state banks located in 39 states, and they control less than 1.5 per cent of total commercial banking resources in the United States. U.S. Congress, Senate Committee on Banking and Currency, Regulation of Bank Mergers, p. 4.

Many of the features of the above recommendation were included in a bill, S. 3911, introduced in the second session of the 84th Congress. Essentially, the bill would amend the Federal Deposit Insurance Act by requiring the prior written consent of the proper federal supervisory agency for any merger transaction resulting in a continuing or absorbing bank coming under the jurisdiction of the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, or the Federal Deposit Insurance Corporation. Specific factors to be considered in evaluating a merger proposal are those given in section 6 of the Federal Deposit Insurance Act: the financial history and condition of the banks, capital adequacy, earnings potential, general nature of management, convenience and needs of the community. In addition, the supervisory officials must also consider whether the proposed merger "might lessen competition unduly or tend unduly to create a monopoly in the field of banking."²⁵

²⁵Ibid., p. 2. See latter source for complete text

of S. 3911. It should be noted that the bill uses the word "unduly" rather than "substantially" in referring to the appraisal of the competitive impact of a merger. The Deputy Comptroller of the Currency, Mr. L. A. Jennings, testified at Senate subcommittee hearings on the bill that existing precedents as to the meaning of "substantially" would impede the successful administration of a bank-merger law incorporating the "substantial" criterion. Mr. Jennings suggested that "the use of the word 'unduly' will permit us to act on mergers and consolidations in the entire public interest." Ibid., p. 32.

For a similar view expressed by the Chairman of the Board of Governors of the Federal Reserve System before a subcommittee of the House Committee on the Judiciary see Federal Reserve Bulletin, June, 1955, p. 647.

The proposed bill, S. 3911, received the endorsement of each of the three federal bank-supervisory agencies and the American Bankers Association. At least two other proposed bills, H.R. 2115 and H.R. 6405, would establish lines of jurisdiction similar to those provided for in S. 3911. On the other hand, H.R. 5948 and H.R. 9424 would amend section 7 of the Clayton Act to include bank mergers via asset acquisitions, and would vest concurrent authority in the Board of Governors of the Federal Reserve System and the Attorney General.

Any recommendation concerning the regulation of bank mergers must be viewed from the broader perspective of even more significant problems facing American banking. Important questions arise from the dual nature of the banking system and from the controversy of unit versus branch banking. The latter questions have a serious bearing upon the bank-merger movement and upon any recommendation aimed at regulating bank mergers.

In the United States, the dual nature of the banking system derives from the fact that in addition to the national chartering and supervision of banks, the several states also each carry on chartering and supervisory func-

tions. The existing patch-quilt of bank-supervisory functions is, as one qualified critic has stated,

. . . a historical accident, the product of almost a century of federal banking legislation which has included no complete overhauling of supervisory arrangements in spite of drastic changes in the national monetary and banking system during that period.

Under the circumstances, it is not surprising that tradition, rules-of-thumb, hear-say, and vested interests appear to have been dominant forces in the development of American bank-supervisory legislation and practice.²⁶

²⁶George L. Bach, Federal Reserve Policy-Making (New York: Alfred A. Knopf, 1950), pp. 244 f.

Although most monetary economists and central-banking experts support the establishment of a unified banking system, significant political obstacles thwart any practical implementation of this recommendation.²⁷ A major

²⁷Ibid., p. 246. Bach suggests that there is little probability of replacing the existing dual banking system "short of another major crisis such as that of 1932-33."

hindrance to the achievement of a unified national banking system derives from the opposition of the various state bank-supervisory agencies who jealously guard against any further federal encroachment upon their authority.

The latter reaction is well exemplified in the sharp objection of the National Association of Supervisors of

State Banks to the proposed legislation contained in S. 3911. The bill, as explained above, would place authority for approving most bank mergers within the hands of the three federal bank-supervisory agencies.²⁸

²⁸For statement of the National Association of Supervisors of State Banks see U.S. Congress, Senate Committee on Banking and Currency, Regulation of Bank Mergers, pp. 107-109, esp. p. 109. In concluding its statement, the Association termed the bill to represent "a major intrusion of Federal authorities into the State banking system, deprive State supervisors of effective discretion, and require multiple consent." Ibid., p. 109.

A further indication of the defensive reaction of state supervisory officials toward the extension of federal controls on banking is at least suggested in a recent decision by the State Superintendent of Banks in New York. In his disapproval of a proposed merger between two Buffalo city banks, the State Superintendent of Banks, Mr. George A. Mooney, was at least partially guided in his decision by the consideration of avoiding "drastic legislation which might adversely affect sound bank mergers in the future."²⁹

²⁹Leif H. Olsen, "New Test Set Up in Bank Mergers," The New York Times, October 7, 1956, p. 8 F.

It is not implied here that the avoidance of enhanced federal regulation was either the sole or the basic consideration in the Superintendent's decision. Mr. Mooney pointed out that the merger would have established control by two banks over 98 per cent of the commercial banking assets in Buffalo. He further emphasized that: "Approval would have served notice that asset concentration is no

longer within the orbit of Banking Department merger policy." Ibid., p. 1 F.

The foregoing discussion underlines the need for the rationalization of the chartering and supervisory structure of banking in the United States, especially if consistent and well-defined banking regulation is to be achieved. One aspect of over-all regulatory policy--that dealing with bank mergers--would share in the advantages derived from such a policy.

Another important problem that has serious implications for the bank-merger movement and its regulation is that emanating from the controversy between advocates of unit versus branch banking.

Nation-wide branch banking does not exist in the United States. In contrast with most other countries in which extensive branch systems exist, the banking structure of the United States is an odd mixture of unit and branch banks. The several states' laws governing branch banking once again represent a patch-quilt: ranging all the way from state-wide branch banking to the complete prohibition of branch banking.³⁰

³⁰ See Chapter V above for a discussion of the varied nature of branch banking laws in the United States, and for its impact upon the bank-merger movement.

Many observers sharply criticize the avoidance of nation-wide branch banking. Admitting that the limitation on branch banking tends to reduce concentration of economic power in banking, these critics then stress the disadvantages of such a policy: interference with the smooth flow of savings funds from urban to rural areas and from one region to another; creates bankless towns in localities too small to support independent banks; facilitates wide-spread bank failures such as were experienced in the early Thirties.³¹

³¹Albert H. Hart, Money, Debt, and Economic Activity (second edition; New York: Prentice-Hall, Inc., 1953), p. 34.

Concluding his remarks on the scope of branch banking, Hart offers the following opinion:

Balancing advantages and disadvantages, we might be better off if we permitted the increased centralization of power implied by branch banking and were vigilant against its abuse. But the argument is by no means one-sided.

Ibid.

In his study of the market structure of commercial banking, David A. Alhadeff suggests that:

The problems of the small borrowers show little hope of solution within the predominantly unit-bank structure. Since branch banks appear to have a cost advantage over small unit banks, a nation-wide network of branch banks might result in a more favorable rate structure for the small borrower. This is obviously not a certainty.³²

³²David A. Alhadeff, "The Market Structure of Com-

mercial Banking in the United States," op. cit., p. 85.

Once again, major political obstacles militate against the establishment of branch banking on an interstate basis.³³ Strong opposition to branch banking on a

³³See "Banking Anachronism," The Economist, June, 23, 1956, p. 1194.

limited local scale even makes difficult the imposition of uniform states' laws allowing state-wide branch banking. The advocates of local single-office banking, the so-called "independent bankers," view with alarm the increasing control over bank assets achieved through holding companies and merger operations. In fact, a correspondent of The Economist termed the enactment of the Bank Holding Company Act of 1956 as "a significant political victory for the defenders of the traditional American system of local-single-office banks."³⁴

³⁴Ibid.

Resistance to branch banking in certain areas is also evidenced in laws designed to protect unit banks.³⁵

³⁵Alhadeff, op. cit., p. 66.

The absence of any precise statement as to the specific function of banking regulation--to foster competition or to contain it--clouds the dispute over unit versus branch banking.³⁶

³⁶Preston Delano, former Comptroller of the Currency, alludes to this problem in his account of the supervisory position he held. See Preston Delano, Leaves from a Comptroller's Notebook (private printing), p. 27.

Kenneth K. DuVall, Chairman of the board and President of the Merchandise National Bank of Chicago, holds the view that many of the monopolistic elements that might encroach upon banking institutions arise from an inadequacy of present law to provide for branch banking. See Kenneth K. DuVall, "The Branch Banking Question Revisited," Finance, September 15, 1953, p. 35.

The varying states' statutes governing branch banking have evoked the use of the holding company device to achieve, in effect, the results of branch banking.³⁷ Uni-

³⁷An interesting case in point, that may have wide ramifications for the banking community, is the announced intention of the First National City Bank of New York to form a new bank holding company to acquire the County Trust Company of Westchester County. State law presently restricts New York City banks to operation within the five boroughs of the city. If the Federal Reserve approves the proposed holding company, the First National City Bank will gain access to the rapidly expanding area of Westchester County. The final outcome may be the establishment of state-wide branch banking.

See Albert L. Kraus, "Politico-Economic-Legal Battles Develop over Branch Expansion," The New York Times, January 13, 1957, pp. 114 F; Business Week, November 10, 1956, p. 44; November 17, 1956, pp. 54 f.

form states' laws permitting state-wide branch banking

would forestall such indirect measures and contribute to more efficient banking regulation.

Rationalization of the banking system along unified, branch-banking lines would establish more consistent supervisory policy and provide for a more viable banking system.

V. THE ROAD AHEAD

Any estimate of the future course of the bank-merger movement must consider the significance of several relevant factors. Bank mergers are connected with such general factors as the growth and expansion of commerce and business, changes in the distribution of income, and the locational movements of business and population. It has been suggested that in the past bank mergers have arisen in response to increased concentration in other industries, with increases in bank mergers generally lagging behind spurts in industrial mergers.³⁸

³⁸Eisemann, op. cit., p. 144.

More specifically the merger movement will encounter certain restraining influences: the rising premiums paid for absorbed banks; the possible reduction of corporate and of individual income taxes may enhance the profitability of banking and permit the entry of new banking units into the industry; a return to an era of higher money market

rates could increase the profits of many small operating banks, thereby lessening the desire to merge with larger institutions; the holding company device may replace the merger technique as a way to increase the size of banking units; the establishment of more stringent regulation augmented by a strict attitude of supervisory officials toward additional merger proposals in areas already marked by merger activity.

On net balance, then, the factors reducing the impetus of the bank-merger movement are growing in force. Nevertheless, incentives for merger still exist in the outlying areas of certain large population centers.

VI. SUMMARY

The bank-merger movement has had a very slight impact upon concentration in banking. At year-end 1955, a total of 13,737 commercial banks operating 6,738 branches, or a total of 20,475 banking offices served the banking needs of approximately 165 million people. As of December 31, 1941, the United States had a total of 14,423 banks operating 3,592 branches or a total of 18,015 banking offices.

The 100 largest commercial banks, encountering substantial competition from the increased number of larger banks, now hold a smaller proportion of the nation's banking resources as compared with their position on December

31, 1941.

In each of 16 major financial centers, the largest bank held at least 22 per cent of the city's total bank assets, ranging from a low of 22 per cent in New York City to a high of 61.0 per cent in Pittsburgh, Pennsylvania. Borrowers in each of the 16 major cities had access to at least five alternative sources of bank credit.

Group banking and chain banking are two other devices for achieving concentration in banking. At year-end 1954, some 163 bank holding companies in 41 states, Alaska, and the District of Columbia owned or controlled 25 per cent of the stock of one or more banks. The 163 groups accounted for 7.98 per cent of all commercial banking offices and 15.28 per cent of all commercial bank deposits in the 41 states, Alaska, and the District of Columbia.

The Bank Holding Company Act of 1956, which regulates the future growth of holding groups and requires their divestiture of non-banking assets, applies to only 46 holding companies owning 25 per cent or more of the stock in each of two or more banks.

The market structure of commercial banking in the United States is one of monopolistic competition. The highly regulated and supervised nature of banking requires that an appraisal of bank-merger activity consider additional factors other than the state of numerical competition in an area.

Important elements of a "workable competition" approach would include: the nature of the assets, capitalization and management of the resulting bank; the composition of the prospective absorbed bank's assets and its management group; the impact of the merger plan on the participating shareholders; the effect on the banking convenience and needs of the community concerned; the satisfaction of all legal requirements.

The unsuccessful Transamerica case brought by the Federal Reserve under section 7 of the Clayton Act underlines the complexities involved in the application of a strict "numbers" test for appraising bank mergers.

It is thus recommended that the banking laws be amended so as to require the prior written consent of the particular federal bank-supervisory agency for any merger transaction that results in a continuing or absorbing bank subject to the supervision of one of the three federal agencies. In judging any merger proposal, the presiding supervisory agency should consider not only competitive effects but also relevant banking factors inherent within the proposed transaction.

Rationalization of the banking system along unified, branch-banking lines would establish more consistent bank-supervisory policy that facilitates the regulation of bank mergers and provides for a more viable banking system.

On net balance, the factors reducing the impetus of

the bank-merger movement are growing in force. Incentives for merger, however, still exist in the outlying areas of certain large urban centers.

CHAPTER VIII

SUMMARY AND CONCLUSIONS

Since 1933 the bank-merger movement has been the principal factor that has gradually reduced the number of United States banks. The merging activity of banks has been especially pronounced in the post-World War II period. Whereas 95 banks ceased operations through mergers in 1946, the number increased to 207 in 1954.

When viewed from point of origin, the incidence of bank mergers produces a varied pattern. Many of the larger cities have witnessed bank mergers, with New York City being a good case in point. In terms of the absolute number of bank mergers, the more heavily populated and industrialized states and regions account for the greatest share of bank mergers.

Generally, during the period studied, member banks have been more active in merging than have been nonmember banks. Merger transactions involving national banks during the period January 1, 1950 to May 1, 1955, indicate that more state banks were absorbed under national charter than were national banks absorbed under state charter. State banks, however, acquired a net amount of approximately \$6 billion in banking assets as a result of absorption of

national banks.

On the basis of size of bank, available statistics indicate that generally the large and medium-sized banks are more active as absorbing units than are the small banks. On the other hand, small banks contribute the highest proportion of absorbed banks.

The several bank-supervisory agencies--both state and federal--must give approval to certain mergers and consolidations involving banks under their jurisdictions. The various federal bank-supervisory agencies also exert moral suasion over planned mergers by holding informal discussions with the interested parties before any formal merger action is initiated.

Various criteria used by the federal supervisory authorities in appraising merger proposals include such intangible factors as the effect upon competition and monopoly in banking, the capital adequacy of the resulting bank, the ability of the continuing management, earnings potential, and general community needs.

Although not all bank mergers require the express approval of a federal agency, many resulting banks acquire bank branches through a merger transaction. The operation of the newly acquired branches frequently requires the prior consent of the proper federal bank-supervisory agency.

States' requirements governing the merger of state banks generally follow the procedure established by federal

regulations and laws.

Various economic factors have impelled banks to merge in recent years. "Rescue" mergers in which the Federal Deposit Insurance Corporation advances funds to the absorbing bank have been few in number in recent years.

An important positive factor operative in the bank-merger movement is that marked by the attempts of many banks to enhance their market positions. Merger often permits the diversification of banking operations, particularly in such expanding areas as trust business and foreign trade financing. The merger device enables rapid and economical entrance to new types of lending, for example, the growing field of "retail banking."

In response to significant population shifts, particularly into outlying and suburban areas, many absorbing banks have acquired "ready-made" banking facilities through mergers.

Many banks, experiencing the expansive effects of a return to their traditional role of commercial lending, have utilized the merger technique to offset lagging growth in deposits and business. The merger route also offers a convenient means for certain banks to expand their maximum individual loan limits and to meet the rising competitive pressure of non-bank lenders, both private and public.

Financial factors, including the discounted prices for bank shares and considerations of financial prestige,

constitute intangible facilitating elements in many bank mergers.

The major non-economic factors contributing to bank mergers are of two types: legal and those involving personnel management considerations. Legal limitations on mergers among banks have been gradually reduced over the years. In addition, no precedent exists for the effective enforcement of the Sherman Act and of the Clayton Act against commercial banks.

Specific merger statutes making mergers more legally accessible to banks include: the Consolidation Act of 1918, as later amended by the McFadden Act of 1927; the "two-way street" law of August 17, 1950, permitting the direct combination of national banks with state banks under state charter; the Celler Antimerger Act of 1950 which excluded commercial banks from the extended prohibitions of section 7 of the Clayton Act applying to mergers achieved by the acquisition of assets; the Act of July 14, 1952, eliminating the right of dissenting shareholders in the absorbing bank to require cash payments for their shares.

Existing branch banking statutes affect the geographical pattern and incidence of mergers through their regulation of the conversion of absorbed banks into branches and the transfer of branches acquired through merger.

Personnel management difficulties have also precip-

itated mergers among banks, particularly the absorption of relatively small banks by larger banks that pursue a generally more attractive and enlightened personnel policy.

Suggested ratios for analyzing bank mergers include:

(1) size ratio, which expresses the total assets of the absorbed bank as a percentage of the acquiring bank's total assets; (2) capital-deposit ratios for absorbed and absorbing banks; (3) capital-risk asset ratios for absorbed and absorbing banks; (4) loan-ratio, which expresses a bank's total loans and discounts as a percentage of its total assets; (5) earnings positions of absorbed and absorbing banks.

I. NET APPRAISAL OF THE MERGER MOVEMENT

This study has shown that generally the bank-merger movement during the period 1946-1954 is explicable primarily in terms of the banking industry's adaptation to the changing institutional complex in which it operates. During the post-World War II period significant changes have occurred in the nature of the banking market and in the nature of the competitive and financial setting surrounding banks' operations. The merger device, as influenced by the peculiar legal framework of American banking, has been an important means for adapting to these changes.

The findings of this study indicate the following to be significant economic factors contributing to the over-

all movement:

(1) Banks' attempts to enhance market positions through diversification of operations, particularly in the growing area of "retail banking."

(2) Adaptation to appreciable population shifts into outlying and suburban areas through the acquisition of "ready-made" banking facilities.

(3) Return to traditional role of commercial lending has pressured banks into utilizing the merger route to offset lagging growth in deposits and business, to expand individual loan limits, and to meet the rising competitive pressure of non-bank lenders.

(4) Moves to offset the undervaluation of bank shares and to enhance financial prestige.

Major non-economic factors contributing to bank-mergers include:

(1) The gradually eased regulations and laws governing bank mergers, modified by the lack of explicitly stated benchmarks or criteria to be used in appraising mergers.

(2) The varied pattern of the several states' statutes governing the scope of branch banking, and the more stringent requirements for satisfying the "need" criterion in the establishment of de novo branches as compared with the acquisition of branches via merger.

(3) Personnel management considerations that promote the absorption of relatively small banks by larger

banks that pursue a generally more attractive and enlightened personnel policy.

In addition, the study indicated the very slight impact of the bank-merger movement upon concentration in banking. The 100 largest commercial banks, experiencing competitive pressure from the increased number of larger banks, hold a smaller proportion of United States banking resources as compared with their pre-World War II position. In each of 16 major financial centers, where the largest bank held at least 22 per cent of the city's total bank assets, borrowers had access to no less than five alternative sources of bank credit.

Group banking and chain banking are two other devices for achieving concentration in banking. As of the end of 1954, some 163 holding companies accounted for 7.98 per cent of all commercial banking offices and 15.28 per cent of all commercial bank deposits in 41 states, Alaska, and the District of Columbia.

The monopolistic-competitive market structure of commercial banking and its highly regulated, supervised nature require that an appraisal of bank-merger activity consider additional factors other than the state of numerical competition in an area.

Aspects of "workable competition" approach in evaluating bank mergers would include: the nature of the assets, capitalization and management of the resulting bank; the

composition of the prospective absorbed bank's assets and its management group; the impact of the merger plan on the participating shareholders; the effect on the banking convenience and needs of the community concerned; the satisfaction of all legal requirements.

It was recommended that the banking laws be amended so as to require for bank mergers the prior written consent of a federal bank-supervisory agency. Consent would be necessary for any merger transaction that results in a continuing or absorbing bank subject to federal supervision.

The amended laws should explicitly require in judging any merger proposal the consideration of not only competitive effects but also relevant banking factors such as the composition of the banks' assets, capitalization and management, the banking needs and convenience of the community.

A further recommendation entailed the establishment of a unified national banking system that would permit at least uniform state-wide branch banking. The latter recommendation would facilitate the regulation of bank mergers and, more importantly, provide for a more viable banking system.

An estimate of the future course of bank-merger activity reflects two opposing forces: the increasing importance of elements limiting the bank-merger movement, and the existing incentives for merger in outlying areas of

large urban centers. In the main, however, the factors reducing the impetus of the merger movement are growing in force.

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I, Robert Herman Marshall, was born in Harrisburg, Pennsylvania, December 6, 1929. I received my secondary school education in the Catholic schools of Lancaster, Pennsylvania, and my undergraduate training at Franklin and Marshall College, which granted me the Bachelor of Arts degree, magna cum laude, in 1951. In October, 1951, I was appointed a University Scholar at The Ohio State University where I specialized in the Department of Economics and from where I received the Master of Arts degree in 1952. While completing the requirements for the degree Doctor of Philosophy, I held various teaching positions within the Department of Economics, The Ohio State University, and also served as research assistant to Professor John J. Balles during the year 1953-54. I was appointed Instructor in the Department of Economics for the academic year 1956-57.