Bank Acquisitions and Future Competition

by Charles D. Salley

The Bank Holding Company Act directs the Board of Governors of the Federal Reserve System to deny any bank acquisition which may substantially lessen competition or tend to create a monopoly unless convenience and needs factors clearly outweigh, in the public interest, such anticompetitive effects.

Preventing the reduction of directly competing firms through merger has long been a familiar feature of U. S. antitrust regulation. More recently, though, government agencies have extended these standards to prevent the loss of firms which are likely to become strong competitors in the future.[1] This has had great impact on recent changes in Southeastern banking market structure.

Future Competition Rulings Not a New Policy

The history of competition regulation in rapidly expanding local markets of the Southeast helps confirm that application of the Holding Company Act has been guided by the principle of preserving the number of competing firms. As the accompanying map of Sixth District states permitting bank acquisitions shows, the great majority of banks acquired since the 1956 Act are located either in metropolitan areas or in rural counties with population and personal income growth above the state average. As large aggressive banking organizations became aware of profit opportunities, they have tended to acquire banks at some distance from their home offices.

With this general trend, one can reasonably predict that if an independent bank operating in a growth area were denied affiliation with a local or dominant holding company, then an alternate, less anticompetitive affiliation would not be long in coming. This has happened in 13 out of 18 such acquisitions denied at least partly because an alternate affiliation might be foreclosed (see table 2). The average time lapse was about two years. Approval of the originally proposed acquisition in these 13 cases would have reduced the number and strength of competitors currently active in those markets.

Preserving the number of local competitors appears to be a broad objective. Early Board rulings, in fact, assessed a bank acquisition's competitive impact in the familiar terms of a merger, one firm taking over a competing one in the same market.

[1]Betty Bock, **Antitrust Issues in Conglomerate Acquisitions**, New York, The Conference Board, 1969.

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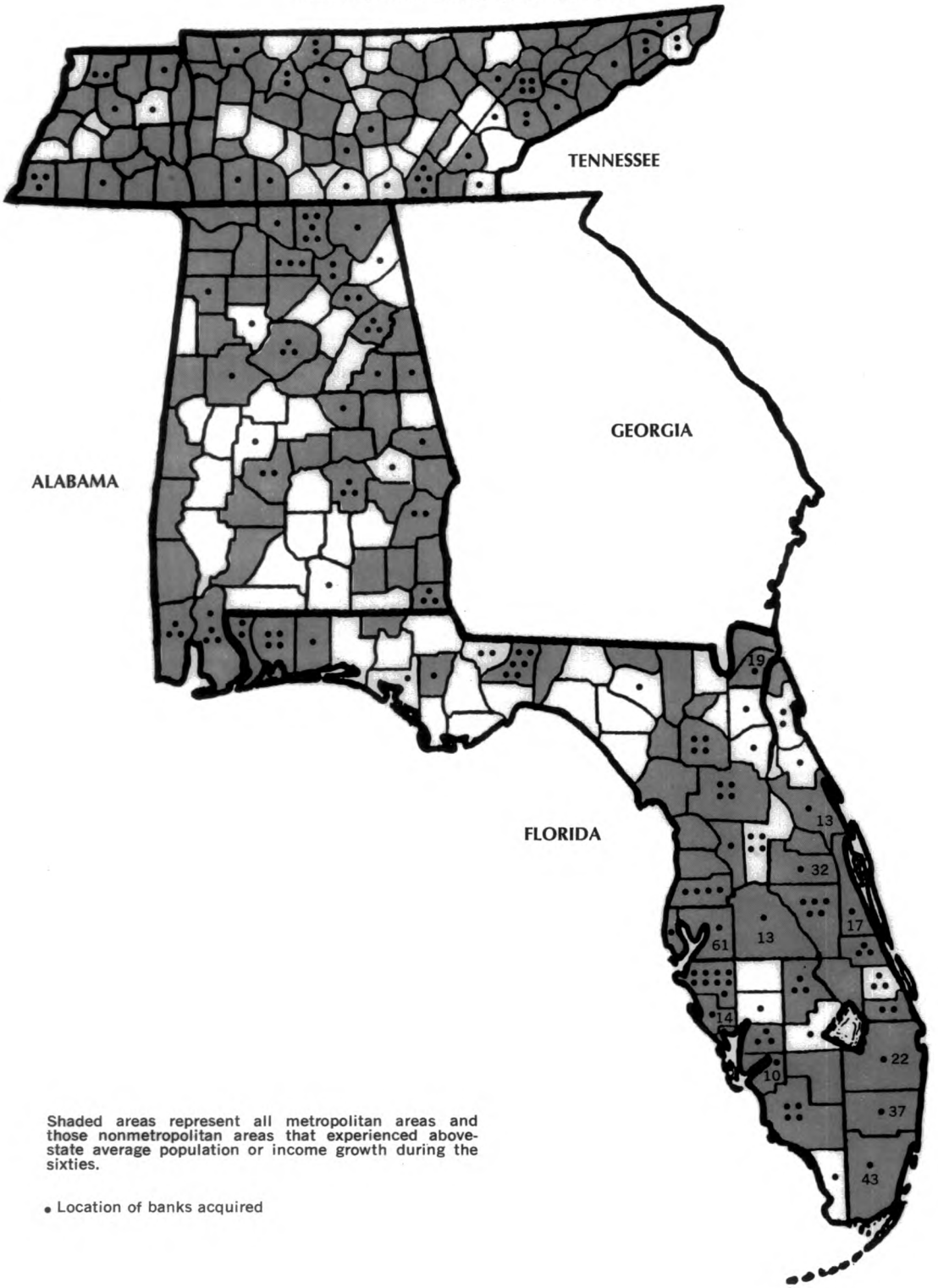
Bank acquisitions by holding companies have occurred primarily in metropolitan or high-growth markets.



Shaded areas represent all metropolitan areas and those nonmetropolitan areas that experienced above-state average population or income growth during the sixties.

• Location of banks acquired

One of the first such decisions in the Southeast concerned a 1962 proposal to form the First Bancorporation of Florida [1].* The proposed affiliate banks were located in each of the state's primary metropolitan areas; the four large banks were the Barnett National Bank of Jacksonville, First National Bank of Miami, First National Bank at Orlando, and Exchange National Bank of Tampa.

In accord with several previous New York State rulings, the Board denied the proposal, pointing out that the combination "would result in the creation of a holding company system that would be exceptional . . . from the viewpoint of concentration of control of the largest banks in a particular state." There were at that time only six Florida banks holding $100 million or more in deposits. The proposed First Bancorporation would have controlled four of these while existing holding companies already controlled the other two. If the Board had approved the First Bancorporation combination, only three organizations would have controlled all of Florida's largest banks.

The Board's ruling expressed concern that with only three big banking organizations in the state, there would be less direct competition for correspondent banking services. However, of great significance to future competition, the Board also expressed concern that the number of independent sources of banking services throughout Florida might be reduced in the near future. If holding companies were going to expand statewide, it would be desirable to have more than three systems.

As explained in the insert (pg. 61), a small number of firms might lead to tacit price leadership and parallel policies even without collusive price-fixing agreements. Such price behavior can develop statewide if the same few firms acquire banks and face each other in many of the same local markets. If there are only a few holding companies, these can easily form links to scattered markets, especially if only a few are metropolitan. There were in 1962 only four metropolitan markets in Florida, five in Tennessee, and four in Alabama.

As the Department of Justice argued in a recent Alabama complaint, "The ultimate result of such a trend could be the development of a statewide structure in which parallel policies are made on the basis of statewide considerations, rather than on local market considerations, by a very few banking organizations which dominate all major local banking markets in the state." The 1962 First Bancorporation denial in Florida thus preserved three potentially statewide competitors.

Since that denial, the four principals of the proposed giant corporation have indeed become significant statewide competitors. One of these, Barnett Banks of Florida (Jacksonville), was already a multibank holding company at the time of the proposal and has since become a statewide system. Two others became the lead banks of major holding companies—First at Orlando Corporation and Southeast Bancorporation—in 1967. The fourth became a lead bank of another major holding company—Exchange Bancorporation (Tampa)—in 1969. Formation of these additional statewide holding companies has made it less likely that only the original three (as they acquired additional subsidiaries) would face each other in the same markets.

A more recent ruling in Tennessee [21] also viewed a combination of two banks as a possible elimination of the large bank as a future direct competitor in several market areas. In 1973, the Memphis-based United Tennessee Bancshares ($470 million deposits) proposed to acquire the American National Bank and Trust Company ($290 million deposits) in Chattanooga. These were the state's seventh and eighth largest organizations, respectively, and both were headquartered in major metropolitan markets.

*Numbers in brackets refer to case notations in the Appendix.

TABLE 1

Denials of Holding Company Bank Acquisitions
Sixth District States
1959 — 1973

State	Total Rulings	(banks)	Total Denials	Factors Contributing to Denial*		
				Financial or Management Considerations	Existing Competition or Predominance	Probable Future Competition
Florida	237	(384)	19	3	12	16
Tennessee	37	(41)	4	1	1	2
Alabama	35	(43)	0	0	0	0
Georgia	5	(5)	0	0	0	0
Louisiana	2	(2)	0	0	0	0
Mississippi	0	(0)	0	0	0	0
Totals	316		23	4	13	18

*Note: Factors will exceed total denials since more than one factor contributed to some denials.

Many Firms Vs. Few Firms: A Structural Measure of Competition

The Bank Holding Company Act is based on the assumption that a satisfactory way to maintain banking competition is to regulate the structure of banking markets instead of policing the behavior of individual banks. The Act does not require administrators to examine laboriously various firms' pricing and output decisions. Instead, the Act's antitrust provisions seek to maintain markets with a large number of firms on the presumption that an industry without a competitive structure probably will not exhibit competitive behavior.

For instance, an industry with few firms could lead to anticompetitive conduct such as price fixing which, in turn, could lead to excessive profits. Since this presumption underlies many of the rulings by the Board of Governors reviewed here, it helps to take a closer look at the importance given to the number of competing banks.

In general, the number of independent producers operating in any market is a common indicator of competitive conditions. A market with only one firm is usually considered monopolistic; a market with a large number of firms, competitive.

A monopolistic producer, however, does not differ from other businessmen who strive to maximize their profits. But while the latter can sell all they produce at the established market price, the monopolistic producer can sell a greater output only by reducing the market price, which is his price. Unhappily, his resulting gain in sales revenue is not likely to make up for the revenue lost from existing customers who, along with the new customers, would then also be paying the lower price. His price cut would increase sales but not necessarily increase revenues or profits. Therefore, the monopolist tends to keep revenues high by restricting output and maintaining prices higher than those which would prevail in a competitive market.

Economists are also critical of a one-firm market because such power does not efficiently provide for consumer wants. Economic theory suggests that it may be possible to increase consumer welfare by shifting resources to products which the monopolist artificially constricts. Accordingly, a one-firm market has come to be associated with an inefficient allocation of input resources. Resources are wasted not in the sense of poor production technique, but because the inputs could produce more consumer satisfaction if used to produce a different combination of products.

If there are two or three firms in a market, though, a producer is no longer free to set his own market price. He then must consider the actions of his rivals. Just as he would not permit a loss of his customers to other firms which cut their price, he expects a retaliatory action if he were to reduce his own price. There is recognition of a mutual dependence.

To avoid the possibly ruinous consequences of several rounds of price reductions, firms in an oligopolistic market have been known to make a collusive agreement to set a monopoly price. Or, once they recognize their mutual interest in setting a high price, they may follow the price leader without formal agreement. That such parallel pricing can result from a small number of firms even without collusive agreements is fundamental to the structural regulation of competition.

If there are on the other hand many producing firms, the output of any one firm is not sufficiently large to affect the price or output decisions of the others. A firm producing only a small fraction of a market's total output can increase its profits by reducing production costs. If new firms are attracted into the market by such profits, overall output will increase and the market price will tend to fall. Since restricting their own output will have no appreciable effect on the market price, other firms—to remain in business—are then usually forced to follow the price set by the lowest cost producer.

Thus, where there are many firms, there is market price pressure on them to produce at the least possible cost. At the same time, firms are forced to pass on to customers the resulting savings in the form of lower prices than where there are few competitors. There are no artificial constraints on output and the consumers tend to obtain the kind and amount of products they desire most. Therefore, because a greater number of firms is indicative of greater productive and allocational efficiency at lower prices, economists view a larger number of competing firms as desirable. This structural concept has become the goal of numerous public policies.

With such a structural standard, many antitrust policies have discouraged the acquisition of firms by direct competitors. Such an acquisition immediately reduces the number of firms and concentrates output in fewer hands. Because some empirical relationship has been found between high concentration and high prices, regulatory agencies usually follow the theory that a relationship exists between number of firms and performance of market prices and production costs.

Enforcement of such antitrust policies in nonbanking areas has contributed to the reduction of direct competitor or horizontal acquisitions from about 40 percent of merged assets in 1948 to about 4 percent of such assets in 1968. Furthermore, the 1963 Supreme Court decision to bar the merger of the second and third largest competing banks in Philadelphia demonstrated that the structural standard of preserving the number of firms in a market applies with equal force to banking.

TABLE 2

Realization of Predicted Future Competition

Acquisition Said to Preclude Future Competition[1]	Year Denied	Year of Alternate Acquisition	Years Elapsed	Market Concentration[2] Year Denied		Market Concentration[2] June 1973
1	1962	1969	7	.1049	Florida	.0352
2	1966	1971	5	.3127	Jacksonville	.2471
3	1969	1972	3	.1288	St. Petersburg	.1022
5	1970	1973	3	.1827	Hillsborough	.1745
6	1970	1972	2	.2565	Melbourne	.2451
7	1970	——		.1253	Clearwater	.1022
8	1970	1971	1	.1929	Hollywood	.1503
9	1971	1973	2	.3056	Sarasota	.3027
10	1971	1974 (pending)	3	.2350	Orlando	.1984
11	1972	1973	1	.1712	Daytona	.1514
12	1972	1972	0	.1033	St. Petersburg	.1022
13	1972	1973	1	.1855	Tampa	.1610
15	1972	——		.1712	Daytona	.1514
16	1973	1973	0	.1985	Tampa	.1610
18	1973	1974	1	.6458	Vero Beach	.3750
19	1973	1974	1	.2902	DeLand	.2760
21	1973	——		.0322	Tennessee	.0322
22	1973	——		.1719	Knoxville	.1618

[1]Numbers refer to case notations in the Appendix.

[2]The Herfindahl Index, which is the sum of squared percentile market shares, reflects size distribution of all banks. Maximum value where one firm controls 100% of market is 1.0000. High values reflect large shares controlled by few banks.

The Board saw the American National Bank as a likely lead bank for a competing statewide system for several reasons. First, it considered this situation similar to that of the large Florida banks. (The latter, as already noted, had exhibited the capability and desire to obtain subsidiaries in metropolitan areas other than their home office locations.) Second, there was the example of other large Tennessee banks, headquartered in Chattanooga, Nashville, and Memphis, that in recent years had entered each other's home markets. Third, the large majority of bank holding companies in the United States are structured around a large lead bank which provides management services to smaller affiliates. In 1970, only 14 of 55 holding companies with large affiliates controlled more than one bank with deposits in excess of $100 million. With these precedents, it appeared reasonable that the proposed Chattanooga affiliate (American National) was likely to become the lead bank of a holding company system which could compete in several scattered markets. The Board denied the application.

In a second Tennessee ruling in 1973 [22], the Board used similar reasoning to deny Hamilton Bancshares of Chattanooga acquisition of The Hamilton National Bank of Knoxville ($288 million deposits), the state's ninth largest. As with the other cases, the Board did not wish to eliminate a likely lead bank which might sponsor additional competitors in other markets.

Not All Are Denied

On the other hand, the Board of Governors has not categorically denied acquisitions of large metropolitan banking organizations in the Southeast. For example, in 1970 the Board permitted a Miami-based holding company to acquire Orlando's second largest bank. The Citizens National Bank of Orlando ($82 million deposits), though large and located in central Florida's major metropolitan center, was not judged to be a probable lead bank. In fact, the affiliation seemed acceptable to the Board as a means of providing the management needed to strengthen the competitive stance of the bank's 12-percent share of local market deposits. The market's leading organization, First at Orlando Corporation, only Florida holding company headquartered there, held 42 percent.

In 1972, another possible lead bank—the Union Trust National Bank of St. Petersburg ($156 million deposits) on the Gulf Coast—was allowed to affiliate with a holding company. It was the only independent bank in Florida with more than $100 million deposits to gain such approval. Actually, the Board had twice before denied other applications to acquire the Union Trust, yet the bank had still not formed a holding company. Consequently, the Board approved the affiliation of the Union Trust with the state's twelfth largest bank holding company. At the time, the acquiring organization operated no subsidiaries on the Gulf Coast.

In Alabama, a 1971 ruling approved a large holding company which in many ways resembled the proposed First Bancorporation of Florida denied several years earlier. The First National Bank of Montgomery ($175 million deposits), Exchange Security Bank, Birmingham ($141 million deposits), and First National Bank of Huntsville ($69 million

deposits) formed First Alabama Bancshares. These were Alabama's sixth, seventh, and tenth largest banks, located in three primary metropolitan areas. Each faced strong local competition and their combined deposits represented about 9 percent of the state's total, less than the 13 percent held by the state's largest bank. Though approval would combine three strong banks under a single management, a Board majority concluded that the creation of powerful competition to the dominant bank might spur the state's economic development. Dissenting members objected to reducing the number of potential lead banks in the $100 million deposit class.

Similar considerations resulted in approval of a second new Alabama holding company in 1971. The State National Bank of Alabama, Decatur ($232 million deposits), and Central Bank and Trust Company, Birmingham ($121 million deposits), third and eighth largest of the state's banks, proposed forming a holding company whose combined deposits would account for 7 percent of Alabama's total. The Justice Department objected because this formation would reduce the possibility for eventual deconcentration in both banks' markets by removing each one as a potential competitor to the other. The Board majority, nevertheless, believed it was in Alabama's economic interest to combine the one bank's resource potential with the other's innovative character to improve competition among the state's largest institutions. Again, the minority objected to the loss of a potential holding company lead bank.

The Board's most recent approval of a large bank combination permitted the merger of Florida's sixth and ninth largest holding companies to form United First Florida Banks in 1973. The smaller company, United Bancshares ($348 million deposits), operated principally in Miami and was that area's second largest organization. The larger company, First Florida Bancorporation ($587 million deposits), operated subsidiaries throughout the state except in Miami. The Justice Department once again recommended denying such a merger because both organizations were fully capable of entering each other's markets as competitors. However, the Board approved the merger in a split decision, the majority finding future entry a possibility rather than a clear probability. The Board also noted that the respective local markets had become more competitive in recent years. Any future entry by First Florida into Miami would have minimal impact because many competing banks were already there.

This series of approvals indicates that while there has been a fundamental concern for ensuring the largest possible number of competing holding companies in each state, the goal has not been an unyielding policy where future developments were uncertain or where there possibly were overriding public benefits.

A Statewide Perspective

Antitrust regulation of holding company expansion appears, then, to have evolved. First concerned with simply preserving the number of competing firms in isolated local markets, it now includes retaining local competitors seen in a larger context of statewide holding company expansion. The Board has increasingly assumed an obligation to consider two things in growing market areas: the probable future development of banking needs and the expansion banking organizations are likely to undertake in serving these needs.

As already noted, early Board rulings assessed a proposed acquisition's competitive impact in familiar merger terms. The evolution of the Board's perspective from purely direct competition considerations to a broader view of local competitors as future affiliates of a statewide system is illustrated in several early Florida denials.

The Board handed down its first denial of a small bank acquisition in a local Southeastern market in 1966 [2], four years after the landmark First Bancorporation of Florida denial. A large banking organization controlling about 30 percent of the Jacksonville market deposits (where the three largest organizations controlled 90 percent of all bank deposits) was denied acquisition of a smaller, independent competitor. Although this early case was a straightforward direct competitor acquisition, the denial also expressed a concern not only for the existing number of firms but also for those likely to be competing directly in this market in the near future.

The traditional policy of barring holding company acquisition of an independent competitor in the same market was reaffirmed in the 1970 denial of Exchange Bancorporation's proposal to acquire the Peninsula State Bank in Tampa, Florida [5]. Exchange, the second largest of three major organizations headquartered in Tampa, already controlled 24 percent of local market deposits and wished to acquire a $25-million deposit bank in the same market.

Though the denial discussed the elimination of an existing competing firm, the Board's ruling pointed out more strongly than the earlier Jacksonville case that the acquisition would also eliminate the bank as a vehicle for entry by an organization not represented in the area. In other words, the acquisition—if approved—would diminish the number of future competitors.

In local market cases, then, the denials not only preserved the existing number of competitors, but where these banks were later acquired by nonlocal holding companies, also preserved the number of future competitors. Furthermore, a smaller bank's market share is likely to grow more rapidly as a subsidiary of a large company, resulting in future deconcentration of large local bank

market shares. In the Exchange-Peninsula State Tampa case, the Peninsula Bank became the vehicle of entry for the Jacksonville-based Atlantic Bancorporation in 1973, preserving and strengthening an alternate source of competition that would have been eliminated had the initial home market acquisition been approved. Similarly, the Jacksonville Beach Bank, denied to Barnett in 1966, was allowed to be acquired in 1971 by Southeast Bancorporation, which had entered the Jacksonville market only the year before.

The evolving policy of preserving the number of future competitors has also been evident in markets adjacent to the acquiring organization's home office. In 1970, the Miami-based Southeast Bancorporation, the state's largest, was denied acquisition of the $65-million deposit Hollywood Bank and Trust, second largest bank in the adjacent market and controlling about 20 percent of those deposits. The Board's ruling [8] argued that an area's largest bank can effectively compete in an adjacent market through acquisition of a small or *de novo* bank and that the larger competitors should be preserved. It allowed Southeast to acquire only the two smaller Hollywood bank affiliates. The denied larger bank (Hollywood Bank and Trust) was later acquired by the Jacksonville-based Barnett Banks of Florida in 1971. The ruling thus enabled competition between two strong organizations to develop.

Similar rulings denied First Financial Corporation, Tampa's largest, acquisition of the $92-million deposit Bank of Clearwater [7] and the $151-million deposit Union Trust National Bank of St. Petersburg [12]. The former bank was the largest in an adjacent market; the latter was the second largest in another adjacent market. Instead, First Financial entered the St. Petersburg market by acquiring a small bank. The Union Trust National Bank was later acquired by a Fort Lauderdale-based company in 1972, again promoting competition between two strong organizations.

Acquisitions of Major Banks in Local Markets

The effort to prevent possible parallel policies inherent when a few large competitors face each other in the same markets has produced a series of other Board denials. These have barred a state's largest organizations from acquiring major banks in local areas. These large organizations, in most cases, later entered local markets either *de novo* or by acquiring smaller banks to strengthen their own competitive stance.

An early Board ruling of this sort occurred in 1969 [3]. Barnett Banks of Florida, the state's largest company then holding 14 subsidiary banks, proposed to acquire the Union Trust National Bank of St. Petersburg ($135 million deposits) and the smaller Citizens National Bank ($47 million deposits) which stockholders of Union Trust had acquired the previous year. The Board approved Barnett's acquisition of the Citizens Bank but denied it control over Union Trust, the city's second largest bank.

According to the opinion, approval of both applications would have foreclosed the possible dissolution of the loose affiliation between Union Trust and Citizens National and their future reemergence as competitors. More significantly, though, the Board said that approval of a large holding company acquiring an area's leading bank would encourage a few large organizations to dominate the state's primary market areas. After Barnett was denied the large bank, it acquired the smaller institution. The latter has now grown to be a $50-million bank and competes directly with Union Trust, which became an affiliate of the Fort Lauderdale-based Landmark Banks in 1972.

This preference for market entry on a smaller scale to increase the number and strength of local competitors was a feature of a previously discussed Tennessee case, Hamilton Bancshares' attempt to acquire the Hamilton National Bank of Knoxville [22]. Besides seeing the large Knoxville bank as a potential holding company lead bank for entry into other areas, the Board contended Knoxville was a logical area for a statewide organization such as the applicant (Hamilton Bancshares of Chattanooga) to enter either *de novo* or through acquiring a smaller bank. There was a precedent for this. Several years earlier the FDIC had denied the loss through merger of a smaller Knoxville bank which was later acquired by a Nashville-based holding company.

Similar denials of major local organization acquisitions have occurred in four additional Florida markets. Southeastern Bancorporation, the state's second largest holding company, wanted to acquire a group of four Melbourne banks which controlled 31 percent of area deposits [6]. The Miami corporation was granted only two. The two denied became subsidiaries of Landmark Banks two years later.

Southeast Banking Corporation was also denied a group of five banks in Orlando, where Southeast had already opened a new bank [10]. A competing holding company currently has pending an application to acquire this group.

First at Orlando Corporation, the state's fifth largest, was denied the larger of two affiliated banks controlling 17 percent of the Sarasota market [9]. Also, in 1973 First National Bancshares, Pompano Beach, was denied two of four proposed subsidiaries in Vero Beach [18]. A competing statewide system recently gained approval to acquire one of the two previously denied Vero Beach banks.

As with proposed acquisitions of possible holding company lead banks, the Board has not set a fast rule denying all acquisitions of major banking organizations in local markets. In 1969, the Board approved First at Orlando's acquisition of Daytona Beach's largest bank together with its two affiliates. The ruling pointed out that although the market's largest local organization was being acquired, smaller competing banks were affiliated with even larger holding companies. It gave the same reasons for approving First at Orlando's acquisition of Ocala's largest banking organization in 1972.

Similarly, in an Alabama case, the Board that same year approved the acquisition of a Dothan bank controlling 54 percent of local market deposits by the state's second largest organization. The majority found that since two other competing banks in Dothan maintained close relations with other statewide organizations and the market was not attractive for *de novo* entry, this acquisition was an acceptable route of entry by the large Birmingham-based holding company.

Also in 1972, Alabama Bancorporation of Birmingham, the state's largest bank holding company, acquired the $64-million American National Bank of Mobile, ninth largest in the state and Mobile's third largest, controlling about 11 percent of local deposits. Though the Department of Justice argued that independent banks of this size should be preserved for facilitating the possible formation of additional holding companies in Alabama, the Board in a split decision ruled that the affiliation would make the Mobile bank a stronger competitor to the area's two largest banks, which together controlled 71 percent of local deposits.

Three additional Alabama acquisitions also raised parallel policy issues. In 1973 three of the state's four large holding companies proposed to acquire several independent banks (with $60 million deposits) in the concentrated markets of Tuscaloosa, Montgomery, and Anniston. The Justice Department felt that the four large holding companies, which controlled 40 percent of Alabama's deposits, were likely future entrants into Tuscaloosa, Montgomery, Anniston and other local markets. Approval of the three acquisitions would leave barely a dozen independent banks with deposits over $30 million to serve as the nucleus for an additional statewide organization. The situation might emerge in which four sizable organizations would confront each other in Alabama's large local markets, adopting similar policies or practices.

A divided Board approved the acquisitions. The majority saw no evidence that such parallel policies had developed and believed larger banking organizations beneficial to the state's development. The minority contended that a structure of only four large organizations was likely to assure that any benefits produced would accrue to private parties rather than to the public generally.

A Second Local Market Acquisition?

We noted earlier that a desire for preserving numerous local competitors throughout the state had led to a series of rulings denying the acquisition by large holding company organizations of probable lead banks of competing organizations and of major banks in local markets. The same concern to prevent the emergence of a structure conducive to parallel policies on a statewide basis has also led to several rulings preventing holding companies which had already entered a local market by acquiring an existing bank from acquiring additional small independent banks in the same area.

Such rulings are intended to prevent an organization from obtaining piecemeal a predominant local position which would be denied if attempted all at once. Furthermore, acquisition of a second independent bank, especially one centrally located, would eliminate the independent bank as a vehicle of entry by other statewide systems. Additional entry by a strong organization has the advantage of providing for future deconcentration of bank deposits.

In some cases, since the existing and proposed affiliate are located in the same market, there is a degree of existing competition and the familiar arguments against merging direct competitors apply. In these cases, a close parallel of future competition considerations with traditional merger policy is apparent. The acquisition of a competing local bank could be denied without reference to any probable future statewide developments. However, as this article stresses, the Board has come to discuss these proposed acquisitions in the broader perspective of future competition.

First at Orlando Corporation, which had acquired a Tampa bank in 1972, that same year sought to acquire an additional local bank, the $34-million deposit Seminole Bank [13]. Since four statewide systems besides the applicant had entered that same market in recent years, the Board reasoned that other systems were highly likely entrants. Therefore, it denied the Seminole acquisition as one which would eliminate that bank as a stronger competitor when affiliated with a nonlocal organization. Seminole Bank's central location made it especially attractive for entry by other statewide systems. American Bancshares of Miami, indeed, acquired the bank the following year.

In 1973, Barnett Banks, which had acquired a downtown Tampa bank in 1970, sought to acquire Tampa's $38-million deposit Peninsula State Bank [16]. Had the acquisition been approved, it would have eliminated some existing direct competition and a likely source of strengthened competition through alternate affiliation with a nonlocal company. It was, therefore, denied. In 1973, Atlantic Bancorporation of Jacksonville entered the market by acquiring the Peninsula bank.

The Board on the same basis denied banks to Florida National Banks in Ormond Beach [11] and to Southeast Banking Corporation in DeLand, Florida [19]. Though these could be viewed as simple direct competition cases, the Board placed them in the context of future statewide holding company expansion.

Conclusion

In sum, the regulatory concern for future competition has been very evident in the Southeast's expanding banking markets. The record shows that the Board of Governors has denied bank acquisitions which would have lessened the number of competing holding companies in markets throughout each state as they were reasonably likely to develop. Efforts have been made to preserve local banks as avenues for future market deconcentration.

Some observers find the Board's concern for future competition lying beyond familiar antitrust actions preventing the elimination of competing firms. This position claims that to prevent the merger of two likely future competitors restructures markets along procompetitive lines. And according to the same view, this exceeds Congressional intent.[2] While this view may be logical where market entry is a distant possibility, it has less validity where new entry is highly predictable. In these cases, such a policy becomes one of preserving a fairly normal structural development which would be foreclosed by granting a proposed acquisition.

Of 18 such denied rulings in the Southeast, we found that banks in 13 have since been acquired by other organizations; and these currently represent strengthened alternate sources of banking services. Each of these 18 markets was less concentrated in 1973 than when the acquisitions were proposed and far less concentrated than if the bank consolidations had been approved. This indeed understates the impact of the policy, since approvals would surely have encouraged eliminating independent competitors in many additional markets.

As this review of published Board rulings indicates, the concern for future competition has not been a restructuring of existing market patterns to fit some preconceived plan. Denials have come only after analysis of each local market's growth potential and consideration of "bank size, history of innovation, management ability, and related operational motives."[3] Where future entry was merely a possibility rather than a clear probability or where there were offsetting public benefits, the Board did not deny acquisitions even though other agencies so advised.

Conclusive empirical evidence that the structural standard favoring many firms over few has produced competitive market performance is not yet at hand. Nonetheless, there are undeniably many more independent banking alternatives in Sixth District banking markets today than would be the case in the absence of the Bank Holding Company Act and the Board's enforcement of its provisions.

A concern for future competition has played a key role in this development. As banking organizations continue to grow along with the Southeast, the Board can be expected to preserve additional avenues for deconcentrated markets in the future.

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[2]Douglas V. Austin, "Limitations of the Potential Competition Theology," **The Magazine of Bank Administration,** XLV (September 1969), p. 32ff, and Charles F. Haywood, **The Potential Competition Doctrine,** Washington, Association of Registered Bank Holding Companies, 1972.

[3]Andrew F. Brimmer, "The Role of Potential Competition in Bank Mergers," **The Magazine of Bank Administration,** XLV (May 1969), p. 23.

APPENDIX
Bank Holding Companies
Orders Denying Acquisition of Bank Stocks

Applicant	Bank	Federal Reserve Bulletin	Later Acquired By	Federal Reserve Bulletin
1. First Bancorp. of Florida, Inc., Orlando, Fla.	The Barnett National Bank of Jacksonville, Fla.	1962 BULL. 978	Barnett Banks of Florida, Inc., Jacksonville, Fla.[1]	1966 BULL. 23
	The First National Bank of Miami, Fla.		Southeast Banking Corp., Miami, Fla.[2]	1967 BULL. 1562
	The First National Bank at Orlando, Fla.		First at Orlando Corp., Orlando, Fla.	1967 BULL. 235
	The Exchange National Bank of Tampa, Fla.		Exchange Bancorp., Inc., Tampa, Fla.	1969 BULL. 278
2. Barnett National Securities Corp., Jacksonville, Fla.	First National Beach Bank, Jacksonville Beach, Fla.	1966 BULL. 25	Southeast Banking Corp. Miami, Fla.[2]	1971 BULL. 841
3. Barnett National Securities Corp., Jacksonville, Fla.	Union Trust National Bank of St. Petersburg, St. Petersburg, Fla.	1969 BULL. 615	Landmark Banking Corp. of Florida, Fort Lauderdale, Fla.[3]	1972 BULL. 991

Applicant	Bank	Federal Reserve Bulletin	Later Acquired By	Federal Reserve Bulletin
4. Hamilton National Associates, Inc., Chattanooga, Tenn.	Marion Trust and Banking Co., Jasper, Tenn.	1969 BULL. 860	Independent	
5. Exchange Bancorp., Inc., Tampa, Fla.	Peninsula State Bank, Tampa, Fla.	1970 BULL. 373	Atlantic Bancorporation Jacksonville, Fla.	1973 BULL. 776
6. Southeast Bancorp., Inc., Miami, Fla.	First National Bank of Eau Gallie, Melbourne, Fla.	1970 BULL. 641	Landmark Banking Corp. of Florida, Fort Lauderdale, Fla.[3]	1972 BULL. 581
	Indialantic Beach Bank, Indialantic, Fla.			
7. First Financial Corp., Tampa, Fla.	Bank of Clearwater, Clearwater, Fla.	1970 BULL. 654	Lykes Bros., Inc., Tampa, Fla., retained bank acquired 1964	
8. Southeast Bancorp., Inc., Miami, Fla.	Hollywood Bank and Trust Co., Hollywood, Fla.	1970 BULL. 858	Barnett Banks of Florida, Inc., Jacksonville, Fla.[1]	1971 BULL. 529
9. First at Orlando Corp., Orlando, Fla.	National Bank of Sarasota, Sarasota, Fla.	1971 BULL. 1014	Southwest Florida Banks Inc., Fort Myers, Fla.	1973 BULL. 310
10. Southeast Banking Corp., Miami, Fla.[2]	Combanks Corporation, Winter Park, Fla.	1972 BULL. 54	First Bancshares of Florida, Inc., Boca Raton, Fla., has applied to merge with Combanks Corporation	
11. Florida National Banks of Florida, Inc., Jacksonville, Fla.	Ormond Beach First National Bank, Ormond Beach, Fla.	1972 BULL. 57	First Florida Bancorp., Tampa, Fla.[4]	1973 BULL. 121
12. First Financial Corp., Tampa, Fla.	Union Trust National Bank of St. Petersburg, St. Petersburg, Fla.	1972 BULL. 480	Landmark Banking Corp. of Florida, Fort Lauderdale, Fla.[3]	1972 BULL. 991
13. First at Orlando Corp., Orlando, Fla.	Seminole Bank of Tampa, Tampa, Fla.	1972 BULL. 818	American Bancshares, Inc., North Miami, Fla.	1973 BULL. 708
14. Financial Securities Corp. Lake City, Tenn.	First Farmers Bank, Athens, Tenn.	1972 BULL. 832	Independent	
	First National Bank of Anderson County, Lake City, Tenn.		Independent	
15. Atlantic Bancorp., Jacksonville, Fla.	Bank of New Smyrna, New Smyrna Beach, Fla.	1972 BULL. 1035	Independent	
16. Barnett Banks of Florida, Inc., Jacksonville, Fla.[1]	Peninsula State Bank, Tampa, Fla.	1973 BULL. 299	Atlantic Bancorporation, Jacksonville, Fla.	1973 BULL. 776
17. First at Orlando Corp., Orlando, Fla.	Citrus First National Bank of Leesburg, Leesburg, Fla.	1973 BULL. 302	*de novo* bank; never opened	
18. First National Bancshares of Florida, Inc., Pompano Beach, Fla.	The Beach Bank of Vero Beach, Vero Beach, Fla.	1973 BULL. 362	First at Orlando Corp., Orlando, Fla.	Board Press Release April 16, 1974
	The Sebastian River Bank, Sebastian, Fla.		Independent	
19. Southeast Banking Corp., Miami, Fla.[2]	DeLand State Bank, DeLand, Fla.	1973 BULL. 460	United First Florida Banks, Inc., Tampa, Fla.	Board Press Release April 4, 1974
20. Central Bancorp., Inc., Miami, Fla.	Central National Bank of Miami, Miami, Fla.	1973 BULL. 461	Independent	
21. United Tennessee Bancshares Corp., Memphis, Tenn.	American National Corp., Chattanooga, Tenn.	1973 BULL. 530	One-bank holding company	
22. Hamilton Bancshares, Inc., Chattanooga, Tenn.	The Hamilton National Bank of Knoxville, Knoxville, Tenn.	1973 BULL. 817	Independent	
23. First Financial Corp. Tampa, Fla.	Citizens Bank and Trust Company, Quincy, Fla.	1974 BULL. 129	Independent	

[1]Formerly Barnett National Securities Corporation
[2]Formerly Southeast Bancorporation, Inc.
[3]Formerly Consolidated Bankshares of Florida, Inc.
[4]Merged with United Bancshares of Florida, Inc.; name changed to United First Florida Banks, Inc.