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# RECENT CHANGES IN BANKING STRUCTURE IN THE UNITED STATES

## SELECT COMMITTEE ON SMALL BUSINESS
## UNITED STATES SENATE

PREPARED BY THE

## BOARD OF GOVERNORS

OF THE

## FEDERAL RESERVE SYSTEM

MARCH 30, 1970

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# PREFACE

The Senate Select Committee on Small Business on November 13, 1968, through its chairman, Senator George Smathers of Florida, requested the Honorable William McC. Martin, Chairman, Board of Governors, Federal Reserve System, to make a study of mergers and acquisitions in the national banking community to provide a current and authoritative appraisal of the extent of concentration in banking.

It was the committee's belief that two previous surveys conducted in 1952 and 1962 for this committee by the Federal Reserve System should be brought up to date and that information on concentration in banking should receive more than decennial notice. The two previous studies were:

1. "Concentration of Banking in the U.S." September 10, 1952, Committee Print 7; and

2. "Recent Development in the Structure of Banking—A Supplement to Concentration of Banking in the United States" January 5, 1962.

## Measuring Concentration

The criteria for the measurement of banking concentration were set forth in the original 1952 study along the following lines:

1. Increases or decreases in the number of banks resulting from the organization of new banks, suspensions, mergers, and conversion of banks into branches.

2. Increases or decreases in the number of branches; such changes, however, affect principally the availability of banking facilities to their customers.

3. Increases or decreases in the number of independent bank managements resulting from the acquisition of banks by group and chain systems, or through the merger of independent banks even though branches may be established and the number of banking offices does not change.

4. Changes in the relative volume and geographic distribution of banking business transacted by small-size, intermediate-size, and large-size banks, in the country as a whole and in individual States.

5. Overbanked or underbanked situations in relation to economic activity; these situations may result from the chartering of many banks, numerous bank failures, changes in population, and so forth.

Decreasing or increasing competition in certain areas of banking operations afforded by nonbank savings or lending institutions, such as savings and loan associations, insurance companies, and small loan and finance companies, may also be a measure of concentration in banking. Such competition from nonbank savings and lending institutions is generally believed to be increasing. However, the role of nonbanking financial institutions was not discussed in either the original or the 1970 report.

## Major Findings

The principal findings of the report reprinted hereafter are that the number of banking organizations increased by 207 between 1961 and 1968, in contrast to a net decrease of 647 between the years of 1952 and 1960.

Further, the concentration of deposits in the top 100 banking organizations turned downward during the 1960's after increasing slightly during the 1950's. For instance, the proportion of total U.S. deposits held by the top largest 100 banking organizations rose from 48.24 percent in 1957 to 49.44 percent in 1961; and then fell to 48.42 percent in 1969.

The report also records the dramatic growth of one-bank holding companies which increased their deposits from $11.6 billion or 6 percent of the total U.S. deposits in 1955 to $181 billion or 43 percent at the end of 1969.

## Banking Structure and Competition—Statutory Developments

Banking is a business of fundamental importance to the economy and particularly to the small business community, which often does not have access to more sophisticated means of financing its needs. At the end of 1968, the Board's report shows that there were 13,678 banks (not counting branches) in the United States with total deposits of $392.8 billion. By mid-1969 deposits had risen to $424 billion.

Because of the growing number of banks that are separately organized yet affiliated with registered bank holding companies, however, this figure somewhat overstates the number of independent decisionmaking banking institutions. Thus, although the number of "banks" increased by 247 between the end of 1961 and the end of 1968, the number of "banking organizations" rose from 13,081 to 13,171, a net gain of only 90.

The banking industry in the United States has traditionally developed within a dual framework of State and Federal regulation.

The Congress has long sought to protect the banking system against over-concentration and monopoly practices. In the Clayton Act of 1914, the Federal Reserve System was charged with the responsibility for enforcing prohibitions against bank-stock acquisitions whenever the effect might substantially lessen competition or tend to create a monopoly.

During the past decade, the pace of change in Federal regulatory laws has accelerated in response to events. The following is a synopsis of the changes drawn from an article published in the March issue of the Federal Reserve Bulletin which, in turn, stems from this Committee's impetus in this area:

The Bank Holding Company Act of 1956 required the Board of Governors of the Federal Reserve System to evaluate the competitive effects, among other factors, of formations or acquisitions of holding companies owning two or more banks. The Bank Merger Act of 1960 further required bank regulatory agencies to evaluate the competitive effects, among other factors, of bank mergers. In 1966 Congress

amended both the Bank Holding Company Act and the Bank Merger Act to clarify the relationship between those two banking acts and the Federal antitrust laws—that is, the Sherman Act and the Clayton Act. These amendments prescribed, among other things, that the same competitive standards would be applied by the Federal bank regulatory agencies and the Department of Justice in all cases involving bank mergers and registered bank holding company formations and acquisitions.

Under the amended legislation, it was made clear that all bank mergers were required to receive prior approval from the appropriate Federal regulatory agency, and all registered bank holding company formations and acquisitions must receive prior approval from the Board of Governors of the Federal Reserve System.

The ground rules were that the regulatory agencies could not approve, under any circumstances, acquisitions that would violate the antimonopoly provisions (section 2) of the Sherman Act. The statutes also forbid approval of any acquisition the effect of which "may be substantially to lessen competition, or to tend to create a monopoly" (the language of section 7 of the Clayton Act), or which "would be in restraint of trade" (in violation of section 1 of the Sherman Act), unless "the anticompetitive effects * * * are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served." Even if an acquisition is approved by the relevant banking agency, however, the Department of Justice may bring suit under the Clayton and/or Sherman Acts. But if that Department does not act within 30 days, it is thereafter barred from entering suit except under section 2 of the Sherman Act.

## Judicial Developments

In 1963, the Supreme Court in *United States* v. *Philadelphia National Bank*, 374 U.S. 321, confirmed that the antitrust laws did indeed apply to banking, even though it was a regulated industry.

Following the Bank Holding Company and Merger Acts, Department of Justice challenges to bank acquisitions resulted in court cases which added important judicial interpretation to laws governing the structure of banking. *U.S.* v. *First National City Bank of Houston*, 386 U.S. 361 (1967); *U.S.* v. *Crocker-Anglo National Bank*, 277 F. Supp. 133, (1967); *U.S.* v. *Third National Bank of Nashville*, 390 U.S. 171 (1968); *Federal Trade Commission* v. *Proctor and Gamble Company* (related case), *U.S.* v. *Provident National Bank* and *U.S.* v. *Mercantile Trust Co.*, 1968 Trade Cases, paragraphs 72,061, 72,366, and 72,379.

## Regulatory Developments

In addition, standards regulating bank structure and competition are continually formulated and periodically announced by three Federal agencies having jurisdiction over various elements of the banking

system (the Federal Reserve System, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation) as well as the 50-State banking authorities.

## Impact of Regulatory Developments of Recent Years

Thus, since the publication of the committee's 1962 "supplement" report on this subject, there have been landmark developments in the structure of regulation applicable to American banking. The evolution of these multiple sources of regulation, as well as the interplay between them, raise many questions of great importance for public policy. In this area, the 1970 Federal Reserve Report says only:

> It appears that the current regulatory environment, in which merger and holding company acquisitions require prior approval by relevant Government agencies, has been more suitable to the development and maintenance of competition in banking than was the case in earlier years.

It would have been helpful to have a fuller discussion of these matters at this time.

## Multiple Office Banking

Bank growth during the 1960's was characterized by the expansion of multiple-office banking. There are two avenues by which multiple offices may come about—branching and holding companies.

The 1970 report indicates that the number of banking offices, counting all branches separately, increased to approximately 32,500 by January 1969. This figure represents an increase of nearly 20 percent since December 1961. This growth rate exceeded that of the population, so that the number of Americans per banking office declined in these 8 years from 7,500 to 6,200.

The report relates these changes to State banking policies and practices on unit banking, limited branching, and statewide branch banking.

## Registered Bank Holding Companies

Another feature of banking structure in the 1960's was the rapid growth of registered bank holding companies. At the end of 1961 there were 41 separate bank holding companies with 427 subsidiary banks. There had been relatively little change in these numbers by December 1965. However, by the end of 1969 the number of holding companies had increased to 86 and the number of banks affiliated with these holding companies to 724. Equally impressive was the increase in the share of total deposits of registered holding companies and their subsidiaries. At the beginning of 1962 holding company subsidiaries held 8 percent of all commercial bank deposits; at the end of 1965, they held 8.3 percent; but by the end of 1969, the share of subsidiaries had risen to 14.5 percent of total U.S. deposits.

Although this trend was discussed briefly in the 1970 report, a more complete discussion could have been helpful background to understanding the dramatic increases in unregistered single-bank holding companies during this period covered by this report.

## One-Bank Holding Companies

Even since the early 1950's, the Congress and the Federal Reserve System have been concerned with bank holding companies as possible vehicles for concentration. Extensive hearings culminated in passage of the Bank Holding Company Act of 1956 (12 U.S.C. 1841–49) which required registration and regulation of companies holding 25 percent or more of the voting stock of each of two or more banks.

One primary objective of this legislation was to prevent undue concentration of ownership of banking activities through the holding company device. The Federal Reserve Board was provided with the authority to approve mergers and acquisitions of additional banks by these holding companies. Under the 1966 amendments to the Bank Holding Company Act (12 U.S.C. 1849(c)–(e)) the Board was charged with disapproving any acquisition, merger, or consolidation by a bank holding company:

> whose effect in any section of the country may be substantially to lessen competition, or to tend to create a monopoly, or which in any other manner could be in restraint of trade, unless it finds that the anticompetitive effects are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community.

A second objective was to guard against a conflict of interest between banking and nonbanking fields. This was accomplished by ordering divestiture of nonbank assets acquired in the past and preventing their acquisition in the future. (12 U.S.C. 1843(d)). Bank holding companies were thus prohibited from entering nonbank businesses, with certain specified exceptions. The most important of these exceptions was contained under section 4(c)(8) of the act which permits activities:

> of a financial, fiduciary, or insurance nature and which the Board after due notice and hearing, and on the basis of the record made at such hearing, by order has determined to be so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto * * *.

This provision permits a somewhat broader range of financial activities through the holding company device than banks could carry on directly. The national banking laws, for example, authorize national banks to perform "all such incidental powers as shall be necessary to carry on the business of banking." (12 U.S.C. 24, seventh paragraph; 12 U.S.C. 341, par. 7). There are no specific limitations on "the business of banking" in the statute, and the term has therefore been defined through Court interpretation.

The legal effect of such judicial decisions has been to constrain the types of activities which could be directly performed by banks pursuant to the basic language of the National Banking and Federal Reserve Acts. For example, a Federal court in Georgia denied the right of a national bank to sell insurance. Other activities have come under legal attack such as travel services, computer services, underwriting revenue bonds, and managing commingled trust accounts.

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Because of the language of section 4(c)(8), somewhat more flexibility is provided under the Bank Holding Company Act. If two or more banks come under the control of a holding company, the holding company may thus operate subsidiaries of a "financial, fiduciary, or insurance nature."

However, since the law only applied to holding companies controlling two or more banks, a one-bank holding company would be completely free of the prohibition against unrelated activities contained in either the Bank Holding Company Act or basic national banking law. Banking organizations wishing to engage in other activities which are not authorized under 12 U.S.C. 24 found that they could simply form a one-bank holding company and operate such activities as subsidiaries under the holding company. In theory, banks could enter almost any line of business through the one-bank holding company device including retailing, manufacturing, mining, or even farming. The records of the House Committee on Banking reveal that they have done so.

In this context, the spectacular growth of one-bank holding companies, a 10-fold increase in assets in the past 5 years as documented by this report, is a development of major significance. One-bank holding companies now control three times the assets of registered bank holding companies as illustrated by the following table:

BANK HOLDING COMPANIES AS OF DEC. 31, 1969

| | Number | Total deposits (billions) | Percentage of U.S. deposits |
|---|---|---|---|
| Registered holding companies (2 or more banks) | [1] [2] 86 | $62 | 14.62 |
| 1-bank holding companies | [2] 890 | 181 | 43.0 |
| Totals | [2] 976 | 243 | 57.62 |

[1] 724 affiliated banks. [2] Estimates.

The implications of this expansion are briefly discussed in the 1970 Federal Reserve report in the following terms:

> The motivation underlying the acceleration and change in nature of the one-bank holding company movement has included the desire of large banks to enter product and geographic markets from which they are barred or discouraged from entering by current law or regulation.* Because of their unregulated status, one-bank holding companies are free to enter almost any industry, including nonfinancial businesses. Through affiliates they may also enter towns and cities outside the State in which the bank is located.
>
> The one-bank holding company movement may be viewed as a response by commercial banks to competitive pressures and to customer demands for a wider variety of services. It has also been viewed by some with apprehension because of potential abuses that could flow from expansion into new

* In recent years, commercial banks have also entered a large number of new fields of activity directly and through subsidiaries, and have engaged in off-premise operations through loan production offices. See Federal Reserve bulletin August 1968, p. 681.

types of activity. Among matters of concern are the possibilities of undue concentration of economic power; preferential treatment by an affiliated bank of nonbank affiliates of the holding company, particularly in the extension of credit; and dangers to the soundness of affiliated banks arising from pressures to favor customers of its affiliated businesses in credit decisions.**

The committee notes that the staff study by the House Banking and Currency Committee published as a "Report on the Growth of the Unregistered Bank Holding Companies" (committee print, 91st Cong. first sess.), discloses that one-bank holding companies were, as of February 1969, engaging in 20 different financial activities and 99 different nonfinancial activities.

Substantial questions therefore arise as to geographic and product extension by one-bank holding companies, and the impact which these trends may have on banking structure and competition. It would have been of great assistance to have had a discussion of the development of banking structure and practice pursuant to the Bank Holding Company Act of 1956 in this regard, but unfortunately such material is not contained in the 1970 report.

## Impact Upon Small Business

These historic events have drawn the attention of scholars and Government officials as well as the 5½ million small businessmen whose fortunes and families often depend on bank services. The implications of these changes for small firms and for a society that wishes to preserve and encourage enterprise and independence are just beginning to be explored.

Professor Joel Dirlam, in his "Review of Recent Legislative and Judicial Trends Affecting Banking Structure," as delivered to a Conference on Bank Structure and Competition sponsored by the Federal Reserve Bank of Chicago in 1968, cites some recent studies which "hold out some hope of correlating changes in concentration with interest rate differentials."[1]

Further studies reviewed by Professor Jack M. Guttentag and Edward S. Herman in their book "Banking Structure and Performance" (New York University, Feb. 1967) tend to show that as banking concentration increases, businesses pay higher interest rates, and "as the size of the borrower increases, the effect of concentration on loan rates diminishes."[2]

The Federal Reserve has also begun to refine the examination of what constitutes a relevant market-area for small businesses and individuals. It has found that, for even medium-sized businesses, it is generally the given local area that constitutes the market.

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** For a discussion of some of the potential advantages and problems involved, see "Statement of Principles by the Board of Governors of the Federal Reserve System with respect to amendments to the Bank Holding Company Act," Feb. 20, 1969.

[1] G. Kaufman, "Bank Market Structure and Performance: The Evidence from Iowa," 32 *Southern Economic Journal* 429–439 (1966); P. Horvitz and B. Shull, "Impact of Branch Banking on Performance," *National Banking Review*, Dec. 1964, pp. 143–188; P. Meyer, "Price Discrimination, Regional Loan Rates, and the Structure of the Banking Industry," 21 *Journal of Finance* 127–152 (1967); A. Phillips, "Evidence on Concentration in Banking Markets and Interest Rates," 53 *Federal Reserve Bulletin* 916–926 (1967).

[2] "Concentration in Banking and its Effect on Business Loan Rates." *The Review of Economics and Statistics*, August 1964, p. 296 and 297; "Chicago Banking," by Schweiger and McGee, *The Journal of Business*, July 1961, p. 260; and other materials cited in ch. IV, "Banking Structure and the Price of Banking Services."

Initial findings are that within Standard Metropolitan Statistical Areas (SMSA's), there is far more concentration than national aggregate figures would suggest.

According to a recent study on the Structure of Commercial Banking in the Federal Reserve Bulletin of March 1970:

"The largest banking organizations in all SMSA's hold an average of 30 percent or more of total deposits, while the largest two banking organizations hold 50 percent or more. The percentages tend to be lowest in unit-banking States, followed by those in limited branching and then statewide branching States."

While concentration ratios tend to decline with population, even the lowest percentages are relatively high as illustrated by the following table:

PERCENTAGE OF TOTAL DEPOSITS HELD BY LARGEST BANKING ORGANIZATIONS IN METROPOLITAN AREAS
JUNE 29, 1968

PERCENTAGE OF TOTAL DEPOSITS

| Population of standard metropolitan statistical area | Largest organization | | | 2 largest organizations | | |
|---|---|---|---|---|---|---|
| | Statewide branching States | Limited branching States | Unit-banking States | Statewide branching States | Limited branching States | Unit banking States |
| 50,000 to 100,000 | 43.8 | 38.9 | 39.8 | 69.5 | 65.4 | 68.5 |
| 100,000 to 500,000 | 42.7 | 39.0 | 31.1 | 68.5 | 64.4 | 53.5 |
| 500,000 to 1,000,000 | 40.8 | 34.9 | 25.9 | 69.1 | 57.7 | 47.8 |
| 1,000,000 and over | 32.7 | 31.1 | 23.9 | 55.0 | 51.5 | 42.7 |
| All SMSA's | 41.1 | 37.3 | 31.5 | 66.9 | 61.7 | 54.6 |

PERCENTAGE OF TOTAL DEPOSITS IN ACCOUNTS OF $10,000 OR LESS

| | | | | | | |
|---|---|---|---|---|---|---|
| 50,000 to 100,000 | 43.1 | 32.3 | 35.9 | 65.7 | 63.2 | 62.1 |
| 100,000 to 500,000 | 40.3 | 36.2 | 24.5 | 66.4 | 60.6 | 44.0 |
| 500,000 to 1,000,000 | 37.2 | 30.2 | 15.7 | 64.0 | 52.4 | 30.8 |
| 1,000,000 and over | 32.5 | 24.5 | 13.9 | 54.7 | 42.5 | 24.5 |
| All SMSA's | 38.9 | 33.5 | 24.6 | 64.3 | 57.0 | 44.0 |

These vital and fundamental issues will be of continuing concern to the Committee on Small Business.

In addition to the valuable factual data provided in this report, the committee had also hoped for material addressed to the significance of developments of banking structure which would place current legislative and regulatory questions in context. Likewise, in view of this committee's specific responsibilities, the impact of these trends upon the small business community could have appropriately been considered. Perhaps, the way will now be open for a report of this nature at a future time.

However, the 1970 report of the Federal Reserve contains a wealth of data, much of it assembled for the first time. The committee deeply appreciates the efforts of the Board and its staff in preparing this work, and takes pleasure in presenting this study for the information of all who share these concerns.

ALAN BIBLE,
*Chairman, Select Committee on Small Business.*

# TRANSMITTAL CORRESPONDENCE

CHAIRMAN OF THE BOARD OF GOVERNORS,
FEDERAL RESERVE SYSTEM,
*Washington, D.C., March 13, 1970.*

Hon. ALAN BIBLE,
*Chairman, Select Committee on Small Business,*
*U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: As requested in Senator Smathers' letter of November 13, 1968, to Chairman Martin, there is enclosed a special report prepared by the staff of the Banking Markets Section, Division of Research and Statistics of the Board of Governors for the Senate Select Committee on Small Business. The report, entitled "Recent Changes in Banking Structure in the United States," brings up to date two similar reports submitted to the committee in August 1952 and January 1962.

Sincerely yours,

ARTHUR F. BURNS.

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U.S. SENATE,
SELECT COMMITTEE ON SMALL BUSINESS,
*Washington, D.C., November 13, 1968.*

Hon. WILLIAM McC. MARTIN, Jr.,
*Chairman, Board of Governors,*
*Federal Reserve System,*
*Washington, D.C.*

DEAR MR. CHAIRMAN: Twice in the past, at the request of this committee, the Federal Reserve Board has undertaken studies of mergers and acquisitions in the national banking community. The first such study under date of September 10, 1952, was entitled, "Concentration of Banking in the United States." The second study, published on January 5, 1962, bore the title, "Recent Developments in the Structure of Banking—A Supplement to Concentration in Banking in the United States."

Both of these documents were issued as committee prints. Providing as they did significant insights into competition in banking, these studies received much favorable attention from the business and academic communities.

In view of the high rate of mergers and acquisitions within the economy as a whole in recent years, it has occurred to me that information on concentration in banking should receive more than decennial notice.

Therefore, I hope that you will be agreeable to having your staff update these prior Reserve Board studies as of December 31, 1968.

This would give the Congress which convenes in January 1969, a current and authoritative appraisal of the extent of concentration in banking.

If you concur with me in this matter, I am sure that the committee will be most appreciative.

With best wishes.

GEORGE A. SMATHERS, *Chairman.*

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CHAIRMAN OF THE BOARD OF GOVERNORS,
FEDERAL RESERVE SYSTEM,
*Washington, D.C., January 22, 1969.*

Hon. ALAN BIBLE,
*Chairman, Select Committee on Small Business,*
*U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: I wish to acknowledge Senator Smathers' letter of November 13, 1968, requesting that the Board update two studies relating to mergers and acquisitions in the national banking community. The first such study was entitled "Concentration of Banking in the United States," dated September 10, 1952, and the second, published on January 5, 1962, was entitled "Recent Developments in the Structure of Banking—A Supplement to Concentration in Banking in the United States."

I would like, first of all, to apologize for the delay in replying to the committee's letter.

We agree that, in view of the high rate of mergers and acquisitions within the economy in recent years, information on concentration in banking should receive more than decennial notice. Accordingly, it is our view also that it would be worthwhile to update the studies prepared in 1952 and 1962 for the Select Committee on Small Business, and the Board's Division of Research and Statistics is now working on such a document and will have it available for publication as quickly as possible. In view of the fact that the data on which some of the study will be based is as of June 1968, and has just become available, we do not expect that the study will be ready for publication until shortly after the middle of this year.

We will, of course, furnish the committee with the new study as soon as it is available.

Sincerely yours,

(Signed) WM. MCC. MARTIN, JR.

# Recent Changes in Banking Structure in the United States [1]

## I. INTRODUCTION

This report supplements two previous reports prepared for the Senate Select Committee on Small Business.[2] Like the two previous reports, the last of which was published in 1962, it is concerned with the structure of commercial banking at the national and State level. Structure is considered to include the number of banks, their size distribution, and organizational and other relatively stable characteristics which affect bank performance. Such structural characteristics have been important to State and national authorities with responsibility for laws and regulations affecting banking structure.

Because of the availability of recently developed data, a somewhat more accurate picture of banking structure is possible now than in previous studies. The current study, for example, consolidates banks for holding company affiliations and makes use of more detailed deposit data than formerly were available. Because of the availability of new data, and for comparative purposes, it has been thought useful to review earlier years as well as the period since 1962.

## II. SUMMARY OF FINDINGS

On the basis of the review of bank structure at the national and State levels, the following findings may be stated.

(1) As in the past, the banking system in the United States is characterized by a large number of banks and banking organizations (consisting of holding company groups and independent banks). At the end of 1968 there were 13,678 banks in the United States and 13,171 banking organizations. It is believed that the latter figure is a more accurate reflection of the number of independent banking units.

(2) Between 1962 and 1968, the number of banking organizations in the United States increased slightly from 13,081 to 13,171. Between 1952 and 1961, there had been a decline in the number of banks and, though holding company data for the early 1950's are not available, most probably in the number of banking organizations as well. The recent increase in number of banks has not been sufficient to offset the earlier decline, but the net change since 1952 has been small.

(3) The small increase in the number of banking organizations since 1962 has involved a considerable amount of turnover among individual institutions. Approximately 1,300 new banks were chartered over the period and about 1,200 merged out of existence

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[1] This report was prepared by Bernard Shull and William Wiles, with the assistance of Janice Wickstead Jadlow in the Banking Markets Section, Division of Research and Statistics, Board of Governors, Federal Reserve System.

[2] *Concentration of Banking in the United States*, September 10, 1952, and *Recent Developments in the Structure of Banking*, January 5, 1962, Staff Reports of the Federal Reserve System to the Subcommittee on Monopoly of the Select Committee on Small Business, U.S. Senate.

or acquired by multiple bank holding companies. These changes affected bank management in a substantial proportion of banks—on the order of 15 to 20 percent of all banks in operation at the beginning of 1962.

(4) There has been a general increase in the size of banking organizations in recent years and a concomitant upward shift in size distribution. The median-sized banking organization increased 80 percent between June 1961 and June 1968, increasing from $3.4 million in deposits to $6.1 million. In 1961 there were 56 banking organizations with over $500 million in deposits; in 1968, there were 106; the number of organizations under $1 million in deposits decreased from 1,325 to 382.

(5) The largest 100 banking organizations in the United States (all with over one-half billion dollars in deposits) held close to 50 percent of total commercial bank deposits in mid-1968. When only large private accounts are considered; i.e., IPC demand deposits of $100,000 and over, the proportion rises to over 70 percent. These large banking organizations are the principal suppliers of banking services to large nationwide businesses in the United States.

(6) Between 1962 and 1968, concentration of total deposits in the 100 largest banking organizations declined slightly. Between 1957 and 1961 there had been a slight increase in the proportion of deposits held by the largest banking organizations. For the period as a whole, there was little change.

(7) The number of banks with only one office (unit banks) has declined substantially in recent years. The number of branch banks has increased substantially, as has the average number of branches per bank. While there are still far more unit banks in the United States than branch banks (by a ratio of 3 to 1), branch banks hold a far greater proportion of deposits (accounting for about 73 percent of all deposits) and account for a far greater proportion of offices (about 69 percent of all offices) than do unit banks.

(8) There are over 32,000 banking offices in the United States. The number of offices increased substantially between 1952 and 1961, rising from about 19,000 to 24,500; but growth between 1962 and 1968 was even faster. The large increase in number of offices in recent years has been principally due to de novo branching. The rate of increase in number of offices was faster than that of population; the ratio of population to banking offices thus decreased, from about 8,000 per office at the beginning of 1952 to about 7,500 per office at the end of 1961 and about 6,200 per office at the end of 1968.

(9) In 1955 there were 117 known one-bank holding companies in the United States, holding banks with $11.6 billion in total deposits—about 6 percent of the national total. By the end of 1969, there were over 890 known one-bank holding companies holding banks with around $180 billion in deposits—about 43 percent of insured commercial bank deposits in the United States. The major proportion of the increase in number of affiliated banks, and the overwhelming proportion of the increase in deposits held,

occurred after the first half of 1968. Prior to that time, one-bank holding companies were typically small concerns holding small banks among other properties. Since then, many of the largest banks in the country have formed one-bank holding companies.

(10) The number of banking organizations varies considerably among States, and is associated with population, income, and type of branching law. Unit banking States had by far the largest number of organizations. Branch banking States, particularly with small populations, had the fewest.

(11) Concentration of deposits in the top five banking organizations in each State also shows substantial differences and is associated with, among other things, State branching law. Concentration was generally considerably higher in branch banking States than in unit banking States.

(12) State laws restricting branch banking and holding companies have been liberalized significantly in only a few States in the 1960's. Virginia, New York, New Hampshire, and New Jersey have changed their laws to permit more extensive branching and/or holding company activity. In general, the effect has been to reduce the number of banking organizations in those States and raise the proportion of deposits held by the largest organizations. However, these changes, in and of themselves, do not necessarily mean a reduction in competition in local banking markets. In New York, for example, there is evidence that expansion by branch banks and by holding companies has increased competition in some local markets.

(13) Changes in the number of banking organizations have also varied considerably among States since 1962, ranging from an increase of 126 in Texas and 98 in Illinois to a decrease of 167 in Pennsylvania and 103 in Virginia. Change in number of organizations is largely determined by number of mergers and new bank charters. In Illinois, for example, over 100 new banks have been chartered over the period, while there have been only 12 mergers. In contrast, in Virginia there were over 100 mergers and 39 new banks chartered. More than half the new charters over the period were in unit banking States; the preponderance of mergers (about 93 percent) were in statewide and limited branching States.

(14) Concentration, as measured by the proportion of deposits held by the five largest banking organizations in each State, decreased in over twice as many States as it increased between 1962 and 1968. Concentration declined in 26 States and increased in 12 States (including the District of Columbia). The concentration ratio remained about the same (between +1 and −1 percentage points) in 13 States. Declines were principally in unit banking States characterized by many new charters and few mergers.

## III. BANKING ORGANIZATIONS IN THE UNITED STATES

Banking institutions in the United States may be classified into several groups on the basis of their organizational structure. In this section the major types of organizations and recent changes in their number, size distribution, and relative importance are reviewed.

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*A. Types of Banking Organizations*

Commercial banks in the United States may be grouped into at least three organizational classes: (1) unit or single-office institutions; (2) branch banking or multiple office institutions; and (3) registered bank holding companies which are multiple-bank (branch or unit) institutions.[3] In considering structural change, banking organizations, consisting of unit and branch banks consolidated for holding company affiliation, are important. These consolidated organizations represent principal decisionmaking units; and it is their number and dispersion that are presumed to affect market behavior and performance.[4] However, for comparative purposes, both banks and banking organizations are frequently discussed below, principally because data on holding company affiliations are not available for the early 1950's.

The "one-bank holding company" represents an additional grouping which has received considerable attention recently. Single banks held by holding companies may be either unit or branch banking institutions. The recent growth of these companies raises distinct issues, and these are also discussed below.

*B. Number of Banks and Banking Organizations*

At the beginning of 1952, there were 14,118 banks in the United States. By the end of 1968, the number had declined to 13,678. However, the number of banks did not decline consistently in each year of the period. As shown in table 1, there were increases in the number of banks in 1963, 1964, and 1965; in these years there was a net addition of 378 banks in the United States. In 1960 and 1962 there were insignificant declines in number. From the beginning of 1962 to the end of 1968, the number of banks in the United States increased from 13,431 to 13,678.

Newly organized banks are the principal source of increasing numbers of banks. (Reopenings have added only a few banks in recent years.) Since 1952 there have been only 2,300 newly chartered institutions—an average rate of about 137 per year. The principal cause of decline in numbers is merger. (Bank disappearance through suspension and voluntary liquidation has been insignificant in recent years.) Between 1952 and 1968, over 2,600 banks disappeared as a result of merger—at an average of over 153 per year.

The number of mergers exceeded the number of new charters in each year of the period with the exception of 1963, 1964, and 1965. In the 1963–65 years, mergers averaged about 144 per year; new charters, on the other hand, averaged 278 per year. The net increase of 191 banks in 1964 was the largest since the mid-1930's.

While merger was the principal cause of bank disappearance over the period, formations of registered bank holding companies and bank acquisitions by registered holding companies may also be viewed as reducing the number of independent banks. In 1956, there were 49 registered holding companies with 428 affiliated commercial banks (see table 2). Between 1956 and 1961, there was little change in the number of banks affiliated with holding companies; and,

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[3] In addition, banks are sometimes affiliated through common stock ownership by individuals or groups. However, data on such "chain banking" relationships are not readily available.

[4] As discussed below, there is great disparity in deposit size among banking institutions. To a degree associated with size, banking institutions vary in the range and depth of services offered. In analyzing the effects of changes in the number and dispersion of banking institutions on behavior and performance, this factor should also be taken into account.

TABLE 1.—CHANGES IN NUMBER OF COMMERCIAL BANKS IN THE UNITED STATES, DEC. 31, 1951–1968

| | 1952 | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Number of banks, beginning of period | 14,118 | 14,074 | 14,009 | 13,869 | 13,744 | 13,668 | 13,594 | 13,527 | 13,473 | 13,471 | 13,431 | 13,426 | 13,570 | 13,761 | 13,804 | 13,769 | 13,720 |
| New banks organized | +73 | +64 | +74 | +116 | +123 | +87 | +97 | +119 | +135 | +112 | +183 | +300 | +335 | +198 | +117 | +102 | +87 |
| Reopenings | | +3 | | | | +1 | | | | +1 | +1 | | | +1 | | | +1 |
| Mergers, consolidations and absorptions | | | | | | | | | | | | | | | | | |
| Banks converted into branches | −83 | −92 | −175 | −205 | −166 | −134 | −126 | −149 | −106 | −126 | −164 | −139 | −120 | −130 | −113 | −114 | −120 |
| Other | −18 | −23 | −31 | −27 | −23 | −23 | −25 | −18 | −25 | −13 | −18 | −12 | −13 | −19 | −24 | −19 | −10 |
| Suspensions | −3 | −4 | −3 | −4 | −3 | −3 | −8 | −3 | −2 | −9 | −2 | −2 | −8 | −7 | −1 | −4 | |
| Voluntary liquidations | −13 | −10 | −7 | −5 | −7 | −3 | −5 | −3 | −4 | −5 | −4 | −2 | −2 | | −4 | −11 | |
| Other changes | | −3 | +2 | | | +1 | | | | | −1 | −1 | −1 | | −10 | −3 | |
| Number of banks, end of period | 14,074 | 14,009 | 13,869 | 13,744 | 13,668 | 13,594 | 13,527 | 13,473 | 13,471 | 13,431 | 13,426 | 13,570 | 13,761 | 13,804 | 13,769 | 13,720 | 13,678 |
| Net increase or decrease | −44 | −65 | −140 | −125 | −76 | −74 | −67 | −54 | −2 | −40 | −5 | +144 | +191 | +43 | −35 | −49 | −42 |

TABLE 2.—NUMBER AND TOTAL DEPOSITS OF BANKS AFFILIATED WITH REGISTERED BANK HOLDING COMPANIES, DEC. 31,1956, 1961–1968

| | 1956 [1] | 1961 [2] | 1962 [2] | 1963 [2] | 1964 [2] | 1965 [2] | 1966 [2] | 1967 [2] | 1968 [2] |
|---|---|---|---|---|---|---|---|---|---|
| Number of holding companies [3] | 49 | 41 | 44 | 47 | 48 | 48 | 58 | 65 | 71 |
| Number of banks | 428 | 427 | 442 | 454 | 460 | 468 | 561 | 603 | 629 |
| Ratio of number of banks to number of holding companies | 8.73 | 10.41 | 10.04 | 9.66 | 9.58 | 9.75 | 9.67 | 9.28 | 8.86 |
| Holding company banks as a percentage of all banks | 3.1 | 3.2 | 3.3 | 3.3 | 3.3 | 3.4 | 4.0 | 4.4 | 4.6 |
| Total deposits (billions of dollars) | 14.8 | 19.8 | 21.2 | 22.5 | 25.0 | 27.6 | 41.1 | 49.8 | 57.6 |
| Total deposits of holding companies as a percentage of deposits of all banks | 7.5 | 8.0 | 8.1 | 8.2 | 8.1 | 8.3 | 11.6 | 12.6 | 13.2 |

[1] Source: Unpublished Federal Reserve data.
[2] Source: August Federal Reserve bulletins.
[3] Numbers are for separate bank groups. There were 53 registered bank holding companies in 1956, for example, but in 4 cases 1 holding company controlled another.

in fact, the number of holding companies declined to 41. Between 1962 and 1968, however, the number of registered holding companies increased by almost 75 percent, and the number of affiliated banks by almost 50 percent.

Expansion of holding company activities has been particularly rapid since 1966. As a result, the number of banking organizations has not increased by as much as the number of commercial banks in recent years. Thus, as noted, there were 13,431 banks in the United States at the beginning of 1962, and 13,081 banking organizations (including 41 holding companies with 427 affiliated banks). By the end of 1968, there were 13,678 banks—an increase of 247—but only 13,171 banking organizations—an increase of only 90 (see table 3).

This small net change in number of banking organizations in the United States in the recent 1962–68 period (an increase of a little over one-half of 1 percent) involved, nevertheless, a considerable amount of structural change affecting individual organizations. The 1,302 new banks chartered in the period represent about 10 percent of the number of existing banking organizations in 1961; the 1,015 banks acquired by merger represent about 8 percent of the number in 1961; and the 201 banks affiliated into holding companies, when added to those merged, raises the acquisition rate from 8 percent of existing organizations to well over 9 percent.

New banks, mergers, and holding company acquisitions and formations did not occur uniformly among all sections of the country. As discussed below, most new banks were established in unit banking States, principally located in the Midwest. Most mergers were consummated in limited and statewide branching States, particularly in California and in the Eastern United States. Holding company activity expanded in a number of areas throughout the country, par-

TABLE 3.—NUMBER OF COMMERCIAL BANKS AND BANKING ORGANIZATIONS IN THE UNITED STATES, DEC. 31, 1956, 1961, AND 1968

| | 1956 | 1961 | 1968 |
|---|---|---|---|
| Number of banks | 13,668 | 13,431 | 13,678 |
| Number of banking organizations | 13,311 | 13,081 | 13,171 |
| Difference | 357 | 350 | 507 |

Source: Federal Reserve bulletins.

ticularly in limited-branching States such as New York and Virginia and in unit banking States such as Florida and Colorado.

In general, however, the churning among individual institutions in recent years has probably been large enough to have had an important effect on banking, especially in those States and areas of the country in which change was heavily concentrated. On a national basis since 1962, the appearance of new banks and disappearance of old banks could conceivably have changed the character and outlook of bank management in 15 to 20 percent of the banks in the United States.[5]

*C. Size Distribution of Banking Organizations*

The median-sized banking organization in the United States increased from $2.9 million in deposits in 1957 to $3.4 million in 1961 and to over $6 million in 1968. (See table 4.) In 1957, about 14 percent of banking organizations had $1 million or less in deposits; in 1968, less than 3 percent were in the same deposit class. (See table 5.)[6] There were only 22 banking organizations with over a billion dollars in deposits in mid-1957; in mid-1968, there were 48.

TABLE 4.—MEDIAN-SIZED INSURED COMMERCIAL BANKS AND BANKING ORGANIZATIONS: JUNE 1957, 1961, AND 1968

| Year | Bank | Banking organization |
|---|---|---|
| 1957 | $2,952,000 | $2,869,000 |
| 1961 | 3,464,000 | 3,376,000 |
| 1968 | 6,297,000 | 6,071,000 |

TABLE 5.—SIZE DISTRIBUTIONS OF BANKING ORGANIZATIONS: JUNE 1957, 1961, AND 1968

[Dollars in millions]

| Total deposits size of banking organization | 1957 | | 1961 | | 1968 | |
|---|---|---|---|---|---|---|
| | Number | Percent | Number | Percent | Number | Percent |
| Over $500 | 45 | 3. | 56 | .4 | 106 | .8 |
| Over $100 to $500 | 177 | 1.4 | 221 | 1.7 | 348 | 2.7 |
| Over $50 to $100 | 209 | 1.6 | 209 | 1.6 | 380 | 2.9 |
| Over $20 to $50 | 613 | 4.8 | 681 | 5.3 | 1,283 | 9.8 |
| Over $10 to $20 | 1,023 | 8.0 | 1,236 | 9.7 | 2,107 | 16.2 |
| Over $5 to $10 | 2,021 | 15.7 | 2,245 | 17.6 | 3,256 | 25.0 |
| Over $2 to $5 | 4,197 | 32.6 | 4,268 | 33.4 | 3,733 | 28.7 |
| Over $1 to $2 | 2,809 | 21.8 | 2,540 | 19.9 | 1,437 | 11.0 |
| $1 or less | 1,779 | 13.8 | 1,325 | 10.4 | 382 | 2.9 |
| All size classes | 12,873 | 100.0 | 12,781 | 100.0 | 13,032 | 100.0 |

[5] This estimate is based on the fact that approximately 1,200 banks were acquired over the period through merger or by holding companies, and that about 1,300 new charters were established. However, this summary figure of 2,500 banks coming under new management involves some double counting. First, some new banks chartered over the period have already been merged out of existence. Secondly, some banks acquiring another bank by merger in 1 year were, in turn, acquired themselves in a subsequent year. Finally, there were some banks chartered at the initiative of holding companies for the express purpose of affiliation. Such a de novo bank acquisition by a holding company would not involve a turnover in bank management either as a result of the new charter or of the acquisition. The effect of all these sources most likely would not reduce by more than several hundred the summary figure of 2,500 banks coming under new management.

[6] The 1968 size distributions for commercial banks, and for commercial banking organizations affiliated for holding companies, are compared in table 6. The table indicates that consolidation of holding company affiliates reduces slightly the number of institutions in all size classes except the largest. The greatest relative differences in number of institutions are found in the size classes from $5 to $100 million in deposits, where consolidation for holding company affiliation reduces the number from 7,446 to 7,026, i.e., by almost 6 percent. Holding company affiliation thus does not significantly affect the number of banks with less than $5 million in deposits, but does significantly reduce the number of larger banks. The net effect of consolidation is to reduce the median-sized institution.

TABLE 6.—NUMBER AND TOTAL DEPOSITS WITHIN SIZE CLASSIFICATION OF INSURED COMMERCIAL BANKS AND BANKING ORGANIZATIONS, JUNE 29, 1968

[In millions of dollars]

| | Total deposits | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1 or less | 1 to 2 | 2 to 5 | 5 to 10 | 10 to 20 | 20 to 50 | 50 to 100 | 100 to 500 | Over 500 | Total |
| Banking organizations | 382 | 1,437 | 3,733 | 3,256 | 2,107 | 1,283 | 380 | 348 | 106 | 13,032 |
| Percent | 2.9 | 11.0 | 28.6 | 25.0 | 16.2 | 9.8 | 2.9 | 2.7 | .8 | 100.0 |
| Banks | 383 | 1,440 | 3,778 | 3,366 | 2,245 | 1,424 | 411 | 363 | 101 | 13,511 |
| Percent | 2.8 | 10.7 | 28.0 | 24.9 | 16.6 | 10.5 | 3.0 | 2.7 | .7 | 100.0 |
| Difference in number of banking institutions | −1 | −3 | −45 | −110 | −138 | −141 | −31 | −15 | +5 | −479 |

A number of factors have conceivably led to changes in the size distribution. Mergers and holding company formations and acquisitions would tend to increase the number and proportion of large banking organizations, as would de novo branching. The differential ability of large banks to sell liabilities, such as time certificates of deposit, in national markets and the development of new money markets for bank liabilities would also tend to support the number and proportion of large organizations. The immediate effect of new charters, on the other hand, would be to increase the number and proportion of small banking organizations. Probably of key importance in changing the size distribution, however, has been the growth of total bank deposits between 1957 and 1968. Over this period deposits held by all commercial banking organizations in the United States increased from $185 billion to $393 billion, or about 112 percent. This percentage increase could, in and of itself, account for the observed increase in the median-sized banking organization, and suggests that other influences were approximately offsetting.[7]

TABLE 7.—PROPORTION OF TOTAL DEPOSITS HELD BY BANKS AND BANKING ORGANIZATIONS, JUNE 1957, 1961 AND 1968; AND PRIVATE DEMAND DEPOSITS IN ACCOUNTS OVER $100,000 HELD BY BANKING ORGANIZATIONS IN THE UNITED STATES, JUNE 1968

| | 1957 | | 1961 | | 1968 | | |
|---|---|---|---|---|---|---|---|
| | | | | | Bank(s) | Banking organization(s) | |
| | Bank(s) | Banking organization(s) | Bank(s) | Banking organization(s) | Total deposits | Total deposits | Demand deposits IPC in accounts over $100,000 |
| Largest | 4.55 | 4.55 | 4.55 | 4.55 | 4.03 | 4.03 | 3.37 |
| Largest 5 | 13.36 | 13.68 | 13.70 | 14.33 | 14.02 | 14.25 | 21.98 |
| Largest 100 | 45.30 | 48.24 | 46.31 | 49.44 | 45.66 | 48.99 | 71.36 |
| Largest 300 | 58.83 | 61.27 | 60.29 | 62.95 | 59.23 | 62.80 | 85.22 |
| Herfindahl [1] | .0056 | .0062 | .0059 | .0066 | .0058 | .0064 | .0157 |

[1] The Herfindahl index is defined as the sum of squares of the market shares for all firms in an industry.

[7] Applying the 112 percent increase to the median-sized banking organization in 1957, its estimated deposit size in 1968 would be $6,082,000. As shown in table 4, the actual deposit size of the median banking organization in 1968 was $6,071,000. Nevertheless, the percentage increase in deposits does not, in and of itself, completely explain differences in the 1957 and 1968 size distributions. If the deposits of each bank in 1957 are increased by 112 percent, the resulting distribution is significantly different from the actual 1968 distribution. Further analysis suggests that this significant difference was primarily the result of growth patterns in unit banking States. States were grouped by branching laws into unit banking, and limited and statewide branching States. (For a listing of the States in each group, see table 9.) The average 1962–1968 growth rate

*D. Deposit Concentration in the United States*

As noted, the U.S. banking industry is characterized by relatively few large organizations, many small organizations and a great deal of variability in size. The largest banking organization in the United States, Bank of America, with deposits in mid-1968 of $16 billion, is approximately 2,700 times as large as the median-sized organization. (See table 7.) The largest 100 organizations in the United States (less than 1 percent of all organizations) held almost half of all deposits in 1968—little changed from 1961 and 1957 [8]—and about 70 percent of large private checking deposits (IPC demand). The largest 100 or thereabouts, represent the principal banking connections of large nationwide businesses in the United States. While they are a minute proportion of the total number of banking organizations in the United States, they are, in absolute terms, a reasonably large number, and deposits among them are not highly concentrated.

The low degree of concentration in banking at the national level is reflected in the Herfindahl Index shown in table 7, which can range from zero, when there are many organizations of equal size, to one when there is only one organization.[9] The index is approximately tripled, but still little changed from its closeness to zero, when only private demand deposits are considered.

*E. Number of Banking Offices*

The number of banking offices (head offices plus branches) has continued to increase rapidly in recent years. At the end of 1951, there were slightly over 19,000 banking offices in the United States. (See table 8.) In 1961, there were over 24,000, an increase of 27 percent in the 10-year period. By the end of 1968, this number had risen to over 32,000—more than a 32-percent increase in 7 years. The large increase in the number of banking offices has been principally due to increases in de novo branches. Of approximately 13,600 branches which have come into existence since the beginning of 1952, only about 2,300 were converted head offices merged into acquiring banks.

During the 1952–68 period there was a substantial decrease in the number of unit banks (from 12,757 to 10,014) and an increase in the number of branch banks (from 1,361 to 3,665). The average number of branches per branch bank also increased, from 3.79 at the beginning of 1952 to 5.12 at the end of 1968. The percent of all banking offices controlled by branch banks more than doubled, rising from 34 to 69 percent. In 1968, 73 percent of all bank deposits were held by branch banks. At present, 36 States (including the District of Columbia) permit full service branching on either a statewide or limited area basis; a number of the remaining 15 States which prohibit full-service branching permit the establishment of limited-service offices primarily to accept deposits. Actually there is at present no State in the country

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for each of the three groups was then applied to each bank within its respective group. The only group for which the resulting hypothetical size distribution differed significantly from the actual distribution in 1968 was the unit banking States. In unit banking States, banks under $5 million have grown faster than the average for all banks in these States and banks over $100 million have grown less rapidly. One explanation is that the large urban banks in these States have been unable to extend themselves geographically into suburban and other high growth areas. Smaller banks, already in the high growth areas or newly established, have benefited.

[8] However, in recent years, the largest banks have had a considerable expansion of non-deposit-bank liabilities; in particular Federal funds and Euro-dollars have increased considerably. The attribution of most of these non-deposit liabilities to the 100 largest banks would increase concentration in these banks by several percentage points.

[9] The Herfindahl Index is defined as the sum of squares of the market shares for all firms in an industry.

TABLE 8.—NUMBER OF BRANCH BANKS, BRANCHES, UNIT BANKS, AND OFFICES, DEC. 31, 1951, 1961, AND 1968

| | Number of commercial banks operating 1 or more branches | Total number of branches | Average number of branches per branch bank | Number of commercial banks operating only 1 office | Total number of offices |
|---|---|---|---|---|---|
| Dec. 31— | | | | | |
| 1951 | 1,361 | 5,153 | 3.79 | 12,757 | 19,324 |
| 1961 | 2,484 | 11,077 | 4.46 | 10,948 | 24,509 |
| 1968 | 3,665 | 18,777 | 5.12 | 10,014 | 32,456 |
| Average change per year: | | | | | |
| 1951–61 | 112 | 592 | ---------- | —181 | 518 |
| 1962–68 | 168 | 1,100 | ---------- | —133 | 1,135 |

Source: Federal Reserve bulletins.

which has no branch offices at all, although Wyoming comes very close, with only one.

Despite the acceleration of branching in the United States in recent years, there are still almost three times as many unit banks as branch banks. However, considering the proportion of banking offices and of deposits held by branch banks, the small number of branch banks relative to unit banks does not truly represent the significance of branch banking in the United States.

## IV. GROWTH OF ONE-BANK HOLDING COMPANIES

The Bank Holding Company Act of 1956, which required certain bank holding companies to register with the Board of Governors and imposed a number of constraints on their activities, contained a number of exemptions, including an exemption for corporations holding 25 percent or more of stock in only one bank. In 1955, there were 117 known one-bank holding companies, which held banks with $11.6 billion in total deposits [10]—about 6 percent of the total bank deposits in the Nation. By the end of 1965, there were 550 such companies, with $15.1 billion in deposits.[11] Nevertheless, their percent of total deposits had decreased to 4.5 percent. One-bank holding companies were typically, though not invariably, small concerns holding small banks among other properties.

Recently, however, there has been considerable growth in the importance of the one-bank holding company. During the second half of 1968 and in 1969, many of the largest banks in the Nation formed one-bank holding companies; and by the end of 1969 there were over 890 known one-bank holding companies holding banks with $181 billion in deposits—about 43 percent of total deposits of all insured commercial banks in the United States.

The motivation underlying the acceleration and change in nature of the one-bank holding company movement has included the desire of large banks to enter product and geographic markets from which they are barred or discouraged from entering by current law or regulation.[12] Because of their unregulated status, one-bank holding

[10] See staff report for the Committee on Banking and Currency. "The Growth of Unregistered Bank Holding Companies—Problems and Prospects," 91st Cong., first sess., Washington, D.C., 1969, p. 5.
[11] *Ibid.*
[12] In recent years, commercial banks have also entered a large number of new fields of activity directly and through subsidiaries, and have engaged in off-premise operations through loan production offices. See Federal Reserve Bulletin, August 1968, p. 681.

companies are free to enter almost any industry, including nonfinancial businesses. Through affiliates they may also enter towns and cities outside the State in which the bank is located.

The one-bank holding company movement may be viewed as a response by commercial banks to competitive pressures and to customer demands for a wider variety of services. It has also been viewed by some with apprehension because of potential abuses that could flow from expansion into new types of activity. Among matters of concern are the possibilities of undue concentration of economic power; preferential treatment by an affiliated bank of nonbank affiliates of the holding company, particularly in the extension of credit; and dangers to the soundness of affiliated banks arising from pressures to favor customers of its affiliated businesses in credit decisions.[13]

## V. BANKING STRUCTURES AT THE STATE LEVEL

The banking system in the United States involves State as well as national regulation of banking. All States are alike in not permitting entry by banks domiciled in other States, but differ considerably in the precise mix of regulations concerning branching and holding company operations.

### *A. Branching Regulations*

States may be classified into three groupings based on their branch banking laws as follows: (1) States permitting geographically unrestricted branching (statewide branching States); (2) States permitting branching within limited geographic areas (limited branching States); and (3) States prohibiting branch banking (unit banking States).[14] (See table 9.)

TABLE 9.—SUMMARY OF STATE LAWS AFFECTING THE OPERATION OF BRANCHES, 1968

| Statewide branching States | Limited branching States | Unit banking States |
|---|---|---|
| Alaska, Arizona, California, Connecticut, Delaware, District of Columbia, Hawaii, Idaho, Maine, Maryland, Nevada, North Carolina, Oregon, Rhode Island, South Carolina, South Dakota, Utah, Vermont, Virginia,[1] and Washington. | Alabama, Georgia, Indiana, Kentucky, Louisiana, Massachusetts, Michigan, Mississippi, New Hampshire, New Jersey, New Mexico, New York, Ohio, Pennsylvania, Tennessee, and Wisconsin.[3] | Arkansas, Colorado, Florida, Illinois, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, North Dakota, Oklahoma, Texas, West Virginia, and Wyoming. |

[1] Virginia branching law was amended in 1962, changing that State's classification from limited branching to statewide branching.

[2] New Hampshire prohibited branch banking prior to 1963.

[3] Wisconsin law was changed in 1968 to permit a limited number of de novo branches. However, prior to the change in the law, there were over 170 "grandfather" branches in operation in the State.

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[13] For a discussion of some of the potential advantages and problems involved, see "Statement of Principles by the Board of Governors of the Federal Reserve System with Respect to Amendments to the Bank Holding Company Act," Feb. 20, 1969.

[14] Classification is, to a certain degree, arbitrary. The term "branch" is frequently used to describe both full service branches, which make loans as well as accept deposits, and limited service branches, which do not make loans. In the present study, States are classified as statewide or limited branching States only if they allow full service branching. No matter what the basis of classification, laws, and practices vary widely between States in each grouping. California, for example, legally permits banks to branch statewide either *de novo* or through merger (Cal. Fin. Code sec. 500 (West. 1968)), whereas Virginia banks can branch statewide only through merger. (Virginia Code Ann. sec. 6.1-39 (1966)). Georgia, a limited branching State, allows banks only in certain classes of cities to establish branches within the limits of the city of the head office (Georgia Code Ann. sec. 13-203.1 (supp. 1968)), while Pennsylvania permits branches within the city, county, or county contiguous to the head office county (Pennsylvania Ann. Stat. sec 7-904 (1965)). Iowa, a unit banking State, had 673 head offices and over 280 limited service branches at the end of 1968. Minnesota, another unit banking State, had 723 head offices and only 10 limited service branches. Despite the differences among States within the classifications, the three-way grouping remains useful for analytical purposes.

Only four States have significantly changed their branching laws since 1960. These are New Hampshire, Virginia, New Jersey and New York. The latter three States also changed their requirements on holding company activity simultaneously.

The New Hampshire banking law was amended in October 1963. Branch banking, which was formerly prohibited, was thereafter permitted, subject to home office protection and other limitations, within limited geographic areas—in main office towns, contiguous towns and noncontiguous towns within a limited distance from the main office location. Branching de novo or through merger was prohibited, however, to any bank holding more than 20 percent of the dollar volume of all bank deposits in the State. (A similar restriction was placed on acquisitions by bank holding companies.) [15]

The Virginia banking law was changed in 1962. Prior to the change, de novo branching in Virginia and branching by merger were permitted only within a limited area around the head office.[16] In 1962, the law was amended to permit statewide branching through merger. De novo branching was still restricted to a limited area around the head office.[17]

In New York, branching by banks headquartered in the New York City area was liberalized in 1960. The change permitted reciprocal branching, de novo and by merger, for banks in the three New York City counties in State Banking District 2 and those in Westchester County in District 3 and Nassau County in District 1.[18] (Reciprocal branching privileges between the banks in District 2 and those in Kings and Queens Counties in District 1 already existed.)

In New Jersey, branching privileges were liberalized in 1969. Prior to the change in the law, branching was limited to head office counties, and further limited by head and branch office protection against de novo branching.[19] Branching is now permitted within three designated State banking districts into which the state has been divided. Branching de novo is still subject to home office protection in all communities, but is subject to branch office protection only in small communities.[20]

*B. Holding Company Regulations*

A majority of the States (30) have not enacted specific legislation regulating bank holding companies. (See table 10.) Five States, however, require approval of the acquisition of bank stocks by holding companies; four additional States have explicit laws restricting such acquisitions; and 12 States prohibit multiple bank holding companies entirely.

At the end of 1957, 44 separate bank holding companies, operating in 33 States, held 417 affiliated banks. (See table 11.) These affiliated banks held $15.1 billion in deposits. By the end of 1968, the number of States in which holding companies operated had increased by only

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[15] N.H. Rev. Stat. Ann. section 384–B:2.

[16] Branching de novo was permitted within the city, town or county of the head office. Branching by merger was permitted within the head office county or adjoining counties, or within 25 miles of the head office. See acts of Virginia Assembly, ch. 75 (1952).

[17] Va. Code Ann. section 6.1–39 (1966).

[18] N.Y. Bank Law, art. 3, sec. 105 (Supp. McKinney's, 1969–70).

[19] Laws of New Jersey 1948, ch. 67, p. 196, 19 as amended.

[20] New Jersey Stat. Ann. sec. 17:9A–19 (Supp. sec. 1969–70).

TABLE 10.—SUMMARY OF STATE LAWS AFFECTING THE ACQUISITION OF BANK STOCKS BY REGISTERED BANK HOLDING COMPANIES

| No explicit holding company law | Law permits holding companies but requires state approval | Law permits holding companies but restricts operations [2] | Law prohibits holding companies |
|---|---|---|---|
| Alabama, Alaska, Arizona, Arkansas, California, Colorado, Delaware, District of Columbia, Hawaii, Idaho, Iowa, Maine, Maryland, Minnesota, Missouri, Montana, Nevada, New Mexico, North Carolina, North Dakota, Ohio, Oregon, Rhode Island, South Dakota, Tennessee, Texas, Utah, Virginia, Wisconsin, and Wyoming. | Connecticut,[1] Florida, Massachusetts,[1] New York,[1] and South Carolina.[1] | Kentucky, New Hampshire,[1] New Jersey,[1] and Washington.[1] | Georgia,[1] Illinois,[1] Indiana,[1] Kansas,[1] Louisiana,[1] Michigan, Mississippi, Nebraska,[1] Oklahoma,[1] Pennsylvania,[1] Vermont, and West Virginia. |

[1] Enacted since Bank Holding Company Act of 1956.
[2] In Kentucky, a company cannot acquire more than 50 percent of the stock of a bank.
In New Hampshire, a company is limited to 12 bank affiliates and 20 percent of State's bank deposits.
In New Jersey, a company is limited to 20 percent of State's bank deposits.
In Washington, a company cannot acquire more than 25 percent of the stock of a bank.

one; but the number of separate holding companies had increased to 71, the number of banks controlled had risen to 629, and the amount of deposits held was $57.6 billion.[21]

In States where holding companies operate, the percentage of deposits controlled varies widely, ranging from 1 percent in Indiana to about 61 percent in Nevada. (See table 12.) While holding companies are sometimes thought to be important principally in unit banking States, they actually are of about equal importance in statewide and limited branching States. For example, a larger percentage of banks in statewide branching States is affiliated with multiple-bank holding companies than in unit banking States; and there is little difference in the proportion of deposits in holding company affiliated banks in the three types of States.[22]

Since 1957, holding company activity has expanded most rapidly in Colorado, Florida, Wisconsin, New York, and Virginia.[23] Colorado, Florida, and Wisconsin were classified as unit banking States.[24] In these States, holding company formations or acquisitions have been the only available methods for developing or expanding multiple-office banking organizations.

In New York, branching is permitted only within each of the banking districts, with the exception in the New York City area noted earlier; and statewide banking organizations could be developed only through holding company affiliations. A freeze on holding company activity had been imposed in 1957, but was removed in 1960. In the mid-1960's banks began to take advantage of the holding company organizational form to expand into additional districts in the State.

As noted, Virginia permitted statewide branching by merger in 1962. At the same time, the law defined bank holding companies for the first time; and the operation of the law has encouraged holding company growth. Under the new law, a bank could enter any distant

[21] The number of registered bank holding companies continued to grow rapidly in 1969. By the end of 1969 there were 86 separate holding companies with 724 affiliated banks and $62.0 billion in deposits.
[22] Banks affiliated with holding companies comprise 6.8 percent of all banks in statewide branching States. Percentage figures for limited branching and unit banking States are 3.7 and 4.8 percent respectively. Holding company affiliated banks hold 14.0 percent of the total deposits of all banks in statewide branching States, 13.0 percent in limited branching States, and 13.3 percent in unit banking States.
[23] Percentage of State deposits in holding company banks also increased significantly in Maine, but the number of holding companies increased by only one.
[24] Since 1968, Wisconsin has been classified as a limited branching State.

TABLE 11.—NUMBER OF HOLDING COMPANIES AND NUMBER OF AFFILIATED BANKS, BY STATE, DEC. 31, 1957, 1961, AND 1968

| | Number of holding companies | | | Number of banks affiliated with holding companies | | |
|---|---|---|---|---|---|---|
| | 1957 | 1961 | 1968 | 1957 | 1961 | 1968 |
| Alabama | | | | | | |
| Alaska | | | | | | |
| Arizona | 1 | 1 | 1 | 2 | 2 | 2 |
| Arkansas | | | | | | |
| California | 4 | 4 | 6 | 5 | 5 | 7 |
| Colorado | 1 | 1 | 5 | 3 | 3 | 19 |
| Connecticut | | | | | | |
| Delaware | | | | | | |
| District of Columbia | | | 2 | | | 2 |
| Florida | 4 | 3 | 12 | 14 | 13 | 86 |
| Georgia | 6 | 6 | 7 | 23 | 21 | 19 |
| Hawaii | | | | | | |
| Idaho | 2 | 2 | 2 | 2 | 2 | 2 |
| Illinois | 2 | 2 | 2 | 5 | 4 | 4 |
| Indiana | 3 | 2 | 2 | 5 | 3 | 3 |
| Iowa | 3 | 2 | 3 | 14 | 17 | 20 |
| Kansas | 2 | | | 3 | | |
| Kentucky | 1 | 1 | 1 | 2 | 2 | 2 |
| Louisiana | | | | | | |
| Maine | 1 | 1 | 2 | 3 | 4 | 6 |
| Maryland | | | 2 | | | 4 |
| Massachusetts | 3 | 3 | 2 | 22 | 23 | 22 |
| Michigan | | | 1 | | | 1 |
| Minnesota | 4 | 4 | 3 | 117 | 118 | 117 |
| Mississippi | | | | | | |
| Missouri | 3 | 2 | 4 | 13 | 7 | 15 |
| Montana | 4 | 4 | 4 | 31 | 32 | 34 |
| Nebraska | 1 | 1 | 1 | 5 | 5 | 5 |
| Nevada | 1 | 1 | 1 | 2 | 2 | 2 |
| New Hampshire | 1 | 1 | 1 | 5 | 7 | 7 |
| New Jersey | | | | | | |
| New Mexico | 1 | 1 | 1 | 5 | 5 | 5 |
| New York | 9 | 9 | 14 | 23 | 22 | 35 |
| North Carolina | | | | | | |
| North Dakota | 3 | 3 | 3 | 34 | 34 | 32 |
| Ohio | 2 | 2 | 4 | 23 | 24 | 31 |
| Oklahoma | 1 | | | 1 | | |
| Oregon | 1 | 1 | 1 | 1 | 1 | 1 |
| Pennsylvania | | | | | | |
| Rhode Island | | | | | | |
| South Carolina | | | | | | |
| South Dakota | 2 | 2 | 2 | 11 | 11 | 11 |
| Tennessee | 3 | 3 | 4 | 11 | 9 | 9 |
| Texas | 3 | 2 | 3 | 8 | 7 | 13 |
| Utah | 2 | 2 | 2 | 3 | 4 | 3 |
| Vermont | | | | | | |
| Virginia | 3 | 1 | 6 | 4 | 5 | 48 |
| Washington | 3 | 3 | 3 | 5 | 7 | 7 |
| West Virginia | | | | | | |
| Wisconsin | 3 | 6 | 11 | 8 | 24 | 51 |
| Wyoming | 2 | 2 | 2 | 4 | 4 | 4 |
| Total | [1] 50 | [2] 46 | [3] 80 | 417 | 427 | 629 |

[1] The 50 bank holding companies included in the total represent 44 separate bank groups operating in 33 States.
[2] The 46 bank holding companies included in the total represent 41 separate bank groups operating in 31 States.
[3] The 80 bank holding companies included in the total represent 71 separate bank groups operating in 33 States and the District of Columbia.

Source: Federal Reserve Bulletins.

TABLE 12.—PERCENT OF TOTAL DEPOSITS AND BANKING OFFICES HELD BY BANKS AFFILIATED WITH HOLDING COMPANIES, BY STATE, DEC. 31, 1957, 1961, AND 1968

| | Deposits | | | Offices | | |
|---|---|---|---|---|---|---|
| | 1957 | 1961 | 1968 | 1957 | 1961 | 1968 |
| Alabama | | | | | | |
| Alaska | | | | | | |
| Arizona | 38.2 | 35.8 | 34.2 | 40.9 | 37.7 | 35.3 |
| Arkansas | | | | | | |
| California | 7.0 | 10.4 | 9.6 | 10.0 | 11.1 | 9.5 |
| Colorado | 4.5 | 4.2 | 45.2 | 1.7 | 1.5 | 7.3 |
| Connecticut | | | | | | |
| Delaware | | | | | | |
| District of Columbia | | | 10.8 | | | 12.6 |
| Florida | 11.5 | 7.9 | 32.6 | 5.2 | 5.0 | 18.4 |
| Georgia | 34.7 | 34.6 | 35.4 | 9.9 | 14.7 | 17.9 |
| Hawaii | | | | | | |
| Idaho | 40.4 | 38.7 | 42.6 | 36.2 | 36.1 | 42.5 |
| Illinois | .9 | .5 | 1.2 | .5 | .4 | .4 |
| Indiana | 2.2 | .8 | 1.0 | 1.0 | .6 | .7 |
| Iowa | 7.6 | 8.7 | 9.1 | 2.8 | 3.4 | 4.6 |
| Kansas | 9.0 | | | .5 | | |
| Kentucky | 7.9 | 11.6 | 9.9 | 3.6 | 4.9 | 4.6 |
| Louisiana | | | | | | |
| Maine | 5.0 | 5.3 | 19.2 | 6.7 | 6.6 | 19.9 |
| Maryland | | | 3.0 | | | 3.6 |
| Massachusetts | 20.2 | 20.9 | 21.9 | 30.1 | 28.7 | 26.6 |
| Michigan | | | 1.1 | | | .9 |
| Minnesota | 61.7 | 61.5 | 59.9 | 17.9 | 17.8 | 17.2 |
| Mississippi | | | | | | |
| Missouri | 8.7 | 4.0 | 10.1 | 2.1 | 1.2 | 2.8 |
| Montana | 53.4 | 52.2 | 53.1 | 27.0 | 26.0 | 25.4 |
| Nebraska | 10.2 | 9.6 | 10.0 | 1.2 | 1.6 | 1.7 |
| Nevada | 74.9 | 72.9 | 60.9 | 64.9 | 63.0 | 45.9 |
| New Hampshire | 9.5 | 12.0 | 17.4 | 6.6 | 9.2 | 8.5 |
| New Jersey | | | | | | |
| New Mexico | 13.5 | 12.8 | 14.3 | 15.1 | 15.4 | 14.9 |
| New York | 5.4 | 5.8 | 20.1 | 11.4 | 11.4 | 21.6 |
| North Carolina | | | | | | |
| North Dakota | 37.8 | 40.5 | 38.8 | 21.7 | 21.1 | 20.8 |
| Ohio | 6.0 | 6.2 | 14.6 | 4.7 | 4.9 | 10.1 |
| Oklahoma | .1 | | | .3 | | |
| Oregon | 44.5 | 42.9 | 43.0 | 35.9 | 34.1 | 32.9 |
| Pennsylvania | | | | | | |
| Rhose Island | | | | | | |
| South Carolina | | | | | | |
| South Dakota | 32.9 | 33.0 | 38.6 | 15.2 | 15.7 | 20.3 |
| Tennessee | 3.5 | 3.3 | 3.5 | 3.7 | 3.6 | 3.4 |
| Texas | 3.0 | 2.7 | 5.0 | .8 | .7 | 1.3 |
| Utah | 52.7 | 52.3 | 49.2 | 44.6 | 46.3 | 39.2 |
| Vermont | | | | | | |
| Virginia | 1.6 | 2.5 | 38.3 | 1.4 | 2.5 | 35.7 |
| Washington | 13.6 | 13.0 | 14.2 | 15.0 | 15.9 | 15.5 |
| West Virginia | | | | | | |
| Wisconsin | 20.9 | 35.5 | 37.1 | 3.3 | 6.2 | 10.9 |
| Wyoming | 17.1 | 18.7 | 16.8 | 7.6 | 7.3 | 5.7 |

Source: Federal Reserve Bulletins.

area of the State through merger. After the merger, however, no de novo branches could be opened in the acquired bank's area since the branching law restricts de novo branching to a limited geographic area surrounding a bank's head office. A holding company acquisition, on the other hand, does not destroy the identity of an acquired bank; thus a holding company affiliate would be permitted to branch de novo around its head office.

In New Jersey, the change in law in 1969 also permitted holding companies to be established and to acquire banks across banking district lines. In consequence, statewide banking was permitted under the law for the first time.

*C. Structure Changes in States Liberalizing Branching and Holding Company Laws*

As noted, New Hampshire, Virginia, New York, and New Jersey have significantly altered their banking laws in recent years. All liberalized their branching and/or holding company requirements. Subsequent changes in numbers and types of banks, and concentration of deposits is revealing.

In New Hampshire, the number of branch banks increased from 2 in 1961 to 29 in 1968. At the same time, the number of branches increased from 2 to 40, an increase which resulted in every third office in New Hampshire being a branch.

In December 1961, Virginia had 302 banking organizations with 320 branches. By the end of 1968, the number of organizations had decreased to 210, but the number of branches had more than doubled. Deposit concentration in the five largest banking organizations had increased from 27 percent to 47 percent.

Similarly, in New York, the period 1961–68 is characterized by a decline in the number of banking organizations, from 365 to 280, an increase in the number of banking offices (from 1,856 to 2,500), but only a slight increase in the five-bank concentration ratio (from 55 percent to 58 percent). While several large New York City-based and upstate-based holding companies have been formed in recent years, the largest banks in New York City have not formed registered holding companies, and, therefore, proportions of deposits held by the top banking organizations have not changed significantly.

Sufficient time has elapsed since passage of the new banking bill in New Jersey to suggest that significant changes in banking structure will develop in that State. It seems reasonably clear, given pending proposals, that future changes in structure in New Jersey will be similar to those in Virginia and New York.

The reduction in number of banking organizations and the increase in concentration in States liberalizing branching and holding company laws may appear to indicate a reduction in competition. It would be an error to interpret the changes reported above in this way. Competition among banks in the sale of some services to some customers may take place in regions larger or smaller than States. There is no good reason to believe that State lines constitute banking market areas. At the local level, in which it is believed that competition among banks is of critical importance, the liberalization of branching and holding company laws may, in fact, increase competition. In effect, such changes in law as have been discussed above permit entry into local areas by banks from elsewhere in the State that are not currently competing in those areas. There is some evidence that in New York the changes in the law in 1960 increased competition in some local markets.[25]

*D. Number of Banking Organizations*

While there has been relative stability in the total number of banking organizations in the United States in recent years, there has

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[25] See David C. Motter and Deane Carson, "Bank Entry and the Public Interest: A Case Study," The National Banking Review, June 1964 for an analysis of the effects of entry by New York City banks into Nassau and Westchester Counties. For a more recent analysis which also concludes that the changes effected in 1960 were procompetitive, see the statement of New York State Superintendent of Banks, Frank Wille, "The Search for a Competitive Banking Structure, Part II," November 8, 1969.

been considerable variability at the State level. Changes in the number of banking organizations between 1962 and 1968 are shown in table 13. There were increases in the number of banking organizations in 22 States (including District of Columbia) ranging from 1 to 167, and decreases in 22 States ranging from 1 to 126. The largest increases and decreases generally occurred in unit and statewide branching States respectively. All States with decreases except one (Iowa) were branching States.

Changes in the number of banks over time is determined almost completely by the number of new banks chartered and the number

TABLE 13.—NUMBER AND CHANGE IN NUMBER OF COMMERCIAL BANKS AND BANKING ORGANIZATIONS, BY STATE, DEC. 31, 1961–68

| State | Number of banks | | Number of banking organizations | | Change, 1961–68 | |
|---|---|---|---|---|---|---|
| | 1961 | 1968 | 1961 | 1968 | Banks | Banking organizations |
| Alabama | 238 | 268 | 238 | 268 | +30 | +30 |
| Alaska | 14 | 12 | 14 | 12 | −2 | −2 |
| Arizona | 12 | 13 | 11 | 12 | +1 | +1 |
| Arkansas | 237 | 248 | 237 | 248 | +11 | +11 |
| California | 122 | 162 | 121 | 161 | +40 | +40 |
| Colorado | 195 | 257 | 193 | 243 | +62 | +50 |
| Connecticut | 67 | 66 | 67 | 66 | −1 | −1 |
| Delaware | 20 | 19 | 20 | 19 | −1 | −1 |
| District of Columbia | 11 | 14 | 11 | 14 | +3 | +3 |
| Florida | 322 | 461 | 312 | 387 | +139 | +75 |
| Georgia | 420 | 428 | 405 | 416 | +8 | +11 |
| Hawaii | 12 | 11 | 12 | 11 | −1 | −1 |
| Idaho | 32 | 26 | 32 | 26 | −6 | −6 |
| Illinois | 976 | 1,074 | 974 | 1,072 | +98 | +98 |
| Indiana | 442 | 415 | 441 | 414 | −27 | −27 |
| Iowa | 674 | 673 | 659 | 656 | −1 | −3 |
| Kansas | 590 | 601 | 590 | 601 | +11 | +11 |
| Kentucky | 351 | 346 | 349 | 345 | −5 | −4 |
| Louisiana | 192 | 229 | 192 | 229 | +37 | +37 |
| Maine | 47 | 43 | 44 | 39 | −4 | −5 |
| Maryland | 132 | 122 | 132 | 120 | −10 | −12 |
| Massachusetts | 167 | 158 | 147 | 138 | −9 | −9 |
| Michigan | 373 | 338 | 373 | 338 | −35 | −35 |
| Minnesota | 689 | 723 | 575 | 611 | +34 | +36 |
| Mississippi | 193 | 185 | 193 | 185 | −8 | −8 |
| Missouri | 626 | 667 | 621 | 656 | +41 | +35 |
| Montana | 123 | 135 | 95 | 105 | +12 | +10 |
| Nebraska | 425 | 441 | 421 | 437 | +16 | +16 |
| Nevada | 7 | 9 | 6 | 8 | +2 | +2 |
| New Hampshire | 74 | 77 | 68 | 71 | +3 | +3 |
| New Jersey | 247 | 229 | 247 | 229 | −18 | −18 |
| New Mexico | 57 | 63 | 53 | 59 | +6 | +6 |
| New York | 390 | 319 | 377 | 298 | −71 | −79 |
| North Carolina | 171 | 121 | 171 | 121 | −50 | −50 |
| North Dakota | 156 | 169 | 125 | 140 | +13 | +15 |
| Ohio | 576 | 525 | 554 | 498 | −51 | −56 |
| Oklahoma | 388 | 424 | 388 | 424 | +36 | +36 |
| Oregon | 49 | 50 | 49 | 50 | +1 | +1 |
| Pennsylvania | 676 | 509 | 676 | 509 | −167 | −167 |
| Rhode Island | 9 | 13 | 9 | 13 | +4 | +4 |
| South Carolina | 144 | 118 | 144 | 118 | −26 | −26 |
| South Dakota | 174 | 165 | 165 | 156 | −9 | −9 |
| Tennessee | 296 | 303 | 290 | 298 | +7 | +8 |
| Texas | 1,020 | 1,151 | 1,015 | 1,141 | +131 | +126 |
| Utah | 50 | 54 | 48 | 53 | +4 | +5 |
| Vermont | 53 | 45 | 53 | 45 | −8 | −8 |
| Virginia | 302 | 237 | 298 | 195 | −65 | −103 |
| Washington | 89 | 94 | 85 | 90 | +5 | +5 |
| West Virginia | 181 | 195 | 181 | 195 | +14 | +14 |
| Wisconsin | 565 | 603 | 547 | 563 | +38 | +16 |
| Wyoming | 55 | 70 | 53 | 68 | +15 | +15 |
| Statewide branching States | 1,517 | 1,394 | 1,492 | 1,329 | −123 | −163 |
| Limited branching States | 5,257 | 4,995 | 5,150 | 4,858 | −262 | −292 |
| Unit banking States | 6,657 | 7,289 | 6,439 | 6,983 | +632 | +545 |
| United States | 13,431 | 13,678 | 13,081 | 13,171 | +247 | +90 |

of mergers.[26] As shown in table 14, there were 731 new banks chartered in unit banking States between 1962 and 1968—around 55 percent of the total number of new charters. As noted, full service banking in unit banking States can only be provided by newly chartered institutions. On the other hand, as shown in table 15, there were only 71 mergers in unit banking States over the period—less than 7 percent of the total number of mergers.

*E. Deposit Concentration*

The proportion of total deposits held by the top five banking organizations in each State exhibits great variation, ranging from 96.5 percent in Rhode Island to 16.7 percent in Kansas.[27] (See table 16.) In six States—Rhode Island, Arizona, Nevada, Delaware, District of Columbia and Hawaii—concentration ratios for the top five banking organizations were over 90.0 percent.[28] All are statewide branching areas with small populations. Only Arizona contains more than 1 million inhabitants.

Five States had concentration ratios less than 23.0 percent—Kansas, Iowa, West Virginia, Arkansas, and New Jersey. All, except New Jersey, are unit banking States.

TABLE 14.—NUMBER OF NEWLY CHARTERED BANKS IN STATES GROUPED BY BRANCHING LAW, 1962–68

| Year | Statewide branching States | Limited branching States | Unit banking States | Total |
|---|---|---|---|---|
| 1962 | 35 | 35 | 113 | 183 |
| 1963 | 65 | 49 | 186 | 300 |
| 1964 | 87 | 66 | 182 | 335 |
| 1965 | 40 | 52 | 106 | 198 |
| 1966 | 10 | 50 | 57 | 117 |
| 1967 | 20 | 35 | 47 | 102 |
| 1968 | 12 | 35 | 40 | 87 |
| 1962–68 | 269 | 322 | 731 | 1,322 |

TABLE 15.—NUMBER OF BANK MERGERS IN STATES GROUPED BY BRANCHING LAW, 1962–68

| Year | Statewide branching States | Limited branching States | Unit banking States | Total |
|---|---|---|---|---|
| 1962 | 67 | 107 | 9 | 183 |
| 1963 | 60 | 85 | 10 | 155 |
| 1964 | 38 | 88 | 7 | 133 |
| 1965 | 59 | 79 | 11 | 149 |
| 1966 | 48 | 76 | 13 | 137 |
| 1967 | 49 | 72 | 12 | 133 |
| 1968 | 66 | 58 | 9 | 133 |
| 1962–68 | 387 | 565 | 71 | 1,023 |

[26] Changes in the number of banking organizations, in contrast to banks, are determined not only by the number of mergers, but also by the number of banks involved in holding company formations and acquisitions. The number of banking organizations is not affected by such events as mergers between subsidiary banks of the same holding company or de novo bank formations by holding companies, which do affect the number of banks.

[27] It should be noted that a ranking of States based on concentration ratios can be altered by changing the number of organizations used in computing the ratio. Oregon, for example, ranks third when concentration ratios based on the largest two banking organizations are computed; it ranks seventh when five organizations are used.

[28] Concentration in local markets does not necessarily parallel concentration at the State level. A State with relatively low concentration statewide, for example, may contain high concentration in local markets.

TABLE 16.—TOTAL DEPOSIT CONCENTRATION IN THE 5 LARGEST BANKING ORGANIZATIONS, BY STATE, 1968; AND CHANGES 1957–61, 1961–68, AND 1957–68

| State | Concentration, June 29, 1968 | Percentage point change in total deposit concentration | | |
|---|---|---|---|---|
| | | 1957–61 | 1961–68 | 1957–68 |
| Alabama | 33.54 | −2.26 | −5.71 | −7.97 |
| Alaska | 84,15 | 3.67 | −1.01 | 2.66 |
| Arizona | 95.39 | −.53 | −2.70 | −3.23 |
| Arkansas | 21.09 | −.34 | −2.78 | −3.12 |
| California | 77.88 | 5.38 | −4.02 | 1.36 |
| Colorado | 45.63 | 6.99 | −2.33 | 4.76 |
| Connecticut | 56.58 | 7.05 | .18 | 7.23 |
| Delaware | 92.00 | 5.10 | .31 | 5.41 |
| District of Columbia | 91.41 | 15.32 | 2.66 | 17.98 |
| Florida | 25.25 | .76 | 3.50 | 4.26 |
| Georgia | 52.38 | 6.19 | −4.56 | 1.63 |
| Hawaii | 90.96 | ---------- | −5.66 | −5.66 |
| Idaho | 86.47 | −.77 | 1.99 | 1.22 |
| Illinois | 40.63 | .03 | −1.88 | −1.85 |
| Indiana | 28.12 | 2.45 | −1.71 | .74 |
| Iowa | 17.43 | −1.54 | −1.81 | −3.35 |
| Kansas | 16.71 | −.54 | −2.56 | −3.10 |
| Kentucky | 33.55 | 1.55 | −.34 | 1.21 |
| Louisiana | 31.15 | −.19 | −9.00 | −9.19 |
| Maine | 48.42 | 8.95 | .67 | 9.62 |
| Maryland | 62.68 | 5.62 | 5.12 | 10.74 |
| Massachusetts | 65.37 | 6.86 | 1.21 | 8.07 |
| Michigan | 48.39 | −2.95 | −1.60 | −4.55 |
| Minnesota | 59.90 | −.64 | −3.21 | −3.85 |
| Mississippi | 32.39 | 2.69 | 3.98 | 6.67 |
| Missouri | 29.41 | −2.95 | −5.97 | −8.92 |
| Montana | 58.52 | −1.13 | 1.20 | .07 |
| Nebraska | 37.75 | .93 | −3.50 | −2.57 |
| Nevada | 95.58 | −1.38 | −3.04 | −4.42 |
| New Hampshire | 37.79 | .20 | 2.93 | 3.13 |
| New Jersey | 22.45 | .35 | −.41 | −.06 |
| New Mexico | 50.33 | −.91 | −5.35 | −6.26 |
| New York | 58.50 | 2.54 | 3.61 | 6.15 |
| North Carolina | 66.50 | 14.86 | 9.21 | 24.07 |
| North Dakota | 49.16 | 1.28 | −5.18 | −3.90 |
| Ohio | 32.51 | −1.88 | −.90 | −2.78 |
| Oklahoma | 34.54 | −3.70 | −2.90 | −6.60 |
| Oregon | 87.37 | −2.13 | −1.86 | −3.99 |
| Pennsylvania | 37.84 | 2.34 | −.82 | 1.52 |
| Rhode Island | 96.50 | 0 | −1.66 | −1.66 |
| South Carolina | 55.36 | 2.39 | 2.38 | 4.77 |
| South Dakota | 45.46 | .53 | 2.06 | 2.59 |
| Tennessee | 39.90 | .87 | −1.05 | −.18 |
| Texas | 23.51 | .61 | −3.48 | −2.87 |
| Utah | 72.24 | −2.18 | −4.36 | −6.54 |
| Vermont | 47.42 | 6.83 | 11.45 | 18.28 |
| Virginia | 46.39 | −.94 | 19.31 | 18.37 |
| Washington | 72.95 | −.95 | −.55 | −1.50 |
| West Virginia | 19.30 | −2.54 | −2.80 | −5.34 |
| Wisconsin | 31.93 | 1.84 | −1.40 | .44 |
| Wyoming | 37.75 | −2.11 | −8.22 | −10.33 |

Changes in State concentration between 1961 and 1968 have also shown great variation.[29] The concentration ratio remained about the same (between +1 and −1 percentage points) in 13 States. Increases in concentration occurred in 12 States; decreases occurred in 26 States.[30]

While it is somewhat surprising that concentration decreases occurred in over twice as many States as increases, it is not surprising that unit banking States accounted for half the States in which decreases occurred. Large central city banks in these States cannot branch into all sections of the State, as in statewide branching States,

[29] For a detailed analysis of recent changes in State concentration, as we llas a general discussion of State and national banking structure, see George W. Mitchell, "Our Changing Banking Structure," remarks at the Annual Convention of the Maine Bankers Association, Bretton Woods, N.H., June 14, 1968.

[30] This finding, that concentration decreased in over twice as many States as it increased, is not dependent on the choice for the ratio's numerator of deposits held by the five largest banking organizations, rather than by some other reasonable number of organizations. Decreases in the proportion of deposits held by the largest banking organizations also occurred in over twice as many States as increases when the numerator is based on deposits held by the largest two, three or four banking organizations.

and may thus be barred from some of the most desirable high growth areas. Neither can they branch, as in many limited branching States, into the suburbs surrounding the central city to follow population movements into those areas. Such circumstances would ordinarily lead to a high new bank charter rate, a low merger rate, and probably also to a lower-than-average growth rate for the largest banking organizations. As noted above, far more new banks were chartered in unit banking States than in limited and statewide branching States; relatively few mergers occurred in unit States; and smaller banking organizations have generally grown at a faster rate than the average (75 percent) in unit banking States, while the largest banking organizations have generally grown at a lower-than-average rate.

## VI. CONCLUSIONS

Currently, as in the past, the banking system in the United States is characterized by large numbers of banks and banking organizations. In recent years, consistent with general economic prosperity and economic growth, the number of organizations has increased. The increase has been small, but it has involved a considerable turnover among individual institutions, establishing new managements in a substantial number of banks.

Multiple office banking has also continued to expand rapidly. Both branch banks and multiple bank holding companies have grown considerably in deposits and offices and have significantly extended the number of market areas served.

Only a few States have substantially changed their banking laws in recent years; these have liberalized restrictions on multiple office banking, and have facilitated more geographically extensive branching and holding company activity. While such changes have a number of independent and related effects on competition, they immediately establish the possibility of entry by banking organizations outside any given local area. This immediate effect would tend to intensify competition.

In addition to geographic extension of banking in recent years, there has also been considerable product-extension. Banks have moved beyond conventional products and services, directly and through the establishment of operating subsidiaries and, more dramatically, through the mechanism of the one-bank holding company.

Despite the growth of multiple office banking, neither concentration in deposits at the national level, nor at the State level, has increased in any substantial way. Raw data on concentration (unadjusted for the growth of nondeposit liabilities) indicate a slight decrease at the national level; and concentration fell in twice as many States as it increased.

Structural change in the 1960's has thus tended to be more consistent with economic growth and prosperity than appears to have been the case in the 1950's; in the 1950's numbers of banks and organizations generally declined and concentration increased. Though not fully documented above, it appears that the current regulatory environment, in which merger and holding company acquisitions require prior approval by relevant government agencies, has been more suitable to the development and maintenance of competition in banking than was the case in earlier years.

## APPENDIX

### DEPOSITS HELD BY THE 100 LARGEST COMMERCIAL BANKS, 1923–69

[Deposits in millions of dollars]

| End of year— | 100 largest banks | All commercial banks | Ratio of largest banks to total |
|---|---|---|---|
| 1923 | 12,681 | 39,515 | 32.1 |
| 1924 | 15,153 | 44,068 | 34.4 |
| 1925 | 15,994 | 46,892 | 34.1 |
| 1926 | 16,794 | 46,898 | 35.8 |
| 1927 | 18,192 | 49,357 | 36.9 |
| 1928 | 20,654 | 52,710 | 39.2 |
| 1929 | 21,839 | 50,994 | 42.8 |
| 1930 | 22,158 | 48,668 | 45.5 |
| 1931 | 18,751 | 39,497 | 47.5 |
| 1932 | 18,315 | 35,957 | 50.9 |
| 1933 | 17,440 | 32,637 | 53.4 |
| 1934 | 21,892 | 39,970 | 54.8 |
| 1935 | 25,102 | 45,517 | 55.1 |
| 1936 | 27,505 | 50,743 | 54.2 |
| 1937 | 25,567 | 48,491 | 52.7 |
| 1938 | 27,661 | 51,185 | 54.0 |
| 1939 | 32,194 | 57,718 | 55.8 |
| 1940 | 37,637 | 65,337 | 57.6 |
| 1941 | 39,548 | 71,283 | 55.5 |
| 1942 | 48,466 | 89,135 | 54.4 |
| 1943 | 55,106 | 105,923 | 52.0 |
| 1944 | 64,257 | 128,072 | 50.2 |
| 1945 | 72,538 | 150,227 | 48.3 |
| 1946 | 62,892 | 139,033 | 45.2 |
| 1947 | 65,317 | 144,103 | 45.3 |
| 1948 | 64,333 | 142,843 | 45.0 |
| 1949 | 65,950 | 145,174 | 45.4 |
| 1950 | 71,690 | 155,265 | 46.2 |
| 1951 | 76,565 | 164,840 | 46.4 |
| 1952 | 79,691 | 172,931 | 46.1 |
| 1953 | 80,275 | 176,702 | 45.4 |
| 1954 | 85,207 | 184,757 | 46.1 |
| 1955 | 90,498 | 192,254 | 47.1 |
| 1956 | 92,461 | 197,515 | 46.8 |
| 1957 | 94,001 | 201,326 | 46.7 |
| 1958 | 101,040 | 216,017 | 46.8 |
| 1959 | 102,429 | 219,903 | 46.6 |
| 1960 | 109,024 | 229,843 | 47.4 |
| 1961 | 106,901 | 224,997 | [1] 46.31 |
| 1962 | 113,993 | 245,298 | 46.5 |
| 1963 | 122,876 | 266,179 | 46.1 |
| 1964 | 132,384 | 284,903 | 46.5 |
| 1965 | 145,426 | 311,632 | 46.7 |
| 1966 | 158,257 | 341,071 | 46.4 |
| 1967 | 164,527 | 359,531 | 45.8 |
| 1968 | 181,313 | 397,616 | 45.7 |
| 1969 | 188,891 | 425,363 | 44.4 |

[1] Percentage revised on basis of 1970 Federal Reserve calculations.

Note: Deposits and ratios for the years 1961–69 are June call dates of each year. Figures for June 1969 are not completely comparable to those for the years 1962–68 due to the inclusion of deposits "For all bank-premises subsidiaries and other significant majority-owned domestic subsidiaries." (See Federal Reserve Bulletin, March 1970, p. A.22.)

Source: 1952 Committee Print, p. 16; 1962 Committee Print, p. 18; brought up to date with Federal Reserve System statistics.

### PROPORTION OF TOTAL DEPOSITS HELD BY LARGEST, 5 LARGEST, 100 LARGEST, AND 300 LARGEST BANKS AND BANKING ORGANIZATIONS IN THE UNITED STATES, JUNE 1961 TO JUNE 1969*

| | 1961 | | 1966 | | 1968 | | 1969 | |
|---|---|---|---|---|---|---|---|---|
| | Bank(s) | Banking organization(s) | Bank(s) | Banking organization(s) | Bank(s) | Banking organization(s) | Bank(s) | Banking organization(s) |
| Largest | 4.55 | 4.55 | 4.20 | 4.20 | 4.03 | 4.03 | 3.97 | 3.97 |
| Largest 5 | 13.70 | 14.33 | 14.18 | 14.29 | 14.02 | 14.25 | 13.44 | 13.87 |
| Largest 100 | 46.31 | 49.44 | 46.37 | 49.27 | 45.66 | 48.99 | 44.55 | 48.42 |
| Largest 300 | 60.29 | 62.95 | 60.17 | 62.88 | 59.23 | 62.80 | 58.06 | 62.15 |

*This information supplements table 7 of the report.


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