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DURING THE POSTWAR PERIOD.

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CONCENTRATION IN BANKING IN OHIO
DURING THE POSTWAR PERIOD

Dissertation

Presented in Partial Fulfillment of the Requirements for
the Degree Doctor of Philosophy in the Graduate
School of The Ohio State University

By

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CONTENTS

	PAGE
List of Tables.	vi
CHAPTER	
I. INTRODUCTION.	1
Purpose of the Study	5
Need for the Study	6
Scope of the Study	9
Methodology.	12
Organization of the Study.	13
II. THE POSTWAR BANKING STRUCTURE IN OHIO	16
Number of Banks and Banking Offices.	16
New Bank Formations.	26
Savings Banks and Unincorporated Banks	29
Geographic Dispersion of Banks.	32
Federal Deposit Insurance Corporation and Federal Reserve Membership Among Banks in Ohio	34
Financial Structure of Banks in Ohio	38
Income and Operating Expense of Banks in Ohio. .	60
Summary	70

III.	BANKING CONCENTRATION AND COMPETITION IN OHIO. . .	75
	Concentration Exercised by the Large	
	Metropolitan Banks in Ohio During the	
	Postwar Period	75
	Geographic Concentration.	80
	Comparison of Bank Concentration in Ohio and	
	the United States.	85
	The Economies of Large Scale Banking in Ohio. .	86
	Competition in Banking in Ohio.	91
	Summary	113
IV.	BRANCH, GROUP, AND CHAIN BANKING IN OHIO BANKING	
	DURING THE POSTWAR PERIOD	117
	The Growth of Branch Banking in Ohio.	117
	Pattern of Branch Banking in Ohio.	122
	Primary Causes of Increased Branch Banking. . .	127
	Bank Supervision and Branch Banking in Ohio . .	135
	Group and Chain Banking in Ohio	142
	Advantages and Disadvantages of Group Banking	
	with Particular Reference to the BancOhio	
	Corporation.	155
	Summary	162

CHAPTER	PAGE
V. POSTWAR BANK CONSOLIDATIONS AND MERGERS IN OHIO. .	166
Methods of Acquisition.	166
Bank Consolidations and Mergers in Ohio	170
Factors Contributing to Bank Mergers and Consolidations During the Postwar Period . .	176
Regulation of Bank Consolidations and Mergers .	188
Summary	201
VI. SELECTED CASE STUDIES OF RECENT BANK CONSOLIDATIONS AND MERGERS IN OHIO.	206
Methods Employed in Selecting the Case Studies.	207
Case Study #1.	211
Case Study #2	224
Case Study #3	239
Summary.	254
VII. SUMMARY AND CONCLUSIONS.	257
Summary	258
Conclusions	270
APPENDIX.	275
BIBLIOGRAPHY.	304
AUTOBIOGRAPHY	316

LIST OF TABLES

TABLE		PAGE
1.	Total Number of Banks, Branch Banks and Banking Offices in Ohio, 1945-1959.	18
2.	Average Number of Persons Per Bank and Banking Office in Ohio and the United States, 1945- 1959.	20
3.	Total Number of State Banks, Branch Banks and Banking Offices in Ohio, 1945-1959.	24
4.	Total Number of National Banks, Branch Banks, and Banking Offices in Ohio, 1945-1959.	25
5.	New National and State Banks Authorized in Ohio, 1945-1959.	27
6.	Number of Banks in Ohio with Membership in the Federal Deposit Insurance Corporation, 1945- 1959.	35
7.	Number of Banks in Ohio with Membership in the Federal Reserve System, 1945-1959	37
8.	Total and Average Assets of All Banks, National Banks, and State Banks in Ohio, 1945-1959 . . .	39
9.	Composition of Total Assets of All Banks in Ohio, 1945-1959.	43
10.	Total Deposits of All Banks, National Banks, and State Banks in Ohio, 1945-1959.	50
11.	Total Demand Deposits of All Banks, National Banks, and State Banks in Ohio, 1945-1959 . . .	51
12.	Total Time Deposits of All Banks, National Banks, and State Banks in Ohio, 1945-1959.	52
13.	Total Capital of All Banks in Ohio, 1945-1959. . .	55

TABLE

PAGE

14.	Composition of Operating Income of All Banks in Ohio, 1945-1959.	61
15.	Rate of Income on Total Loans and Investments of All Banks in Ohio, 1945-1959.	64
16.	Composition of Operating Expense of All Banks in Ohio, 1945-1959.	66
17.	Total Net Income of All Banks in Ohio, 1945-1959 .	69
18.	Percentage of Total Bank Assets, Deposits, and Capital in Ohio Controlled by the 20 Largest Banks in Ohio in 1945 and 1959.	79
19.	Deposits of Individuals, Partnerships, and Corporations in the Metropolitan Counties of Ohio, December 31, 1947.	81
20.	Deposits of Individuals, Partnerships, and Corporations in the Metropolitan Counties of Ohio, December 31, 1959	82
21.	Operating Ratios for All Federal Reserve Member Banks in Ohio Grouped by Asset Size, 1959 . . .	87
22.	Number and Selected Balance Sheet Data of All Savings and Loan Associations in Ohio, 1945- 1959.	101
23.	Number and Total Assets of All Credit Unions in Ohio, 1945-1959	107
24.	Annual Purchase of United Savings Bonds in Ohio, 1945-1959	108
25.	Number of Offices and Total Assets of All Consumer Loan Companies in Ohio, 1946-1959. . .	110
26.	Premiums Received in Ohio by Life Insurance Companies Authorized to Operate in Ohio, 1945-1959.	111
27.	Number of Branch Offices Established by All Banks, National Banks, and State Banks in Ohio, 1945-1959.	118

TABLE		PAGE
28.	All Banks, National Banks, and State Banks in Ohio With and Without Branch Offices, 1945-1959. . .	120
29.	Number of Branch Banks Operated by the 20 Largest Banks in Ohio in 1945.	124
30.	Number of Branch Banks Operated by the 20 Largest Banks in Ohio in 1959	125
31.	Number and Percentage of All Branch Banks in Ohio Located in the Ohio Metropolitan Counties in 1945 and 1959.	128
32.	Number of Banks in Ohio Absorbed through Consolidation or Merger, 1945-1959.	172
33.	All Banks in Ohio Absorbed through Consolidation or Merger, Classified According to Amount of Assets, 1945-1959.	173
34.	All Acquiring Banks in Ohio, Classified According to Amount of Assets, 1945-1959	175
35.	Bank A Statement of Condition, December 31, 1957 .	215
36.	Bank B Statement of Condition, December 31, 1957 .	218
37.	Bank B Statement of Condition, October 5, 1955. .	229
38.	Bank C Statement of Condition, October 5, 1955 . .	231
39.	Bank A Statement of Condition, March 4, 1958. . .	244
40.	Bank B Statement of Condition, March 4, 1958 . . .	246
41.	Number of Unincorporated Banks in Operation in Ohio, 1945-1959.	276
42.	Location of National and State Banks in Ohio by County, 1945-1959	277
43.	Total Loans and Discounts of All Banks, National Banks, and State Banks in Ohio, 1945-1959.	280

TABLE		PAGE
44.	Composition of Total Loans and Discounts of All Banks in Ohio, 1945-1959.	281
45.	Composition of Total Capital of All Banks in Ohio, 1945-1959.	283
46.	Total Dividends on Common Stock of All Banks in Ohio.	285
47.	Total Assets, Deposits, and Capital of the 20 Largest Banks in Ohio, December 31, 1945. . . .	286
48.	Total Assets, Deposits, and Capital of the 20 Largest Banks in Ohio, December 31, 1959. . . .	289
49.	Assets and Liabilities of All Insured Commercial Banks in the United States, Grouped by Deposit Size, June 10, 1959	292
50.	Percentage Composition of Assets and Liabilities of All Insured Commercial Banks in the United States, Grouped by Deposit Size, June 10, 1959.	294
51.	Assets and Liabilities of All Insured Commercial Banks in Ohio, Grouped by Deposit Size, June 10, 1959	296
52.	Percentage Composition of Assets and Liabilities of All Insured Commercial Banks in Ohio, Grouped by Deposit Size, June 10, 1959.	298
53.	Distribution of Branch Banks in Ohio in Relation to the Location of the Parent Bank, 1945-1959	300
54.	Total Resources and Branch Offices of All Banks Affiliated with the BancOhio Corporation, December 31, 1945.	302
55.	Total Resources and Branch Offices of All Banks Affiliated with the BancOhio Corporation, December 31, 1959	303

CHAPTER I

INTRODUCTION

Commercial banks play an important part in the economic stability and growth of the United States. In addition to serving as depositories for a large portion of the nation's wealth, they provide much of the short, intermediate, and long-term credit to business, agriculture, government, and to individuals. Equally important, the commercial banking system serves as the medium through which the nation's money supply is controlled.

Because of the nature of the services provided by commercial banking, it is in the public interest that the banking structure remain responsive to the needs of the economy.

Banking institutions perform a middleman's function. Their primary purpose is to serve business and commerce. To do this satisfactorily, the banking system must change to meet the needs of an ever-changing business and commercial organization.¹

¹ John M. Chapman, Concentration in Banking (New York: Columbia University Press, 1934), p. 4.

The banking system of the United States, however, has not met the need for structural change as swiftly as have other sectors of the economy.

In the United States the chartering and regulation of banks is divided between the state and federal governments, and under this

system uniformity of legislation and regulation is not possible. The reluctance toward change is also caused by the desire to protect the unit banking system. Traditionally, the American banking system has been composed of a large number of small independent banks serving the needs of local areas.

The oldest and most deeply established tradition in American banking is local autonomy. While other advanced countries have adopted nation-wide branch banking, the United States has clung to local or regional autonomy in banking in the face of the strong tendency towards the evolution of large geographically integrated enterprises throughout industry and trade.²

²Marcus Nadler and Jules I. Bogen, The Bank Holding Company (New York: New York University Graduate School of Business Administration, 1958), p. 8.

In the United States local banking institutions have been preferred to an extensive system of branch banks, as found in Canada or Great Britain, in order to make the development of the community or area the primary concern of the local bank. Proponents of unit banking contend that a board of directors composed of local residents understands better the needs of the local area and can be relied upon to fulfill those needs.

As the businesses which commercial banks serve have grown larger, however, there has been a need for a wider range of services, and the small unit bank has been unable to meet many of these demands. The shift of population away from rural areas toward large metropolitan centers has also resulted in a decline in the business of the rural banks. Many

of the industries located in rural areas have merged with larger organizations with headquarters in metropolitan centers. This too has resulted in a loss of business for many small unit banks.

Local autonomy in banking fails to serve its purpose when the local bank does not earn a profit adequate to provide the banking services which the community requires. The inability of many small banks to provide continued service in periods of economic adversity is reflected in the rapid decline in the number of commercial banks between 1920 and 1940. In 1921 the number of commercial banks in the United States reached the all-time high of 30,546. In the nineteen years which followed 16,012 commercial banks either failed and passed out of existence, were absorbed through merger or consolidation, or underwent voluntary liquidation.³

³Federal Reserve Board of Governors, All-Bank Statistics United States, 1896-1955 (Washington, D.C.: Federal Reserve System, 1959), p. 37.

The agriculture depression of the 1920's and the industrial depression of the 1930's were the primary causes of the inability of many of the banks to continue operation; however, it was among the unit banks operating in rural areas that the heaviest losses occurred. The changes in banking structure during this period led to increased concentration in banking.

Concentration in banking is generally recognized as a trend in which a larger proportion of the total banking resources comes under the control of a smaller number of banks.

The tendency toward concentration in banking may be defined as the transaction of a decreasing proportion of the nation's banking business by separate and independent managed banks.⁴

⁴U. S., Congress, Senate, Committee on Small Business, Concentration of Banking in the United States, 82nd Cong., 2nd Sess., Staff Report of the Federal Reserve Board of Governors, 1952, p. 2.

The problem of concentration in banking in the United States continued after 1940. The small, independent local bank is still the predominant type, but a few large metropolitan banks control the majority of bank resources.

The American banking system has long been characterized by a large number of relatively small banks. In 1959 more than half the banks in the country had less than \$10 million in deposits and more than 30 per cent had less than \$2 million deposits. However, in that year 67 banks controlled more than 40 per cent of the assets.⁵

⁵U. S., Congress, House, Committee on Small Business, Banking Concentration and Small Business, 86th Cong., 2nd Sess., 1960, H. Res. 51.

The continued decline in the number of unit banks during the post-World War II period has resulted, however, from a different set of circumstances than those which accompanied the decline of the preceding twenty years. Instead of economic crises, the latter period has been

characterized by larger personal income, a growing urban population, rapid industrial growth, and larger commercial and industrial organizations. These factors have exercised a strong influence on the present structure of banking.

Whatever form our banking structure has taken, it was inevitable that, as our economy grew and developed larger and larger business units for production and distribution, larger units of banking and consequently some concentration would result. As urban population grew relative to rural population and especially metropolitan areas increased in number and size, banking needs became more concentrated. The location of head or regional offices of large corporations in financial centers contributed especially to this trend since it gave rise to the need for large banking units capable of handling large transactions.⁶

⁶U. S., Congress, Senate, Committee on Small Business, Concentration of Banking in the United States, 1952, p. 1.

I. Purpose of the Study

The purpose of this dissertation is to provide an analysis of the extent of concentration in the banking structure of Ohio from 1945 to 1959. In addition, the study will analyze the factors which tend to induce concentration, and the primary means whereby bank concentration is attained.

The problem of concentration in banking should not be accepted as evil per se. This study is an attempt to arrive at an objective evaluation of the desirability of bank concentration, to pave the way

for more adequate regulation of banking, and to provide a better understanding of the causes and methods of bank concentration.

II. Need for the Study

The decline in the number of unit banks during the 1930's encouraged economists to take an interest in the causes and methods of bank concentration.⁷ After 1945, however, more attention was directed toward

⁷Chapman, Concentration in Banking, p. 6.

the problems of monetary policy, and the preoccupation with monetary policy resulted in the temporary decline of banking structure as an area of research.

In the years following World War II monetary policy regained much of the attention it lost in the post-Keynesian dismissal of monetary policy as an important stabilization tool. Money and banking specialists both before and after the accord [the accord of 1951 between the Federal Reserve authorities and the Treasury Department concerning the Federal Reserve policy of supporting the price of Treasury bonds through open market operations] spent considerable time and effort debating the effects and effectiveness of monetary policy.⁸

⁸Paul M. Horvitz, Concentration and Competition in New England Banking (Boston: Federal Reserve Bank of Boston, 1958), p. 5.

In recent years, however, there has been a renewed interest on the part of various members of Congress in the structure of commercial banking.⁹ Much of this interest is a result of the increased number

⁹The Senate and House Committees on Banking and Currency and the House Committee on the Judiciary have both held numerous hearings on various aspects of bank concentration since 1950. The Select Committee on Small Business of the House of Representatives has also sponsored a number of reports concerned with bank concentration.

of bank mergers and consolidations that have taken place since 1950. The research provided through Congressional action, however, has been national in scope.

A study of banking competition on a national scale provides little more than a brief analysis of the various factors which have brought about the changes in bank structure. After an attempt to analyze the bank merger movement on a national basis. Professor John Ryan of Fordham University concluded his report with the following paragraph:

If any conclusion emerges from this study it is that the number and size of bank mergers in the United States are very largely a local problem. We can learn little of practical value if we confine our attention solely to a nation-wide viewpoint. . . Further knowledge on this subject can come only from study and analysis on a local basis.¹⁰

¹⁰John Ryan, "Inability of Bank Merger Law to Deal with Local Mergers," The Commercial and Financial Chronicle, October 18, 1956, p. 18.

The state of Ohio is a leader among the 50 states in commercial banking. As of December 31, 1959, Ohio ranked eighth among the 48 states in the number of banks and fourth in total banking offices. The total assets of banks in Ohio were seventh in the nation, and the total deposits placed sixth. The total loans and discounts of banks in Ohio also ranked sixth in national standing.¹¹ In addition, three of the

¹¹U. S. Treasury Department, Annual Report of the Comptroller of the Currency (Washington, D.C.: United States Government Printing Office, 1960), p. 1112.

nation's fifty largest commercial banks were located in Ohio.¹²

¹²"The Fortune Directory, Part II," Fortune Magazine, August, 1959, p. 138.

The structure of banking in Ohio also changed rapidly from 1945 to 1959. In 1945, 175 branch banks were in operation in Ohio, and by 1959 the number had grown to 601.¹³ In 1959, Ohio placed fourth among

¹³Annual Report of the Federal Deposit Insurance Corporation, 1945 and 1959.

the 50 states in the number of branch banks in operation.¹⁴

¹⁴Ibid.

From 1945 to 1959, 106 bank mergers and consolidations took place between banks in Ohio. Only California, New York, and

Pennsylvania reported more bank combinations than Ohio during this 14-year period.¹⁵

¹⁵U. S., Congress, Senate, Committee on Banking and Currency, Hearings on S. 1062, Regulation of Bank Mergers, 86th Cong., 1st Sess., 1959, pp. 139-179.

U. S., Congress, House, Committee on Banking and Currency, Hearings, on S. 1062, Regulation of Bank Mergers, 86th Cong., 2nd Sess., 1960, pp. 20-23.

Although Ohio maintains a prominent position in banking, a comprehensive study of banking in Ohio was last undertaken in 1940.¹⁶

¹⁶J. M. Whitsett, Banking Operations in Ohio, 1920-1940 (Columbus, Ohio: Ohio State University Bureau of Business Research, 1941).

That study provided an elaborate analysis of the structure of banking in the state; however, only brief mention was given to the problem of concentration of bank resources and facilities.

As a result of Ohio's importance in the nation's commercial banking structure, and the current interest in concentration in banking, an investigation of bank concentration in Ohio will provide information valuable to bank management, regulatory agencies, and students of finance and banking.

III. Scope of the Study

Concentration in banking, as previously defined, refers to an increasing proportion of the total banking business being performed by a smaller number of banks. The desire for a larger operating base in

banking, as in other lines of business, is without doubt one phase of the concentration movement. Such factors, however, as changes in the number of unit banks, the extent of branch chain, and group banking, the growth of competing nonbank financial institutions, and the geographic distribution of banks and banking offices are a necessary part of a study of concentration.

A study of the concentration movement involves a discussion of the changing unit bank, the growth and extent of bank mergers and consolidations, the development and status of branch banking, the history and problems involved in chain banking, and a consideration of the more recent appearance of group banking.¹⁷

¹⁷Chapman, Concentration in Banking, p. 5.

Each of these factors must be examined to determine the extent of its contribution as either a cause or a deterrent of concentration. Analysis of nonbank financial institutions has been recognized as an important phase of the study of bank competition and concentration.¹⁸

¹⁸U. S., Congress, Senate, Concentration of Banking in the U. S., 1952, p. 2.

For the purposes of this study, however, attention to nonbank financial institutions will be limited to those which are in direct competition with banks in Ohio for consumer savings and lending, and for which statistics on operation in Ohio are available.

The term "postwar period" creates confusion when one fails to designate which war preceded the period in question. In this study

the postwar period refers to the period beginning December 31, 1945 and ending December 31, 1959.

In order to assure a full analysis of bank concentration in Ohio, the definition of a bank as set forth in the Ohio banking laws has been adopted.

"Bank" includes, unless the context otherwise requires, any person, firm, association, or corporation soliciting receiving, or accepting money or its equivalent on deposit as a business, whether such deposit is made subject to check or is evidenced by a certificate of deposit, a passbook, a note, a receipt, or any other writing, and also includes commercial banks, savings banks, trust companies, special plan banks, and unincorporated banks. Such chapters do not apply to money left with an agent pending investment, in real estate or securities, for or on account of his principal; to building and loan associations or title guarantee and trust companies incorporated under the laws of this state; or to money or its equivalent received for transmittal by an incorporated railroad, steamship, express, or telegraph company.¹⁹

¹⁹Banking Laws of Ohio Annotated (Ohio Department of Commerce, 1958), c. 1101, sec. 01.

As a result of the broad interpretation of a bank provided by Ohio law, the mutual savings banks located in Ohio will be included as a banking institution.²⁰ An additional reason for including mutual

²⁰Ohio law forbids the use of the term "bank" in the title of a mutual savings bank. Chapter 1109, section .02 of the Ohio banking laws states ". . . a mutual savings bank without capital stock, to be known as a society for savings or a savings society. . ." However, a savings society is subject to the banking laws of Ohio, and is regulated by the Ohio Superintendent of Banks.

savings banks is the 1955 amendment to Ohio law which allows these institutions to organize or acquire the stock of commercial banks.²¹

²¹Ohio, Banking Laws, Annotated, c. 1109, sec. 051.

This, in effect, permits a mutual savings bank to indirectly accept demand deposits.

IV. Methodology

An examination of concentration in banking requires the use of varied methods of analysis and investigation. The primary approach is based on an examination and evaluation of the aggregate trend toward concentration. The purpose in selecting this method is to allow a closer examination of the effects of concentration on banking in Ohio.

A substantial part of the investigation is devoted to an analysis of the causes of growth in branch banking and bank mergers and consolidations. Material of this nature does not lend itself to quantitative measure. Much of this analysis is a survey of the factors which induce these changes in the banking structure. The observations and impressions of bankers, supervisory officials, and the officers of banking associations have been gathered to afford a better insight into the present cause of these changes.

Extensive use has been made of the statistical material provided in the reports and records of various governmental agencies and trade associations such as the Comptroller of the Currency, the

Federal Deposit Insurance Corporation, Federal Reserve System, the Banking Division and Securities Division of the Ohio Department of Commerce, Ohio Bankers Association, the Ohio Savings and Loan League, and the Ohio Credit Union League.

Private sources of information have been examined also, namely, banking journals, law reviews, financial newspapers, surveys and monographs published by universities and private organizations, and banking directories. These sources furnish an explanation of many general and technical problems of bank structure and provide a limited amount of statistical information.

The case study method is employed in an investigation of a small number of carefully selected bank mergers and consolidations in Ohio. This method of research provides a close examination of the intrabank and interbank reasons for combination, and a better understanding of the financial and legal problems involved. In addition, the postmerger effect upon the banking community is assessed. The studies were conducted by the use of extended interviews with officers of the subject banks, examination of pertinent records which bank managements made available, and interviews with businessmen and residents of the affected communities.

V. Organization of the Study

In examining the problem of bank concentration in Ohio a definite organizational plan is followed. The introductory chapter

sets forth the purpose, need, and scope of the study. In addition, Chapter I outlines the methods employed in the investigation.

Chapter II is designed to provide an analysis of the aggregate banking structure of Ohio during the postwar period, and to analyze the changes which have taken place. This chapter provides the setting for the balance of the study. Chapter II gives particular attention to the number, location, and affiliations of banks in Ohio, and the financial structure of these institutions.

The purpose of Chapter III is to measure and analyze the trends in the concentration of resources and the geographical concentration among banks in Ohio during the postwar period, and to provide a comparison of bank concentration in Ohio with that of the total United States. In this chapter an examination is made also of competition between banks and of the competition resulting from the postwar growth of consumer savings and lending institutions.

Chapters IV, V, and VI serve as core chapters in the examination of the primary causes of bank concentration. Chapter IV deals with branch, group and chain banking in Ohio during the postwar period. A statistical summary of the growth and pattern of branch banking is provided in conjunction with a qualitative analysis of the causes of the branch movement. The examination of branch banking is followed with a survey of group banking in Ohio, and the economies and diseconomies of the group banking system.

The subject of Chapters V and VI is bank mergers and consolidations. Chapter V examines the pattern and the causes of postwar bank combinations in Ohio. It also provides an analysis of state and federal regulation of banking combinations. Chapter VI presents the findings of the case studies of Ohio bank mergers and consolidations.

The final chapter, Chapter VII, summarizes the principal findings of the study, and offers tentative solutions to the problems involved in bank concentration in Ohio.

CHAPTER II

THE POSTWAR BANKING STRUCTURE IN OHIO

The purpose of Chapter II is to examine the postwar banking structure of Ohio and to analyze the changes which have taken place. Particular attention is given to the number, location, affiliations, and financial structure of the banks and banking offices in Ohio.

I. Number of Banks and Banking Offices

Tables 1, 2, 3, and 4 present the number of banks and banking offices in operation in Ohio during the postwar period, and the number of banks and banking offices per capita. The data relating to the number of banks and banking offices is further divided on the basis of total banks, national banks, and state banks operating in Ohio.

A. Total Banks and Banking Offices

From 1945 to 1959 the total number of banks in Ohio declined from 680 to 590 which is a 13.8 per cent reduction. This decline, however, was not uniform throughout the postwar period. From 1945 to 1950 the total number of banks in Ohio was reduced by 18, and in the following five years, 1950 to 1955, the total declined by 36 banks. In the remaining four years, 1955 to 1959, this number was further reduced by 36 banks. In 1959, the number of banks in Ohio declined by 18, which was the largest decline in any single year of the 14-year period.

The total number of banking offices in Ohio includes all banks and branch bank offices. Banking offices have increased by 39.0 per cent in Ohio during the postwar period as shown in Table 1. The total number of banking offices expanded from 855 in 1945 to 1,191 in 1959. The expansion in the number of banking offices has also failed to follow a uniform pattern. From 1945 to 1950, 33 additional banking offices were established in Ohio, and in the following five years 118 additional banking offices were provided. The remaining four years showed the most rapid increase in the postwar period when 185 banking offices were established in Ohio.

The increase in banking offices during a period of decline in the number of banks resulted from the expansion of branch banking operations in Ohio. From 1945 to 1959 the number of branch banks in Ohio increased from 175 to 601. The initial five years of the postwar period accounted for only 51 additional branch banks; however, in the period 1950 to 1955 154 branch banks were authorized. During the final period, 1955-1959, 221 additional branch operations were established in Ohio.

The growing importance of branch banks as a proportion of total banking offices in Ohio is also reflected in the fact that in 1945 20.6 per cent of the total banking offices were branch banks, but by 1959 branch banks accounted for 50.4 per cent of the total banking offices in Ohio.

TABLE 1
TOTAL NUMBER OF BANKS, BRANCH BANKS AND
BANKING OFFICES IN OHIO
1945-1959

Year	Number of Banks	Number of Branch Banks	Total Banking Offices	Total Branches as a Per cent of Total Banking Offices
1945	680	175	855	20.6
1946	677	176	853	20.7
1947	671	189	860	22.1
1948	669	204	873	23.4
1949	664	215	879	24.5
1950	662	226	888	25.5
1951	659	246	905	27.3
1952	654	271	922	29.4
1953	647	308	952	32.1
1954	637	343	980	34.4
1955	626	380	1,006	37.2
1956	620	446	1,066	41.3
1957	614	503	1,117	44.6
1958	608	565	1,173	47.6
1959	590	601	1,191	50.4

Source: Annual Reports of the Federal Deposit Insurance Corporation, 1945-1959.

B. The Number of Banks and Banking Offices Per Capita

One measure of the adequacy of banking facilities is the average number of persons served by each bank and banking office. Table 2 presents these statistics for Ohio and the United States for the period 1945 to 1959.

During the postwar period the average number of persons per bank in Ohio increased by 60.4 per cent. In that 14-year period the average number of people per bank in Ohio rose from 10,215 to 16,403. During the same period the average number of persons per bank in the United States increased from 9,220 to 12,283 providing a 39.0 per cent increase. In 1959 the average number of persons per bank in Ohio exceeded the average for the United States by 27.9 per cent. Only a part of the increase in the number of persons per bank in Ohio, however, can be attributed to the decline in the number of banks during the postwar period. In the same 14-year period the population in Ohio expanded by 39.4 per cent.¹ In addition, during the period 1950 to

¹Division of Economic Research, Ohio Population Growth and Distribution (Columbus, Ohio: Ohio Department of Industrial and Economic Development, 1960).

1959, Ohio accounted for 7 per cent of the total population growth in the country, and placed fourth among the states in numerical population growth.²

²Ibid., p. 1.

TABLE 2

AVERAGE NUMBER OF PERSONS PER BANK AND BANKING OFFICE
IN OHIO AND THE UNITED STATES
1945-1959

Year	Number of Persons per Bank in Ohio	Number of Persons per Bank in the United States	Number of Persons per Banking Office in Ohio	Number of Persons per Banking Office in the United States
1945	10,215	9,220	8,117	7,185
1946	11,099	9,691	8,801	7,535
1947	11,490	9,914	8,956	7,635
1948	11,774	10,105	9,013	7,697
1949	12,095	10,295	9,127	7,739
1950	12,133	10,496	9,035	7,769
1951	12,137	10,670	8,827	7,762
1952	12,476	10,869	8,809	7,769
1953	13,281	11,092	9,013	7,768
1954	14,080	11,404	9,232	7,765
1955	14,299	11,726	9,050	7,728

TABLE 2 (continued)

Year	Number of Persons per Bank in Ohio	Number of Persons per Bank in the United States	Number of Persons per Banking Office in Ohio	Number of Persons per Banking Office in the United States
1956	14,700	11,999	8,621	7,640
1957	15,067	12,287	8,354	7,579
1958	15,346	12,560	8,077	7,498
1959	16,403	12,823	8,132	7,407

Source: Annual Report of the Federal Deposit Insurance Corporation, 1945-1959
and Statistical Abstract of the United States, 1953 and 1959.

As a result of the increase in the number of banking offices in Ohio, the average number of persons served by each banking office remained relatively stable during the postwar period. The average in Ohio exceeds the national average but the difference is narrow.

C. State Banks and Banking Offices

An examination of Table 3 reveals that state chartered banks and banking offices have been the most numerous in Ohio. In 1945, 64.5 per cent of all banks in Ohio were operating under charters granted by the Ohio Superintendent of Banks, and this percentage remained relatively stable throughout the postwar period since 62.2 per cent were under state supervision in 1959.

The decline in the number of banks during the postwar period, however, has been principally in state banks. From 1945 to 1959 the number of state banks in operation declined by 71, and this figure represented 79.7 per cent of the total decline in the number of banks in Ohio during the postwar period.

The total number of banking offices under the control of state chartered banks increased 18.4 per cent in the 14-year period in which 105 additional state banking offices were established in Ohio. Despite the fact that the number of state banking offices increased, the proportion of total banking offices in Ohio under the control of state banks declined from 67.0 per cent in 1945 to 56.9 per cent in 1959.

The increase in the number of state banking offices in Ohio, in spite of the decline in the number of state banks, resulted from the rapid expansion in the number of state bank branch offices established in the same period. In the 14 years that followed the end of World War II the state banks in Ohio added 176 branch office operations throughout the state. These additional branch offices provided a 131 per cent increase in the number of state bank branches in operation in Ohio. This increase, however, was well below the 602 per cent increase posted by national banks in Ohio during the same period.

The increase in state bank branches is reflected also in the fact that in 1945, 23.5 per cent of all state banking offices in Ohio were branch offices, but by 1959, 45.9 per cent of all state banking offices were branch operations.

D. National Banks and Banking Offices

Table 4 presents the number of national banks and banking offices operating in Ohio from 1945 to 1959. The number of national banks declined less than state banks in Ohio during the postwar period. From 1945 to 1959 the total number of national banks in Ohio declined by 18. As a result of this modest decline, and the relatively large decrease in the number of state banks, the number of national banks in Ohio increased from 35.4 per cent of total banks in the state in 1945 to 38.9 per cent in 1959.

Between 1945 and 1959 the total number of national banking offices in Ohio increased by 81.5 per cent. The increase in the number of

TABLE 3
TOTAL NUMBER OF STATE BANKS, BRANCH BANKS, AND
BANKING OFFICES IN OHIO
1945-1959

Year	Number of Banks	Number of Branch Banks	Total Banking Offices	Total Branches as a Per cent of Total Banking Offices
1945	437	134	571	23.5
1946	435	135	570	23.7
1947	428	140	568	24.6
1948	425	149	574	26.0
1949	420	155	575	27.0
1950	418	161	579	27.8
1951	417	165	582	28.4
1952	413	177	590	30.0
1953	409	184	593	31.0
1954	400	192	592	32.4
1955	393	207	600	34.5
1956	388	231	619	37.3
1957	382	255	637	40.0
1958	378	285	663	43.0
1959	366	310	676	45.9

Source: Annual Report of the Federal Deposit Insurance Corporation, 1945-1959.

TABLE 4
TOTAL NUMBER OF NATIONAL BANKS, BRANCH BANKS,
AND BANKING OFFICES IN OHIO
1945-1959

Year	Number of Banks	Number of Branch Banks	Total Banking Offices	Total Branches as a Per cent of Total Banking Offices
1945	240	41	281	14.6
1946	239	41	280	14.6
1947	240	49	289	17.0
1948	241	55	296	18.6
1949	241	60	301	19.9
1950	241	65	306	21.2
1951	239	81	320	25.3
1952	238	94	332	28.3
1953	235	121	356	33.9
1954	234	141	375	37.6
1955	230	162	392	41.3
1956	229	204	433	47.1
1957	229	236	465	50.8
1958	228	266	494	53.8
1959	222	288	510	56.5

Source: Annual Report of the Federal Deposit Insurance Corporation, 1945-1959.

national banking offices during this period was 229, and the proportion of total banking offices in Ohio under the control of national banks rose from 32.9 per cent in 1945 to 42.3 per cent in 1959.

National banks in Ohio also added 247 additional branch offices during the postwar period. The addition of these new branch offices resulted in a 602 per cent increase over the number in operation at the beginning of the period. The expansion in branch operations increased the proportion of total branch banks in Ohio controlled by national banks from 23.4 per cent in 1945 to 48.1 per cent in 1959.

In 1945, 14.5 per cent of the national bank offices in Ohio were branch offices, but by 1959 the proportion of total national banking offices represented by branch operations had increased to 56.5 per cent.

II. New Bank Formations

During the 14-year period following the end of World War II a combined total of 33 new state and national banks were chartered in Ohio by the Ohio Superintendent of Banks and the Comptroller of the Currency. Table 5 presents the number of state and national bank charters issued in Ohio during the postwar period, and the year in which the charter was granted.

A. New State Banks

State bank charters were in greater demand than national charters during the postwar period in Ohio. The Ohio Superintendent

TABLE 5
NEW NATIONAL AND STATE BANKS AUTHORIZED IN OHIO
1945-1959

Year	National Banks	State Banks	Total
1945	1	2	3
1946	1	1	2
1947	2	1	3
1948	1	1	2
1949		1	1
1950			
1951		3	3
1952		3	3
1953	2		2
1954	2	1	3
1955	1	1	2
1956		2	2
1957		2	2
1958		3	3
1959	1	1	2
Total	11	22	33

Source: Annual Report of the Comptroller of the Currency, 1946-1960, and Annual Report of the Ohio Division of Banks, 1945-1960.

of Banks authorized 22 bank charters from 1945 to 1959. There were only two years in the entire postwar period in which at least one additional state bank was not formed.

In every case state bank charters were granted for the purpose of forming a new bank rather than converting a national bank into a state chartered institution.³ A survey of the communities in which the

³Annual Report of the Ohio Division of Banks, 1946-1960.

new state banks were established revealed that the smaller Ohio communities received the majority of the new state banks.⁴ Of the 22 new

⁴Ibid., 1946-1960.

state banks placed in operation since 1945, eight of these were established in communities of less than 1,000 inhabitants, and four of the eight were in communities of less than 500 inhabitants. A total of seven of the new state banks were located in communities with a population ranging from 1,000 to 5,000. Five of the institutions were formed in communities with 10,000 to 20,000 citizens, and the two remaining banks were located in cities with a population exceeding 20,000.

B. New National Banks

The Comptroller of the Currency authorized 11 additional national bank charters in Ohio during the post-war period.

Five of the 11 national bank charters authorized in Ohio during the postwar period were granted for the purpose of converting an existing state bank to a national bank. All national bank charters authorized in Ohio in 1945, 1946 and 1947 were requested for this purpose, and the fifth conversion took place in 1955.⁵

⁵Annual Report of the Comptroller of the Currency, 1946-1960.

A survey of the Ohio communities in which new national banks were established revealed that the new national banks were established in larger communities than new state banks.⁶ A total of five of the 11

⁶Ibid., 1946-1960.

national bank charters were granted to institutions located in Ohio cities with a population exceeding 100,000, and two of the new national banks were established in communities of 10,000 to 50,000 inhabitants. The remaining four national bank charters were granted for banks in communities with populations ranging from 1,000 to 5,000.

III. Savings Banks and Unincorporated Banks in Ohio

A. Savings Banks

On December 31, 1945 there were three mutual savings banks operating in Ohio. The three mutual savings banks in Ohio in 1945 were The Society for Savings in Cleveland, The Springfield Savings Society in Springfield, and The Dime Savings Society in Marietta.

On December 31, 1959 only the mutual savings banks located in Springfield and Marietta remained in operation.⁷

⁷American Bank Directory (Atlanta, Ga.: McFadden Business Publications, 1946 and 1960).

The mutual savings banks in Ohio operate under charters granted by the state of Ohio, and they are subject to regulation by the Ohio Superintendent of Banks.⁸ Until 1955 the mutual savings banks

⁸Ohio Banking Laws Annotated, 1109.02.

accepted both time and demand deposits, but in that year an amendment to Ohio law was passed which expressly forbid these organizations from accepting demand deposits, and it allowed them to form or acquire commercial banks to which existing demand deposits were transferred.⁹

⁹Ibid., 1109.05.

In addition to mutual savings banks, the Ohio banking law also provides for the formation of stock savings banks.¹⁰ The Ohio

¹⁰Ibid., 1101.01.

Superintendent of Banks reported that there are no longer any stock savings banks in operation in Ohio. All Ohio stock savings banks have either passed out of existence, or they have amended the purpose

clause in their corporate charter to allow the bank to engage in a commercial banking business. Many of these banks retain the name "savings bank," but they do not differ from any other commercial banking operation.¹¹

¹¹Interview with the Ohio Superintendent of Banks, March 24, 1961.

B. Unincorporated Banks

Table 41 (see Appendix) presents the number and total assets of unincorporated banks that have been in operation in Ohio during the postwar period. The last unincorporated bank in Ohio underwent voluntary liquidation in August of 1956.¹²

¹²O. E. Anderson, "Changing Times End Ohio's Last Private Bank," The Ohio Banker, August, 1956, p. 12.

Since 1919 Ohio law has forbidden the formation of unincorporated banks, but those in operation prior to that date were allowed to continue operation.

No authority to transact a banking business in this state shall be granted except to corporations organized and qualified for that purpose. Unincorporated banks authorized to transact and actually transacting a banking business on July 12, 1919, may continue such banking business in the municipal corporation or township in which they were located so long as they comply with Chapters

1101, 1103, 1105, 1107, 1109, 1111, 1113, 1115, of the Revised Code.¹³

¹³Ohio Banking Laws Annotated, 1115,02.

IV. Geographic Dispersion of Banks in Ohio

Table 42 (see Appendix) presents the number of state and national banks in each of Ohio's 88 counties in 1945 and in 1959.

During that 14-year period, 32 of Ohio's counties maintained the same number of banks as they had in 1945. In 16 counties the number of banks increased, and in 40 counties the number of banks declined.

In the 32 counties where the number of banks did not change during the postwar period, all but two of these counties maintained the same ratio of state and national banks as they had in 1945. Only Columbiana and Harrison Counties had a change in the ratio of state and national banks, and both of these counties gained an additional national bank while losing a state chartered institution.

Among the 16 Ohio counties that had an increase in the number of banks during the postwar period, 13 received one additional bank. The remaining three counties each gained two additional banks. The 19 additional banks formed in these 16 counties were evenly divided between state and national banks.

The 40 Ohio counties which had a reduction in the number of banks in operation lost a total of 102 banks. A total of 17 counties

lost one bank each, 11 counties lost two banks each, and the remaining 12 counties lost three or more banks each. Hamilton County led with a decline of 17 banks during the postwar period.

During the entire postwar period, Ohio did not have a single county without a bank. The Federal Deposit Insurance Corporation reports that in June of 1958 there were only 62 counties in the United States without banking facilities.¹⁴ In 1945, however, Ohio had two

¹⁴Division of Research and Statistics, Changes in the Number of Banking Offices, 1859-1958, and in Banking Concentration 1921-1958 (Washington, D.C.: Federal Deposit Insurance Corporation, 1961), p. 19.

counties with only one bank in operation, and the situation remained the same in 1959, although the particular counties had changed.

In 1945 there were seven Ohio counties without a national bank, and five counties without the services of a state chartered bank. By 1959 only five Ohio counties did not contain a national bank, and only three counties remained without a state bank.

Hamilton County, in 1945, led all Ohio counties with a total of 28 banks composed of 18 state banks and 10 national banks. By 1959, however, Hamilton County had been replaced by Franklin County which supported a total of 16 banks composed of 12 state banks and four national banks.

V. Federal Deposit Insurance Corporation and Federal Reserve Membership Among Ohio Banks

Table 6 presents the number of banks in Ohio which were members of the Federal Deposit Insurance Corporation during the postwar period, and the number of banks which were unable to qualify for membership or elected to remain a noninsured bank.

Every commercial bank operating under a national bank charter and each state chartered bank holding membership in the Federal Reserve System must maintain membership in the Federal Deposit Insurance Corporation.

Every national member bank which is authorized to commence or resume the business of banking, and which is engaged in the business of receiving deposits other than trust funds as herein defined, and every such national non-member bank which becomes a member of the Federal Reserve system, and every state bank which is converted into a national bank or which becomes a member of the Federal Reserve system, and which is engaged in the business of receiving deposits, other than trust funds as herein defined shall be an insured bank from the time it is authorized to commence or resume business or becomes a member of the Federal Reserve system.¹⁵

¹⁵ Federal Code Annotated, Title 12, Section 1814.

In 1945 there were 15 banks in Ohio which did not hold membership in the Federal Deposit Insurance Corporation. These 15 banks comprised 2.2 per cent of the total number of banks in Ohio. Of these 15 noninsured banks in Ohio, seven were unincorporated banks which were not eligible for membership.¹⁶ By 1959, however, only one bank

¹⁶ Ibid., Title 12, Sec. 1814.

TABLE 6
 NUMBER OF BANKS IN OHIO WITH MEMBERSHIP
 IN THE FEDERAL DEPOSIT INSURANCE
 CORPORATION
 1945-1959

Year	Number of Banks in Ohio with F.D.I.C. Membership	Number of Banks in Ohio without F.D.I.C. Membership
1945	662	15
1946	659	15
1947	654	14
1948	653	13
1949	649	12
1950	650	9
1951	649	7
1952	644	7
1953	638	6
1954	631	5
1955	620	3
1956	615	2
1957	610	1
1958	605	1
1959	587	1

Source: Annual Report of the
 Federal Deposit Insurance Corporation,
 1945-1959.

in Ohio remained without Federal Deposit Insurance membership. The noninsured bank, on December 31, 1959, held total deposits of \$1,827,000.¹⁷

¹⁷American Bank Directory, 1960, p. 2006.

Although the state chartered banks which do not hold a membership in the Federal Reserve System are not legally compelled to become insured banks, the Ohio Division of Banks encourages membership in the Federal Deposit Insurance Corporation, and new state bank charters are not granted until the applicant has been approved for F.D.I.C. membership.¹⁸

¹⁸Interview with the Ohio Superintendent of Banks, March 24, 1961.

B. Federal Reserve Member Banks

Many banks in Ohio maintain membership in the Federal Reserve System in addition to membership in the Federal Deposit Insurance Corporation. Table 7 presents the number and percentage of banks in Ohio which were Federal Reserve member banks from 1945 to 1959, and the number of and percentage of state chartered banks in Ohio which held membership in the Federal Reserve System.

TABLE 7
NUMBER OF BANKS IN OHIO WITH MEMBERSHIP
IN THE FEDERAL RESERVE SYSTEM
1945-1959

Year	Total Number of Banks in Ohio with Federal Reserve Membership	Federal Reserve Member Banks as a Per cent of Total Banks in Ohio	Total Number of Ohio State Banks with Federal Reserve Membership	State Member Banks as a Per cent of Total State Banks in Ohio
1945	424	62.6	184	42.1
1946	426	63.2	187	43.0
1947	424	63.4	184	42.9
1948	425	63.8	184	43.3
1949	424	64.1	183	43.6
1950	420	63.7	181	43.1
1951	419	63.9	180	43.3
1952	417	64.1	179	43.3
1953	412	64.0	177	43.5
1954	412	65.0	173	43.3
1955	401	64.4	171	43.5
1956	395	64.0	166	42.8
1957	391	64.0	162	42.4
1958	385	63.5	157	41.5
1959	373	63.4	151	41.3

Source: Annual Report of the Federal Deposit Insurance Corporation, 1945-1959.

Banks which have received their charter from the Comptroller of the Currency are required to become members of the Federal Reserve System.

Every national banking association within each Federal Reserve district shall be required to subscribe to the capital stock of the Federal Reserve Bank for that district in a sum equal to 6 per centum of the paid up capital stock and surplus of such banks. . . .¹⁹

¹⁹ Federal Code Annotated, Title 12, Sec. 278.

Banks in Ohio which have received their charter from the State of Ohio may become a member of the Federal Reserve System if they are able to meet the requirements for membership.²⁰

²⁰ Ohio Banking Laws Annotated, 1105.02.

Table 7 reveals that 42.1 per cent of the state banks in Ohio were members of the Federal Reserve System in 1945, and in 1959 the percentage had declined to 41.3 per cent. As a percentage of total banks in Ohio, membership in the Federal Reserve System was 62.6 per cent in 1945 and 63.4 per cent in 1959. The slight increase in Federal Reserve membership among all banks in Ohio is due to the increase in the total number of banks in Ohio which operate under a national charter.

VI. Financial Structure of Banks in Ohio

Table 8 presents the total assets and average assets of all banks, national banks, and state banks for the period 1945 to 1959.

TABLE 8

TOTAL AND AVERAGE ASSETS OF ALL BANKS,
NATIONAL BANKS, AND STATE BANKS IN OHIO
1945-1959

(Thousands of Dollars)

Year	Total Assets			Average Assets		
	All Banks	National Banks	State Banks	All Bank Average	National Bank Average	State Bank Average
1945	\$ 7,826,542	\$ 3,418,938	\$ 4,181,411	\$ 11,559	\$ 14,246	\$ 9,567
1946	7,423,536	2,192,656	3,893,657	11,015	9,176	8,952
1947	7,663,443	3,504,304	3,903,678	11,471	14,600	9,121
1948	7,848,118	3,625,255	3,968,099	11,780	15,041	9,336
1949	8,021,377	3,707,600	4,052,941	12,131	15,386	9,650
1950	8,664,410	4,025,022	4,371,075	13,154	16,701	10,457
1951	9,234,434	4,342,333	4,613,301	14,087	18,167	11,062
1952	9,758,114	4,604,380	4,862,124	14,990	19,345	11,772
1953	10,214,975	4,814,268	5,074,364	15,863	20,485	12,406
1954	10,465,872	4,948,951	5,116,796	16,508	21,149	12,093

TABLE 8 (continued)

Year	Total Assets			Average Assets		
	All Banks	National Banks	State Banks	All Bank Average	National Bank Average	State Bank Average
1955	\$ 11,020,885	\$ 5,175,081	\$ 5,439,498	\$ 17,690	\$ 22,500	\$ 13,840
1956	11,383,465	5,425,184	5,602,573	18,448	23,690	14,441
1957	11,567,500	5,552,658	5,666,693	18,933	24,249	14,835
1958	11,932,386	5,825,371	5,758,166	19,690	25,548	15,233
1959	12,177,944	6,307,854	5,839,514	20,711	28,414	15,956

Source: Annual Report of the Comptroller of the Currency, 1946-1960, and Annual Report of the Federal Deposit Insurance Corporation, 1945-1959.

A. Growth and Distribution of Bank Assets in Ohio

The total bank assets in Ohio increased \$4,351,402 during the postwar period. The increase in bank assets during the 14-year period represented 5.5 per cent of the total bank assets in Ohio in 1945.

The total bank assets in Ohio expanded most rapidly between 1950 and 1955. During this five-year period 53.9 per cent of the entire postwar expansion in bank assets in Ohio took place.

As a result of the decline in the number of total banks in Ohio and the increase in total bank assets, the average assets size of all banks in Ohio increased by 80.4 per cent. The average bank asset size grew from \$11,559,000 in 1945 to \$20,711,000 in 1959.

1. National Banks

National banks in Ohio, as a group, increased their total assets more than state banks in Ohio during the postwar period. From 1945 to 1959 national banks in the state increased their total assets by 84.5 per cent, and the proportion of total bank assets in Ohio under the control of national banks increased from 43.6 per cent in 1945 to 51.8 per cent in 1959.

The average asset size of national banks in Ohio increased by 99.5 per cent during the subject period. In 1945 the average asset size of national banks in Ohio was \$14,246,000 which was 23.2 per cent larger than the all bank average in Ohio. By 1959 the average

asset size of national banks had increased to \$28,414,000 which exceeded the all bank average in Ohio by 37.1 per cent.

2. State Banks

The total assets of state banks in Ohio increased by 39.6 per cent in the postwar period; however, state bank assets declined from 53.2 per cent of total bank assets in Ohio in 1945 to 47.9 per cent in 1959.

The average asset size of Ohio state banks expanded by 85.6 per cent from 1945 to 1959. Again, however, state banks failed to keep pace with the rate of growth of national banks in Ohio. In 1945 the average asset size of state banks was 17.5 per cent below the all bank average in Ohio, and in 1959 the gap had widened to 22.9 per cent.

B. Composition of Total Bank Assets in Ohio

Table 9 presents the distribution of total bank assets in Ohio among the major asset categories from 1945 to 1959.

1. Loans and Discounts

The total loans of banks in Ohio have increased as a proportion of total assets in every year of the postwar period with the exception of 1957 and 1958. During the postwar period total loans of banks in Ohio increased from 16.5 per cent to 44.6 per cent of total assets.

2. United States Government Obligations

The proportion of total assets held in the form of United States government obligations declined from 58.2 per cent of total assets

TABLE 9
COMPOSITION OF TOTAL ASSETS OF ALL BANKS IN OHIO
1945-1959
(Thousands of Dollars)

Year	Loans and Discounts	Per cent of Total	United States Government Obligations	Per cent of Total	Obligations of State and Local Governments	Per cent of Total	Balances with Other Banks and Federal Reserve Banks	Per cent of Total	All Other Assets	Per cent All Assets
1945	\$ 1,292,405	16.5	\$ 4,554,102	58.2	\$ 213,211	2.7	\$ 1,386,205	17.5	\$ 380,619	5.1
1946	1,565,466	21.1	3,758,098	51.0	246,589	3.3	1,424,696	19.1	428,687	5.5
1947	1,869,712	24.4	3,502,325	45.7	299,514	3.9	1,577,400	20.6	415,492	5.4
1948	1,982,271	25.3	3,495,897	44.5	321,807	4.1	1,616,665	20.6	431,478	5.5
1949	2,041,980	25.4	3,758,801	46.8	331,883	4.1	1,448,236	18.0	490,477	5.7
1950	2,504,369	28.9	3,524,747	40.7	406,665	4.7	1,737,540	20.1	491,089	5.6
1951	2,770,628	30.0	3,610,853	39.1	478,556	5.2	1,867,809	20.2	506,588	5.5
1952	3,090,162	31.7	3,784,621	38.8	524,411	5.4	1,863,261	19.1	485,659	5.0
1953	3,382,046	33.1	3,810,420	37.3	575,116	5.6	1,983,697	19.4	453,696	4.6
1954	3,506,788	33.5	4,036,279	38.6	615,252	5.9	1,860,608	17.7	446,945	4.3

TABLE 9 (continued)

Year	Loans and Discounts	Per cent of Total	United States Government Obligations	Per cent of Total	Obligations of State and Local Governments	Per cent of Total	Balances with Other Banks and Federal Reserve Banks	Per cent of Total	All Other Assets	Per cent All Assets
1955	\$ 4,090,056	37.1	\$ 3,777,772	34.3	\$ 633,823	5.8	\$ 2,010,317	18.2	\$ 508,917	4.6
1956	4,575,785	41.8	3,401,053	30.7	650,158	5.7	2,135,773	18.7	620,696	4.1
1957	4,821,064	41.7	3,445,449	29.9	708,135	6.1	2,023,989	17.5	568,863	4.8
1958	4,931,807	41.3	3,714,185	31.1	761,367	6.4	1,975,642	16.5	549,385	4.7
1959	5,434,698	44.6	3,386,902	27.8	801,830	6.5	2,056,813	16.9	497,701	4.2

Source: Annual Report of the Comptroller of the Currency, 1946-1960.

in 1945 to 27.8 per cent in 1959. The value of United States government obligations held by all banks in Ohio from 1945 to 1959 also declined by 25.6 per cent.

3. State and Local Government Obligations

Unlike United States government obligations, the total value of state and local government obligations held by banks in Ohio increased by 275 per cent from 1945 to 1959. The proportion of total assets represented by state and local government obligations is, however, still small. In 1945 state and local government obligations represented only 2.7 per cent of total bank assets in Ohio, and in 1959 the proportion increased to 6.5 per cent of total assets.

4. Balances with Other Banks and the Federal Reserve Bank

As a proportion of total assets of all banks in Ohio the balances maintained with correspondent banks and the Federal Reserve Bank of Cleveland remained between 16 and 20 per cent of total assets during the entire postwar period.

5. All Other Assets

The "all other" assets category includes other investment securities held by banks in Ohio, currency and coin, and bank real estate and premises. As a proportion of total assets, "other assets" demonstrated a decline from 5.1 per cent of assets in 1945 to 4.2 per cent in 1959.

C. Distribution of Bank Loans in Ohio

Table 43 (see Appendix) presents the amount of total loans of all banks in Ohio and the proportion of the total held by national and state banks during the postwar period.

From 1945 to 1959 total bank loans in Ohio increased 320 per cent. The increase was not uniform, however, during the entire 14-year period. The initial five-year period provided the most rapid rate of growth when the total loans of all banks in Ohio increased 93.8 per cent. In the next five years, 1950 to 1955, the rate of expansion of loans declined to 62.9 per cent, and in the final four years of the subject period, total loans increased 32.8 per cent.

1. National Banks

In 1945, 42.5 per cent of all bank loans in Ohio were controlled by national banks, and in 1959 the national bank share had expanded to 50.0 per cent. This increase in the proportion of total loans held by national banks was a result of the 394 per cent increase in the value of national bank loans in Ohio, and the smaller increase in state bank loans during the same period.

2. State Banks

State chartered banks in Ohio increased their total loans by 300 per cent during the postwar period, but the proportion of total bank loans controlled by state banks was reduced from 52.5 per cent in 1945 to 50.0 per cent in 1959.

D. Composition of Bank Loans in Ohio

Table 44 (see Appendix) presents the total bank loans in Ohio by the major categories of loans held during the postwar period.

1. Commercial and Industrial Loans

The commercial and industrial loans of banks in Ohio increased by \$1,057,906,000 from 1945 to 1959. As a percentage of total loans, commercial and industrial loans ranged from 23.3 per cent in 1945 to 33.3 in 1947, and in 1959 they represented 27.2 per cent of total loans. The amount of commercial and industrial loans increased substantially during the period, but it appears to have become a rather stable proportion of total loans.

One reason for the lack of more pronounced growth in the proportion of total loans assigned to commercial and industrial borrowers is the alternative sources of supply that have become available to these borrowers during the postwar period.

While the traditional division of the financial markets between commercial banks and the securities markets has been between short- and long-term credit, there is much evidence that size is a more important point of difference. Those big enough to have a "name" in the central capital markets finance themselves in these markets whether their needs are long-term or short-term. Those who cannot command credit in the central capital markets content themselves with bank credit and adjust their affairs so that short-term borrowings fill their needs, even though they might, with more choices at their command, prefer long-term credit.²⁰

²⁰Roland I. Robinson, Management of Bank Funds (New York: McGraw-Hill Book Company, Inc., 1951), p. 100.

2. Loans to Brokers and Dealers and Loans for the Purchase of Securities

Loans to brokers and dealers and loans for the purchase of securities declined sharply as a proportion of total loans during the postwar period. In 1945 this category of loans represented 28.7 per cent of the total loans of all banks in Ohio, and by 1959 it had been reduced to 5.8 per cent of the total. The greatest decline took place in the two years immediately following the end of World War II.

3. Real estate Loans

Total real estate loans include farm real estate, non-farm residential real estate, as well as industrial and commercial real estate loans. The total real estate loans of all banks in Ohio during the postwar period ranged from 28.9 per cent to 39.5 per cent of total loans. In 1959, real estate loans accounted for 33.3 per cent of total loans, and they served as the largest single category of bank loans in Ohio. The banks in Ohio increased the amount of real estate loans outstanding from \$347,339,000 in 1945 to \$1,948,559,000 in 1959.

Much of the increase in real estate loans by banks throughout the United States resulted from the increase in loans to real estate firms and mortgage companies.²¹ Unfortunately, statistics concerning loans of this type by banks in Ohio are not available.

²¹ "Business Loans of Member Banks," Federal Reserve Bulletin (Washington, D.C.: Federal Reserve Board of Governors, April, 1956), p. 329.

4. Other Loans to Individuals

Other loans to individuals are composed primarily of consumer instalment loans. As a proportion of total loans, this category has had the most rapid growth. In 1945 other loans to individuals accounted for only 9.7 per cent of total loans, but in 1959, 23.0 per cent of total loans were in the form of other loans to individuals. The largest expansion in this category took place between 1945 and 1950. During the total postwar period the increase in other loans to individuals totaled \$1,699,907,000.

5. Other Loans

The other loans category is composed of loans to farmers, loans to other banks and financial institutions, and a number of miscellaneous loans including overdrafts. As a total, other loans has been a stable proportion of total bank loans in Ohio. The increase in the other loans category in 1959 from 6.2 to 10.7 per cent, however, is a result of an increase in loans to other financial institutions.²²

²² Annual Report of the Comptroller of the Currency, 1959.

E. Bank Deposits in Ohio

Table 10 presents the total deposits of all banks in Ohio and the division of total deposits between national and state banks. Tables 11 and 12 present the demand and time deposits for all banks, national banks, and state banks in Ohio.

TABLE 10

TOTAL DEPOSITS OF ALL BANKS, NATIONAL BANKS,
AND STATE BANKS IN OHIO
1945-1959

(Thousands of Dollars)

Year	All Banks	National Banks	State Banks
1945	\$ 7,389,965	\$ 3,224,830	\$ 3,955,198
1946	6,954,093	2,982,343	3,742,816
1947	7,178,404	3,274,753	3,667,072
1948	7,346,038	3,385,925	3,722,492
1949	7,491,816	3,458,865	3,790,562
1950	8,082,933	3,756,384	4,078,538
1951	8,609,130	4,056,077	4,296,884
1952	9,077,075	4,288,187	4,520,960
1953	9,483,162	4,468,989	4,712,506
1954	9,686,705	4,574,971	4,470,604
1955	10,200,430	4,778,620	5,045,409
1956	10,485,857	4,998,310	5,173,405
1957	10,589,593	5,068,860	5,203,569
1958	10,897,381	5,312,326	5,267,068
1959	11,055,875	5,710,033	5,318,277

Source: Annual Report of the Comptroller of
the Currency, 1946-1960.

TABLE 11
TOTAL DEMAND DEPOSITS OF ALL BANKS,
NATIONAL BANKS, AND STATE BANKS IN OHIO
1945-1959

(Thousands of Dollars)

Year	All Banks	Per cent of Total Deposits	National Banks	Per cent of Total Deposits	State Banks	Per cent of Total Deposits
1945	\$ 4,942,029	66.9	\$ 2,407,576	74.6	\$ 2,530,268	63.9
1946	4,250,629	61.1	2,076,085	69.5	2,169,997	57.9
1947	4,362,007	60.7	2,260,756	69.0	2,069,962	57.1
1948	4,469,396	60.8	2,339,911	69.2	2,125,692	57.1
1949	4,609,361	61.5	2,421,044	69.9	2,184,180	57.6
1950	5,213,170	65.3	2,718,332	72.3	2,489,819	60.9
1951	5,618,501	65.5	2,957,112	72.9	2,657,063	61.8
1952	5,958,815	64.4	3,141,520	73.2	2,807,636	61.8
1953	6,107,052	63.1	3,236,761	72.4	2,857,346	60.6
1954	6,112,763	63.4	3,252,060	71.0	2,830,874	63.3
1955	6,529,822	64.0	3,433,763	71.8	3,055,783	60.5
1956	6,723,756	64.1	3,582,661	71.2	3,140,635	60.7
1957	6,669,055	62.9	3,578,525	70.5	3,090,155	59.3
1958	6,771,430	62.1	3,705,415	69.7	3,064,991	57.2
1959	6,810,311	61.5	3,733,416	65.3	3,076,826	57.4

Source: Annual Report of the Comptroller of the Currency,
1946-1960.

TABLE 12
TOTAL TIME DEPOSITS OF ALL BANKS
NATIONAL BANKS, AND STATE BANKS IN OHIO
1945-1959

(Thousands of Dollars)

Year	All Banks	Per cent of Total Deposits	National Banks	Per cent of Total Deposits	State Banks	Per cent of Total Deposits
1945	\$ 2,447,936	33.1	\$ 817,254	25.4	\$ 1,424,930	36.1
1946	2,703,464	38.9	906,258	30.5	1,572,819	42.1
1947	2,816,397	39.3	1,013,997	31.0	1,570,110	42.9
1948	2,878,642	39.2	1,046,014	30.8	1,596,800	42.9
1949	2,882,455	38.5	1,037,821	30.1	1,606,382	42.4
1950	2,869,763	34.7	1,038,052	27.7	1,588,719	39.1
1951	2,990,629	34.5	1,098,965	27.1	1,639,971	32.2
1952	3,118,260	35.6	1,146,667	26.8	1,713,324	32.2
1953	3,376,110	36.9	1,232,228	27.6	1,855,160	39.4
1954	3,573,942	36.6	1,322,911	29.0	1,909,730	36.7
1955	3,670,608	36.0	1,344,857	28.2	1,979,620	39.5
1956	3,762,101	35.9	1,405,335	28.8	2,032,770	39.3
1957	3,919,538	37.1	1,490,335	25.5	2,113,414	40.7
1958	4,125,951	37.9	1,606,911	30.3	2,202,077	42.8
1959	4,254,564	38.5	1,976,617	34.7	2,241,451	42.6

Source: Annual Report of the Comptroller of the Currency, 1946-1960.

The proportion of total deposits represented by time deposits increased from 33.1 per cent in 1945 to 38.5 per cent in 1959. One important reason for the postwar growth in time deposits was the Federal Reserve Board ruling in the latter part of 1956 increasing the maximum interest member banks could pay from 2.5 per cent to 3 per cent on savings deposits and time deposits having a maturity date of six months or more.²³

²³ Supplement to Regulation Q., Board of Governors of the Federal Reserve System, January 1, 1957.

Although demand deposits have never represented less than 60 per cent of the total deposits of banks in Ohio during the postwar period, the increase in demand deposits during the same period exceeded the increase in time deposits by a rather narrow margin of 3.2 per cent.

2. Deposits of National Banks

National banks operating in Ohio increased their total deposits by 77.0 per cent during the postwar period. The proportion of total bank deposits in Ohio held by national banks rose from 43.6 per cent in 1945 to 51.6 per cent in 1959.

During the postwar period the national banks in Ohio held a larger proportion of their total deposits in the form of demand deposits than the state banks. In 1945, 74.6 per cent of total national bank deposits were demand deposits; however, by 1959 demand deposits represented only 65.3 per cent of the total deposits of

national banks in the state. In 1959, 54.6 per cent of the total demand deposits in Ohio were maintained in national banks.

National banks held a larger proportion of total time deposits in Ohio in 1959 than in 1945. In 1945, 33.3 per cent of total time deposits in banks in Ohio were deposited in national banks, and by 1959 the national banks had increased their share to 46.3 per cent of the total.

2. State Banks

State chartered banks operating in Ohio increased their total deposits 36.9 per cent from 1945 to 1959. This deposit growth was, of course, substantially below the increase of deposits in national banks.

State banks throughout the subject period maintained a much smaller proportion of their total deposits in the form of demand deposits than the national banks in Ohio. In 1945, 66.9 per cent of state bank deposits were demand deposits, but in 1959 only 61.5 per cent of their total deposits were payable on demand.

F. Growth and Distribution of Bank Capital in Ohio

Table 13 presents the total capital of banks in Ohio, and the distribution of the total between national and state banks during the postwar period.

TABLE 13
TOTAL CAPITAL OF ALL BANKS IN OHIO
1945-1959
(Thousands of Dollars)

Year	All Banks	National Banks	Per cent of Total	State Banks	Per cent of Total	Total Capital Funds as a Per cent of Total Assets
1945	\$ 406,967	\$ 188,580	46.2	\$ 218,487	53.8	5.2
1946	433,584	199,511	46.0	234,073	54.0	5.8
1947	451,639	217,981	48.2	233,658	51.8	5.9
1948	466,265	225,364	48.4	240,901	51.6	5.9
1949	480,283	233,538	48.8	246,745	51.3	5.9
1950	518,260	246,322	47.5	271,938	52.5	5.9
1951	567,701	261,810	46.1	305,791	53.9	6.1
1952	603,725	280,404	46.4	323,321	53.6	6.1
1953	642,432	304,609	47.5	337,823	52.5	6.2
1954	684,605	328,285	47.9	356,320	52.1	6.5
1955	725,828	350,254	48.2	375,574	51.8	6.4
1956	783,413	379,577	48.5	403,836	51.4	6.8
1957	846,606	416,308	49.1	430,298	50.9	7.3
1958	875,125	443,520	50.8	431,605	49.3	7.3
1959	954,569	498,119	52.1	456,450	47.8	7.8

Source: Annual Report of the Comptroller of the Currency, 1946-1960 and Annual Report of the Ohio Division of Banks, 1946-1960.

1. All Banks

In the 14-year period following World War II banks in Ohio increased their total capital 133 per cent. The ratio of capital to total assets for all banks in Ohio increased from 5.2 per cent in 1945 to 7.8 per cent in 1959. Increasing the capital in relation to total bank assets is recognized by regulatory agencies and authorities in commercial banking as an important means of strengthening the structure of commercial banking.

Conversely, a high ratio of capital funds to assets places a bank in position to expand its risk asset holdings, either directly or through acquisition of other banks through merger. Such banks can increase the ratio of profits to capital funds by more aggressive lending and investing policies and by expansion through acquisitions or in other ways, without having to weigh whether the capital position of the bank limits such expansion.²⁴

²⁴Jules I. Bogen, The Adequacy of Bank Earnings (New York: Graduate School of Business Administration of New York University, 1958), p. 30.

2. National Banks

National banks in Ohio increased their total capital by 165 per cent during the postwar period. In 1945 national banks controlled 16.2 per cent of the total bank capital in Ohio, and in 1959 the proportion held by national banks had risen to 52.1 per cent of the total.

3. State Banks

State banks managed to increase their total capital by 109 per cent during the subject period. In 1945 state banks accounted

for 53.8 per cent of total bank capital in Ohio; however, by 1959 this proportion had declined to 47.8 per cent.

G. Composition of Bank Capital in Ohio

Table 45 (see Appendix) presents the major categories of bank capital in Ohio, and the proportion of total capital each category represented during the postwar period.

1. Capital Stock

All but a small fraction of the total outstanding stock of banks in Ohio is represented by common stock. In 1945 the banks in Ohio had outstanding \$13,234,000 in preferred stock, and in 1959 only \$365,000 remained outstanding, all of which was accountable to state banks.²⁵

²⁵ Annual Report of the Comptroller of the Currency, 1946 and 1960.

Although the value of outstanding stock of all banks in Ohio was increased by 93.4 per cent during the postwar period, the outstanding stock declined from 36.6 per cent of the total capital in 1945 to 30.2 per cent in 1959.

2. Notes and Debentures

During the postwar period the only outstanding notes and debentures of banks in Ohio were those of a small number of state banks. In 1945 the forementioned state banks had a total of \$14,138,000 in notes and debentures outstanding and in 1959 this total had been

reduced to \$100,000. The issuance of notes and debentures by banks is looked upon unfavorably by bank management and regulatory agencies due to the structure of bank liabilities.

Because deposit liabilities resemble debt financing in some respects and because senior securities would have to be subordinated to the claims of depositors if they are to function as capital funds, banks have generally limited their capitalization to capital stock.²⁶

²⁶Bogen, Adequacy of Bank Earnings, p. 12.

3. Surplus

In 1945 the surplus account represented 40.0 of total bank capital, but by 1956, 54.6 per cent of the total capital of all banks in Ohio was held in the surplus account. In 1959, the percentage had declined to 51.4 per cent.

The federal law requires that national banks create a surplus account equal to 20.0 per cent of total capital stock at the time of bank formation or conversion, and Ohio law requires the same of state chartered banks.²⁷

²⁷Federal Code Annotated, Title 12, Section 51, and Ohio Banking Law Annotated, 1103.10.

4. Undivided Profits

When retained earnings are placed in the undivided profits account management normally has more freedom action regarding what they may do with the account. Undivided profits may be used to pay

future dividends, at a later time they may be placed in the surplus account, or they may be added to one of the reserve accounts for future contingencies.

The undivided profits account of all banks in Ohio increased 236 per cent during the postwar period. As a proportion of the total capital of banks in Ohio the undivided profits ranged from 12.2 per cent to 18.2 per cent of the total during the subject period. In 1959, 17.5 per cent of the total bank capital in Ohio was carried in the undivided profits account.

5. Reserves

The reserves portion of the capital accounts of all banks in Ohio declined as a proportion of total capital throughout the postwar period. In 1945 reserves accounted for 7.8 per cent of total capital, and in 1959 the reserves accounted for less than 1.0 per cent of the total.

It should be noted, however, that the reserves portion of the capital accounts are only those reserves set aside for the retirement of stocks and bonds of banks in Ohio. Valuation reserves set aside to meet possible losses on securities and loans are not included in the capital accounts. In 1959 the valuation reserves set aside to meet possible losses on loans of all banks in Ohio amounted to \$99,066,000, or 10.3 per cent of total bank capital in Ohio.²⁸

²⁸ Annual Report of the Comptroller of the Currency, 1960.

VII. Income and Operating Expense of Banks in Ohio

Table 14 presents the major components of operating income of banks in Ohio during the postwar period, and the proportion of total operating income provided by each component.

The statistics available on income and expense of all banks in Ohio are not segregated on the basis of national and state banks. The presentation of postwar income and operating expense, therefore, is limited to total bank statistics rather than a division between national and state bank operations.

It should also be noted that the aggregate earnings of Federal Reserve member banks are larger than the aggregate earnings of non-member banks. The earnings of member and nonmember banks in Ohio are not available; however, in 1959 the aggregate earnings of all member banks in the United States was five times as large as the aggregate earnings of all nonmember banks. At the same time member banks accounted for only 46 per cent of all banks in the United States.²⁹

²⁹ Federal Reserve Bulletin, May, 1961, p. 616.

A. Composition of Total Operating Income

The total operating income of all banks in Ohio in 1959 exceeded the 1945 operating income by \$339,794,000. Expressed as a percentage the 1959 operating income of all banks in Ohio exceeded the 1945 operating income by 265 per cent.

TABLE 14
COMPOSITION OF OPERATING INCOME OF ALL BANKS IN OHIO
1945-1959
(Thousands of Dollars)

Year	Total Operating Income	Income from Loans	Per cent of Total	Income from In- vestments	Per cent of Total	Income from Service Charges	Per cent of Total	Other Operating Income	Per cent of Total	Net Operating Income	Per cent of Total
1945	\$ 128,375	\$ 38,457	29.9	\$ 67,178	52.3	\$ 10,257	8.0	\$ 12,484	10.2	\$ 29,839	23.3
1946	147,074	48,593	33.0	73,507	49.9	11,190	7.6	13,784	9.5	34,948	23.8
1947	158,190	64,862	41.0	66,964	42.3	11,627	7.4	14,738	9.3	36,695	23.2
1948	172,470	78,501	45.5	65,138	37.8	12,777	7.4	16,055	9.3	45,586	26.4
1949	182,868	84,517	46.2	67,593	37.1	13,335	7.3	17,223	9.4	47,720	26.1
1950	198,385	95,442	48.1	69,932	35.3	14,625	7.4	18,385	9.2	51,522	26.0
1951	220,229	114,418	51.9	70,683	32.1	16,003	7.3	19,126	8.7	56,846	25.8
1952	246,395	130,653	53.0	79,539	32.3	16,787	6.8	19,416	7.9	58,811	23.9
1953	276,202	148,781	53.9	88,406	32.0	18,538	6.7	20,477	7.4	61,680	22.4

TABLE 14 (continued)

Year	Total Operating Income	Income from Loans	Per cent of Total	Income from In- vestments	Per cent of Total	Income from Service Charges	Per cent of Total	Other Operating Income	Per cent of Total	Net Operating Income	Per cent of Total
1954	\$ 290,443	\$ 154,652	53.3	\$ 91,944	31.7	\$ 21,763	7.5	\$ 22,083	7.5	\$ 54,426	18.6
1955	321,684	174,767	54.3	98,247	30.5	24,558	7.6	24,112	7.6	81,051	25.1
1956	367,451	210,409	57.3	104,330	28.4	27,158	7.4	25,554	6.9	95,553	26.1
1957	405,722	238,940	58.9	109,229	26.9	30,066	7.4	27,486	6.8	92,533	22.9
1958	420,497	245,801	58.5	114,077	27.1	31,934	7.8	28,686	6.6	73,129	17.3
1959	466,069	276,937	59.4	123,869	26.6	34,937	7.5	30,327	6.5	117,359	25.1

Source: How Does Your Bank Measure Up?, Ohio Bankers Association, 1946-1960.

1. Income from Loans

The income generated by bank loans in 1959 exceeded the 1945 loan income by \$248,480,000. The income from bank loans rose from 20.9 per cent of total operating income in 1945 to 59.4 per cent in 1959. A partial explanation of the rapid increase in the income from loans is the increase in the rate of return on loans during the period. Table 15 presents the average rate of income on loans during the postwar period for all banks in Ohio. During the subject period the average income from loans increased from 2.98 per cent to 5.00 per cent.

2. Income from Investments

Income resulting from investments in securities by all banks in Ohio increased by 85.0 per cent during the period 1945 to 1959. As a proportion of total operating income, however, investment income declined from 52.3 per cent to 26.6 per cent during the period.

Table 15 reveals that the average rate of return on investments of all banks in Ohio increased from 1.36 per cent in 1945 to 2.76 in 1959. The differential in the average rate of return between loans and investments provides a partial explanation of the wide difference in the amount of income received from the two sources. In 1945 the total amount of income received from bank investments in Ohio exceeded that received from loans by 76.3 per cent, but in 1959 the amount of income received on bank loans in Ohio exceeded the amount of income from investments by 58.9 per cent.

TABLE 15
 RATE OF INCOME ON TOTAL LOANS AND INVESTMENTS
 OF ALL BANKS IN OHIO
 1945-1959
 (Thousands of Dollars)

Year	Rate of Income on Loans (Per cent)	Rate of Income on Investments (Per cent)	Rate of Income on Loans and Invest- ments Combined
1945	2.98	1.36	1.69
1946	3.10	1.74	2.11
1947	3.47	1.67	2.24
1948	3.96	1.61	2.38
1949	4.14	1.57	2.39
1950	3.81	1.67	2.47
1951	4.13	1.65	2.61
1952	4.20	1.76	2.75
1953	4.34	1.93	2.96
1954	4.35	1.91	2.94
1955	4.20	2.13	3.11
1956	4.51	2.41	3.50
1957	4.87	2.51	3.76
1958	4.09	2.46	3.72
1959	5.00	2.76	4.07

Source: How Does Your Bank Measure Up?, Ohio Bankers Association, 1946-1960.

3. Income from Service Charges

The amount of income received from service charges by banks in Ohio in 1959 exceeded the amount received in 1945 by \$24,680,000. As a percentage of total operating income, however, service charges declined from 8.0 per cent in 1945 to 7.5 per cent in 1959.

4. Net Operating Income

The net operating income of all banks in Ohio in 1959 exceeded the 1945 figure by 293 per cent. As a percentage of total operating income, however, net operating income remained rather stable throughout the postwar period. During the 14-year period net operating income ranged from 17.3 per cent to 26.1 per cent of total operating income, and in only two of the 14 years net operating income declined below 20.0 per cent of total operating income.

B. Composition of Total Operating Expense

Table 16 presents the major categories of total operating expense of all banks in Ohio from 1945 to 1959, and the proportion of total operating expense provided by each category.

The total operating expenses of banks in Ohio in 1959 exceeded the 1945 total by \$250,174,000.

1. Interest Paid on Deposits

As a proportion of total operating expense, the interest paid on deposits was stable until 1957. From 1945 to 1956 the interest paid on deposits as a percentage of total operating expense ranged between 15.4 per cent and 19.9 per cent. The increase in the amount

TABLE 16
COMPOSITION OF TOTAL OPERATING EXPENSE
OF ALL BANKS IN OHIO
1945-1959

(Thousands of Dollars)

Year	Total Operating Expense	Interest Paid on Deposits	Per cent of Total	Taxes ¹	Per cent of Total	Salaries	Per cent of Total	Other Operating Expenses	Per cent of Total
1945	\$ 98,536	\$ 19,168	19.1	\$ 22,806	23.2	\$ 31,680	32.3	\$ 24,703	25.4
1946	112,126	21,895	19.6	26,138	23.2	37,056	33.0	27,037	24.2
1947	121,459	23,696	19.8	26,231	21.4	41,546	34.7	32,021	24.1
1948	126,883	24,487	18.8	24,326	18.9	45,887	37.8	32,183	24.5
1949	135,149	25,476	18.5	26,568	20.0	49,206	36.2	33,896	25.3
1950	146,863	25,795	17.6	32,472	21.7	53,035	36.0	35,561	24.7
1951	163,382	26,588	16.5	39,604	22.0	59,637	36.7	37,553	24.8
1952	187,584	29,411	15.4	48,306	25.7	67,038	36.0	42,798	22.9
1953	214,522	37,930	17.6	53,859	24.1	74,730	34.8	48,002	23.5
1954	236,017	44,626	19.9	60,567	25.8	79,959	33.9	50,864	20.4

TABLE 16 (continued)

Year	Total Operating Expense	Interest Paid on Deposits	Per cent of Total	Taxes ¹	Per cent of Total	Salaries	Per cent of Total	Operating	Per cent of Total
1955	\$ 240,633	\$ 48,384	19.9	\$ 50,363	20.7	\$ 85,868	35.7	\$ 56,018	23.7
1956	271,897	53,615	19.8	59,053	21.6	95,604	35.2	63,624	23.4
1957	334,389	67,546	20.3	72,900	21.8	104,273	31.1	69,470	24.8
1958	347,369	78,580	22.7	82,325	23.6	109,882	31.1	73,316	22.6
1959	348,710	92,484	26.3	62,496	17.7	115,123	32.9	78,608	23.1

¹Includes Federal Corporate Income Tax as well as all other taxes.

Source: How Does Your Bank Measure Up?, Ohio Bankers Association, 1946-1960.

of interest paid on time deposits in 1957 caused the percentage to increase, and in 1959 interest paid on deposits represented 26.3 per cent of total operating expenses of all banks in Ohio.

2. Taxes

The total taxes paid by all banks in Ohio in 1959 exceeded the 1945 tax payment by 179 per cent.³⁰ As a proportion of total operating

³⁰Until 1953 the statistics available on operating expenses of banks in Ohio included Federal Corporate Income tax payments in the tax portion of total operating expenses. There was no indication of what part of the total tax expense was represented by income tax payments. In order to assure uniformity in the statistics the income tax payments total which was available after 1953 have been added to the other taxes paid by banks in Ohio, and the total has been treated as an operating expense throughout the entire postwar period.

expenses, taxes paid by banks in Ohio have ranged between 17.7 per cent and 25.8 per cent during the postwar period.

3. Salaries

The total salaries paid by all banks in Ohio in 1959 exceeded the total salaries paid in 1945 by \$83,443,000. As a proportion of total operating expenses, the salaries paid by banks in Ohio ranged from 31.1 per cent to 37.8 per cent of the total. In 1945 salaries accounted for 32.3 per cent of the total operating expenses, and in 1959 salaries represented 32.9 per cent of the total.

C. Total Net Income and Dividends

The net income of all banks in Ohio in 1959 was 63.8 per cent more than the net income in 1945. Table 17 presents the amount of

TABLE 17
TOTAL NET INCOME OF ALL BANKS IN OHIO
1945-1959
(Thousands of Dollars)

Year	Total Net Income	Total Income as a Per cent of Total Capital
1945	\$ 46,844	12.2
1946	48,496	11.6
1947	37,137	8.5
1948	35,707	7.8
1949	44,156	9.1
1950	49,158	9.4
1951	49,159	8.7
1952	47,348	7.8
1953	47,779	7.4
1954	57,537	8.5
1955	57,231	7.9
1956	62,886	8.0
1957	71,665	8.5
1958	77,303	8.9
1959	77,061	8.0

Source: How Does Your Bank Measure Up?, Ohio Bankers Association, 1946-1960.

net income of all banks in Ohio and the ratio of net income to total capital during the subject period.

The years 1945 and 1946 were the years in which the total net income represented the largest percentage of total capital funds. From 1947 to 1959 the net income of banks in Ohio ranged between 9.4 per cent and 7.5 per cent of total capital funds.

Table 46 (see Appendix) presents the amount of total cash dividends paid by banks in Ohio during the subject period, and the percentage of total net income paid out in cash dividends. It is apparent from an examination of Table 46 that the total amount paid in cash dividends by banks in Ohio increased in every year of the postwar period. The pay out ratio (percentage of total net income paid out in cash dividends) did not demonstrate the same stability as the amount of dividends. The range of the pay out ratio during the period 1945 to 1959 was 19.1 to 35.4 per cent. As a result of the fluctuations in the pay out ratio, it appears that no pattern exists in total dividend payments other than the fact that they increased in total amount each year of the postwar period.

VIII. Summary

In the 14 years following the end of World War II the structure of banking in Ohio changed in the number and affiliations of banks, the amount and composition of assets, deposits, and capital, and the income and expense pattern of banks.

As a result of the increase in the number of branch banks in Ohio during the postwar period the number of banking offices increased while the number of banks declined. Due to the smaller number of banks in operation and an increasing population the average number of persons per bank in Ohio increased, but the increase in branch offices provided approximately the same ratio of population per banking office as existed at the beginning of the postwar period.

The national banks in Ohio became more prominent in terms of the number of banks and banking offices. National banks, unlike state banks in Ohio, had a small decline in the number of banks in operation. At the same time the national banks increased branch bank operations at a swifter pace than the state banks in Ohio. The result was that during the postwar period national banks in Ohio increased the proportion of total banks and banking offices under their control. State banks, however, continued to account for the largest number of banks and banking offices in Ohio throughout the postwar period.

The decline in the total number of banks in Ohio more than offset the formation of new banks, but a combined total of 33 new national and state bank charters were granted by regulatory authorities. The majority of new banks were formed under state charters and were located in small and medium-sized Ohio communities.

Ohio banks were geographically diversified throughout the period in spite of the reduction in the number of banks. Counties with heavy reductions in the number of banks were those with the

largest number of banks in operation at the beginning of the postwar period. The majority of the Ohio counties were served by both national and state banks throughout the postwar period.

Membership in the Federal Deposit Insurance Corporation was maintained by all but a fraction of the banks in Ohio during the entire period, and in 1959 only one bank in Ohio remained as a non-insured bank. It should be noted that the noninsured bank remained as the only bank in Ohio without some form of federal bank regulation and jurisdiction. Membership in the Federal Reserve System was maintained by approximately 60.0 per cent of all banks in Ohio throughout the 14-year period.

The resources of the banks in Ohio changed both in quantity and composition from 1945 to 1959. The total bank assets in Ohio increased 55.5 per cent during this period. The national banks in Ohio had the largest increase in assets, and as a result the total assets of national banks exceeded the total assets of state banks in Ohio during the postwar period. At the end of the subject period the average asset size of national banks in Ohio was 37.1 per cent larger than the average assets of all banks in the state. State banks, on the other hand, had average assets that were 22.9 per cent below the all bank average in Ohio in 1959.

The proportion of total bank assets in Ohio held in the form of loans and discounts expanded during the postwar period, while the proportion of total assets represented by United States government

obligations declined by nearly the same proportion. Loans for consumer instalment credit and real estate loans increased as a proportion of total loans while commercial and industrial loans remained stable, and loans for the purchase of securities and loans to dealers and brokers declined substantially as a proportion of total loans.

The total deposits of banks in Ohio expanded by 49.6 per cent during the postwar period. The most significant increase in deposits took place in the time deposits. During the subject period the time deposits of all banks in Ohio increased 73.8 per cent while demand deposits increased 37.6 per cent.

The national banks in Ohio also gained control of the majority of total bank deposits during the postwar period. The state banks in Ohio failed to increase total deposits at a rate equal to that of the national banks, and as a result the state banks relinquished the dominant position they held in total deposits at the beginning of the subject period. The state banks continued to hold the greatest portion of total bank time deposits in Ohio, but the national banks had narrowed the difference substantially by 1959.

The total capital of banks in Ohio increased by 133 per cent between 1945 and 1959. The most significant increase took place in the surplus accounts. National banks also surpassed state banks in the expansion of total capital during the subject period. The national banks in Ohio increased total capital 165 per cent while the state banks registered an increase of 109 per cent.

The operating income of all banks in Ohio increased in each year of the 14-year period. The income resulting from bank loans became a larger proportion of total operating income during the period while the income earned from investments declined. Income resulting from service charges continued to provide approximately the same proportion of operating income throughout the postwar period.

The total operating expenses of banks in Ohio increased rapidly during the postwar period, but the increase was less than that experienced in operating income. All of the major components of operating expense remained rather stable as a percentage of the total with the exception of interest paid on deposits which increased rather sharply after 1956.

The net income of banks in Ohio increased in the postwar period, and as a result the total dividends paid to stockholders in Ohio banks increased in each year of the 14-year period.

CHAPTER III

BANKING CONCENTRATION AND COMPETITION IN OHIO

The purpose of this chapter is to measure and analyze the concentration of total bank resources exercised by the large metropolitan banks in Ohio during the postwar period, and to compare the extent of bank concentration in Ohio with the rest of the United States. In addition, Chapter III contains an examination of the amount and methods of competition in banking in Ohio during the subject period.

I. Concentration Exercised by the Large Metropolitan Banks in Ohio During the Postwar Period

Tables 47 and 48 (see Appendix) present the total assets, deposits, and capital of the 20 largest banks in Ohio in 1945 and 1959. Table 18 presents the proportion of total bank assets, deposits, and capital in Ohio controlled by the 20 largest banks in 1945 and 1959. The basis of selection of the largest banks was the size of total assets in 1945 and 1959.

A. The Largest Bank in Ohio

The Cleveland Trust Company was the largest bank in Ohio in 1945 and remained in that position throughout the postwar period. In 1945 the total assets of the Cleveland Trust Company exceeded the total assets of the second largest bank in Ohio by 123 per cent,

but in 1959 the difference in the total assets of the two banks had been reduced to 76 per cent. Throughout the postwar period the Cleveland Trust Company was the only bank in Ohio with total assets of more than \$1 billion.

In 1945 the Cleveland Trust Company controlled 14.20 per cent of the total bank assets in Ohio and in 1959 it held 11.96 per cent of the total. At the beginning of the postwar period, 18.16 per cent of the total bank loans and discounts in Ohio were held by the Cleveland Trust Company, but in 1959 this percentage had been reduced to 15.21 per cent.

During the entire 14-year period the only category of assets in which the Cleveland Trust Company increased its control of the total was the "other securities" category. This category includes state and local government obligations, stock in the Federal Reserve Bank of Cleveland, and securities of private enterprises. In 1945, the Cleveland Trust Company accounted for 5.30 per cent of all "other securities" held by banks in Ohio, and in 1959 it had increased the proportion to 10.39 per cent of the total.

In 1945 the Cleveland Trust Company held 14.25 per cent of the total bank deposits in Ohio, but in 1959 the proportion of the total held by this bank had declined to 12.03 per cent.

The proportion of total bank capital in Ohio under the control of the Cleveland Trust Company remained stable during the postwar period. In 1945 this bank accounted for 11.91 per cent of total bank capital in Ohio, and in 1959 the percentage was 11.09 per cent.

B. The Five Largest Banks in Ohio

In 1945 the three largest banks in Ohio were located in Cleveland, the fourth largest in Toledo, and the fifth in Cincinnati. In 1959 the three largest banks in Ohio consisted of the same banks in the same order. The fourth and fifth largest banks, however, were located in Cincinnati and Columbus in 1959. In 1945 the difference in the total assets of the largest bank and the fifth largest bank in Ohio totaled \$829,880,000, but by 1959 the difference in assets had been extended to \$1,007,345,000.

In 1945 the five largest banks in Ohio accounted for 33.12 per cent of the total bank assets, and in 1959 they held 31.26 of the total bank assets in the state.

The decline in the total deposits under the control of the five largest banks was nearly equal to the decline in the proportion of total assets held by these same banks. In 1945 the five banks accounted for 33.17 per cent of the total bank deposits in Ohio, and in 1959 the percentage had declined to 31.31 per cent.

The proportion of total bank capital in Ohio accounted for by the five major banks was 30.15 per cent in 1959, as compared to 29.98 per cent in 1945.

C. The Ten Largest Banks in Ohio

In 1945 the ten largest banks in Ohio were composed of four banks in Cleveland, three banks in Cincinnati, and the three remaining banks were located in Columbus, Dayton, and Toledo. In 1959 five of

the ten largest banks in Ohio were located in Cleveland, and these five banks accounted for 65.52 per cent of the total assets of the ten largest banks in Ohio and 33.70 per cent of the total bank assets in Ohio. The five remaining banks were located in Cincinnati, Columbus, and Toledo in 1959.

It is also notable that in 1945 and 1959 the ten largest banks in Ohio were equally divided between national and state chartered banks. The five largest banks in 1945 were composed of two national banks and three state banks. In 1959, however, four of the five largest banks were national banks, and only The Cleveland Trust Company remained as the state chartered bank among the five major banks in the state.

The proportion of total assets under the control of the ten largest banks in Ohio experienced a small decline in the 14 years following the postwar period. In 1945 the 10 leading banks accounted for 46.29 per cent of the total bank assets in Ohio, and in 1959 this proportion had been reduced to 45.45 per cent. The share of total deposits accounted for by the ten banks also declined from 46.47 per cent in 1945 to 45.09 per cent in 1959.

The proportion of total capital held by the ten largest banks increased from 42.20 per cent in 1945 to 45.76 per cent in 1959.

TABLE 18

PERCENTAGE OF TOTAL BANK ASSETS, DEPOSITS, AND CAPITAL IN OHIO CONTROLLED
BY THE 20 LARGEST BANKS IN OHIO IN 1945 AND 1959

1945	Per cent of Total Assets	Per cent of Cash and in Banks	Per cent of U.S. Govt. Securities	Per cent of Other Securities	Per cent of Loans and Discounts	Per cent of Total Deposits	Per cent of Total Capital
Largest Bank	14.20	11.01	14.98	5.30	18.16	14.25	11.91
5 Largest Banks	33.12	29.83	33.87	14.13	40.08	33.17	29.28
10 Largest Banks	46.29	44.27	45.87	25.38	50.57	46.47	42.20
20 Largest Banks	58.87	57.23	58.39	33.32	61.65	59.15	53.59
<u>1959</u>							
Largest Bank	11.96	10.53	8.47	10.39	15.21	12.03	11.09
5 Largest Banks	31.26	35.72	24.88	30.00	33.91	31.31	30.15
10 Largest Banks	45.45	51.37	38.06	40.95	48.53	45.09	45.76
20 Largest Banks	58.78	65.57	54.68	51.27	59.92	58.71	57.80

Source: Tables 47 and 48.

D. The 20 Largest Banks in Ohio

In 1945 and 1959 the 20 largest banks in Ohio were located in the seven largest metropolitan centers in Ohio. The order and composition of representation changed, however, during the postwar period.

The proportion of total bank assets in Ohio controlled by the 20 leading banks in 1945 remained nearly the same in 1959. In 1945, 58.87 per cent of the total bank assets in the state were held by the 20 largest banks, as compared to 58.78 per cent in 1959. The proportion of total bank deposits in Ohio accounted for by the 20 largest banks also remained substantially unchanged from 1945 to 1959. The total bank capital in Ohio held by the 20 largest banks increased from 53.39 per cent in 1945 to 57.80 per cent in 1959.

The 20 largest banks in Ohio were also evenly divided between national and state chartered banks in 1945 and 1959.

II. Geographic Concentration

Tables 47 and 48 (see Appendix) show the location of the 20 largest banks in Ohio in 1945 and 1959, and from these tables it is evident that the largest banks in Ohio are located in the seven major metropolitan areas in Ohio.

Tables 19 and 20 present the total deposits, demand deposits, and time deposits of individuals, partnerships, and corporations located

TABLE 19
DEPOSITS OF INDIVIDUALS, PARTNERSHIPS, AND CORPORATIONS
IN THE METROPOLITAN COUNTIES OF OHIO
DECEMBER 31, 1947

County	Total Deposits	Per cent of Ohio Total	Demand Deposits	Per cent of Ohio Total	Time Deposits	Per cent of Ohio Total
Cuyahoga	\$ 1,970,842	31.14	\$ 1,071,208	29.39	\$ 899,634	33.17
Franklin	341,424	5.38	247,064	6.78	94,360	3.49
Hamilton	788,130	12.45	556,689	12.54	231,441	8.60
Lucas	325,075	5.13	215,602	8.64	109,473	4.05
Mahoning	158,685	2.51	89,167	2.44	69,518	2.60
Montgomery	228,666	3.61	167,029	4.58	61,637	2.30
Stark	173,835	2.74	93,365	2.58	80,470	2.97
Summit	261,531	4.13	141,892	3.84	119,639	4.46
Total	\$ 4,248,188	67.09	\$ 2,582,016	70.79	\$ 1,666,172	61.64
Ohio Total	6,329,003	100.00	3,642,687	100.00	2,686,316	100.00

Source: Board of Governors of the Federal Reserve System, Distribution of Bank Deposits by Counties, July, 1948.

TABLE 20
DEPOSITS OF INDIVIDUALS, PARTNERSHIPS, AND CORPORATIONS
IN THE METROPOLITAN COUNTIES OF OHIO
DECEMBER 31, 1959
(Thousands of Dollars)

County	Total Deposits	Per cent of Ohio Total	Demand Deposits	Per cent of Ohio Total	Time Deposits	Per cent of Ohio Total
Cuyahoga	\$ 2,784,958	29.96	\$ 1,481,357	26.71	\$ 1,303,601	31.58
Franklin	577,959	6.21	417,620	7.89	160,339	3.87
Hamilton	1,007,934	10.84	745,678	14.23	262,256	6.35
Lucas	506,842	5.34	310,886	6.01	195,956	4.75
Mahoning	249,576	2.69	137,460	2.65	112,116	2.71
Montgomery	364,134	3.91	261,862	5.06	102,272	2.48
Stark	269,392	2.90	140,871	2.72	128,521	3.12
Summit	457,778	4.92	247,313	4.77	210,465	5.09
Total	\$ 6,218,573	66.77	\$ 3,743,047	70.04	\$ 2,457,526	59.95
Ohio Total	9,293,993	100.00	5,168,651	100.00	4,125,342	100.00

Source: Board of Governors of the Federal Reserve System, Distribution of Bank Deposits by Counties and Standard Metropolitan Areas, June, 1960.

in the eight metropolitan counties of Ohio in 1947 and 1959.¹ Any

¹The Federal Reserve System did not undertake surveys of total bank deposits by counties until 1947; as a result statistics on bank deposits in the 88 Ohio counties were not available until 1947.

county which, at the time of the 1950 census, contained a city of 100,000 inhabitants or more was classified as a metropolitan county.

At that time there were eight metropolitan counties in Ohio:

Cuyahoga, Franklin, Hamilton, Lucas, Mahoning, Montgomery, Stark, and Summit.²

²Division of Economic Research, Economic Data Series: Population Series (Columbus, Ohio: Ohio Department of Industrial and Economic Development, 1960), p. 14.

The population totals for the eight metropolitan counties in Ohio are not available for 1945, but actual figures are available for 1950 and estimated figures for 1959.³ In 1950 the eight metropolitan

³Ibid., p. 1-R.

counties in Ohio contained 54.89 per cent of the total population of Ohio, and in 1959, 55.10 per cent of Ohio's total population resided in the eight metropolitan counties.

In 1950 the metropolitan counties in Ohio provided 63.75 per cent of the total personal income in Ohio, as compared to 61.13 per cent in 1959.⁴

⁴Ibid., p. I-1.

In 1947, 67.09 per cent of the total bank deposits in Ohio were located in the banks in the eight metropolitan counties. In 1959 all the banks in the metropolitan counties accounted for 66.77 per cent of the total bank deposits in Ohio.

In 1947 the total demand deposits of all banks in the eight metropolitan counties accounted for 70.79 per cent of the total demand deposits in Ohio, and the time deposits in the subject banks represented 61.64 per cent of total time deposits in Ohio. The demand deposits in the Ohio metropolitan counties represented 70.04 of the Ohio total in 1959, and at the same time 59.95 per cent of the total time deposits in the state were located in the banks in the metropolitan counties.

Cuyahoga County had the largest total bank deposits of the 88 Ohio counties in 1947 and 1959. In 1947 the banks located in Cuyahoga County accounted for 31.14 per cent of the total bank deposits in Ohio, as compared to 29.96 per cent in 1959.

The banks in Hamilton County also held a smaller proportion of total bank deposits in Ohio in 1959 than in 1947. In 1959, however, the remaining six metropolitan counties in Ohio each contained a larger proportion of Ohio's total bank deposits than they had in 1947. Franklin County had the largest percentage increase. In 1947 Franklin County accounted for 5.38 per cent of the Ohio total as compared to 6.21 in 1959.

III. Comparison of Bank Concentration in Ohio and the United States

Table 49 and 50 (see Appendix) present the assets, deposits, and capital of all insured commercial banks in the United States on June 10, 1959, and the percentage of the total resources controlled by each deposit group. Tables 51 and 52 (see Appendix) present the same information for all insured commercial banks in Ohio on the same date.

In 1959 there were 19 insured commercial banks in the United States with total deposits in excess of \$1 billion. These 19 banks represented .14 per cent of the total insured banks in the United States, and they controlled 27.33 per cent of the total insured bank assets. During the same period the state of Ohio had one bank with deposits in excess of \$1 billion which represented .16 per cent of the total number of insured banks in Ohio, but it controlled only 12.50 per cent of the insured bank assets in the state.

In 1959 a total of 258 insured banks in the United States had total deposits exceeding \$100 million. These banks accounted for 1.85 per cent of all the insured banks and controlled 58.02 per cent of the assets in the United States. There were 16 banks in Ohio, on June 10, 1959, with deposits totaling \$100 million or more, and these banks represented 2.69 per cent of all of the insured banks in the state and held 54.91 per cent of the total assets.

The largest number of insured banks in both the United States and Ohio had total deposits ranging from \$2 to \$5 million. The number

of insured commercial banks in the United States in this deposit category represented 33.17 per cent of the total, and in Ohio this category accounted for 33.00 per cent of the insured banks in the state. The total deposits of these banks accounted for 6.72 per cent of the total insured bank deposits in the United States, and 6.10 per cent of the insured deposits in Ohio.

The insured banks in the United States with deposits of less than \$10 million totaled 9,687 and represented 81.58 per cent of all insured banks in the nation. The insured banks in Ohio with total deposits under \$10 million numbered 455 and accounted for 76.21 per cent of all insured banks in Ohio. This deposit category provided 16.17 per cent of the total bank assets in Ohio and 16.65 per cent of the total bank assets in the United States.

It is apparent from this study that in June of 1959 the trend toward concentration of bank resources was less pronounced in Ohio than in the balance of the country.

IV. The Economies of Large Scale Banking in Ohio

As was previously stated the majority of the banking resources in Ohio during the postwar period have been controlled by the 20 largest banks in the state. One of the advantages which these banks possess results from the cost economies gained from operating on a larger scale. Table 21 presents the operating ratios for all Federal Reserve member banks in Ohio in 1959 grouped by deposit size.

TABLE 21

OPERATING RATIOS FOR ALL FEDERAL RESERVE MEMBER BANKS IN OHIO
GROUPED BY ASSET SIZE

1959

Deposit Size in Millions of Dollars	Number of Banks	Total Expenses as a Per cent of Total Earnings	Return on Total Loans	Return on U.S. Govt. Securities	Net Profits as a Per cent of Total Assets	Net Profits as a Per cent of Total Capital Accounts
Up to 1	14	77.2	5.83	2.77	.38	2.9
1 to 2	39	74.2	5.89	2.78	.70	7.0
2 to 5	118	71.2	5.79	2.83	.67	7.0
5 to 10	91	69.8	5.90	2.83	.57	6.9
10 to 25	61	71.6	5.78	2.79	.55	6.9
25 to 50	20	72.0	5.98	2.76	.40	5.9
50 to 100	10	66.8	5.68	2.72	.66	8.7
100 and over	16	62.9	5.52	2.83	.69	9.1
Total Ohio Member Banks	369	71.0	5.82	2.81	.60	6.9

TABLE 21 (continued)

Deposit Size in Millions of Dollars	Capital Accounts as a Per cent of Total Assets	Capital Accounts as a Per cent of Risk Assets*	Time Deposits as a Per cent of Total Deposits
Up to 1	12.9	26.6	47.6
1 to 2	10.4	21.6	51.1
2 to 5	9.7	20.2	48.6
5 to 10	8.6	16.3	44.9
10 to 25	8.2	14.9	46.5
25 to 50	7.1	13.4	43.4
50 to 100	7.7	15.6	37.8
100 and over	7.7	16.4	30.0
Total Ohio Member Banks	9.1	18.1	46.2

*Risk assets equal total assets less U. S. Govt. securities and cash assets.

Source: Member Bank Operating Ratios, Fourth Federal Reserve District, Federal Reserve Bank of Cleveland, 1959.

In 1959 the total expenses of member banks in Ohio with deposits in excess of \$100 million was 62.9 per cent of the total income of these banks. The total expenses for all Ohio member banks in 1959 averaged 71.0 per cent of total income, and the highest ratio of total expenses to total income was registered by member banks with total deposits of less than \$1 million.

Table 21 shows, however, that the reduction in the ratio of total expense to total income of a bank does not decline steadily as total deposits increase. The increase in deposits results in a lower ratio of total expense to total income until total deposits of \$10 million are acquired. An increase in total deposits beyond \$10 million results in an increase in the ratio of total expense to total income until \$50 million in deposits are acquired. The only explanation for the higher ratio of total expense to total income for member banks with total deposits ranging from \$10 million to \$50 million is the fact that bank management is forced to increase operating expense faster than total income increases in order to attract additional deposits. Once the \$50 million deposit level is reached, however, the bank then benefits from the cost advantages of a larger operating base.

From the viewpoint of its influences on expenses, the interest of a bank in growing rapidly is clearly evident in the relationship between size and costs. For while the immediate result of rapid growth appears to increase costs, the longer-run influence is to reduce costs by permitting the bank to enjoy the cost advantages of larger scale operations.⁵

⁵"Importance of Size and Other Factors Affecting Bank Costs," Monthly Review of the Federal Reserve Bank of Kansas City, April 1961, p. 3.

Meaningful comparisons of cost ratios must give attention to other characteristics of the assets and liabilities of different size banks. An analysis of the net profits in relation to the total assets and total capital accounts of Ohio member banks also reveals the greater profitability of larger banks. The Ohio member banks in the largest deposit classification had the highest ratio of net profits to total capital accounts, and the second largest deposit group had the second highest ratio. In 1959 the average ratio of net profits to total capital for all Ohio member banks was 6.9 per cent, and the banks with deposits in excess of \$100 million averaged 9.1 per cent. The member banks with deposits ranging from \$1 to \$5 million had a better return on total capital than those with deposits ranging from \$5 to \$50 million. The group with the poorest profit record in 1959 were the member banks with deposits under \$1 million.

One of the primary reasons for the larger banks reporting a higher ratio of net profits to capital accounts was their advantage in having a smaller ratio of capital to total assets. In 1959 the average ratio of capital accounts to total assets for all Ohio member banks was 9.1 per cent. In the same period the member banks with deposits exceeding \$50 million had an average capital to assets ratio of 7.7 per cent, and the least profitable member banks, those with deposits of less than \$1 million, had a capital to assets ratio of 12.9 per cent.

The larger banks' earnings advantage is partially offset, however, by their lower operating earnings per dollar of assets,

which is due chiefly to the lower interest income on loans. The return on total loans for all member banks in 1959 was 5.82 per cent, and the member banks in the \$100 million deposit class averaged 5.52 per cent return on total loans.

The highest ratio of return on loans, however, was not earned by the smallest banks. The highest average return of 5.98 per cent on total loans was earned among the banks in \$25 to \$50 million class. It is interesting to note that this same deposit class demonstrated the second poorest ratio of net profits to total capital and total assets.

Another factor adding to the lower expense ratio of the larger banks was the ratio of time deposits to total deposits. The lower ratio of time deposits to total deposits reported by the larger banks permitted these banks to pay out a smaller proportion of total income in interest to deposit holders. In 1959 all Ohio member banks held 46.2 per cent of their total deposits in time deposits, but the time deposits of member banks in the \$100 million deposit class represented only 30.0 per cent of their total deposits.

V. Competition in Banking in Ohio

The competition that banks in Ohio faced during the subject period resulted from the activity within the banking industry, and the growth of nonbank financial institutions during the postwar period.

A. Competition in Commercial Banking

1. Entry

As a result of the numerous bank failures between 1921 and 1934 the bank regulatory agencies adopted more stringent policies regarding the formation of new banks. To assure a strong banking structure increased regulation has been substituted for unrestricted competition, and the primary method of limiting competition in banking is the legal restrictions placed on entry.

The legal restrictions on entry into banking are primarily the minimum capital requirements imposed by federal and state laws. Under federal law, a national bank is required to have a minimum capital stock of \$50,000 in communities of 6,000 and less; \$100,000 in cities with a population ranging from 6,000 to 50,000; and \$200,000 in cities of 50,000 population and more. In addition, a national bank must, at the time it receives a charter, have a paid-in surplus equal to 20 per cent of its capital stock.⁶

⁶Federal Code, Annotated, Title 12, sec. 51.

To receive a bank charter from the state of Ohio the banking law requires that a unit bank have capital stock of at least \$35,000 in villages, \$50,000 in cities the population of which does not exceed 25,000; and a minimum of \$100,000 in cities with a population in excess of 25,000. The Ohio banking law also requires

a paid-in surplus equal to 20 per cent of the capital stock before operation of a state chartered bank may begin.⁷

⁷Ohio Banking Law, Annotated, 1103.10.

The Ohio Superintendent of Banks reported that neither he nor the Comptroller of the Currency will grant permission to open a new bank in a community where there are already a sufficient number of banks in operation, and the creation of an additional bank might result in undesirable competition.⁸

⁸Interview with the Ohio Superintendent of Banks, March 24, 1961.

Although the legislative and regulatory barriers to entry into banking have some undesirable effects upon the banking structure, it is generally conceded that the benefits of such regulation outweigh the disadvantages.

This type of regulation has resulted in the erection of statutory barriers, behind which inefficient institutions may placidly exist, sheltered from the competition which, in another industry, would destroy them. But that, too, is a cost deemed necessary to attain the primary objective which is to protect the banks, the depositors in the banks, and those in the community who deal with the banks.⁹

⁹Henry Harfield, "Legal Restraint on Expanding Banking Facilities: Competition and the Public Interest," The Business Lawyer, July 1959, p. 1018.

2. Market Area

The size of the market which a bank can effectively serve also provides a limitation on the extent of competition in banking. The market area which a bank serves varies directly with the size of the bank. The small bank typically makes loans only to local businesses and individuals. The larger banks usually compete for business loans outside of their own metropolitan area, but in doing so, they are interested primarily in the loan account of the larger and better-known business firms. Thus, the size of the lender and the size of the borrower are both dominant factors in determining the size of the credit market.¹⁰

¹⁰ "Report of Transamerica Case," Banking Law Journal, January 1954, p. 27.

As a result of the correlation between the size of the bank and the size of the banking market, the growth objective ranks high among the goals of bank management. The limits to which a bank may influence its growth rate, however, are much narrower than is the case for firms in most other industries. The growth of bank assets and deposits is dependent upon the expansion of bank reserves which, in turn, is regulated and controlled by the action of the Federal Reserve System. Other limitations to growth over which bank management has little control are federal and state regulation of the operation of branch offices, the kinds and quality of assets acquired, and the interest paid on deposits.

3. Price Competition

The rates which banks charge their customers and pay for deposits do not appear to be a major competitive weapon.¹¹ The rate

¹¹Clay J. Anderson, "Competitive Factors in Business Loans," Business Loans of American Banks, Ed. B. H. Beckhart (New York: Ronald Press Company, 1956), p. 305.

policy adopted by banks entering a market is the going rate. A bank attempting to charge a higher rate would place itself at a competitive disadvantage, and to charge a lower rate would invite retaliatory action from competitors. Professor Robinson contends that the rate charged for loans is not the paramount concern of bank customers.

As said before, most customers are not keenly interested in rates; their chief interest is in not being treated unfairly. While rates are a legitimate form of competitive activity, there are other and possibly better grounds for advancing the competitive case: better service, more flexible adjustment of credit terms to the true needs of the borrower, help in promoting more business for the customers.¹²

¹²Robinson, Management of Bank Funds, p. 124.

In those cases where price competition does exist between banks, rate cutting is more likely to be disguised in the form of lowering the standards used to determine the rate to which a particular customer is entitled.¹³

¹³Anderson, p. 306.

The rates which banks charge for loans, however, are not determined solely by management. The interest rates charged by banks are also influenced by the monetary policies and actions of the Federal Reserve System. As a result, banking somewhat resembles a public utility in that the rates which they charge are partly determined by regulatory authorities, rather than solely by supply and demand forces in the market. Professor Bogen points out an important difference, however, between the monetary policy of the Federal Reserve System and the rate-making policy of a public utility commission.

But regulatory authorities set utility rates at levels that are designed to provide a fair return on the investment, and so to attract new capital as needed to the industry. The Federal Reserve authorities, by contrast, seek to promote economic growth and price stability by their credit policies with little or no regard to the impact of their actions upon the earning power of commercial banks.¹⁴

¹⁴Bogen, Adequacy of Commercial Bank Earnings, p. 7.

Although there is little, if any, price competition among banks in the same market area, there are, however, differences in interest rates among separate markets. Interest rates on bank loans tend to be lower and more flexible in large cities than in small towns. This difference in rates reflects, in part, the lower operating costs of large banks and the type of customer to which the larger metropolitan banks make loans. The banks in the large cities deal with business firms that have several alternative sources of supply

for short-term and intermediate-term capital. The loan rates of small banks located in small towns are typically higher and more rigid. This results from the higher operating costs which these banks experience, and the fact that the small business firms which these banks serve have few, if any, alternative sources of supply.¹⁵

¹⁵David A. Alhadeff, Monopoly and Competition in Banking, (Berkeley and Los Angeles, University of California Press, 1954), p. 219.

As a result of the similarity of rates charged by banks which share the same market, many students of banking have asserted that collusion exists among the banks and that the means of enforcing it is the clearinghouse agreement which banks enter into. Professor Chandler in his examination of bank competition found little evidence to sustain such an argument.

It is impossible to ascertain the extent to which the interest rates on loans to customers are fixed by interbank collusion. Clearinghouse agreements are singularly silent on this point. There are probably several reasons for this silence. In the first place, the publication of such an agreement would evoke unfavorable customer reactions. In the second place, any uniform rate agreed upon could hardly be imposed upon those borrowers with ready access to the open market or to distant banks. And, finally, an agreement on rates to be charged borrowers unable to resort to sources outside the areas covered by the clearinghouse agreement is probably considered unnecessary in that the majority of cases the rates on these loans are already fixed by custom of long standing.¹⁶

¹⁶Lester V. Chandler, "Monopolistic Elements in Commercial Banking," Journal of Political Economy, February 1938, p. 11.

4. Competition in Services

Competition does exist in banking; however, the primary area of competition between banks is in the services which are provided customers.¹⁷ The true measure of the degree of competition in a bank-

¹⁷Annual Report of the Comptroller of the Currency, 1956,
p. 18.

ing market is the convenience, the range, and the quality of the services which are made available to customers.

A study conducted at Western Reserve University by William C. Stewart revealed that the most important factor in the selection of a bank by a corporation is the services which a bank is capable of providing.

It seems quite apparent that the bank which builds a good reputation in the business community, which keeps its fences in good repair by community service and frequent contact with the corporation, and which keeps up to date with the latest services which can be provided to its customers, gets the business.¹⁸

¹⁸William C. Stewart, "How Business Picks Banks," Burroughs Clearing House, January 1960, p. 33.

As a result of the demand for increased services by business customers many banks have established staff specialists in particular industries in order to attract the business of large corporations. Banks located in predominantly agricultural areas have placed agricultural specialists on their staffs in order to attract the business of farmers.

As a result of the demand for a broader range of bank services and the competition among banks to provide these services, the need has arisen for banks to become larger and to acquire a larger share of the existing market. This need for a larger operating base and market share is a direct outgrowth of the increased costs which result from offering new and diversified services. Without a minimum operating base the individual banks cannot afford to undertake the services which customers desire, and the outcome is an inability to compete effectively and the eventual loss of income.

B. Competition Between Banks and Other Savings and Lending Institutions

Banks in Ohio have received a substantial amount of competition from other savings and lending institutions in Ohio during the postwar period. The growth of many of these institutions was a result of either the inability or the unwillingness of the banks in Ohio to provide services which the public desired.

Thus, if we stand back and appraise our competition with some degree of detachment, we would have to acknowledge that these competitors of ours in the fields of savings and credit were initiated and their growth stimulated because we commercial bankers failed to provide a desired service--or failed to provide it on desired terms. Perhaps we could not provide the service; perhaps we should not have provided the service; but in any event we did not provide it.¹⁹

¹⁹Gaylord A. Freeman, Mutual Competition (Chicago, Ill.: The First National Bank of Chicago, 1959), p. 35.

1. Savings and Loan Associations

The savings and loan associations were the most aggressive non-bank competitors in Ohio during the postwar period. Table 22 presents the total number of savings and loan associations in Ohio during the postwar period, and the total assets, first mortgage loans, and savings capital of the associations.

In the postwar period the number of savings and loan associations in operation in Ohio was reduced by 8.50 per cent, but the average assets per association increased from \$2,134,000 in 1945 to \$10,711,000 in 1959. In 1959 Ohio ranked third in the nation in the number of associations in operation. In the same year the total assets of savings and loan associations in Ohio were second only to California, and the per capita assets in savings and loan associations in Ohio also placed second nationally.²⁰

²⁰Savings and Loan Fact Book, 1960 (Chicago, Ill.: United States Savings and Loan League, 1960), p. 71.

The areas in which the savings and loan associations in Ohio actively compete with banks are real estate loans and savings deposits. During the postwar period the savings and loan associations in Ohio were quite successful in competing for savings deposits. In 1945 the time deposits of all banks in Ohio exceeded the savings capital of all savings and loan associations in Ohio by 120 per cent, but by 1959 the savings capital of the savings and loan associations exceeded bank time deposits in the state by 29.76 per cent.

TABLE 22
NUMBER AND SELECTED BALANCE SHEET DATA OF ALL
SAVINGS AND LOAN ASSOCIATIONS IN OHIO
1945-1959

(Millions of Dollars)

Year	Number	Total Assets	1st Mortgage Loans	Savings Capital
1945	635	\$ 1,355	\$ 765	\$ 1,111
1946	627	1,535	965	1,324
1947	622	1,689	1,145	1,454
1948	615	1,815	1,285	1,577
1949	611	1,953	1,411	1,694
1950	609	2,151	1,590	1,829
1951	607	2,419	1,794	2,051
1952	605	2,769	2,068	2,362
1953	601	3,111	2,364	2,676
1954	600	3,504	2,688	3,027
1955	596	4,041	3,152	3,468
1956	593	4,059	3,529	3,925
1957	585	4,961	3,881	4,356
1958	582	5,463	4,295	4,771
1959	581	6,225	4,994	5,354

Source: Bureau of the Census, United States Department of Commerce, Statistical Abstract of the United States (Washington, D.C., United States Government Printing Office, 1946-1959), United States Savings and Loan League, Savings and Loan Fact Book, 1960.

There are a number of reasons cited for the postwar success of savings and loan associations in attracting personal savings. Some commercial bankers argue that the primary reason for the success of the savings and loan associations is the alleged inequality in taxation between the associations and the banks.

Under the current law a commercial bank may accumulate a bad debt reserve equal to its total loans outstanding multiplied by a loss ratio. The loss ratio is determined by one of two methods: either an average of the actual loss experience of the bank during the twenty-year period immediately preceding the present tax year, or the actual loss experience of the bank during the twenty-year period starting with 1927. The maximum amount that may be added to the bad debt reserve during any one year is an amount which will bring the accumulated bad debt reserve to three times the average loss ratio multiplied by the total loans currently outstanding.

In the case of savings and loan associations the bad debt reserve is computed in the same manner as described for commercial banks if the sum of the surplus, reserves, and undivided profits is equal to or in excess of 12 per cent of the total savings capital; however, if these three items are not equal to 12 per cent of the savings capital the savings and loan associations are permitted to deduct any amount from taxable income as an addition to reserves for bad debts until the sum of the surplus, reserves, and undivided profits

equals 12 per cent of savings capital.²¹ In addition, a savings and

²¹Federal Taxes, Volume I (Englewood, N.J.: Prentice-Hall Publishing Company, 1961), p. 4869.

loan association is allowed to treat all amounts paid to depositors or shareholders or credited to their accounts as an expense before determining taxable income. The effect of this provision is that a savings and loan association, by paying out sufficient interest or dividends, can keep the aggregate of its surplus, undivided profits, and reserves below 12 per cent of its savings capital, and thus permanently avoid the payment of federal income tax.²²

²²Paul D. Lagomarcino, "The Impact of 12 Per cent Reserve Income Tax Provision Upon the Banking Structure," Banking Law Journal, November 1958, p. 922.

Spokesmen for commercial banking have contended that this difference in tax treatment between savings and loan associations and banks is the reason the savings and loan associations are capable of paying higher dividends or interest for personal savings.²³ There

²³Ray M. Gidney, "Growth of the Nation's Banking Institutions," The Commercial and Financial Chronicle, October 2, 1958, p. 25.

are, however, those in commercial banking who refute this argument.

We are all familiar with the handicaps of commercial banks in competing for this time deposits business. The one we hear about the most is tax inequality. This is a real disadvantage, of course, but the figures show that it is nowhere as important relatively, as many persons assume. Its elimination would not solve the bank's competitive

problem by any means. . . by far the greatest disadvantage is the fact that other institutions pay savers appreciably higher rates of return and are thereby able to attract more savings. At the moment this is due in part to the 3 per cent ceiling on interest payments by commercial banks but many banks are still paying less than the ceiling rate.²⁴

²⁴E. Sherman Adams, "Measures to Sustain Banks' Profit Position," The Commercial and Financial Chronicle, December 10, 1959, p. 14.

One recognized banking expert stated that "convenience, rate of return paid, services rendered and aggressive promotion determine the distribution of savings funds among financial institutions."²⁵

²⁵Bogen, The Competitive Position of Commercial Banks, p. 32.

As a result of the ceiling imposed upon the rate of interest that commercial banks may pay for time deposits, the banks are unable to compete with savings and loan associations by offering a higher rate of interest for deposits. The most effective means by which banks compete with savings and loan associations for savings accounts is by offering a more complete financial service to the depositor than is offered by the savings and loan associations.

Banks and savings and loan associations in Ohio also compete for residential real estate loans. In 1959 the savings and loan associations in Ohio held 57.22 per cent of the total home mortgage loans in Ohio, and the banks in Ohio accounted for 18.97 per cent of the

total.²⁶ The ability of the banks in Ohio to increase the proportion

²⁶Savings and Loan Fact Book, 1960, p, 42.

of the real estate loans which they hold will depend upon their ability to attract additional time deposits. Mortgage loans have much longer maturities than other classes of loans made by banks, and they have limited or no marketability. Hence they have been regarded traditionally as suitable only for the investment of a part of a commercial bank's time deposits.

The future competitive position of commercial banks in mortgage lending will depend chiefly on the volume of savings deposits they will attract. The ready availability and relatively favorable yields offered by mortgages continue to favor the investment of a rising proportion of savings deposits gains in non-farm mortgage loans.²⁷

²⁷Bogen, The Competitive Position of Commercial Banks, p. 32.

Thus the competition for real estate loans between savings and loan associations and banks in Ohio is closely linked with the competition which these institutions conduct to attract savings deposits.

2. Credit Unions

The credit unions in operation in Ohio during the postwar period have also provided competition for banks. The areas in which the credit unions compete with banks are savings deposits and consumer loans. Table 23 presents the total number of credit unions in

Ohio during the postwar period and the total assets of these organizations.

The total assets of credit unions in Ohio in 1959 shows that credit unions are not as important a competitor of banks as the savings and loan associations. The growth of credit unions in Ohio during the postwar period, however, has been rapid. During the 14-year period following World War II, 565 additional credit unions were organized in Ohio, and the total assets of these organizations increased from \$24,223,000 in 1945 to \$279,011,000 in 1959.

As a result of the growth in the credit union movement, some commercial banks have attempted to meet the competition of credit unions by offering the same services within industrial plants or adjacent to them.²⁸

²⁸ "Answer to credit unions; the same services on the same premises," Banking, July 1959, p. 64.

3. United States Savings Bonds

The sale of United States Savings Bonds to the public has also served as competition for the savings deposits of commercial banks in Ohio. The annual sale of savings bonds in Ohio has been rather stable throughout the postwar period as demonstrated by Table 24. Unfortunately, the net amount of savings in Ohio held in United States Savings Bonds is not available. The Treasury Department discontinued reporting redemptions by states after 1947.

TABLE 23
 NUMBER AND TOTAL ASSETS OF ALL
 CREDIT UNIONS IN OHIO
 1945-1959

(Thousands of Dollars)

Year	Number	Total Assets
1945	567	\$ 24,223
1946	565	28,510
1947	571	35,041
1948	585	42,766
1949	614	48,729
1950	663	60,170
1951	706	74,156
1952	751	95,141
1953	783	117,937
1954	856	137,330
1955	945	164,310
1956	988	194,016
1957	1,045	220,868
1958	1,082	242,412
1959	1,132	279,011

Source: Records of the
 Ohio Credit Union League, Columbus,
 Ohio, 1961.

TABLE 24
ANNUAL PURCHASE OF UNITED STATES SAVINGS BONDS IN OHIO
1945-1960
(Thousands of Dollars at Issue Price)

Year	E and H Bonds ¹	F, G, J and K Bonds ²
1945	\$ 600,474	\$ 172,798
1946	415,305	180,198
1947	242,907	166,213
1948	226,328	129,307
1949	252,603	137,676
1950	230,196	96,532
1951	208,244	71,505
1952	224,132	38,411
1953	260,411	29,348
1954	304,318	
1955	342,104	
1956	350,318	
1957	306,608	
1958	311,038	
1959	283,876	

¹Series H bonds have been issued only since June 1, 1952.

²Series J and K bonds were first issued on May 1, 1952 to replace Series F and G bonds. Issuance of series J and K was discontinued in 1954.

Source: United States Treasury Department, Annual Report of the Secretary of the Treasury on the State of Finances (Washington, D.C.: United States Government Printing Office, 1946-1959).

4. Consumer Finance Companies

During the postwar period banks in Ohio began to compete with specialized lenders for consumer loans. The relatively high rate of return, the successful credit experience, and the high level of employment made consumer loans attractive for banks.

The consumer loan companies proved to be capable competitors during the postwar period as demonstrated by Table 25. A portion of the funds which the consumer loan companies have available, however, are borrowed from commercial banks, and as a result the competition is significantly reduced.

A large portion of the funds loaned to consumers by specialized lenders is borrowed from commercial banks, and so is reflected in the business loans of the latter. As with factors and commercial finance companies, the specialized consumer lending institutions act as middle men between bank and borrower. They secure a large part of their funds from banks at relatively low rates, and lend them to consumers at the relatively high rates obtainable for consumer credit.²⁹

²⁹ Bogen, The Competitive Position of Commercial Banks, p. 24.

5. Life Insurance Companies

A portion of the funds in which Ohio citizens pay in the form of life insurance and annuity premiums represent personal savings and might otherwise have been placed in savings accounts. The annual amount of ordinary life insurance premiums, as shown in Table 26, paid by Ohio citizens to domestic or foreign insurance companies increased in each year of the postwar period. The premiums paid for annuities also increased but at a slower rate.

TABLE 25
NUMBER OF OFFICES AND TOTAL ASSETS OF ALL
CONSUMER LOAN COMPANIES IN OHIO
1946-1959

(Thousands of Dollars)

Year	Number of Offices	Total Assets
1946	517	\$ 128,000
1947	533	115,000
1948	555	135,000
1949	576	151,000
1950	611	172,000
1951	655	204,000
1952	698	227,000
1953	720	251,000
1954	757	269,000
1955	802	283,000
1956	874	318,000
1957	920	347,000
1958	947	368,000
1959	983	380,000

Source: Securities Division, Analysis and Recapulation of Reports Filed by Offices Licensed Under the Ohio Small Loan Act (Columbus, Ohio: Ohio Department of Commerce, 1946-1959).

TABLE 26

PREMIUMS RECEIVED IN OHIO BY LIFE INSURANCE
COMPANIES AUTHORIZED TO OPERATE IN OHIO
1945-1959

(Thousands of Dollars)

Year	Ordinary Life Insurance	Annuities
1945	\$ 193,359	\$ 31,145
1946	221,746	37,021
1947	225,377	43,763
1948	238,253	51,975
1949	247,300	52,247
1950	258,688	58,610
1951	273,686	74,519
1952	295,007	74,661
1953	314,224	85,188
1954	332,883	85,375
1955	357,550	80,103
1956	382,468	85,673
1957	411,240	89,374
1958	432,327	86,789
1959	454,876	86,715

Source: Superintendent of Insurance,
Annual Report (Columbus, Ohio: Ohio Department of Insurance, 1950 and 1960).

Life insurance companies also compete with commercial banks in real estate loans. In 1959, 4.0 per cent of the total home mortgages in Ohio were held by life insurance companies.³⁰

³⁰Savings and Loan Fact Book, 1960, p. 42.

Life insurance companies also are active in business loans; however, the long-term loans are of greater interest to these organizations than the short-term and intermediate-term loans.

Commercial banks, it is apparent, are content to specialize in short-term and intermediate-term financing of business. They leave the long-term financing almost entirely to life insurance companies and pension funds, which have been willing to accept relatively low yields on long-term corporate obligations. . . . It is doubtful that commercial banks will find long-term, as distinct from short and intermediate term, lending to business attractive unless they are to receive a much larger annual increment of savings deposits in the future. Even in that event, mortgage lending could prove more suitable as a large-scale investment outlet for such funds than would corporate bonds.³¹

³¹Bogen, The Competitive Position of Commercial Banks, p. 22.

6. Investment in Corporate Securities

The postwar increase in purchases of common stock by the general public has also created a drain on the savings deposits of banks. Due to the lack of statistics, however, it is impossible to measure the amount of competition that common stock investment provided for the banks in Ohio.³²

³²The writer contacted the odd-lot brokerage house of Carlisle and Jacquelin, the Division of Trading and Exchanges of the Securities

and Exchange Commission, and the Securities Division of the Ohio Department of Commerce in an attempt to locate statistics on the odd-lot and secondary sales of stock in Ohio during the postwar period. Each of these organizations replied that they did not collect such statistics, and they had no knowledge of the existence of such statistics.

One of the more popular methods of investing in common stock is through the purchase of shares in an open-end investment company. From 1956 to 1959 the total value of open-end investment company stock purchased in Ohio increased from \$47,405,000 to \$82,146,000.³³ The

³³Statistics concerning the value of sales of open-end investment company stock by states were not collected until 1956. Investment Companies--A Statistical Summary, 1940-1959 (New York: National Association of Investment Companies, 1960), p. 24.

open-end investment companies have also developed a number of convenient programs for investors with special requirements.³⁴

³⁴Arthur Wiesenberger, Investment Companies (New York: Arthur Wiesenberger and Company, 1960), p. 105.

VI. SUMMARY

The 20 largest banks in Ohio continued to control the majority of bank resources in Ohio throughout the postwar period, but the portion of the total resources these major banks controlled remained nearly unchanged from 1945 to 1959. The total assets of the 20 largest banks were more evenly distributed among all 20 banks in 1959 than they

had been in 1945, and as a result the concentration of resources exercised by the 10 largest banks declined between 1945 and 1959.

The geographic concentration of bank resources and bank deposits in Ohio also remained stable from 1945 to 1959. Throughout the postwar period the 20 largest banks in Ohio were located in the eight metropolitan counties, and the combined deposits of all banks in the eight metropolitan counties was equal to 70 per cent of the total bank deposits in Ohio.

In comparison, however, with the entire nation the state of Ohio in 1959 had less concentration of bank resources than the rest of the country.

The economies of large scale banking in Ohio become evident when the ratio of total expense to total income of different size banks is examined. Another inducement to conduct bank operations on a larger scale is the above average ratio of net profit to total capital received by the largest banks. The economies gained as a result of large scale banking, however, are not present at all levels of deposit growth. Higher ratios of total expense to total income and a lower return on total capital are incurred at certain levels of deposit growth. In 1959 Ohio member banks with deposits in excess of \$50 million benefitted most from a larger scale of operation.

The competition between banks is conducted in a manner which results in greater competitive advantage to the bank capable of providing the most desirable services. As a result of the demand for increased services, the banks must attain a minimum scale of operation

before the services can be offered profitably. This has resulted in keen competition between banks to attract additional demand and time deposits.

The nonbank financial institutions in Ohio have provided increased competition for personal savings. The savings and loan associations in Ohio have been the most aggressive competition for the banks. The credit unions, United States Savings bonds, life insurance companies, and common stock investment have also challenged the banks for personal savings, but the threat has not been as serious as that provided by the savings and loan associations. The primary method by which banks attempt to compete with these institutions is by providing more services to customers than the competitors are capable or willing to make available.

Many of the nonbank financial institutions also compete with banks in Ohio for real estate and consumer loans. The savings and loan associations provide the strongest competition in real estate loans, and in 1959 these institutions held the majority of all home mortgage loans in Ohio. The ability of the banks in Ohio to increase their proportion of total real estate loans depends upon their ability to attract additional time deposits, and again they face the savings and loan associations as competitors.

The credit unions provide competition in consumer loans, but as of 1959 the total resources of credit unions in Ohio equalled less than 3 per cent of total bank resources. The consumer finance companies also provide competition, but much of the capital loaned

by these organizations is borrowed from banks; therefore, they act as middlemen between the bank and the borrower.

The primary means of competing with other banks and nonbank financial institutions in Ohio during the postwar period has been to promote the services of the bank. This has resulted in the need for a larger operating base and a larger share of the banking market in order to absorb the cost of additional services. The effect of this has been a reduction in the number of banks and an increase in the average size of the remaining banks.

CHAPTER IV
BRANCH, GROUP, AND CHAIN BANKING IN
OHIO DURING THE POSTWAR PERIOD

I. The Growth of Branch Banking in Ohio

In Chapter II it was noted that the banking structure in Ohio during the postwar period was characterized by a steady decline in the number of banks and a constant increase in the number of banking offices (see Tables 1, 3, and 4). The explanation of these opposing trends lies in the transformation of the banking structure in which the number of branch banks in Ohio by 1959 exceeded the number of banks. The additional branches resulted from the establishment of new branches as well as the conversion of independent banks to branch offices of larger banks. It is this latter trend which was primarily responsible for the decline in the number of banks in Ohio during the postwar period.

A. Increase in Branch Banks

The annual increase in the number of branch banks in operation in Ohio during the postwar period is presented in Table 27. It is apparent that the rapid growth in branch operations took place after 1950, and the period from 1955 to 1959 provided 62.35 per cent of the entire increase in branch operations of all banks in Ohio during the postwar period.

TABLE 27
 NUMBER OF BRANCH OFFICES ESTABLISHED BY ALL BANKS,
 NATIONAL BANKS, AND STATE BANKS IN OHIO
 1945-1959

Year	Branch Offices Established by All Banks	Branch Offices Established by National Banks	Branch Offices Established by State Banks
1945	1	1	
1946	2	1	1
1947	13	8	5
1948	15	6	9
1949	11	5	6
1950	11	5	6
1951	20	16	4
1952	25	13	12
1953	37	27	7
1954	35	20	8
1955	37	21	15
1956	66	42	24
1957	57	32	24
1958	60	30	30
1959	<u>47</u>	<u>22</u>	<u>25</u>
Total	439	249	176

Source: Federal Reserve Bulletin, April and May issues,
 1946-1960.

B. Number of Banks Operating Branch Banks

Growth in branch banking may also be measured in terms of the number of banks which operate branch offices. Table 28 presents the number of banks in Ohio with and without branch operations.

1. All Banks

During the postwar period the number of banks in Ohio with branch operations increased from 41 in 1945 to 176 in 1959. Expressed as a percentage of the total number of banks in Ohio, the banks which maintained branch offices rose from 6.05 per cent of the banks in Ohio in 1945, to 29.76 per cent of the total in 1959.

The increase in the number of banks with branch operations, however, was not uniform throughout the postwar period. From 1945 to 1950 only 16 additional banks established branch offices, and this increase represented 11.09 per cent of the entire postwar increase. From 1950 to 1955 branch offices were opened by 51 additional banks in Ohio. By the end of 1955, 17.02 per cent of all banks in Ohio maintained branch facilities. During the period 1955 to 1959, 68 additional banks established one or more branch offices, and this increase accounted for 52.99 per cent of the entire postwar growth in the number of banks with branch operations.

2. National Banks

The number of national banks in Ohio with branch facilities increased from a total of nine in 1945 to 82 in 1959. As a proportion of the total number of national banks in Ohio, the national banks

TABLE 28

ALL BANKS, NATIONAL BANKS, AND STATE BANKS
IN OHIO WITH AND WITHOUT BRANCH OFFICES
1945-1959

Year	All Banks		National Banks		State Banks	
	Number of Banks with Branches	Number of Banks with- out Branches	Number of Banks with Branches	Number of Banks with- out Branches	Number of Banks with Branches	Number of Banks with- out Branches
1945	41	636	9	231	32	390
1946	41	635	9	230	30	390
1947	41	627	11	229	30	384
1948	44	622	12	229	32	380
1949	50	611	14	227	36	372
1950	57	602	18	223	39	370
1951	61	595	21	218	40	370
1952	67	584	24	214	43	363
1953	85	560	36	199	48	355
1954	96	539	41	193	54	341
1955	107	517	47	183	59	331
1956	134	485	61	168	71	315
1957	147	491	65	164	80	301
1958	164	443	76	152	87	290
1959	176	413	82	140	93	272

Source: Annual Report of the Federal Deposit Insurance Corporation, 1946-1960.

operating branch offices equalled 3.75 per cent of the total in 1945 and 36.93 per cent in 1959.

The increase in the number of national banks with branch banks followed an irregular growth pattern during the postwar period. From 1945 to 1950 only nine additional national banks established branch offices. In the final four years of the subject period 35 national banks developed their first branch operation, and this increase represented 48.61 per cent of the entire 14-year growth.

National banks also accounted for 57.45 per cent of all banks in Ohio which established their first branch office between 1945 and 1959.

3. State Banks

The proportion of state chartered banks in Ohio with branch facilities rose from 7.58 per cent of the total number of state banks in 1945 to 25.48 per cent in 1959. The period in which the largest number of state banks undertook branch operations during the postwar period was also 1955 to 1959. During those four years 55.73 per cent of the total postwar increase in state bank branch offices took place.

Although from 1945 to 1959 the national banks provided the larger proportion of the total increase in the number of banks with branch operations in Ohio, the state banks continued to account for the largest number of banks with branch offices. The gap between state and national banks was narrowed considerably, however, during the 14-year period. In 1945 the state banks in Ohio accounted for

78.04 per cent of all banks with branch operations in the state. By 1959, however, state banks with branch facilities represented only 52.21 per cent of the Ohio total.

II. Pattern of Branch Banking in Ohio

It is evident from the preceding analysis that the branch banks in operation in Ohio in 1959 were under the control of a larger proportion of the total banks in Ohio than at the beginning of the postwar period. To provide a better understanding of the pattern of branch banking in Ohio during the postwar period, however, attention must also be focused upon the proportion of branch banks operated by the largest banks in the state and the geographic dispersion of branch banks in Ohio.

A. The Control of Branch Banking in Ohio Exercised by the 20 Largest Banks

Tables 29 and 30 present the number of branch offices operated by the 20 largest banks in Ohio in 1945 and 1959.

1. The Largest Bank in Ohio

The Cleveland Trust Company was the largest bank in Ohio in terms of total assets as well as total branch offices in both 1945 and 1959. In 1945, 46 branch offices were being operated by The Cleveland Trust Company and this number equalled 26.29 per cent of all branch banks in Ohio. In 1959 the Cleveland Trust Company had expanded its branch offices to 68; however, the proportion of the

total branch offices in Ohio which the Cleveland bank accounted for had declined to 11.37 per cent.

2. The Five Largest Banks in Ohio

In 1945 the five largest banks in the state operated a total of 82 branches which represented 46.85 per cent of all branch banks in Ohio. The five leading banks in 1959 controlled a total of 152 branch offices, but they accounted for only 25.41 per cent of the Ohio total.

3. The 10 Largest Banks in Ohio

In 1945 two of the major banks in Ohio did not operate any branch offices. The remaining eight banks operated a total of 108 branch offices, and they accounted for 61.71 per cent of all branch offices in Ohio.

During the following 14 years all 10 of the largest banks in Ohio undertook branch operations, and in 1959 the 10 major banks controlled a total of 223 branch banks. This total, however, represented only 37.29 per cent of all branch offices in Ohio in 1959.

4. The 20 Largest Banks in Ohio

At the beginning of the postwar period the 20 largest banks in Ohio operated a total of 132 branch offices as compared to a total of 298 branch offices in 1959.

In 1945 the 20 major banks in Ohio operated 75.42 per cent of the total branch banks in Ohio, and in 1959, 49.83 per cent of the

TABLE 29
NUMBER OF BRANCH BANKS OPERATED BY THE 20 LARGEST
BANKS IN OHIO IN 1945

Name of the Bank	Number of Branches	Percentage of Total Branch Banks in Ohio
The Cleveland Trust Company	46	26.29
The National City Bank of Cleveland	2	
The Central National Bank of Cleveland	11	
The Toledo Trust Company	5	
The Fifth Third Union Bank of Cincinnati	<u>18</u>	
The Five Largest Banks in Ohio		46.85
The First National Bank of Cincinnati	0	
The Central Trust Company of Cincinnati, O.	10	
The Ohio National Bank of Columbus	12	
The Society for Savings in the City of Cleveland	0	
The Winters National Bank of Dayton	<u>4</u>	
The 10 Largest Banks in Ohio	108	61.71
The Huntington National Bank of Columbus	0	
The First Central Trust Company of Akron	2	
The Union Commerce Bank of Cleveland	1	
The Provident Bank of Cincinnati	14	
The City National Bank and Trust Company of Columbus	1	
The Firestone Bank of Akron	0	
The Dime Savings Bank of Akron	0	
The Second National Bank of Cincinnati	6	
The Third National Bank and Trust Company of Dayton	0	
The Union National Bank of Youngstown	<u>0</u>	
The 20 Largest Banks in Ohio	132	75.42

Source: Polk's Bankers Encyclopedia, March 1946.

TABLE 30
NUMBER OF BRANCH BANKS OPERATED BY THE
20 LARGEST BANKS IN OHIO in 1959

Name of Bank	Number of Branches	Percentage of Total Branch Banks in Ohio
The Cleveland Trust Company	68	11.37
The National City Bank of Cleveland	18	
The Central National Bank of Cleveland	31	
The Ohio National Bank of Columbus	18	
The First National Bank of Cincinnati	17	
The 5 Largest Banks in Ohio	152	25.41
The Society National Bank of Cleveland	11	
The Fifth Union Trust Company of Cincinnati	26	
The Toledo Trust Company	8	
The Central Trust Company of Cincinnati	14	
The Union Commerce Bank of Cleveland	12	
The 10 Largest Banks in Ohio	223	37.29
The First National Bank of Akron	14	
The Winters National Bank of Dayton	8	
The Huntington National Bank of Columbus	1	
The Provident Bank of Cincinnati	17	
The City National Bank and Trust Company of Columbus	6	
The Dollar Savings and Trust Company of Youngstown	10	
The Ohio Citizens Trust Company of Toledo	6	
The Firestone Bank of Akron	0	
The National Bank of Toledo	9	
The Dime Bank of Akron	4	
The 20 Largest Banks in Ohio	298	49.83

Source: "Number of Branches Operated by Member Banks and Non-member Banks in Fourth Federal Reserve District," Examination Department, Federal Reserve Bank of Cleveland, 1960.

total branch offices in Ohio were under the control of the 20 leading banks.

The preceding analysis clearly demonstrates that the control of branch banking exercised by the major banks in Ohio was sharply reduced during the postwar period. This reduction in the control of branch banks took place despite the fact that the number of branch offices operated by the 20 largest banks in Ohio increased by 166 from 1945 to 1959.

B. The Number of Branch Banks in Operation in
the Eight Metropolitan Counties in Ohio

The number of branch banks in operation in the eight metropolitan counties in Ohio in 1945 and 1959 is presented in Table 31.

At the beginning of the postwar period the eight metropolitan counties accounted for 86.28 per cent of the total number of branch banks in Ohio. In that year the eight counties contained a total of 151 branch offices. In 1959 the metropolitan counties held a total of 369 branch banks; however, in that year these branch offices represented only 61.70 per cent of the total number in Ohio.

In 1945 two of the metropolitan counties, Cuyahoga and Hamilton, had 123 branch offices which was equal to 70.28 per cent of all branch banks in Ohio. In 1959 these two counties contained 223 branch banks, but this number accounted for only 36.95 per cent of the Ohio total.

In 1945 Cuyahoga County had the largest number of branch banks of any of the 88 Ohio counties. In that year Cuyahoga County

contained 70 branch banks or 40.00 per cent of all branch offices in the state. Fourteen years later Cuyahoga County remained the leading county with 142 branch offices, but this represented only 23.74 per cent of the total number of branch offices in Ohio.

It is evident that the most predominant characteristic in the pattern of branch banking in Ohio during the postwar period was greater diffusion of branch offices among the banks and throughout the 88 counties in Ohio. The importance of major banks and metropolitan counties in branch banking underwent a significant decline during the 14 year period.

III. Primary Causes of Increased Branch Banking

Since bankers are businessmen, and, like all businessmen, the primary purpose in conducting a business operation is the maximization of profit, it can be assumed that branch banks have been established as a result of the opportunities for profit. The principal objective of this section is to explain the primary reasons for the increased profits of branch banking since the end of World War II.

A. Retail Banking

Gradually over the last 20 years commercial banking has undergone a transformation from a so-called wholesale banking business in which the primary purpose of the bank was to serve the financial needs of business, to a retail banking business in which the role of

TABLE 31
THE NUMBER AND PERCENTAGE OF BRANCH BANKS
IN THE OHIO METROPOLITAN COUNTIES
IN 1945 and 1959

County	1945		1959	
	Number of Branch Banks	Percentage of the Total Branch Banks in Ohio	Number of Branch Banks	Percentage of the Total Branch Banks in Ohio
Cuyahoga	70	40.00	142	23.74
Franklin	12	6.85	31	5.18
Hamilton	53	30.28	79	13.21
Lucas	5	2.85	31	5.18
Mahoning	3	1.71	22	3.67
Montgomery	4	2.28	21	3.51
Stark	2	1.14	21	3.51
Summit	2	1.14	22	3.67
Total	151	86.28	369	61.70

Source: "Number of Branches Operated by Member Banks and Non-member Banks in Fourth Federal District," Examination Department, Federal Reserve Bank of Cleveland, 1960, and Polk's Bankers Encyclopedia, March, 1946.

the bank is to serve not only the credit needs of business but the general public as well. As one banker stated it:

Just as in the production and distribution industries, banking is now on a mass basis. Mass production and selling have inevitably brought about sharp change in the distribution of credit. The personal, consumer, and installment loans have become an essential factor in the mass production and distribution of goods.¹

¹Statement by Lee P. Miller, President of the Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, contained in U. S. Congress, House, Antitrust Subcommittee of the Committee on the Judiciary, Hearings, Premerger Notification, 85th Cong., 1st Sess., 1957, p. 245.

Retail banking calls for banking at the community level, and if a bank is to engage in retail banking successfully, it must establish offices which are convenient for its customers. The bank customers, primarily the middle-income group, have tended to move to the suburbs and this, in turn, has dictated the need for the formation of branch offices in the outlying areas.² Retail banking

²See, for example, statement of John J. McCloy, Chairman of the Chase Manhattan Bank of New York, contained in U. S. Congress, House, Antitrust Subcommittee of the Committee on the Judiciary, Hearings, Bank Mergers, 84th Cong., 1st Sess., 1955, p. 16.

also requires that a wide range of services be made available to bank customers. This creates higher operating costs for the individual banks. Through branch operations, however, the banks are able to attract the large volume of deposits they need to support such services.

The Comptroller of the Currency stated that consumer lending has been a factor of such importance in the expansion of branch banking that any major contraction in the amount of such business could lead to the eventual abandonment of many branch banks.³

³Annual Report Comptroller of the Currency, 1955, p. 10.

B. Population and Business Movements to the Suburbs

Other significant forces in the formation of branch banks since the end of World War II are the formation of shopping centers in non-congested suburban areas and the decentralization of industry which has placed an increasing proportion of the new industrial sites on the periphery of metropolitan areas. In order to retain not only individual accounts but also business accounts many banks have found it necessary to follow their customers to the suburbs.⁴

⁴"The Growth of Branch Banking," New England Business Review of the Federal Reserve Bank of Boston, April, 1959, p. 3.

The question has arisen as to whether or not the banking needs of the suburban consumers and business customers are best served by the establishment of new unit banks or through the extension of operations of existing banks. It is generally recognized, however, that the branch banking offices provide a more economical means of serving the banking needs of these areas.

There are many suburban communities which generate substantial demand for personal and real estate loans but relatively small deposit volume. A unit bank in such a community would be unable to satisfy fully the banking needs of this community because it would not have sufficient funds to meet the demand for loans unless it invited larger banks to participate in its loans. On the other hand in communities with large deposit volume but inadequate loan demand, a unit bank might experience difficulty in making the most efficient use of its available funds. A branch bank, however, could find such offices profitable.⁵

⁵Ibid., p. 4.

A report by the Federal Deposit Insurance Corporation provides three other reasons for the establishment of branch banks in the suburban areas rather than organizing new unit banks. First, there is more difficulty in obtaining permission from the regulatory officials to operate a new bank as opposed to a branch bank. Second, existing banks are usually able and desirous of opening branch offices in these areas before the community provides enough banking business to support an independent bank. Third, many of the residents of the outlying areas prefer to deal with banks which are larger and better known throughout the region.⁶

⁶Federal Deposit Insurance Corporation, Changes in the Number of Banking Offices, 1859-1958, and in Banking Concentration, 1921-1958, p. 33.

The movement out of the city by industry has been prompted by the desire to set up extensive one-level production lines and provide ample room for future expansion. The increased use of truck

transportation as a means of moving goods to market has also made it possible for industry to move to the outlying areas. The banking needs of these organizations, however, are best served through the branch operations of larger banks rather than the creation of independent suburban banks.⁷

⁷House Select Committee on Small Business, Banking Concentration and Small Business, 86th Cong., 2nd Sess., p. 48.

The growth of the suburban areas in Ohio, like the rest of the country, has also greatly exceeded that of the major cities since the end of World War II.⁸

⁸Ohio Population Growth and Distribution, p. 21.

C. Operating Costs

In discussions with bank officers in Ohio and officers in the various regulatory agencies it became evident that little concrete evidence concerning the costs of operation of branch banks as opposed to unit banks is available. Most bankers interviewed stated that they employ a centralized accounting system, and any allocation of costs to branches is on a "rule of thumb" basis.

In 1958 a study of branch bank operating costs in New England was made by Paul Horvitz with the aid of the Federal Reserve Bank of

Boston. This study was handicapped by a lack of sufficient information; however, Mr. Horvitz concluded his study with the following statement:

When a very small banking office is concerned (say one or two million dollars of deposits), it cannot be operated any cheaper as a branch than as a unit bank. . . . It is when bank offices with a deposit volume of three to five million dollars or more are involved that savings in branch operation become possible. Even in the case of these larger branches there is some ambiguity as to the possible savings of branch operations. In the majority of cases, the branch is operated with a considerable savings of direct costs.⁹

⁹ Horvitz, pp. 127-128.

The most cogent argument presented for the lower costs that branch banking can provide is based upon the need for a mass market in banking in order to efficiently tap the growing demand for consumer credit, advertising in mass media, diversification of risk, and the opportunity to employ automation. It is argued by many banking experts that to compete successfully in the mass market an extensive branch banking policy must be adopted.¹⁰

¹⁰ The Triple Banking System, (New York: M. A. Schapiro and Company, Incorporated, 1956), p. 4.

Normally, the services offered by a large metropolitan bank are also available to customers of the branch offices, but in most

cases a small independent bank would be unable to offer these services as a result of the prohibitive cost.¹¹

¹¹Robinson (ed.), Financial Institutions, p. 134.

D. Bank Management

The difficulty which banks have experienced in attracting competent management during the postwar period has served as still another factor which has favored the creation of branch banks as opposed to unit banks.

In a larger branch system the management may be more highly paid, therefore, attracting more capable personnel at the top levels. The branch managers need not be trained in all phases of bank management since many of the more technical and specialized aspects of banking are centralized at the head office.¹²

¹²Alhadeff, Monopoly and Competition in Banking, p. 105.

In addition to the economies resulting from the centralization of management in the branch system, the branch personnel are able to call upon the specialists in the central office for aid or information in various problems. This, in turn, provides the community which the branch bank serves with a higher quality banking service than a smaller unit bank could afford.

IV. Bank Supervision and Branch Banking in Ohio

The laws concerning the establishment of branch banks have been of paramount importance in determining the extent and pattern of branch banking in the United States.¹³

¹³ For a history of the legislation and development of branch banking in the United States see John M. Chapman and Ray B. Westfield, Branch Banking (New York, N.Y.: Harper and Brothers, Publishers, 1942).

The regulation of branch banking in Ohio is provided for in both federal law and Ohio law. Both the federal government and the state government have the authority to permit the establishment of branch banks in Ohio. There are four separate regulatory agencies which are active in the supervision of branch banking in Ohio: the Comptroller of the Currency, the Ohio Superintendent of Banks, the Federal Reserve System, and the Federal Deposit Insurance Corporation. All banks in Ohio which operate under a national bank charter must obtain permission from the Comptroller of the Currency before they may establish a branch bank.¹⁴ The state chartered banks in Ohio

¹⁴ Federal Code, Annotated, Title 12, sec. 36.

must receive the permission of the Ohio Superintendent of Banks before opening a branch bank, and in addition they may be compelled to obtain

permission from one of two federal bank regulatory agencies.¹⁵ The

¹⁵Banking Laws of Ohio, Annotated, 1103.09.

state chartered banks in Ohio which are members of the Federal Reserve System must obtain authorization from the Federal Reserve Board of Governors before operating a branch office, and the non-member state banks which belong to the Federal Deposit Insurance Corporation must receive approval from this agency before branch operations can be undertaken.¹⁶ Neither the Federal Reserve System

¹⁶Federal Code, Annotated, Title 12, sec. 1828.

nor the Federal Deposit Insurance Corporation will consider the branch application of a state bank, however, before the Ohio Superintendent of Banks has given approval.

In examining the application for a branch office both state and federal agencies attempt to determine whether or not additional banking facilities are needed in the particular locality; if there is sufficient prospective business to justify the establishment of a branch; and whether or not an unnecessary duplication of banking facilities would result.¹⁷

¹⁷ Interview with the Ohio Superintendent of Banks, March 24, 1961. Interview with Mr. Paul Stetzelberger, Vice President, The Federal Reserve Bank of Cleveland, January 31, 1961. Interview with Mr. Gilbert E. Mounts, Supervising Examiner, District Four, Federal Deposit Insurance Corporation, February 3, 1961.

Both state and federal law place two basic types of limitations on the formation of branch offices by the banks under their jurisdiction: geographical limitations and minimum capital requirements.

A. Geographical Limitations

1. Ohio Law

The state law in Ohio as early as 1919 placed limitations on the distance from its main office which a state chartered bank could operate a branch office. A law passed on April 4, 1919 limited the operation of branch banking by state banks in the following manner:

No branch bank shall be established until the consent and the approval of the superintendent of banks has been first obtained, and no bank shall establish a branch bank in any place other than that designated in its articles of incorporation, except in a city or village contiguous thereto.¹⁸

¹⁸Ohio, General Code, Annotated (Page 1926), Section 710-73.

In 1931, however, the Ohio law was amended in order to provide greater opportunity for branch banking. The amendment resulted in the following change:

No branch bank shall be established until the consent and the approval of the superintendent of banks has been first obtained, and no bank shall operate a branch bank in any place other than that designated in its articles of incorporation except in a city or village contiguous thereto, or in other parts of the county or counties in which the municipality containing the main bank is located.¹⁹

¹⁹Laws of Ohio, 710-73; 114 v 109

Again in 1935 the Ohio law was amended to further liberalize branch banking activity; however, since 1935 no further changes have been made. The present law in Ohio concerning the operation of branch banks permits the following:

No branch shall be established until the consent of the superintendent of banks has been obtained, and no bank shall establish a branch bank in any place other than that designated in its articles of incorporation, except in a municipal corporation contiguous to such designated place or in other parts of the county in which the municipal corporation containing the main bank is located, provided any bank may maintain and operate as a branch bank a bank located in a county which is contiguous to the county in which the municipal corporation containing the main bank is located, and which on January 1, 1935, and prior thereto, bore to the main bank the relationship of "affiliate" within the meaning of that term as it is used in "The Banking Act of 1933" and the amendments thereto.²⁰

²⁰Ohio Banking Laws, Annotated, 1103.09.

In the Banking Act of 1933 (Glass-Steagall Act) the term "affiliate" was defined as any organization which a commercial bank either directly or indirectly controlled. The act also included as an "affiliate" any organization which has a majority of its directors or trustees also serving as directors of one bank.²¹

²¹Federal Code, Annotated, Title 12, Sec. 221 a.

2. Federal Law

Until 1933 national banks in the United States were not permitted to operate branch banks outside of the city of the parent

bank.²² In the Banking Act of 1933 national banks became subject to

²²Chapman and Westerfield, pp. 107-108.

the geographical limitations on branch banking imposed by the law of the state in which they operate.

A national banking association may, with the approval of the Comptroller of the Currency, establish and operate new branches: (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 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. . . .²³

²³Federal Code, Annotated, Title 12, Sec. 36.

The federal law concerning the operation of branch banks by national banks has remained the same since 1933. As a result, the geographical limitations on branch banking in Ohio which are imposed by Ohio law apply to both national and state banks.

Table 53 (see Appendix) presents the location of all branch banks in Ohio from 1945 to 1959 in relation to the location of the parent bank. In 1945, 67.42 per cent of all branch banks in Ohio were located in the same city as the parent bank, and 27.42 per cent of all branch offices were located in the same county as the parent bank but not the same city. The remaining 5.16 per cent of the branch banks in Ohio were located either in counties contiguous to the

county in which the parent bank was located, or on United States government property.

By 1959 the proportion of all branch banks in Ohio located in the same city as the parent bank had been reduced to 52.41 per cent of the total, and the proportion of the total number of branch banks which were operating within the same county but outside of the city in which the parent bank was located was 45.42 per cent. During the 14-year period there were 426 additional branch banks placed in operation in Ohio; and of that total 197 were located in the same city as the parent bank, 225 were opened in the same county but outside of the same city as the parent bank, and five additional branch banks were established in a county contiguous to the county in which the parent bank was located.

B. Capital Requirements

1. State Law

In addition to imposing geographical restrictions on the operation of branch banks, the Ohio law also requires that specific capital requirements be met by a state bank prior to the operation of a branch office.

No bank shall establish a branch as provided in section 1103.09 of the Revised Code unless each bank has, in addition to the minimum capital required by section 1103.10 of the Revised Code, sufficient capital equal to a minimum of thirty-five thousand dollars for each such branch to be established in a village; to a minimum of fifty thousand dollars for each such branch to be established in a city the population of which does not exceed twenty-five

thousand; and to a minimum of one hundred thousand dollars for each such branch to be established in a city the population of which exceeds twenty-five thousand.²⁴

²⁴Banking Laws of Ohio, Annotated, 1103.11.

2. Federal Law

The national banks which desire to establish branch offices must also meet minimum capital requirements which are imposed by federal law and administered by the Comptroller of the Currency.

The aggregate capital of every national banking association and its branches shall at no time be less than the aggregate minimum capital required by law for the establishment of an equal number of national banking associations situated in the various places where such association and its branches are situated.²⁵

²⁵Federal Code, Annotated, Title 12, sec. 36.

This, in effect, means that a national bank must provide an additional \$50,000 in capital for each branch which is operated in a town of 6,000 inhabitants or less, an additional \$100,000 of capital for each branch operated in communities with a population ranging from 6,000 to 50,000, and \$200,000 of additional capital for each branch operated in a community with a population in excess of 50,000.²⁶

²⁶Ibid., Title 12, Sec. 51.

The state chartered banks which are members of the Federal Reserve System are required to meet the same capital requirements for establishing a branch bank as national banks before the Federal Reserve Board of Governors will approve the operation of a branch bank.²⁷

²⁷Ibid., Title 12, Sec. 321.

An analysis of the differences in state and federal law concerning capital requirements for the establishment of a branch bank reveals that the national banks and state member banks in Ohio are required to meet more stringent capital requirements than the state nonmember banks in Ohio.

Although the capital requirements for the formation of a branch bank differ in state and federal law, the most important impediment to the development of branch banking has been the geographical limitations placed on both state and national banks by Ohio law.

V. Group and Chain Banking in Ohio

Before proceeding with a discussion of chain and group banking in Ohio during the postwar period a distinction should be drawn between the two terms. Although both chain and group banks are similar in the method of operation, nearly all experts in banking recognize a distinction between the two methods of banking.

Chain banking is an arrangement by which two or more banks--each of which retains its identity, capital and personnel--are brought under common control by any

device other than a holding company. Such control may be exercised in varying degree by majority stock ownership or interlocking directorships and officerships. Group banking is a similar arrangement except that the individual banks are controlled or owned directly or indirectly, by a holding company, or holding company affiliate.²⁸

²⁸W. H. Steiner, Eli Sharpiro, and Ezra Solomon, Money and Banking (New York: Henry Holt and Company, 1958), p. 94.

Both the chain and group method of banking have been used as a means of circumventing the prohibitions against statewide branch banking.

Bank holding companies are most frequently found in those states where branching is prohibited, severely restricted, or inadequately developed.²⁹

²⁹Kurt F. Flexner, The Role of Savings and Loan Associations in the Banking Community of the State of New York (New York: The Savings Association League of New York, 1959), p. 19.

Many independent bankers view chain and group banking as evils which can only result in increased concentration in banking.³⁰

³⁰Statement of Ben DuBois, Secretary, Independent Bankers Association, contained in U. S. Congress, Senate, Committee on Banking and Currency, Hearings, Bank Holding Legislation, Part 3, 83rd Cong., 2nd Sess., 1954, pp. 723-726.

There is no record of chain banking in Ohio during the postwar period.³¹ On December 31, 1959, however, there were two registered

³¹Interview with the Ohio Superintendent of Banks, March 24, 1961.

bank holding companies in operation in Ohio.³²

³²House Select Committee on Small Business, Banking Concentration and Small Business, 86th Cong., 2nd Sess., p. 39.

A. Group Banking in Ohio

During the entire postwar period there was a total of three bank holding companies in operation in Ohio; however, there were never more than two in operation at the same time.³³

³³Interview with Paul Stetzelberger, Vice President, Federal Reserve Bank of Cleveland, January 31, 1961.

1. Morris Plan Corporation of America

From 1945 until 1954 the Morris Plan Corporation of America, a bank holding company, controlled The Bank of Ohio Company in Cleveland. In 1954 the holding company sold its interest in The Bank of Ohio Company to the Society for Savings in Cleveland which, in

turn, liquidated The Bank of Ohio Company and distributed the proceeds to its depositors.³⁴

³⁴Palmer T. Hogenson, The Economics of Group Banking (Washington, D.C.: Public Affairs Press, 1955), p. 194.

2. The Springfield Savings Society

The Springfield Savings Society was the largest of the two mutual savings banks in Ohio in 1959 and, in addition, the organization controlled two commercial banks operating in Clark County.

In 1950 the Springfield Savings Society obtained permission from the Ohio Superintendent of banks to acquire the controlling interest in The First State Bank of South Charleston, and in 1956, The Savings Society Commercial Bank was formed by the management of the mutual savings bank.³⁵ Immediately after the formation of The

³⁵Interview with Mr. Donald Wiegel, President, The Springfield Savings Society, March 21, 1961.

Savings Society Commercial Bank in 1956 the management of the Springfield Savings Society was informed by the Federal Reserve Board of Governors that the formation of the second bank qualified the Springfield Savings Society as a bank holding company, and they were required to register and submit to regulation by the Federal Reserve Board of Governors.³⁶

³⁶Ibid.

The Springfield Savings Society was not formed for the purpose of circumventing Ohio branch banking law, since all of the banks affiliated with this particular holding company are located within Clark County. In 1959 the deposits of the three banks in the group totaled \$33,004,000, which was equal to 31.43 per cent of the total bank deposits in Clark County.³⁷

³⁷American Bank Directory, 1960, pp. 2035-2036.

It is noteworthy that in 1959 the Springfield Savings Society started construction of a new building which will house both the mutual savings bank and The Savings Society Commercial Bank. This will result in the only joint operation of a mutual savings bank and a commercial bank of its kind in the United States. In addition, the Springfield Savings Society is the only mutual savings bank in the United States which also qualifies as a registered bank holding company.³⁸

³⁸Interview with Mr. Donald Wiegel, March 21, 1961.

3. The BancOhio Corporation

The BancOhio Corporation in Columbus is the oldest and the largest bank holding company in Ohio. The organization was incorporated in Ohio in 1929, and at the time of incorporation the group was

composed of two commercial banks. BancOhio Corporation has never maintained any affiliates outside of the state of Ohio.³⁹

³⁹Interview with Mr. Henry Honrath, Comptroller, BancOhio Corporation, March 13, 1961.

Tables 54 and 55 (see Appendix) present the total number of banks which were affiliated with the BancOhio Corporation in 1945 and 1959. In addition, the total resources and the number of branches of each affiliate are presented for the same dates.

In 1945 the 19 banks affiliated with the BancOhio Corporation were composed of 14 national banks and five state banks, and these 19 banks operated a total of 31 banking offices. The total assets of the 19 banks equalled 4.34 per cent of all bank assets in Ohio in 1945. The Ohio National Bank was the largest among the 19 affiliates, and the assets of The Ohio National Bank represented 60.87 per cent of the combined total assets of the BancOhio affiliates in 1945.

At the beginning of the postwar period the 19 affiliated banks were operating in 18 Ohio counties. The counties in which these banks were operating were located in central and southern Ohio. Franklin County, in 1945, contained three BancOhio affiliates, and these three institutions accounted for 42.71 per cent of all bank assets in Franklin County.⁴⁰

⁴⁰Polk's Bankers Encyclopedia, March 1946.

The Ohio National Bank was the only affiliate of the BancOhio Corporation that operated any branch offices in 1945. Including the 12 branch offices of The Ohio National Bank, 15 of the 31 banking offices controlled by the BancOhio Corporation were located in Franklin County at the beginning of the postwar period.

In 1945 only two of the 19 banks affiliated with the BancOhio Corporation were not wholly-owned by the holding company. The BancOhio Corporation owned 99.27 per cent of the outstanding stock of The National Bank of Portsmouth and 99.00 per cent of the outstanding stock of The First National Bank in Chillicothe.⁴¹

⁴¹The total stock outstanding does not include director's qualifying shares.

Moody's Manual of Investments, 1946, p. 597.

In 1959 the BancOhio Corporation had a total of 22 affiliated banks and 51 banking offices under its control. The banks were composed of 16 national banks and six state banks. The total assets of the 22 affiliated banks were equal to 5.93 per cent of the total bank assets in Ohio in 1959. The Ohio National Bank remained the largest bank in the group with assets equal to 62.24 per cent of the total assets of the entire group.

The BancOhio Corporation had affiliates in 20 counties in central and southern Ohio in 1959. Two of the affiliates in Franklin County in 1945 were absorbed into The Ohio National Bank during the postwar period, and two new affiliates were acquired in Franklin County during the same period. In 1959, 57.78 per cent of all bank assets

in Franklin County were held by the three BancOhio affiliates operating in the county.⁴²

⁴²Polk's Bankers' Encyclopedia, 1960.

A total of eight of the BancOhio affiliates were operating branch offices in 1959; however, of the 29 branch banks in operation 22 were under the control of the three affiliated banks in Franklin County. As a result of the concentration of branch banks in Franklin County, 25 of the 51 banking offices of the BancOhio Corporation were located in Franklin County in 1959.⁴³

⁴³For a discussion of the concentration of banking exercised by the BancOhio Corporation in Franklin County, see Federal Reserve Bulletin, April 1961, pp. 412-415.

In 1959 the BancOhio Corporation owned 100 per cent of the outstanding stock of all but five of the affiliated banks. The percentage of the outstanding stock of these five banks held by the BancOhio Corporation ranged from 83.0 per cent to 99.27 per cent.⁴⁴

⁴⁴The total stock outstanding does not include the director's qualifying shares.
Moody's Manual of Investments, 1960, p. 681.

It is evident from the scope of operation of the BancOhio Corporation during the postwar period that group banking provides a means of circumventing the Ohio laws pertaining to the geographical restrictions on the operation of branch banks. Although the BancOhio

Corporation increased the proportion of total bank resources which it controlled in Ohio during the postwar period, this expansion could hardly be judged as a major force toward bank concentration in Ohio. On a regional or county basis, however, the BancOhio Corporation exercised a significant degree of concentration during the subject period as evidenced by the proportion of total resources controlled by BancOhio in Franklin County in 1945 and 1959.

B. Regulation of Group Banking in Ohio

1. State Law

Although bank holding companies have operated in Ohio since 1929, the Ohio banking law makes no mention of group banking.

2. Federal Law

The primary reason for the lack of state regulation of group banking is the interstate nature of many group banking systems. The opponents of group banking, therefore, have tried to encourage the passage of federal laws to restrict group banking rather than attempting to persuade the various state legislatures to pass laws prohibiting group banking in their respective states.

Congress first passed laws regulating holding companies in 1933.⁴⁵ The Banking Act of 1933 required that all national banking

⁴⁵ House Select Committee on Small Business, Banking Concentration and Small Business, 86th Cong., 2nd Sess., p. 39.

associations obtain three reports annually from their holding company affiliates and submit them to the Comptroller of the Currency along with any other information the Comptroller requested concerning the relationship between the holding company and the national bank. The bank holding companies were deprived of the right of voting the stock which they held in member banks unless a voting permit had been granted by the Federal Reserve Board of Governors. The Board of Governors was directed to determine the financial condition of the applicant and the probable effects of the holding company upon competition in banking before issuing a voting permit. In addition, holding companies were required to divorce themselves from control of securities and investment companies, to agree to hold a certain percentage of marketable assets, submit detailed financial reports to the Board of Governors, and receive bank examiners.⁴⁶

⁴⁶Ibid., p. 39.

The 1933 legislation was found, however, to be an inadequate method of regulating bank holding companies. There were several means which bank holding companies utilized to avoid regulation. Some holding companies had affiliates withdraw membership from the Federal Reserve System in order to avoid having to acquire a voting permit from the Board of Governors. The law stated that a bank holding company was one which owned or controlled 50 per cent of the stock of one or more member banks. As a result, many holding companies were able to control affiliates with less than 50 per cent

of the outstanding stock. Others were able to retain control over majority owned banks without voting their stock.⁴⁷

⁴⁷Mary Louise Ramsey, "Banks and the Antitrust Laws: An Unresolved Problem," American Bar Association Journal, June, 1951, p. 427.

Soon after the passage of the 1933 law there was a widespread demand for more adequate legislation to control group banking; however, it was not until 1956 that Congress passed legislation to strengthen the 1933 act.

In 1938, the President, in a special message to the Congress, urged legislation which, in effect, would have resulted in the dissolution of bank holding companies. After 18 years of controversy and many pages of testimony, Congress decided upon regulation, not abolition. Thus, under the new law, the formation and growth of bank holding companies are controlled but not prohibited.⁴⁸

⁴⁸The Triple Banking System, p. 25.

The Bank Holding Company Act of 1956 (Public Law 511) did not replace the 1933 legislation but reinforced the earlier legislation. The 1956 law defined a bank holding company more strictly by providing that a bank holding company is any organization that holds 25 per cent of the stock of two or more banks, controls in any manner the election of a majority of the directors of two or more

banks, or where 25 per cent or more of the voting shares of each of two or more banks is held in trust.⁴⁹

⁴⁹Federal Code, Annotated, Title 12, sec. 1841.

Under the 1956 Act the Federal Reserve Board of Governors has the right to approve or prohibit acquisitions which would convert a company into a bank holding company or the acquisition of one bank holding company by another. In addition, any bank holding company which desires to make an intrastate acquisition must submit an application to the Board of Governors which, in turn, directs the application to the Comptroller of the Currency if a national bank is involved, or to the Superintendent of Banks if it is a state bank. The Comptroller of the Currency or the Superintendent of Banks must approve the acquisition before the Board of Governors will consider the petition. The law states clearly what factors the Board of Governors should consider in reaching their decision concerning the approval or disapproval of the acquisition.⁵⁰

⁵⁰Ibid., Title 12, sec. 1842.

The 1956 law also placed strict limitations on the acquisition of a bank located outside of the state in which the bank holding company maintains its principal office and conducts its operations. The law requires that before a holding company may acquire a bank in another state the statute law of the state in which the bank is

located must specifically provide for such a purchase.⁵¹ It seems

⁵¹Ibid., Title 12, sec. 1842.

rather doubtful if many state legislatures would be willing to pass legislation which would expressly permit a bank holding company located outside of the state to gain control of a bank located within the state.

The 1956 act further strengthened the earlier law by regulating any company which held 25 per cent of the stock or exercised control over two or more banks regardless of whether or not the two banks were member or nonmember banks, commercial banks or savings banks, and whether or not the stock of the banks was voted by the holding company.⁵²

⁵²Ibid., Title 12, sec. 1841.

The 1956 legislation also required that by no later than May 9, 1961 all bank holding companies had to divest themselves of ownership or control of any voting shares of any company which was not related to banking. The divestment requirements did not apply, however, to any company all of whose activities were of a financial, fiduciary, or insurance nature, and which the Board of Governors ruled to be closely related to the business of banking.⁵³

⁵³Ibid., Title 12, sec. 1843.

Finally, the law forbids a bank holding company to borrow from a subsidiary bank, and a subsidiary bank is prohibited from lending to any other subsidiary in the same group.⁵⁴

⁵⁴Ibid., Title 12, sec. 1845.

After the passage of the bill there were many bankers who held the opinion that the legislation had not been strong enough in regulating group banking activities, and President Eisenhower stated at the time he signed the Act that he believed the legislation should be stronger.⁵⁵ All banking experts seem to agree, however,

⁵⁵ John Donoghue, "The Spence-Robertson Act," Burroughs Clearing House, June, 1956, p. 37.

that the new legislation provides a substantial improvement over what existed before 1956.

VI. Advantages and Disadvantages of Group Banking with Particular Reference to the BancOhio Corporation

In an attempt to determine the advantages and disadvantages of group banking an extended interview was held with Mr. Henry Honrath, Comptroller, BancOhio Corporation, on March 13, 1961. At that time Mr. Honrath discussed the competitive advantages and disadvantages which BancOhio affiliates have encountered as a result of operating within a group system, and the effect of group banking upon

the respective communities in which the affiliates operate. The literature concerned with group banking supports the statements made by Mr. Honrath.

A. Advantages of Group Banking

1. Bank Investments

A group system is in a position to offer greater diversification and specialization in investments than is an independent bank. The BancOhio organization provides centralized investment for cash and reserve management for all affiliated banks. This service provides a caliber of investment services that the competing independent banks could not afford to maintain. Daily contact is maintained with the money market by the BancOhio investment department, and as a result the profitability of the affiliated banks has been improved.

2. Specialization in Management

An independent unit bank, unless it is large, is unable to afford the services of a specialized staff. The BancOhio Corporation has developed and trained a staff which is capable of preparing tax returns for the affiliated banks, studying and recommending simplifications in accounting methods and forms, interpreting new banking regulations and legislation, providing statistical and analytical data necessary for sound bank management, and providing

information and guidance with respect to additions, remodeling, and improvements in physical facilities.⁵⁶

⁵⁶See statements of BancOhio Corporation contained in U. S. Congress, Senate, Committee on Banking and Currency, Hearings, Control of Bank Holding Companies, 84th Cong., 1st Sess., 1955, pp. 227-230.

3. Examinations

Although all banks in Ohio are examined by either a federal or state regulatory agency, or both, only the larger banks can afford to maintain an internal auditing staff to make current investigations between the periodic official examinations. The BancOhio Corporation, like other group systems, periodically examines each affiliate to assure that proper management is maintained.⁵⁷

⁵⁷Hogenson, p. 140.

4. Cost reduction

The group banking system offers the opportunity of reducing operating costs through the centralized purchasing of equipment and supplies. The BancOhio organization is able to reduce the operating costs of affiliated banks through the centralized purchasing of insurance, equipment, and supplies. BancOhio has also adopted a policy of centralized architecture which, according to Mr. Honrath, has materially reduced building costs. All advertising of the BancOhio Corporation affiliates is centralized in order to reduce the cost of planning, layout and media.

5. Bank Services

The banks affiliated with the group system are often able to provide services to the community that competing independent banks are unable to afford. Many of the affiliates of the BancOhio Corporation are able to offer trust services to their respective communities through their affiliation with The Ohio National Bank without encountering the cost of operating a trust department within their own banks. The banks in direct competition with the group system are often unable to absorb the cost of such additional services and, therefore, face a competitive disadvantage.

6. Personnel

Group banking provides several advantages in the attraction and training of personnel. First, the opportunities for promotion are more numerous since each affiliated bank has its own president and officers. Secondly, promotion opportunities are not limited to one bank but all banks within the groups. Third, group banking usually provides a large enough operation to enable the organization to undertake formal training programs, retirement plans, and stock ownership programs for employees.⁵⁸

⁵⁸Nadler and Bogen, The Bank Holding Company, pp. 32-33.

7. Larger Lines of Credit

If an affiliated bank receives a loan application which it is unable to grant due to lack of sufficient funds or loan limitations,

another affiliate may be called upon to participate in the loan. An independent bank, however, would either be forced to turn down the loan application or ask another independent bank to participate in the loan thereby surrendering a portion of the profit.

The Ohio National Bank often participates in loans with other affiliates of the BancOhio Corporation. There is also cooperation among the BancOhio affiliates in the sale of municipal bonds and in the short-term financing of municipal and county governments.⁵⁹

⁵⁹Ibid., p. 28.

8. Decentralization

Another primary advantage of group banking is the local character of each of its affiliates. In a group each unit is managed by its own directors, who usually represent local interests and better understand local problems. The decentralization of management tends to promote operating efficiency and keener competition than a broad system of branch banks might provide.⁶⁰

⁶⁰Lent, p. 20.

In the BancOhio Corporation none of the directors or officers of the holding company serve as a director or an officer of an affiliate. The officers and directors of each affiliated bank are citizens of the communities in which the banks are located. Mr. Honrath stated that as a result of this policy of decentralization

many of the customers of the affiliated banks are unaware of the fact that their respective banks are part of a group system.

9. Capital Needs

The common stock of a bank holding company might prove to be more attractive to a potential stockholder than the common stock of an independent bank due to the marketability and the diversification present in the holding company stock. Professors Nadler and Bogen point out that no class of securities of comparable size has as limited marketability as commercial bank stocks.⁶¹ Mr. Honrath stated that

⁶¹Bogen and Nadler, The Bank Holding Company, p. 35.

the stock of the BancOhio Corporation enjoys a much larger market than any of the stocks of the affiliated banks before they entered into the holding company.

The diversification of banks represented by a holding company also attracts stockholders who might otherwise not desire to hold the common stock of an independent bank. As a result of the wider market for holding company stock, the capital structure of the individual banks may be expanded more easily and at a lower cost.

B. Disadvantages of Group Banking

1. Contrary to the Spirit of the Banking Law

There can be little argument that the operation of a bank holding company in Ohio serves as a convenient means of circumventing

the county line limitations on branch bank operations. Through the holding company device individual banks become regional branches of the dominant or key bank in the group.

The primary factor in [bank holding companies] their creation has been the search for a way to circumvent laws restricting the establishment of branches. If bank holding companies are limited to the same geographical areas as are applied to branches, they are found to disappear.⁶²

⁶² Flexner, p. 23.

If the Ohio legislature and Ohio Superintendent of Banks are of the opinion that permitting the operation of branch banks outside of the county in which the parent bank is located is undesirable, then it would seem consistent to place the same limitations upon bank holding companies in Ohio.

2. Community Desire for an Independent Bank

There is still a strong desire for an independent and locally owned bank in many communities large enough to support a bank. As a result, the group banks are often placed at a disadvantage in attempting to compete with an independent bank.

Mr. Honrath stated that The First National Bank of Delaware, which is an affiliate of BancOhio, had recently received increased competition resulting from The Delaware County Bank radio and newspaper advertising which stated that inhabitants of Delaware should bank with a locally owned institution instead of a bank owned by non-residents.

The president of a bank in Steubenville reported that he had recently been approached by leading citizens of Cadiz who hoped to persuade him to help organize a new bank in Cadiz in order to provide a locally owned bank to compete with the BancOhio affiliate which is the only bank in the community. It was the opinion of the citizens that their banking needs were not being properly met because of "absentee ownership."⁶³

⁶³Interview with Mr. Charles L. Long, President, The First National Bank and Trust Company in Steubenville, March 27, 1961.

3. Loss of Local Responsibility

Banking experts point out that although a local board of directors is nominally in charge of each of the banks in the group, they handle only routine operational matters, and the general policy making is retained by the officers of the holding company. The objection to this arrangement is that much of the responsiveness to local banking needs is lost.⁶⁴

⁶⁴⁶⁴Hogenson, p. 145.

VII. Summary

The pattern of growth in branch banking in Ohio during the postwar period resulted in a reduction in the concentration of branch banks among the larger banks and in the metropolitan counties in Ohio. In addition, a significantly larger proportion of all banks

in Ohio were operating branch offices in 1959 than at the beginning of the postwar period. During the subject period the total number of banks in Ohio operating branch facilities was also more evenly distributed between national and state banks.

The rapid growth of branch banking in Ohio is a result of the change in the structure of the banking market, the shift of population and industry away from the cities to the outlying suburban areas, and the economies of operation provided through branch operation. The branch of an existing bank has proven, in many cases, to be a more efficient and desirable method of meeting the demand for additional banking offices than the formation of a new independent bank.

The Ohio law and federal law relating to the formation of branch banks has remained essentially unchanged during the postwar period. The two primary methods by which both Ohio and federal law attempt to limit the expansion of branch banking are the geographical and capital restrictions.

The most important of the two legal restrictions is the geographical limitation. Ohio law limits branch banking to the same county in which the parent bank is located with one minor exception. The federal law provides that all national banks are subject to the geographical restrictions on branch banking imposed by the law of the state in which they operate.

Ohio and federal law differ concerning the additional amount of capital that must be provided before a branch bank may be operated.

The federal law requires a larger amount of capital per branch for national banks and state member banks than does the Ohio law which applies to state chartered nonmember banks.

The bank holding company serves as a convenient device for circumventing the geographical restrictions on branch banking imposed by Ohio law. Ohio law is silent on the operation of bank holding companies, and federal law permits the operation of statewide, and in some instances, interstate bank holding companies.

During the subject period there were three bank holding companies in operation in Ohio, and in 1959 two remained in operation. The largest of the bank holding companies in Ohio is the BancOhio Corporation which, in 1959, operated in 20 counties in central and southern Ohio and held 5.93 per cent of the total bank assets in Ohio.

The primary advantage of group banking is the ability to avoid compliance with the Ohio law on county-wide branch banking. Group banking also offers the opportunity for bank management to acquire increased specialization and economies of scale. One of the disadvantages of group banking is the desire of some communities to be served by independent, locally-owned banks. Another disadvantage stems from the inconsistency between Ohio branch bank law and the statewide operation of group banking. If the administrative and legislative officials in Ohio believe that a county-wide limitation on branch banking is needed to assure continued competition

in banking, similar limitations should be placed on group banking. If, however, these officials elect to allow group banking in Ohio to continue on a statewide basis then there would appear to be little justification in maintaining legislation which restricts branch banking to anything less than statewide operation.

CHAPTER V

POSTWAR BANK CONSOLIDATIONS AND MERGERS IN OHIO

The purpose of this chapter is to examine the pattern of bank consolidations and mergers in Ohio from 1945 to 1959. In addition, the chapter considers the underlying causes of postwar bank combinations, and the measures adopted by both federal and state government to control the combinations.

I. Methods of Acquisition

There are three primary methods by which one bank may absorb other banks: consolidation, merger, and purchase of assets. The official reports of regulatory agencies and banking law make little, if any, distinction between these methods. To be technically correct, however, a difference exists between the methods, and it should be recognized.

A. Consolidation

Writers on corporate finance describe a consolidation as the formation of a new corporation for the purpose of acquiring the assets and liabilities of two or more corporations which then pass out of existence as separate entities. The consolidation is usually carried out by having the newly formed corporation exchange shares

of stock with the shareholders of the other corporations, and then the shares of the other corporations are cancelled upon dissolution of the issuer.¹ Bank consolidations are also carried out by

¹Elvin F. Donaldson, Corporate Finance (New York: The Ronald Press Company, 1957), p. 689.

organizing a new corporation and acquiring a new corporate charter, but normally a new bank charter is not acquired. Nearly all bank consolidations are carried out under an existing bank charter of one of the absorbed banks, but if a new corporate charter is obtained banking authorities classify it as a consolidation.²

²Interview with Mr. Paul Stetzelberger, Vice President, Federal Reserve Bank of Cleveland, January 31, 1961.

B. Merger

A merger is said to occur when two corporations are united in such a way that one is taken over by the other, the absorbing corporation assumes all the assets and liabilities of the absorbed corporation. The absorbed corporation surrenders its charter and becomes an integral part of the absorbing institution which retains its original charter.³ In some instances a corporation will acquire

³Donaldson, p. 687.

a stock interest in the corporations which it expects to absorb; however, banks are prohibited by both federal and state law from holding the stock of another bank. As a result, a bank merger is usually carried out on a basis whereby the stockholders of the absorbed bank exchange their shares for stock in the absorbing bank, and the absorbed bank stock is cancelled upon dissolution of the issuing corporation.

C. Purchase of Assets

Many banking authorities do not distinguish between a bank merger and a purchase of assets. In a purchase of assets the absorbing bank will assume the liabilities (in total or in part) and purchase the assets (in total or in part) of the absorbed bank. The stockholders of the absorbed bank receive the proceeds from the sale of their assets to the absorbing bank, plus any remaining assets of the absorbed bank, and the latter will then be dissolved.

In a purchase of assets the stockholders of the absorbed bank may receive stock of the purchasing bank, or cash, or a combination of stock and cash. There are advantages in receiving stock of the absorbing bank rather than cash. If the assets are sold for cash, any profit arising will be treated as a capital gain, and a tax must be paid in the year in which the sale took place; whereas if stock is received for the assets, it can usually be carried out under a

tax-free exchange, and the capital gains tax is not applicable until the stock is sold.⁴

⁴"The Branch and Merger Movement in the Third Federal Reserve District," Business Review of the Federal Reserve Bank of Philadelphia, November, 1954, p. 11.

The purchase of assets method of acquisition has an advantage in that it is a more flexible method of combination. In a merger, the two banks are combined in total. Under a purchase of assets arrangement only a part of the assets and liabilities need be included. It occasionally happens that a bank is interested in assuming only the savings deposit liabilities of another bank, or perhaps only the trust department. In some cases there is some portion of the absorbed bank's loan or investment portfolio which the absorbing bank does not wish to assume. In cases such as these the purchase of assets is a preferable method of acquisition.

As was stated earlier, there is little distinction made between the meaning of a combination, merger, and a purchase of assets in the field of banking. These terms are used generally when referring to all types of combinations among banks.⁵ In reporting

⁵Chapman, Concentration in Banking, p. 43.

the number of banks absorbed during the postwar period, regulatory agencies have not distinguished between the different methods of acquisition. The terms "consolidation" or "mergers," therefore,

are used throughout the balance of this treatise to include all three methods of acquisition.

II. Bank Consolidations and Mergers in Ohio

A. The Number of Banks Absorbed in Ohio

Ohio has been one of the leading states in the number of bank mergers that have taken place since the end of World War II. From 1950 to 1959 Ohio placed fourth behind Pennsylvania, New York, and California in the number of banks absorbed through consolidation or merger.⁶

⁶ Senate Committee on Banking and Currency, Regulation of Bank Mergers, 1959, pp. 138-180; and House Committee on Banking and Currency, Regulation of Bank Mergers, 1960, pp. 20-23.

Table 32 presents the number of banks in Ohio that were absorbed by other banks during the postwar period. It is noteworthy that of the 106 banks which were absorbed by other banks in Ohio during the postwar period, 83 of the banks, or 78.30 per cent, were absorbed between 1952 and 1959. This indicates that the trend toward bank mergers in Ohio became stronger in the latter half of the postwar period. This observation is further supported by the fact that in the four-year period 1955 to 1959, a total of 56 banks in Ohio were absorbed, and in the year 1959, 18 banks in Ohio were absorbed which was the largest number in any single year of the entire postwar period.

The pattern of bank mergers and consolidations in Ohio during the postwar period closely paralleled the national pattern. During the 14-year period which followed the end of World War II, 1,906 banks in the United States were absorbed, and approximately 68.98 per cent of the combinations took place between 1952 and 1959.⁷

⁷House Committee on Banking and Currency, Regulation of Bank Mergers, 1960, p. 135.

Of the 106 banks in Ohio absorbed from 1945 to 1959, state chartered banks accounted for 78 or 64.64 per cent of the total. This provides a partial explanation of the decline of state chartered banks as a proportion of all banks in Ohio during the same period. National banks, on the other hand, accounted for only 28, or 26.41 per cent, of the total number of banks which were absorbed in Ohio in the postwar period.

B. The Size of the Banks Absorbed in Ohio During the Postwar Period

Table 33 presents the number of banks in Ohio which were absorbed during the postwar period classified according to the amount of assets.

It is evident from an analysis of Table 33 that the smaller banks in Ohio were the ones which were acquired during the postwar consolidation and merger movement. Of the total number of banks absorbed in Ohio during the subject period, 66.03 per cent had total

TABLE 32
NUMBER OF BANKS IN OHIO ABSORBED
THROUGH CONSOLIDATION OR MERGER
1945-1959

Year	All Banks	National Banks	State Banks
1945	1		1
1946	3	1	2
1947	6	2	4
1948	2		2
1949	4		4
1950	4		4
1951	3	1	2
1952	7	1	6
1953	10	4	6
1954	10	3	7
1955	13	5	8
1956	8		8
1957	8		8
1958	9	5	3
1959	18	6	12
Total	106	28	77

Source: Annual Report of the
Comptroller of the Currency, 1946-1960 and
Annual Report of the Ohio Division of
Banks, 1946-1960.

TABLE 33

ALL BANKS IN OHIO ABSORBED THROUGH CONSOLIDATION OR MERGER,
CLASSIFIED ACCORDING TO AMOUNT OF ASSETS
1945-1959

Year	Less than \$1 million	\$1 to 2 million	"2 to 5 million	\$5 to 10 million	\$10 to 25 million	\$25 to 50 million	\$50 to 100 million	Over \$100 million
1945		1						
1946			1	1	1			
1947	1	1	3					
1948		1		1				
1949		2	2					
1950	1		2		1			
1951		1		1			1	
1952		1	2	3	1			
1953	2	3	1		2	2		
1954	2	4	1		1	1	1	
1955	1	3	3	2	3	1		
1956	1	3	4					
1957	1	1	3	2	1			
1958	1	1	4	1		1		
1959		5	7	2	4			1
Total	10	27	33	13	15	5	2	1

Source: U. S. Congress, Senate Committee on Banking and Currency, Hearings, Regulation of Bank Mergers, 86th Cong., 1st Sess., S. 1062 and U. S. Congress, House Committee on Banking and Currency, Hearings, Regulation of Bank Mergers, 86th Cong., 2nd Sess., S. 1062.

assets of less than \$5 million, and 92.45 per cent of the absorbed banks had total assets of less than \$25 million. The group which accounted for the largest number of absorbed banks was the group with assets ranging from \$2 to \$5 million.

The only bank to be absorbed during the postwar period with assets in excess of \$100 million was a mutual savings bank rather than a commercial bank. The Society for Savings in Cleveland with total assets of \$334,487,457 was absorbed by The Society National Bank of Cleveland in 1958.⁸

⁸Ibid., p. 25.

C. The Size of Banks which Acquired Other Banks in Ohio During the Postwar Period

Table 34 presents the number of banks in Ohio which acquired other banks through consolidation or merger during the postwar period.

In contrast to the many statements before Congressional committees concerning the dominance of the larger banks as acquiring banks in combinations during the postwar period, the larger banks in Ohio did not account for the majority of the bank acquisitions during the subject period. Table 34 reveals that the banks in Ohio with assets of less than \$50 million accounted for 62.26 per cent of all the bank acquisitions in the postwar period, and the banks with

TABLE 34

ALL ACQUIRING BANKS IN OHIO, CLASSIFIED
ACCORDING TO THE AMOUNT OF ASSETS,
1945-1959

Year	Less than \$1 million	\$1 to 2 million	\$2 to 5 million	\$5 to 10 million	\$10 to 25 million	\$25 to 50 million	\$50 to 100 million	Over \$100 million
1945				1				
1946			1					1
1947			3	1		1		1
1948								2
1949					1		2	1
1950				2	1	1		
1951					1			2
1952					1	2		4
1953			2	1	2	2		3
1954	1	1	1	3	1		1	2
1955			1	2	4	1	1	4
1956				4		1		3
1957				3		2	1	2
1958			1	4	1	1	1	1
1959				1	8	2	3	4
Total	1	1	9	22	20	13	9	31

Source: Moody's Manual of Investments, 1946-1960.

assets ranging from \$5 to \$25 million acquired 41.51 per cent of all the absorbed banks in Ohio during the same period. The largest banks in Ohio, those with total assets in excess of \$100 million, were responsible for only 29.24 per cent of the acquisition during the entire postwar period.

A comparison of Tables 33 and 34 shows that the basic pattern of bank consolidations and mergers in Ohio during the postwar period was one of small banks being absorbed by primarily small and medium-sized banks. The largest class of banks in Ohio absorbed only 31 banks during the period, and the charge that the postwar increase in consolidations and mergers resulted from an attempt by the largest banks to increase their share of the total banking resources is not valid as an explanation of the postwar bank consolidation and merger movement in Ohio.

II. Factors Contributing to Bank Mergers and Consolidations During the Postwar Period

The purpose of this section is to examine the primary causes of bank combinations during the period 1945 to 1959. Each bank combination has its own specific contributory causes; however, the officials of the federal and state bank regulatory agencies and other banking authorities have recognized some common causes which occur more frequently than others, and these are discussed in the following pages.

A. The Increase in Branch Banking

The postwar increase in branch banking has proceeded along two main lines: the establishment of de novo branches, and the acquisition of existing banks and conversion of them into branches of the acquiring bank.

The establishment of branch offices by acquiring existing banks has several advantages over the other method. When an existing bank is acquired and converted to a branch office, the acquiring bank benefits from the existing banker-customer loan relationships, and the branch does not have to build its deposits from zero. The problem of obtaining permission to establish a branch operation may also be facilitated by acquiring an existing bank.

Legal considerations also often impel branch bank expansion by acquisition rather than by de novo branches. A de novo branch must satisfy the regulatory authorities of the "need" for its existence, and that 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.⁹

⁹Charlotte P. Alhadeff and David A. Alhadeff, "Recent Bank Mergers," Quarterly Journal of Economics, November, 1955, p. 517.

A further advantage of acquiring a branch via the consolidation or merger route lies in the fact that the problem of providing personnel to staff the branch is automatically solved by retaining most of the old personnel. The postwar shortage of trained bank personnel, and the difficulty which banks have encountered in

attracting capable employees acts as a further stimulus to acquiring branch offices by this method.

Even where legal and personnel problems are not obstacles to establishing a de novo branch, the combination method may prove more satisfactory where the construction costs are high and where the acquisition would eliminate some of the competition. In addition, the consolidation or merger method is "a better basis for estimating the future success of the branch which the operating experience of the existing bank provides."¹⁰

¹⁰"The Bank Merger Movement," New England Business Review of the Federal Reserve Bank of Boston, May, 1959, p. 5.

B. Failure to Attract Successor Management

One of the most important reasons for bank combinations during the postwar period has been the inability of many banks to attract or the failure to train replacements for aging members of bank management.

Top management problems have been among the most important reasons. In many banks the advancing age of officers, and failure to provide successor management, has resulted in mergers. In others, the managing owners have wished to retire from the banking business.¹¹

¹¹Annual Report of the Comptroller of the Currency, 1954, p. 9.

The Ohio Superintendent of Banks stated that the failure to provide successor management was the primary cause of bank

consolidations and mergers in Ohio during the postwar period, and this statement was supported by Mr. Paul Stetzelberger of the Federal Reserve Bank of Cleveland.¹²

¹²Interview with the Ohio Superintendent of Banks, March 24, 1961, and interview with Mr. Paul Stetzelberger, Vice-President, Federal Reserve Bank of Cleveland, January 31, 1961.

A survey taken by the Federal Reserve Bank of Philadelphia revealed that bank supervisors considered the problem of successor management as the greatest weakness in present bank management. The survey further indicated that management problems played a part in bringing about one-half of 66 bank mergers involved in the study.¹³

¹³"The Branch and Merger Movement in the Third Federal Reserve District," Business Review of the Federal Reserve Bank of Philadelphia, January, 1955, p. 6.

The management problem has occurred most frequently among the smaller rural banks. The Ohio Superintendent of Banks pointed out that many of these banks fail to earn a large enough income to allow them to pay the salaries needed to attract desirable management, and in many cases even adequate salaries did not provide inducement enough to persuade younger men to reside outside of metropolitan areas and leave the employment of larger banks where the promotion possibilities are more promising.

C. Financial Considerations

The market for the stock of small banks is thin. Typically, there are few stockholders, and the ownership is heavily concentrated. The president of a small bank quite often makes the market in the bank's stock. To sell his shares a stockholder contacts the president of the small bank, who may be able to supply a buyer, but more often the seller's name is placed on a list to wait until someone places a bid. As a result, the stock of a small bank has little marketability and usually sells below its book value.¹⁴

¹⁴Eugene M. Lerner and Donald P. Jacobs, "Why We Need a Better Market for Bank Stocks," Banking, September, 1960, p. 128.

Since the end of World War II many stockholders in small banks have been able to realize a fair price for their shares through a consolidation or merger with another bank. In testimony before the House Judiciary Committee the Comptroller of the Currency stated the following as one reason for the postwar increase in bank consolidations and mergers.

Prices or terms have been offered which the shareholders have found most attractive. These prices or terms have been equal to book value of the assets, and in many cases have been on a fair value basis plus a premium. This has been a particularly strong factor because the stock of many banks have a very limited market, and sell at prices well below book value.¹⁵

¹⁵U. S. Congress, House, Committee on the Judiciary, Hearings, Current Antitrust Problems, Part I, 86th Cong., 1st Sess., p. 462.

In determining the value of a bank in negotiating a consolidation or merger some assets of the bank are often written up in order to reflect their real value. This practice often results in the payment of a premium above what the stockholders of the absorbed bank considered the book value of their stock. Probably the most frequent adjustment is the value of the bank buildings. Many banks carry the value of bank buildings at a conservatively low figure. Another adjustment may be in the value assigned to investments. Banks often carry investments at original cost which may be increased to conform with current market values.¹⁶

¹⁶"The Branch and Merger Movement in the Third Federal Reserve District," Business Review of the Federal Reserve Bank of Philadelphia, November, 1954, p. 15.

The amount of premium which may be paid above book value in a bank consolidation or merger is limited indirectly by the supervisory authorities. Because the bank supervisory authorities discourage writing-up the value of assets, the acquiring bank will normally absorb the premium which it paid by reducing its surplus or undivided profits rather than capitalizing the premium on its books. Even then the supervisory authorities may refuse to approve such transactions, or may insist that the absorbing bank acquire additional capital. Thus, the desire for a premium above book value by stockholders of a small bank has in some instances resulted in the decision by bank management to scrap plans to absorb another bank.

There would be even more mergers than there are today if many banks did not ask premiums ranging from 6 to 10 per cent of their deposits. To pay such a premium often would mean a period of ten years before the acquiring bank could earn it from employment of assets acquired.¹⁷

¹⁷Ed Tyng, "Bank Merging Today. . . No Job for Boys," Burroughs Clearing House, December, 1960, p. 47.

The stockholders of smaller banks have favored an exchange of stock with a larger bank as a means of acquisition. The securities of larger banks are usually traded in wider markets, more information on larger banks is published in financial manuals, bid and ask quotations for the stock of larger banks often appear in many of the urban newspapers, and, as a result the securities of the larger banks have better marketability. Lerner and Jacobs stated that the marketability of the stock of the larger banks "has contributed to the fact that they sell at a higher price earnings ratio than the smaller banks, and typically at a premium over book rather than at a discount from book."¹⁸

¹⁸Lerner and Jacobs, Banking, September, 1960, p. 128.

D. Loan Limitations

Another specific problem which bank management has attempted to solve by consolidation or merger is the problem of loan limitations imposed by law. Both federal and Ohio law limit the maximum unsecured loan which a national or state bank can make to any non-

governmental borrower to 10 per cent of the total capital, surplus, and undivided profit of the bank.¹⁹

¹⁹Federal Code Annotated, Title 12, sec. 84 and Ohio Banking Law, Annotated, 1105.21.

As the volume of business continues to grow at a faster pace than the number of businesses, the trend during the postwar period has been toward larger and larger business units. These larger business units also have larger credit needs. In addition, many corporate customers have become increasingly attracted to the use of term loans to meet their credit needs, and as the size of the corporate needs grow, the size of the lending banks must expand to meet these needs.²⁰

²⁰Francis W. Quantius, "Bank Mergers: Important Factor in Economic Growth," The Commercial and Financial Chronicle, August 20, 1959, p. 1.

Bank term lending has received competitive pressure from insurance companies, and the insurance companies have been able to strengthen their competitive position because they have kept better pace in size and loan limits with the growth of the large corporations than have commercial banks. Although a number of banks can pool their resources to meet the credit needs of one large

borrower, the method is cumbersome and may not satisfy the borrower.²¹

²¹Statement by George A. Mooney, Superintendent of Banks of the State of New York, contained in House Committee on the Judiciary, Current Antitrust Problems, 1955, Part III, p. 200h.

Many bank managements have found that the swiftest method of attaining the additional capital needed to provide greater lending capacity is through a consolidation or merger with another bank.

Closely associated with the need for larger lending capacity is the fact that many local businesses and industrial concerns which were of major importance to local banks have been sold to large corporations which maintain their banking connections in metropolitan areas. In these cases the local banks usually receive a smaller percentage of the banking business of the local subsidiary. In an attempt to recover a portion of the lost banking business and to reduce the bank operating costs, the local banks sometimes find it advantageous to consolidate or merge with each other or with a larger metropolitan bank.²²

²²Statement by the Comptroller of the Currency, contained in, House Committee on the Judiciary, Hearings, Current Antitrust Problems, 1955, Part I, p. 463.

E. Diversification

Another motive for consolidations and mergers has been the desire to offer a complete line of banking services. A bank doing primarily a commercial business may seek to merge with a bank which does a large trust business. In many cases a bank which has been reluctant to enter into retail banking may seek to establish itself quickly as a consumer bank by merging with suburban banks and operating them as branch offices in order to attract the deposits and loans of consumers and small businesses located in the suburban areas.²³

²³Statement of the Comptroller of the Currency contained in, House Committee on the Judiciary, Hearings, Current Antitrust Problems, 1955, Part I, p. 464.

Bank management may become interested in merging with another bank that has failed to develop a special banking service in an area where the acquiring bank management believes such services would be profitable. Many small banks do not have the variety of services offered by a larger bank, and a merger might offer the larger bank an opportunity to expand its customers' services in a new and unexploited area.²⁴

²⁴Ed Tyng, Burroughs Clearing House, December, 1960, p. 47.

On the other hand, an acquiring bank can be materially influenced by the opportunity of acquiring special services developed

to a high degree by the bank that is to be absorbed in a prospective combination.

F. Market Position

Any commercial or industrial enterprise that is to effectively compete in a highly dynamic economy must maintain a strong and viable market position. Maintaining a competitive position depends upon the ability of management to respond and adapt to changing demands of the customer, community, and the local economy. Consolidations and mergers have provided one of the methods which commercial and industrial organizations have employed to retain their market position.

Banks which have not grown proportionately have found themselves limited in ability to serve some of their old customers and handicapped in their efforts to obtain new accounts. Competitive pressures force the bank to increase its size. The desire to be one of the largest banks in the state, region or country for the greater prestige is a reinforcing factor. Mergers have been a solution which many banks faced with this problem have chosen.²⁵

²⁵New England Business Review of the Federal Reserve Bank of Boston, May, 1959, p. 5.

In order to retain their market position many banks have entered into bank consolidations or mergers after a series of similar moves on the part of competitors. Charlotte and David Alhadeff point out that a number of acquisitions by a few banks are often sufficient to bring about a "wave of mergers" in a banking

market. They further state that the "wave of mergers" results from a defensive reaction on the part of other banks. The market position of these imitating banks is threatened, and the surest way of defending their market position is to enter into a retaliatory merger.²⁶

²⁶ Charlotte P. Alhadeff and David A. Alhadeff, Quarterly Journal of Economics, November, 1955, p. 518.

G. Bank Earnings

The failure of some banks to meet the changing demands placed upon banking during the postwar period has resulted in a poor earnings record. The primary cause of poor earnings is poor management. In a study conducted by the Federal Reserve Bank of Boston in 1958 it was reported that the absorbing banks in the postwar bank mergers in the First Federal Reserve District were "more profitable, more aggressive, and more efficiently operated" than the banks which were acquired.²⁷ In a similar study conducted by the Federal

²⁷ New England Business Review of the Federal Reserve Bank of Boston, May 1959, p. 6.

Reserve Bank of Philadelphia the following was reported:

In almost two-thirds of the mergers the absorbed bank had a higher capital ratio (capital to risk assets) than the absorbing bank. Loans often were low and the absorbing bank had opportunities for more intensive and profitable use of capital funds. Our figures show that in almost seven out of ten mergers the absorbed bank had relatively lower earnings (as a ratio to capital accounts)

than the absorbing bank. In nine out of ten mergers it paid lower dividends (as a percentage of capital accounts).²⁸

²⁸ Business Review of the Federal Reserve Bank of Philadelphia, January, 1955, p. 5.

Some banks have been over-capitalized in the sense that their deposits could be considerably larger on the basis of their existing capital. In order to remedy this situation they have acquired other banks and have established new branches in growing areas in order to expand deposits and, hence, earnings.²⁹

²⁹ The Superintendent of Banks of New York listed the above average capital to deposits ratio of many large New York City banks as a primary factor in the postwar increase in bank mergers among metropolitan banks and suburban banks in and around New York City. George A. Mooney, Superintendent of Banks, New York, House Committee on the Judiciary, Hearings, Current Antitrust Problems, 1955, Part III, p. 2009.

IV. Regulation of Bank Consolidations and Mergers

A. General Antitrust Legislation

The Sherman Antitrust Act of 1890 and the Clayton Act of 1914 were the first federal antitrust laws affecting bank consolidations and mergers. The purpose of the Sherman Antitrust Act is to prohibit combinations in restraint of trade, and block attempts to form monopolies and gain monopolistic control of trade or commerce. Any consolidation or merger, regardless of how it was accomplished, may be attacked under the Sherman Antitrust Act if there is

substantial proof that the transaction has resulted in an unreasonable lessening of competition. Although the Sherman Antitrust Act has been used against bank consolidations and mergers, it has not been used extensively due to the doubt concerning the applicability of the antitrust laws to banking.

In 1959 the Department of Justice employed the Sherman Antitrust Act for the first time in the field of banking, and the action was directed against a bank holding company. In that case the Department of Justice acted to block the acquisition of the California Bank of Los Angeles by the Firstamerica Corporation. The Department of Justice consented to drop its case against the Firstamerica Corporation after the bank holding company agreed to a plan whereby it would organize a new bank with 65 offices and then "spinoff" the new bank within six years. This new bank will provide competition for the bank holding company affiliates.³⁰ Early in 1961

³⁰ House Select Committee on Small Business, Banking Concentration and Small Business, 1960, pp. 44-45.

the Department of Justice again employed the Sherman Act to block the merger of the First National Bank and Trust Company with the Security Trust Company both of which are located in Lexington, Kentucky. At this writing the case still remains in court.³¹

³¹ Albert L. Kraus, "Government Eyes Banking Mergers," The New York Times, March 5, 1961, p. F 1.

Section 7 of the Clayton Act, originally enacted in 1914, prohibits a company from acquiring the stock of another company where the effect of the acquisition may result in a substantial lessening of competition. Banks are also subject to control under this act; however, section 11 of the Clayton Act authorizes the Board of Governors of the Federal Reserve System to enforce the provisions of this act where they are applicable to banks.³²

³²Henry Harfield, The Business Lawyer, July, 1959, p. 1023.

The original section 7 of the Clayton Act pertained only to consolidations and mergers accomplished through stock acquisitions, but since national banks, member banks of the Federal Reserve System, and most state banks are prohibited from acquiring stock in other banks, the original section 7 had little applicability in bank mergers and consolidations.³³

³³Senate Committee on Banking and Currency, Regulation of Bank Mergers, 1959.

The Board of Governors of the Federal Reserve System has exercised its power under section 11 of the Clayton Act only once. In June, 1948 the Board of Governors issued a complaint against the Transamerica Corporation, then a west coast bank holding company, charging that the control of banking which the organization had acquired as a result of stock acquisitions was in violation of

section 7 of the Clayton Act. In 1953 the Board of Governors abandoned the case after an unfavorable decision by a Federal Court of Appeals and a refusal by the United States Supreme Court to review the case.³⁴

³⁴Banking Law Journal, January, 1954, p. 22.

As was stated earlier, the original section 7 of the Clayton Act was applicable only to consolidations and mergers which were accomplished by stock acquisition. As a result, combinations which were accomplished via asset acquisition were not covered under the law. In 1950, however, section 7 of the Clayton Act was amended to include combinations by asset acquisition as well as stock acquisition. This amendment, however, did not include within its scope corporations other than those subject to the jurisdiction of the Federal Trade Commission; and under sections 5 and 6 of the Federal Trade Commission Act and section 11 of the Clayton Act, banks are expressly exempt from the jurisdiction of the Federal Trade Commission.³⁵

³⁵Statement of Emanuel Celler, Representative from New York, contained in, Senate Committee on Banking and Currency, Regulation of Bank Mergers, 1959.

The effect of section 7 of the Clayton Act on bank combinations is negligible as a result of the exception provided in both the original act and the 1950 amendment. As one writer has stated it:

The implications from these two laws when read together is that banks can acquire the assets of another

corporation except as they may be subject, or as they may be limited by provisions under the Sherman Act.³⁶

³⁶Edward G. Gruis, "Antitrust Laws and Their Application to Banking," Banking Law Journal, November, 1959, p. 794.

Throughout the history of antitrust legislation and its enforcement in the United States there appears to have been considerable uncertainty concerning the extent to which antitrust laws are applicable to the field of banking. There seems to be a division of opinion as to whether banking should be treated as any other competitive industry, or should enjoy a status similar to a public utility. It is generally agreed, however, that considerations other than perpetuation of competitive conditions must temper the application of the antitrust laws to the field of banking.³⁷

³⁷Carl W. Funk, "Antitrust Legislation Affecting Bank Mergers," Banking Law Journal, May, 1958, p. 369.

B. Banking Laws Pertaining Specifically to Consolidations and Mergers

Much of the confusion surrounding the regulation of bank consolidations and mergers is an outgrowth of the divided administration and regulatory authority connected with the combinations. At the present time the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and each state banking authority have some limited jurisdiction over bank mergers and consolidations.

1. Ohio Banking Law

The Ohio law provides for consolidation, merger, and conversion of banks. The Ohio law permits a state bank to be absorbed by a national bank or convert to a national bank without the permission of the Ohio Superintendent of Banks. In addition, the Ohio law permits a national bank operating in Ohio to be absorbed by a state bank or convert to a state charter with permission only of the Ohio Superintendent of Banks. Two or more state banks in Ohio may combine, of course, with the permission of the Superintendent of Banks.

The law requires, however, that before a combination may take place, a two-thirds majority of the shares of each bank must vote in favor of the consolidation or merger. The law states also that unless the corporation articles state otherwise, any shareholder of a state chartered bank in Ohio who did not vote in favor of any proposed consolidation or merger may request a fair cash value for his shares.³⁸

³⁸Ohio Banking Law, Annotated, 1103.37.

2. Federal Banking Law

In 1918 an amendment to the National Banking Act made it possible for one national bank to combine with another national bank after receiving permission from the Comptroller of the Currency. In 1927 the McFadden-Pepper Act provided for the direct combination of national and state banks under the national bank charter. It was not until 1950, however, that a national bank could be absorbed

by a state bank or convert to a state charter without first undergoing dissolution. Before 1950 a national bank could not leave the national banking system except by dissolution. The dissolution of a national bank often resulted in a capital gains tax liability for the stockholders. As a result, few national banks were willing to surrender their national charter in order to be absorbed by a state bank or convert to a state charter.³⁹

³⁹Thomas B. Paton, "Conversion, Merger, Consolidation Legislation--'Two-Way Street' for National and State Banks," Banking Law Journal, January, 1954, p. 15.

In 1950 the National Bank Conversion Act, or Public Law 706 (often referred to as the "two-way street law"), was passed by Congress which permitted a national bank to combine directly with a state bank under state charter or convert to a state charter without first undergoing dissolution and without permission of the Comptroller of the Currency.⁴⁰

⁴⁰Federal Code, Annotated, Title 12, sec. 214.

Before a national bank may be absorbed by a state bank or convert to a state charter without permission of the Comptroller of the Currency, the state legislation, in the particular state, must permit state banks to be absorbed by national banks or converted to national charter without approval of any state banking authority.

From 1945 to 1959 only four national banks in Ohio were absorbed by state banks, and there were no national banks converted to state chartered institutions. During the same period 40 state banks in Ohio were absorbed by national banks, and five state banks were converted to national banks.

Federal law also provides that at least two-thirds of the participating banks' shares must approve a consolidation or merger before it will be approved by the Comptroller of the Currency. In addition, until 1952 the dissenting shareholders of each bank were entitled to receive cash payment for their shares. In 1952, however, the National Banking Act was further amended to eliminate the right of dissenting shareholders in the absorbing bank to receive cash payment for their shares. This law applies, of course, only to national banks. The Comptroller of the Currency stated that the purpose of the 1952 amendment was to eliminate the obstacle that dissenting stockholders of a large bank could provide to a combination of a large and a small bank. In many cases the threat of a substantial number of shareholders demanding cash for their shares has blocked the efforts of a large bank to absorb a smaller bank.⁴¹

⁴¹Annual Report of the Comptroller of the Currency, 1954, p. 7.

The federal law also provides for approval of the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System in certain bank consolidations and mergers.

Section 18(c) of the Federal Deposit Insurance Act requires that before an insured bank may consolidate or merge with another insured bank prior written consent must be obtained from the Comptroller of the Currency if the resulting bank is to be a national bank, the Federal Reserve Board of Governors if the resulting bank is to be a state member bank, or the Federal Deposit Insurance Corporation if the resulting bank is to be a nonmember insured bank. In addition, if any insured bank desires to combine with a noninsured bank, the written approval of the Federal Deposit Insurance Corporation must be obtained regardless of whether the resulting bank is to be a national bank or a state member or nonmember bank.⁴²

⁴² Federal Code, Annotated, Title 12, sec. 1828(c)

Until 1960, approval of the Federal Deposit Insurance Corporation and the Federal Reserve Board of Governors was not necessary unless the capital and surplus of the resulting bank was less than the aggregate capital and surplus of the participating banks. This served as a serious obstacle to federal regulation of bank consolidations and mergers.⁴³ Passage of an amendment to section 18(c)

⁴³ In 1955 Governor J. L. Robertson of the Board of Governors of the Federal Reserve System reported that from 1950 to 1955 there were 162 cases of mergers and consolidations involving state member banks, but as a result of the rule that the Board of Governors approval was needed only in the case of a diminution of capital and surplus, only 81 of the mergers and consolidations were subject to the approval of the Board of Governors. U. S. Congress, House

Committee on the Judiciary, Hearings, H.R. 5948, Bank Mergers, 84th Cong., 1st Sess., 1955, p. 53.

in 1960 removed this qualification, and the approval of one of the agencies must now be obtained by an insured state bank regardless of the amount of capital and surplus of the resulting bank.

C. Recent Legislation

Throughout the postwar period Congress focused a great deal of attention on the bank consolidation and merger movement and the methods by which the regulatory agencies attempted to control the movement and retain a desirable level of competition in the banking industry. All of the participants in the various hearings and studies which were sponsored by Congress agreed that additional legislation was needed to prevent undesirable bank combinations. Substantial disagreement has arisen, however, concerning the best method of providing greater control of bank mergers and consolidations.

The bank regulatory agencies have supported legislation which would provide greater control of bank combinations but would leave the regulation and review under their jurisdiction. Others have supported legislation which would eliminate the protection which banks have from the full force of the antitrust laws. This, in effect, would give the Department of Justice the right to decide whether or not a bank consolidation or merger should be approved, and the same means of determining the desirability of a combination in the nonbanking field would be applied to proposed banking combinations.

The Comptroller of the Currency, Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System, and the National Association of Supervisors of the State Banks have opposed any legislation which would give the Department of Justice the ultimate responsibility over bank mergers and consolidations. They argue that banking is a highly specialized field in which a substantial amount of familiarity with banking structure and operating policies is necessary in order to reach a sound decision on the merits of a proposed combination of banks. The Comptroller of the Currency stated the following:

Frankly, I don't believe that a group of lawyers sitting in the Department of Justice who have had lots of experience in antitrust work, in a myriad of fields, have the grasp of the banking business necessary to enable them to do a good job on that. We start with the fund of knowledge that it would take them a long time to acquire in any particular case.⁴⁴

⁴⁴Ibid., p. 76.

Those who support the plan to allow the Department of Justice to have ultimate responsibility over bank mergers and consolidations have based their argument on the need for uniformity of policy and greater attention to the effect of combinations on competition in banking. The proponents of this policy argue that the three federal banking agencies have failed to attain uniformity in their policies toward combinations, and that many consolidations and mergers are

approved without adequate consideration of the ultimate effect upon competition.⁴⁵

⁴⁵ Statement of Robert A. Bicks, Acting Assistant Attorney General, Antitrust Division, Department of Justice, contained in, House Committee on Banking and Currency, Regulation of Bank Mergers, 1960, p. 161.

In 1960 Congress finally passed new legislation relating to bank consolidations and mergers. The legislation attempted to meet many of the demands of both factions; however, it provided that the primary authority in the regulation of bank combinations would remain with the bank regulatory agencies.

The legislation passed in 1960 amended section 18(c) of the Federal Deposit Insurance Act, and it is referred to as Public Law 86-463. The amendment changed the law in three basic ways. First, as stated earlier, the powers of the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System have been broadened in that they must give their approval to any member or nonmember insured state bank combination before the combination may be undertaken. Previous to the 1960 amendment the approval of these agencies was necessary only if the capital and surplus of the resulting banks was less than the aggregate capital and surplus of the participating banks.

Second, the amendment broadened the number of factors which the three bank regulatory agencies must consider in evaluating a proposed combination. Prior to 1960 they were required to consider

the following: the financial history and condition of each of the banks involved, the adequacy of its capital structure, its future earnings prospects, the general character of its management, the convenience and needs of the community to be served, and whether or not its corporate powers are consistent with the purposes of the Federal Deposit Insurance Corporation. The 1960 amendment added a factor which requires the agencies to consider the effect of the transaction on competition including any tendency toward monopoly.

Third, in an attempt to bring about uniform standards among the federal bank regulatory agencies, all three agencies before approving a combination must request a report on the competitive effects of the proposed combination from the Attorney General of the United States and the other two federal banking agencies. Although the law requires that the deciding agency must seek the advice of the other two banking agencies and the Attorney General, it is not obliged to heed the advice. In addition, the amendment requires that each of the regulatory agencies include in its annual report a description of each consolidation or merger which it approved during the period covered by the report, along with general information on the banks involved, the opinion of the Attorney General concerning the effects upon competition that would result from each combination, and a statement as to why the combination was approved.⁴⁶

⁴⁶
Federal Code, Annotated, Title 12, sec. 1828(c)

The disagreement between the two factions cannot be considered settled as a result of the passage of the 1960 act. Early in 1961 the Department of Justice filed suit to block two bank mergers which had been approved by the Comptroller of the Currency after the passage of the new legislation in 1960. Most bankers and regulatory officials consider this as an attempt by the Justice Department to test whether or not a regulatory agency can disregard the opinion of the Attorney General and approve a bank combination. Only after these cases have been decided will the effect of the new legislation be clear.⁴⁷

⁴⁷ Albert L. Kraus, The New York Times, March 5, 1961, p. F 1.

V. Summary

Ohio was a leading state in the number of bank consolidations and mergers which took place from 1945 to 1959. A total of 106 banks were absorbed in Ohio during the 14-year period, and the majority of these were absorbed after 1952. An analysis of the size of both the absorbed banks and the acquiring banks reveals that all but a few of the absorbed banks had total resources of less than \$25 million, and 62.26 per cent of the acquiring banks had total resources of less than \$50 million. These facts quickly dismiss any charge that the bank consolidation and merger movement in Ohio during the postwar period resulted in an increased concentration of banking resources and facilities among the largest banks in Ohio.

Although each bank consolidation and merger has its own causative factors, there appear to be certain fundamental causes that are offered in most postwar mergers and consolidations as the primary or secondary reasons for combinations. The consolidation and merger movement is closely associated with the expansion in branch banking activity. The economies that may be realized in establishing a branch office via combination with another bank rather than undergoing the staffing problems, construction costs, and other difficulties encountered in establishing a de novo branch office have been of importance in the increase in bank consolidations and mergers.

The poor market for bank stock during the postwar period has also been a major factor. Many stockholders of small banks have been able to realize a fair value for their shares only by consolidation or merger. The exchange of stock resulting from a combination has also provided many bank stockholders with shares of a larger bank which offer larger dividends and better marketability than the stock which they exchanged.

The problem which many small rural banks encounter in attracting successor management for aging or retired bank officers has often resulted in a decision to combine with another bank and allow the acquiring bank to provide management replacement from their staff.

The growth of business firms during the subject period resulted in the demand for larger loans and lines of credit from the banks which service these organizations. This has taxed the maximum

loan limitations of individual banks, and it has constituted a significant cause of bank combinations.

The increase in bank combinations also reflects the attempt of many banks to enhance or retain their market position and the desire to diversify their operations. The consolidation and merger device has enabled many banks to attain both of these objectives more rapidly than other methods they might have employed.

Finally, the inability of many banks to earn a sufficient return on capital, and in other cases the overcapitalization encountered by both large and small banks, have served as an inducement to enter into consolidations or mergers with other banks in an attempt to utilize bank capital more efficiently and secure a large enough market to enable the resulting bank to enjoy certain economies of scale.

In general, the postwar consolidation and merger movement in banking is a result of the banking industry's attempts to adapt to the postwar changes in the institutional complex in which it operates. The changes in the local economy, the community, and the demands of bank customers have been the paramount cause of bank combinations rather than a conscious effort to eliminate competition and secure greater concentration of banking resources.

Through the regulation of bank consolidations and mergers an attempt has been made to preserve competition in banking. The anti-trust laws have been of limited usefulness against banking combinations. The Department of Justice has applied the Sherman Antitrust

Act against banking combinations only twice. Section 7 of the Clayton Act has been of little value in attempting to block bank consolidations and mergers as a result of the limited applicability in the original section 7 and the exempt status of banking in the 1950 amendment to section 7.

The primary legal restraints to bank combinations lie in the specific state and federal statutes pertaining to bank consolidations and mergers. The Ohio law relating to bank combinations provides few limitations on bank consolidations and mergers. The federal law has been under Congressional review throughout the postwar period. All those participating in the Congressional hearings on bank mergers agree that additional legislation is desirable, but disagreement arises as to whether the ultimate responsibility for regulating bank combinations should rest with the Department of Justice or the three federal bank regulatory agencies.

In 1960 Congress amended the Federal Deposit Insurance Act to furnish the bank regulatory agencies with broader powers over bank combinations. The law provided for more attention to the competitive aspects of bank combinations by the regulatory agencies before approval is granted. It also attempted to ensure that greater uniformity of policy among the three agencies and the Department of Justice would be attained by requiring that each of the three federal agencies solicit the views of the other two federal bank regulatory agencies and the Department of Justice before approving a proposed consolidation or merger.

Action of the Department of Justice since the passage of the 1960 legislation would indicate that the Department still seeks a stronger role in the approval of bank combinations, and the new law must be tested in the courts before its ultimate effect can be determined.

It is doubtful if the highly regulated and supervised nature of banking justifies or requires the strict adherence to what the Department of Justice views as a satisfactory amount of competition. Banking from 1921 to 1934 was highly competitive in the sense that a large number of small unit banks in local markets characterized the banking structure of the United States. It is generally recognized, however, that the disastrous collapse of the banking structure in the early 1930's was partially a result of a large number of small banks which were poorly managed and, as a result, unable to withstand economic adversity.

The purpose in maintaining a competitive system is the economic efficiency which such a system is thought to provide. It is recognized, however, that in some cases efficiency is better maintained by limiting the number of participants in a particular market or industry. The keenest competition is found among equals, and thousands of small unit banks have been threats to no one in banking. To insist upon a large number of independent banks may indirectly limit competition and perpetuate inefficiency. Those who insist upon measuring competition in banking by the number and size of banks may, in fact, be encouraging inefficiency.

CHAPTER VI

SELECTED CASE STUDIES OF RECENT BANK CONSOLIDATIONS AND MERGERS IN OHIO

The purpose of this chapter is to provide a thorough analysis of the causes, methods, and effects of a select group of bank consolidations and mergers which took place in Ohio during the postwar period.

One of the primary shortcomings of studies and Congressional hearings concerned with bank concentration during the postwar period is the failure to consider bank consolidations and mergers from the standpoint of the individual banks and communities involved. Throughout the numerous Congressional hearings on bank concentration the various state and federal bank regulatory agencies have objected to subjecting the banking industry to the full force of the antitrust laws. They have objected on the grounds that the Department of Justice lacks sufficient familiarity with local banking conditions, bank management, and banking practice. The state and federal banking agencies, on the other hand, have been able to acquire an immense amount of knowledge regarding bank management and management practices and the way in which these practices differ in the numerous local and regional banking markets. This knowledge is a result of the bank examination and supervision activities in which these agencies are engaged. The agencies argue that this background and understanding of

banking gives them greater ability to assess the desirability of a proposed consolidation or merger.

Close examination of the local economic conditions, the structure of the banking market, the condition and management of the affected banks, and the methods of accomplishing a small number of carefully selected bank combinations provides a better understanding of the entire bank combination movement. This type of research can expose many facets of the bank combination movement which even the closest examination of the aggregate banking statistics can never reveal.

I. Methods Employed in Selecting the Case Studies

When the case method of research is used, the sample is more restricted than in other methods which might be employed. The other method, namely the questionnaire method, is not practical or useful, however, in attempting to conduct an examination in depth. As a result, the samples for the case studies must be chosen with care to assure that the samples which are finally used are highly representative.

In selecting the cases for this study several criteria were used. First, to assure that equal representation was given to the different types of banking markets in Ohio, combinations were selected which were representative of banks in a predominantly agricultural market, banks in an industrial area, and banks operating in a commercial or trade center.

Second, closely associated with the selection of combinations according to the banking market, an attempt was made to ensure geographical diversification. The samples were selected with a view toward providing equal representation to the various geographical sectors of the state.

Third, the various sizes of banks were also considered in selecting the sample. As a result, combinations were chosen which included large, medium, and small banks in Ohio.

Fourth, representation was provided for both state and nationally chartered banks.

Fifth, attention was directed toward the methods by which the combination might be accomplished. As a result, the sample included combinations which were achieved by consolidation, merger and purchase of assets.

Finally, to assure that the details of the combination had not been blurred with the passage of time, combinations which took place only after 1954 were considered. In addition, to assure that ample time had passed to allow for sound analysis of the effects of the combination, any combination which took place after 1958 was ruled out.

After selecting a total of 15 bank combinations which took place between 1955 and 1958, and which met the standards previously discussed, interviews were held with the Ohio Superintendent of Banks, the Supervising Examiner in the Fourth District of the Federal Deposit Insurance Corporation, the Vice President in charge

of the Examination Department of the Federal Reserve Bank of Cleveland, and the Executive Manager of the Ohio Bankers Association. The purpose of the interviews was to solicit criticism of the methods used in selecting the preliminary sample, and to enlist their aid in choosing the final sample from the 15 combinations in the preliminary group.

There were no objections to the methods used in selecting the preliminary sample by any of the individuals interviewed. All agreed that limiting the sample to combinations which took place after 1954 was an excellent idea, and they also approved of 1958 as a cutoff date in the selection. It was also noteworthy that all of the individuals interviewed were responsive to the idea of using the case study approach rather than circulating questionnaires among a large number of banks. They commented that the circulation of questionnaires has become so common a method of research that many of the bank officers who receive questionnaires either delegate the work to a subordinate who has little knowledge of the information that is desired, or the questionnaires are never returned.

The individuals interviewed were asked to select from the 15 combinations those banks which in their opinion were most representative and whose management would be willing to cooperate in a case study. Of the 15 combinations a total of five were immediately eliminated on the grounds that it was highly doubtful if the present bank management would lend its cooperation to such research. An additional five combinations were eliminated on the grounds that some

special circumstance which brought about the combination might render them less representative than the remaining five. Of the remaining five combinations two resulted from quite similar circumstances. It was finally agreed that three of the initial 15 samples would provide a sound case study of the postwar bank consolidation and merger movement in Ohio.

The Ohio Bankers Association generously offered to correspond with the three banks which were chosen to explain the purpose of the research and encourage their participation. All three banks agreed to cooperate in the study providing that the name of the banks and the communities in which the banks are located would not be disclosed in the study. In addition, the president of each bank agreed to participate in the study personally rather than assign another officer of the bank to the research.

Of the three banks involved in the study one is located in a predominantly agricultural area, a second is located in a heavy industrial area, and the third bank is located in a trade and manufacturing center. Each bank is situated in a different geographical sector of the state, and they represent small, medium, and large banking operations. Both state and national banks are represented in the study, and a different method of acquisition is represented in each of the three case studies.

In order to honor the agreement with the participating banks the names of the banks will not be disclosed and the resulting or acquiring bank in each of the case studies will be referred to as

Bank A and the absorbed bank as Bank B. In the case of the bank consolidation the two absorbed banks will be referred to as Bank B and Bank C and the resulting bank as Bank A.

II. Case Study #1

The first case study involves the combination in 1958 of two banks which were located in different communities in the same southwestern Ohio county. The absorbing bank, Bank A, is located in the largest community in the county which also serves as the county seat. The community has a population of approximately 9,000. The absorbed bank, Bank B, was located in a community of 1,000 inhabitants in the southwestern corner of the county approximately 15 miles from the county seat.

A. The Economic Base of the Banking Community

In 1958 the county in which the two banks were located had a population of approximately 32,000. The county covers 412 square miles and has a population density of 78 inhabitants per square mile, as compared to an Ohio population density of 237 inhabitants per square mile.

The primary economic activity in the county is agriculture. Approximately 90.1 per cent of the total land area of the county is devoted to farming, and in 1958 the county contained 1,462 farms. In 1950 the county ranked 14th among all Ohio counties in the total amount of cash receipts received from agricultural products; however, by 1959 the county ranked 23rd among all 88 Ohio counties.

The leading agricultural products of the county are livestock and dairy products. In 1958, 79.0 per cent of the total cash receipts from agricultural products received in the subject county resulted from the sale of hogs, cattle, and dairy products.

Industrial and commercial activities have increased since 1945. In 1950 the subject county had approximately 3,500 people employed in industrial and commercial activity, and by 1958 the number had increased to over 5,000. Manufacturing activity accounted for the largest number of employees in industrial and commercial activity. In 1958 nearly 2,300 individuals were employed in manufacturing firms, and approximately 1,400 people were employed in wholesale and retail businesses in the county.

The primary manufacturing activity is light manufacturing and metal working. The value added by manufacturing increased from \$4,329,000 in 1957, to \$14,732,000 in 1958. The number of retail establishments in operation remained relatively stable during the postwar period, and the value of retail sales increased from \$26,035,000 in 1947 to \$35,605,000 in 1958.

From 1950 to 1959, the total personal income in the county increased 90.0 per cent as compared to a 71.2 per cent increase for all of Ohio. Expressed on a per capita basis, the personal income of the subject county increased 53.6 per cent as compared to a 41.6 per cent increase for all of Ohio during the same period. As a result, however, of its predominantly agricultural economic base, the county throughout the postwar period had a lower per capita income

than the entire state. In 1959, the subject county had a per capita income of \$1,846 and the state of Ohio had a personal income per capita of \$2,328.

B. Competitive Position of Bank A and Bank B

In 1958, prior to the acquisition of Bank B, there were seven commercial banks operating in the county. The total was composed of four national banks and three state chartered banks. All of the banks were members of the Federal Deposit Insurance Corporation, but only five of the banks were members of the Federal Reserve System.

The banking resources in the county at that time totaled \$27,500,000. The national banks accounted for \$23,000,000 of the total, and the two largest banks held approximately 55 per cent of the total banking resources in the county. The two largest banks, both of which were national banks, were located in the county seat, and the remaining five banks were located in small towns throughout the county. The second largest bank in the county is an affiliate of the BancOhio Corporation.

During the same period there were four savings and loan associations in the county. The total resources of all of the savings and loan associations totaled approximately \$4,800,000, and the largest association had total resources of \$1,486,000. The two largest associations were located in the county seat. None of them operated under a federal charter or held membership in the Federal Savings and Loan Insurance Corporation.

In 1958 there were also four consumer loan offices in the county, and one credit union was in operation on a military base located in the county.

The banks located in the county also received a substantial amount of competition from large and aggressive financial institutions located in nearby metropolitan areas. The county seat is within 40 miles of two of Ohio's five largest metropolitan areas.

1. Bank A

Bank A is a national bank, and even before the combination it was the largest bank in the county. Table 35 presents the statement of condition for Bank A prior to the combination. At that time Bank A had total resources of \$9,439,000 which represented 34 per cent of the total banking resources in the county.

Bank A, prior to absorbing Bank B, did not operate any branch offices, nor did any other bank in the county. Bank A operated the only trust department in the county, although the second largest bank had access to the services of the trust department of The Ohio National Bank in Columbus. This cooperative arrangement had been worked out by the BancOhio Corporation.

The President of Bank A reported that the small loan offices provide substantial competition for automobile loans. Bank A established an installment loan department prior to World War II, and it had been active in granting loans for the purchase of consumer durables.

TABLE 35

Bank A
Statement of Condition
December 31, 1957

Assets

Cash and in banks	\$ 1,564,000
U. S. government securities	3,033,000
Other securities	875,000
Loans and discounts	3,640,000
Bank buildings, etc.	312,000
Other assets	<u>15,000</u>
Total assets	\$ 9,439,000

Liabilities and Net Worth

Deposits	\$ 8,471,000
Other liabilities	27,000
Capital stock	250,000
Surplus	300,000
Undivided profit and reserves	<u>391,000</u>
Total liabilities and net worth	\$ 9,439,000

The county seat contains a total of 18 manufacturing firms which are engaged primarily in metal working. Many of these organizations are small firms and rely primarily upon the local banks for short and intermediate-term capital. The President of Bank A reported, however, that in recent years some of the local manufacturing firms have been acquired by larger corporations which maintain their headquarters in nearby metropolitan areas, and they maintain all banking connections with one or more of the large metropolitan banks. This has resulted in a loss of business for the banks located in the county seat.

The primary business of Bank A, however, is meeting the demands for agricultural credit. The President of Bank A explained that the expanding size of farms and the new mechanical methods of farming have forced the farmers to make substantial increases in their capital investment in order to maintain an efficient operation. In an effort to gain a greater share of the agricultural credit market, Bank A added an agricultural specialist to its staff for the purpose of advising local farmers on new techniques, and at the same time to discuss their credit needs with them.

2. Bank B

Prior to the acquisition Bank B was the only bank in the small rural community which it served. It had been the only bank in the community since 1915. In addition, it was the only financial institution because the community had never been served by a savings and

loan association, small loan office, or any other type of financial institutions.

At the time of its acquisition Bank B was an insured non-member state bank, and it was the sixth largest of the seven banks operating in the county. Table 36 presents the statement of condition of Bank B prior to the combination.

The community which Bank B served is a small agricultural center, and all but a small portion of the loans which Bank B held at the time of its acquisition were agricultural loans. In addition, the community had two small locally-owned manufacturing firms and a few commercial enterprises such as grain elevators, a farm implement dealer, and the customary group of retailers that serve a farming community.

C. Reasons for the Combination

The board of directors of Bank B was composed of local farmers none of whom took an active part in the actual management of the bank. As a result, the cashier was placed in charge of the daily management of the bank, and he reported directly to the board of directors. In the year and a half that preceded the combination, the board of directors of Bank B had appointed a new cashier three times. The President of Bank A reported that each time a new cashier was appointed he would soon be offered a more attractive position with another bank as a result of his experience in managing Bank B. The inability to retain a permanent replacement in the cashier's

TABLE 36
 Bank B
 Statement of Condition
 December 31, 1957

Assets

Cash and due from banks	\$ 248,398
Bonds and other securities	703,810
Loans and discounts	580,170
Bank premises	2,100
Other assets	<u>3,038</u>
Total assets	\$ 1,537,546

Liabilities and Net Worth

Deposits	\$ 1,298,894
Other liabilities	142
Capital stock	60,000
Surplus	60,000
Undivided profits and reserves	<u>118,510</u>
Total liabilities and net worth	\$ 1,537,546

position was one of the primary reasons that the stockholders of Bank B elected to liquidate the operation.

Another reason for the combination was the fact that many of the stockholders were retired farmers living in the community or individuals who had inherited their shares and no longer resided in the community. Most of the stockholders no longer desired to retain ownership in the bank, but they found that no market existed for their shares. The opportunity to sell the assets to Bank A was an ideal solution to their problem.

In an interview with a former director of Bank B, he commented that many of the customers had requested that Bank B start offering new services, but the board of directors was reluctant to develop additional services for fear that the operating costs of the bank would be increased and a smaller profit would result. In the opinion of the former director and the President of Bank A, Bank B had been a profitable operation. They both reported that Bank B had shown an above average return on investment for a bank of its size. The board of directors had maintained a policy of paying a small but regular dividend.

The former director further stated that the entire board of directors, prior to the acquisition, began to realize that if additional services were not introduced the profit position of the bank would probably be adversely affected. As a result, the opportunity to sell the assets to Bank A and to allow the latter to operate the local bank as a branch office would provide the community

with the additional banking services it desired, and it would also permit the stockholders to receive a fair price for their shares.

From the standpoint of Bank A, the opportunity to acquire Bank B was also attractive. The President of Bank A stated that prior to the acquisition he had realized that if Bank A were to continue to offer additional banking services a larger banking market was needed to help absorb a portion of the fixed costs involved in the additional services.

The President of Bank A reasoned that if his banking market was to be increased, branch offices would have to be opened in the smaller communities throughout the county. He stated, however, that he was aware, as were the regulatory agencies which would have to pass on branch operations, that none of the smaller communities would support both a local unit bank and a branch office of his bank. His only choice, therefore, was to try to acquire the local banks in these communities and operate them as branches.

After studying the problems of Bank B, the President of Bank A came to the conclusion that Bank B had been managed too conservatively. He based his conclusion on the fact that Bank B's total loans outstanding represented only 38 per cent of its total assets, but at the same time requests for consumer loans, business loans, and residential real estate loans were being refused by the board of directors. He contended that by retaining the present business of Bank B, and in addition granting consumer, business, and residential

real estate loans, Bank B would prove to be a profitable branch office.

D. Method of Combination

The method of acquisition employed in this particular case was a purchase of assets. The management of Bank A in negotiating the acquisition with the shareholders of Bank B offered them a choice of two plans. The first plan called for a merger of Bank B into Bank A in which the stockholders of Bank B would exchange their shares for shares of stock in Bank A and B would then be dissolved. Under the second plan Bank B was to undergo voluntary liquidation, and Bank A would assume all the liabilities and acquire all the assets of Bank B. The net asset value would be paid to Bank B and then distributed to its stockholders.

The stockholders of Bank B, of which there were less than 50, elected to accept the second alternative. The president of Bank A commented that the board of directors of Bank A favored the second method since they wanted to avoid increasing the number of stockholders in Bank A. At the time of the acquisition there were approximately 75 stockholders in Bank A.

Bank A paid a small premium above the book value of Bank B stock. The net asset value of Bank B stock at the time of the acquisition was approximately \$240,000, and the President of Bank A stated that the stockholders of Bank B received \$250,000 in cash. According to the President of Bank A, the premium resulted after a

portion of the investment portfolio of Bank B had been valued upward from original cost to present market value.

E. Changes in Banking Practice and Competition
Which Resulted from the Combination

The only basic change in the structure of the county banking system resulting from the acquisition was the fact that there was one less independent bank, but the same number of banking offices remained in operation. Another change resulted from the fact that after the acquisition, Bank A controlled 40 per cent rather than 34 per cent of the total banking resources in the county.

After acquiring Bank B, the management of Bank A decided to retain the entire board of directors of Bank B as an advisory board which meets once each month to advise the management of Bank A on loan applications received by the branch office, real estate values, and the banking needs of the local community. The President of Bank A reported that the retention of the board of directors as an advisory group made the transition from a locally-owned bank to a branch office much easier and less objectionable to the local community.

In addition to the liberalization of the loan policy the management of Bank A made other changes in the operations of the branch office. One of the first changes introduced was a complete remodeling of the branch office and the addition of several pieces of bookkeeping equipment. A branch manager was appointed from the

staff of Bank A, and as a part of his responsibility he began a vigorous campaign of promoting the services of the branch office in the local community.

The writer visited the community where the branch bank is located for the purpose of interviewing local residents. In general, the people in the community seemed to be pleased with the change in banking practice.

The first person interviewed was the owner of an appliance and hardware store. In response to a question concerning his opinion of the change from a local bank to a branch bank he replied that his business had increased as a result of the change. He explained that his appliance sales had increased significantly as a result of the local residents being able to secure installment loans from a local banking office. Prior to the acquisition many of the local residents purchased appliances at the county seat where they could obtain installment loans from one of the banks or from a consumer loan office located there.

The local farm implement dealer expressed satisfaction with the change. He commented that the maximum amount that he could borrow from Bank B was \$4,000, but when the branch office opened the new management increased his line of credit to \$12,000 without his even requesting the increase.

The owner of a small metal working shop stated that he favored the change because he also could borrow larger amounts from the branch bank that he formerly could from Bank B. He pointed out,

however, that many of the local farmers had expressed dissatisfaction with the change. He explained that when Bank B was in operation the board of directors was composed of farmers, and a loan application from a local farmer was approved with little question. Since the conversion of Bank B to a branch office, however, the farmers making application for a loan are asked to provide more information concerning their operation. A grain elevator operator explained that many of the farmers view this change in policy as an attempt to interfere in their personal affairs. When asked if he agreed with the farmers he replied that he did not, and that with the passage of time he thought the farmers would accept the change as a part of necessary bank management.

A receptionist in a small manufacturing plant stated that as a result of being able to finance the purchase of her new car through the local banking office she had transferred her checking and savings account from the competing bank in the county seat to the branch office of Bank A.

The owner of a men's clothing store commented that the remodeling of the banking office had improved the appearance of the business district. In his opinion the branch office was of much greater service to the entire community than the former bank had been.

III. Case Study #2

The second case study considers a consolidation which took place between two medium-sized banks in 1955. The banks involved in

the consolidation, Bank B and Bank C, were both located in a community of approximately 40,000 inhabitants in an eastern Ohio county. In addition to being the largest community in the county it also serves as the county seat.

A. The Economic Base of the Banking Community

The county in which the two banks were located serves as the major distribution and industrial center of the Upper Ohio River Valley. In 1959 the county had a population of 100,501. The county covers 411 square miles, and it has a population density of 245 inhabitants per square mile which is slightly in excess of the average population density of Ohio.

The primary economic activity in the county is manufacturing and mining. Manufacturing activity centers around steel and chemical production. In 1958 the county ranked 15th among the 88 Ohio counties in total value added by manufacturing. In that year the value added by manufacturing in the county was \$118,088,000 as compared to \$53,652,000 in 1947. Of the 19,091 people employed in industrial or commercial activity in the county in 1958, approximately 50 per cent were employed in manufacturing firms.

Because of the low cost transportation facilities provided by the Ohio River, the abundance of natural resources, and other economic reasons, scores of new industrial plants have been built in and around the county during the postwar period.

In 1958 the county ranked third among all Ohio counties in the number of tons of bituminous coal produced. The value of the coal produced in 1958 was \$12,841,345 as compared to \$18,437,616 in 1950. The importance of coal production in the county has been declining since the end of World War II. In 1950 there were 2,558 people employed in mining, and by 1958 this number had declined to 1,010. The payroll resulting from mining activity in the county in 1950 totaled \$9,056,000 as compared to \$4,739,000 in 1958. In addition, surface mining accounted for nearly 70 per cent of the coal produced in 1958 as compared to approximately 50 per cent in 1950.

From 1947 to 1958 the total sales of retail establishments in the county increased from \$78,906,000 to \$113,782,000, and the total sales of services increased from \$6,680,000 to \$8,057,000 during the same period.

The county is of minor importance from the standpoint of agricultural production, and agricultural activity has continued to decline throughout the postwar period. Between 1954 and 1959 the proportion of all land in the county devoted to agricultural production declined from 53.7 to 43.6 per cent of the total land area. During the same period the number of farms in operation was reduced from 1,273 to 871. One of the major factors in the reduction of agricultural activity is the increased amount of land being consumed in "stripmining."

Due to the importance of steel, chemical, and coal production in the region it has often been referred to as the "Ruhr Valley of

the United States"; however, the economic base of the county also provides some rather serious economic problems. During periods of economic recession it is one of the earliest and hardest hit areas of unemployment. In addition, the coal industry has provided an unemployment problem throughout most of the postwar period. From 1950 to 1959 the total personal income of the county increased by 51.5 per cent while total personal income in Ohio increased 71.2 per cent. The personal income per capita in the county, however, placed 15th among all Ohio counties in 1959. In that year the per capita personal income in the subject county was \$2,158, and the per capita personal income in Ohio was \$2,289.

B. Competitive Position of Bank B and Bank C

In 1955, prior to the consolidation of the two banks, there were 13 commercial banks and 15 banking offices in the county. The banks were composed of five national banks and eight state chartered banks. All 13 banks were members of the Federal Deposit Insurance Corporation, but only the five national banks held membership in the Federal Reserve System.

The resources of the 13 banks in 1955 totaled approximately \$98,000,000, and the total was evenly divided between the national and the state banks. The largest bank, a state bank, accounted for \$25,828,191 of the total. The four largest banks in the county were composed of two national banks and two state banks, and together they controlled 83 per cent of all the bank assets in the county. All

four of the banks were located in the county seat, and two of the banks operated one branch office each.

In the same year there were four savings and loan associations in operation in the county. The aggregate resources of the four associations approximated \$19,500,000, and the largest of the four accounted for \$8,700,000 of the total. None of the associations operated under a federal charter, and only one was a member of the Federal Savings and Loan Insurance Corporation. Three of the four associations were located in the county seat, and none of them operated branch offices.

There was only one credit union in the county in 1955, but there were numerous consumer loan offices in operation.

In addition to the intracounty competition, the subject banks also received a substantial amount of competition from banks located in Pittsburgh, Pennsylvania, and Wheeling, West Virginia.

1. Bank B

Bank B was a national bank and the second largest bank in the county. At the time of consolidation Bank B had total assets of \$25,575,099. Table 37 presents the statement of condition of Bank B prior to the consolidation. At that time Bank B controlled approximately 25 per cent of the total bank resources in the county.

Bank B did not operate any branch offices, and the majority of its business consisted of business loans and accounts. The trust department of Bank B was the most active and successful in the county.

TABLE 37
Bank B
Statement of Condition
October 5, 1955

Assets

Cash and in banks	\$ 4,214,190
United States government securities	11,032,866
Other securities	1,762,371
Loans and discounts	7,977,417
Bank premises	407,377
Other assets	<u>180,878</u>
Total assets	\$ 25,575,099

Liabilities and Net Worth

Deposits	\$ 23,771,920
Other liabilities	114,979
Capital stock	500,000
Surplus	800,000
Undivided profits	282,247
Reserves	<u>105,953</u>
Total liabilities and net worth	\$ 25,575,099

2. Bank C

Bank C was also a national bank and the third largest bank in the county. At the time of consolidation Bank C had assets totaling \$14,923,537. Table 38 presents the last statement of condition of Bank C prior to the consolidation.

The primary business of Bank C was business loans; however, shortly before the consolidation the management of Bank C became interested in gaining a greater share of the retail banking market, and a branch office of Bank C was opened in a small residential community near the county seat.

According to the President of Bank A, the bank resulting from the consolidation, the earnings of both Bank B and Bank C had been satisfactory, and they both earned an above average return on investment.

C. Reasons for the Combination

The President of Bank A reported that the consolidation of Bank B and Bank C had been under consideration by the management of both institutions for at least five years prior to its completion. In 1953 the consolidation was almost completed when a disagreement arose concerning who would act as the President of the resulting bank, and a reconciliation was not reached until 1955.

The primary reason for the consolidation was the need for a larger bank in the community to meet the growing demand for short and intermediate-term loans by commercial, manufacturing, and mining

TABLE 38

Bank C

Statement of Condition

October 5, 1955

Assets

Cash and in banks	\$ 2,521,516
United States government securities	5,153,360
Other securities	2,011,500
Loans and discounts	4,904,094
Bank premises	333,067
Other assets	-
	<hr/>
Total assets	\$ 14,923,537

Liabilities and Net Worth

Deposits	\$ 13,663,317
Other liabilities	124,235
Capital stock	500,000
Surplus	500,000
Undivided profits	135,985
Reserves	-
	<hr/>
Total liabilities and net worth	\$ 14,923,537

enterprises located in and around the county. As a result of the rapid economic growth of the Upper Ohio River Valley during the postwar period many of the local business firms required larger lines of commercial bank credit. The local banks, however, had not expanded as rapidly as the businesses which they served, and they were encountering increased difficulty in meeting the business credit needs as a result of the federal and state law which prohibits making loans to any one person or corporation in an amount exceeding 10 per cent of capital and surplus of the bank.

Because of this restriction many local borrowers were being forced to seek the loan services of larger banks in Pittsburgh and Wheeling. The Pittsburgh and Wheeling banks required that compensating balances be maintained by the borrowers, and this in turn resulted in not only a loss of the loan business but also a loss of deposits for the subject banks.

The President of Bank A commented that prior to the consolidation, Bank B and Bank C had cooperated in making business loans that were too large for either bank to make independently, but he stated that this system was unsatisfactory from the standpoint of where the compensating balances would be maintained. He also pointed out that many business firms avoided this type of lending since they preferred to deal with only one bank.

Another factor which favored the consolidation was the difference in the management of the two banks. The President of Bank B had been an employee of the bank since 1905, and he directed the operation of

his bank with little assistance. He had made no provision for successor management, and he was reluctant to delegate any of his responsibility so that his subordinates could acquire the experience needed to operate the bank. The President of Bank C, on the other hand, was a retired industrialist who knew little about banking, and he was dependent upon his subordinates for the management of the bank. As a result, Bank C was well prepared with successor management. By combining the two banks the resulting bank was directed by a capable president with a well-trained staff. Upon consolidation, the President of Bank B became the President of the resulting bank, and two years later he retired from that post. His successor was formerly the Executive Vice President of Bank C.

A third factor which prompted the consolidation was the location of the two banks. Prior to the consolidation the two banks had been located directly across the street from each other. Bank C was unable to acquire property for expansion, and the management faced the prospect of having to relocate and construct a new building. The management of both banks realized that a combination of the two banks would result in a substantial reduction in operating costs and the opportunity to avoid an unnecessary duplication of facilities. After the consolidation was carried out, the resulting bank was located in the 12-story building which formerly housed Bank B, and the building which Bank C had occupied was sold. The branch office which Bank C had operated was maintained and operated as a branch office of Bank A.

The President of Bank A commented that a further consideration in the consolidation was the fact that the management of both banks realized that additional capital would have to be raised regardless of whether or not the consolidation was carried out. They reasoned, however, that it would be more efficient to allow one larger bank to raise the capital than for the two banks to attempt independently to sell additional stock.

In 1957, two years after the consolidation, Bank A decided to issue an additional 37,500 shares of common stock through a privileged subscription. The Ohio Company, an investment banking firm, agreed to underwrite the issue on a standby agreement. In an interview with members of the Statistics Department of The Ohio Company it was learned that 26,959 shares were subscribed. Of the 13,541 shares which The Ohio Company acquired, a total of 5,150 shares were acquired during the subscription period. As a result of the sale of additional stock, the number of stockholders in Bank A increased from approximately 200 in 1957, to over 500 in 1959. The President of Bank A expressed the opinion that the increased number of stockholders improved the marketability of the bank's stock and the prospects for raising additional capital in the future. He also commented that neither of the absorbed banks could have afforded the services of The Ohio Company, and in his opinion the investment banking firm had been a major factor in the successful sale of the stock.

D. Method of Combination

Under the agreement between the two absorbed banks a new corporation was formed under the national banking charter of Bank B. The reason for retaining the charter of Bank B rather than Bank C was the fact that the charter of Bank B was originally granted in 1865 one year after the National Banking Act was passed by Congress, and it is one of the oldest national bank charters in Ohio.

All of the assets and liabilities of the absorbed banks were then transferred to Bank A. Bank B contributed 59.92 per cent of the aggregate fair value of the net assets of Bank A, and Bank C contributed 40.08 per cent.

The amount of capital stock of the new bank was \$1,000,000, and it was divided into 100,000 shares with a par value of \$10.00 a share. The stockholders of Bank B received 60,000 shares of Bank A in exchange for all of the stock of Bank B, and the stockholders of Bank C received 40,000 shares in exchange for all the stock of Bank C.

The President of Bank A stated that the consolidation method was employed in order to overcome possible objections from stockholders or employees. He commented that the boards of directors of both banks were of the opinion that if each bank were treated as an equal in the combination, rather than to allow one bank to absorb the other and continue operation under its former name, it would prevent ill feeling on the part of the stockholders, employees, and customers. In discussing the success of the consolidation the President of Bank A pointed out that not one dissenting vote was cast

by the stockholders of either bank, all employees of both banks were retained in the new bank, all members of the board of directors of both banks were appointed as members of the board of directors of Bank A, and only a few customers were lost as a result of the consolidation.

E. Changes in Banking Competition and
Practice Resulting from
the Consolidation

On December 10, 1955 the two banks were consolidated, and on December 31, 1955 the resulting bank held assets totaling \$40,200,170. As a result of the consolidation Bank A became the largest bank in the county, and at the end of 1955 it controlled approximately 40 per cent of the total bank resources in the county.

In the four years which followed the consolidation, Bank A acquired four of the small state banks in the county through either merger or purchase of assets. All of these banks were located in small communities, and Bank A continued to operate them as branch offices. By the end of 1959, Bank A was operating a total of six banking offices, and it controlled 46 per cent of the total banking assets in the county.

When asked what advantages accrued from the consolidation, the President of Bank A replied that in his opinion it is the responsibility of management to see that the bank is operated in a manner that assures that adequate banking services are provided the public. He stated that the consolidation from which his bank resulted and the

mergers and purchase of assets in which his bank had been involved since that time were the means of providing the banking services which the banks in the county had theretofore been unable or unwilling to provide.

The consolidation also brought advantages to the operation of the resulting bank. The President of Bank A pointed out that the investment portfolio of the bank is now large enough that the services of an investment counselor are utilized, and the result has been a more profitably managed portfolio.

The larger size of the resulting bank has also made it possible to provide formal training for many of the bank employees. Trust officers of the bank are occasionally sent to New York City to attend a training program for trust officers sponsored by the Chase Manhattan Bank of New York. Employees in the loan department are sent to Cleveland to attend a course for loan officers sponsored by the Central National Bank of Cleveland. In addition, employees are encouraged to attend the banking schools sponsored by the American Institute of Banking and the Ohio Bankers Association. Bank A also has formal training programs for employees in the trust department, loan department, accounting department, and the savings department. The President commented that Bank A is the only bank in the county large enough to be able to support this type of employee training.

In addition to employee training, the bank has encountered less difficulty attracting and retaining personnel as a result of a higher salary scale introduced soon after the consolidation, and an

employee pension plan in which all contributions are made by the bank. Bank A is the only bank in the county which provides a pension plan for employees.

Bank A has been able to recover much of the business which was lost to Pittsburgh and Wheeling banks. An owner of a manufacturing firm reported that as a result of his being able to acquire the loans he needed from Bank A, his average balance in Bank A had increased from between \$10,000 and \$20,000 to over \$100,000. Previously his firm borrowed from a bank in Pittsburgh which insisted that the firm maintain large compensating balances.

An automobile dealer commented that with the establishment of Bank A it became possible for the local automobile dealers to finance a large inventory of new cars through a local bank. Previous to the formation of Bank A he had used a sales finance organization, and the local banks loaned to the sales finance organization at a much lower rate than the automobile dealer received. He commented that with the formation of Bank A the sales finance organization was no longer used, and as a result both he and the bank were doing a "little better" on rates.

An official of the Chamber of Commerce stated that with the formation of Bank A the local banking structure became more competitive. He pointed out that Bank A had adopted a policy of establishing branch offices throughout the county, the first bank in the county to provide a drive-in window for its customers, and the first to actively promote the services of the bank to the public. He expressed

the opinion that as a result of the competition a combination of the second and third largest bank in the county might take place. He admitted that there was little, if any, price competition among the banks, but he argued that there was a substantial amount of competition in banking services. He concluded the interview by stating that the majority of bank customers in the county had desired better banking service, and that the bank consolidation had provided the means whereby these services could be made available.

IV. Case Study #3

The third and last case study considers a merger which occurred between a large bank and a medium-sized bank in 1958. Both banks were located in the same metropolitan area in central Ohio.

A. The Economic Base of the Banking Community

The metropolitan area in which the two banks operated encompasses a substantial portion of the county in which it is located. In 1958 the county had a population of approximately 650,000, and it covered 538 square miles. It had a population density of 1,298 inhabitants per square mile as compared to 237 per square mile for the entire state. In addition, the population of the county had increased by 34.7 per cent between 1950 and 1959 as compared to a 21.4 per cent increase for all of Ohio.

The metropolitan area serves as the major trade and distribution center for central Ohio. In addition, the county has benefitted

from extensive increases in manufacturing activity during the postwar period. Manufacturing activity centers around metal processing and fabricating, shoe and textile production, manufacture of wood and paper products, and a limited amount of chemical production. A number of branch plants of national organizations have been established in the county since the end of World War II. The increase in manufacturing activity can be attributed primarily to geographical location.

The community is an excellent distributing point for both consumer and industrial markets throughout the north central section of the United States. The community also offers accessibility to industrial raw materials, and it provides adequate transportation facilities. For many commodities the county has become a manufacturing in-transit point. Steel and other metallic raw materials move from the production centers in Cleveland and Pittsburgh into the community for further processing and fabrication. The fabricated parts are then shipped to the assembly centers in Indiana and Michigan. The establishment of the branch plants of national organizations has also stimulated the formation of smaller manufacturing firms that provide subcontracting services. In 1959 approximately 181,000 people were employed in industrial and commercial activity in the county, and of that total 70,000 were engaged in manufacturing. The county ranked fourth among all Ohio counties in 1958 in the value added by manufacturing. Between 1947 and 1958 the total value

added by manufacturing in the county increased from \$277,964,000 to \$613,870,000.

Approximately 30 per cent of the industrial and commercial employment in the county is provided by retail and wholesale establishments. Proof of the county's importance as a trade center is the fact that in 1958 the subject county ranked third among all Ohio counties in total sales by retail establishments. In that year the total sales of retailing establishments were \$852,633,000. In addition, the sale and distribution of services plays an important part in the economy of the community. In 1958 the county had 3,639 service establishments with total sales of \$132,383,000 as compared to 2,991 service establishments in 1954 with total sales of \$88,281,000.

Agricultural activity is of some importance in the county, and in 1959, \$14,556,000 in cash receipts were earned from agricultural production. The proportion of total land area devoted to agricultural production, however, declined from 63.2 per cent in 1954, to 57.8 per cent in 1959.

In addition, a substantial amount of employment and income is derived from the operation of various state and federal government agencies located within the county.

As a result of the diversification in its economic base, the economic recessions which have created serious social and economic problems in other Ohio communities have not seriously affected the subject county. From 1950 to 1959, the estimated personal income in the county increased by 89.4 per cent as compared to a 71.2 per cent

increase in all of Ohio. Due to the rapid increase in the population of the county, however, the per capita personal income advanced at the same rate as the balance of the state. In 1959 the per capita personal income in the county was \$2,523 as compared to \$2,289 for the entire state.

B. Competitive Position of Bank A and Bank B

In 1958, prior to the merger of the subject banks, there was a total of 16 commercial banks operating in the county. The banks were composed of four national banks, and 12 state chartered banks. All 16 of the banks were members of the Federal Deposit Insurance Corporation, and the four national banks and one state bank held membership in the Federal Reserve System. A total of nine of the 16 banks were operated within the metropolitan area, and seven of the banks operated a total of 28 branch offices throughout the county.

The resources of the 16 banks in 1958 totaled approximately \$853,000,000, and of that total the four national banks accounted for \$732,000,000. The three largest banks in the county were all national banks, and together they controlled approximately 84 per cent of the total resources in the county. In addition, two of the three largest banks controlled 22 of the 27 branch offices in the county in 1958. The largest of the 16 banks held assets which totaled \$414,000,000, and it operated 18 branch offices.

The savings and loan associations in the county are very aggressive competitors for the banks. In 1958 there were a total of

21 savings and loan associations in operation in the county, and the aggregate assets of the associations totaled \$400,000,000. Eleven of the savings and loan associations operated under a federal charter, and all but one of the 21 associations belonged to the Federal Savings and Loan Insurance Corporation. There were also 15 branch offices of savings and loan associations in operation within the county. The largest association was a federal chartered institution, and it held total resources of approximately \$70,000,000 in 1958.

At the end of 1957 there were 72 credit unions and approximately 70 consumer loan offices operating in the county.

1. Bank A

Bank A is a national bank and the second largest bank in the county. In addition, it is one of the 15 largest banks in Ohio. At the time of the merger Bank A held assets totaling \$176,700,373. Table 39 presents the statement of condition for Bank A prior to the merger. In 1958 Bank A controlled nearly 24 per cent of the total bank assets in the county.

Prior to the merger Bank A did not operate any branch offices. The primary business of the bank consisted of business loans and accounts. Previous to the merger the management had shown a mild interest in developing a retail banking business, but little had been done to promote and develop this aspect of the banking business. Bank A was also active in developing correspondent banking relationships.

TABLE 39

Bank A

Statement of Condition

March 4, 1958

Assets

Cash and in banks	\$ 58,268,871
United States government securities	45,168,591
Other securities	11,664,132
Loans and discounts	57,690,328
Bank premises	3,035,378
Other assets	873,073
	<hr/>
Total assets	\$ 176,700,373

Liabilities and Net Worth

Deposits	\$ 158,528,286
Other liabilities	3,266,298
Capital Stock	6,000,000
Surplus	7,000,000
Undivided profits	1,905,789
Reserves	-
	<hr/>
Total liabilities and net worth	\$ 176,700,373

2. Bank B

Bank B was a state chartered nonmember bank, and the fourth largest bank in the county. Table 40 presents the last statement of condition for Bank B prior to the merger. At that time Bank B had total assets of \$32,113,098, and it controlled 4.3 per cent of the total bank resources in the county.

Bank B was also without any branch offices, and the primary business of the bank was providing local businesses with short and intermediate-term credit. The bank had developed sound customer relationships with many retail and wholesale business firms. Bank B also had a large number of personal deposits, but it offered few retail banking services.

C. Reasons for the Combination

The President of Bank A stated that although Bank A had remained the second largest bank in the county throughout the postwar period, the proportion of the banking market which it controlled had declined during the same period. In 1945 Bank A controlled nearly 30 per cent of all the bank assets in the county, but by 1958 it held less than 24 per cent of the total. The largest bank in the county, and the chief competitor of Bank A, had increased its share of the total bank resources in the county from approximately 40 to 48 per cent during the same period.

Between 1945 and 1958 Bank A did not open any branch offices or combine with any other banks. The largest bank, however, opened

TABLE 40
Bank B
Statement of Condition
March 4, 1958

Assets

Cash and in banks	\$ 3,953,714
United States government securities	15,766,881
Other securities	4,400,076
Loans and discounts	7,975,214
Bank premises	1
Other assets	<u>17,212</u>
Total assets	\$ 32,113,098

Liabilities and Net Worth

Deposits	\$ 29,508,619
Other liabilities	955,077
Capital stock	600,000
Surplus	600,000
Undivided profits	349,402
Reserves	<u>100,000</u>
Total liabilities and net worth	\$ 32,113,098

seven branch offices and absorbed two other state banks during the same period. In addition, the third largest bank in the county opened four branch offices during the postwar period.

It was the opinion of the management of Bank A at the time of the merger that the reason for the success of the county's largest bank in capturing a greater share of the banking market was its retail banking practice which was promoted through its branch offices. Until 1950 Bank A would not make residential real estate loans, and it was even later in the postwar period before a policy of making consumer loans was adopted.

Much of the conservatism in the operating policies of Bank A resulted from the fact that the management of the bank remained under the control of men who viewed the role of a commercial bank as serving the credit needs of business and little else. Later in the postwar period, however, the management of the bank began to change as a result of death and retirement. The new management began to realize that if Bank A were to maintain its position in the banking market and attempt to recover that part which had already been lost, the former policy of limiting retail banking would have to be reversed. They reasoned that the soundest method of acquiring branch offices was to combine with smaller banks in the community in order to gain the advantage of established customer relationships and existing deposits.

Bank B was located in a section of the metropolitan area that had formerly been ideally suited for a bank serving commercial

enterprises, but due to shifts in the location of the commercial section of the city, and the movement of businesses and banking offices to suburban shopping centers, Bank B lost much of its advantage. In addition, the bank was located on the edge of a "blum area," and plans had been made for reclamation of the area. There were tentative plans to convert the area into a combination of low cost housing and government offices. Fortunately, the reclamation plans did not include the building in which the bank was located, and Bank B had signed a 99-year lease for the building in 1921 which carried a very reasonable annual lease payment.

The management of Bank B realized that if the reclamation plans were carried out its location would possibly be of much greater value as a branch office than as a unit bank. With the increase in office employees and residents which the reclamation would bring near the bank, the personal deposits would increase rapidly, and the opportunity to make consumer loans would be enhanced. At that time Bank B did not make consumer loans, and the addition of a consumer loan department would have required an expansion in physical facilities. The balance of the building in which Bank B was located had been subleased to a state government agency, therefore, any expansion which Bank B might have undertaken would have been in another location.

The ownership of Bank B was closely held, and the largest stockholder served as the President of the bank. He was a young man who had numerous business investments, and many of these interested him more than banking. He was not willing, however, to become an

absentee owner of the bank. It was his desire to exchange his ownership in Bank B for shares in a larger bank which offered greater marketability, and a bank which had greater diversification in its operation.

The reputation and background of Bank A and Bank B were quite similar. Both banks had been formed in the latter part of the 19th century by families who were still active in the management of the banks. Both banks had derived their business from serving industrial and commercial enterprises in the region. The similarity between the two banks served as a further stimulus to merge.

The President of Bank A stated that at the time the merger was being considered, the management of Bank A viewed the acquisition of Bank B as an excellent opportunity to initiate a policy of branch banking. The fact that Bank B was an established bank with existing deposits and an experienced staff provided Bank A with the opportunity of acquiring its first branch office with a minimum of organization and personnel problems. In addition, the acquisition of Bank B would permit Bank A to acquire a branch office without investing in additional property since Bank B leased rather than owned the building in which it was located. The additional space which was needed to open a consumer loan operation could be provided by combining many of the activities of Bank B with similar activities in Bank A and thereby creating additional space in the present Bank B location.

The President of Bank A stated that even if the reclamation plans should not materialize, Bank B had been a profitable operation

previous to the merger, and there was no reason to believe that this could not be continued and even improved upon through the reduction of operating costs resulting from the merger. He pointed out that one of the strongest assets of Bank B had been an excellent personal relationship with its customers.

D. Method of Combination

The method of combination employed in this case was a merger. According to the agreement between the two banks, Bank B was absorbed into Bank A.

This method of combination was chosen for two reasons. First, Bank A was a large and well-known bank throughout Ohio; therefore, it was logical that the name and charter of Bank A would be retained. Second, the major stockholder of Bank B desired to avoid paying any capital gains tax that might have resulted from a purchase of assets. He also desired to hold shares in a larger bank as was previously mentioned.

In exchange for 60,000 shares of common stock of Bank A, the shareholders of Bank B surrendered 60,000 shares of stock of Bank B. The aggregate book value of the shares which the stockholders of Bank B surrendered was \$1,649,402, but the aggregate estimated fair value of the shares was \$3,464,684. The difference between book value and fair value of the shares resulted from a revaluation of assets. The President of Bank A reported, however, that none of the Bank B stockholders insisted upon a cash payment for their shares. The

board of directors of Bank A after the merger consisted of 16 members which were composed of the 14 members of Bank A prior to the merger, and two members of the board of directors of Bank B.

E. Changes in Banking Competition and
Practice Resulting from
the Merger

On June 2, 1958 the merger between the two banks became effective. The only change in the local banking structure which resulted from the merger was the elimination of one bank. Bank A remained the second largest bank in the county, and at the end of 1958, Bank A had increased its market share from 24 per cent to 28 per cent of the total banking assets in the county.

The acquisition of Bank B was the first branch office for Bank A, but by the end of 1960 Bank A was operating a total of three branch offices in the metropolitan area. The other two branch offices were de novo branches which had been established in sections of the city which had previously provided substantial business for Bank A, or were not being adequately served by a branch of a competing bank. In addition, the Comptroller of the Currency had approved an application for a fourth branch office of Bank A which they expected to have in operation by the middle of 1961. This office will also be a de novo branch.

In discussing the merger with the President of Bank A he commented that the merger had produced two major changes in the operation of his bank. First, Bank A had become a much more serious

competitor for the largest bank in the county and this improved the local banking structure and had been of benefit to the public. Second, it was his opinion that the operation of Bank A was better diversified than it had been previous to the merger. The introduction of the branches permitted Bank A to engage more extensively in retail banking. As a result, a greater proportion of the total deposits are personal deposits, and a larger proportion of the total loans are consumer and residential real estate loans. By dividing the business of the bank between wholesale and retail banking the deposits and loans of the bank are much more stable and affected much less by cyclical changes in the economy.

The President pointed out that the management of Bank A had encountered one major disadvantage and one major advantage in being the last large bank in the community to establish branch offices. The major disadvantage they had encountered was the fact that many of the choice locations for a branch office had already been acquired by the other banks and the savings and loan associations in the community. The primary advantage gained in being late to enter branch banking was the fact that they were able to benefit from the mistakes that other banks had made in establishing their branch offices. As an example, a vice president of Bank A is placed in charge of each branch office. Instead of appointing a branch manager who has limited authority and must refer much of his business to the main office, Bank A permits the vice president in charge of each branch to operate nearly a full service bank, and if a customer

requests a service which the branch ordinarily does not handle, a specialist from the main office is sent to the branch office rather than sending the customer to the main office. The President of Bank A stated that as a result of this policy they have been able to attract many customers away from branch offices of other banks. He pointed out that this policy had special appeal for businessmen operating in the suburbs who want to carry on all banking transactions at the branch office.

A number of interviews with businessmen and individuals connected with the banking industry were held in order to solicit their opinions concerning the advantages and disadvantages which had resulted from the subject merger. The opinions expressed by these individuals were quite similar. They all expressed pleasure over the fact that Bank A was becoming a stronger competitor for the largest bank in the community. Many pointed out that all three of the largest banks in the county are competing aggressively, and the public is the beneficiary of the competition. In addition, many referred to the aggressive management which the savings and loan associations are providing.

A few commented that Bank B could have continued as an independent bank had the management of the bank been willing to establish branch offices and offer a broader line of banking services. They added, however, that the branch office of Bank A offered more services than Bank B had offered its customers.

Nearly all of those interviewed emphasized that prior to the merger, Bank A had been unresponsive to the banking needs of the public. Many were of the opinion that with the establishment of branch offices and a broader line of banking services that Bank A could more than recover the share of the banking market which it lost during the postwar period. In general, all of those interviewed seemed to agree that the merger had improved the banking structure rather than damaged it.

V. Summary

In each of the bank combinations previously examined the economic base of the banking community, location of the affected banks, size of the banks, means of accomplishing the combination, and the basic causes of the combination differed. There were, however, definite similarities between the three cases, and an analysis of those similarities provides a better understanding of the bank combination movement.

In each of the cases an analysis of the causes of the combination reveals that there were basic economic changes in the community and the banking market which created a need for the combination. In each of the cases the demand for additional banking services played a role in bringing about the combination. In one case the rapid growth and expansion of industrial and commercial enterprises resulted in a need for a larger bank in the community which was finally provided by a consolidation. In each of the cases discussed

the desire to compete more vigorously with other banks and financial institutions served as an influencing factor. In two of the cases the failure to train or attract successor management played an important part in the desire to combine with another bank. In two of the three cases the opportunity to operate on a larger scale and thereby reduce the operating costs served as an inducement to combine.

In not one of the cases was there any evidence that the combination had been undertaken in an effort to secure a monopolistic position in the banking market, or to force a competitor out of the market. Nor was there any evidence in any of the cases that the combinations had been undertaken in order to gain an objective that would be disadvantageous to the general public. In short, none of the insidious purposes so often assigned to postwar bank consolidations and mergers by those testifying before Congressional committees was found as a motivating factor in the three combinations which were studied. Furthermore, the purposes behind postwar bank combinations in Ohio are no different than the objectives of bank combinations in other parts of the United States. This has been verified through a comparison of this study with similar studies in other parts of the country.

In addition, interviews held with citizens of the communities in which the combinations took place revealed that the combinations had improved the banking structure. The majority of those interviewed measured the strengths and weaknesses of their respective banking

structure by the desirability of the services which the local banks made available. In each of the cases nearly all of the individuals interviewed placed particular emphasis upon the additional banking services and the improved quality of banking services that resulted from the combination. In general, the majority of those interviewed were of the opinion that the bank combinations in their respective communities had provided a superior banking structure.

It is granted that the three bank combinations analyzed in this study do not provide a sufficient sample upon which to base conclusions concerning the entire postwar bank combination movement in the United States. The study does reveal, however, that many of the conclusions reached by Congressional committees concerning the causes and effects of bank combinations have been erroneous. The error results from the failure to give adequate attention to the specific banks and communities involved in consolidations and mergers.

For this reason the objections of the federal bank regulatory agencies to subjecting the banking industry to the antitrust laws and the regulation of the Department of Justice seem valid. A knowledge of the differences in bank management and banking practices in the numerous local and regional banking markets does seem a necessary prerequisite for the agency or agencies assigned with the responsibility of approving applications for bank consolidations and mergers.

CHAPTER VII

SUMMARY AND CONCLUSIONS

This dissertation is devoted to an analysis and evaluation of concentration in banking in Ohio from 1945 to 1959, and within its scope there are six objectives. The first of these is to determine and evaluate the changes in the structure of banking in Ohio between 1945 and 1959, and to focus special attention on those changes which have affected competition. Second, the study measures and analyzes the proportion of total bank resources held by the large metropolitan banks in Ohio during the postwar period. The third objective of the dissertation is to evaluate the nature of competition among banks and between banks and nonbank financial institutions in Ohio. Fourth, it provides an examination of the pattern of growth of branch banks and group banking, and evaluates the primary causes of their growth during the subject period. Fifth, the study considers the effect of bank consolidations and mergers on bank competition and concentration in Ohio during the postwar period, and it analyzes the methods employed by both federal and state governments in an attempt to control the postwar increase in bank combinations. The sixth and last objective of the dissertation is an analysis of the underlying causes of bank consolidations and mergers in Ohio during the postwar period, and an evaluation of their effect on the local banking markets.

I. Summary

A. Changes in Banking Structure in Ohio

The years following World War II witnessed rapid changes in the banking structure of Ohio. The most significant was the reduction in the number of unit banks and the rapid expansion in the number of branch banks. The largest decline in the number of unit banks was among state chartered banks while national banks provided the largest increase in branch offices among all banks in Ohio. As a result, during the postwar period national banks in Ohio increased the percentage of total banks and banking offices under their control; however, state banks continued to account for the largest number of banks and banking offices in Ohio throughout the subject period.

The total resources of all banks in Ohio changed both in quantity and composition during the postwar period. The total bank assets in Ohio expanded by 55.5 per cent between 1945 and 1959, and the composition of bank assets changed from predominantly United States government obligations in 1945 to loans and discounts in 1959. The largest increase in loans and discounts of all banks in Ohio occurred in consumer and real estate loans. Despite the fact that national banks in Ohio were fewer in number than state banks throughout the subject period, by 1959 national banks controlled the majority of bank resources in Ohio, and in 1959 the average asset size of national banks in Ohio exceeded the average asset size of state banks by 37.1 per cent.

The change in the composition of bank assets was also reflected in the total operating income of banks in Ohio. In 1945, 52.3 per cent of the total operating income of all banks in Ohio was derived from investments in securities, but by 1959 the proportion of operating income gained from this source had declined to 28.4 per cent. During the same period the income acquired from loans and discounts of banks in Ohio increased from 29.9 per cent to 57.3 per cent of total operating income.

The growth in income from loans and discounts also resulted from the higher yields available on loans, principally consumer and real estate loans, as compared to the yield on securities held by banks. The result was that the banking structure changed to facilitate the making of loans and to attract additional deposits.

B. Concentration and Competition in Banking in Ohio

An analysis of the 20 largest banks in Ohio revealed that throughout the postwar period these banks controlled more than 58 per cent of the total bank resources in Ohio, but there was no increase in the proportion of total resources under their control during this period. On the other hand, the proportion of total bank resources in Ohio held by the 10 largest banks declined slightly from 46.29 per cent in 1945 to 45.45 in 1959, and the largest bank in Ohio controlled 11.96 per cent of the total bank assets in the state in 1959, whereas in 1945, 14.20 per cent of the total bank resources in Ohio were held by the largest bank.

The 20 largest banks in Ohio in 1945 and in 1959 were all located in the eight metropolitan counties, and in order to determine the extent of geographic concentration of bank resources in Ohio, the assets of the 20 largest banks were combined with all other banks operating in the metropolitan counties. This analysis revealed that the banks in the eight metropolitan counties accounted for approximately 70 per cent of the total banks resources in Ohio at the beginning and at the end of the subject period.

In order to compare the extent of bank concentration in Ohio in 1959 with the rest of the United States, the concentration of assets of all insured banks in Ohio was compared with the concentration of assets among all insured banks in the United States. The investigation revealed that Ohio had less concentration of bank assets in 1959 than the balance of the nation.

The postwar decline in the number of unit banks in Ohio and the increase in bank assets resulted in a substantial increase in the average size of the remaining banks. Another primary cause of increased bank size was the realization by bank management of the economies and competitive advantages of a larger operating base. Operating ratios for Federal Reserve member banks in Ohio in 1959 indicate that the banks with total deposits of more than \$50 million were more profitable in terms of net profit to total capital accounts than those with deposits of less than \$50 million. Analysis of the operating ratios of the various sizes of member banks in 1959 also disclosed that economies of scale are not present at all levels of

deposit growth. The immediate result of rapid growth of deposits appears to be an increased ratio of operating costs to gross income, but over a period of time the influence of growth is to reduce the ratio of operating costs to gross income as the operating base of the bank continues to expand and the cost advantages of larger scale operations are encountered.

Another reason for bank management's desire to acquire a larger operating base during the postwar period was the nature of the competition among banks and between banks and nonbank financial institutions in Ohio. It is generally conceded by banking authorities that competition in banking does not center around the charges made for loans and services. Extensive competition does exist among banks, however, in the number and quality of services which are provided customers. During the postwar period banks in Ohio were also subjected to an increased amount of competition from nonbank financial institutions. These organizations, especially savings and loan associations, grew rapidly as a result of their ability and willingness to meet demands for financial services that the banks were either unable or unwilling to provide. As a result, the competition which these organizations provide for banks also centers around the number and quality of services offered customers. In order, therefore, to compete more effectively with other banks and nonbank financial institutions, banks in Ohio have found it necessary to offer new and superior services. These services, in turn, have increased the fixed operating costs of the respective banks and, in an effort to

offset the increased costs, management has attempted to acquire a larger operating base over which the additional fixed costs may be distributed.

C. Branch and Group Banking in Ohio

During the period 1945 to 1959, there were 437 additional branch banks placed in operation in Ohio. The primary reason for the rapid growth in branch banking was the shift in emphasis from a primarily wholesale banking business to a combination of both wholesale and retail banking. Retail banking requires that the banking offices be readily accessible to the consumer for both deposit and loan purposes. During the postwar period consumers and many businesses began to move from the cities to the outlying suburban areas. In an effort to retain the business of the industrial and commercial enterprises moving to the suburbs and to attract the business of the consumer, banks began to establish branch offices in the suburbs. These branches were established by absorbing existing banks or creating de novo branches. In many instances, the branch of an existing bank has proved to be a more efficient and desirable method of serving the banking needs of small communities and newly established suburbs than small unit banks.

During the postwar period there was a substantial decline in the percentage of total branch banks in Ohio controlled by the large metropolitan banks. From 1945 to 1959 the proportion of total branch offices in Ohio under the control of the 20 largest metropolitan banks

declined from approximately 75 per cent to 49 per cent, and the proportion of total branch banks operated by all banks located in the eight metropolitan counties declined from approximately 86 to 62 per cent of the total number of branch banks in the state during the same period.

The Ohio law which limits the operation of branch bank offices to the same county in which the parent bank is located is the primary reason for the reduction in the concentration of banking offices in the metropolitan counties of Ohio. This law applies to both national and state chartered banks.¹

¹The federal law requires that all national banks comply with the laws concerning geographical limitations on branch banking of the state in which they are located.

The large metropolitan banks in Ohio established numerous branch offices prior to 1945, and as a result of the restrictions placed on branch operations by Ohio law, the postwar opportunities for additional branch operations for the banks located in the eight metropolitan counties were somewhat limited. On the other hand, the banks located in other parts of Ohio generally did not adopt branch operations until after the end of World War II, and there were numerous opportunities for additional offices in many of the nonmetropolitan counties.

The bank holding company or group banking serves as a convenient device for circumventing the geographical restrictions placed on branch banking by Ohio law. Through the holding company device individual banks become regional branches of the dominant or key bank

in the group. Ohio law is silent on the operation of bank holding companies, and federal law permits the operation of statewide and, in some instances, interstate group banking. During the entire postwar period there were three bank holding companies in operation in Ohio, and by 1959 two remained in operation. The largest and the oldest of the holding companies is the BancOhio Corporation. In 1959, the BancOhio Corporation had 22 affiliated banks operating 51 banking offices in 20 Ohio counties. The total assets of the 20 banks accounted for nearly six per cent of the total bank resources in Ohio. The dominant or key bank in the BancOhio group is The Ohio National Bank in Columbus, which in 1959, accounted for approximately 62 per cent of the total assets of the entire group.

D. Bank Consolidations and Mergers in Ohio

During the 14-year period following the end of World War II Ohio had the fourth highest number of bank consolidations and mergers among the 48 states. Between 1945 and 1959 there were 106 banks absorbed in Ohio. An analysis of the absorbed banks revealed that they were predominantly smaller banks each with total assets of less than \$25 million, and approximately 64 per cent of the absorbed banks each had assets of \$5 million or less. In contrast to the opinion of many people concerning the dominance of large banks in postwar bank consolidations and mergers, an analysis of acquiring banks in Ohio during the subject period revealed that over 62 per cent of the acquiring banks each had total resources of \$50 million or

less. On the other hand, the banks in Ohio with resources of \$100 million or more were responsible for only 29 per cent of the acquisitions during the same period.

The information acquired from selected case studies of postwar bank consolidations and mergers in Ohio and a survey of current banking literature revealed that the postwar bank combination movement resulted primarily from attempts of the banking industry to adapt itself to the various economic changes in particular communities and to meet the demands of banking customers, rather than from a conscious effort to eliminate competition and secure greater concentration of banking resources.

Some of the more important causes of bank consolidations and mergers during the postwar period have been: (1) the advantage of establishing a branch bank by absorbing an existing bank rather than forming a de novo branch; (2) small bank shareholders desire to either receive a fair cash value for their stock or exchange their shares for those of a larger bank which offers increased marketability and a more attractive yield; (3) the problem of attracting capable successor management in the small rural banks; (4) the growth of business enterprises during the postwar period which has resulted in the demand for larger loans and lines of credit from the banks which service these organizations; (5) the desire on the part of many banks to increase or retain their market position and diversify their operations; and (6) the inability of many small banks to earn an adequate rate of return on investment.

During the postwar period one of the most publicized problems of banking was the Congressional effort to pass legislation to deal more effectively with bank consolidations and mergers. The antitrust laws have been of limited usefulness against banking combinations. The Sherman Antitrust Act has been employed only once in the field of banking, and in that case the action was directed by the Department of Justice to block acquisition of The California Bank of Los Angeles by the Firstamerica Corporation. The Department of Justice, however, agreed to drop the case after an agreement was reached with the Firstamerica Corporation, and as a result the Sherman Antitrust Act has never been fully tested against banking combinations.

The Clayton Act has also been of little value in attempting to block bank consolidations and mergers. The original section 7 of the Clayton Act prohibited only combinations accomplished through stock acquisition if they resulted in a substantial lessening of competition, but bank combinations are usually accomplished through asset acquisition. The 1950 amendment to the Clayton Act made the law applicable to asset acquisitions as well as stock acquisitions, but banks are specifically exempt from the 1950 amendment.

The regulation of bank consolidations and mergers throughout the postwar period has been under the supervision of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Reserve Board of Governors, and the various state banking authorities. Attempts have been made, however, throughout the subject period to introduce legislation which would give the Department of

Justice authority to either approve or disapprove proposed bank combinations, and to make the antitrust laws fully applicable to the banking industry. The aforementioned federal and state bank regulatory agencies have argued, however, that banking is a highly specialized field which requires a substantial amount of familiarity with banking structure and bank operating policies before a sound decision can be reached concerning the merits of a proposed consolidation or merger. The case studies of postwar bank consolidations and mergers in Ohio also provided a substantial amount of evidence concerning the importance of analyzing and understanding the local economy and banking conditions before passing judgment on the effects of a proposed bank combination.

In 1960, legislation was passed by the U. S. Congress which broadened the powers of the Comptroller of the Currency, Federal Deposit Insurance Corporation, and the Federal Reserve Board of Governors with regard to the control of bank mergers and consolidations, and the legislation provided that the ultimate responsibility for approving bank combinations remains under the control of these three agencies. The new law stipulated, however, that each of the three agencies, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve Board of Governors, must give specific consideration to the competitive effects of any proposed combination under their respective jurisdictions. In addition, each of the three aforementioned agencies must solicit the opinion of the other two agencies and also the opinion of the

Attorney General of the United States concerning the effect upon competition of any proposed bank combination under their respective jurisdictions. The law does not stipulate, however, that any of the three federal bank regulatory agencies are obliged to heed the opinion of either of the other two agencies or the Attorney General in electing whether or not to approve a proposed combination.

The Department of Justice, which advocated that the antitrust laws be applied to the banking industry, was not satisfied with the new legislation, and at the present writing the Attorney General is attempting to block several bank combinations which were approved by the three federal bank regulatory agencies after the passage of the 1960 law. The Attorney General has brought suit against the participating banks on grounds that the combinations would be in violation of the antitrust laws. The final decision as to who will exercise approval over bank consolidations and mergers will be made by the courts.

E. Case Studies of Postwar Bank Consolidations and Mergers in Ohio

In order to gain a better understanding of the causes and consequences of bank consolidations and mergers in Ohio, a series of carefully selected case studies were conducted. In selecting the cases an attempt was made to choose combinations that would provide (1) economic and geographic diversification, (2) a sample of both large and small banks in Ohio, (3) an example of both state and national chartered banks, and (4) illustrations of the three primary

methods of carrying out a bank combination. After selecting a large sample of bank combinations which took place between 1955 and 1958, interviews were held with the Ohio Superintendent of Banks, and officers of the Federal Reserve Bank of Cleveland, the Federal Deposit Insurance Corporation, and the Ohio Bankers Association. With the help of these individuals the original sample was narrowed to three case studies which in their opinion provided a good sample of postwar bank combinations in Ohio.

Each case study was conducted by holding an extended interview with the president of the resulting bank regarding the primary motives behind the combination, the means by which the combination was carried out, and the advantages or disadvantages which resulted from the combination. Following the interview with the bank president, a number of interviews were held with residents and businessmen of the respective communities to solicit their opinions concerning the advantages which their communities and businesses had received as a result of the bank combination. In addition, interviews were held with local businessmen and officers of local chambers of commerce to acquire information regarding the economic base of the banking communities.

In each of the case studies the primary reasons for the bank combinations stemmed from fundamental changes in the local economy, the community, the needs of the bank's customers, and in the management policies of the subject banks. In not one of the cases was there any indication that the purpose of the combination was an

attempt to gain an objective that would have been to the disadvantage of the general public and the banking community. In interviews with local residents and businessmen, nearly all stated that the bank combination had provided the community with more efficient and desirable banking service. In two of the three cases it was the opinion of a majority of those interviewed that the combination resulted in increasing competition among the local banks and between the banks and nonbank financial institutions.

II. Conclusions

Throughout the postwar period the 20 largest banks in Ohio accounted for approximately 60 per cent of the total bank assets in the state. It has been asserted that as a result of the decline in the number of unit banks and the rapid increase in the number of branch banks in Ohio during the postwar period, the large banks increased the proportion of bank resources which they controlled in the state and, therefore, that competition in banking in Ohio decreased during the subject period. The results of this study indicate, however, that there was no increase in bank concentration in Ohio during the period 1945 to 1959. Furthermore, the study revealed that the proportion of total banking offices in Ohio under the control of the largest banks declined between 1945 and 1959, and this fact lends support to the proposition that bank competition in Ohio increased during the subject period.

The mistaken idea that competition in banking in Ohio decreased between 1945 and 1959 resulted from attempts to measure the extent of competition in the banking market by counting the number of banks in operation. This method of measuring competition can be quite misleading. For example, if the number of banks in a community is reduced from six to three, is competition increased or decreased if the result is three strong banks rather than six weak banks? If a community at an earlier date had two banks and now has in their places two branches each of a different bank, is the banking competition in the community reduced?

The fact that banking is a partially regulated industry also limits attempts to measure bank competition on the basis of the number of banks in operation. The bank regulatory agencies have recognized the need for limitations on the number of banks in operation in order to make certain that the banking structure is not weakened by an excessive number of small and poorly managed banks as existed between 1921 and 1934. To prevent a recurrence of these conditions the bank regulatory agencies have insisted that certain standards be met prior to the issuance of a bank charter, and they have refused to issue charters for new banks in communities where, in the opinion of the regulatory agencies, a sufficient number of banks are already in operation.

Another oversight on the part of those who attempt to measure bank competition by counting the number of banks in operation is the

failure to consider the growing importance of nonbank financial institutions as a source of competition for banks.

In the volumes of testimony before various Congressional committees throughout the postwar period regarding concentration and competition in commercial banking, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Reserve Board of Governors, and the various state banking agencies insisted upon using a more suitable measure of competition in banking than merely counting the number of banks in operation. If adequate regulation of banking is to be maintained and sound legislation provided, a more scientific method of measuring competition must be utilized. Unfortunately, the Department of Justice has shown reluctance to use any method of determining competition other than counting the number of competitors and measuring market shares. The Department of Justice also seems unwilling to consider the local economic conditions and the condition of the participating banks when attempting to judge the desirability of a proposed bank consolidation or merger. The best way, therefore, to assure that a competitive, but strong banking structure is maintained is to allow the regulation of bank combinations to remain under the jurisdiction of the aforementioned federal and state bank regulatory agencies.

With the continued growth of Ohio's economy and its metropolitan communities there is adequate reason to believe that more independent banks in Ohio will be replaced by branch offices of other banks. Much of the postwar growth in branch banking in Ohio was in

response to the migration of people and business enterprises from the cities to the suburbs. It is expected that this migration will continue, and as the peripheries of Ohio's metropolitan areas continue to expand, they will extend beyond the boundaries of the county in which the center of the metropolitan area is located. At present, however, the banks in Ohio are not allowed to operate branch offices outside the county in which the main office is located. In anticipation of the continued migration of people and businesses to the suburbs it would seem advisable to liberalize the banking law of Ohio to permit branch banking across county lines where metropolitan areas and trade areas exceed the boundaries of a single county. Otherwise, as the metropolitan and trade areas expand beyond the county lines, the problem of serving these areas with adequate banking facilities may become a major banking problem.

At the same time, group banking in Ohio should be restricted to intracounty operations with the exception of metropolitan and trade areas that extend beyond the boundaries of a single county. This would eliminate the present inconsistency which exists in the regulation of multiple office banking in Ohio.

In conclusion, the evidence resulting from this study clearly indicates that, during the period from 1945 to 1959, Ohio had a strong and competitive banking structure. To assure that the system remains responsive to the banking needs of Ohio, however,

proper regulation and control must be maintained, but restrictions must not be imposed which prevent the banking structure from adapting itself to changes in the economy and to the banking needs of the state.

APPENDIX

TABLE 41

Number of Unincorporated Banks in Operation in Ohio
1945-1959

(Thousands of Dollars)

Year	Number in Operation	Total Assets
1945	7	\$ 5,939
1946	7	6,697
1947	7	6,640
1948	6	5,979
1949	6	6,181
1950	5	5,720
1951	4	5,131
1952	4	5,438
1953	3	2,953
1954	2	1,193
1955	1	836
1956	-	-
1957	-	-
1958	-	-
1959	-	-

Source: Annual Reports of the Comptroller of
the Currency, 1946-1960.

TABLE 42
LOCATION OF NATIONAL AND STATE BANKS IN OHIO
BY COUNTY
1945-1959

County	1945			1959		
	National	State	Total	National	State	Total
Adams	2	3	5	2	3	5
Allen	3	3	6	3	2	5
Ashland	1	4	5	1	4	5
Ashtabula	2	9	11	1	7	8
Athens	4	3	7	4	4	8
Auglaize	2	3	5	3	4	7
Belmont	8	4	12	7	4	11
Brown	5	3	8	6	3	9
Butler	4	4	8	6	3	9
Carroll	1	2	3	1	2	3
Champaign	3	4	7	2	3	5
Clark	3	3	6	3	4	7
Clermont	5	4	9	4	4	8
Clinton	4	3	7	4	2	6
Columbiana	3	8	11	4	7	11
Coshocton	2	1	3	2	1	3
Crawford	2	5	7	2	6	8
Cuyahoga	3	8	11	3	5	8
Darke	5	7	12	4	7	11
Defiance	-	3	3	-	4	4
Delaware	1	4	5	1	5	6
Erie	1	5	6	1	5	6
Fairfield	4	9	13	3	7	10
Fayette	2	3	5	1	3	4
Franklin	4	13	17	4	12	16
Fulton	-	6	6	-	6	6
Gallia	1	3	4	1	2	3
Geauga	1	2	3	2	2	4
Greene	3	2	5	3	3	6
Guernsey	4	3	7	3	1	4
Hamilton	10	18	28	4	7	11
Hancock	1	4	5	1	4	5
Hardin	4	5	9	4	3	7
Harrison	2	3	5	3	2	5
Henry	-	6	6	-	6	6

TABLE 42 (continued)

County	1945			1959		
	National	State	Total	National	State	Total
Highland	3	3	6	3	3	6
Hocking	-	2	2	-	2	2
Holmes	-	3	3	-	4	4
Huron	2	6	8	3	6	9
Jackson	2	3	7	2	2	4
Jefferson	5	7	12	4	6	10
Knox	1	5	6	1	4	5
Lake	-	1	1	1	2	3
Lawrence	2	-	2	2	1	3
Licking	3	9	12	3	7	10
Logan	1	8	9	1	8	9
Lorain	1	11	12	1	9	10
Lucas	-	10	10	1	6	7
Madison	3	2	5	3	2	5
Mahoning	3	4	7	4	4	8
Marion	2	4	6	2	2	4
Medina	2	6	8	2	5	7
Meigs	3	2	5	3	2	5
Mercer	2	6	8	2	6	8
Miami	6	-	6	6	1	7
Menroe	2	-	2	1	-	1
Montgomery	6	10	16	6	6	12
Morgan	5	-	5	5	-	5
Morrow	1	2	3	1	1	2
Muskingum	2	1	3	2	1	3
Noble	1	1	2	1	1	2
Ottawa	2	5	7	2	5	7
Paulding	1	3	4	1	3	4
Perry	1	7	8	1	7	8
Pickaway	4	3	7	5	4	9
Pike	1	1	2	1	1	2
Portage	4	3	7	3	3	6
Preble	4	3	7	4	3	7
Putnam	2	5	7	2	5	7
Richland	3	6	9	2	4	6

TABLE 42 (continued)

County	1945			1959		
	National	State	Total	National	State	Total
Ross	3	4	7	3	4	7
Sandusky	1	9	10	1	7	8
Scioto	2	1	3	2	1	3
Seneca	4	8	12	4	7	11
Shelby	3	3	6	1	3	4
Stark	4	15	19	4	10	14
Summit	8	8	16	1	5	6
Trumbull	3	6	9	2	5	7
Tuscarawas	5	12	17	3	8	11
Union	1	2	3	1	2	3
Van Wert	2	2	4	2	2	4
Vinton	1	-	1	1	0	1
Warren	4	1	5	4	1	5
Washington	2	7	9	2	6	8
Wayne	3	9	12	5	9	14
Williams	3	6	9	3	6	9
Wood	1	13	14	1	11	12
Wyandot	2	5	7	2	4	6
Total	240	437	677	222	366	588

Source: American Bank Directory (Atlanta, Ga.: McFadden Business Publications, 1960) and Polk's Bankers Encyclopedia (Detroit: Michigan: R. L. Polk and Co., Publishers, 1946).

TABLE 43

TOTAL LOANS AND DISCOUNTS OF ALL BANKS
NATIONAL BANKS, AND STATE BANKS IN OHIO
1945-1959

(Thousands of Dollars)

Year	All Banks	National Banks	State Banks
1945	\$ 1,292,405	\$ 549,630	\$ 674,753
1946	1,565,466	649,244	832,789
1947	1,869,712	821,278	945,138
1948	1,982,271	873,645	1,003,668
1949	2,041,980	886,792	1,053,499
1950	2,504,369	1,084,020	1,295,583
1951	2,770,628	1,215,787	1,418,745
1952	3,090,162	1,375,339	1,564,112
1953	3,382,046	1,509,307	1,701,564
1954	3,506,788	1,556,418	1,750,733
1955	4,090,056	1,835,503	2,047,871
1956	4,575,785	2,070,440	2,309,632
1957	4,821,064	2,168,428	2,455,976
1958	4,931,807	2,224,974	2,507,502
1959	5,434,698	2,719,426	2,700,911

Source: Annual Report of the Comptroller of the Currency, 1946-1960.

TABLE 44
COMPOSITION OF TOTAL LOANS AND DISCOUNTS OF ALL BANKS IN OHIO
1945-1959

(Thousands of Dollars)

Year	Commercial and Indus- trial Loans	Per cent of Total	Loans to Brokers and Dealers and Other Loans for the Purchase of Securities	Per cent of Total	Real Estate Loans	Per cent of Total	Other Loans to Individuals	Per cent of Total	All Other Loans	Per cent of Total
1945	\$ 300,703	23.3	\$ 373,319	28.7	\$ 374,339	28.9	\$ 126,536	9.7	\$ 117,508	9.4
1946	499,819	31.9	177,160	11.3	536,189	34.3	214,135	13.7	138,173	9.8
1947	621,772	33.3	129,974	7.0	686,292	36.7	342,836	18.3	88,838	4.7
1948	641,323	32.0	83,587	4.2	775,529	38.7	396,559	19.7	85,273	5.4
1949	585,009	28.2	106,262	5.1	819,455	39.5	444,231	21.5	87,023	5.7
1950	758,273	29.8	145,075	6.0	940,935	37.0	561,813	22.1	98,263	5.1
1951	898,403	31.9	112,136	3.9	1,047,562	37.2	606,632	21.6	125,895	5.4
1952	988,832	31.5	126,349	4.0	1,150,616	36.7	697,999	22.3	126,366	5.5
1953	947,728	27.6	153,758	4.5	1,233,435	35.9	835,219	24.4	211,856	7.6
1954	894,564	25.1	211,118	5.9	1,362,758	38.2	828,859	23.3	209,489	7.5

TABLE 44 (continued)

Year	Commercial and Industrial Loans	Per cent of Total	Loans to Brokers and Dealers and Other Loans for the Purchase of Securities	Per cent of Total	Real Estate Loans	Per cent of Total	Other Loans to Individuals	Per cent of Total	All Other Loans	Per cent of Total
1955	\$ 1,109,133	26.7	\$ 283,461	6.8	\$ 1,457,403	37.2	\$ 962,990	23.2	\$ 278,069	6.1
1956	1,109,133	28.7	286,270	6.1	1,678,127	36.0	1,222,171	24.1	380,084	5.1
1957	1,419,899	28.9	304,624	6.2	1,735,734	35.3	1,199,666	24.4	161,141	5.2
1958	1,383,307	27.5	311,162	6.2	1,848,772	36.3	1,196,443	23.8	192,823	6.2
1959	1,358,609	27.2	312,513	5.8	1,948,559	33.3	1,196,443	23.0	1,618,574	10.7

Source: Annual Report of the Comptroller of the Currency, 1946-1960.

TABLE 45
COMPOSITION OF TOTAL CAPITAL OF ALL BANKS IN OHIO
1945-1959
(Thousands of Dollars)

Year	Capital Stock	Per cent of Total	Notes and Debentures	Per cent of Total	Undivided Profit	Per cent of Total	Reserves	Per cent of Total
1945	\$ 148,599	36.6	\$ 14,138	3.4	\$ 50,121	12.2	\$ 27,189	7.8
1946	153,013	35.2	9,872	2.3	59,804	13.8	27,191	6.3
1947	158,013	34.8	6,267	1.3	67,245	14.6	22,920	5.8
1948	160,217	34.3	896	-	75,608	16.3	17,494	3.8
1949	159,980	33.3	780	-	80,227	16.9	17,200	3.5
1950	161,855	31.0	728	-	86,888	16.8	17,436	3.8
1951	176,199	30.9	474	-	96,501	17.0	13,723	3.0
1952	188,205	31.1	1,013	-	103,792	17.2	13,984	2.6
1953	195,805	30.5	865	-	116,629	18.2	8,692	2.5
1954	205,120	29.8	165	-	355,762	16.8	8,802	1.5

TABLE 45 (continued)

Year	Capital Stock	Per cent of Total	Notes and Debentures	Per cent of Total	Undivided Profit	Per cent of Total	Reserves	Per cent of Total
1955	\$ 219,387	30.1	\$ 160	-	\$ 375,884	16.6	\$ 9,288	2.2
1956	232,808	29.8	110	-	118,810	15.1	8,194	-
1957	252,733	29.8	100	-	131,731	15.5	8,489	1.2
1958	259,028	29.6	100	-	148,451	16.9	6,812	-
1959	288,972	30.2	100	-	168,228	17.5	6,692	-

Source: Annual Report of the Comptroller of the Currency, 1946-1960 and Annual Report of the Ohio Division of Banks, 1946-1960.

Note: - indicates less than 1.0 per cent.

TABLE 46
TOTAL DIVIDENDS ON COMMON STOCK OF ALL BANKS IN OHIO
1945-1959

(Thousands of Dollars)

Year	Total Dividends on Common Stock	Dividends on Common Stock as a Per cent of Total Net Income
1945	\$ 8,980	19.7
1946	10,146	20.9
1947	10,879	29.3
1948	11,416	31.9
1949	12,729	28.8
1950	14,021	28.5
1951	16,643	35.4
1952	17,000	21.4
1953	18,929	22.4
1954	19,921	19.8
1955	21,9.0	24.6
1956	24,218	23.4
1957	27,166	21.9
1958	28,532	20.3
1959	30,442	26.3

Source: How Does Your Bank Measure Up?, Ohio
Bankers Association, 1946-1960.

TABLE 47

TOTAL ASSETS, DEPOSITS, AND CAPITAL OF THE 20 LARGEST BANKS IN OHIO
December 31, 1945

(Thousands of Dollars)

Name of Bank	Total Assets	Cash and in Banks	U.S. Govt. Securities	Total Securities	Loans and Discounts	Total Deposits	Total Capital
Cleveland Trust Company	\$ 1,111,815	\$ 166,442	\$ 682,305	\$ 21,172	\$ 234,765	\$ 1,052,730	\$ 47,509
National City Bank of Cleveland	499,362	96,808	281,140	12,230	105,622	471,161	22,294
Central National Bank of Cleveland	415,563	76,579	239,655	2,735	89,828	392,329	18,974
The Toledo Trust Company	284,412	49,878	206,019	2,056	24,194	272,747	11,417
Fifth Third Union Bank of Cincinnati	<u>280,935</u>	<u>60,995</u>	<u>133,535</u>	<u>18,182</u>	<u>63,662</u>	<u>262,457</u>	<u>18,262</u>
<u>5 Largest Banks in Ohio</u>	\$ 2,592,087	\$ 450,702	\$ 1,542,654	\$ 56,465	\$ 518,071	\$ 2,451,424	\$ 118,456
First National Bank of Cincinnati	\$ 253,609	\$ 61,630	\$ 105,763	\$ 3,392	\$ 80,842	\$ 234,741	\$ 17,838
The Central Trust Company of Cincinnati	215,170	47,699	144,847	240	20,939	205,395	9,088
The Ohio National Bank of Columbus	207,015	58,802	89,688	20,287	39,876	198,554	8,461
The Society for Savings in the City of Cleveland	198,106	16,439	95,520	20,844	63,158	184,803	11,538
The Winters National Bank of Dayton	<u>156,792</u>	<u>33,650</u>	<u>110,643</u>	<u>150</u>	<u>11,562</u>	<u>150,442</u>	<u>5,429</u>
<u>10 Largest Banks in Ohio</u>	\$ 3,622,779	\$ 668,922	\$ 2,089,115	\$ 101,378	\$ 653,606	\$ 3,434,359	\$ 170,810

TABLE 47 (continued)

Name of Bank	Total Assets	Cash and in Banks	U.S. Govt. Securities	Total Securities	Loans and Discounts	Total Deposits	Total Capital
The Huntington National Bank of Columbus	\$ 151,311	\$ 37,250	\$ 82,357	\$ 4,264	\$ 24,308	\$ 143,397	\$ 7,024
The First-Central Trust Company of Akron	131,207	22,229	85,254	3,851	19,803	131,530	4,190
Union Commerce Bank of Cleveland	129,281	27,851	66,819	1,755	32,494	119,834	9,161
The Provident Bank of Cincinnati	113,801	22,952	72,809	2,339	13,393	105,200	5,838
City National Bank and Trust Company of Columbus	93,342	21,354	62,064	764	8,221	88,546	4,886
The Firestone Bank of Akron	86,608	11,308	63,019	7,443	4,531	83,797	2,751
The Dime Savings Bank of Akron	75,727	11,899	53,352	3,671	6,539	73,454	2,123
Second National Bank of Cincinnati	68,248	14,575	31,196	530	21,522	64,723	3,394

TABLE 47 (continued)

Name of Bank	Total Assets	Cash and in Banks	U.S. Govt. Securities	Total Securities	Loans and Discounts	Total Deposits	Total Capital
Union National Bank of Youngstown	\$ 67,935	\$ 14,224	\$ 41,072	\$ 5,905	\$ 5,036	\$ 62,971	\$ 4,647
Third National Bank and Trust Company of Dayton	66,235	12,106	44,973	1,176	7,367	63,655	2,445
<u>20 Largest Banks in Ohio</u>	<u>\$ 4,606,564</u>	<u>\$ 864,671</u>	<u>\$ 2,650,958</u>	<u>\$ 133,076</u>	<u>\$ 796,820</u>	<u>\$ 4,371,466</u>	<u>\$ 217,269</u>

Source: Moody's Bank and Finance Manual (New York: Moody's Investors Service, 1946).

TABLE 48

TOTAL ASSETS, DEPOSITS, AND CAPITAL OF THE 20 LARGEST BANKS IN OHIO
December 31, 1959
(Thousands of Dollars)

Name of Bank	Total Assets	Cash and in Banks	U.S. Govt. Securities	Other Securities	Loans and Discounts	Total Deposits	Total Capital
Cleveland Trust Company	\$ 1,457,548	\$ 236,330	\$ 286,935	\$ 97,166	\$ 826,933	\$ 1,332,147	\$ 116,218
National City Bank of Cleveland	823,526	204,143	166,524	77,302	364,441	744,379	66,655
Central National Bank of Cleveland	614,806	141,513	140,264	34,586	289,313	559,887	49,154
First National Bank of Cincinnati	461,282	106,493	120,156	10,902	217,054	414,113	40,459
Ohio National Bank of Columbus	<u>450,203</u>	<u>112,674</u>	<u>128,095</u>	<u>60,543</u>	<u>145,166</u>	<u>414,348</u>	<u>25,100</u>
<u>5 Largest Banks in Ohio</u>	\$ 3,830,364	\$ 801,153	\$ 842,334	\$ 280,499	\$ 1,842,907	\$ 3,464,874	\$ 297,586
Society National Bank of Cleveland	\$ 421,113	\$ 45,799	\$ 100,769	\$ 43,900	\$ 222,441	\$ 386,463	\$ 31,000
Fifth Third Union Trust Company of Cincinnati	371,010	95,553	75,155	14,253	179,796	334,776	31,790
Toledo Trust Company	330,103	55,015	159,049	20,367	93,612	306,297	21,310
Central Trust Company of Cincinnati	312,834	78,555	60,859	5,342	163,327	283,129	24,849
Union Commerce Bank of Cleveland	<u>292,680</u>	<u>74,975</u>	<u>50,715</u>	<u>18,489</u>	<u>135,485</u>	<u>258,958</u>	<u>30,206</u>
<u>10 Largest Banks in Ohio</u>	\$ 5,535,104	\$ 1,152,308	\$ 1,288,881	\$ 382,846	\$ 2,637,568	\$ 4,989,497	\$ 436,741

TABLE 48 (continued)

Name of Bank	Total Assets	Cash and in Banks	U.S. Govt. Securities	Other Securities	Loans and Discounts	Total Deposits	Total Capital
First National Bank of Akron	\$ 266,625	\$ 43,721	\$ 88,939	\$ 13,246	\$ 116,380	\$ 245,667	\$ 17,358
The Winters National Bank and Trust Company of Dayton	254,667	52,924	84,914	2,807	110,764	224,746	19,833
The Huntington National Bank of Columbus	220,590	60,236	71,195	11,465	73,882	192,567	18,478
The Provident Bank of Cincinnati	161,911	27,113	54,607	16,227	60,614	148,215	12,086
The City National Bank and Trust Company of Columbus	144,298	36,363	61,349	779	42,700	133,393	10,400
The Dollar Savings and Trust Company of Youngstown	123,042	18,756	49,601	5,996	46,853	114,714	7,304
The Ohio Citizens Trust Company of Toledo	117,711	32,832	28,902	7,314	47,706	110,055	7,716
The Firestone Bank of Akron	113,840	15,898	50,570	12,439	33,446	105,045	7,906

TABLE 48 (continued)

Name of Bank	Total Assets	Cash and in Banks	U.S. Govt. Securities	Other Securities	Loans and Discounts	Total Deposits	Total Capital
The National Bank of Toledo	\$ 113,734	\$ 19,821	\$ 43,662	\$ 6,437	\$ 42,147	\$ 104,759	\$ 6,945
The Dime Bank of Akron	<u>106,980</u>	<u>11,025</u>	<u>29,488</u>	<u>19,992</u>	<u>44,637</u>	<u>98,971</u>	<u>6,963</u>
<u>20 Largest Banks in Ohio</u>	\$ 7,158,502	\$ 1,470,817	\$ 1,851,749	\$ 479,458	\$ 3,256,697	\$ 6,497,350	\$ 551,730

Source: Moody's Bank and Finance Manual (New York: Moody's Investors Service, 1960).

TABLE 49

ASSETS AND LIABILITIES OF ALL INSURED COMMERCIAL BANKS IN THE UNITED STATES GROUPED BY DEPOSIT SIZE

June 10, 1959

(Amounts in Thousands of Dollars)

Deposit size in millions of dollars	Number of Banks	Cash and Due from Banks	U.S. Govt. Obligations	Other Securities	Loans, Discounts and Drafts	Total
Less than 1	1,397	\$ 204,459	\$ 400,434	\$ 70,048	\$ 459,463	\$ 1,153,486
1 to 2	2,657	724,602	1,521,079	357,360	1,743,338	4,386,798
2 to 5	4,345	2,567,271	5,166,240	1,608,162	6,107,010	15,634,421
5 to 10	2,288	2,805,824	5,552,167	1,987,754	6,976,956	17,567,027
10 to 25	1,466	3,914,998	7,554,671	2,570,759	9,788,777	24,321,533
25 to 50	462	2,754,426	5,313,456	1,727,153	7,140,114	17,249,607
50 to 100	224	2,977,096	4,963,435	1,739,449	7,334,972	17,332,659
100 to 250	151	5,059,282	6,776,024	2,132,558	11,611,235	26,077,340
250 to 500	60	4,988,985	5,637,429	1,804,276	11,015,171	23,915,216
500 to 1,000	28	4,366,061	4,939,892	1,689,585	9,960,779	21,991,073
1,000 or more	<u>19</u>	<u>12,314,352</u>	<u>13,639,054</u>	<u>4,697,881</u>	<u>31,144,209</u>	<u>63,549,435</u>
Total United States	13,097	\$ 42,687,356	\$ 61,463,881	\$ 20,394,285	\$ 103,282,024	\$ 232,486,595

TABLE 49 (continued)

Deposit Size in Millions of Dollars	Deposits			Total Capital Accounts
	Business and Personal	Government	Interbank	
Less than 1	\$ 869,063	\$ 126,014	\$ 2,461	\$ 150,112
1 to 2	3,455,233	411,892	11,533	456,031
2 to 5	12,475,704	1,578,697	61,949	1,425,179
5 to 10	14,134,372	1,739,850	98,158	1,447,516
10 to 25	19,609,380	2,146,872	326,646	1,839,140
25 to 50	13,927,627	1,399,036	404,145	1,238,140
50 to 100	13,226,131	1,546,910	838,857	1,312,629
100 to 250	18,976,259	2,180,777	2,198,951	1,962,617
250 to 500	17,259,446	1,840,138	2,139,566	1,867,037
500 to 1,000	15,752,637	1,251,595	2,051,566	1,669,006
1,000 or more	<u>44,398,957</u>	<u>3,009,246</u>	<u>7,226,102</u>	<u>5,425,834</u>
Total United States	\$ 174,084,808	\$ 17,231,027	\$ 15,359,934	\$ 18,793,241

Source: Annual Report of the Federal Deposit Insurance Corporation, December 31, 1959.

TABLE 50

PERCENTAGE COMPOSITION OF ASSETS AND LIABILITIES OF ALL INSURED
COMMERCIAL BANKS IN THE UNITED STATES GROUPED BY
DEPOSIT SIZE, JUNE 10, 1959

Deposit Size in Millions of Dollars	Number of Banks	Cash and Due from Banks	U.S. Govt. Obligations	Other Securities	Loans, Discounts and Drafts	Total Assets
Less than 1	10.67	.48	.65	.34	.44	.50
1 to 2	20.28	1.70	2.47	1.84	1.68	1.88
2 to 5	33.17	6.01	8.40	7.89	5.91	6.72
5 to 10	17.46	6.57	9.03	9.75	6.76	7.55
10 to 25	11.19	9.17	12.29	13.48	9.47	10.46
25 to 50	3.52	6.45	8.64	8.47	6.91	7.42
50 to 100	1.71	6.97	8.08	8.53	7.10	7.46
100 to 250	1.15	11.85	11.02	10.45	11.24	11.21
250 to 500	.45	11.68	9.17	8.84	10.66	10.28
500 to 1,000	.21	10.23	8.03	8.28	9.64	9.20
1,000 or more	.14	28.84	22.19	23.04	30.15	27.33

TABLE 50 (continued)

Deposit Size in Millions of Dollars	Deposits			Total Capital Accounts
	Business and Personal	Government	Interbank	
Less than 1	.50	.73	.01	.80
1 to 2	1.98	2.39	.08	2.42
2 to 5	7.17	9.16	.40	7.58
5 to 10	8.12	10.09	.70	7.70
10 to 25	11.44	12.46	2.13	9.78
25 to 50	8.00	8.12	2.63	6.59
50 to 100	7.60	8.98	5.46	6.98
100 to 250	10.90	12.67	14.32	10.44
250 to 500	9.91	10.67	13.93	9.93
500 to 1,000	9.05	7.26	13.36	8.88
1,000 or more	25.50	17.46	47.04	28.87

Source: Table XXIX.

TABLE 51

ASSETS AND LIABILITIES OF ALL INSURED COMMERCIAL BANKS IN OHIO GROUPED BY DEPOSIT SIZE
JUNE 10, 1959

(Amounts in Thousands of Dollars)

Deposit Size in Millions of Dollars	Number of Banks	Cash and Due from Banks	U. S. Govt. Obligations	Other Securities	Loans, Discounts and Drafts	Total
Less than 1	41	\$ 5,922	\$ 11,608	\$ 2,855	\$ 15,095	\$ 35,878
1 to 2	94	23,908	53,893	14,811	68,214	162,556
2 to 5	197	109,925	226,027	64,844	298,577	708,477
5 to 10	123	138,697	289,717	94,227	433,479	972,806
10 to 25	91	213,997	441,183	154,750	657,642	1,493,456
25 to 50	23	124,496	275,676	76,184	349,234	840,936
50 to 100	12	158,901	351,010	96,404	395,819	1,020,748
100 to 250	7	269,650	465,528	73,212	538,669	1,378,189
250 to 500	6	425,991	657,815	153,427	966,270	2,234,333
500 to 1,000	2	272,282	308,390	116,216	602,727	1,314,717
1,000 or more	1	224,473	272,168	107,411	836,337	1,451,187
Total Ohio	597	\$ 1,968,242	\$ 3,353,015	\$ 954,341	\$ 5,162,063	\$ 11,613,283

TABLE 51 (continued)

Deposit Size in Millions of Dollars	Deposits			Total Capital Accounts
	Business and Personal	Government	Interbank	
Less than 1	\$ 28,069	\$ 2,752	\$ 1	\$ 4,677
1 to 2	131,352	12,710	4	17,190
2 to 5	573,799	62,275	489	67,244
5 to 10	774,774	99,564	2,278	84,209
10 to 25	1,199,606	149,082	3,166	119,267
25 to 50	683,924	79,746	2,933	60,215
50 to 100	823,206	84,224	11,036	78,912
100 to 250	1,059,151	120,150	60,221	113,736
250 to 500	1,681,900	187,424	139,386	171,303
500 to 1,000	995,699	70,734	118,601	105,982
1,000 or more	1,191,663	56,948	18,825	110,764
Total Ohio	\$ 9,143,170	\$ 925,609	\$ 357,000	\$ 933,499

Source: Annual Report of the Federal Deposit Insurance Corporation,
December 31, 1959.

TABLE 52

PERCENTAGE COMPOSITION OF ASSETS AND LIABILITIES OF ALL
INSURED COMMERCIAL BANKS IN OHIO GROUPED
BY DEPOSIT SIZE, JUNE 10, 1959

Deposit Size in Millions of Dollars	Number of Banks	Cash and Due from Banks	U. S. Govt. Obligations	Other Securities	Loans, Discounts, and Drafts	Total Assets
Less than \$1	6.86	.30	.35	.30	.29	.30
1 to 2	15.74	1.21	1.60	1.55	1.32	1.40
2 to 5	33.00	5.58	6.74	6.79	5.78	6.10
5 to 10	20.60	7.04	8.64	9.87	8.39	8.37
10 to 25	15.24	10.87	13.15	16.21	12.73	12.86
25 to 50	3.85	6.32	8.22	7.98	6.76	7.24
50 to 100	2.01	8.07	10.47	10.10	7.66	8.79
100 to 250	1.17	13.70	13.88	7.67	10.44	11.86
250 to 500	1.01	21.64	19.61	16.08	18.71	19.23
500 to 1,000	.33	13.83	9.20	12.17	11.67	11.32
1,000 or more	.16	11.40	8.12	11.25	16.20	12.50

TABLE 52 (continued)

Deposit Size in Millions of Dollars	Deposits			Total Capital Accounts
	Business and Personal	Government	Interbank	
Less than \$1	.31	.30	-	.50
1 to 2	1.43	1.37	-	1.84
2 to 5	6.27	6.72	.01	7.20
5 to 10	8.47	10.75	.63	9.02
10 to 25	13.12	16.10	.88	12.77
25 to 50	7.48	8.61	.82	6.45
50 to 100	9.00	9.09	3.09	8.45
100 to 250	11.58	12.98	16.86	12.18
250 to 500	18.39	20.24	39.04	18.35
500 to 1,000	10.89	7.64	33.22	11.35
1,000 or more	13.03	6.15	5.27	11.86

Source: Table 31.

TABLE 53

DISTRIBUTION OF BRANCH BANKS IN OHIO IN RELATION TO THE
LOCATION OF THE PARENT BANK
1945-1959

Year	Number of Branches Located in the Same City as the Parent Bank	Number of Branches Located in the Same County as the Parent Bank	Number of Branches Located in a County Contingent to the County in Which the Parent Bank Is Located	Number of Branch Bank Located at United States Government Establishments
1945	118	48	5	4
1946	120	48	5	4
1947	128	53	5	3
1948	140	56	5	3
1949	145	61	6	3
1950	149	70	5	2
1951	159	80	5	2
1952	175	88	5	3
1953	190	110	5	3
1954	207	128	5	3
1955	226	146	5	3

TABLE 53 (continued)

Year	Number of Branches Located in the Same City as the Parent Bank	Number of Branches Located in the Same County as the Parent Bank	Number of Branches Located in a County Contingent to the County in Which the Parent Bank Is Located	Number of Branch Bank Located at United States Government Establishments
1956	259	178	6	3
1957	262	212	6	3
1958	307	246	9	3
1959	315	273	10	3

Source: Federal Reserve Bulletin, April and May issues, 1946-1960.

TABLE 54

TOTAL RESOURCES AND BRANCH OFFICES OF ALL BANKS
AFFILIATED WITH THE BANCOHIO CORPORATION ON
DECEMBER 31, 1945

Name of Bank	Total Resources	Number of Branch Offices
The Ohio National Bank, Columbus	\$ 207,015,000	12
The First National Bank, Springfield	24,481,000	
The First National Bank, Coshocton	12,471,000	
The Citizens National Bank, Zanesville	11,725,000	
The First National Bank, Chillicothe	11,346,000	
Union-Licking Bank, Newark	8,570,000	
The First National Bank, Delaware	8,394,000	
Fifth Avenue Savings Bank, Columbus	7,975,000	
National Bank of Portsmouth	7,614,000	
The Hocking Valley National Bank, Lancaster	6,427,000	
The First National Bank, Washington C.H.	5,099,000	
The First National Bank, Tiffin	5,014,000	
The First National Bank, Cadiz	4,844,000	
The First National Bank, London	4,836,000	
The Farmers and Merchants Bank, Logan	4,116,000	
The First National Bank, Marysville	4,043,000	
The Second National Bank, Circleville	2,429,000	
The State Industrial Bank, Columbus	1,816,000	
Perry County Bank, New Lexington	1,554,000	
Total	\$ 339,669,000	12

Source: Moody's Manual of Investments, 1946.

TABLE 55

TOTAL RESOURCES AND BRANCH OFFICES OF ALL BANKS
AFFILIATED WITH THE BANCOHIO CORPORATION ON
DECEMBER 31, 1959

Name of Bank	Total Resources	Number of Branch Offices
The Ohio National Bank, Columbus	\$ 450,203,000	18
The First National Bank, Springfield	36,145,000	2
The First National Bank, Newark	24,435,000	1
Citizens National Bank, Zanesville	20,552,000	2
The First National Bank, Chillicothe	18,843,000	
 The First National Bank, Coshocton	16,485,000	
The Ohio State Bank, Columbus	16,183,000	2
The First National Bank, Delaware	14,019,000	
Hocking Valley National Bank, Lancaster	13,324,000	
Worthington Savings Bank, Worthington	13,323,000	2
 The National Bank of Portsmouth	12,956,000	1
The First National Bank, Wilmington	12,150,000	
Farmers and Merchants Bank, Logan	11,008,000	
Knox County Savings Bank, Mt. Vernon	9,638,000	
The First National Bank, Washington C.H.	8,587,000	
 The First National Bank, Cadiz	8,562,000	
The First National Bank, Tiffin	8,366,000	
The First National Bank, Marysville	7,947,000	
The First National Bank, London	7,231,000	
Kenton Savings Bank, Kenton	5,424,000	2
 The Second National Bank, Circleville	4,426,000	
Perry County Bank, New Lexington	3,522,000	
 Total	\$ 723,329,000	29

Source: Moody's Manual of Investments, 1960.

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AUTOBIOGRAPHY

I, John Thomas Hackett, was born in Fort Wayne, Indiana, October 10, 1932. I received my secondary-school education in the public schools of North Manchester, Indiana, and my undergraduate training at Indiana University, which granted me the Bachelor of Science degree in 1954. From Indiana University, I received the Master of Business Administration degree in 1958. In October, 1958, I became an Assistant in the Department of Business Organization at The Ohio State University, and later Instructor. I held these positions for three years while completing the requirements for the Doctor of Philosophy degree. In September, 1961, I became an Associate Economist in the Research Department of the Federal Reserve Bank of Cleveland.