# 1979 ANNUAL REPORT

Comptroller of the Currency
Administrator of National Banks

# Annual Report 1979
# Comptroller of the Currency

The Administrator of National Banks

## John G. Heimann

Comptroller of the Currency

# Letter of Transmittal

Treasury Department,
Office of the Comptroller of the Currency,
Washington, D.C., December 1, 1980

**Sirs:** Pursuant to the provisions of Section 333 of the United States Revised Statutes, I am pleased to submit the 1979 *Annual Report of the Comptroller of the Currency.*

Respectfully,

John G. Heimann,
*Comptroller of the Currency.*

The President of the Senate
The Speaker of the House of Representatives

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# Statistical Tables

# I. Condition of the National Banking System

During 1979, accelerating inflation, declining U.S. economic growth, sharply higher imported crude oil prices and an abrupt shift in U.S. monetary policy induced some important changes within the financial system. Most importantly, there was a large increase in the demand for short-term, liquid financial instruments with higher yields, such as money market certificates of deposit and money market mutual funds. The rapid growth of the innovative instruments not only demonstrated the pervasiveness of inflationary expectations but substantially diminished the importance of traditional deposit instruments.

While the effects of inflation, policy changes and financial innovation varied among banks, the aggregate asset, liability and capital accounts of the national banking system reflected some structural changes the banking system made to accommodate a more volatile and uncertain economic environment. Many of the changes in the national banking system during 1979, however, were simply continuations of trends already evident in previous years.

The total assets of the national banking system, both foreign and domestic, grew by 11.7 percent in 1979 to $996.3 billion. The rate of growth was slightly below the 12 percent growth of 1978. Most of the growth in total assets during 1979 was in the form of loans, as net loans increased by $57.3 billion, an 11.7 percent rate of growth. The growth in loan assets was slightly below the $60.8 billion of new lending in 1978, which reflected the slowing of the national economy during the second and fourth quarters of 1979. While lending activity increased in line with the growth of total assets in 1979, the provision for possible loan losses increased somewhat faster at a rate of 14.7 percent.

Though national banks purchased $9.2 billion in new securities during 1979, a substantial increase from $2.9 billion in security investment for 1978, the importance of securities within the asset portfolios of national banks has diminished in recent years. At the end of 1979, securities comprised 15.6 percent of total assets. Two years earlier, securities accounted for 18 percent of total assets.

The fastest growing identifiable asset category during 1979 was lease financing receivables which grew by nearly $1.5 billion, an annual rate of 22.7 percent. Conversely, national banks reduced their holdings of real estate by $261 million, a decline of 16.6 percent. That reflects the continuing workout of problem real estate lending encountered in the last recession.

The effects of rising inflation on the national banking system were most readily indentifiable on the liability side of the balance sheet. Most importantly, there was a decline in the importance of traditional deposit instruments and an increase in the use of purchased funds. Though total domestic deposits grew by $34 billion in 1979, the ratio of domestic deposits to total assets declined from 62.9 to 59.7 percent. In contrast, purchased funds, which include deposits at foreign offices, federal funds, repurchase agreements and other liabilities for borrowed money increased by $53.4 billion. As a percent of total assets, purchased funds increased from 26.2 to 28.9 percent in 1979. Further, total deposits in foreign offices increased by 21.9 percent, a rate more than three times as fast as the growth of total deposits in domestic offices.

The growth in all deposit categories, other than deposits at foreign offices, was slower than the 11.8 percent increase in total liabilities. Most notably, demand deposits at domestic offices grew by only 6.5 percent. During 1979, 26-week certificates of deposit grew from just $12 billion, or 2 percent of domestic deposits, to $55 billion, more than 9 percent of domestic deposits. So in addition to the relatively slow growth of domestic deposits, there was a significant shift in those deposits to higher interest-bearing types. Indeed, savings accounts at national banks actually declined more than 7 percent to $111 billion. The deposits of federal, state and local governments also declined.

The fastest growing liability categories reflected the shift towards increasing reliance on short-term market rate funds. Other liabilities for borrowed money grew by 37.8 percent while federal funds purchased and securities sold under agreements to repurchase increased by 22 percent. A year earlier the growth of federal funds and repurchase agreements was 9.1 percent.

The aggregate capital asset ratio for the national banking system declined slightly in 1979 from 5.51 to 5.45 percent. In recent years, there has been a steady erosion of the capital asset ratio as total assets have grown faster than total equity capital. The influence of inflation is readily apparent in that decline of the capital asset ratio. While the value of bank stocks and the return on equity have remained relatively low for several years, as it has for most stocks, inflation has accelerated the increase in the nominal value of bank assets.

The effects of inflation and of the national economy approaching its cyclical peak could be discerned from the aggregate balance sheet accounts of the national banking system. A rise in loan demand induced a shift of national bank assets away from securities and into loan assets. At the same time, the effects of inflation caused banks to rely more heavily on purchased funds and less on traditional instruments.

## Table 1

*Assets, liabilities and capital accounts of national banks, 1978 and 1979*
(Dollar amounts in millions)

| | Dec. 31, 1978 4,564 banks | | Dec. 31, 1979 4,448 banks | | Change 1978-1979 Fully consolidated | |
|---|---|---|---|---|---|---|
| | Consolidated foreign and domestic | Domestic offices | Consolidated foreign and domestic | Domestic offices | Amount | Percent |
| **Assets** | | | | | | |
| Cash and due from depository institutions* | $170,146 | $102,603 | $188,554 | $106,731 | $ 18,408 | 10.8 |
| U.S. Treasury securities | 45,311 | 45,285 | 44,281 | 44,126 | −1,030 | −2.3 |
| Obligations of other U.S. government agencies and corporations | 21,312 | 21,308 | 24,751 | 24,702 | 3,439 | 16.1 |
| Obligations of states and political subdivisions | 66,758 | 66,564 | 71,268 | 70,796 | 4,510 | 6.8 |
| All other securities | 12,774 | 7,345 | 15,095 | 9,485 | 2,321 | 18.2 |
| Total securities | 146,155 | 140,502 | 155,395 | 149,109 | 9,240 | 6.3 |
| Federal funds sold and securities purchased under agreements to resell | 31,147 | 30,996 | 36,447 | 36,119 | 5,300 | 17.0 |
| Total loans (excluding unearned income) | 494,896 | 394,671 | 552,858 | 442,986 | 57,962 | 11.7 |
| Allowance for possible loan losses | 4,754 | 4,566 | 5,461 | 5,296 | 707 | 14.9 |
| Net loans | 490,142 | 390,105 | 547,397 | 437,690 | 57,255 | 11.7 |
| Lease financing receivables | 6,582 | 5,561 | 8,074 | 6,780 | 1,492 | 22.7 |
| Bank premises, furniture and fixtures, and other assets representing bank premises | 12,652 | 11,930 | 13,756 | 12,923 | 1,104 | 8.7 |
| Real estate owned other than bank premises | 1,573 | 1,456 | 1,312 | 1,193 | −261 | −16.6 |
| All other assets | 33,874 | 39,132 | 45,346 | 41,711 | 11,472 | 33.9 |
| *Total assets* | 892,272 | 722,285 | 996,281 | 792,256 | 104,009 | 11.7 |
| **Liabilities** | | | | | | |
| Demand deposits of individuals, partnerships and corporations | 175,356 | 175,356 | 187,201 | 187,201 | 11,845 | 6.8 |
| Time and savings deposits of individuals, partnerships and corporations | 294,707 | 294,707 | 317,654 | 317,654 | 22,947 | 7.8 |
| Deposits of U.S. government† | 2,078 | 2,078 | 1,902 | 1,902 | −176 | −8.5 |
| Deposits of states and political subdivisions | 45,689 | 45,689 | 43,484 | 43,484 | −2,205 | −4.8 |
| All other deposits | 35,909 | 35,909 | 37,268 | 37,268 | 1,359 | 3.8 |
| Certified and officers' checks | 7,229 | 7,229 | 7,461 | 7,461 | 232 | 3.2 |
| Total deposits in domestic offices | 560,968 | 560,968 | 594,970 | 594,970 | 34,002 | 6.1 |
| Demand deposits | 220,593 | 220,593 | 234,937 | 234,937 | 14,344 | 6.5 |
| Time and savings deposits | 340,375 | 340,375 | 360,033 | 360,033 | 19,658 | 5.8 |
| Total deposits in foreign offices | 156,090 | 0 | 190,302 | 0 | 34,212 | 21.9 |
| Total deposits | 717,057 | 560,968 | 785,272 | 594,970 | 68,215 | 9.5 |
| Federal funds purchased and securities sold under agreements to repurchase | 64,989 | 64,908 | 79,310 | 79,152 | 14,321 | 22.0 |
| Interest-bearing demand notes issued to U.S. Treasury | 7,764 | 7,764 | 7,687 | 7,687 | −77 | −1.0 |
| Other liabilities for borrowed money | 12,860 | 5,499 | 17,719 | 9,439 | 4,859 | 37.8 |
| Mortgage indebtedness and liability for capitalized leases | 1,275 | 1,232 | 1,277 | 1,234 | 2 | .2 |
| All other liabilities | 35,808 | 29,642 | 47,434 | 42,444 | 11,626 | 32.5 |
| *Total liabilities* | 839,753 | 670,013 | 938,699 | 734,926 | 98,946 | 11.8 |
| Subordinated notes and debentures | 3,312 | 3,065 | 3,285 | 3,034 | −27 | −.8 |
| **Equity Capital** | | | | | | |
| Preferred stock | 29 | 29 | 31 | 31 | 2 | 6.9 |
| Common stock | 9,912 | 9,912 | 11,403 | 11,403 | 1,491 | 15.0 |
| Surplus | 17,291 | 17,291 | 17,846 | 17,846 | 555 | 3.2 |
| Undivided profits and reserve for contingencies and other capital reserves | 21,976 | 21,976 | 25,017 | 25,017 | 3,041 | 13.8 |
| *Total equity capital* | 49,207 | 49,207 | 54,296 | 54,296 | 5,089 | 10.3 |
| *Total liabilities, subordinated notes and debentures and equity capital* | 892,272 | 722,285 | 996,281 | 792,256 | 104,009 | 11.7 |

* In 1978, this category was expanded to include all depository institutions rather than just banks.
† Most demand deposits of the U.S. government were converted to "interest-bearing" demand notes issued to U.S. Treasury in late 1978.

# II. Income and Expenses of National Banks

Total income and expenses of national banks grew even more rapidly in 1979 than during 1978, increasing more than 30 percent and reflecting both the continuing rise in interest rates and a substantial growth in bank assets. However, net income grew at the lower rate of 17 percent, representing a reduction in interest rate margins resulting from an increasing reliance on market rate funds, including the spectacular growth in the 26-week money market certificates. That 17 percent growth in net income, just over $1 billion, was the second largest increase in the last decade, exceeded only by last year's rise of 20 percent.

During 1979, total operating income jumped 32.5 percent to $89.9 billion. That rate was nearly triple the 11.7 percent increase in assets over the year, reflecting the continued ability of banks to adjust their loan rates during a period of rapidly rising interest rates. The prime rate, the basic commercial lending rate, increased from 11.75 to 15.25 percent. All of that increase occurred during the second half of the year and followed an even larger 400-basis point increase during 1978. Total operating expenses increased even more rapidly during the year than income, growing 35.2 percent to $79.7 billion. The result was a $1.3 billion increase in income before taxes and securities gains, well below last year's $2 billion increase. However, applicable income taxes increased only $163 million, or 6.3 percent to $2.7 billion, following last year's growth of 46.6 percent. Net securities losses increased a further $57 million following a $175 million swing last year. Extraordinary income was virtually unchanged and added $26 million to net income. Net income was $7.2 billion, equal to 0.73 percent of end-of-year assets, the second significant yearly increase in return on assets in a row.

Interest income, including income from lease financing and corporate stock, increased 33.9 percent over 1978 to reach $82.9 billion; it accounted for more than 92 percent of total operating income. The largest component of that, interest and fees on loans, totalled $61.8 billion in 1979, an increase of more than 34 percent over 1978. Thus in addition to loans increasing almost 12 percent, national banks were able to increase the average return on their loan portfolio by nearly 2 percentage points over last year. However, interest on balances with depository institutions and income from federal funds transactions jumped even more disproportionately, 57 and 62 percent respectively, reflecting their short-term nature and responsiveness to changes in interest rates.

Security holdings, which increased slowly during the year, accounted for less than 12 percent of total operating income. That continued the trend of decreasing reliance on income from securities, which was interrupted only in 1975 as a result of depressed loan demand during the recession. Although holdings of U.S. Treasury and government agency securities continued to decline as they have since 1976, income on those investments rose nearly 14 percent as older issues were replaced by higher yielding issues. Noninterest income, resulting mainly from fees for services, increased 18 percent to $7 billion.

High and rising interest rates and the success of new market rate instruments in 1979 had a dramatic effect on deposit costs. Total interest expense on deposits was $43.4 billion, an increase of 44 percent. The expense of deposits which have long been acquired at competitive market rates, large time certificates of deposits and deposits in foreign offices, jumped 53 and 67 percent, respectively. The expense of foreign office deposits, which remained the fastest growing source of deposits, grew at more than three times the actual increase in those deposits as it did the previous year and accounted for nearly 40 percent of the total interest expense on deposits, although they equaled 24 percent of total deposits. The rapid growth of 26-week money market certificates during the year helped to push the interest expense on other deposits up 22 percent, three times the rate of increase for last year.

The expense of other short-term market rate funds increased more rapidly than that for deposits. The cost of federal funds purchased and securities sold under agreements to repurchase grew $3.5 billion, or 70 percent over 1978. The 97 percent increase in expense on borrowed money is overstated, in part, because banks were paying interest on federal demand notes, for an entire year. Total interest expense was $54 billion, a 49 percent increase over 1979 and equal to 68 percent of total operating expenses.

Salaries and employee benefits increased 14.4 percent, slightly greater than the rate of increase for total assets. However, because of the effect of rising interest rates, it continued to decline in proportion to total expenses. Net loan losses increased slightly to $1.5 billion, still well below the post-recession peak of more than $2 billion in 1975. As a result the expense for provision for loan losses increased only slightly to $2.3 billion.

National banks declared $2.6 billion in dividends in 1979, equal to 36.6 percent of their net income. That was a slight increase in the payout ratio of 35.6 percent during 1978 but still the second lowest ratio since 1946. That high rate of retention of earnings was important because it was the primary source of equity capital growth. Because of the continued rapid increase in net income and the slight increase in leveraging, net income to equity capital rose to 13.3 percent from 12.5.

*Income and expenses of national banks, 1978 and 1979*
(Dollar amounts in millions)

| | 1978 4,564 banks | | 1979 4,448 banks | | Change, 1978-1979 | |
|---|---|---|---|---|---|---|
| | Amount | Percent distribution | Amount | Percent distribution | Amount | Percent |
| Operating income: | | | | | | |
| Interest and fees on loans | $45,997.7 | 67.8 | $61,801.9 | 68.8 | $15,804.2 | 34.4 |
| Interest on balances with depository institutions | 4,407.3 | 6.5 | 6,931.2 | 7.7 | 2,523.9 | 57.3 |
| Income on federal funds sold and securities purchased under agreements to resell | 2,197.8 | 3.2 | 3,551.2 | 4.0 | 1,353.4 | 61.6 |
| Interest on U.S. Treasury securities and on obligations of other U.S. government agencies and corporations | 4,721.6 | 7.0 | 5,367.2 | 6.0 | 645.6 | 13.7 |
| Interest on obligations of states and political subdivisions in the United States | 3,252.1 | 4.8 | 3,748.2 | 4.2 | 496.1 | 15.3 |
| Income from all other securities (including dividends on stock) | 693.2 | 1.0 | 754.9 | .8 | 61.7 | 8.9 |
| Income from lease financing | 639.4 | 0.9 | 730.5 | .8 | 91.1 | 14.2 |
| Income from fiduciary activities | 1,214.8 | 1.8 | 1,345.0 | 1.5 | 130.2 | 10.7 |
| Service charges on deposit accounts | 1,089.5 | 1.6 | 1,316.1 | 1.5 | 226.6 | 20.8 |
| Other service charges, commissions, and fees | 1,932.2 | 2.8 | 2,453.0 | 2.7 | 520.8 | 27.0 |
| Other operating income | 1,696.9 | 2.5 | 1,887.0 | 2.1 | 190.1 | 11.2 |
| *Total operating income* | 67,842.4 | 100.0 | 89,886.1 | 100.0 | 22,043.7 | 32.5 |
| Operating expenses: | | | | | | |
| Salaries and employee benefits | 10,845.2 | 18.4 | 12,403.7 | 15.6 | 1,558.5 | 14.4 |
| Interest on time certificates of $100,000 or more (issued by domestic offices) | 7,021.9 | 11.9 | 10,723.5 | 13.5 | 3,701.6 | 52.7 |
| Interest on deposits in foreign offices | 10,139.7 | 17.2 | 16,903.5 | 21.2 | 6,763.8 | 66.7 |
| Interest on other deposits | 12,873.9 | 21.8 | 15,737.0 | 19.7 | 2,863.1 | 22.2 |
| Expense of federal funds purchased and securities sold under agreements to repurchase | 4,989.6 | 8.5 | 8,498.4 | 10.7 | 3,508.8 | 70.3 |
| Interest on demand notes issued to the U.S. Treasury and on other borrowed money.* | 1,023.1 | 1.7 | 2,014.7 | 2.5 | 991.6 | 96.9 |
| Interest on subordinated notes and debentures | 234.3 | 0.4 | 265.4 | .3 | 31.1 | 13.3 |
| Occupancy expense of bank premises, net, and furniture & equipment expense | 3,194.3 | 5.4 | 3,571.3 | 4.5 | 377.0 | 11.8 |
| Provision for possible loan losses | 2,131.2 | 3.6 | 2,251.7 | 2.8 | 120.5 | 5.7 |
| Other operating expenses | 6,522.5 | 11.1 | 7,356.2 | 9.2 | 833.7 | 12.8 |
| *Total operating expenses* | 58,975.8 | 100.0 | 79,725.5 | 100.0 | 20,749.7 | 35.2 |
| Income before income taxes and securities gains or losses | 8,866.6 | | 10,160.6 | | 1,294.0 | 14.6 |
| Applicable income taxes | 2,591.0 | | 2,753.7 | | 162.7 | 6.3 |
| Income before securities gains or losses | 6,275.6 | | 7,406.8 | | 1,131.2 | 18.0 |
| Securities gains (losses), gross | −253.5 | | −349.4 | | −95.9 | 37.8 |
| Applicable income taxes | −125.2 | | −163.2 | | −38.0 | 30.4 |
| Securities gains (losses), net | −128.3 | | −186.2 | | −57.9 | 45.1 |
| Income before extraordinary items | 6,147.3 | | 7,220.7 | | 1,073.4 | 17.5 |
| Extraordinary items, net | 26.1 | | 26.0 | | −.1 | −.4 |
| Net income | 6,173.4 | | 7,246.7 | | 1,073.3 | 17.4 |
| Cash dividends declared on common stock | 2,194.7 | | 2,648.2 | | 453.5 | 20.7 |
| Cash dividends declared on preferred stock | 1.4 | | 1.5 | | .1 | 7.1 |
| Total cash dividends declared | 2,196.1 | | 2,649.7 | | 453.6 | 20.7 |
| Recoveries credited to allowance for possible loan losses | 685.9 | | 756.6 | | 70.7 | 10.3 |
| Losses charged to allowance for possible loan losses | 2,124.6 | | 2,296.5 | | 171.9 | 8.1 |
| Net loan losses | 1,438.7 | | 1,539.9 | | 101.2 | 7.0 |
| Ratio to total operating income: | Percent | | Percent | | | |
| Interest on deposits | 44.3 | | 48.2 | | | |
| Other interest expense | 9.2 | | 12.0 | | | |
| Salaries and employee benefits | 16.0 | | 13.8 | | | |
| Other non-interest expense | 17.5 | | 14.7 | | | |
| Total operating expenses | 86.9 | | 88.7 | | | |
| Ratio of net income to: | | | | | | |
| Total assets (end of period) | 0.69 | | 0.73 | | | |
| Total equity capital (end of period) | 12.5 | | 13.35 | | | |

*Most demand deposits of the U.S. government were converted to "interest-bearing" demand notes issued to the U.S. Treasury in late 1978.

# III. Structural Changes in the National Banking System

During 1979, the structure of the national banking system, while continuing the trend of previous years toward concentration, was significantly affected by the full implementation of three new statutes previously enacted by Congress. The number of national banks decreased for the fourth consecutive year to 4,448 at year-end 1979. Of those, 2,153 were unit banks. The remaining 2,295 national banks operated a total of 18,285 branches. In addition to these 22,733 traditional banking offices, national banks operated 946 Customer-Bank Communications Terminal (CBCT) branches. The statutory requirement that all national banks belong to the Federal Reserve System and the liberalization of certain state branching laws, with a resulting increase in bank merger activity, remained the major causes for this decline in the number of national banks. During 1979, 51 national banks converted to state charters, while only one state bank converted to a national charter, and 39 national banks merged or consolidated with state banks. Forty-one new national banks were chartered during 1979. The Comptroller's Office approved 67 merger applications involving two or more operating banks in 1979, compared to 47 such applications in 1978. Seventy mergers were consummated during the year.

However, despite the trend toward concentration of the existing system, applications for new national bank charters again showed a marked increase, especially in Texas, a unit-bank, multibank holding company state. One hundred fifty-three new national bank charter applications were considered during 1979. In addition, increased competition, especially from nonbanks, had a two-fold effect on the national bank system, further intensifying bank merger activity and stimulating expansion through branches and CBCT's. National banks opened 659 *de novo* branches and acquired 203 new branches through merger or consolidation, while closing only 14. The number of CBCT's operated by national banks increased by 181 during 1979.

The previously enacted Community Reinvestment Act of 1977 (CRA), International Banking Act of 1978 (IBA) and Financial Institutions Regulatory and Interest Rate Control Act of 1978 (FIRA) all had a major impact on the national bank system during 1979. CRA, which became effective in November 1978, was fully implemented in early 1979; FIRA became effective March 10, 1979; the regulations implementing the Comptroller's responsibilities under the IBA were effective November 13, 1979.

The purpose of CRA is to encourage federally insured commercial banks (including national banks), mutual savings banks, and savings and loan associations to help meet the credit needs of their entire communities, including low and moderate income neighborhoods, while preserving the flexibility necessary to operate safely and soundly. The Comptroller is required to take the record of CRA performance into account in deciding virtually all types of corporate applications filed by national banks. Although only one application was disapproved during 1979 solely on CRA factors, several others were approved with conditions designed to assure satisfactory compliance with CRA.

FIRA contains the Depository Institutions Management Interlocks Act and the Change in Bank Control Act of 1978. The Interlocks Act generally prohibits management interlocks among nonaffiliated depository institutions, including national banks, in the same Standard Metropolitan Statistical Area or in the same or adjacent city or town. The Change in Bank Control Act requires persons who propose to acquire control of national banks to give the Comptroller 60 days notice prior to that acquisition. During that time, the Comptroller may disapprove the proposed acquisitions within the guidelines of established statutory criteria. During 1979, 52 prior notices of intent to acquire control of a national bank were received: no objection was made to 48, one was withdrawn, one was disapproved and two were pending at year-end.

The IBA, enacted to promote competitive equality between domestic and foreign banks operating in the United States, created a federal system of licensing branch and agency operations of foreign banks in the United States. The federal system, which will coexist with the already-established state licensing system, created an alternative choice of licensing for foreign banks which maintain offices in the United States. The Comptroller's implementing regulations became effective in November. Six applications for *de novo* federal branches and agencies were received during 1979: two of these were approved and four were still pending at year-end.

## Table 3

*National banks and banking offices, by states, December 31, 1979*

| | National banks | | | Number of branches† | Number of offices† |
|---|---|---|---|---|---|
| | Total | Unit | With branches† | | |
| All national banks | 4,448 | 2,153 | 2,295 | 18,285 | 22,733 |
| 50 States and D.C. | 4,448 | 2,153 | 2,295 | 18,271 | 22,725 |
| Alabama | 99 | 32 | 67 | 346 | 445 |
| Alaska | 6 | 0 | 6 | 80 | 86 |
| Arizona | 3 | 1 | 2 | 333 | 336 |
| Arkansas | 68 | 15 | 53 | 181 | 249 |
| California | 42 | 13 | 29 | 2,845 | 2,887 |
| Colorado | 139 | 93 | 46 | 36 | 175 |
| Connecticut | 19 | 3 | 16 | 204 | 223 |
| Delaware | 6 | 2 | 4 | 5 | 11 |
| District of Columbia | 16 | 4 | 12 | 136 | 152 |
| Florida | 221 | 80 | 141 | 374 | 595 |
| Georgia | 63 | 10 | 53 | 343 | 406 |
| Hawaii | 3 | 1 | 2 | 11 | 14 |
| Idaho | 7 | 1 | 6 | 184 | 191 |
| Illinois | 410 | 247 | 163 | 211 | 621 |
| Indiana | 119 | 25 | 94 | 526 | 645 |
| Iowa | 99 | 48 | 51 | 94 | 193 |
| Kansas | 148 | 97 | 51 | 79 | 227 |
| Kentucky | 79 | 17 | 62 | 263 | 342 |
| Louisiana | 55 | 13 | 42 | 290 | 345 |
| Maine | 14 | 1 | 13 | 118 | 132 |
| Maryland | 31 | 4 | 27 | 373 | 404 |
| Massachusetts | 71 | 8 | 63 | 457 | 528 |
| Michigan | 123 | 13 | 110 | 956 | 1,079 |
| Minnesota | 205 | 132 | 73 | 91 | 296 |
| Mississippi | 38 | 3 | 35 | 271 | 309 |
| Missouri | 98 | 49 | 49 | 72 | 170 |
| Montana | 56 | 45 | 11 | 9 | 65 |
| Nebraska | 117 | 79 | 38 | 58 | 175 |
| Nevada | 4 | 1 | 3 | 75 | 79 |
| New Hampshire | 36 | 7 | 29 | 104 | 140 |
| New Jersey | 93 | 11 | 82 | 991 | 1,084 |
| New Mexico | 40 | 10 | 30 | 121 | 161 |
| New York | 116 | 32 | 84 | 1,518 | 1,634 |
| North Carolina | 26 | 3 | 23 | 853 | 879 |
| North Dakota | 41 | 16 | 25 | 30 | 71 |
| Ohio | 177 | 37 | 140 | 1,259 | 1,436 |
| Oklahoma | 190 | 115 | 75 | 62 | 252 |
| Oregon | 6 | 1 | 5 | 329 | 335 |
| Pennsylvania | 223 | 73 | 150 | 1,440 | 1,663 |
| Rhode Island | 5 | 0 | 5 | 116 | 121 |
| South Carolina | 18 | 1 | 17 | 335 | 353 |
| South Dakota | 33 | 20 | 13 | 90 | 123 |
| Tennessee | 69 | 6 | 63 | 368 | 437 |
| Texas | 615 | 560 | 55 | 27 | 642 |
| Utah | 11 | 7 | 4 | 117 | 128 |
| Vermont | 12 | 4 | 8 | 48 | 60 |
| Virginia | 72 | 4 | 68 | 712 | 789 |
| Washington | 21 | 2 | 19 | 615 | 636 |
| West Virginia | 107 | 78 | 29 | 28 | 135 |
| Wisconsin | 131 | 83 | 48 | 95 | 226 |
| Wyoming | 47 | 46 | 1 | 0 | 47 |
| Virgin Islands | 0 | 0 | 0 | 6 | 6 |
| Puerto Rico | 0 | 0 | 0 | 0 | 0 |
| District of Columbia—all* | 17 | 4 | 13 | 138 | 155 |

* Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.
† For the purposes of this table, CBCT's are not considered branches or offices. For information on those branches, see Table 8 of this report.

Table 4

*Applications for national bank charters* and charters issued, by states, calendar 1979*

| | Received† | Approved | Disapproved | Withdrawn | Pending December 31, 1979 | Chartered |
|---|---|---|---|---|---|---|
| Total | 153 | 71 | 17 | 1 | 65 | 41 |
| Alabama | 1 | 1 | 0 | 0 | 0 | 2 |
| Alaska | 0 | 0 | 0 | 0 | 0 | 0 |
| Arizona | 0 | 0 | 0 | 0 | 0 | 0 |
| Arkansas | 1 | 1 | 0 | 0 | 0 | 0 |
| California | 19 | 7 | 2 | 0 | 10 | 3 |
| Colorado | 8 | 6 | 1 | 0 | 1 | 2 |
| Connecticut | 0 | 0 | 0 | 0 | 0 | 0 |
| Delaware | 0 | 0 | 0 | 0 | 0 | 1 |
| District of Columbia | 0 | 0 | 0 | 0 | 0 | 0 |
| Florida | 6 | 2 | 2 | 0 | 3 | 4 |
| Georgia | 2 | 0 | 1 | 1 | 0 | 0 |
| Hawaii | 0 | 0 | 0 | 0 | 0 | 1 |
| Idaho | 1 | 1 | 0 | 0 | 0 | 1 |
| Illinois | 6 | 1 | 1 | 0 | 5 | 0 |
| Indiana | 1 | 0 | 0 | 0 | 1 | 1 |
| Iowa | 1 | 1 | 0 | 0 | 0 | 0 |
| Kansas | 1 | 0 | 1 | 0 | 0 | 0 |
| Kentucky | 1 | 0 | 1 | 0 | 0 | 0 |
| Louisiana | 4 | 1 | 1 | 0 | 2 | 1 |
| Maine | 0 | 0 | 0 | 0 | 0 | 0 |
| Maryland | 0 | 0 | 0 | 0 | 0 | 0 |
| Massachusetts | 0 | 0 | 0 | 0 | 0 | 0 |
| Michigan | 3 | 2 | 0 | 0 | 1 | 2 |
| Minnesota | 3 | 2 | 0 | 0 | 2 | 0 |
| Mississippi | 0 | 1 | 0 | 0 | 0 | 1 |
| Missouri | 3 | 1 | 0 | 0 | 2 | 0 |
| Montana | 0 | 0 | 0 | 0 | 0 | 0 |
| Nebraska | 1 | 1 | 0 | 0 | 0 | 0 |
| Nevada | 1 | 1 | 0 | 0 | 0 | 0 |
| New Hampshire | 1 | 0 | 0 | 0 | 1 | 0 |
| New Jersey | 1 | 0 | 0 | 0 | 1 | 0 |
| New Mexico | 1 | 0 | 0 | 0 | 1 | 0 |
| New York | 1 | 0 | 1 | 0 | 0 | 0 |
| North Carolina | 1 | 0 | 1 | 0 | 0 | 0 |
| North Dakota | 0 | 0 | 0 | 0 | 0 | 0 |
| Ohio | 0 | 0 | 0 | 0 | 0 | 0 |
| Oklahoma | 3 | 3 | 0 | 0 | 0 | 3 |
| Oregon | 0 | 0 | 0 | 0 | 0 | 0 |
| Pennsylvania | 0 | 0 | 0 | 0 | 0 | 0 |
| Rhode Island | 0 | 0 | 0 | 0 | 0 | 0 |
| South Carolina | 0 | 0 | 0 | 0 | 0 | 0 |
| South Dakota | 0 | 0 | 0 | 0 | 0 | 1 |
| Tennessee | 1 | 1 | 0 | 0 | 0 | 0 |
| Texas | 70 | 34 | 4 | 0 | 29 | 12 |
| Utah | 1 | 1 | 0 | 0 | 0 | 1 |
| Vermont | 0 | 0 | 0 | 0 | 0 | 0 |
| Virginia | 2 | 0 | 0 | 0 | 2 | 0 |
| Washington | 0 | 0 | 0 | 0 | 0 | 1 |
| West Virginia | 7 | 1 | 1 | 0 | 4 | 0 |
| Wisconsin | 0 | 1 | 0 | 0 | 0 | 3 |
| Wyoming | 1 | 1 | 0 | 0 | 0 | 1 |
| Virgin Islands | 0 | 0 | 0 | 0 | 0 | 0 |

* Excludes conversions and corporate reorganizations.

† Includes applications pending as of December 31, 1978.

Table 5

*Applications for national bank charters pursuant to corporate reorganizations and charters issued, by states, calendar 1979*

| | Received* | Approved | Disapproved | Withdrawn | Pending December 31, 1979 | Chartered |
|---|---|---|---|---|---|---|
| Total | 50 | 23 | 0 | 5 | 22 | 20 |
| Alabama | 1 | 1 | 0 | 0 | 0 | 1 |
| Alaska | 0 | 0 | 0 | 0 | 0 | 0 |
| Arizona | 1 | 0 | 0 | 0 | 1 | 0 |
| Arkansas | 0 | 0 | 0 | 0 | 0 | 0 |
| California | 1 | 1 | 0 | 0 | 0 | 1 |
| Colorado | 1 | 0 | 0 | 0 | 1 | 0 |
| Connecticut | 0 | 0 | 0 | 0 | 0 | 0 |
| Delaware | 0 | 0 | 0 | 0 | 0 | 0 |
| District of Columbia | 0 | 0 | 0 | 0 | 0 | 0 |
| Florida | 1 | 0 | 0 | 0 | 1 | 0 |
| Georgia | 0 | 0 | 0 | 0 | 0 | 0 |
| Hawaii | 0 | 0 | 0 | 0 | 0 | 0 |
| Idaho | 1 | 0 | 0 | 0 | 1 | 0 |
| Illinois | 6 | 2 | 0 | 0 | 4 | 3 |
| Indiana | 0 | 0 | 0 | 0 | 0 | 0 |
| Iowa | 1 | 1 | 0 | 0 | 0 | 0 |
| Kansas | 0 | 0 | 0 | 0 | 0 | 0 |
| Kentucky | 1 | 0 | 0 | 1 | 0 | 0 |
| Louisiana | 0 | 0 | 0 | 0 | 0 | 0 |
| Maine | 1 | 0 | 0 | 0 | 0 | 0 |
| Maryland | 0 | 0 | 0 | 0 | 0 | 0 |
| Massachusetts | 1 | 1 | 0 | 1 | 0 | 0 |
| Michigan | 2 | 0 | 0 | 1 | 1 | 1 |
| Minnesota | 0 | 0 | 0 | 0 | 0 | 0 |
| Mississippi | 0 | 0 | 0 | 0 | 0 | 0 |
| Missouri | 0 | 0 | 0 | 0 | 0 | 0 |
| Montana | 1 | 0 | 0 | 0 | 1 | 0 |
| Nebraska | 2 | 0 | 0 | 0 | 2 | 0 |
| Nevada | 0 | 0 | 0 | 0 | 0 | 0 |
| New Hampshire | 2 | 1 | 0 | 0 | 1 | 0 |
| New Jersey | 4 | 2 | 0 | 1 | 1 | 0 |
| New Mexico | 1 | 0 | 0 | 0 | 1 | 0 |
| New York | 1 | 0 | 0 | 0 | 1 | 0 |
| North Carolina | 0 | 0 | 0 | 0 | 0 | 0 |
| North Dakota | 0 | 0 | 0 | 0 | 0 | 0 |
| Ohio | 8 | 6 | 0 | 0 | 2 | 6 |
| Oklahoma | 0 | 0 | 0 | 0 | 0 | 0 |
| Oregon | 2 | 1 | 0 | 0 | 1 | 0 |
| Pennsylvania | 0 | 0 | 0 | 0 | 0 | 0 |
| Rhode Island | 0 | 0 | 0 | 0 | 0 | 0 |
| South Carolina | 0 | 0 | 0 | 0 | 0 | 0 |
| South Dakota | 0 | 0 | 0 | 0 | 0 | 0 |
| Tennessee | 0 | 0 | 0 | 0 | 0 | 0 |
| Texas | 8 | 5 | 0 | 1 | 2 | 8 |
| Utah | 0 | 0 | 0 | 0 | 0 | 0 |
| Vermont | 0 | 0 | 0 | 0 | 0 | 0 |
| Virginia | 1 | 1 | 0 | 0 | 0 | 0 |
| Washington | 0 | 0 | 0 | 0 | 0 | 0 |
| West Virginia | 0 | 0 | 0 | 0 | 0 | 0 |
| Wisconsin | 1 | 1 | 0 | 0 | 0 | 0 |
| Wyoming | 1 | 0 | 0 | 0 | 1 | 0 |
| Virgin Islands | 0 | 0 | 0 | 0 | 0 | 0 |
| Puerto Rico | 0 | 0 | 0 | 0 | 0 | 0 |

* Includes applications pending as of December 31, 1978.

## Table 6

*Applications for conversion to national bank charter and charters issued, by states, calendar 1979*

| | Received* | Approved | Disapproved | Withdrawn | Pending December 31, 1979 | Chartered |
|---|---|---|---|---|---|---|
| Total | 6 | 1 | 0 | 1 | 4 | 1 |
| Alabama | 0 | 0 | 0 | 0 | 0 | 0 |
| Alaska | 0 | 0 | 0 | 0 | 0 | 0 |
| Arizona | 0 | 0 | 0 | 0 | 0 | 0 |
| Arkansas | 2 | 0 | 0 | 0 | 2 | 0 |
| California | 0 | 0 | 0 | 0 | 0 | 0 |
| Colorado | 0 | 0 | 0 | 0 | 0 | 0 |
| Connecticut | 0 | 0 | 0 | 0 | 0 | 0 |
| Delaware | 0 | 0 | 0 | 0 | 0 | 0 |
| District of Columbia | 0 | 0 | 0 | 0 | 0 | 0 |
| Florida | 2 | 1 | 0 | 1 | 0 | 1 |
| Georgia | 0 | 0 | 0 | 0 | 0 | 0 |
| Hawaii | 0 | 0 | 0 | 0 | 0 | 0 |
| Idaho | 0 | 0 | 0 | 0 | 0 | 0 |
| Illinois | 0 | 0 | 0 | 0 | 0 | 0 |
| Indiana | 0 | 0 | 0 | 0 | 0 | 0 |
| Iowa | 0 | 0 | 0 | 0 | 0 | 0 |
| Kansas | 0 | 0 | 0 | 0 | 0 | 0 |
| Kentucky | 0 | 0 | 0 | 0 | 0 | 0 |
| Louisiana | 0 | 0 | 0 | 0 | 0 | 0 |
| Maine | 0 | 0 | 0 | 0 | 0 | 0 |
| Maryland | 0 | 0 | 0 | 0 | 0 | 0 |
| Massachusetts | 0 | 0 | 0 | 0 | 0 | 0 |
| Michigan | 0 | 0 | 0 | 0 | 0 | 0 |
| Minnesota | 1 | 0 | 0 | 0 | 1 | 0 |
| Mississippi | 0 | 0 | 0 | 0 | 0 | 0 |
| Missouri | 0 | 0 | 0 | 0 | 0 | 0 |
| Montana | 0 | 0 | 0 | 0 | 0 | 0 |
| Nebraska | 0 | 0 | 0 | 0 | 0 | 0 |
| Nevada | 0 | 0 | 0 | 0 | 0 | 0 |
| New Hampshire | 0 | 0 | 0 | 0 | 0 | 0 |
| New Jersey | 0 | 0 | 0 | 0 | 0 | 0 |
| New Mexico | 0 | 0 | 0 | 0 | 0 | 0 |
| New York | 1 | 0 | 0 | 0 | 1 | 0 |
| North Carolina | 0 | 0 | 0 | 0 | 0 | 0 |
| North Dakota | 0 | 0 | 0 | 0 | 0 | 0 |
| Ohio | 0 | 0 | 0 | 0 | 0 | 0 |
| Oklahoma | 0 | 0 | 0 | 0 | 0 | 0 |
| Oregon | 0 | 0 | 0 | 0 | 0 | 0 |
| Pennsylvania | 0 | 0 | 0 | 0 | 0 | 0 |
| Rhode Island | 0 | 0 | 0 | 0 | 0 | 0 |
| South Carolina | 0 | 0 | 0 | 0 | 0 | 0 |
| South Dakota | 0 | 0 | 0 | 0 | 0 | 0 |
| Tennessee | 0 | 0 | 0 | 0 | 0 | 0 |
| Texas | 0 | 0 | 0 | 0 | 0 | 0 |
| Utah | 0 | 0 | 0 | 0 | 0 | 0 |
| Vermont | 0 | 0 | 0 | 0 | 0 | 0 |
| Virginia | 0 | 0 | 0 | 0 | 0 | 0 |
| Washington | 0 | 0 | 0 | 0 | 0 | 0 |
| West Virginia | 0 | 0 | 0 | 0 | 0 | 0 |
| Wisconsin | 0 | 0 | 0 | 0 | 0 | 0 |
| Wyoming | 0 | 0 | 0 | 0 | 0 | 0 |

* Includes applications pending as of December 31, 1978.

Table 7

*Branches* of national banks, by states, calendar 1979*

| | Branches in operation December 31, 1978 | De novo branches opened for business Jan. 1 to Dec. 31, 1979 | Branches acquired through merger or conversion Jan. 1 to Dec. 31, 1979 | Existing branches discontinued or consolidated Jan. 1 to Dec. 31, 1979 | Branches in operation December 31, 1979 |
|---|---|---|---|---|---|
| All national banks | 17,437 | 659 | 203 | 14 | 18,285 |
| 50 states and D.C. | 17,431 | 659 | 203 | 14 | 18,279 |
| Alabama | 340 | 5 | 1 | 0 | 346 |
| Alaska | 79 | 1 | 0 | 0 | 80 |
| Arizona | 319 | 14 | 0 | 0 | 333 |
| Arkansas | 175 | 4 | 2 | 0 | 181 |
| California | 2,761 | 79 | 5 | 0 | 2,845 |
| Colorado | 31 | 5 | 0 | 0 | 36 |
| Connecticut | 201 | 3 | 0 | 0 | 204 |
| Delaware | 5 | 0 | 0 | 0 | 5 |
| District of Columbia | 133 | 3 | 0 | 0 | 136 |
| Florida | 302 | 59 | 13 | 0 | 374 |
| Georgia | 332 | 11 | 0 | 0 | 343 |
| Hawaii | 11 | 0 | 0 | 0 | 11 |
| Idaho | 178 | 6 | 0 | 0 | 184 |
| Illinois | 182 | 28 | 1 | 0 | 211 |
| Indiana | 507 | 19 | 0 | 0 | 526 |
| Iowa | 91 | 3 | 0 | 0 | 94 |
| Kansas | 75 | 4 | 0 | 0 | 79 |
| Kentucky | 254 | 7 | 2 | 0 | 263 |
| Louisiana | 277 | 10 | 3 | 0 | 290 |
| Maine | 117 | 1 | 0 | 0 | 118 |
| Maryland | 356 | 15 | 2 | 0 | 373 |
| Massachusetts | 447 | 10 | 0 | 0 | 457 |
| Michigan | 868 | 88 | 0 | 0 | 956 |
| Minnesota | 67 | 24 | 0 | 0 | 91 |
| Mississippi | 256 | 11 | 4 | 0 | 271 |
| Missouri | 67 | 5 | 0 | 0 | 72 |
| Montana | 8 | 0 | 1 | 0 | 9 |
| Nebraska | 56 | 2 | 0 | 0 | 58 |
| Nevada | 85 | 4 | 0 | 14 | 75 |
| New Hampshire | 98 | 5 | 1 | 0 | 104 |
| New Jersey | 973 | 16 | 2 | 0 | 991 |
| New Mexico | 118 | 3 | 0 | 0 | 121 |
| New York | 1,489 | 29 | 0 | 0 | 1,518 |
| North Carolina | 809 | 20 | 24 | 0 | 853 |
| North Dakota | 29 | 1 | 0 | 0 | 30 |
| Ohio | 1,096 | 64 | 99 | 0 | 1,259 |
| Oklahoma | 60 | 2 | 0 | 0 | 62 |
| Oregon | 321 | 8 | 0 | 0 | 329 |
| Pennsylvania | 1,408 | 29 | 3 | 0 | 1,440 |
| Rhode Island | 115 | 1 | 0 | 0 | 116 |
| South Carolina | 322 | 9 | 4 | 0 | 335 |
| South Dakota | 85 | 2 | 3 | 0 | 90 |
| Tennessee | 364 | 4 | 0 | 0 | 368 |
| Texas | 13 | 14 | 0 | 0 | 27 |
| Utah | 113 | 4 | 0 | 0 | 117 |
| Vermont | 46 | 2 | 0 | 0 | 48 |
| Virginia | 683 | 10 | 19 | 0 | 712 |
| Washington | 594 | 7 | 14 | 0 | 615 |
| West Virginia | 26 | 2 | 0 | 0 | 28 |
| Wisconsin | 89 | 6 | 0 | 0 | 95 |
| Wyoming | 0 | 0 | 0 | 0 | 0 |
| Virgin Islands | 6 | 0 | 0 | 0 | 6 |
| District of Columbia—all† | 135 | 3 | 0 | 0 | 138 |

* Does not include CBCT or foreign branches. For those branches see Tables 8 and B-28.
† Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.

## Table 8

*CBCT branches* of national banks, by states, calendar 1979*

| | *Branches in operation December 31, 1978* | *De novo branches opened for business Jan. 1 to Dec. 31, 1979* | *Branches acquired through merger or conversion Jan. 1 to Dec. 31, 1979* | *Existing branches discontinued or consolidated Jan. 1 to Dec. 31, 1979* | *Branches in operation December 31, 1979* |
|---|---|---|---|---|---|
| All national banks | 765 | 184 | 5 | 8 | 946 |
| Alabama | 7 | 4 | 0 | 0 | 11 |
| Alaska | 2 | 0 | 0 | 0 | 2 |
| Arizona | 0 | 0 | 0 | 0 | 0 |
| Arkansas | 4 | 3 | 0 | 0 | 7 |
| California | 3 | 0 | 0 | 0 | 3 |
| Colorado | 12 | 3 | 0 | 0 | 15 |
| Connecticut | 0 | 0 | 0 | 0 | 0 |
| Delaware | 0 | 0 | 0 | 0 | 0 |
| District of Columbia | 1 | 0 | 0 | 0 | 1 |
| Florida | 36 | 8 | 5 | 0 | 49 |
| Georgia | 16 | 9 | 0 | 0 | 25 |
| Hawaii | 0 | 0 | 0 | 0 | 0 |
| Idaho | 1 | 0 | 0 | 0 | 1 |
| Illinois | 0 | 0 | 0 | 0 | 0 |
| Indiana | 2 | 3 | 0 | 0 | 5 |
| Iowa | 43 | 4 | 0 | 0 | 47 |
| Kansas | 41 | 6 | 0 | 0 | 47 |
| Kentucky | 3 | 1 | 0 | 0 | 4 |
| Louisiana | 13 | 4 | 0 | 0 | 17 |
| Maine | 0 | 0 | 0 | 0 | 0 |
| Maryland | 3 | 1 | 0 | 0 | 4 |
| Massachusetts | 1 | 1 | 0 | 0 | 2 |
| Michigan | 1 | 48 | 0 | 0 | 49 |
| Minnesota | 12 | 5 | 0 | 0 | 17 |
| Mississippi | 1 | 0 | 0 | 0 | 1 |
| Missouri | 0 | 1 | 0 | 0 | 1 |
| Montana | 2 | 0 | 0 | 0 | 2 |
| Nebraska | 87 | 26 | 0 | 0 | 113 |
| Nevada | 0 | 0 | 0 | 0 | 0 |
| New Hampshire | 0 | 0 | 0 | 0 | 0 |
| New Jersey | 4 | 0 | 0 | 0 | 4 |
| New Mexico | 0 | 0 | 0 | 0 | 0 |
| New York | 108 | 5 | 0 | 6 | 107 |
| North Carolina | 1 | 2 | 0 | 0 | 3 |
| North Dakota | 13 | 1 | 0 | 0 | 14 |
| Ohio | 58 | 12 | 0 | 1 | 69 |
| Oklahoma | 102 | 7 | 0 | 0 | 109 |
| Oregon | 8 | 0 | 0 | 0 | 8 |
| Pennsylvania | 18 | 4 | 0 | 0 | 22 |
| Rhode Island | 0 | 0 | 0 | 0 | 0 |
| South Carolina | 12 | 6 | 0 | 0 | 18 |
| South Dakota | 6 | 2 | 0 | 0 | 8 |
| Tennessee | 47 | 3 | 0 | 1 | 49 |
| Texas | 0 | 0 | 0 | 0 | 0 |
| Utah | 0 | 0 | 0 | 0 | 0 |
| Vermont | 0 | 3 | 0 | 0 | 3 |
| Virginia | 19 | 0 | 0 | 0 | 19 |
| Washington | 9 | 0 | 0 | 0 | 9 |
| West Virginia | 0 | 0 | 0 | 0 | 0 |
| Wisconsin | 69 | 12 | 0 | 0 | 81 |
| Wyoming | 0 | 0 | 0 | 0 | 0 |
| Virgin Islands | 0 | 0 | 0 | 0 | 0 |

* Customer-bank communications terminal branches.

Table 9

*De novo branch applications of national banks, by states, calendar 1979*

| | Received* | Approved | Rejected | Abandoned | Pending December 31, 1979 |
|---|---|---|---|---|---|
| Total | 964 | 789 | 4 | 34 | 140 |
| Alabama | 19 | 14 | 0 | 0 | 5 |
| Alaska | 3 | 3 | 0 | 0 | 0 |
| Arizona | 25 | 25 | 0 | 0 | 0 |
| Arkansas | 6 | 6 | 0 | 0 | 0 |
| California | 137 | 121 | 1 | 3 | 12 |
| Colorado | 9 | 9 | 0 | 0 | 0 |
| Connecticut | 3 | 3 | 0 | 0 | 0 |
| Delaware | 0 | 0 | 0 | 0 | 0 |
| District of Columbia | 6 | 4 | 0 | 0 | 2 |
| Florida | 104 | 87 | 1 | 4 | 12 |
| Georgia | 8 | 6 | 0 | 0 | 2 |
| Hawaii | 0 | 0 | 0 | 0 | 0 |
| Idaho | 11 | 8 | 0 | 2 | 1 |
| Illinois | 30 | 26 | 0 | 0 | 4 |
| Indiana | 30 | 26 | 1 | 0 | 3 |
| Iowa | 8 | 4 | 0 | 3 | 1 |
| Kansas | 1 | 1 | 0 | 0 | 0 |
| Kentucky | 16 | 12 | 0 | 1 | 3 |
| Louisiana | 9 | 8 | 0 | 0 | 1 |
| Maine | 3 | 3 | 0 | 0 | 0 |
| Maryland | 20 | 17 | 0 | 0 | 3 |
| Massachusetts | 10 | 8 | 0 | 0 | 2 |
| Michigan | 116 | 96 | 0 | 2 | 18 |
| Minnesota | 9 | 5 | 0 | 0 | 4 |
| Mississippi | 10 | 9 | 0 | 0 | 1 |
| Missouri | 11 | 10 | 0 | 1 | 0 |
| Montana | 0 | 0 | 0 | 0 | 0 |
| Nebraska | 0 | 0 | 0 | 0 | 0 |
| Nevada | 7 | 5 | 0 | 0 | 2 |
| New Hampshire | 7 | 7 | 0 | 0 | 0 |
| New Jersey | 25 | 17 | 0 | 1 | 7 |
| New Mexico | 4 | 4 | 0 | 0 | 0 |
| New York | 25 | 20 | 0 | 2 | 3 |
| North Carolina | 22 | 18 | 0 | 0 | 4 |
| North Dakota | 2 | 1 | 0 | 0 | 1 |
| Ohio | 87 | 71 | 0 | 0 | 16 |
| Oklahoma | 10 | 3 | 0 | 0 | 7 |
| Oregon | 14 | 9 | 0 | 3 | 2 |
| Pennsylvania | 58 | 45 | 0 | 4 | 9 |
| Rhode Island | 2 | 2 | 0 | 0 | 0 |
| South Carolina | 21 | 15 | 0 | 2 | 4 |
| South Dakota | 3 | 3 | 0 | 0 | 0 |
| Tennessee | 11 | 7 | 0 | 3 | 1 |
| Texas | 15 | 11 | 0 | 0 | 4 |
| Utah | 3 | 2 | 0 | 0 | 1 |
| Vermont | 4 | 3 | 0 | 0 | 1 |
| Virginia | 25 | 21 | 1 | 1 | 2 |
| Washington | 13 | 10 | 0 | 2 | 1 |
| West Virginia | 0 | 0 | 0 | 0 | 0 |
| Wisconsin | 2 | 1 | 0 | 0 | 1 |
| Wyoming | 0 | 0 | 0 | 0 | 0 |
| Virgin Islands | 0 | 0 | 0 | 0 | 0 |
| Puerto Rico | 0 | 0 | 0 | 0 | 0 |

* Includes 194 applications pending as of December 31, 1978.

## Table 10

*De novo applications for federal branches and agencies of foreign banks, by states, calendar 1979*

| | Received | Approved | Disapproved | Withdrawn | Pending Dec. 31, 1979 |
|---|---|---|---|---|---|
| Total | 6 | 2 | 0 | 0 | 4 |
| *Federal branch* | | | | | |
| New York | 2 | 1 | 0 | 0 | 1 |
| *Limited federal branch* | | | | | |
| District of Columbia | 2 | 0 | 0 | 0 | 2 |
| Ohio | 1 | 0 | 0 | 0 | 1 |
| *Federal agency* | | | | | |
| New York | 1 | 1 | 0 | 0 | 0 |

## Table 11

*Mergers,* calendar 1979*

| | Transactions involving two or more operating banks | Others pursuant to corporate reorganization | Total |
|---|---|---|---|
| Applications received, 1979: | | | |
| Mergers | 53 | 26 | 79 |
| Consolidations | 3 | 5 | 8 |
| Purchases and Assumptions | 13 | 0 | 12 |
| Total received | 69 | 31 | 100 |
| Approvals issued, 1979: | | | |
| Mergers | 51 | 17 | 68 |
| Consolidations | 1 | 4 | 5 |
| Purchases and Assumptions | 15 | 0 | 15 |
| Total approvals | 67 | 21 | 88 |
| Abandoned, 1979: | | | |
| Mergers | 1 | 0 | 1 |
| Consolidations | 1 | 0 | 1 |
| Purchases and Assumptions | 0 | 0 | 0 |
| Total abandoned | 2 | 0 | 2 |
| Consummated, 1979: | | | |
| Mergers | 54 | 16 | 70 |
| Consolidations | 1 | 4 | 5 |
| Purchases and Assumptions | 15 | 0 | 15 |
| Total consummated | 70 | 20 | 90 |

* Includes mergers, consolidations and purchases and assumptions where the resulting bank is a national bank.

# IV. Office of the Comptroller

The Comptroller's staff directs, coordinates and manages the day-to-day operations of his office and advises the Comptroller on policy formulation and technical procedures. The staff conducts special studies, surveys and investigations and develops the framework, monitoring and management of special projects. Usually these have not been assigned to divisions or are projects in which the Comptroller has an immediate ongoing interest, such as the Minority Bank Development Program. The Comptroller's Executive Assistant and Special Assistants may act on behalf of the Comptroller, carrying out policies and directions and providing liaison with other agencies.

### Office of the Senior Advisor

The Office of the Senior Advisor was established in 1979. The two major responsibilities of the Senior Advisor are to insure that OCC policies adequately reflect the realities of commercial banking operations and to strengthen the interface between the OCC and the commercial banking industry.

To accomplish the objectives of the position, the Senior Advisor establishes and maintains contact with commercial banks, both state and national, bank holding companies and other segments of the financial services industry. During 1979, the Senior Advisor met with management personnel of over 50 banking organizations, investment bankers and others in the United States.

The Senior Advisor reviews proposed congressional testimony, legislation, regulations, public statements, correspondence, corporate applications and examinations or other supervisory activities that have policy implications and provides an evaluation of the likely effects of OCC policies and actions on commercial banks and the financial services industry. In addition, the Senior Advisor consults with the Comptroller, members of the Policy Group, and others regarding the ongoing organization and management of the agency.

### Division of Inspections and Audits

The Division of Inspections and Audits is an independent appraisal activity within OCC designed to provide independent, objective and constructive review and appraisal of financial, accounting and operational activities and to conduct investigations of matters relating to legality or propriety of actions by or conduct of OCC employees. The division, created in May 1979, functions as an independent counselor to the Comptroller and reports directly to the Comptroller.

# V. Senior Deputy Comptroller

The Senior Deputy Comptroller is the First Deputy, for statutory purposes and is first in order of succession to act in the absence of the Comptroller. Responsibilities of the Senior Deputy Comptroller include actively participating in administration of OCC policy, management and procedural matters as a member of the agency's Policy Group; coordination of all interagency activities; coordination of OCC's overall support and participation in the Federal Financial Institutions Examination Council; and supervision of the agency's communications, internally and with the public.

The Office of the Senior Deputy Comptroller played an important role in the organization and the initial activities of the Federal Financial Institutions Examination Council. The council was established on March 10, 1979, pursuant to Title X of the Federal Financial Institutions Regulatory and Interest Rate Control Act of 1978 (Public Law 95-630). The purpose of Title X was to create a formal interagency body empowered to prescribe uniform principles, standards and report forms for the federal examinations of financial institutions performed by the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, National Credit Union Administration and Office of the Comptroller of the Currency and to make recommendations promoting uniformity in the supervision of financial institutions. The council is also tasked with developing uniform reporting systems for federally supervised financial institutions, their holding companies and their subsidiaries. It is to conduct schools for examiners employed by the five agencies represented on the council and to make such schools available to employees of state financial institutions supervisory agencies. The overall intent of the legislation is that the council's actions be designed to promote consistency in federal examination and to ensure progressive and vigilant supervision.

The council has five members, who are the principals of each agency. In addition, to encourage the application of uniform examination principles and standards by state and federal supervisory authorities, the council has established in accordance with the requirement of the statute an Advisory State Liaison Committee composed of five representatives of state supervisory agencies.

At the council's first meeting on March 16, 1979, John G. Heimann, Comptroller of the Currency, was elected Chairman and Lawrence Connell, Jr., Chairman of the National Credit Union Administration, was elected Vice Chairman. In addition, the council created the position of Executive Secretary to coordinate its activities. Lewis G. Odom, Jr., OCC's Senior Deputy Comptroller, served as Acting Executive Secretary until Robert J. Lawrence was appointed in August 1979. Some of the first actions by the council included establishing five interagency task forces (Supervision, Consumer Compliance, Reports, Examiner Education and Surveillance) and creating a Legal Advisory Group, an Agency Liaison Group and the State Liaison Committee.

The Senior Deputy Comptroller was a member of the Agency Liaison Group during 1979. That interagency group of senior officials is responsible for overall coordination of their respective agencies' staff efforts supporting the council.

### Deputy Comptroller for Interagency Coordination

The responsibility for coordinating interagency activities is administered through the Deputy Comptroller for Interagency Coordination under the overall supervision of Senior Deputy Comptroller.

The primary function of the Deputy Comptroller is to assist the Comptroller, the Senior Deputy Comptroller and other OCC staff members in coordinating various interagency activities.

The Comptroller is a member of the Board of the Federal Deposit Insurance Corporation (FDIC). The Deputy Comptroller for Interagency Coordination serves as the assistant to the Comptroller in that capacity at the FDIC. The Deputy Comptroller serves as a voting member of various FDIC standing committees, represents the Comptroller in all policy deliberations and briefs the Comptroller prior to each weekly meeting of the FDIC Board.

The Deputy Comptroller serves as OCC liaison with the Interagency Coordinating Committee, an informal consultative body made up of the Comptroller, a member of the Federal Reserve Board, the Chairman of the FDIC, the Chairman of the Federal Home Loan Bank Board, the Chairman of the National Credit Union Administration and the Deputy Secretary of the Treasury. The committee met numerous times in 1979 to discuss appropriate changes in ceiling rates on deposits and other matters.

The Deputy Comptroller assists the Senior Deputy Comptroller at meetings of the Federal Financial Institutions Examination Council. The division represents OCC on the Reports Task Force of the council, and the Director of Coordination chairs its principal subcommittee, the Subcommittee on Instructions and Accounting Standards. During 1979, considerable progress was made toward achieving identical call report instructions for the three federal banking agencies (FDIC, Federal Reserve Board and OCC). Also, a report of condition was developed for U.S. branches of foreign banks.

The Deputy Comptroller also is continually involved in varied internal OCC activities. For example, the division staff worked with the Management Information Systems Committee and assisted the task force which studied regional restructuring. The division also plays an important role in OCC's continuing effort to reduce the reporting burdens on national banks.

### Communications Division

The Communications Division provides information about the banking industry in general and the OCC in particular to the press, Congress and the general public. The division issues and maintains OCC publications, banking and examining issuances, interpretive letters, and press releases. All OCC submissions to the *Federal Register* are processed through the division.

The Communications Division maintains subscription lists for OCC publications, such as the *Comptroller's Manual for National Banks*, the *Comptroller's Handbook for National Bank Examiners*, the *Comptroller's Handbook for National Trust Examiners*, the *EDP Examination Handbook* and the *Consumer Examination Handbook*. In September 1979, the division released the *Report to Congress on Foreign Government Treatment of U.S. Commercial Banking Organizations*, which was completed by the Department of the Treasury in cooperation with the State Department, the Federal Reserve Board, the FDIC and the OCC.

The Director of the Communications Division serves as liaison between the Comptroller and the press. News releases are issued on significant OCC actions and on testimony before Congress by the Comptroller and OCC staff.

The Deputy Director, under authority delegated by the Comptroller, makes initial determinations on requests for records of the OCC under the Freedom of Information Act and the Privacy Act of 1974. In 1979, 467 requests were processed.

# VI. Senior Deputy Comptroller for Bank Supervision

The Senior Deputy Comptroller for Bank Supervision formulates, implements and monitors bank supervisory policy. Related responsibilities include remote screening of national banks to detect trends and changes in the banking system which warrant attention, special monitoring of large banks and banks requiring supervisory attention, monitoring supervisory postures to ensure national consistency and participating in the Federal Financial Institutions Examination Council on bank supervisory matters. The Senior Deputy Comptroller for Bank Supervision oversees the Offices of the Chief National Bank Examiner, Deputy Comptroller for Special Surveillance, Deputy Comptroller for Specialized Examinations and Deputy Comptroller for Multinational Banking.

## Chief National Bank Examiner

The Chief National Bank Examiner's Office formulates, implements, monitors and evaluates bank supervisory policy relating to the commercial examination process. The Commercial Examinations Division researches and prepares recommendations on examination and policy issues and maintains the *Comptroller's Handbook for National Bank Examiners*, which contains examination objectives and procedures.

The Bank Supervisory Analysis Division reviews and analyzes commercial examination reports of banks not selected for "special" supervisory review, assists regions in identifying potential problem banks and trends in a particular industry or region and records all civil money penalty referrals received from regional offices, assigning them to appropriate divisions for review. The division also reviews and recommends appropriate action on civil money penalty referrals regarding banks not selected for "special" supervisory review.

The Investment Securities Division is the OCC's focal point for technical counsel and assistance on bank-dealer activities and investment securities matters.

The Bank Accounting Division is OCC's authoritative source on bank accounting practices and reporting requirements.

Additionally, the Chief National Bank Examiner is responsible for the shared national credit program, which provides a uniform nationwide review and analysis of loans to a borrower of $20 million or more that are shared by two or more banks.

## Deputy Comptroller for Special Surveillance

The Deputy Comptroller for Special Surveillance is responsible for the national bank surveillance system (NBSS) and the Special Projects Division. NBSS is a computerized screening system using call report data. It is designed to detect trends warranting supervisory attention in individual banks and in the banking system as a whole. The NBSS Division is responsible for the bank performance report, an analytical report produced for each national bank, and an action control system, which is used to monitor corrective action taken in banks with conditions identified as warranting attention. NBSS also provides training in the use of the bank performance report and related programs.

The Special Projects Division centralizes monitoring of banks demonstrating unfavorable characteristics and a weakened condition. All banks assigned a composite uniform interagency rating system rating of 3, 4 or 5 are in the special projects program. The division attempts to ensure nationwide consistency of supervisory postures, to eliminate causes of identified problems and to return the selected banks to a satisfactory condition. Special Projects works closely with the Enforcement and Compliance Division when formal or informal administrative actions are used.

The Special Projects Division also operates the regional bank review program. That program, which includes all national banks with assets between $1 and $10 billion, is aimed at developing an increased awareness of the activities and direction of the country's large regional banking associations. The program includes review and analysis of certain information, periodic meetings with regional staff and with senior management of the banks and development of a management information system for OCC internal use.

## Deputy Comptroller for Specialized Examinations

The Deputy Comptroller for Specialized Examinations formulates, implements and monitors bank supervisory policy relating to examinations of trust departments and electronic data processing centers. The Deputy Comptroller oversees the maintenance of the electronic data processing and trust examinations handbooks and the review and analysis of trust and electronic data processing examination reports. Special attention is given to data centers and trust departments with identified problems to ensure nationwide consistency of supervisory posture, to eliminate the causes of identified problems and to return the operations to a satisfactory condition. The department also works closely with the Enforcement and Compliance Division when formal or informal administrative actions are necessary.

During 1979, efforts were made to improve the efficiency of the specialized examination function by gearing the scope of an examination to the size and/or condition of the department. Specialized and small bank trust examinations and specialized electronic data processing examination procedures were developed. Also during 1979, development of an interagency electronic data processing examination handbook was begun. OCC, accompanied by representatives of the other bank regulatory agencies, also conducted the first examination of national bank fiduciary activities overseas.

OCC trust examinations include an examination of the stock transfer function in light of OCC's primary jurisdiction over national banks which act as registered transfer agents. Information on any significant transfer agent deficiencies is provided to the Securities and Exchange Commission (SEC). In 1979, OCC participated in joint examinations of registered stock transfer agent services with the Federal Reserve System, the Federal Deposit Insurance Corporation and the SEC and also coordinated the inspection of the transfer agent for money market mutual funds with the SEC.

### Deputy Comptroller for Multinational Banking

The Multinational Banking Department was created in 1978 in recognition of the importance of the current and future role of the nation's largest banks and those with significant international activity. The Multinational Banking Department is responsible for supervising the 11 largest national banks, including examinations, financial analysis, corporate activity and all phases of supervision. As an extension of the examination process, the department began a quarterly visitation program for multinational banks to obtain more frequent and timely information on the financial condition, activities and plans of these institutions. At the end of 1979, the 11 largest national banks held 42 percent of all national bank assets and 25 percent of all U.S. banking assets. The department also supervises the international activities of all national banks. An office is maintained in London for examining European operations.

The Deputy Comptroller for Multinational Banking serves as OCC's liaison with bank regulators throughout the world. In that role, he represents the OCC at meetings of the Cooke Committee, a group of bank regulators from the Group of Ten countries and other European countries, who meet regularly on an informal basis to discuss common interests.

Organizationally, Multinational Banking has four divisions: Multinational Examinations, International Banking Activity Examinations, International Banking Activity Examinations—London, and Multinational Bank Analysis and Supervision.

Multinational Examinations develops examination procedures, establishes scope and scheduling of domestic examinations, coordinates overseas examinations with the two international banking divisions and processes examination reports.

International Banking Activity Examinations and the London division develop procedures, perform and coordinate international examinations for all national banks and serve as the focal points for developing supervisory positions relating to international banking.

Multinational Bank Analysis and Supervision provides financial analysis and support to all divisions of the Multinational Banking Department, including the field examiners. Emphasis is not only on analysis of historic performance but anticipation of future developments and their longer-term implications for the banks. The division also reviews corporate activity applications of multinational banks.

All organizations under the Senior Deputy Comptroller for Bank Supervision actively participate in the Federal Financial Institutions Examination Council regarding bank supervision matters in their spheres of responsibility.

### Examinations

OCC is responsible for promoting and ensuring the soundness of the national banking system. Bank examination is OCC's fact-finding arm in discharging this responsibility. On December 31, 1979, OCC employed 2,282 examiners who, during 1979, performed 3,998 commercial examinations, 1,245 trust examinations and 863 electronic data processing examinations. Examinations provide an objective evaluation of a bank's soundness, appraise the quality of management and directors and identify areas requiring corrective action. OCC policy gives top priority for onsite examinations to banks requiring close supervision because of their weak condition, second priority to large banks in sound condition and third priority to small banks in sound condition. The frequency and type of examination performed depend on the bank's priority rating. The different types of examinations relate the scope of an examination to the size and condition of the bank. In most cases, general or full scope examinations are alternated with specialized or limited scope examinations. Onsite examinations are supplemented by analysis of NBSS bank performance reports and a review of bank responses to criticisms and violations of law in the report of examination.

# VII. Senior Deputy Comptroller for Operations

The Senior Deputy Comptroller for Operations is responsible for the overall operational effectiveness and efficiency of OCC. He supervises the 14 regional offices, the Deputy Comptroller for Administration and the Washington Office divisions of Management Services, Finance and Planning, Systems and Data Processing, Human Resources and Equal Employment Opportunity. He serves as Chairman of the Federal Financial Institutions Examination Council's Task Force for Examiner Education.

### Management Services Division

The Finance and Administration Division was reorganized in July 1979 into two divisions: Management Services and Finance and Planning. OCC's administrative activities were thereby consolidated in the Management Services Division, and the financial, budget and planning operations were centralized in the Finance and Planning Division.

Under the reorganization, the Management Services Division includes five branches: Facilities Management, Procurement and Contracting, Records and Distribution Services, Research and Administrative Systems and Supply and Printing Services.

Facilities Management is responsible for renovating and relocating OCC's offices and coordinating parking, telephones, property and leases. In 1979, Facilities Management managed and coordinated the construction management and space design of the newly acquired third floor space in L'Enfant Plaza. A 100-person capacity conference room was included. The third floor construction allowed for scheduled expansion of units located on other floors. Renovation and remodeling began toward the end of 1979 and is expected to proceed well into the mid-1980's.

Procurement and Contracting is responsible for purchasing goods and services for the Washington Office and the 14 regional offices. During 1979, the branch negotiated and awarded the first OCC contract with the Small Business Administration pursuant to Section 8(a) of the Small Business Act. Under this program, the Small Business Administration is authorized to channel government purchases to minority firms by negotiating contracts with federal agencies and then subcontracting to the minority firms. The OCC contract involved providing minority recruitment advertising services. Also in 1979, a task force was assembled to develop an official OCC *Procurement Manual*. When published in early 1980, the manual will provide uniform policies and procedures regarding acquisition of personal property and nonpersonal services.

Records and Distribution Services is responsible for mail and messenger services, bank operations records (central files) and records and forms management. In 1979, this branch submitted a complete set of records control schedules to the National Archives and Records Service for review. The regional records schedules were approved, and Washington Office schedules were expected to be approved and effective in 1980. Additionally, a comprehensive study of the mail and messenger operations was made which should result in many improvements in service in 1980.

Research and Administrative Systems is responsible for four support activities: paperwork management, graphic design, OCC library and administrative systems. During 1979, in addition to performing its day-to-day support functions, the branch concentrated on revision and reissuance of support policies and procedures, paperwork reduction activities and energy reduction studies.

Supply and Printing Services provides printing, supply operations and bulk mailings for the Office. Consolidation of mailings allowed the Office a refund of $153,000 from the U.S. Postal Service. The branch has also reduced the cost of express shipments by using the U.S. postal express mail system. In 1979, the branch increased the number of printing impressions by 25 percent. The branch was instrumental in printing the *Report to Congress on Foreign Government Treatment of U.S. Commercial Banking Organizations*, and other publications. Supply and Printing Services also established a perpetual inventory system for expendable supplies and will periodically inventory these supplies in 1980. This will provide them with a more accurate system to monitor supply levels.

### Finance and Planning Division

The Finance and Planning Division is responsible for promoting maximum use of financial and human resources for OCC. The division has three branches: Planning, Budget Programs and Accounting Programs.

Planning is charged with providing functional direction and guidance in design, implementation, maintenance, evaluation and feedback for the Office's planning process. The branch also coordinates and maintains the integration of planning with budgeting. Planning began in 1979 by reviewing data in other OCC management information systems, such as time utilization and examination status reporting, to eliminate duplicative reporting under the planning system. The reduction in number of operating goals from 35 to 16 and the introduction of standard performance targets for Washington, D.C. units eliminated a significant amount of paperwork from unit plan submissions. Throughout the year, a staff member was responsible for the examination status reports section of the Policy Group management information system.

Budget Programs develops and recommends expenditure policy and designs cost models in directing the OCC budget operation. The computerized budget monitoring system provides monthly budget performance reports which compare actual versus budgeted expenses. This system was enhanced in 1979 by adding a quarterly listing of significant budget variances which must be explained by unit managers. Another improvement in the budget system was the formulation of a budget change process in which budget units compete for surplus funds identified by the variance reports. For 1979, actual expenses were under budget by 0.7 percent.

Accounting Programs directs the Comptroller's fiscal reporting operations. In 1979, refinements and improvements were made to the computer-based financial information system. That system, which relies on the concept of cost center responsibility accounting, is linked directly to the budget monitoring process. The flexibility of this system permits timely preparation of specialized reports and analyses for management.

### Systems and Data Processing Division

Computer processing requirements in 1979 grew by 98 percent over 1978. Costs in 1979 were 15 percent higher than 1978 costs and only 3.3 percent higher than 1977 costs. In the face of having automated data processing requirements double in 1979, the Systems and Data Processing Division was able to contain costs by:

- Moving computer work to a more efficient and economical computer system;
- Moving computer files to a more economical storage medium;
- Negotiating greater discounts from the computer contractor by guaranteeing specific levels of monthly processing;
- Negotiating a $55,000 annual telecommunications cost reduction with the computer contractor;
- Initiating cost reduction procedures for backing up computer files;
- Implementing cost reduction procedures for programmers; and
- Implementing a computer procedure to disconnect programmer terminals from the main computer following 20 minutes of inactivity.

Major project activities in 1979 included production of OCC's national bank surveillance system which produced quarterly bank performance reports on time for all national banks, all Federal Reserve member banks and all state banks in New York, Virginia and Nevada.

A contract was signed to develop the national bank surveillance video display system, which will eventually allow bank examiners to acquire critical national bank data on demand.

A new minicomputer system was selected and ordered. The system will support functions such as personnel, payroll and time and attendance. In addition, a time utilization management system for all OCC employees was developed and implemented in late 1979. The statistical data sheet system was developed to produce automated reports on bank examination data. This system was started in late 1979. The fair housing lending system, also initiated in late 1979, can process lending data from national banks and flag potential problem areas of discrimination. The bank organization structure system for tracking specific corporate transactions was also completed in 1979.

During 1979, the division participated in a study to determine the feasibility of merging OCC and Federal Deposit Insurance Corporation automated data processing support activities. The completed study was referred to top-level management for consideration. This effort could result in the eventual merging of automated data processing functions for the two agencies.

### Human Resources Division

Exemplary progress in the area of equal employment opportunity (EEO) earned recognition for the Deputy Comptroller for Administration, the EEO officer, the associate director for employee relations and the manager of minority and special emphasis programs. The Secretary of the Treasury presented them the department's EEO Award for 1979. Their development of population-based hiring goals, a computerized recruitment resources information system, an advertising campaign directed at minority and female media, and other EEO programs aided in attracting highly qualified women and minority applicants to OCC.

Enactment of the Civil Service Reform Act in 1978 had a significant impact on human resources programs in the areas of employee relations, national recruitment, compensation, staffing and operations, and personnel development. The Human Resources Division initiated several of the programs outlined in the act, and measurable progress was made toward implementing the act's provisions.

The Senior Executive Service was established in July, and all OCC senior management officials converted to membership in the program. A performance appraisal system for senior executives was implemented, and similar programs were also developed for competitive and excepted service employees. Policy and procedures were updated for OCC's Incentive Awards Program.

Most Washington, D.C. and regional employees began participating in a compressed work schedule experiment in September. An expanded dental insurance plan, an improved physical examination program and a brochure highlighting OCC employee benefits were offered during 1979. Revised travel regulations were also adopted encouraging energy conservation.

During 1979, increased emphasis was given to OCC's compensation program. A salary survey was conducted to evaluate OCC salaries relative to those for similar positions in the banking industry and in other regulatory agencies. Position descriptions were reviewed or developed for all professional and managerial jobs, and policies and procedures governing compensation and position evaluation issues were developed.

A Cooperative Education Program was established in the Washington, D.C. Office, with seven interns participating in the initial session. Twenty more students will be selected in 1980. At the same time, there were 57 interns in the regional cooperative program. Twenty-one of the program participants were retained as permanent assistant national bank examiners in 1979. In the National Recruitment Program, canvasses were conducted nationwide at colleges and universities, and this was instrumental in the hiring of over 500 assistant examiners.

Five regions were included in the time utilization management system during 1979, and two modules of the human resources information system were installed to aid the Staff Analysis Group with personnel management information. The group also completed an analysis of employee turnover to increase management's awareness of the causes of work force attrition.

The Personnel Development staff was actively involved in adapting schools and courses for interagency enrollment. Over 3,000 participants attended the 75 Washington, D.C.-based and 39 regional training programs. The Advanced Management Seminar and the Financial Analysis School were started in 1979. Revised career development policies were issued for career development levels I and II. Twenty-three people were selected to participate in the Career Development Level II Program. A policy for executive development was developed for approval and issuance in early 1980. These policies provide direction for OCC's management and executive development programs and strengthen prospects for continued professional management of the agency.

The Staffing and Operations Group processed a large volume of personnel actions and maintained responsive service to management and employees. Over 150 Washington vacancies were announced and filled through merit competition during 1979. Staffing and Operations also developed a plan for staffing examiner positions through merit promotion.

### Equal Employment Opportunity Office

In early 1979, OCC conducted a comprehensive analysis of the regional examining workforce. That analysis permitted identification of areas of minority/female underrepresentation. Based on that information, regional long-range hiring goals and 1979 recruitment priorities were established. Regional staffs were asked to work toward these goals and priorities throughout 1979.

A system was developed using information provided by the Department of Labor, Department of Health, Education and Welfare, Department of the Interior, U.S. Commission on Civil Rights and a variety of national, state and local agencies and groups. That system, the recruitment resources information system, will be used by those agencies for recruiting. The OCC system, which was made available to other Department of Treasury bureaus, lists over 25,000 minority, women, handicapped and veteran organizations nationwide which have agreed to act as recruitment resources.

A minority and women's media program was conducted to attract qualified applicants. Recruitment advertisements were placed in key minority publications and in newspapers at schools selected because of their minority/female enrollments. Competitive and bank examiner (excepted service) announcements were mailed to many federal personnel offices. More recruitment resources are expected to be added to the system regularly. OCC staff members are in frequent contact and meet regularly with personnel staff of the Federal Reserve Board, Federal Home Loan Bank Board and Federal Deposit Insurance Corporation. Those efforts are designed to share recruitment information, encourage job seekers to apply for bank examiner or related positions, and coordinate compliance with other equal employment opportunity (EEO) requirements.

In 1979, females represented 50.2 percent of new employees. That represents a 5.8 percent increase over the number of females hired in 1978.

A 2-day EEO briefing was presented to regional administrators. The briefing was designed to increase sensitivity to the functions of the program.

There were seven formal complaints filed in 1979: four alleged race discrimination, two alleged race/sex discrimination and one alleged age discrimination. One of the alleged race complaints was officially closed. The other five race and sex complaints are at the investigative stage in the complaint processing cycle. The age complaint is at the adjudicative stage.

# VIII. Senior Deputy Comptroller for Policy

The Senior Deputy Comptroller for Policy provides advice and counsel to the Comptroller on all related policy matters. He has been delegated sole decisionmaking responsibility on national bank charter and merger applications and numerous other types of national bank applications pertaining to corporate activities. In addition, he provides staff support to the Comptroller for his activities on the Depository Institutions Deregulation Committee.

The Senior Deputy Comptroller for Policy oversees the Research and Economic Programs and the Customer and Community Programs departments. The Research and Economic Programs Department comprises four divisions: Banking Research and Economic Analysis, Strategic Analysis, Bank Organization and Structure and Regulations Analysis. The Customer and Community Programs Department comprises three divisions: Customer, Community and Fair Lending Examinations; Community Development; and Customer Programs.

### Research and Economic Programs

The Department of Research and Economic Programs is directed by the Deputy Comptroller for Research and Economic Programs who is responsible for coordinating the activities of the Bank Organization and Structure, Banking Research and Economic Analysis, Regulations Analysis and Strategic Analysis divisions.

The primary functions of the Research and Economic Programs Department are processing corporate applications; monitoring the regulatory decisionmaking process; analyzing the impact of reporting and compliance requirements imposed on national banks; collecting, analyzing and distributing financial and supervisory data reported by national banks; conducting research projects pertaining to financial institutions, markets and the macroeconomic environment; monitoring developments in the financial services industry; and preparing publications of interest to the financial community. Other activities involve providing advice and analysis on regulatory and supervisory issues, assisting in the formulation of OCC policies, preparing speeches and congressional testimony and supporting activities of interagency committees and task forces.

The Deputy Comptroller, in addition to coordinating activities of these divisions, also advises senior OCC staff on various issues, assists in policy formulation and provides analysis of economic conditions and their impact on the financial services industry.

During 1979, the department made significant contributions to the formulation of public policy—including the *Report to Congress on Foreign Government Treatment of U.S. Commercial Banking Organizations*, which was jointly prepared by the Strategic Analysis Division and the Banking Research and Economic Analysis Division, and the *Deposit Interest Rate Ceilings and Housing Credit, the Report of the President's Inter-Agency Task Force on Regulation Q.* The department also developed a comprehensive program for reviewing and revising corporate policies, forms and procedures for implementation in 1980 and continued to pursue systematic analysis of competition among financial institutions, and of regulatory reporting and compliance requirements.

### Bank Organization and Structure Division

The Bank Organization and Structure Division is responsible for processing requests by national banks and individuals to engage in various banking activities. These requests include applications for new banks, branches, customer-bank communications terminals (CBCT's), head office relocations, title changes, operating subsidiaries, federal branches and agencies of foreign banks, mergers, consolidations, capital increases and notices of ownership changes. In addition, the division is responsible for maintaining various bank structure records, such as title, location, number of offices and amount of capital stock of each national bank.

During 1979, considerable progress was made in meeting the division's goal of reducing application processing time, improving the quality of analysis and reducing the regulatory reporting and compliance requirements imposed on the industry.

The division was reorganized in July to create a more effective organization. Positions of manager for analysis, manager for operations and procedures and manager for policy were established. In addition, an automated management information and tracking system for new banks and branches was developed and implemented by year-end.

Processing times for applications have been substantially reduced despite a significant increase in volume. Procedures for the expeditious processing of certain branch, CBCT and relocation applications were adopted. Those procedures allow a regional office to process applications in their entirety, eliminating duplicative Washington Office review. The division has also notified other regulatory agencies and the Department of Justice that it will generally not wait more than 30 days for their competitive factor reports before deciding routine mergers.

Finally, an initial review of corporate policies, procedures and forms was undertaken in 1979. The results of that review will be the basis for the Corporate Activities Review and Evaluation (CARE) Program which will entail a comprehensive review and revision of corporate policies, procedures and forms during 1980.

### Banking Research and Economic Analysis Division

The research program of the Banking Research and Economic Analysis Division concentrates on issues of current and potential importance to the bank regulatory and supervisory mission of OCC. The division's significant programs include conducting a wide variety of research projects; sending representatives to selected professional conferences and meetings; maintaining a liaison with research economists in other federal agencies; supplying lecturers or panel members to appropriate professional and academic functions; conducting seminars on topics of current interest to OCC and the banking industry; bringing noted banking experts to OCC through a visiting scholar program for brief periods to work with the permanent staff on topics of special interest; collecting, analyzing and making available a wide range of financial and supervisory data reported by national banks; and performing statistical surveys to support the operations of other divisions.

During 1979, the division's major activities included preparing testimony and briefing materials for congressional hearings on a variety of banking issues such as Regulation Q, the prohibition of interest on checking accounts, usury ceilings, bank underwriting of municipal revenue bonds and the annual oversight hearings on the condition of the banking system. The division also had a significant input into the development of public policy statements by the Comptroller of the Currency such as his address on the need for capital investments at the joint meeting of the American Economic Association and American Finance Association in December. A series of research papers was prepared on deposit rate ceilings, branching restrictions and restrictions on U.S. banking abroad in connection with separate interagency task forces. The division contributed to a major report, *Deposit Interest Rate Ceilings and Housing Credit, the Report of the President's Inter-Agency Task Force on Regulation Q,* which was released by the Department of the Treasury in fall 1979, and to a second, the interagency report on the McFadden Act, which is expected to be released in 1980.

During the year, a significant consolidation of data collection and processing was carried out with the Federal Deposit Insurance Corporation (FDIC). That action reduced expenses and manpower requirements and set a new standard of interagency cooperation. The quarterly financial statements of national banks are now sent directly to FDIC which reviews and corrects them as it previously had for reports of insured nonmember banks. This results in more efficient use of report analysis and eliminates a duplicative computerized processing system. The division maintains oversight responsibility to guarantee high quality and timely data. The development of on-line computer access has resulted in greater data availability.

The division's plans for 1980 include conducting basic research on the response of financial markets and institutions to the legislative changes contained in the Depository Institution Deregulation and Monetary Control Act of 1980; supporting OCC's role on the Depository Institutions Deregulation Committee; monitoring the macroeconomic environment for the benefit of OCC senior management and field examination personnel; providing research support and assistance to OCC divisions in the conduct of their tasks; and drafting OCC's rules governing adjustable-rate mortgage instruments.

### Regulations Analysis Division

The Regulations Analysis Division coordinates all OCC activities which impact on the reporting and compliance requirements imposed on national banks and the public. It assures that regulatory decisionmaking includes a thorough consideration of potential alternatives. Regulations Analysis also ensures that effects of regulatory activities are monitored and that any problems are identified and resolved. The division seeks to identify outdated statutory provisions and serves as a contact point for bankers who have suggestions for regulatory improvements. Regulations Analysis is the OCC division responsible for implementing Executive Order 12044 on improving government regulation and Executive Order 12174 on paperwork. In addition, division representatives co-chaired OCC activities associated with the Department of Justice's Task Force on Sex Discrimination.

Semiannual agenda, describing in clear language the regulatory actions taken and under consideration, were printed in the *Federal Register* and sent to all national banks for comment in February and September 1979. Several changes in regulations were adopted in 1979 reflecting the OCC's desire to avoid unnecessary regulatory burdens, particularly for individuals and smaller banks, and the division's efforts to satisfy those desires:

- The Change in Bank Control Act was implemented by issuing a revised regulation (12 CFR 15) establishing general requirements for the submission of information to OCC which are less burdensome than those expressly permitted by the statute.
- New statutory provisions relating to bank service corporations were implemented by revising the OCC's interpretive ruling 12 CFR 7.7390 to require only a fraction of the number of notices permitted.
- New statutory provisions limiting management

official interlocks were implemented through a regulation (12 CFR 26) which required neither recordkeeping nor reporting.

- OCC's regulation governing recordkeeping and confirmation requirements for national banks effecting securities transactions for customers (12 CFR 12) was amended to reduce the number of banks subject to the full requirements.
- Increased delegations of authority and expedited processing procedures were adopted by amendments to OCC regulation 12 CFR 4 which are expected to reduce by 20 percent the time involved in deciding 75 percent of the applications received by OCC.
- An amendment was issued to OCC's interpretative ruling on real estate owned by national banks other than for use in the conduct of their business (12 CFR 7.3025) to make the accounting requirements consistent with generally accepted accounting principles and to delete the previously required annual appraisal of low-valued properties.
- A new regulation was adopted to improve OCC's monitoring and enforcement of fair housing laws (12 CFR 27).
- Over 200 pages of the Code of Federal Regulations (12 CFR 1) containing specific investment securities rulings were eliminated.
- The common trust fund survey which affected approximately 1,800 national banks was eliminated.
- Annual reporting to shareholders was made more flexible by permitting interested shareholders to conveniently obtain basic financial information at little cost to the national banks (12 CFR 18).
- Certain required reports by bank insiders were eliminated and replaced with dissimilar reports on the same general subject required by the Financial Institution Regulatory and Interest Rate Control Act.

### Strategic Analysis Division

The Strategic Analysis Division is responsible for monitoring developments in the financial services industry and evaluating their impact on the banking system and OCC operations. Division staff members act as internal consultants in assessing and interpreting financial and technological trends for the benefit of the examiner staff and senior agency officials charged with setting policy.

Much of 1979 was devoted to organizing and recruiting an entirely new staff for the division which, by the end of the year, included seven professional and three clerical staff members. Most analysts in the division have graduate degrees in business or finance and practical experience in banking or related fields.

Throughout the year, staff members provided advice and information on a wide range of topics bearing on the safety and soundness of the banking system. These included capital adequacy, the role of banks in the commercial paper market, international supervision and support systems, use of subordinated debt, electronic funds transfer and activities of foreign banks in the U.S. The major activity of the division in 1979 was the launching of a comprehensive inquiry into the issue of foreign acquisitions of U.S. banks. Research efforts were directed not only at gathering basic factual data but also at considering the implications of such acquisitions for banking competition and the performance and supervision of banks. This unprecedented indepth review is expected to be completed during 1980.

With four more professionals to be recruited during the first half of 1980, the division will be developing procedures to augment its environmental scanning efforts, and staff members will be assigned to monitor developments in specific areas such as payment systems and telecommunications, expansion of foreign banks both abroad and in the U.S. and financial innovations in the U.S. banking industry. Before the end of the year, a pilot Visiting Banker Program will be established, and the possibility of creating a staff position for bank examiners on a rotational basis will be explored. Such specialized expertise will contribute to the division's ability to relate changes in the larger financial environment to the banking industry and to the work of OCC. The division will continue, as in 1979, to prepare and contribute to briefings, position papers, speeches and congressional testimony for senior agency officials. In addition, the division will continue to work with members of the examiner staff throughout OCC to identify other specific areas and projects in which it can provide technical advice and support.

## Customer and Community Programs

The Office of Customer and Community Programs, established in the 1978-1979 reorganization of OCC, is responsible for OCC's activities in the areas of consumer protection, community lending and civil rights. The office is headed by the Deputy Comptroller for Customer and Community Programs and includes the position of Special Assistant for Civil Rights as well as three divisions: Customer, Community and Fair Lending Examinations, Community Development, and Customer Programs.

During 1979, the office undertook a number of efforts to expand and substantively improve the OCC's activities in consumer affairs, community investment and civil rights. These efforts were focused on enforcement of statutes and regulations, examiner training, banker education and liaison, policy development and liaison with other agencies and outside groups in areas of mutual concern and responsibility.

### Customer, Community and Fair Lending Examinations Division

The Customer, Community and Fair Lending Examinations Division, originally established in 1974 as the Consumer Affairs Division, is responsible for the coordination of all examination-related activities in the areas of consumer protection, community reinvestment and fair lending. Its activities include monitoring the training of consumer examiners, developing examination procedures and tools, coordinating resolution of consumer complaints and tracking and evaluating national bank compliance.

The consumer compliance examination was created in 1977 to improve the ability of examiners to monitor national bank compliance with consumer protection laws. Under this program, every national bank receives periodic examinations conducted by examiners who have had special training at two-week schools.

A primary thrust of the past year was to provide the examiners and the banks with a better understanding and sensitivity about consumer, community and fair lending issues and regulations. The results of the efforts in this direction have been gratifying by demonstrating that much of the compliance problem in these areas can be solved through better training and education. Efforts included:

- Establishment of an ongoing training program for senior level commissioned examiners;
- Participation with the other federal financial regulatory agencies on an interagency task force to develop a consumer examination school for basic training of new consumer examiners;
- Assistance to banking trade groups in the planning and development of banker education programs and materials;
- Revision and updating of the *Comptroller's Handbook for Consumer Examinations* and distribution to all examiners and all national banks;
- Publication of the *Fair Housing Home Loan Data System, Regulation 27* booklet that describes the new regulation, and distribution to all examiners and national banks; and
- Preparation of a fair housing home loan data system slide presentation and showing of it to banking groups, other agencies and consumer groups.

The division has also provided assistance to several banking trade groups in the planning and development of banker education programs and materials. The American Bankers Association (ABA) sponsored a 1-week National Compliance School for bank compliance officers and a National Compliance Conference for senior level bank managers. OCC staff participated as instructors in both programs, as did representatives from other federal financial regulatory agencies. OCC staff also participated in other programs such as the Bank Administration Institute's "Managing Compliance with Consumer Regulations" workshops. OCC staff guidance was provided on three major bank compliance manuals: *Planning Guide for Consumer Compliance* (ABA); *Real Estate Lending Manual* (ABA); and *The Most Common Violations Found in Consumer Compliance - Revised* (Consumer Bankers Association). Additionally, the Consumer Bankers Association published the OCC's *Computational Procedures for Verifying Annual Percentage Rates,* revised March 1979, and made it available to member and nonmember banks.

The division continually updates the field examiners and national banks on new and changing legislation and regulations. In 1979 banking circulars were issued on the fair housing home loan data system and the Community Reinvestment Act.

Another important thrust of the past year was to streamline the consumer examination procedures and provide guidance on priorities in order to accommodate statutory changes and additions. The *Comptroller's Handbook for Consumer Examinations* was revised to reflect the changes in consumer laws since the handbook's publication in 1977. New sections were added covering the Fair Debt Collections Practices Act, the Community Reinvestment Act and the Flood Disaster Protection Act. Specialized examination procedures were implemented in 1979 to use examination resources more efficiently by narrowing the focus of some examination areas. The specialized procedures always include a full examination of compliance with the Equal Credit Opportunity Act, Fair Housing Act, Community Reinvestment Act, Truth-in-Lending Act, and any new laws which have become effective since the last examination. Other areas of concentration in a specialized examination will depend on such things as the extent of noncompliance noted in the previous examination and the extent of significant changes in the bank's management and/or operations.

To assure the development of a highly skilled and committed corps of consumer examiners, a consumer career path was established which provides for specialization by both Assistant and National Bank Examiners. The career path provides emphasis in the consumer examination program while allowing career progression and maintenance of commercial examining proficiency. All Assistant National Bank Examiners receive 2 weeks of consumer training and spend at least 6 months performing consumer examinations. After the initial 6-month consumer assignment, examiners may select the consumer career path. The consumer examiner will continue to perform consumer examinations along with commercial examinations, gaining sufficient experience and expertise in both to be qualified to become a commissioned National Bank Examiner. A consumer examiner can progress through the career path to the level of Regional Director for Customer and Community Programs. This position was established in 1979 to coordinate the regional activities related to customer and community programs. The newly created position of Regional Director upgrades the previous Regional Consumer Specialist position by increasing the authority and responsibility of that position.

The complaint resolution function is operated in the Washington Office and the 14 regional offices. Either an attorney or a paralegal, upon receipt of a written complaint, immediately notifies the consumer in writing acknowledging receipt of the complaint. The bank against which the complaint has been made is then contacted by letter and asked for information and documentation. If necessary, an examiner will be assigned to visit the bank to investigate the matter further. The consumer is notified in writing of the results of the investigation. Since late 1978, most complaints received in the Washington Office have been referred to the regional offices. The only exceptions are complaints referred by Congress and complaints which appeal the resolution decisions of the regional offices.

During 1979, 12,650 complaints were received by the OCC, representing a 12 percent increase over 1978. However, this increase was considerably smaller than in past years. Also, the average resolution time taken to resolve a complaint has consistently decreased over the past 3 years.

All complaints are entered into an automated system, the consumer complaint information system (CCIS), which categorizes complaint information by region and bank, type of complaint and resolution. Monthly CCIS reports are used by Washington and regional personnel to identify banks with concentrations of complaints or types of complaints and to monitor unresolved complaints. This information is also forwarded to consumer examiners in the field as an examination tool to indicate potential problems in banks.

In 1979, the OCC continued to distribute its consumer complaint pamphlet to individual consumers and to national banks which requested them for display in their lobbies. The pamphlet, first introduced in 1978, was designed to educate consumers about their rights and responsibilities and to provide for easy access to the OCC through the attached postage paid self-addressed complaint form. The form is designed to enable a consumer to describe the nature of the complaint, and it asks for pertinent information about the bank and the consumer. The OCC solicited comments from banks, consumer groups, and state and local government agencies on a proposed complaint pamphlet prior to issuing the final pamphlet. The Comptroller, in a banking circular to all national banks, announced the availability of the complaint pamphlet and urged national banks to display the pamphlets in their lobbies.

A consumer complaint survey was conducted during September 1979. The purpose of the survey was to determine the OCC's degree of success in resolving complaints both efficiently and effectively. Comments were solicited from complainants through a survey questionnaire. A total of 437 questionnaires were mailed, and 202 responses were received (a 46 percent response rate). Of those responding, 58 percent were satisfied with the resolution of their complaints, 79 percent felt that their complaints were answered in a timely manner, 85 percent felt that OCC personnel with whom they dealt were courteous and 75 percent of the respondents said they would contact OCC again if they had another problem with a national bank.

### Community Development Division

The Community Development Division was established to encourage public/private interaction and participation in community economic development. The division provides technical assistance, rather than supervisory review, to national banks interested in developing community reinvestment programs. Additionally, the division promotes interaction among banks, community groups, local and state governments and developers involved in community development efforts. The activities of the division include preparing resource material to assist bankers in community investment strategies, identifying current obstacles to bank involvement in community development, educating bankers about community involvement opportunities and developing innovative approaches for bank participation in local community development.

Two of the primary emphases of the division's work in 1979 were to develop a base of knowledge about urban and rural credit needs and to identify those banks that have undertaken innovative approaches to meeting community credit needs. Two projects were initiated in 1979 and will be completed in 1980. The first project will result in a set of detailed case studies describing bank involvement in urban economic development activities. The second project will result in case studies of rural credit needs. In both projects, the division's work is aimed at providing banks with examples of community development projects that they can use as models as well as at providing guidance to banks on how to structure community development involvement. The guidance covers the potential pitfalls as well as the potential benefits of such involvement.

The division also provides staff support to the Commercial Reinvestment Task Force which was established as an interagency group in 1978 and which is chaired by the Comptroller of the Currency. Working jointly, the staffs of the Community Development Division and the Neighborhood Reinvestment Corporation developed a model for neighborhood commercial reinvestment. This model will be tested during 1980 with the objective of developing a replicable approach for neighborhood commercial reinvestment.

In December 1979, the division sponsored a roundtable discussion on industrial development, chaired by the Comptroller. In attendance were senior management officials from 45 large national banks. The meeting focused on bank assistance to local economic development efforts through special bank departments which would provide facility relocation and expansion services to industrial companies. The meeting emphasized the positive role banks play in providing guidance to businesses interested in locating or expanding in those banks' communities. The discussion also explored the long-term benefits that banks can anticipate by contributing to the economic vitality of their communities through business expansion and job creation. A report that summarizes the topics discussed at the roundtable will be published in 1980.

One of the first accomplishments of the division in preparing resource materials for banks was the publication of a *Program Guidebook to Help Meet Community Credit Needs*. The guidebook is designed to assist both bankers and bank examiners to meet their local community credit needs, as required by the Community Reinvestment Act. It describes 40 federal, state and local government development programs in which a bank may participate. Included in the guidebook are several marketing programs that may be used to promote bank credit services. Names, addresses and telephone numbers of contact persons are also provided. The guidebook was so well-received that a second printing was ordered.

The division also produced a brochure that describes the activities of the division and the capabilities of the staff. This brochure is being distributed to produce an awareness of the kinds of assistance that the division provides.

Technical assistance to banks is an important activity of the division. As community development specialists rather than regulators, the staff is able to provide bankers with advice on options for community development involvement, guidance on structuring activities that meet their communities' credit needs, and information on further sources of assistance and federal program resources.

Over the past year, the division also advised the Customer, Community and Fair Lending Examinations Division on changes in examiner training and examination guidelines that would make the community lending portion of the consumer examination more substantive and meaningful.

### Customer Programs Division

The Customer Programs Division was established to provide policy advice on all consumer, community and civil rights functions and to maintain liaison with the banking public and with consumer, civil rights and community groups. The activities of the division include providing policy guidance on the enforcement of laws and regulations, conducting research to support more effective monitoring and enforcement and presenting testimony on legislative proposals.

One of the major areas of the division's activity in 1979 was the Community Reinvestment Act (CRA). The division worked closely with the other federal financial regulatory agencies to develop uniform procedures and guidance for examiners and financial institutions. In early 1979, the agencies adopted a preliminary CRA performance rating system. CRA protest procedures written in plain English were drafted and will be published in 1980. Procedures for evaluating corporate applications with respect to CRA performance were developed. The division also worked closely with the Bank Organization and Structure Division of OCC in the review of corporate applications that had CRA issues to decide whether the issues were significant enough to warrant conditioning the approval or denying the application.

Because the division was not fully staffed in 1979, fair lending activities were focused on institution-building under the direction of the Senior Deputy Comptroller for Policy and the Deputy Comptroller for Customer and Community Programs. Institution-building efforts included organizational and programmatic design, recruitment, training and sensitization, and, perhaps most importantly, active demonstrable support by the most senior OCC officials. The program design for the Customer Programs Division calls for policy initiation, oversight and monitoring, regulatory reform, outreach to public interest and banking groups, internal advocacy of the interests of those whom consumer and civil rights laws seek to protect, and special educational programs.

### Special Assistant for Civil Rights

The position of Special Assistant for Civil Rights was created in 1979 to monitor, coordinate and strengthen OCC programs and activities involving fair lending and civil rights. The Special Assistant provides input to the divisions of Customer and Community Programs and to other offices in OCC on civil rights issues. The Special Assistant also acts as liaison with civil rights groups.

During the first half of 1979, the Special Assistant's primary task was the initial development of the fair housing home loan data system (FHHLDS) regulation. The Special Assistant oversaw development of the system, managing research activities designed to develop a methodology for using home loan data to detect possible discriminatory lending practices. Development of a methodology included specification of data requirements, data analysis procedures and interpretation of results. The Special Assistant was also responsible for the drafting and publication of the regulation which sets forth the scope and requirements of the system for national banks.

### Community Reinvestment Act

The OCC is required by the Community Reinvestment Act, 12 USC 2904 *et seq.*, to include in its annual report to Congress a description of its CRA enforcement efforts for the past calendar year. CRA mandates that the agency must assess each bank's record of helping to meet the credit needs of its entire community including low and moderate income neighborhoods, to take such record into account in any evaluation of an application for a deposit facility and to encourage banks to help meet the credit of their communities. In November 1978, the OCC, along with the other federal financial regulatory agencies, issued a regulation (12 CFR 25) to implement CRA. Uniform interagency examination procedures were also issued in November 1978. Soon after the regulation and examination procedures were issued, a number of questions were raised about their implementation.

In response to this, the agencies published a set of questions and answers which addressed the most common problems. Their purpose was to provide guidance and useful information to banks in meeting the objectives of CRA.

In early 1979, the agencies adopted a preliminary CRA bank performance rating system. A numerical rating of one to five is assigned to each CRA assessment as part of the examination.

The OCC also sought ways to help educate bankers and the public about CRA. In early 1979, the agency held a series of CRA workshops in which representatives from civil rights, consumer, community and banking groups were brought together to discuss CRA-related issues. The representatives exchanged information about experiences with CRA, and both sides gained new insights.

### Report of Regulatory Activity

In October 1979, the OCC published the fair housing home loan data system regulation, 12 CFR 27. The regulation became effective on January 1, 1980. The regulation establishes certain recordkeeping requirements for home loan applications received by national banks. All national banks which receive 50 or more home loan applications a year must keep monthly records concerning home loan application activity. Every national bank is required to obtain specified information on each home loan application and retain it in the bank's loan file. Included in this regulation is a substitute monitoring program under Regulation B, 12 CFR 202.13(d), which requires national banks to obtain, as part of every home loan application, the applicant's race/national origin and sex. Additional records may be required of national banks upon request of the Comptroller of the Currency if preliminary investigations of submitted data indicate questionable practices. The recordkeeping requirements coupled with the OCC's new computer data analysis system will, when fully operational, supply an examiner with an analysis of a national bank's home lending practices prior to a scheduled examination. This analysis will save examination time by directing the examiner to particular loan files which the system identifies as requiring closer scrutiny.

The Joint Statement of Notice of Truth in Lending Enforcement Policy, which was issued in December 1978, became effective on January 4, 1979. This policy was implemented in conjunction with the other agencies which participated in its development. The policy addresses the most common substantive violations of Regulation Z and is designed to correct the conditions resulting from such violations. Soon after the enforcement policy became effective, the agencies began to experience difficulties in their implementation efforts. An interagency task force was established to resolve the issues, and to coordinate uniform implementation of the policy. In August and September 1979, the OCC notified affected national banks to temporarily discontinue file searches and reimbursements pending final determination by the Federal Financial Institutions Examination Council of certain issues. On October 19, 1979, the agencies published in the *Federal Register* proposed amendments to the enforcement policy. Legislative and judicial developments have delayed final action on the enforcement policy.

The Electronic Fund Transfer Act (EFTA), enacted in 1978, became effective, in part, on March 30, 1979. The two sections of the EFTA which became effective in 1979 relate to the issuance of access devices and consumer liability for unauthorized electronic fund transfers. The Federal Reserve Board issued Regulation E implementing these two sections. The balance of the EFTA will become effective on May 10, 1980. The OCC has enforcement responsibilities for this regulation, and the financial regulatory agencies will issue uniform examination procedures in 1980.

In 1979, the Federal Trade Commission (FTC) approved in substance an amendment to "holder-in-due-course" rule which extends its coverage to creditors. The FTC published the rule in the *Federal Register* for public comment on only the technical language of the rule. The Federal Reserve Board is required to adopt a rule governing banks that is substantially similar to the FTC rule unless the Board finds that such acts or practices of banks are not unfair or deceptive or that adoption would interfere with monetary policy. The OCC, in cooperation with the Federal Reserve Board, is conducting a study of banks' practices in this area, which will help provide a factual basis for the decision the board must make on adopting a similar rule applicable to banks.

Interagency staff work on the interagency Equal Credit Opportunity/Fair Housing Enforcement Policy continued during 1979. A field survey of the guidelines was conducted to identify potential implementation problems.

# IX. Chief Counsel

The Chief Counsel advises the Comptroller of the Currency on legal matters arising in the administration of laws, rulings and regulations governing national banks. He oversees the Enforcement and Compliance, Legal Advisory Services, Legislative Counsel, Litigation and Securities Disclosure divisions as well as the regional counsels.

### Litigation Division

At the beginning of 1979, 70 lawsuits were pending. During the year, 21 new lawsuits were filed, and 24 cases were closed.

Attempts to impose liability on the Comptroller for allegedly negligent regulation of problem banks were unsuccessful. In the *In Re Franklin National Bank Securities Litigation*, 478 F.Supp. 210 (E.D. N.Y. 1979), the court held that the National Bank Act creates no actionable duty to a bank on the Comptroller's part and that the plaintiffs failed to show that the Comptroller's regulation of the bank had been "grossly arbitrary and capricious" or had so exceeded its regulatory authority as to cause the Comptroller to assume a duty to the bank as a matter of law. Moreover, the court held that even had such a duty been established, there could be no liability for its breach under the Federal Tort Claims Act because regulation and examination of banks fall within the "discretionary function" exception to the act. This ruling was largely duplicated in *Emch* v. *United States, et al.*, 470 F.Supp. 206 (E.D. Wis. 1979), *appeal pending.*

The Comptroller's authority to promulgate regulations defining and prohibiting unsafe and unsound banking practices under 12 USC 1818(n) was upheld by the U.S. Court of Appeals in *IBAA* v. *Heimann*, 613 F.2d 1164 (D.C. Cir. 1979), *petition for certioiari filed.* In that case, the court sustained 12 CFR 2, the Comptroller's regulation prohibiting insiders of national banks from benefitting personally by receiving income from the sale of credit life insurance to bank borrowers. The court also found that the regulation did not conflict with other statutes regulating the insurance business and that the promulgation of the regulation fully complied with the requirements of the Administrative Procedures Act. A related case, *First National Bank of LaMarque* v. *Smith*, 610 F.2d 1258 (5th Cir. 1980), upheld the Comptroller's issuance of an order, prior to the promulgation of 12 CFR 2, directing certain banks to cease allowing officers to receive income from the sale of credit life insurance. The order was found to be within the authority of the Comptroller under 12 USC 1818(b) and to be a reasonable and proper exercise of that authority. In a footnote, the court noted that the sale of insurance by national banks could, under certain circumstances, create conflicts between state insurance laws and federal banking laws, but the court found it unnecessary to resolve those questions at that time.

The controversy over the branch banking powers of national banks continued. Disagreeing with the Comptroller's Interpretive Ruling 7.7380 (12 CFR 7.7380), the U.S. District Court for the District of Columbia held that loan production offices, where loan applications are solicited and preliminarily processed, are "branches" under 12 USC 36(f) and, hence, subject to state law limitations. *IBAA* v. *Heimann*, Civil No. 78-811 (D. D.C. March 30, 1979), *appeal pending.* In *State Bank of Fargo* v. *Merchants National Bank and Trust Co.*, 593 F.2d 341 (8th Cir. 1979), the court held that although automatic teller machines were "branches" under the McFadden Act, national banks could lawfully use such machines because the relevant state law permitted state banks to use automated tellers when such authority was granted to "federally chartered financial institutions" which included federal savings and loan associations and federal credit unions. Finally, in *State of Washington* v. *Heimann, et al.*, and *Community Banks of Washington* v. *Heimann, et al.*, Civil Action Nos. C-79-141 and C-79-142 (consolidated) (W.D. Wash.), *appeal pending*, the Comptroller's approval of applications by several national banks to acquire branches owned by each other was upheld under a state law which permitted branching through acquiring existing banks or branches. The case also involved allegations of antitrust law violations. In this connection, the automatic stay provision of the Bank Merger Act, 12 USC 1828(c)(7)(A), was held inapplicable to private antitrust actions.

The incidental powers of national banks received a restrictive interpretation from the U.S. Court of Appeals for the Ninth Circuit in *N.R.C.A.* v. *Valley National Bank*, 604 F.2d 32 (9th Cir. 1979). That decision affirmed the finding of the trial court that data processing services offered by a national bank to retailers, which included generation of reports from retail sales data provided by the retailer solely for the purpose of obtaining such services, was beyond the incidental powers of national banks under 12 USC 24. Both courts reasoned that a service is properly "incidental" only when it is offered or performed in connection with the exercise of an express power. Thus, it was said, since the retail reports at issue were not generated due to some need arising from the offering of an "express power" service, such as supporting accounts receivable financing or working capital loans, the services were not properly "incidental." The Comptroller's Office believes the decision is incorrect because 12 USC 24 has no express or implied requirement that banks restrict their business to "express power" services. Moreover, a compelled tie between the offering of data processing services and other banking services would contravene the policy of the anti-tying statutes, 12 USC 1972 *et seq.* Supreme Court review of this case was not sought because of its procedural status.

The confidentiality of the reports of examination prepared by the Office received contrasting treatment. In *Gunter* v. *Comptroller of the Currency*, Civil No. C78-792 A, the U.S. District Court for the Northern District of Georgia held that such reports are exempt from mandatory disclosure under the Freedom of Information Act and that under 12 CFR 4.19 the Comptroller retains discretion over whether to authorize release. However, another court held that when the Comptroller is a party to a proceeding involving a closed bank, production of entire reports would be compelled over a claim of privilege by OCC, provided there is a sufficient showing of need by the party seeking discovery. *In Re Franklin National Bank Securities Litigation*, 478 F.Supp. 577 (E.D. N.Y. 1979). The latter decision may be criticized on several grounds, including its failure to recognize a distinction between matters of fact and opinion, its failure to address the need of financial regulatory agencies to assure regulated banks that the information they provide will remain confidential and its potential to deter the candid expression of opinions by national bank examiners.

Finally, an action seeking judicial review of guidelines for enforcement of the Truth-in-Lending Act and Regulation Z was dismissed for lack of ripeness because the financial regulatory agencies had not implemented the guidelines through specific enforcement proceedings. *American Bankers Association* v. *Board of Governors of the Federal Reserve System, et al.*, Civil Action No. 79-2066 (D. D.C., January 29, 1980).

### Securities Disclosure Division

Approximately 340 national banks have a class of securities registered with the Comptroller under the Securities Exchange Act of 1934. The principal function of the Securities Disclosure Division is to review registration statements, annual and special meeting proxy materials, periodic reports, statements of ownership and materials required to be filed in connection with tender offers and election contests for those banks. Reports of beneficial ownership and changes in beneficial ownership are recorded, and a public file of the 1934 act filings is maintained.

During 1979, the division proposed and adopted amendments to 12 CFR 11, "Securities Exchange Act Rules," concerning proxy material disclosure and beneficial ownership of securities. The amendments were designed to make the Comptroller's regulations under the 1934 act substantially similar to rules of the Securities and Exchange Commission (SEC).

Seven regional conferences were presented in Cleveland, Chicago, Atlanta, Richmond, New York, Dallas and Hershey, Pa., primarily for the benefit of national banks having a class of securities registered with the Comptroller under the 1934 act. The conferences were designed to assist banks in complying with the reporting requirements of the act and to inform them of proposed changes in 12 CFR 11 and various SEC regulations which will affect banks. The conferences also focused on recent amendments to, and the process of compliance with, the requirements of the Comptroller's "Securities Offering Disclosure Rules," 12 CFR 16, which applies to the offering and sale of securities by national banks; "Recordkeeping and Confirmation Requirements for Securities Transactions," 12 CFR 12; and "Change in Bank Control," 12 CFR 15.

The division assisted the Trust Operations Division by participating in a seminar for trust examiners and by advising on amendments to 12 CFR 9, "Fiduciary Powers of National Banks and Collective Investment Funds," relating to variable amount master notes, securities handling procedures and use by trust departments of material inside information available to the bank as a result of its commercial banking activities. The division also participated in drafting 12 CFR 12 in response to recommendations in the SEC report on bank securities activities. This regulation addresses recordkeeping and confirmation requirements for national banks engaged in the purchase or sale of securities on order of a customer.

The division suspended trading in stock of two national banks pending public dissemination of information which might affect the market activity in, and the prices of, the banks' stocks. The division assisted the SEC in several enforcement actions against national banks and, in some instances, their parent holding companies alleging violations of the federal securities laws. The division also participated in numerous meetings and discussions with the SEC on such matters as access to, and disclosure of, information contained in bank examination reports, activities of trust departments and the 1934 act filings of bank holding companies which are parents of national banks.

Working closely with the Investment Securities Division, the division completed the first private investigation by the Comptroller's Office of the activities of a registered bank municipal securities dealer under the 1934 act. An administrative action was initiated against the bank and persons who had acted in the capacities of municipal representatives and municipal principals. Generally, the Office alleged that the bank and the persons engaged in unsafe and unsound banking practices and committed violations of the antifraud provisions of the federal securities laws in connection with adjusted price trades of municipal, U.S. government and government agency securities. Further, it was alleged that the bank and the associated persons failed to reasonably supervise its employees and violated numerous rules of the Municipal Securities Rulemaking Board. In this connection, the division filed a motion for public hearing and public proceedings under 12 CFR 19, asserting that it would be in the public interest. Settlement negotiations with the respondents were proceeding at year-end.

The division has been primarily responsible for the review and approval of compensation and incentive compensation plans filed under 12 CFR 13 since November 1979. Approximately 35 such plans have been filed by national banks, and numerous requests for information and sample plans have been received. The division also assisted the Bank Organization and Structure Division's capital increase task force in developing an information manual and a policy statement pertaining to all forms of compensation plans for insiders and shareholders of national banks.

The division was also responsible for reviewing subordinated debt instruments issued under 12 CFR 14.5 by national banks as a means of financing their operations. Authorization to proceed with the issuance of subordinated debt instruments was given upon satisfactory compliance by the issuer with the policy requirements of the Comptroller for the form and content of the instruments.

In the administration of 12 CFR 16, the division processed approximately 120 offering circulars filed by national banks in connection with the public offering and sale of their equity or debt securities. In addition, the division responded to numerous submissions under the exemptive provisions of the regulation. Regional counsels have been assisted by the division in reviewing offering circulars of organizing national banks.

A comprehensive, review of 12 CFR 16 was undertaken by the division in 1979. Based on staff experience interpreting the requirements of Part 16 and the suggestions of bankers and other professionals, the division proposed substantial revisions in the regulation. The amendments proposed to incorporate the definition of "beneficial ownership" set forth in 12 CFR 11; to exempt securities offerings made in connection with any reorganization, merger, consolidation or acquisition of assets from the offering circular requirements; to eliminate entirely the exemption for certain small offerings; and to permit a substantially abbreviated offering circular for certain other offerings. Following receipt of comments from interested members of the public, the division prepared Part 16 in final form for publication.

During 1979, the division was designated as legal counsel to the Bank Organization and Structure Division (BOSD) for matters requiring interpretation of the Change in Bank Control Act of 1978 (12 USC 1817(j)) and 12 CFR 15 promulgated thereunder. In this assignment, the division worked closely with BOSD in the resolution of various legal and administrative questions arising under this act. In addition, the division reviewed and developed revisions of existing regulations implementing the act.

### Legislative Counsel Division

The principal responsibilities of the Legislative Counsel Division relate to the legal aspects of legislation. The subject matter covers virtually every area of the Office's jurisdiction and almost every legislative measure of interest to national banks. In addition, the division deals with matters of intergovernmental and operational interest. In connection with those general responsibilities, the division maintains such information as status of bills, hearings and reports on bills, press information and primary legislative documents and files on pertinent laws passed in the current and immediately preceding Congresses.

Division attorneys prepare testimony given before congressional committees and letters of comment on pending bills sent to members of Congress and congressional committees. The attorneys draft legislation and write memoranda and briefing papers on various legislative proposals and congressional oversight. Division attorneys are in frequent contact with members of Congress and their staffs, personnel in the Department of the Treasury, Office of Management and Budget and other federal and state agencies, Office staff in the regions and in Washington, and public representatives desiring information on banking legislation. They also attend congressional hearings and participate in meetings with the Treasury Department and other agencies to consult on, and keep abreast of, legislation. In addition, division attorneys speak to various groups, including bar associations, bank auditors, foreign bankers and Office staff on legal and legislative matters.

The following are legislative activities of the first session of the 96th Congress (1979) which were significant for the Comptroller's Office:

- *Right to Financial Privacy Act Amendment* (P.L. 96-3; March 7, 1979) — Repealed a provision of Title XI of the Financial Institutions Regulatory and Interest Rate Control Act of 1978 that had been scheduled to become effective March 10, 1979. That section would have required financial institutions to notify all customers—including inactive and dormant account holders—of certain rights, contrary to congressional intent to require notice only to current customers.
- *Ethics in Government Act Amendment* (P.L. 96-28; June 22, 1979) — Clarified the post-employment conflict of interest provisions of Title V of the Ethics in Government Act of 1978. The 1978 law prohibited certain high-ranking employees, including those in positions listed in the executive schedule and others designated by the Office of Government Ethics, from aiding or assisting in matters which had been pending under the employee's official responsibility during his or her last year in government service for a 2-year period. The 1979 amendment makes clear that the ban on aiding and assisting applies only to an individual's physical presence at a formal or informal appearance. Furthermore, the subject involved must be a particular matter in which the individual participated "personally and substantially."

The 1978 act also prohibited certain former high-ranking government employees from representing anyone in a formal or informal appearance, or making any oral or written communications with the intent to influence for a period of 1 year, in connection with a matter pending before the former employee's agency or in which the agency had a direct or substantial interest. The 1979 amendment bars the Director of the Office of Government Ethics from designating federal employees below GS-17 as subject to that restriction. The amendment also exempts from the "no contact" provisions service with the following public or nonprofit institutions or organizations: (1) state and local governments and their agencies and instrumentalities, (2) accredited, degree-granting institutions of higher education and (3) hospitals and medical research organizations.

Violations of the provisions of the act may be punished by a fine of up to $10,000 or imprisonment for up to 2 years, or both. The employment restrictions, as amended, went into effect on July 1, 1979.

- *Federal Trade Commission Act Amendment* (P.L. 96-37; July 23, 1979) — Terminated the jurisdictional authority of the Federal Trade Commission (FTC) over savings and loan associations and established separate rulemaking authority in the Federal Home Loan Bank Board (FHLBB) to regulate deceptive acts or practices by those institutions. This law exempted savings and loan associations from the FTC's cease and desist authority and investigative authority to the same extent that banks were already exempted. The FHLBB was given regulatory authority over savings and loan institutions substantially identical to that previously conferred on the Federal Reserve Board for banks. The law also mandates the FHLBB to establish a division of consumer affairs to resolve complaints and to enforce trade practice regulations as to savings and loan associations.
- *International Banking Act Amendment* (P.L. 96-64; September 14, 1979) — Extended the time for foreign banks to obtain required deposit insurance for existing branches in the United States. The amendment extended the deadline from September 17, 1979, to January 1, 1980, allowing the Federal Deposit Insurance Corporation to complete examinations of foreign branches which had applied for deposit insurance pursuant to the requirements of the International Banking Act of 1978.
- *Temporary Usury Preemption* (P.L. 96-104; November 5, 1979) — Temporarily preempted state usury lending limits on business or agricultural loans of over $25,000 made by financial institutions in states with constitutional provisions invalidating contracts for a higher interest rate than 10 percent. The law authorized business or agricultural loans for $25,000 or more at an interest rate of up to 5 percent over the Federal Reserve discount rate on 90-day commercial paper. The preemption was to expire on July 1, 1981, or earlier if a state's voters rejected the federal preemption in 1980.
- *Transaction Accounts, Temporary Usury Preemption and New Jersey NOW Accounts* (P.L. 96-161; December 28, 1979) — Provided a temporary extension of authority through March 31, 1980, for the automatic transfer of funds from savings accounts in commercial banks, the establishment of remote service units by savings and loan associations and the use of share drafts by credit unions.

The law temporarily overrode usury ceilings for any loan, mortgage or advance secured by a first lien on residential real property or by a first lien on stock in a residential cooperative housing corporation where the loan was used to acquire such stock. This federal preemption of mortgage usury ceilings was to be effective through March 31, 1980, and was to apply to any loan closed prior to December 29, 1981, if a commitment was made during the preemption period. A state could impose or restore usury limits during the preemption period.

The law also overrode state usury limits affecting bank obligations, including deposit accounts. It temporarily overrode such limitations on business or agricultural loans of $25,000 or more by permitting interest rates on such loans of up to 5 percent over the Federal Reserve's discount rate on 90-day commercial paper. In states with statutory usury ceilings, the latter preemption was to be effective until July 1, 1980. In states with constitutional usury limitations, the preemption was to be effective until July 1, 1981. A state could impose or restore usury limits during the preemption period, either by statute or by voter approval of a constitutional provision. The law repealed P.L. 96-104, which had earlier preempted usury ceilings in certain states on business or agricultural loans in excess of $25,000.

The law also provided permanent NOW account authority to depository institutions in New Jersey.

### Legal Advisory Services Division

The Legal Advisory Services Division provides general legal advice in oral and written form and produces interpretations and rulings concerning all federal and applicable state laws and regulations that affect national banks or the Comptroller's Office. Inquiries come from supervisory and examining personnel in the Comptroller's Washington Office and in the field; from bankers and bank counsels; from congressmen; from members of other executive departments and agencies, trade organizations and consumer groups; and from others with a particular interest or problem which involves a national bank. The division frequently sends representatives to meetings with other federal authorities to discuss topics and develop programs of mutual interest.

During 1979, the division participated in drafting a number of proposed and final rulings and regulations published in the *Federal Register*. Interpretive rulings adopted in final form covered such topics as the legal lending limit on loans to foreign governments and their related entities (12 CFR 7.1330, 44 *Federal Register* 22712), requirements for personal property leasing by national banks (12 CFR 7.3400, 44 *Federal Register* 22388), accounting methods pertaining to other real estate owned by national banks (12 CFR 7.3025, 44 *Federal Register* 46428), bank service corporations (12 CFR 7.7390, 44 *Federal Register* 23812) and loans secured by real estate (12 CFR 7.2010, 7.2015, 7.2040, 7.2400, 44 *Federal Register* 51795). Final regulations adopted in 1979 related to the Change in Bank Control Act (12 CFR 15, 44 *Federal Register* 7119), management official interlocks (12 CFR 26, 44 *Federal Register* 42152), federal branches and agencies of foreign banks (12 CFR 28, 44 *Federal Register* 65381), establishment of a fair housing home loan data system (12 CFR 27, 44 *Federal Register* 63084), and implementation of the civil money penalty provisions and broadened cease-and-desist powers conferred on the Comptroller's Office by Titles I and VIII of the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (FIRA) (12 CFR 19, 44 *Federal Register* 19374). Attorneys in the division also spent considerable time assisting the Federal Reserve Board staff in drafting the final version of Regulation O (12 CFR 215) and answering related inquiries on duties and limitations imposed on national banks and their directors, officers and 10-percent shareholders by Titles I, VIII and IX of FIRA.

In addition to interpretive rulings and regulations published in the *Federal Register*, significant letter rulings issued by the division are released monthly and published by various loose-leaf reporting services. There was an increase in 1979 in questions about usury because of the dramatic rise in interest rates and the growing use of the federal alternative rate in 12 USC 85. Other major areas of concern included bank mergers and dissenting shareholders' rights, incidental banking powers issues under 12 USC 24(7), conflicts between federal and various state laws as applied to national banks, consumer protection and civil rights laws and programs, Regulation Q and Glass-Steagall Act questions.

Division attorneys worked on a number of assignments for the Federal Financial Institutions Examination Council since the Comptroller's Chief Counsel is Chairman of the council's Legal Advisory Group. Attorneys also worked on various contracts and leases for the Comptroller's Office, including data processing, audit and construction contracts and real estate leases. Processing Freedom of Information Act requests and applications by national banks to establish charitable trusts continued to consume a significant amount of time. A number of special projects were undertaken by members of the division; they included a legal study of McFadden Act branching reform alternatives and a description of the legal environment surrounding the foreign acquisition of U.S. banks. Two staff members served as special assistants to the Chief Counsel for a 6-month period.

The division's paralegal unit functions primarily to handle complaints received from consumers, congressional offices and consumer groups. Those inquiries relate to a wide range of topics such as credit denials, national banks' fiduciary duties, billing disputes and interest rates on loans. The paralegal unit received 4,498 consumer inquiries during 1979. The unit resolved 1,042 complaints and referred most of the others to the Comptroller's regional offices for response. A few referrals were made to other regulatory authorities. Some 320 assignments were pending at the end of 1979.

### Enforcement and Compliance Division

During 1979, the Enforcement and Compliance Division with the assistance of other Washington and regional personnel developed procedures to implement the additional enforcement powers conferred by the Financial Institutions Regulatory and Interest Rate Control Act of 1978. Procedures were established for reviewing and assessing civil money penalties against national banks and associated individuals for violating banking laws and cease and desist orders.

The division participated in investigations leading to dismissals of bank officials, referred potential violations of law to prosecuting and investigating agencies, prosecuted a formal removal action against a bank official and initiated other administrative remedies, including civil money penalty assessments. During 1979, the division concluded two civil money penalty assessments, 67 formal administrative actions authorized by 12 USC 1818 and 24 memoranda of understanding. The total of 93 formal and informal administrative actions represented an increase of 22 percent over the preceding year. Each action is summarized in Appendix C.

The division continued its practice of rendering advice and assistance to investigatory agencies, U.S. attorneys and the Department of Justice on bank fraud and related matters. During 1979, division personnel rendered direct trial assistance in eight bank fraud prosecutions brought by U.S. attorneys.

The division also conducted three seminars on fraud detection and prevention for senior national bank examiners and representatives of other regulatory agencies. Division personnel also participated in various programs throughout the United States dealing with the investigation and prosecution of bank fraud.

During 1979, the division frequently assisted the Special Projects Division and regional personnel in determining the appropriate remedial and administrative actions for national banks requiring special supervisory attention.

# X. Financial Operations of the Office of the Comptroller of the Currency

Total revenue of the Office of the Comptroller of the Currency for 1979 was $104.4 million, an increase of 9 percent over 1978, which compares to a 9 percent increase the previous year. Assessment receipts, which account for 91 percent of total revenue, amounted to $94.6 million, an increase of $6.6 million, due principally to an increase in national bank assets. Revenue from trust examinations totaled $3 million. Revenue from applications for new branches declined by $30,000. Revenue from conversion investigation increased by $342,000. Fees for mergers and consolidations increased by $142,000. Revenue from bank examination reports declined by $104,000. Interest earned on investments increased by $1.4 million, an increase of 43 percent; this increase was due mainly to the higher interest rates earned on Treasury bills. Revenue from sale of publications increased $105,000.

Total expenses amounted to $101.3 million in 1979 compared to $92.7 million in 1978, a 9.3 percent increase over 1978.

Salaries, personnel benefits and travel expenses amounted to $83.3 million, or 83 percent of total expenses for the year. Those three expenses amounted to $78.4 million in 1978, or 84.5 percent of total expenses. Salary and benefit expense increased by $5 million, or 7.5 percent from 1978. Travel expenses totaled $12.1 million, an increase of $500,000 over 1978.

The remaining expenses totaled $17.5 million, an increase of $3.1 million from the previous year. The most significant changes occurred in rent, which increased $818,000, education and career development, which increased $839,000, and data processing, which increased $410,000.

The equity account is in reality a reserve for contingencies. Financial operations in 1979 increased that reserve by the $3 million excess of revenue over expenses to $36.5 million at year-end. That represents a 4-month reserve for operating expenses, based on the level of expenses during the last 3 months of 1979. The equity account has been administratively restricted in the amount of $2,829,000, as explained in the note to the financial statements.

## Table 12

*Comptroller of the Currency*
*balance sheets*

| | December 31 1979 | December 31 1978 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash | $ 1,098,624 | $ 169,908 |
| Obligations of U.S. government (Note 2) | 25,188,101 | 17,977,313 |
| Accrued interest on investments | 327,715 | 326,288 |
| Accounts receivable | 1,013,022 | 494,969 |
| Travel advances | 1,096,608 | 894,855 |
| Prepaid expenses and other assets | 140,389 | 53,286 |
| Total current assets | 28,864,459 | 19,916,619 |
| Long-term obligations of U.S. government (Note 2) | 15,142,831 | 18,171,757 |
| Fixed assets and leasehold improvements (Note 2): | | |
| Furniture, equipment and software | 5,521,573 | 5,059,843 |
| Leasehold improvements | 5,778,033 | 5,144,674 |
| | 11,299,606 | 10,204,517 |
| Less accumulated depreciation and amortization | 3,537,942 | 2,726,271 |
| | 7,761,664 | 7,478,246 |
| Total assets | $51,768,954 | $45,566,622 |
| **LIABILITIES AND COMPTROLLER'S EQUITY** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 3,993,081 | $ 1,716,150 |
| Accrued travel and salaries | 3,822,118 | 3,281,767 |
| Total current liabilities | 7,815,199 | 4,997,917 |
| Long-term liabilities: | | |
| Accumulated annual leave | 4,758,576 | 4,425,810 |
| Closed Receivership Funds (Note 3) | 2,706,279 | 2,706,051 |
| Total liabilities | 15,280,054 | 12,129,778 |
| Comptroller's equity: | | |
| Administratively restricted (Note 3) | 2,829,000 | 2,670,000 |
| Unrestricted | 33,659,900 | 30,766,844 |
| | 36,488,900 | 33,436,844 |
| Commitments and contingencies (Notes 4 and 5): | | |
| Total liabilities and Comptroller's equity | $51,768,954 | $45,566,622 |

See notes at end of tables.

## Table 13

*Comptroller of the Currency*
*statements of revenues, expenses and Comptroller's equity*

| | Year ended December 31 1979 | 1978 |
|---|---|---|
| Revenues (Note 1): | | |
| Semiannual assessments | $ 94,606,960 | $ 87,993,876 |
| Examinations and investigations | 4,629,902 | 4,045,553 |
| Investment income | 4,810,307 | 3,361,575 |
| Publication sales | 240,003 | 134,940 |
| Other | 96,440 | 188,958 |
| | 104,383,612 | 95,724,902 |
| Expenses: | | |
| Salaries | 65,586,363 | 60,893,478 |
| Retirement and other employee benefits (Note 4) | 6,122,668 | 5,807,972 |
| Travel and per diem | 12,140,430 | 11,650,723 |
| Rent and maintenance (Note 4) | 5,093,697 | 4,274,810 |
| Communications | 1,505,468 | 1,547,045 |
| Moving and shipping | 1,354,171 | 991,625 |
| Employee education and training | 2,932,400 | 2,093,678 |
| Data processing | 2,168,247 | 1,758,138 |
| Printing, reproduction and subscriptions | 1,057,156 | 1,062,180 |
| Office machine repairs and rentals | 612,138 | 536,057 |
| Depreciation and amortization | 829,105 | 800,675 |
| Supplies | 794,932 | 377,329 |
| Consulting services | 389,298 | 236,811 |
| Conferences | 161,737 | 138,086 |
| Remodeling | 236,410 | 339,585 |
| Other | 347,336 | 215,616 |
| | 101,331,556 | 92,723,808 |
| Excess of revenue over expenses | 3,052,056 | 3,001,094 |
| Comptroller's equity at beginning of year | 33,436,844 | 30,435,750 |
| Comptroller's equity at end of year | $ 36,488,900 | $ 33,436,844 |

See notes at end of tables.

Table 14

*Comptroller of the Currency*
*statements of changes in financial position*

| | Year ended December 31 1979 | 1978 |
|---|---|---|
| Financial resources were provided by: | | |
| Excess of revenues over expenses | $3,052,056 | $3,001,094 |
| Charges not affecting working capital in the period: | | |
| Additions to accumulated annual leave | 890,548 | 1,153,788 |
| Depreciation and amortization | 829,105 | 800,675 |
| Amortization of premium and discount on long-term U.S. government obligations, net | 30,020 | 29,198 |
| Net (gain) loss on sale of fixed assets | (628) | 1,249 |
| Working capital provided by operations for the period | 4,801,101 | 4,986,004 |
| Long-term U.S. government obligations transferred to current assets | 2,998,906 | — |
| Proceeds from sale of fixed assets | 5,106 | 8,047 |
| Net closed receivership fund receipts | 228 | 335 |
| Total | 7,805,341 | 4,994,386 |
| Financial resources were used for: | | |
| Purchase of long-term investments | — | 210,000 |
| Purchase of fixed assets | 1,117,001 | 630,165 |
| Payment of accrued leave | 557,782 | 532,717 |
| Total | 1,674,783 | 1,372,882 |
| Increase in working capital | $6,130,558 | $3,621,504 |

**Analysis of Changes in Working Capital**

| | 1979 | 1978 |
|---|---|---|
| Increase (decrease) in current assets: | | |
| Cash | $ 928,716 | $(1,266,784) |
| Obligations of U.S. government | 7,210,788 | 4,641,281 |
| Accrued interest on investments | 1,427 | (18,186) |
| Accounts receivable | 518,053 | (231,824) |
| Travel advances | 201,753 | 169,219 |
| Prepaid expenses and other assets | 87,103 | (260,523) |
| | 8,947,840 | 3,033,183 |
| (Increase) decrease in current liabilities: | | |
| Accounts payable and accrued expenses | (2,276,931) | 85,207 |
| Accrued travel and salaries | (540,351) | 503,114 |
| | (2,817,282) | 588,321 |
| Increase in working capital | $6,130,558 | $3,621,504 |

See notes on next page.

# Notes to Financial Statements
# December 31, 1979 and 1978

*Note 1—Organization*

The Comptroller of the Currency (Comptroller's Office) was created by an Act of Congress for the purpose of establishing and regulating a national banking system. The National Currency Act of 1863, rewritten and re-enacted as the National Banking Act of 1864, created the Comptroller's Office and provided for its supervisory functions and the chartering of banks.

No funds derived from taxes or federal appropriations are allocated to or used by the Comptroller's Office in any of its operations. The revenue of the Comptroller's Office is derived principally from assessments and fees paid by the national banks and interest on investments in U.S. government obligations. Assessments paid by national banks are not construed to be government funds. The Comptroller's Office is exempt from federal income taxes.

*Note 2—Significant Accounting Policies*

The accounting policies of the Comptroller of the Currency conform to generally accepted accounting principles. The financial statements are prepared on the accrual basis of accounting.

Obligations of the U.S. government are valued at amortized cost. For the current portion of obligations of the U.S. government, this approximates market value. The market value of the long-term U.S. government obligations owned at December 31, 1979 and 1978, was $13,613,000 and $16,656,000, respectively. It is the intention of the Comptroller's Office to hold these securities until their maturity, which ranges from 1980 through 1984. Therefore, no valuation reserve has been provided for in either 1979 or 1978. Premiums and discounts on investments in U.S. government obligations are amortized ratably over the terms of the obligations.

Furniture, equipment and software are depreciated on a straight-line basis over the estimated useful lives of the assets, which range from 5 to 10 years. Leasehold improvements are amortized over the terms of the related leases (including renewal options) or the estimated useful lives, whichever is shorter. Expenditures for maintenance and repairs are charged to earnings as incurred. Significant renovations of assets are capitalized.

*Note 3—Closed Receivership Funds*

Prior to the assumption of closed national bank receivership functions by the Federal Deposit Insurance Corporation in 1936, the Comptroller of the Currency appointed individual receivers for all closed national banks. After settling the affairs of the closed banks and issuing final distributions to the creditors of the banks (principally depositors), the receivers transferred to the custody of the Comptroller's Office all remaining funds which represented distributions which were undeliverable or had not been presented for payment. Closed Receivership Funds in the accompanying balance sheets represent the potential claims for such funds by the original creditors of the receiverships. Since inception of the receivership function, unclaimed funds have been invested in U.S. government securities. The income from investments has been applied as an offset to expenses incurred by the Comptroller's Office in performing this function and accordingly has been recorded as revenue in the statements of revenues, expenses and Comptroller's equity. Through December 31, 1979, income has exceeded direct expenses by approximately $2,829,000 (including $159,000 in 1979 and 1978), which excess amount is included in the Comptroller's equity. An analysis of allocable indirect expenses has not been made.

As a part of the Depository Institutions Deregulation and Monetary Control Act of 1980 enacted March 31, 1980, the procedure for terminating the Closed Receivership Funds was established. Any unclaimed assets remaining after application of this procedure will revert to the general funds of the Comptroller.

*Note 4—Commitments*

The Comptroller's Office occupies office space in Washington, D.C., under a lease agreement which provided for an initial 5-year term with five consecutive 5-year renewal options. During 1978, the first of these options, expiring in 1984, was exercised. However, renewed rental rates have not been agreed upon and the parties-in-interest are in the process of negotiating a final settlement. In addition, regional and sub-regional offices lease space under agreements which expire at various dates through 1992. Minimum rental commitments under leases in effect at December 31, 1979, are as follows:

| | |
|---|---|
| 1980 | $ 5,265,000 |
| 1981 | 5,046,000 |
| 1982 | 4,608,000 |
| 1983 | 4,391,000 |
| 1984 | 2,325,000 |
| 1985 and after | 2,338,000 |
| | $23,973,000 |

Certain of the leases provide that annual rentals may be adjusted to provide for increases in taxes and other related expenses.

Total rental expense under operating leases was $4,745,634 and $3,913,700 for the years ended December 31, 1979 and 1978, respectively.

The Comptroller's Office contributes to the Civil Service retirement plan for the benefit of all its eligible employees. Contributions aggregated $4,472,000 and $4,133,000 in 1979 and 1978, respectively. The plan is participatory, with 7 percent of salary being contributed by each party.

The accompanying balance sheets include a liability for annual leave, accumulated within specified limits, which if not taken by employees prior to retirement is paid at that date.

*Note 5—Contingencies*

Various banks in the District of Columbia have deposited securities with the Comptroller's Office as collateral for those banks entering into and administering trust activities. These securities, having a par or stated value of $13,993,000, are not assets of the Comptroller's Office and accordingly are not included in the accompanying financial statements.

The Comptroller's Office is a defendant, together with other bank supervisory agencies and other persons, in litigation generally related to the closing of certain national banks. In the opinion of the Comptroller's legal staff, the Comptroller's Office will be able to defend successfully against these complaints, and no liability is expected to result therefrom.

During 1979, the Office of Personnel Management (OPM) submitted an order directing the Comptroller's Office to pay back wages, representing uncompensated overtime, due under the Fair Labor Standards Act (FLSA) to certain examiners in the Eleventh National Bank Region. The Comptroller's Office believes the order was based on erroneous interpretation and application of FLSA standards pertaining to, *inter alia,* the exempt status of certain examiners and travel time regulations. While the Comptroller's Office concedes that a liability exists in the Eleventh National Bank Region (and perhaps the other regions), the amount of this liability cannot reliably be estimated at this time. Moreover, it is uncertain whether such liability will be payable from funds of the Comptroller's Office or from funds appropriated by Congress for claims against the United States. Liability, if any, resulting from this action is not expected to have a material effect on the financial position or operations of the Comptroller's Office.

## OPINION OF INDEPENDENT ACCOUNTANT

To the Comptroller of the Currency

In our opinion, the accompanying balance sheets, the related statements of revenues, expenses and Comptroller's equity and of changes in financial position present fairly the financial position of the Comptroller of the Currency at December 31, 1979 and 1978, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, including confirmation of securities owned at December 31, 1979 and 1978, by correspondence with the custodians.

Price Waterhouse & Co.

Washington, D.C.
April 11, 1980

# APPENDIX A

# Merger Decisions, 1979

# Merger Decisions, 1979

## *I. Mergers consummated, involving two or more operating banks*

The First National Bank of Gallipolis, Gallipolis, Ohio — *Page*
Merger . . . . . . . . 111

Oct. 15, 1979:
The Merchants National Bank of Fort Smith, Fort Smith, Ark.
Continental Bank and Trust Company, Barling, Ark.
Merger . . . . . . . . 112

Oct. 31, 1979:
The First National Bank in Sioux Falls, Sioux Falls, S. Dak.
Dakota State Bank of Dell Rapids, Dell Rapids, S. Dak.
Purchase . . . . . . . . 113

Oct. 31, 1979:
Mid-American National Bank and Trust Company, Northwood, Ohio
Farmers and Merchants Bank Company, Arlington, Ohio
Merger . . . . . . . . 113

Nov. 1, 1979:
The First National Bank of Maryland, Baltimore, Md.
The National Bank of Perryville, Perryville, Md.
Merger . . . . . . . . 114

Nov. 9, 1979:
Central Fidelity Bank, N.A., Richmond, Va.
City Savings Bank and Trust Company, Petersburg, Va.
The Citizens National Bank of Emporia, Emporia, Va.
Merger . . . . . . . . 115

Nov. 23, 1979:
The First National Bank in Bryan, Bryan, Ohio
The Farmers State Bank of Stryker, Stryker, Ohio
Merger . . . . . . . . 116

Nov. 30, 1979:
Century First National Bank in St. Petersburg, St. Petersburg, Fla.
Century Bank of Pinellas County, St. Petersburg, Fla.
Merger . . . . . . . . 117

Nov. 30, 1979:
First & Merchants National Bank, Richmond, Va.
The Services National Bank, Arlington, Va.
Merger . . . . . . . . 117

Nov. 30, 1979:
Indian Head National Bank of Nashua, Nashua, N.H.
Indian Head National Bank of Derry, Derry, N.H.
Merger . . . . . . . . 118

Nov. 30, 1979:
The National Bank and Trust Company of Gloucester County, Woodbury, N.J.
The National Bank of Manuta, Sewell, N.J.
Merger . . . . . . . . 119

Dec. 1, 1979:
The Lake County National Bank of Painesville, Painesville, Ohio
The Commercial Bank, Ashtabula, Ohio
Merger . . . . . . . . 120

Dec. 1, 1979:
The New Farmers National Bank of Glasgow, Glasgow, Ky.
The Peoples Bank, Cave City, Ky.
Merger . . . . . . . . 121

Dec. 1, 1979:
Sun First National Bank of Lake Wales, Lake Wales, Fla.
Sun First National Bank of Polk County, Auburndale, Fla. — *Page*
Merger . . . . . . . . 122

Dec. 3, 1979:
National Central Bank, Lancaster, Pa.
Lebanon County Trust Company, Lebanon, Pa.
Merger . . . . . . . . 123

Dec. 3, 1979:
North Carolina National Bank, Charlotte, N.C.
The Bank of Asheville, Asheville, N.C.
Merger . . . . . . . . 124

Dec. 7, 1979:
American National Bank and Trust Company of Chicago, Chicago, Ill.
Mercantile National Bank of Chicago, Chicago, Ill.
Purchase . . . . . . . . 125

Dec. 14, 1979:
Northwestern National Bank of Sioux Falls, Sioux Falls, S. Dak.
Springfield State Bank, Springfield, S. Dak.
Merger . . . . . . . . 126

Dec. 28, 1979:
First National Bank of Catawba County, Hickory, N.C.
Western Carolina Bank and Trust Company, Asheville, N.C.
Purchase . . . . . . . . 127

Dec. 28, 1979:
The Oneida National Bank and Trust Company of Central New York, Utica, N.Y.
The Little Falls National Bank, Little Falls, N.Y.
Merger . . . . . . . . 128

Dec. 31, 1979:
Deposit Guaranty National Bank, Jackson, Miss.
Bank of Inverness, Inverness, Miss.
Merger . . . . . . . . 129

Dec. 31, 1979:
The Huntington National Bank of Columbus, Columbus, Ohio
The Huntington Bank of Toledo, Toledo, Ohio
The Huntington Portage National Bank of Kent, Kent, Ohio
The Huntington First National Bank of Lima, Lima, Ohio
The Huntington Bank of Wood County, Bowling Green, Ohio
The Huntington First National Bank of Medina County, Wadsworth, Ohio
The Huntington Lagonda National Bank of Springfield, Springfield, Ohio
The Huntington Bank of Chillicothe, Chillicothe, Ohio
The Huntington First National Bank of Kenton, Kenton, Ohio
The Huntington Bank of Washington Court House, Washington Court House, Ohio
The Huntington National Bank of Bellefontaine, Bellefontaine, Ohio
The Huntington National Bank of Franklin, Franklin, Ohio
The Huntington Bank of Woodville, Woodville, Ohio
The Huntington Bank of Ashland, Ashland, Ohio
The Huntington National Bank of London, London, Ohio
The Huntington National Bank, Columbus, Ohio
Merger . . . . . . . . 130

## *II. Mergers consummated, involving a single operating bank*

Jan. 2, 1979:
City National Bank, Fort Worth, Tex.
5600 Lancaster National Bank, Fort Worth, Tex.
Merger . . . . . . . . 131

Jan. 30, 1979:
National Lumberman's Bank and Trust Company, Muskegon, Mich.
NLB National Bank of Muskegon, Muskegon, Mich.
Merger . . . . . . . . 131

Feb. 9, 1979:
First Waco Bank, National Association, Waco, Tex.
The First National Bank of Waco, Waco, Tex.
Merger . . . . . . . . 132

Mar. 1, 1979:
The Lufkin National Bank, Lufkin, Tex.
New Lufkin National Bank, Lufkin, Tex.
Merger . . . . . . . . 133

Mar. 16, 1979:
National Bank of Commerce of Dallas, Dallas, Tex.
New National Bank of Commerce of Dallas, Dallas, Tex.
Merger . . . . . . . . 134

Mar. 29, 1979:
Gulf Bank, National Association, Houston, Tex.
Gulf Freeway National Bank, Houston, Tex.
Merger . . . . . . . . 134

BARNETT BANK OF JACKSONVILLE, NATIONAL ASSOCIATION,
Jacksonville, Fla., and Barnett Bank of Murray Hill, Jacksonville, Fla., and Barnett Bank of San Jose, Jacksonville, Fla., and Barnett Bank of Regency, Jacksonville, Fla., and Barnett Bank of North Jacksonville, Jacksonville, Fla.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| Barnett Bank of Murray Hill, Jacksonville, Fla., with | $ 67,274,000 | 3 | |
| and Barnett Bank of North Jacksonville, Jacksonville, Fla., with | 19,838,000 | 2 | |
| and Barnett Bank of Regency, Jacksonville, Fla., with | 32,885,000 | 3 | |
| and Barnett Bank of San Jose, Jacksonville, Fla., with | 40,663,000 | 3 | |
| and Barnett Bank of Jacksonville, National Association, Jacksonville, Fla. (9049), which had | 374,795,000 | 5 | |
| merged January 1, 1979, under charter and title of the latter bank (9049). The merged bank at date of merger had | 505,532,000 | | 16 |

## COMPTROLLER'S DECISION

Application has been made to the Office of the Comptroller of the Currency seeking prior permission to merge Barnett Bank of Murray Hill, Jacksonville, Fla., Barnett Bank of North Jacksonville, Jacksonville, Fla., Barnett Bank of Regency, Jacksonville, Fla., and Barnett Bank of San Jose, Jacksonville, Fla. (collectively, "Merging Banks"), into Barnett Bank of Jacksonville, National Association; Jacksonville, Fla. ("Charter Bank"), under the charter and title of Barnett Bank of "Jacksonville, National Association." The subject application rests on an agreement executed between the proponent banks and is incorporated herein by reference, the same as if fully set forth.

Charter Bank was granted National Banking Association charter number 9049 by this Office on March 2, 1908, and as of June 30, 1978, had total commercial bank deposits of $284.7 million.

Merging Banks were established *de novo* as state-chartered commercial banking institutions by their parent bank holding company, Barnett Banks of Florida, Inc., Jacksonville, Fla., a registered multibank holding company. As of June 30, 1978, Merging Banks had total deposits of approximately $138.6 million.

Inasmuch as all five of the proponent banks are wholly owned subsidiaries of the same bank holding company, there is no meaningful competition existent among them, nor is there any potential for increased future competition. The proposed merger essentially represents a corporate reorganization whereby Barnett Banks of Florida, Inc., is consolidating its commercial banking interests located within Duval County.

This application was filed prior to the November 6, 1978, effective date of the Comptroller's Community Reinvestment Act regulations, 12 CFR 25. However, pursuant to the Community Reinvestment Act, Public Law No. 95-128, available information relevant to the banks' records of meeting community credit needs was reviewed, revealing no evidence to suggest that the applicants are not meeting the credit needs of their community, including low and moderate income neighborhoods.

Accordingly, applying the statutory criteria, it is the conclusion of the Office of the Comptroller of the Currency that this application is not adverse to the public interest and should be, and hereby is, approved.

November 29, 1978

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are all wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

## BAY STATE NATIONAL BANK,
Lawrence, Mass., and Citizens Bank and Trust Company of Peabody, Peabody, Mass.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| Citizens Bank and Trust Company of Peabody, Peabody, Mass., with | $ 7,565,000 | 2 | ——— |
| and Bay State National Bank, Lawrence, Mass. (1014), which had | 115,058,000 | 10 | ——— |
| merged January 1, 1979, under charter and title of the latter bank (1014). The merged bank at date of merger had | 127,636,000 | ——— | 12 |

### COMPTROLLER'S DECISION

Pursuant to the statutory requirements of the Bank Merger Act (12 USC 1828(c)), an application has been filed with the Office of the Comptroller of the Currency that requires the prior written consent of this Office to the proposed merger of Citizens Bank and Trust Company of Peabody, Peabody, Mass. ("Merging Bank"), into Bay State National Bank, Lawrence, Mass. ("Charter Bank"). The subject application is based on an agreement executed between the proponent banks and is incorporated herein by reference, the same as if fully set forth.

Charter Bank is a commercial banking subsidiary of Massachusetts Bay Bancorp, Inc., Lawrence, Mass., a registered multibank holding company that on December 31, 1977, had consolidated deposits of $156.6 million. Charter Bank has operated under National Banking Association charter number 1014 since granted by this Office on May 15, 1865. As of December 31, 1977, Charter Bank had total deposits of slightly in excess of $106 million and operated 10 banking offices.

Merging Bank, a state-chartered commercial bank, at calendar year-end 1977, operated two banking offices and had total deposits of almost $6 million.

The proponent banks are represented in Essex County, north of Boston. The closest offices of Charter Bank and Merging Bank are approximately 10 miles apart, and the main offices of the proponents are about 18 miles apart. There are numerous offices of other commercial banks within the intervening area, and neither of the participating banks appears to obtain any significant volume of loan and/or deposit business from areas served by the other. It is therefore concluded that approval of this application would result in no substantially adverse effect on competition.

Charter Bank should be in a position to expand and improve on existing banking services offered to Merging Bank's customers and introduce additional banking services into the Peabody area. Considerations relating to convenience and needs do not appear to be inconsistent with approval of the application.

The financial managerial resources of both of the proponents are generally satisfactory, and the future prospects of both banks should be favorably enhanced as a result of approval of the application.

This application was filed prior to the November 6, 1978, effective date of the Comptroller's Community Reinvestment Act regulations, 12 CFR 25. However, pursuant to the Community Reinvestment Act, Public Law No. 95-128, available information relevant to the bank's record of meeting its community credit needs was reviewed, revealing no evidence to suggest that the applicants are not meeting the credit needs of their community including low and moderate income neighborhoods.

Accordingly, applying the statutory criteria, it is the conclusion of this Office that the application is not adverse to the public interest and is approved.

November 30, 1978

### SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect upon competition.

* * *

FIDELITY AMERICAN BANK, NA,
Lynchburg, Va., and Fidelity American Bank, NA, Halifax, Halifax, Va., and Fidelity American Bank, NA, Roanoke Valley, Roanoke County, Va., and Fidelity American Bank, Chatham, Va., and Fidelity American Bank, Natural Bridge, Natural Bridge Station, Va., and Fidelity American Bank, Buena Vista, Buena Vista, Va.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Fidelity American Bank, Buena Vista, Buena Vista, Va., with | $ 8,773,000 | 2 | ——— |
| and Fidelity American Bank, Chatham, Va., with | 20,768,000 | 1 | ——— |
| and Fidelity American Bank, NA, Halifax, Halifax County, Va. (16313), with | 32,788,000 | 2 | ——— |
| and Fidelity American Bank, Natural Bridge, Natural Bridge Station, Va., with | 10,003,000 | 1 | ——— |
| and Fidelity American Bank, NA, Roanoke Valley, Roanoke County, Va. (16192), with | 21,415,000 | 4 | ——— |
| and Fidelity American Bank, NA, Lynchburg, Va. (1522), which had | 603,655,000 | 24 | ——— |
| merged January 1, 1979, under charter and title of the latter bank (1522). The merged bank at date of merger had | 694,367,000 | ——— | 34 |

## COMPTROLLER'S DECISION

The Office of the Comptroller of the Currency is in receipt of an application, pursuant to the Bank Merger Act (12 USC 1828(c)), requesting prior permission to merge Fidelity American Bank, Buena Vista, Buena Vista, Va. ("Buena Vista Bank"); Fidelity American Bank, Chatham, Va. ("Chatham Bank"); Fidelity American Bank, NA, Halifax, Unincorporated Area of Halifax County, Va. ("Halifax Bank"); Fidelity American Bank, Natural Bridge, Natural Bridge Station, Va. ("Natural Bridge Bank"); and Fidelity American Bank, NA, Roanoke Valley, Roanoke County, Va. ("Roanoke Bank"), into Fidelity American Bank, NA, Lyncburg, Va. ("Charter Bank"), under the charter and title of "Fidelity American Bank, NA." The subject application rests on an agreement executed between the proponent banks, and is incorporated herein by reference, the same as if fully set forth.

Charter Bank has operated as a National Banking Association since August 11, 1865, when it was granted charter number 1522 by this Office. As of June 30, 1978, Charter Bank had total commercial bank deposits of $421.5 million.

Buena Vista Bank was established as a state banking institution in 1906, and as of June 30, 1978, had total commercial bank deposits of $7.6 million.

Chatham Bank commenced operations as a state-chartered bank in 1878, and held total deposits of $17.4 million on June 30, 1978.

Halifax Bank received its charter as a National Banking Association on April 26, 1974, when it was granted charter number 16313 by this Office. As of June 30, 1978, Halifax Bank had total commercial bank deposits of $25.9 million.

Natural Bridge Bank was chartered as a state banking institution in 1921 and as of June 30, 1978, had total deposits of $8.9 million.

Roanoke Bank was granted National Banking Association charter number 16192 by this Office on September 26, 1973, and held total commercial bank deposits of $17.2 million on June 30, 1978.

All six of the banks involved in the proposed merger are banking subsidiaries of Fidelity American Bankshares, Inc., Lynchburg, a registered multibank holding company. Due to their common ownership and control, approval of this merger would not produce an adverse impact on any relevant area of consideration. This application is regarded essentially as a corporate reorganization whereby Fidelity American Bankshares, Inc., is consolidating a portion of its banking interests.

This application was filed prior to the November 6, 1978, effective date of the Comptroller's Community Reinvestment Act regulations, 12 CFR 25. However, pursuant to the Community Reinvestment Act, Public Law No. 95-128, available information relevant to the banks' records of meeting their community credit needs was reviewed, revealing no evidence to suggest that the applicants are not meeting the credit needs of their communities, including low and moderate income neighborhoods.

It is therefore the opinion of the Office of the Comptroller of the Currency that this merger is not adverse to the public interest and should be, and hereby is, approved.

November 29, 1978

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are all wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

## THE FIRST AMERICAN NATIONAL BANK OF ST. CLOUD,
St. Cloud, Minn., and The First State Bank of Rice, Rice, Minn.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| The First State Bank of Rice, Rice, Minn., with | $ 2,733,000 | 1 | ——— |
| and The First American National Bank of St. Cloud, St. Cloud, Minn. (11818), which had | 116,480,000 | 3 | ——— |
| merged January 1, 1980, under the charter and title of latter bank (11818). The merged bank at date of merger had | 119,059,000 | ——— | 4 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The First State Bank of Rice, Rice, Minn. ("State Bank"), into The First American National Bank of St. Cloud, St. Cloud, Minn. ("First"). The application was accepted for filing on April 5, 1979, and is based on a written agreement executed by the proponents on January 31, 1979.

State Bank operates from a single office approximately 15 miles from St. Cloud. It reported total deposits of $2.8 million on December 31, 1978.

First also operates from a single office in St. Cloud and reported total deposits of $87.5 million on December 31, 1978. It is a subsidiary of the Otto Bremer Foundation, a registered bank holding company. The Otto Bremer Foundation is the third largest banking organization in the state with 2.8 percent of the state's commercial bank deposits.

The applicants contend that First competes in a banking market which is approximated by the St. Cloud Standard Metropolitan Statistical Area ("SMSA"). First is the only subsidiary of the Otto Bremer Foundation operating within this market. It is the largest of 24 banking organizations operating in this market with 19 percent of the market's commercial bank deposits.* Consummation of the merger would increase its share of market deposits by less than 1 percent.

The Federal Reserve System has delineated a more limited definition of the relevant banking market, approximated by the eastern half of Stearns County, the western half of Sherburne County and all of Benton County. Within this market, First is the largest of 19 banking organizations with 21 percent of commercial bank deposits. Consummation of the proposal would increase its share of this market's deposits by less than 1 percent.

Because of its size, State Bank serves only its small community and nearby rural areas. State Bank's market is entirely included in either the Federal Reserve or the SMSA definition of First's banking market. First reports that it has extended 13 direct loans totaling $1.4 million in this area (2.6 percent of its total loans), and it also undoubtedly receives some deposits from the area. Consummation of the proposal would eliminate some existing competition but because of the large number of commercial banks competing in the relevant market, including the two largest banking organizations in the state, and the small market share of State Bank, the effect on competition would not be adverse.

First could not now establish a branch (detached facility) in Rice due to the head office protection provisions of Minnesota banking law. Since detached facilities are not protected, consummation of the merger would open the community to branching by other commercial banks.

First's financial and managerial resources are satisfactory and its future prospects are favorable. State Bank's financial and managerial resources are limited. Its future prospects are uncertain due to substantial operating problems and its small size.

First will provide additional banking services to the present customers of State Bank if the merger is consummated. These services include automated tellers and data processing, larger loans and additional lending expertise. The continuing bank will also be a single source of banking services that is convenient to both home and work for those customers who commute from Rice to St. Cloud. Consummation of the merger will result in increased convenience and satisfaction of additional needs for the consumer of banking services in Rice.

A review of the record of this application and other information available to this Office as a result of its regulatory reponsibilities revealed no evidence that First's record of helping to meet the credit needs of its entire community, including low and moderate income communities, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the merger.

November 21, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have any adverse effect upon competition.

* * *

* Market data is as of December 31, 1977, unless otherwise indicated. Market totals do not include deposits of Granite City National Bank, St. Cloud, which opened in 1978, or deposits of a branch of Santiago State Bank, which are not reported separately.

## FIRST MERCHANTS NATIONAL BANK,
Neptune Township, N.J., and Midlantic National Bank/Raritan Valley, Edison Township, N.J.

| Names of banks and type of transaction | Total assets* | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| First Merchants National Bank, Neptune Township, N.J. (13363), with | $305,659,000 | 20 | |
| and Midlantic National Bank/Raritan Valley, Edison Township, N.J. (15430), which had | 63,377,000 | 8 | |
| merged January 1, 1979, under charter of the latter bank (15430) and title "First Merchants National Bank." The merged bank at date of merger had | 305,878,000 | | 28 |

### COMPTROLLER'S DECISION

Pursuant to 12 USC 1828(c), the Bank Merger Act, an application has been filed with the Office of the Comptroller of the Currency requesting prior permission to merge First Merchants National Bank, Neptune Township, N.J. ("First Merchants"), the Merging Bank, into Midlantic National Bank/Raritan Valley, Edison Township, N.J. ("Midlantic National"), the Charter Bank, under the charter of Midlantic National Bank/Raritan Valley, and with the title "First Merchants National Bank." The subject application rests on an agreement executed between the proponent banks and is incorporated herein by reference, the same as if fully set forth.

Midlantic National has operated under National Banking Association charter number 15430 since the charter was granted by this Office on November 16, 1964. As of June 30, 1978, Midlantic National had total commercial bank deposits of $56.1 million and operated eight banking offices within Northern Middlesex County. Additionally, the Charter Bank is a wholly owned subsidiary of Midlantic Banks, Inc., West Orange, N.J. ("MBI"), a registered multibank holding company whose six banking subsidiaries controlled total deposits aggregating $1.8 billion as of calendar year-end 1977.

First Merchants was organized as a state-chartered bank in 1910 and converted to a National Banking Association with charter number 13363 on August 10, 1929. As of June 30, 1978, First Merchants had total commercial bank deposits of $270.3 million and operated 20 banking offices within Monmouth County.

The closest offices of the two subject banks, Midlantic National's Sayreville Branch and the Holmdel Branch of First Merchants, are approximately 9 miles apart. Additionally, the closest office of any other MBI subsidiary bank to a First Merchants' banking office is approximately 6 miles distant and is also in Middlesex County. Within the intervening area between these closest offices, there are numerous banking alternatives conveniently available to the banking public. Furthermore, First Merchants is subject to the competitive impact of banking offices of other larger commercial banking organizations in its market area. It is therefore concluded that the proposed merger would not eliminate any meaningful degree of existing competition between the Merging Bank and the Charter Bank of MBI.

New Jersey state banking statutes permit *de novo* branch expansion by commercial banks into any municipality within the state (except for those municipalities with a population of less than 10,000 inhabitants and where the principal banking office of a commercial bank is domiciled). The instant proposal would thus have the effect of foreclosing the development of any competition between the subject proponents in the future. However, First Merchants has historically concentrated its efforts within Monmouth County, and it does not appear likely that the Merging Bank would employ *de novo* expansion into any area currently served by MBI. Furthermore, the likelihood that MBI would enter Monmouth County *de novo* appears remote inasmuch as the county is not considered particularly attractive for this mode of entry. Accordingly, this foreclosure is not regarded as competitively significant, and thus overall, approval of this application would not have a substantially adverse effect on competition.

Midlantic National and First Merchants both currently offer a full range of commercial banking services to their customers. With the additional capabilities of Midlantic National in conjunction with its corporate parent, new and expanded banking services would be made available to present customers of First Merchants in such areas as international banking, full trust services, automobile leasing and a substantially larger legal lending limit. The banking public should be better served. Considerations relating to convenience and needs benefits are regarded as a positive factor in considering approval of this proposal.

The financial and managerial resources of both the Charter Bank and the Merging Bank are regarded as satisfactory and should favorably enhance the future prospects of the resulting bank. The financial and managerial resources of MBI are considered generally satisfactory.

This application was filed prior to the November 6, 1978, effective date of the Comptroller's Community Reinvestment Act regulations, 12 CFR 25. However, pursuant to the Community Reinvestment Act, Public Law No. 95128, available information relevant to the banks' records of meeting community credit needs was reviewed, revealing no evidence to suggest that the applicants are not meeting the needs, including those of low and moderate income neighborhoods.

Accordingly, applying the statutory criteria, it is the conclusion of the Office of the Comptroller of the Currency that this application is not adverse to the public interest and is approved.

November 29, 1978

* Asset figures are as of call dates immediately before and after transaction.

## SUMMARY OF REPORT BY ATTORNEY GENERAL

Monmouth County is located in the eastern-central portion of New Jersey. According to the application, the economy of the county is based primarily on tourism, manufacturing and agriculture. The county has experienced moderate population growth in recent years and for the period 1970-76 ranked 10th among New Jersey's 21 counties in the rate of population growth.

None of Midlantic's subsidiary banks operate an office in Monmouth County, the only county in which Bank operates offices. However, two Midlantic subsidiaries, Applicant and Midlantic National Bank/Cranbury, Cranbury, operate offices in Middlesex County which is adjacent to Monmouth County. The closest offices of a subsidiary of Midlantic and an office of Bank are approximately 6 miles apart, and there are offices of some other banks in the intervening area. However, there appears to be some competition between Midlantic's subsidiaries and Bank, whose offices are dispersed throughout Monmouth County, which would be eliminated by the proposed merger. Thus, Midlantic's subsidiaries derived from Monmouth County approximately $4.7 million in real estate loans, $7.3 million in commercial loans and $4.7 million in installment loans.

Banking is concentrated in Monmouth County; the four largest banking organizations in the county control approximately 70 percent of total county commercial bank deposits. Bank is the third largest of the 16 commercial banks in the county in terms of total deposits, controlling approximately 16 percent of county bank deposits. Midlantic could be permitted to enter Monmouth County *de novo,* and it could acquire one of the smaller banks operating there. Midlantic, one of the largest bank holding companies in New Jersey, has expanded into new areas in recent years both by branching through its subsidiaries and by acquisition, and it appears capable of entering Monmouth County by branching or by "toehold" acquisition. In addition, Bank could be permitted to enter, either *de novo* or through consolidation with smaller institutions, areas in which Midlantic subsidiaries presently operate, and appears capable of doing so.

This merger continues a growing tend toward statewide concentration. In recent months three other consolidations of significant size have been proposed. First National State Bancorporation, the largest commercial banking organization in New Jersey, has proposed to acquire First National State Bank of South Jersey, the fifteenth largest banking organization in the state with total deposits of $520 million. Fidelity Union Bancorp, the fourth largest banking organization, recently acquired Burlington County Trust Company, Moorestown, with total deposits of $167 million. Finally, the proposed merger of the $683 million National State Bank and the $650 million Garden State National Bank would create the fifth largest commercial banking organization in the state. In sum, these consolidations together with the instant acquisition, if approved, will increase the share of statewide total deposits held by the five largest commercial banking organizations from 31.9 percent to 37.2 percent. Given the fact that as recently as 1970 the five-bank concentration ratio stood at only 22 percent, it is apparent that an accelerating trend toward concentration is developing in New Jersey.

It appears that the proposed transaction will eliminate some existing competition between the parties as well as the potential for increased competition between them in the future and will contribute to the trend toward increasing concentration among the largest New Jersey banking organizations. Overall, we conclude that the proposed transaction would have an adverse effect on competition.

* * *

## ATLANTIC FIRST NATIONAL BANK OF GAINESVILLE,
Gainesville, Fla., and Atlantic Bank of Gainesville, Gainesville, Fla.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Atlantic Bank of Gainesville, Gainesville, Fla., with | $ 16,137,000 | 2 | ——— |
| and Atlantic First National Bank of Gainesville, Gainesville, Fla. (3894), which had | 103,221,000 | 2 | ——— |
| merged January 31, 1979, under charter and title of the latter bank (3894). The merged bank at date of merger had | 119,358,000 | ——— | 4 |

## COMPTROLLER'S DECISION

Application has been made to the Office of the Comptroller of the Currency requesting prior permission to merge Atlantic Bank of Gainesville, Gainesville, Fla. ("Merging Bank"), into Atlantic First National Bank of Gainesville, Gainesville, Fla. ("Charter Bank"), under the charter and title of "Atlantic First National Bank of Gainesville." The subject application rests on an agreement executed between the proponent banks and is incorporated herein by reference, the same as if fully set forth.

Charter Bank was granted National Banking Association charter number 3894 by this Office on June 1, 1888, and as of March 31, 1978, had total deposits of $89.9 million.

Merging Bank commenced commercial banking operations in 1972 and as of March 31, 1978, had total deposits of $16.3 million.

Both Charter Bank and Merging Bank are banking subsidiaries of Atlantic Bancorporation, Jacksonville, Fla., a registered miltibank holding company that controls 24 banks with deposits aggregating $1.3 billion. Inasmuch as the two proponent banks are commonly owned and controlled, approval of this merger would not produce an adverse impact upon any relevant area of consideration.

The subject application essentially represents a corporate reorganization whereby Atlantic Bancorporation is realigning and consolidating a portion of its banking interests. The application is therefore deemed to be not adverse to the public interest and should be, and hereby is, approved.

October 27, 1978

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are all wholly owned subsidiaries of the same bank holding company. As such, their proposed mergers are essentially corporate reorganizations and would have no effect on competition.

* * *

## DOMINION NATIONAL BANK OF TIDEWATER, Norfolk, Va., and Dominion National Bank of the Peninsula, York County, Va.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Dominion National Bank of the Peninsula, York County, Va. (16159), with | $ 8,061,000 | 4 | ——— |
| and Dominion National Bank of Tidewater, Norfolk, Va. (15461), which had | 125,608,000 | 15 | ——— |
| merged February 20, 1979, under charter and title of the latter bank (15461). The merged bank at date of merger had | 133,801,000 | ——— | 19 |

## COMPTROLLER'S DECISION

Application has been made to the Office of the Comptroller of the Currency requesting prior permission to merge Dominion National Bank of the Peninsula, York County, Va. ("Merging Bank"), into Dominion National Bank of Tidewater, Norfolk, Va. ("Charter Bank"), under the charter and title of Dominion National Bank of Tidewater. The subject application rests on an agreement executed between the proponent banks and is incorporated herein by reference, the same as if fully set forth.

Charter Bank has operated as a National Banking Association since December 30, 1964, when it was granted charter number 15461 by this Office. As of June 30, 1978, Charter Bank had total commercial bank deposits of $115 million.

Merging Bank was granted National Banking Association charter number 16159 by this Office on July 18, 1973, and had total commercial bank deposits of $6.6 million as of June 30, 1978.

Both Charter Bank and Merging Bank are banking subsidiaries of Dominion Bankshares Corporation, Roanoke, Va., a registered multibank holding company. Inasmuch as the proponent banks are commonly owned and controlled, approval of this merger would not produce an adverse impact upon any relevant area of consideration.

This application was filed prior to the November 6, 1978, effective date of the Comptroller's Community Reinvestment Act regulations, 12 CFR 25. However, pursuant to the Community Reinvestment Act, Public Law No. 95-128, available information relevant to the banks' record of meeting community credit needs was reviewed, revealing no evidence to suggest that the applicants are not meeting the credit needs of their communities, including low and moderate income neighborhoods.

The subject application must be regarded essentially as a corporate reorganization whereby Dominion Bankshares Corporation is realigning and consolidating a portion of its banking interests. The application is therefore deemed to be not adverse to the public interest and should be, and hereby is, approved.

January 9, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* Asset figures are as of call dates immediately before and after transaction.

* * *

## SOUTHERN NATIONAL BANK OF NORTH CAROLINA,
Lumberton, N.C., and Goldsboro Branch of North Carolina National Bank, Charlotte, N.C.

| Names of banks and type of transaction | Total assets* | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| Goldsboro Branch of North Carolina National Bank, Charlotte, N.C. (13761), with | $3,655,551,000 | 1 | ——— |
| was purchased February 28, 1979, by Southern National Bank of North Carolina, Lumberton, N.C. (10610), which had | 448,762,000 | 64 | ——— |
| After the purchase was effected, the receiving bank had | 444,447,000 | ——— | 65 |

### COMPTROLLER'S DECISION

The Office of the Comptroller of the Currency has accepted an application filed pursuant to 12 USC 1828(c)), the Bank Merger Act, by Southern National Bank of North Carolina, Lumberton, N.C. ("SNB"), the purchasing bank, to purchase the assets and assume the liabilities of Goldsboro Branch of North Carolina National Bank, Charlotte, N.C. ("NCNB"), the selling bank. This application is based on an agreement executed between the proponent banks and is incorporated herein by reference, the same as if fully set forth.

This Office granted National Banking Association charter number 10610 to SNB on September 8, 1914. As of June 30, 1978, SNB had total deposits of approximately $363.8 million (2.5 percent of total deposits in North Carolina) and operated its head office and 62 branches, the preponderance of which are within the eastern one-half of the state. Additionally, SNB is the commercial banking subsidiary of Southern National Corporation, Lumberton, a registered bank holding company.

NCNB has operated as a National Banking Association since August 26, 1933, when this Office granted charter number 13761 to the bank. The second largest commercial bank headquartered in North Carolina with over 17 percent of total state deposits, NCNB is the commercial banking subsidiary of NCNB Corporation, Charlotte, a registered bank holding company. On June 30, 1978, NCNB had total domestic deposits of approximately $2.5 billion, $6.5 million of which were in the Goldsboro Branch. NCNB maintains more than 160 banking offices throughout North Carolina.

Goldsboro is in Wayne County in the east-central part of the state, approximately 50 miles southwest of Raleigh and 90 miles north of Wilmington. The nearest office of SNB to Goldsboro is in Wilson (Wilson County), slightly more than 25 miles to the north. The Goldsboro Branch of NCNB ranks as the fifth largest of seven commercial banks operating in Wayne County, representing 8.2 percent of total commercial bank deposits in the county. SNB is not currently represented in Wayne County, and its initial introduction into the Goldsboro area will present a new alternative to the banking public and should stimulate the competitive atmosphere of the area, thereby better serving the interests of the banking public.

By action dated May 11, 1978, the Board of Governors of the Federal Reserve System denied an application filed pursuant to 12 USC 1843(c)(8), the Bank Holding Company Act, for NCNB Corporation to retain TranSouth Financial Corporation, Florence, S.C. ("TFC"). NCNB Corporation originally acquired its interest in TFC in July 1969. Pursuant to the provisions of Section 4 of the Bank Holding Company Act, NCNB Corporation had until December 31, 1980, to divest itself of interest in TFC or to apply and secure the Board's approval to retain such interest. The Board denied this application, based primarily on its conclusion that approval of the application would eliminate "a significant amount of existing competition in each of the five markets when both Bank (NCNB) and TranSouth (TFC) had offices." Subsequently, NCNB Corporation filed an amended application with the Board for the retention of TFC, wherein the bank holding company proposed to divest 25 of TFC's 26 offices, and the Goldsboro Branch of NCNB. NCNB Corporation's amended application for the retention of TFC was approved by the Board on October 27, 1978, and this application has been filed in compliance with the bank holding company's commitment to the Board to divest the Goldsboro Branch.

With respect to the convenience and needs aspects of this proposal, which this Office must consider pursuant to the provisions of 12 USC 1828(c)(5)(B), the overall effect of this proposal will be procompetitive in that it will allow SNB to compete more aggressively by providing new and expanded banking services to the banking public in the Goldsboro area. These services include, but are not limited to, payment of the highest legal interest rates on savings accounts, overdraft checking, automated teller facilities and competitive rates of interest for bank loans.

The financial and managerial resources of SNB are satisfactory. The financial and managerial resources of NCNB are regarded as generally satisfactory, and the future prospects of both institutions appear favorable.

This application was filed prior to the November 6, 1978, effective date of the Comptroller's Community Reinvestment Act regulations, 12 CFR 25. However, pursuant to the Community Reinvestment Act, Public Law No. 95-128, available information relevant to the banks' records of meeting their communities' needs was reviewed, revealing no evidence to suggest that the proponent institutions are not meeting the credit needs of their communities, including low and moderate income neighborhoods.

* Asset figures are for entire bank as of call dates immediately before and after transaction.

Accordingly, applying the statutory criteria, it is the opinion of this Office that this application is not adverse to the public interest. It is approved.

January 24, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a substantial competitive impact.

* * *

## OLD NATIONAL BANK OF WASHINGTON,
Spokane, Wash., and Four Branches of Rainier National Bank, Seattle, Wash.

| *Names of banks and type of transaction* | Total assets* | *Banking offices †* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Four Branches of Rainier National Bank, Seattle, Wash. (4375), with | $3,946,054 | 4 | ——— |
| were purchased March 5, 1979, by Old National Bank of Washington, Spokane, Wash. (4668), which had | 1,103,729 | 76 | ——— |
| After the purchase was effected, the receiving bank had | 1,109,042 | ——— | 79 |

Transfer of the fifth branch (Factoria) has been suspended pending litigation.

## COMPTROLLER'S DECISION

An application was filed with the Office of the Comptroller of the Currency according to the requirements set forth in the Bank Merger Act, 12 USC 1828(c), by Old National Bank of Washington, Spokane, Wash. ("ONB") for approval to purchase the assets and assume the liabilities of five branch offices of Rainier National Bank, Seattle, Wash. ("RNB"). The application is based on a written agreement executed by the proponent banks on November 30, 1977.

This application and three other purchase and assumption applications filed in February 1978, involving ONB, RNB, Pacific National Bank of Washington, Seattle, and First National Bank in Spokane, were challenged by several protestants including the Supervisor of Banking for the state of Washington. In response to several requests, a public hearing on all four applications was held in Seattle on April 19-20, 1978, before the Regional Administrator of National Banks, Thirteenth National Bank Region (Portland).

At the public administrative hearing, both the proponent and opponents of the application were represented by counsel and were given the opportunity to make opening statements, present the testimony of witnesses and physical exhibits and make closing statements. A reporter was present at the hearing and prepared a transcript thereof for inclusion in the administrative record. On the basis of the administrative record, this opinion is now issued.[1]

### Background

ONB maintains a main office and 77 branches and has deposits of $888.3 million, representing 6.6 percent of Washington's total commercial bank deposits.[2] ONB is a subsidiary of Old National Bancorporation, Spokane, Wash. ("ONBC"), which is the only registered multibank holding company that is headquartered in the state. ONBC controls two banks (ONB and First National Bank in Spokane). With total deposits of approximately $950.9 million, representing 7.1 percent of the total state commercial bank deposits, ONBC is the fifth largest of 95 commercial banking organizations operating in the state.

With the exception of directors' qualifying shares, RNB is a wholly owned commercial banking subsidiary of Rainier Bancorporation, Seattle, Wash. ("RB"). RB is a registered bank holding company and is the second largest commercial banking organization headquartered in the state. RB has total deposits of $2.6 billion, representing 19.3 percent of the state's total commercial bank deposits.

All five of RNB's branches which will be acquired by ONB are within the greater Seattle metropolitan area in King County. However, one of them, RNB's Factoria branch, is in an unincorporated area. Presently, ONB operates 29 banking offices in the county with deposits of approximately $400.7 million, representing 8.5 percent of the county's total commercial bank deposits. RNB operates a main office and 57 branches in King County having deposits of $1.1 billion, representing 22.3 percent of the county's total commercial bank deposits. The transfer of RNB's five branch offices to ONB will effect less than 1 percent of the total commercial bank deposits in King County, and will not produce any change in the relative rankings of RNB and

* Asset figures are for entire bank as of call dates immediately before and after transaction.

† Office figures are for beginning and end of day and reflect all transactions occurring that day.

[1] It is the policy of the Office of the Comptroller of the Currency to issue a formal opinion in connection with decisions of general import or involving novel issues. This application raises important questions concerning the authority of national banks in Washington to establish branch offices.

[2] All deposit and branch figures are as of June 30, 1978, unless otherwise noted.

ONB as the second and fourth largest banking organizations, respectively, in the county.

### Issues

The protestants have presented the general argument that the Comptroller of the Currency may not authorize the proponent banks to consummate their agreement and operate the acquired branch offices as their own. This challenge is more specifically based on the protestants' following arguments:

1. The proposed acquisitions are anticompetitive, violate antitrust laws and, therefore, may not be approved.
2. The proposed transactions are not "merger transactions" contemplated by the Bank Merger Act, 12 USC 1828(c), which may be approved by the Comptroller pursuant to that Act.
3. The proposed acquisitions are inconsistent with the spirit and intent of the Community Reinvestment Act.
4. The proposed branch acquisitions would violate federal branching laws (12 USC 36(b) and (c)) since they are inconsistent with the state's branching laws applicable to state-chartered commercial banks and trust companies (Wash. Rev. Code Ann. (RCW) 30.04.280 and 30.40.020) which:
   a) only allow commercial state banks and trust companies to acquire one branch of another bank and implicitly proscribe multibranch acquisitions;
   b) do not affirmatively authorize commercial state banks and trust companies to branch by an exchange or trade of branches;
   c) contemplate a "taking over or acquiring" of an entire bank and its branches and not just one or some of the branches; and
   d) do not authorize commercial state banks and trust companies to branch by acquisition in an unincorporated city or town which is not its principal place of business.

### Bank Merger Act Considerations

The protestants have argued that this transaction is anticompetitive, violates antitrust laws, and, therefore, may not be approved. This challenge has been considered as a part of this Office's analysis of the competitive effects of the proposed transaction pursuant to the Bank Merger Act.

The Bank Merger Act, 12 USC 1828(c)(5), requires this Office to consider whether the proposed merger transaction will substantially lessen competition or tend to create or result in a monopoly or restraint of trade; whether any perceived anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effects the transaction will have in meeting the convenience and needs of the communities served; the financial and managerial resources and future prospects of the institutions; and the convenience and needs of the communities.

Commenting on the competitive aspect of this transaction as required under the Bank Merger Act (12 USC 1828(c)(4)), the U.S. Department of Justice, the Federal Deposit Insurance Corporation and the Federal Reserve Board have each concluded that the proposed transaction presents no competitive impediments in the relevant market areas to the approval of this application. We agree with this conclusion and, indeed, find that the transaction will enhance competition in the relevant market areas and is, therefore, in the public interest. We further conclude that consummation of this transaction will enhance the convenience and needs of these areas.

We have considered the financial and managerial resources of the proponent banks, as well as their future prospects, and find these factors also to be favorable.

Related to this analysis under the Bank Merger Act is the protestants' claim that the proposed transaction is not a "merger transaction" which is subject to the Comptroller's approval under the Act. The protestants have argued that the transaction is, in effect, a "branch swap," "trade," "exchange" or "relocation" which does not constitute a conventional consolidation or merger pursuant to 12 USC 215, 215a or 1828(c). It is the opinion of this Office that such contentions are incorrect and that the acquisitions in question are "merger transactions" subject to the Comptroller's approval under the Bank Merger Act.

The agreement executed between ONB and RNB specifically provides for the transfer of certain assets and the assumption of certain liabilities. Assets have been defined to include real estate and the building in which the branch is located (if owned by the selling bank); any leasehold and leasehold improvements; furniture; fixtures, equipment and supplies (owned by or leased by the selling bank); and the loan portfolio (with certain stipulated exceptions). The agreement also provides that the purchasing bank will assume the following liabilities: deposit accounts (with the consent of depositors), collection services, safe deposit rental agreements, obligations under maintenance and service contracts and leases falling due or becoming performable subsequent to the closing date of the agreement.

The Bank Merger Act 12 USC 1828(c)(2), provides that "(n)o insured bank shall . . . acquire the assets of, or assume liability to pay any deposits made in, any other insured bank except with the prior written approval of . . . (the Comptroller of the Currency)." It also specifically states that such a transaction is "referred to hereafter in this subsection as a 'merger transaction'." (see 12 USC 1828(c)(3)). The Act does not purport to prescribe the consideration, the method of acquisition or the specific formula for asset or liability transfer. The fact that the targeted assets and liabilities are within a particular branch office does not, in our opinion, vitiate an otherwise valid "merger transaction."

Accordingly, based on the provisions of both the Bank Merger Act and the agreement executed between the proponent banks, we conclude that this transaction meets the legal requirements of a "merger transaction." As such, it may, therefore, be approved by the Comptroller according to the standards set forth in the Bank Merger Act.

### Community Reinvestment Act

This application was filed for consideration prior to the November 6, 1978, effective date of the Comptroller's Community Reinvestment Act regulations now codified in 12 CFR 25. However, consistent with the spirit of the Community Reinvestment Act (Public Law 95-128), available information relevant to the banks' records of meeting their communities' needs has been reviewed. Those records do not reveal such evidence to suggest that the proponent banks are not generally meeting the credit needs of their communities, including low and moderate income sectors.

### Construction of State Branching Laws

The protestants have argued that the proposed branch transfers are inconsistent with the provisions of applicable state commercial bank branching statutes and should, therefore, be denied under federal law. This Office does not concur in that opinion.

The federal statute governing the branching powers of national banks, 12 USC 36(c),[3] permits the Comptroller to authorize a national bank to establish new branches in the manner that state law permits state banks to do so.[4] Thus, in evaluating this application, the Comptroller must be satisfied that it conforms with the applicable restrictions imposed by Washington law on the establishment of branches by any state banks. However, federal law does not restrict the words "state banks" to state-chartered commercial banks. Section 36(h) provides that:

> The words . . . "State banks" . . . as used in this section, shall be held to include trust companies, *savings banks,* or such other corporations or institutions carrying on the banking business under the authority of State laws. (Emphasis added)

The inclusion of savings banks and trust companies within the definition of "state banks" in Section 36 indicates that Congress foresaw the problem of a state according unequal branching powers to various financial institutions, thereby putting certain types of institutions at a competitive disadvantage. The congressional solution to this problem was to ensure that national banks be given the ability to establish branches in the manner and locations that the most favored "state banks" could.[5]

Accordingly, mutual savings banks, as "savings banks" and competitors of national banks operating in Washington, are "state banks . . . carrying on the banking business . . . "[6] within the meaning of 12 USC 36(h), and, therefore, national banks may establish and operate branches wherever mutual savings banks are permitted to do so.[7]

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[3] That section provides, in part, that:

> (a) national banking association may, with the approval of the Comptroller of the Currency, establish . . . new branches . . . at any point within the State in which said association is situated, if such establishment . . . (is) at the time authorized to state banks by the statute law of the State in question by language specifically granting such authority affirmatively and not merely by implication or recognition . . .

[4] See *First National Bank in Plant City* v. *Dickinson,* 396 U.S. 122 (1969); *First National Bank of Logan* v. *Walker Bank & Trust Co.,* 385 U.S. 252 (1966); *Camden Trust Co. v. Gidney,* 301 F.2d 521 (D.C. Cir.), *cert. denied,* 369 U.S. 886 (1962).

[5] The importance of this fundamental concept is now underscored by the increasingly blurred lines of differentiation between commercial banks and other financial institutions in terms of the level of competition in the banking business. For instance, recent progressive changes have endowed savings banks with the ability to market many banking services similar to those offered by commercial banks. Such a development compels a broad approach to the state branching statutes which should be references in deciding various national bank branching questions in view of the policy of competitive equality underlying 12 USC 36, as well as the sweep of the triggering definition of "state banks" chosen by Congress. In our view, the language of Section 36 clearly authorizes reliance on the broad branching authority of state savings banks in Washington. Moreover, the financial services environment in that state, in particular, lend even greater support to this position. This Office has heretofore relied upon savings bank branching statutes in Massachusetts in approving certain branches for national banks in that state.

[6] "Banking" according to RCW 30.04.010 means "the soliciting, receiving or accepting of money or its equivalent on deposit as a regular business." That mutual savings banks are engaged in banking is made evident by RCW 32.08.140 which provides that every mutual savings bank shall have the power "(t)o receive deposits of money . . . ."

That mutual savings banks are "institutions carrying on the banking business" (12 USC 36(h)) is further evidenced by various provisions of Washington law which permit them, in common with other banks, to become members of the Federal Reserve System and to be insured by the Federal Deposit Insurance Corporation (RCW 30.32.010); which permit them to exercise trust powers (RCW 32.08.210); which authorize them, upon a depositor's instructions, to effect withdrawals from his account by drafts payable according to the depositor's instructions (RCW 32.12.025); and which authorize the FDIC to act as receiver or liquidator for FDIC-insured mutual savings banks (RCW 32.24.090). Accordingly, it is evident that mutual savings banks are "state banks" within the meaning of 12 USC 36(c) and (h).

[7] The District Court in *Hart* v. *Peoples National Bank,* No. C75-416S (W.D. Wash. Feb. 18, 1976), did not dispute the contention that mutual savings banks are "state banks" within the meaning of 12 USC 36(h). However, it did rely on *State Chartered Banks in Washington* v. *Peoples National Bank,* 291 F.Supp. 180 (W.D. Wash. 1966) in holding that a bank wishing to branch under the authority given to mutual savings banks "must satisfy all the provisons of that statute and show that it (the national bank) engages itself exclusively as a mutual savings bank." This Office believes that both of those decisions are in error in two respects:

First, both courts failed to consider that 12 USC 36, permitting the establishment of branches by national banks, is enabling legislation, not restricting legislation; that is, it was not intended to restrict national banks, but, rather, it was intended to benefit national banks by granting them new powers to enable them to compete with state-chartered institutions.

The state branching statute applicable to Washington's mutual savings banks, RCW 32.04.030,[8] authorizes branching in any county of the state and contains none of the allegedly restrictive language of RCW 30.40.020 which the protestants have relied on in challenging this application. Accordingly, the resulting establishment of branches in this transaction is authorized by 12 USC 36(c), based upon the authority of the class of "state banks" found in RCW 32.04.030, and approval of these branches is consistent with the substantive requirements of this statute applicable to national banks.

Reliance on the state's branching laws applicable to mutual savings banks pursuant to 12 USC 36(c) and (h) would appear to obviate the need, in this case, to consider the state's commercial bank branching statute,[9] or the protestants' arguments which focus on that statute. Nevertheless, we find that the proposed transfer of branches, except for the transfer of RNB's Factoria branch, is also clearly authorized by RCW 30.40.020 and may be approved by the Comptroller thereunder.

RCW 30.40.020, which deals with the branching powers of commercial state banks and trust companies, provides in part:

> Branches authorized—Restrictions.
>
> A bank or trust company having a paid-in capital of not less than five hundred thousand dollars may, with the approval of the supervisor, establish and operate branches in any city or town within the state. A bank or trust company having a paid-in capital of not less than two hundred thousand dollars may, with the approval of the supervisor, establish and operate branches within the limits of the county in which its principal place of business is located.
>
> * * * * *
>
> No bank or trust company shall establish or operate any branch, except a branch in a foreign country, in any city or town outside the city or town in which its principal place of business is located in which any bank, trust company or national banking association regularly transacts a banking or trust business, except by taking over or acquiring an existing bank, trust company or national banking association or the branch of any bank, trust company or national banking association operating in such city or town.

The protestants (most notably, the supervisor of banking) claim that authorization to take or acquire "*the* branch of any bank" in a city or town outside the city or town in which its principal place of business is located only allows a commercial state bank or trust company to acquire one branch of another bank and implicitly proscribes multibranch acquisitions. Similarly, these protestants also argue from a purely interpretive point of view that RCW 30.40.020 does not affirmatively authorize state commercial banks and trust companies to branch by exchanging branches and requires the acquisition of an entire bank and not just one or some of its branches. This Office finds these interpretations of the statute to be in error.

Because of the absence of relevant case law in the state on these questions, the Comptroller is authorized to independently interpret and apply this statute in evaluating ONB's branch/merger application, free from the control of the opinions of the state supervisor:[10]

> (Where state) . . . courts have not construed the section, the Comptroller is free to do so and is,

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Footnote 7 continued

Secondly, both decisions failed to distinguish between those portions of a branching statute which can be complied with by *some* national banks, just as they can be complied with by some state-chartered institutions, and those portions of a statute which *no* national bank can comply with. National banks, as a class, cannot comply with all of the conditions of any state branching statute; for example, all state branching statutes require the approval of state banking supervisors while national banks are not subject to supervision by the states. (See *First National Bank of Fairbanks* v. *Camp,* 465 F.2d 586 (D.C. Cir. 1972), *cert. denied,* 409 U.S. 1124 (1973)). Nor can national banks, as a class, ever comply with all of the provisions of state law applicable to any given class of state-chartered institutions.

The question of whether a national bank may establish a branch pursuant to the power to do so granted to state mutual savings banks is now pending in the United States Court of Appeals for the Ninth Circuit in *Hart* v. *Peoples National Bank,* No. 76-2182.

[8] RCW 32.04.030 reads as follows:

Offices—Branches.

(1) A savings bank shall not do business or be located in the same room with, or in a room connecting with, any other bank, or a trust company that receives deposits of money or commercial paper, or a national banking association.

(2) No savings bank, or any officer or director thereof, shall receive deposits or transact any of its usual business at any place other than its principal place of business or an authorized branch.

(3) A savings bank, with the approval of the supervisor, may establish and operate branches but only upon the conditions and subject to the limitations following:

(a) If its guaranty fund is not less than the aggregate paid-in capital which would be required by law as a prerequisite to the establishment and operation of an equal number of branches in like locations by a bank.

(b) Branches may be established in any county of the state; and

(c) A branch shall not be established at a place at which the supervisor would not permit a proposed new savings bank to engage in business, by reason of any consideration contemplated by RCW 32.08.040, 32.08.050 and 32.08.060, the provisions of which, insofar as applicable, including those relating to appeals, shall extend to applications to establish branches.

[9] RCW 30.40.020.

[10] *First National Bank of Fairbanks* v. *Camp,* 465 F.2d at 597. See also, *Leuthold* v. *Camp,* 273 F.Supp. 695 (D. Mont. 1967), *aff'd per curiam,* 405 F.2d 499 (9th Cir. 1969); *Union Savings Bank of Patchogue* v. *Saxon,* 335 F.2d 718 (D.C. Cir. 1964); *South Dakota* v. *The Nat'l. Bank of South Dakota,* 219 F.Supp. 842 (S.D. S.D. 1963), *aff'd,* 335 F.2d 444 (8th Cir.), *cert. denied,* 379 U.S. 970 (1965).

furthermore, free to adopt any reasonable construction that the statute setting forth the standard may bear. Since that statute in effect is adopted by Section 36 of the federal law, it is tantamount to a federal administrative official construing a federal statute which he is charged to administer and enforce.[11]

In construing RCW 30.40.020, this Office is guided by the state's rules of statutory construction. Those rules direct that the provisions of the code should be liberally construed[12] and that words importing number (i.e., singular and plural) and gender (i.e., masculine or feminine) do not necessarily restrict a statute's meaning to the specific number or gender used.[13] Consequently, we find that the term "the branch" may be construed to mean "branches," thereby allowing a bank's acquisition of one or more branches of another bank. Indeed, the facts of *Seattle-First National Bank* v. *Spokane County*, 196 Wash. 419, 83 P.2d 359 (1938) (merger of banks resulting in the acquisition and operation of the target bank's *branches* by the surviving bank), and *United States* v. *Marine Bancorporation*, 418 U.S. 602 (1974) (merger of banks resulting in the acquisition and operation of the target bank's *branches* by the surviving bank permitting it to expand into cities and towns with pre-existing banking organizations) lend support to this Office's interpretation of state law on this question.

Furthermore, bearing in mind the state's rules of statutory construction and absent any statutory language or case law limiting the manner of "taking over or acquiring" a reasonable reading of the text of this statute leads us to conclude that, contrary to the protestants' contentions, the plain meaning of its words authorizes a transfer of branches by merger, in that the method of "taking over or acquiring" may be determined by the parties to the agreement since the legislature has chosen not to dictate the method or mode of payment, whether by cash, stock or other consideration. The fact that a branch may be acquired in consideration for the sale of a branch to another bank in a manner which, on its face, resembles an exchange or trade, does not vitiate the general authority of a bank to branch by acquisition in a city or town which is not its principal place of business. Moreover, we find that RCW 30.40.020, by not limiting the type of acquisition permitted or excepting or excluding the functional exchange of branches, does affirmatively authorize the method of branching under consideration since, unless so restricted by the statute, it permits " . . . (a) bank or trust company having a paid-in capital of not less than five hundred thousand dollars . . . (to) establish and operate branches in any city or town within the state."[14] Therefore, the sale and transfer of branches[15] which the protestants have chosen to label as a "swap" or "exchange" is, in our opinion, affirmatively authorized by RCW 30.40.020.

Likewise, nothing in the statute authorizing the "taking over or acquiring (of) an existing bank . . . or *the branch* of . . . (a) bank" indicates that the acquisition must be of the entire bank and not just one of its branches. Indeed, the plain meaning of the statute's language suggests that one bank may branch by acquiring "*the* branch" of another bank. Any interpretation of the statute which precludes all types of acquisitions except total mergers or consolidations would severely limit the significance and intent of the statute and, in view of the statute's language, conflict with the rule that " . . . a statute ought, upon the whole, to be so construed that, if it can be prevented, no clause, sentence, or word shall be superfluous, void or insignificant."[16]

Finally, even though the words "city" or "town," as used in RCW 30.40.020, have been judicially interpreted to refer to incorporated areas, it is this Office's opinion that national banks in Washington may still branch in unincorporated cities or towns pursuant to 12 USC 36(c) since state savings banks, which are in direct competition with national banks in the state, are authorized to do so.[17]

In accordance with the above opinion, we find that the proposed acquisition of branches is affirmatively authorized by RCW 32.04.030 and 30.40.020, and, therefore, is permitted by 12 USC 36(b) and (c).

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[11] *Clermont Nat'l Bank* v. *Citizensbank, N.A.*, 329 F.Supp 1331, 1341-42 (S.D. Ohio 1971).

[12] Wash. Rev. Code Ann. 1.12.010 reads as follows:

> The provisions of this code shall be liberally construed, and shall not be limited by any rule of strict construction.

[13] Wash. Rev. Code Ann. 1.12.050 states:

> Words importing the singular number may also be applied to the plural of persons and things; words importing the plural may be applied to the singular; and words importing the masculine gender may be extended to females also.

[14] *Cf. Seattle-First Nat'l Bank* v. *Spokane County*, 83 P.2d at 363.

[15] Although the agreement contemplates a simultaneous transfer of all of the branches in question, the applicants stated at the hearing that, depending on the renegotiation of a sales price, the failure or inability to transfer certain branches would not necessarily prevent the consummation of the transaction.

[16] *Washington Market Company* v. *Hoffman*, 101 U.S. 112, 115-16 (1879); *United States* v. *Campos-Serrano*, 404 U.S. 293, 301 (1971).

[17] This issue arises since RNB's Factoria branch is in an unincorporated area. On December 21, 1978, the Supreme Court of Washington, in *Hart* v. *Peoples National Bank, et al.*, No. 45594, interpreted the terms "city" or "town," as used in RCW 30.40.020, to be *incorporated* cities or towns, thus restricting branching by state-chartered commercial banks to such areas. The Washington Supreme Court had no occasion to address the broader branching authority of state savings banks under RCW 32.04.030. Our approval, however, of the transfer of this particular branch is, as previously discussed, based on the fact that 12 USC 36(c) references state branching laws applicable to any state bank which is defined in 12 USC 36(h) to include "savings banks." Nevertheless, this Office has decided to suspend the consummation of the transfer of this branch pending a decision by the United States Court of Appeals for the Ninth Circuit in *Hart* v. *Peoples National Bank, et al.*, No. 76-2182, where this issue has been raised.

## Conclusion

We have carefully considered the application pursuant to the Bank Merger Act, 12 USC 1828(c), and in light of the questions raised by the protestants. We conclude that the proposed transactions will have no adverse effect on competition, will be in the public interest, and will otherwise satisfy the requirements of the Bank Merger Act. We also conclude that the transactions will violate no other provisions of state or federal law. Accordingly, the application of ONB to purchase the assets and assume the liabilities of five branch offices of RNB is approved. However, since RNB's Factoria branch is in an unincorporated area, consummation of its transfer to ONB is suspended pending a determination by the U.S. Court of Appeals for the Ninth Circuit of whether a national bank may establish a branch in an unincorporated area pursuant to the power to do so granted to state mutual savings banks.

February 1, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed these proposed transactions and conclude that they would not have a substantial competitive impact.

* * *

## OLD NATIONAL BANK OF WASHINGTON,
Spokane, Wash., and Two Branches of Pacific National Bank of Washington, Seattle, Wash.

| Names of banks and type of transaction | Total assets* | Banking offices† | |
|---|---|---|---|
| | | In operation | To be operated |
| Two Branches of Pacific National Bank of Washington, Seattle, Wash. (3417), with | $1,593,412 | 2 | |
| were purchased March 5, 1979, by Old National Bank of Washington, Spokane, Wash. (4668), which had | 1,103,729 | 74 | |
| After the purchase was effected, the receiving bank had | 1,109,042 | | 79 |

(Transfer of the third branch (Federal Way South) has been suspended pending litigation.)

## COMPTROLLER'S DECISION

An application was filed on February 17, 1978, with the Office of the Comptroller of the Currency according to the requirements of the Bank Merger Act, 12 USC 1828(c), by Old National Bank of Washington, Spokane, Wash. ("ONB"), for approval to purchase the assets and assume the liabilities of three branch offices of Pacific National Bank of Washington, Seattle, Wash. ("PNB"). The application is based on a written agreement executed by the proponent banks on November 30, 1977.

This application and three other purchase and assumption applications filed in February 1978 involving ONB, PNB, Rainier National Bank, Seattle, and First National Bank in Spokane were challenged by several protestants including the supervisor of banking for the state. In response to several requests, a public hearing on all four applications was held in Seattle on April 19-20, 1978, before the Regional Administrator of National Banks, Thirteenth National Bank Region (Portland).

At the public administrative hearing, both the proponent and opponents of the applications were represented by counsel and were given the opportunity to make opening statements, present the testimony of witnesses and physical exhibits and make closing statements. A reporter was present at the hearing and prepared a transcript for inclusion in the administrative record. On the basis of the administrative record, this opinion is now issued.[1]

### Background

ONB is a national bank with deposits of $888.3 million, representing 6.6 percent of Washington's total commercial bank deposits.[2] It maintains a main office and 77 branches. ONB is a subsidiary of Old National Bancorporation, Spokane ("ONBC"), which is the only registered multibank holding company headquartered in the state. ONBC controls two banks: ONB and First National Bank in Spokane. With total deposits of $950.9 million, representing 7.1 percent of the total state commercial bank deposits, ONBC is the fifth largest of 95 commercial banking organizations.

PNB is a national bank with deposits of $1.1 billion, maintaining a main office and 70 branches. It is the third largest commercial bank in Washington, controlling 8.5 percent of the total commercial bank deposits. PNB is a subsidiary of Western Bancorporation, Los Angeles, Calif. ("WB"), a registered multibank holding company. As of December 31, 1977, WB controlled 22 banks with consolidated deposits of approximately $18.7 billion.

Two of the three branches which would be transfer-

* Asset figures are for entire bank as of call dates immediately before and after transaction.

† Office figures are for beginning and end of day and reflect all transactions occurring that day.

[1] It is the policy of the Office of the Comptroller of the Currency to issue a formal opinion in connection with decisions of general import or involving novel issues. This application raises important questions concerning the authority of national banks in the state to establish branch offices.

[2] All deposit and branch figures are as of June 30, 1978, unless otherwise noted.

red to ONB from PNB are in the Tacoma banking market which includes virtually all of Pierce County. One is in Tacoma's central business district, and the other is in South Tacoma. The third office to be transferred is in an unincorporated retail and industrial area known as Federal Way, King County.

PNB operates 23 banking offices within Pierce County with $296 million in deposits, representing 31.9 percent of the total commercial bank deposits in the county. ONB, however, operates no offices within Pierce County. Its entry into the Tacoma area through this transaction would result in its acquisition of 2 percent of the total commercial bank deposits in the county.

In King County, ONB has 14 banking offices which hold deposits of $116.2 million, representing 2.5 percent of the total commercial bank deposits in the county. It is the sixth largest of 23 commercial banking organizations operating in the county. PNB operates 29 of its banking offices there. These offices have total deposits of $400.7 million, representing 8.5 percent of the total commercial bank deposits in the county. PNB is the fourth largest banking organization operating in King County. The transfer of PNB's Federal Way South office to ONB would not alter either of the proponent banks' relative positions in the county in terms of deposits held.

## Issues

The protestants have presented the general argument that the Comptroller of the Currency may not authorize the proponent banks to consummate their agreement and operate the acquired branch offices as their own. This challenge is more specifically based on the protestants' following arguments:

1. The proposed acquisitions are anticompetitive, violate antitrust laws and, therefore, may not be approved.
2. The proposed transactions are not "merger transactions" contemplated by the Bank Merger Act (12 USC 1828(c)) which may be approved by the Comptroller pursuant to that Act.
3. The proposed acquisitions are inconsistent with the spirit and intent of the Community Reinvestment Act.
4. The proposed branch acquisitions would violate federal branching laws (12 USC 36(b) and (c)) since they are inconsistent with the state's branching laws applicable to state-chartered commercial banks and trust companies (Wash. Rev. Code Ann. (RCW) 30.04.280 and 30.40.020) which:

    (a) only allow commercial state banks and trust companies to acquire one branch of another bank and implicitly proscribe multibranch acquisitions;

    (b) do not affirmatively authorize commercial state banks and trust companies to branch by an exchange or trade of branches;

    (c) contemplate a "taking over or acquiring" of an entire bank and its branches and not just one or some of the branches; and

    (d) do not authorize commercial state banks and trust companies to branch by acquisition in an unincorporated city or town which is not its principal place of business.

### Bank Merger Act Considerations

The protestants have argued that this transaction is anticompetitive, violates antitrust laws, and, therefore, may not be approved. This challenge has been considered as a part of this Office's analysis of the competitive effects of the proposed transaction pursuant to the Bank Merger Act.

The Bank Merger Act requires this Office to consider whether the proposed merger transaction will substantially lessen competition or tend to create or result in a monopoly or restraint of trade; whether any perceived anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effects the transaction will have in meeting the convenience and needs of the communities served; financial and managerial resources and future prospects of the institutions; and the convenience and needs of the communities. (See 12 USC 1828(c)(5).

Commenting on the competitive aspect of this transaction as required under the Bank Merger Act (12 USC 1828(c)(4)), the U.S. Department of Justice, the Federal Deposit Insurance Corporation, and the Federal Reserve Board have each concluded that the proposed transaction presents no competitive impediments in the relevant market areas to the approval of this application. We agree with this conclusion and, indeed, find that the transaction will enhance competition in the relevant market areas and is, therefore, in the public interest. We further conclude that consummation of this transaction will enhance the convenience and needs of these areas.

We have considered the financial and managerial resources of the proponent banks, as well as their future prospects, and find these factors also to be favorable.

Related to this analysis under the Bank Merger Act is the protestants' claim that the proposed transaction is not a "merger transaction" which is subject to the Comptroller's approval under the Act. The protestants have argued that the transaction is, in effect, a "branch swap," "trade," "exchange," or "relocation" which does not constitute a conventional consolidation or merger pursuant to 12 USC 215, 215a or 1828(c). It is the opinion of this Office that such contentions are incorrect and that the acquisitions in question are "merger transactions" subject to the Comptroller's approval under the Bank Merger Act.

The agreement executed between ONB and PNB specifically provides for the transfer of certain assets and the assumption of certain liabilities. Assets have been defined to include real estate and the building in which the branch is located (if owned by the selling bank); any leasehold and leasehold improvements; furniture; fixtures, equipment and supplies (owned by, or leased by the selling bank); and the loan portfolio, with certain stipulated exceptions. The agreement also provides that the purchasing bank will assume the following liabilities: deposit accounts, with the consent of depositors, collection services; safe deposit rental agreements; obligations under maintenance and service contracts; and leases falling due or becoming performable subsequent to the closing date of the agreement.

The Bank Merger Act provides that "(n)o insured bank shall . . . acquire the assets of, or assume liability to pay any deposits made in, any other insured bank except with the prior written approval of . . . (the Comptroller of the Currency)." (See 12 USC 1828(c)(2)). It also specifically states that such a transaction is "referred to hereafter in this subsection as a 'merger transaction' " (See 12 USC 1828(c)(3)). The Act does not purport to prescribe the consideration, the method of acquisition, or the specific formula for asset or liability transfer. The fact that the targeted assets and liabilities are situated within a particular branch office does not, in out opinion, vitiate an otherwise valid "merger transaction."

Accordingly, based upon the provisions of both the Bank Merger Act and the agreement executed between the proponent banks, we conclude that this transaction meets the legal requirements of a "merger transaction." As such, it may, therefore, be approved by the Comptroller according to the standards set forth in the Bank Merger Act.

**Community Reinvestment Act**

This application was filed for consideration prior to the November 6, 1978 effective date of the Comptroller's Community Reinvestment Act regulations, 12 CFR 25. However, consistent with the spirit of the Community Reinvestment Act, Public Law 95-128, available information relevant to the banks' records of meeting their communities' needs has been reviewed. Those records do not reveal such evidence to suggest that the proponent banks are not generally meeting the credit needs of their communities, including low and moderate income sectors.

**Construction of State Branching Laws**

The protestants have argued that the proposed branch transfers are inconsistent with the provisions of applicable state commercial bank branching statutes and should, therefore, be denied under federal law. This Office does not concur in that opinion.

The federal statute governing the branching powers of national banks, 12 USC 36(c),[3] permits the Comptroller to authorize a national bank to establish new branches in the manner that state law permits state banks to do so.[4] Thus, in evaluating this application, the Comptroller must be satisfied that it conforms with the applicable restrictions imposed by Washington law on establishment of branches by any state banks. However, federal law does not restrict the words "state banks" to state-chartered commercial banks. Section 36(h) provides that:

> The words . . . "State banks" . . . as used in this section, shall be held to include trust companies, *savings banks,* or such other corporations or institutions carrying on the banking business under the authority of State laws. [Emphasis added]

The inclusion of savings banks and trust companies within the definition of "state banks" in Section 36 indicates that Congress foresaw the problem of a state according unequal branching powers to various financial institutions, thereby putting certain types of institutions at a competitive disadvantage. The congressional solution to this problem was to ensure that national banks be given the ability to establish branches in the manner and locations that the most favored "state banks" could.[5]

Accordingly, mutual savings banks, as "savings banks" and competitors of national banks operating in Washington, are "state banks . . . carrying on the banking business . . . "[6] within the meaning of 12 USC 36(h), and, therefore, national banks may establish

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[3] That section provides, in part, that

> [a] national banking association may, with the approval of the Comptroller of the Currency, establish . . . new branches . . . at any point within the State in which said association is situated, if such establishment . . . [is] at the time authorized to state banks by the statute law of the State in question by language specifically granting such authority affirmatively and not merely by implication or recognition . . .

[4] See *First National Bank in Plant City* v. *Dickinson,* 396 U.S. 122 (1969); *First National Bank of Logan* v. *Walker Bank & Trust Co.,* 385 U.S. 252 (1966); *Camden Trust Co.* v. *Gidney,* 301 F.2d 521 (D.C. Cir.), *cert. denied,* 369 U.S. 886 (1962).

[5] The importance of this fundamental concept is now underscored by the increasingly blurred lines of differentiation between commercial banks and other financial institutions in terms of the level of competition in the banking business. For instance, recent progressive changes have endowed savings banks with the ability to market many banking services similar to those offered by commercial banks. Such a development compels a broad approach to the state branching statutes which should be referenced in deciding various national bank branching questions in view of the policy of competitive equality underlying 12 USC 36, as well as the sweep of the triggering definition of "state banks" chosen by Congress. In our view, the language of Section 36 clearly authorizes reliance on the broad branching authority of state savings banks in Washington. Moreover, the financial services environment in that state, in particular, lend even greater support to this position. This Office has heretofore relied on savings bank branching statutes in Massachusetts in approving certain branches for national banks in that state.

[6] "Banking" according to RCW 30.04.010 means "the soliciting, receiving or accepting of money or its equivalent on deposit as a regular business." That mutual savings banks are engaged in banking is made evident by RCW 32.08.140 which provides that every mutual savings bank shall have the power "(t)o receive deposits of money . . . ."

That mutual savings banks are "institutions carrying on the banking business" (12 USC 36(h)) is further evidenced by various provisions of Washington law which permit them, in common with other banks, to become members of the Federal Reserve System and to be insured by the Federal Deposit Insurance Corporation (RCW 30.32.010); which permit them to exercise trust powers (RCW 32.08.210); which authorize them, upon a depositor's instructions, to effect withdrawals from his account by drafts payable according to the depositor's instructions (RCW 32.12.025); and which authorize the FDIC to act as receiver or liquidator for FDIC-insured mutual savings banks (RCW 32.24.090). Accordingly, it is evident that mutual savings banks are "state banks" within the meaning of 12 USC 36(c) and (h).

and operate branches wherever mutual savings banks are permitted to do so.[7]

The state branching statute applicable to Washington's mutual savings banks, RCW 32.04.030,[8] authorizes branching in any county of the state and contains none of the allegedly restrictive language of RCW 30.40.020 which the protestants have relied upon in challenging this application. Accordingly, the resulting establishment of branches in this transaction is authorized by 12 USC 36(c), based upon the authority of the class of "state banks" found in RCW 32.04.030, and approval of these branches is consistent with the substantive requirements of this statute applicable to national banks.

Reliance on the state's branching laws applicable to mutual savings banks pursuant to 12 USC 36(c) and (h) would appear to obviate the need in this case to consider the state's commercial bank branching statute,[9] or the protestants' arguments which focus on that statute. Nevertheless, we find that the proposed transfer of branches, except for the transfer of PNB's Federal Way branch, is also clearly authorized by RCW 30.40.020 and may be approved by the Comptroller thereunder.

RCW 30.40.020, which deals with the branching powers of commercial state banks and trust companies, provides, in part:

> Branches authorized—Restrictions.
>
> A bank or trust company having a paid-in capital of not less than five hundred thousand dollars may, with the approval of the supervisor, establish and operate branches in any city or town within the state. A bank or trust company having a paid-in capital of not less than two hundred thousand dollars may, with the approval of the supervisor, establish and operate branches within the limits of the county in which its principal place of business is located.
>
> * * * * *
>
> No bank or trust company shall establish or operate any branch, except a branch in a foreign country, in any city or town outside the city or town in which its principal place of business is located in which any bank, trust company or national banking association regularly transacts a banking or trust business, except by taking over or acquiring an existing bank, trust company or national banking association or the branch of any bank, trust company or national banking association operating in such city or town.

The protestants (most notably, the supervisor of banking) claim that authorization to take or acquire "*the* branch of any bank" in a city or town outside the city or town in which its principal place of business is located only allows a commercial state bank or trust company to acquire one branch of another bank and implicitly proscribes multibranch acquisitions. Similarly, these protestants also argue, from a purely interpretive point of view, that RCW 30.40.020 does not affirmatively authorize state commercial banks and trust companies to branch by exchanging branches and requires acquisition of an entire bank and not just one or

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[7] The District Court in *Hart* v. *Peoples National Bank*, No. C75-416S (W.D. Wash. Feb. 18, 1976) did not dispute the contention that mutual savings banks are "state banks" within the meaning of 12 USC 36(h). However, it did rely on *State Chartered Banks in Washington* v. *Peoples National Bank*, 291 F.Supp. 180 (W.D. Wash. 1966) in holding that a bank wishing to branch under the authority given to mutual savings banks "must satisfy all the provisions of that statute and show that it (the national bank) engages itself exclusively as a mutual savings bank." This Office believes that both of those decisions are in error in two respects:

First, both courts failed to consider that 12 USC 36, permitting the establishment of branches by national banks, is enabling legislation, not restricting legislation; that is, it was not intended to restrict national banks but rather, it was intended to benefit national banks by granting them new powers to enable them to compete with state-chartered institutions.

Second, both decisions failed to distinguish between those portions of a branching statute which can be complied with by *some* national banks, just as they can be complied with by some state-chartered institutions, and those portions of a statute which *no* national bank can comply with. National banks, as a class, cannot comply with all of the conditions of any state branching statute; for example, all state branching statutes require the approval of state banking supervisors while national banks are not subject to supervision by the states. (See *First National Bank of Fairbanks* v. *Camp*, 465 F.2d 586 (D.C. Cir. 1972), *cert. denied*, 409 U.S. 1124 (1973)). Nor can national banks, as a class, ever comply with all of the provisions of state law applicable to any given class or state-chartered institutions.

The question of whether a national bank may establish a branch pursuant to the power to do so granted to state mutual savings banks is now pending in the U.S. Court of Appeals for the Ninth Circuit in *Hart* v. *Peoples National Bank*, No. 76-2182.

[8] RCW 32.04.030 reads as follows:

Offices—Branches.

(1) A savings bank shall not do business or be located in the same room with, or in a room connecting with, any other bank, or a trust company that receives deposits of money or commercial paper, or a national banking association.

(2) No savings bank, or any officer or director thereof, shall receive deposits or transact any of its usual business at any place other than its principal place of business or an authorized branch.

(3) A savings bank, with the approval of the supervisor, may establish and operate branches but only upon the conditions and subject to the limitations following:

> If its guaranty fund is not less than the aggregate paid-in capital which would be required by law as a prerequisite to the establishment and operation of an equal number of branches in like locations by a bank.
>
> (b) Branches may be established in any county of the state; and
>
> (c) A branch shall not be established at a place at which the supervisor would not permit a proposed new savings bank to engage in business, by reason of any consideration contemplated by RCW 32.08.040, 32.08.050 and 32.08.060, the provisions of which, insofar as applicable, including those relating to appeals, shall extend to applications to establish branches.

[9] RCW 30.40.020.

some of its branches. This Office finds these interpretations of the statute to be in error.

Because of the absence of relevant case law in the state on these questions, the Comptroller is authorized to independently interpret and apply this statute in evaluating ONB's branch/merger application, free from the control of the opinions of the state supervisor:[10]

> (Where state) . . . courts have not construed the section, the Comptroller is free to do so and is, furthermore, free to adopt any reasonable construction that the statute setting forth the standard may bear. Since that statute in effect is adopted by Section 36 of the federal law, it is tantamount to a federal administrative official construing a federal statute which he is charged to administer and enforce.[11]

In construing RCW 30.40.020, this Office is guided by the state's rules of statutory construction. Those rules direct that the provisions of the code should be liberally construed,[12] and that words importing number (i.e., singular and plural) and gender (i.e., masculine or feminine) do not necessarily restrict a statute's meaning to the specific number or gender used.[13] Consequently, we find that the term " the branch" may be construed to mean "branches," thereby allowing a bank's acquisition of one or more branches of another bank. Indeed, the facts of *Seattle-First National Bank* v. *Spokane County,* 196 Wash. 419, 83 P.2d 359 (1938) (merger of banks resulting in the acquisition and operation of the target bank's *branches* by the surviving bank), and *United States* v. *Marine Bancorporation,* 418 U.S. 602 (1974) (merger of banks resulting in the acquisition and operation of the target bank's *branches* by the surviving bank permitting it to expand into cities and towns with pre-existing banking organizations) lend support to this Office's interpretation of state law on this question.

Furthermore, bearing in mind the state's rules of statutory construction, and absent any statutory language or case law limiting the manner of "taking over or acquiring," a reasonable reading of the text of this statute leads us to conclude that, contrary to the protestants' contentions, the plain meaning of its words authorize a transfer of branches by merger, in that the method of "taking over or acquiring" may be determined by the parties to the agreement since the legislature has chosen not to dictate the method or mode of payment, whether by cash, stock, or other consideration. The fact that a branch may be acquired in consideration for the sale of a branch to another bank in a manner which, on its face, resembles an exchange or trade, does not vitiate the general authority of a bank to branch by acquisition in a city or town which is not its principal place of business. Moreover, we find that RCW 30.40.020, by not limiting the type of acquisition permitted, or excepting or excluding the functional exchange of branches, does affirmatively authorize the method of branching under consideration since, unless so restricted by the statute, it permits " . . . (a) bank or trust company having a paid-in capital of not less than five hundred thousand dollars . . . (to) establish and operate branches in any city or town within the state."[14] Therefore, the sale and transfer of branches[15] which the protestants have chosen to label as a "swap" or "exchange" is, in our opinion, affirmatively authorized by RCW 30.40.020.

Likewise, nothing in the statute authorizing the "taking over or acquiring (of) an existing bank . . . or *the branch* of . . . (a) bank" indicates that the acquisition must be of the entire bank and not just one of its branches. Indeed, the plain meaning of the statute's language suggests that one bank may branch by acquiring "*the* branch" of another bank. Any interpretation of the statute which precludes all types of acquisitions except total mergers or consolidations would severely limit the significance and intent of the statute and, in view of the statute's language, conflict with the rule that " . . . a statute ought, upon the whole, to be so construed that, if it can be prevented, no clause, sentence, or word shall be superfluous, void or insignificant."[16]

Finally, even though the words "city" or "town," as used in RCW 30.40.020, have been judicially interpreted to refer to incorporated areas, it is this Office's opinion that national banks in Washington may still branch in unincorporated cities or towns pursuant to 12 USC 36(c) since state savings banks, which are in direct competition with national banks in the state, are authorized to do so.[17]

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[10] *First National Bank of Fairbanks* v. *Camp,* 465 F.2d at 597. *See also, Leuthold* v. *Camp,* 273 F.Supp. 695 (D. Mont. 1967), *aff'd per curiam,* 405 F.2d 499 (9th Cir. 1969); *Union Savings Bank of Patchogue* v. *Saxon,* 335 F.2d 718 (D.C. Cir. 1964); *South Dakota* v. *The Nat'l. Bank of South Dakota,* 219 F.Supp. 842 (S.D. S.D. 1963), *aff'd,* 335 F.2d 444 (8th Cir.), *cert. denied,* 379 U.S. 970 (1965).

[11] *Clermont Nat'l Bank* v. *Citizenbank, N.A.,* 329 F.Supp. 1331, 1341-42 (S.D. Ohio 1971).

[12] Wash. Rev. Code Ann. 1.12.010 reads as follows:

> The provisions of this code shall be liberally construed, and shall not be limited by any rule of strict construction.

[13] Wash. Rev. Code Ann. 1.12.050 states:

> Words importing the singular number may also be applied to the plural of persons and things; words importing the plural may be applied to the singular; and words importing the masculine gender may be extended to females also.

[14] Cf. *Seattle-First Nat'l Bank* v. *Spokane County,* 83 P.2d at 363.

[15] Although the agreement contemplates a simultaneous transfer of all of the branches in question, the applicants stated at the hearing that, depending on the renegotiation of a sales price, the failure or inability to transfer certain branches would not necessarily prevent the consummation of the transaction.

[16] *Washington Market Company* v. *Hoffman,* 101 U.S. 112, 115-16 (1879); *United States* v. *Campos-Serrano,* 404 U.S. 293, 301 (1971).

[17] This issue arises since PNB's Federal Way branch is in an unincorporated area. On December 21, 1978, the Supreme Court of Washington, in *Hart* v. *Peoples National Bank, et al.,*

In accordance with the above opinion, we find that the proposed acquisition of branches is affirmatively authorized by RCW 32.04.030 and 30.40.020, and, therefore, is permitted by 12 USC 36(b) and (c).

### Conclusion

We have carefully considered the application pursuant to the Bank Merger Act, 12 USC 1828(c), and in light of the questions raised by the protestants. We conclude that the proposed transactions will have no adverse effect on competition, will be in the public interest, and will otherwise satisfy the requirements of the Bank Merger Act. We also conclude that the transactions will violate no other provisions of state or federal law. Accordingly, the application of ONB to purchase the assets and assume the liabilities of three branch offices of PNB is approved. However, since PNB's Federal Way South branch is in an unincorporated area, consummation of its transfer to ONB is suspended pending a determination by the United States Court of Appeals for the Ninth Circuit of whether a national bank may establish a branch in an unincorporated area pursuant to the power to do so granted to state mutual savings banks.

February 1, 1979

No. 45594, interpreted the terms "city" or "town," as used in RCW 30.40.020, to be *incorporated* cities or towns, thus restricting branching by state-chartered commercial banks to such areas. The Washington Supreme Court had no occasion to address the broader branching authority of state savings banks under RCW 32.04.030. Our approval, however, of the transfer of this particular branch is, as previously discussed, based on the fact that 12 USC 36(c) references state branching laws applicable to any state bank which is defined in 12 USC 36(h) to include "savings banks." Nevertheless, this Office has decided to suspend the consummation of the transfer of this branch pending a decision by the United States Court of Appeals for the Ninth Circuit in *Hart* v. *Peoples National Bank, et al.*, No. 76-2182, where this issue has been raised.

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed these proposed transactions and conclude that they would not have a substantial competitive impact.

* * *

## PACIFIC NATIONAL BANK OF WASHINGTON,
## Seattle, Wash., and Three Branches of Old National Bank of Washington, Spokane, Wash.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices†* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Three Branches of Old National Bank of Washington, Spokane, Wash. (4668), with | $1,103,729 | 3 | ——— |
| were purchased March 5, 1979, by Pacific National Bank of Washington, Seattle, Wash. (3417), which had | 1,593,412 | 73 | ——— |
| After the purchase was effected, the receiving bank had | 1,579,982 | ——— | 74 |

## COMPTROLLER'S DECISION

An application was filed on February 17, 1978, with the Office of the Comptroller of the Currency according to the requirements set forth in the Bank Merger Act, 12 USC 1828(c), by Pacific National Bank of Washington, Seattle, Wash. ("PNB"), for approval to purchase the assets and assume the liabilities of three branch offices of Old National Bank of Washington, Spokane, Wash. ("ONB"). The application is based on a written agreement executed by the proponent banks on November 30, 1977.

This application and three other purchase and assumption applications filed in February 1978 involving ONB, PNB, Rainier National Bank, Seattle, and First National Bank in Spokane were challenged by several protestants including the supervisor of banking for the state. In response to several requests, a public hearing on all four applications was held in Seattle on April 19-20, 1978, before the Regional Administrator of National Banks, Thirteenth National Bank Region (Portland).

At the public administrative hearing, both the proponent and opponents of the applications were represented by counsel and were given the opportunity to make opening statements, present the testimony of witnesses and physical exhibits and make closing statements. A reporter was present at the hearing and prepared a transcript for inclusion in the administrative record. On the basis of the administrative record, this opinion is now issued.[1]

### Background

PNB is a national bank with deposits of approximately $1.1 billion, maintaining a main office and 70

* Asset figures are for entire bank as of call dates immediately before and after transaction.

† Office figures are for beginning and end of day and reflect all transactions occurring that day.

[1] It is the policy of the Office of the Comptroller of the Currency to issue a formal opinion in connection with decisions of general import or involving novel issues. This application raises important questions concerning the authority of national banks in the state to establish branch offices.

branches.[2] It is the third largest commercial bank in Washington, controlling 8.5 percent of the total commercial bank deposits. PNB is a commercial banking subsidiary of Western Bancorporation, Los Angeles, Calif. ("WB"), a registered multibank holding company. As of December 31, 1977, WB controlled 22 banks with consolidated deposits of approximately $18.7 billion.

ONB maintains a main office and 77 branches and has deposits of $888.3 million, representing 6.6 percent of Washington's total commercial bank deposits. ONB is a subsidiary of Old National Bancorporation, Spokane ("ONBC"), which is the only registered multibank holding company headquartered in the state. ONBC controls two banks: ONB and First National Bank in Spokane. With total deposits of approximately $950.9 million that represent 7.1 percent of the total state commercial bank deposits, ONBC is the fifth largest of 95 commercial banking organizations.

Two of the three branches, 510 Third Avenue and No. 3 Triangle Shopping Center, which will be transferred from ONB to PNB under the agreement, are in the Longview metropolitan area of Cowlitz County. ONB operates seven banking offices in Cowlitz County having combined deposits of approximately $48 million and representing 27 percent of the total county commercial bank deposits. PNB maintains two offices in the county which collectively hold $17 million in deposits representing 9.6 percent of the total county commercial bank deposits.

Currently, there are two commercial banks headquartered in Longview, Cowlitz County. Four additional commercial banks operate branch offices in the county. One of these is Seattle-First National Bank, Seattle, which is the largest commercial bank in Washington. If the proposed purchase and assumption is executed, PNB will operate four branches in the county and hold approximately 11.6 percent of the total county deposits. However, it would not significantly change its relative position in the county in terms of the percentage of commercial bank deposits held.

The remaining ONB branch office which will be transferred to PNB is in a major retail district of the Spokane metropolitan area. Currently, there are 10 banking organizations competing in Spokane County. Of these, Seattle-First National Bank is the largest, holding approximately 38.5 percent of Spokane County deposits. ONB is the second largest commercial bank in Spokane County. It operates a main office and 23 branches there having $290.7 million in deposits representing 28.1 percent of the total commercial bank deposits in the county. PNB maintains two branches in the county which collectively hold $24 million in deposits representing 2.3 percent of the total county commercial bank deposits. If the proposed transfer is consummated, PNB's share of Spokane County deposits will increase by approximately 1 percent, while ONB's share will decrease by that amount.

[2] All deposit and branch figures are as of June 30, 1978, unless otherwise noted.

## Issues

The protestants have presented the general argument that the Comptroller of the Currency may not authorize the proponent banks to consummate their agreement and operate the acquired branch offices as their own. This challenge is more specifically based on the protestants' following arguments:

1. The proposed acquisitions are anticompetitive, violate antitrust laws and therefore, may not be approved.
2. The proposed transactions are not "merger transactions" contemplated by the Bank Merger Act (12 USC 1828(c)) which may be approved by the Comptroller pursuant to that Act.
3. The proposed acquisitions are inconsistent with the spirit and intent of the Community Reinvestment Act.
4. The proposed branch acquisitions would violate federal branching laws (12 USC 36(b) and (c)) since they are inconsistent with the state's branching laws applicable to state-chartered commercial banks and trust companies (Wash. Rev. Code Ann. (RCW) 30.04.280 and 30.40.020) which:

(a) only allow commercial state banks and trust companies to acquire one branch of another bank and implicitly proscribe multibranch acquisitions;

(b) do not affirmatively authorize commercial state banks and trust companies to branch by an exchange or trade of branches; and

(c) contemplate a "taking over or acquiring" of an entire bank and its branches and not just one or some of the branches.

### Bank Merger Act Considerations

The protestants have argued that this transaction is anticompetitive, violates antitrust laws, and, therefore, may not be approved. This challenge has been considered as a part of this Office's analysis of the competitive effects of the proposed transaction pursuant to the Bank Merger Act.

The Bank Merger Act requires this Office to consider whether the proposed merger transaction will substantially lessen competition or tend to create or result in a monopoly or restraint of trade; whether any perceived anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effects the transaction will have in meeting the convenience and needs of the communities served; financial and managerial resources and future prospects of the institutions; and the convenience and needs of the communities. (See 12 USC 1828(c)(5)).

Commenting on the competitive aspect of this transaction as required under the Bank Merger Act (12 USC 1828(c)(4)), the United States Department of Justice, the Federal Deposit Insurance Corporation, and the Federal Reserve Board have each concluded that the proposed transaction presents no competitive impediments in the relevant market areas to the approval of this application. We agree with this conclusion and, indeed, find that the transaction will enhance competition in the relevant market areas and is, therefore, in the public interest. We further conclude that consummation of this transaction will enhance the convenience and needs of these areas.

We have considered the financial and managerial resources of the proponent banks, as well as their future prospects, and find these factors also to be favorable.

Related to this analysis under the Bank Merger Act is the protestants' claim that the proposed transaction is not a "merger transaction" which is subject to the Comptroller's approval under the Act. The protestants have argued that the transaction is, in effect, a "branch swap," "trade," "exchange," or "relocation" which does not constitute a conventional consolidation or merger pursuant to 12 USC 215, 215a or 1828(c). It is the opinion of this Office that such contentions are incorrect and that the acquisitions in question are "merger transactions" subject to the Comptroller's approval under the Bank Merger Act.

The agreement executed between ONB and PNB specifically provides for the transfer of certain assets and the assumption of certain liabilities. Assets have been defined to include real estate and the building in which the branch is located (if owned by the selling bank); any leasehold and leasehold improvements; furniture; fixtures, equipment and supplies (owned by, or leased by the selling bank); and the loan portfolio, with certain stipulated exceptions. The agreement also provides that the purchasing bank will assume the following liabilities: deposit accounts, with the consent of depositors; collection services; safe deposit rental agreements; obligations under maintenance and service contracts; and leases falling due or becoming performable subsequent to the closing date of the agreement.

The Bank Merger Act provides that "[n]o insured bank shall . . . acquire the assets of, or assume liability to pay any deposits made in, any other insured bank except with the prior written approval of . . . [the Comptroller of the Currency]." (See 12 USC 1828(c)(2)). It also specifically states that such a transaction is "referred to hereafter in this subsection as a 'merger transaction.' " (See 12 USC 1828(c)(3)). The Act does not purport to prescribe the consideration, the method of acquisition, or the specific formula for asset or liability transfer. The fact that the targeted assets and liabilities are situated within a particular branch office does not, in our opinion, vitiate an otherwise valid "merger transaction."

Accordingly, based upon the provisions of both the Bank Merger Act and the agreement executed between the proponent banks, we conclude that this transaction meets the legal requirements of a "merger transaction." As such, it may, therefore, be approved by the Comptroller according to the standards set forth in the Bank Merger Act.

### Community Reinvestment Act

This application was filed for consideration prior to the November 6, 1978, effective date of the Comptroller's Community Reinvestment Act regulations, in 12 CFR 25. However, consistent with the spirit of the Community Reinvestment Act, Public Law 95-128, available information relevant to the banks' records of meeting their communities' needs has been reviewed. Those records do not reveal such evidence to suggest that the proponent banks are not generally meeting the credit needs of their communities, including low and moderate income sectors.

### Construction of State Branching Laws

The protestants have argued that the proposed branch transfers are inconsistent with the provisions of applicable state commercial bank branching statutes and should, therefore, be denied under federal law. This Office does not concur in that opinion.

The federal statute governing the branching powers of national banks, 12 USC 36(c),[3] permits the Comptroller to authorize a national bank to establish new branches in the manner that state law permits state banks to do so.[4] Thus, in evaluating this application, the Comptroller must be satisfied that it conforms with the applicable restrictions imposed by Washington law on establishment of branches by any state banks. However, federal law does not restrict the words "state banks" to state-chartered commercial banks. Section 36(h) provides that:

> The words . . . "State banks" . . . as used in this section, shall be held to include trust companies, *savings banks,* or such other corporations or institutions carrying on the banking business under the authority of State laws. [Emphasis added]

The inclusion of savings banks and trust companies within the definition of "state banks" in Section 36 indicates that Congress foresaw the problem of a state according unequal branching powers to various financial institutions, thereby putting certain types of institutions at a competitive disadvantage. The congressional solution to this problem was to ensure that national banks be given the ability to establish branches in the manner and locations that the most favored "state banks" could.[5]

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[3] That section provides, in part, that:

> [a] national banking association may, with the approval of the Comptroller of the Currency, establish . . . new branches . . . at any point within the State in which said association is situated, if such establishment . . . [is] at the time authorized to state banks by the statute law of the State in question by language specifically granting such authority affirmatively and not merely by implication of recognition . . . .

[4] See *First National Bank in Plant City* v. *Dickinson,* 396 U.S. 122 (1969); *First National Bank of Logan* v. *Walker Bank & Trust Co.,* 385 U.S. 252 (1966); *Camden Trust Co.* v. *Gidney,* 301 F.2d 521 (D.C. Cir.), *cert. denied,* 369 U.S. 886 (1962).

[5] The importance of this fundamental concept is now underscored by the increasingly blurred lines of differentiation between commercial banks and other financial institutions in terms of the level of competition in the banking business. For instance, recent progressive changes have endowed savings banks with the ability to market many banking services similar to those offered by commercial banks. Such a development compels a broad approach to the state branching statutes which should be referenced in deciding various national bank branching questions in view of the policy of com-

Accordingly, mutual savings banks, as "savings banks" and competitors of national banks operating in the state of Washington, are "state banks . . . carrying on the banking business . . ."[6] within the meaning of 12 USC 36(h), and, therefore, national banks may establish and operate branches wherever mutual savings banks are permitted to do so.[7]

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petitive equality underlying 12 USC 36, as well as the sweep of the triggering definition of "state banks" chosen by Congress. In our view, the language of Section 36 clearly authorizes reliance on the broad branching authority of state savings banks in Washington. Moreover, the financial services environment in that state, in particular, lends even greater support to this position. This Office has heretofore relied on savings bank branching statutes in Massachusetts in approving certain branches for national banks in that state.

[6] "Banking" according to RCW 30.04.010 means "the soliciting, receiving or accepting of money or its equivalent on deposit as a regular business." That mutual savings banks are engaged in banking is made evident by RCW 32.08.140 which provides that every mutual savings bank shall have the power "[t]o receive deposits of money . . . ."

That mutual savings banks are "institutions carrying on the banking business" (12 USC 36(h)) is further evidenced by various provisions of Washington law which permit them, in common with other banks, to become members of the Federal Reserve System and to be insured by the Federal Deposit Insurance Corporation (RCW 30.32.010); which permit them to exercise trust powers (RCW 32.08.210); which authorize them, upon a depositor's instructions, to effect withdrawals from his account by drafts payable according to the depositor's instructions (RCW 32.12.025); and which authorize the FDIC to act as receiver or liquidator for FDIC-insured mutual savings banks (RCW 32.24.090). Accordingly, it is evident that mutual savings banks are "state banks" within the meaning of 12 USC 36(c) and (h).

[7] The District Court in *Hart* v. *Peoples National Bank*, No. C75-416S (W.D. Wash. Feb. 18, 1976) did not dispute the contention that mutual savings banks are "state banks" within the meaning of 12 USC 36(h). However, it did rely on *State Chartered Banks in Washington* v. *Peoples National Bank*, 291 F. Supp. 180 (W.D. Wash. 1966) in holding that a bank wishing to branch under the authority given to mutual savings banks "must satisfy all the provisions of that statute and show that it (the national bank) engages itself exclusively as a mutual savings bank." This Office believes that both of those decisions are in error in two respects:

First, both courts failed to consider that 12 USC 36, permitting the establishment of branches by national banks, is enabling legislation, not restricting legislation; that is, it was not intended to restrict national banks but rather, it was intended to benefit national banks by granting them new powers to enable them to compete with state-chartered institutions.

Second, both decisions failed to distinguish between those portions of a branching statute which can be complied with by *some* national banks, just as they can be complied with by some state-chartered institutions, and those portions of a statute which *no* national bank can comply with. National banks, as a class, cannot comply with all of state banking supervisors while national banks are not subject to supervision by the states. (See *First National Bank of Fairbanks* v. *Camp*, 465 F.2d 586 (D.C. Cir. 1972), *cert. denied*, 409 U.S. 1124 (1973)). Nor can national banks, as a class, ever comply with all of the provisions of state law applicable to any given class of state-chartered institutions.

The state branching statute applicable to Washington's mutual savings banks, RCW 32.04.030,[8] authorizes branching in any county of the state and contains none of the allegedly restrictive language of RCW 30.40.020 which the protestants have relied upon in challenging this application. Accordingly, the resulting establishment of branches in this transaction is authorized by 12 USC 36(c), based upon the authority of the class of "state banks" found in RCW 32.04.030, and approval of these branches is consistent with the substantive requirements of this statute applicable to national banks.

Reliance on the state's branching laws applicable to mutual savings banks pursuant to 12 USC 36(c) and (h) would appear to obviate the need in this case to consider the state's commercial bank branching statute,[9] or the protestants' arguments which focus on that statute. Nevertheless, we find that the proposed transfer of branches is also clearly authorized by RCW 30.40.020 and may be approved by the Comptroller thereunder.

RCW 30.40.020, which deals with the branching powers of commercial state banks and trust companies, provides, in part:

> Branches authorized—Restrictions.
>
> A bank or trust company having a paid-in capital of not less than five hundred thousand dollars may, with the approval of the supervisor, establish and operate branches in any city or town with the

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The question of whether a national bank may establish a branch pursuant to the power to do so granted to state mutual savings bank is now pending in the U.S. Court of Appeals for the Ninth Circuit in *Hart* v. *Peoples National Bank*, No. 76-2182.

[8] RCW 32.04.030 reads as follows:

> Offices—Branches
>
> (1) A savings bank shall not do business or be located in the same room with, or in a room connecting with, any other bank, or a trust company that receives deposits of money or commercial paper, or a national banking association.
>
> (2) No savings bank, or any officer or director thereof, shall receive deposits or transact any of its usual business at any place other than its principal place of business or an authorized branch.
>
> (3) A savings bank, with the approval of the supervisor, may establish and operate branches but only upon the conditions and subject to the limitations following:
>
> (a) If its guaranty fund is not less than the aggregate paid-in capital which would be required by law as a prerequisite to the establishment and operation of an equal number of branches in like locations by a bank.
>
> (b) Branches may be established in any county of the state; and
>
> (c) A branch shall not be established at a place at which the supervisor would not permit a proposed new savings bank to engage in business, by reason of any consideration contemplated by RCW 32.08.040, 32.08.050 and 32.08.060, the provisions of which, insofar as applicable, including those relating to appeals, shall extend to applications to establish branches.

[9] RCW 30.40.020.

state. A bank or trust company having a paid-in capital of not less than two hundred thousand dollars may, with the approval of the supervisor, establish and operate branches within the limits of the county in which its principal place of business is located.

*

No bank or trust company shall establish or operate any branch, except a branch in a foreign country, in any city or town outside the city or town in which its principal place of business is located in which any bank, trust company or national banking association regularly transacts a banking or trust business, except by taking over or acquiring an existing bank, trust company or national banking association or the branch of any bank, trust company or national banking association operating in such city or town.

The protestants (most notably, the supervisor of banking) claim that authorization to take or acquire "*the* branch of any bank" in a city or town outside the city or town in which its principal place of business is located only allows a commercial state bank or trust company to acquire one branch of another bank and implicitly proscribes multibranch acquisitions. Similarly, these protestants also argue, from a purely interpretive point of view, that RCW 30.40.020 does not affirmatively authorize state commercial banks and/or trust companies to branch by exchanging branches and requires acquisition of an entire bank and not just one or some of its branches. This Office finds these interpretations of the statute to be in error.

Because of the absence of relevant case law in the state on these questions, the Comptroller is authorized to independently interpret and apply this statute in evaluating PNB's branch/merger application, free from the control of the opinions of the state supervisor:[10]

> [Where state] . . . courts have not construed the section, the Comptroller is free to do so and is, furthermore, free to adopt any reasonable construction that the statute setting forth the standard may bear. Since that statute in effect is adopted by Section 36 of the federal law, it is tantamount to a federal administrative official construing a federal statute which he is charged to administer and enforce.[11]

In construing RCW 30.40.020, this Office is guided by the state's rules of statutory construction. Those rules direct that the provisions of the code should be liberally construed,[12] and that words importing number (i.e., singular and plural) and gender (i.e., masculine or feminine) do not necessarily restrict a statute's meaning to the specific number or gender used.[13] Consequently, we find that the term "the branch" may be construed to mean "branches," thereby allowing a bank's acquisition of one or more branches of another bank. Indeed, the facts of *Seattle-First National Bank* v. *Spokane County,* 196 Wash. 419, 83 P.2d 359 (1938) (merger of banks resulting in the acquisition and operation of the target bank's *branches* by the surviving bank), and *United States* v. *Marine Bancorporation,* 418 U.S. 602 (1974) (merger of banks resulting in the acquisition and operation of the target bank's *branches* by the surviving bank permitting it to expand into cities and towns with pre-existing banking organizations) lend support to this Office's interpretation of state law on this question.

Furthermore, bearing in mind the state's rules of statutory construction, and absent any statutory language or case law limiting the manner of "taking over or acquiring," a reasonable reading of the text of this statute leads us to conclude that, contrary to the protestants' contentions, the plain meaning of its words authorize a transfer of branches by merger, in that the method of "taking over or acquiring" may be determined by the parties to the agreement since the legislature has chosen not to dictate the method or mode of payment, whether by cash, stock, or other consideration. The fact that a branch may be acquired in consideration for the sale of a branch to another bank in a manner which, on its face, resembles an exchange or trade, does not vitiate the general authority of a bank to branch by acquisition in a city or town which is not its principal place of business. Moreover, we find that RCW 30.40.020, by not limiting the type of acquisition permitted, or excepting or excluding the functional exchange of branches, does affirmatively authorize the method of branching under consideration since, unless so restricted by the statute, it permits " . . . [a] bank or trust company having a paid-in capital of not less than five hundred thousand dollars . . . [to] establish and operate branches in any city or town within the state."[14] Therefore, the sale and transfer of branches[15]

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[10] *First National Bank of Fairbanks* v. *Camp,* 465 F.2d at 597. *See also Leuthold* v. *Camp,* 273 F. Supp. 695 (D. Mont. 1967), *aff'd per curiam,* 405 F. 2d 499 (9th Cir. 1969); *Union Savings Bank of Patchogue* v. *Saxon,* 335 F.2d 718 (D.C. Cir. 1964); *South Dakota* v. *The National Bank of South Dakota,* 219 F. Supp. 842 (S.D. S.D. 1963), *aff'd,* 335 F.2d 444 (8th Cir.), *cert. denied,* 379 U.S. 970 (1965).

[11] *Clermont National Bank* v. *Citizensbank, N.A.* 329 F. Supp. 1331, 1341-42 (S.D. Ohio 1971).

[12] Wash. Rev. Code Ann. 1.12.010 reads as follows:

> The provisions of this code shall be liberally construed, and shall not be limited by any rule of strict construction.

[13] Wash. Rev. Code Ann. 1.12.050 states:

> Words importing the singular number may also be applied to the plural of persons and things; words importing the plural may be applied to the singular; and words importing the masculine gender may be extended to females also.

[14] Cf. *Seattle-First National Bank* v. *Spokane County,* 83 P.2d at 363.

[15] Although the agreement contemplates a simultaneous transfer of all of the branches in question, the applicants stated at the hearing that, depending on the renegotiation of a sales price, the failure or inability to transfer certain branches would not necessarily prevent the consummation of the transaction.

which the protestants have chosen to label as a "swap" or "exchange" is, in our opinion, affirmatively authorized by RCW 30.40.020.

Likewise, nothing in the statute authorizing the "taking over or acquiring [of] an existing bank . . . or the *branch* of . . . [a] bank" indicates that the acquisition must be of the entire bank and not just one of its branches. Indeed, the plain meaning of the statute's language suggests that one bank may branch by acquiring "*the* branch" of another bank. Any interpretation of the statute which precludes all types of acquisitions except total mergers or consolidations would severely limit the significance and intent of the statute and, in view of the statute's language, conflict with the rule that " . . . a statute ought, upon the whole, to be so construed that, if it can be prevented, no clause, sentence, or word shall be superfluous, void or insignificant."[16]

In accordance with the above opinion, we find that the proposed acquisition of branches is affirmatively authorized by RCW 32.04.030 and 30.40.020, and, therefore, is permitted by 12 USC 36(b) and (c).

[16] *Washington Market Company* v. *Hoffman*, 101 U.S. 112, 115-16 (1879); *United States* v. *Campos-Serrano*, 404 U.S. 293, 301 (1971).

### Conclusion

We have carefully considered the application pursuant to the Bank Merger Act, 12 USC 1828(c), and in light of the questions raised by the protestants. We conclude that the proposed transactions will have no adverse effect on competition, will be in the public interest, and will otherwise satisfy the requirements of the Bank Merger Act. We also conclude that the transactions will violate no other provisions of state or federal law. Accordingly, the application of PNB to purchase the assets and assume the liabilities of three branch offices of ONB is approved.

February 1, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed these proposed transactions and conclude that they would not have a substantial competitive impact.

* * *

## RAINIER NATIONAL BANK,
## Seattle, Wash., and Four Branches of First National Bank in Spokane, Spokane, Wash., and One Branch of Old National Bank of Washington, Spokane, Wash.

| Names of banks and type of transaction | Total assets* | Banking offices† | |
|---|---|---|---|
| | | In operation | To be operated |
| Four Branches of First National Bank in Spokane, Spokane, Wash. (13331), with | $ 77,017 | 4 | |
| and One Branch of Old National Bank of Washington, Spokane, Wash. (4668), with | 1,103,729 | 1 | |
| were purchased March 5, 1979, by Rainier National Bank, Seattle, Wash. (4375), which had | 3,885,782 | 123 | |
| After the purchase was effected, the receiving bank had | 4,193,175 | | 124 |

## COMPTROLLER'S DECISION

An application was filed on February 24, 1978, with the Office of the Comptroller of the Currency according to the Bank Merger Act, 12 USC 1828(c), by Rainier National Bank, Seattle, Wash. ("RNB"), for approval to purchase the assets and assume the liabilities of four branch offices of First National Bank of Spokane, Spokane, Wash. ("FNB") and one branch office of Old National Bank of Washington, Spokane ("ONB"). The application is based on a written agreement executed by the proponent banks on November 30, 1977.

This application and three other purchase and assumption applications filed in February 1978 involving RNB, FNB, ONB, and Pacific National Bank of Washington, Seattle, were challenged by several protestants, including the supervisor of banking for the state. In response to several requests, a public hearing on all four applications was held in Seattle on April 19-20, 1978, before the regional administrator of national banks, Thirteenth National Bank Region (Portland).

At the public administrative hearing, both the proponent and opponents of the applications were represented by counsel and were given the opportunity to make opening statements, present the testimony of witnesses and physical exhibits and make closing statements. A reporter was present at the hearing and prepared a transcript for inclusion in the administrative record. On the basis of the administrative record, this opinion is now issued.[1]

### Background

With the exception of directors' qualifying shares, RNB is a wholly owned commercial banking subsidiary of Rainier Bancorporation, Seattle, Wash. ("RB"). RB is a registered bank holding company and is the second largest commercial banking organization headquar-

* Asset figures are for entire bank as of call dates immediately before and after transaction.

† Office figures are for beginning and end of day and reflect all transactions occurring that day.

[1] It is the policy of the Office of the Comptroller of the Currency to issue a formal opinion in connection with decisions of general import or involving novel issues. This application raises important questions concerning the authority of national banks in Washington to establish branch offices.

tered in Washington. RB has total deposits of $2.6 billion, representing 19.3 percent of the total commercial bank deposits in the state.[2]

ONB is a national bank with deposits of $888.3 million, representing 6.6 percent of Washington's total commercial bank deposits. It maintains a main office and 77 branches. ONB is a subsidiary of Old National Bancorporation, Spokane ("ONBC"), which is the only registered multibank holding company headquartered in the state. ONBC controls two banks (ONB and First National Bank in Spokane). With total deposits of approximately $950.9 million representing 7.1 percent of the total state commercial bank deposits, ONBC is the fifth largest of 95 commercial banking organizations in the state.

FNB maintains a main office and five branches in the state and has deposits of $62.6 million, representing less than 1 percent of Washington's total commercial bank deposits. FNB is also a subsidiary of ONBC.

All five branches which will be transferred under the agreement are in the Spokane metropolitan area. RNB is the seventh largest of nine commercial banking organizations operating in Spokane County with two branches having $21.9 million in deposits, representing 2.1 percent of the county's total commercial bank deposits.

ONB is the second largest commercial bank in Spokane County. It operates a main office and 23 branches there having $290.7 million in deposits, representing 28.1 percent of the total commercial bank deposits. FNB maintains its main office and all five of its branches in Spokane County. It holds approximately 5.5 percent of the total county commercial bank deposits.

Spokane is the third largest commercial banking market in the state. Eight commercial banks operate 69 banking offices in the county. In addition, three mutual savings banks operate 15 offices, and five savings and loan associations operate 10 offices in the county. Seattle-First National Bank, the largest commercial bank in Washington, controls 38.5 percent of the total commercial bank deposits in Spokane County. If the agreement between RNB, ONB and FNB is executed, RNB will enjoy a modest increase in its Spokane County business and will enter the Spokane metropolitan area for the first time. Although RNB does have two offices in Spokane County (Deer Park and Medical Lake), neither of these offices are actually in the Spokane metropolitan area.

## Issues

The protestants have presented the general argument that the Comptroller of the Currency may not authorize the proponent banks to consummate their agreement and operate the acquired branch offices as their own. This challenge is more specifically based on the protestants' following arguments:

1. The proposed acquisitions are anticompetitive, violate antitrust laws and, therefore, may not be approved.
2. The proposed transactions are not "merger transactions" contemplated by the Bank Merger Act (12 USC 1828(c)) which may be approved by the Comptroller pursuant to that Act.
3. The proposed acquisitions are inconsistent with the spirit and intent of the Community Reinvestment Act.
4. The proposed branch acquisitions would violate federal branching laws (12 USC 36(b) and (c)) since they are inconsistent with the state's branching laws applicable to state-chartered commercial banks and trust companies (Wash. Rev. Code Ann. RCW 30.04.280 and 30.40.020) which:

(a) only allow commercial state banks and trust companies to acquire one branch of another bank and implicitly proscribe multibranch acquisitions;

(b) do not affirmatively authorize commercial state banks and trust companies to branch by an exchange or trade of branches; and

(c) contemplate a "taking over or acquiring" of an entire bank and its branches and not just one or some of the branches.

### Bank Merger Act Consideration

The protestants have argued that this transaction is anticompetitive, violates antitrust laws and, therefore, may not be approved. This challenge has been considered as a part of this Office's analysis of the competitive effects of the proposed transaction pursuant to the Bank Merger Act.

The Bank Merger Act requires this Office to consider whether the proposed merger transaction will substantially lessen competition or tend to create or result in a monopoly of restraint of trade; whether any perceived anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effects the transaction will have in meeting the convenience and needs of the communities served; financial and managerial resources and future prospects of the institutions; and the convenience and needs of the communities. (See 12 USC 1828(c)(5).

Commenting on the competitive aspect of this transaction as required under the Bank Merger Act (12 USC 1828(c)(4)), the U.S. Department of Justice, the Federal Deposit Insurance Corporation and the Federal Reserve Board have each concluded that the proposed transaction presents no competitive impediments in the relevant market areas to the approval of this application. We agree with this conclusion and, indeed, find that the transaction will enhance competition in the relevant market areas and is, therefore, in the public interest. We further conclude that consummation of this transaction will enhance the convenience and needs of these areas.

We have considered the financial and managerial resources of the proponent banks, as well as their future prospects, and find these factors also to be favorable.

Related to this analysis under the Bank Merger Act is the protestants' claim that the proposed transaction is not a "merger transaction" which is subject to the

[2] All deposit and branch figures are as of June 30, 1978, unless otherwise noted.

Comptroller's approval under the Act. The protestants have argued that the transaction is, in effect, a "branch swap," "trade," "exchange" or "relocation" which does not constitute a conventional consolidation or merger pursuant to 12 USC 215, 215a or 1828(c). It is the opinion of this Office that such contentions are incorrect and that the acquisitions in question are "merger transactions" subject to the Comptroller's approval under the Bank Merger Act.

The agreement executed between ONB and PNB specifically provides for the transfer of certain assets and the assumption of certain liabilities. Assets have been defined to include real estate and the building in which the branch is located (if owned by the selling bank); any leasehold and leasehold improvements; furniture; fixtures, equipment and supplies (owned by or leased by the selling bank); and the loan portfolio, with certain stipulated exceptions. The agreement also provides that the purchasing bank will assume the following liabilities: deposit accounts, with the consent of depositors; collection services; safe deposit rental agreements; obligations under maintenance and service contracts; and leases falling due or becoming performable subsequent to the closing date of the agreement.

The Bank Merger Act provides that "[n]o insured bank shall . . . acquire the assets of, or assume liability to pay any deposits made in, any other insured bank except with the prior written approval of . . . [the Comptroller of the Currency]." (See 12 USC 1828(c)(2)). It also specifically states that such a transaction is "referred to hereafter in this subsection as a 'merger transaction.' " (See 12 USC 1828(c)(3)). The Act does not purport to prescribe the consideration, the method of acquisition or the specific formula for asset or liability transfer. The fact that the targeted assets and liabilities are situated within a particular branch office does not, in our opinion, vitiate an otherwise valid "merger transaction."

Accordingly, based upon the provisions of both the Bank Merger Act and the agreement executed between the proponent banks, we conclude that this transaction meets the legal requirements of a "merger transaction." As such, it may, therefore, be approved by the Comptroller according to the standards set forth in the Bank Merger Act.

### The Community Reinvestment Act

This application was filed for consideration prior to the November 6, 1978, effective date of the Comptroller's Community Reinvestment Act regulations, 12 CFR 25. However, consistent with the spirit of the Community Reinvestment Act, Public Law 95-128, available information relevant to the banks' records of meeting their communities' needs has been reviewed. Those records do not reveal such evidence to suggest that the proponent banks are not generally meeting the credit needs of their communities, including low and moderate income sectors.

### Construction of State Branching Laws

The protestants have argued that the proposed branch transfers are inconsistent with the provisions of applicable state commercial bank branching statutes and should, therefore, be denied under federal law. This Office does not concur in that opinion.

The federal statute governing the branching powers of a national bank, 12 USC 36(c),[3] permits the Comptroller to authorize a national bank to establish new branches in the manner that state law permits state banks to do so.[4] Thus, in evaluating this application, the Comptroller must be satisfied that it conforms with the applicable restrictions imposed by Washington law on establishment of branches by any state banks. However, federal law does not restrict the words "state banks" to state-chartered commercial banks. Section 36(h) provides that:

> The words . . . "State banks" . . . as used in this section, shall be held to include trust companies, *savings banks*, or such other corporations or institutions carrying on the banking business under the authority of State laws. [Emphasis added]

The inclusion of savings banks and trust companies within the definition of "state banks" in Section 36 indicates that Congress foresaw the problem of a state according unequal branching powers to various financial institutions, thereby putting certain types of institutions at a competitive disadvantage. The congressional solution to this problem was to ensure that national banks be given the ability to establish branches in the manner and locations that the most favored "state banks" could.[5]

Accordingly, mutual savings banks as "savings banks" and competitors of national banks operating in

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[3] That section provides, in part, that:

> [a] national banking association may, with the approval of the Comptroller of the Currency, establish . . . new branches . . . at any point within the State in which said association is situated, if such establishment . . . [is] at the time authorized to state banks by the statute law of the State in question by language specifically granting such authority affirmatively and not merely by implication or recognition . . . .

[4] See *First National Bank in Plant City* v. *Dickinson*, 396 U.S. 122 (1969); *First National Bank of Logan* v. *Walker Bank & Trust Co.*, 385 U.S. 252 (1966); *Camden Trust Co.* v. *Gidney*, 301 F.2d 521 (D.C. Cir.), *cert. denied*, 369 U.S. 886 (1962).

[5] The importance of this fundamental concept is now underscored by the increasingly blurred lines of differentiation between commercial banks and other financial institutions in terms of the level of competition in the banking business. For instance, recent progressive changes have endowed savings banks with the ability to market many banking services similar to those offered by commercial banks. Such a development compels a broad approach to the state branching statutes which should be referenced in deciding various national bank branching questions in view of the policy of competitive equality underlying 12 USC 36, as well as the sweep of the triggering definition of "state banks" chosen by Congress. In our view, the language of Section 36 clearly authorizes reliance on the broad branching authority of state savings banks in Washington. Moreover, the financial services environment in that state, in particular, lend even greater support to this position. This Office has heretofore relied on savings bank branching statutes in Massachusetts in approving certain branches for national banks in that state.

Washington, are "state banks . . . carrying on the banking business . . . "[6] within the meaning of 12 USC 36(h), and, therefore, national banks may establish and operate branches wherever mutual savings banks are permitted to do so.[7]

The state branching statute applicable to Washington's mutual savings banks, RCW 32.04.030,[8] authorizes branching in any county of the state and contains none of the allegedly restrictive language of RCW 30.40.020 which the protestants have relied upon in challenging this application. Accordingly, the resulting establishment of branches in this transaction is authorized by 12 USC 36(c), based on the authority of the class of "state banks" found in RCW 32.04.030, and approval of these branches is consistent with the substantive requirements of this statute applicable to national banks.

Reliance on the state's branching laws applicable to mutual savings banks pursuant to 12 USC 36(c) and (h) would appear to obviate the need in this case to consider the state's commercial bank branching statute[9] or the protestants' arguments which focus on that statute. Nevertheless, we find that the proposed transfer of branches is also clearly authorized by RCW 30.40.020 and may be approved by the Comptroller thereunder.

RCW 30.40.020, which deals with the branching powers of commercial state banks and trust companies, provides, in part:

> Branches authorized—Restrictions.
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> A bank or trust company having a paid-in capital of not less than five hundred thousand dollars may, with the approval of the supervisor, establish and operate branches in any city or town within the state. A bank or trust company having a paid-in capital of not less than two hundred thousand dollars may, with the approval of the supervisor, establish and operate branches within the limits of the county in which its principal place of business is located.
>
> * * * * *
>
> No bank or trust company shall establish or operate any branch, except a branch in a foreign country, in any city or town outside the city or town

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[6] "Banking" according to RCW 30.04.010 means "the soliciting, receiving or accepting of money or its equivalent on deposit as a regular business." That mutual savings banks are engaged in banking is made evident by RCW 32.08.140 which provides that every mutual savings bank shall have the power "[t]o receive deposits of money . . . ."

That mutual savings banks are "institutions carrying on the banking business" (12 USC 36(h)) is further evidenced by various provisions of Washington law which permit them, in common with other banks, to become members of the Federal Reserve System and to be insured by the Federal Deposit Insurance Corporation (RCW 30.32.010); which permit them to exercise trust powers (RCW 32.08.210); which authorize them, on a depositor's instructions, to effect withdrawals from his account by drafts payable according to the depositor's instructions (RCW 32.12.025); and which authorize the FDIC to act as receiver or liquidator for FDIC-insured mutual savings banks (RCW 32.24.090). Accordingly, it is evident that mutual savings banks are "state banks" within the meaning of 12 USC 36(c) and (h).

[7] The District Court in *Hart* v. *Peoples National Bank,* No. C75-416S (W.D. Wash., Feb. 18, 1976) did not dispute the contention that mutual savings banks are "state banks" within the meaning of 12 USC 36(h). However, it did rely on *State Chartered Banks in Washington* v. *Peoples National Bank,* 291 F. Supp. 180 (W.D. Wash. 1966) in holding that a bank wishing to branch under the authority given to mutual savings banks "must satisfy all the provisions of that statute and show that it [the national bank] engages itself exclusively as a mutual savings bank." This Office contends that both those decisions are in error in two respects:

First, both courts failed to consider that 12 USC 36, permitting the establishment of branches by national banks, is enabling legislation not restricting legislation; that is, it was not intended to restrict national banks. Rather, it was intended to benefit national banks by granting them new powers to enable them to compete with state-chartered institutions.

Second, both decisions failed to distinguish between those portions of a branching statute which can be complied with by some state-chartered institutions, and those portions of a statute which *no* national bank can comply with. National banks, as a class, cannot comply with all of the conditions of any state branching statute; for example, all state branching statutes require the approval of state banking supervisors while national banks are not subject to supervision by the states. (See *First National Bank of Fairbanks* v. *Camp,* 465 F.2d 586 (D.C. Cir. 1972), *cert. denied,* 409 U.S. 1124 (1973)). Nor can national banks, as a class, ever comply with all of the provisions of state law applicable to any given class of state chartered institutions.

The question of whether a national bank may establish a branch pursuant to the power to do so granted to state mutual savings banks is now pending in the U.S. Court of Appeals for the Ninth Circuit in *Hart* v. *Peoples National Bank,* No. 76-2182.

[8] RCW 32.04.030 reads as follows:

> Offices—Branches
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> (1) A savings bank shall not do business or be located in the same room with, or in a room connecting with, any other bank, or a trust company that receives deposits of money or commercial paper, or a national banking association.
>
> (2) No savings bank, or any officer or director thereof, shall receive deposits or transact any of its usual business at any place other than its principal place of business or an authorized branch.
>
> (3) A savings bank, with the approval of the supervisor, may establish and operate branches but only upon the conditions and subject to the limitations following:
>
> (a) If its guaranty fund is not less than the aggregate paid-in capital which would be required by law as a prerequisite to the establishment and operation of an equal number of branches in like locations by a bank.
>
> (b) Branches may be established in any county of the State; and
>
> (c) A branch shall not be established at a place at which the supervisor would not permit a proposed new savings bank to engage in business, by reason of any consideration contemplated by RCW 32.08.040, 32.08.050 and 32.08.060, the provisions of which, insofar as applicable, including those relating to appeals, shall extend to applications to establish branches.

[9] RCW 30.40.020.

> in which its principal place of business is located in which any bank, trust company or national banking association regularly transacts a banking or trust business, except by taking over or acquiring an existing bank, trust company or national banking association or the branch of any bank, trust company or national banking association operating in such city or town.

The protestants (most notably, the supervisor of banking) claim that authorization to take or acquire "*the* branch of any bank" in a city or town outside the city or town in which its principal place of business is located only allows a commercial state bank or trust company to acquire one branch of another bank and implicitly proscribes multibranch acquisitions. Similarly, these protestants also argue, from a purely interpretive point of view, that RCW 30.40.020 does not affirmatively authorize state commercial banks and/or trust companies to branch by exchanging branches and requires acquisition of an entire bank and not just one or some of its branches. This Office finds these interpretations of the statute to be in error.

Because of the absence of relevant case law in the state on these questions, the Comptroller is authorized to independently interpret and apply this statute in evaluating RNB's branch/merger application, free from the control of the opinions of the state supervisor:[10]

> [Where state] . . . courts have not construed the section, the Comptroller is free to do so and is, furthermore, free to adopt any reasonable construction that the statute setting forth the standard may bear. Since that statute in effect is adopted by Section 36 of the federal law, it is tantamount to a federal administrative official construing a federal statute which he is charged to administer and enforce.[11]

In construing RCW 30.40.020, this Office is guided by the state's rules of statutory construction. Those rules direct that the provisions of the code should be liberally construed[12] and that words importing number (i.e., singular and plural) and gender (i.e., masculine and feminine) do not necessarily restrict a statute's meaning to the specific number or gender used.[13] Consequently, we find that the term "the branch" may be construed to mean "branches," thereby allowing a bank's acquisition of one or more branches of another bank. Indeed, the facts of *Seattle-First National Bank* v. *Spokane County,* 196 Wash. 419, 83 P.2d 359 (1938) (merger of banks resulting in the acquisition and operation of the target bank's *branches* by the surviving bank, and *United States* v. *Marine Bancorporation,* 418 U.S. 602 (1974) (merger of banks resulting in the acquisition and operation of the target bank's *branches* by the surviving bank permitting it to expand into cities and towns with pre-existing banking organizations) lend support to this Office's interpretation of state law on this question.

Furthermore, bearing in mind the state's rules of statutory construction and absent any statutory language or case law limiting the manner of "taking over or acquiring," a reasonable reading of the text of this statute leads us to conclude that, contrary to the protestants' contentions, the plain meaning of its words authorizes a transfer of branches by merger, in that the method of "taking over or acquiring" may be determined by the parties to the agreement since the legislature has chosen not to dictate the method or mode of payment, whether by cash, stock or other consideration. The fact that a branch may be acquired in consideration for the sale of a branch to another bank in a manner which, on its face, resembles an exchange or trade does not vitiate the general authority of a bank to branch by acquisition in a city or town which is not its principal place of business. Moreover, we find that RCW 30.40.020, by not limiting the type of acquisition permitted or excepting or excluding the functional exchange of branches, does affirmatively authorize the method of branching under consideration since, unless so restricted by the statute, it permits " . . . [a] bank or trust company having a paid-in capital of not less than five hundred thousand dollars . . . [to] establish and operate branches in any city or town within the state."[14] Therefore, the sale and transfer of branches[15] which the protestants have arbitrarily chosen to label as a "swap" or "exchange" is, in our opinion, affirmatively authorized by RCW 30.40.020.

Likewise, nothing in the statute authorizing the "taking over or acquiring [of] an existing bank . . . or the *branch* of . . . [a] bank" indicates that the acquisition must be of the entire bank and not just one of its branches. Indeed, the plain meaning of the statute's language suggests that one bank may branch by acquiring "*the* branch" of another bank. Any interpretation of the statute which precludes all types of acquisitions except total mergers or consolidations would severely limit the significance and intent of the statute and, in view of the statute's language, conflict with the

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[10] *First National Bank of Fairbanks* v. *Camp,* 465 F.2d at 597. See also *Leuthold* v. *Camp,* 273 F. Supp. 695 (D. Mont. 1967), *aff'd per curiam,* 405 F.2d 499 (9th Cir. 1969); *Union Savings Bank of Patchogue* v. *Saxon,* 335 F.2d 718 (D.C. Cir. 1964); *South Dakota* v. *The National Bank of South Dakota,* 219 F. Supp. 842 (S.D. S.D. 1963), *aff'd,* 335 F.2d 444 (8th Cir.), *cert. denied,* 379 U.S. 970 (1965).

[11] *Clermont National Bank* v. *Citizensbank, N.A.* 329 F. Supp. 1331, 1341-42 (S.D. Ohio 1971).

[12] Wash. Rev. Code Ann. 1.12.010 reads as follows:

> The provisions of this code shall be liberally construed, and shall not be limited by any rule of strict construction.

[13] Wash. Rev. Code Ann. 1.12.050 states:

> Words importing the singular number may also be applied to the plural of persons and things; words importing the plural may be applied to the singular; and words importing the masculine gender may be extended to females also.

[14] Cf. *Seattle-First Nat'l Bank* v. *Spokane County,* 83 P.2d at 363.

[15] Although the agreement contemplates a simultaneous transfer of all the branches in question, the applicants stated at the hearing that, depending on the renegotiation of a sales price, the failure or inability to transfer certain branches would not necessarily prevent the consummation of the transaction.

rule that " . . . a statute ought, upon the whole, to be so construed that, if it can be prevented, no clause, sentence, or word shall be superfluous, void or insignificant."[16]

In accordance with the above opinion, we find that the proposed acquisition of branches is affirmatively authorized by RCW 32.04.030 and 30.40.020, and, therefore, is permitted by 12 USC 36(b) and (c).

### Conclusion

We have carefully considered the application pursuant to the Bank Merger Act, 12 USC 1828(c), and in light of the questions raised by the protestants. We conclude that the proposed transactions will have no adverse effect on competition, will be in the public interest and will otherwise satisfy the requirements of the Bank Merger Act. We also conclude that the transactions will violate no other provisions of state or federal law. Accordingly, the application of RNB to purchase the assets and assume the liabilities of four branch offices of FNB and one branch of ONB is approved.

February 1, 1979

[16] *Washington Market Company* v. *Hoffman,* 101 U.S. 112, 115-16 (1879); *United States* v. *Campos-Serrano,* 404 U.S. 293, 301 (1971).

### SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed these proposed transactions and conclude that they would not have a substantial competitive impact.

* * *

## ATLANTIC FIRST NATIONAL BANK OF DAYTONA BEACH, Daytona Beach, Fla., and Atlantic Bank of West Daytona Beach, Daytona Beach, Fla.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Atlantic Bank of West Daytona Beach, Daytona Beach, Fla., with | $ 17,026,000 | 1 | ——— |
| and Atlantic First National Bank of Daytona Beach, Daytona Beach, Fla. (12546), which had | 83,169,000 | 1 | ——— |
| merged March 31, 1979, under charter and title of the latter bank (12546). The merged bank at date of merger had | 100,195,000 | ——— | 2 |

### COMPTROLLER'S DECISION

Pursuant to the requirements of 12 USC 1828(c), the Bank Merger Act, an application has been filed with the Office of the Comptroller of the Currency that seeks and requires the prior written consent of this Office to the proposed merger of Atlantic Bank of West Daytona Beach, Daytona Beach, Fla. ("Merging Bank"), into Atlantic First National Bank of Daytona Beach, Daytona Beach, Fla. ("Charter Bank"), under the charter and title of "Atlantic First National Bank of Daytona Beach." The subject application is based on an agreement executed between the proponent banks and is incorporated herein by reference, the same as if fully set forth.

Atlantic First National Bank of Daytona Beach, Daytona Beach, Fla. ("Charter Bank"), was granted National Banking Association charter number 12546 by this Office on June 2, 1924. As of June 30, 1978, Charter Bank's total deposits were $75.5 million.

Atlantic Bank of West Daytona Beach, Daytona Beach, Fla. ("Merging Bank"), is a state-chartered commercial banking institution. On June 30, 1978, Merging Bank had total deposits of $14.5 million.

Both of the proponent banks are commercial banking subsidiaries of Atlantic Bancorporation, Jacksonville, Fla. ("Atlantic"), a registered multibank holding company that controlled 27 subsidiary banks with consolidated deposits of $1.3 billion as of December 31, 1977.

This application was filed prior to the November 6, 1978, effective date of the Comptroller's Community Reinvestment Act regulations, 12 CFR 25. However, pursuant to the Community Reinvestment Act, Public Law No. 95-128, available information relevant to the banks' records of meeting community credit needs was reviewed, revealing no evidence to suggest that the applicants are not meeting the credit needs of their community, including low and moderate income neighborhoods.

The subject application essentially represents a corporate reorganization whereby Atlantic is consolidating a portion of its banking interests in the Daytona Beach area; as such, it would produce no adverse impact on any relevant area of consideration. Accordingly, the application is deemed to be not adverse to the public interest and is approved. Additionally, Charter Bank is authorized to operate the former banking office of Merging Bank as a branch of the surviving bank.

November 29, 1978

### SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are all wholly owned subsidiaries of the same bank holding company. As such, their proposed mergers are essentially corporate reorganizations and would have no effect on competition.

* * *

## ROYAL TRUST BANK OF MIAMI, N.A.,
Miami, Fla., and Royal Trust Bank of South Dade, N.A., Unincorporated Area of Dade County (P.O. Miami)

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Royal Trust Bank of South Dade, N.A., Unincorporated Area of Dade County (P.O. Miami), Fla. (16698), with | $ 8,488,000 | 1 | ——— |
| and Royal Trust Bank of Miami, N.A., Miami, Fla. (15156), which had | 169,021,000 | 3 | ——— |
| merged April 1, 1979, under charter and title of the latter bank (15156). The merged bank at date of merger had | 148,636,000 | ——— | 4 |

### COMPTROLLER'S DECISION

Application has been made to the Comptroller of the Currency requesting prior permission to merge Royal Trust Bank of South Dade, N.A., unincorporated area of Dade County, Fla. ("Dade Bank"), into Royal Trust Bank of Miami, N.A., Miami, Fla. ("Miami Bank"), under the charter and title of "Royal Trust Bank of Miami, N.A." The application rests upon an agreement executed between the proponent banks and is incorporated herein by reference.

Miami Bank received its charter as a national bank on September 1, 1972, and had deposits of $114.2 million as of September 30, 1978.

Dade Bank was chartered as a national bank on January 4, 1978, and as of September 30, 1978, had total deposits of $3.9 million.

Both Miami Bank and Dade Bank are banking subsidiaries of Royal Trust Bank Corp., Miami, Fla., a registered multibank holding company. Inasmuch as the proponent banks are commonly owned and controlled, approval of this application would not produce an adverse impact on any relevant area of consideration.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, is less than satisfactory.

Accordingly, applying the statutory criteria, it is the conclusion of the Office of the Comptroller of the Currency that this merger is in the public interest and is approved.

February 28, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* Asset figures are as of call dates immediately before and after transaction.

* * *

## THE CENTRAL TRUST COMPANY, NATIONAL ASSOCIATION,
Cincinnati, Ohio, and The Central Trust Company of Montgomery County, National Association, Dayton, Ohio

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The Central Trust Company of Montgomery County, National Association, Dayton, Ohio (16330), with | $ 76,904,000 | 7 | ——— |
| and The Central Trust Company, National Association, Cincinnati, Ohio (16416), which had | 1,033,364,000 | 45 | ——— |
| merged April 16, 1979, under charter and title of the latter bank (16416). The merged bank at date of merger had | 1,110,130,000 | ——— | 52 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on the application to merge The Central Trust Company of Montgomery County, National Association, Dayton, Ohio ("Merging Bank"), into The Central Trust Company, National Association, Cincinnati, Ohio ("Charter Bank"). This application is one part of a process whereby The Central Bancorporation, Inc., Cincinnati, Ohio ("Central"), a registered multibank holding company, is realigning and consolidating a portion of its banking interests.

Charter Bank has total deposits of $829.7 million, and Merging Bank has total deposits of $74.9 million. Both banks are wholly owned commercial banking subsidiaries of Central. As such, approval of this application would have no adverse effect on any relevant area of consideration.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the merger.

March 15, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are all wholly owned subsidiaries of the same bank holding company. As such, the proposed mergers are essentially corporate reorganizations and would have no effect on competition.

* * *

## BANKERS TRUST COMPANY OF ALBANY, NATIONAL ASSOCIATION, Albany, N.Y., and Bankers Trust Company of Central New York, Utica, N.Y.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Bankers Trust Company of Central New York, Utica, N.Y., with | $ 19,637,000 | 8 | ——— |
| and Bankers Trust Company of Albany, National Association, Albany, N.Y. (15758), which had | 309,016,000 | 28 | ——— |
| merged April 30, 1979, under charter and title of the latter bank (15758). The merged bank at date of merger had | 328,653,000 | ——— | 36 |

## COMPTROLLER'S DECISION

Application has been made to the Office of the Comptroller of the Currency requesting prior permission to merge Bankers Trust Company of Central New York, Utica, N.Y. ("Merging Bank"), into Bankers Trust Company of Albany, National Association, Albany, N.Y. ("Charter Bank"), under the charter and title of "Bankers Trust Company of Albany, National Association." The subject application rests on an agreement executed between the proponent banks and is incorporated herein by reference, the same as if fully set forth.

Charter Bank has operated as a National Banking Association since October 6, 1969, when it was granted charter number 15758 by this Office. As of June 30, 1978, Charter Bank had total commercial bank deposits of $268.1 million.

Merging Bank commenced commercial banking operations in 1971 and, as of June 30, 1978, had total deposits of $23.9 million.

Charter Bank and Merging Bank are both banking subsidiaries of Bankers Trust New York Corporation, New York, N.Y., a registered multibank holding company. Inasmuch as the two proponent banks are commonly owned and controlled, approval of this application would not produce an adverse impact on any relevant area of consideration.

This application was filed prior to the November 6, 1978, effective date of the Comptroller's Community Reinvestment Act regulations, 12 CFR 25. However, pursuant to the Community Reinvestment Act, Public Law No. 95-128, available information relevant to the banks' records of meeting community credit needs was reviewed, revealing no evidence to suggest that credit needs of the community are not being met, including low and moderate income neighborhoods.

The proposed merger essentially represents a corporate reorganization whereby Bankers Trust New York Corporation is consolidating a portion of its banking interests. The application is therefore deemed to be not adverse to the public interest and should be, and hereby is, approved.

February 6, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

## THE CENTRAL TRUST COMPANY OF NORTHEASTERN OHIO, NATIONAL ASSOCIATION, Canton, Ohio, and The Central Trust Company of Wayne County, Wooster, Ohio

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The Central Trust Company of Wayne County, Wooster, Ohio, with | $ 43,674,000 | 4 | ——— |
| and The Central Trust Company of Northeastern Ohio, National Association, Canton, Ohio (76), which had | 333,903,000 | 21 | ——— |
| merged April 30, 1979, under charter and title of the latter bank (76). The merged bank at date of merger had | 377,577,000 | ——— | 25 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on the application to merge The Central Trust Company of Wayne County, Wooster, Ohio ("Merging Bank"), into The Central Trust Company of Northeastern Ohio, National Association, Canton, Ohio ("Charter Bank"). This application is one part of a process whereby The Central Bancorporation, Inc., Cincinnati, Ohio ("Central"), a registered multibank holding company, is realigning and consolidating a portion of its banking interests.

Charter Bank has total deposits of $284 million, and Merging Bank has total deposits of $38.1 million. The merging banks are wholly owned banking subsidiaries of the same bank holding company, Central; approval of this application would have no adverse effect on any relevant area of consideration.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the merger.

March 21, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are all wholly owned subsidiaries of the same bank holding company. As such, the proposed mergers are essentially corporate reorganizations and would have no effect on competition.

* * *

## WARRICK NATIONAL BANK OF BOONVILLE,
## Boonville, Ind., The Colonial National Bank, Ohio Township (P.O. Tennyson), Ind.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The Colonial National Bank, Ohio Township (P.O. Tennyson), Ind. (8956), with | $11,815,000 | 2 | |
| and Warrick National Bank of Boonville, Boonville, Ind. (14218), which had | 46,864,000 | 2 | |
| merged May 7, 1979, under charter and title of the latter bank (14218). The merged bank at date of merger had | 58,855,000 | | 4 |

## COMPTROLLER'S DECISION

Pursuant to the Bank Merger Act, 12 USC 1828(c), an application has been filed with the Office of the Comptroller of the Currency. The application requests prior written consent to the proposed merger of The Colonial National Bank, Ohio Township (P.O. Tennyson), Ind. ("CNB") into Warrick National Bank of Boonville, Boonville, Ind. ("WNB") under the charter and title of "Warrick National Bank of Boonville." This application is based on a written agreement between the proponents.

WNB had total deposits of $37.6 million on September 30, 1978, and operates its head office and one branch.

CNB had total deposits of $10.9 million on September 30, 1978. In 1971, CNB became a subsidiary of Two Rivers, Inc., Evansville, Ind., and its corporate parent, Property Developers, Inc., Evansville, both registered bank holding companies. Under this ownership, CNB became a supervisory problem bank. A principal portion of CNB's current problems stems from a large parcel of other real estate owned, which was sold under contract in December 1974 to Lemmons and Company (another business interest of principals of Two Rivers, Inc., and Property Developers, Inc.). Subsequently, in December 1976, Lemmons and Company filed bankruptcy, and the two bank holding companies were also drawn into that bankruptcy. As a consequence of substantial adverse publicity concerning CNB's operation and condition, the bank has suffered a loss of depositors' confidence and has sustained a heavy withdrawal of deposits commencing in June 1977.

In September 1978, the bankruptcy court authorized the sale of CNB, and it was subsequently sold through a public bidding process to an individual (the husband of a WNB director) with the intent of merging CNB and WNB. Additionally, it is noted that CNB's former chief executive officer has resigned, and the bank is now being run in a caretaker fashion by a former junior officer.

Although Warrick County, Inc., the location of the two banks involved in this proposed merger, is part of the five-county Evansville SMSA, it is believed that the relevant market area is deemed to be the smaller two-county area of Warrick and Vanderburgh Counties, as stated and described in the application. The western portion of Warrick County, the area in which CNB is situated, serves as a bedroom community for Evansville, immediately to the west. There are 11 banks operating in the two-county area, and the market is dominated by the three larger Evansville banks which collectively hold almost 83 percent of total deposits. WNB holds only 4.3 percent of market deposits, and CNB holds a mere 1.27 percent of total area deposits. Pro forma, the resulting bank with approximately 5.6 percent of total market shares and would be a very distant fourth largest bank, behind the third largest bank that holds in excess of 18 percent of deposits. Given the overall condition of CNB, which can only be described as a "stagnating" or "possible failing" institution, the bank's competitive abilities are only conjectural, and it is concluded that approval of this merger would result in no substantially adverse effect on competition.

The financial and managerial resources of WNB are regarded as satisfactory. The financial and managerial resources of CNB are considered less than satisfactory and largely unknown. Apart from this merger, the only apparent alternative for CNB is a continued period of stagnation, with ultimate likelihood of liquidation.

Approval of this merger will be immediately beneficial to the banking customers in CNB's service area. The public's banking needs will be better met by WNB which will operate all of CNB's existing offices as branches. In addition, the resulting bank will be a viable competitor and should be able to provide greater service to its customers.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' record of helping to meet the community credit needs, including those of low and moderate income neighborhoods, is less than satisfactory.

This application is in the public interest and is approved. WNB is also authorized to operate all former banking offices of CNB as branches.

April 3, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have any significant effect on competition.

* * *

## THE THIRD NATIONAL BANK AND TRUST COMPANY OF DAYTON, OHIO, Dayton, Ohio, and The Citizens First National Bank of Greene County, Xenia, Ohio

| *Names of banks and type of transaction* | Total assets | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The Citizens First National Bank of Greene County, Xenia, Ohio (2575), with | $ 47,082,000 | 7 | |
| and The Third National Bank and Trust Company of Dayton, Ohio, Dayton, Ohio (10), which had | 447,876,000 | 24 | |
| merged May 21, 1979, under charter of the latter bank (10) and title "The Third National Bank and Trust Company." The merged bank at date of merger had | 494,915,000 | | 31 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The Citizens First National Bank of Greene County, Xenia, Ohio ("FNB"), into The Third National Bank and Trust Company of Dayton, Ohio, Dayton, Ohio ("Third"). The application was filed on January 12, 1979, and is based on a written agreement executed by the applicant banks on November 28, 1978. As of June 30, 1978, FNB had total deposits of $37 million and Third had total deposits of $325 million.

Third is in Dayton, which is in Montgomery County. FNB is in Xenia, which is in Greene County. Greene County is adjacent to, and east of, Montgomery County. The two counties are part of the Dayton SMSA, which also includes Miami and Preble Counties.

The main office of FNB is approximately 15 miles east of Dayton. The closest branches of the two banks are 3.5 miles apart.

Winters National Bank in Dayton with $694 million in deposits is the largest bank in Montgomery County and the SMSA. First National Bank in Dayton with $333 million and Third with $325 million in deposits rank second and third. Central Trust Company with $68 million in deposits ranks fourth. In aggregate, the three largest banks held 88 percent of the commercial bank deposits in Montgomery County and 65 percent of the commercial bank deposits in the SMSA. There are 11 commercial banks operating in the county.

Third is an independently owned commercial bank while the two larger banks in the county are controlled by holding companies. Winters is a subsidiary of Winters National Corporation, which holds approximately $1.0 billion in deposits, and First National is a subsidiary of National City Corporation, which holds $3.6 million in deposits. Subsidiaries of Central Bancorporation ($1.9 million in deposits) and BancOhio ($1.1 billion in deposits) are also in Montgomery County. These latter two banks will soon become branches of the parent's lead banking subsidiaries. These $1 billion-and-over financial institutions are a major competitive factor in the commercial banking markets in Dayton and surrounding areas.

Savings and loan associations also have an effect on banking competition in Montgomery County and, in fact, control greater shares of funds on deposit than commercial banks. These depository institutions hold $1.6 billion in deposits while commercial banks hold $1.4 million in deposits. Twenty-one percent of Third's loan portfolio is collateralized by liens on real estate. Therefore, it faces direct competition from savings and loan associations for at least this loan business and the deposits necessary to support these loans.

FNB operates in a similar competitive environment in Greene County. Both the first and third largest banks in the county are subsidiaries of holding companies with total deposits in excess of $1 billion. FNB with $37 million in deposits is the second largest bank operating in the county. The largest bank, Miami Deposit Bank ($54 million deposits) is a subsidiary of First National City Corporation, a bank holding company which holds $1.1 billion in deposits. The third largest bank ($35 million in deposits) is a subsidiary of Society Corporation which controls $1.8 billion in deposits. In aggregate, the three largest banks control 62 percent of Greene County's commercial bank deposits. There are seven commercial banks operating in the county.

In Greene County, as in Montgomery County, savings and loan institutions hold more deposits than commercial banks. These institutions hold $171 million in deposits while commercial banks hold $167 million in deposits. FNB holds 53 percent of its loans in real estate and consequently competes directly and substantially with the saving and loan institutions in the county.

Third conducts some banking business in Greene County. For example, within ZIP code 45385, which is Xenia and environs, Third holds $2.1 million in deposits and $4.8 million in loans. In the same ZIP code area, FNB has $22.5 million in loans. However, the merger of Third and FNB would not change FNB's rank in Greene County or Third's rank in Montgomery County. The resulting bank's rank in the SMSA or any subset which includes both Greene and Montgomery County also would not change. However, in Xenia and Greene County, FNB would be replaced by a strong independent commercial bank able to compete with the two $1 billion-plus holding company subsidiaries located there. In the combined Montgomery and Greene County market, which the Comptroller finds to be the most reasonable market, the resulting bank will be the largest independent bank but will not cause a significant increase in concentration. On the contrary, the resulting bank will be a significant local competitor to the statewide holding company subsidiaries and branches.

After reviewing all factors relevant to the issue of competition, the Comptroller finds this merger will reduce some existing competition between applicants, but that this does not rise to the level requiring a finding that the positive factors outweigh the adverse competitive impact. On the contrary, the Comptroller finds that the strengthening of the largest independent commercial bank in the combined Montgomery/Greene County marset will help preserve and enhance competition by maintaining the choice for banking customers of a local institution strong enough to compete with statewide holding companies.

The financial and managerial resources of Third are excellent. The financial resources of FNB are satisfactory, but the future is clouded by high turnover in management personnel. The future prospects of the combined bank are good. As a result of this merger, Third intends to make available new and expanded banking services to the present customers of FNB including, but not limited to, an increased legal lending limit, trust and fiduciary services, more advantageous time certificate service, expanded consumer lending services and expanded data processing services. These facts are positive considerations on the issue of convenience and needs. For example, the factor of an increased legal lending limit has particular bearing on the community of Xenia. In 1974, a substantial portion of Xenia was destroyed by a devastating tornado. The community has had a difficult time rebuilding from this catastrophe. A significant portion of the loans held by Third in the Xenia area are commercial loans considerably larger than the $500,000 legal lending limit of FNB. The Comptroller believes that the expanded credit opportunities that would be made available by the presence of Third in this market are an important factor on issue of convenience and needs in this merger. The Comptroller is not aware of any negative factors on this issue with respect to this application.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, is less than satisfactory.

This opinion is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

April 20, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

The relevant geographic markets are Montgomery County (population 574,800) and Greene County (population 133,800) within the four-county Dayton SMSA and Greene County alone. The Dayton SMSA, Ohio's fourth largest metropolitan area, has experienced a 2.5 percent population decline during the 1970's. Greene County is the SMSA's fastest growing area with a 7.0 percent population increase, roughly double the increase of the SMSA's other suburban counties. Dayton is a major manufacturing center. It is the home of National Cash Register Company and GM's recently sold Frigidaire Division. The largest employer in Greene County is the federal government due to the presence of Wright-Patterson Air Force Base in the County's northwest corner. The principal towns in Greene County are Fairborn (population 33,100) near Wright-Patterson AFB and Xenia (population 26,000) in the center of the county. Xenia is 15¾ miles from downtown Dayton by four-lane highway. Dayton's suburbs have spilled into Greene County but have not reached Xenia.

Applicant's and Bank's nearest offices are only 2.8 miles apart. The map included with the application shows six Applicant branches and two Bank branches near the Montgomery-Greene County border. Although their distances apart are not provided, it appears that no Bank office is more than 10–12 miles from an office of Applicant.

Bank draws 85.7 percent of its deposits, totaling $30.9 million, and 82.1 percent of its loans, totaling $19.5 million, from ZIP codes within Greene County, including several ZIP codes which overlap into Montgomery County. Applicant draws $27.0 million in deposits and $22.1 million in loans from these same overlapping ZIP codes. Because some ZIP codes overlap the county border it is difficult to determine with precision the extent to which each bank draws customers from the other's county. For example, a single ZIP code, 45385, which includes Xenia and the surrounding rural area, accounts for 62.4 percent of Bank's deposits and 53.8 percent of its loans. Applicant draws $2.1 million in deposits from this area and $4.5 million in loans. Moreover, Applicant draws more in deposits and loans from Fairborn, Greene County's largest community, than does Bank. Thus, while Bank may or may not be a significant alternative for most Dayton residents, Applicant is clearly a significant banking alternative for Greene County residents. Accordingly, it appears that the proposed acquisition would eliminate existing competition.

A good argument can be made that the market is really much narrower—e.g., eastern Montgomery County and western Greene County. However, for purposes of analyses, and because of the difficulty of developing statistics for less than an entire county, we will use a two-county market. Employing a two-county market, Applicant is the third largest bank with 19.0 percent of deposits and Bank is sixth largest with 2.2 percent. Commercial banking is very concentrated in Montgomery County. The three largest among its 11 commercial banks and their June 30, 1978 market share, are Winters National Bank (44.8 percent), First National Bank (21.9 percent) and Applicant (21.3 percent). Thus, the three largest banks have a combined market share of 88.0 percent, while the fourth largest bank has a 4.5 percent market share. Only one independent bank (in addition to Applicant) in Montgomery County has a significant branch network. Banking is less concentrated in Greene County. The largest bank and Bank each have 19.8 percent of the county's deposits while the third largest has a 17.9 percent share, or 57.5 percent combined. Combining the two markets, the three largest banks (all in Montgomery County) presently hold 78.5 percent of commercial bank deposits and will hold 80.7 percent if the merger is consummated. However, four of the six largest banks in Montgomery County are owned by multibank holding companies, as are two of the three largest banks in Greene County. In all, five of the state's 10 largest banking organizations are represented in one of the two counties. Applicant and Bank are respectively the largest and second largest independent banks in the two-county area.

As a result of the new Ohio branching statute, effective on January 1, 1979, which permits *de novo* branching into adjacent counties and branching by acquisition statewide, Applicant can freely open *de novo* branches throughout adjacent Greene County. As a large, nearby bank, it could be expected to do so. Previously a bank which wanted to enter new markets in Ohio had to either use the multibank holding company corporate structure to charter a *de novo* bank or had to acquire an existing bank. It is anticipated that many banks will take advantage of the change to expand *de novo*. Indeed, we understand that 17 Ohio banks have submitted applications to open 25 *de novo* offices in adjacent counties since January 1st. Were Applicant to enter Greene County *de novo*, as the statute now permits, Bank would remain as a possible entry vehicle for banks which can enter only by acquisition.

Applicant and Bank are actual competitors in Greene County, although the degree of such competition is difficult to gauge with any precision. In the broader two-county Greene-Montgomery County market where we can measure this competition, it is clear that the merger will eliminate some direct competition. Furthermore, the proposed acquisition would produce an increase in concentration. Overall, we conclude that the proposed acquisition would have an adverse effect on competition.

* * *

## FIRST NATIONAL CITY BANK OF ALLIANCE, Alliance, Ohio, and First National Bank of Sebring, Sebring, Ohio

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| First National Bank of Sebring, Sebring, Ohio (14601), with | $10,549,190 | 1 | ——— |
| and First National City Bank of Alliance, Alliance, Ohio (3721), which had | 83,239,645 | 8 | ——— |
| merged May 22, 1979, under charter and title of the latter bank (3721). The merged bank at date of merger had | 93,788,835 | ——— | 9 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge First National Bank of Sebring, Sebring, Ohio ("FNB"), into First National City Bank of Alliance, Alliance, Ohio ("Charter Bank"). The application was filed on September 7, 1978, and is based on a written agreement executed by the applicant banks on August 15, 1978. As of June 30, 1978, FNB had total deposits of $8.5 million, and Charter Bank had total deposits of $74.7 million.

FNB is the only commercial bank in Sebring. Charter Bank is domiciled in Alliance, which is in the extreme northeastern corner of Stark County, 15 miles northeast of Canton, Ohio. The city limits of Alliance extend east into Mahoning County where FNB is located in Sebring, about 3½ miles east of Alliance. Sebring is virtually a suburb of Alliance.

The smallest geographic market that can be reasonably found is Alliance-Sebring. Within this market, Charter Bank holds $64 million in deposits or 19.4 percent of all deposits held in the market and, on this basis, is the largest of 10 competitors. FNB holds 2.3 percent of all deposits and is ninth. A more realistic definition of the market must take into account the fact that three of the four commercial banks headquartered in Canton have branches in Alliance. These banks are The Central Trust Company of Northeastern Ohio with $275 million in deposits, The Harter Bank and Trust Company with $363 million in deposits and The United National Bank with $116 million in deposits. Thus, the Federal Reserve Board has found the Charter and Merging banks to be part of the Canton banking market, where Charter Bank ranks fifth with 6.9 percent of the deposits. Consummation of the merger would not change Charter Bank's rank and would raise its total to 7.7 percent of deposits.

The competitive situation is not capable of complete description by numbers alone. The Merging Bank, like many very small institutions, is facing a management succession problem. Although present management is satisfactory, the chief executive officer is 82 years old. The Bank's lending limit is $110,000, and it does not offer trust services, free personal checking accounts, direct issue and handling of bank credit cards, automated teller machines, computerized payroll services, most advantageous compounding of interest on time deposits, highest rates on time deposits and extended banking hours. Citizens of Sebring must now travel to Alliance to find these services, and once in Alliance, the presence of the large Canton banks offer strong competitive alternatives. In light of the foregoing, the Comptroller finds that the proposed merger would eliminate some existing competition but that the major thrust of banking competition for the citizens of Sebring, i.e., between Alliance banks and Canton banks would not be significantly affected. The effect on competition does not rise to a level that would suggest disapproval under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of Charter Bank are satisfactory. The financial resources of FNB are satisfactory, but the future of the presently satisfactory management is clouded by the age of the chief executive officer. The future prospects of the combined bank are good.

As a result of this merger, Charter Bank intends to make available new and expanded banking services to the present customers of FNB, including but not limited to an increased legal lending limit, trust and fiduciary services, free personal checking accounts, computerized payroll and other computer services and acceptance of customer payment of public utility billings. These facts are positive considerations on the issue of convenience and needs. The Comptroller is not aware of any negative factors on this issue.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' record of helping to meet credit needs of the communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

April 19, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

Both institutions operate in the Alliance-Sebring area which consists of the northeast corner of Stark County and the southwest corner of Mahoning County. Sebring is located 4 miles from Alliance and is part of the Alliance metropolitan area. Alliance serves as the retail center for the surrounding area.

While, the application includes the towns of Hartville and Uniontown in the relevant market, it appears that these towns are too remote to be considered as part of the banking market; moreover, each is part of a different metropolitan area. Hartville is 13 miles from Alliance and 17 miles from Sebring and is part of the Canton area. Uniontown is 17 miles from Alliance and 21 miles from Sebring and part of the Akron area.

The closest office of Applicant is 4 miles from the only office of Bank. There are no intervening towns or other banks between the two offices. The acquisition would eliminate substantial existing competition between the two institutions.

Applicant is the largest bank in the Alliance-Sebring area with approximately 57 percent of total deposits. Bank is the fourth largest of five banks in that area and has 7.4 percent of total deposits. The resulting institution would be the largest in Alliance-Sebring; its share of over 64 percent of total deposits would make it nearly twice as large as the three other banks combined. Banking in the Alliance-Sebring area presently is highly concentrated. The proposed acquisition would increase concentration and make eventual deconcentration less likely by removing Bank as a possible vehicle by which a bank not located in the market could enter and by entrenching the existing dominance of Applicant.

Thus, we conclude that the proposed acquisition would have an adverse effect on competition.

* * *

## THE FIRST NATIONAL BANK OF MARYLAND, Baltimore, Md., and The Sharpsburg Bank of Washington County, Sharpsburg, Md.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The Sharpsburg Bank of Washington County, Sharpsburg, Md., with | $ 7,783,000 | 1 | ——— |
| and The First National Bank of Maryland, Baltimore, Md. (1413), which had | 1,814,834,000 | 94 | ——— |
| merged May 30, 1979, under charter and title of the latter bank (1413). The merged bank at date of merger had | 1,821,180,000 | ——— | 95 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The Sharpsburg Bank of Washington County, Sharpsburg, Md. ("Sharpsburg Bank"), into and under the charter of The First National Bank of Maryland, Baltimore, Md. ("FNB"). The application was filed on February 8, 1979, and is based on a written agreement executed by the applicant banks on November 21, 1978. As of September 30, 1978, FNB had total deposits of $1.3 billion and Sharpsburg Bank had deposits of $6.6 million. FNB is a wholly owned subsidiary of First Maryland Bancorp, Baltimore, Md., a registered one-bank holding company.

Sharpsburg Bank operates a single banking office within Sharpsburg in the southern portion of Washington County in northwestern Maryland. Of the 89 banking offices FNB now operates throughout Maryland, seven are in the northwestern part of the state. FNB has six banking offices within Hagerstown and one office in Hancock, all in northern Washington County. The closest banking office of FNB to Sharpsburg Bank's only office is approximately 20 miles. In view of the geographic distance separating the two banks and with offices of competing banks located in the intervening area, approval of this merger would not have the effect of eliminating any meaningful degree of existing competition. Furthermore, although applicable Maryland statutes allow commercial banks to branch statewide, the Sharpsburg area is not viewed as attractive for *de novo* entry. Thus, the potential for the development of increased future competition between the two banks appears to be minimal. FNB would continue through the resulting bank as the largest commercial banking organization in Washington County through its control of approximately 30 percent of total county deposits. However, numerous commercial banking alternatives would remain available throughout the county, including banking offices of larger commercial banking organizations. Overall, this merger would not have a substantially adverse effect on competition.

The financial and managerial resources of FNB and Sharpsburg Bank are regarded as satisfactory, although Sharpsburg Bank has limited management depth. The future prospects of FNB appear favorable, and the future prospects of Sharpsburg Bank when combined with FNB appear more favorable since the bank's lack of management succession would be alleviated.

FNB proposes to offer new and expanded banking services to the present customers of the Sharpsburg Bank, including but not limited to, full trust services, bank credit cards, individual retirement accounts, overdraft checking and an expanded credit limit. These facts are positive considerations on the issue of convenience and needs.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the bank's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

April 24, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect upon competition.

* * *

## VIRGINIA NATIONAL BANK,
## Norfolk, Va., and New Bank of Roanoke, Roanoke, Va.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| New Bank of Roanoke, Roanoke, Va., with | $ 8,142,000 | 3 | |
| and Virginia National Bank, Norfolk, Va. (9885), which had | 2,403,982,000 | 167 | |
| merged May 31, 1979, under charter and title of the latter bank (9885). The merged bank at date of merged had | 2,411,025,000 | | 170 |

## COMPTROLLER'S DECISION

On February 8, 1979, this Office received an application filed pursuant to the Bank Merger Act, 12 USC 1828(c), from New Bank of Roanoke, Roanoke, Va. ("NBR"), and Virginia National Bank, Norfolk, Va. ("VNB"). The application is based upon a agreement written between the banks dated December 27, 1978. As of September 30, 1978, VNB had total deposits of $1.9 billion, and NBR had total deposits of $10.6 million. NBR is a commercial banking subsidiary of NB Corporation, Charlottesville, Va., a registered multibank holding company. VNB serves as the lead bank for Virginia National Bankshares, Inc., Norfolk, the second largest registered multibank holding company in the state.

The primary service area of VNB is considered to be the portions of the state where it presently operates 164 banking offices. It has offices in the major geographic regions of the state including Northern Virginia, the Tidewater area, Central Virginia, Shenandoah Valley, Lynchburg-Danville-Martinsville area and Southwest Virginia including Scott, Washington, Pulaski and Wythe Counties. The defined service area appears to be the major banking markets of the state with the exception of the Roanoke metropolitan area.

NBR's primary service area is approximated by the Roanoke SMSA (including the independent cities of Roanoke and Salem and the counties of Roanoke, Craig and Botetourt) in general and the city of Roanoke in particular. There are 39 banking offices of eight banks in the city holding deposits in excess of $1 billion. All banks in Roanoke are affiliated with bank holding companies, and all major holding companies with the noted exception of Virginia National Bankshares, Inc., are represented in Roanoke.

There is no significant competition between VNB and NBR. VNB's closest banking office to Roanoke is 35 miles east in Lynchburg, and VNB derives only about $170 thousand (0.009 percent) of its total deposits from the Roanoke banking market. NBR holds only 1 percent of the total deposits in Roanoke, and VNB's position in the state would be unaffected by this merger. Consequently, the competitive effects are not likely to substantially lessen competition in any relevant area or otherwise violate the standards found in 12 USC 1828(c)(5).

The financial and managerial resources of both VNB and NBR are satisfactory. The future prospects of the combined bank are good, and NBR's future prospects are favorably enhanced by this proposal.

As a result of the merger, VNB intends to provide a considerable number of new and expanded banking services to the present customers of NBR, including but not limited to, extension of VNB's existing electronic funds transfer network into southwestern Virginia, computerized customer services including payrolls, accounts receivable, accounts payable, general ledger and related financial documents for business and upgrading of NBR's existing physical facilities. These facts are positive considerations on the issue of convenience and needs. The Comptroller is not aware of any negative factors on this issue.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

April 25, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have any adverse effect upon competition.

* * *

## THE FIRST NATIONAL BANK OF SHREVEPORT,
## Shreveport, La., and Caddo Trust and Savings Bank, Belcher, La.

| *Names of banks and type of transaction* | Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Caddo Trust and Savings Bank, Belcher, La., with | $ 24,427,000 | 3 | ——— |
| and The First National Bank of Shreveport, Shreveport, La. (3595), which had | 603,106,000 | 14 | ——— |
| merged June 1, 1979, under charter and title of the latter bank (3595). The merged bank at date of merger had | 641,339,000 | ——— | 17 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Caddo Trust and Savings Bank, Belcher, La. ("Caddo") into and under the charter of The First National Bank of Shreveport, Shreveport, La. ("FNB"). This application was filed on January 3, 1979, and is based on a written agreement executed by the applicant banks on November 14, 1978. As of June 30, 1978, Caddo had total deposits of $20.6 million and FNB had deposits of $437.5 million.

The relevant geographic market appears to be Caddo Parish wherein FNB is the largest commercial bank, and Caddo represents the ninth largest in deposit size of 11 banks in the parish. FNB operates 10 offices in the Shreveport area and one office in Vivian, La., about 30 miles north of Shreveport. Caddo has a total of three offices, all in northern Caddo Parish. The closest office of Caddo to an office of FNB is its Oil City branch, located approximately 9 miles south of Vivian. The resulting bank would continue as the largest in Caddo Parish with 34.4 percent of the total deposits within the parish. The Comptroller finds that the proposed merger would eliminate a small amount of existing competition but that there would remain a sufficient number of alternative sources for banking services in the relevant market. Consequently, the competitive effects are not likely to substantially lessen competition in any relevant market or otherwise violate the standards found in 12 USC 1828(c)(5).

The financial and managerial resources of FNB are satisfactory. While Caddo's present condition is satisfactory, its ability to attract successor management and provide expanded financial services is limited. Accordingly, its financial and managerial resources are considered somewhat less than satisfactory. Additionally, its future prospects are limited in view of the stable and sparsely populated northern Caddo parish market within which it operates. The future prospects of the combined bank are considered good.

As a result of the merger, FNB intends to make available new and expanded banking services to the present customers of Caddo, including but not limited

* Asset figures are as of call dates immediately before and after transaction.

to, 24-hour automatic teller machines, bank credit cards, additional expertise in agricultural and petroleum lending, more aggressive consumer loan department, trust services, individual retirement accounts, wire transfer, and automation of Caddo's accounts. These facts are positive considerations on the issue of convenience and needs. The Comptroller is not aware of any negative factors in this issue.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet credit needs of the communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicant to proceed with the proposed merger.

May 1, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

All three of Bank's offices are located in northern Caddo Parish, in small communities situated from 15 to 25 miles north of Shreveport. The closest offices of the parties (Applicant's office in Vivian and Bank's office in Oil City) are approximately 8 miles apart, and according to the application, only one other bank operates in the northern portion of Caddo Parish. It therefore appears that the proposed acquisition would eliminate existing competition between Applicant and Bank.

Banking is highly concentrated in Caddo Parish. As of June 30, 1978, the four largest banks in the parish together held approximately 85 percent of the total deposits held by the 11 banks presently operating there. Applicant is the largest bank in the parish with about 33 percent of the parish's bank deposits, and Bank is the ninth largest with about 1.5 percent. The proposed acquisition, therefore, would increase the Applicant's dominance in the parish and the high level of banking concentration there.

We conclude that the proposed acquisition would have an adverse effect on competition.

* * *

## SUN FIRST NATIONAL BANK OF MELBOURNE,
**Melbourne, Fla., and Sun Bank of Cocoa, National Association, Cocoa, Fla.**

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Sun Bank of Cocoa, National Association, Cocoa, Fla. (14806), with | $ 46,957,000 | 4 | ——— |
| and Sun First National Bank of Melbourne, Melbourne, Fla. (16107), which had | 62,801,000 | 6 | ——— |
| merged June 1, 1979, under charter of the latter bank (16107) and title "Sun First National Bank of Brevard County." The merged bank at date of merger had | 115,366,000 | ——— | 10 |

## COMPTROLLER'S DECISION

Pursuant to the statutory requirements of the Bank Merger Act (12 USC 1828(c)), an application has been filed with the Office of the Comptroller of the Currency that seeks and requires the prior written permission of this Office to effectuate the proposed merger of Sun Bank of Cocoa, National Association, Cocoa, Fla. ("Merging Bank"), into Sun First National Bank of Melbourne, Melbourne, Fla. ("Charter Bank"), under the charter of Sun First National Bank of Melbourne and with the title of "Sun First National Bank of Brevard County." This application is based on an agreement executed between the proponent banks and is incorporated herein by reference, the same as if fully set forth.

Merging Bank was granted National Banking Association charter number 14806 by this Office on February 14, 1957. As of September 30, 1978, Merging Bank had total deposits of $41.2 million.

Charter Bank, operating under National Banking Association charter number 16107, was chartered by this Office on April 5, 1973. As of September 30, 1978, Charter Bank's total deposits were $52.2 million.

Both Merging Bank and Charter Bank are commercial banking subsidiaries of Sun Banks of Florida, Inc., Orlando, Fla., a registered multibank holding company that controlled 21 subsidiary banks with consolidated deposits of $1.8 billion on December 31, 1977. Accordingly, given the element of common ownership and control existent between the proponents, this application must be regarded essentially as a corporate reorganization whereby the bank holding company is realigning and consolidating a portion of its banking interests in Brevard County.

This application was filed prior to the November 6, 1978, effective date of the Comptroller's Community Reinvestment Act regulations, 12 CFR 25.

However, pursuant to the Community Reinvestment Act, Public Law No. 95-128, available information relevant to the banks' records of meeting their community credit needs was reviewed, revealing no evidence to suggest that the applicants are not meeting the credit

* Asset figures are as of call dates immediately before and after transaction.

needs of their community, including low and moderate income neighborhoods.

Accordingly, applying the statutory criteria, this Office concludes that this application is not adverse to the public interest and should be, and hereby is, approved.

February 27, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

## FIRST NATIONAL BANK OF MERCER COUNTY, Celina, Ohio, and The Home Banking Company, St. Marys, Ohio

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The Home Banking Company, St. Marys, Ohio, with | $ 44,231,000 | 3 | ——— |
| and First National Bank of Mercer County, Celina, Ohio (5523), which had | 91,413,000 | 6 | ——— |
| merged June 29, 1979, under charter of the latter bank (5523) and title "The Central Trust Company of Western Ohio, National Association." The merged bank at date of merger had | 135,644,000 | ——— | 9 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on the application to merge The Home Banking Company, St. Marys, Ohio ("Home"), into First National Bank of Mercer County, Celina, Ohio ("FNB"). This application is part of a process whereby The Central Bancorporation, Inc., Cincinnati, Ohio ("Central"), a registered multibank holding company, is realigning and consolidating a portion of its banking interests.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, is less than satisfactory.

Home has deposits of $37 million, and FNB has deposits of $79 million. Both banks are subsidiaries if Central, and, therefore, the merger does not raise competitive issues under the Bank Merger Act, 12 USC 1828(c). Additionally, a review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

April 2, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are all wholly owned subsidiaries of the same bank holding company. As such, the proposed mergers are essentially corporate reorganizations and would have no effect on competition.

* * *

THE OHIO NATIONAL BANK OF COLUMBUS,
Columbus, Ohio, and Akron National Bank, Akron, Ohio, The Capital National Bank, Cleveland, Ohio, The First National Bank of Springfield, Springfield, Ohio, The First National Bank of Newark, Newark, Ohio, First National Bank of Coshocton, Coshocton, Ohio, The First National Bank of Chillicothe, Chillicothe, Ohio, The Western Security Bank, Sandusky, Ohio, The Citizens National Bank in Zanesville, Zanesville, Ohio, The Niles Bank Company, Niles, Ohio, The First National Bank of Delaware, Delaware, Ohio, The First National Bank of Jackson, Jackson, Ohio, The National Bank of Portsmouth, Portsmouth, Ohio, The Central National Bank at Cambridge, Cambridge, Ohio, The Hocking Valley National Bank of Lancaster, Lancaster, Ohio, The Ohio Bank and Trust Company, New Philadelphia, Ohio, The Citizens National Bank of Ironton, Ironton, Ohio, The Medina County Bank, Medina, Ohio, The First National Bank of Cadiz, Cadiz, Ohio, The First National Bank of Tiffin, Tiffin, Ohio, The Knox County Savings Bank, Mount Vernon, Ohio, The Community Bank, Napoleon, Ohio, The Farmers and Merchants Bank of Logan, Logan, Ohio, The First National Bank of Marysville, Marysville, Ohio, The First National Bank of London, London, Ohio, The First National Bank of Washington Court House, Washington Court House, Ohio, The Kenton Savings Bank, Kenton, Ohio, National Bank of Loveland, Loveland, Ohio, The Perry County Bank, New Lexington, Ohio, The First National Bank of Wilmington, Wilmington, Ohio, The Second National Bank of Circleville, Circleville, Ohio, The Cummings Bank Company, Carrollton, Ohio, The Citizens Banking Company, Perrysburg, Ohio, The Peoples National Bank of Greenfield, Greenfield, Ohio, The Logan County Bank, Bellefontaine, Ohio, The Peoples Savings Bank Company, Delta, Ohio, The Ohio State Bank of Dayton, Dayton, Ohio, The Geauga County National Bank of Chardon, Chardon, Ohio, The Adams Bank, Millersburg, Ohio, The First National Bank at East Palestine, East Palestine, Ohio

| *Names of banks and type of transaction* | Total assets | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Akron National Bank, Akron, Ohio (15609), with | $ 469,814,000 | 25 | — |
| and The First National Bank of Cadiz, Cadiz, Ohio (100), with | 44,731,000 | 1 | — |
| and The Central National Bank at Cambridge, Cambridge, Ohio (13905), with | 67,170,000 | 6 | — |
| and The Geauga County National Bank of Chardon, Chardon, Ohio (14879), with | 23,718,000 | 3 | — |
| and The First National Bank of Chillicothe, Chillicothe, Ohio (128), with | 88,343,000 | 4 | — |
| and The Second National Bank of Circleville, Circleville, Ohio (172), with | 33,881,000 | 2 | — |
| and The Capital National Bank, Cleveland, Ohio (15423), with | 202,207,000 | 16 | — |
| and First National Bank of Coshocton, Coshocton, Ohio (6892), with | 89,464,000 | 2 | — |
| and The First National Bank of Delaware, Delaware, Ohio (243), with | 72,499,000 | 4 | — |
| and The First National Bank at East Palestine, East Palestine, Ohio (13850), with | 22,194,000 | 3 | — |
| and The Peoples National Bank of Greenfield, Greenfield, Ohio (10105), with | 28,511,000 | 3 | — |
| and The Citizens National Bank of Ironton, Ironton, Ohio (4336), with | 46,540,000 | 5 | — |
| and The First National Bank of Jackson, Jackson, Ohio (1903), with | 71,347,000 | 2 | — |
| and The Hocking Valley National Bank of Lancaster, Lancaster, Ohio (1241), with | 64,377,000 | 5 | — |
| and The First National Bank of London, London, Ohio (1064), with | 39,409,000 | 2 | — |
| and National Bank of Loveland, Loveland, Ohio (15945), with | 36,576,000 | 6 | — |
| and The First National Bank of Marysville, Marysville, Ohio (14360), with | 40,608,000 | 2 | — |
| and The First National Bank of Newark, Newark, Ohio (858), with | 116,140,000 | 9 | — |
| and The National Bank of Portsmouth, Portsmouth, Ohio (13832), with | 69,553,000 | 5 | — |
| and The First National Bank of Springfield, Springfield, Ohio (238), with | 135,536,000 | 7 | — |
| and The First National Bank of Tiffin, Tiffin, Ohio (3315), with | 43,042,000 | 3 | — |
| and The First National Bank of Washington Court House, Washington Court House, Ohio (13490), with | 39,096,000 | 3 | — |
| and The First National Bank of Wilmington, Wilmington, Ohio (365), with | 34,973,000 | 3 | — |
| and The Citizens National Bank in Zanesville, Zanesville, Ohio (5760), with | 80,003,000 | 3 | — |
| and The Logan County Bank, Bellefontaine, Ohio, with | 25,572,000 | 4 | — |
| and The Cummings Bank Company, Carrollton, Ohio, with | 32,787,000 | 3 | — |
| and The Ohio State Bank of Dayton, Dayton, Ohio, with | 25,115,000 | 3 | — |
| and The Peoples Savings Bank Company, Delta, Ohio, with | 25,464,000 | 3 | — |
| and The Kenton Savings Bank, Kenton, Ohio, with | 36,603,000 | 4 | — |
| and The Farmers and Merchants Bank of Logan, Logan, Ohio, with | 41,611,000 | 2 | — |
| and The Medina County Bank, Medina, Ohio, with | 45,224,000 | 6 | — |
| and The Adams Bank, Millersburg, Ohio, with | 22,542,000 | 3 | — |
| and The Knox County Savings Bank, Mount Vernon, Ohio, with | 43,016,000 | 2 | — |
| and The Community Bank, Napoleon, Ohio, with | 41,660,000 | 3 | — |
| and The Perry County Bank, New Lexington, Ohio, with | 35,911,000 | 2 | — |
| and The Ohio Bank and Trust Company, New Philadelphia, Ohio, with | 49,682,000 | 4 | — |
| and The Niles Bank Company, Niles, Ohio, with | 76,885,000 | 5 | — |
| and The Citizens Banking Company, Perrysburg, Ohio, with | 31,217,000 | 3 | — |
| and The Western Security Bank, Sandusky, Ohio, with | 82,006,000 | 5 | — |
| and The Ohio National Bank of Columbus, Columbus, Ohio (5065), which had | 1,686,722,000 | 45 | — |
| merged June 29, 1979, under charter of the latter bank (5065) and title "BancOhio National Bank." | | | |
| The merged bank at date of merger had | 4,261,749,000 | — | 221 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on the application to merge 39 sister banks ("Merging Bank"), into The Ohio National Bank of Columbus, Columbus, Ohio ("Charter Bank"). This application is one part of a process whereby BancOhio Corporation, Columbus, Ohio, a registered multibank holding company is realigning and consolidating its banking interests throughout the state.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, is less than satisfactory.

In consideration of the element of common ownership and control existent among the proponents, this proposal is regarded as a corporate reorganization. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c). Additionally, a review of the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the communities to be served has disclosed no reason why this application should not be approved.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

April 6, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are all subsidiaries of the same bank holding company. As such, the proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

## THE CENTRAL NATIONAL BANK OF RICHMOND,

**Richmond, Va., and Fidelity American Bank, NA, Richmond, Henrico County, Va., and Cavalier Central Bank & Trust Company, Hopewell, Va.**

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Fidelity American Bank, NA, Richmond, Henrico County, Va. (15315), with | $ 15,483,000 | 20 | ——— |
| and Cavalier Central Bank & Trust Company, Hopewell, Va., with | 10,351,000 | 2 | ——— |
| and The Central National Bank of Richmond, Richmond, Va. (10080), which had | 410,687,000 | 4 | ——— |
| merged June 30, 1979, under charter and title of the latter bank (10080). The merged bank at date of merger had | 436,101,000 | ——— | 26 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Fidelity American Bank, NA, Richmond, Henrico County, Va. ("Henrico Bank"), and Cavalier Central Bank & Trust Company, Hopewell, Va. ("Hopewell Bank"), into and under the charter of The Central National Bank of Richmond, Richmond, Va. ("Richmond Bank"). The application was filed on March 30, 1979, and is based on a written agreement executed by the applicant banks on February 12, 1979.

Hopewell Bank is a state-chartered bank that had total deposits of $8.7 million as of December 31, 1978. Richmond Bank and Henrico Bank are both national banks that had total deposits of $350.5 million and $15.1 million, respectively, as of December 31, 1978.

All three banks are wholly owned and controlled by Commonwealth Banks, Inc., Richmond, registered bank holding company. Therefore, this is merely an application for a corporate reorganization. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c). Additionally, a review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved. (See 12 USC 1842(c)(21)).

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

May 31, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are all wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

## FIRST & MERCHANTS NATIONAL BANK,
Richmond, Va., and The First National Bank of Danville, Danville, Va.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The First National Bank of Danville, Danville, Va. (1985), with | $ 107,989,000 | 6 | ——— |
| and First & Merchants National Bank, Richmond, Va. (1111), which had | 1,897,005,000 | 92 | ——— |
| merged June 30, 1979, under charter and title of the latter bank (1111). The merged bank at date of merger had | 2,116,992,000 | ——— | 98 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The First National Bank of Danville, Danville, Va. ("Danville Bank"), into and under the charter of First & Merchants National Bank, Richmond, Va. ("Richmond Bank"). The application was filed on April 5, 1979, and is based on a written agreement executed by the applicant banks on January 24, 1979.

Richmond Bank and Danville Bank are both national banks that had total deposits of $1.5 billion and $85 million, respectively, as of December 31, 1978.

Both banks are wholly owned and controlled by First and Merchants Corporation, Richmond, a registered bank holding company. Therefore, this is merely an application for a corporate reorganization. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c). Additionally, a review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved. (See 12 USC 1842(c)(21)).

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

May 25, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* Asset figures are as of call dates immediately before and after transaction.

* * *

## NATIONAL COMMUNITY BANK OF NEW JERSEY,
Rutherford, N.J., and Arcadia National Bank, Secaucus, N.J.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Arcadia National Bank, Secaucus, N.J. (16267), with | $ 22,484,000 | 1 | ——— |
| and National Community Bank of New Jersey, Rutherford, N.J. (5005), which had | 953,304,000 | 49 | ——— |
| merged June 30, 1979, under charter and title of the latter bank (5005). The merged bank at date of merger had | 976,705,000 | ——— | 50 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Arcadia National Bank, Secaucus, N.J. ("Secaucus Bank"), into and under the charter of National Community Bank of New Jersey, Rutherford, N.J. ("Rutherford Bank"). The application was filed on April 10, 1979, and is based on a written agreement executed by the applicant banks on March 28, 1979. As of December 31, 1978, Rutherford Bank had total deposits of $796.5 million, and Secaucus Bank had deposits of $18.9 million.

Rutherford Bank operates 48 banking offices in the northern portion of New Jersey: 26 in Bergen County, including its main office; 13 in Morris County, seven in Sussex County and one in both Passaic and Warren Counties. Secaucus Bank operates a single banking office within the town of Secaucus in Hudson County. (An approved but unopened branch office is also planned for Secaucus.) The main office of Rutherford Bank is approximately 4 miles from Secaucus Bank. The closest branch office of Rutherford Bank to Secaucus Bank's only office is some 3 miles distant in contiguous Bergen County. Within the intervening area between these closest offices is situated the Hackensack River, a natural geographic barrier, which effectively separates the market areas of the two banks. As a result, Rutherford Bank and Secaucus Bank each serve distinct service areas and compete with numerous other commercial banking alternatives. Furthermore, Secaucus Bank is subject to the competitive banking alternatives. Furthermore, Secaucus Bank is subject to the competitive impact of banking offices of substantially larger commercial banking organizations in its service area.

In 1974, Secaucus Bank was chartered as a national bank and commenced operations as an affiliate of Rutherford Bank with all voting stock of the new bank being offered to and purchased by the stockholders of Rutherford Bank.

The two banks also share the same board of directors and have common management personnel, and Secaucus Bank continues to qualify as an affiliate of Rutherford Bank as defined by 12 USC 221(a). The likelihood of increased future competition between the proponent banks appears remote. Accordingly, we find that approval of this application would have no adverse effect on competition.

The financial and managerial resources of both Rutherford Bank and Secaucus Bank are satisfactory. The future prospects of the two banks, independently and in combination, appear favorable.

After consummation of this merger, the additional capabilities of Rutherford Bank, through the resulting bank, will be made available to the present customers of Secaucus Bank in such areas as international banking, full trust services, electronic data processing and a substantially larger legal lending limit. Accordingly, the banking public would be better served as a result of this proposal.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the bank's record of helping to meet the credit needs of the entire community including low and moderate income neighborhoods is less than satisfactory.

This merger may not be consummated until proof of compliance with 12 USC 215a(2) is submitted.

This decision is the prior written approval required by the Bank Merger Act 12 USC 1828(c), in order for the applicants to proceed with the proposed transaction.

May 31, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a substantial competitive impact.

* * *

## SOUTHEAST FIRST NATIONAL BANK OF MIAMI,

**Miami, Fla., and Southeast First National Bank of Miami Springs, Miami Springs, Fla., and Southeast National Bank of Coral Way, Miami, Fla., and Southeast Bank of Dadeland, Unincorporated Area of Dade County, Fla., and Southeast National Bank of Tamiami, Unincorporated Areas of Dade County, Fla., and Southeast Bank of Westland, Hialeah, Fla.**

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Southeast National Bank of Coral Way, Miami (15568), with | $ 116,936,000 | 3 | ——— |
| and Southeast Bank of Dadeland, Unincorporated Area of Dade County, Fla., with | 54,842,000 | 1 | ——— |
| and Southeast First National Bank of Miami Springs, Miami Springs, Fla. (14707), with | 122,732,000 | 1 | ——— |
| and Southeast National Bank of Tamiami, Unincorporated Area of Dade County, Fla. (16480), with | 17,562,000 | 1 | ——— |
| and Southeast Bank of Westland, Hialeah, Fla., with | 17,491,000 | 1 | ——— |
| and Southeast First National Bank of Miami, Miami, Fla. (15638), which had | 2,180,175,000 | 3 | ——— |
| merged July 1, 1979, under charter and title of the latter bank (15638). The merged bank at date of merger had | 2,509,738,000 | ——— | 10 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on the application to merge five sister banks ("Merging Banks"), into Southeast First National Bank of Miami, Miami, Fla. ("SFNB"). This application is one part of a process whereby Southeast Banking Corporation, Miami, Fla. ("Southeast"), a registered multibank holding company, is realigning and consolidating a portion of its banking interests in the Dade County area.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' record of helping to meet the credit needs of their entire community, including low and moderate income neighborhoods, is less than satisfactory.

In consideration of the element of common ownership and control existent among the proponents, this proposal is regarded as a corporate reorganization, and as such, would produce no adverse effect upon any relevant area of consideration.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

March 30, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are all wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

## THE FARMERS NATIONAL BANK OF CYNTHIANA, Cynthiana, Ky., and Union Bank of Berry, Berry, Ky.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Union Bank of Berry, Berry, Ky., with | $ 4,485,000 | 1 | |
| was purchased July 2, 1979, by The Farmers National Bank of Cynthiana, Cynthiana, Ky. (2560), which had | 29,551,000 | 3 | |
| After the purchase was effected, the receiving bank had | 33,085,000 | | 4 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on the application of The Farmers National Bank of Cynthiana, Cynthiana, Ky. ("FNB"), to purchase the assets and assume the liabilities of Union Bank of Berry, Berry, Ky. ("Union Bank"). The application was filed on February 22, 1979, and is based on a written agreement executed by the applicant banks on October 6, 1978. As of December 31, 1978, FNB had total deposits of $26.1 million, and Union Bank had deposits of $3.9 million.

FNB operates a main office, one branch office and a limited service drive-in facility within the City of Cynthiana, the county seat of Harrison County. Union Bank operates its single banking office within the City of Berry, which is approximately 13 miles to the northwest of Cynthiana in rural Harrison County. Union Bank's service area is predominantly agricultural, but with a relatively static economy, Union Bank has a history of minimal overall growth. As a result, Union Bank ranks as the smallest of the four commercial banks operating in Harrison County with only 5 percent of total county deposits. FNB would continue through the resulting bank as the second largest bank in Harrison County with approximately 36 percent of total county deposits while the largest bank, also headquartered in Cynthiana, would control some 47 percent.

Applicable state banking statutes would permit *de novo* branch expansion by these banks within Harrison County. However, neither could establish a branch in the home office community of the other due to home office protection. Union Bank applied for a branch office north of the city limits of Cynthiana, but in November 1977, the state banking commissioner declined the application citing the small size of Union Bank. Conversely, the population of the Berry area is not large enough to support another bank's office without seriously threatening the viability of Union Bank. Accordingly, we find that approval of this application would have no significant adverse effect on competition.

The financial and managerial resources of both FNB and Union Bank are regarded as satisfactory. The future prospects of the two banks independently are good but in combination are favorably enhanced.

As a result of this proposal, FNB intends to offer new and expanded banking services to customers of Union Bank, including, but not limited to, full trust services, bank credit cards, individual retirement accounts and an increased credit limit. These services will provide greater convenience and fill needs that are not being filled by Union Bank.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of the communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed transaction.

May 31, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a substantially adverse effect upon competition.

* Assets are as of call dates before and after transaction.

* * *

## THE FIRST NATIONAL BANK OF FARMVILLE,
Farmville, Va., and The Bank of Buckingham, Dillwyn, Va.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| The Bank of Buckingham, Dillwyn, Va., with | $ 8,842,000 | 2 | ——— |
| and The First National Bank of Farmville, Farmville, Va. (5683), which had | 52,163,000 | 5 | ——— |
| merged July 2, 1979, under charter and title of the latter bank (5683). The merged bank at date of merger had | 61,005,000 | ——— | 7 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The Bank of Buckingham, Dillwyn, Va. ("Dillwyn Bank"), into and under the charter of The First National Bank of Farmville, Farmville, Va. ("Farmville Bank"). The application was filed on February 1, 1979, and is based on a written agreement executed by the applicant banks on October 25, 1978.

Farmville Bank received its charter as a national bank on January 18, 1901, and had total deposits of $44.1 million as of September 30, 1978. Farmville Bank presently operates its main office and four branch offices within Prince Edward County.

Dillwyn Bank was chartered as a state bank in 1972, had total deposits of $6.6 million as of September 30, 1978 and operates two banking offices within Buckingham County.

Farmville Bank and Dillwyn Bank, whose closest offices are 20 miles apart, each serve distinct service areas. Several commercial banking alternatives, including branch offices of substantially larger banks, are located near offices of both Farmville Bank and Dillwyn Bank. This merger will not alter Farmville Bank's position in the combined market area of Prince Edward and Cumberland Counties, since the resulting bank will rank fifth among the six banking organizations in this area. Moreover, Dillwyn Bank was organized and has been operating under the general supervision of the management of Farmville Bank. Accordingly, we find that approval of this application would have no adverse effect on competition.

The financial and managerial resources of both Farmville Bank and Dillwyn Bank are regarded as satisfactory. The future prospects of the two banks independently are good, but in combination are favorably enhanced.

As a result of this merger, Farmville Bank intends to offer new and expanded banking services to the present customers of Dillwyn Bank; these services include full trust services and a larger legal lending limit. Considerations relative to convenience and needs benefits are consistent with approval of this application.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of the communities, including low and moderate income neighborhoods, is less than satisfactory.

This opinion is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to merge under their previously referenced agreement.

May 22, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have any significant effect on competition.

* * *

## NATIONAL BANK AND TRUST COMPANY,
Charlottesville, Va., and New Bank of Culpeper, Culpeper, Va.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| New Bank of Culpeper, Va., with | $ 9,178,442 | 3 | ——— |
| and National Bank and Trust Company, Charlottesville, Va. (10618), which had | 275,415,305 | 25 | ——— |
| merged July 2, 1979, under charter and title of the latter bank (10618). The merged bank at date of merger had | 284,593,747 | ——— | 28 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge New Bank of Culpeper, Culpeper, Va. ("Culpeper Bank"), into and under the charter of National Bank and Trust Company, Charlottesville, Va. ("Charlottesville Bank"). The application was filed on May 1, 1979, and is based on a written agreement executed by the applicant banks on April 10, 1979.

Charlottesville Bank is a national bank that had total deposits of $246.7 million as of December 31, 1978. Culpeper Bank, a state-chartered bank, had deposits of $7.4 million as of December 31, 1978.

Both banks are wholly owned and controlled by NB Corporation, Charlottesville, a registered bank holding company. Therefore, this is merely an application for a corporate reorganization. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c). Additionally, a review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet credit needs of the communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

May 31, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

## WELLS FARGO BANK, NATIONAL ASSOCIATION,
San Francisco, Calif., and First Central Coast Bank, San Luis Obispo, Calif.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| First Central Coast Bank, San Luis Obispo, Calif., with | $ 44,541,000 | 5 | |
| and Wells Fargo Bank, National Association, San Francisco, Calif. (15660), which had | 16,605,829,000 | 385 | |
| merged July 14, 1979, under charter and title of the latter bank (15660). The merged bank at date of merger had | 16,656,462,000 | | 390 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge First Central Coast Bank, San Luis Obispo, Calif. ("First") into and under the charter of Wells Fargo Bank, National Association, San Francisco, Calif. ("Wells"). This application was accepted for filing by this Office on February 27, 1979, and is based on an agreement executed between the proponents on September 27, 1978. As of September 30, 1978, Wells had total deposits of $14.1 billion, and First's deposits were $37.5 million. Wells is a wholly owned commercial banking subsidiary of Wells Fargo & Company, a registered bank holding company.

The narrowest geographic market appears to be San Luis Obispo County, situated along the Pacific Coast, about midway between Los Angeles and San Francisco. First maintains five offices, all in San Luis Obispo County, where it ranks as the fifth largest bank controlling 8.6 percent of total deposits. Wells, which could branch in San Luis Obispo County, is not currently represented there. There is no meaningful competition existing between the participating institutions because their nearest offices, which operate in different banking markets, are approximately 35 miles apart. The county is dominated by Bank of America which has 49 percent of total county deposits. Bank of America also dominates the state with Wells ranking as a distant third. Wells competes vigorously with Bank of America throughout the state. This type of competition is not now present in San Luis Obispo County. Wells' entry into this county by acquiring the fifth largest bank will promote this type of competition without raising dangers of oligopolistic behavior. This type of merger would not change Wells' ranking in the state. Accordingly, approval of this application would not substantially lessen competition in any relevant market or otherwise violate the standards found in 12 USC 1828(c)(5).

As required under 12 USC 1828(c)(5), the Comptroller considered the financial and managerial resources and found that they are satisfactory for Wells. The financial and managerial resources of First are generally satisfactory; except that there is now no clearly identifiable management succession. The future prospects of the combined institution are good and considerably better than those of First.

As a result of this merger, Wells will be in a position to expand the banking services currently available to the San Luis Obispo banking public. Additional banking services not currently available through First that will become available through Wells include investment advisory, trust and international services. Also, service expansion would occur in personal residential term real estate loan funding, larger lending limit and bank credit cards. These facts are positive considerations, and the Comptroller is not aware of any negative factors bearing on convenience and needs considerations.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' record of helping to meet credit needs of their communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

June 14, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect upon competition.

* * *

## SOCIETY NATIONAL BANK OF CLEVELAND,
## Cleveland, Ohio, and Society Bank of Painesville, Ohio

| *Names of banks and type of transaction* | Total assets | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Society Bank of Painesville, Painesville, Ohio, with | $ 52,747,000 | 6 | ——— |
| and Society National Bank of Cleveland, Cleveland, Ohio (14761), which had | 1,495,576,000 | 81 | ——— |
| merged July 30, 1979, under charter and title of the latter bank. The merged bank at date of merger had | 1,542,964,000 | ——— | 87 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on the application to merge Society Bank of Painesville, Painesville, Ohio, into Society National Bank of Cleveland, Cleveland, Ohio. Both banks are subsidiaries of Society Corporation, Cleveland, Ohio, registered multibank holding company. This application is one part of a process whereby Society Corporation will realign and consolidate a portion of its banking interests throughout the state.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the entire community credit needs, including those of low and moderate income neighborhoods, is less than satisfactory.

Because of the common ownership and control of the proponents, this proposal is solely a corporate reorganization. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c). Additionally, a review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

June 29, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

## HERITAGE BANK, N.A.—FLUSHING,
## Flushing, Ohio, and The Eastern Ohio Bank, Union Township, Ohio

| *Names of banks and type of transaction* | Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The Eastern Ohio Bank, Union Township, Ohio, with | $14,013,000 | 2 | ——— |
| and Heritage Bank, N.A.—Flushing, Flushing, Ohio (12008), which had | 20,681,000 | 4 | ——— |
| merged August 27, 1979, under charter and title of the latter bank (12008). The merged bank at date of merger had | 28,525,000 | ——— | 6 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on the application to merge The Eastern Ohio Bank, Union Township, Ohio, into Heritage Bank, N.A.—Flushing, Flushing, Ohio. Both banks are subsidiaries of Heritage Bancorporation. This application is part of a process whereby Heritage will realign and consolidate its banking interests in the Flushing area.

Because of the common ownership and control of the proponents, this proposal is merely a corporate reorganization. As such, it presents no competitive is-

* Asset figures are as of call dates immediately before and after transaction.

sues under the Bank Merger Act, 12 USC 1828(c). Additionally, a review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the community credit needs, including those of low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

July 27, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

## THE PLANTERS NATIONAL BANK AND TRUST COMPANY, Rocky Mount, N.C., and Liberty Bank & Trust Company, Durham, N.C.

| Names of banks and type of transaction | Total assets* | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| Liberty Bank & Trust Company, Durham, N.C., with | $ 16,224,000 | 4 | ——— |
| was purchased August 31, 1979, by The Planters National Bank and Trust Company, Rocky Mount, N.C. (10608), which had | 314,810,000 | 35 | ——— |
| After the purchase was effected, the receiving bank had | 350,798,000 | ——— | 39 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on the application of The Planters National Bank and Trust Company, Rocky Mount, N.C. ("Planters Bank"), to purchase the assets and assume the liabilities of Liberty Bank & Trust Company, Durham, N.C. ("Liberty Bank"). The application was filed on May 7, 1979, and is based on a written agreement executed by the applicant banks on February 21, 1979. As of December 31, 1978, Planters Bank had total deposits of $286.7 million, and Liberty Bank had deposits of $13.7 million.

Planters Bank currently operates a main office and 34 branch offices, most of which are in the northeastern part of the state. Liberty Bank operates a main office and three branch offices in Durham in north-central North Carolina. The main offices of the two banks are some 65 miles apart, and the closest offices of Planters Bank to Liberty Bank are approximately 20 miles distant in Raleigh, N.C. In view of the geographic distance separating the proponent banks and with numerous offices of competing commercial banks located in the intervening area, it is concluded that this acquisition would not eliminate any existing competition between Planters Bank and Liberty Bank.

North Carolina State Banking statutes allow statewide *de novo* branch expansion by commercial banks. Thus, either of the two banks could branch into the areas served by the other. Liberty Bank has shown no desire to expand outside Durham, and it does not appear likely that the bank would employ *de novo* expansion into any area currently served by Planters Bank. The likelihood that Planters Bank would enter the Durham area appears remote inasmuch as this market presently has nine commercial banks operating 52 offices, among which are the five largest banks in the state. Accordingly, the potential for future competition between the proponent banks is minimal. Approval of this application would not have a substantially adverse effect on competition.

The financial and managerial resources of both Planters Bank and Liberty Bank are satisfactory. The future prospects of the two banks, independently and in combination, appear favorable.

After consummation of this transaction, the additional capabilities of Planters Bank through the resulting bank will be made available to the present customers of Liberty Bank in such areas as full trust services and a substantially larger legal lending limit. Considerations relative to convenience and needs benefits are consistent with approval of this application.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of the communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed transaction.

July 23, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect upon competition.

* Assets are as of call dates immediately before and after transaction.

* * *

THE NATIONAL BANK OF SOUTH CAROLINA,
Sumter, S.C., and Bank of North Charleston, North Charleston, S.C.

| Names of banks and type of transaction | Total assets* | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| Bank of North Charleston, North Charleston, S.C., with | $ 14,285,000 | 4 | ——— |
| was purchased September 14, 1979, by The National Bank of South Carolina, Sumter, S.C. (10660), which had | 148,657,000 | 16 | ——— |
| After the purchase was effected, the receiving bank had | 165,735,000 | ——— | 20 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on an application of The National Bank of South Carolina, Sumter, S.C. ("Sumter"), to purchase the assets and assume the liabilities of the Bank of North Charleston, North Charleston, S.C. ("North Bank"). This application was accepted for filing on July 13, 1979, and is based on an agreement executed between the proponents on June 25, 1979. At the specific request of the South Carolina Commissioner of Banking, this application has been processed pursuant to the emergency provisions of the Bank Merger Act. (See 12 USC 1828(c)(4) and 12 USC 1828(c)(c)). On December 31, 1978, Sumter had total deposits of $129 million, and North Bank had total deposits of $14.8 million.

Sumter is the seventh largest bank in South Carolina, with 1.2 percent of total state deposits. It presently has 18 offices in seven metropolitan areas of the state. Sumter also has three approved but unopened offices, one of which is in Summerville, a community about 11 miles from North Charleston. Sumter is not currently represented in either North Charleston or Charleston.

North Bank operates one office in North Charleston, two offices in Charleston and one office in Goose Creek. The main offices of the two proponents are almost 90 miles apart, and their closest existing offices are approximately 50 miles apart. Due to the distances between the closest offices and the presence of other banking alternatives, there does not appear to be any meaningful existing competition between Sumter and North Bank. The proposed merger would have little effect on state-wide competition, and Sumter's rank as the seventh largest banking organization would not change. Consummation of this proposal would not result in any adverse competitive effects.

The financial and managerial resources of Sumter are satisfactory. The financial and managerial resources of North Bank are unsatisfactory. At the last examination of North Bank, conducted by the Federal Deposit Insurance Corporation (FDIC) on March 3, 1979, the condition of the bank was considered critical. Due to certain operational difficulties that have received considerable adverse publicity, North Bank has been unable to comply with a directive from the FDIC for the immediate injection of additional equity capital. Accordingly, the future prospects of North Bank are uncertain, and absent consummation of this proposal, are extremely limited.

As a result of this merger transaction, Sumter intends to provide new and expanded banking services to North Charleston. Sumter will provide a significantly larger legal lending limit, complete trust services, bank credit cards, overdraft protection plan, more favorable interest rates for savings, individual retirement accounts and specialized and sophisticated loan services. These facts are positive considerations on the issue of convenience and needs, and this Office is unaware of any negative factors bearing on this issue.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that Sumter's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger. This proposal may be consummated 5 days after the date of approval by this Office.

August 3, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect upon competition.

* * *

* Assets are as of call dates immediately before and after transaction.

## FIRST NATIONAL BANK OF NEVADA,
Reno, Nev., and Bank of Nevada, Las Vegas, Nev.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| Bank of Nevada, Las Vegas, Nev., with | $ 287,868,000 | 48 | ——— |
| and First National Bank of Nevada, Reno, Nev. (7038), which had | 1,462,525,000 | 14 | ——— |
| consolidated September 28, 1979, under charter and title of the latter bank (7038). The consolidated bank at date of consolidation had | 1,750,393,000 | ——— | 62 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to consolidate Frist National Bank of Nevada, Reno, Nev. ("FNB"), and Bank of Nevada, Las Vegas, Nev. ("Bank"). The application was filed on July 9, 1979, and rests on an agreement of March 28, 1979, signed by the participants. Both FNB and Bank are controlled by Western Bancorporation, Los Angeles, Calif. ("Western"), a registered multibank holding company that operates in 12 states.

This is a proposed corporate reorganization. The proponent banks are commonly owned and do not compete. It presents no competitive effects under the Bank Merger Act, 12 USC 1828(c). The financial and managerial resources and future prospects of the existing and proposed institutions are satisfactory. The new corporate structure will permit the continuing bank to more effectively serve the convenience and needs of its communities.

A review of the record on this application and other information available to the Office of the Comptroller of the Currency as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping community credit needs, including those of low and moderate income neighborhoods, is less than satisfactory.

This is the prior written approval required for the applicants to proceed with the proposal.

August 31, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

The consolidating banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed consolidation is essentially a corporate reorganization and would have no effect on competition.

* * *

## THE PEOPLES NATIONAL BANK AND TRUST COMPANY,
Dover, Ohio, and The Gnadenhutten Bank, Gnadenhutten, Ohio

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| The Gnadenhutten Bank, Gnadenhutten, Ohio, with | $ 11,761,000 | 1 | ——— |
| and The Peoples National Bank and Trust Company, Dover, Ohio (4293), which had | 89,436,000 | 4 | ——— |
| merged September 28, 1979, under charter and title of the latter bank (4293). The merged bank at date of merger had | 100,610,000 | ——— | 5 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on the application to merge The Gnadenhutten Bank, Gnadenhutten, Ohio ("Bank"), into The Peoples National Bank and Trust Company, Dover, Ohio ("Peoples"). This application was filed on May 10, 1979, as is based on an agreement executed by the banks on March 13, 1979. As of December 31, 1978, Peoples had total deposits of $76.5 million, and Bank's total deposits were $10.3 million.

Peoples is headquartered in Dover and has three branch offices, all in Tuscarawas County. It is the second largest of eight commercial banks in the County and the smaller of two banks headquartered in Dover. Peoples is a subsidiary of First Banc Group of Ohio, Inc., Columbus, Ohio, a registered multibank holding company, that ranks as the fifth largest banking organization in Ohio.

Bank is in Gnadenhutten, approximately 20 miles southeast of Dover. Bank operates no branch offices and is the fifth largest of eight banks in Tuscarawas County. It controls about 3 percent of the county's deposits.

The closest offices of Peoples and Bank are 12 miles apart with offices of other banks in the intervening area. Peoples is the only present banking subsidiary of First Banc Group of Ohio, Inc., operating in the county. Peoples derives about $2.1 million in deposits

(2.7 percent of its total deposits) and $3.8 million in loans (6.8 percent of its total loans) from the area served by Bank. Likewise, Bank derives only $310,000 (3.0 percent of its total deposits) in deposits and $322,000 in loans (6.6 percent of its total loans) from the area served by Peoples.

With prior approval of this Office, Peoples could legally establish a *de novo* branch in the area served by Bank. However, due to the rural nature of the area,it does not appear likely that Peoples would use this method of expansion.

Consummation of this proposal would not alter Peoples relative ranking in the county and the resulting institution would hold less than 26 percent of the county's commercial bank deposits. The largest bank in the area, The Reeves Banking and Trust Company, Dover, holds almost 46 percent of the county's deposits, and the third largest bank, a subsidiary of BancOhio Corporation, has almost 13 percent of county deposits. Since there is negligible existing competition between Peoples and Bank, the elimination of this competition as a result of approval of this application would have no substantially adverse impact on competition.

The financial and managerial resources of both banks are satisfactory. The future prospects of Bank are limited in view of its small size, rural location and lack of obvious management succession. The future prospects of the combined bank are good.

As a result of the merger, Peoples intends to offer new and expanded banking services to Bank's customers. These services include additional types of credit of a significantly larger and more complex nature, money certificates, trust services and equipment lease financing. These facts are positive considerations on the issue of convenience and needs, and the Comptroller is unaware of any negative factors in this issue.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

August 8, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect upon competition.

* * *

## FIRST NATIONAL BANK OF HOLLYWOOD,

**Hollywood, Fla., and First National Bank of Hallandale, Hallandale, Fla., and Hollywood National Bank, Hollywood, Fla., and First National Bank of Miramar, Miramar, Fla.**

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| First National Bank of Hallandale, Hallandale, Fla. (15874), with | $ 27,205,000 | 1 | ——— |
| and First National Bank of Miramar, Miramar, Fla. (16233), with | 10,779,000 | 2 | ——— |
| and Hollywood National Bank, Hollywood, Fla. (16008), with | 13,093,000 | 2 | ——— |
| and First National Bank of Hollywood, Hollywood, Fla. (14530), which had | 116,909,000 | 3 | ——— |
| merged September 30, 1979, under charter and title of the latter bank (14530). The merged bank at date of merger had | 168,735,000 | ——— | 8 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge First National Bank of Hallandale, Hallandale, Fla., Hollywood National Bank, Hollywood, Fla., and First National Bank of Miramar, Miramar, Fla. ("Merging Banks"), into and under the charter of First National Bank of Hollywood, Hollywood, Fla. ("Hollywood Bank"). The application was filed on April 11, 1979, and is based on a written agreement executed by the applicant banks on September 18, 1978.

Hollywood Bank and Merging Banks are all national banks that had total deposits of $107.7 million and $52.1 million, respectively, as of December 31, 1978.

The proponent banks are wholly owned and controlled by Florida Bankshares, Inc., Hollywood, Fla., a registered bank holding company. Therefore, this is merely an application for a corporate reorganization. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c). Additionally, a review of the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved. (See 12 USC 1842(c)(21)).

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of

their communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

June 21, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are all wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

## SOUTHERN NATIONAL BANK OF NORTH CAROLINA, Lumberton, N.C., and Carolina State Bank, Gastonia, N.C.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Carolina State Bank, Gastonia, N.C., with | $ 24,902,000 | 4 | ——— |
| and Southern National Bank of North Carolina, Lumberton, N.C. (10610), which had | 521,707,000 | 65 | ——— |
| merged September 30, 1979, under the charter and title of latter bank (10610). The merged bank at date of merger had | 517,474,000 | ——— | 69 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Carolina State Bank, Gastonia, N.C. ("Bank"), into Southern National Bank of North Carolina, Lumberton, N.C. ("Southern"). This application was filed on June 29, 1979, and rests on an agreement between the participants signed on March 26, 1979. As of December 31, 1978, Southern's total deposits were $396.2 million, and Bank had total deposits of $22.8 million. Bank has a main office and three branches in Gastonia and its immediate area. Southern has 65 offices with none in the city or county of Gastonia.

The smallest relevant market would be the city of Gastonia, 1970 census tract 331 and the unincorporated sections of census tracts 318, 327 and 328. In this market, Bank competes with four other commercial banks, three of which are banks located statewide in North Carolina. The fourth competitor, Independence National Bank of Gastonia, holds the largest share of deposits in this market and operates nine of its 26 offices within the market. Bank ranks third in market share with 11.1 percent or approximately $21 million in deposits. Independence holds 53.3 percent of the market deposits or $102 million, and the First Union National Bank of North Carolina of Charlotte is second, holding 25.9 percent or approximately $45 million in deposits. As of June 30, 1978, Southern did not have any deposits in the market.

The Board of Governors of the Federal Reserve System in its competitive factor report concluded that the relevant market is the Charlotte SMSA. In this market, Southern's rank is 10th of 20 banks with 1.4 percent of deposits. The merger would raise Southern's share to 3 percent and rank to seventh. The Board of Governors concluded that the proposed merger would have no adverse effect.

Southern could legally enter Gastonia by a *de novo* branch because North Carolina permits statewide branching. The North Carolina branching law has resulted in a highly competitive banking environment in North Carolina, and this is true of the relevant Gastonia market described above. There are 24 banking offices already in this market serving approximately 57,000 persons. The cost of entry by *de novo* branching and the profits expected from opening the 25th or subsequent banking offices effectively precludes *de novo* entry for Southern National Bank. Accordingly, the competitive effects of this proposal will not significantly lessen competition in any relevant market or otherwise violate the standards found in the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both Bank and Southern are satisfactory. The future prospects of Bank are limited in consideration of its relative small size compared to its significantly larger competitors. The future prospects of Southern and the resultant bank are good.

As a consequence of the proposal, Southern will offer new and expanded banking services to the present banking customers of Bank. These services include trust, leasing, mortgage lending and accounts receivable financing. There are positive considerations on the question of convenience and needs.

A review of the record on this application and other information available to the Office of the Comptroller of the Currency as a result of its regulatory responsibilities revealed no evidence that Southern's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This is the prior written approval required for the applicants to proceed with the merger.

August 30, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have an adverse effect upon competition.

* Assets are as of call dates immediately before and after transaction.

* * *

## BANK OF JACKSON, N.A., Jackson, Miss., and Fidelity Bank, Utica, Miss.

| Names of banks and type of transaction | Total assets* | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| Fidelity Bank, Utica, Miss., with | $32,765,000 | 4 | ——— |
| was purchased October 1, 1979, by Bank of Jackson, N.A., Jackson, Miss. (16810), which had | 1,600,000 | 0 | ——— |
| After the purchase was effected, the receiving bank had | 26,260,000 | ——— | 4 |

### COMPTROLLER'S DECISION

On September 29, 1979, application was made to the Comptroller of the Currency for prior written approval for Bank of Jackson, N.A., Jackson, Miss. ("Assuming Bank"), to purchase certain of the assets and assume certain of the liabilities of Fidelity Bank, Utica, Miss. ("Fidelity").

On September 25, 1979, Fidelity was a state-chartered bank operating through its main office and three branch offices with deposits of approximately $30 million. At the close of business on September 27, 1979, Fidelity was closed by the State of Mississippi Banking Department. It was placed in receivership and taken over by the Federal Deposit Insurance Corporation (FDIC) on September 28, 1979. The present application is based on an agreement, which is incorporated herein by reference, by which the FDIC as receiver has agreed to sell certain of Fidelity's assets in consideration of the assumption of certain liabilities by the Assuming Bank. For the reasons stated hereafter, the Assuming Bank's application is approved, and the purchase and assumption transaction may be consummated immediately.

Under the Bank Merger Act, 12 USC 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain anticompetitive effects unless it is found that these 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. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institution and the convenience and needs of the community to be served. When necessary, however, to prevent the evils attendant on the failure of a bank, the Comptroller can dispense with the standards applicable to usual acquisition transactions and need not consider reports on the competitive consequences of the transaction ordinarily solicited from the Department of Justice and other banking agencies. The Comptroller is authorized in such circumstances to immediately approve an acquisition and to authorize the immediate consummation of the transaction.

The proposed transaction will prevent disruption of banking services to the community and potential losses to a number of uninsured depositors. The Assuming Bank has sufficient financial and managerial resources to absorb Fidelity and enhance the banking services it offers in the Utica community.

The Comptroller thus finds that the anticompetitive effects of the proposed transaction, if any, are clearly outweighed in the public interest by the probable effect of the proposed transaction in meeting the convenience and needs of the community to be served. For these reasons, the Assuming Bank's application to purchase certain assets and acquire certain liabilities of Fidelity, as set forth in the agreement executed with the FDIC as receiver, is approved. This approval also includes specific approval to operate Fidelity's main office and all branch offices as branches of the Assuming Bank and approval of the transfer to the Assuming Bank of Fidelity's trust business as provided in the agreement. The Comptroller further finds that the failure of Fidelity requires him to act immediately, as contemplated by the Bank Merger Act, to prevent disruption of banking services to the community. The Comptroller thus waives publication of notice, dispenses with solicitation of competitive reports from other agencies and authorizes the transaction to be consummated immediately.

September 29, 1979

Due to the emergency nature of the situation, no Attorney General's report was requested.

* Asset figures are as of call dates immediately before and after transaction.

* * *

## THE BARNSTABLE COUNTY NATIONAL BANK OF HYANNIS, Barnstable, Mass., and Chatham Trust Company, Chatham, Mass.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Chatham Trust Company, Chatham, Mass., with | $13,596,000 | 1 | ——— |
| and The Barnstable County National Bank of Hyannis, Barnstable, Mass. (13395), which had | 35,276,000 | 4 | ——— |
| merged October 1, 1979, under charter and title of the latter bank (13395). The merged bank at date of merger had | 44,872,000 | ——— | 5 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Chatham Trust Company, Chatham, Mass. ("Chatham"), into The Barnstable County National Bank of Hyannis, Barnstable, Mass. ("Barnstable"). This application was filed on April 26, 1979, and is based on a written agreement executed by the proponents on April 9, 1979. As of December 31, 1978, Chatham had total deposits of $10.9 million, and Barnstable's total deposits were $30.4 million.

Chatham was founded in 1919 and operates from a single office in Chatham.

Barnstable operates a head office in Hyannis and three branches in Barnstable County. It is a subsidiary of New England Merchants Company, Inc., Boston, a registered multibank holding company.

The relevant geographic market for analysis in this application is Barnstable County. The county is on a peninsula separated from the rest of the state by Cape Cod Canal. Barnstable's main office is slightly less than 20 miles from the sole office of Chatham. The closest office of Barnstable to Chatham is its Dennis Port Branch, about 10 miles distant.

There are offices of other banks in the intervening area. About 2.8 percent of Barnstable's total deposits and 6.2 percent of its loans originate in the area served by Chatham. Chatham obtains 1.3 percent of its total deposits, and 6.7 percent of its total loans come from the area served by Barnstable.

Barnstable is the fifth largest of eight commercial banks with 9.1 percent of total county deposits. Chatham is the smallest bank with 3.4 percent of the county's total deposits. Chatham is the smallest bank with 3.4 percent of the county's total deposits. Upon consummation of this proposal, Barnstable would continue as the fifth largest bank in the county. Further, several banking alternatives, including offices of two commercial banks and a branch of a mutual savings bank, would remain in Chatham. The elimination of any existing competition between Barnstable and Chatham would not have a substantially adverse effect on competition.

The financial and managerial resources of both Barnstable and Chatham are satisfactory. The future prospects of Barnstable are good. The future prospects of Chatham, independent of this merger, are uncertain. The bank is losing its share of market deposits. Chatham's affiliation with Barnstable and its corporate parent should greatly enhance its future prospects.

As a result of the merger, Barnstable will provide new and expanded banking services to the Chatham area. The Cape Cod area is a popular retirement location. Chatham is in the process of retiring its trust functions. Barnstable aggressively markets trust services. Over the longer period of time, Barnstable will be better able to serve credit needs and provide more sophisticated management. These facts are positive considerations on the issue of convenience and needs, and this Office is not aware of any negative factors.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of the communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

August 21, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a substantial competitive impact.

* * *

## THE CENTRAL TRUST COMPANY, NATIONAL ASSOCIATION,
Cincinnati, Ohio, and The Citizens National Bank of Middleport, Ohio

| Names of banks and type of transaction | Total assets* | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| The Citizens National Bank of Middleport, Middleport, Ohio (8441), with | $ 14,402,000 | 1 | ——— |
| and The Central Trust Company, National Association, Cincinnati, Ohio (16416), which had merged October 4, 1979, under charter and title of the latter bank (16416). The merged bank at | 1,139,273,000 | 54 | ——— |
| date of merger had | 1,223,681,000 | ——— | 55 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The Citizens National Bank of Middleport, Middleport, Ohio ("Citizens"), into The Central Trust Company, National Association, Cincinnati, Ohio ("Central"). This application was filed on June 6, 1979, and is based on an agreement executed between the participating banks on May 1, 1979. As of December 31, 1978, Central had total deposits of $834.9 million, and Citizens had total deposits of $10.5 million.

Central operates 43 banking offices in Hamilton and Montgomery Counties. It is a subsidiary of Central Bancorporation, Cincinnati, Ohio. Central Bancorporation is the eighth largest commercial banking organization in Ohio, with control of about 4.3 percent of total state deposits.

Citizens' only office is in Middleport, Meigs County, Ohio, approximately 125 miles east of Cincinnati. It is the third largest of four banks in the county.

Central presently has no loan or deposit customers residing in Meigs County. Citizens derives none of its banking business from any area served by any present subsidiary of The Central Bancorporation, Inc. Consummation of this merger would have no adverse effect on competition.

On April 11, 1979, Central filed an application to merge with The First National Bank of Gallipolis, Gallipolis, Ohio ("First"). First is about 18 miles from Citizens in adjacent Gallia County. The respective market areas of First and Citizens appear to be distinct and separate, and the only measurable overlap of the two banks' service areas is in the immediate area of the small town of Chesire in eastern Gallia County. Deposits derived by First in Citizens' trade area are only 2.8 percent of its total deposits, and Citizens derives only 4.3 percent of its deposits from the area served by First. There is no significant competition between First and Citizens, and approval of either the merger between Central and First or the merger between Central and Citizens would have no adverse impact on competition in the two-county area under consideration in these two separate proposals.

The financial and managerial resources of both banks are satisfactory. The future prospects of the resulting bank are good.

As a result of the merger, Central will be able to offer new and expanded services to consumers in Meigs County. These services include bank credit cards, preapproved overdraft checking accounts, a larger lending limit and trust services. All of these services are positive benefits, and this Office is unaware of any negative factors affecting the convenience and needs of the community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' record of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

September 4, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have any adverse effect upon competition.

* * *

* Asset figures are as of call dates immediately before and after transactions.

## THE CENTRAL TRUST COMPANY, NATIONAL ASSOCIATION,
Cincinnati, Ohio, and The First National Bank of Gallipolis, Gallipolis, Ohio

| Names of banks and type of transaction | Total assets* | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| The First National Bank of Gallipolis, Gallipolis, Ohio (136), with | $ 26,636,000 | 2 | ——— |
| and The Central Trust Company, National Association, Cincinnati, Ohio (16416), which had | 1,139,273,000 | 52 | ——— |
| merged October 4, 1979, under charter and title of latter bank (16416). The merged bank at date of merger had | 1,223,681,000 | ——— | 54 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The First National Bank of Gallipolis, Gallipolis, Ohio ("First"), into the Central Trust Company, National Association, Cincinnati, Ohio ("Central"). The application was filed on April 11, 1979, and is based on an agreement executed by the participating banks on April 5, 1979.

Central reported total deposits of $906 million on March 31, 1979. It operates 36 offices in Hamilton County and seven in Montgomery County. It is the largest subsidiary of Central Bancorporation, Cincinnati, Ohio. Central Bancorporation is the eighth largest commercial banking organization in Ohio, with control of about 4.3 percent of total state deposits.

First reported total deposits of $22 million on March 31, 1979. It operates two offices in Gallia County and is the smallest of three banks in the county.

Central has no loan or deposit customers residing in Gallia County. First derives none of its banking business from any area served by present subsidiaries of Central Bancorporation, Inc. Consummation of this merger would have no adverse effect on competition.

Central filed an application to merge with The Citizens National Bank of Middleport, Middleport, Ohio ("Citizens"), on June 6, 1979. Citizens' only office is 18 miles from Gallipolis in adjacent Meigs County. The market areas of First and Citizens are distinct and separate, and the only measurable overlap of the two banks' service areas is in the immediate vicinity of the small town of Chesire, Ohio, in eastern Gallia County. First obtains only 2.8 percent of its total deposits in Citizens' market area, and Citizens obtains only 4.3 percent of its deposits from the area served by First. There is no significant competition between First and Citizens. Approval of the merger of Central and First and the merger of Central and Citizens would have no adverse impact on competition in the two-county area under consideration in these two proposals.

The financial and managerial resources and the future prospects of both First and Central are satisfactory. Consummation of the merger will enhance the future prospects of Central.

If the proposal is completed, Central will be able to offer additional banking services not now offered by First to the residents of Gallia County. These services include a variety of deposit accounts, trust services, larger loans and expertise in specialized areas of lending. These services will be more conveniently available and will satisfy additional needs of the consumer of banking services in the county.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

September 4, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a substantial competitive impact.

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* Asset figures are as of call dates immediately before and after transaction.

* * *

## THE MERCHANTS NATIONAL BANK OF FORT SMITH,
Fort Smith, Ark., and Continental Bank and Trust Company, Barling, Ark.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| Continental Bank and Trust Company, Barling, Ark., with | $ 4,269,060 | 1 | ——— |
| and The Merchants National Bank of Fort Smith, Fort Smith, Ark. (7240), which had | 112,768,738 | 4 | ——— |
| merged October 15, 1979, under charter and title of latter bank (7240). The merged bank at date of merger had | 116,606,992 | ——— | 5 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Continental Bank and Trust Company, Barling, Ark. ("Continental"), into and under the charter of The Merchants National Bank of Fort Smith, Fort Smith, Ark. ("Merchants"). The application was accepted for filing on June 12, 1979, and is based on a written agreement executed by the proponents on April 12, 1979.

Merchants is a national bank that had total deposits of $89.1 million as of December 31, 1978. It operates a main office, two branch offices and a partial service facility in the City of Fort Smith.

Continental, a state-chartered bank, had total deposits of $3.7 million at year-end 1978. It presently operates a single banking office in Barling, a town located approximately 6 miles east of Fort Smith. Continental has received approval from the Arkansas State Bank Board to open an office in Fort Smith, but it has been stayed pending resolution of litigation brought by other banks objecting to the state approval. If consummated, this merger will moot the pending litigation.

Merchants and Continental are both located in the Fort Smith banking market, approximated by Crawford and Sebastian Counties in Arkansas plus Sequoyah and the northern half of LeFlore Counties in Oklahoma. Merchants ranks as the third largest of 21 commercial banks therein and controls about 14 percent of market deposits. Consummation of this proposal would increase its share of market deposits by less than one percent and would not alter its rank in the market. The two largest banks, with market shares of approximately 25 and 21 percent, are also headquartered in Fort Smith and will be in direct competition with the resulting bank.

Due to its size, Continental serves an area limited to the Town of Barling and the adjoining eastern part of Fort Smith. As the closest offices of the proponents are some 6 miles apart, the instant proposal would eliminate some existing competition. However, there are several offices of other banks in the intervening area, and given the small market share of Continental, the effect on competition would not be adverse.

As required under 12 USC 1828(c)(5), the Comptroller considered the financial and managerial resources and found that they are satisfactory for both banks. The future prospects of Continental are limited due to its small size. Since it was established in 1971, Continental has been unable to develop a significant deposit base. The future prospects of Continental are limited due to its small size. Since it was established in 1971, Continental has been unable to develop a significant deposit base. The future prospects of the combined bank are good.

As a result of this merger, Merchants would offer new and expanded banking services to the present customers of Continental. Considerations relative to convenience and needs are consistent with approval of this application.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet community credit needs, including those of low and moderate income communities, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the merger.

September 12, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect upon competition.

* * *

## THE FIRST NATIONAL BANK OF SIOUX FALLS,
## Sioux Falls, S. Dak., and Dakota State Bank of Dell Rapids, Dell Rapids, S. Dak.

| Names of banks and type of transaction | Total assets* | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| Dakota State Bank of Dell Rapids, Dell Rapids, S. Dak., with | $ 12,072,000 | 2 | ——— |
| was purchased October 31, 1979, by The First National Bank in Sioux Falls, Sioux Falls, S. Dak. (3393), which had | 146,073,000 | 6 | ——— |
| After the purchase was effected, the receiving bank had | 165,873,000 | ——— | 8 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on the application of The First National Bank in Sioux Falls, Sioux Falls, S. Dak. ("FNB"), to purchase the assets and assume the liabilities of Dakota State Bank of Dell Rapids, Dell Rapids, S. Dak. ("State Bank"). This application was accepted by this Office on June 20, 1979, and is based on an agreement signed by both proponents on March 7, 1979. As of December 31, 1978, FNB had total deposits of $133.9 million, and State Bank had total deposits of $10.8 million.

The relevant geographic market for consideration in this proposal is Minnehaha County and the northern portion of Lincoln County, S. Dak. FNB is the fourth largest of 14 commercial banking organizations in this area, controlling 10.4 percent of the market's total commercial bank deposits. State Bank is among the five smallest banks in the area and controls only 0.8 percent of the total commercial bank deposits. The proponents' nearest offices are 20 miles apart, and there are offices of competing institutions in the intervening area. The resulting bank, with 11.2 percent of total deposits, would become the third largest bank in the market. First Bank Systems, Inc., Minneapolis, Minn., and Northwest Bancorporation, Minneapolis, with 36.8 and 25.5 percent, respectively, rank first and second. Consequently the competitive effects are not likely to substantially lessen competition in any relevant market or otherwise violate the standards found in 12 USC 1828(c)(5).

The financial and managerial resources of FNB are satisfactory. While State Bank's present condition is generally satisfactory, its ability to attract successor management and provide expanded financial services is limited. Accordingly, its financial and managerial resources are not totally satisfactory. Additionally, its future prospects are limited in view of the relative small size of the bank and the fact that it experiences direct competition from substantially larger competitors, some of which are affiliated with banking organizations that are the largest operating in the state. The future prospects of the resultant bank are good.

As a result of this proposal, FNB proposes to bring new and expanded banking services to the banking communities currently served by State Bank. Additionally, state statutes now provide home office protection for State Bank which will be removed and allow other potential entrants to enter Dell Rapids. These facts are positive considerations on the issue of convenience and needs and lend additional weight toward approval of the application.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that FNB's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed consolidation.

September 28, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a substantial competitive impact.

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* Asset figures are as of call dates immediately before and after transaction.

* * *

## MID-AMERICAN NATIONAL BANK AND TRUST COMPANY,
## Northwood, Ohio, and Farmers and Merchants Bank Company, Arlington, Ohio

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| Farmers and Merchants Bank Company, Arlington, Ohio, with | $ 13,569,000 | 1 | ——— |
| and Mid-American National Bank and Trust Company, Northwood, Ohio (15416), which had | 135,770,000 | 16 | ——— |
| merged October 31, 1979, under the charter and title of latter bank (15416). The merged bank at date of merger had | 149,339,000 | ——— | 17 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on the application to merge Farmers and Merchants Bank Company, Arlington, Ohio ("Farmers"), into Mid-American National Bank and Trust Company, Northwood, Ohio ("National"). This application was filed on June 25, 1979, and is based on an agreement executed by the proponents on June 7, 1979. As of December 31, 1978, National had total deposits of $119.4 million, and Farmers' total deposits were $10.3 million.

The relevant market in this application is Hancock County, Ohio. The county is mainly rural with an agriculturally based local economy. The Hancock County banking market is highly concentrated with the two largest banks, both headquartered in Findlay, and controlling almost 80 percent of the market's total commercial bank deposits. Six banking organizations operate 13 banking offices in the market. National does not have an office in Hancock County.

Farmers is the fifth largest bank in the market and controls only 4.5 percent of the market's total deposits held by commercial banks. National's main office is in Wood County, which adjoins Hancock County on its northern boundary. The main office of National is 50 miles north of Farmer's sole office in Arlington. The closest office of National to Farmers is the North Baltimore Branch (Wood County), approximately 22 miles northwest of Arlington. Findlay, principal city and county seat of Hancock County, is centrally situated in the county directly between North Baltimore and Arlington, effectively separating the service areas of National and Farmers. Consequently, there is only negligible existing competition between the proponents of this proposed merger.

Since National currently has no offices in the market, it would merely succeed to Farmer's share of the Hancock County banking market. Moreover, the introduction of this new competition into Hancock County would replace a small competitor with one which is larger and more vigorous. Thus, approval of this application would not have any significant effect on existing competition or otherwise be violative of the standards found in 12 USC 1828(c)(5).

The financial and managerial resources of both banks are satisfactory. The future prospects of Farmers due to its small size and *de minimus* market share are limited. The future prospects of the resulting bank are good.

As a consequence of this merger, National intends to improve and expand banking services now provided to the Arlington banking public by Farmers. The additional services and benefits will include trust services, greater management depth and capacity, expanded loan facilities and lending limits, automatic transfer accounts, agency money orders and school savings program. All of the services should have a positive effect on the convenience and needs of the community and lend further weight toward approval of the application.

A review of the record in this application and other information available to the Comptroller's Office as a result of its regulatory responsibilities reveals no evidence that National's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This is the prior written approval required by the Bank Merger Act for the applicants to proceed with the merger.

September 27, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a substantial competitive impact.

* * *

## THE FIRST NATIONAL BANK OF MARYLAND, Baltimore, Md., and The National Bank of Perryville, Perryville, Md.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The National Bank of Perryville, Perryville, Md. (11193), with | $ 6,566,000 | 1 | ——— |
| and The First National Bank of Maryland, Baltimore, Md. (1413), which had | 1,833,793,000 | 101 | ——— |
| merged November 1, 1979, under the charter and title of the latter bank (1413). The merged bank at date of merger had | 1,839,883,000 | ——— | 102 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The National Bank of Perryville, Perryville, Md. ("Perryville Bank"), into and under the charter of The First National Bank of Maryland, Baltimore, Md. ("First"). This application was filed on June 27, 1979. As of March 31, 1979, First had total domestic deposits of $1.4 billion, and Perryville Bank's total deposits were $5.8 million. First is a wholly owned subsidiary of First Maryland Bancorp, the third largest commercial banking organization headquartered in Maryland, controlling slightly more than 11 percent of the deposits held by all commercial bank offices in Maryland.

The relevant geographic market for analysis in this application is Cecil County, Md. There are seven banking organizations in the market that operate 16 banking offices with total commercial bank deposits of $122.6 million on June 30, 1978. First does not operate any offices in the market. Perryville Bank is the sixth largest bank in this market and controls only 4.6 percent of the market's total commercial bank deposits.

The main office of First is approximately 40 miles from Perryville. First's closest office, in Havre de

Grace, is 4 miles from Perryville across the Susquehanna River in Harford County. The two communities are connected by a toll bridge, and there is an interstate highway crossing the Susquehanna River to the north. Perryville Bank derives only 4.5 percent of its total deposits from Havre de Grace, of which approximately 75 percent are accounts of former Perryville residents who have retired to a senior citizens home in Havre de Grace and Havre de Grace residents who work in Perryville or Perry Point. First obtains less than $225,000 in demand and savings deposits from the area served by Perryville Bank. This amount constitutes less than 0.02 percent of First's total demand and savings deposits and less than 4 percent of Perryville Bank's total demand and savings deposits. Perryville Bank derives $305,000, 5.4 percent, of its total demand and savings deposits from geographic areas served by First.

Thus, there is only minimal existing competition between First and Perryville Bank. Inasmuch as First currently has no offices in Perryville Bank's market, and there are several banking alternatives in close proximity to Perryville, approval of this application would not substantially lessen competition in any relevant market or violate the standards found in 12 USC 1828(c)(5).

Pursuant to Maryland branch banking laws, First could enter Cecil County by a *de novo* establishment. However, in consideration of the economic climate of Cecil County, the availability of banking alternatives that are conveniently located, and the absence of any evidence that any of the banking needs of the Cecil County banking public are unmet it does not appear that First would choose to enter Cecil County with a new office within the foreseeable future. Consequently, First does not now have a significant present or prospective beneficial effect on banking competition in Cecil County.

The financial and managerial resources of both Perryville Bank and First are generally satisfactory. The future prospects of both banks are satisfactory; however, the future prospects of Perryville Bank are believed to be more favorable in conjunction with First.

Consummation of the merger will allow the resulting bank to provide expanded bank services to the customers of Perryville Bank, including a significantly larger legal lending limit, bank credit cards and trust services. These factors are positive considerations on the issue of convenience and needs.

A review of the record of this application and other information available to the Office of the Comptroller of the Currency as a result of its regulatory responsibilities revealed no evidence that applicants' record of helping to meet the credit needs of their entire community including low and moderate income neighborhoods is less than satisfactory.

This is the required prior written approval for the applicants to proceed with the proposed merger.

October 1, 1979

The Attorney General's report was not received.

* * *

**CENTRAL FIDELITY BANK, N.A.,**
**Richmond, Va., and City Savings Bank and Trust Company, Petersburg, Va., and The Citizens National Bank of Emporia, Emporia, Va.**

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The Citizens National Bank of Emporia, Emporia, Va. (12240), with | $ 36,710,000 | 5 | ——— |
| and City Savings Bank and Trust Company, Petersburg, Va., with | 41,249,000 | 5 | ——— |
| and Central Fidelity Bank, N.A., Richmond, Va. (10080), which had | 395,873,000 | 26 | ——— |
| merged November 9, 1979, under the charter and title of latter bank (10080). The merged bank at date of merger had | 473,832,000 | ——— | 36 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The Citizens National Bank of Emporia, Emporia, Va., and City Savings Bank and Trust Company, Petersburg, Va., into Central Fidelity Bank, N.A., Richmond, Va. All three banks are wholly owned, except for directors' qualifying shares, and controlled by Commonwealth Banks, Inc., Richmond, a registered multibank holding company.

This proposed corporate reorganization presents no competitive issues under the Bank Merger Act, 12 USC 1828(c). The financial and managerial resources and future prospects of the existing and proposed institutions are satisfactory. The new corporate structure will permit the continuing bank to serve the convenience and needs of its communities more efficiently.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of the communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

September 7, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are all wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

## THE FIRST NATIONAL BANK IN BRYAN,
Bryan, Ohio, and The Farmers State Bank of Stryker, Stryker, Ohio

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| The Farmers State Bank of Stryker, Stryker, Ohio, with | $ 7,298,000 | 1 | ——— |
| and The First National Bank in Bryan, Bryan, Ohio (13899), which had | 37,941,000 | 2 | ——— |
| merged November 23, 1979, under the charter of the latter (13899) and title "First National Bank of Northwest Ohio." The merged bank at date of merger had | 44,959,000 | ——— | 3 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The Farmers State Bank of Stryker, Stryker, Ohio ("Farmers"), into The First National Bank in Bryan, Bryan, Ohio ("First"). This application was filed on July 31, 1979, and is based on an agreement signed by the proponents on July 20, 1979. As of June 30, 1979, Farmers had total deposits of $6.5 million, and First had total deposits of $31.3 million.

The relevant geographic market for analyzing the competitive effect of this proposal is Williams County and Milford, Farmer, Washington and Tiffin Townships in northern Defiance County. Farmers operates from a single office and is the smallest bank in this market with 3 percent of total market commercial bank deposits. First is the second largest of seven banks with 16 percent of total market commercial bank deposits. Both of its offices are in Bryan. The closest offices of the two banks are in separate towns approximately 5 miles apart.

If the merger is consummated, First would continue to rank as the second largest bank behind Citizens National Bank, Bryan, which controls 40 percent of the market's commercial bank deposits. National City Corporation, Cleveland, Ohio, has applied for permission to acquire control of the Citizens National Bank. National City Corporation is a bank holding company that controls nine banks with total deposits of $2.9 billion. It is the third largest commercial banking organization in Ohio with approximately 6 percent of total state commercial bank deposits.

Although consummation of this merger would eliminate some competition between First and Farmers, the resulting bank would have less than one-half the amount of deposits controlled by the largest bank in the market. The resulting bank would be better able to compete with this larger bank which may soon become a subsidiary of one of the largest banking organizations in the state. Consummation of this merger would not have a substantially adverse effect on competition.

The financial and managerial resources of both First and Farmers are satisfactory. Farmers is the smallest bank in its market and its ability to provide expanded financial services and attract successor management is limited. Consequently, its future prospects are limited. The future prospects of the resultant bank are good.

The resulting bank will expand Farmers' banking services and offer new services. The resulting bank will have expanded loan and deposit services and will have a substantially greater lending limit than Farmers. It will also increase banking hours and make major improvements in Farmers' banking facilities. The resulting bank will be better able to conveniently serve additional needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that First's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required for consummation of the merger (12 USC 1828(c)).

October 23, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a substantial competitive impact.

* * *

## CENTURY FIRST NATIONAL BANK IN ST. PETERSBURG,
St. Petersburg, Fla., and Century Bank of Pinellas County, St. Petersburg, Fla.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Century Bank of Pinellas County, St. Petersburg, Fla., with | $ 19,670,000 | 1 | ——— |
| Century First National Bank in St. Petersburg, St. Petersburg, Fla. (14367), which had | 213,214,000 | 3 | ——— |
| merged November 30, 1979, under the charter of latter bank (14367) and title of "Century First National Bank of Pinellas County." The merged bank at date of merger had | 282,925,000 | ——— | 4 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Century Bank of Pinellas County, St. Petersburg, Fla. ("Century"), into and under the charter of Century First National Bank in St. Petersburg, St. Petersburg, Fla. ("CFNB"), and with the title of "Century First National Bank of Pinellas County." The application was filed on May 8, 1979, and is based on a written agreement executed by the applicant banks on March 19, 1979.

CFNB is a national bank that had total deposits of $163.8 million as of March 31, 1979. Century, a state-chartered bank, had deposits of $17.5 million as of March 31, 1979.

Both banks are wholly owned and controlled by Century Banks, Inc., Fort Lauderdale, Fla., a registered bank holding company. Therefore, this is merely an application for a corporate reorganization. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c). Additionally, a review of the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved. (See 12 USC 1842(c)(21)).

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the bank's record of helping to meet the credit needs of its entire community including low and moderate income neighborhoods is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

August 17, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

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* Asset figures are as of call dates immediately before and after transaction.

* * *

## FIRST & MERCHANTS NATIONAL BANK,
Richmond, Va., and The Services National Bank. Arlington, Va.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The Services National Bank, Arlington, Va. (16277), with | $ 13,597,000 | 1 | ——— |
| and First & Merchants National Bank, Richmond, Va. (1111), which had | 2,143,256,000 | 99 | ——— |
| merged November 30, 1979, under the charter and title of latter bank (1111). The merged bank at date of merger had | 2,156,853,000 | ——— | 100 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The Services National Bank, Arlington, Va. ("Services"), into and under the charter of First & Merchants National Bank, Richmond, Va. ("F&M"). This application was filed on August 15, 1979, and is based on an agreement executed by the proponents dated June 20, 1979. As of March 31, 1979, Services had total deposits of $12.3 million, and F&M's total deposits were $1.4 billion. F&M is the lead bank for First & Merchants Corporation, a registered bank holding company.

The relevant geographic market for competitive analysis in this proposal is the area contained within a 1 mile radius of Services' sole office. Services' only office is in the Crystal City office building, retail store and residential complex which is in the extreme southeastern edge of Arlington County, Va., adjacent to the independent city of Alexandria. Within a 1 mile radius of Services' location, there are seven banking organizations with commercial bank deposits of $76.5 million and 10 banking offices. The three largest banks in the market are affiliates of major state-wide banking organizations, each having total deposits in excess of $1 billion. Services ranks as the fifth largest bank in its market and controls 13.6 percent of the total commercial bank deposits within the market. F&M operates one office in the market, which ranks as the seventh largest banking office and holds 6.3 percent of total commercial bank deposits. The bank resulting from approval of this application would rank as the third largest in the market and would control about 20 percent of the market's commercial bank deposits.

The closest office of F&M to Services is F&M's Army-Navy branch, 0.6 miles north of Services' location. The F&M Army-Navy branch has total deposits of $4.8 million and is separated from Services by an interstate highway, with eight competing bank offices in the intervening area. Only two other F&M offices are within 5 miles of Services' site, and these offices are not in direct competition with Services. Accordingly, there is no meaningful competition between any office of F&M and Services.

Under Virginia branching statutes, F&M could legally establish a *de novo* office in Services' market. It does not appear likely that F&M would choose this form of market expansion in consideration of present real estate development concentration in other parts of Arlington County, the existing interstate highway system with established traffic patterns, and the availability of numerous banking alternatives both inside the market and the larger Washington, D.C., metropolitan area. Thus, the foreclosure of the potential for future competition between F&M and Services is not a bar to approval of this application.

The financial and managerial resources of F&M are generally satisfactory. Services has experienced heavy managerial and teller turnover during its 5-year corporate existence. Additionally, Services has a high loan/deposits ratio, and almost 40 percent of its deposits are in highly volatile, high-rate, certificates of deposit. Because of Services' single location in Crystal City, the bank has been unable to more effectively compete for available business, and Services' earnings have been low. Accordingly, the financial and managerial resources of Services are less than satisfactory, and the future prospects of the bank, absent this proposal, are not considered good. The future prospects of F&M and of the resultant bank are considered to be far more favorable.

As a result of this proposal, F&M can make available to the present customers of Services a variety of specialized and sophisticated banking services and provide a more highly skilled and diversified banking staff. F&M will provide Services' present customers with the availability of transacting their banking business at 14 branches in Northern Virginia and 96 branches throughout Virginia. Present Services' customers will also realize the provision of trust services, international banking services and additional lending capacity. These are positive considerations on the issue of convenience and needs and lend additional weight for approval of the application.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, is less than satisfactory.

This is the required prior written approval for the applicants to proceed with the proposed merger.

October 22, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect upon competition.

* * *

## INDIAN HEAD NATIONAL BANK OF NASHUA, Nashua, N.H., and Indian Head National Bank of Derry, Derry, N.H.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Indian Head National Bank of Derry, Derry, N.H. (8038), with | $ 43,963,000 | 2 | ——— |
| and Indian Head National Bank of Nashua, Nashua, N.H. (15563), which had | 188,010,000 | 9 | ——— |
| merged November 30, 1979, under the charter and title of latter bank (15563). The merged bank at date of merger had | 231,973,000 | ——— | 11 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Indian Head National Bank of Derry, Derry, N.H. ("Derry"), into Indian Head National Bank of Nashua, Nashua, N.H. ("Nashua"). This application was filed on July 25, 1979, and rests on an agreement signed by the proponents on February 22, 1979. As of March 31, 1979, Nashua's and Derry's total deposits were $150.7 million and $33 million, respectively. Both participants are subsidiaries of Indian Head Banks, Inc., a registered bank holding company.

This is a proposed corporate reorganization. It presents no competitive issues under the Bank Merger Act, 12 USC 1828(c). The financial and managerial resources of the proponents are generally satisfactory. The future prospects of the existing and proposed institutions are satisfactory. The new corporate structure will permit the continuing bank to serve the convenience and needs of its communities more efficiently.

A review of the record of this application and the information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community including low and moderate income neighborhoods is less than satisfactory.

This decision is the prior written approval required for the applicants to proceed with the merger.

October 26, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

## THE NATIONAL BANK AND TRUST COMPANY OF GLOUCESTER COUNTY, Woodbury, N.J., and The National Bank of Manuta, Sewell, N.J.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The National Bank of Manuta, Sewell, N.J. (12917), with | $ 51,488,000 | 3 | ——— |
| and The National Bank and Trust Company of Gloucester County, Woodbury, N.J. (1199), which had | 198,307,000 | 13 | ——— |
| merged November 30, 1979, under the charter and title of latter bank (1199). The merged bank at date of merger had | 244,815,000 | ——— | 16 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The National Bank of Manuta, Sewell, N.J. ("Sewell Bank") into and under the charter of The National Bank and Trust Company of Gloucester County, Woodbury, N.J. ("Woodbury Bank"). The application was filed on September 15, 1978, and is based on a written agreement executed by the applicant banks on August 9, 1978. As of June 30, 1978, Woodbury Bank had total deposits of $159.4 million, and Sewell Bank had deposits of $43.1 million. Woodbury Bank is a wholly owned subsidiary of Community Bancshares Corporation of Woodbury, N.J., a registered one-bank holding company.

Woodbury Bank presently operates its main office and 12 branch offices within Gloucester County. Sewell Bank operates all of its three banking offices within the same county. The narrowest relevant geographic market appears to be Gloucester County. Within this market, Woodbury is the largest commercial bank with 29.8 percent of market deposits, and Sewell is the fourth largest with 8.1 percent. The resulting bank would continue as the largest with 37.9 percent of the total county deposits.

Gloucester County is in the southwest portion of New Jersey across the Delaware River from Philadelphia and has an estimated population of 196,000. The population increased an estimated 10 percent from 1970 to 1975. The application indicates that more than 45 percent of the residents work outside the county. It is well known that many commuters bank at their place of work as an alternative or in addition to their place of residence. Taking this factor into account suggests that the relevant geographic market should include the Philadelphia and Camden, N.J., areas. This is the market found appropriate by the Federal Reserve Board in its advisory opinion to this Office. In this market, 52 banking organizations operate 776 offices and a number of them have deposits in excess of $1 billion. Banks in the applicant's geographic position feel the power of these urban commercial banks in their markets through the effect on commuters.

The applicant banks' main offices are 6 miles apart and their closest offices are 3 miles apart; however, there are other commercial banks with offices between applicants' offices. Both banks are subject to competitive pressures from the Gloucester County offices of much larger New Jersey commercial banks headquartered outside the county. The Comptroller finds that the proposed merger would eliminate some existing competition but that there would remain a large number of alternative sources for banking services in all relevant markets. Consequently, the competitive effects are not likely to substantially lessen competition in any relevant market or otherwise violate the standards found in 12 USC 1828(c)(5).

The financial and managerial resources of Woodbury Bank are satisfactory. The financial and managerial resources of the Sewell Bank are less than satisfactory. The future prospects of the combined bank are good and considerably better than the future prospects of the Sewell Bank.

As a result of this merger, Woodbury Bank intends to make available new and expanded banking services to the present customers of Sewell Bank, including, but not limited to, trust department services, bank credit cards, overdraft checking and an expanded credit limit. These facts are positive considerations on the issue of convenience and needs. The Comptroller is not aware of any negative factors on this issue.

This application was filed prior to the November 6, 1978, effective date of the Comptroller's Community Reinvestment Act Regulations, 12 CFR 25. However, pursuant to the Community Reinvestment Act, Public Law No. 95-128, available information relevant to the banks' record of meeting their community credit needs was reviewed, revealing no evidence to suggest that

* Assets are as of call dates immediately before and after transaction.

the applicants are not meeting the credit needs of their communities, including low and moderate income neighborhoods.

This opinion is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to merge under their previously referenced agreement.

August 29, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

Both institutions operate in Gloucester County in the southwestern portion of New Jersey across the Delaware River from Philadelphia. The county has experienced rapid population growth which is expected to continue. Much of the county remains rural in character although it is also a suburban residential area for Philadelphia and Camden.

According to the application, Applicant's service area almost completely overlaps the service area of Bank. At least three of Applicant's branches are located within 3 miles of Bank's main office, and three of Applicant's branches are within 5 miles of Bank's northern-most branch. While offices of several other banks are located in the immediate vicinity, Applicant is the dominant banking institution in Gloucester County. Thus, it is obvious that the proposed merger would combine two sizeable direct competitors and would eliminate substantial existing competition between them.

Seventeen banking institutions operate 61 offices in Gloucester County, with the four largest institutions controlling approximately 65.6 percent of total deposits. Applicant is the largest commercial bank in the county with approximately 30 percent of total deposits. Bank ranks fourth with 8.1 percent of total deposits in the county. If the merger were consummated the resulting bank would control 38 percent of total deposits in the county and would increase the four-firm concentration ratio in the county 72.6 percent.

Applicant attempts to justify the merger by citing the need for capital investment in electronic fund transfers ("EFT") mechanisms, particularly automated teller machines, in order to maintain its market position in the current market. It suggests that only by combining the smaller institutions presently in the market will any local institutions be able to assume the capital costs necessary for EFT development. This suggestion runs completely contrary to the studies of EFT that have been done to date. The National Commission on Electronic Fund Transfers, after a careful review of all the existing literature in the field, concluded that EFT equipment, particularly automated teller machines, was certainly within the reach of middle and small financial institutions. In fact, much of the evidence suggests that access to EFT equipment can actually enhance the ability of smaller local banks to compete with statewide institutions because they would no longer have to rely on costly investments in new branches in order to compete effectively. See *EFT in The United States; Final Report of the National Commission on Electronic Fund Transfers*, October 28, 1977, Chapter 7.

In sum, the proposed merger would eliminate substantial existing competition between the two institutions and would increase concentration in Gloucester County. We therefore conclude that, overall, the merger would have an adverse effect on competition.

* * *

## THE LAKE COUNTY NATIONAL BANK OF PAINESVILLE, Painesville, Ohio, and The Commercial Bank, Ashtabula, Ohio

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The Commercial Bank, Ashtabula, Ohio, with | $ 28,454,000 | 5 | |
| and The Lake County National Bank of Painesville, Painesville, Ohio (14686), which had | 349,920,000 | 18 | |
| merged December 1, 1979, under charter and title of latter bank (14686). The merged bank at date of merger had | 375,602,000 | | 23 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The Commercial Bank, Ashtabula, Ohio ("Bank"), into The Lake County National Bank of Painesville, Painesville, Ohio ("Lake Bank"). This application was filed on June 7, 1979, and rests on an agreement between the proponents dated February 15, 1979. As of December 31, 1978, Bank had total deposits of $22.9 million, and Lake Bank's total deposits were $304.8 million. Lake Bank has a total of 19 banking offices, and Bank operates five offices.

The relevant geographic market area for Bank is the northern part of Ashtabula County where its banking offices are located. Bank is the third largest of four banks in Ashtabula County with 9.3 percent of total deposits. The relevant geographic market area for Lake Bank is Lake County where Lake Bank ranks as the largest of six banks and controls 59 percent of the area's deposits. The nearest offices of the proponents are Lake Bank's two Madison offices and Bank's Genea office, slightly less than 7 miles apart. The area between these offices is almost entirely farm land

* Asset figures are as of call dates immediately before and after transaction.

which acts as an effective barrier. There is only minimal existing competition between Bank and Lake Bank. Lake Bank derives only a negligible 0.59 percent of its total deposits from the area served by Bank, and Bank derives virtually no deposits from the area served by Lake Bank. Approval of this application would have no significantly adverse effect on competition in either Ashtabula or Lake County or otherwise be violative of the standards found in 12 USC 1828(c)(5).

The financial and managerial resources of both Bank and Lake Bank are satisfactory. The future prospects of Bank are somewhat limited in view of its relatively small size and the fact that it faces direct competition from substantially larger bank holding company affiliated banks. The future prospects of the combined bank are good.

As a result of this merger, Lake Bank will be in a position to offer new and expanded banking services to Bank's customers, including bank credit cards, automatic transfers from savings to checking accounts, automated teller machines and trust services. These are positive considerations on the issue of convenience and needs.

A review of the record of this application and other information available to the Comptroller as a result of regulatory responsibilities revealed no evidence that Lake Bank's record of helping to meet the credit needs of the entire community including low and moderate income neighborhoods is less than satisfactory.

This decision is the prior written approval required in order for the applicants to proceed with the proposal.

October 31, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect upon competition.

* * *

## THE NEW FARMERS NATIONAL BANK OF GLASGOW, Glasgow, Ky., and The Peoples Bank, Cave City, Ky.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The Peoples Bank, Cave City, Ky., with | $10,987,000 | 1 | ——— |
| and The New Farmers National Bank of Glasgow, Glasgow, Ky. (13651), which had | 71,142,000 | 4 | ——— |
| merged December 1, 1979, under the charter and title of latter bank (13651). The merged bank at date of merger had | 82,129,000 | ——— | 5 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The Peoples Bank, Cave City, Ky. ("Peoples"), into and under the charter of The New Farmers National Bank of Glasgow, Glasgow, Ky. ("New Farmers"). The application was filed on May 9, 1979, and is based on a written agreement executed by the applicant banks on December 14, 1978.

New Farmers is a national bank that had total deposits of $56.9 million on December 31, 1978. It operates a main office and two branches in Glasgow, the county seat of Barren County, and one office in Hiseville.

Peoples, a state-chartered bank, had total deposits of $9.8 million on December 31, 1978. It operates a single banking office within Cave City which is in the northwestern corner of Barren County.

New Farmers competes in a banking market consisting of Barren and Hart Counties and the eastern half of Metcalfe County, Ky. New Farmers is the second largest of nine commercial banks operating in this market with 28 percent of the market's commercial bank deposits. Peoples, with its market area entirely included within New Farmers' market, is the third smallest bank with less than 5 percent of the market's total deposits. The resulting bank, with 33 percent of market deposits, would be the largest bank in this market. Citizens Bank and Trust Company of Glasgow (deposits - $65 million), currently the largest bank in the market, holds almost 32 percent of total market deposits and would continue in direct competition with the resulting bank. Eight commercial banks would remain as alternative sources of banking services in the market.

Due to its size, Peoples serves only the immediate Cave City area and an adjoining portion of southern Hart County. Cave City addresses account for 66 percent of its individual, partnership and corporate demand deposit accounts. Citizens Bank and Trust Company of Glasgow operates a branch directly across the street from Peoples in Cave City. New Farmers' closest branch, the Hiseville is approximately seven miles east of Cave City. The area between these offices is sparsely populated, rural and predominantly agricultural. Therefore, consummation of this merger would not eliminate any meaningful existing competition between the two banks.

New Farmers could establish a branch office in Cave City. However, because of its small population, Cave City is not attractive for *de novo* entry by a third commercial bank. Conversely, Peoples has shown neither the desire nor the capacity to expand outside of Cave City and it is unlikely to do so in the foreseeable future. Accordingly, consummation of this merger will not substantially lessen competition or otherwise violate the standards found in 12 USC 1828(c)(5).

The financial resources of both New Farmers and Peoples are satisfactory. The managerial resources of both New Farmers are satisfactory while those of Peoples are limited. The bank has only two officers. One is in poor health and the other is approaching retirement age. Because of its small size, its ability to attract capable successor management is limited. The bank's future prospects are limited. New Farmers possesses the necessary financial and managerial resources to serve Peoples' market area and its future prospects are favorable.

As a result of this merger, New Farmers intends to offer new and expanded banking services to the present customers of Peoples, including but not limited to, bank credit cards, expanded trust services, additional expertise in agricultural lending, floor plan loans, Christmas Club accounts and a substantially greater lending limit. It will be able to more conveniently satisfy the banking needs of the Cave City community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of the communities, including low and moderate income communities, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the merger.

October 15, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

Bank is located only 7 miles from Applicant's branch in Hiseville and 11 miles from Applicant's Glasgow branches. There are no banks in the intervening area, although the two other banks located in Barren each maintain offices in Glasgow. It therefore appears that the proposed merger will eliminate a substantial amount of existing competition between Applicant and Bank.

Banking is highly concentrated in Barren County. There are only four commercial banks in the county, holding 47.7 percent, 42.7 percent, 7.1 percent and 2.5 percent of county deposits. The combination of Applicant, the second largest bank in the county with a 42.7 percent share of deposits with Bank, the third largest with a 7.1 percent share, would make Applicant the largest bank in the county, would result in the two largest banks controlling approximately 90 percent of county deposits, and would reduce from four to three the number of banks operating in the county. Moreover, the increase in concentration is particularly significant here because under Kentucky law, banks may not expand *de novo* (either by branching or by establishing multibank holding companies) outside of their home office counties. Barren County is, therefore, closed to entry by existing Kentucky banks, thus eliminating them as possible sources of deconcentration in Barren County.

In sum, the proposed acquisition would have an adverse effect upon competition.

* * *

## SUN FIRST NATIONAL BANK OF LAKE WALES, Lake Wales, Fla., and Sun First National Bank of Polk County, Auburndale, Fla.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Sun First National Bank of Lake Wales, Lake Wales, Fla. (14923), with | $45,057,000 | 3 | ——— |
| and Sun First National Bank of Polk County, Auburndale, Fla. (16786), which had | 37,328,000 | 2 | ——— |
| merged December 1, 1979, under the charter and title of latter bank (16786). The merged bank at date of merger had | 83,925,000 | ——— | 5 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Sun First National Bank of Lake Wales, Lake Wales, Fla. ("Lake Wales"), into and under the charter of Sun First National Bank of Polk County, Auburndale, Fla. ("Auburndale"). The application was filed on August 2, 1979, and is based on a written agreement executed by the applicant banks on July 17, 1979.

Lake Wales and Auburndale are national banks that had total deposits of $38.0 million and $31.8 million, respectively, as of June 30, 1979.

* Assets are as of call dates immediately before and after transaction.

The two banks are wholly owned, with exception of directors' qualifying shares, and controlled by Sun Banks of Florida, Inc., Orlando, Fla., a registered bank holding company. Consummation of this corporate reorganization would have no effect on competition. A review of the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of

their communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the merger.

October 15, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

## NATIONAL CENTRAL BANK,
## Lancaster, Pa., and Lebanon County Trust Company, Lebanon, Pa.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| Lebanon County Trust Company, Lebanon, Pa., with | $ 64,990,000 | 3 | |
| and National Central Bank, Lancaster, Pa. (694), which had | 1,643,036,000 | 60 | |
| merged December 3, 1979, under charter and title of latter bank (694). The merged bank at date of merger had | 1,708,026,000 | | 63 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Lebanon County Trust Company, Lebanon, Pa. ("Lebanon"), into and under the charter of National Central Bank, Lancaster, Pa. ("National Central"). The application was accepted for filing on June 19, 1979, and is based on a written agreement executed by the proponents on February 27, 1979.

National Central, a wholly owned subsidiary of National Central Financial Corporation, Lancaster, Pa., a one-bank holding company, had total deposits of $1.3 billion on December 31, 1978. It operates 57 banking offices: 15 in Lancaster County, 16 in Berks County, 12 in York County, nine in Dauphin County, three in Chester County and two in Lebanon County.

Lebanon had total deposits of $53.2 million on December 31, 1978. It operates three offices in Lebanon County, two in the City of Lebanon and one in Mount Gretna. It has no offices outside Lebanon County.

The relevant market for consideration in this proposal is Lebanon County. Lebanon ranks as the fifth largest of 11 commercial banks in this market, controlling approximately 11 percent of the market's commercial bank deposits. National Central, with two branches in this market, represents the ninth largest bank with less than 5 percent of total market deposits. If this merger is consummated, the resulting bank will rank as the second largest bank in this market with approximately 16 percent of total commercial bank deposits. The largest bank in the market, headquartered in Lebanon, would continue to hold in excess of 20 percent of the market's deposits. Additionally, the third and fourth largest banks in the market, each with approximately 13 percent of total market deposits, are branch offices belonging to larger regional commercial banks headquartered outside Lebanon County in Harrisburg and Reading, Pa.

The closest offices of Lebanon and National Central are some 11 miles apart. The intervening area between these offices is predominantly rural and sparsely populated. There are numerous banking offices of competing commercial banks in close proximity to Lebanon, including the branch offices of commercial banks headquartered outside Lebanon County. Therefore, the proposed merger would not eliminate any meaningful existing competition between the two banks.

Applicable state banking statutes permit branching by a commercial bank within its home office county and all counties immediately contiguous. Thus, the proponent banks could branch into areas served by the other. However, Lebanon has shown no desire to expand outside the Lebanon market area, and it does not appear likely that the bank would expand *de novo* into areas served by National Central. Conversely, the likelihood that National Central would enter the Lebanon area appears remote since the area is already served by eight commercial banking organizations and is not attractive for *de novo* entry. Accordingly, the potential for future competition between the proponent banks is minimal. Overall, approval of this application would not have a substantially adverse effect on competition.

The financial and managerial resources of both National Central and Lebanon are satisfactory. The future prospects of the two banks, independently and in combination, are favorable.

After consummation of this transaction, the additional capabilities of National Central will be made available to the present customers of Lebanon in such areas as full trust services, overdraft checking, international banking, equipment lease financing and expanded lending limit. These facts are positive considerations on the issue of convenience and needs, and the Comptroller is unaware of any negative factors in this issue.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of the communities, including low and moderate income communities, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the merger.

October 25, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

Lebanon County (1975 population 105,723) is located in southcentral Pennsylvania. The city of Lebanon (the county seat and a hub of commerce, industry and finance) is approximately 80 miles northwest of Philadelphia, 27 miles west of Reading and 23 miles east of Harrisburg. The county's economy is based on a diversified mix of farming (53 percent of the land in the county is pasture or cropland) and industries such as primary metals and apparel/textile products (employing 22.5 percent and 18.5 percent of the county's industrial workers, respectively). During the last several years, the county has experienced moderate growth. Population rose 6.1 percent from the 1970 level to 1975, and per capita personal income increased 46.2 percent from the 1969 level to 1974, (1959–1969 increase: 39.4 percent. The economic outlook for both the county and the city of Lebanon area appears favorable.

The nearest office of Applicant to Bank is its office in Richland, Lebanon County, located 12 miles east of Bank's main office in the city of Lebanon. Although offices of other banks are closer to Bank than Applicant's Richland office, it appears that the proposed merger would eliminate direct competition between Applicant and Bank.

Eleven commercial banks currently operate offices in Lebanon County; seven of these are headquartered in Lebanon County. As of June 30, 1978, Bank held the fifth largest share (11.08 percent) and Applicant held the ninth largest share (4.52 percent) of the total deposits held in Lebanon County banking offices. Six banks in the county each account for less than 10 percent of the total deposits. If the proposed transaction is consummated, the resulting bank will hold the second largest share (15.6 percent) of total deposits held in county banking offices. Concentration among the four largest banks in the county—in terms of total county deposits—would increase from 58.85 percent to 62.47 percent.

Under Pennsylvania law, both Applicant and Bank could be permitted to establish additional *de novo* offices in Lebanon County. The proposed merger, therefore, will eliminate the potential for increased future competition between them.

Overall, in our view, the proposed transaction would have an adverse effect on competition.

* * *

## NORTH CAROLINA NATIONAL BANK,
Charlotte, N.C., and The Bank of Asheville, Asheville, N.C.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The Bank of Asheville, Asheville, N.C., with | $ 103,418,000 | 9 | ——— |
| and North Carolina National Bank, Charlotte, N.C. (13761), which had | 5,264,166,000 | 162 | ——— |
| merged December 3, 1979, under the charter and title of the latter bank (13761). The merged bank at date of merger had | 5,485,502,000 | ——— | 171 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The Bank of Asheville, Asheville, N.C. ("Bank"), into and under the charter of North Carolina National Bank, Charlotte, N.C. ("NCNB"). This application was filed on September 14, 1979, and rests on an agreement executed by the proponents on June 20, 1979. As of March 31, 1979, NCNB had total deposits of $3.8 billion and ranked as the second largest commercial banking organization headquartered in North Carolina. NCNB is a banking subsidiary of NCNB Corporation, Charlotte, a registered bank holding company. On March 31, 1979, Bank had total deposits of $87.2 million.

The relevant geographic market for analysis in this proposal is Buncombe County, N.C. Within this market there are six banking organizations that operate a total of 41 offices and have total market deposits of $433.7 million. With the exception of NCNB, the five largest banks in the state have offices in the market. The largest bank in the market and in the state is Wachovia Bank & Trust Co., Winston-Salem, N.C., which controls 41.6 percent of total market commercial bank deposits. The second largest bank in the market and third largest in the state is First Union National Bank, Charlotte, with 21.4 percent of total commercial bank deposits in the market. Bank ranks as the third largest bank in its market and has 18.7 percent of the commercial bank deposits. Northwestern Bank, North Wilkesboro, N.C., ranks as the fourth largest bank in both the market and state. Northwestern Bank controls 11.2 percent of commercial bank deposits held by all banks in the market. First-Citizens Bank & Trust Co., Raleigh, N.C., is the fifth largest bank in the market and state and has 4.5 percent of market deposits. The smallest bank in the market, Western Carolina Bank, Asheville, currently controls only 2.6 percent of total market deposits. Western Carolina Bank has filed an application with this Office to merge with First National Bank of Catawba County, Hickory, N.C. If the merger is approved, First National Bank of Catawba County will have total deposits in excess of $250 million and will operate 22 offices in eight western North Carolina counties, including Buncombe County.

As noted above, NCNB has no present offices in the market. Inasmuch as the smallest bank in the market is currently a merger partner with another bank, and all other banks in the market, except for Bank, are offices of major state-wide branch banking systems, Bank is the only independent bank in its market that is currently available for acquisition. The closest offices of NCNB and Bank are 24 miles apart. Since Bank is not a competitor outside Buncombe County and NCNB is not a competitor within that county, there is no existing competition between the proponents. Accordingly, approval of this application would not substantially lessen competition within the market.

Pursuant to applicable North Carolina branch banking statutes, NCNB could legally establish a *de novo* office within Bank's market. NCNB has not expanded into a new market since 1974, and it has never attempted to enter Buncombe County with a *de novo* office. In consideration of the number of financial institutions currently serving Bank's market and the relatively low income level and slow economic growth rate of the market, it does not appear likely that NCNB would choose to enter Bank's market via *de novo* expansion within the forseeable future. Thus, the elimination of any potential for competition developing between NCNB and Bank is not considered great and presents no bar to approval of this application.

The financial and managerial resources of NCNB and Bank are generally satisfactory. The future prospects of Bank are uncertain when considered in light of its relatively small size and the fact that it faces direct competition from substantially larger competitors, some of which are affiliated with banking organizations that are the largest operating in the State. The future prospects of NCNB and the resultant bank are good.

As a result of this proposal, present customers of Bank should benefit from the introduction of NCNB into their market and the stimulated bank competitive atmosphere that will result. NCNB will also offer new and expanded banking services including, but not limited to, FHA-insured and VA-guaranteed mortgage loans, more and larger commercial loans, small business loans, dealer financing for consumer purchases, agricultural loans, international banking services, automated teller machines and trust services. These are all positive considerations on the issue of convenience and needs.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that NCNB's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This is the required prior written approval for the applicants to proceed with the merger.

November 2, 1979

The Attorney General's report was not received.

* * *

## AMERICAN NATIONAL BANK AND TRUST COMPANY OF CHICAGO, Chicago, Ill., and Mercantile National Bank of Chicago, Chicago, Ill.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Mercantile National Bank of Chicago, Chicago, Ill. (14419), with | $ 64,846,797 | 2 | |
| was purchased December 7, 1979, by American National Bank and Trust Company of Chicago, Chicago, Ill. (13216), which had | 2,219,591,000 | 2 | |
| After the purchase was effected, the receiving bank had | 2,518,247,000 | | 4 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on the application of American National Bank and Trust Company of Chicago, Chicago, Ill. ("American"), to purchase certain of the assets and assume certain of the liabilities of Mercantile National Bank of Chicago, Chicago, Ill. ("Mercantile"). This application was filed on September 17, 1979, and is based upon an agreement executed by the proponents on August 8, 1979. As of May 31, 1979, American had total deposits of $1.7 billion, and Mercantile's total deposits were $62.3 million. American is a wholly owned subsidiary of Walter E. Heller International Corporation, Chicago, a registered one-bank holding and multinational finance company.

American competes in a banking market which is approximated by the Chicago Standard Metropolitan Statistical Area ("SMSA"). In this market, there are over 425 commercial banking organizations operating more than 625 banking offices. American is the fifth largest banking organization in this market with approximately 2.3 percent of the market's commercial bank deposits. Mercantile operates in a market entirely included in American's banking market. If the proposed purchase transaction is consummated, American will continue to rank as the fifth largest commercial banking organiza-

* Asset figures for the acquiring bank are as of call dates immediately before and after transaction.

tion in the Chicago SMSA and will increase its share of market deposits by a mere 0.1 percent. The four larger banks in the market represent substantial commercial banking organizations, and collectively, they control some 51 percent of the SMSA's commercial bank deposits.

American and Mercantile both operate a main office and one branch office facility within the Chicago metropolitan area. American is in downtown Chicago near the heart of the city's financial district. Mercantile is on the southwestern edge of downtown Chicago in an area recently rejuvenated, resulting in an improved business environment. While the main offices of the two banks are within several blocks of each other, there are numerous banking offices of competing commercial banks in and around the area between the proponents offices, including offices of the larger Chicago commercial banks. Moreover, given the size disparity between the two banks, combined with the present overall condition of Mercantile, it is evident that there is minimal existing competition between American and Mercantile. Consequently, approval of this application would not substantially lessen competition in any relevant market.

The financial and managerial resources of American are satisfactory. The financial and managerial resources of Mercantile are unsatisfactory. At the last examination of Mercantile, conducted by this Office on May 31, 1979, the condition of the bank was considered critical. Mercantile has been under caretaker management since the death of its chairman and president in October 1978. This has further exacerbated substantial operating problems facing the bank. Accordingly, the future prospects of Mercantile are uncertain and absent consummation of this proposal are extremely limited.

American and Mercantile both currently offer a full range of commercial banking services to their customers. While this proposal will not result in the immediate introduction of any new or expanded banking services, the resulting bank would be a more meaningful competitor within the Chicago area, and as a result, the banking public would be better served. The Comptroller is unaware of any negative factors on the issue of convenience and needs.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet credit needs of the communities, including low and moderate income neighborhoods, is less than satisfactory.

This merger may not be consummated until proof of compliance with 12 USC 215a(2) is submitted to the Comptroller.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed transaction.

October 26, 1979

The Attorney General's report was not received.

* * *

## NORTHWESTERN NATIONAL BANK OF SIOUX FALLS, Sioux Falls, S. Dak., and Springfield State Bank, Springfield, S. Dak.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Springfield State Bank, Springfield, S. Dak., with | $ 6,984,000 | 1 | |
| and Northwestern National Bank of Sioux Falls, Sioux Falls, S. Dak. (10592), which had | 418,613,000 | 16 | |
| merged December 14, 1979, under the charter and title of latter bank (10592). The merged bank at date of merger had | 425,704,000 | | 17 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Springfield State Bank, Springfield, S. Dak. ("Bank"), into and under the charter of Northwestern National Bank of Sioux Falls, Sioux Falls, S. Dak. ("Northwestern"). This application was filed on August 21, 1979, and is based on an agreement signed by the participants on May 10 and May 15, 1979. On December 31, 1978, Bank had total deposits of $5.8 million, and Northwestern had total deposits of $320.5 million.

Northwestern is a subsidiary of Northwest Bancorporation, Minneapolis, Minn. ("Bancorp"), a registered multibank holding company with total deposits of $1.8 billion. Bancorp has 83 subsidiaries that operate in seven states. Bancorporation is the largest of 119 banking organizations in the state with approximately 23 percent of the commercial bank deposits. Consummation of this proposal would not significantly increase its share of bank deposits in South Dakota.

The relevant geographic market for analysis of the competitive effects of this proposal is Bon Homme County in southeastern South Dakota. The county has about 9,000 residents. Within this market, there are five commercial banks with a total of $37 million in deposits. The two largest banks in the market control almost 72 percent of the market's total deposits. Bank, the third largest bank in the market with 15.8 percent of market deposits operates a single office. The closest offices of the two banks are over 79 miles apart, and Northwestern derives no loan or deposit accounts from Bon Homme County. Consummation of this proposal would constitute Bancorp's initial entry into Bon Homme County, and this entrance should stimulate the competitive atmosphere within the relevant geographic market. Northwestern is prohibited by South Dakota law from establishing branches in Springfield other than by merger or consolidation. Bancorp could establish a new bank in Springfield. However, there are now five banks serving the needs of Bon Homme County's 9,000 residents.

There have been no new banking offices established in the county in the last 5 years. The county does not appear to be attractive for *de novo* entry, and it is unlikely that Bancorp would choose to do so in the foreseeable future. Accordingly, the competitive effects are not likely to substantially lessen competition in any relevant market.

Northwestern's financial and managerial resources are satisfactory. Bank's present condition is satisfactory, but because of small size, its ability to attract successor management and provide expanded and sophisticated banking services is limited. Therefore, its financial and managerial resources and its future prospects as an independent institution are also limited. The future prospects of the resultant bank are good.

Northwestern proposes to offer new and expanded banking services to the Bon Homme banking market. These services include a significantly larger legal lending limit, pre-approved lines of credit connected to personal checking accounts, individual retirement accounts, Keogh Plans, Treasury bill certificates and increased availability of home mortgages. These facts are positive considerations on the issue of convenience needs and lend additional weight toward approval of the application.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that Northwestern's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the required prior written approval of the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the merger.

October 26, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have an adverse effect on competition.

* * *

## FIRST NATIONAL BANK OF CATAWBA COUNTY,
Hickory, N.C., and Western Carolina Bank and Trust Company, Asheville, N.C.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Western Carolina Bank and Trust Company, Asheville, N.C., with | $ 22,591,000 | 8 | |
| was purchased December 28, 1979, by First National Bank of Catawba County, Hickory, N.C. (4597), which had | 276,607,000 | 15 | |
| After the purchase was effected, the receiving bank had | 315,981,000 | | 23 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on an application by First National Bank of Catawba County, Hickory, N.C. ("FNB"), to purchase the assets and assume the liabilities of Western Carolina Bank & Trust Company, Asheville, N.C. ("Western"). This application was filed on October 10, 1979, and is based on an agreement executed by the participants on August 22, 1979. As of June 30, 1979, FNB had total commercial bank deposits of $237.9 million, and Western's total deposits were $21 million.

The relevant market for analysis in this application is the five North Carolina counties where Western has at least one banking office. These counties are Buncombe (where Western is headquartered and operates two branches), Haywood, Henderson, Transylvania and Burke. Within this market, there are eight banking organizations that have total commercial bank deposits of $790.6 million and operate a total of 75 offices. The largest bank in this market is also the largest bank in North Carolina, Wachovia Bank and Trust Company of Winston-Salem. Wachovia has total commercial bank deposits of $241 million in the market, or almost 31 percent of total market deposits. The three largest banks in the market—Wachovia, First Union National Bank and Northwestern Bank, respectively—control slightly less than 80 percent of the market's deposits. Western ranks as the sixth largest bank in its market and controls a modest 3 percent of the total deposits.

FNB has no offices in any of the five counties where Western operates. FNB has a total of 15 offices: 12 in Catawba County (of which six are in Hickory), one Alexander County and two in Ashe County. The closest offices of the proponents are approximately 20 miles apart, and there are numerous offices of competitor banks in the intervening area. Additionally, McDowell County, where neither FNB or Western operates an office, is between the proponents' closest offices. Based on these facts, there is no meaningful existing competition between the proponents.

Pursuant to applicable North Carolina banking statutes and with prior regulatory approval, the propo-

* Asset figures are as of call dates immediately before and after transaction.

nents could establish a *de novo* office in each other's market. The likelihood of this event appears remote when the present structure of FNB's and Western's respective markets is considered together with the relatively small size of Western in comparison to its major competitors.

The financial and managerial resources of FNB are satisfactory. While Western's present condition is generally satisfactory, its relatively small size inhibits its ability to attract successor management and to provide expanded financial services. Accordingly, its financial and managerial resources are not totally satisfactory. Additionally, its future prospects are also limited in view of its relative small size and the fact that it experiences direct competition from substantially larger competitors, some of which are affiliated with banking organizations that are the largest operating in the state. The future prospects of the resulting bank are good.

As a direct result of this transaction, FNB will introduce new banking services not now offered by Western. These services include full trust services, consumer credit services, customer services and business development services, international banking services and an increased emphasis on personal banking services. These are positive considerations on the issue of convenience and needs.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that FNB's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicants to proceed with with proposal.

November 27, 1979

The Attorney General's report was not received.

* * *

## THE ONEIDA NATIONAL BANK AND TRUST COMPANY OF CENTRAL NEW YORK, Utica, N.Y., and The Little Falls National Bank, Little Falls, N.Y.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The Little Falls National Bank, Little Falls, N.Y. (2406), with | $ 19,478,000 | 1 | ——— |
| and The Oneida National Bank and Trust Company of Central New York, Utica, N.Y. (1392), which had | 686,295,000 | 33 | ——— |
| merged December 28, 1979, under the charter and title of latter bank (1392). The merged bank at date of merger had | 704,735,000 | ——— | 34 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The Little Falls National Bank, Little Falls, N.Y. ("Bank"), into and under the charter of The Oneida National Bank and Trust Company of Central New York, Utica, N.Y. ("Oneida"). This application was filed on August 9, 1979, and is based on an agreement executed by the proponents on June 18, 1979.

Oneida is a national bank that had total deposits of $608.3 million as of June 30, 1979. It operates 33 banking offices in the seven counties of Oneida, Herkimer, Oswego, Onondaga, Wayne, St. Lawrence and Franklin in upstate New York. The preponderence of the population and economic activity within this service area is centered in Utica and Rome. Oneida experiences direct local competition within its market from five multibillion dollar deposit money center banks based in New York City and one based in Buffalo. Since the passage of statewide branching in 1976, these competitors have been aggressively expanding their efforts in Oneida's service area.

Bank, with deposits of $16.7 million, operates a single banking office within the Little Falls, which is in the southeastern portion of Herkimer County.

Because of its size, Bank serves an area limited to Little Falls and the immediate surrounding area. Bank generates 82 percent of its total deposits and extends a preponderence of its loans within a 5-mile radius of the city. Because of the sparsely populated and rugged topography of this part of the state, commutation patterns and limited highway access between communities, we believe that this 5-mile radius represents the appropriate definition of Bank's market. Therefore, this is the appropriate market for competitive analysis under the Bank Merger Act.

New York state banking statutes permit *de novo* branch expansion by commercial banks into any municipality within the state (except for those municipalities with a population of less than 50,000 inhabitants and where an independent commercial bank is headquartered). Consequently, Bank enjoys "home office protection," and the only avenue for entry into Little Falls by Oneida is through the acquisition of an existing bank.

In its market, Bank competes directly with the Herkimer County Trust Company, Little Falls, who with $41 million in deposits controls approximately 61 percent of the total commercial bank deposits in this market. In addition, keen competition is now provided by the Little Falls office of the Mohawk Valley Savings and Loan

Association.* Increased competition for time deposits is important as Bank's present deposit structure is comprised of 83 percent time money.

Oneida's closest branch to Bank is located approximately 8 miles distant in Dolgeville. A total of 0.2 percent of Oneida's deposits and 0.7 percent of its total loans are derived from Bank's market. Accordingly, consummation of this merger will eliminate some but not a substantial amount of direct competition. Moreover, the "home office protection" minimizes the potential for any increase in this level of competition by foreclosing Oneida's *de novo* entry. Even if "home office protection" could be eliminated, the chances of *de novo* entry in close proximity to Little Falls are remote because of the area's low economic growth and limited site availability due to the rugged topography.

The financial and managerial prospects of the two banks independently are favorable and in combination are excellent. (12 USC 1828(c)(5)).

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet community credit needs, including those of low and moderate income neighborhoods, is less than satisfactory.

After consummation of this merger, the convenience and needs of Bank's present customers will be greatly enhanced. Such benefits include the offering of services not otherwise available such as revolving credit card lines of credit, full trust services, specialized expertise in agricultural lending, overdraft checking, expanded deposit services, computer services and an increased lending limit. These positive considerations on the issue of convenience and needs clearly outweigh any adverse effects that might occur from the elimination of slight direct competition between Bank and Oneida. Accordingly, this merger is in the public interest and was approved November 28, 1979.

February 11, 1980

The Attorney General's report was not received.

* The New York Banking Department approved the merger of Little Falls Building Savings and Loan Association and Ilian Savings and Loan Association to form the Mohawk Valley Savings and Loan Association on June 22, 1979.

* * *

## DEPOSIT GUARANTY NATIONAL BANK,
## Jackson, Miss., and Bank of Inverness, Inverness, Miss.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| Bank of Inverness, Inverness, Miss., with | $ 16,120,000 | 1 | ——— |
| and Deposit Guaranty National Bank, Jackson, Miss. (15548), which had | 1,489,201,000 | 56 | ——— |
| merged December 31, 1979, under the charter and title of latter bank (15548). The merged bank at date of merger had | 1,505,321,000 | ——— | 57 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on the application to merge Bank of Inverness, Inverness, Miss. ("Inverness Bank"), into and under the charter of Deposit Guaranty National Bank, Jackson, Miss. ("DGNB"). The application was accepted for filing on September 12, 1979, and is based on a written agreement executed by the proponents on June 19, 1979. As of June 30, 1979, DGNB had total deposits of $1.1 billion, and Inverness Bank had deposits of $10.9 million.

DGNB currently operates a main office and 53 branch offices in nine western Mississippi counties, 23 of which are within the Jackson metropolitan area. Inverness Bank operates a single banking office within the city of Inverness which is situated in Sunflower County in northwestern Mississippi. The main office of DGNB is some 80 miles from Inverness Bank, and its closest branch office is approximately 30 miles distant. In view of the geographic distance separating the proponent banks and the numerous offices of competing commercial banks in the intervening area, this acquisition would not eliminate any existing competition between DGNB and Inverness Bank.

The financial and managerial resources of both DGNB and Inverness Bank are satisfactory. The future prospects of Inverness Bank are somewhat limited in view of its relatively small size and limited management depth. The future prospects of the resulting bank are good.

As a result of the merger, DGNB intends to make available new and expanded banking services to the present customers of Inverness Bank including, but not limited to, trust services, overdraft checking, equipment lease financing, additional expertise in agricultural lending, more aggressive consumer loan department, small business loans and automated teller machines. These are all positive considerations on the issue of convenience and needs.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of

the communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with this merger.

November 28, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The Attorney General has granted permission for the merger of Bank of Inverness with Deposit Guaranty National Bank under the terms of the judgment entered in *U.S.* v. *Deposit Guaranty National Bank*.

* * *

## THE HUNTINGTON NATIONAL BANK OF COLUMBUS,

**Columbus, Ohio, The Huntington Bank of Toledo, Toledo, Ohio, The Huntington Portage National Bank of Kent, Kent, Ohio, The Huntington First National Bank of Lima, Lima, Ohio, The Huntington Bank of Wood County, Bowling Green, Ohio, The Huntington First National Bank of Medina County, Wadsworth, Ohio, The Huntington Lagonda National Bank of Springfield, Springfield, Ohio, The Huntington Bank of Chillicothe, Chillicothe, Ohio, The Huntington First National Bank of Kenton, Kenton, Ohio, The Huntington Bank of Washington Court House, Washington Court House, Ohio, The Huntington National Bank of Bellefontaine, Bellefontaine, Ohio, The Huntington National Bank of Franklin, Franklin, Ohio, The Huntington Bank of Woodville, Woodville, Ohio, The Huntington Bank of Ashland, Ashland, Ohio, The Huntington National Bank of London, London, Ohio, The Huntington National Bank, Columbus, Ohio**

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| The Huntington National Bank of Bellefontaine, Bellefontaine, Ohio (13749), with | $ 45,618,000 | 5 | |
| and The Huntington National Bank of Columbus, Columbus, Ohio (7745), with | 1,582,529,000 | 38 | |
| and The Huntington National Bank of Franklin, Franklin, Ohio (5100), with | 38,312,000 | 4 | |
| and The Huntington Portage National Bank of Kent, Kent, Ohio (652), with | 126,950,000 | 9 | |
| and The Huntington First National Bank of Kenton, Kenton, Ohio (2500), with | 50,419,000 | 2 | |
| and The Huntington First National Bank of Lima, Lima, Ohio (13767), with | 125,912,000 | 9 | |
| and The Huntington National Bank of London, London, Ohio (10373), with | 30,632,000 | 2 | |
| and The Huntington Lagonda National Bank of Springfield, Springfield, Ohio (14105), with | 71,205,000 | 5 | |
| and The Huntington First National Bank of Medina County, Wadsworth, Ohio (5828), with | 72,065,000 | 2 | |
| and The Huntington Bank of Ashland, Ashland, Ohio, with | 35,379,000 | 3 | |
| and The Huntington Bank of Wood County, Bowling Green, Ohio, with | 97,730,000 | 6 | |
| and The Huntington Bank of Chillicothe, Chillicothe, Ohio, with | 62,472,000 | 3 | |
| and The Huntington Bank of Toledo, Toledo, Ohio, with | 141,239,000 | 11 | |
| and The Huntington Bank of Washington Court House, Washington Court House, Ohio, with | 45,753,000 | 2 | |
| and The Huntington Bank of Woodville, Woodville, Ohio, with | 35,986,000 | 1 | |
| and The Huntington National Bank, Columbus, Ohio (7745), which had | 240,000 | 0 | |
| merged December 31, 1979, under the charter of the latter bank (7745) and title "The Huntington National Bank." The merged bank at date of merger had | 2,542,896,000 | | 102 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge 15 sister banks ("Merging Banks"), into and under the charter of The Huntington National Bank, Columbus, Ohio ("HNB"). This application is one part of a process whereby Huntington Bancshares, Inc., Columbus, Ohio ("Bancshares"), a registered multibank holding company, is realigning and consolidating its banking interests. As a part of this process, Bancshares sponsored a charter application for a new national bank which was preliminarily approved by this Office on June 29, 1979. After the merger, this resultant bank will have total commercial bank deposits of almost $2 billion. Since this merger represents a realignment and consolidation of Bancshares' banking interests, no adverse competitive issues exist under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources and future prospects of both the existing and proposed institutions are satisfactory. Additionally, the newly created corporate structure of the resultant bank will permit the banking needs of the communities involved to be better served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the records of any of the national banking associations is less than satisfactory in helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods.

This decision is the prior written approval required by the Bank Merger Act in order for the applicants to proceed with the proposed merger. Additionally, HNB is authorized to operate all former offices of all 15 Merging Banks as branches of HNB.

November 27, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are all wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

## *II. Mergers consummated, involving a single operating bank.*

CITY NATIONAL BANK,
Fort Worth, Tex., and 5600 Lancaster National Bank, Fort Worth, Tex.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| City National Bank, Fort Worth, Tex. (12696), with | $74,227,000 | 1 | ——— |
| and 5600 Lancaster National Bank, Fort Worth, Tex. (12696), which had | 240,000 | 0 | ——— |
| merged January 2, 1979, under the charter of the latter bank (12696) and title "City National Bank." The merged bank at date of merger had | 74,467,000 | ——— | 1 |

COMPTROLLER'S DECISION

Pursuant to the requirements of 12 USC 1828(c), The Bank Merger Act, an application has been filed with the Office of the Comptroller of the Currency that seeks and requires the prior written consent of this Office to the proposed merger of City National Bank, Fort Worth, Tex. ("CNB"), the Merging Bank, into 5600 Lancaster National Bank, Fort Worth, Tex. ("Charter Bank"), under the charter of 5600 Lancaster National Bank and with the title "City National Bank." The subject application rests on an agreement executed between the proponent banks and is incorporated herein by reference, the same as if fully set forth.

CNB was granted National Banking Association charter number 12696 by this Office on April 24, 1925. As of March 31, 1978, CNB had total commercial bank deposits of approximately $60.6 million.

By action dated August 4, 1978, the Office of the Comptroller of the Currency granted preliminary approval for the organization of a new National Bank ("Charter Bank"). The sponsors of the new bank application were principals of Republic of Texas Corporation, Dallas, Tex. ("Republic"), a registered multibank holding company that as of December 31, 1977, controlled 12 subsidiary banks with consolidated deposits of almost $5.8 billion. The primary purpose for the organization of Charter Bank is to facilitate the acquisition of the successor by merger to CNB by Republic.

This application was filed prior to the November 6, 1978, effective date of the Comptroller's Community Reinvestment Act regulations, 12 CFR 25. However, pursuant to the Community Reinvestment Act, Public Law No. 95-128, available information relevant to the bank's record of meeting its community credit needs was reviewed, revealing no evidence to suggest that the applicant is not meeting the credit needs of the community, including low and moderate income neighborhoods.

Accordingly, the result of approval of the proposal would merely be to combine an existing commercial bank with a non-operating entity; as such, would produce no adverse impact upon any relevant area of consideration. Applying the statutory criteria, it is deemed that the application is not adverse to the public interest and should be, and hereby is, approved.

November 29, 1978

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which City National Bank would become a subsidiary of Republic of Texas Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a non-operating institution; as such, and without regard to the acquisition of the surviving bank by Republic of Texas Corporation, it would have no effect on competition.

* * *

NATIONAL LUMBERMAN'S BANK AND TRUST COMPANY,
Muskegon, Mich., and NLB National Bank of Muskegon, Muskegon, Mich.

| *Names of banks and type of transaction* | *Total assets** | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| National Lumberman's Bank and Trust Company, Muskegon, Mich. (4840), with | $160,428,000 | 8 | ——— |
| and NLB National Bank of Muskegon, Muskegon, Mich. (4840), which had | 240,000 | 0 | ——— |
| merged January 30, 1979, under charter of the latter bank (4840) and title "National Lumberman's Bank and Trust Company." The merged bank at date of merger had | 162,420,000 | ——— | 8 |

COMPTROLLER'S DECISION

The Office of the Comptroller of the Currency has accepted an application filed pursuant to the statutory requirements of 12 USC 1828(c), the Bank Merger Act, that requires prior consent to effectuate the proposed merger of National Lumberman's Bank and Trust Company, Muskegon, Mich. ("Merging Bank"), into NLB National Bank of Muskegon (Organizing), Muskegon ("Charter Bank"), under the charter of NLB National Bank of Muskegon, and with the title of National

* Asset figures are as of call dates immediately before and after transaction.

Lumberman's Bank and Trust Company. The subject proposal rests upon an agreement executed between the proponent banks, and is incorporated herein by reference, the same as if fully set forth.

Merging Bank has operated as a National Banking Association since the bank was granted charter number 4840 by this Office on January 16, 1893. As of March 31, 1978, the bank had total commercial bank deposits aggregating approximately $138.2 million.

By action dated June 22, 1978, this Office granted preliminary approval to organize a new National Bank to be known as "NLB National Bank of Muskegon" (Charter Bank). The new bank application was sponsored by principals of First Michigan Bank Corporation, Zeeland, Mich., a registered multibank holding company that as of December 31, 1977, had three banking subsidiaries with total deposits of $188.8 million. The primary function of Charter Bank is to serve as the vehicle for the acquisition of the successor by merger to Merging Bank by the bank holding company; and, to date, Charter Bank has no operating history.

This application was filed prior to the November 6, 1978, effective date of the Comptroller's Community Reinvestment Act regulations, 12 CFR 25. However, pursuant to the Community Reinvestment Act, Public Law No. 95-128, available information relevant to the bank's record of meeting its community credit needs was reviewed, revealing no evidence to suggest that the applicants are not meeting the credit needs of their community, including low and moderate income neighborhoods.

Accordingly, applying the statutory criteria, it is the conclusion of this Office that approval of the subject proposal would have the effect of merely combining an existing commercial bank with a non-operating entity; and as such, would have no adverse impact on any relevant area of consideration. The application is thus deemed to be not adverse to the public interest and should be, and hereby is, approved.

December 29, 1978

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which National Lumberman's Bank and Trust Company would become a subsidiary of First Michigan Bank Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a non-operating institution; as such, and without regard to the acquisition of the surviving bank by First Michigan Bank Corporation, it would have no effect on competition.

* * *

## THE FIRST NATIONAL BANK OF WACO,
Waco, Tex., and First Waco Bank, National Association, Waco, Tex.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The First National Bank of Waco, Waco, Tex. (2189), with | $209,495,000 | 1 | ——— |
| and First Waco Bank, National Association, Waco, Tex. (2189), which had | 240,000 | 0 | ——— |
| merged February 9, 1979, under the charter of the latter bank (2189) and title "The First National Bank of Waco." The merged bank at date of merger had | 209,103,000 | ——— | 1 |

## COMPTROLLER'S DECISION

Application has been made to the Office of the Comptroller of the Currency requesting prior permission to merge The First National Bank of Waco, Waco, Tex. ("Merging Bank"), into First Waco Bank, National Association (Organizing), Waco, Tex. ("Charter Bank"), under the charter of First Waco Bank, National Association, and with the title of "The First National Bank of Waco." The subject application rests on an agreement executed between the proponent banks and is incorporated herein by reference, the same as if fully set forth.

Merging Bank was granted National Banking Association charter number 2189 by this Office on September 24, 1874, and as of June 30, 1978, had total commercial bank deposits of $170.2 million.

On May 16, 1978, this Office granted preliminary approval for the organization of Charter Bank, and to date, the new bank has no operating history. Charter Bank was organized by principals of PanNational Group, Inc., El Paso, Tex. ("PanNational Group"), a registered multibank holding company that currently owns 99.1 percent, less directors' qualifying shares, of the outstanding voting shares of Merging Bank. The primary function of Charter Bank is to facilitate the acquisition of the remaining outstanding voting shares of Merging Bank, whereby PanNational Group would own 100 percent, less directors' qualifying shares, of the outstanding voting shares of Merging Bank through the resulting bank.

The proposed merger would merely have the effect of combining an existing commercial banking institution with a non-operating entity; as such, would produce no adverse effect upon any relevant area of consideration. This application was filed prior to the November 6, 1978, effective date of the Comptroller's Community Reinvestment Act regulations, 12 CFR 25. However, pursuant to the Community Reinvestment Act, Public Law No. 95-128, available information relevant to the bank's record of meeting its community credit needs was reviewed, revealing no evidence to suggest that the applicants are not meeting the credit needs of their community including low and moderate income neighborhoods.

Accordingly, applying the statutory criteria, it is the conclusion of the Office of the Comptroller of the Currency that this application is not adverse to the public interest and should be, and hereby is, approved.

January 9, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which First National Bank of Waco would become a subsidiary of PanNational Group, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a non-operating institution; as such, and without regard to the acquisition of the surviving bank by PanNational Group, Inc., it would have no effect on competition.

* * *

## THE LUFKIN NATIONAL BANK,
### Lufkin, Tex., and New Lufkin National Bank, Lufkin, Tex.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The Lufkin National Bank, Lufkin, Tex. (5797), with | $97,742,000 | 1 | ——— |
| and New Lufkin National Bank, Lufkin, Tex. (5797), which had | 120,000 | 0 | ——— |
| merged March 1, 1979, under the charter of the latter bank (5797) and title "The Lufkin National Bank." The merged bank at date of merger had | 97,742,000 | ——— | 1 |

## COMPTROLLER'S DECISION

Pursuant to the statutory requirements of the Bank Merger Act (12 USC 1828(c)), an application has been filed with the Office of the Comptroller of the Currency that requires prior written consent in order to effectuate the proposed merger of The Lufkin National Bank, Lufkin, Tex. ("Merging Bank"), into New Lufkin National Bank (Organizing) Lufkin, Tex. ("Charter Bank"), under the charter of New Lufkin National Bank, and with the title of "The Lufkin National Bank." The application is based on an agreement executed between the proponent banks and is incorporated herein by reference, the same as if fully set forth.

By action dated September 6, 1978, this Office granted preliminary approval for the organization of Charter Bank. Sponsors were principals of First City Bancorporation of Texas, Inc., Houston, Tex. ("FCB"), a registered multibank holding company that controls 29 commercial banking subsidiaries with aggregate deposits of approximately $4.7 billion. To date, Charter Bank has no operating history.

Merging Bank was granted National Banking Association charter number 5797 by this Office on May 6, 1901. As of December 31, 1977, Merging Bank, with total deposits of $83.1 million, ranked as the second largest of five commercial banking organizations headquartered within Angelina County, Tex.

Approval of the subject application will facilitiate the acquisition of all voting shares of the successor by merger to The Lufkin National Bank by FCB, and will merely combine a non-operating entity with an existing commercial banking institution. Accordingly, approval of the proposal will produce no adverse impact upon any relevant area of consideration.

This application was filed prior to the November 6, 1978, effective date of the Comptroller's Community Reinvestment Act regulations, 12 CFR 25. However, pursuant to the Community Reinvestment Act, Public Law No. 95-128, available information relevant to the bank's record of meeting its community credit needs was reviewed, revealing no evidence to suggest that the applicant is not meeting the credit needs of its community including low and moderate income neighborhoods.

Application of the statutory criteria indicates that this application is not adverse to the public interest, and the application should be, and hereby is, approved.

January 16, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Lufkin National Bank would become a subsidiary of First City Bancorporation of Texas, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a non-operating institution; as such, and without regard to the acquisition of the surviving bank by First City Bancorporation of Texas, Inc., it would have no effect on competition.

* * *

## NATIONAL BANK OF COMMERCE OF DALLAS,
Dallas, Tex., and New National Bank Commerce of Dallas, Dallas, Tex.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| National Bank of Commerce of Dallas, Dallas, Tex. (3985), with | $329,848,000 | 1 | ——— |
| and New National Bank of Commerce of Dallas, Dallas, Tex. (3985), which had | 266,000 | 0 | ——— |
| merged March 16, 1979, under the charter of the latter bank (3985) and title "National Bank of Commerce of Dallas." The merged bank at date of merger had | 329,856,000 | ——— | 1 |

### COMPTROLLER'S DECISION

Application has been made to the Office of the Comptroller of the Currency requesting prior permission to merge National Bank of Commerce of Dallas, Dallas, Tex. ("Merging Bank"), into New National Bank of Commerce of Dallas (Organizing), Dallas ("Charter Bank"), under the charter of New National Bank of Commerce of Dallas and with the title of "National Bank of Commerce of Dallas." The subject application rests on an agreement executed between the proponent banks and is incorporated herein by reference, the same as if fully set forth.

Merging Bank was granted National Banking Association charter number 3985 by this Office on March 8, 1889, and had total commercial bank deposits of $249.5 million as of September 30, 1978.

On October 20, 1978, this Office granted preliminary approval for the organization of Charter Bank; to date, the bank has no operating history. The primary function of Charter Bank is to act as the acquisition vehicle for Commerce Southwest Inc., Dallas ("Commerce Southwest"), to acquire 100 percent, less directors' qualifying shares, of the successor by merger to National Bank of Commerce of Dallas. On December 22, 1978, the Board of Governors of the Federal Reserve System, pursuant to the Bank Holding Company Act of 1956, approved the application by Commerce Southwest to become a bank holding company through the aforementioned acquisition.

This merger would merely have the effect of combining an existing commercial bank with a non-operating entity, and, as such, would produce no adverse effect upon any relevant area of consideration. Furthermore, the resulting bank will have an additional $250,000 in equity capital.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the bank's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

Accordingly, applying the statutory criteria, it is the conclusion of the Office of the Comptroller of the Currency that this application is in the public interest, and is approved.

February 14, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which National Bank of Commerce of Dallas would become a subsidiary of Commerce Southwest, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a non-operating institution; as such, and without regard to the acquisition of the surviving bank by Commerce Southwest, Inc., it would have no effect on competition.

* * *

## GULF FREEWAY NATIONAL BANK,
Houston, Tex., and Gulf Bank, National Association, Houston, Tex.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| Gulf Freeway National Bank, Houston, Tex. (14890), with | $22,898,000 | 1 | ——— |
| and Gulf Bank, National Association, Houston, Tex. (14890), which had | 245,000 | 0 | ——— |
| merged March 29, 1979, under the charter of the latter (14890) and title "Gulf Freeway National Bank." The merged bank at date of merger had | 23,143,000 | ——— | 1 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge the Gulf Freeway National Bank, Houston, Tex. ("Gulf Freeway Bank") and Gulf Bank, National Association, Houston ("Gulf Bank"). This application is one part of a process whereby Southwest Bancshares, a registered multibank holding company, will acquire 100 percent, less directors' shares, of Gulf Freeway Bank. As part of this process, Southwest Bancshares sponsored an application for a new national bank charter for Gulf Bank which was preliminarily approved by the Comptroller on October 20, 1978. To date, Gulf Bank has no operating history.

On October 24, 1978, the Federal Reserve Board approved Southwest Bancshares' application under the Bank Holding Company Act, 12 USC 1841, *et seq.*, to acquire 100 percent, less directors' qualifying shares, of the successor by merger to Gulf Freeway Bank. This merger is therefore a vehicle for a bank holding company acquisition and merely combines a corporate shell with an existing bank. As such, it presents no issues under the Bank Merger Act.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

February 26, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Gulf Freeway National Bank would become a subsidiary of Southwest Bancshares, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a non-operating institution; as such, and without regard to the acquisition of the surviving bank by Southwest Bancshares, Inc., it would have no effect on competition.

* * *

## FIRST NATIONAL BANK OF CLERMONT COUNTY, Bethel, Ohio, and First Bank of Clermont County, N.A.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| First National Bank of Clermont County, Bethel, Ohio (5627), with | $29,233,000 | 6 | ——— |
| and First Bank of Clermont County, N.A., Bethel, Ohio (5627), which had | 60,000 | 0 | ——— |
| merged April 13, 1979, under charter of the latter bank (5627) and title "First National Bank of Clermont County." The merged bank at date of merger had | 29,293,000 | ——— | 6 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge First National Bank of Clermont County, Bethel, Ohio, ("FNB") and First Bank of Clermont County, N.A. (Organizing), Bethel, Ohio ("1st"). This application is one part of a process whereby Society Corporation, a registered multibank holding company, will acquire 100 percent, less directors' qualifying shares, of FNB. As part of this process, Society Corporation sponsored an application for a new national bank charter for 1st which was preliminarily approved by the Comptroller on January 17, 1979. To date, 1st has no operating history.

On February 7, 1979, the Federal Reserve Board approved Society Corporation's application under the Bank Holding Company Act, 12 USC 1841, *et seq.*, to acquire 100 percent, less directors' qualifying shares, of the successor by merger to FNB. This merger is therefore a vehicle for a bank holding company acquisition and merely combines a corporate shell with an existing bank. As such, it presents no issues under the Bank Merger Act.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

March 14, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which First National Bank of Clermont County would become a subsidiary of Society Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a non-operating institution; as such, and without regard to the acquisition of the surviving bank by Society Corporation, it would have no effect on competition.

* * *

## THE HURON COUNTY BANKING COMPANY, NATIONAL ASSOCIATION,
Norwalk, Ohio, and H.C.B. National Bank of Norwalk, Norwalk, Ohio

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| H.C.B. National Bank of Norwalk, Norwalk, Ohio, with | $ 10,800,000 | 0 | ——— |
| and The Huron County Banking Company, National Association (16419), which had | 89,959,000 | 6 | ——— |
| consolidated April 30, 1979, under charter of the latter bank (16419) and title "The Huron County Banking Company, National Association." The consolidated bank at date of consolidation had | 100,759,000 | ——— | 6 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to consolidate The Huron County Banking Company, National Association, Norwalk, Ohio ("Huron Bank") and H.C.B. National Bank of Norwalk (Organizing), Norwalk, Ohio ("H.C.B."). This application is one part of a process whereby National City Corporation, a registered multibank holding company, will acquire 100 percent, less directors' shares, of Huron Bank. As part of this process, National City Corporation sponsored an application for a new national bank charter for H.C.B. which was preliminarily approved by the Comptroller on December 15, 1978. To date, H.C.B. has no operating history.

On March 23, 1979, the Federal Reserve Board approved National City Corporation application under the Bank Holding Company Act, 12 USC 1841, *et seq.*, to acquire 100 percent, less directors' qualifying shares, of the successor by merger to Huron Bank. This merger is, therefore, a vehicle for a bank holding company acquisition and merely combines a corporate shell with an existing bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c). Additionally, a review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved. (See 12 USC 1842(c)(21).

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

March 29, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed consolidation is part of a plan through which Huron County Banking Company, National Association, would become a subsidiary of National City Corporation, a bank holding company. The instant transaction, however, would merely combine an existing bank with a non-operating institution; as such, and without regard to the acquisition of the surviving bank by National City Corporation, it would have no effect on competition.

* * *

## THE FIRST NATIONAL BANK OF PLANO,
Plano, Tex., and 1409 Avenue K National Bank, Plano, Tex.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| The First National Bank of Plano, Plano, Tex. (13511), with | $53,656,000 | 1 | ——— |
| and 1409 Avenue K National Bank, Plano, Tex. (13511), which had | 240,000 | 0 | ——— |
| merged May 1, 1979, under the charter of the latter bank (13511) and title "The First National Bank of Plano." The merged bank at date of merger had | 53,896,000 | ——— | 1 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The First National Bank of Plano, Plano, Tex. ("First National Bank") and 1409 Avenue K National Bank, Plano, Tex. ("1409 Avenue K Bank"). This application is one part of a process whereby Republic of Texas Corporation, Dallas, Tex., a registered multibank holding company, will acquire 100 percent, less directors' shares, of First National Bank. As part of this process, Republic of Texas Corporation sponsored an application for a new national bank charter for 1409 Avenue K Bank which was preliminarily approved by the Comptroller on September 26, 1978. To date, 1409 Avenue K Bank has no operating history.

On January 26, 1979, the Federal Reserve Board approved Republic of Texas Corporation's application under the Bank Holding Company Act, 12 USC 1841, *et seq.*, to acquire 100 percent, less directors' qualifying shares, of the successor by merger to First National Bank. This merger is therefore a vehicle for a bank holding company acquisition and merely combines a corporate shell with an existing bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c). Additionally, a review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

March 30, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which First National Bank of Plano would become a subsidiary of Republic of Texas Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a non-operating institution; as such, and without regard to the acquisition of the surviving bank by Republic of Texas Corporation, it would have no effect on competition.

* * *

## THE CITIZENS NATIONAL BANK OF DENISON,
Denison, Tex., and Citizens Bank, National Association, Denison, Tex.

| *Names of banks and type of transaction* | Total assets | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The Citizens National Bank of Denison, Denison, Tex. (12728), with | $68,135,000 | 1 | ——— |
| and Citizens Bank, National Association (Organizing), Denison, Tex. (12728), which had | 127,660 | 0 | ——— |
| merged May 15, 1979, under the charter of the latter bank (12728) and title "The Citizens National Bank of Denison, Denison, Tex." The merged bank at date of merger had | 68,560,000 | ——— | 1 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The Citizens National Bank of Denison, Denison, Tex. ("Citizens") and Citizens Bank, National Association (Organizing), Denison, Tex. ("New Bank"). This application is one part of a process whereby Texas American Bancshares Inc., Fort Worth, Tex., a registered multibank holding company, will acquire 100 percent, less directors' shares, of Citizens. As part of this process, Texas American Bancshares, Inc., sponsored an application for a new national bank charter for New Bank which was preliminarily approved by the Comptroller on November 7, 1978. To date, New Bank has no operating history.

On February 12, 1979, the Federal Reserve Board approved Texas American Bancshares, Inc., application under the Bank Holding Company Act, 12 USC 1841, *et seq.,* to acquire 100 percent, less directors' qualifying shares, of the successor by merger to Citizens. This merger is therefore a vehicle for a bank holding company acquisition and merely combines a corporate shell with an existing bank. As such, it presents no issues under the Bank Merger Act.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' record of helping to meet the credit needs of the community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

April 13, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Citizens National Bank of Denison would become a subsidiary of Texas American Bancshares, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a non-operating institution; as such, and without regard to the acquisition of the surviving bank by Texas American Bancshares, Inc., it would have no effect on competition.

* * *

## ANAHEIM NATIONAL BANK,
Anaheim, Calif., and ANB National Bank, Anaheim, Calif.

| Names of banks and type of transaction | Total assets* | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| Anaheim National Bank, Anaheim, Calif. (16595), with | $17,151,000 | 1 | ——— |
| and ANB National Bank, Anaheim, Calif. (16595), which had | 240,000 | 0 | ——— |
| merged June 30, 1979, under the charter of the latter bank (16595) and title "Anaheim National Bank." The merged bank at date of merger had | 18,360,000 | ——— | 1 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Anaheim National Bank, Anaheim, Calif. ("Anaheim Bank") and ANB National Bank, Anaheim, Calif. ("ANB"). This application is one part of a process whereby California Bancorp, Inc., Anaheim, Calif., will acquire 100 percent, less directors' shares, of Anaheim Bank. As part of this process, California Bancorp, Inc., sponsored an application for a new national bank charter for ANB which was preliminarily approved by the Comptroller on March 13, 1979. To date, ANB has no operating history.

On March 12, 1979, the Federal Reserve Board, pursuant to the Bank Holding Company Act, 12 USC 1841 *et seq.*, approved the application of California Bancorp, Inc., for the formation of a bank holding company through the acquisition of 100 percent, less directors' qualifying shares, of the successor by merger to Anaheim Bank. This merger merely combines a corporate shell with an existing bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c). Additionally, a review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved. (See 12 USC 1842(c)(21)).

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This merger may not be consummated until proof of compliance with 12 USC 215a(2) is submitted to the Comptroller.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

May 31, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Anaheim National Bank would become a subsidiary of California Bancorp, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a non-operating institution; as such, and without regard to the acquisition of the surviving bank by California Bancorp, Inc., it would have no effect on competition.

* Asset figures are as of call dates immediately before and after transaction.

* * *

## CITY NATIONAL BANK & TRUST CO. OF ROCKFORD,
Rockford, Ill., and City Bank, National Association, Rockford, Ill.

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| City National Bank & Trust Co. of Rockford, Rockford, Ill. (14511), with | $100,970,000 | 2 | ——— |
| and City Bank, National Association, Rockford, Ill. (14511), which had | 258,000 | 0 | ——— |
| merged June 30, 1979, under charter of the latter bank (14511) and title "City National Bank & Trust Co. of Rockford." The merged bank at date of merger had | 100,970,000 | ——— | 2 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge City National Bank & Trust Co. of Rockford, Rockford, Ill. ("CNBT"), and City Bank, National Association, Rockford, Ill. ("City Bank"). This application is one part of a process whereby Rockford City Bancorp, Inc., Rockford, Ill., will acquire 100 percent, less directors' shares, of CNBT. As part of this process, Rockford City Bancorp, Inc., sponsored an application for a new national bank charter for City Bank which was preliminarily approved by the Comptroller on October 20, 1978. To date, City Bank has no operating history.

On April 19, 1979, the Federal Reserve Board, pursuant to the Bank Holding Company Act, 12 USC 1841, *et seq.*, approved the application of Rockford City Bancorp. Inc., for the formation of a bank holding company through the acquisition of 100 percent, less directors' qualifying shares, of the successor by merger to CNBT. This merger merely combines a corporate shell with an existing bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c). Additionally, a review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved. (See 12 USC 1842(c)(21)).

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

May 25, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which City National Bank & Trust Co. of Rockford would become a subsidiary of Rockford City Bancorp, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Rockford City Bancorp, Inc., it would have no effect on competition.

* * *

## FIRST NATIONAL BANK OF EVERGREEN PARK,
## Evergreen Park, Ill., and FNEP National Bank, Evergreen Park, Ill.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| First National Bank of Evergreen Park, Evergreen Park, Ill. (14618), with | $258,474,000 | 1 | ——— |
| and FNEP National Bank, Evergreen Park, Ill. (14618), which had | 135,000 | 0 | ——— |
| merged July 9, 1979, under charter of the latter bank (14618) and title "First National Bank of Evergreen Park." The merged bank at date of merger had | 258,609,000 | ——— | 1 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge First National Bank of Evergreen Park, Evergreen Park, Ill. ("Merging Bank") and FNEP National Bank (Organizing), Evergreen Park, Ill. ("Charter Bank"). This application is one part of a process whereby First Evergreen Corporation, Evergreen Park, Ill., a new bank holding company, will acquire 100 percent, less directors' shares, of Merging Bank. As part of this process, First Evergreen Corporation sponsored an application for a new national bank charter for Charter Bank which was preliminarily approved by the Comptroller on January 11, 1978. To date, Charter Bank has no operating history.

On August 9, 1978, the Federal Reserve Board approved First Evergreen Corporation application under the Bank Holding Company Act, 12 USC 1841, *et seq.*, to acquire 100 percent, less directors' qualifying shares, of the successor by merger to Merging Bank. This merger is therefore a vehicle for a bank holding company acquisition and merely combines a corporate shell with an existing bank. As such, it presents no issues under the Bank Merger Act.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of the entire community including low and moderate income neighborhoods is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

June 6, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which First National Bank of Evergreen Park would become a subsidiary of First Evergreen Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a non-operating institution; as such, and without regard to the acquisition of the surviving bank by First Evergreen Corporation, it would have no effect on competition.

* * *

## THE FIRST NATIONAL BANK OF GALION,
Galion, Ohio, and Galion National Bank, Galion, Ohio

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| The First National Bank of Galion, Galion, Ohio (419), with | $26,879,000 | 1 | ——— |
| and Galion National Bank, Galion, Ohio, which had | 3,450,000 | 0 | ——— |
| consolidated August 29, 1979, under charter and title of the former (419). The consolidated bank at date of consolidation had | 30,329,000 | ——— | 1 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to consolidate The First National Bank of Galion, Galion, Ohio ("First"), and Galion National Bank (Organizing), Galion, Ohio ("Galion"). This proposed consolidation is a part of a process whereby National City Corporation, Cleveland, Ohio, a registered multibank holding company will acquire 100 percent of the stock, less directors' qualifying shares, of First. The Comptroller granted preliminary approval to organize Galion on March 23, 1979. It is being organized by National City Corporation to facilitate acquisition of Galion.

On June 8, 1979, the Federal Reserve Board approved National City Corporation's application to acquire 100 percent, less directors' qualifying shares, of the successor by consolidation to First. This merger is therefore a vehicle for a bank holding company acquisition and merely combines a nonoperating bank with an existing bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c). Additionally, a review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved. (See 12 USC 1828(c)(5).

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed consolidation.

July 30, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed consolidation is part of a plan through which First National Bank of Galion would become a subsidiary of National City Corporation, a bank holding company. The instant transaction, however, would merely combine an existing bank with a non-operating institution; as such, and without regard to the acquisition of the surviving bank by National City Corporation, it would have no effect on competition.

* * *

## CITIZENS NATIONAL BANK OF LIMESTONE COUNTY,
Athens, Ala., and Limestone Bank, N.A., Athens, Ala.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Citizens National Bank of Limestone County, Athens, Ala. (16291), with | $15,147,982 | 2 | ——— |
| and Limestone Bank, N.A., Athens, Ala. (16291), which had | 120,000 | 0 | ——— |
| merged Sept. 12, 1979, under charter of the latter bank (16291) and title "Citizens National Bank of Limestone County." The merged bank at date of merger had | 15,151,582 | ——— | 2 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Citizens National Bank of Limestone County, Athens, Ala. ("Citizens Bank"), and Limestone Bank, N.A., Athens, Ala. ("Limestone Bank"). This application is one part of a process whereby Alabama Bancorporation, Birmingham, Ala., a registered bank holding company, will acquire 100 percent, less directors' shares, of Citizens Bank. As part of this process, Alabama Bancorporation sponsored an application for a new national bank charter for Limestone Bank which was preliminarily approved by the Comptroller on February 12, 1979. To date, Limestone Bank has no operating history.

On April 27, 1979, the Federal Reserve Board, pursuant to the Bank Holding Company Act, 12 USC 1841 *et seq.,* approved the application of Alabama Bancorporation to acquire 100 percent, less directors' qualifying shares, of the successor by merger to Citizens Bank. This merger merely combines a non-operating bank with an existing bank. As such, it presents no competitive issues under the Bank Merger Act, 12

USC 1828(c). Additionally, a review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved. (See 12 USC 1842(c)(21)).

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the bank's record of helping to meet the credit needs of the entire community including low and moderate income neighborhoods is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

July 31, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Citizens National Bank of Limestone County would become a subsidiary of Alabama Bancorporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a non-operating institution; as such, and without regard to the acquisition of the surviving bank by Alabama Bancorporation, it would have no effect on competition.

* * *

## LEWISVILLE NATIONAL BANK,
Lewisville, Tex., and Lewisville Bank, N.A., Lewisville, Tex.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Lewisville National Bank, Lewisville, Tex. (15104), with | $38,968,000 | 1 | ——— |
| and Lewisville Bank, N.A., Lewisville, Tex. (15104), which had | 122,000 | 0 | ——— |
| merged September 19, 1979, under charter of the latter bank (15104) and title "Lewisville National Bank." The merged bank at date of merger had | 39,090,000 | ——— | 1 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Lewisville National Bank, Lewisville, Tex. ("Lewisville") into Lewisville Bank, N.A., Lewisville, Tex. ("Bank"). This application is part of a process whereby Southwest Bancshares, Inc., Houston, Tex. ("Southwest"), a registered multibank holding company, will acquire 100 percent, less directors' qualifying shares, of the outstanding shares of Lewisville. This Office approved the application to organize Bank on March 23, 1979. It is being organized by Southwest to facilitate the acquisition of Lewisville.

On April 18, 1979, the Federal Reserve Board approved Southwest's application to acquire the successor by merger to Lewisville. This merger is a vehicle for a bank holding company acquisition and would combine a bank in organization with an existing bank. It would have no effect on competition. A review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

The records of this Office reveal no evidence that the applicants' record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

August 17, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Lewisville National Bank would become a subsidiary of Southwest Bancshares, Inc., a bank holding company. The instant merger, however would merely combine an existing bank with a non-operating institution; as such, and without regard to the acquisition of the surviving bank by Southwest Bancshares, Inc., it would have no effect on competition.

* * *

## THE NATIONAL CITY BANK OF MARION,
Marion, Ohio, and New Marion National Bank, Marion, Ohio

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| New Marion National Bank, Marion, Ohio (11831), with | $ 16,854,000 | 0 | ——— |
| and The National City Bank of Marion, Marion, Ohio (11831), which had | 126,417,000 | 10 | ——— |
| consolidated December 10, 1979, under charter and title of the latter bank. The consolidated bank at date of consolidation had | 142,630,000 | ——— | 10 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to consolidate The National City Bank of Marion, Marion, Ohio ("Marion Bank"), and New Marion National Bank (Organizing), Marion, Ohio ("New Bank"). This application was filed on September 20, 1979, and is based on an agreement signed by the participants on September 5, 1979. On June 30, 1979, Marion Bank had total deposits of $108.9 million.

This application is one part of a process whereby National City Corporation, Cleveland, Ohio ("Corp"), a registered bank holding company, will acquire 100 percent, less directors' qualifying shares, of Marion Bank. As a part of this process, Corp sponsored an application to charter a new national bank which was preliminarily approved by this Office on August 24, 1979. To date, New Bank has no operating history. This consolidation is therefore a vehicle for a bank holding company acquisition and merely combines a nonoperating entity with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

A review of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act in order for the applicants to proceed with the consolidation. This approval is conditioned on the approval by the Federal Reserve Board of an application filed pursuant to the Bank Holding Company Act, 12 USC 1841 *et seq.*, for Corp to acquire the successor institution by consolidation to Marion Bank. This consolidation may not be consummated prior to the expiration of the 30th day after approval of the bank holding company application.

November 9, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed consolidation is part of a plan through which National City Bank of Marion would become a subsidiary of National City Corporation, a bank holding company. The instant transaction, however, would merely combine an existing bank with a non-operating institution; as such, and without regard to the acquisition of the surviving bank by National City Corporation, it would have no effect on competition.

* * *

## THE CITIZENS NATIONAL BANK,
Bryan, Ohio, and New Bryan National Bank, Bryan, Ohio

| Names of banks and type of transaction | Total assets | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| The Citizens National Bank, Bryan, Ohio (13740), with | $ 97,003,000 | 5 | ——— |
| and New Bryan National Bank, Bryan, Ohio (13740), which had | 11,625,000 | 0 | ——— |
| consolidated November 29, 1979, under the charter and title of the former. The consolidated bank at date of consolidation had | 108,628,000 | ——— | 5 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to consolidate The Citizens National Bank, Bryan, Ohio ("Citizens"), and New Bryan National Bank, Bryan, Ohio ("New Bank"). This application is part of a process whereby National City Corporation, Cleveland, Ohio ("Corporation"), a registered multibank holding company, will acquire 100 percent, less directors' qualifying shares, of Citizens. New Bank is being organized by Corporation solely to facilitate the acquisition of Citizens.

On September 28, 1979, the Federal Reserve Board approved Corporation's application under the Bank Holding Company Act, 12 USC 1841, *et seq.*, to acquire 100 percent, less directors' qualifying shares, of the successor by merger to Citizens. This consolidation merely combines a nonoperating bank with an existing bank. It would have no effect on competition.

The financial and managerial resources of both banks are satisfactory. Their future prospects, both separately and consolidated, are favorable. After the consolidation, Citizens can draw on the financial and managerial resources of Corporation. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

October 29, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed consolidation is part of a plan through which Citizens National Bank would become a subsidiary of National City Corporation, a bank holding company. The instant transaction, however, would merely combine an existing bank with a non-operating institution; as such, and without regard to the acquisition of the surviving bank by National City Corporation, it would have no effect on competition.

* * *

## BELLEVILLE NATIONAL SAVINGS BANK, Belleville, Ill., and Belleville National Bank, Belleville, Ill.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| Belleville National Savings Bank, Belleville, Ill. (13236), with | $165,811,000 | 3 | ——— |
| and Belleville National Bank, Belleville, Ill. (13236), which had | 120,000 | 0 | ——— |
| merged December 31, 1979, under the charter and title of latter bank. The merged bank at date of merger had | 165,931,000 | ——— | 3 |

## COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Belleville National Savings Bank, Belleville, Ill. ("Belleville"), into and under the charter of Belleville National Bank, Belleville, Ill. ("Interim Bank"). This application is one part of a process whereby Mid-Continent Bancshares, Inc., a proposed bank holding company, will acquire 100 percent, less directors' shares, of Belleville. As a part of this process, Mid-Continent Bancshares sponsored a charter application for a new national bank which was preliminarily approved by this Office on May 21, 1979. To date, Interim Bank has no operating history.

On November 9, 1979, the Federal Reserve Board, pursuant to the Bank Holding Company Act, 12 USC 1841, *et seq.*, approved the application of Mid-Continent Bancshares, Inc., for the formation of a bank holding company through the acquisition of 100 percent, less directors' shares, of the successor by merger to Belleville. This merger merely combines a corporate shell with an existing bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of the communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the proposed merger.

November 29, 1979

## SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Belleville National Savings Bank would become a subsidiary of Mid-Continent Bancshares, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a non-operating institution; as such, and without regard to the acquisition of the surviving bank by Mid-Continent Bancshares, Inc., it would have no effect on competition.

* * *

## FIRST NATIONAL BANK IN CONROE,
Conroe, Tex., and West Davis National Bank, Conroe, Tex.

| *Names of banks and type of transaction* | *Total assets* | *Banking offices* | |
|---|---|---|---|
| | | *In operation* | *To be operated* |
| First National Bank in Conroe, Conroe, Tex., with | $104,623,000 | 1 | ——— |
| and West Davis National Bank (Organizing), Conroe, Tex. (12809), which had | 120,000 | 0 | ——— |
| merged December 31, 1979, under charter of latter bank (12809) and title of "First National Bank in Conroe." The merged bank at date of merger had | 104,743,000 | ——— | 1 |

### COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge First National Bank in Conroe, Conroe, Tex. ("FNB"), into and under the charter of West Davis National Bank (Organizing), Conroe, Tex. ("Davis"). This application is one part of a process whereby First International Bancshares, Inc., Dallas, Tex. ("Bancshares"), a registered multibank holding company, will acquire 100 percent, less directors' qualifying shares, of FNB. As a part of this process, Bancshares sponsored an application for a new national bank charter for Davis which was preliminarily approved by this Office on July 31, 1979. To date, Davis has no operating history. This merger is therefore a vehicle for a bank holding company acquisition and merely combines a corporate shell with an existing bank. As such, it presents no issue under the Bank Merger Act.

This decision is the prior written approval required by the Bank Merger Act in order for the applicants to proceed with the proposed merger. This approval is conditional on the approval by the Federal Reserve Board of an application filed pursuant to the Bank Holding Company Act, 12 USC 1841, *et seq.*, for Bancshares to acquire the successor institution by merger to FNB. This merger may not be consummated prior to the expiration of the 13th day after approval of the bank holding company application.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

November 16, 1979

### SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which First National Bank in Conroe would become a subsidiary of First International Bancshares, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a non-operating institution; as such, and without regard to the acquisition of the surviving bank by First International Bancshares, Inc., it would have no effect on competition.

* * *

# APPENDIX B

# Statistical Tables

# Statistical Tables

## Table B—1

*Comptrollers of the Currency, 1863 to the present*

| No. | Name | Date of appointment | Date of resignation | State |
|---|---|---|---|---|
| 1 | McCulloch, Hugh | May 9, 1863 | Mar. 8, 1865 | Indiana. |
| 2 | Clarke, Freeman | Mar. 21, 1865 | July 24, 1866 | New York. |
| 3 | Hulburd, Hiland R. | Feb. 1, 1867 | Apr. 3, 1872 | Ohio. |
| 4 | Knox, John Jay | Apr. 25, 1872 | Apr. 30, 1884 | Minnesota. |
| 5 | Cannon, Henry W. | May 12, 1884 | Mar. 1, 1886 | Minnesota. |
| 6 | Trenholm, William L. | Apr. 20, 1886 | Apr. 30, 1889 | South Carolina. |
| 7 | Lacey, Edward S. | May 1, 1889 | June 30, 1892 | Michigan. |
| 8 | Hepburn, A. Barton | Aug. 2, 1892 | Apr. 25, 1893 | New York. |
| 9 | Eckels, James H. | Apr. 26, 1893 | Dec. 31, 1897 | Illinois. |
| 10 | Dawes, Charles G. | Jan. 1, 1898 | Sept. 30, 1901 | Illinois. |
| 11 | Ridgely, William Barret | Oct. 1, 1901 | Mar. 28, 1908 | Illinois. |
| 12 | Murray, Lawrence O. | Apr. 27, 1908 | Apr. 27, 1913 | New York. |
| 13 | Williams, John Skelton | Feb. 2, 1914 | Mar. 2, 1921 | Virginia. |
| 14 | Crissinger, D.R. | Mar. 17, 1921 | Apr. 30, 1923 | Ohio. |
| 15 | Dawes, Henry M. | May 1, 1923 | Dec. 17, 1924 | Illinois. |
| 16 | McIntosh, Joseph W. | Dec. 20, 1924 | Nov. 20, 1928 | Illinois. |
| 17 | Pole, John W. | Nov. 21, 1928 | Sept. 20, 1932 | Ohio. |
| 18 | O'Connor, J. F. T. | May 11, 1933 | Apr. 16, 1938 | California. |
| 19 | Delano, Preston | Oct. 24, 1938 | Feb. 15, 1953 | Massachusetts. |
| 20 | Gidney, Ray M. | Apr. 16, 1953 | Nov. 15, 1961 | Ohio. |
| 21 | Saxon, James J. | Nov. 16, 1961 | Nov. 15, 1966 | Illinois. |
| 22 | Camp, William B. | Nov. 16, 1966 | Mar. 23, 1973 | Texas. |
| 23 | Smith, James E. | July 5, 1973 | July 31, 1976 | South Dakota. |
| 24 | Heimann, John G. | July 21, 1977 | ........ .... | New York. |

## Table B-2

*Deputy Comptrollers of the Currency*

| No. | Name | Dates of tenure | | State |
|---|---|---|---|---|
| 1 | Howard, Samuel T. | May 9, 1863 | Aug. 1, 1865 | New York. |
| 2 | Hulburd, Hiland R. | Aug. 1, 1865 | Jan. 31, 1867 | Ohio. |
| 3 | Knox, John Jay | Mar. 12, 1867 | Apr. 24, 1872 | Minnesota. |
| 4 | Langworthy, John S. | Aug. 8, 1872 | Jan. 3, 1886 | New York. |
| 5 | Snyder, V. P. | Jan. 5, 1886 | Jan. 3, 1887 | New York. |
| 6 | Abrahams, J. D. | Jan. 27, 1887 | May 25, 1890 | Virginia. |
| 7 | Nixon, R. M. | Aug. 11, 1890 | Mar. 16, 1893 | Indiana. |
| 8 | Tucker, Oliver P. | Apr. 7, 1893 | Mar. 11, 1896 | Kentucky. |
| 9 | Coffin, George M. | Mar. 12, 1896 | Aug. 31, 1898 | South Carolina. |
| 10 | Murray, Lawrence O. | Sept. 1, 1898 | June 27, 1899 | New York. |
| 11 | Kane, Thomas P. | June 29, 1899 | Mar. 2, 1923 | District of Columbia. |
| 12 | Fowler, Willis J. | July 1, 1908 | Feb. 14, 1927 | Indiana. |
| 13 | McIntosh, Joseph W. | May 21, 1923 | Dec. 19, 1924 | Illinois. |
| 14 | Collins, Charles W. | July 1, 1923 | June 30, 1927 | Illinois. |
| 15 | Stearns, E. W. | Jan. 6, 1925 | Nov. 30, 1928 | Virginia. |
| 16 | Awalt, F. G. | July 1, 1927 | Feb. 15, 1936 | Maryland. |
| 17 | Gough, E. H. | July 6, 1927 | Oct. 16, 1941 | Indiana. |
| 18 | Proctor, John L. | Dec. 1, 1928 | Jan. 23, 1933 | Washington. |
| 19 | Lyons, Gibbs | Jan. 24, 1933 | Jan. 15, 1938 | Georgia. |
| 20 | Prentiss, Jr., William | Feb. 24, 1936 | Jan. 15, 1938 | Georgia. |
| 21 | Diggs, Marshall R. | Jan. 16, 1938 | Sept. 30, 1938 | Texas. |

## Table B-2—Continued

*Deputy Comptrollers of the Currency*

| No. | Name | Dates of tenure | | State |
|---|---|---|---|---|
| 22 | Oppegard, G. J. | Jan. 16, 1938 | Sept. 30, 1938 | California. |
| 23 | Upham, C. B. | Oct. 1, 1938 | Dec. 31, 1948 | Iowa. |
| 24 | Mulroney, A. J. | May 1, 1939 | Aug. 31, 1941 | Iowa. |
| 25 | McCandless, R. B. | July 7, 1941 | Mar. 1, 1951 | Iowa. |
| 26 | Sedlacek, L. H. | Sept. 1, 1941 | Sept. 30, 1944 | Nebraska. |
| 27 | Robertson, J. L. | Oct. 1, 1944 | Feb. 17, 1952 | Nebraska. |
| 28 | Hudspeth, J. W. | Jan. 1, 1949 | Aug. 31, 1950 | Texas. |
| 29 | Jennings, L. A. | Sept. 1, 1950 | May 16, 1960 | New York. |
| 30 | Taylor, W. M. | Mar. 1, 1951 | Apr. 1, 1962 | Virginia. |
| 31 | Garwood, G. W. | Feb. 18, 1952 | Dec. 31, 1962 | Colorado. |
| 32 | Fleming, Chapman C. | Sept. 15, 1959 | Aug. 31, 1962 | Ohio. |
| 33 | Haggard, Hollis S. | May 16, 1960 | Aug. 3, 1962 | Missouri. |
| 34 | Camp, William B. | Apr. 2, 1962 | Nov. 15, 1966 | Texas. |
| 35 | Redman Clarence B. | Aug. 4, 1962 | Oct. 26, 1963 | Connecticut. |
| 36 | Watson, Justin T. | Sept. 3, 1962 | July 18, 1975 | Ohio. |
| 37 | Miller, Dean E. | Dec. 23, 1962 | ............ | Iowa. |
| 38 | DeShazo, Thomas G. | Jan. 1, 1963 | Mar. 3, 1978 | Virginia. |
| 39 | Egertson, R. Coleman | July 13, 1964 | June 30, 1966 | Iowa. |
| 40 | Blanchard, Richard J. | Sept. 1, 1964 | Sept. 26, 1975 | Massachusetts. |
| 41 | Park, Radcliffe | Sept. 1, 1964 | June 1, 1967 | Wisconsin. |
| 42 | Faulstich, Albert J. | July 19, 1965 | Oct. 26, 1974 | Louisiana. |
| 43 | Motter, David C. | July 1, 1966 | ............ | Ohio. |
| 44 | Gwin, John D. | Feb. 21, 1967 | Dec. 31, 1974 | Mississippi. |
| 45 | Howland, Jr., W. A. | July 5, 1973 | Mar. 27, 1978 | Georgia. |
| 46 | Mullin, Robert A. | July 5, 1973 | Sept. 8, 1978 | Kansas. |
| 47 | Ream, Joseph M. | Feb. 2, 1975 | June 30, 1978 | Pennsylvania. |
| 48 | Bloom, Robert | Aug. 31, 1975 | Feb. 28, 1978 | New York. |
| 49 | Chotard, Richard D. | Aug. 31, 1975 | Nov. 25, 1977 | Missouri. |
| 50 | Hall, Charles B. | Aug. 31, 1975 | ............ | Pennsylvania. |
| 51 | Jones, David H. | Aug. 31, 1975 | Sept. 20, 1976 | Texas. |
| 52 | Murphy, C. Westbrook | Aug. 31, 1975 | Dec. 30, 1977 | Maryland. |
| 53 | Selby, H. Joe | Aug. 31, 1975 | ............ | Texas. |
| 54 | Homan, Paul M. | Mar. 27, 1978 | ............ | Nebraska. |
| 55 | Keefe, James T. | Mar. 27, 1978 | ............ | Massachusetts. |
| 56 | Muckenfuss, Cantwell F., III | Mar. 27, 1978 | ............ | Alabama. |
| 57 | Wood, Billy C. | Nov. 7, 1978 | ............ | Texas. |
| 58 | Longbrake, William A. | Nov. 8, 1978 | ............ | Wisconsin. |
| 59 | Odom, Jr., Lewis G. | Mar. 21, 1979 | ............ | Alabama. |
| 60 | Martin, William E. | May 22, 1979 | ............ | Texas. |
| 61 | Barefoot, Jo Ann | July 13, 1979 | ............ | Connecticut. |

## Table B-3

*Regional administrators of national banks, December 1979*

| Region | Name | Headquarters | States |
|---|---|---|---|
| 1 | Ralph W. Gridley | Boston, Mass. | Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont. |
| 2 | Thomas W. Taylor | New York, N.Y. | New Jersey, New York, Puerto Rico, Virgin Islands. |
| 3 | R. Coleman Egertson | Philadelphia, Pa. | Pennsylvania, Delaware. |
| 4 | Larry T. Gerzema | Cleveland, Ohio | Indiana, Kentucky, Ohio. |
| 5 | Michael A. Mancusi | Richmond, Va. | District of Columbia, Maryland, North Carolina, Virginia, West Virginia. |
| 6 | Robert J. Herrmann | Atlanta, Ga. | Florida, Georgia, South Carolina. |
| 7 | Rufus O. Burns, Jr. | Chicago, Ill. | Illinois, Michigan. |
| 8 | Dean S. Marriott | Memphis, Tenn. | Alabama, Arkansas, Louisiana, Mississippi, Tennessee. |
| 9 | Kenneth W. Leaf | Minneapolis, Minn. | Minnesota, North Dakota, South Dakota, Wisconsin. |
| 10 | John R. Burt | Kansas City, Mo. | Iowa, Kansas, Missouri, Nebraska. |
| 11 | Clifton A. Poole, Jr. | Dallas, Tex. | Oklahoma, Texas. |
| 12 | Peter C. Kraft | Denver, Colo. | Arizona, Colorado, New Mexico, Utah, Wyoming. |
| 13 | M. B. Adams | Portland, Oreg. | Alaska, Idaho, Montana, Oregon, Washington. |
| 14 | Kent D. Glover | San Francisco, Calif. | California, Guam, Hawaii, Nevada. |

## Table B-4

*Changes in the structure of the national banking system, by states, 1979*

| | In operation Dec. 31, 1978 | Organized and opened for business during 1979 | Consolidated and merged under 12 USC 215 | | Insolvencies | Liquidated | 12 USC 214 | | In operation Dec. 31, 1979 |
|---|---|---|---|---|---|---|---|---|---|
| | | | Consolidated | Merged | | | Converted to state banks | Merged or consolidated with state banks | |
| United States | 4,564 | 43 | 3 | 62 | 1 | 3 | 51 | 39 | 4,448 |
| Alabama | 99 | 2 | 0 | 0 | 0 | 1 | 1 | 0 | 99 |
| Alaska | 6 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 6 |
| Arizona | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3 |
| Arkansas | 69 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 68 |
| California | 53 | 3 | 0 | 0 | 0 | 0 | 7 | 7 | 42 |
| Colorado | 137 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 139 |
| Connecticut | 19 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 19 |
| Delaware | 5 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 6 |
| District of Columbia | 16 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 16 |
| Florida | 236 | 5 | 0 | 11 | 0 | 0 | 0 | 9 | 221 |
| Georgia | 64 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 63 |
| Hawaii | 2 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 3 |
| Idaho | 6 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 7 |
| Illinois | 419 | 0 | 0 | 0 | 1 | 1 | 6 | 1 | 410 |
| Indiana | 121 | 1 | 0 | 1 | 0 | 0 | 2 | 0 | 119 |
| Iowa | 99 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 99 |
| Kansas | 151 | 0 | 0 | 0 | 0 | 0 | 3 | 0 | 148 |
| Kentucky | 79 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 79 |
| Louisiana | 54 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 55 |
| Maine | 17 | 0 | 0 | 0 | 0 | 0 | 1 | 2 | 14 |
| Maryland | 34 | 0 | 0 | 1 | 0 | 0 | 0 | 2 | 31 |
| Massachusetts | 73 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 71 |
| Michigan | 125 | 2 | 0 | 0 | 0 | 0 | 4 | 0 | 123 |
| Minnesota | 205 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 205 |
| Mississippi | 37 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 38 |
| Missouri | 101 | 0 | 0 | 0 | 0 | 0 | 3 | 0 | 98 |
| Montana | 56 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 56 |
| Nebraska | 117 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 117 |
| Nevada | 4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4 |
| New Hampshire | 39 | 0 | 0 | 1 | 0 | 0 | 2 | 0 | 36 |
| New Jersey | 96 | 0 | 0 | 3 | 0 | 0 | 0 | 0 | 93 |
| New Mexico | 40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 40 |
| New York | 124 | 0 | 3 | 1 | 0 | 0 | 3 | 1 | 116 |
| North Carolina | 27 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 26 |
| North Dakota | 43 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 41 |
| Ohio | 217 | 0 | 0 | 37 | 0 | 0 | 0 | 3 | 177 |
| Oklahoma | 191 | 3 | 0 | 0 | 0 | 0 | 4 | 0 | 190 |
| Oregon | 6 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 6 |
| Pennsylvania | 226 | 0 | 0 | 0 | 0 | 0 | 1 | 2 | 223 |
| Rhode Island | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5 |
| South Carolina | 18 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 18 |
| South Dakota | 32 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 33 |
| Tennessee | 72 | 0 | 0 | 0 | 0 | 0 | 3 | 0 | 69 |
| Texas | 609 | 12 | 0 | 0 | 0 | 1 | 4 | 1 | 615 |
| Utah | 10 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 11 |
| Vermont | 13 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 12 |
| Virginia | 88 | 0 | 0 | 7 | 0 | 0 | 1 | 8 | 72 |
| Washington | 20 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 21 |
| West Virginia | 106 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 107 |
| Wisconsin | 129 | 3 | 0 | 0 | 0 | 0 | 1 | 0 | 131 |
| Wyoming | 46 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 47 |

NOTE: Does not include one nonnational bank in the District of Columbia supervised by the Comptroller of the Currency.
For summary of changes 1863-1977, see Table B-4 in *Annual Report*, 1977.

## Table B–5

*Applications for national bank charters,* approved and rejected, by states, calendar 1979*

| | Approved | Rejected |
|---|---|---|
| **ALABAMA** | | |
| Exchange National Bank of Birmingham, Birmingham | June 14 | |
| **ARKANSAS** | | |
| National Bank of Arkansas in North Little Rock, North Little Rock | June 12 | |
| **CALIFORNIA** | | |
| Carson | | Feb. 9 |
| Monterey Park National Bank, Monterey Park | Apr. 5 | |
| Orange National Bank, Orange | Apr. 5 | |
| San Francisco | | Apr. 19 |
| Newport Harbor National Bank, Newport Beach | June 14 | |
| San Dieguito National Bank, Encinitas | June 28 | |
| California National Bank, San Francisco | Oct. 19 | |
| University National Bank and Trust Company, Palo Alto | Nov. 28 | |
| California Pacific National Bank, Los Angeles | Dec. 26 | |
| **COLORADO** | | |
| Lakewood | | Mar. 2 |
| Valley National Bank of Cortez, Cortez | Mar. 16 | |
| Community National Bank, Dillon | Apr. 19 | |
| First Bank of Governor's Ranch, Denver | June 7 | |
| Louisville Mountain Bank, N.A., Boulder County | July 2 | |
| Southeast National Bank, Denver | Oct. 1 | |
| Foothills National Bank, Fort Collins | Nov. 13 | |
| **FLORIDA** | | |
| Pace | | Feb. 9 |
| Alexander Hamilton National Bank, North Lauderdale | Mar. 10 | |
| The National Trust Company, Fort Myers | Oct. 18 | |
| Miami Beach | | Nov. 2 |
| **GEORGIA** | | |
| Dahlonega | | Feb. 9 |
| **IDAHO** | | |
| Twin River National Bank, Lewiston | Apr. 19 | |
| **ILLINOIS** | | |
| Schaumberg | | Feb. 7 |
| First National Bank of Orland Park, Orland Park | Aug. 3 | |
| **IOWA** | | |
| Community National Bank of Muscatine, Muscatine | Sept. 30 | |
| **KANSAS** | | |
| Andover | | Nov. 21 |
| **KENTUCKY** | | |
| Lewisport | | Feb. 9 |
| **LOUISIANA** | | |
| New Orleans | | Feb. 9 |
| Southwest National Bank of Lafayette, Lafayette | Mar. 22 | |
| **MICHIGAN** | | |
| Pacesetter Bank Lansing N.A., Lansing | Feb. 8 | |
| Huron National Bank, Roger City | Mar. 16 | |
| **MINNESOTA** | | |
| Community National Bank, Branch | Nov. 12 | |
| Tri-County National Bank, Forest Lake | Dec. 12 | |
| **MISSISSIPPI** | | |
| Bank of Jackson, N.A., Jackson | Sept. 29 | |
| **MISSOURI** | | |
| Battlefield National Bank, Springfield | Apr. 19 | |
| **NEBRASKA** | | |
| Sioux Land National Bank, Sioux City | Dec. 5 | |
| **NEVADA** | | |
| Nevada County National Bank, Grass Valley | Apr. 5 | |
| **NEW YORK** | | |
| New York City | | Aug. 6 |
| **NORTH CAROLINA** | | |
| Fayetteville | | Mar. 4 |
| **OKLAHOMA** | | |
| Mercantile Bank, N.A., Moore | Jan. 12 | |
| American National Bank, Woodward | Mar. 28 | |
| Commercial National Bank, Oklahoma City | Oct. 29 | |
| **TENNESSEE** | | |
| Knox National Bank, Knoxville | Oct. 5 | |
| **TEXAS** | | |
| Parkway National Bank, Farmers Branch | Jan. 23 | |
| Austin National Bank, Northwest, Austin | Feb. 7 | |
| Fidelity National Bank, Austin | Feb. 7 | |
| First National Bank, Seminole | Feb. 7 | |
| First National Bank of San Benito, San Benito | Feb. 8 | |
| The Woodlands National Bank, Woodlands | Feb. 8 | |
| Angelina National Bank of Lufkin, Lufkin | Feb. 9 | |
| First National Bank, Boerne | Feb. 24 | |
| Liberty National Bank, Dallas | Mar. 30 | |
| West El Paso National Bank, El Paso | Mar. 30 | |
| First City Bank - Greenspoint, N.A., Houston | Mar. 30 | |
| First National Bank, Sherman | Apr. 6 | |
| Woodforest National Bank, Harris County | Apr. 5 | |
| First United Bank - Arlington N.A., Arlington | Apr. 4 | |
| Mercantile National Bank, Arlington | Apr. 4 | |
| Unincorporated Area of Harris County | | Apr. 4 |
| First United Bank - Richland N.A., North Richland Hills | Apr. 12 | |
| Pioneer National Bank, Richardson | May 3 | |
| Universal City Bank, N.A., Universal City | May 17 | |
| First National Bank of Dayton, Dayton | May 23 | |
| Citizens National Bank, Victoria | May 23 | |
| Westhollow National Bank, Houston | May 24 | |
| Exchange National Bank, San Antonio | June 4 | |
| Humble National Bank, Humble | July 3 | |
| Nacogdoches | | Aug. 2 |
| Texas Commerce Bank Northwest Freeway N.A., Unincorporated Area of Harris County | Aug. 3 | |
| Southern National Bank of Corpus Christi, Corpus Christi | Aug. 3 | |
| Town North National Bank, Longview | Sept. 30 | |
| Longview | | Oct. 1 |
| City National Bank, Weslaco | Nov. 12 | |
| East El Paso National Bank, El Paso | Nov. 21 | |
| American National Bank, Abilene | Dec. 11 | |
| Commerce Parkway Bank, N.A., Addison | Dec. 12 | |
| Mid-Cities National Bank, Hurst | Dec. 12 | |
| Onion Creek National Bank, Travis County | | Dec. 17 |
| National Bank of Commerce - South, Austin | Dec. 30 | |
| Southwest National Bank, Austin | Dec. 30 | |
| Plaza National Bank, Dallas | Dec. 30 | |
| **UTAH** | | |
| First Security Bank of Sandy, N.A., Sandy | Nov. 1 | |
| **WEST VIRGINIA** | | |
| Upshur National Bank, Buckhannon | Feb. 24 | |
| American National Bank, Glen Daniel | | Aug. 2 |
| **WISCONSIN** | | |
| The Marine Trust Co., N.A., Milwaukee | June 22 | |
| **WYOMING** | | |
| Mountain Plaza National Bank, Casper | Nov. 2 | |

* Does not include applications for conversion or pursuant to corporate reorganization.

## Table B–6

*Applications for national bank charters pursuant to corporate reorganizations, by states, calendar 1979*

| | Approved | Rejected |
|---|---|---|
| **ALABAMA** | | |
| Limestone Bank N.A., Athens | Feb. 9 | |
| **CALIFORNIA** | | |
| ANB National Bank, Anaheim | Mar. 7 | |
| **ILLINOIS** | | |
| Urbana National Bank, Urbana | Jan. 17 | |
| Belleview National Bank, Belleview | May 21 | |
| **IOWA** | | |
| First National Interim Bank, Sioux City | Aug. 3 | |
| **MASSACHUSETTS** | | |
| Old Colony Bank Berkshire County, N.A., Pittsfield | Aug. 3 | |
| **NEW HAMPSHIRE** | | |
| New Hampshire Bank N.A., Manchester | Nov. 16 | |
| **NEW JERSEY** | | |
| New Garden State National Bank, Paramus | Nov. 16 | |
| Midlantic National Bank/Atlantic, Atlantic City | Oct. 29 | |
| **OHIO** | | |
| 1st Bank of Clermont County N.A., Bethel | Jan. 12 | |
| Galion National Bank, Galion | Mar. 22 | |
| The Huntington National Bank, Columbus | June 28 | |
| New Bryan National Bank, Bryan | Aug. 3 | |
| New Marion National Bank, Marion | Aug. 16 | |
| The FBG National Bank of Kenton, Kenton | Oct. 22 | |
| **OREGON** | | |
| First National Interim Bank of McMinnville, McMinnville | Aug. 19 | |
| **TEXAS** | | |
| Lewisville Bank N.A., Lewisville | Mar. 22 | |
| West Davis National Bank, Conroe | July 27 | |
| West Freeway National Bank, Fort Worth | Aug. 16 | |
| New Gateway National Bank of Beaumont, Beaumont | Sept. 27 | |
| Wurzbach Road National Bank, San Antonio | Oct. 10 | |
| **VIRGINIA** | | |
| Colonial American National Bank-Clifton Forge, Clifton Forge | Dec. 10 | |
| **WISCONSIN** | | |
| First Bank and Trust Company Racine N.A., Racine | Nov. 13 | |

## Table B–7

*Newly organized national banks, by states, calendar 1979*

| Charter No. | Title and location of bank | Total capital accounts |
|---|---|---|
| | Total, United States: 41 banks | $66,569,520 |
| | **ALABAMA** | |
| 16783 | Exchange National Bank of Birmingham, Birmingham | 1,200,000 |
| 16779 | Central Bank of Dothan, N.A., Dothan | 1,500,000 |
| | **CALIFORNIA** | |
| 16764 | Westwood National Bank, Los Angeles | 4,558,520 |
| 16792 | Santa Fe National Bank, Norwalk | 2,000,000 |
| 16811 | Orange National Bank, Orange | 2,500,000 |
| | **COLORADO** | |
| 16765 | FirstBank of West Arvada, National Association, Arvada | 1,000,000 |
| 16808 | Valley National Bank of Cortez, Cortez | 1,750,000 |
| | **DELAWARE** | |
| 16773 | First National Bank of Georgetown, Georgetown | 1,150,000 |
| | **FLORIDA** | |
| 16776 | The Hemisphere National Bank, Miami | 2,500,000 |
| 16793 | All American National Bank, Virginia Gardens | 2,000,000 |
| 16800 | Charlotte County National Bank, Unincorporated Area of Charlotte County | 2,000,000 |
| 16804 | The Gold Coast National Bank, Unincorporated Area of Dade County | 3,000,000 |
| | **HAWAII** | |
| 16777 | Bank of Maui, N.A., Kahului | 1,500,000 |
| | **IDAHO** | |
| 16814 | Twin River National Bank, Lewiston | 1,700,000 |
| | **INDIANA** | |
| 16782 | Clarksville National Bank, Clarksville | 1,500,000 |

## Table B–7—Continued

*Newly organized national banks, by states, calendar 1979*

| Charter No. | Title and location of bank | Total capital accounts |
|---|---|---|
| | **LOUISIANA** | |
| 16817 | Southwest National Bank of Lafayette, Lafayette | $3,125,000 |
| | **MICHIGAN** | |
| 16785 | Michigan National Bank - Ann Arbor, Ann Arbor | 2,500,000 |
| 16802 | Northern National Bank, Grayling | 1,300,000 |
| | **MISSISSIPPI** | |
| 16810 | Bank of Jackson, N.A., Jackson | 1,600,000 |
| | **OKLAHOMA** | |
| 16816 | Mid-West National Bank, Mid-West City | 2,000,000 |
| 16796 | Mercantile Bank, N.A., Moore | 1,200,000 |
| 16807 | American National Bank, Woodward | 1,250,000 |
| | **SOUTH DAKOTA** | |
| 16797 | Tri-State National Bank, Belle Fourche | 1,500,000 |
| | **TEXAS** | |
| 16791 | Security National Bank, Austin | 1,500,000 |
| 16794 | Austin National Bank Northwest, Austin | 1,500,000 |
| 16795 | First National Bank, Boerne | 2,000,000 |
| 16824 | Forestwood National Bank of Dallas, Dallas | 2,000,000 |
| 16812 | Texas Commerce Bank - Southbelt N.A., Houston | 1,700,000 |
| 16784 | League City National Bank, League City | 1,250,000 |
| 16770 | Texas National Bank of Midland, Midland | 2,000,000 |
| 16799 | The American National Bank of Mount Pleasant, Mount Pleasant | 1,250,000 |
| 16774 | Salado National Bank, Salado | 750,000 |
| 16809 | First National Bank of San Benito, San Benito | 1,250,000 |
| 16806 | First National Bank, Seminole | 1,250,000 |
| 16772 | Texas Commerce Bank - Katy Freeway N.A., Unincorporated Area of Harris County | 1,700,000 |
| | **UTAH** | |
| 16813 | First Security Bank of Richfield, N.A., Richfield | 1,000,000 |
| | **WASHINGTON** | |
| 16819 | National Bank of Bremerton, Bremerton | 1,500,000 |
| | **WISCONSIN** | |
| 16787 | First National Bank, Minocqua and Woodruff, Minocqua | 1,086,000 |
| 16801 | Community National Bank, Mukwonago | 1,500,000 |
| 16815 | Northern Security National Bank of Rhinelander, Pelican | 1,000,000 |
| | **WYOMING** | |
| 16818 | Wyoming National Bank of East Casper, Casper | 500,000 |

## Table B–8

*Mergers* consummated pursuant to corporate reorganizations, by states, calendar 1979*
(Dollar amounts in thousands)

| Effective date | Operating bank<br>New bank<br>Resulting bank | Total capital accounts | Total assets |
|---|---|---|---|
| | **ALABAMA** | | |
| | Citizens National Bank of Limestone County, Athens<br>Limestone Bank N.A., Athens<br>Charter issued September 10, 1979 | | |
| Sept. 12 | Citizens National Bank of Limestone County, Athens | $1,180 | $15,151 |
| | **CALIFORNIA** | | |
| | Anaheim National Bank, Anaheim<br>ANB National Bank, Anaheim<br>Charter issued June 27, 1979 | | |
| June 30 | Anaheim National Bank, Anaheim | 1,990 | 18,360 |
| | **ILLINOIS** | | |
| | Belleville National Savings Bank, Belleville<br>Belleville National Bank<br>Charter issued December 31, 1979 | | |
| Dec. 31 | Belleville National Bank, Belleville | 11,878 | 165,931 |
| | City National Bank and Trust Company of Rockford, Rockford<br>City Bank, N.A., Rockford<br>Charter issued June 28, 1979 | | |
| June 30 | City National Bank & Trust Company of Rockford, Rockford | 6,787 | 100,970 |
| | First National Bank of Evergreen Park, Evergreen Park<br>FNEP National Bank, Evergreen Park<br>Charter issued July 6, 1979 | | |
| July 9 | First National Bank of Evergreen Park | 16,576 | 258,609 |
| | **MICHIGAN** | | |
| | National Lumberman's Bank and Trust Company, Muskegon<br>NLB National Bank of Muskegon, Muskegon<br>Charter issued January 29, 1979 | | |
| Jan. 30 | National Lumberman's Bank and Trust Company, Muskegon | 10,257 | 160,428 |
| | **OHIO** | | |
| | First National Bank of Clermont County, Bethel<br>1st Bank of Clermont County, N.A., Bethel<br>Charter issued April 12, 1979 | | |
| Apr. 13 | First National Bank of Clermont, Bethel | 2,367 | 30,505 |
| | The Citizens National Bank, Bryan<br>New Bryan National Bank, Bryan<br>Charter issued August 3, 1979 | | |
| Nov. 29C | The Citizens National Bank, Bryan | 6,520 | 108,628 |
| | The First National Bank of Galion, Galion<br>Galion National Bank, Galion<br>Charter issued August 28, 1979 | | |
| Aug. 29C | The First National Bank of Galion, Galion | 2,415 | 30,329 |
| | The Huron Banking Company, National Association, Norwalk<br>H.C.B. National Bank of Norwalk, Norwalk<br>Charter issued April 30, 1979 | | |
| Apr. 30C | The Huron County Banking Company, National Association, Norwalk | 5,793 | 100,759 |
| | The National City Bank of Marion, Marion<br>New Marion National Bank, Marion<br>Charter issued December 10, 1979 | | |
| Dec. 10C | The National City Bank of Marion, Marion | 11,770 | 142,630 |
| | **TEXAS** | | |
| | First National Bank of Conroe, Conroe<br>West Davis National Bank, Conroe<br>Charter issued December 28, 1979 | | |
| Dec. 31 | First National Bank in Conroe, Conroe | 6,955 | 104,743 |
| | National Bank of Commerce of Dallas, Dallas<br>New National Bank of Commerce of Dallas, Dallas<br>Charter issued March 15, 1979 | | |
| Mar. 16 | National Bank of Commerce of Dallas, Dallas | 18,710 | 329,859 |
| | The Citizens National Bank of Denison, Denison<br>Citizens Bank, National Association, Denison<br>Charter issued May 9, 1979 | | |
| May 15 | The Citizens National Bank of Denison, Denison | 5,081 | 68,560 |
| | City National Bank, Fort Worth<br>5600 Lancaster National Bank, Fort Worth<br>Charter issued December 29, 1978 | | |

Table B-8—Continued

*Mergers* consummated pursuant to corporate reorganizations, by states, calendar 1979*
(Dollar amounts in thousands)

| Effective date | Operating bank<br>New bank<br>Resulting bank | Total capital accounts | Total assets |
|---|---|---|---|
| Jan. 2 | 5600 Lancaster National Bank, Fort Worth | $5,896 | $74,467 |
| | Gulf Freeway National Bank, Houston<br>Gulf Bank, N.A., Houston<br>Charter issued March 27, 1979 | | |
| Mar. 29 | Gulf Freeway National Bank, Houston | 2,238 | 23,143 |
| | Lewisville National Bank, Lewisville<br>Lewisville Bank, N.A., Lewisville<br>Charter issued September 13, 1979 | | |
| Sept. 19 | Lewisville National Bank | 2,653 | 39,090 |
| | The Lufkin National Bank, Lufkin<br>New Lufkin National Bank, Lufkin<br>Charter issued February 26, 1979 | | |
| Mar. 1 | The Lufkin National Bank, Lufkin | 4,859 | 97,742 |
| | The First National Bank of Plano, Plano<br>Avenue K National Bank, Plano<br>Charter issued April 24, 1979 | | |
| May 1 | First National Bank of Plano, Plano | 2,711 | 53,896 |
| | The First National Bank of Waco, Waco<br>First Waco Bank, National Association, Waco<br>Charter issued February 7, 1979 | | |
| Feb. 9 | The First National Bank of Waco, Waco | 15,475 | 209,103 |

* Includes consolidations effected pursuant to corporate reorganizations. Does not include transactions involving more than a single operating bank. Those transactions are found in Table B-16.
C Consolidation.

Table B-9

*State-chartered banks converted to national banks, by states, calendar 1979*

| Charter No. | Title and location of bank | Effective date of charter | Outstanding capital stock | Surplus, undivided profits and reserves | Total assets |
|---|---|---|---|---|---|
| | Total: 1 bank | | $12,500 | $2,555 | $37,328 |
| | **FLORIDA** | | | | |
| 16786 | Sun First National Bank of Polk County, Auburndale, conversion of Sun Bank of Polk County, Auburndale | June 27 | 12,500 | 2,555 | 37,328 |

## Table B–10

*National bank charters issued pursuant to corporate reorganizations, by states, calendar 1979*

| Charter No. | Title and location of bank | Date of Issuance | |
|---|---|---|---|
| | Total: 20 banks | | |
| | **ALABAMA** | | |
| 16291 | Limestone Bank, N.A., Athens | Sept. | 10 |
| | **CALIFORNIA** | | |
| 16595 | ANB National Bank, Anaheim | June | 27 |
| | **ILLINOIS** | | |
| 13236 | Belleville National Bank, Belleville | Dec. | 31 |
| 14618 | FNEP National Bank, Evergreen Park | July | 6 |
| 14511 | City Bank, National Association, Rockford | June | 28 |
| | **MICHIGAN** | | |
| 4840 | NLB National Bank of Muskegon, Muskegon | Jan. | 29 |
| | **OHIO** | | |
| 5627 | First Bank of Clermont County, N.A., Bethel | Apr. | 12 |
| 13740 | New Bryan National Bank, Bryan | Aug. | 3 |
| 7745 | The Huntington National Bank, Columbus | Dec. | 28 |
| 419 | Galion National Bank, Galion | Aug. | 28 |
| 11831 | New Marion National Bank, Marion | Dec. | 10 |
| 16419 | H.C.B. National Bank of Norwalk, Norwalk | Apr. | 30 |
| | **TEXAS** | | |
| 12809 | West Davis National Bank, Conroe | Dec. | 28 |
| 3985 | New National Bank of Commerce of Dallas, Dallas | Mar. | 15 |
| 12728 | Citizens Bank N.A., Denison | May | 9 |
| 14890 | Gulf Bank N.A., Houston | Mar. | 27 |
| 15104 | Lewisville Bank N.A., Lewisville | Sept. | 13 |
| 5797 | New Lufkin National Bank, Lufkin | Feb. | 26 |
| 13511 | Avenue K National Bank, Plano | Apr. | 24 |
| 2189 | First Waco Bank N.A., Waco | Feb. | 7 |

## Table B–11

*National banks reported in voluntary liquidation, by states, calendar 1979*
(Dollar amounts in thousands)

| Title and location of bank | Date of liquidation | Total capital accounts of liquidated bank* |
|---|---|---|
| Total: 3 national banks | | $9,480 |
| **ALABAMA** | | |
| Southern National Bank, Birmingham (16489), Birmingham, absorbed by Exchange National Bank of Birmingham, Birmingham (16783) | June 14 | 2,949 |
| **ILLINOIS** | | |
| Gateway National Bank, Chicago (14803), Chicago, absorbed by Independence Bank of Chicago, Chicago | July 16 | (28) |
| Mercantile National Bank of Chicago (14419), Chicago, absorbed by American National Bank and Trust Company of Chicago (13216), Chicago | Dec. 7 | 6,559 |

* Includes subordinated notes and debentures, if any.

Table B–12

*National banks merged or consolidated with state banks, by states, calendar 1979*
(Dollar amounts in thousands)

| Title and location of bank | Effective date | Total capital accounts of national banks* |
|---|---|---|
| Total: 39 banks | | $259,133 |
| **CALIFORNIA** | | |
| First National Bank of Fresno, Fresno (15007), Tahoe National Bank, South Lake Tahoe (15217), and Valley Bank, National Association, Livermore (15305) merged into Central Bank, Oakland, under title "Central Bank" | Dec. 31 | 5,144 |
| Irvine National Bank, Irvine (16168), merged into Heritage Bank, Anaheim, under title "Heritage Bank" | Dec. 31 | 3,706 |
| Sierra National Bank, Petaluma (15174), merged into United California Bank, Los Angees, under title "United California Bank" | Mar. 27 | 1,697 |
| Surety National Bank, Encino (15368), merged into California Overseas Bank, San Francisco, under title "California Overseas Bank" | Nov. 8 | 1,450 |
| West Coast National Bank, Oceanside (15220), merged into La Jolla Bank & Trust Company, La Jolla, under title "La Jolla Bank & Trust Company" | Jan. 2 | 2,029 |
| **FLORIDA** | | |
| Barnett Bank of Deland, National Association, Deland (13388), merged into Barnett Bank of Daytona Beach, Daytona Beach, under title "Barnett Bank of Volusia County" | Mar. 1 | 7,192 |
| First Marine National Bank and Trust Company of Lake Worth (14356), First Marine National Bank and Trust Company, Jupiter/Tequesta (15918), merged into First Marine Bank and Trust Company of Palm Beaches, Rivera, under title "First Marine Bank and Trust Company of Palm Beaches" | Sept. 23 | 5,008 |
| Flagship Bank of West Orlando, National Association, Orlando (15948), merged into Flagship Bank of Orlando, Orlando, under title "Flagship Bank of Orlando" | Jan. 1 | 1,020 |
| Florida Coast Bank of Coral Springs, National Association, Margate (16386), merged into Florida Coast Bank of Pompano Beach, Pompano Beach, under title "Florida Coast Bank of Broward County" | Oct. 1 | 4,012 |
| Pan American Bank of Broward County, National Association, Oakland Park (15162), merged into Pan American Bank of Inverrary, Lauderhill, under title "Pan American Bank of Broward" | Jan. 1 | 2,728 |
| Southeast First National Beach Bank, Jacksonville Beach (14896), merged into Southeast First Bank of Jacksonville, Jacksonville, under the title "Southeast Bank of Jacksonville" | Nov. 16 | 4,427 |
| Southeast National Bank of Panama City, Panama City (16363), merged into Southeast Beach State Bank, Bay County, under title "Southeast Bank of Panama City" | Oct. 22 | 1,156 |
| The Exchange National Bank of Tampa, Tampa (4949), merged into The Exchange Bank of Temple Terrace, Temple Terrace, under title "The Exchange Bank of Temple Terrace" | Dec. 1 | 23,863 |
| **ILLINOIS** | | |
| First National Bank of Jacksonville (15371), merged into Elliott State Bank, Jacksonville, under title "Elliott State Bank" | Mar. 10 | 1,226 |
| **MAINE** | | |
| Springvale National Bank, Springvale (13730), merged into Depositors Trust Company of Portland, Portland, under title "Depositors Trust Company of Southern Maine" | Jan. 31 | 1,624 |
| The Liberty National Bank in Ellsworth, Ellsworth (14303), merged into Depositors Trust Company of Bangor, Bangor, under title "Depositors Trust Company of Eastern Maine" | Feb. 1 | 1,716 |
| **MARYLAND** | | |
| Chesapeake National Bank, Towson (15249), merged into American Bank of Maryland, Silver Spring, under title "First American Bank of Maryland" | Jan. 1 | 4,233 |
| University National Bank, Rockville (15365), merged into The Equitable Trust Company, Baltimore, under title "The Equitable Trust Company" | Feb. 26 | 8,926 |
| **MASSACHUSETTS** | | |
| Baybank Middlesex, National Association, Burlington (614), merged into Baybank Newton-Waltham Trust Company, Waltham, under title "Baybank Newton-Waltham Trust Company" | Nov. 9 | 27,818 |
| The Merchants National Bank of Newburyport, Newburyport (1047), merged into Naumkeag Trust Company, Salem, under title "Naumkeag Trust Company" | Sept. 4 | 1,204 |
| **NEW YORK** | | |
| Genesee Valley National Bank and Trust Company of Genesee (886), merged into Key Bank of Central New York, Syracuse, under title "First Trust and Deposit Company" | Mar. 30 | 2,382 |
| **NORTH CAROLINA** | | |
| Cape Fear Bank and Trust Company, Fayetteville, and Capital National Bank, Raleigh (16100), merged into Waccamaw Bank and Trust Company, Whiteville, under title "United Carolina Bank, Whiteville" | Oct. 1 | 1,597 |
| **OHIO** | | |
| Heritage Bank, National Association, Steubenville (2160), Heritage Bank, National Association, Salem (973), and Heritage Bank, National Association, Hopedale (6938), merged into Heritage Bank, Toronto, under title "Heritage Bank" | Apr. 3 | 19,959 |
| **PENNSYLVANIA** | | |
| The First National Bank of Millville, Millville (5389), merged into Northern Central Bank, Williamsport, under title "Northern Central Bank" | May 14 | 1,574 |
| The Union National Bank of Lewisburg, Lewisburg (784), merged into Central Counties Bank, State College, under title "Central Counties Bank" | June 1 | 1,532 |

## Table B–12—Continued

*National banks merged or consolidated with state banks, by states, calendar 1979*
(Dollar amounts in thousands)

| Title and location of bank | Effective date | Total capital accounts of national banks* |
|---|---|---|
| **TEXAS** | | |
| United National Bank, Dallas (16446), merged into First City Bank of Dallas, Dallas, under title "First City Bank of Dallas" | June 4 | $8,976 |
| **VIRGINIA** | | |
| Central Fidelity Bank, National Association, Herndon (14325), merged into Central Fidelity Bank, Bailey's Crossroads, under title "Central Fidelity Bank" | Dec. 1 | 2,104 |
| Farmers and Merchants National Bank in Onley, Onley (14190), merged into Bank of Chincoteague, Inc., Chincoteague, under title "Farmers and Merchants Bank - Eastern Shore" | Nov. 1 | 2,528 |
| The First National Bank of Yorktown, Yorktown (11554), merged into Fidelity American Bank, Norfolk, under title "Fidelity American Bank" | July 2 | 1,409 |
| United Virginia Bank/Seaboard National, Norfolk (10194), United Virginia Bank/National, Vienna (651), United Virginia Bank/First National, Lynchburg (1558), United Virginia Bank of Roanoke, National Association, Roanoke (15117), United Virginia Bank/National Valley, Staunton (1620), merged into United Virginia Bank/Commonwealth, Richmond, under title "United Virginia Bank" | Dec. 31 | 106,893 |

* Includes subordinated notes and debentures, if any.

## Table B–13

*National banks converted into state banks, by states, calendar 1979*
(Dollar amounts in thousands)

| Charter No. | Title and location of bank | Effective date | Total capital accounts of national banks* |
|---|---|---|---|
| | Total: 51 banks | | $196,030 |
| | **ALABAMA** | | |
| 14638 | First National Bank of Childersburg, Childersburg, converted into First Bank of Childersburg, Childersburg | Oct. 30 | 1,428 |
| | **ARKANSAS** | | |
| 15222 | First National Bank and Trust Company of Mountain Home, Mountain Home, converted into First Bank and Trust Company of Mountain Home | Jan. 8 | 4,291 |

Table B–13—Continued

*National banks converted into state banks, by states, calendar 1979*
(Dollar amounts in thousands)

| Charter No. | Title and location of bank | Effective date | | Total capital accounts of national banks* |
|---|---|---|---|---|
| | **CALIFORNIA** | | | |
| 16453 | South Coast National Bank, Costa Mesa, converted into South Coast Bank, Costa Mesa | Aug. | 1 | $2,090 |
| 12904 | The Capital National Bank, Downey, converted into Capital Bank, Downey | Apr. | 8 | 2,328 |
| 16139 | Foothill National Bank, Glendora, converted into Foothill Independent Bank, Glendora | July | 1 | 1,842 |
| 6268 | First National Bank and Trust Company, Ontario, converted into First Trust Bank, Ontario | Apr. | 2 | 12,446 |
| 15032 | Placer National Bank, Rockland, converted into Placer Bank, Rockland | Apr. | 2 | 2,106 |
| 2158 | First National Bank of San Jose, San Jose, converted into Bank of the West, San Jose | Jan. | 2 | 27,361 |
| 14891 | Santa Barbara National Bank, Santa Barbara, converted into Santa Barbara Bank and Trust, Santa Barbara | May | 1 | 9,531 |
| | **GEORGIA** | | | |
| 9613 | The First National Bank of Haversham County, Cornelia, converted into First Bank of Haversham, Cornelia | Sept. | 15 | 2,821 |
| | **ILLINOIS** | | | |
| 14589 | First National Bank of Byron, Byron, converted into The Byron Bank, Byron | Aug. | 1 | 1,347 |
| 14474 | National Bank of Austin, Chicago, converted into Austin Bank of Chicago, Chicago | July | 2 | 8,574 |
| 10690 | The First National Bank of Gorham, Gorham, converted into the Bank of Gorham, Gorham | Aug. | 20 | 433 |
| 6924 | The First National Bank of Old Fallon, Old Fallon, converted into First Bank and Trust Company of Old Fallon, Old Fallon | Oct. | 18 | 3,101 |
| 15612 | First National Bank of Eureka, Eureka, converted into First Bank of Eureka, Eureka, | May | 1 | 1,291 |
| 14407 | First National Bank in Greenville, Greenville, converted into First Bank and Trust Company, Greenville | May | 1 | 2,349 |
| | **INDIANA** | | | |
| 6388 | The Springs Valley National Bank, French Lick, converted into Springs Valley Bank and Trust Company, French Lick | July | 31 | 4,246 |
| 12028 | First National Bank of Spurgeon, Spurgeon, converted into The Spurgeon State Bank, Spurgeon | June | 27 | 583 |
| | **KANSAS** | | | |
| 10587 | The First National Bank of Beathe, Beathe, converted into Marshall County Bank of Beathe, Beathe. | Dec. | 17 | 281 |
| 9695 | The Gypsum Valley National Bank of Gypsum, Gypsum, converted into Gypsum Valley Bank, Gypsum | Dec. | 1 | 613 |
| 15306 | Hays National Bank, Hays, converted into Hays State Bank, Hays | Oct. | 1 | 1,493 |
| | **MAINE** | | | |
| 13843 | First National Bank of Aroostook, Fort Fairfield, converted into Depositors Trust Company of Aroostook, Fort Fairfield | Feb. | 1 | 4,057 |
| | **MICHIGAN** | | | |
| 15877 | National Bank of Marshall, Marshall, converted into Bank of Marshall, Marshall | Oct. | 1 | 1,009 |
| 4840 | National Lumberman's Bank and Trust Company, Muskegon, converted into Lumberman's Bank, Muskegon | Aug. | 16 | 10,754 |
| 13753 | First National Bank of Southwestern Michigan, Niles, converted into Pacesetter Bank and Trust - Southwest, Niles | Sept. | 4 | 11,843 |
| 3378 | Clinton National Bank and Trust Company, St. Johns, St. Johns, converted into Clinton Bank and Trust Company, St. Johns | Aug. | 4 | 7,266 |
| | **MISSOURI** | | | |
| 15586 | Mid-Continent National Bank of Kansas City, Kansas City, converted into Mid-Continent Bank of Kansas City, Kansas City | Nov. | 16 | 3,055 |
| 15457 | Security National Bank of Sikeston, Sikeston, converted into Security Bank of Sikeston, Sikeston | Jan. | 12 | 1,727 |
| 16603 | Mehlville National Bank, Unincorporated Area of St. Louis County, converted into Mehlville Bank, St. Louis County | Apr. | 20 | 1,004 |
| | **NEW HAMPSHIRE** | | | |
| 12889 | Indian Head National Bank of Exeter, Exeter, converted into Indian Head Bank of Exeter, Exeter | July | 16 | 3,709 |
| 15652 | Indian Head Bank, N.A., Portsmouth, converted into Indian Head Bank of Portsmouth, Portsmouth. | Nov. | 1 | 2,534 |
| | **NEW YORK** | | | |
| 1345 | The National Bank of Auburn, Auburn, converted into The Bank of Auburn, Auburn | Feb. | 1 | 4,835 |
| 222 | First National Bank and Trust Company of Ithaca, Ithaca, converted into First Bank and Trust Company of Ithaca, Ithaca | Feb. | 1 | 5,251 |
| 9977 | Glen National Bank and Trust Company, Watkins Glen, converted into Glen Bank and Trust Company, Watkins Glen | Feb. | 1 | 1,575 |
| | **NORTH DAKOTA** | | | |
| 12393 | First National Bank in Drake, Drake, converted into First Bank in Drake, Drake | Jan. | 2 | 966 |
| 12026 | The Dakota National Bank and Trust Company of Fargo, Fargo, converted into The Dakota Bank and Trust Company of Fargo, Fargo | July | 2 | 2,684 |

## Table B–13—Continued

*National banks converted into state banks, by states, calendar 1979*
(Dollar amounts in thousands)

| Charter No. | Title and location of bank | Effective date | | Total capital accounts of national banks* |
|---|---|---|---|---|
| | **OKLAHOMA** | | | |
| 11705 | The First National Bank in Chattanooga, Chattanooga, converted into First Bank of Chattanooga, Chattanooga | Jan. | 3 | $ 619 |
| 1439 | The First National Bank in Claremore, Claremore, converted into First Bank in Claremore, Claremore | July | 10 | 2,337 |
| 12093 | The Farmers National Bank of Elk City, Elk City, converted into Bank of Western Oklahoma, Elk City | Feb. | 1 | 2,015 |
| 8524 | The First National Bank of Stratford, Stratford, converted into First American Bank, Stratford | Jan. | 12 | 838 |
| | **PENNSYLVANIA** | | | |
| 2958 | The Drovers and Mechanics National Bank of York, York, converted into The Drovers and Mechanics Bank, York | Feb. | 14 | 9,318 |
| | **TENNESSEE** | | | |
| 11985 | The First National Bank of Hohenwald, Hohenwald, converted into First Citizens Bank of Hohenwald, Hohenwald | Feb. | 1 | 878 |
| 9319 | First National Bank of Mount Pleasant, Mount Pleasant, converted into The First Bank of Maury County, Mount Pleasant | Sept. | 17 | 1,950 |
| 8640 | Farmers National Bank, Winchester, converted into Farmers Bank and Trust Company, Winchester | Feb. | 22 | 2,905 |
| | **TEXAS** | | | |
| 16251 | Dallas/Forth Worth Airport National Bank, Dallas/Fort Worth, converted into Dallas/Fort Worth Airport Bank, Dallas/Fort Worth | July | 23 | 1,478 |
| 14779 | Central National Bank of Houston, Houston, converted into Central Bank of Houston, Houston | Aug. | 1 | 3,169 |
| 13669 | The First National Bank in Mount Calm, Mount Calm, converted into First State Bank, Mount Calm | Sept. | 4 | 169 |
| 14992 | Windsor Park Bank, N.A., San Antonio, converted into Windsor Park Bank, San Antonio | June | 25 | 5,624 |
| | **VERMONT** | | | |
| 194 | Catamount National Bank, North Bennington, converted into Catamount Bank, Catamount | Jan. | 2 | 2,623 |
| | **VIRGINIA** | | | |
| 11976 | First National Bank of Bassett, Bassett, converted into First Bassett Bank and Trust, Bassett | Jan. | 2 | 6,599 |
| | **WISCONSIN** | | | |
| 14460 | First National Bank in Menomonie, Menomonie, converted into First Bank and Trust, Menomonie | Jan. | 2 | 2,684 |

## Table B–14

*Purchases of state banks by national banks, by states, calendar 1979*
(Dollar amounts in thousands)

| Title and location of bank | Effective date | | Total capital accounts of state banks |
|---|---|---|---|
| Total: 6 banks | | | $ 8,865 |
| **KENTUCKY** | | | |
| The Farmers National Bank of Cynthiana (2560), Cynthiana, purchased Union Bank of Berry, Berry | July | 2 | 546 |
| **MISSISSIPPI** | | | |
| Bank of Jackson, N.A. (16810), Jackson, purchased Fidelity Bank, Utica | Oct. | 1 | 2,073 |
| **NORTH CAROLINA** | | | |
| First National Bank of Catawba County (4597), Hickory, purchased Western Carolina Bank and Trust Company, Nashville | Dec. | 28 | 2,255 |
| The Planters National Bank and Trust Company (10608), Rocky Mount, purchased Liberty Bank and Trust Company, Durham | Aug. | 31 | 1,856 |
| **SOUTH CAROLINA** | | | |
| The National Bank of South Carolina (1066), Sumter, purchased Bank of North Charleston, North Charleston | Sept. | 14 | 1,078 |
| **SOUTH DAKOTA** | | | |
| The First National Bank in Sioux Falls (3393), Sioux Falls, purchased Dakota State Bank of Dell Rapids, Dell Rapids | Oct. | 31 | 1,057 |

## Table B–15

### *Consolidations* of national banks, or national and state banks, by states, calendar 1979*
(Dollar amounts in thousands)

| Effective date | Consolidating banks<br>Resulting banks | Outstanding capital stock | Surplus | Undivided profits and reserves | Total assets |
|---|---|---|---|---|---|
| | Total: 1 Consolidation | | | | |
| | **NEVADA** | | | | |
| | Bank of Nevada, Las Vegas | $ 5,702 | $10,298 | $ 7,896 | $ 287,868 |
| | First National Bank of Nevada, Reno (7038) | 21,207 | 21,207 | 75,064 | 1,462,525 |
| Oct. 1 | First National Bank of Nevada, Reno (7038) | 25,959 | 32,455 | 82,960 | 1,750,393 |

* Excludes consolidations involving a single operating bank, effected pursuant to corporate reorganization. Those transactions may be found on Table B–8.

## Table B–16

### *Mergers of national banks, or national and state banks, by states, calendar 1979*
(Dollar amounts in thousands)

| Effective date | Merging banks<br>Resulting bank | Outstanding capital stock | Surplus | Undivided profits and reserves | Total assets |
|---|---|---|---|---|---|
| | **ARKANSAS** | | | | |
| | Continental Bank and Trust Company, Barling | $ 120 | $ 280 | $ 107 | $ 4,269 |
| | The Merchants National Bank of Fort Smith, Fort Smith (7240) | 2,000 | 2,000 | 9,119 | 112,769 |
| Oct. 15 | The Merchants National Bank of Forth Smith, Fort Smith (7240) | 2,000 | 2,000 | 8,125 | 116,607 |
| | **CALIFORNIA** | | | | |
| | First Central Coast Bank, San Luis Obispo | 818 | 2,754 | 652 | 44,541 |
| | Wells Fargo Bank, National Association, San Francisco (15660) | 94,461 | 310,101 | 321,307 | 16,605,829 |
| July 14 | Wells Fargo Bank, National Association, San Francisco (15660) | 94,461 | 310,101 | 321,307 | 16,656,462 |
| | **FLORIDA** | | | | |
| | Barnett Bank of Murray Hill, Jacksonville | 732 | 3,468 | 1,246 | 67,274 |
| | Barnett Bank of North Jacksonville, Jacksonville | 400 | 475 | 541 | 19,838 |
| | Barnett Bank of Regency, Jacksonville | 755 | 945 | 401 | 32,885 |
| | Barnett Bank of San Jose, Jacksonville | 558 | 1,660 | 646 | 40,663 |
| | Barnett Bank of Jacksonville, National Association, Jacksonville (9049) | 6,000 | 9,000 | 13,000 | 374,795 |
| Jan. 1 | Barnett Bank of Jacksonville, National Association (9049) | 8,534 | 15,459 | 17,960 | 505,532 |
| | Atlantic Bank of Gainesvile, Gainesville | 500 | 315 | 233 | 16,137 |
| | Atlantic First National Bank of Gainesville, Gainesville (3894) | 2,000 | 3,000 | 2,613 | 103,221 |
| Jan. 31 | Atlantic First National Bank of Gainesville, Gainesville (3894) | 2,303 | 3,512 | 2,846 | 119,358 |
| | Atlantic Bank of West Daytona Beach, Daytona Beach | 550 | 360 | 96 | 17,026 |
| | Atlantic First National Bank of Daytona Beach, Daytona Beach (12456) | 1,000 | 2,000 | 3,086 | 83,169 |
| Mar. 31 | Atlantic First National Bank of Daytona Beach, Daytona Beach (12456) | 1,171 | 2,739 | 3,182 | 100,195 |
| | Royal Trust Bank of South Dade, N.A., Unincorporated Area of Dade County (16698) | 800 | 800 | 299 | 8,483 |
| | Royal Trust Bank of Miami, N.A., Miami (15156) | 1,837 | 1,837 | 6,247 | 148,636 |
| Apr. 1 | Royal Trust Bank of Miami, N.A., Miami (15156) | 2,213 | 2,637 | 6,047 | 156,195 |
| | Sun Bank of Cocoa, National Association, Cocoa (14806) | 74,255 | 1,608 | 1,446 | 46,957 |
| | Sun First National Bank of Melbourne, Melbourne (16107) | 64,000 | 1,510 | 1,926 | 62,801 |
| June 1 | Sun First National Bank of Brevard County (16107) | 64,000 | 3,860 | 3,520 | 115,366 |
| | Southeast National Bank of Coral Way, Miami (15568) | 1,020 | 1,480 | 4,458 | 116,936 |
| | Southeast Bank of Dadeland, Unincorporated Area of Dade County | 905 | 1,195 | 1,431 | 54,842 |
| | Southeast First National Bank of Miami Springs, Miami Springs (14707) | 1,372 | 1,873 | 6,802 | 122,732 |
| | Southeast National Bank of Tamiami, Unincorporated Area of Dade County (16480) | 500 | 305 | 244 | 17,562 |
| | Southeast Bank of Westland, Hialeah | 700 | 544 | 427 | 17,491 |
| | Southeast First National Bank of Miami, Miami (15638) | 13,880 | 41,120 | 67,010 | 2,180,175 |
| July 1 | Southeast First National Bank of Miami, Miami (15638) | 16,557 | 48,345 | 80,394 | 2,509,738 |

## Mergers of national banks, or national and state banks, by states, calendar 1979
(Dollar amounts in thousands)

| Effective date | Merging banks<br>Resulting bank | Outstanding capital stock | Surplus | Undivided profits and reserves | Total assets |
|---|---|---|---|---|---|
| | First National Bank of Hallandale, Hallandale (15874) | $ 863 | $ 710 | $ 863 | $ 27,205 |
| | First National Bank of Miramar, Miramar (16233) | 400 | 400 | 118 | 10,779 |
| | Hollywood National Bank, Hollywood (16008) | 432 | 400 | 186 | 13,093 |
| | First National Bank of Hollywood, Hollywood (14530) | 2,640 | 2,640 | 4,555 | 116,909 |
| Sept. 30 | First National Bank of Hollywood, Hollywood (14530) | 3,814 | 4,671 | 5,722 | 168,735 |
| | Century Bank of Pinellas County, St. Petersburg | 498 | 702 | 436 | 19,305 |
| | Century First National Bank in St. Petersburg, St. Petersburg (14367) | 2,386 | 5,114 | 9,161 | 216,523 |
| Nov. 30 | Century First National Bank of Pinellas County (14367) | 2,622 | 6,078 | 9,597 | 235,027 |
| | Sun First National Bank of Lake Wales, Lake Wales (14923) | 53,653 | 1,163 | 0 | 45,057 |
| | Sun First National Bank of Polk County, Auburndale (16786) | 12,500 | 1,900 | 655 | 37,328 |
| Dec. 1 | Sun First National Bank of Polk County, Auburndale (16786) | 12,500 | 4,025 | 1,934 | 83,925 |
| | **INDIANA** | | | | |
| | The Colonial National Bank, Ohio Township (8956) | 150 | 350 | 142 | 11,815 |
| | Warrick National Bank of Boonville, Boonville (14218), Boonville | 593 | 611 | 2,476 | 46,864 |
| May 7 | Warrick National Bank of Boonville (14218), Boonville | 593 | 611 | 2,201 | 58,855 |
| | **KENTUCKY** | | | | |
| | The Peoples Bank, Cave City | 150 | 250 | 614 | 10,987 |
| | The New Farmers National Bank of Glasgow, Glasgow (13651) | 749 | 1,912 | 2,661 | 71,142 |
| Dec. 1 | The New Farmers National Bank of Glasgow, Glasgow (13651) | 1,059 | 2,162 | 3,155 | 82,129 |
| | **LOUISIANA** | | | | |
| | Caddo Trust and Savings Bank, Belcher | 320 | 940 | 0 | 23,892 |
| | The First National Bank of Shreveport, Shreveport (3595) | 14,000 | 17,000 | 22,387 | 597,057 |
| June 1 | The First National Bank of Shreveport, Shreveport (3595) | 14,880 | 25,000 | 15,893 | 616,893 |
| | **MARYLAND** | | | | |
| | The Sharpsburg Bank of Washington County, Sharpsburg | 100 | 350 | 189 | 7,783 |
| | The First National Bank of Maryland, Baltimore (1413) | 16,065 | 35,835 | 43,108 | 1,814,834 |
| May 30 | The First National Bank of Maryland, Baltimore (1413) | 16,165 | 35,357 | 43,108 | 1,821,180 |
| | The National Bank of Perryville, Perryville (11193) | 110 | 125 | 199 | 6,566 |
| | The First National Bank of Maryland, Baltimore (1413) | 16,165 | 36,356 | 47,538 | 1,833,793 |
| Nov. 1 | The First National Bank of Maryland, Baltimore (1413) | 16,275 | 36,806 | 47,538 | 1,839,883 |
| | **MASSACHUSETTS** | | | | |
| | Citizens Bank and Trust Company of Peabody, Peabody | 438 | 375 | (142) | 7,565 |
| | Bay State National Bank, Lawrence (1014) | 850 | 2,650 | 2,488 | 115,058 |
| Jan. 1 | Bay State National Bank, Lawrence (1014) | 900 | 3,200 | 2,406 | 127,636 |
| | Chatham Trust Company, Chatham | 100 | 500 | 308 | 13,596 |
| | The Barnstable County National Bank of Hyannis, Barnstable (13395) | 300 | 1,000 | 2,011 | 35,276 |
| Oct. 1 | The Barnstable County National Bank of Hyannis, Barnstable (13395) | 400 | 1,500 | 2,318 | 48,872 |
| | **MINNESOTA** | | | | |
| | The First State Bank of Rice, Rice | 75 | 79 | 0 | 2,733 |
| | The First American National Bank of St. Cloud, St. Cloud (11818) | 1,200 | 3,600 | 1,544 | 116,480 |
| Jan. 1 | The First American National Bank of St. Cloud, St. Cloud (11818) | 1,200 | 3,600 | 1,544 | 119,059 |
| | **MISSISSIPPI** | | | | |
| | Bank of Inverness, Inverness | 250 | 1,320 | 25 | 16,120 |
| | Deposit Guaranty National Bank, Jackson (15548) | 11,359 | 77,261 | 209 | 1,489,201 |
| Dec. 31 | Deposit Guaranty National Bank, Jackson (15548) | 11,568 | 78,647 | 209 | 1,505,321 |
| | **NEW HAMPSHIRE** | | | | |
| | Indian Head National Bank of Derry, Derry (8038) | 325 | 1,425 | 1,405 | 43,963 |
| | Indian Head National Bank of Nashua, Nashua (15563) | 1,180 | 6,309 | 3,382 | 188,010 |
| Nov. 30 | Indian Head National Bank of Nashua, Nashua (15563) | 1,180 | 9,477 | 3,382 | 231,973 |
| | **NEW JERSEY** | | | | |
| | First Merchants National Bank, Neptune Township (13363) | 4,728 | 7,000 | 8,376 | 305,878 |
| | Midlantic National Bank/Raritan Valley, Edison Township (15430) | 1,721 | 665 | 1,517 | 63,377 |
| Jan. 1 | First Merchants National Bank (15430), Edison Township | 6,449 | 7,665 | 9,893 | 369,255 |
| | Arcadia National Bank, Secaucus | 1,706 | 1,371 | 1,083 | 24,166 |
| | National Community Bank of New Jersey, Rutherford (5005) | 14,206 | 20,000 | 43,987 | 976,705 |
| June 30 | National Community Bank of New Jersey, Rutherford (5005) | 14,411 | 20,000 | 42,272 | 1,000,301 |

## Table B-16—Continued

*Mergers of national banks, or national and state banks, by states, calendar 1979*
(Dollar amounts in thousands)

| *Effective date* | *Merging banks* *Resulting bank* | *Outstanding capital stock* | *Surplus* | *Undivided profits and reserves* | *Total assets* |
|---|---|---|---|---|---|
| | The National Bank of Manuta, Sewell (12917) | $ 713 | $ 3,000 | $ 957 | $ 52,633 |
| | The National Bank and Trust Company of Gloucester County, Woodbury (1199) | 2,830 | 4,678 | 6,270 | 193,975 |
| Nov. 30 | The National Bank and Trust Company of Gloucester County, Woodbury (1199) | 4,611 | 7,678 | 6,159 | 246,609 |
| | **NEW YORK** | | | | |
| | Bankers Trust Company of Central New York, Utica | 4,400 | 9,636 | 21,491 | 19,637 |
| | Bankers Trust Company of Albany, National Association, Albany (15758) | 600 | 1,600 | (1,170) | 309,016 |
| Apr. 30 | Bankers Trust Company of Albany, National Association, Albany (15758) | 6,000 | 10,236 | 2,321 | 328,653 |
| | The Little Falls National Bank, Little Falls (2406) | 200 | 600 | 1,519 | 19,478 |
| | The Oneida National Bank and Trust Company of Central New York (1392) | 13,953 | 15,000 | 15,141 | 686,295 |
| Dec. 28 | The Oneida National Bank and Trust Company of Central New York (1392) | 14,753 | 15,000 | 16,660 | 704,735 |
| | **NORTH CAROLINA** | | | | |
| | Carolina State Bank, Gastonia | 980 | 900 | 63 | 25,038 |
| | Southern National Bank of North Carolina, Lumberton (10610) | 1,342 | 9,072 | 13,721 | 521,707 |
| Sept. 30 | Southern National Bank of North Carolina (10610) | 1,342 | 9,072 | 14,335 | 517,474 |
| | The Bank of Asheville, Ashville | 1,932 | 6,286 | 1,925 | 103,418 |
| | North Carolina National Bank, Charlotte (13761) | 58,090 | 58,181 | 123,709 | 5,264,166 |
| Dec. 3 | North Carolina National Bank, Charlotte (13761) | 62,143 | 62,345 | 126,791 | 5,485,502 |
| | **OHIO** | | | | |
| | The Central Trust Company of Montgomery County, N.A., Dayton (16330) | 2,250 | 1,899 | 53 | 76,904 |
| | The Central Trust Company, National Association, Cincinnati (16416) | 12,153 | 42,847 | 37,295 | 1,033,364 |
| Apr. 16 | The Central Trust Company, National Association (16416) | 12,702 | 46,447 | 37,348 | 1,110,130 |
| | The Central Trust Company of Wayne County, Wooster | 360 | 2,640 | 919 | 43,674 |
| | The Central Trust Company of Northeastern Ohio, National Association, Canton | 3,662 | 11,338 | 5,782 | 333,903 |
| Apr. 30 | Central Trust Company of Northeastern Ohio, National Association, Canton | 4,022 | 13,978 | 6,701 | 377,577 |
| | The Citizens First National Bank of Greene County, Xenia (2575) | 700 | 1,300 | 2,281 | 47,082 |
| | The Third National Bank and Trust Company of Dayton, Dayton (10) | 9,210 | 9,620 | 18,398 | 447,876 |
| May 21 | The Third National Bank and Trust Company (10) | 10,643 | 10,187 | 20,755 | 494,915 |
| | First National Bank of Sebring, Sebring (14601) | 200 | 200 | 791 | 10,549 |
| | First National City Bank of Alliance, Alliance (3721) | 1,512 | 6,888 | 1,224 | 83,240 |
| May 22 | First National City Bank of Alliance, Alliance (3721) | 1,772 | 7,088 | 1,952 | 93,789 |
| | The Home Banking Company, St. Marys | 600 | 900 | 1,005 | 44,231 |
| | First National Bank of Mercer County, Celina (5523) | 1,350 | 1,350 | 2,234 | 91,413 |
| June 29 | The Central Trust Company of Western Ohio, National Association (5523) | 1,950 | 2,250 | 3,239 | 135,644 |
| | Akron National Bank, Akron (15609) | 6,000 | 14,000 | 12,133 | 469,814 |
| | The First National Bank of Cadiz, Cadiz (100) | 400 | 1,200 | 1,124 | 44,731 |
| | The Central National Bank at Cambridge, Cambridge (13905) | 1,000 | 1,400 | 2,181 | 67,170 |
| | The Geauga County National Bank of Chardon, Chardon (14879) | 300 | 650 | 831 | 23,718 |
| | The First National Bank of Chillicothe, Chillicothe (128) | 1,500 | 2,500 | 2,297 | 88,343 |
| | The Second National Bank of Circleville, Circleville (172) | 450 | 850 | 643 | 33,881 |
| | The Capital National Bank, Cleveland (15423) | 4,000 | 5,500 | 4,054 | 202,207 |
| | First National Bank of Coshoctin, Coshoctin (6892) | 2,000 | 2,400 | 2,128 | 89,464 |
| | The First National Bank of Delaware, Delaware (243) | 1,400 | 1,600 | 1,765 | 72,499 |
| | The First National Bank at East Palestine, East Palestine (13850) | 500 | 500 | 418 | 22,194 |
| | Peoples National Bank of Greenfield, Greenfield (10105) | 500 | 700 | 880 | 28,511 |
| | Citizens National Bank of Ironton, Ironton (4336) | 600 | 800 | 1,707 | 46,540 |
| | The First National Bank of Jackson, Jackson (1903) | 1,000 | 2,500 | 1,602 | 71,347 |
| | The Hocking Valley National Bank of Lancaster, Lancaster (12421) | 1,250 | 1,550 | 1,883 | 64,377 |
| | The First National Bank of London, London (1064) | 600 | 1,000 | 923 | 34,409 |
| | National Bank of Loveland, Loveland (15945) | 625 | 625 | 850 | 36,576 |
| | The First National Bank of Marysville, Marysville (13460) | 700 | 1,300 | 1,094 | 40,608 |
| | The First National Bank of Newark, Newark (858) | 1,500 | 3,000 | 3,473 | 116,140 |

# Table B-16—Continued

*Mergers of national banks, or national and state banks, by states, calendar 1979*
(Dollar amounts in thousands)

| Effective date | Merging banks<br>Resulting bank | Outstanding capital stock | Surplus | Undivided profits and reserves | Total assets |
|---|---|---|---|---|---|
| | The National Bank of Portsmouth, Portsmouth (13832) | $ 1,200 | $ 2,000 | $ 1,697 | $ 69,553 |
| | The First National Bank of Springfield, Springfield (238) | 2,000 | 4,000 | 3,912 | 135,536 |
| | The First National Bank of Tiffin, Tiffin (3315) | 1,000 | 1,000 | 1,109 | 43,042 |
| | First National Bank of Washington Courthouse, Washington, Courthouse (13490) | 900 | 1,000 | 1,018 | 39,096 |
| | The First National Bank of Wilmington, Wilmington (365) | 400 | 1,300 | 986 | 34,973 |
| | The Citizens National Bank in Zanesville, Zanesville (5760) | 2,000 | 3,500 | 1,911 | 80,003 |
| | The Logan County Bank, Bellefontaine | 700 | 1,100 | 386 | 225,572 |
| | The Cummings Bank Company, Carrollton | 700 | 700 | 871 | 32,787 |
| | The Ohio State Bank of Dayton, Dayton | 385 | 818 | 281 | 25,115 |
| | The Peoples Savings Bank Company, Delta | 800 | 800 | 633 | 25,464 |
| | The Kenton Savings Bank, Kenton | 800 | 800 | 1,099 | 36,603 |
| | The Farmers and Merchants Bank of Logan, Logan | 1,000 | 1,000 | 1,344 | 41,611 |
| | The Medina County Bank, Medina | 725 | 1,675 | 533 | 45,224 |
| | The Adams Bank, Millersburg | 120 | 600 | 1,123 | 22,542 |
| | The Knox County Savings Bank, Mount Vernon | 1,000 | 1,000 | 1,576 | 43,016 |
| | The Community Bank, Napoleon | 1,000 | 1,500 | 1,088 | 41,660 |
| | The Perry County Bank, New Lexington | 600 | 800 | 1,031 | 35,911 |
| | The Ohio Bank and Trust Company, New Philadelphia | 1,000 | 1,250 | 912 | 49,682 |
| | The Niles Bank Company, Niles | 1,500 | 2,000 | 1,119 | 76,885 |
| | The Citizens Banking Company, Perrysburg | 700 | 1,200 | 469 | 31,217 |
| | The Weston Security Bank, Sandusky | 1,400 | 2,600 | 2,256 | 82,006 |
| | The Ohio National Bank of Columbus, Columbus (5065) | 20,000 | 55,000 | 36,185 | 1,686,722 |
| June 29 | BancOhio National Bank, Columbus (5065) | 100,000 | 100,000 | 93,495 | 4,261,749 |
| | Society Bank of Painesville, Painesville | 1,020 | 1,980 | 1,002 | 52,747 |
| | Society National Bank of Cleveland, Cleveland (14761) | 18,300 | 61,700 | 21,838 | 1,495,576 |
| July 30 | Society National Bank of Cleveland, Cleveland (14761) | 19,000 | 63,680 | 23,160 | 1,542,964 |
| | The Eastern Ohio Bank, Union Township | 263 | 789 | 231 | 13,833 |
| Aug. 27 | Heritage Bank, N.A., Flushing (12008) | 475 | 456 | 424 | 22,016 |
| | Heritage Bank, N.A., Flushing (12008) | 738 | 1,245 | 655 | 28,901 |
| | The Gnadenhutten Bank, Gnadenhutten | 150 | 450 | 563 | 11,761 |
| | The Peoples National Bank and Trust Company, Dover (4293) | 752 | 2,248 | 4,016 | 89,436 |
| Sept. 28 | The Peoples National Bank and Trust Company, Dover (4293) | 752 | 2,248 | 4,072 | 100,610 |
| | The First National Bank of Gallipolis, Gallipolis (136) | 100 | 2,250 | 368 | 24,851 |
| | The Central Trust Company, National Association, Cincinnati (16416) | 12,738 | 46,376 | 36,497 | 1,186,218 |
| Oct. 4 | Central Trust Company, N.A., (16416) | 12,738 | 46,376 | 35,965 | 1,207,819 |
| | The Citizens National Bank of Middleport, Middleport (8441) | 100 | 900 | 688 | 14,398 |
| | The Central Trust Company, National Association, Cincinnati (16416) | 12,702 | 46,447 | 41,445 | 1,116,126 |
| Oct. 4 | The Central Trust Company, National Association, Cincinnati (16416) | 12,702 | 46,447 | 40,899 | 1,157,091 |
| | Farmers and Merchants Bank Company, Arlington | 640 | 60 | 332 | 13,569 |
| | Mid-American National Bank & Trust Company, Northwood (15416) | 4,388 | 4,405 | 2,238 | 135,770 |
| Oct. 31 | Mid-American National Bank & Trust Company, Northwood (15416) | 5,028 | 4,465 | 2,570 | 149,339 |
| | The Farmers State Bank of Stryker, Stryker | 200 | 400 | 89 | 7,298 |
| | The First National Bank in Bryan, Bryan (13899) | 394 | 806 | 1,535 | 37,941 |
| Nov. 23 | First National Bank of Northwest Ohio (13899) | 498 | 1,302 | 1,641 | 44,959 |
| | The Commercial Bank, Ashtabula | 450 | 1,550 | 529 | 28,454 |
| | The Lake County National Bank of Painesville, Painesville (14686) | 3,862 | 8,321 | 7,027 | 375,574 |
| Dec. 1 | The Lake County National Bank of Painesville, Painesville (14686) | 3,862 | 8,321 | 7,027 | 404,091 |
| | The Huntington National Bank of Bellefontaine, Bellefontaine (13749) | 910 | 910 | 2,353 | 45,618 |
| | The Huntington National Bank of Columbus, Columbus (7745) | 12,837 | 23,182 | 48,573 | 1,582,529 |
| | The Huntington National Bank of Franklin, Franklin (5100) | 900 | 900 | 3,107 | 38,312 |
| | The Huntington Portage National Bank of Kent, Kent (652) | 813 | 3,000 | 7,524 | 126,950 |
| | The Huntington First National Bank of Kenton, Kenton (2500) | 393 | 807 | 1,692 | 50,419 |
| | The Huntington First National Bank of Lima, Lima (13767) | 2,420 | 2,580 | 6,194 | 125,912 |
| | The Huntington National Bank of London, London (10373) | 300 | 1,220 | 2,377 | 30,632 |
| | The Huntington Lagonda National Bank of Springfield, Springfield (14105) | 1,250 | 1,253 | 3,783 | 71,205 |
| | The Huntington First National Bank of Medina County, Wadsworth (5828) | 362 | 1,338 | 1,955 | 72,065 |

## Table B-16—Continued

*Mergers of national banks, or national and state banks, by states, calendar 1979*
(Dollar amounts in thousands)

| *Effective date* | *Merging banks* *Resulting bank* | *Outstanding capital stock* | *Surplus* | *Undivided profits and reserves* | *Total assets* |
|---|---|---|---|---|---|
| | The Huntington Bank of Ashland, Ashland | $ 300 | $ 1,700 | $ 877 | $ 35,379 |
| | The Huntington Bank of Wood County, Bowling Green | 2,798 | 3,802 | 1,840 | 97,730 |
| | The Huntington Bank of Chillicothe, Chillicothe | 500 | 3,000 | 852 | 62,472 |
| | The Huntington Bank of Toledo, Toledo | 1,650 | 6,358 | 1,584 | 141,239 |
| | The Huntington Bank of Washington Court House, Washington Court House | 225 | 2,146 | 746 | 45,753 |
| | The Huntington Bank of Woodville, Woodville | 300 | 1,200 | 1,230 | 35,986 |
| | The Huntington National Bank, Columbus (7745) | 200 | 40 | 0 | 240 |
| Dec. 31 | The Huntington National Bank, Columbus (7745) | 40,000 | 40,000 | 84,260 | 2,542,896 |
| | **PENNSYLVANIA** | | | | |
| | Lebanon County Trust Company, Lebanon | 726 | 2,192 | 1,392 | 64,990 |
| | The National Central Bank, Lancaster (694) | 17,600 | 47,655 | 47,953 | 1,643,036 |
| Dec. 3 | The National Central Bank, Lancaster (694) | 18,326 | 49,847 | 49,745 | 1,708,026 |
| | **SOUTH DAKOTA** | | | | |
| | Springfield State Bank, Springfield | 50 | 325 | 195 | 6,984 |
| | Northwestern National Bank of Sioux Falls, Sioux Falls (10592) | 5,400 | 5,400 | 13,044 | 418,613 |
| Dec. 14 | Northwestern National Bank of Sioux Falls, Sioux Falls (10592) | 5,400 | 5,400 | 12,986 | 425,704 |
| | **VIRGINIA** | | | | |
| | Fidelity American Bank, Buena Vista, Buena Vista | 100 | 220 | 335 | 8,773 |
| | Fidelity American Bank, Chatham | 78 | 222 | 1,169 | 20,768 |
| | Fidelity American Bank, NA, Halifax, Halifax County (16313) | 800 | 800 | 802 | 32,788 |
| | Fidelity American Bank, Natural Bridge, Natural Bridge Station | 200 | 178 | 355 | 10,003 |
| | Fidelity American Bank, NA, Roanoke Valley, Roanoke County (16192) | 600 | 600 | 275 | 21,415 |
| | Fidelity American Bank, NA, Lynchburg (1522) | 4,363 | 10,867 | 17,638 | 603,655 |
| Jan. 1 | Fidelity American Bank, NA, Lynchburg (1522) | 6,141 | 12,887 | 20,574 | 694,367 |
| | Dominion National Bank of the Peninsula, York County (16159) | 626 | 175 | (129) | 7,583 |
| | Dominion National Bank of Tidewater, Norfolk (15461) | 2,240 | 4,328 | 3,228 | 127,721 |
| Feb. 20 | Dominion National Bank of Tidewater, Norfolk (15461) | 2,425 | 4,944 | 3,099 | 135,304 |
| | New Bank of Roanoke, Roanoke | 350 | 70 | 680 | 8,142 |
| | Virginia National Bank, Norfolk (9885) | 20,552 | 40,397 | 79,598 | 2,403,982 |
| May 31 | Virginia National Bank, Norfolk (9885) | 20,552 | 40,397 | 79,598 | 2,411,025 |
| | Fidelity American Bank, NA, Richmond, Henrico County (15315) | 314 | 746 | 238 | 15,483 |
| | Cavalier Central Bank and Trust Company, Hopewell | 255 | 220 | 376 | 10,351 |
| | The Central National Bank of Richmond, Richmond (10080) | 6,503 | 11,040 | 15,124 | 410,687 |
| June 30 | The Central National Bank of Richmond, Richmond (10080) | 9,525 | 9,553 | 15,738 | 436,101 |
| | The First National Bank of Danville, Danville (1985) | 1,100 | 4,020 | 3,641 | 97,370 |
| | First & Merchants National Bank, Richmond (1111) | 28,382 | 48,589 | 48,073 | 2,025,541 |
| June 30 | First & Merchants National Bank, Richmond (1111) | 29,482 | 52,609 | 51,714 | 2,116,992 |
| | New Bank of Culpeper, Culpeper | 125 | 125 | 209 | 9,178 |
| | National Bank and Trust Company, Charlottesville (10618) | 2,106 | 7,894 | 11,976 | 275,415 |
| July 2 | National Bank and Trust Company, Charlottesville (10618) | 2,231 | 8,019 | 12,185 | 284,594 |
| | The Bank of Buckingham, Dillwyn | 300 | 150 | 367 | 8,842 |
| | The First National Bank of Farmville, Farmville (5683) | 225 | 1,200 | 3,223 | 52,163 |
| July 2 | The First National Bank of Farmville, Farmville (5683) | 533 | 1,342 | 3,590 | 61,005 |
| | The Citizens National Bank of Emporia, Emporia (12240) | 1,000 | 1,000 | 1,038 | 36,710 |
| | City Savings Bank and Trust Company, Petersburg | 400 | 300 | 2,611 | 41,249 |
| | Central Fidelity Bank, N.A., Richmond (10080) | 9,525 | 9,553 | 17,276 | 395,873 |
| Nov. 9 | Central Fidelity Bank, N.A., Richmond (10080) | 10,875 | 10,903 | 20,945 | 473,832 |
| | The Services National Bank, Arlington (16277) | 1,500 | 641 | 719 | 13,597 |
| | First & Merchants National Bank, Richmond (1111) | 29,482 | 52,609 | 54,406 | 2,143,256 |
| Nov. 30 | First & Merchants National Bank, Richmond (1111) | 29,482 | 52,609 | 54,406 | 2,156,853 |

## Table B-17

*Mergers resulting in national banks, by assets of acquiring and acquired banks, 1960—1979**

| *Assets of acquiring banks†* | *Acquired banks 1960—1977* | *Assets of acquired banks* | | | | |
|---|---|---|---|---|---|---|
| | | *Under $10 million* | *$10 to 24.9 million* | *$25 to 49.9 million* | *$50 to 99.9 million* | *$100 million and over* |
| Under $10 million | 101 | 101 | 0 | 0 | 0 | 0 |
| $10 to 24.9 million | 160 | 141 | 19 | 0 | 0 | 0 |
| $25 to 49.9 million | 194 | 124 | 53 | 17 | 0 | 0 |
| $50 to 99.9 million | 235 | 124 | 66 | 40 | 5 | 0 |
| $100 million and over | 869 | 274 | 284 | 164 | 71 | 76 |
| Total | 1,559‡ | 764 | 422 | 221 | 76 | 76 |

* Includes all forms of acquisitions involving two or more banks from May 13, 1960, through December 31, 1979.
† In each transaction, the bank with the larger total assets was considered to be the acquiring bank.
‡ Comprises 1,383 transactions, 39 involving three banks, 14 involving four banks, 11 involving five banks, three involving six banks, one involving seven banks, one involving nine banks, one involving six banks and one involving 40 banks.

# Table B-18

## Domestic assets, liabilities and capital accounts of national banks, June 30, 1979
(Dollar amounts in millions)

| | Total United States | Alabama | Alaska | Arizona | Arkansas | California | Colorado |
|---|---|---|---|---|---|---|---|
| Number of banks | 4,493 | 100 | 6 | 3 | 68 | 47 | 138 |
| **Assets** | | | | | | | |
| Cash and due from depository institutions | $ 98,175 | $1,151 | $ 162 | $ 923 | $ 588 | $ 12,382 | $1,579 |
| U.S. Treasury securities | 43,268 | 394 | 62 | 502 | 279 | 4,443 | 501 |
| Obligations of other U.S. Government agencies and corporations | 22,790 | 358 | 69 | 162 | 202 | 3,086 | 143 |
| Obligations of states and political subdivisions | 68,427 | 1,383 | 158 | 634 | 605 | 5,400 | 923 |
| All other securities | 10,366 | 58 | 3 | 23 | 42 | 949 | 15 |
| Total securities | 144,851 | 2,193 | 292 | 1,321 | 1,128 | 13,878 | 1,582 |
| Federal funds sold and securities purchased under agreements to resell | 33,443 | 202 | 84 | 349 | 461 | 5,666 | 303 |
| Total loans (excluding unearned income) | 416,466 | 5,520 | 816 | 4,683 | 2,791 | 66,374 | 5,537 |
| Allowance for possible loan losses | 4,996 | 66 | 8 | 53 | 27 | 781 | 60 |
| Net Loans | 411,470 | 5,454 | 808 | 4,630 | 2,764 | 65,593 | 5,477 |
| Lease financing receivables | 6,036 | 31 | 11 | 30 | 12 | 2,118 | 60 |
| Bank premises, furniture and fixtures, and other assets representing bank premises | 12,384 | 189 | 61 | 178 | 110 | 1,883 | 182 |
| Real estate owned other than bank premises | 1,313 | 13 | 6 | 4 | 5 | 73 | 22 |
| All other assets | 37,443 | 162 | 23 | 122 | 100 | 5,462 | 177 |
| *Total assets* | 745,114 | 9,394 | 1,448 | 7,556 | 5,167 | 107,055 | 9,382 |
| **Liabilities** | | | | | | | |
| Demand deposits of individuals, partnerships and corporations | 164,695 | 2,335 | 466 | 2,103 | 1,290 | 23,145 | 2,602 |
| Time and savings deposits of individuals, partnerships and corporations | 300,600 | 4,488 | 413 | 3,967 | 2,248 | 47,553 | 3,604 |
| Deposits of U.S. government | 1,627 | 31 | 5 | 25 | 6 | 205 | 33 |
| Deposits of states and political subdivisions | 44,050 | 769 | 242 | 284 | 411 | 3,543 | 808 |
| All other deposits | 32,116 | 243 | 4 | 69 | 204 | 3,114 | 560 |
| Certified and officers' checks | 7,015 | 60 | 19 | 121 | 24 | 1,260 | 106 |
| Total deposits in domestic offices | 550,103 | 7,927 | 1,150 | 6,570 | 4,182 | 78,820 | 7,713 |
| Demand deposits | 206,658 | 2,794 | 541 | 2,423 | 1,646 | 26,614 | 3,295 |
| Time and savings deposits | 343,445 | 5,133 | 609 | 4,147 | 2,536 | 52,206 | 4,418 |
| Federal funds purchased and securities sold under agreements to repurchase | 79,464 | 423 | 102 | 314 | 445 | 10,790 | 644 |
| Interest-bearing demand notes issued to U.S. Treasury | 9,295 | 75 | 23 | 96 | 31 | 1,086 | 97 |
| Other liabilities for borrowed money | 9,569 | 56 | 11 | 1 | 10 | 2,400 | 48 |
| Mortgage indebtedness and liability for capitalized leases | 1,261 | 5 | 11 | 13 | 12 | 226 | 33 |
| All other liabilities | 40,345 | 162 | 23 | 88 | 87 | 7,151 | 178 |
| *Total liabilities* | 690,036 | 8,649 | 1,320 | 7,082 | 4,767 | 100,474 | 8,712 |
| Subordinated notes and debentures | 3,206 | 47 | 1 | 80 | 27 | 308 | 42 |
| **Equity Capital** | | | | | | | |
| Preferred stock | 30 | 0 | 0 | 0 | 0 | 0 | 0 |
| Common stock | 11,149 | 122 | 32 | 44 | 80 | 1,876 | 116 |
| Surplus | 17,407 | 269 | 42 | 123 | 100 | 2,097 | 192 |
| Undivided profits and reserve for contingencies and other capital reserves | 23,287 | 307 | 53 | 227 | 194 | 2,301 | 320 |
| *Total equity capital* | 51,873 | 698 | 127 | 393 | 374 | 6,273 | 628 |
| *Total liabilities, subordinated notes and debentures and equity capital* | 745,114 | 9,394 | 1,448 | 7,556 | 5,167 | 107,055 | 9,382 |

See note at end of table.

## Table B-18—Continued

### Domestic assets, liabilities and capital accounts of national banks, June 30, 1979
(Dollar amounts in millions)

| | Connecticut | Delaware | District of Columbia | Florida | Georgia | Hawaii | Idaho |
|---|---|---|---|---|---|---|---|
| Number of banks | 19 | 6 | 16 | 230 | 64 | 3 | 6 |
| **Assets** | | | | | | | |
| Cash and due from depository institutions | $ 897 | $ 9 | $ 878 | $ 2,973 | $1,904 | $ 20 | $ 371 |
| U.S. Treasury securities | 198 | 10 | 462 | 2,352 | 482 | 18 | 262 |
| Obligations of other U.S. Government agencies and corporations | 128 | 2 | 193 | 1,236 | 169 | 16 | 75 |
| Obligations of states and political subdivisions | 349 | 3 | 836 | 2,333 | 738 | 1 | 344 |
| All other securities | 44 | — | 30 | 175 | 70 | — | 8 |
| Total securities | 719 | 15 | 1,521 | 6,096 | 1,459 | 35 | 689 |
| Federal funds sold and securities purchased under agreements to resell | 171 | 7 | 390 | 1,133 | 626 | 1 | 167 |
| Total loans (excluding unearned income) | 2,226 | 50 | 3,458 | 10,240 | 4,923 | 94 | 2,065 |
| Allowance for possible loan losses | 26 | — | 36 | 121 | 75 | 1 | 20 |
| Net Loans | 2,200 | 50 | 3,421 | 10,119 | 4,847 | 93 | 2,045 |
| Lease financing receivables | 12 | 0 | 28 | 55 | 63 | 10 | 36 |
| Bank premises, furniture and fixtures, and other assets representing bank premises | 71 | 1 | 77 | 464 | 223 | 3 | 70 |
| Real estate owned other than bank premises | 5 | — | 5 | 52 | 110 | 1 | 3 |
| All other assets | 58 | 1 | 166 | 466 | 526 | 1 | 53 |
| *Total assets* | 4,133 | 84 | 6,487 | 21,358 | 9,757 | 165 | 3,435 |
| **Liabilities** | | | | | | | |
| Demand deposits of individuals, partnerships and corporations | 1,069 | 19 | 2,013 | 6,554 | 3,156 | 50 | 754 |
| Time and savings deposits of individuals, partnerships and corporations | 1,626 | 51 | 2,455 | 9,216 | 2,950 | 69 | 1,812 |
| Deposits of U.S. government | 8 | — | 109 | 55 | 34 | — | 6 |
| Deposits of states and political subdivisions | 152 | 4 | 32 | 1,065 | 849 | 26 | 206 |
| All other deposits | 344 | — | 357 | 664 | 464 | 2 | 11 |
| Certified and officers' checks | 48 | 1 | 75 | 242 | 55 | 3 | 34 |
| Total deposits in domestic offices | 3,248 | 75 | 5,041 | 17,796 | 7,508 | 151 | 2,822 |
| Demand deposits | 1,531 | 19 | 2,453 | 7,776 | 4,068 | 57 | 872 |
| Time and savings deposits | 1,717 | 55 | 2,588 | 10,020 | 3,440 | 94 | 1,950 |
| Federal funds purchased and securities sold under agreements to repurchase | 337 | 0 | 593 | 1,470 | 1,010 | 0 | 248 |
| Interest-bearing demand notes issued to U.S. Treasury | 160 | — | 128 | 127 | 52 | 1 | 49 |
| Other liabilities for borrowed money | 8 | 1 | 94 | 57 | 122 | 0 | 2 |
| Mortgage indebtedness and liability for capitalized leases | 10 | — | 12 | 16 | 27 | 0 | 4 |
| All other liabilities | 126 | 1 | 133 | 262 | 302 | 2 | 79 |
| *Total liabilities* | 3,888 | 76 | 6,000 | 19,727 | 9,021 | 153 | 3,203 |
| Subordinated notes and debentures | 15 | — | 12 | 31 | 57 | 2 | 22 |
| **Equity Capital** | | | | | | | |
| Preferred stock | 0 | 0 | — | 1 | 0 | 0 | 0 |
| Common stock | 49 | 2 | 69 | 364 | 160 | 5 | 38 |
| Surplus | 109 | 3 | 138 | 607 | 227 | 3 | 146 |
| Undivided profits and reserve for contingencies and other capital reserves | 72 | 3 | 268 | 628 | 293 | 2 | 25 |
| *Total equity capital* | 230 | 8 | 475 | 1,599 | 679 | 10 | 209 |
| *Total liabilities, subordinated notes and debentures and equity capital* | 4,133 | 84 | 6,487 | 21,358 | 9,757 | 165 | 3,435 |

See note at end of table.

## Table B-18—Continued

### Domestic assets, liabilities and capital accounts of national banks, June 30, 1979
(Dollar amounts in millions)

| | *Illinois* | *Indiana* | *Iowa* | *Kansas* | *Kentucky* | *Louisiana* | *Maine* |
|---|---|---|---|---|---|---|---|
| Number of banks | 416 | 120 | 99 | 151 | 79 | 54 | 14 |
| **Assets** | | | | | | | |
| Cash and due from depository institutions | $ 6,630 | $ 1,745 | $ 746 | $ 800 | $ 764 | $1,225 | $ 123 |
| U.S. Treasury securities | 3,359 | 1,254 | 324 | 519 | 512 | 1,278 | 52 |
| Obligations of other U.S. Government agencies and corporations | 2,174 | 681 | 219 | 318 | 204 | 317 | 74 |
| Obligations of states and political subdivisions | 6,088 | 1,646 | 661 | 705 | 710 | 1,015 | 136 |
| All other securities | 827 | 203 | 23 | 29 | 26 | 21 | 3 |
| Total securities | 12,448 | 3,784 | 1,227 | 1,571 | 1,452 | 2,631 | 265 |
| Federal funds sold and securities purchased under agreements to resell | 2,292 | 664 | 324 | 431 | 328 | 601 | 36 |
| Total loans (excluding unearned income) | 37,708 | 8,672 | 3,383 | 3,288 | 3,968 | 5,131 | 698 |
| Allowance for possible loan losses | 438 | 90 | 29 | 33 | 38 | 58 | 6 |
| Net Loans | 37,270 | 8,581 | 3,354 | 3,255 | 3,930 | 5,073 | 692 |
| Lease financing receivables | 169 | 150 | 6 | 4 | 106 | 30 | 0 |
| Bank premises, furniture and fixtures, and other assets representing bank premises | 777 | 265 | 93 | 132 | 132 | 191 | 27 |
| Real estate owned other than bank premises | 217 | 40 | 10 | 4 | 4 | 15 | 1 |
| All other assets | 2,791 | 823 | 106 | 90 | 83 | 199 | 16 |
| *Total assets* | 62,595 | 16,053 | 5,867 | 6,286 | 6,798 | 9,966 | 1,159 |
| **Liabilities** | | | | | | | |
| Demand deposits of individuals, partnerships and corporations | 11,096 | 3,225 | 1,296 | 1,494 | 1,691 | 2,685 | 256 |
| Time and savings dposits of individuals, partnerships and corporations | 22,819 | 7,206 | 2,927 | 2,563 | 3,107 | 3,688 | 610 |
| Deposits of U.S. government | 105 | 28 | 7 | 11 | 14 | 38 | 3 |
| Deposits of states and political subdivisions | 2,670 | 1,692 | 288 | 844 | 441 | 1,373 | 84 |
| All other deposits | 3,610 | 425 | 283 | 257 | 310 | 349 | 7 |
| Certified and officers' checks | 526 | 138 | 29 | 38 | 44 | 77 | 7 |
| Total deposits in domestic offices | 40,826 | 12,715 | 4,829 | 5,206 | 5,607 | 8,210 | 967 |
| Demand deposits | 13,789 | 4,270 | 1,649 | 1,934 | 2,108 | 3,337 | 294 |
| Time and savings deposits | 27,038 | 8,445 | 3,180 | 3,272 | 3,499 | 4,872 | 673 |
| Federal funds purchased and securities sold under agreements to repurchase | 10,411 | 1,453 | 442 | 393 | 364 | 721 | 71 |
| Interest-bearing demand notes issued to U.S. Treasury | 808 | 255 | 36 | 54 | 97 | 44 | 17 |
| Other liabilities for borrowed money | 1,270 | 81 | 36 | 34 | 51 | 24 | 8 |
| Mortgage indebtedness and liability for capitalized leases | 36 | 26 | 9 | 2 | 20 | 31 | 5 |
| All other liabilities | 4,799 | 357 | 90 | 70 | 159 | 150 | 10 |
| *Total liabilities* | 58,149 | 14,889 | 5,442 | 5,760 | 6,298 | 9,179 | 1,078 |
| Subordinated notes and debentures | 111 | 33 | 32 | 25 | 13 | 32 | 3 |
| **Equity Capital** | | | | | | | |
| Preferred stock | 7 | — | 0 | 0 | 0 | 1 | 0 |
| Common stock | 809 | 209 | 65 | 98 | 78 | 124 | 20 |
| Surplus | 1,763 | 394 | 97 | 159 | 141 | 255 | 23 |
| Undivided profits and reserve for contingencies and other capital reserves | 1,755 | 527 | 231 | 243 | 268 | 375 | 37 |
| *Total equity capital* | 4,334 | 1,131 | 393 | 501 | 487 | 755 | 79 |
| *Total liabilities, subordinated notes and debentures and equity capital* | 62,595 | 16,053 | 5,867 | 6,286 | 6,798 | 9,966 | 1,159 |

See note at end of table.

## Table B-18—Continued

### Domestic assets, liabilities and capital accounts of national banks, June 30, 1979
(Dollar amounts in millions)

| | *Maryland* | *Massachusetts* | *Michigan* | *Minnesota* | *Mississippi* | *Missouri* | *Montana* |
|---|---|---|---|---|---|---|---|
| Number of banks | 32 | 73 | 126 | 205 | 37 | 99 | 56 |
| **Assets** | | | | | | | |
| Cash and due from depository institutions | $ 853 | $ 2,174 | $ 3,382 | $ 2,041 | $ 678 | $ 1,971 | $ 249 |
| U.S. Treasury securities | 325 | 1,391 | 1,665 | 774 | 375 | 541 | 138 |
| Obligations of other U.S. Government agencies and corporations | 72 | 291 | 527 | 624 | 146 | 405 | 60 |
| Obligations of states and political subdivisions | 665 | 731 | 2,859 | 1,813 | 602 | 1,197 | 334 |
| All other securities | 18 | 270 | 162 | 331 | 28 | 96 | 11 |
| Total securities | 1,080 | 2,683 | 5,213 | 3,542 | 1,151 | 2,239 | 543 |
| Federal funds sold and securities purchased under agreements to resell | 181 | 857 | 1,428 | 563 | 155 | 1,487 | 24 |
| Total loans (excluding unearned income) | 3,695 | 7,600 | 14,991 | 9,638 | 2,588 | 6,314 | 1,630 |
| Allowance for possible loan losses | 37 | 111 | 144 | 92 | 28 | 72 | 15 |
| Net Loans | 3,658 | 7,488 | 14,847 | 9,546 | 2,560 | 6,242 | 1,615 |
| Lease financing receivables | 51 | 171 | 122 | 184 | 3 | 77 | 6 |
| Bank premises, furniture and fixtures, and other assets representing bank premises | 107 | 257 | 417 | 205 | 102 | 168 | 47 |
| Real estate owned other than bank premises | 9 | 14 | 28 | 35 | 5 | 13 | 2 |
| All other assets | 229 | 1,244 | 998 | 523 | 69 | 260 | 36 |
| *Total assets* | 6,167 | 14,886 | 26,435 | 16,640 | 4,721 | 12,457 | 2,522 |
| **Liabilities** | | | | | | | |
| Demand deposits of individuals, partnerships and corporations | 1,575 | 3,646 | 5,327 | 3,141 | 1,059 | 2,726 | 534 |
| Time and savings deposits of individuals, partnerships and corporations | 2,794 | 4,976 | 12,592 | 7,039 | 1,989 | 3,789 | 1,366 |
| Deposits of U.S. government | 11 | 42 | 45 | 25 | 6 | 50 | 3 |
| Deposits of states and political subdivisions | 221 | 742 | 2,243 | 847 | 690 | 678 | 201 |
| All other deposits | 116 | 857 | 574 | 709 | 193 | 949 | 31 |
| Certified and officers' checks | 51 | 127 | 571 | 110 | 13 | 72 | 20 |
| Total deposits in domestic offices | 4,768 | 10,389 | 21,352 | 11,871 | 3,949 | 8,264 | 2,156 |
| Demand deposits | 1,839 | 4,847 | 6,811 | 4,062 | 1,428 | 3,740 | 633 |
| Time and savings deposits | 2,929 | 5,542 | 14,541 | 7,809 | 2,521 | 4,524 | 1,523 |
| Federal funds purchased and securities sold under agreements to repurchase | 567 | 2,064 | 1,728 | 2,104 | 330 | 2,234 | 111 |
| Interest-bearing demand notes issued to U.S. Treasury | 124 | 311 | 640 | 391 | 41 | 274 | 8 |
| Other liabilities for borrowed money | 12 | 59 | 134 | 247 | 4 | 275 | 8 |
| Mortgage indebtedness and liability for capitalized leases | 22 | 25 | 43 | 8 | 18 | 36 | 5 |
| All other liabilities | 258 | 926 | 696 | 771 | 56 | 526 | 38 |
| *Total liabilities* | 5,751 | 13,774 | 24,592 | 15,392 | 4,399 | 11,609 | 2,325 |
| Subordinated notes and debentures | 4 | 36 | 114 | 164 | 16 | 31 | 19 |
| **Equity Capital** | | | | | | | |
| Preferred stock | 0 | 0 | 0 | 0 | 0 | 2 | — |
| Common stock | 61 | 170 | 349 | 303 | 47 | 145 | 67 |
| Surplus | 95 | 421 | 579 | 332 | 236 | 232 | 67 |
| Undivided profits and reserve for contingencies and other capital reserves | 257 | 486 | 801 | 449 | 24 | 438 | 44 |
| *Total equity capital* | 413 | 1,077 | 1,729 | 1,083 | 307 | 817 | 177 |
| *Total liabilities, subordinated notes and debentures and equity capital* | 6,167 | 14,886 | 26,435 | 16,640 | 4,721 | 12,457 | 2,522 |

See note at end of table.

## Table B-18—Continued

### Domestic assets, liabilities and capital accounts of national banks, June 30, 1979
(Dollar amounts in millions)

| | Nebraska | Nevada | New Hampshire | New Jersey | New Mexico | New York | North Carolina |
|---|---|---|---|---|---|---|---|
| Number of banks | 117 | 4 | 39 | 95 | 40 | 117 | 27 |
| **Assets** | | | | | | | |
| Cash and due from depository institutions | $ 834 | $ 294 | $ 198 | $ 2,263 | $ 346 | $17,166 | $1,875 |
| U.S. Treasury securities | 288 | 154 | 129 | 1,487 | 241 | 3,680 | 711 |
| Obligations of other U.S. Government agencies and corporations | 228 | 116 | 19 | 1,041 | 123 | 1,237 | 536 |
| Obligations of states and political subdivisions | 622 | 218 | 210 | 2,875 | 362 | 3,894 | 1,344 |
| All other securities | 53 | 2 | 4 | 320 | 7 | 3,363 | 317 |
| Total securities | 1,191 | 490 | 362 | 5,723 | 733 | 12,174 | 2,908 |
| Federal funds sold and securities purchased under agreements to resell | 253 | 22 | 36 | 453 | 131 | 2,878 | 636 |
| Total loans (excluding unearned income) | 3,262 | 1,257 | 1,018 | 11,063 | 1,696 | 44,399 | 7,007 |
| Allowance for possible loan losses | 35 | 13 | 10 | 118 | 19 | 853 | 83 |
| Net Loans | 3,227 | 1,245 | 1,008 | 10,945 | 1,678 | 43,546 | 6,924 |
| Lease financing receivables | 42 | 54 | — | 125 | 2 | 618 | 109 |
| Bank premises, furniture and fixtures, and other assets representing bank premises | 92 | 52 | 33 | 349 | 85 | 1,067 | 253 |
| Real estate owned other than bank premises | 2 | 1 | 1 | 57 | 4 | 229 | 16 |
| All other assets | 93 | 25 | 17 | 325 | 43 | 12,567 | 636 |
| *Total assets* | 5,734 | 2,184 | 1,655 | 20,239 | 3,023 | 90,246 | 13,357 |
| **Liabilities** | | | | | | | |
| Demand deposits of individuals, partnerships and corporations | 1,317 | 721 | 404 | 5,071 | 825 | 15,567 | 3,326 |
| Time and savings deposits of individuals, partnerships and corporations | 2,604 | 944 | 827 | 10,142 | 1,222 | 23,340 | 5,306 |
| Deposits of U.S. government | 5 | 5 | 4 | 49 | 12 | 140 | 23 |
| Deposits of states and political subdivisions | 382 | 157 | 143 | 1,302 | 504 | 1,925 | 637 |
| All other deposits | 357 | 2 | 27 | 236 | 40 | 9,670 | 352 |
| Certified and officers' checks | 32 | 26 | 15 | 240 | 30 | 1,006 | 91 |
| Total deposits in domestic offices | 4,696 | 1,855 | 1,419 | 17,041 | 2,634 | 51,647 | 9,735 |
| Demand deposits | 1,777 | 800 | 487 | 6,018 | 978 | 24,946 | 3,922 |
| Time and savings deposits | 2,918 | 1,055 | 932 | 11,023 | 1,656 | 26,702 | 5,813 |
| Federal funds purchased and securities sold under agreements to repurchase | 397 | 104 | 55 | 1,133 | 83 | 14,618 | 1,732 |
| Interest-bearing demand notes issued to U.S. Treasury | 63 | 25 | 23 | 256 | 25 | 542 | 189 |
| Other liabilities for borrowed money | 33 | 3 | 11 | 40 | 5 | 2,720 | 76 |
| Mortgage indebtedness and liability for capitalized leases | 12 | 8 | 4 | 7 | 17 | 76 | 77 |
| All other liabilities | 78 | 23 | 18 | 351 | 36 | 12,130 | 557 |
| *Total liabilities* | 5,280 | 2,017 | 1,530 | 18,829 | 2,800 | 81,733 | 12,366 |
| Subordinated notes and debentures | 28 | 0 | 2 | 59 | 20 | 349 | 132 |
| **Equity Capital** | | | | | | | |
| Preferred stock | — | 0 | 0 | 2 | 2 | 1 | 0 |
| Common stock | 81 | 28 | 16 | 289 | 59 | 1,971 | 170 |
| Surplus | 106 | 44 | 47 | 459 | 84 | 2,529 | 258 |
| Undivided profits and reserve for contingencies and other capital reserves | 239 | 96 | 60 | 600 | 59 | 3,662 | 430 |
| *Total equity capital* | 427 | 168 | 123 | 1,350 | 204 | 8,164 | 859 |
| *Total liabilities, subordinated notes and debentures and equity capital* | 5,734 | 2,184 | 1,655 | 20,239 | 3,023 | 90,246 | 13,357 |

See note at end of table.

## Table B-18—Continued

### Domestic assets, liabilities and capital accounts of national banks, June 30, 1979
(Dollar amounts in millions)

| | *North Dakota* | *Ohio* | *Oklahoma* | *Oregon* | *Pennsylvania* | *Rhode Island* | *South Carolina* |
|---|---|---|---|---|---|---|---|
| Number of banks | 42 | 187 | 188 | 6 | 223 | 5 | 18 |
| **Assets** | | | | | | | |
| Cash and due from depository institutions | $ 188 | $ 3,598 | $ 1,550 | $1,182 | $ 5,251 | $ 341 | $ 527 |
| U.S. Treasury securities | 114 | 1,980 | 1,071 | 274 | 2,951 | 324 | 180 |
| Obligations of other U.S. Government agencies and corporations | 56 | 1,078 | 98 | 53 | 2,494 | 162 | 109 |
| Obligations of states and political subdivisions | 258 | 4,236 | 1,693 | 1,009 | 4,430 | 446 | 401 |
| All other securities | 7 | 274 | 104 | 39 | 1,756 | 69 | 60 |
| Total securities | 435 | 7,568 | 2,966 | 1,375 | 11,631 | 1,001 | 750 |
| Federal funds sold and securities purchased under agreements to resell | 11 | 1,231 | 610 | 152 | 2,320 | 142 | 359 |
| Total loans (excluding unearned income) | 1,333 | 16,066 | 6,200 | 5,095 | 27,149 | 2,290 | 1,910 |
| Allowance for possible loan losses | 11 | 181 | 71 | 45 | 316 | 21 | 22 |
| Net Loans | 1,322 | 15,886 | 6,129 | 5,049 | 26,833 | 2,269 | 1,888 |
| Lease financing receivables | 2 | 202 | 30 | 37 | 294 | 101 | 16 |
| Bank premises, furniture and fixtures, and other assets representing bank premises | 40 | 524 | 182 | 169 | 582 | 68 | 90 |
| Real estate owned other than bank premises | 2 | 15 | 9 | 9 | 66 | 8 | 5 |
| All other assets | 31 | 1,049 | 183 | 671 | 3,665 | 185 | 45 |
| *Total assets* | 2,031 | 30,073 | 11,658 | 8,644 | 50,642 | 4,114 | 3,678 |
| **Liabilities** | | | | | | | |
| Demand deposits of individuals, partnerships and corporations | 457 | 6,690 | 2,893 | 1,955 | 9,293 | 625 | 1,413 |
| Time and savings deposits of individuals, partnerships and corporations | 1,130 | 14,245 | 4,811 | 3,846 | 21,680 | 2,131 | 1,187 |
| Deposits of U.S. government | 3 | 64 | 41 | 12 | 57 | 5 | 10 |
| Deposits of states and political subdivisions | 119 | 1,882 | 1,299 | 578 | 2,299 | 157 | 221 |
| All other deposits | 15 | 379 | 443 | 105 | 1,359 | 20 | 49 |
| Certified and officers' checks | 12 | 284 | 112 | 69 | 300 | 26 | 27 |
| Total deposits in domestic offices | 1,737 | 23,544 | 9,600 | 6,565 | 34,988 | 2,964 | 2,907 |
| Demand deposits | 513 | 7,918 | 3,551 | 2,296 | 11,145 | 735 | 1,637 |
| Time and savings deposits | 1,224 | 15,626 | 6,049 | 4,269 | 23,843 | 2,229 | 1,270 |
| Federal funds purchased and securities sold under agreements to repurchase | 71 | 2,806 | 685 | 793 | 7,111 | 505 | 308 |
| Interest-bearing demand notes issued to U.S. Treasury | 6 | 555 | 144 | 156 | 533 | 131 | 87 |
| Other liabilities for borrowed money | 27 | 40 | 50 | 52 | 760 | 17 | 33 |
| Mortgage indebtedness and liability for capitalized leases | 4 | 48 | 3 | 13 | 61 | 27 | 7 |
| All other liabilities | 27 | 762 | 250 | 447 | 3,657 | 219 | 52 |
| *Total liabilities* | 1,873 | 27,755 | 10,732 | 8,026 | 47,110 | 3,862 | 3,393 |
| Subordinated notes and debentures | 16 | 41 | 70 | 141 | 250 | 18 | 13 |
| **Equity Capital** | | | | | | | |
| Preferred stock | 0 | 0 | — | 0 | 6 | 0 | 0 |
| Common stock | 36 | 471 | 155 | 92 | 526 | 30 | 42 |
| Surplus | 42 | 880 | 203 | 149 | 1,234 | 88 | 81 |
| Undivided profits and reserve for contingencies and other capital reserves | 65 | 926 | 498 | 235 | 1,516 | 115 | 149 |
| *Total equity capital* | 143 | 2,277 | 857 | 477 | 3,282 | 234 | 273 |
| *Total liabilities, subordinated notes and debentures and equity capital* | 2,031 | 30,074 | 11,658 | 8,644 | 50,642 | 4,114 | 3,678 |

See note at end of table.

Table B-18—Continued

## Domestic assets, liabilities and capital accounts of national banks, June 30, 1979

(Dollar amounts in millions)

| | *South Dakota* | *Tennessee* | *Texas* | *Utah* | *Vermont* | *Virginia* | *Washington* |
|---|---|---|---|---|---|---|---|
| Number of banks | 32 | 70 | 611 | 10 | 12 | 82 | 20 |
| **Assets** | | | | | | | |
| Cash and due from depository institutions | $ 227 | $1,224 | $ 8,013 | $ 368 | $ 38 | $ 1,406 | $ 2,345 |
| U.S. Treasury securities | 108 | 837 | 3,892 | 165 | 31 | 555 | 366 |
| Obligations of other U.S. Government agencies and corporations | 65 | 407 | 1,565 | 68 | 7 | 403 | 207 |
| Obligations of states and political subdivisions | 314 | 943 | 7,398 | 229 | 57 | 1,514 | 1,107 |
| All other securities | 7 | 54 | 224 | 12 | 6 | 37 | 71 |
| Total securities | 494 | 2,241 | 13,079 | 474 | 101 | 2,509 | 1,751 |
| Federal funds sold and securities purchased under agreements to resell | 18 | 375 | 2,867 | 139 | 5 | 517 | 658 |
| Total loans (excluding unearned income) | 1,756 | 5,480 | 31,965 | 1,890 | 344 | 6,994 | 10,399 |
| Allowance for possible loan losses | 15 | 71 | 350 | 18 | 3 | 73 | 104 |
| Net Loans | 1,741 | 5,409 | 31,615 | 1,872 | 341 | 6,921 | 10,296 |
| Lease financing receivables | 2 | 51 | 175 | 44 | 0 | 30 | 500 |
| Bank premises, furniture and fixtures, and other assets representing bank premises | 50 | 212 | 1,015 | 42 | 10 | 315 | 340 |
| Real estate owned other than bank premises | 2 | 28 | 69 | 3 | — | 17 | 18 |
| All other assets | 43 | 265 | 1,870 | 50 | 5 | 188 | 421 |
| *Total assets* | 2,576 | 9,805 | 58,703 | 2,992 | 501 | 11,904 | 16,327 |
| **Liabilities** | | | | | | | |
| Demand deposits of individuals, partnerships and corporations | 499 | 2,333 | 14,811 | 691 | 88 | 2,922 | 3,966 |
| Time and savings deposits of individuals, partnerships and corporations | 1,521 | 4,445 | 20,649 | 1,388 | 325 | 5,833 | 6,819 |
| Deposits of U.S. government | 8 | 24 | 154 | 6 | 1 | 27 | 30 |
| Deposits of states and political subdivisions | 206 | 793 | 6,091 | 319 | 28 | 828 | 1,515 |
| All other deposits | 23 | 416 | 2,999 | 28 | — | 101 | 368 |
| Certified and officers' checks | 16 | 48 | 416 | 26 | 5 | 82 | 149 |
| Total deposits in domestic offices | 2,273 | 8,060 | 45,121 | 2,458 | 447 | 9,793 | 12,847 |
| Demand deposits | 570 | 2,909 | 18,538 | 795 | 101 | 3,350 | 4,543 |
| Time and savings deposits | 1,703 | 5,151 | 26,583 | 1,663 | 346 | 6,443 | 8,304 |
| Federal funds purchased and securities sold under agreements to repurchase | 40 | 780 | 5,508 | 204 | 10 | 654 | 1,157 |
| Interest-bearing demand notes issued to U.S. Treasury | 15 | 44 | 684 | 44 | 2 | 117 | 385 |
| Other liabilities for borrowed money | 7 | 17 | 288 | 10 | 1 | 118 | 126 |
| Mortgage indebtedness and liability for capitalized leases | 5 | 15 | 110 | — | — | 71 | 27 |
| All other liabilities | 36 | 179 | 2,503 | 72 | 4 | 266 | 773 |
| *Total liabilities* | 2,375 | 9,094 | 54,215 | 2,787 | 465 | 11,020 | 15,315 |
| Subordinated notes and debentures | 22 | 31 | 447 | 46 | 3 | 60 | 109 |
| **Equity Capital** | | | | | | | |
| Preferred stock | 0 | 0 | 0 | 0 | 0 | 0 | 6 |
| Common stock | 46 | 144 | 854 | 35 | 7 | 160 | 203 |
| Surplus | 51 | 224 | 1,057 | 64 | 9 | 260 | 246 |
| Undivided profits and reserve for contingencies and other capital reserves | 82 | 312 | 2,130 | 60 | 17 | 403 | 447 |
| *Total equity capital* | 179 | 680 | 4,041 | 159 | 33 | 823 | 902 |
| *Total liabilities, subordinated notes and debentures and equity capital* | 2,576 | 9,805 | 58,703 | 2,992 | 501 | 11,904 | 16,327 |

See note at end of table.

## Table B-18—Continued

### Domestic assets, liabilities and capital accounts of national banks, June 30, 1979
(Dollar amounts in millions)

| | *West Virginia* | *Wisconsin* | *Wyoming* | *District of Columbia nonnational** |
|---|---|---|---|---|
| Number of banks | 107 | 128 | 46 | 1 |
| **Assets** | | | | |
| Cash and due from depository institutions | $ 510 | $ 985 | $ 228 | $ 5 |
| U.S. Treasury securities | 402 | 725 | 134 | 13 |
| Obligations of other U.S. Government agencies and corporations | 401 | 289 | 78 | 6 |
| Obligations of states and political subdivisions | 727 | 1,014 | 255 | 3 |
| All other securities | 18 | 91 | 5 | 2 |
| Total securities | 1,548 | 2,119 | 472 | 24 |
| Federal funds sold and securities purchased under agreements to resell | 332 | 310 | 55 | 4 |
| Total loans (excluding unearned income) | 2,663 | 6,062 | 1,087 | 26 |
| Allowance for possible loan losses | 28 | 58 | 11 | — |
| Net Loans | 2,635 | 6,004 | 1,076 | 26 |
| Lease financing receivables | 10 | 43 | 2 | 0 |
| Bank premises, furniture and fixtures, and other assets representing bank premises | 124 | 221 | 39 | 1 |
| Real estate owned other than bank premises | 2 | 56 | 2 | 0 |
| All other assets | 51 | 198 | 31 | 1 |
| *Total assets* | 5,214 | 9,935 | 1,905 | 60 |
| **Liabilities** | | | | |
| Demand deposits of individuals, partnerships and corporations | 1,066 | 1,969 | 484 | 19 |
| Time and savings deposits of individuals, partnerships and corporations | 2,843 | 4,584 | 862 | 31 |
| Deposits of U.S. government | 10 | 16 | 15 | 1 |
| Deposits of states and political subdivisions | 260 | 758 | 239 | — |
| All other deposits | 93 | 290 | 38 | — |
| Certified and officers' checks | 41 | 77 | 15 | 1 |
| Total deposits in domestic offices | 4,314 | 7,694 | 1,654 | 52 |
| Demand deposits | 1,289 | 2,400 | 610 | 20 |
| Time and savings deposits | 3,025 | 5,294 | 1,044 | 31 |
| Federal funds purchased and securities sold under agreements to repurchase | 352 | 944 | 45 | 4 |
| Interest-bearing demand notes issued to U.S. Treasury | 16 | 225 | 3 | 0 |
| Other liabilities for borrowed money | 18 | 41 | 23 | 0 |
| Mortgage indebtedness and liability for capitalized leases | 7 | 6 | 4 | 0 |
| All other liabilities | 52 | 332 | 21 | — |
| *Total liabilities* | 4,759 | 9,242 | 1,749 | 56 |
| Subordinated notes and debentures | 7 | 55 | 9 | — |
| **Equity Capital** | | | | |
| Preferred stock | 0 | 0 | 0 | 0 |
| Common stock | 73 | 148 | 11 | — |
| Surplus | 154 | 243 | 44 | 1 |
| Undivided profits and reserve for contingencies and other capital reserves | 220 | 247 | 92 | 2 |
| *Total equity capital* | 448 | 638 | 147 | 4 |
| *Total liabilities, subordinated notes and debentures and equity capital* | 5,214 | 9,935 | 1,905 | 60 |

* Nonnational banks in the District of Columbia are supervised by the Comptroller of the Currency.
NOTE: Dashes indicate amounts of less than $500,000. Figures may not add to totals because of rounding.

## Table B-19

### Domestic assets, liabilities and capital accounts of national banks, December 31, 1979
(Dollar amounts in millions)

| | Total United States | Alabama | Alaska | Arizona | Arkansas | California | Colorado |
|---|---|---|---|---|---|---|---|
| Number of banks | 4,448 | 99 | 6 | 3 | 68 | 42 | 139 |
| **Assets** | | | | | | | |
| Cash and due from depository institutions | $106,731 | $1,169 | $ 138 | $ 986 | $ 676 | $ 15,370 | $ 2,046 |
| U.S. Treasury securities | 44,126 | 390 | 84 | 433 | 305 | 4,506 | 506 |
| Obligations of other U.S. Government agencies and corporations | 24,702 | 398 | 129 | 202 | 223 | 3,698 | 171 |
| Obligations of states and political subdivisions | 70,796 | 1,580 | 142 | 727 | 623 | 4,682 | 983 |
| All other securities | 9,485 | 61 | 3 | 21 | 42 | 686 | 17 |
| Total securities | 149,109 | 2,429 | 358 | 1,383 | 1,193 | 13,572 | 1,678 |
| Federal funds sold and securities purchased under agreements to resell | 36,119 | 451 | 76 | 456 | 534 | 2,658 | 419 |
| Total loans (excluding unearned income) | 442,986 | 5,347 | 759 | 5,327 | 2,818 | 73,673 | 5,705 |
| Allowance for possible loan losses | 5,296 | 67 | 8 | 61 | 28 | 850 | 61 |
| Net Loans | 437,690 | 5,281 | 751 | 5,265 | 2,790 | 72,822 | 5,644 |
| Lease financing receivables | 6,780 | 32 | 10 | 51 | 12 | 2,512 | 63 |
| Bank premises, furniture and fixtures, and other assets representing bank premises | 12,923 | 195 | 60 | 195 | 114 | 1,927 | 191 |
| Real estate owned other than bank premises | 1,193 | 23 | 6 | 2 | 6 | 65 | 23 |
| All other assets | 41,711 | 212 | 24 | 132 | 90 | 6,399 | 188 |
| *Total assets* | 792,256 | 9,792 | 1,424 | 8,470 | 5,415 | 115,325 | 10,253 |
| **Liabilities** | | | | | | | |
| Demand deposits of individuals, partnerships and corporations | 187,201 | 2,512 | 454 | 2,285 | 1,470 | 25,571 | 3,062 |
| Time and savings deposits of individuals, partnerships and corporations | 317,654 | 4,584 | 436 | 4,373 | 2,303 | 50,780 | 3,763 |
| Deposits of U.S. government | 1,902 | 27 | 8 | 23 | 6 | 262 | 33 |
| Deposits of states and political subdivisions | 43,484 | 773 | 185 | 303 | 432 | 3,376 | 684 |
| All other deposits | 37,268 | 296 | 4 | 76 | 230 | 3,830 | 843 |
| Certified and officers' checks | 7,461 | 65 | 15 | 115 | 26 | 1,432 | 106 |
| Total deposits in domestic offices | 594,970 | 8,256 | 1,103 | 7,176 | 4,468 | 85,250 | 8,490 |
| Demand deposits | 234,937 | 3,058 | 516 | 2,611 | 1,831 | 30,167 | 4,011 |
| Time and savings deposits | 360,033 | 5,198 | 587 | 4,565 | 2,637 | 55,083 | 4,479 |
| Federal funds purchased and securities sold under agreements to repurchase | 79,152 | 436 | 127 | 440 | 388 | 9,810 | 699 |
| Interest-bearing demand notes issued to U.S. Treasury | 7,687 | 51 | 15 | 66 | 37 | 894 | 89 |
| Other liabilities for borrowed money | 9,439 | 79 | 11 | 194 | 24 | 2,590 | 64 |
| Mortgage indebtedness and liability for capitalized leases | 1,234 | 6 | 10 | 12 | 12 | 211 | 33 |
| All other liabilities | 42,444 | 181 | 24 | 110 | 69 | 9,774 | 172 |
| *Total liabilities* | 734,926 | 9,009 | 1,290 | 7,998 | 4,997 | 108,529 | 9,548 |
| Subordinated notes and debentures | 3,034 | 50 | 1 | 47 | 26 | 156 | 41 |
| **Equity Capital** | | | | | | | |
| Preferred stock | 31 | 0 | 0 | 0 | 0 | 0 | 0 |
| Common stock | 11,403 | 125 | 37 | 44 | 81 | 1,953 | 118 |
| Surplus | 17,846 | 287 | 43 | 126 | 104 | 2,180 | 196 |
| Undivided profits and reserve for contingencies and other capital reserves | 25,017 | 322 | 54 | 255 | 208 | 2,506 | 350 |
| *Total equity capital* | 54,296 | 734 | 134 | 425 | 392 | 6,639 | 664 |
| *Total liabilities, subordinated notes and debentures and equity capital* | 792,256 | 9,792 | 1,424 | 8,470 | 5,415 | 115,325 | 10,253 |

See note at end of table.

## Table B-19—Continued

### Domestic assets, liabilities and capital accounts of national banks, December 31, 1979
(Dollar amounts in millions)

| | Connecticut | Delaware | District of Columbia | Florida | Georgia | Hawaii | Idaho |
|---|---|---|---|---|---|---|---|
| Number of banks | 19 | 6 | 16 | 221 | 63 | 3 | 7 |
| **Assets** | | | | | | | |
| Cash and due from depository institutions | $ 868 | $10 | $1,018 | $ 3,805 | $ 1,972 | $ 27 | $ 454 |
| U.S. Treasury securities | 193 | 11 | 446 | 2,163 | 494 | 13 | 295 |
| Obligations of other U.S. Government agencies and corporations | 111 | 2 | 196 | 1,178 | 222 | 20 | 113 |
| Obligations of states and political subdivisions | 386 | 3 | 843 | 2,449 | 748 | 1 | 322 |
| All other securities | 31 | — | 32 | 170 | 72 | — | 19 |
| Total securities | 721 | 16 | 1,517 | 5,960 | 1,536 | 34 | 749 |
| Federal funds sold and securities purchased under agreements to resell | 103 | 10 | 155 | 1,736 | 830 | 3 | 165 |
| Total loans (excluding unearned income) | 2,406 | 51 | 3,774 | 10,354 | 5,081 | 103 | 2,102 |
| Allowance for possible loan losses | 27 | — | 41 | 123 | 77 | 1 | 20 |
| Net Loans | 2,379 | 51 | 3,733 | 10,231 | 5,004 | 102 | 2,082 |
| Lease financing receivables | 13 | 0 | 27 | 52 | 69 | 11 | 39 |
| Bank premises, furniture and fixtures, and other assets representing bank premises | 73 | 2 | 90 | 484 | 225 | 3 | 73 |
| Real estate owned other than bank premises | 6 | — | 6 | 38 | 79 | 1 | 2 |
| All other assets | 149 | 1 | 186 | 524 | 519 | 2 | 58 |
| *Total assets* | 4,311 | 90 | 6,732 | 22,830 | 10,235 | 183 | 3,622 |
| **Liabilities** | | | | | | | |
| Demand deposits of individuals, partnerships and corporations | 1,315 | 22 | 2,148 | 7,247 | 3,492 | 60 | 831 |
| Time and savings deposits of individuals, partnerships and corporations | 1,722 | 54 | 2,504 | 9,453 | 3,052 | 75 | 1,943 |
| Deposits of U.S. government | 19 | — | 142 | 51 | 37 | — | 6 |
| Deposits of states and political subdivisions | 233 | 2 | 53 | 1,081 | 715 | 26 | 221 |
| All other deposits | 214 | — | 316 | 881 | 473 | 3 | 9 |
| Certified and officers' checks | 49 | 1 | 84 | 240 | 73 | 4 | 32 |
| Total deposits in domestic offices | 3,552 | 80 | 5,248 | 18,952 | 7,841 | 168 | 3,043 |
| Demand deposits | 1,646 | 23 | 2,610 | 8,716 | 4,337 | 67 | 952 |
| Time and savings deposits | 1,907 | 57 | 2,638 | 10,236 | 3,504 | 100 | 2,090 |
| Federal funds purchased and securities sold under agreements to repurchase | 283 | — | 634 | 1,681 | 1,093 | — | 202 |
| Interest-bearing demand notes issued to U.S. Treasury | 159 | — | 90 | 140 | 26 | 1 | 31 |
| Other liabilities for borrowed money | 22 | — | 18 | 92 | 103 | 1 | 1 |
| Mortgage indebtedness and liability for capitalized leases | 10 | — | 12 | 15 | 26 | 0 | 4 |
| All other liabilities | 33 | 1 | 223 | 266 | 372 | 2 | 91 |
| *Total liabilities* | 4,058 | 81 | 6,225 | 21,146 | 9,461 | 172 | 3,372 |
| Subordinated notes and debentures | 14 | — | 11 | 29 | 57 | 2 | 27 |
| **Equity Capital** | | | | | | | |
| Preferred stock | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Common stock | 49 | 2 | 69 | 370 | 161 | 5 | 39 |
| Surplus | 113 | 3 | 138 | 615 | 228 | 3 | 162 |
| Undivided profits and reserve for contingencies and other capital reserves | 77 | 3 | 288 | 671 | 327 | 2 | 23 |
| *Total equity capital* | 239 | 8 | 495 | 1,655 | 717 | 10 | 223 |
| *Total liabilities, subordinated notes and debentures and equity capital* | 4,311 | 90 | 6,732 | 22,830 | 10,235 | 183 | 3,622 |

See note at end of table.

## Table B-19—Continued

### Domestic assets, liabilities and capital accounts of national banks, December 31, 1979
(Dollar amounts in millions)

| | Illinois | Indiana | Iowa | Kansas | Kentucky | Louisiana | Maine |
|---|---|---|---|---|---|---|---|
| Number of banks | 410 | 119 | 99 | 148 | 79 | 55 | 14 |
| **Assets** | | | | | | | |
| Cash and due from depository institutions | $ 7,174 | $ 1,820 | $ 984 | $1,065 | $ 864 | $ 1,445 | $ 153 |
| U.S. Treasury securities | 3,645 | 1,300 | 335 | 510 | 533 | 1,333 | 58 |
| Obligations of other U.S. Government agencies and corporations | 2,269 | 628 | 230 | 356 | 219 | 381 | 81 |
| Obligations of states and political subdivisions | 6,286 | 1,705 | 672 | 727 | 752 | 1,009 | 123 |
| All other securities | 726 | 231 | 25 | 32 | 31 | 20 | 3 |
| Total securities | 12,926 | 3,864 | 1,261 | 1,625 | 1,535 | 2,743 | 265 |
| Federal funds sold and securities purchased under agreements to resell | 2,340 | 1,131 | 380 | 695 | 481 | 936 | 57 |
| Total loans (excluding unearned income) | 40,856 | 8,873 | 3,427 | 3,358 | 4,208 | 5,213 | 682 |
| Allowance for possible loan losses | 460 | 96 | 31 | 33 | 41 | 61 | 7 |
| Net Loans | 40,396 | 8,777 | 3,396 | 3,326 | 4,168 | 5,152 | 676 |
| Lease financing receivables | 196 | 154 | 8 | 4 | 118 | 30 | 0 |
| Bank premises, furniture and fixtures, and other assets representing bank premises | 832 | 278 | 98 | 132 | 142 | 205 | 27 |
| Real estate owned other than bank premises | 132 | 37 | 9 | 7 | 5 | 10 | 1 |
| All other assets | 3,069 | 817 | 113 | 95 | 87 | 165 | 16 |
| *Total assets* | 67,065 | 16,878 | 6,248 | 6,948 | 7,399 | 10,686 | 1,195 |
| **Liabilities** | | | | | | | |
| Demand deposits of individuals, partnerships and corporations | 12,909 | 3,432 | 1,448 | 1,714 | 1,893 | 3,055 | 275 |
| Time and savings deposits of individuals, partnerships and corporations | 25,005 | 7,589 | 3,035 | 2,783 | 3,378 | 3,809 | 629 |
| Deposits of U.S. government | 117 | 25 | 12 | 12 | 12 | 40 | 3 |
| Deposits of states and political subdivisions | 2,714 | 1,827 | 258 | 829 | 442 | 1,360 | 93 |
| All other deposits | 3,623 | 469 | 458 | 373 | 360 | 456 | 6 |
| Certified and officers' checks | 592 | 138 | 35 | 45 | 46 | 79 | 8 |
| Total deposits in domestic offices | 44,960 | 13,480 | 5,247 | 5,755 | 6,132 | 8,799 | 1,015 |
| Demand deposits | 15,965 | 4,648 | 1,960 | 2,282 | 2,308 | 3,804 | 332 |
| Time and savings deposits | 28,995 | 8,833 | 3,287 | 3,473 | 3,824 | 4,995 | 682 |
| Federal funds purchased and securities sold under agreements to repurchase | 11,592 | 1,514 | 386 | 468 | 450 | 782 | 55 |
| Interest-bearing demand notes issued to U.S. Treasury | 819 | 157 | 44 | 48 | 61 | 49 | 18 |
| Other liabilities for borrowed money | 440 | 86 | 19 | 47 | 65 | 16 | 3 |
| Mortgage indebtedness and liability for capitalized leases | 23 | 26 | 9 | 2 | 20 | 31 | 5 |
| All other liabilities | 4,582 | 416 | 98 | 83 | 144 | 166 | 14 |
| *Total liabilities* | 62,415 | 15,680 | 5,804 | 6,403 | 6,870 | 9,843 | 1,110 |
| Subordinated notes and debentures | 109 | 28 | 28 | 25 | 13 | 33 | 3 |
| **Equity Capital** | | | | | | | |
| Preferred stock | 2 | — | 0 | 0 | 0 | 1 | 0 |
| Common stock | 813 | 209 | 66 | 99 | 79 | 138 | 20 |
| Surplus | 1,778 | 403 | 102 | 160 | 141 | 262 | 23 |
| Undivided profits and reserve for contingencies and other capital reserves | 1,947 | 557 | 249 | 261 | 296 | 409 | 39 |
| *Total equity capital* | 4,540 | 1,170 | 417 | 520 | 516 | 810 | 82 |
| *Total liabilities, subordinated notes and debentures and equity capital* | 67,065 | 16,878 | 6,248 | 6,948 | 7,399 | 10,686 | 1,195 |

See note at end of table.

## Table B-19—Continued

### Domestic assets, liabilities and capital accounts of national banks, December 31, 1979
(Dollar amounts in millions)

| | Maryland | Massachusetts | Michigan | Minnesota | Mississippi | Missouri | Montana |
|---|---|---|---|---|---|---|---|
| Number of banks | 31 | 71 | 123 | 205 | 38 | 98 | 56 |
| **Assets** | | | | | | | |
| Cash and due from depository institutions | $ 852 | $ 2,227 | $ 2,800 | $ 2,471 | $ 616 | $ 2,768 | $ 286 |
| U.S. Treasury securities | 323 | 1,867 | 1,759 | 782 | 347 | 569 | 161 |
| Obligations of other U.S. Government agencies and corporations | 102 | 350 | 556 | 592 | 165 | 412 | 62 |
| Obligations of states and political subdivisions | 767 | 923 | 3,130 | 1,950 | 617 | 1,227 | 345 |
| All other securities | 22 | 187 | 161 | 458 | 30 | 198 | 11 |
| Total securities | 1,213 | 3,327 | 5,606 | 3,782 | 1,159 | 2,406 | 579 |
| Federal funds sold and securities purchased under agreements to resell | 138 | 799 | 1,199 | 621 | 280 | 2,057 | 125 |
| Total loans (excluding unearned income) | 3,998 | 7,997 | 15,138 | 10,057 | 2,712 | 6,557 | 1,607 |
| Allowance for possible loan losses | 39 | 128 | 144 | 100 | 30 | 74 | 15 |
| Net Loans | 3,959 | 7,869 | 14,994 | 9,957 | 2,683 | 6,483 | 1,592 |
| Lease financing receivables | 58 | 195 | 138 | 219 | 2 | 85 | 6 |
| Bank premises, furniture and fixtures, and other assets representing bank premises | 113 | 246 | 444 | 229 | 104 | 175 | 51 |
| Real estate owned other than bank premises | 8 | 10 | 36 | 37 | 5 | 15 | 2 |
| All other assets | 344 | 1,406 | 1,089 | 681 | 76 | 359 | 38 |
| *Total assets* | 6,684 | 16,079 | 26,306 | 17,996 | 4,923 | 14,348 | 2,678 |
| **Liabilities** | | | | | | | |
| Demand deposits of individuals, partnerships and corporations | 1,704 | 4,120 | 5,254 | 4,084 | 1,240 | 3,395 | 612 |
| Time and savings deposits of individuals, partnerships and corporations | 3,069 | 4,992 | 12,597 | 7,327 | 2,118 | 4,129 | 1,454 |
| Deposits of U.S. government | 11 | 36 | 57 | 25 | 7 | 66 | 4 |
| Deposits of states and political subdivisions | 353 | 715 | 2,086 | 928 | 557 | 699 | 211 |
| All other deposits | 127 | 940 | 526 | 886 | 207 | 1,483 | 48 |
| Certified and officers' checks | 50 | 129 | 415 | 148 | 18 | 70 | 22 |
| Total deposits in domestic offices | 5,315 | 10,932 | 20,935 | 13,398 | 4,146 | 9,842 | 2,350 |
| Demand deposits | 1,987 | 5,377 | 6,519 | 5,146 | 1,568 | 4,961 | 732 |
| Time and savings deposits | 3,328 | 5,555 | 14,416 | 8,252 | 2,578 | 4,881 | 1,618 |
| Federal funds purchased and securities sold under agreements to repurchase | 367 | 2,730 | 2,132 | 1,838 | 294 | 2,666 | 59 |
| Interest-bearing demand notes issued to U.S. Treasury | 91 | 257 | 418 | 260 | 27 | 188 | 9 |
| Other liabilities for borrowed money | 135 | 99 | 74 | 333 | 37 | 186 | 3 |
| Mortgage indebtedness and liability for capitalized leases | 22 | 24 | 42 | 10 | 19 | 35 | 5 |
| All other liabilities | 317 | 914 | 859 | 876 | 63 | 559 | 47 |
| *Total liabilities* | 6,248 | 14,956 | 24,460 | 16,715 | 4,585 | 13,477 | 2,473 |
| Subordinated notes and debentures | 3 | 36 | 107 | 145 | 15 | 31 | 19 |
| **Equity Capital** | | | | | | | |
| Preferred stock | 0 | 0 | 0 | 0 | 0 | 4 | — |
| Common stock | 61 | 162 | 347 | 304 | 48 | 144 | 67 |
| Surplus | 96 | 414 | 579 | 340 | 267 | 232 | 68 |
| Undivided profits and reserve for contingencies and other capital reserves | 276 | 511 | 814 | 492 | 9 | 461 | 51 |
| *Total equity capital* | 433 | 1,087 | 1,739 | 1,137 | 323 | 840 | 186 |
| *Total liabilities, subordinated notes and debentures and equity capital* | 6,684 | 16,079 | 26,306 | 17,996 | 4,923 | 14,348 | 2,678 |

See note at end of table.

## Table B-19—Continued

### Domestic assets, liabilities and capital accounts of national banks, December 31, 1979
(Dollar amounts in millions)

| | Nebraska | Nevada | New Hampshire | New Jersey | New Mexico | New York | North Carolina |
|---|---|---|---|---|---|---|---|
| Number of banks | 117 | 4 | 36 | 93 | 40 | 116 | 26 |
| **Assets** | | | | | | | |
| Cash and due from depository institutions | $1,051 | $ 314 | $ 212 | $ 2,411 | $ 417 | $14,360 | $ 1,920 |
| U.S. Treasury securities | 285 | 163 | 131 | 1,562 | 226 | 3,208 | 864 |
| Obligations of other U.S. Government agencies and corporations | 228 | 148 | 23 | 1,090 | 125 | 1,358 | 423 |
| Obligations of states and political subdivisions | 645 | 274 | 173 | 2,874 | 386 | 4,117 | 1,473 |
| All other securities | 63 | 4 | 3 | 298 | 7 | 3,283 | 270 |
| Total securities | 1,221 | 588 | 330 | 5,824 | 744 | 11,966 | 3,030 |
| Federal funds sold and securities purchased under agreements to resell | 406 | 27 | 51 | 770 | 248 | 2,288 | 870 |
| Total loans (excluding unearned income) | 3,425 | 1,514 | 976 | 11,481 | 1,765 | 49,775 | 7,470 |
| Allowance for possible loan losses | 37 | 15 | 11 | 125 | 19 | 910 | 87 |
| Net Loans | 3,389 | 1,499 | 965 | 11,356 | 1,746 | 48,865 | 7,383 |
| Lease financing receivables | 50 | 54 | — | 131 | 4 | 635 | 122 |
| Bank premises, furniture and fixtures, and other assets representing bank premises | 95 | 66 | 32 | 360 | 87 | 1,105 | 268 |
| Real estate owned other than bank premises | 2 | 2 | 2 | 46 | 4 | 268 | 12 |
| All other assets | 104 | 31 | 17 | 416 | 44 | 13,448 | 874 |
| *Total assets* | 6,317 | 2,580 | 1,609 | 21,313 | 3,293 | 92,936 | 14,479 |
| **Liabilities** | | | | | | | |
| Demand deposits of individuals, partnerships and corporations | 1,542 | 868 | 404 | 5,502 | 900 | 18,011 | 3,896 |
| Time and savings deposits of individuals, partnerships and corporations | 2,788 | 1,121 | 810 | 10,493 | 1,310 | 24,712 | 5,541 |
| Deposits of U.S. government | 7 | 6 | 5 | 53 | 8 | 212 | 29 |
| Deposits of states and political subdivisions | 350 | 191 | 129 | 1,338 | 530 | 1,929 | 808 |
| All other deposits | 512 | 2 | 20 | 313 | 54 | 10,947 | 396 |
| Certified and officers' checks | 36 | 35 | 16 | 222 | 30 | 1,068 | 90 |
| Total deposits in domestic offices | 5,234 | 2,224 | 1,384 | 17,922 | 2,832 | 56,879 | 10,760 |
| Demand deposits | 2,159 | 958 | 501 | 6,573 | 1,048 | 28,411 | 4,557 |
| Time and savings deposits | 3,075 | 1,266 | 883 | 11,349 | 1,784 | 28,468 | 6,204 |
| Federal funds purchased and securities sold under agreements to repurchase | 428 | 64 | 59 | 1,292 | 137 | 13,224 | 1,642 |
| Interest-bearing demand notes issued to U.S. Treasury | 50 | 20 | 15 | 199 | 23 | 766 | 204 |
| Other liabilities for borrowed money | 32 | 36 | 2 | 65 | 4 | 2,605 | 70 |
| Mortgage indebtedness and liability for capitalized leases | 12 | 8 | 4 | 6 | 17 | 101 | 74 |
| All other liabilities | 87 | 28 | 20 | 374 | 43 | 10,401 | 666 |
| *Total liabilities* | 5,843 | 2,379 | 1,484 | 19,859 | 3,056 | 83,976 | 13,417 |
| Subordinated notes and debentures | 28 | 0 | 2 | 58 | 20 | 347 | 149 |
| **Equity Capital** | | | | | | | |
| Preferred stock | — | 0 | 0 | 2 | 2 | 1 | 0 |
| Common stock | 82 | 47 | 15 | 307 | 60 | 1,974 | 212 |
| Surplus | 107 | 64 | 47 | 450 | 89 | 2,625 | 259 |
| Undivided profits and reserve for contingencies and other capital reserves | 258 | 91 | 61 | 637 | 68 | 4,013 | 442 |
| *Total equity capital* | 447 | 201 | 122 | 1,396 | 218 | 8,614 | 914 |
| *Total liabilities, subordinated notes and debentures and equity capital* | 6,317 | 2,580 | 1,609 | 21,313 | 3,293 | 92,936 | 14,479 |

See note at end of table.

## Table B-19—Continued

### Domestic assets, liabilities and capital accounts of national banks, December 31, 1979
(Dollar amounts in millions)

| | North Dakota | Ohio | Oklahoma | Oregon | Pennsylvania | Rhode Island | South Carolina |
|---|---|---|---|---|---|---|---|
| Number of banks | 41 | 177 | 190 | 6 | 223 | 5 | 18 |
| **Assets** | | | | | | | |
| Cash and due from depository institutions | $ 233 | $ 3,986 | $ 2,112 | $1,058 | $ 5,681 | $ 366 | $ 650 |
| U.S. Treasury securities | 112 | 2,237 | 1,104 | 270 | 3,124 | 316 | 240 |
| Obligations of other U.S. Government agencies and corporations | 50 | 1,276 | 103 | 53 | 2,682 | 175 | 136 |
| Obligations of states and political subdivisions | 246 | 4,443 | 1,833 | 1,104 | 4,556 | 438 | 415 |
| All other securities | 7 | 284 | 116 | 18 | 1,215 | 44 | 43 |
| Total securities | 415 | 8,240 | 3,156 | 1,445 | 11,577 | 973 | 834 |
| Federal funds sold and securities purchased under agreements to resell | 24 | 1,338 | 1,049 | 291 | 2,251 | 31 | 265 |
| Total loans (excluding unearned income) | 1,296 | 16,987 | 6,568 | 5,202 | 28,790 | 2,458 | 1,954 |
| Allowance for possible loan losses | 11 | 189 | 72 | 48 | 340 | 23 | 24 |
| Net Loans | 1,285 | 16,797 | 6,496 | 5,154 | 28,450 | 2,434 | 1,931 |
| Lease financing receivables | 2 | 252 | 30 | 39 | 290 | 109 | 16 |
| Bank premises, furniture and fixtures, and other assets representing bank premises | 40 | 564 | 192 | 174 | 610 | 69 | 94 |
| Real estate owned other than bank premises | 2 | 16 | 10 | 10 | 59 | 7 | 4 |
| All other assets | 33 | 1,603 | 210 | 825 | 2,853 | 269 | 61 |
| *Total assets* | 2,035 | 32,797 | 13,255 | 8,995 | 51,769 | 4,259 | 3,855 |
| **Liabilities** | | | | | | | |
| Demand deposits of individuals, partnerships and corporations | 515 | 7,699 | 3,691 | 2,135 | 10,743 | 700 | 1,554 |
| Time and savings deposits of individuals, partnerships and corporations | 1,124 | 15,091 | 5,145 | 4,117 | 23,019 | 2,127 | 1,272 |
| Deposits of U.S. government | 4 | 111 | 43 | 10 | 53 | 5 | 10 |
| Deposits of states and political subdivisions | 107 | 1,753 | 1,368 | 728 | 2,540 | 171 | 206 |
| All other deposits | 16 | 492 | 676 | 104 | 1,273 | 37 | 59 |
| Certified and officers' checks | 19 | 258 | 133 | 70 | 351 | 25 | 26 |
| Total deposits in domestic offices | 1,785 | 25,405 | 11,055 | 7,164 | 37,979 | 3,065 | 3,128 |
| Demand deposits | 576 | 9,062 | 4,672 | 2,470 | 12,503 | 814 | 1,778 |
| Time and savings deposits | 1,208 | 16,343 | 6,383 | 4,695 | 25,476 | 2,251 | 1,350 |
| Federal funds purchased and securities sold under agreements to repurchase | 37 | 3,372 | 824 | 590 | 5,071 | 461 | 259 |
| Interest-bearing demand notes issued to U.S. Treasury | 9 | 459 | 123 | 105 | 452 | 52 | 70 |
| Other liabilities for borrowed money | 15 | 185 | 37 | 42 | 815 | 75 | 29 |
| Mortgage indebtedness and liability for capitalized leases | 3 | 33 | 3 | 13 | 61 | 27 | 6 |
| All other liabilities | 27 | 906 | 233 | 416 | 3,774 | 320 | 62 |
| *Total liabilities* | 1,876 | 30,359 | 12,275 | 8,330 | 48,152 | 4,000 | 3,554 |
| Subordinated notes and debentures | 16 | 41 | 68 | 165 | 217 | 17 | 13 |
| **Equity Capital** | | | | | | | |
| Preferred stock | 0 | 0 | 1 | 1 | 11 | 0 | 0 |
| Common stock | 36 | 496 | 173 | 93 | 529 | 30 | 43 |
| Surplus | 41 | 903 | 227 | 149 | 1,252 | 89 | 82 |
| Undivided profits and reserve for contingencies and other capital reserves | 66 | 999 | 510 | 257 | 1,608 | 123 | 163 |
| *Total equity capital* | 143 | 2,398 | 911 | 500 | 3,400 | 242 | 288 |
| *Total liabilities, subordinated notes and debentures and equity capital* | 2,035 | 32,797 | 13,255 | 8,995 | 51,769 | 4,259 | 3,855 |

See note at end of table.

## Table B-19—Continued

### Domestic assets, liabilities and capital accounts of national banks, December 31, 1979
(Dollar amounts in millions)

| | South Dakota | Tennessee | Texas | Utah | Vermont | Virginia | Washington |
|---|---|---|---|---|---|---|---|
| Number of banks | 33 | 69 | 615 | 11 | 12 | 72 | 21 |
| **Assets** | | | | | | | |
| Cash and due from depository institutions | $ 301 | $ 1,601 | $ 9,748 | $ 467 | $ 52 | $ 1,179 | $ 2,490 |
| U.S. Treasury securities | 123 | 761 | 3,684 | 142 | 36 | 439 | 382 |
| Obligations of other U.S. Government agencies and corporations | 84 | 464 | 1,642 | 70 | 9 | 414 | 203 |
| Obligations of states and political subdivisions | 317 | 1,017 | 7,711 | 231 | 65 | 1,483 | 1,149 |
| All other securities | 8 | 70 | 247 | 17 | 7 | 34 | 38 |
| Total securities | 532 | 2,312 | 13,284 | 460 | 117 | 2,370 | 1,772 |
| Federal funds sold and securities purchased under agreements to resell | 62 | 862 | 4,377 | 271 | 14 | 440 | 472 |
| Total loans (excluding unearned income) | 1,796 | 5,583 | 34,200 | 1,890 | 350 | 6,271 | 10,902 |
| Allowance for possible loan losses | 16 | 70 | 379 | 20 | 3 | 67 | 110 |
| Net Loans | 1,780 | 5,512 | 33,821 | 1,871 | 347 | 6,204 | 10,792 |
| Lease financing receivables | 2 | 55 | 197 | 48 | 0 | 34 | 548 |
| Bank premises, furniture and fixtures, and other assets representing bank premises | 55 | 217 | 1,074 | 43 | 10 | 296 | 369 |
| Real estate owned other than bank premises | 3 | 25 | 53 | 8 | — | 13 | 19 |
| All other assets | 45 | 287 | 2,640 | 55 | 6 | 197 | 541 |
| *Total assets* | 2,779 | 10,873 | 65,195 | 3,222 | 546 | 10,734 | 17,002 |
| **Liabilities** | | | | | | | |
| Demand deposits of individuals, partnerships and corporations | 610 | 2,584 | 18,284 | 808 | 95 | 2,684 | 4,321 |
| Time and savings deposits of individuals, partnerships and corporations | 1,630 | 4,814 | 22,523 | 1,524 | 348 | 5,397 | 7,183 |
| Deposits of U.S. government | 7 | 55 | 151 | 4 | 1 | 21 | 25 |
| Deposits of states and political subdivisions | 170 | 763 | 5,748 | 286 | 41 | 632 | 1,401 |
| All other deposits | 28 | 584 | 3,491 | 58 | 1 | 111 | 433 |
| Certified and officers' checks | 23 | 71 | 562 | 27 | 5 | 66 | 147 |
| Total deposits in domestic offices | 2,469 | 8,871 | 50,758 | 2,707 | 492 | 8,912 | 13,511 |
| Demand deposits | 700 | 3,430 | 22,663 | 931 | 112 | 2,983 | 4,984 |
| Time and savings deposits | 1,768 | 5,441 | 28,096 | 1,776 | 380 | 5,929 | 8,526 |
| Federal funds purchased and securities sold under agreements to repurchase | 33 | 930 | 5,910 | 185 | 2 | 527 | 1,291 |
| Interest-bearing demand notes issued to U.S. Treasury | 13 | 37 | 472 | 31 | 2 | 118 | 209 |
| Other liabilities for borrowed money | 7 | 24 | 298 | 15 | 7 | 84 | 159 |
| Mortgage indebtedness and liability for capitalized leases | 8 | 16 | 108 | — | — | 64 | 29 |
| All other liabilities | 39 | 251 | 2,889 | 69 | 6 | 223 | 722 |
| *Total liabilities* | 2,569 | 10,129 | 60,437 | 3,008 | 508 | 9,928 | 15,922 |
| Subordinated notes and debentures | 22 | 30 | 482 | 46 | 3 | 60 | 124 |
| **Equity Capital** | | | | | | | |
| Preferred stock | 0 | 0 | 0 | 0 | 0 | 0 | 6 |
| Common stock | 50 | 144 | 891 | 35 | 7 | 130 | 204 |
| Surplus | 56 | 224 | 1,121 | 65 | 9 | 229 | 248 |
| Undivided profits and reserve for contingencies and other capital reserves | 81 | 345 | 2,265 | 68 | 19 | 388 | 498 |
| *Total equity capital* | 188 | 713 | 4,276 | 168 | 35 | 746 | 956 |
| *Total liabilities, subordinated notes and debentures and equity capital* | 2,779 | 10,873 | 65,195 | 3,222 | 546 | 10,734 | 17,002 |

See note at end of table.

## Table B-19—Continued

### Domestic assets, liabilities and capital accounts of national banks, December 31, 1979
(Dollar amounts in millions)

| | West Virginia | Wisconsin | Wyoming | District of Columbia nonnational* |
|---|---|---|---|---|
| Number of banks | 107 | 131 | 47 | 1 |
| **Assets** | | | | |
| Cash and due from depository institutions | $ 512 | $ 1,274 | $ 276 | $ 3 |
| U.S. Treasury securities | 422 | 788 | 147 | 12 |
| Obligations of other U.S. Government agencies and corporations | 464 | 329 | 89 | 6 |
| Obligations of states and political subdivisions | 740 | 1,121 | 261 | 3 |
| All other securities | 18 | 100 | 5 | 2 |
| Total securities | 1,644 | 2,338 | 502 | 23 |
| Federal funds sold and securities purchased under agreements to resell | 384 | 370 | 123 | 5 |
| Total loans (excluding unearned income) | 2,724 | 6,304 | 1,120 | 27 |
| Allowance for possible loan losses | 27 | 60 | 12 | — |
| Net Loans | 2,697 | 6,244 | 1,109 | 27 |
| Lease financing receivables | 10 | 44 | 3 | 0 |
| Bank premises, furniture and fixtures, and other assets representing bank premises | 127 | 227 | 40 | 1 |
| Real estate owned other than bank premises | 2 | 56 | 2 | — |
| All other assets | 56 | 227 | 33 | 1 |
| *Total assets* | 5,431 | 10,780 | 2,088 | 60 |
| **Liabilities** | | | | |
| Demand deposits of individuals, partnerships and corporations | 1,090 | 2,364 | 598 | 19 |
| Time and savings deposits of individuals, partnerships and corporations | 3,007 | 4,665 | 937 | 30 |
| Deposits of U.S. government | 9 | 19 | 11 | 1 |
| Deposits of states and political subdivisions | 252 | 645 | 241 | — |
| All other deposits | 65 | 415 | 41 | — |
| Certified and officers' checks | 41 | 83 | 18 | — |
| Total deposits in domestic offices | 4,465 | 8,191 | 1,846 | 50 |
| Demand deposits | 1,268 | 2,923 | 727 | 20 |
| Time and savings deposits | 3,197 | 5,268 | 1,119 | 30 |
| Federal funds purchased and securities sold under agreements to repurchase | 385 | 1,273 | 28 | 5 |
| Interest-bearing demand notes issued to U.S. Treasury | 20 | 186 | 4 | 0 |
| Other liabilities for borrowed money | 19 | 60 | 15 | 0 |
| Mortgage indebtedness and liability for capitalized leases | 7 | 7 | 4 | 0 |
| All other liabilities | 63 | 342 | 27 | — |
| *Total liabilities* | 4,959 | 10,059 | 1,923 | 56 |
| Subordinated notes and debentures | 7 | 55 | 9 | — |
| **Equity Capital** | | | | |
| Preferred stock | 0 | 0 | 0 | 0 |
| Common stock | 74 | 151 | 11 | — |
| Surplus | 156 | 247 | 46 | 1 |
| Undivided profits and reserve for contingencies and other capital reserves | 235 | 267 | 98 | 2 |
| *Total equity capital* | 465 | 666 | 156 | 4 |
| *Total liabilities, subordinated notes and debentures and equity capital* | 5,431 | 10,780 | 2,088 | 60 |

* Nonnational banks in the District of Columbia are supervised by the Comptroller of the Currency.
NOTE: Dashes indicate amounts of less than $500,000. Figures may not add to totals because of rounding.

## Table B-20

### *Domestic office loans of national banks, by states, December 31, 1979*

(Dollar amounts in millions)

| | Total loans, gross | Loans secured by real estate | Loans to financial institutions | Loans to purchase or carry securities | Loans to farmers | Commercial and industrial loans | Personal loans to individuals | Other loans | Total loans less unearned income |
|---|---|---|---|---|---|---|---|---|---|
| All national banks ... | $454,238 | $135,989 | $25,580 | $6,968 | $14,684 | $155,073 | $104,575 | $11,369 | $442,986 |
| Alabama .......... | 5,600 | 1,622 | 98 | 29 | 99 | 1,705 | 1,922 | 125 | 5,347 |
| Alaska ............ | 784 | 277 | — | — | — | 294 | 201 | 11 | 759 |
| Arizona ........... | 5,643 | 1,661 | 288 | 8 | 388 | 1,354 | 1,765 | 179 | 5,327 |
| Arkansas .......... | 2,891 | 983 | 51 | 61 | 130 | 843 | 747 | 76 | 2,818 |
| California .......... | 75,423 | 29,810 | 4,088 | 720 | 2,348 | 22,015 | 15,149 | 1,293 | 73,673 |
| Colorado .......... | 5,814 | 1,482 | 164 | 91 | 500 | 1,867 | 1,592 | 119 | 5,705 |
| Connecticut ........ | 2,466 | 921 | 138 | 2 | 15 | 748 | 585 | 57 | 2,406 |
| Delaware .......... | 53 | 32 | 0 | 0 | 1 | 6 | 15 | — | 51 |
| District of Columbia . | 3,839 | 1,441 | 352 | 8 | — | 1,063 | 837 | 138 | 3,774 |
| Florida ............ | 10,795 | 4,102 | 306 | 33 | 49 | 2,380 | 3,680 | 247 | 10,354 |
| Georgia ........... | 5,347 | 1,316 | 162 | 27 | 42 | 1,737 | 1,912 | 153 | 5,081 |
| Hawaii ............ | 105 | 49 | 0 | 0 | — | 22 | 33 | — | 103 |
| Idaho ............. | 2,138 | 633 | 31 | 4 | 218 | 624 | 608 | 21 | 2,102 |
| Illinois ............ | 41,382 | 8,636 | 4,327 | 1,401 | 1,004 | 18,884 | 5,892 | 1,238 | 40,856 |
| Indiana ........... | 9,167 | 3,748 | 270 | 57 | 266 | 2,216 | 2,435 | 174 | 8,873 |
| Iowa .............. | 3,458 | 1,023 | 45 | 55 | 747 | 831 | 687 | 69 | 3,427 |
| Kansas ........... | 3,421 | 693 | 64 | 87 | 737 | 906 | 873 | 61 | 3,358 |
| Kentucky .......... | 4,367 | 1,425 | 135 | 21 | 172 | 1,181 | 1,355 | 76 | 4,208 |
| Louisiana .......... | 5,426 | 1,645 | 139 | 49 | 49 | 1,938 | 1,483 | 123 | 5,213 |
| Maine ............ | 686 | 285 | 2 | — | 4 | 203 | 184 | 9 | 682 |
| Maryland .......... | 4,095 | 1,583 | 110 | 54 | 27 | 1,027 | 1,204 | 90 | 3,998 |
| Massachusetts ...... | 8,158 | 1,585 | 746 | 40 | 59 | 4,112 | 1,435 | 181 | 7,997 |
| Michigan .......... | 15,416 | 6,137 | 868 | 77 | 126 | 4,124 | 3,709 | 375 | 15,138 |
| Minnesota .......... | 10,201 | 2,791 | 407 | 376 | 683 | 3,665 | 1,806 | 472 | 10,057 |
| Mississippi ........ | 2,829 | 978 | 67 | 33 | 74 | 695 | 922 | 61 | 2,712 |
| Missouri ........... | 6,666 | 1,603 | 489 | 175 | 300 | 2,389 | 1,508 | 202 | 6,557 |
| Montana .......... | 1,688 | 457 | 5 | 2 | 252 | 426 | 523 | 23 | 1,607 |
| Nebraska .......... | 3,481 | 459 | 74 | 91 | 1,206 | 766 | 808 | 77 | 3,425 |
| Nevada ........... | 1,592 | 760 | 21 | 2 | 19 | 302 | 485 | 4 | 1,514 |
| New Hampshire ..... | 1,019 | 382 | 4 | — | 2 | 291 | 329 | 12 | 976 |
| New Jersey ........ | 11,879 | 5,345 | 285 | 20 | 8 | 2,993 | 3,074 | 155 | 11,481 |
| New Mexico ....... | 1,837 | 488 | 28 | 4 | 126 | 555 | 618 | 17 | 1,765 |
| New York .......... | 50,596 | 8,674 | 4,972 | 1,706 | 369 | 24,216 | 8,924 | 1,734 | 49,775 |
| North Carolina ...... | 7,741 | 1,415 | 302 | 72 | 115 | 2,948 | 2,709 | 180 | 7,470 |
| North Dakota ....... | 1,318 | 336 | 1 | 2 | 280 | 409 | 278 | 13 | 1,296 |
| Ohio .............. | 17,719 | 5,954 | 459 | 96 | 256 | 4,626 | 6,075 | 253 | 16,987 |
| Oklahoma ......... | 6,701 | 1,708 | 225 | 146 | 606 | 2,294 | 1,512 | 211 | 6,568 |
| Oregon ........... | 5,254 | 1,909 | 329 | 24 | 203 | 1,658 | 1,077 | 54 | 5,202 |
| Pennsylvania ....... | 29,674 | 9,762 | 2,481 | 266 | 206 | 9,625 | 6,558 | 776 | 28,790 |
| Rhode Island ....... | 2,504 | 966 | 96 | 19 | — | 963 | 380 | 80 | 2,458 |
| South Carolina ..... | 2,044 | 417 | 15 | 5 | 31 | 631 | 906 | 39 | 1,954 |
| South Dakota ...... | 1,835 | 437 | 1 | 3 | 564 | 446 | 369 | 15 | 1,796 |
| Tennessee ......... | 5,817 | 1,793 | 151 | 81 | 84 | 1,803 | 1,741 | 164 | 5,583 |
| Texas ............. | 35,011 | 7,516 | 1,811 | 843 | 1,369 | 14,600 | 7,438 | 1,434 | 34,200 |
| Utah .............. | 1,924 | 830 | 21 | 9 | 40 | 602 | 392 | 29 | 1,890 |
| Vermont ........... | 359 | 189 | — | — | 8 | 78 | 78 | 7 | 350 |
| Virginia ........... | 6,585 | 2,762 | 81 | 37 | 93 | 1,284 | 2,198 | 130 | 6,271 |
| Washington ........ | 10,967 | 2,841 | 599 | 42 | 500 | 3,939 | 2,835 | 211 | 10,902 |
| West Virginia ....... | 2,936 | 1,295 | 9 | 11 | 12 | 507 | 1,068 | 35 | 2,724 |
| Wisconsin ......... | 6,431 | 2,498 | 265 | 74 | 159 | 1,911 | 1,372 | 152 | 6,304 |
| Wyoming .......... | 1,154 | 341 | 1 | 3 | 138 | 367 | 291 | 14 | 1,120 |
| District of Columbia — all* ............. | 3,867 | 1,459 | 353 | 8 | — | 1,069 | 840 | 138 | 3,801 |

* Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.
NOTE: Dashes indicate amounts of less than $500,000.

## Table B-21

*Outstanding balances, credit cards and related plans of national banks, December 31, 1979*
(Dollar amounts in thousands)

| | Total number of national banks | Credit cards and other related credit plans | |
|---|---|---|---|
| | | Number of national banks | Outstanding volume |
| All national banks | 4,448 | 1,830 | $21,528,485 |
| Alabama | 99 | 23 | 172,182 |
| Alaska | 6 | 4 | 42,385 |
| Arizona | 3 | 2 | 336,295 |
| Arkansas | 68 | 9 | 54,495 |
| California | 42 | 34 | 4,053,174 |
| Colorado | 139 | 108 | 392,420 |
| Connecticut | 19 | 12 | 151,281 |
| Delaware | 6 | 1 | 5 |
| District of Columbia | 16 | 13 | 176,397 |
| Florida | 221 | 95 | 497,010 |
| Georgia | 63 | 28 | 383,304 |
| Hawaii | 3 | 2 | 3,750 |
| Idaho | 7 | 4 | 72,007 |
| Illinois | 410 | 159 | 1,725,970 |
| Indiana | 119 | 73 | 251,150 |
| Iowa | 99 | 42 | 81,179 |
| Kansas | 148 | 21 | 103,938 |
| Kentucky | 79 | 38 | 153,610 |
| Louisiana | 55 | 15 | 171,474 |
| Maine | 14 | 13 | 27,889 |
| Maryland | 31 | 13 | 362,491 |
| Massachusetts | 71 | 56 | 345,100 |
| Michigan | 123 | 69 | 716,267 |
| Minnesota | 205 | 124 | 145,736 |
| Mississippi | 38 | 4 | 63,985 |
| Missouri | 98 | 43 | 399,535 |
| Montana | 56 | 27 | 14,000 |
| Nebraska | 117 | 30 | 182,821 |
| Nevada | 4 | 3 | 55,218 |
| New Hampshire | 36 | 25 | 34,883 |
| New Jersey | 93 | 64 | 296,439 |
| New Mexico | 40 | 11 | 55,250 |
| New York | 116 | 58 | 4,743,427 |
| North Carolina | 26 | 23 | 404,095 |
| North Dakota | 41 | 15 | 9,023 |
| Ohio | 177 | 114 | 814,009 |
| Oklahoma | 190 | 33 | 198,710 |
| Oregon | 6 | 3 | 258,842 |
| Pennsylvania | 223 | 58 | 921,727 |
| Rhode Island | 5 | 4 | 74,596 |
| South Carolina | 18 | 12 | 139,474 |
| South Dakota | 33 | 8 | 5,395 |
| Tennessee | 69 | 13 | 250,818 |
| Texas | 615 | 140 | 866,028 |
| Utah | 11 | 4 | 74,289 |
| Vermont | 12 | 2 | 5,045 |
| Virginia | 72 | 26 | 311,916 |
| Washington | 21 | 11 | 554,515 |
| West Virginia | 107 | 20 | 49,839 |
| Wisconsin | 131 | 101 | 316,723 |
| Wyoming | 47 | 20 | 8,373 |
| District of Columbia — all* | 17 | 14 | 176,559 |

* Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.

# Table B-22

## Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, year ended December 31, 1979

(Dollar amounts in millions)

| | Total United States | Alabama | Alaska | Arizona | Arkansas | California | Colorado |
|---|---|---|---|---|---|---|---|
| Number of banks | 4,448 | 99 | 6 | 3 | 68 | 42 | 139 |
| Operating income: | | | | | | | |
| Interest and fees on loans | $61,801.9 | $647.3 | $100.4 | $586.8 | $284.8 | $11,140.7 | $698.2 |
| Interest on balances with depository institutions | 6,931.2 | 4.5 | .7 | 7.3 | 1.2 | 1,623.4 | .6 |
| Income on federal funds sold and securities purchased under agreements to resell | 3,551.2 | 34.4 | 7.5 | 26.7 | 41.6 | 392.3 | 34.9 |
| Interest on U.S. Treasury securities and on obligations of other U.S. government agencies and corporations | 5,367.2 | 61.3 | 14.8 | 59.9 | 38.7 | 628.5 | 52.6 |
| Interest on obligations of states and political subdivisions in the U.S. | 3,748.2 | 80.5 | 8.7 | 35.5 | 33.4 | 264.3 | 50.2 |
| Income from all other securities (including dividends on stock) | 754.9 | 2.5 | .3 | .6 | 1.3 | 168.3 | .9 |
| Income from lease financing | 730.5 | 1.5 | 1.1 | 4.1 | 1.2 | 165.4 | 6.1 |
| Income from fiduciary activities | 1,345.0 | 17.4 | 1.5 | 12.4 | 5.2 | 152.4 | 22.3 |
| Service charges on deposit accounts | 1,316.1 | 24.6 | 6.5 | 31.4 | 15.5 | 198.4 | 26.7 |
| Other service charges, commissions, and fees | 2,453.0 | 28.9 | 6.9 | 15.7 | 9.7 | 394.1 | 27.6 |
| Other operating income | 1,887.0 | 15.5 | 2.0 | 7.8 | 10.5 | 368.3 | 19.5 |
| *Total operating income* | 89,886.1 | 918.4 | 150.2 | 788.2 | 443.0 | 15,496.2 | 939.5 |
| Operating expenses: | | | | | | | |
| Salaries and employee benefits | 12,403.7 | 152.5 | 38.1 | 149.9 | 78.1 | 2,139.7 | 167.8 |
| Interest on time certificates of $100,000 or more (issued by domestic offices) | 10,723.5 | 153.3 | 22.9 | 88.5 | 48.0 | 1,676.9 | 151.3 |
| Interest on deposits in foreign offices | 16,903.5 | 0 | 0 | 1.8 | 0 | 4,100.5 | 1.9 |
| Interest on other deposits | 15,737.0 | 235.1 | 20.9 | 210.8 | 131.3 | 2,563.5 | 178.1 |
| Expense of federal funds purchased and securities sold under agreements to repurchase | 8,498.4 | 53.4 | 10.7 | 44.4 | 42.4 | 984.8 | 72.7 |
| Interest on demand notes issued to the U.S. Treasury and on other borrowed money | 2,014.7 | 12.5 | 2.3 | 16.5 | 4.1 | 379.0 | 13.0 |
| Interest on subordinated notes and debentures | 265.4 | 4.3 | .1 | 5.2 | 2.3 | 14.5 | 3.3 |
| Occupancy expense of bank premises, net, and furniture and equipment expense | 3,571.3 | 47.3 | 13.1 | 39.6 | 27.9 | 548.4 | 49.2 |
| Provision for possible loan losses | 2,251.7 | 46.1 | 3.9 | 29.1 | 11.5 | 393.8 | 33.8 |
| Other operating expenses | 7,356.2 | 104.4 | 16.9 | 85.9 | 48.1 | 1,001.8 | 122.2 |
| *Total operating expenses* | 79,725.5 | 808.9 | 128.9 | 671.8 | 393.9 | 13,802.9 | 793.3 |
| Income before income taxes and securities gains or losses | 10,160.6 | 109.6 | 21.3 | 116.5 | 49.1 | 1,693.3 | 146.2 |
| Applicable income taxes | 2,753.7 | 12.2 | 6.3 | 38.2 | 5.9 | 629.9 | 40.2 |
| Income before securities gains or losses | 7,406.8 | 97.3 | 15.0 | 78.2 | 43.2 | 1,063.4 | 106.0 |
| Securities gains (losses), gross | −349.4 | −1.9 | — | −5.1 | −1.0 | −19.0 | −3.4 |
| Applicable income taxes | −163.2 | −.9 | — | −2.5 | −.2 | −9.8 | −1.6 |
| Securities gains (losses), net | −186.2 | −1.0 | — | −2.6 | −.8 | −9.1 | −1.8 |
| Income before extraordinary items | 7,220.7 | 96.3 | 15.0 | 75.6 | 42.4 | 1,054.3 | 104.2 |
| Extraordinary items, net | 26.0 | .1 | 0 | 0 | 0 | — | .2 |
| Net income | 7,246.7 | 96.4 | 15.0 | 75.6 | 42.4 | 1,054.3 | 104.4 |
| Cash dividends declared on common stock | 2,648.2 | 36.0 | 1.8 | 20.4 | 9.9 | 375.1 | 34.9 |
| Cash dividends declared on preferred stock | 1.5 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total cash dividends declared | 2,649.7 | 36.0 | 1.8 | 20.4 | 9.9 | 375.1 | 34.9 |
| Recoveries credited to allowance for possible loan losses | 756.6 | 9.5 | 2.0 | 8.8 | 3.3 | 116.9 | 7.7 |
| Losses charged to allowance for possible loan losses | 2,296.5 | 51.0 | 5.7 | 17.7 | 11.8 | 366.0 | 35.4 |
| Net loan losses | 1,539.9 | 41.5 | 3.7 | 8.9 | 8.5 | 249.1 | 27.7 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Ratio to total operating income: | | | | | | | |
| Interest on deposits | 48.2 | 42.3 | 29.2 | 38.2 | 40.5 | 53.8 | 35.3 |
| Other interest expense | 12.0 | 7.6 | 8.7 | 8.4 | 11.0 | 8.9 | 9.5 |
| Salaries and employee benefits | 13.8 | 16.6 | 25.4 | 19.0 | 17.6 | 13.8 | 17.9 |
| Other non-interest expense | 14.7 | 21.5 | 22.6 | 19.6 | 19.8 | 12.5 | 21.8 |
| Total operating expenses | 88.7 | 88.1 | 85.8 | 85.2 | 88.9 | 89.1 | 84.4 |
| Ratio of net income to total equity capital (end of period) | 13.3 | 13.1 | 11.2 | 17.8 | 10.8 | 15.9 | 15.7 |

See note at end of table.

# Table B-22—Continued

## Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, year ended December 31, 1979

(Dollar amounts in millions)

| | Connecticut | Delaware | District of Columbia | Florida | Georgia | Hawaii | Idaho |
|---|---|---|---|---|---|---|---|
| Number of banks | 19 | 6 | 16 | 221 | 63 | 3 | 7 |
| Operating income: | | | | | | | |
| Interest and fees on loans | $267.4 | $ 5.0 | $445.0 | $1,125.8 | $627.3 | $11.0 | $240.2 |
| Interest on balances with depository institutions | 44.6 | .1 | 60.9 | 38.5 | 32.7 | — | 2.5 |
| Income on federal funds sold and securities purchased under agreements to resell | 7.9 | 1.0 | 22.8 | 151.9 | 85.5 | .4 | 17.2 |
| Interest on U.S. Treasury securities and on obligations of other U.S. government agencies and corporations | 23.3 | 1.0 | 50.8 | 276.8 | 55.4 | 2.7 | 28.6 |
| Interest on obligations of states and political subdivisions in the U.S. | 18.5 | .2 | 42.1 | 122.4 | 40.6 | — | 17.1 |
| Income from all other securities (including dividends on stock) | 2.4 | 0 | 1.7 | 11.3 | 3.8 | — | .7 |
| Income from lease financing | 1.1 | 0 | 2.7 | 5.3 | 7.0 | 1.2 | .7 |
| Income from fiduciary activities | 16.4 | 0 | 18.1 | 46.5 | 22.6 | 0 | 2.5 |
| Service charges on deposit accounts | 5.2 | .2 | 14.3 | 56.1 | 39.5 | .3 | 10.6 |
| Other service charges, commissions, and fees | 15.9 | .1 | 8.2 | 80.6 | 28.4 | 1.0 | 8.7 |
| Other operating income | 1.8 | .1 | 5.4 | 28.2 | 76.4 | .5 | 1.9 |
| *Total operating income* | 404.5 | 7.6 | 672.1 | 1,943.5 | 1,019.3 | 17.2 | 330.8 |
| Operating expenses: | | | | | | | |
| Salaries and employee benefits | 79.6 | 1.4 | 110.1 | 335.8 | 201.2 | 4.4 | 60.8 |
| Interest on time certificates of $100,000 or more (issued by domestic offices) | 34.2 | .4 | 127.2 | 187.7 | 103.8 | 3.9 | 39.1 |
| Interest on deposits in foreign offices | 24.6 | 0 | 99.5 | 7.5 | 19.2 | 0 | 0 |
| Interest on other deposits | 86.0 | 2.9 | 76.5 | 489.9 | 156.0 | 3.4 | 104.4 |
| Expense of federal funds purchased and securities sold under agreements to repurchase | 51.8 | 0 | 61.0 | 155.8 | 138.7 | .1 | 17.7 |
| Interest on demand notes issued to the U.S. Treasury and on other borrowed money | 10.2 | 0 | 6.5 | 14.2 | 11.9 | .1 | 2.7 |
| Interest on subordinated notes and debentures | 1.0 | 0 | .6 | 2.1 | 4.6 | .1 | 1.9 |
| Occupancy expense of bank premises, net, and furniture and equipment expense | 25.5 | .4 | 33.5 | 100.8 | 57.0 | 1.6 | 13.7 |
| Provision for possible loan losses | 10.5 | .1 | 17.4 | 49.5 | 50.0 | — | 7.1 |
| Other operating expenses | 38.6 | 1.0 | 47.3 | 309.3 | 143.9 | 2.7 | 34.1 |
| *Total operating expenses* | 362.2 | 6.2 | 579.6 | 1,652.5 | 886.3 | 16.2 | 281.5 |
| Income before income taxes and securities gains or losses | 42.4 | 1.4 | 92.5 | 291.0 | 133.0 | 1.0 | 49.3 |
| Applicable income taxes | 12.2 | .5 | 26.6 | 74.7 | 29.1 | .5 | 14.9 |
| Income before securities gains or losses | 30.2 | .9 | 65.9 | 216.3 | 103.9 | .5 | 34.3 |
| Securities gains (losses), gross | −1.6 | −.1 | −1.8 | −15.9 | −5.6 | — | −2.2 |
| Applicable income taxes | −.8 | — | −.8 | −7.2 | −2.2 | — | −1.1 |
| Securities gains (losses), net | −.8 | −.1 | −1.0 | −8.7 | −3.4 | — | −1.1 |
| Income before extraordinary items | 29.4 | .9 | 64.9 | 207.7 | 100.4 | .5 | 33.2 |
| Extraordinary items, net | .1 | 0 | .3 | 7.1 | 4.7 | .4 | 0 |
| Net income | 29.5 | .9 | 65.2 | 214.7 | 105.1 | .8 | 33.2 |
| Cash dividends declared on common stock | 12.7 | .2 | 23.3 | 91.0 | 17.9 | 0 | 10.7 |
| Cash dividends declared on preferred stock | 0 | 0 | .1 | 0 | 0 | 0 | 0 |
| Total cash dividends declared | 12.7 | .2 | 23.4 | 91.0 | 17.9 | 0 | 10.7 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Recoveries credited to allowance for possible loan losses | 3.1 | — | 4.4 | 22.6 | 14.9 | .5 | 2.9 |
| Losses charged to allowance for possible loan losses | 9.6 | .1 | 17.9 | 59.0 | 54.8 | .7 | 7.9 |
| Net loan losses | 6.5 | .1 | 13.5 | 36.4 | 39.9 | .2 | 5.0 |
| Ratio to total operating income: | | | | | | | |
| Interest on deposits | 35.8 | 43.4 | 45.1 | 35.3 | 27.4 | 42.4 | 43.4 |
| Other interest expense | 15.6 | 0 | 10.1 | 8.9 | 15.2 | 1.7 | 6.7 |
| Salaries and employee benefits | 19.7 | 18.4 | 16.4 | 17.3 | 19.7 | 25.6 | 18.4 |
| Other non-interest expense | 18.4 | 19.7 | 14.6 | 23.6 | 24.6 | 25.0 | 16.6 |
| Total operating expenses | 89.5 | 81.6 | 86.2 | 85.0 | 87.0 | 94.2 | 85.1 |
| Ratio of net income to total equity capital (end of period) | 12.3 | 11.3 | 13.2 | 13.0 | 14.7 | 8.0 | 14.9 |

See note at end of table.

# Table B-22—Continued

## Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, year ended December 31, 1979

(Dollar amounts in millions)

| | Illinois | Indiana | Iowa | Kansas | Kentucky | Louisiana | Maine |
|---|---|---|---|---|---|---|---|
| Number of banks | 410 | 119 | 99 | 148 | 79 | 55 | 14 |
| Operating income: | | | | | | | |
| Interest and fees on loans | $5,503.2 | $967.6 | $350.7 | $364.5 | $448.1 | $595.9 | $76.1 |
| Interest on balances with depository institutions | 968.6 | 48.8 | 2.6 | .7 | 3.7 | 8.5 | .5 |
| Income on federal funds sold and securities purchased under agreements to resell | 248.6 | 74.1 | 34.1 | 48.0 | 36.7 | 78.5 | 5.0 |
| Interest on U.S. Treasury securities and on obligations of other U.S. government agencies and corporations | 440.3 | 159.0 | 45.4 | 69.7 | 58.2 | 129.6 | 10.1 |
| Interest on obligations of states and political subdivisions in the U.S. | 346.3 | 93.0 | 35.0 | 37.1 | 40.0 | 52.3 | 7.3 |
| Income from all other securities (including dividends on stock) | 70.9 | 14.3 | 1.6 | 1.8 | .7 | 1.8 | .2 |
| Income from lease financing | 20.4 | 12.4 | .7 | .5 | 8.8 | 4.2 | 0 |
| Income from fiduciary activities | 123.0 | 28.9 | 9.1 | 8.9 | 4.9 | 9.6 | 3.0 |
| Service charges on deposit accounts | 58.9 | 27.1 | 9.9 | 13.1 | 11.8 | 23.0 | 2.2 |
| Other service charges, commissions, and fees | 184.8 | 31.5 | 19.1 | 13.0 | 18.4 | 26.1 | 3.8 |
| Other operating income | 168.1 | 19.0 | 3.9 | 6.5 | 6.5 | 6.5 | 1.0 |
| *Total operating income* | 8,133.0 | 1,475.6 | 512.0 | 563.7 | 637.8 | 936.1 | 109.2 |
| Operating expenses: | | | | | | | |
| Salaries and employee benefits | 809.3 | 224.2 | 73.9 | 83.8 | 100.3 | 141.6 | 22.9 |
| Interest on time certificates of $100,000 or more (issued by domestic offices) | 1,153.9 | 181.8 | 38.7 | 74.7 | 81.7 | 192.9 | 9.3 |
| Interest on deposits in foreign offices | 2,076.4 | 13.7 | 1.7 | 0 | 11.4 | 6.7 | 0 |
| Interest on other deposits | 1,144.6 | 431.0 | 181.8 | 166.8 | 177.2 | 178.9 | 34.6 |
| Expense of federal funds purchased and securities sold under agreements to repurchase | 1,169.6 | 156.6 | 45.9 | 48.3 | 43.2 | 86.5 | 6.2 |
| Interest on demand notes issued to the U.S. Treasury and on other borrowed money | 162.0 | 21.2 | 6.0 | 6.8 | 10.5 | 5.7 | 1.4 |
| Interest on subordinated notes and debentures | 10.0 | 2.9 | 2.6 | 2.0 | 1.1 | 3.0 | .2 |
| Occupancy expense of bank premises, net, and furniture and equipment expense | 239.0 | 77.9 | 23.0 | 26.7 | 34.5 | 53.2 | 7.3 |
| Provision for possible loan losses | 196.1 | 32.6 | 10.0 | 11.7 | 20.9 | 26.9 | 4.2 |
| Other operating expenses | 464.1 | 139.3 | 56.1 | 53.9 | 63.9 | 87.3 | 12.8 |
| *Total operating expenses* | 7,424.9 | 1,281.0 | 439.6 | 474.8 | 544.8 | 782.8 | 99.0 |
| Income before income taxes and securities gains or losses | 708.0 | 194.6 | 72.3 | 88.9 | 93.0 | 153.3 | 10.2 |
| Applicable income taxes | 145.2 | 39.3 | 15.7 | 22.0 | 20.5 | 42.1 | .9 |
| Income before securities gains or losses | 562.9 | 155.3 | 56.6 | 66.9 | 72.4 | 111.2 | 9.3 |
| Securities gains (losses), gross | −24.1 | −2.8 | −3.9 | −3.5 | −3.6 | −9.4 | −.2 |
| Applicable income taxes | −9.8 | −1.3 | −1.8 | −1.5 | −1.6 | −4.3 | −.1 |
| Securities gains (losses), net | −14.4 | −1.5 | −2.1 | −2.1 | −2.0 | −5.1 | −.1 |
| Income before extraordinary items | 548.5 | 153.8 | 54.5 | 64.9 | 70.5 | 106.1 | 9.2 |
| Extraordinary items, net | 1.7 | .2 | .2 | .2 | — | .3 | .2 |
| Net income | 550.1 | 154.0 | 54.7 | 65.1 | 70.5 | 106.4 | 9.4 |
| Cash dividends declared on common stock | 178.0 | 61.5 | 17.4 | 20.5 | 14.2 | 29.3 | 4.1 |
| Cash dividends declared on preferred stock | .1 | — | 0 | 0 | 0 | .1 | 0 |
| Total cash dividends declared | 178.1 | 61.5 | 17.4 | 20.5 | 14.2 | 29.4 | 4.1 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Recoveries credited to allowance for possible loan losses | 66.7 | 11.6 | 2.8 | 4.8 | 4.7 | 9.8 | 1.3 |
| Losses charged to allowance for possible loan losses | 223.0 | 35.5 | 9.6 | 14.0 | 19.8 | 28.3 | 5.5 |
| Net loan losses | 156.3 | 23.9 | 6.8 | 9.2 | 15.1 | 18.5 | 4.2 |
| Ratio to total operating income: | | | | | | | |
| Interest on deposits | 53.8 | 42.5 | 43.4 | 42.8 | 42.4 | 40.4 | 40.2 |
| Other interest expense | 16.5 | 12.2 | 10.6 | 10.1 | 8.6 | 10.2 | 7.1 |
| Salaries and employee benefits | 10.0 | 15.2 | 14.4 | 14.9 | 15.7 | 15.1 | 21.0 |
| Other non-interest expense | 11.1 | 16.9 | 17.4 | 16.4 | 18.7 | 17.9 | 22.3 |
| Total operating expenses | 91.3 | 86.8 | 85.9 | 84.2 | 85.4 | 83.6 | 90.7 |
| Ratio of net income to total equity capital (end of period) | 12.1 | 13.2 | 13.1 | 12.5 | 13.7 | 13.1 | 11.5 |

See note at end of table.

## Table B-22—Continued

### Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, year ended December 31, 1979
(Dollar amounts in millions)

| | Maryland | Massachusetts | Michigan | Minnesota | Mississippi | Missouri | Montana |
|---|---|---|---|---|---|---|---|
| Number of banks | 31 | 71 | 123 | 205 | 38 | 98 | 56 |
| Operating income: | | | | | | | |
| Interest and fees on loans | $444.5 | $1,438.6 | $1,723.0 | $1,114.6 | $289.7 | $765.7 | $178.6 |
| Interest on balances with depository institutions | 25.0 | 277.4 | 130.4 | 52.4 | 2.9 | 10.8 | .4 |
| Income on federal funds sold and securities purchased under agreements to resell | 28.6 | 94.5 | 105.8 | 56.6 | 21.4 | 168.0 | 8.4 |
| Interest on U.S. Treasury securities and on obligations of other U.S. government agencies and corporations | 33.4 | 149.3 | 178.7 | 116.1 | 39.4 | 76.5 | 16.4 |
| Interest on obligations of states and political subdivisions in the U.S. | 36.4 | 43.7 | 159.9 | 101.8 | 32.2 | 60.6 | 17.4 |
| Income from all other securities (including dividends on stock) | .8 | 50.9 | 10.6 | 2.4 | 1.5 | 2.6 | .6 |
| Income from lease financing | 4.1 | 51.8 | 7.7 | 14.4 | .2 | 6.9 | .6 |
| Income from fiduciary activities | 7.9 | 65.3 | 48.8 | 32.6 | 3.6 | 29.1 | .4 |
| Service charges on deposit accounts | 15.3 | 18.4 | 41.3 | 20.1 | 11.6 | 14.9 | 4.8 |
| Other service charges, commissions, and fees | 11.8 | 67.0 | 42.8 | 54.7 | 14.7 | 41.6 | 7.0 |
| Other operating income | 8.0 | 49.2 | 45.4 | 54.5 | 4.3 | 23.1 | 2.2 |
| *Total operating income* | 615.9 | 2,306.0 | 2,494.5 | 1,620.2 | 421.6 | 1,200.0 | 236.9 |
| Operating expenses: | | | | | | | |
| Salaries and employee benefits | 115.3 | 334.7 | 407.0 | 206.0 | 64.4 | 162.5 | 35.3 |
| Interest on time certificates of $100,000 or more (issued by domestic offices) | 56.3 | 240.7 | 321.7 | 264.4 | 70.7 | 180.6 | 25.9 |
| Interest on deposits in foreign offices | 37.4 | 626.5 | 142.7 | 93.2 | 0 | 52.4 | 0 |
| Interest on other deposits | 144.2 | 174.1 | 711.8 | 339.9 | 118.8 | 187.1 | 85.1 |
| Expense of federal funds purchased and securities sold under agreements to repurchase | 61.5 | 317.3 | 202.5 | 225.3 | 34.1 | 262.7 | 8.4 |
| Interest on demand notes issued to the U.S. Treasury and on other borrowed money | 15.3 | 79.3 | 37.7 | 44.3 | 3.4 | 22.7 | 1.9 |
| Interest on subordinated notes and debentures | .3 | 2.7 | 8.8 | 12.1 | 1.1 | 1.6 | 1.6 |
| Occupancy expense of bank premises, net, and furniture and equipment expense | 35.8 | 92.3 | 123.6 | 46.9 | 22.2 | 53.6 | 8.4 |
| Provision for possible loan losses | 20.0 | 69.5 | 52.1 | 33.5 | 13.1 | 25.3 | 2.5 |
| Other operating expenses | 57.6 | 177.2 | 218.9 | 148.8 | 43.6 | 113.6 | 23.7 |
| *Total operating expenses* | 543.8 | 2,114.4 | 2,226.8 | 1,414.4 | 371.5 | 1,062.0 | 192.9 |
| Income before income taxes and securities gains or losses | 72.0 | 191.7 | 267.6 | 205.8 | 50.1 | 138.0 | 44.0 |
| Applicable income taxes | 14.4 | 73.1 | 37.4 | 44.9 | 6.6 | 31.5 | 12.3 |
| Income before securities gains or losses | 57.7 | 118.6 | 230.2 | 160.9 | 43.5 | 106.4 | 31.7 |
| Securities gains (losses), gross | −3.4 | −6.0 | −17.0 | −7.3 | — | −4.2 | −1.1 |
| Applicable income taxes | −1.6 | −3.5 | −7.8 | −3.6 | — | −1.9 | −.5 |
| Securities gains (losses), net | −1.8 | −2.5 | −9.2 | −3.7 | — | −2.3 | −.6 |
| Income before extraordinary items | 55.9 | 116.1 | 221.0 | 157.2 | 43.5 | 104.1 | 31.0 |
| Extraordinary items, net | — | .3 | .1 | .5 | — | — | .1 |
| Net income | 55.9 | 116.4 | 221.2 | 157.6 | 43.5 | 104.1 | 31.1 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Cash dividends declared on common stock | 14.7 | 48.1 | 115.0 | 48.9 | 10.1 | 49.6 | 11.6 |
| Cash dividends declared on preferred stock | 0 | 0 | 0 | 0 | 0 | .1 | 0 |
| Total cash dividends declared | 14.7 | 48.1 | 115.0 | 48.9 | 10.1 | 49.7 | 11.6 |
| Recoveries credited to allowance for possible loan losses | 4.6 | 18.4 | 16.8 | 6.6 | 4.3 | 8.5 | 1.4 |
| Losses charged to allowance for possible loan losses | 19.5 | 56.6 | 61.0 | 21.1 | 13.6 | 26.3 | 2.8 |
| Net loan losses | 14.9 | 38.2 | 44.2 | 14.5 | 9.3 | 17.8 | 1.4 |
| Ratio to total operating income: | | | | | | | |
| Interest on deposits | 38.6 | 45.2 | 47.2 | 43.1 | 44.9 | 35.0 | 46.9 |
| Other interest expense | 12.5 | 17.3 | 10.0 | 17.4 | 9.2 | 23.9 | 5.0 |
| Salaries and employee benefits | 18.7 | 14.5 | 16.3 | 12.7 | 15.3 | 13.5 | 14.9 |
| Other non-interest expense | 18.4 | 14.7 | 15.8 | 14.1 | 18.7 | 16.0 | 14.6 |
| Total operating expenses | 88.3 | 91.7 | 89.3 | 87.3 | 88.1 | 88.5 | 81.4 |
| Ratio of net income to total equity capital (end of period) | 12.9 | 10.7 | 12.7 | 13.9 | 13.5 | 12.4 | 16.7 |

See note at end of table.

# Table B-22—Continued

## Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, year ended December 31, 1979

(Dollar amounts in millions)

| | Nebraska | Nevada | New Hampshire | New Jersey | New Mexico | New York | North Carolina |
|---|---|---|---|---|---|---|---|
| Number of banks | 117 | 4 | 36 | 93 | 40 | 116 | 26 |
| Operating income: | | | | | | | |
| Interest and fees on loans | $364.3 | $162.9 | $103.6 | $1,157.0 | $193.8 | $13,060.7 | $858.5 |
| Interest on balances with depository institutions | .7 | 1.5 | .8 | 16.2 | 2.8 | 2,316.2 | 132.6 |
| Income on federal funds sold and securities purchased under agreements to resell | 37.0 | 6.3 | 6.1 | 63.6 | 17.7 | 308.0 | 77.7 |
| Interest on U.S. Treasury securities and on obligations of other U.S. government agencies and corporations | 42.8 | 24.6 | 10.6 | 198.2 | 28.5 | 373.4 | 104.1 |
| Interest on obligations of states and political subdivisions in the U.S. | 34.6 | 14.0 | 10.1 | 152.5 | 18.7 | 277.0 | 74.1 |
| Income from all other securities (including dividends on stock) | 1.2 | .2 | .4 | 22.8 | .5 | 289.1 | 2.1 |
| Income from lease financing | 4.0 | 7.4 | — | 12.3 | .4 | 214.6 | 15.2 |
| Income from fiduciary activities | 9.1 | 3.6 | 3.3 | 25.2 | 3.6 | 169.3 | 30.9 |
| Service charges on deposit accounts | 9.8 | 11.0 | 2.5 | 35.9 | 9.0 | 67.3 | 33.8 |
| Other service charges, commissions, and fees | 25.1 | 3.4 | 2.9 | 33.3 | 10.6 | 662.3 | 34.1 |
| Other operating income | 10.4 | 3.3 | 1.1 | 27.5 | 1.7 | 505.0 | 45.8 |
| *Total operating income* | 539.0 | 238.1 | 141.4 | 1,744.5 | 287.3 | 18,243.1 | 1,408.9 |
| Operating expenses: | | | | | | | |
| Salaries and employee benefits | 82.3 | 47.6 | 27.7 | 323.2 | 49.3 | 2,013.9 | 229.9 |
| Interest on time certificates of $100,000 or more (issued by domestic offices) | 51.1 | 37.9 | 12.8 | 174.7 | 55.7 | 1,061.1 | 165.1 |
| Interest on deposits in foreign offices | 0 | 0 | 0 | 22.5 | 0 | 7,875.8 | 144.9 |
| Interest on other deposits | 158.8 | 51.6 | 41.6 | 545.5 | 72.8 | 1,221.4 | 259.8 |
| Expense of federal funds purchased and securities sold under agreements to repurchase | 45.4 | 9.1 | 5.1 | 130.4 | 12.3 | 1,375.2 | 165.6 |
| Interest on demand notes issued to the U.S. Treasury and on other borrowed money | 9.5 | 1.9 | 2.5 | 18.2 | 2.0 | 733.9 | 18.4 |
| Interest on subordinated notes and debentures | 2.3 | 0 | .1 | 4.5 | 1.8 | 48.1 | 10.8 |
| Occupancy expense of bank premises, net, and furniture and equipment expense | 28.2 | 12.6 | 9.6 | 105.2 | 18.0 | 564.4 | 64.4 |
| Provision for possible loan losses | 11.2 | 4.0 | 4.2 | 35.3 | 5.9 | 421.7 | 34.2 |
| Other operating expenses | 59.3 | 25.3 | 21.2 | 189.5 | 28.6 | 1,219.4 | 130.5 |
| *Total operating expenses* | 448.1 | 190.0 | 124.8 | 1,549.0 | 246.4 | 16,534.9 | 1,223.4 |
| Income before income taxes and securities gains or losses | 90.8 | 48.1 | 16.6 | 195.5 | 40.9 | 1,708.3 | 185.5 |
| Applicable income taxes | 23.3 | 14.4 | 2.3 | 11.7 | 10.2 | 683.7 | 48.1 |
| Income before securities gains or losses | 67.6 | 33.7 | 14.3 | 183.8 | 30.7 | 1,024.5 | 137.5 |
| Securities gains (losses), gross | −2.3 | −2.4 | −.4 | −5.7 | −.7 | −48.3 | −12.4 |
| Applicable income taxes | −.9 | −1.1 | −.2 | −2.5 | −.1 | −26.2 | −6.1 |
| Securities gains (losses), net | −1.4 | −1.3 | −.2 | −3.2 | −.6 | −22.1 | −6.3 |
| Income before extraordinary items | 66.2 | 32.4 | 14.1 | 180.6 | 30.1 | 1,002.5 | 131.1 |
| Extraordinary items, net | — | 0 | 0 | .1 | — | .7 | .9 |
| Net income | 66.2 | 32.4 | 14.1 | 180.8 | 30.1 | 1,003.2 | 132.1 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Cash dividends declared on common stock | 22.1 | 13.4 | 5.1 | 79.5 | 8.2 | 366.3 | 35.7 |
| Cash dividends declared on preferred stock | — | 0 | 0 | .1 | 0 | .1 | 0 |
| Total cash dividends declared | 22.1 | 13.4 | 5.1 | 79.6 | 8.2 | 366.4 | 35.7 |
| Recoveries credited to allowance for possible loan losses | 6.5 | 1.5 | 1.1 | 14.0 | 3.0 | 193.6 | 7.8 |
| Losses charged to allowance for possible loan losses | 14.2 | 4.0 | 3.1 | 35.8 | 7.3 | 476.0 | 29.0 |
| Net loan losses | 7.7 | 2.5 | 2.0 | 21.8 | 4.3 | 282.4 | 21.2 |
| Ratio to total operating income: | | | | | | | |
| Interest on deposits | 38.9 | 37.6 | 38.5 | 42.6 | 44.7 | 55.7 | 40.4 |
| Other interest expense | 10.6 | 4.6 | 5.4 | 8.8 | 5.6 | 11.8 | 13.8 |
| Salaries and employee benefits | 15.3 | 20.0 | 19.6 | 18.5 | 17.2 | 11.0 | 16.3 |
| Other non-interest expense | 18.3 | 17.6 | 24.8 | 18.9 | 18.3 | 12.1 | 16.3 |
| Total operating expenses | 83.1 | 79.8 | 88.3 | 88.8 | 85.8 | 90.6 | 86.8 |
| Ratio of net income to total equity capital (end of period) | 14.8 | 16.1 | 11.6 | 13.0 | 13.8 | 11.6 | 14.5 |

See note at end of table.

Table B-22—Continued

## Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, year ended December 31, 1979

(Dollar amounts in millions)

| | North Dakota | Ohio | Oklahoma | Oregon | Pennsylvania | Rhode Island | South Carolina |
|---|---|---|---|---|---|---|---|
| Number of banks | 41 | 177 | 190 | 6 | 223 | 5 | 18 |
| Operating income: | | | | | | | |
| Interest and fees on loans | $132.8 | $1,886.0 | $758.9 | $598.8 | $3,297.1 | $285.5 | $226.2 |
| Interest on balances with depository institutions | .4 | 132.6 | 5.7 | 42.4 | 324.9 | 9.8 | .2 |
| Income on federal funds sold and securities purchased under agreements to resell | 3.4 | 137.4 | 69.6 | 25.6 | 278.2 | 10.3 | 32.5 |
| Interest on U.S. Treasury securities and on obligations of other U.S. government agencies and corporations | 13.2 | 268.4 | 95.5 | 26.2 | 447.6 | 38.4 | 25.0 |
| Interest on obligations of states and political subdivisions in the U.S. | 13.2 | 231.1 | 90.6 | 54.3 | 247.1 | 25.2 | 20.9 |
| Income from all other securities (including dividends on stock) | .5 | 8.9 | 3.1 | .9 | 42.3 | 1.3 | .2 |
| Income from lease financing | — | 21.5 | 2.0 | 4.1 | 24.4 | 8.9 | 1.5 |
| Income from fiduciary activities | 1.0 | 58.0 | 14.6 | 14.2 | 107.9 | 13.9 | 6.6 |
| Service charges on deposit accounts | 2.6 | 69.5 | 25.9 | 30.9 | 40.4 | 4.2 | 18.5 |
| Other service charges, commissions, and fees | 5.0 | 68.3 | 20.1 | 13.9 | 99.5 | 6.5 | 10.2 |
| Other operating income | 1.1 | 25.6 | 22.0 | 9.8 | 118.5 | 13.6 | 8.5 |
| *Total operating income* | 173.3 | 2,907.4 | 1,108.0 | 821.1 | 5,027.9 | 417.6 | 350.2 |
| Operating expenses: | | | | | | | |
| Salaries and employee benefits | 25.6 | 454.7 | 156.3 | 148.9 | 679.7 | 58.9 | 87.0 |
| Interest on time certificates of $100,000 or more (issued by domestic offices) | 11.7 | 339.4 | 271.6 | 130.1 | 732.7 | 96.4 | 20.7 |
| Interest on deposits in foreign offices | 0 | 55.2 | 10.3 | 19.3 | 550.1 | 29.2 | .5 |
| Interest on other deposits | 71.3 | 769.7 | 231.6 | 199.0 | 1,050.2 | 78.2 | 63.0 |
| Expense of federal funds purchased and securities sold under agreements to repurchase | 6.0 | 327.3 | 76.6 | 66.6 | 686.4 | 52.1 | 29.5 |
| Interest on demand notes issued to the U.S. Treasury and on other borrowed money | 2.7 | 38.1 | 11.2 | 11.6 | 121.8 | 5.3 | 6.9 |
| Interest on subordinated notes and debentures | 1.3 | 2.7 | 6.3 | 11.2 | 19.2 | 1.4 | 1.1 |
| Occupancy expense of bank premises, net, and furniture and equipment expense | 7.1 | 138.8 | 42.7 | 34.3 | 201.2 | 15.4 | 25.3 |
| Provision for possible loan losses | 4.2 | 67.1 | 31.2 | 16.2 | 131.2 | 12.7 | 9.9 |
| Other operating expenses | 16.7 | 305.2 | 106.3 | 70.0 | 348.8 | 38.2 | 46.8 |
| *Total operating expenses* | 146.4 | 2,498.1 | 944.0 | 707.1 | 4,521.3 | 387.8 | 290.9 |
| Income before income taxes and securities gains or losses | 26.9 | 409.2 | 164.0 | 114.0 | 506.6 | 29.8 | 59.2 |
| Applicable income taxes | 6.1 | 71.0 | 29.9 | 30.9 | 67.0 | −.4 | 16.6 |
| Income before securities gains or losses | 20.7 | 338.2 | 134.2 | 83.1 | 439.6 | 30.3 | 42.6 |
| Securities gains (losses), gross | −.9 | −27.5 | −9.8 | −4.3 | −42.3 | −2.0 | −.8 |
| Applicable income taxes | −.3 | −11.9 | −4.0 | −2.2 | −19.3 | −1.0 | −.3 |
| Securities gains (losses), net | −.5 | −15.6 | −5.8 | −2.1 | −23.0 | −1.0 | −.4 |
| Income before extraordinary items | 20.2 | 322.6 | 128.4 | 81.0 | 416.6 | 29.3 | 42.2 |
| Extraordinary items, net | — | .1 | 2.2 | 0 | −.2 | 0 | 0 |
| Net income | 20.2 | 322.7 | 130.6 | 81.0 | 416.3 | 29.3 | 42.2 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Cash dividends declared on common stock | 6.9 | 181.0 | 34.2 | 30.6 | 192.5 | 11.5 | 12.0 |
| Cash dividends declared on preferred stock | 0 | 0 | — | 0 | .2 | 0 | 0 |
| Total cash dividends declared | 6.9 | 181.0 | 34.2 | 30.6 | 192.7 | 11.5 | 12.0 |
| Recoveries credited to allowance for possible loan losses | .6 | 29.5 | 9.5 | 4.6 | 28.5 | 2.6 | 4.0 |
| Losses charged to allowance for possible loan losses | 3.3 | 80.3 | 31.2 | 12.6 | 115.8 | 11.2 | 11.0 |
| Net loan losses | 2.7 | 50.8 | 21.7 | 8.0 | 87.3 | 8.6 | 7.0 |
| Ratio to total operating income: | | | | | | | |
| Interest on deposits | 47.9 | 40.0 | 46.3 | 42.4 | 46.4 | 48.8 | 24.0 |
| Other interest expense | 5.8 | 12.7 | 8.5 | 10.9 | 16.5 | 14.1 | 10.7 |
| Salaries and employee benefits | 14.8 | 15.6 | 14.1 | 18.1 | 13.5 | 14.1 | 24.8 |
| Other non-interest expense | 16.2 | 17.6 | 16.3 | 14.7 | 13.5 | 15.9 | 23.4 |
| Total operating expenses | 84.5 | 85.9 | 85.2 | 86.1 | 89.9 | 92.9 | 83.1 |
| Ratio of net income to total equity capital (end of period) | 14.1 | 13.5 | 14.3 | 16.2 | 12.2 | 12.1 | 14.6 |

See note at end of table.

## Table B-22—Continued

### Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, year ended December 31, 1979

(Dollar amounts in millions)

| | South Dakota | Tennessee | Texas | Utah | Vermont | Virginia | Washington |
|---|---|---|---|---|---|---|---|
| Number of banks | 33 | 69 | 615 | 11 | 12 | 72 | 21 |
| Operating income: | | | | | | | |
| Interest and fees on loans | $182.1 | $629.3 | $4,089.8 | $232.6 | $35.9 | $707.2 | $1,319.8 |
| Interest on balances with depository institutions | .8 | 7.3 | 458.3 | 2.2 | .2 | 19.8 | 67.3 |
| Income on federal funds sold and securities purchased under agreements to resell | 5.7 | 70.0 | 365.4 | 14.6 | 1.7 | 48.7 | 58.3 |
| Interest on U.S. Treasury securities and on obligations of other U.S. government agencies and corporations | 14.7 | 97.6 | 430.5 | 19.2 | 3.3 | 69.8 | 49.9 |
| Interest on obligations of states and political subdivisions in the U.S. | 17.0 | 49.7 | 385.2 | 12.8 | 3.2 | 74.7 | 58.5 |
| Income from all other securities (including dividends on stock) | .6 | 1.7 | 13.5 | .2 | .5 | 1.2 | 2.4 |
| Income from lease financing | .3 | 5.5 | 10.9 | 2.6 | 0 | 2.9 | 54.6 |
| Income from fiduciary activities | 1.3 | 16.8 | 100.5 | 3.7 | .4 | 19.4 | 26.6 |
| Service charges on deposit accounts | 4.4 | 29.7 | 117.5 | 10.2 | .8 | 15.9 | 50.6 |
| Other service charges, commissions, and fees | 7.1 | 33.5 | 128.4 | 9.3 | .8 | 28.4 | 38.0 |
| Other operating income | 2.2 | 14.9 | 62.0 | 3.8 | .5 | 16.7 | 27.9 |
| *Total operating income* | 236.1 | 956.1 | 6,161.9 | 311.2 | 47.2 | 1,004.8 | 1,754.1 |
| Operating expenses: | | | | | | | |
| Salaries and employee benefits | 34.2 | 164.5 | 718.2 | 45.4 | 9.0 | 186.0 | 325.1 |
| Interest on time certificates of $100,000 or more (issued by domestic offices) | 21.6 | 135.4 | 1,253.2 | 72.2 | 3.3 | 94.3 | 280.0 |
| Interest on deposits in foreign offices | 0 | 3.7 | 703.2 | 0 | 0 | 7.7 | 108.9 |
| Interest on other deposits | 99.7 | 248.2 | 1,028.0 | 64.8 | 19.3 | 305.5 | 338.8 |
| Expense of federal funds purchased and securities sold under agreements to repurchase | 4.1 | 95.8 | 676.1 | 27.2 | .5 | 68.5 | 156.2 |
| Interest on demand notes issued to the U.S. Treasury and on other borrowed money | 2.3 | 4.8 | 58.7 | 2.6 | .4 | 11.8 | 34.3 |
| Interest on subordinated notes and debentures | 1.8 | 2.0 | 35.6 | 4.1 | .3 | 4.7 | 10.0 |
| Occupancy expense of bank premises, net, and furniture and equipment expense | 9.5 | 57.7 | 194.7 | 13.2 | 2.8 | 60.4 | 90.1 |
| Provision for possible loan losses | 6.4 | 29.5 | 154.4 | 7.1 | 1.0 | 27.6 | 38.5 |
| Other operating expenses | 21.2 | 101.7 | 519.5 | 33.4 | 4.8 | 120.2 | 173.4 |
| *Total operating expenses* | 200.8 | 843.3 | 5,341.8 | 269.8 | 41.4 | 886.8 | 1,555.2 |
| Income before income taxes and securities gains or losses | 35.3 | 112.8 | 820.2 | 41.4 | 5.8 | 117.9 | 198.9 |
| Applicable income taxes | 8.3 | 26.6 | 180.9 | 12.1 | 1.0 | 16.2 | 57.9 |
| Income before securities gains or losses | 26.9 | 86.2 | 639.3 | 29.3 | 4.8 | 101.7 | 141.0 |
| Securities gains (losses), gross | −1.1 | −2.9 | −20.2 | −2.4 | −.3 | −7.3 | −3.7 |
| Applicable income taxes | −.5 | −1.4 | −9.1 | −1.2 | −.1 | −3.3 | −1.7 |
| Securities gains (losses), net | −.6 | −1.5 | −11.1 | −1.2 | −.2 | −4.0 | −2.0 |
| Income before extraordinary items | 26.4 | 84.7 | 628.2 | 28.1 | 4.7 | 97.7 | 139.0 |
| Extraordinary items, net | .1 | 3.8 | 1.2 | 0 | — | .2 | .1 |
| Net income | 26.4 | 88.5 | 629.4 | 28.1 | 4.7 | 97.9 | 139.1 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Cash dividends declared on common stock | 9.7 | 29.0 | 209.4 | 11.4 | 1.6 | 38.9 | 41.1 |
| Cash dividends declared on preferred stock | 0 | 0 | .3 | 0 | 0 | 0 | .4 |
| Total cash dividends declared | 9.7 | 29.0 | 209.7 | 11.4 | 1.6 | 38.9 | 41.5 |
| Recoveries credited to allowance for possible loan losses | 1.9 | 16.7 | 42.3 | .8 | .2 | 8.9 | 11.2 |
| Losses charged to allowance for possible loan losses | 7.8 | 41.7 | 138.0 | 4.9 | .9 | 29.3 | 34.4 |
| Net loan losses | 5.9 | 25.0 | 95.7 | 4.1 | .7 | 20.4 | 23.2 |
| Ratio to total operating income: | | | | | | | |
| Interest on deposits | 51.4 | 40.5 | 48.4 | 44.0 | 47.9 | 40.6 | 41.5 |
| Other interest expense | 3.5 | 10.7 | 12.5 | 10.9 | 2.5 | 8.5 | 11.4 |
| Salaries and employee benefits | 14.5 | 17.2 | 11.7 | 14.6 | 19.1 | 18.5 | 18.5 |
| Other non-interest expense | 15.7 | 19.8 | 14.1 | 17.3 | 18.2 | 20.7 | 17.2 |
| Total operating expenses | 85.0 | 88.2 | 86.7 | 86.8 | 87.7 | 88.3 | 88.7 |
| Ratio of net income to total equity capital (end of period) | 14.0 | 12.4 | 14.7 | 16.7 | 13.5 | 13.1 | 14.6 |

See note at end of table.

## Table B-22—Continued

### Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, year ended December 31, 1979
(Dollar amounts in millions)

| | West Virginia | Wisconsin | Wyoming | District of Columbia Nonnational* |
|---|---|---|---|---|
| Number of banks | 107 | 131 | 47 | 1 |
| Operating income: | | | | |
| Interest and fees on loans | $270.8 | $678.9 | $128.7 | $2.7 |
| Interest on balances with depository institutions | 3.1 | 35.3 | .4 | 0 |
| Income on federal funds sold and securities purchased under agreements to resell | 39.9 | 33.6 | 7.5 | .3 |
| Interest on U.S. Treasury securities and on obligations of other U.S. government agencies and corporations | 65.3 | 85.7 | 17.9 | 1.5 |
| Interest on obligations of states and political subdivisions in the U.S. | 37.5 | 56.4 | 13.1 | .2 |
| Income from all other securities (including dividends on stock) | 1.3 | 4.6 | .6 | .1 |
| Income from lease financing | 1.0 | 5.7 | .3 | 0 |
| Income from fiduciary activities | 5.8 | 15.6 | 1.4 | 0 |
| Service charges on deposit accounts | 4.6 | 14.1 | 5.3 | .2 |
| Other service charges, commissions, and fees | 7.4 | 40.1 | 2.8 | — |
| Other operating income | 3.0 | 24.0 | 2.1 | — |
| *Total operating income* | 439.6 | 994.1 | 180.2 | 5.0 |
| Operating expenses: | | | | |
| Salaries and employee benefits | 64.9 | 142.5 | 28.3 | 1.1 |
| Interest on time certificates of $100,000 or more (issued by domestic offices) | 36.1 | 114.6 | 21.2 | .4 |
| Interest on deposits in foreign offices | 0 | 55.2 | 0 | 0 |
| Interest on other deposits | 163.7 | 261.7 | 58.0 | 1.3 |
| Expense of federal funds purchased and securities sold under agreements to repurchase | 35.8 | 141.0 | 4.3 | .4 |
| Interest on demand notes issued to the U.S. Treasury and on other borrowed money | 3.3 | 19.3 | 2.0 | 0 |
| Interest on subordinated notes and debentures | .6 | 4.6 | .7 | — |
| Occupancy expense of bank premises, net, and furniture and equipment expense | 19.8 | 45.4 | 8.0 | .2 |
| Provision for possible loan losses | 10.1 | 12.4 | 4.4 | .4 |
| Other operating expenses | 44.0 | 97.9 | 17.3 | .8 |
| *Total operating expenses* | 378.3 | 894.7 | 144.2 | 4.6 |
| Income before income taxes and securities gains or losses | 61.3 | 99.4 | 35.9 | .4 |
| Applicable income taxes | 8.5 | 20.6 | 9.6 | .1 |
| Income before securities gains or losses | 52.8 | 78.8 | 26.4 | .3 |
| Securities gains (losses), gross | −2.2 | −4.5 | −1.0 | — |
| Applicable income taxes | −.8 | −2.2 | −.3 | — |
| Securities gains (losses), net | −1.4 | −2.3 | −.6 | — |
| Income before extraordinary items | 51.5 | 76.4 | 25.7 | .3 |
| Extraordinary items, net | .2 | — | — | .1 |
| Net income | 51.6 | 76.4 | 25.7 | .4 |

| | | | | |
|---|---|---|---|---|
| Cash dividends declared on common stock | 14.0 | 29.0 | 8.2 | .1 |
| Cash dividends declared on preferred stock | 0 | 0 | 0 | — |
| Total cash dividends declared | 14.0 | 29.0 | 8.2 | .1 |
| Recoveries credited to allowance for possible loan losses | 2.5 | 4.5 | 1.6 | .1 |
| Losses charged to allowance for possible loan losses | 11.5 | 15.2 | 4.3 | .3 |
| Net loan losses | 9.0 | 10.7 | 2.7 | .2 |
| Ratio to total operating income: | | | | |
| Interest on deposits | 45.5 | 43.4 | 44.0 | 34.0 |
| Other interest expense | 9.0 | 16.6 | 3.9 | 8.0 |
| Salaries and employee benefits | 14.8 | 14.3 | 15.7 | 22.0 |
| Other non-interest expense | 16.8 | 15.7 | 16.5 | 28.0 |
| Total operating expenses | 86.1 | 90.0 | 80.0 | 92.0 |
| Ratio of net income to total equity capital (end of period) | 11.1 | 11.5 | 16.5 | 10.0 |

* Nonnational banks in the District of Columbia are supervised by the Comptroller of the Currency.

NOTE: Dashes indicate amounts of less than $50,000. Data may not add to totals because of rounding.

Table B-23

*National banks engaged in lease financing, December 31, 1979*
(Dollar amounts in thousands)

| | Total number of national banks | Number of banks engaged in lease financing | Amount of lease financing at domestic offices |
|---|---|---|---|
| All national banks | 4,448 | 838 | $6,780,330 |
| Alabama | 99 | 9 | 31,872 |
| Alaska | 6 | 2 | 10,132 |
| Arizona | 3 | 1 | 50,862 |
| Arkansas | 68 | 11 | 11,942 |
| California | 42 | 12 | 2,512,363 |
| Colorado | 139 | 37 | 63,381 |
| Connecticut | 19 | 1 | 12,541 |
| Delaware | 6 | 0 | 0 |
| District of Columbia | 16 | 3 | 27,462 |
| Florida | 221 | 44 | 52,055 |
| Georgia | 63 | 15 | 69,073 |
| Hawaii | 3 | 1 | 10,757 |
| Idaho | 7 | 3 | 38,810 |
| Illinois | 410 | 81 | 196,437 |
| Indiana | 119 | 26 | 154,399 |
| Iowa | 99 | 20 | 7,517 |
| Kansas | 148 | 26 | 3,766 |
| Kentucky | 79 | 15 | 118,324 |
| Louisiana | 55 | 11 | 30,448 |
| Maine | 14 | 0 | 0 |
| Maryland | 31 | 5 | 57,826 |
| Massachusetts | 71 | 11 | 195,304 |
| Michigan | 123 | 22 | 137,661 |
| Minnesota | 205 | 36 | 218,827 |
| Mississippi | 38 | 6 | 2,022 |
| Missouri | 98 | 26 | 85,072 |
| Montana | 56 | 17 | 6,112 |
| Nebraska | 117 | 28 | 50,166 |
| Nevada | 4 | 3 | 53,836 |
| New Hampshire | 36 | 1 | 1 |
| New Jersey | 93 | 9 | 130,650 |
| New Mexico | 40 | 14 | 3,501 |
| New York | 116 | 14 | 634,879 |
| North Carolina | 26 | 6 | 122,158 |
| North Dakota | 41 | 9 | 2,282 |
| Ohio | 177 | 42 | 252,274 |
| Oklahoma | 190 | 87 | 30,131 |
| Oregon | 6 | 2 | 38,608 |
| Pennsylvania | 223 | 11 | 290,394 |
| Rhode Island | 5 | 3 | 109,375 |
| South Carolina | 18 | 2 | 16,418 |
| South Dakota | 33 | 5 | 1,746 |
| Tennessee | 69 | 10 | 55,192 |
| Texas | 615 | 73 | 197,169 |
| Utah | 11 | 3 | 47,612 |
| Vermont | 12 | 0 | 0 |
| Virginia | 72 | 3 | 34,014 |
| Washington | 21 | 9 | 547,918 |
| West Virginia | 107 | 17 | 10,279 |
| Wisconsin | 131 | 28 | 43,961 |
| Wyoming | 47 | 18 | 2,801 |
| District of Columbia—all* | 17 | 3 | 27,462 |

* Includes the nonnational bank in the District of Columbia, which is also supervised by the Comptroller of the Currency.

## Table B-24

*Assets and equity capital, net income, and dividends of national banks, 1967-1979*
(Dollars in millions)

| Year | Number of banks | Total assets* (foreign and domestic) | Capital stock (par value) | | | Total equity capital* | Net income before dividends | Cash dividends on capital stock | Ratios (percent) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Preferred | Common | Total | | | | Net income before dividends to total assets | Net income before dividends to total equity capital | Cash dividends to net income before dividends | Cash dividends to total equity capital |
| 1967 | 4,758 | NA | $55 | $5,312 | $5,367 | $18,495 | $1,757 | $796 | NA | 9.50 | 45.30 | 4.30 |
| 1968 | 4,716 | NA | 58 | 5,694 | 5,752 | 20,268 | 1,932 | 897 | NA | 9.53 | 46.43 | 4.43 |
| 1969 | 4,669 | NA | 62 | 6,166 | 6,228 | 22,134 | 2,534 | 1,068 | NA | 11.45 | 42.15 | 4.83 |
| 1970 | 4,621 | NA | 63 | 6,457 | 6,520 | 23,714 | 2,829 | 1,278 | NA | 11.93 | 45.17 | 5.39 |
| 1971 | 4,600 | NA | 43 | 6,785 | 6,828 | 25,624 | 3,041 | 1,390 | NA | 11.87 | 45.71 | 5.42 |
| 1972 | 4,614 | $489,403 | 42 | 7,458 | 7,500 | 28,223 | 3,308 | 1,310 | .68 | 11.72 | 39.60 | 4.64 |
| 1973 | 4,661 | 569,451 | 37 | 7,904 | 7,941 | 30,935 | 3,768 | 1,449 | .66 | 12.18 | 38.46 | 4.68 |
| 1974 | 4,708 | 629,568 | 13 | 8,336 | 8,349 | 33,572 | 4,044 | 1,671 | .64 | 12.05 | 41.32 | 4.98 |
| 1975 | 4,744 | 658,751 | 14 | 8,809 | 8,823 | 36,688 | 4,259 | 1,821 | .65 | 11.61 | 42.76 | 5.00 |
| 1976 | 4,737 | 704,329 | 19 | 9,106 | 9,125 | 41,325 | 4,591 | 1,821 | .65 | 11.11 | 39.66 | 4.41 |
| 1977 | 4,655 | 796,851 | 25 | 9,552 | 9,577 | 44,999 | 5,139 | 1,994 | .64 | 11.42 | 38.80 | 4.43 |
| 1978 | 4,564 | 892,272 | 29 | 9,912 | 9,941 | 49,207 | 6,173 | 2,196 | .69 | 12.54 | 35.57 | 4.46 |
| 1979 | 4,448 | 996,281 | 31 | 11,403 | 11,434 | 54,296 | 7,247 | 2,650 | .73 | 13.35 | 36.57 | 4.88 |

* Data are not exactly comparable because assets through 1975 are net of reserves on loans and securities and since then are net of valuation reserves and unearned discount on loans. Also, equity capital beginning for 1976 is reported including certain portions of the reserves on loans and securities which were not reported separately for the years 1969-1975.

## Table B-25

*Loan losses and recoveries of national banks, 1970-1979*

| Year | Total loans at domestic offices, end of year, net | Net loan losses at domestic offices | Ratio of net losses to loans, net (Percent) | Total loans, foreign and domestic, end of year, net* | Total net loan losses† | Ratio of net losses to loans, net (Percent) |
|---|---|---|---|---|---|---|
| 1970 ...... | $173,456,091 | $601,734 | 0.35 | | | |
| 1971 ...... | 190,308,412 | 666,190 | 0.35 | | | |
| 1972 ...... | 226,354,896 | 545,473 | 0.24 | | | |
| 1973 ...... | 266,937,532 | 731,633 | 0.27 | | | |
| 1974 ...... | 292,732,965 | 1,193,730 | 0.41 | | | |
| 1975 ...... | 287,362,220 | 2,047,643 | 0.71 | | | |
| 1976 ...... | 299,833,480 | 1,819,748 | 0.61 | $372,458,078 | $2,105,582 | 0.57 |
| 1977 ...... | 340,605,630 | 1,380,261 | 0.41 | 429,317,723 | 1,670,903 | 0.39 |
| 1978 ...... | 390,104,999 | 1,277,398 | 0.33 | 490,142,134 | 1,438,705 | 0.29 |
| 1979 ...... | 437,689,952 | 1,477,753 | 0.34 | 547,397,282 | 1,539,866 | 0.28 |

* Loans used in *all* years are net of reserves; after 1975, loans are also net of unearned discount.
† Beginning in 1976 national banks report consolidated loan losses and recoveries including those on loans at foreign offices.
NOTE: For earlier data, see *Annual Reports of the Comptroller of the Currency*, 1947, p. 100; 1968, p. 233 and 1975, p. 161.

## Table B-26

### *Assets and liabilities of national banks, date of last report of condition, 1972-1979*

*(Dollar amounts in millions)*

| Year | Number of banks | Consolidated foreign and domestic assets | | | | | Liabilities | | Total equity capital |
|---|---|---|---|---|---|---|---|---|---|
| | | Total assets* | Cash and due from banks | Total securities* | Loans, net* | Other assets | Total deposits | Other liabilities† | |
| 1972 | 4,614 | $485,181 | $ 91,345 | $105,195 | $253,538 | $35,103 | $412,316 | $44,499 | $28,366 |
| 1973 | 4,661 | 564,714 | 108,128 | 106,833 | 303,931 | 45,822 | 470,143 | 63,675 | 30,896 |
| 1974 | 4,708 | 624,300 | 112,790 | 109,376 | 345,527 | 56,607 | 519,536 | 71,191 | 33,573 |
| 1975 | 4,744 | 648,350 | 117,715 | 128,163 | 347,686 | 54,786 | 540,492 | 71,204 | 36,654 |
| 1976 | 4,737 | 704,329 | 126,437 | 139,472 | 372,458 | 65,962 | 582,246 | 80,758 | 41,325 |
| 1977 | 4,655 | 796,851 | 150,508 | 143,219 | 429,318 | 73,806 | 654,057 | 97,795 | 44,999 |
| 1978 | 4,564 | 892,272 | 170,146 | 146,155 | 490,142 | 85,829 | 717,057 | 126,008 | 49,207 |
| 1979 | 4,448 | 996,281 | 188,554 | 155,395 | 547,397 | 104,935 | 785,272 | 156,713 | 54,296 |

* For years 1972-1975, data are net of securities and loan reserves. Since 1975 data are net of valuation reserves and unearned discount on loans.

† Includes subordinated capital notes and debentures.

NOTE: For earlier data on domestic office assets and liabilities, see *Annual Report of the Comptroller of the Currency*, 1977, p. 200.

Table B-27

*Consolidated assets and liabilities of national banks with foreign operations, December 31, 1979*
(Dollar amounts in millions)

| | Foreign* and domestic offices | Domestic offices |
|---|---|---|
| Cash and due from depository institutions | $148,742 | $ 66,920 |
| U.S. Treasury securities | 20,216 | 20,062 |
| Obligations of other U.S. government agencies and corporations | 10,645 | 10,596 |
| Obligations of states and political subdivisions in the United States | 32,402 | 31,929 |
| Other bonds, notes, and debentures | 5,844 | 1,056 |
| Federal Reserve stock and corporate stock | 824 | 703 |
| Trading account securities | 6,428 | 5,726 |
| Federal funds sold and securities purchased under agreements to resell | 18,655 | 18,328 |
| Loans, total (excluding unearned income) | 376,021 | 266,149 |
| Less: Allowance for possible loan losses | 3,632 | 3,466 |
| Loans, net | 372,389 | 262,682 |
| Lease financing receivables | 6,989 | 5,696 |
| Bank premises, furniture and fixtures, and other assets representing bank premises | 7,489 | 6,655 |
| Real estate owned other than bank premises | 975 | 856 |
| Investments in unconsolidated subsidiaries and associated companies | 828 | 472 |
| Customers' liability on acceptances outstanding | 21,780 | 16,258 |
| Other assets | 17,935 | 20,179 |
| *Total assets* | 672,142 | 468,117 |
| Demand deposits of individuals, partnerships, and corporations | 105,057 | 105,057 |
| Time and savings deposits of individuals, partnerships and corporations | 159,569 | 159,569 |
| Deposits of United States government | 1,088 | 1,088 |
| Deposits of states and political subdivisions in the United States | 18,983 | 18,983 |
| Deposits of foreign governments and official institutions | 3,878 | 3,878 |
| Deposits of commercial banks | 26,166 | 23,166 |
| Certified and officers' checks | 4,611 | 4,611 |
| Total deposits in domestic offices | 319,352 | 319,352 |
| Total demand deposits | 136,795 | 136,795 |
| Total time and savings deposits | 182,557 | 182,557 |
| Total deposits in foreign offices* | 190,302 | NA |
| *Total deposits* | 509,654 | 319,352 |
| Federal funds purchased and securities sold under agreements to repurchase | 63,935 | 63,777 |
| Interest-bearing demand notes issued to the U.S. Treasury | 5,404 | 5,404 |
| Other liabilities for borrowed money | 16,675 | 8,395 |
| Mortgage indebtedness and liabilities for capitalized leases | 846 | 802 |
| Banks' liability on acceptances executed and outstanding | 22,023 | 17,434 |
| Other liabilities | 20,892 | 20,492 |
| *Total liabilities* | 639,429 | 435,656 |
| Subordinated notes and debentures | 2,144 | 1,893 |
| Preferred stock | 10 | 10 |
| Common stock | 6,567 | 6,567 |
| Surplus | 10,135 | 10,135 |
| Undivided profits | 13,495 | 13,495 |
| Reserve for contingencies and other capital reserves | 362 | 362 |
| *Total equity capital* | 30,569 | 30,569 |
| *Total liabilities and equity capital* | 672,142 | 468,117 |
| Number of banks | 111 | |

* For reporting purposes, foreign offices include Edge and Agreement subsidiaries located in the U.S. and branches in Puerto Rico, Virgin Islands and Trust Territories.

## Table B-28

*Foreign branches of national banks, by region and country, December 31, 1979*

| Region and country | Number |
|---|---|
| Central America | 44 |
| El Salvador | 2 |
| Guatemala | 3 |
| Honduras | 3 |
| Mexico | 5 |
| Nicaragua | 1 |
| Panama | 30 |
| South America | 111 |
| Argentina | 40 |
| Bolivia | 6 |
| Brazil | 20 |
| Chile | 6 |
| Ecuador | 13 |
| Guyana | 1 |
| Paraguay | 9 |
| Peru | 3 |
| Uruguay | 9 |
| Venezuela | 4 |
| West Indies—Caribbean | 163 |
| Bahamas | 61 |
| Barbados | 3 |
| British Virgin Islands | 2 |
| Cayman Islands | 56 |
| Dominican Republic | 18 |
| French West Indies | 2 |
| Haiti | 5 |
| Jamaica | 5 |
| Netherlands Antilles | 4 |
| St. Lucia | 1 |
| Trinidad and Tobago | 5 |
| West Indies Federation of States | 1 |
| Europe | 123 |
| Austria | 1 |
| Belgium | 6 |
| Denmark | 3 |
| England | 35 |
| France | 9 |
| Germany | 18 |
| Greece | 16 |
| Ireland | 4 |
| Italy | 8 |
| Luxembourg | 4 |
| Monaco | 1 |
| Netherlands | 6 |
| Northern Ireland | 1 |
| Scotland | 3 |
| Spain | 2 |
| Europe — Continued | |
| Switzerland | 6 |
| Africa | 20 |
| Egypt | 5 |
| Gabon | 1 |
| Ivory Coast | 2 |
| Kenya | 2 |
| Liberia | 4 |
| Mauritius | 1 |
| Senegal | 1 |
| Seychelles | 1 |
| Sudan | 1 |
| Tunisia | 2 |
| Middle East | 26 |
| Bahrain | 4 |
| Jordan | 3 |
| Lebanon | 4 |
| Oman | 2 |
| Qatar | 1 |
| Saudi Arabia | 2 |
| United Arab Emirates | 9 |
| Yemen Arab Republic | 1 |
| Asia and Pacific | 125 |
| Brunei | 3 |
| Hong Kong | 37 |
| India | 10 |
| Indonesia | 5 |
| Japan | 22 |
| Korea | 7 |
| Malaysia | 5 |
| Pakistan | 6 |
| Philippines | 9 |
| Singapore | 14 |
| Sri Lanka | 1 |
| Taiwan | 4 |
| Thailand | 2 |
| U.S. overseas areas and trust territories | 55 |
| Caroline Islands | 1 |
| Guam | 4 |
| Marianas Islands | 1 |
| Marshall Islands | 1 |
| Puerto Rico | 24 |
| Virgin Islands | 24 |
| Total | 667 |

## Table B-29

*Total foreign branch* assets of national banks, year-end 1953-1979*

(Dollar amounts in thousands)

| | | | |
|---|---|---|---|
| 1953 | $1,682,919 | 1966 | $ 9,364,278 |
| 1954 | 1,556,326 | 1967 | 11,856,316 |
| 1955 | 1,116,003 | 1968 | 16,021,617 |
| 1956 | 1,301,883 | 1969 | 28,217,139 |
| 1957 | 1,342,616 | 1970 | 38,877,627 |
| 1958 | 1,405,020 | 1971 | 50,550,727 |
| 1959 | 1,543,985 | 1972 | 54,720,405 |
| 1960 | 1,628,510 | 1973 | 83,304,441 |
| 1961 | 1,780,926 | 1974 | 99,810,999 |
| 1962 | 2,008,478 | 1975 | 111,514,147 |
| 1963 | 2,678,717 | 1976 | 134,790,497 |
| 1964 | 3,319,879 | 1977 | 161,768,609 |
| 1965 | 7,241,068 | 1978 | 180,712,782 |
| | | 1979 | 217,611,974 |

* Includes military facilities operated abroad by national banks from 1966 through 1971.

## Table B-30

*Foreign branch assets and liabilities of national banks, December 31, 1979*

(Dollar amounts in thousands)

| ASSETS | | |
|---|---|---|
| Cash and cash items in process of collection | | $ 884,611 |
| Balances with all banks in the United States and non-U.S. branches of U.S. banks | | 19,536,605 |
| Balances with non-U.S. banks outside the U.S. | | 49,177,198 |
| Securities | | 3,373,847 |
| Loans, discounts and overdrafts | | |
| Secured by real es*ate | $ 2,601,698 | |
| To financial institutions | 12,265,279 | |
| To commerical and industrial borrowers | 57,801,387 | |
| To non-U.S. government and official institutions | 14,319,345 | |
| To all others | 3,979,345 | |
| Less: unearned discount | 256,587 | |
| Total loans, net | | 90,710,467 |
| Customers' liability on acceptances outstanding | | 4,260,955 |
| Premises, furniture and fixtures | | 512,485 |
| Accruals—interest earned, foreign exchange profits, etc. | | 4,500,848 |
| Due from other non-U.S. branches of this bank | | 23,344,760 |
| Due from head office and U.S. branches of this bank | | 13,913,865 |
| Due from consolidated subsidiaries of this bank | | 6,106,117 |
| Other assets | | 1,290,216 |
| Total assets | | $217,611,974 |

| LIABILITIES | |
|---|---|
| Deposits of all banks in the United States and non-U.S. branches of U.S. banks | $26,603,209 |
| Deposits of non-U.S. banks outside the United States | 60,094,569 |
| Other deposits | 78,111,322 |
| Liabilities for borrowed money | 4,540,254 |
| Liability on acceptances executed and outstanding | 4,452,195 |
| Accrued taxes and other expenses | 3,736,679 |
| Due to other non-U.S. branches of this bank | 23,499,272 |
| Due to head office and its U.S. branches of this bank | 12,566,492 |
| Due to consolidated subsidiaries of this bank | 2,318,712 |
| Other liabilities | 1,689,270 |
| Total liabilities | $217,611,974 |
| **MEMORANDA** | |
| Standby letters of credit | $ 5,543,116 |
| Commercial letters of credit issued and outstanding | 5,346,708 |
| Guarantees and letters of indemnity | 2,525,927 |
| Contracts to buy foreign exchange and bullion | 92,404,855 |
| Contracts to sell foreign exchange and bullion | 90,558,102 |

# APPENDIX C

# Administrative Actions, 1979

# Administrative Actions Index

Nature of Action

| Topics covered | Civil money penalty | | Order to cease and desist | | | | | | | | | | | | | | Notice of charges | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| |1|2|3|4|5|6|7|8|9|10|11|12|13|14|15|16|17|18|19|20|21|22|23|24|25|26|27|28|29|30|31|32|33|34|35|36|37|38|39|40|
|Reserve for possible loan losses| |X| | |X|X|X|X|X|X|X| | | | | | |X| |X| |X|X|X|X| |X|X|X|X|X|X|X|X|X|X| |X|X|X|
|Borrowed funds restrictions| | | | | | | | | | | | | | | | | | | | | | | | | |X| |X| | | | | |X| | | | | | |
|Budget report| | | | | | | |X| | | | | | | | | | | |X| | | | | | | | |X| | | | | | |X| | | | |
|Capital Structure| | | |X|X|X| |X|X|X| | |X|X| | |X|X| |X|X|X|X|X|X| | | |X|X|X|X|X| |X|X|X|X|X|X|
|Compliance committee| | | |X|X|X| | | | | | | | | | | |X| |X| | |X|X|X| | | | |X|X| | |X|X| |X| |X| |
|Credit/collateral documentation| | | |X|X|X|X|X|X|X|X|X| | | |X| |X|X|X| |X|X|X|X|X|X|X| |X|X|X|X|X|X|X|X|X| |X|
|Criticized assets| | | |X|X|X|X|X|X|X|X|X|X|X| |X|X|X|X|X|X|X|X|X|X|X|X|X|X|X|X|X|X|X|X|X|X|X|X|X|
|Delinquent loans| | | | |X|X| |X|X| |X|X| | | | | |X| |X| | | | |X| |X|X|X|X|X| | |X|X|X| |X| | |
|Directorate supervision/composition| | | | | | | | |X| | |X| | | | | | | | | | | | | | | | |X| | | | | | | |X| | |X|
|Dividend restriction| | | | |X| | | |X| | | |X| | | | |X| | | | | |X| | |X| | | | | | |X| | | | |X|X|
|Earnings| | | |X| |X| | |X|X| | | | | | | | | | | | | | | | | |X| |X|X|X| | |X|X|X| | |X|
|EDP management/operations| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |X| | | | | | | | |
|Equity capital infusion| | | |X|X|X| |X|X|X| | |X| | | |X| | | | | | |X| | | |X|X|X|X|X| |X| |X|X| |X|X|
|Insider abuse|X| |X| | |X|X|X| | |X|X| | |X|X| | | | | |X| | | | |X|X|X|X| |X| |X|X| | | | | |
|Insurance| | | | | | | | | | |X| | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|Internal audit/control| | | |X|X|X|X| | |X|X| | | | | | |X| | |X|X|X| |X| | |X|X|X| |X|X| |X| |X| | | |
|Investment function| | | | | | | | |X|X| | | | | | | |X| | | | | | | |X| | | | | | | | |X| | |X| | |
|Lending function| | | |X|X|X|X|X| | |X|X| |X| | |X| | |X| |X|X|X|X|X|X| |X|X|X|X| |X|X|X| | |X|X|
|Liquidity| | | |X| |X| |X| |X|X| | |X| | | |X| |X|X| | | | |X| |X| | | | | |X| | | |X|X|X|
|Management| | | |X|X|X|X|X|X|X|X|X|X| | | | |X|X| |X|X|X|X|X| |X| |X|X|X|X|X| |X|X|X| |X|X|
|Ownership| | |X| | | | | | | | | |X| | | | | | | | | | |X| | |X|X| | | | | | | | | | | | |
|OREO| | | | | | | | | | | | | | | | | | | | | | |X| | |X| | | | | | | | | | | | | | |
|Progress reports| | | | | | |X| | | | | | | | | | | |X| | | | | | | |X| | | |X| | | |X| | | | | |
|Restitution| | |X| |X|X|X|X| |X|X| | | | | | | | | | | | | | | | |X|X| | | | |X|X| |X| | | |
|Rate-sensitive deposits| | | | | | | | | | |X| | | | | | | | | | | | | | |X| |X| | | | | | | | | |X| | |
|Trust function| | | | | | | | | | |X| | | | | | | | | | | | | | | |X| | | | | | | | | | | | | |
|12 USC 24| | | | | | | | | |X| | | | | | | | | | | | | | | | | | | | | | | | |X| | |X| | |
|12 USC 29| | | | | | | | | | | | | | | | | | | | | | | | | |X| | | | | | | | | | | | | | |
|12 USC 56| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|12 USC 60| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|12 USC 61| | | | | | | | | | | | | | | |X| | | | | | | | | | | | | | | | | | | | | | | | |
|12 USC 62| | | | | | | | | | | | | | | |X| | | | | | | | | | | | | | | | | | | | | | | | |
|12 USC 73| | | | | | | | | | | | | | | | | | |X| | | | | | | | | | | | | | | | | | | | | |
|12 USC 74| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|12 USC 82| | | | | | | | | |X| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|12 USC 84| | | |X|X|X|X|X|X| |X|X| | |X|X|X|X|X|X|X|X|X|X|X| | |X|X|X| |X|X|X|X| | |X|X|X|
|12 USC 161| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|12 USC 282| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |X| | | | | | |
|12 USC 371| | | | | |X|X| | |X| | | | | |X| | | | | | | | | | | | |X| | | | |X| | | | | | |
|12 USC 375| | | | | | |X| | | |X| | | | |X|X| | | | |X| |X| | |X|X|X|X| |X| |X|X| | | |X| |
|12 CFR 1| | | | | | |X| |X| | | | | | |X|X|X| | |X| | |X| | | | | | | | | | | | | |X| | |
|12 CFR 7.3025| | | | | | | | | | | | | | | | | |X|X| | | |X| |X| |X| | | | | | | |X| | | | | |
|12 CFR 7.4020| | | | | | |X| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|12 CFR 7.4305| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |X| | | | |
|12 CFR 7.5217| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|12 CFR 7.5225| | | | | | | | | | | | | | | | |X| | | | | | | | | | | | | | |X| |X| | | | | | |
|12 CFR 7.7410| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |X| |
|12 CFR 11.4| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|12 CFR 18| | | | | | | | | | | | | | | |X| |X| | | | | | | | | | | | | | |X| | | | | | | |
|12 CFR 21| | | | | | |X| | | | | | | | |X| | | | | | | | | | | | | | | | | | | | |X| | | |
|12 CFR 22| | | | | | |X| | | | | | | | | | |X| | | | |X| | | | | | | |X| |X|X| | | | | | |
|12 CFR 23| | | | | | |X| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|12 CFR 204| | | | | | |X| | | | | | | | | | |X| | | | | | | | | | | | | | | | | | | | | | |
|12 CFR 215|X| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|12 CFR 217| | | | |X| | | | | | | | | | | |X|X| | | | | | |X| | | | | | | | | | | | | | | |
|12 CFR 221| | | | | | |X| | | | | | | | | |X|X| | | |X| | | | | | |X|X|X| | | |X|X| | | | |
|12 CFR 226| | | |X| | | | | | | | | | | | | | | | | | | | | | |X| | | | | | | | |X| | | | |
|31 CFR 103.33| | | | |X|X|X| | |X| | | | | |X|X| |X|X| | |X|X|X| |X| | |X|X|X| |X|X|X| | | |X|

| Formal agreement | | | | | | | | | | | | | | | | | | | | | | | | | | | | | Memorandum of understanding | | | | | | | | | | | | | | | | | | | | | | | Totals |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 41 | 42 | 43 | 44 | 45 | 46 | 47 | 48 | 49 | 50 | 51 | 52 | 53 | 54 | 55 | 56 | 57 | 58 | 59 | 60 | 61 | 62 | 63 | 64 | 65 | 66 | 67 | 68 | 69 | 70 | 71 | 72 | 73 | 74 | 75 | 76 | 77 | 78 | 79 | 80 | 81 | 82 | 83 | 84 | 85 | 86 | 87 | 88 | 89 | 90 | 91 | 92 | 93 | |
| X | X | X | X | X | X | X | X | X | X | X | X |  | X | X | X | X |  | X | X |  | X | X | X | X | X | X | X | X | X |  | X |  | X | X | X | X |  | X | X | X | X | X | X | X | X | X |  | X | X | X | X | X | 73 |
|  | X |  |  |  |  |  |  |  |  |  |  |  | X |  |  | X |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  | 8 |
|  |  |  |  |  |  | X |  |  |  |  |  |  | X |  | X |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  | X |  |  |  | 9 |
| X | X | X | X | X | X |  | X | X | X | X | X | X | X | X | X | X | X | X | X |  | X | X |  |  |  | X | X |  |  |  | X | X |  |  | X | X |  | X |  | X | X | X | X | X | X |  |  | X |  |  | X | X | 64 |
| X |  |  | X |  | X | X | X |  | X |  |  |  |  |  |  |  | X | X |  |  |  | X | X |  | X |  | X | X | X |  |  |  |  |  |  | X |  |  |  |  |  |  | X |  |  |  |  |  |  | X |  |  | 31 |
| X | X | X | X |  | X | X | X | X | X | X | X |  | X | X | X |  | X | X |  |  | X | X | X | X | X | X |  | X | X | X | X | X |  | X | X | X | X | X | X | X | X | X |  | X | X | X | X | X | X |  | X | X | 74 |
| X | X | X | X | X | X | X | X | X | X | X | X |  | X | X | X |  | X | X | X |  | X | X | X | X | X | X | X |  | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |  | X | 84 |
| X | X |  |  |  | X | X | X | X | X | X | X |  | X | X | X |  | X | X | X |  | X | X | X |  | X | X | X |  | X |  | X | X | X |  |  |  | X |  | X |  | X | X | X | X |  | X | X |  | X | X | X |  | 54 |
|  |  |  | X |  | X |  |  |  |  |  | X |  |  |  | X |  |  |  |  |  | X | X |  | X | X | X |  | X | X | X | X |  |  |  | X |  | X | X |  | X |  |  |  |  |  |  |  |  |  |  |  |  | 22 |
|  |  |  |  |  |  | X |  | X | X | X |  |  | X |  | X | X | X | X |  |  |  | X | X |  |  |  | X |  |  |  |  |  |  |  | X |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  | X | 24 |
|  | X |  |  | X | X |  |  | X |  | X | X |  | X | X | X | X |  |  |  |  | X |  |  |  |  | X | X |  |  |  |  |  | X |  |  | X |  |  | X | X |  |  |  |  | X | X |  | X | X |  | X |  | 34 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  | 3 |
| X |  |  |  |  | X |  | X |  | X |  | X |  | X | X | X |  |  | X |  |  |  |  | X |  |  |  | X |  |  |  | X |  |  |  |  |  |  |  |  | X |  |  | X | X | X |  |  |  |  |  | X |  | 36 |
|  |  |  | X |  |  |  | X | X |  | X |  |  |  |  | X |  | X | X |  |  | X | X | X |  |  |  |  |  | X |  |  | X |  | X | X |  | X |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  | 33 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  | 3 |
|  |  |  |  |  |  | X | X |  | X | X |  |  | X |  |  |  | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |  | X | X |  |  | X |  | X | X |  | X | X |  | X | 53 |
|  | X |  | X | X |  |  | X | X |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  | X | X |  |  |  | X |  |  |  | X |  |  |  |  | X |  |  |  |  |  | X |  |  |  | X |  |  |  | 19 |
| X | X | X | X | X | X | X | X | X | X | X | X |  | X | X | X | X | X | X | X |  | X | X | X | X | X |  | X | X | X | X | X | X |  | X | X |  | X | X | X | X | X | X | X | X |  | X |  | X | X | X |  |  | 70 |
|  | X | X | X | X | X | X | X | X |  | X |  |  |  |  |  | X |  |  | X |  |  |  | X | X |  | X |  |  |  | X | X |  | X | X |  |  | X | X | X | X | X | X | X |  | X | X |  | X | X | X |  | X | 46 |
| X | X | X | X | X | X | X | X | X | X | X | X |  | X | X | X |  | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |  |  | X |  | X | X |  | X | X | X |  |  |  | X | X | X | X | X |  | X | 71 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  | 7 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 2 |
|  |  |  |  |  |  |  |  |  | X |  | X |  |  |  | X | X |  | X | X |  | X | X | X |  |  |  | X |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  | 17 |
|  |  |  | X |  |  |  | X |  |  |  |  |  |  |  | X |  | X | X |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  | X |  |  |  |  |  |  |  |  | 20 |
|  |  | X |  |  | X | X | X | X | X |  |  |  |  |  |  | X |  |  | X |  |  |  |  | X | X |  |  |  |  | X | X |  |  |  |  |  |  | X |  |  |  |  |  |  |  | X |  | X |  | X |  |  | 20 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 3 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  | X |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 6 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  | X |  |  |  |  |  |  | X |  |  |  | X |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  | 6 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X | 2 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  | X |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X | 4 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 2 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 2 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 2 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 2 |
|  |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 2 |
| X | X |  |  | X |  | X | X | X | X | X | X | X | X | X | X |  |  | X |  |  | X | X | X | X |  |  | X | X | X | X | X | X |  |  |  | X | X |  |  | X | X | X |  | X | X | X |  | X |  |  | X | X | 64 |
|  |  |  |  |  |  |  |  |  |  |  | X |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  | 3 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 2 |
| X |  |  |  |  |  |  |  |  |  |  | X | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  | 11 |
|  | X |  |  | X | X | X | X |  |  | X |  |  |  |  | X |  |  |  |  |  | X |  | X |  |  |  | X | X | X |  |  | X |  | X |  | X |  |  |  |  | X |  |  | X | X |  |  | X |  |  |  |  | 33 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| X |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  | X |  |  |  | X |  |  |  |  | X |  | X |  |  |  |  |  |  | X |  | X |  |  |  | 17 |
|  |  |  |  |  |  | X | X |  |  |  |  |  |  |  |  |  | X |  |  |  |  | X |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  | 12 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  | 2 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 1 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  | 1 |
|  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 5 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 1 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  | 1 |
| X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  | X |  |  | 6 |
| X |  |  |  |  |  |  |  |  |  |  |  |  | X |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  | X |  |  | 8 |
|  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 8 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 1 |
|  |  |  |  |  |  |  |  |  | X |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 5 |
|  |  |  |  | X |  |  | X |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 5 |
|  | X |  | X |  |  |  | X |  |  |  |  |  |  |  | X |  |  |  |  | X | X |  |  |  |  |  |  |  |  |  |  |  |  | X | X |  |  |  |  |  |  | X |  |  |  |  | X |  |  |  |  |  | 14 |
|  |  | X |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 13 |
|  |  |  | X |  |  |  |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  | X |  |  |  |  |  | X |  |  |  |  |  | X |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 8 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | X | X | X |  |  | X | X |  | X | X |  | X | X | X | X |  | X | X | X |  |  | X | X | X |  |  | X |  |  |  |  | X |  |  | X | X | X |  |  | X | X | X |  | X |  | X | X |  |  | X |  | X | 49 |

# Administrative Actions, 1979

## Civil Money Penalties

1. **Bank with assets of $15 to $25 million**

   An Order of Assessment of a Civil Money Penalty in the amount of $1,000 was issued against the bank for committing 19 violations of 12 CFR 215.4(a) and two violations of 12 CFR 215.5(c)(3). An Order of Assessment of a Civil Money Penalty of $1,000 was also issued against the president for causing the bank to commit 19 violations of 12 CFR 215.4 (a) and two violations of 12 USC 375a(4). The penalties were paid by the bank and its president, and the violations of law were corrected.

2. **Bank with assets of $15 to $25 million**

   An Order of Assessment of a Civil Money Penalty of $7,000 was issued against the bank to increase its reserve for possible loan losses to a level deemed appropriate by the regional administrator. The penalty was paid by the bank, and the reserve was subsequently increased to an adequate level.

## Cease and Desist Orders

3. **Bank with assets of $250 to $500 million**

   An Order to Cease and Desist was issued requiring the bank to eliminate all demand deposit accounts maintained, directly or indirectly, for the benefit of the controlling owners, their family members or any business entity in which either owner maintained significant equity interest. The bank was also prohibited from extending, endorsing, guaranteeing or in any manner providing extensions of credit to or for the benefit of the same parties. The board of directors was to conduct a complete review of all demand deposit accounts maintained at the bank by the new owners and to seek restitution or otherwise recover any loss suffered by the bank due to the preferential treatment afforded them.

4. **Bank with assets of less than $15 million**

   An Order to Cease and Desist was issued requiring the board of directors to appoint a compliance committee composed of at least three non-officer directors to ensure the bank's ongoing compliance with the provisions of the Order. The board was instructed to comprehensively assess management's strengths and weaknesses and to immediately provide the bank with an additional loan officer. The board was further required to establish an adequate capital structure by injecting at least $500,000 of equity capital within 120 days of the Order's effective date. The bank was to revise the written loan policy and ensure adherence thereto. Written programs were to be established and implemented to (1) remove all assets from criticized status, specifically those made to insiders or their related interests, (2) establish guidelines for internal loan review, (3) correct all violations cited in the report of examination, (4) maintain a liquidity level of not less than 20 percent and (5) correct deficiencies relating to credit documentation.

5. **Bank with assets less than $15 million**

   An Order to Cease and Desist was issued requiring the board of directors to appoint a compliance committee composed of at least three non-officer directors to ensure the bank's ongoing compliance with the provisions of the Order. The board was instructed to comprehensively assess management's strengths and weaknesses and to immediately provide the bank with an additional loan officer. The board was further required to establish an adequate capital structure by injecting at least $500,000 of equity capital within 120 days of the Order's effective date. The bank was to revise the written loan policy and ensure adherence thereto. Written programs were to be established and implemented to (1) remove all assets from criticized status, specifically those made to insiders or their related interests, (2) establish guidelines for internal loan review, (3) correct all violations cited in the report of examination, (4) maintain a liquidity level of not less than 20 percent and (5) correct deficiencies relating to credit documentation.

6. **Bank with assets of $15 to $25 million**

   An Order to Cease and Desist was issued requiring the bank to immediately correct all violations cited in the report of examination. A compliance committee composed of at least three outside directors was to be organized with the responsibility of conducting a review of the bank's operations and of submitting written reports to the regional administrator. The board of directors was ordered to develop plans to secure reimbursement of all interest or fees which would have been paid to the bank had all extensions of credit to insiders been made on non-preferential terms. The board was also to review thoroughly the bank's management needs, with a copy of their findings to be forwarded to the regional administrator. An analysis of the bank's earning capacity and capital needs was also required, with a provision for an equity capital injection if considered necessary by the regional administrator. Written plans were required to (1) achieve and maintain an average daily liquidity of not less that 20 percent, with bi-weekly liquidity analysis reports to be submitted to the regional administrator, (2) eliminate all assets from criticized status, (3) establish lending policies of a safe and sound nature, (4) obtain current and satisfactory credit information, (5) perfect collateral on secured loans, (6) ensure the ongoing adequacy of the reserve for possible loan and (7) monitor delinquent loans. The bank was ordered to cease making unreasonable expense reimbursements to employees or former employees. Internal control deficiencies were to be immediately corrected.

7. **Bank with assets of $50 to $100 million**

A Temporary Order to Cease and Desist was initially served upon the bank. Subsequently an Order to Cease and Desist required the bank's directors, officers, employees and agents, individually, to correct all violations of law and required procedures to be adopted to prevent future violations. The board of directors was ordered to immediately reimburse the bank for a political contribution made in violation of 2 USC 44lb. The board was instructed to retain an independent special counsel acceptable to the regional administrator to conduct a written review of the total remuneration package for the top five officers of the bank and was to submit the review to the regional administrator. The bank was also ordered to cease paying for certain expenses of the bank's top five officers and was prohibited from paying any overdraft on any account of an executive officer or director of the bank unless a prearranged interest-bearing line of credit had been established by the involved officer or director. Written programs were to be developed and implemented to (1) eliminate all assets from criticized status, (2) review and increase reserve for possible loan, (3) rectify all credit information exceptions and collateral deficiencies, and (4) improve the internal control and audit procedures. The board was to review and amend the bank's lending policies to ensure that they conform with safe and sound banking practices and all applicable laws, rules and regulations.

8. **Bank with assets of $25 to $50 million**

A Temporary Order to Cease and Desist was issued requiring a capital injection of $3.75 million, a new chief executive officer and limiting new loans until capital was increased. A Permanent Order to Cease and Desist was placed on the bank shortly thereafter. The Permanent Order incorporated the provisions of the Temporary Order already in place, and an Order to Cease and Desist required the bank to develop and implement a written capital plan to maintain ongoing capital adequacy and a detailed budget. The Order also called for maintenance of the reserve for possible loan at an adequate level and for liquidity to be maintained at no less than 15 percent. A certified public accounting firm was to conduct a full-scale audit, and a special directors' committee was to be appointed to review management fees, salaries and expenses. An independent counsel was required to evaluate the board's liability for violations of 12 USC 84. The bank's lending policy was to be revised to cover officers' lending limits and concentrations of credit. Detailed plans to remove all assets from criticized status, correct all violations of 12 USC 84, remedy and prevent credit documentation and collateral deficiencies and coordinate the management of assets and liabilities were to be submitted for the approval of the regional administrator and subsequently implemented. A new loan administration officer was required, and all violations of law noted in the examination report were to be corrected.

9. **Bank with assets of less than $15 million**

A Order to Cease and Desist required correction of all violations of law and required procedures to be adopted to prevent future violations. The bank was ordered to submit a written proposal for its sale or merger to the regional administrator. In addition the board was ordered to provide the bank with a new chief executive officer. The board was also required to provide the bank with a $450,000 subordinated placement and to submit a written program to inject $500,000 in equity capital. The declaration and payment of dividends was restricted.

10. **Bank with assets of $15 to $25 million**

An Order to Cease and Desist required that all violations cited be corrected immediately. Additionally, the board of directors was required to indemnify the bank for any loss caused by the violation of 12 USC 24. The board was instructed to formulate a policy governing all types of transactions to insiders and their interests. The board was further ordered to cause the bank's equity capital accounts to be increased by not less than $500,000. Written programs were required to (1) remove all assets from criticized status, (2) provide for improved collection efforts, (3) obtain current and satisfactory credit information on all loans so lacking, (4) maintain an adequate reserve for possible loan, (5) improve and sustain the bank's earnings and (6) improve the bank's written investment policy. The bank was further required to develop comprehensive liquidity and asset/liability management policies. An internal auditor was to be appointed, and the board agreed to develop a management plan describing in detail the duties and functions of senior officers.

11. **Bank with assets of $25 to $50 million**

A Cease and Desist Order required that all violations of the law immediately be corrected and that the board of directors develop plans to recover any loss of income resulting from loans made in violation of statutes mentioned in the examiner's report. The bank was prohibited from making advances on insurance premiums written through named agencies unless (1) within legal lending limitations, (2) interest was charged at a nonpreferential rate and (3) insurance was authorized by the bank's customer. The bank was instructed to hold no checks presented for payment longer than 24 hours. Written programs were required to (1) reduce land development loans to 25 percent of gross capital funds, (2) eliminate all assets from criticized status, (3) resolve deficiencies in loan documentation, (4) obtain current and satisfactory credit information, (5) establish and maintain an adequate reserve for possible loan and (6) correct deficiencies in internal control procedures. The employee profit sharing trust was ordered to be transferred to an independent corporate trustee. The bank was ordered to employ or appoint a new, capable senior lending officer and a capable external auditor, both of whom had to be approved by the regional administrator. Signing of real estate appraisals without actual on-site inspection was prohibited.

12. **Bank with assets of $50 to $100 million**

A Notice of Charges initiated administrative action, and a Temporary Order to Cease and Desist was issued. The bank was prohibited from lending money to any borrower whose loan was subject to criticism in the report of examination. The bank was ordered to refrain from granting loans without first acquiring current and satisfactory credit information. The volume of total loans outstanding was not to increase over the level of such loans existing as of the effective date of the Order. Additionally, no loans were to be made in excess of the legal limit provided in 12 USC 84.

13. **Bank with assets of $250 to $500 million**

A Notice of Charges initiated administrative action, and a Temporary Order to Cease and Desist was issued prohibiting any payments, loans or transfers of any monies between the bank and its parent holding company. The bank was also prevented from declaring or paying any dividend without the prior written approval of the regional administrator. Subsequent to the issuance of the Order, the board of directors accepted an offer from a group of investors to purchase $7.5 million in bank stock, giving the group control of more than 51 percent of the voting shares in the bank.

14. **Bank with assets of $25 to $50 million**

A Notice of Charges initiated administrative action, and a Temporary Order to Cease and Desist prohibited the bank from increasing the volume of its total loans outstanding. The bank subsequently merged with a state-chartered bank, terminating the administrative proceedings.

15. **Bank with assets of $15 to $25 million**

A Notice of Charges initiated administrative action, and a Temporary Order to Cease and Desist was issued prohibiting the bank from making payments against uncollected deposits in accounts maintained by subject director or in any entity in which said director maintained an interest. The bank was ordered not to make any loan or extension of credit in any manner to any insider unless the loan was made on substantially the same terms as those prevailing at the time for comparable transactions with other persons. The bank was required to immediately correct the violation of 12 USC 84. Subsequently, the director resigned from the board of directors.

16. **Bank with assets of $15 to $25 million**

A Notice of Charges initiated administrative action, and a Temporary Order to Cease and Desist limited the amount of compensation paid to directors. The bank was ordered to correct all violations cited in the report of examination. The bank was prohibited from lending additional money or otherwise extending credit to any borrower whose loan or other extension of credit had been criticized in the report of examination. The bank was also ordered not to grant any extension of credit which was not fully supported by current and satisfactory credit information and collateral documentation.

## Notice of Charges

17. **Bank with assets of $15 to $25 million**

A Notice of Charges was issued against the bank citing the violations of law and regulations and addressing the serious inadequacy in the bank's capital structure. Subsequently, the bank did initiate steps to improve its capital position; however, during the pendency of the administrative proceeding, the bank converted to a state charter.

## Formal Agreement

18. **Bank with assets of $15 to $25 million**

A Formal Agreement required correction of all violations of law and required procedures to be adopted to prevent their recurrence. The bank was required to adopt and implement written programs to (1) eliminate all assets from criticized status, (2) achieve and maintain an average daily liquidity position of not less than 15 percent and (3) improve collection efforts. The bank was directed to take all necessary steps to obtain current and satisfactory credit information on all loans and to refrain from granting any new loans unless supported by such information. The bank was required to correct collateral imperfection and to submit a detailed written capital plan to the regional administrator for his approval and not declare any dividend without the regional administrator's prior written approval. The bank was directed to review the reserve for possible loan on a quarterly basis and maintain it at a level reflective of the risk and potential for loss inherent in the bank's loan portfolio. The deficiencies in the bank's internal control and audit procedures were required to be corrected. The board of directors was required to establish a committee to perform an in-depth study of current management and to formulate and implement a comprehensive written management plan. Detailed written policies covering the investments and funds management practices of the bank were also required pursuant to the Agreement. The board was directed to appoint a compliance committee, a majority of whom were outside directors.

19. **Bank with assets of less than $15 million**

A Formal Agreement required correction of all violations of law and the implementation of procedures to prevent future violations. The board of directors was required to provide the bank with a new, active and capable chief executive officer acceptable to the regional administrator. The authority of the new chief executive officer was to be set forth in writing by the board. The board also was directed to retain, subject to the regional administrator's approval, the services of an experienced agricultural credit consultant to assist the bank in eliminating existing agricultural loans from criticized status and implementing a program to ensure that future loans were granted on a sound basis. The board was required to adopt and implement a written program to promptly eliminate the grounds of criticism of its classified assets and to take all necessary steps to obtain current and satisfactory credit information on all loans and to refrain from granting any new loans until satisfactory credit information had been obtained. The bank was required to submit monthly written reports to the regional administrator detailing the actions taken by the bank to comply with the provisions of the Agreement and the results of those actions.

20. **Bank with assets of $15 to $25 million**

A Formal Agreement required correction of all violations of law and required procedures to be implemented to prevent future violations. The bank was directed to implement written programs to (1) establish and maintain an adequate reserve for possible loan, (2) eliminate all assets from criticized status and (3) improve collection efforts overall. The Agreement further required that the board of directors review the bank's lending function and report to the regional administrator the duties of each employee participating in the lending function. The board was also required to develop and submit to the regional administrator written guidelines governing liquidity and asset/liability management. A comprehensive budget for the fiscal year was also required. The bank was directed to obtain current and satisfactory information on all loans so lacking and was to refrain from granting any new loans until said information had been ascertained. The Agreement required the bank to establish a committee of outside directors to ensure compliance.

21. **Bank with assets of $100 to $250 million**

A Formal Agreement required correction of violations of law and implementation of procedures to ensure that violations did not recur. The bank was directed to formulate and implement written programs with the approval of the regional administrator, to strengthen the capital structure, to improve the liquidity position and to eliminate any assets from criticized status. The Agreement required the board to evaluate the adequacy and competency of the bank's management and required the board to submit a comprehensive written report to the regional administrator detailing its findings. The Agreement further directed the bank to immediately correct the deficiencies in its internal control and audit procedures.

22. **Bank with assets of $15 to $25 million**

A Formal Agreement required correction of all violations of law and implementation of written procedures to ensure that violations did not recur. The board was directed to formulate and implement written programs to improve the capital structure and to eliminate all assets from criticized status. The bank was required to correct the deficiencies relating to current and satisfactory credit information. An independent auditor was to be retained to prepare written recommendations for the establishment and maintenance of internal controls and internal auditing procedures. The board was directed to make no further loans or extensions of credit to any executive officer or principal shareholder. The board was required to review the adequacy of the reserve for possible loan and maintain it at a level acceptable to the regional administrator. The board was also required to evaluate the adequacy and competency of the bank's management and to submit a comprehensive written report to the regional administrator detailing its conclusions and setting forth the bases for those conclusions.

23. **Bank with assets of $100 to $250 million**

Pursuant to a Formal Agreement, the bank was required to correct and eliminate each violation of law cited. Deficiencies in internal controls were to be corrected immediately. The board of directors was required to formulate written programs to (1) establish and maintain an adequate reserve for possible loan, (2) restore and maintain earnings of the bank, (3) augment and strengthen the capital structure of the bank, (4) eliminate all assets from criticized status, (5) adopt safe and sound loan policies to be strictly adhered to and (6) cover other real estate owned in accordance with prudent banking procedures. A compliance committee to be made up of non-officer directors was also mandated.

24. **Bank with assets of $50 to $100 million**

A Formal Agreement required correction of all violations of law and required the bank to adopt written procedures to prevent recurrence of similar violations. The board of directors was required to develop and implement a written program to eliminate all assets from criticized status. The board was required to draft a plan for injecting sufficient equity capital to satisfy the bank's needs, and the bank was prohibited from paying dividends without prior written approval of the regional administrator. The board was also required to develop and implement a detailed written loan policy of a safe and sound nature. The bank was required to obtain current and satisfactory credit information on all loans so lacking and was prohibited from granting any new loans without first obtaining such information. The board was to review the bank's reserve for possible loan on a regular basis and to ensure that the reserve be maintained at a level reflective of the risk and potential for loss inherent in the bank's loan portfolio. The board was to immediately and substantially increase the amount of the reserve. The board was required to undertake a comprehensive assessment of the sufficiency and quality of the management of the lending function and to submit its findings to the regional administrator. Compliance with the provisions of the Agreement was to be monitored by an executive committee to be appointed by the board of directors.

25. **Bank with assets of $25 to $50 million**

A Formal Agreement required correction of all violations of law and required written procedures to be adopted to ensure that similar violations did not recur. The board of directors was to formulate a written program to remove all assets from criticized status. The board was also to pursue all available courses of action to eliminate the grounds for criticism or cause complete liquidation from the bank's books of all criticized loans to directors. The board was to provide the bank with a new, experienced and capable senior loan officer who was to have broad written authority over the administration of the bank's lending function. After the designation of the new senior loan officer, the bank was to revise its written loan policy. Written programs were to be developed and implemented to (1) improve collection efforts and to effect a reduction in the level of delinquent loans, (2) maintain an adequate reserve for possible loan and (3) establish appropriate audit procedures to ensure timely identification of problem assets. The bank was required to take all necessary steps to obtain current and satisfactory credit information on all loans lacking such information and was to correct the imperfections pertaining to the securing of collateral. In light of pending litigation against the bank, the board was to develop a contingency plan designed to assur maintenance of the bank's capital structure at an adequate level. An enforcement committee comprised of three nonofficer directors was to be appointed by the board to ensure compliance by the bank with the provisions of the Agreement.

26. **Bank with assets of $50 to $100 million**

A Formal Agreement required correction of the statutory violations and required procedures to be adopted to ensure that these violations did not recur. The bank was required to institute a program for improving its liquidity position and to reduce the ratio of the bank's loans to deposits. The Agreement further provided that the bank reduce its dependency on borrowed funds of all types. The bank was to draft both an investment and a loan policy to be submitted to the regional administrator for review and comment prior to adoption. The bank was also to formulate and implement a written program designed to eliminate all assets from criticized status. The bank was to take all necessary steps to obtain current and satisfactory credit information on all loans so lacking and to refrain from granting any new loans without first obtaining such information. The board of directors was to formulate and submit to the regional administrator the bank's plan for liquidation of a substantial amount of the bank's other real estate owned.

27. **Bank with assets of $25 to $50 million**

A Formal Agreement required correction of all violations of law and required procedures to be adopted to prevent their recurrence. The bank was to employ an outside, capable senior lending officer who was to be vested with broad authority to ensure that the lending area of the bank was operated in accordance with prudent banking standards. The board of directors was to adopt and implement a written program to eliminate the basis of criticism of its criticized assets and was not to lend additional money or otherwise extend credit to any borrower whose loan or other extension of credit had been criticized. The board was required to conduct a review of the adequacy of the bank's reserve for possible loan in relation to the risk inherent in the bank's loan portfolio. The bank was to take all necessary steps to correct the deficiencies relating to the lack of current and satisfactory credit information and was to adopt a written program to improve collection efforts. The bank was prohibited in any manner from extending credit to the bank's parent holding company, and no dividends were to be declared by the board without the prior written approval of the regional administrator. Policies were to be adopted to ensure that any transactions between the bank and insiders were to be on terms not more favorable than those afforded other persons dealing with the bank. The board was to adopt formal written policies and procedures for the administration of the trust department of the bank and was to take steps to ensure that the trust auditor and trust officer obtain specific training in their respective functions as soon as possible. The board was also to direct the management of the trust department to establish a complete and accurate fiduciary recordkeeping system which would clearly reflect the interests of the various fiduciary beneficiaries. The bank was to submit every 30 days the actions taken by the bank to comply with the provisions of the Agreement and the results of those actions.

28. **Bank with assets of $15 to $25 million**

A Formal Agreement required correction of all violations of law and required the bank dopt procedures to ensure non-recurrence of similar violations. Subject to the regional administrator's approval, the board of directors was required to formulate and implement a written program to augment the bank's equity capital. The bank was required to submit to the regional administrator a written program designed to improve and maintain the bank's liquidity at an average of not less than 20 percent. The program was also to include provisions for reducing the volume of borrowed funds, especially rate-sensitive federal funds. All criticized assets were to be eliminated and the board was to review the adequacy of the bank's reserve for possible loan and to augment the reserve accordingly. The bank was required to adopt procedures and develop forms for obtaining and recording all necessary credit information, and no future loans were to be granted until said information had been received and properly recorded. The bank was prohibited from making any payments to the controlling majority shareholder without prior written approval of the regional administrator. Furthermore, the board of directors was to review all travel and entertainment expenses incurred by, or for the benefit of, said controlling majority shareholder. The board was to submit to the regional administrator a written plan providing for the restitution of any travel and entertainment expenses determined not to have been legitimate business expenses of the bank. The board was also required to develop and implement a written program subject to the regional administrator's approval addressing the prompt elimination of all internal control and audit deficiencies.

29. Bank with assets of $15 to $25 million

A Formal Agreement required correction of all violations of statutes and regulations and required the adoption of procedures to prevent future violations. The board was to obtain a new chief executive officer and to submit a written capital program to augment the equity capital needs of the bank. The bank was further required to take immediate action to protect its interests with regard to criticized assets and was to report on a monthly basis the progress it made in removing assets from criticized status and for eliminating past due loans. The board was not to extend credit in excess of the lending limitations provided in 12 USC 84 and to reduce to a conforming amount any extensions of credit in excess of the 12 USC 84 lending limitation. The bank was to take necessary action to seek restitution for any loss suffered by the bank with respect to any preferential loans granted to its directors and officers within the 24 months preceding the date of the Agreement. The bank also was to adopt a written loan policy. The bank was to review its reserve for possible loan and agreed to adopt a program to eliminate the internal control and audit deficiencies cited in the report of examination. A comprehensive and detailed budget was also to be developed.

30. Bank with assets of less than $15 million

A Formal Agreement required correction of all violations of law and the bank was further required to notify the regional administrator of the manner of said correction. Procedures were to be adopted to prevent recurrences of similar violations. The board of directors was to augment the bank's management team by employing the services of a new, experienced and capable senior lending officer. The name of such officer was required to be submitted in advance to the regional administrator who reserved the right to veto said officer's appointment. Furthermore, broad executive authority was to be granted to the new senior lending officer who was to implement and maintain lending practices in accordance with applicable law and the provisions of the Agreement. The board was further required to appoint a compliance committee composed of at least two outside directors to ensure compliance with the terms of the Agreement. The board agreed to initiate procedures to ensure that the bank's customers were charged fees for title opinions on real estate. Moreover, the board was required to ensure that the bank's pro rata share of any income derived from the sale of insurance in connection with any loan by the bank would be handled within the framework provided in 12 CFR 2. The bank was to substantially increase the reserve for possible loan and to formulate a plan to maintain the reserve at a level reflective of the risk and potential for loss inherent in the bank's loan portfolio. Provisions to supply sufficient equity capital were to be made. All deficiencies in internal control and audit procedures were to be corrected. A comprehensive and unqualified audit by a certified public accounting firm was to be conducted to review all insider transactions, the adequacy of bank records and all control deficiencies. The board was required to draft new written loan policies of a safe and sound nature. The bank was to obtain and maintain current and satisfactory information on all loans lacking such information and was to refrain from granting any new loans until said information was ascertained. The bank was to adopt written programs to eliminate all assets from criticized status and to improve its overall collection efforts.

31. Bank with assets of $50 to $100 million

A Formal Agreement required correction of all statutory violations and adoption of measures to prevent their recurrence. The board of directors was required to employ a new and capable president and chief executive officer subject to approval by the regional administrator. A compliance committee was to be appointed consisting of a majority of outside directors. Said committee was required to submit quarterly status reports of its review of the bank's relocation expenses and loan policies to the regional administrator. The bank was to establish written programs to (1) remove all assets from criticized status, (2) evaluate lending officers and the credit administration function, (3) amend loan policies, (4) improve collection efforts, (5) provide pertinent credit information and (6) control expenses and improve earnings. An infusion of $1 million in equity capital was required to improve the bank's capital position. The bank was to employ an independent internal loan review officer to aid in the improvement of the reserve for possible loan. The adequacy of the reserve was to be reviewed quarterly by the board of directors with a copy of its findings submitted to the regional administrator.

**32. Bank with assets of $50 to $100 million**

A Formal Agreement required correction of all violations of law and required procedures to be adopted to prevent recurrence of similar violations. The board of directors was to formulate and adopt written programs designed to (1) augment and strengthen the capital structure of the bank, (2) increase and maintain the bank's earnings and (3) increase the bank's reserve for possible loan. The bank was required to eliminate all assets from criticized status and further loans to borrowers with criticized credits were prohibited. The bank was to correct the deficiencies relating to lack of current and satisfactory credit information and was prohibited from granting any new loans until such information had been acquired. The board was to employ the services of a qualified public accounting firm, acceptable to the regional administrator and experienced in electronic data processing operations, to assit the bank in establishing an adequate internal audit program. A full-time independent auditor was also to be employed to establish and implement adequate internal audit and control procedures.

**33. Bank with assets of less than $15 million**

A Formal Agreement required correction of all violations of law. The board of directors was to provide the bank with a new, active and capable senior executive officer who was to be vested with complete authority over the lending function of the bank. Prior to the appointment of said individual, his name and employment background together with a description of his proposed duties and responsibilities was to be submitted to the regional administrator who reserved the right to veto the appointment. The board was to adopt and implement a written program to eliminate all assets from criticized status. The bank was also prohibited from loaning any additional money to any borrower whose loan had been criticized. The bank was required to obtain current and satisfactory credit information on all loans so lacking and was to refrain from granting any new loans until satisfactory credit information had been ascertained. The board was to undertake a thorough and complete review of the bank's lending function and was to submit the review to the regional administrator. The bank was required to submit to the regional administrator a written program for the establishment and the maintenance of an adequate reserve for possible loan. The claims by the bank against its bonding company were pursued toward an appropriate settlement. After arriving at a settlement of said claims, the board was to promptly evaluate the capital needs of the bank and to formulate a written program to raise the equity capital of the bank to an acceptable level. The bank was required to review the effectiveness of the bank's internal control program and was to retain the services of an outside independent auditing firm for the purpose of reviewing and evaluating the bank's accounting records, procedures and operations.

**34. Bank with assets of $100 to $250 million**

A Formal Agreement required correction of all violations of law and required procedures to be adopted to prevent future violations. The board of directors was required to formulate and implement written programs to (1) eliminate all assets from criticized status, (2) establish safe and sound loan policies, (3) improve the bank's collection efforts, (4) limit the bank's loan portfolio to no more than 70 percent of its deposits and (5) increase and maintain the bank's average daily liquidity position to not less than 15 percent. The bank was required to take all necessary steps to obtain and maintain current and satisfactory credit information on all loans so lacking and was prohibited from granting any new loans without first obtaining such information. The Agreement further provided that the board was to review, and increase accordingly, the bank's reserve for possible loan to ensure that the reserve was maintained at a level reflective of the risk and potential for loss inherent in the bank's loan portfolio. To ensure the capital integrity of the bank, the board was required to inject $3 million in equity capital. The bank was also prohibited from paying any dividends without prior written approval of the regional administrator. The board was required to establish a capital committee to coordinate monitoring of, and planning for, the bank's capital needs. The board was further required to undertake a written study of the reasonableness of, and justification for, the bank's business transaction involving insiders. The board was directed to seek reimbursement of any income lost to the bank on any transaction determined to be preferential. The Agreement prohibited certain transactions that may have been a conflict of interest for any bank officer or employee. The board was to appoint a compliance committee composed of at least three individuals, two of whom were not to be officers of the bank, to ensure compliance by the bank with the provisions of the Agreement.

**35. Bank with assets of $15 to $25 million**

A Formal Agreement required the board to provide the bank with a new chief executive officer, to be approved by the regional administrator, whose authority was required to be set forth in writing. The board was to submit a capital program within 180 days sufficient to meet the present and future needs of the bank. The bank was required to correct the violations of 12 USC 84 and to implement procedures to prevent recurrence. The bank was further required to pursue the liability of each director for any losses resulting from loans the directors previously granted or consented to in violation of 12 USC 84. The bank was required to comply with 31 CFR 103.33 when making loans and to implement procedures to ensure compliance. The bank was required to correct all other violations of law and to implement procedures to prevent recurrence. The board was required to implement a program within 60 days for the elimination of each asset from criticized status. New written loan policies were required to be adopted by the board within 60 days. The board was required to adopt a written program to improve collection efforts. The bank was required to secure current credit information and proper collateral on outstanding and future loans and to limit the loan portfolio to no more than 70 percent of total deposits. The bank was requested to increase its reserve for possible loan and to perform quarterly reviews thereof. The bank was required to correct the deficiencies in its internal control and audit procedures and to cover all major areas of the bank with written policies, including a funds management policy. Finally, the board was to appoint a compliance committee to report to the regional administrator on the progress in complying with the Agreement.

36. Bank with assets of less than $15 million

A Formal Agreement required correction of all violations of law and required procedures to be adopted to prevent recurrence of similar violations. The board was to perform a study of current management and to report its findings to the regional administrator. The bank was required to develop a written program for elimination of all assets from criticized status and was prohibited from extending credit to any borrower whose loans or other extensions of credit had been criticized in whole or in part. The bank was to establish detailed procedures for the recovery of previously charged-off assets and for the collection of delinquent loans. The bank was required to obtain and maintain current and satisfactory credit information on all loans so lacking, and the board was to ensure that no future loans were to be granted to any borrower without first obtaining such information. The board was to submit a written equity capital plan to the regional administrator for approval. The Agreement further required the board to develop, implement and submit to the regional administrator a program to achieve a profitable level of bank operations. A component of said program was to include a comprehensive and detailed budget for the fiscal year. The board was also to review the bank's reserve for possible loan to ensure that the reserve was maintained at a level reflective of the risk and potential for loss inherent in the bank's loan portfolio.

37. Bank with assets of less than $15 million

A Formal Agreement required the board of directors to immediately increase equity capital by at least $300,000. The board was also to develop and implement a plan to increase the bank's income and reduce the bank's expense with a goal of establishing profitable operations. The board was required to adopt and implement a written program to eliminate all assets from criticized status. The board was required to pursue all available courses of action to eliminate the grounds for criticism or cause removal from the bank's books of all criticized loans to insiders. The bank was to obtain current and satisfactory credit information on all loans so lacking and was to refrain from granting any new loans without first obtaining and analyzing the financial status of the prospective borrower. The bank was prohibited from maintaining or accepting any deposit of public funds on an unsecured basis if such deposit was required to be secured by contract or by law. The bank was to correct the imperfections pertaining to the securing of collateral and was prohibited from granting any future secured loans involving collateral without first perfecting its security interest. Reviews were to be conducted of all loans exceeding $5,000 to ascertain credit quality. The board was required to promptly investigate the extent to which overcharges on loans may have occurred and to reimburse any overcharge to affected customers. A written study detailing all deficiencies in the bank's accounting and administrative controls was to be undertaken and all deficiencies were to be resolved to the satisfaction of the regional administrator. The board was to designate a compliance committee composed of three outside directors to ensure the ongoing compliance of the bank with the provisions of the Agreement.

38. Bank with assets of less than $15 million

A Formal Agreement required correction of all violations of law and the adoption of procedures to ensure that violations did not recur. The board was to prepare an analysis of the bank's present and future capital needs and to formulate and implement a written program, subject to the regional administrator's approval, designed to ensure the capital adequacy of the bank. The bank was to formulate and implement a liquidity program by which the bank would achieve and maintain an average daily liquidity position of not less than 15 percent. Said program was to include, but was not limited to, plans for reducing reliance on rate-sensitive deposits and plans for reducing the level of loans to 75 percent of deposits. A liquidity analysis report and a market-rate funds report were to be submitted to the regional administrator on a weekly basis. The bank was required to adopt and implement written programs designed to (1) eliminate all assets from criticized status, (2) improve collection efforts and to effect a reduction in the level of delinquent loans and (3) increase and maintain the reserve for possible loan at a level deemed appropriate by the regional administrator. The bank was to take all necessary steps to obtain current and satisfactory credit information on all loans so lacking and was to submit to the regional administrator a written summation of the procedures adopted to obtain and record all necessary credit information. The bank was also required to amend its written investment policy in accordance with prudent banking standards.

39. **Bank with assets of $50 to $100 million**

A Formal Agreement required correction of all violations of law and adoption of procedures to ensure against future violations. The board was to provide the bank with a new, active and capable senior executive officer who was to be vested with complete authority over the lending functions of the bank. Prior to the employment of said officer, his/her name and background were to be submitted to the regional administrator for approval. The board was required to prepare an analysis of the bank's present and future capital needs and to formulate a written program designed to augment and strengthen the capital structure of the bank. The program was to include an injection of additional equity capital into the bank in an amount acceptable to the regional administrator. The board was prohibited from declaring or paying any dividends without prior written approval by the regional administrator. The board was required to develop and implement a written program to eliminate all assets from criticized status and to achieve and maintain an average daily liquidity position of not less than 15 percent. Formal procedures and policies were to be adopted by the bank to ensure the ongoing adequacy of the reserve for possible loan and also to ensure that all concentrations of credit were properly identified and duly monitored. A compliance committee comprised of at least three non-officer directors of the bank was to be formed to ensure compliance with the provisions of each article of the agreement.

40. **Bank with assets of $15 to $25 million**

A Formal Agreement required the bank to immediately correct all violations cited in the report of examination. Written programs were required to (1) remove all assets from a criticized status, (2) obtain current and satisfactory credit information, (3) correct criticisms pertaining to the securing of collateral and (4) review and improve the adequacy of the reserve for possible loan. The board of directors was to augment the bank's equity capital by $500,000 and to initiate action designed to improve and sustain the bank's earnings. The bank was prohibited from declaring or paying dividends without the prior written approval of the regional administrator.

41. **Bank with assets of less than $15 million.**

A Formal Agreement required the board of directors to immediately correct all violations of law, rules and regulations. The board was also required to initiate a detailed review of the effectiveness of the bank's chief executive officer and other staff members. The bank was required to formulate a comprehensive written loan policy. The board was to adopt written programs to (1) eliminate all assets from criticized status, (2) obtain current and satisfactory credit information on all loans, (3) correct deficiencies pertaining to the securing of collateral, (4) establish and maintain an adequate reserve for possible loan, (5) improve overall collection efforts and (6) provide additional equity capital. The board was also required to appoint a committee comprised solely of outside directors to ensure compliance with the terms of the Agreement.

42. **Bank with assets of $25 to $50 million**

A Formal Agreement required the bank to correct immediately all violations of law, rules and regulations, as well as to appoint a consumer compliance officer. The board was to review the management needs of the bank and to provide the bank with a capable senior lending officer. The board also agreed to formulate and implement written programs to (1) raise the capital of the bank to an acceptable level, (2) eliminate all assets from criticized status, (3) obtain current and satisfactory credit information and collateral documentation, (4) achieve and maintain an average daily liquidity position of not less than 15 percent without reliance on borrowed funds, with a bi-weekly analysis report submitted to the regional administrator, (5) improve collection procedures and reduce the level of past-due loans, (6) achieve and maintain an adequate reserve for possible loan, (7) restore and maintain earnings of the bank and (8) adopt a safe and sound investment policy. The board was further required to perform a comprehensive review and to amend the bank's written lending policy.

43. **Bank with assets of $25 to $50 million**

A Formal Agreement required the board to provide the bank with a new chief executive officer and to correct all violations of law, rules and regulations. The board was required to analyze the bank's capital needs and establish a written program to augment and strengthen the overall capital structure. Other written programs were to be implemented to (1) eliminate all assets from criticized status, (2) obtain current and satisfactory credit information and collateral documentation, (3) ensure an adequate reserve for possible loan, (4) improve liquidity/funds management and (5) review and revise written loan policies.

44. **Bank with assets of less than $15 million**

A Formal Agreement required the board to remedy all violations of law and to establish a compliance committee composed of at least three outside directors to ensure compliance with the terms of the Agreement. The board was required to establish and implement written programs to (1) adopt a sound loan policy, (2) remove all assets from classified status, (3) obtain current and satisfactory credit information, (4) correct imperfections pertaining to the securing of collateral, (5) remove all criticized loans to insiders, (6) establish a formal internal loan review system, (7) ensure that reserve for possible loan is maintained at a level commensurate with prudent banking practice, (8) ensure compliance with applicable consumer laws, rulings and regulations, (9) adopt a sound investment policy and (10) analyze and fulfill future capital needs. The board was to submit to the regional administrator a written liquidity policy designed to achieve and maintain a liquidity position of at least 20 percent to be computed weekly on an average daily basis and in no event to fall below 15 percent on any given day.

45. **Bank with assets of $25 to $50 million**

A Formal Agreement required the bank to correct all existing violations of law and ensure that future violations would be prevented. The bank was further required to review and amend its written loan policy and to specifically incorporate provisions of 12 USC 375a and 12 CFR 215 (Regulation O) in said policy. A new, active and capable senior officer was required to be appointed by the bank. The board of directors was to establish and implement written programs to (1) improve and maintain the capital structure, (2) achieve and maintain an average daily liquidity position of not less than 15 percent without reliance on short-term non-deposit liabilities, with a bi-weekly analysis report to be submitted to the regional administrator, (3) amend the bank's written investment policy to establish guidelines of a safe and sound nature, (4) eliminate all assets from criticized status, (5) review the bank's entire management structure and (6) restore the reserve for possible loan to an adequate level.

46. **Bank with assets of $15 to $25 million**

A Formal Agreement required the Board of Directors to establish an executive loan committee consisting of at least four outside directors, with the responsibility of implementing and ensuring compliance with the following written programs: (1) to eliminate all assets from criticized status, (2) to correct procedural imperfections relating to securing proper collateral, (3) to obtain current and satisfactory credit information, (4) to review and modify current loan policies and (5) to strengthen the quality of the lending staff, including the appointment of a new senior lending officer. A comprehensive review was called for to improve the capital structure and increase equity capital by at least $600,000. The bank was required to augment the reserve for possible loan by $175,000. A program whereby the bank would achieve an average daily liquidity position of at least 20 percent exclusive of short-term non-deposit liabilities was required, with weekly reports including the bank's statement of condition to be submitted to the regional administrator.

47. **Bank with assets of $25 to $50 million**

A Formal Agreement was entered into with the bank which required the correction of all violations of law, rules and regulations and prohibited any further advances in excess of the lending limitations of 12 USC 84. The bank was required to appoint a compliance committee, including at least three non-officer directors, to evaluate the bank's progress. The bank was required to employ a new chief executive officer, to evaluate current management's quality and depth and to implement a plan to strengthen management. The bank was required to take all actions necessary to eliminate criticized assets and was prohibited from extending further credit to criticized borrowers. A written program to improve collection efforts and reduce delinquent loans and a new comprehensive written loan policy were required. Periodic reviews of the reserve for possible loan, a comprehensive liquidity policy and a full independent audit by an outside certified public accounting firm were also required. Finally, the bank was required to develop a formal written budget for the next calendar year.

48. **Bank with assets of $25 to $50 million**

A Formal Agreement required correction of all statutory violations, and procedures were to be adopted to prevent their recurrence. The board of directors was to provide the bank with both an active and capable chief executive officer who was to be experienced in bank operations, lending and investment and an active and capable senior lending officer to manage and supervise the loans. Prior to the appointment of said individuals, proposed names were to be submitted to the regional administrator for approval. The board also was to ensure a $600,000 injection of equity capital. A detailed written capital plan was to be submitted to the regional administrator for his review and approval. The bank was prohibited from paying any dividend without the prior written approval of the regional administrator. The bank was to adopt and implement written programs to eliminate all assets from criticized status and to improve the bank's collection efforts. The board was also to review and, as necessary, amend its written investment, lending and funds management policies and procedures in accordance with prudent banking standards. All necessary steps were to be taken to obtain and maintain current and satisfactory credit information on all loans so lacking, and no new loans were to be granted until such information had been obtained. The bank was to institute programs to limit the bank's loan portfolio to no more than 70 percent of total deposits and maintain an average liquidity of not less than 15 percent. Reserve for possible loan was to be reviewed on a quarterly basis, and the bank was required to immediately increase the reserve to a level reflective of the risk and potential for loss inherent in the bank's loan portfolio. All deficiencies with respect to its internal control and audit procedures were to be corrected. The board was to undertake a written study of all recent insider transactions to determine the existence and extent of any preferential treatment afforded to insiders. The board was to seek reimbursement of any income lost to the bank caused by any preferential transaction. The bank was prohibited from paying any fee to a director for any meeting which a director did not attend and was not to pay any fees or compensation to any of its directors in excess of $200 a month. The board was to appoint a compliance committee, composed of at least three directors, to ensure the bank's compliance with the provisions of the Agreement.

### 49. Bank with assets of $25 to $50 million

A Formal Agreement required the board of directors to correct all violations of 12 USC 84 cited. The bank was to adopt and adhere to a written investment policy. Other written programs required (1) improving the bank's liquidity position and establishing sound asset and liability management procedures, (2) revising the bank's loan policy commensurate with prudent banking practices, (3) recovering delinquent loans, (4) obtaining current and satisfactory credit information on all loans so lacking, (5) strengthening those assets in criticized status, (6) comprehensively evaluating the bank's present and future management needs and (7) improving the bank's profitability. The bank was required to immediately increase its reserve for possible loan. The board was required to adopt a written code of ethics, specifically addressing loans to insiders and their interests. Dividends were restricted subject to prior written approval by the regional administrator.

### 50. Bank with assets of $25 to $50 million

A Formal Agreement required immediate correction of violations of law and procedures to prevent future violations. The bank was to adopt and implement written programs to (1) eliminate all criticized assets, (2) improve collection efforts and to effect a reduction in the level of delinquent loans and (3) increase the reserve for possible loan. The bank was to take all necessary steps to obtain and maintain current and satisfactory credit information on all loans lacking such information and to correct the imperfections pertaining to the securing of collateral. The board of directors was to review and amend the bank's written loan policy so as to enable the bank to perform its lending function in a safe and sound manner. The board was required to correct all internal control and audit deficiencies and was to engage the services of an independent certified public accounting firm to render an unqualified opinion on the financial statements of the bank and to recommend systems and procedural changes necessary to establish proper internal controls and sound and efficient operations. The board was required to submit a written capital program to the regional administrator which provided, among other things, for a minimum $1.2 million equity capital injection. The bank was prohibited from paying any dividends without the prior written approval of the regional administrator. The board of directors was to establish a compliance committee of at least three board members, a majority of whom where to be non-officer directors, for conducting an in-depth study of current management adequacy and competency. After the study had been completed, the committee was to report its findings to the regional administrator. The compliance committee was also to be responsible for ensuring the bank's adherence to the provisions of the Agreement and was to submit to the regional administrator every 60 days those actions taken to comply with each article in the Agreement and the results of those actions.

### 51. Bank with assets of less than $15 million

A Formal Agreement required the bank to implement policies and procedures to reduce its volume of criticized assets, delinquencies and credit file and collateral documentation deficiencies. The reserve for possible loan was required to be reviewed quarterly and maintained at an adequate level. Extensions of credit to borrowers whose loans had been criticized were limited. Policies concerning loans to insiders were to be reviewed and revised to insure that such transactions were at least as favorable to the bank as loans to the general public. To improve earnings, the bank agreed to develop a detailed budget, analyze pricing of bank services and its costs of funds and implement specific plans to control operating expenses. A liquidity position of no less than 15 percent was to be maintained, and weekly liquidity calculations were to be submitted to the regional administrator. The board was required to formulate and implement a program designed to strengthen and augment the bank's capital structure. The bank was required to employ a qualified certified public accountant to conduct a full scope directors' examination and assist in developing adequate internal controls. Dividends were restricted, and the bank was required to immediately correct all violations of law noted in the report of examination.

### 52. Bank with assets of less than $15 million

A Formal Agreement required that the bank not lend money or otherwise extend credit to any borrower beyond the lending limitations imposed by 12 USC 84. The Agreement further required that all violations of law be corrected and that procedures be adopted to prevent future violations. The board was required to undertake an assessment of active management and was to provide the bank with a new, active and capable senior lending officer who was to have broad authority over the lending function of the bank. Written programs to eliminate all classified assets, improve collection efforts and eliminate all internal control and audit deficiencies were to be adopted and implemented. The board was to review the existing loan policies of the bank and was to draft, adopt and adhere to written loan policies of a safe and sound nature. Credit information exceptions were to be eliminated, and the bank was to refrain from granting any new loans without first obtaining current and satisfactory credit information. A review of the reserve for possible loan was to be conducted on a quarterly basis to ensure that the reserve was maintained at a level reflective of the risk and potential for loss inherent in the bank's loan portfolio. The board was to inject $200,000 in equity capital and was to submit a written capital program to the regional administrator for his approval. The board was also required to initiate actions to improve and sustain the bank's earnings. The bank was prohibited from paying any dividends without prior written approval of the regional administrator. Written policies of a safe and sound nature regarding investment and funds management were to be drafted, implemented and adhered to by the bank. The board agreed to report every 60 days to the regional administrator all actions taken to comply with the Agreement and the results of those actions.

**53. Bank with assets of $25 to $50 million**

A Formal Agreement required the board of directors to initiate and subsequently complete all action necessary to increase the bank's capital accounts by an amount deemed appropriate by the regional administrator. The board was to fully adhere to and enforce the terms of a deposit agreement to which the bank and the controlling owner of the bank were parties.

**54. Bank with assets of less than $15 million**

A Formal Agreement required the bank to evaluate the capability and effectiveness of its chief executive officer, take steps to eliminate criticized assets, revise loan policy, eliminate violations of law, eliminate collateral exceptions, implement a revised collection policy and reduce the level of past-due loans. The board was also required to review the adequacy of the reserve for possible loan on a quarterly basis and implement a funds management program to reduce the level and frequency of borrowings. The bank was required to correct internal control deficiencies and to initiate an external audit of the bank. The board was to develop a capital plan to inject equity capital and restrict its dividends unless prior approval of the regional administrator was obtained. The board was to implement a budget monitored on a quarterly basis and adopt realistic by-laws to fit the needs of the bank.

**55. Bank with assets of less than $15 million**

A Formal Agreement required the bank to immediately correct all violations of law and regulation. The board of directors was required to provide the bank with a new, active and capable chief executive officer, subject to the approval of the regional administrator. The board was instructed to submit to the regional administrator a written capital program, including plans for an equity capital increase of not less than $200,000. Other written programs were required to (1) establish and maintain an adequate reserve for possible loan, (2) correct collateral exceptions, (3) obtain current and satisfactory credit information, (4) remove all assets from criticized status and (5) review and improve the bank's overall lending policy. The board was to develop and implement a written policy for coordination and management of the bank's assets and liabilities.

**56. Bank with assets of less than $15 million**

A Formal Agreement required correction of all violations of law and required procedures to be adopted to prevent future violations. The Agreement further provided for the board, as provided by 12 USC 93, to indemnify the bank against any losses resulting from loans or other extensions of credit made in violation of 12 USC 84. The board was required to develop and submit to the regional administrator for approval a written capital program which was to provide for an increase of equity capital of not less than $500,000 and was to prohibit the paying of any dividends except as provided for in the approved capital program. The bank was required to prepare and furnish to the regional administrator a detailed budget for the fiscal year. The board was to take all necessary measures to improve the quality of its supervision of active management and was to provide the bank with a qualified full-time operations officer who was to be vested with sufficient authority to perform his functions in an acceptable manner. The bank was to refrain from extending credit to any insider on conditions or terms more favorable than those prevailing at the time for comparable transactions with other persons. The board was also to remove all criticized loans to insiders from the bank's books. Written programs to eliminate all assets from criticized status, to improve collection efforts and to increase and maintain the bank's reserve for possible loan were to be developed and implemented by the bank. The bank was to review and revise its written loan policy to conform with prudent banking standards. All necessary steps were to be taken to obtain current and satisfactory credit information on all outstanding loans, and no new loans were to be granted unless supported by such information. The board was to submit written reports every 30 days outlining the actions taken by the bank to comply with the provisions of the Agreement and the results of those actions.

**57. Bank with assets of less than $15 million**

A Formal Agreement restricted dividends and placed limitations on compensation paid to the bank's executive officers. The bank was required to submit to the regional administrator for his review a written program to effectively manage the nature and volume of the bank's assets and liabilities, avoiding the need for excessive temporary borrowings, and to reduce the level of reliance on public fund deposits. The bank was required to review and amend its written loan policy. Procedures and guidelines requiring a quarterly review of the bank's reserve for possible loan were to be adopted to ensure that the reserve was maintained at an adequate level in view of the condition of the bank's loan portfolio. The bank was required to submit monthly reports to the regional administrator outlining actions taken to comply with terms of the Agreement and results of those actions.

58. **Bank with assets of $25 to $50 million**

A Formal Agreement required correction of all violations of law and required adoption of procedures to prevent future violations. Dividends were restricted and the board of directors was required to employ the services of an independent auditor to commence a complete audit of the bank, paying particular attention to all forms of compensation paid to the officers and directors of the bank. The board was also required to retain the services of an independent legal counsel acceptable to the regional administrator to prepare a detailed written plan to eliminate or reduce any excessive remuneration being paid by the bank and to seek reimbursement of the bank by all responsible parties for any loss realized from any loans made in violation of 12 USC 84. The regional administrator retained power to veto or modify said plan in any manner deemed appropriate by him. The board agreed to prepare an analysis of the present and future capital needs of the bank and formulate a written plan to augment and strengthen the bank's capital structure. All necessary steps were to be taken to obtain current and satisfactory credit information on all loans so lacking, and the bank was to submit to the regional administrator a written summation of the procedures and forms adopted to obtain and record all necessary credit information. The board was required to adopt and implement a written program for the elimination of all assets from criticized status and was prohibited from extending credit to particular parties and business entities. The board was also to cause the collection of all uncollectible assets. If after 120 days from the effective date of the Agreement the bank, in the opinion of the regional administrator, had not made sufficient progress in complying with the terms of the Agreement and in improving the condition of the bank, the board was required to obtain a new, active and capable chief executive officer. Said chief executive officer was to be vested with substantial authority to ensure that the bank was operated on a safe and sound basis. A compliance committee of not less than five persons was to be established to ensure compliance by the bank with the articles of the Agreement.

59. **Bank with assets of $15 to $25 million**

A Formal Agreement required correction of all violations of law and required procedures to be adopted to prevent future violations. The board of directors was required to provide the bank with both a new and full-time senior lending officer and a qualified full-time operations officer. Both officers were to be vested with sufficient authority to perform their duties in an acceptable manner. The bank was to review and increase its reserve for possible loan to a level commensurate with the risks inherent in the bank's loan portfolio. A written capital program was to be developed and submitted to the regional administrator for approval. Said program was to include specific plans for an immediate injection of equity capital and for future increases in equity capital to support the bank's growth and activities. Dividends were restricted as was the remuneration received by directors and senior officers of the bank. The board members were required, as provided by 12 USC 93, to indemnify the bank for all losses suffered on any loan or other extension of credit granted in violation of 12 USC 84. All credit information exceptions were to be rectified and all imperfections with respect to collateral were to be corrected. The bank was to adopt and implement written programs to improve collection efforts, eliminate all assets from criticized status and correct the deficiencies in its internal control and audit procedures. Administration of the bank's electronic data processing equipment function was to be improved. The board was to review and revise the bank's lending, investment and asset/liability management policies. Compliance with the provisions of the Agreement were to be monitored and ensured by the board, which was to submit to the regional administrator complete written reports every 30 days detailing the actions taken to comply with the Agreement and the results of those actions.

60. **Bank with assets of less than $15 million**

A Formal Agreement required correction of all violations of law and required procedures to be adopted to prevent future violations. The bank was required to formulate and implement a program to improve its liquidity position and to reduce the bank's reliance on rate-sensitive deposits. The bank further was to prepare an analysis of its present and future capital needs and to formulate and implement a written program designed to maintain the capital structure at an adequate level. The reserve for possible loan was to be reviewed and augmented by an amount acceptable to the regional administrator. A written program to eliminate all assets from criticized status was to be adopted and implemented. The bank was required to review and amend its written loan policy in accordance with prudent banking standards. All internal control and internal audit deficiencies were to be corrected. The bank was also required to take such action as necessary to obtain fidelity insurance coverage. An evaluation of the adequacy and competency of current management was to be conducted, and if the bank determined that deficiencies existed then corrective action was to be taken. The bank was to submit monthly reports to the regional administrator outlining those actions taken to comply with the terms of the Agreement and the results of those actions.

61. **Bank with assets of $15 to $25 million**

A Formal Agreement required the bank to contact those account holders whose accounts may have been subject to as yet unidentified overcharges, to contact all account holders whose accounts had escheated to the state and to provide periodic statements of account to all account holders. An outside certified public accountant was required to conduct a complete audit of the allotment account department, and the bank was required to appoint an officer to supervise that department.

62. **Bank with assets of $15 to $25 million**

A Formal Agreement required correction of all violations of law and required procedures to be adopted to prevent future violations. The board of directors was required to provide the bank with a new, active and capable chief executive officer who was to be vested with sufficient authority to assure the safe and sound operation of the bank. A written plan for achieving and maintaining an average liquidity of not less than 15 percent, exclusive of federal funds purchased and other short-term borrowings, was to be developed and implemented, and bi-weekly liquidity reports were to be submitted to the regional administrator. The bank was also required to eliminate all repurchase agreements with entities not having an established and/or regularly recurring deposit relationship with the bank, and the bank was to substantially reduce the overall level of borrowed funds. The board was to retain an independent special counsel, acceptable to the regional administrator, to review all insider transactions with the bank and to formulate a plan to secure payment to the bank of all interest/fees which should have been paid to the bank. Written programs were to be developed and implemented to (1) augment and strengthen the capital structure of the bank, (2) eliminate all assets from criticized status, (3) improve collection efforts, (4) rectify credit information exceptions and (5) review and increase accordingly the reserve for possible loan. The board was to review and substantially revise the bank's written loan and investment policies. The board was required to submit complete written reports to the regional administrator, every 30 days, detailing the action taken by the bank to comply with the provisions of the Agreement and the results of those actions.

63. **Bank with assets of $50 to $100 million**

A Formal Agreement required correction of all violations of law and appointment of a compliance committee to report progress on correction of those violations. The compliance committee was also directed to submit a program for the elimination of all assets from criticized status and improve collection efforts. The bank was prohibited from making further loans to borrowers whose assets were criticized. The board of directors was required to employ a capable senior lending officer subject to the approval of the regional administrator. The board was also required to prepare an analysis of the bank's present and future capital needs. Increases in salaries and bonuses paid to all directors were prohibited until the bank's condition and capital were restored to a level satisfactory to the regional administrator. The board was further required to perform quarterly reviews of the reserve for possible loan and to maintain the reserve at an adequate level. The board was to submit programs to the regional administrator addressing the following areas: loan collections, credit information, collateral exceptions, loan reviews and internal controls and auditing procedures. Finally, a restriction was placed on the dividend payments.

64. **Bank with assets of $50 to $100 million**

A federal court required the bank to prepare a written plan to raise at least $2 million in new equity capital, and dividends were restricted. A new, active and capable chief executive officer was to be provided, with complete authority over the bank's operational functions. A complete review of the overall management team was to be undertaken. All assets were to be removed from classified status. Future loans to named parties were restricted. All violations of law were to be corrected immediately. Loans to insiders were restricted. New written loan policies were to be adopted, implemented and strictly adhered to. Credit concentrations in excess of 25 percent of gross capital funds were expressly prohibited. Measures were required to improve procedures relating to securing collateral and documenting credit information. Delinquent loans were to be reduced to a reasonable level. The board was to act to ensure the maintenance of an adequate liquidity position with a written policy to be submitted to the regional administrator, as well as bi-weekly reports reflecting average daily liquidity. Deficiencies in internal control and auditing procedures were to be corrected. The reserve for possible loan was to be restored and maintained at an adequate level. An oversight committee composed of at least three outside directors was to be established to insure the bank's compliance with the terms of the Agreement, and monthly progress reports were to be submitted to the regional administrator.

65. **Bank with assets of less than $15 million**

A Formal Agreement required the bank to expand the duties of the chief executive officer giving him primary responsibility for monitoring the granting of loans, loan review and loan loss review functions. The board was further required to appoint a new chief executive officer if the bank's condition failed to show substantial improvement. The board was also responsible for reviewing the composition of the board to determine whether to expand membership or to replace present board members. The bank was required to immediately correct all violations of law and to review internal controls and procedures to ensure that other violations did not occur. The bank was to develop written programs to (1) implement an internal credit review system, (2) establish guidelines for sound asset/liability management and (3) strengthen the reserve for possible loan.

66. **Bank with assets of $15 to $25 million**

A Formal Agreement required the bank to correct and eliminate each violation of law, rule or regulation cited. The board of directors was also to provide the bank with an active, capable full-time chief executive officer within 90 days of the Agreement and establish a personnel committee composed of directors and officers to recommend personnel policies and procedures. The board was required to conduct a quarterly review of the bank's reserve for possible loan, with a copy of each report sent to the regional administrator. The board was required to submit to the regional administrator monthly delinquent loan percentage reports. Written programs were required to be developed and implemented to (1) remove all assets, including other assets especially mentioned, from criticized status, (2) obtain current and satisfactory credit information on all loans so lacking, (3) correct collateral exceptions, (4) review and revise lending policy, (5) establish appropriate internal control and audit procedures and (6) review and revise the bank's investment policy. A compliance committee composed of board members was to be established with written progress reports on compliance with the Agreement to be submitted to the regional administrator. Additionally, the bank was required to submit a detailed budget for the following fiscal year to the regional administrator and for each year the Agreement remained in effect.

67. **Bank with assets of $25 to $50 million**

A Formal Agreement with the bank required that the board of directors always consist of at least five members and that the names of any nominees for the board be submitted to the regional administrator subject to his veto. The daily operating management of the bank was placed in the hands of the chief executive officer who reported only to the board of directors. The bank was required to adopt and implement a written program to eliminate all assets from criticized status and to refrain from extending credit to borrowers whose assets were criticized. An executive loan committee was appointed to review all extensions of credit in excess of a specified amount, and the bank was required to establish internal controls to monitor the lending function. Current and satisfactory credit information was to be obtained on all loans so lacking and all collateral exceptions were to be remedied. Moreover, each loan officer was required to prepare a written credit analysis for every loan. The bank was required to adopt policies governing liquidity and asset/liability management and policies governing its investment account. A written capital program was required, as well as quarterly review of the bank's reserve for possible loan. The chairman of the board resigned from the board of directors and entered into a written agreement which prohibited him from involvement in the bank's daily operations, from attempting to cause any extension of credit to be made by the bank to any particular person, corporation, business or other entity, from serving as chief executive officer of the bank or from unilaterally attempting to make any change in the bank's personnel.

68. **Bank with assets of $25 to $50 million**

A Formal Agreement required the bank to correct all violations of law cited. The board of directors was required to establish a compliance committee comprised of at least three outside directors to ensure the bank's compliance with the terms of the Agreement, with quarterly progress reports to be submitted to the regional administrator. The board was also required to make a comprehensive evaluation of the bank's management with monthly progress reports submitted to the regional administrator. A capable senior lending officer was to be appointed by the board, with a loan and executive committee to monitor lending functions until such officer was appointed. The bank was to achieve and maintain an adequate capital structure and to obtain an infusion of $1 million in equity capital within 180 days of the Agreement. The bank was prohibited from declaring or paying dividends except: (1) in conformity with the provisions of 12 USC 56 and 60, (2) justified by sound banking policy and (3) with the prior written approval by the regional administrator. Written programs were required to be established and implemented to (1) revise written loan policies, (2) obtain current and satisfactory credit information on future loans and correct imperfections pertaining to the securing of collateral, (3) provide for improved collection efforts and reduce the level of delinquent loans, (4) remove all assets from criticized status and (5) maintain an adequate reserve for possible loan. The bank was to employ the services of a capable internal auditor whose primary responsibility was to prepare written recommendations to the board for establishment of adequate internal controls.

69. **Bank with assets of less than $15 million**

A Formal Agreement required the bank to immediately correct all violations of law cited. The board of directors was required to evaluate the adequacy and effectiveness of management and detail the authority and responsibility of the chief executive officer. A compliance committee was mandated to ensure compliance with the terms of the Agreement. The board was to adopt written programs to (1) implement a written loan policy of safe and sound nature, (2) improve collection efforts, (3) correct credit and collateral exceptions, (4) correct internal control deficiencies and (5) achieve and maintain an adequate reserve for possible loan.

## Memorandum of Understanding

### 70. Bank with assets of less than $15 million

A Memorandum of Understanding required the board of directors to correct each violation of law cited in the report of examination and expressly stated the board's acknowledgement of personal liability for any losses suffered by the bank on excessive loans in violation of 12 USC 84. The board was further required to develop a written policy to ensure that loans to insiders or their related interests were based on documented creditworthiness of such individuals. The board was to review the bank's management team and ensure that needed officers were employed in a timely fashion. Written programs were required for (1) elimination of all assets from a criticized status, (2) correction of loan documentation deficiencies and (3) augmentation of reserve for possible loan. The board was required to engage an independent certified public accountant to commence and complete a comprehensive audit of the bank. Additionally, the bank was required to submit monthly progress reports to the regional administrator covering (a) correction of violations, (b) strengthening and/or removal of criticized assets, (c) correction of internal control deficiencies and (d) correction of loan documentation exceptions.

### 71. Bank with assets of less than $15 million

A Memorandum of Understanding required the board of directors to immediately correct all violations of law cited in the report of examination. The board was to provide the bank with an active and capable chief executive officer and to submit a report to the regional administrator assessing the competency of all bank officers. The board was to establish an oversight committee composed of at least four outside directors to ensure compliance with all terms of the Memorandum. The board was required to establish and implement written programs to (1) amend the bank's written lending policies, (2) obtain current and satisfactory credit information on all future loans, (3) remove all assets from criticized status and (4) achieve a profitable level of bank operations. In order to improve the bank's unsatisfactory liquidity position, the board was to develop written asset/liability guidelines as well as a new written investment policy of a safe and sound nature suited to the needs of the bank.

### 72. Bank with assets of less than $15 million

A Memorandum of Understanding required the board to immediately seek a qualified and capable chief executive officer, experienced in both lending and operations. A new written lending policy was required, with special emphasis on reducing the volume of criticized loans, monitoring delinquent loans and obtaining proper credit and collateral documentation. The reserve for possible loan was to be maintained at a level deemed adequate in light of the risk and potential for loss inherent in the bank's loan portfolio. The bank was to engage an independent certified public accountant to aid in establishing proper internal controls and audit procedures. Liquidity was to be maintained at an adequate level, and a policy addressing volume and volatility of rate-sensitive deposits was to be formulated. An equity capital injection of at least $250,000 was required to improve the bank's capital structure. All violations of law cited were to be immediately corrected, with steps taken to prevent future violations.

### 73. Bank with assets of $25 to $50 million

A Memorandum of Understanding required the bank to correct each violation cited in the report of examination, with an express restriction on loans in excess of the lending limitation provided for in 12 USC 84. The bank was required to develop a written program covering loans to insiders and their interests, with a copy submitted to the regional administrator for approval. The bank was further required to appoint an independent corporate trustee to administer the employee's profit sharing plan in full compliance with Employee Retirement Income Security Act. The board of directors was to prepare an analysis of the bank's capital needs, including a plan to reduce the bank's loan-to-capital ratio. Other written programs were required to (1) eliminate all assets from classified status, (2) correct loan documentation deficiencies, (3) correct deficiencies in internal controls and audit procedures and (4) improve collection efforts. The board was to evaluate the adequacy and competency of the bank's management. A detailed report of this evaluation was to be submitted to the regional administrator.

### 74. Bank with assets of $15 to $25 million

A Memorandum of Understanding required comprehensive plans to improve the bank's earnings and its liquidity and asset/liability management policy. An adequate reserve for possible loan was to be achieved and maintained. Written programs were required to (1) remove all assets from criticized status, (2) reduce the level of delinquent loans and (3) correct internal control deficiencies. The bank was further required to remedy all violations cited in the report of examination.

### 75. Bank with assets of $15 to $25 million

A Memorandum of Understanding required that all violations cited be immediately corrected. A new senior lending officer was to be appointed. Written programs were required to be established and implemented to (1) remove all assets from criticized status, (2) obtain current and satisfactory credit information, (3) amend the written loan policy, (4) improve the bank's liquidity position and (5) eliminate internal control deficiencies. A new written investment policy of a safe and sound nature were also required.

### 76. Bank with assets of less than $15 million

A Memorandum of Understanding required the board of directors to improve the quality of loan supervision by active management and the board. The board was required to comprehensively review the bank's current written loan policy and make all necessary modifications, specifically addressing repayment terms and collateral requirements. Written programs were required to be established and implemented to (1) eliminate all assets from criticized status, (2) obtain current and satisfactory credit information on all loans so lacking, (3) correct collateral exceptions, (4) ensure that the bank's reserve for possible loan is maintained at an adequate level, (5) analyze and fulfill the bank's present and future capital needs, (6) correct internal control deficiencies and (7) ensure that all future loans to insiders and their interests comply with appropriate statutes and regulations. Loans to any borrower whose loans or other extensions of credit had been criticized were restricted. The board was further required to appoint a qualified employee to perform the bank's internal audit programs and independently submit written reports to the regional administrator.

77. **Bank with assets of $15 to $25 million**

A Memorandum of Understanding required the bank to reduce all loans in excess of the 12 USC 84 lending limitation and to refrain from the granting of such loans. All other violations cited were to be immediately corrected. The board of directors was instructed to reduce the bank's ratio of net loans to capital to 9.5 to 1 within 24 months of the effective date of the Memorandum. The board was required to appoint a compliance committee composed of at least three outside directors to ensure the ongoing compliance with the terms of the Memorandum. Written programs were to be adopted to (1) remove all assets from criticized status, (2) achieve and maintain an adequate reserve for possible loan, (3) obtain current and satisfactory credit information on all loans so lacking, (4) correct each collateral exception noted and (5) correct internal control deficiencies. The bank was not to declare or pay any dividends except (a) in conformity with 12 USC 60, (b) when justified by sound banking policy and (c) with prior written approval of the regional administrator.

78. **Bank with assets of less than $15 million**

A Memorandum of Understanding required the board of directors to immediately correct all violations of law cited in the report of examination. All criticized loans to insiders or their related interests were to be removed from criticized status. The board was required to take all necessary steps to improve the bank's management and increase the supervision thereof. A new written loan policy was required, as well as written programs designed specifically to (1) reduce and collect each classified loan, (2) closely monitor each delinquent loan and initiate aggressive collection efforts, (3) obtain current and satisfactory credit information and (4) correct deficiencies in collateral documentation. The board was to employ the services of an independent certified public accountant to recommend to the bank procedures for proper internal auditing and control. The board was also required to formulate and adopt a comprehensive policy to improve the bank's liquidity position, specifically addressing volume and volatility of rate-sensitive deposits.

79. **Bank with assets of less than $15 million**

A Memorandum of Understanding required the board of directors to improve the quality of supervision by both active management and the board. A thorough review of the bank's written loan policies was to be undertaken, and staff adherence thereto was to be ensured. Written plans were to be adopted to (1) strengthen or collect each criticized loan, (2) monitor and identify problem credits, (3) obtain current and satisfactory credit information, (4) maintain an adequate reserve for possible loan, (5) ensure that liquidity is maintained at an adequate level, specifically addressing volume and volatility of rate-sensitive deposits and (6) establish proper internal controls. All violations cited in the report of examination were to be corrected and the board was required to ensure against their recurrence.

80. **Bank with assets of $25 to $50 million**

A Memorandum of Understanding required the bank to develop a comprehensive plan to improve earnings. The plan was to include a detailed budget which carefully controlled expenses, particularly interest and salaries. Policies concerning liquidity, asset/liability management and investments were to be reviewed and revised. A written capital program was required, and dividends were restricted. A written loan policy was to be revised and implemented, and a program of credit administration to reduce delinquencies and credit/collateral documentation deficiencies was required. The bank had to develop a plan to remove from criticized status all loans so listed in the examination report. A program to replenish and maintain the reserve for possible loan at an adequate level was to be designed and implemented.

81. **Bank with assets of $50 to $100 million**

A Memorandum of Understanding required the board of directors immediately to correct each violation of law, rule or regulation cited in the report of examination. Written programs were to be established and implemented to (1) reduce or collect each criticized loan, (2) obtain current and satisfactory credit information and perfect procedures pertaining to the securing of collateral on all loans so lacking, (3) establish asset/liability management of a safe and sound nature, ensuring a liquidity level of a daily average of 15 percent or more (exclusive of borrowed funds), (4) achieve and maintain an adequate reserve for possible loan and (5) to correct the bank's internal control deficiencies. The board was further required to formulate a plan for the injection of $1 million in equity capital.

82. **Bank with assets of less than $15 million**

A Memorandum of Understanding required the board of directors to review and improve the loan portfolio and management thereof. Written programs were to be established to (1) reduce the volume of criticized assets, (2) recover past-due loans, (3) maintain an adequate reserve for possible loan, (4) obtain current and satisfactory credit information on all loans so lacking, (5) improve internal audit procedures and (6) ensure sufficient liquidity and capital positions. The board was required to take steps to improve the overall lending function and ensure compliance by all lending officers with established lending procedures. All violations of law, rule or regulation were to be immediately corrected. The board was also directed to prevent future insider abuse of the bank's lending function and to see that the bank was reimbursed for loss of interest resulting from such practices.

83. **Bank with assets of less than $15 million**

A Memorandum of Understanding required the board of directors to institute a program designed to ensure that liquidity be restored and maintained at a level commensurate with prudent banking practices. The bank was also required to comprehensively analyze its equity capital needs and take steps toward the strengthening and augmentation thereof. Written programs were required to (1) eliminate all loans from criticized status, (2) obtain current and satisfactory credit information, (3) collect delinquent loans, (4) maintain an adequate reserve for possible loan and (5) correct all collateral exceptions. The board was required to obtain the services of an independent certified public accountant to thoroughly examine the bank's operating budget. If, in the opinion of the regional administrator, the bank's condition failed to sufficiently improve, the board was required to obtain a new, active and capable chief executive officer. All violations of law and regulation were to be corrected.

84. **Bank with assets of less than $15 million**

A Memorandum of Understanding required the board of directors to review and amend the bank's written loan policy and reduce the level of criticized assets. Delinquent loans were to be closely monitored. The bank was required to maintain an adequate reserve for possible loan. The board was required to formulate a comprehensive funds management policy to ensure maintenance of liquidity at no less than 20 percent. An injection of $300,000 in equity capital was required. A compliance committee including at least two outside directors was to be established and violations of law were to be immediately corrected.

85. **Bank with assets of less than $15 million**

A Memorandum of Understanding prohibited the bank from extending credit in violation of the lending limitations provided for in 12 USC 84. The board of directors was required to reimburse the bank for any losses incurred as a result of any such violations. The board was required to immediately correct all other violations cited. The board was required to reduce the level of loans outstanding to borrowers located outside the bank's primary trade area to an amount not to exceed 25 percent of gross loans. Written programs were required to (1) remove all assets from criticized status, (2) correct credit and collateral deficiencies, (3) reduce the level of delinquent loans, (4) ensure the ongoing adequacy of the reserve for possible loan and (5) correct internal control deficiencies. The board was required to implement a previously approved capital program calling for an injection of an additional $800,000 in equity capital.

86. **Bank with assets of $15 to $25 million**

A Memorandum of Understanding required the immediate correction of all violations cited. The board of directors was required to increase and maintain a liquidity level in excess of 15 percent and to provide bi-weekly liquidity calculations to the regional administrator. A written funds-management policy with investment guidelines was to be formulated and implemented. The board was required to design written programs to (1) reduce the level of criticized assets and past-due loans, (2) obtain current and satisfactory credit information on all loans made in excess of $5,000, (3) reduce the volume of out-of-territory loans and (4) review and maintain the reserve for possible loan at an adequate level. The board was required to inject equity capital in an amount sufficient to increase the bank's capital account to a level acceptable to the regional administrator.

87. **Bank with assets of $15 to $25 million**

A Memorandum of Understanding required the bank to immediately correct all violations cited, especially with respect to the lending limitation imposed by 12 USC 84. Written programs were to be established and implemented to (1) eliminate reliance on rate-sensitive funds and to achieve and maintain a liquidity level of not less than 20 percent, (2) remove all assets from criticized status, (3) ensure an adequate reserve for possible loan, (4) improve collection efforts and reduce the level of delinquent loans, (5) obtain current and satisfactory credit information on all loans so lacking, (6) correct internal control deficiencies and (7) ensure adherence to existing written lending and overdraft policies. The board of directors was to provide the bank with a new, active and capable senior lending officer. The board was required to provide the bank with fidelity insurance coverage in an appropriate amount. Also required were monthly reports to be submitted to regional administrator comprehensively analyzing the bank's earnings and present and future capital needs.

88. **Bank with assets of $15 to $25 million**

A Memorandum of Understanding required the board of directors to develop a management plan addressing the bank's management and staffing needs. All violations of law were to be immediately corrected. The board was required to establish and implement written programs designed to (1) obtain current and complete financial information on all loans cited as lacking such information, (2) correct imperfections pertaining to the securing of collateral, (3) correct internal control deficiencies and (4) correct deficiencies in the electronic data processing operations.

89. **Bank with assets of less than $15 million**

A Memorandum of Understanding required the bank to correct all violations of law, rule or regulation cited in the report of examination. The bank was required to institute a program for improving and maintaining the bank's liquidity position at not less than 15 percent, exclusive of volatile deposits, with monthly liquidity analysis reports sent to the regional administrator. A written program to improve and sustain the bank's earnings was also required. The board of directors was required to prepare an analysis of the bank's present and future capital needs and formulate a program to augment and strengthen the bank's capital structure, with a copy of said program sent to the regional administrator for approval. The board was required to hire a new, qualified and capable lending officer to act as the bank's credit administrator, whose duties were to include supervision of the overall lending function.

90. **Bank with assets of less than $15 million**

A Memorandum of Understanding called for comprehensive analysis of the bank's present and future management needs. The Memorandum required the bank to develop a plan to implement procedures to correct internal control deficiencies. The board was required to develop written programs to eliminate criticized assets, eliminate loans lacking complete credit information and improve collection practices and procedures. The board was directed to eliminate the violation of 12 CFR 1.8 and to develop a written program to improve the bank's earnings. This board agreed to submit the following reports on a monthly basis to the regional administrator: balance sheets, operating statement, reconciliation of the reserve for possible loan, criticized assets and liquidity computation past due report.

91. **Bank with assets of $25 to $50 million**

A Memorandum of Understanding required the bank's chief executive officer to provide the regional administrator with an in-depth written review of the bank's management structure. The board was required to adopt measures for improving the bank's liquidity position and reducing dependence on rate-sensitive funds. All violations of law, rule or regulation were to be immediately corrected. Written programs were required to (1) remove all assets from criticized status, (2) maintain an adequate reserve for possible loan, (3) correct internal audit deficiencies, (4) improve collection of delinquent loans and (5) revise the written lending policy to render it commensurate with safe and sound practices. An oversight committee, composed of at least three outside directors, was to be established to ensure and coordinate the bank's ongoing compliance with all provisions of the Memorandum.

92. **Bank with assets of less than $15 million**

A Memorandum of Understanding required the board of directors to develop a comprehensive plan designed to improve the bank's earnings. The board was required to prepare an in-depth analysis of the bank's present and future capital needs, with a plan to augment the bank's equity capital by an amount deemed appropriate by the regional administrator. Written programs were required to (1) reduce delinquent loans to an acceptable level, (2) obtain current and satisfactory credit information on all loans so lacking, (3) remove all assets from criticized status and (4) ensure the adequacy of the reserve for possible loan. The board was further required to correct and prevent the recurrence of all violations of law and regulations cited in the report of examination.

93. **Bank with assets of $25 to $50 million**

A Memorandum of Understanding required the board of directors to comprehensively evaluate the bank's management and to provide a program for formal training to increase managerial competency. The board was to propose a written policy for liquidity and asset/liability management, with a copy of the proposal to be forwarded to the regional administrator for comments and review. Written programs were required to be established and implemented to (1) remove all assets from criticized status, (2) obtain current and satisfactory credit information on all loans so lacking, (3) achieve and maintain an adequate reserve for possible loan and (4) eliminate all unresolved violations of law, rule or regulation cited in the report of examination. The board was required to conduct an objective, in-depth analysis of the bank's present and future capital needs. The bank was restrained from declaring or paying any dividend unless (a) in conformity to 12 USC 56 and 60, (b) justified by safe and sound banking policy and (c) with prior written approval of the regional administrator. The bank was further required to correct deficiencies in its accounting and administrative controls and to employ a qualified internal auditor to supervise this effort.

# APPENDIX D

# Selected Addresses and Congressional Testimony

# Selected Addresses and Congressional Testimony

# Statement of John G. Heimann, Comptroller of the Currency, before the Senate Committee on Banking, Housing and Urban Affairs, Washington, D.C., January 26, 1979

I appreciate this opportunity to discuss the 1979 budget of the Office of the Comptroller of the Currency. Copies of the 1979 operating and capital budgets have previously been supplied to the committee. I would like to use this occasion to highlight the most important features of the 1979 operating budget.

Total expenses of the 1979 operating budget amount to $102,012,900 and are broken down into the following categories:

| | | |
|---|---|---|
| Salaries and benefits | $ 73,640,200 | 72.2% |
| Travel | 13,906,300 | 13.6 |
| Education and training | 592,200 | .6 |
| Rent and maintenance | 4,819,200 | 4.7 |
| Office expense | 2,375,800 | 2.3 |
| Other expenses | 6,679,200 | 6.6 |
| Total | $102,012,900 | 100.0% |

Salaries and benefits, travel, and education and training account for more than 86 percent of the 1979 operating budget and are directly related to employment of people. Trained and skilled people are essential for performing our responsibilities to examine and analyze national banks for soundness, to protect consumer interests, to protect investor interests and to foster economic stability. It is important to realize that the tasks assigned to the Comptroller's Office are people intensive. Therefore, because the safety and soundness of the banking system to our economy are crucial, it is imperative to hire the best people, train them well and retain the flexibility to assign them to wherever they are most needed.

Before turning to a more detailed discussion of these figures, I want to point out that the increase in the 1979 budgeted expenses stems from (1) growth of the national banking system, (2) changes in supervisory requirements imposed by the increasing complexity of national banks' activities both domestically and internationally, (3) new duties stemming from passage of the International Banking Act and the Financial Institutions Regulatory and Interest Rate Control Act, (4) continuing implementation of duties mandated by Congress in recent years, such as Truth in Lending, Fair Housing Act and Community Reinvestment Act, which will result in greater expenditures in 1979 than in 1978 and (5) inflation.

Total domestic and foreign assets of banks supervised by the Comptroller's Office have grown 56 percent over the last 5 years from $570.9 billion at year-end 1973 to an estimated $890 billion at year-end 1978. The estimated increase for 1979 is 10.3 percent. We expect continued growth and expansion in the national banking system during 1979 which, in turn, will require allocating additional resources to meet existing responsibilities of the Comptroller's Office.

In addition, the complexity of commercial banking has also made examination and supervision more demanding. Because our functions depend primarily on people, this complexity has increased the need to place special emphasis on obtaining the services of individuals with abilities to deal with the most sophisticated banking operations, to train and keep them abreast of the latest developments and to design incentives to retain the best possible staff in the face of offers from the private sector which are frequently more attractive because of governmental limitations on salaries and benefits.

Over the last several years, we have increasingly found it essential to hire and train specialists. This is reflected in organizational changes which have resulted in separate divisions dealing with consumer examinations, consumer affairs, community development, civil rights, multinational banks, special surveillance of national banks (National Bank Surveillance System) and other specialized areas. Thus, both salary expense and training expense have risen considerably. Relatively high personnel turnover adds to the expense of maintaining the highly qualified people we must have to respond quickly and effectively to new situations or problems that inevitably arise, especially in times when the economy is less than robust.

Another indication of the growing complexity of commercial banking is the rapid expansion in both size and scope of the domestic and international activities of the largest national banks. Foreign assets of national banks grew 112 percent over the last 5 years from $79.9 billion at year-end 1973 to an estimated $169.1 billion at year-end 1978. This percentage increase is more than double the 47 percent growth in domestic assets over the same period. Foreign assets as a percentage of total assets have risen from 14 percent at year-end 1973 to an estimated 19 percent at year-end 1978. Because of our increasing interest in this area, the Comptroller's Office has become an active participant in the deliberations of the Group of Ten Committee on Banking Regulations and Supervisory Practices, known as the Cooke Committee. We have provided research to this committee and have sent representatives to its quarterly meetings.

In 1978, Congress continued its trend to add new duties for federal bank regulators to make regulation more responsive to the public's concerns. The extensive regulatory and supervisory changes mandated by the new Financial Institutions Regulatory and Interest Rate Control Act and the International Banking Act, together with expanded supervisory responsibilities in connection with the Community Reinvestment Act, will inevitably require more personnel and support systems if they are to be administered effectively. We estimate that our costs in connection with these three laws will amount to $2,079,000 during 1979.

One of the most compelling—I might even say insidious—elements influencing the 1979 budget is the inflation rate, which affects our Office as it does other components of our society. During the last 5 years the price level, as measured by the Gross National

Product (GNP) deflator, has risen 44 percent. This is an annual rate of inflation equal to 7.5 percent. During this same period, our expenses per employee increased 58 percent. The more rapid rise in expenses per employee than the increase in prices resulted from the upgrading and increased specialization of personnel, which we deem essential to respond adequately to the increasing complexity and sophistication of banking operations. Expenses per employee are expected to rise at least 3.5 percent in 1979, compared to the official 7.4 percent increase forecast by the administration for the GNP deflator.

Over the last 5 years, growth of the national banking system, increasing complexity in national banks' activities, new duties, expansion of traditional duties and inflation have combined to increase our expenses 103 percent from $45.8 million in 1973 to $92.9 million in 1978. About half of the increase was the result of inflation. The other half stemmed from the addition of employees to carry out new and traditional responsibilities.

To improve the effectiveness of our Office in carrying out its statutory responsibilities and in responding to an increasingly complex and volatile economy, changes were made in the structure of the Office early last year. We are confident these changes will further improve our efficiency. This program consolidates management functions, strengthens the administration of regional activities and accommodates changes in the banking industry. Of course, an effective and efficient organization must always be open to self-examination, improvement and, if necessary, change. We intend to continue to approach our responsibilities in this spirit.

The major functions of bank supervision, operations, policy and law have been grouped into four areas of control and direction. Each major function is the responsibility of a senior officer who reports directly to the Comptroller. This arrangement has the advantages of consolidating management of similar functions, strengthening administration of regional activities and planning for accommodation of evolutionary changes.

It is designed to improve the ability of the Comptroller to exercise proper direction and control of programs and functions, to meet our statutory responsibilities and to address more readily new and emerging issues confronting the national banking community. These changes enhance program effectiveness by clearly delineating and consolidating major functional areas of responsibility and reducing the number of positions reporting directly to the Comptroller. The changes resulted in adding 39 permanent positions to the 3,069 originally budgeted for 1978. (Copies of the new organization chart have been supplied to the committee.)

In this time when the administration is making strenuous efforts to bring inflation under control, we are making every effort to keep our expenditures to a minimum consistent with effective supervision of the national banking system. While we initially estimated that our new and traditional duties would require expenditure of $111,090,300 and a staff of 3,270 in 1979, we are confident that stringent emphasis on efficiency will permit us to carry out our responsibilities with the expenditure of $102,012,900 and a staff of 3,123. We believe that elimination of 147 positions, salary expense reduction of $3,359,600 and travel expense reduction of $3,825,200 from estimated needs will not impair the Office's performance.

The slight net increase of 15 new positions in the 1979 budget over 1978 was reviewed and appoved by the Department of the Treasury.Their decision recognizes that our banking system, in times like these, needs more people to assure the soundness of the system.

Projected revenues for 1979 are $102,500,000, which should provide a surplus of $487,100. Because our projected income and expenses are essentially balanced, we will add this slight excess of revenue to our reserve funds which we must, in prudence, maintain to operate during different economic periods when revenues fall short of expenses.

The 1979 budget recognizes the increasing importance of the areas I highlighted last year, viz., international operations and consumer programs.

A multinational region has been created to deal with the increasingly complex and multifaceted nature of some of the nation's largest banks. Because of the dispersed geographical composition of the banks' responsibilities, it is, in effect, a separate region. Its creation derives from the fact that there exist two types of banking systems based on size and services—those that are global in operation and others that serve more restricted areas. Using $1 billion in total assets as an approximate indicator of a multinational bank, there were 150 banks whose total assets exceeded this amount on September 30, 1978. These 150 banks amounted to only 1 percent of the 14,394 commercial banks but held 57 percent of the total assets.

The multinational region will be divided into two general areas: (1) examination and supervision and (2) support and analysis. By concentrating on banks in this group, our objective is to understand and supervise the operations of these major banks outside our classical framework. However, we intend to continue the traditional examination process and the external analysts' perception to permit a more logical conclusion as to the present condition of the banks. Economic data affecting multinational banks or banks in general will be used to assess the impact of developments on the entire banking system. Initially, the region will be responsible for 10 of the largest national banks. More will be added as we gain experience. However, we felt it prudent at the outset to start with a limited number of banks to facilitate experimentation and development of sound and workable supervisory and analytical programs. The amount allocated in the 1979 budget to this region is $1,475,300 as against $1,002,200 expended in 1978. We are convinced this increase is vital if we are to perform effectively our responsibilities in this growing and sensitive area.

Expenses also continue to increase as a result of our commitment to consumer protection and community development. Our newly created Office of Customer and Community Programs will strengthen the consumer affairs, civil rights and community development activities of our Office. These activities include:

(1) The development and improvement of regulations, legislative proposals and general policy;
(2) Guidance, training and monitoring for our consumer examination program which is now enforcing the provisions of the Community Reinvestment Act, Truth-in-Lending Act, Equal Credit Opportunity Act, Fair Housing Act, Real Estate Settlement Procedures Act and other consumer-oriented laws; and
(3) Liaison with a broadening consumer and community constituency, who increasingly recognize they are affected by the lending practices of the banks we regulate.

Of particular importance is the Office's expanding role in implementing the Community Reinvestment Act, which requires that the regulatory agencies encourage lenders to help meet the credit needs of their local communities. As part of our commitment to effective action, the new office will promote communication between lenders and community officials, residents and business, and it will develop information to help identify community credit needs and take steps to improve access of nonbanking groups to the regulatory process. In this way, we hope to substitute a process of education for burdensome regulatory requirements or complex formal interpretations.

Because we feel strongly that, in this time of severe public budget constraints, financial institutions must make major contributions to meet housing, community development and small business credit needs and that our technical support to encourage and provide leadership in developing these programs is essential, the customer and community program expenses of the 1979 budget are $1,322,600, or 106 percent above the estimated 1978 expenses of $642,100.

To improve the ability of our Office to address more readily new and emerging issues and to increase our effectiveness in carrying out existing programs, we have expanded the staff involved in research, analysis and regulatory reform. The increased complexity of the banking system, the financial markets and the economy as a whole require broader and more timely analysis of developments than ever before. The role of financial institutions in the economy is constantly changing, and we, as a regulator and supervisor, have a responsibility for anticipating developments and preparing appropriate strategies for dealing with them.

To this end, we have expanded our staff in the area of interagency coordination to facilitate the greatly increased number of matters requiring interagency consultation that have resulted from new legislation, the increasing complexity of the financial system, the increasing need to develop uniform regulatory policies and supervisory procedures and the need to exchange information about different parts of the same banking organization supervised by different agencies.

In addition, we have created the Office of Regulations Analysis to improve the efficiency and effectiveness of the regulation and supervision of national banks. This office reviews regulations for clarity and brevity to minimize cumbersome procedures and complex legal terminology with special attention paid to the burdens placed on small institutions which do not have the resources to handle the volume of paperwork or analysis involved in complying with existing regulatory requirements. We expect that over time the work of this office will reduce national banks' costs of complying with regulations and reduce the costs incurred by the Comptroller's Office in administering and enforcing regulations.

We have expanded and upgraded the staff in the Division of Banking Research and Economic Analysis and the Strategic Analysis Division to enhance the quality and range of research and analysis of economic developments, banking industry trends and developments, banking operations and a variety of other issues, both long- and short-term, affecting the banking and financial systems. The amount allocated in the 1979 budget to regulatory reform, research and analysis is $1,612,100, or 116 percent above the 1978 expense of $746,600.

Turning now to the most important expense categories in the 1979 budget, the largest proportion is devoted to salaries. The simple fact is that supervision of national banks to assure their soundness requires many people and depends on their abilities and motivation. Total salaries and benefits in 1979 are scheduled to be $73,640,200, 10.3 percent above the $66,751,000 spent in 1978.

Travel costs are another significant contributor to total expenses. They amount to almost 14 percent of the total 1979 budget. In 1979, the travel budget for the Comptroller's Office is projected to be $13,906,300, up 12.2 percent from the 1978 actual expenses. Because of an accounting change, the 1979 travel budget includes travel related to education of $2,006,300 which was charged to "education and career development" in prior years. After restating the 1979 travel budget to reflect this accounting change, the 1979 travel budget decreased $490,000, or 4 percent when compared to 1978, and amounts to 11.7 percent of the total budget.

Last year I discussed with the committee the large percentage increase in the educational and career development budget. At that time, I conveyed my commitment to education as an indispensable factor in maintaining quality supervision in a rapidly changing and complicated field. We have allocated $592,200, or 0.6 percent of the total 1979 budget, for this item. If the budget were restated to include $2,006,300 in travel expenses, the total for education and career development would be $2,598,500, or 2.5 percent of the total budget. This is an increase of 49.6 percent over actual 1978 expenses of $1,737,000. While still a small part of our total budget, it is the optimum amount we can effectively use at this time.

The cost of rent and maintenance for all nationwide facilities of the Comptroller's Office is budgeted at $4,819,200 in 1979. Our Washington headquarters accounts for slightly more than half of total office space. As required by our Washington lease, the Office is now negotiating with the lessor to establish new rental rates for the next 5-year lease renewal period to begin in June 1979. The 1979 budget for rent is somewhat inflated because the lessor's proposed rates were included for the last 7 months of the year. We are hopeful that the negotiation process will succeed in lowering these rates substantially, but we have made a conservative budget estimate.

A survey has been made to compare the Comptroller's rental rates for its privately leased office space with the cost of comparable General Services Administration (GSA) space in 15 cities. In the majority of these locations, we have found that other federal agencies are paying rental rates to GSA that exceed those the Comptroller's Office will pay in 1979.

Our Office remains committed to the highly structured, disciplined and cost effective budget process which I described last year in my testimony before this committee. With numerous competing demands on our resources, it is difficult to hold expenditures to our present income. We realize, however, that members of the public who use and own the banks ultimately pay for our expenses. We are determined that the cost of our operations be as low as possible. I am convinced our 1979 budget is consistent with this principle.

In closing, I would like to reiterate the goals which define our budget decisionmaking process and to which our resources are allocated:

- Enforcing full compliance by national banks with laws and regulations;
- Promptly detecting and seeking correction of deficiencies in banks;
- Promoting fair and nondiscriminatory treatment by national banks of their depositors, customers and shareholders;
- Operating the Comptroller's Office openly, consistent with applicable law and maintenance of public confidence in the banking system;
- Promoting maximum competition among banks, consistent with safety and soundness;
- Requiring appropriate public disclosure by national banks of information, consistent with the maintenance of public confidence and rights of privacy;
- Identifying important trends affecting the national banking system and incorporating such information into Comptroller policies and procedures;
- Recommending statutory changes to improve the ability of the Comptroller's Office to carry out its responsibilities in the interest of the public;
- Fostering maximum cooperation among federal, state and other countries' supervisory agencies;
- Confining intervention by the Comptroller's Office in management decisions to the minimum consistent with the protection of the public; and
- Continually planning and effecting improvement in the Comptroller's internal management, policies and procedures and extending fair and nondiscriminatory treatment to all employees of the Comptroller's Office.

## Remarks of John G. Heimann, Comptroller of the Currency, before the Assembly for Bank Directors, Boca Raton, Fla., February 9, 1979

The historian Carl Becker stated: "The primary purpose of all government regulation of the economic life of the community should be not to supplant the system of private economic enterprise but to make it work." The vitality and stability of the American banking system since the depression confirm that the legal and institutional structure of banking regulation has been largely successful—particularly when banking is compared with other regulated industries.

Yet, the banking industry, indeed the financial system, is undergoing fundamental change. The existing content and structure of regulation have been called into question. Taken together, the Community Reinvestment Act (CRA), the International Banking Act and the Financial Institutions Regulatory Interest Rate Control Act (FIRA), enacted by the 95th Congress, represent the most massive change in banking law since the Depression. Moreover, additional matters of fundamental significance will be considered by the present Congress, including universal reserve requirements and pricing of federal reserve services, reorganization of the bank regulatory agencies, interest rate controls on deposits (Regulation Q) which discriminate against small savers, and review of restrictions imposed by the McFadden Act on branching.

Notwithstanding this flurry of activity, the most profound changes are not occurring in the halls of Congress or the offices of the bureaucracy—but in the marketplace where institutions and individuals vie for profit. The entire landscape of competition in the delivery of financial services is shifting. More and more industries are engaging in face-to-face competition in the same markets and for the same customers.

Nowhere is this increased competition more evident than in the provision of consumer financial services such as savings deposits, longer-term retirement accounts, transaction accounts, residential mortgages and consumer lending. For example, in New England and New York state, all depository institutions are permitted to offer NOW accounts which are interest bearing transaction accounts, as of the third quarter of 1978, 37 percent of NOW account deposits in New England were held by thrift institutions.

Competition for transaction account balances is also coming from outside of the depository system. Money market funds amounted to $10.7 billion at the end of 1978. Most of these funds allow investors to sell shares by writing a check drawn on a demand deposit account maintained at a bank by the mutual fund. Merrill Lynch offers a cash management account which permits customers to earn interest on margin accounts, make purchases with a VISA card and write checks against either cash balances or an overdraft line of credit. And Sears has begun a pilot project, in conjunction with credit unions in Michigan and California, which allows credit union members in those states to pay for Sears' merchandise and make cash withdrawals by authorizing Sears to debit their share draft account.

Competition for consumer loans is also intense. Credit unions which held 4 percent of the consumer installment loan market in the early 1950's held 17 percent of the market at the end of 1977. This growth has largely been at the expense of the retailers and finance companies which have seen their market share shrink from 52 to 30 percent over the same time period. Moreover, General Motors held 3.5 percent of all consumer installment credit at the end of 1977, and Sears held 2.8 percent.

More significant perhaps is the increasingly national and international nature of the banking business. Of the 300 largest banks in the non-communist world, U.S. banks control 26 percent of the assets; Japanese banks, 25 percent; and western European banks, 47 percent. There are 150 banks in this country with deposits over $1 billion, 1 percent of all U.S. banks, that control 56 percent of the total banking assets. If you combined all of the banking activities of the Bank of Tokyo within the United States, it would rank as the 21st largest bank in the U.S. The activities of these banks are by no means limited to a single locality, state or country.

This flux in the financial system presents significant opportunities and serious pitfalls. In the marketplace, erosion of geographical restraints on competition, easing of restrictions on interest rates, more direct competition, easing of restrictions on interest rates, more direct competition among different providers of financial services, etc., will benefit the public and lead to a more efficient financial system.

Moreover, there exists an increasing consensus that much governmental interference with financial markets is inappropriate in light of current economic and technological realities. I have stated on a number of occasions my own commitment to minimizing governmental intervention in private decisionmaking. I have spent most of my professional life in the private sector, and I believe in the marketplace as the best regulator of economic conduct. I am certain that these views are shared by the vast majority of my colleagues. Nevertheless, I suspect that this is not the message you are getting from Washington. I know there seems to be little relief from what must appear to be an endless stream of regulatory requirements.

Reflecting this contradiction is the legislation passed in the 95th Congress. Although I applaud much that is contained in FIRA, the International Banking Act, and the Community Reinvestment Act, these statutes will impose significant new costs and restrictions. Some of these costs may prove unwarranted.

How we approach the challenge of implementing new law in a manner that is sensible, while reinforcing progressive changes in the marketplace, will say much about the future health and vitality of American commercial banking relative to its competitors, old and new.

In this context of flux, we at the Comptroller's Office have attempted to identify the basic principles of decisionmaking which will, as Becker suggested, "not . . . supplant the system of private economic enterprise but . . . make it work." We believe that the elements of a progressive approach to bank regulation include:

- Reliance on competition among various financial intermediaries with the gradual elimination of existing geographical and product market demarcations which tend to protect competitors rather than foster competition;
- Reliance on the pricing mechanism as the most efficient allocator of financial resources and ultimate elimination of such restrictions as the prohibition of the payment of interest on demand deposits and usury ceilings which tend to interfere with the efficient functioning of financial markets;
- Reinforcement of and reliance on existing private institutional structures, such as the board of directors, to perform functions which diminish the need for governmental intervention;
- Vigorous actions to correct abuses by bank insiders;
- Targeting of supervision so that intervention in the management decisions of soundly run institutions is minimized and scarce resources are focused on the most serious problems;
- Reliance on disclosure of material information to protect investors and ensure the effective functioning of financial markets;
- A willingness to tolerate individual bank failures which result from the normal operation of market forces coupled with a willingness to strengthen the already effective deposit insurance mechanism;
- Specific intervention when necessary to ensure that bank customers have fair access to bank services;
- Employment of the flexibility, expertise and resources of the private sector in dealing with our nation's social problems; and
- Development of mechanisms of regulatory reform which prompt the revision or discard of laws, rules and regulations when they have outlived their usefulness.

These principles reflect judgments that are perhaps contradictory. On the one hand, we have fundamental confidence in the pricing mechanism of the marketplace as the best allocator of resources and in the quality of informed private decisionmaking generally.

On the other hand, it is clear that governmental intervention is sometimes necessary in a complex and interrelated society. The continued vitality of our society, as well as our financial system, will depend on our ability to resolve this apparent paradox. The basic elements I have outlined represent an attempt to suggest such a resolution with respect to concrete questions of regulatory policy that we must deal with daily.

With this framework in mind, I would like to discuss specific areas in which we have applied or will apply these concepts. By now, most of you will have taken part in reviewing and approving your bank's Community Reinvestment Act statement. The Community Reinvestment Act arose out of congressional concern with the "redlining" issue. The act reflects, in part, dissatisfaction by Congress with the manner in which the financial regulatory agencies have applied the concept of "convenience and needs." The legislative history clearly reflects Congress' view that the agencies had not, in applying that standard, given proper attention to the bank's record in meeting community credit needs. In addition, the act seems to reflect the view that inattention by some financial institutions to the credit needs of local communities and especially low and moderate income neighborhoods is responsible, in part, for the decline of some of these communities.

Accordingly, the Community Reinvestment Act's stated purpose is to require each financial institution supervisory agency to use its authority when examining a financial institution to encourage it to help meet the credit needs of its local communities. The act requires the appropriate agency to assess a financial institution's record of meeting the credit needs of its entire community and to take that record into account in evaluating an application pertaining to a charter, branch office or merger.

Faced with these statutory requirements, the agencies made certain fundamental choices consistent with the principles I have outlined. The statute was vague; critical terms like "community" and "credit needs" were left undefined. No guidance was provided as to when an application should be denied.

First of all, the agencies recognized the diversities of both the communities and financial institutions of our country by not attempting to establish arbitrary, inflexible definitions of "community" or "credit needs." Rather, each institution is required to delineate its own community and to define in its CRA statement the ways in which it proposes to meet the credit needs of that community.

The agencies focused on the critical role of the board of directors by mandating its role in this process and by identifying the extent of the board's participation as a factor that will be considered in assessing the bank's record for CRA purposes. Your role in this capacity is especially important because most directors are not bankers and therefore bring a fresh perspective to this process.

Second, the agencies also adopted a flexible approach in addressing the absence of a statutory standard to be applied in assessing the bank's record for CRA purposes. Rather than adopting quotas of types of loans that would be considered "good" under CRA or creating a regulatory straitjacket which would unreasonably constrain management discretion, the agencies identified a number of factors that would be relevant in evaluating the record, including:

(1) A bank's efforts to communicate with its community;
(2) A bank's offering of loans and investments which help meet its community's credit needs for housing, small business and community development; and
(3) A bank's offering loans throughout its community on a nondiscriminatory basis.

In addition to these factors, it is explicitly recognized that other activities could help meet local credit needs, that a bank's abilities to meet credit needs are not limitless, and that safety and soundness considerations must be maintained.

Two other points should be borne in mind as you help your institutions address CRA.

First, what is important is not compliance with a series of technical/legal requirements but rather a bank's good faith effort to keep itself aware of and sensitive to the credit needs of the community, which it alone is best equipped to meet. This concept of community service is not new to bankers nor, I am sure, to you, and its application should not prove troublesome.

Second, I would emphasize that while we believe the approach we have chosen is a sensible one, which will be neither expensive nor constrictive, it is by no means written in stone. We have already implemented a process for reviewing the effectiveness and efficiency of our approach, and we will not hesitate to modify it or seek legislative changes where appropriate.

In describing our approach to CRA, I have outlined an agency response that was essentially reactive. More is required, if we are serious about restructuring the framework of law and regulation to place greater reliance on private decisionmaking and the market mechanism, and less on restrictive government regulation. Concrete initiatives must be taken. Some of these would require legislative action, such as simplification of truth-in-lending, elimination of geographical restraints on expansion and relaxation of interest rate restrictions. Others may be accomplished administratively.

Our newly established Office of Regulations Analysis will serve as the focal point for identifying and initiating those aspects of our supervisory framework—including regulations, interpretations, circulars and supervisory policies and practices—where changes can and should be made to eliminate or reduce unnecessary regulatory burdens. In addition, the Office of Regulations Analysis will be involved in developing new policies and regulations to assure that further regulation is justified and that the costs of various alternative courses of action have been considered.

Recent call report changes and our new "Chinese wall" regulation are examples of our initiatives in this respect. Instead of adopting a very lengthy regulation setting forth all the detailed procedures a bank would have to follow to assure that important nonpublic information did not pass from a bank's commercial department to its trust department, we adopted a three-sentence regulation which says, in effect, "Here is the law; you establish procedures for compliance which are appropriate for your type of operation." With respect to the call reports, we found that we no longer used about 40 percent of the information submitted from the 90 percent of the banks which have assets under $100 million, so we simply deleted the requirement that such information be filed. We are currently reviewing a number of other existing regulations, including investment securities rulings, real estate interpretations, Securities Exchange Act disclosure rules, offering circular requirements, security devices reports and annual reports to shareholders.

While we anticipate that review of existing regulations and reports will prove productive, we do not intend to stop there. We consider all policies and procedures to be fair game. For example, we have concluded that our procedures and policies dealing with bank chartering, branching and mergers are too costly, too burdensome and too time consuming. And in some instances, the policies we have pursued serve to thwart rather than promote competition.

We intend to remedy this situation. I am pleased to report to you today that we are committed to a thorough overhaul of our operations in this area. This effort will involve, among others, our Office of Regulations Analysis and Bank Organization and Structure Division and will be directed by the Senior Deputy Comptroller for Policy. Indicative of the importance we place on this project and its priority, we are calling it the "Applications for Structural Activities Project," known by its acronym, ASAP.

Certain policies are already being modified. For example, decisions in the coming months will reflect a chartering policy that provides for greater ease of entry. Similarly, we will take steps to ensure that our policies and procedures pertaining to protested applications do not allow competing institutions to delay applications where no substantial issues are raised.

My hope is that this project and others like it will prove to be models of regulatory reform. In conclusion, I would simply repeat my view that the marketplace is the best regulator of economic activity and my commitment as a bank regulator to making that mechanism work efficiently and effectively.

## Statement of John G. Heimann, Comptroller of the Currency, before the Senate Committee on Banking, Housing and Urban Affairs, Washington, D.C., February 28, 1979

We welcome the opportunity to testify on S. 332, the Consolidated Banking Regulation Act of 1979, and to address generally the reorganization of the regulation of financial services.

As Superintendent of Banks of New York, as Comptroller of the Currency and as Acting Chairman of the Federal Deposit Insurance Corporation (FDIC), I have had a unique opportunity to observe the operation of this system.

Both as State Superintendent and as Comptroller, I testified before the Senate Banking Committee regarding similar proposals. In the past, I have not favored creation of a single federal agency which would regulate commercial banks. Instead I suggested a structure in which regulation and supervision of all federally chartered financial institutions and their holding companies and affiliates would be centralized, with the FDIC continuing to support a strengthened system of state supervision. I continue to believe that evolution toward such a structure is preferable to consolidation of the commercial banking agencies.

Since I last testified, Congress has created the Federal Financial Institutions Examination Council under Title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (FIRA). Congress acted wisely in taking this step. The council provides a flexible framework within which financial regulatory reform can occur in an orderly and reasoned fashion. Such an approach recognizes both the realities and uncertainties of our financial system as well as the practicalities of administering a regulatory process.

First, and quite simply, the realities of the current market place demonstrate that, however correct historically, the singular focus of S. 332 on commercial banks is out of date.

Second, further developments in both the market place and the legislative arena are likely to blur distinctions among competitors. Because the shape of these and other developments is yet unclear, we should avoid a reorganization that will tend to be viewed as the final rationalization of the regulatory structure.

Third, that such a proposal would become permanent makes it all the more important that we fully evaluate and understand the disruptions and costs that sweeping consolidation would entail at this time and that we understand the benefits inherent in the existing system that would be lost.

In short, an incremental process responsive to the evolving realities of the market place is more desirable and less costly and disruptive than a single, sweeping reorganization.

I should emphasize that the Comptroller's Office is not wedded to the existing structure. We *are* commit-

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NOTE: The appendix to this statement was not included because of space constraints. The appendix, which gives examples of joint efforts by bank regulatory agencies to achieve uniformity, is available from other sources.

ted to regulatory reform through reorganization. Indeed, we have already begun to take certain steps, such as the transfer of an existing division of the Comptroller's Office to the FDIC, to achieve efficiencies in this manner, and we fully intend to continue to do so through the examination council.

Before outlining in greater detail why an evolutionary process through the examination council is preferable to a single vast reorganization and suggesting the direction that I hope such a process would take, I will focus on the realities of competition in the market place for financial services. The business of banking, or more accurately the business of providing financial services, has changed radically in the last decade and is continuing to change at an extraordinary pace. While many of us are aware of the individual pieces of the puzzle, we often fail to recognize fully the implications of change in the various financial markets. Certainly the current reality of competition is not that of 1937 when a study by the Brookings Institution originally proposed the creation of a single federal agency to regulate all commercial banks.

The financial system that emerged from the Great Depression consisted of distinct kinds of financial institutions, differing statutory powers and mandates, as well as separate regulators. The activities and markets of these institutions were segmented to a substantial degree. Where one or more types of financial institutions offered the same service, it was usually within distinct markets. Or, as was the case with savings deposits, commercial banks simply did not compete seriously with savings and loan associations, mutual savings banks or credit unions.

Since that time, the financial services industry has undergone substantial change at both the national and international level. No longer are markets for financial services segmented and identified with a specific type of financial institution. Commercial banks and thrift institutions are in head-to-head competition in many areas; commercial banks and thrifts have entered markets of nondepository institutions and vice versa; the gulf between large and small institutions has widened considerably; domestic and international geographical barriers to competition have eroded; and substantial changes have occurred in the legal and regulatory environment. A few examples will underscore the extent of this change.

From the end of World War II through 1977, the commercial banking share of the deposit market shrank from 82 to 62 percent, while savings and loan associations and credit unions increased their share from 6 to 29 percent. Demand deposits, which represented 74 percent of commercial bank liabilities in 1948, dropped to 32 percent in 1978, while time and savings deposits increased from 25 to 51 percent. These figures demonstrate a fundamental realignment in the provision of deposit services that occurred as a consequence of higher interest rates, the prohibition of interest payments on demand deposits and the Regulation Q differential.

Thrift institutions have responded to increased commercial bank competition for savings deposits by competing for transaction balances through NOW accounts, telephone transfer accounts, billpayer services, credit union share drafts and other ways of directly accessing savings deposits for the purpose of making payments.

Similar changes, although to a more limited extent, are occurring on the asset side, especially at the state level. Credit unions are increasingly involved in financing home mortgages as compared to their more traditional consumer finance role, while savings and loan associations are offering credit cards and seeking additional consumer lending powers.

Commercial banks have offered products once almost entirely the domain of nondepository institutions, including credit cards, mortgage banking, factoring, leasing, consumer finance and other services. For example, commercial banks' share of the consumer installment credit market has increased since World War II from 38 to 49 percent, while the combined share of finance companies and retailers declined from 58 to 30 percent.

Nondepository institutions have invaded the deposit markets of banks and thrifts. As of February 7, 1979, money market mutual funds stood at $13.9 billion, growing $3.1 billion in the 5 weeks since the beginning of 1979. Merrill Lynch offers a cash management account which permits customers to earn interest on margin accounts, make purchases with a VISA card and write checks against either cash balances or an overdraft line of credit. And recently, Sears, Roebuck and Co. announced its intention to offer approximately $500 million of $1,000 denomination medium-term notes to its 26 million credit card holders.

Banks and thrifts have also developed methods for raising funds from the money and capital markets, such as mortgage-backed bonds and commercial paper, that compete directly with nondepository and nonfinancial institutions. For example, bank holding companies issue commercial paper under their own names and then channel some of the funds back to their bank affiliates. Recently, the Federal Home Loan Bank Board announced approval for savings and loan associations to issue both mortgage-backed and unsecured commercial paper, thus providing savings and loan associations with greater access to the national money markets.

At the same time traditional distinctions among types of financial institutions are becoming less clear, the difference between locally oriented banks and large national and multinational banks is increasing. On the one hand, the local institution is often comparable to the specialty boutique. On the other, the conglomerate multinational is in effect a department store chain for financial services. The operations of the latter are more complex and sufficiently far-flung to span many jurisdictions. For example, according to its 1977 annual report, Citicorp engages in commercial banking, mortgage banking, trust services, consumer finance, credit card, equipment leasing, factoring and other services in 1,937 offices in 95 countries with total assets amounting to $77 billion.

The 10 largest banking organizations in the United States at the end of 1977 controlled nearly 30 percent of the nation's commercial banking assets and operated 46 banks with 2,906 domestic branches, 1,895 foreign offices and 41 Edge Act offices, not to mention numerous loan production offices and nonbanking subsidiaries controlling another $8.2 billion in assets. Of the 14,412 commercial banks at the end of 1977, 1,246, or 9 percent, had more than $100 million in assets.Collectively, these controlled 77 percent of commercial bank assets. Moreover, 8,700, or more than 60 percent of all commercial banks, have less than $25 million in assets and confine their services to their local communities.

Geographical market barriers have disappeared to a large extent in every area except consumer deposit services, where the McFadden Act restriction on national bank branching imposes effective restraints. For example, BankAmerica Corp. operates 13 subsidiaries, including FinanceAmerica which has 372 offices in 39 states. And as I have already indicated, nationwide nonfinancial institutions not subject to McFadden Act type restrictions are already casting covetous eyes on consumer deposits.

As the geographical barriers to competition have eroded, the distinctions between domestic and international banking systems have been, for all practical purposes, obliterated. Of the 300 largest banks in the non-communist world, U.S. banks control 26 percent of the assets; Japanese banks, 25 percent; and Western European banks, 47 percent. The banking activities of these banks are by no means limited to a single locality, state or country. As of 1978, 122 foreign banks operated banking facilities in the United States with total assets of about $90 billion. This total represents the combined assets of 123 agencies, 106 branches, 39 commercial bank subsidiaries and five investment companies. For example, combined, the banking activities of the Bank of Tokyo in the United States would represent the 21st largest bank in the country. Similarly, 141 U.S. banks have branches or subsidiaries abroad with assets that totaled approximately $228 billion at year-end 1977.

At the same time that the marketplace for financial services is reforming itself, the legal and regulatory structure in which financial institutions operate has been changed significantly. Legislation in the last 18 months, including FIRA, Community Reinvestment Act and International Banking Act, involves the most massive change in banking law since the Depression. Moreover, resolution of the Federal Reserve membership problem and serious reconsideration of Regulation Q and the McFadden Act hold out the possibility of further and perhaps more fundamental change.

In the context of these changes, we believe that an incremental approach to reorganization which does not focus solely on commercial banks is preferable for several reasons.

First of all, consolidation of the commercial bank regulatory functions does not address the existing reality of financial competition. In addition, we are on the threshold of changes that will have far-reaching implications for the future structure of the financial services industry. For example, it is impossible to know the degree to which nonbanking firms such as Sears, Merrill Lynch or American Express, which are poised on the edge of traditional segments of banking markets, will enter those markets. Similarly, it is clear that reconsideration of the role of Regulation Q will have serious implications for the health and role of the thrift industry. If the asset and liability powers of thrift institutions are expanded in the context of this consideration, they will come into even more direct competition with commercial banks.

While one can argue that the adoption of S. 332 would not foreclose further modifications of the federal financial regulatory framework in response to these changes in the marketplace, history suggests that wholesale reorganization of this type would be relatively permanent. In the face of flux that is occurring in our financial markets, I believe that the creation of a single regulatory agency which focuses solely on *commercial* banking ignores the reality of our financial system. This does not and should not mean that bold reorganization initiatives cannot occur in certain areas. Rather, it means that such reorganization should occur in an orderly, incremental fashion.

Many of the problems which have been identified in the existing regulatory structure can be addressed administratively in the context of the examination council or already have been addressed through the informal processes of interagency coordination. It has been argued that consolidation would lead to economy and efficiency of operation; that consolidation would eliminate certain frictions and practical problems, especially in the handling of distressed banks and in the supervision and regulation of bank holding companies; and, finally, that consolidation would result in a uniformity of approach and eliminate certain inequities.

Although substantial economies could not be achieved by a reorganization of the bank examination operation, efficiency can be improved if certain other functions are centralized. We are already involved in substantial steps in this direction.

For example, in December 1978 the FDIC and the Comptroller's Office began exploring the feasibility of merging the processing of call reports and other statistical reports which banks file routinely. These reports are essentially similar for both national and state commercial banks. At present, detailed planning is in process to effect such a merger in April. It is anticipated that the FDIC by virtue of assuming a larger volume of work will be able to achieve certain efficiencies. For example, rather than printing separately two sets of forms and developing two sets of instructions, only one will be required. Other efficiencies should stem from greater flexibility in scheduling personnel to handle processing of the various reports. Also, data processing expenses will be reduced.

Further, our Office is exploring transfer to the FDIC of our computer operations, and the Federal Reserve System, the FDIC and this Office are cooperating in developing a statistical monitoring system for all banks. Additionally, under provisions of Title X of FIRA, we are developing a joint training facility.

It has been argued that consolidation into a single commercial banking agency would probably eliminate some of the problems associated with communication and coordination. Much has been done to alleviate such problems in recent years. The appendix to this statement provides instances where the agencies have cooperated to achieve coordinated approaches to problems. I am confident that much more will be done within the framework of the examination council.

In the past, special attention has been paid to frictions and inefficiencies involving the supervision of bank holding companies. Coordination and communication have improved significantly in this area. I am hopeful that the council will be an effective vehicle for further improvement until Congress can act to remedy what I consider to be a serious flaw in the present regulatory structure.

It has also been argued that consolidation of bank regulatory functions in a single agency would be desirable in that it would eliminate inequities and confusion which flow from a lack of uniformity. In recent years, the agencies have recognized that uniformity is highly desirable in certain areas and have taken affirmative steps to insure a uniform approach in policies and practices.

In my judgment, the most notable achievements in this area include:

- Implementation of a coordinated and uniform approach to the Community Reinvestment Act, a task which involved an enormous degree of cooperation and effort on the part of the staffs and principals of the agencies;
- Development of a uniform approach to country risk evaluation;
- Development of a joint program to evaluate shared national credits; and
- Issuance of uniform Regulation Z enforcement guidelines.

At present, the staffs of the agencies are hard at work devising regulations and procedures to implement FIRA and the International Banking Act, which are uniform to the maximum degree possible.

In this regard, it should be noted that Title X of FIRA, which provides for the Federal Financial Institutions Examination Council, mandates that the council "establish uniform principles and standards and report forms for the examination of financial institutions which shall be applied by the federal financial institutions regulatory agencies." Moreover, that "(t)he Council shall make recommendations for uniformity in other supervisory matters, such as, but not limited to, classifying loans subject to country risk, identifying financial institutions in need of special supervisory attention, and evaluating the soundness of large loans that are shared by two or more financial institutions." Based on my experience during the past 18 months, I expect that the agencies will move forward to implement these requirements in an orderly and expeditious fashion.

As we move to encourage and achieve uniformity, it is critical that we not lose sight of an important point. One of the geniuses of the American political system is its emphasis on checks and balances and the fragmentation of the basis of decisionmaking. The wisdom of this principle is proved to me by the health, creativity and competitiveness of our commercial banking system. The history of this industry—especially when contrasted with others supervised by a single regulator—is why I have supported maintenance of a strong state banking system overseen at the federal level by an independent FDIC.

The existence of other agencies engaged in the same effort tends to produce better results over time. I wish that I and the staff at the Comptroller's Office were sufficiently smart and prescient to arrive at the optimal solution to a problem immediately. But we are not, and we do learn and borrow from our fellow regulators. Even where uniformity is ultimately the object, as it was in the Community Reinvestment Act, often the pull and tug of independent agencies leads to a far better result than if a single agency approached the problem.

In short, I am persuaded that former FDIC Chairman George LeMaistre was correct when he stated:

> . . . banking history demonstrates conclusively that the existence of regulatory alternatives provides, in part at least, one of the mechanisms which the regulatory reform movement seeks—a means of self-adjustment and self-reform. In effect, something like a market mechanism may be seen at work with good regulation driving out bad over the long haul.

Illustrations of this point are legion. We are particularly proud of two fundamental innovations in our Office's approach to bank examination. We believe that our new bank examination procedures, which emphasize a qualitative review of a bank's condition and management and rely heavily on the National Bank Surveillance System—a computer-based data and ratio analysis system—represent an important advance in the state of the art. An equally fundamental departure is our creation of a Multinational Banking Division, which will supervise our largest and most complex banking institutions. The establishment of what is, in effect, a new region for the regulation and supervision of the multinationals recognizes the reality that these entities are fundamentally different from the great majority of the institutions which we examine and supervise.

Finally, in response to the argument that agencies "compete" for constituents, I would simply note that I have never suspected that a fellow regulator was motivated by such a concern. I am convinced that decisions which have been cited to support this proposition reflected legitimate differences over policy and the law and not any effort for agency self-aggrandizement.

For these reasons, I have concluded that creation of a single commercial bank regulatory agency is not responsive to the realities of either the market place or the regulatory process. The examination council provides a flexible framework in which to go forward with reform and reorganization of financial institutions regulation in an orderly and efficient manner. As I emphasized at the outset, we at the Comptroller's Office are not wedded to the existing bank regulatory structure. Indeed, a systematic review of that structure can and should occur as part of an evolutionary process in which concrete experience can be a guide. One can describe an agenda for that review which is responsive to the realities of the marketplace and the practicalities of the regulatory environment. Some of these items can be accomplished administratively. Others will obviously require legislation.

First and foremost, we should move quickly to address the problem resulting from regulation of various parts of a bank holding company system by different agencies. It has been pointed out time and again that this facet of the regulatory structure significantly interferes with our effectiveness in supervising either these systems or the banks within them. The failure of Hamilton National Bank in Chattanooga, Tenn., is the most graphic illustration of this point. Both the FDIC and the Comptroller of the Currency are on record as favoring resolution of this problem by transferring primary authority over the entire system to one agency. I would hope that in the context of the examination council we can come up with a legislative approach to this issue that all the agencies can agree on and that Congress will see fit to act on this proposal expeditiously. In the meantime, I am hopeful that problems in this area can be minimized through coordination and cooperation within the council.

Second, if Congress does rationalize the subject of holding company supervision and regulation, it may also address whether the Federal Reserve System should have a supervisory function at all. It has long been argued that the system should not have this role so long as it has sufficient information to implement monetary policy effectively. Because of the concern the Federal Reserve Board has expressed with respect to attrition from the system and its consequent impact on monetary policy, any action in this direction should await resolution of the Fed membership issue.

Third, we should eliminate the conflict, duplication and overlap that result from the fact that both the states on one hand and the FDIC and the Federal Reserve Board on the other hand supervise and regulate state banks. I have indicated in the past my support of plans which would involve withdrawal of the federal presence on certification of the competency of the state agencies.

I would note that the essence of this concept could be implemented administratively by the FDIC. At the same time, I should also note that skepticism has been expressed as to the efficacy of the federal withdrawal strategy. It has been argued that the federal government has the comparative advantage in the bank examination area and that the states should recognize this and focus scarce resources on matters more nearly of local concern, such as the enforcement of consumer and civil rights laws and the enforcement of state laws and their chartering functions. A comprehensive FDIC study of the relationship between state and federal bank regulation is expected to be completed this summer.

Fourth, the Congress should also examine overlaps that exist between the federal financial agencies and other government agencies. As I have indicated, it makes no sense to segment the regulation of a holding company and its constituent banks. Yet, the banking agencies are responsible for the enforcement of the securities laws vis-a-vis banks while the Securities and Exchange Commission is responsible for the enforcement of the securities laws vis-a-vis holding companies. This anomaly should be corrected.

Similarly, the present fragmentation and overlap in the regulation of consumer credit at both the state and federal levels surely can be rationalized in a way that would achieve necessary protection with less cost to society.

As I indicated earlier, commercial banks on one hand and thrift institutions and credit unions on the other are increasingly coming into direct competition. This phenomenon may be accelerated if Congress and the agencies move seriously to phase out Regulation Q. If the trend toward increased direct competition continues, logic would favor the eventual consolidation of regulation of all federally chartered providers of financial services. My own experience in New York and at the FDIC strongly suggests to me the benefits of an agency which regulates different types of financial institutions.

Finally, we must ultimately address the fact that institutions that are not among traditional deposit-taking intermediaries are increasingly engaging in functions which might well be characterized as "banking" functions. To the degree that institutions engage in like functions, both the public interest and equity among competitors would seem to dictate that they be regulated equally. This may very well suggest a role for the financial regulators vis-a-vis some entities which are not commonly thought to be subject to their jurisdiction. An alternative approach might be to deregulate that function. For example, I certainly favor the phasing out of Regulation Q rather than the imposition of interest rate restrictions on money market funds.

In conclusion, I would simply reiterate what I have already stated. Reform in the regulation of financial institutions is not merely desirable but essential. To achieve the intended result, however, financial reform must be reasoned and orderly. And, most important, it must address the realities of the marketplace and not definitions and conceptions of another era. So long as we are open-minded and diligent in our commitment to regulatory reform, the examination council can and will provide a convenient and flexible framework for the progressive evolution of financial regulation.

# Remarks of John G. Heimann, Comptroller of the Currency, before the Government Research Corporation, London, England, March 26, 1979

"Banking across state lines—should it develop? Will it develop?" As a title this is a bit deceiving. In the United States, interstate banking is for all practical purposes already a reality. The question is not should or whether we will have interstate banking, but how we will balance competing interests to conform law and regulation to the realities of the marketplace.

The aggressiveness of competitors in the marketplace has brought this issue to the forefront and raises the broader problem of the appropriateness of geographical restraints on competition, both in the United States and throughout the world. In this, as in other areas, government has the choice of responding in an open and progressive way that will facilitate competition and private decisionmaking or of reinforcing interference with free choice in the marketplace.

I believe strongly in a free and open system of competition among the providers of financial services at the local, national and international levels. Accordingly, geographical restraints on competition should over time be eliminated. At the same time, I recognize that elimination of the artificial barriers that define markets raises fundamental questions that must be addressed to ensure the long-term health and stability of our domestic and international banking system.

The business of banking or, more accurately, the business of providing financial services has changed radically in the last two decades both domestically and internationally and is continuing to change at an extraordinary pace. While many of us are aware of the individual pieces of the puzzle, we often fail to recognize the full implications of change in the various financial markets. Thus, before focusing specifically on interstate banking in the United States, it is appropriate to place this subject in the larger context.

The financial system that emerged in the United States from the Great Depression consisted of distinct kinds of financial institutions, differing statutory powers and mandates, as well as separate regulators. Legislation enacted during this period sought to protect and insulate financial institutions against failure and was essentially anticompetitive—the first order of priority was the preservation of existing institutions. Where one or more types of financial institutions offered the same service, it was usually within distinct markets or, as was the case with savings deposits, commercial banks simply did not compete seriously with savings and loan associations, mutual savings banks or credit unions. In effect, both product and geographical markets were segmented by state and federal law as well as by custom.

State laws govern branching within the state and generally prohibit branches by banks from outside the state. This applies even if several states are within what we call a standard metropolitan statistical area, or market, such as the greater metropolitan New York area which is comprised of New York City, neighboring New York counties, northern New Jersey and southern Connecticut.

In 1927, the U.S. Congress passed the McFadden Act, which applied these state laws to nationally chartered banks—affirmatively permitting branching but generally limiting branch locations to those permitted to state banks. Hence, branching across state lines by a national bank was generally prohibited. With the increased importance of multibank holding companies, Congress chose to apply the principle of the McFadden Act to holding companies through the Douglas Amendment to the Bank Holding Company Act. This amendment prohibits acquisition of a bank in any state other than that in which it has its principal operations unless specifically authorized by the state in which the bank is located. This all sounds remarkably complicated, and it is.

In addition, a host of other laws serve to define the product markets in which financial institutions can operate. These statutes define the powers at the state and federal level for commercial banks, thrift institutions and credit unions. By segmenting the geographic and product markets, these laws resulted in a remarkable number of financial institutions in the United States. There are over 42,000 depository institutions, including 22,000 credit unions, 5,300 savings and loan associations and mutual savings banks, and almost 15,000 commercial banks. These institutions range in size from the smallest credit unions with assets of less than $5,000 to the largest U. S. bank, Bank of America, with assets expected to reach $100 billion in the near future.

Although most of these laws remain on the books and some remain effective in isolating certain markets, many of the resulting artificial barriers have been eroded by the solvency of competition.

Large money center banking organizations have expanded their operations to a national level to serve the growing needs of their customers. For example, BankAmerica Corp. now operates 13 subsidiaries, including Finance America which has 372 offices in 39 states. Through local subsidiaries, loan production offices and Edge Act offices, the large U. S. banks can now reach almost every banking market except retail deposit-taking on a nationwide basis. And as our large banks fund an increasing percentage of their liabilities through the purchase of funds, dependence on retail deposits is diminishing, thereby lessening the restraints that the interstate branching prohibition places on fund raising by large banks.

A similar erosion has occurred with respect to the barriers which segment financial product markets. Commercial banks now offer products once almost entirely in the domain of nondepository institutions such as credit cards, mortgage banking and consumer finance. Thrift institutions now compete for demand deposit balances through hybrid interest-paying accounts such as NOW accounts and bill payer services.

Nondepository institutions which have nationwide operations have also invaded the deposit markets of banks and thrifts. Merrill Lynch now offers a cash management account which permits its customers to earn interest on margin accounts and write checks against either cash balances or overdraft lines of credit. Sears, the country's largest retailer, recently announced its intention to offer $1,000 denomination medium-term notes to its 26 million credit card holders across the country. These notes are clearly substitutes for the medium-term certificates of deposit offered by banks and thrifts. Holders of American Express cards are able to obtain cash advances across the country through automated money machines. Money market mutual funds, which are available to individuals nationwide, offer share redemption by both telephone and check. These funds grew by almost 180 percent last year and rose by more than 40 percent in the first 2 months of this year.

The breakdown of geographic barriers within U.S. banking markets has been paralleled in the international financial markets. In the 1960's, one of the most remarkable phenomena was the rapid expansion of U.S. banking as the institutions followed their customers abroad. In the early 1960's, the annual flow of direct U.S. investments abroad exceeded foreign investments into the United States by more than nine times. Between 1960 and 1969, the number of foreign branches of U.S. banks quadrupled from 124 to 460. This represented a remarkable increase in competition in a number of countries in which local banks had long maintained a monopolistic position. This phenomenon has continued in the 1970's, with U.S. banks' expansion supplemented by a similar growth of the international activities of non-American banks.

Non-U.S. banks have become a competitive force not only in the international financial markets but also in the United States. Whereas 104 U.S. banking institutions with assets totaling $24 billion were controlled by foreign banks in 1972, by 1978, there were 273 institutions with assets of $90 billion. These banks have to a large extent followed their multinational clients' recent investments into the United States.

Direct investment in the United States from abroad in 1977 was almost nine times the 1967 level. In this sense, these banks have followed the same pattern of international expansion as U.S. banks did in the previous decade. But now they are seeking to compete directly with U.S. banks for business of U.S. corporations. For example, some sources calculate that foreign banks in the United States now account for approximately 20 percent of all domestic commercial and industrial loans extended by the 300 largest banks in the United States. Japanese banks alone control over 62 banking institutions in the United States, with assets totaling over $42 billion—nearly half of the total foreign ownership. They are followed by Canadian banks, which control 32 institutions and $13 billion in assets.

Foreign banks in the United States also took advantage of the absence of federal restriction prior to the passage of the International Banking Act of 1978 to establish operations in near-banking activities not open to U.S. commercial banks, as well as offices in more than one state. As of May 1977, 23 foreign bank parent companies operated branches, subsidiaries or affiliates in three or more states.

The original impetus for the foreign banking movement to the United States was the movement of foreign corporations to the United States. But there are additional forces behind this reversed migration. These banks desire dollar deposit bases to help fund their Eurocurrency operations. And, of course, the size and growth potential of the U.S. economy is also attractive to non-U.S. interests. Non-U.S. banks are now turning their attention to expansion in the U.S. retail banking market.

The most telling manifestation of foreign competition for U.S. retail banking business is the recent growth in actual and proposed acquisitions of U.S. banks by foreign institutions. Since 1974, several major international banks, including Lloyds Bank, Fuji Bank and the European-American group have enlarged their American operations in this fashion. At the present time, five proposed acquisitions are under consideration by federal and state banking authorities. They include acquisition of National Bank of North America, a $4.4 billion bank, by National Westminster Bank; Union Bank, with $5 billion in assets, by Standard Chartered Bank Ltd.; and Marine Midland, the largest of the three with over $14 billion in assets, by Hong Kong and Shanghai Bank. The latter two represent acquisitions of extensive branch networks in the country's two most populous states: California and New York. Also pending are applications by the Bank of Montreal to purchase 89 branches of the Bankers Trust Company in New York City and another by Algemene Bank N.V. to purchase La Salle National Bank of Chicago.

The impetus behind all of these developments has not come from regulators or legislators. Rather, it has come from competitors vying for advantage in the marketplace.

However, these forces also increase the likelihood of governmental action. For example, the increasing presence of foreign banks in the United States led to the passage of the International Banking Act of 1978. This law applied the principle of national treatment to foreign banks in the United States. Implementation of the principle of equality of competitive opportunity resulted in some curtailment of the previously unrestricted activities of foreign banks. For example, the act restricted future interstate branching by foreign banks operating in the United States to a rough parallel with what Congress conceived to be market opportunity available to domestic banks. However, the act also explicitly recognized the need for a thoroughgoing reassessment of the McFadden Act as applied to all banks and directed the administration to conduct such a review.

Certainly the increasing pace of foreign takeovers of U.S. banks has assured that this will be a principle focus of the study. For U.S. banks, one of the major concerns was expressed by M. A. Schapiro and Co. in a recent publication of the *Bank Stock Quarterly*. Under present U.S. law, it is noted: "Major opportunities in U.S. banking law are effectively reserved for foreign banks only, since they are free to make acquisitions of banks in the United States that are foreclosed to domestic banking." Thus: "A bank with headquarters in Hong Kong can acquire a New York bank, but a bank with headquarters in San Francisco cannot . . . no underlying economic realities can justify (this anomaly)."

Congress has indeed recognized the need for fairness in any openly competitive market as envisaged by the International Banking Act. This law requires the federal branches of foreign banks to have generally the same duties, restrictions, penalties, liabilities, conditions, limitations, as well as rights and privileges as a national bank. On the other hand, Congress also expected that U.S. banks should receive national treatment in their foreign operations. To determine what treatment U.S. banks are presently receiving abroad, the International Banking Act also required a study of foreign treatment of U.S. banks.

In addition to the McFadden and foreign treatment studies and the foreign acquisition issue, other developments in the judicial, legislative and regulatory arenas are likely to stimulate constructive change. The Federal Home Loan Bank Board recently proposed allowing federally chartered Washington, D.C.-based savings and loan associations to branch across state lines into Maryland and Virginia counties in the Washington metropolitan area. Moreover, a number of states, including Illinois, Washington and Minnesota, have proposals under consideration which would liberalize branching laws.

In the context of these developments, we must seriously address the phasing-out of legal constraints on geographical bank expansion in the United States by domestic or foreign concerns. Such restraints create inefficiencies by forcing banks to devote resources seeking ways to circumvent these barriers. Will the erosion of barriers be recognized in our banking legislation? Or will these restrictions be allowed to wither away, as they are certain to do, in an uncontrolled fashion that could cause substantial disruptions? For my own part, I prefer the former course in order to facilitate constructive change.

The phasing out of these restrictions might involve a number of elements. First of all, Congress should consider permitting branching for all federally insured institutions within natural market areas such as metropolitan areas. This concept was reflected in a bill proposed in the last Congress by Senator McIntyre which would have allowed banks to establish electronic funds facilities across state lines within their natural market areas. At the very minimum this should be allowed, as the Washington, D.C., experiment of the Federal Home Loan Bank Board goes forward.

Secondly, consideration should be given to either the repeal or some modification of the Douglas Amendment, which in effect prohibits multibank holding companies from acquiring out of state banks. Many states have moved from a unit banking structure to statewide branching with the multibank holding company as an interim step. A phasing in of interstate banking through multibank holding companies provides a reasonable approach to the ultimate elimination of geographic restraints, while simultaneously permitting an equitable adjustment for ownership interests in the changed competitive framework.

For example, the Douglas Amendment might be amended to provide that a bank holding company could acquire another bank in a state contiguous to the holding company's home state; that a holding company could acquire another bank within a certain region; that a holding company could acquire a limited number of banks in other states; or that a holding company could acquire another bank in a market that was significantly concentrated. Certainly, at the very minimum and in order to facilitate the least disruptive consequences of bank failure, the Douglas Amendment should be amended to provide for interstate acquisition in a failing bank situation.

Finally, I believe that we should address the important federal policy question raised by state laws whose restrictions serve to create what in effect are monopolistic or oligopolistic effects in certain markets. In recognition of these phenomena, the Supreme Court, speaking through Justice Stewart, in 1975 characterized restrictive branch banking statutes as a restraint of trade which would be a "per se" violation of our antitrust laws but for the fact that the restriction is governmentally rather than privately imposed. I believe that where it is demonstrated that restricted markets serve to disadvantage customers in those markets, that federal law should override state law and allow *de novo* entry.

I believe very strongly in a free and open competitive system on the national and international levels. Governmental intervention in the marketplace should be tolerated only where clearly warranted. However, I recognize that there are fundamental concerns both within countries and within regions in countries that must be recognized. This, at times, will necessarily involve a political balance between our interest in competition and local concerns. Thus, in striking the balance, we must make certain that concerns which do lead us to impose restrictions on competition and indeed legitimate and overriding.

In addition, as a bank supervisor, I am particularly sensitive to the special problems posed by the entry into the U.S. market of a foreign operation, whether by acquisition or *de novo*. For example, different national laws and customs regarding disclosure of information which we require from our domestic institutions may make it difficult to permit entry at times. Moreover, the inability to obtain the quantity and quality of pertinent information about the related activities of the foreign owner and the absence of ready jurisdiction over controlling principals gives further cause for concern.

Finally, we must recognize that as we permit free and open competition we must be careful to avoid the concentrations of economic power that often go with size.

In conclusion, I would emphasize that these concerns can and should be addressed. These changes which are on us are profound. As such, they afford the opportunity for governmental action which is constructive and will be of substantial benefit to our financial systems. I am hopeful that we will respond to this challenge.

# Statement of John G. Heimann, Comptroller of the Currency, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs, Washington, D.C., April 5, 1979

I welcome the opportunity to present the views of the Office of the Comptroller of the Currency on H.R. 2515. This testimony does not necessarily represent administration policy. H.R. 2515 provides for the temporary preemption of state usury ceilings on business and agricultural loans of $25,000 or more until January 1, 1981, and establishes a ceiling 5 percentage points above the Federal Reserve discount rate on 90-day commercial paper. H.R. 2515 is essentially the same as Public Law 93-501, which was enacted on October 29, 1974, to provide temporary relief from state usury ceilings for financial institutions—principally those in Arkansas, Montana and Tennessee. That law expired on July 1, 1977.

Problems stemming from arbitrarily imposed usury limits are not new. When market interest rates are above usury ceilings, low-income borrowers and higher-risk borrowers generally have been unable to obtain loans from commercial banks or other financial institutions, and credit has flowed to markets not subject to usury ceilings. This has occurred during every period of high interest rates over the last 15 years. Many states have revised usury statutes in response to market realities, but some have not or could not because usury ceilings were mandated in their constitutions. Since 1974, Tennessee has amended its constitution to grant the state legislature discretion to establish usury ceilings; Arkansas has not, although a constitutional convention has been convened.

As New York State Superintendent of Banks, I testified on the subject of usury ceilings before the New York State Assembly in 1975, which was considering revision of the state usury limit that applied to conventional mortgage loans. I stated:

> A usury ceiling is not supposed to be a form of price control. It should function solely to protect the financially weak or unwary borrower from paying an exorbitant rate of interest; that is, to prevent what amounts to extortion, or cupidity. To use it to control interest rates in free capital markets is only to guarantee that money will not be generally available for home finance.

Protection of weak and unwary borrowers from unscrupulous money lenders has been an objective of usury laws since Biblical times. In the U.S., usury ceilings have had a long history and have been supported by some as a way of guaranteeing cheap credit to borrowers. Constitutional and statutory usury ceilings seldom impinged significantly on the lending activities of legitimate institutions until recent times. However, with the advent of inflation, various free market-determined interest rates have frequently exceeded usury ceilings. In those states where statutes were not changed to reflect market realities or whose constitutions prevented change, individual borrowers, businesses, lending institutions and state economies were all adversely affected.

H.R. 2515 is an example of a measure which deals with today's financial realities, but it is only a partial stop-gap measure. It is tailored to respond to the present situation in Arkansas. The constitutionally mandated 10 percent usury ceiling in Arkansas is restricting the flow of credit into the state's financial markets. Interest rates in many national markets exceed Arkansas' 10 percent limit. For example, rates on mortgages have recently risen to over 10 percent, and the prime lending rate at most banks is now over 11 percent. Although Arkansas has convened a constitutional convention and a new usury provision is being drafted to provide greater flexibility, the new constitution will not be presented to voters until November 1980. Thus, to alleviate some of the immediate problems facing lending institutions in Arkansas, we support prompt adoption of H.R. 2515.

We believe, however, that the time has come to reconsider whether usury laws, generally, serve a useful purpose in our society.

## Usury: Goals vs. Impacts

Evidence collected over several years overwhelmingly indicates that elimination of restrictive usury limits would be in the public interest. (A summary of evidence accumulated in various studies is contained in the appendix.*) Generally, usury laws:

- Fail to accomplish their desired objectives,
- Have an adverse effect on production and employment, and
- Distort allocation of credit among markets and among states.

Perhaps a major reason that usury laws have persisted is that they are intended to protect small- and low-income borrowers from unscrupulous money lenders and to limit the power of lenders to charge whatever interest rate they want. These goals are important, but usury laws have a poor record of accomplishing them. Indeed, usury laws have had unintended and adverse effects on borrowers, financial institutions and the public-at-large. This suggests that means of obtaining these goals other than usury ceilings should be pursued.

Restrictive interest rate limitations have closed off conventional credit sources to high-risk, generally low-income borrowers. When lenders are unable to charge rates sufficient to yield a reasonable rate of return, they generally stop lending to high-risk borrowers. Good risks may also be unable to obtain credit because the cost of making small loans exceeds usury ceilings. Both groups of borrowers may either forego obtaining

* The appendix to this statement was not included because of space constraints. The appendix is available from other sources.

credit, go to loan sharks where loans are available above usury rate limits or seek nonmarket sources of credit such as family or friends. These conclusions have been documented in several studies of consumer finance companies, commercial banks and mutual savings banks. Similar studies of new automobile, mortgage and personal loan markets offer the same conclusions. The results are consistent—low-income consumers are denied access to conventional credit when market rates exceed usury ceilings.

Interest rates on home mortgages have been the target of usury limitations in several states. New York state is a primary example. From October 1973 until the end of 1978, the state had an 8½ percent limit on conventional home mortgages. Prior to 1973, the maximum rate was even less. But this law did not and could not prevent mortgage lenders from obtaining market rates for their investable funds by making out-of-state loans and other kinds of loans not subject to the ceiling on mortgages. For example, between 1966-1976, when mortgage rates generally were frequently above the New York ceiling, the amount of out-of-state mortgages held by New York mutual savings banks averaged 48 percent. Other evidence suggests that when national mortgage interest rates rise above usury ceiling rates construction activity in states with restrictive rates declines significantly. These observations clearly indicate that placing restrictive limits on mortgage rates fails to provide for the public's housing-related credit needs.

Firms which must operate in markets subject to usury restrictions feel the impact on both costs and revenues. In the consumer finance industry where rate restrictions abound, low-rate ceilings tend to result in fewer and larger loans because credit is allocated to low-risk consumers and because larger loans are less costly to make. When low legal loan size limits are combined with low ceilings on interest rates, the number of loans increases, but low-income, high-risk customers still find it difficult, if not impossible, to obtain credit. Instead, good risk customers are forced to "double-up" by acquiring costly multiple loans to get the amount of credit they desire.

The cost of making small loans to consumers, even good-risk customers, can be considerable. For example, consider a 1-year, $1,000 consumer installment loan with 12 monthly payments. The 1977 Functional Cost Analysis of average banks compiled by the Federal Reserve System estimates that the cost of making and servicing such a loan is $130.68. This cost includes $41.35 to process the loan application, $34.92 to collect and process 12 payments, $49.76 to cover the cost of funds and $4.65 to cover the average expected loss on loans of this type. To break even, the bank must charge about a 13.1 percent interest rate. The cost of making and servicing a 1-year $500 loan with 12 payments would be $103.47, or 20.7 percent. Longer-term or larger loans are less costly to make. Thus, it is not surprising that financial institutions in states with restrictive usury ceilings are reluctant to make small and short-term loans.

Usury limits have also had adverse effects on the economies of certain states. For example, one study shows that Tennessee's economy grew at a faster rate than the national economy except when market interest rates rose above the state usury ceilings. At that point, Tennessee's economy slowed substantially. The same study calculated that between 1974-1976, the annual loss in production averaged $150 million, the annual loss of jobs averaged 7,000, the annual loss of retail sales averaged $80 million and the annual loss of assets in financial intermediaries averaged $1.25 billion.

Because usury laws are regulated by each state, variations in usury rates distort the geographic distribution of credit. This is apparent from the types of financial institutions which exist in various states. For example, Arkansas with its 10 percent usury limit has few consumer finance companies. Because credit is an essential ingredient to commerce, restrictions that limit its availability, such as usury ceilings, tend to dampen economic growth. This occurred in Missouri from early 1973 to early 1974 when the mortgage ceiling was 6 percent. New mortgage loans at Missouri savings and loan associations declined 37 percent compared to a 6 percent decline in neighboring states. The usury limit was raised in 1974.

Arkansas offers another example of distortions created in credit markets by restrictive usury rates. In the Texarkana region, there are distinct differences between the types of firms located on the Texas side of the city and those on the Arkansas side. There is considerably less retail trade on the Arkansas side despite the approximately equal distribution of population between states. The majority of automobile dealers, appliance stores, furniture stores and other businesses that rely on consumer credit has moved to the Texas side of the city. Clearly, inefficiency and inconvenience result from the locational patterns created by Arkansas's usury ceiling.

The inescapable conclusion to all of this, I think, was stated well 115 years ago by the first Comptroller of the Currency, Hugh McCulloch, in his initial report to Congress:

> Where money is abundant it is cheap, where scarce it is dear; and no legislation has been able to control the effect of this general law.

### Timeliness for Change

The call for market-responsive lending rates is not new. Hugh McCulloch took issue with the caprice of usury laws in his 1864 report, citing the "embarrassment" caused to interstate commerce by the "different and frequently changing legislation of the States in fixing the value of the use of money."

Today, in the few states that have adopted the Uniform Consumer Credit Code, nonconsumer related loans are free from usury ceilings. Other states have chosen not to control interest rates on specific categories of loans. Furthermore, almost every state permits corporate loan rates to be fixed without restriction.

Nevertheless, usury laws continue to vary on different kinds of loans from state to state. While appeals for comprehensive reform have been heard from some quarters through the years, the rule has always been to place reliance on the individual states to respond to changing economic needs. But the reality is that our economy has become national in scope, and no state legislature acting alone has the power to bring about change on a national scale.

Legal restrictions that inhibit credit flows are becoming less and less effective. However, the impact on local communities, individuals and businesses can still be quite severe. When left to itself, our market-based economy generally attunes itself to the public interest on a local, state or national level, as the situation dictates. Where a problem transcends political boundaries and the states lack the capacity to devise an appropriate solution or find it difficult to adopt consistent and uniform approaches, federal involvement may be the best way of dealing with the problem.

The federal Truth-in-Lending Act is a good case in point. Disclosure is an important way of protecting the unwary and the weak. The annual percentage rate and finance charge disclosure requirements provide a uniform basis nationwide which borrowers can use to evaluate the cost of credit. While many express concern about the regulatory burden that has accompanied truth in lending, few would deny that it has brought about uniform and consistent disclosure that has benefited borrowers.

### Responses to Usury Limits

It is in this spirit that we propose that Congress consider revising federal law to eliminate usury ceilings and, in doing so, return rate-setting to its proper place in the competitive credit markets. Such action would recognize existing market realities and result in substantial public benefits. However, in moving toward the elimination of usury limits it is important that the objective of protecting weak and unwary borrowers from unscrupulous lenders also be met.

Ten years ago, in testimony before the Legislature of the Commonwealth of Massachusetts on the Uniform Consumer Credit Code, Senator Paul Douglas stated:

> I strongly endorse the Code's attempt to foster meaningful price competition on credit charges through uniform rate disclosure and a policy of free entry. To the extent feasible, rates on consumer credit transactions should be set by market forces rather than state legislatures. However, in today's credit market certain barriers to competition blunt the impact of market forces. Price competition is difficult because of the lack of meaningful rate disclosure. Hopefully, the Truth-in-Lending Act will help to solve this part of the problem.
>
> But even if all creditors disclose the true annual rate on consumer credit, effective competition is [still] hampered by barriers to entry.

We believe that uniformity of principle and consistency of regulation in matters of credit is long overdue. Much can be learned about the advantages to interstate commerce and consumer protection which have been achieved through nationwide adoption of the Uniform Commercial Code. Other model acts hold similar promise as they gain more widespread acceptance among the states.

The Uniform Consumer Credit Code deserves particular mention. Drafted under the aegis of the National Conference of Commissioners on Uniform State Laws, the provisions of this code are grounded in the assumption that consumers are protected best when the cost of credit is determined by competition in the marketplace subject to certain minimal controls. Since garnering the approval of the National Conference and the American Bar Association on its completion in 1968, the code has been adopted by only 11 states. With response lagging, its intended purposes have yet to be realized.

So lacking in consistency is the present environment that usury laws not only differ from state to state, but they differ, as well, from bank to bank. National banks operate under the federal usury statute (12 USC 85), which appears to subject them to state limits. However, the rule, originated in 1863 as Section 30 of the National Bank Act, is not quite so simple.

The U.S. Supreme Court was first asked to interpret Section 30 in 1873 in the *Tiffany* case. That landmark decision held that Congress intended the statute to give "advantages to national banks over their state competitors."

Congress created an even greater advantage in 1933 when it enacted the current provision entitling national banks to elect to peg interest to the Federal Reserve discount rate in lieu of the applicable state limit. The principal sponsor of that amendment, Senator Glass, argued persuasively that when the discount rate exceeded the state interest rate ceilings, national banks had to be the instrumentalities to permit businesses to borrow money to avoid possible collapse.

This past December these advantages were again reaffirmed as the Supreme Court echoed the words of *Tiffany.* In the *Marquette National Bank* case, perhaps its most significant decision on usury since 1873, the court held that the law allows a national bank to provide credit anywhere, in any state, subject exclusively to the interest rate ceiling of its home state or the alternative formula in the federal statute.

In our highly integrated financial system, interstate transactions are already a commonplace occurrence. The justices in *Marquette* openly acknowledged that the "exportation" of interest rates significantly impairs the ability of states to enact effective usury laws.

Laboring under the weight of this expanding body of case law and caught in the midst of emerging new economic realities, usury ceilings are increasingly inexpedient. The challenge now is not to roll back the advances made by national banks but rather to recognize the urgency of the situation and to work toward the removal of artificial credit constraints on financial institutions. In this effort, we must be mindful, as well, of the legitimate concern for the small, financially weak borrower who may fall prey to disreputable lending practices. In those parts of the country where credit markets are not yet reasonably competitive, the need to safeguard the rights of those most vulnerable is pressing.

The time is ripe for change. If we do not soon release our financial institutions from the grip of antiquated and labyrinthine laws which restrict competition, we are condemning them to a handicapped role in the marketplace. In our rapidly changing financial and economic environment, geographic barriers to entry, interest rate ceilings on deposits and usury laws all limit the ability of depository institutions to compete effectively with nondepository institutions which are not similarly restricted and which are increasingly offering the same financial services. We believe that a competitive marketplace in which all providers of a financial service can compete on an equal footing is a desirable goal to pursue and that we should proceed to phase out in an orderly manner those restrictions that impede attainment of that goal.

Federal law can and should be used to help achieve this objective. The Comptroller's Office stands ready to assist this subcommittee as fully as possible in carrying forward this most important effort.

## Statement of John G. Heimann, Comptroller of the Currency, before the Subcommittee on Financial Institutions of the Senate Committee on Banking, Housing and Urban Affairs, Washington, D.C., April 11, 1979

I am pleased to have the opportunity to present the views of the Office of the Comptroller of the Currency on S. Concurrent Resolution 5, S. Resolution 59 and on deposit rate controls generally and to commend this subcommittee and its Chairman for the timeliness of these hearings.

As Superintendent of Banks of New York, Comptroller of the Currency, Acting Chairman of the Federal Deposit Insurance Corporation and member of the Board of the Federal National Mortgage Association, I have observed the consequences of deposit rate controls on depository institutions, on the financial system and on the economy. This testimony reflects that experience. It does not necessarily represent Treasury Department or administration policy. The administration is developing recommendations based on the work over the past year of the Interagency Task Force on Deposit Rate Controls.

As New York State Superintendent of Banks, I also voiced concern over the inequity of deposit rate controls. In March 1976 testimony before the House Banking Subcommittee on Financial Institutions, I stated that the:

> saver of small means has been unfairly forced to subsidize the borrower. Indeed, the saver of means and financial sophistication has not been victimized at all. He moves his money as interest rates change to take advantage of the best investment opportunities. It is the saver with a few hundred dollars or the saver who has the wherewithal but is timid or too unsophisticated to make direct investments who is victimized.

Furthermore, the Comptroller's Office has been a frequent critic of deposit rate controls. Former Comptroller James E. Smith, testifying before the Financial Institutions Subcommittee of the Senate Banking Committee in November 1973, noted that deposit rate controls place financial institutions at a severe disadvantage in competing for funds against Treasury bills, U.S. agency issues and corporate debentures and that rate ceilings fail to insulate institutions from deposit outflows. Moreover, he noted, "Such rate setting is highly discriminatory to the consumer-saver, who lacks either the financial sophistication or the monetary wherewithal to shift his funds to the high yielding market instruments."

In addition, deposit interest rate controls have received considerable attention by the Congress and the Executive branch. The conclusions of the 1958 *Commission on Money and Credit,* the *Heller Report,* the congressionally mandated 1966 *Study of the Savings and Loan Industry,* the 1971 *Hunt Commission Report,* the 1972 Federal Reserve Board study, "Ways to Moderate Fluctuations in Housing Credit," and the *FINE* (Financial Institutions and the Nation's Economy) *Discussion Principles* released by the House Subcommittee on Financial Institutions in 1975 are virtually unanimous in recommending that Regulation Q be phased out and that thrift institutions be granted broader asset and liability powers.

The collective verdict of these studies is that the costs to society of continuing Regulation Q outweigh the benefits. It is time to commit ourselves to phasing out ceilings on all types of deposits and to structure a solution that recognizes and deals with the problems that removal of ceilings may create. Only with the certain knowledge that rate controls will be removed by a definite date will affected institutions begin making the necessary adjustments.

In addition to setting a timetable for removal of deposit rate ceilings, we recommend that thrift institutions be permitted to:

- Offer with appropriate safeguards a full array of mortgage instruments safeguards;
- Issue longer-term insured liability instruments and certificates to reduce their dependence on short-term, more interest-sensitive deposits;
- Offer a range of household financial services, including transaction accounts and some consumer loan powers, to provide consumers with the convenience of one-stop banking; and
- Invest to a greater extent in other short-term assets to shorten the maturity of their loan portfolio.

Furthermore, state usury laws should be repealed, preempted or modified substantially because they create another arbitrary distortion of our capital market system. These ceilings reduce the incentives to make mortgages and distort the flow of funds by encouraging out-of-state investment of funds. When usury ceilings are below market interest rates, they reduce the ability of less creditworthy consumers, such as young families, to obtain mortgage funds.

These recommendations should be acted on at the earliest possible time to permit thrift institutions to begin implementing the adjustments that will make early removal of deposit rate ceilings possible. In the meantime, those agencies charged with regulating deposit rate ceilings should be encouraged to do what they can to provide depositors with a fair rate of return on their funds without jeopardizing the viability of depository institutions. Preliminary steps were taken along this line on April 4, 1979, when the agencies invited comment on a series of proposed changes in deposit rate ceilings that would enhance the return to small savers and provide them greater flexibility:

- A fixed 5-year maturity certificate with a $500 minimum denomination, a 6-month interest forfeiture for early withdrawal and a flexible ceiling (in commercial banks, 125 basis points; in thrift institutions, 100 basis points) below the average 5-year rate based on the yield curve for Treasury securities;
- A bonus of 50 basis points on individuals' passbook savings accounts on the minimum balance during a 12-month period;
- Reduction of present minimum denomination requirements to $500 except for large negotiable certificates of deposit and money market certificates;
- A $500 minimum denomination rising-rate certificate (6 percent in the first year; 6.5 percent between 1 and 2½ years; 7 percent between 2½ and 4 years; 7.5 percent between 4 and 5 years; and 8 percent between 5 and 8 years; thrifts would be permitted to pay ¼ percent more) with a 3-month interest forfeiture penalty for early withdrawal during the first year and thereafter no penalty; and
- Reduction of early withdrawal penalties on existing certificates to 6 months' loss of interest.

The comment period for this proposal extends through May 4. We encourage all interested parties to participate in this exercise.

Our recommendation that concrete and certain steps should be taken to eliminate deposit interest rate ceilings reflects the judgment that these ceilings are inefficient, inequitable and create problems throughout the financial system. These problems have been recognized by most since their inception. Specifically, deposit rate ceilings are undesirable because:

- Unsophisticated savers and those of modest means do not receive as large a return as wealthier and more sophisticated savers can;
- Depository institutions are forced to resort to inefficient and wasteful forms of nonprice competition and to devise roundabout strategies to circumvent ceilings;
- Costly and unnecessary transactions occur as savers, seeking the best rate, move funds in and out of depository institutions;
- Disintermediation has heightened the cyclicality of the housing construction industry, causing inefficiencies and added costs for home buyers;
- Strength of depository institutions is eroded due to their inability to respond fully to the competition of unregulated institutions for funds in the marketplace; and
- Saving in the form of financial assets is discouraged in favor of saving in the form of durable assets, which may discourage the kinds of investments that promote increases in productivity.

In light of these problems, why have deposit ceiling controls been renewed year after year, and why have calls for their elimination been ignored? There are several reasons:

- Rate controls were designed to favor thrift institutions over commercial banks, with the intent of funneling funds into housing construction and mortgages;
- Rate controls were intended to lower the cost of credit, particularly mortgages;
- Rate controls were designed to protect the local markets of depository institutions by preventing outside institutions from attracting deposits through higher rates;
- Those benefiting from the present deposit rate structure wish to retain their competitive positions;
- During times of rising interest rates, market rates on short-term funds, which comprise the majority of thrift deposits, adjust more quickly than yields on thrift assets, which consist mostly of long-term mortgages; this threatens thrift institutions' liquidity and possibly solvency; and
- Rate controls are believed to prevent excessive interest rate competition for deposits and, therefore, inhibit unsafe investment policies.

Thus, despite the costs deposit ceilings impose on our society in terms of inefficiency and inequity, the prospect of a weakened thrift industry if rate controls were to be removed has led many to accept controls as the lesser of evils. However, the dynamics of the marketplace are such that a continuation of deposit rate controls will lead to a restructuring of the financial services industries, changing and perhaps diminishing the role of depository institutions.

The financial system that emerged from the Great Depression consisted of distinct kinds of financial institutions with differing statutory powers and mandates as well as separate regulators. The activities and markets of these institutions were segmented to a substantial degree. Where one or more types of financial institutions offered the same service, it was usually within distinct markets. Or, as was the case with savings deposits, commercial banks simply did not compete seriously with savings and loan associations, mutual savings banks or credit unions.

Since that time, the financial services industry has undergone substantial change at both the national and international levels. Because of innovations in communications technology and inflationary pressures, markets for financial services are no longer segmented and identified with a specific type of financial institution. Commercial banks and thrift institutions are in head-to-head competition in many areas; commercial banks and thrifts have entered markets of nondepository institutions and vice versa; the gulf between large and small institutions has widened considerably; and domestic and international geographical barriers to competition have eroded.

What role will deposit-taking institutions play and what role should they play in this rapidly changing economic environment? We believe, as do many others, that strong deposit-taking industries are crucial to a vital and efficient economic and financial system. Thus, we believe it is imperative to address the issue of deposit rate ceilings immediately and to develop a program for an orderly phasing out as quickly as practicable. Paul A. Samuelson, winner of the Nobel Prize in economics, in a 1969 study of the savings and loan industry noted:

> But just as Sigmund Freud has shown that adults are better for meeting their problems head-on rather than suppressing them from attention, so I believe a healthy democratic society should be the better for facing up to the problems that are really there.

Before elaborating an approach to resolving the Regulation Q problem, I believe further discussion of problems created by rate ceilings and difficulties that may develop as a result of their removal will be helpful.

### What Is Wrong With Deposit Interest Rate Controls?

There is no question that the system of deposit rate controls that was established in 1966 is unfair to small savers of modest means and those of limited financial sophistication because they receive a below-market rate of return on their savings. Federal Reserve Board Vice Chairman Robertson in August 1966 testified in favor of legislation that would broaden deposit rate controls and extend them to thrift institutions but noted that the legislation "discriminates against the small saver" and that the board was requesting the Regulation Q authority with "considerable reluctance."

Small savers may have large savings balances. Consider, for example, a retired person who relies on savings interest on a $40,000 account to provide a substantial portion of his or her yearly income. Because of the desire to maintain liquidity and preserve principal, the risks and inconveniences tied to nondeposit forms of investment encourage savers to keep their funds in low-rate passbook savings accounts. Of course, the money market certificate now affords such savers an opportunity to earn a market return but many still prefer the instant liquidity of a passbook account. The difference between a 9.4 percent return on the money market certificate and a 5 or 5.25 percent return on passbook savings is an unfair premium to exact for the privilege of maintaining instantaneous liquidity.

In the present environment of high inflation, the current yield on consumer deposits, adjusted for income taxes and for inflation, is negative. A dollar spent today can purchase more real goods than a dollar put aside in an interest-bearing savings account can purchase next year. Rather than rewarding individuals for saving, our system of deposit ceilings penalizes them. Perhaps indicative of these facts, a popular investment guide recently advised readers that investment in a case of tuna fish now yields a higher after-tax return than investment in a passbook savings account at a savings and loan association.

For example, the deposit rate ceiling on a 1-year certificate at a thrift institution is currently 6.5 percent. An individual in a 30-percent federal income tax bracket would receive an after-tax yield of slightly over 4.5 percent, but when this return is adjusted for inflation, which last year was over 9 percent, the return is a negative 4.5 percent. This makes it exceedingly difficult for people of modest means to accumulate funds necessary to make a down payment on a home. It also discourages them from saving, thereby preventing them from improving their standard of living in the future.

The relatively well-to-do and sophisticated savers, however, are able to earn a market rate of interest on their investments. Large denomination negotiable certificates of deposit; federal agency securities; Treasury bills, notes and bonds; money market funds; and, more recently, money market certificates are all now yielding significantly higher rates of return than consumer deposits. However, to purchase many of these instruments, the investor must be able to meet minimum denomination requirements and be willing to accept the risk of moving outside the traditional depository system. It seems likely that the moderate-income families, the elderly and the retired are among those least likely to withdraw their savings and invest directly in the market.

This inequity in treatment of depositors is not inadvertent; it was designed purposely to respond to the realities of the financial market. If large depositors are not offered yields on their deposits which are competitive with other investment instruments, they will rapidly shift their funds elsewhere. To be viable, the rate controls can only apply to the household depositor for whom there are few suitable alternative investments. For example, the money market certificate was limited to a minimum denomination of $10,000 because large depositors are more sensitive to interest rate changes than small depositors.

Realizing the reality of such inequities, the calls made by many to end discriminatory treatment by authorizing low-denomination deposit instruments, which pay market-based interest rates, are clearly justified. The fact of the matter is that the current structure of deposit rate ceilings is, in effect, a regressive tax. The losses to savers from deposit ceilings have been substantial. One study by professor David H. Pyle of the University of California at Berkeley concluded that between 1968 and 1975 Regulation Q resulted in a loss to depositors of $22 billion.

More recently, professor Edward Kane of the Ohio State University estimated that between 1968 and 1979 Regulation Q cost $42 billion in lost interest, and rate restrictions on all types of financial instruments resulted in a loss of $55 billion in interest. Kane estimates that $19 billion was lost by people over the age of 65.

### Inefficient Competition for Deposits

Inefficiency results when goods and services are not produced at the minimum attainable cost or with the minimum amount of resources. For example, efforts to restrict competition among institutions by controlling deposit rates result in these institutions competing on the basis of other factors, such as premiums, free services and more convenience in the form of more branch offices and longer hours. This raises the cost of intermediation because the cost to the depository institution of providing the extra services frequently exceeds the value the depositor places on the services he receives. Many depositors would prefer to receive interest income which they can spend as they choose rather than having to accept free services or a choice of premiums.

During recent high interest rate periods, some depository institutions in the highly competitive urban areas have looked more like department stores than depository institutions. In their windows one might find cameras, radios, television sets, blankets, glassware and so on. Governmental policy that forces a young family—which is seeking to accumulate sufficient savings for a down payment on a house—to choose between a color television set or an outboard motor, simply because federal regulations prohibit their bank from paying a realistic rate of return on savings deposits, should be questioned.

### Inefficiency in the Market

During periods when market interest rates significantly exceed rate ceilings that commercial banks and thrift institutions may pay on their deposits, savers in the aggregate tend to decrease the proportion of their savings allocated to these institutions by investing directly in market securities or allocating savings to unregulated financial intermediaries, such as money market funds and municipal bond funds. When market rates fall relative to deposit ceilings, funds have tended to flow back into depository institutions. Such shifting of funds generates transactions and costs that are not necessary to the functioning of the economy.

In addition, savers, particularly those with small deposits, expend more resources in investing their funds directly in market securities or new financial intermediaries than depository institutions would. To the extent that depository institutions are more efficient in collecting funds from depositors and lending them to borrowers, the growth of alternatives to deposits will increase costs.

The shifting of funds increases uncertainty and forces depository institutions to maintain greater liquidity and to invest smaller amounts in long-term investments such as mortgages.

Even those thrift institutions gaining new deposits during high interest rate periods may be reluctant to tie the funds up in long-term mortgages. There has been some evidence that a portion of the 6-month money market certificate balances has been invested in large negotiable certificates of deposit of commercial banks.

### Disruptions of the Housing Market

When interest rates rise above deposit ceilings and depositors withdraw their funds, housing has been clobbered. There is no doubt that Regulation Q has exacerbated cyclical swings in the housing market. It is an economic principle that stable markets function more efficiently than unstable ones.

Instability in the availability of housing finance contributed to creation of governmental or governmentally supported agencies to supplement the flow of funds into housing. Since the imposition of deposit rate controls on thrifts in 1966, the share of outstanding residential mortgage loans financed directly or indirectly by federal agencies or sponsored credit agencies has increased from 6 to 19 percent. In 1974, over half of all new mortgage credit was provided directly or indirectly through funds made available by federal agencies. Even last year, when thrift deposits were strong, federal participation directly and through federal housing agencies, mortgage pools and Federal Home Loan Bank advances totaled 30 percent of new mortgages. By way of comparison, the government's participation in the residential mortgage market in 1964 totaled less than 2 percent. Yet, despite this assistance, the housing market still tends to be hit harder than other sectors of the economy when interest rates are high.

It is generally agreed that the money market certificates introduced last year helped maintain considerable housing strength, even as mortgage rates rose sharply. The key to this success was that until a month ago a market rate could be paid on money market certificates.

### Eroding Competitive Strength of Depository Institutions

Deposit rate controls, including the differential, have placed commercial banks at a serious disadvantage in the competition for deposits. Their share of financial assets declined from 57 percent in 1946 to 40 percent in 1977. Over the same period, savings and loans associations, mutual savings banks and credit unions increased their share from 13 to 24 percent; however, this increase did not offset the commercial bank loss. But since 1962, commercial banks' share has increased from 38 to 40 percent, reflecting more aggressive competition for nondeposit funds, such as negotiable certificates of deposit, borrowed funds, subordinated debentures and so forth.

By limiting the flexibility of deposit-taking institutions to attract deposits, rate controls have fostered the development of new institutions and markets ready to meet the demands of the consumer. Intermediaries established primarily since 1966 include money market funds and tax-exempt municipal bond funds. These funds have grown in rapid spurts when interest rates have risen. More significantly, these funds have not contracted when interest rates declined and may have become a permanent feature in our financial system. Initial investments in some of these funds start as low as $500; and many provide check writing privileges. Not surprisingly, money market funds grew by 180 percent during 1978 and increased by 42 percent during the first 2 months of 1979, reaching $15.5 billion in size.

Corporations have also been encouraged by deposit rate controls to deal directly with each other and with the household sector, rather than operating through depository institutions. For instance, new money raised by both financial and nonfinancial corporations in the commercial paper market averaged less than $800 million per year from 1961 through 1965 and did not exceed $1.6 billion in any year. In the years immediately following the introduction of deposit rate controls, the average new money raised in the commercial paper market was over $4.7 billion and exceeded $11 billion in 1969. As of the end of 1978, commercial paper outstanding totaled almost $84 billion.

Other examples of direct borrowing and lending include:

- The recent announcement by Sears of plans to issue small denomination intermediate notes directly to its credit card holders;
- The issuance by municipalities of "minibonds" in denominations as low as $100; and
- The entry of insurance companies and even cash-rich non-financial companies into the short- and intermediate-term corporate lending business.

It is difficult to quantify what the cost to society has been of using resources to circumvent rate controls. However, it seems likely that our financial system has not been strengthened and thrift deposits have not been protected by regulations that unintentionally encourage borrowers or lenders to transact their business in newly formed markets. The financial and credit expertise built up over the years in the commercial banking system is lost to the investor and the issuer when business which could be performed more efficiently by the banking system is forced by restrictions on banks to go elsewhere.

### Saving in Financial Assets is Discouraged

While below-market rates on deposits may have little, if any, impact on aggregate saving in the economy, they will discourage saving in the form of deposits. Under our tax policy, consumers are given a strong incentive to substitute consumer durables, whose implicit yields are not taxed, for deposits, whose yields are taxed. Both reduce the quantity of savings available for investment in new plant and equipment. Therefore, deposit rate ceilings can be faulted as having contributed to the slow growth of productivity producing investment in the past decade. They may also have contributed to the recent speculative boom in the housing market.

### Why Haven't Deposit Interest Rate Controls Been Eliminated?

Several arguments raised in favor of deposit ceilings are of doubtful validity. These include lower interest rates on loans and excessive interest rate competition that may include unsafe banking practices. Other arguments, such as protection of local markets and maintenance of preferential market positions, are inconsistent with the principle of competition. Nevertheless, it has been a matter of national policy to channel funds to the housing industry. An instrument of that policy has been the deposit interest rate differential accorded thrift institutions. The appropriateness of depending on such a policy instrument in light of the problems created by deposit ceilings certainly must be questioned. An interest rate differential cannot exist without effective deposit rate ceilings.

However, one of the arguments against removing ceilings is quite real. Because of a mismatching of asset and liability maturities, thrift institutions' earnings and, possibly, solvency are vulnerable in times of rising interest rates.

### Some Arguments for Deposit Ceilings Are of Doubtful Validity

There is no convincing evidence of the impact of deposit rate ceilings on the cost of loans, although it is generally believed that mortgage rates have been lower than they might have been if there were no ceilings. However, it is possible that the involvement of federal government and governmentally sponsored agencies in providing funds for housing may be responsible for lower mortgage rates, rather than Regulation Q.

Even if loan rates are lower because of the ceilings, it does not follow that the bargain rates will have desirable economic effects. Lower mortgage interest rates may simply mean more household borrowing via mortgage finance as a substitute for other borrowing, rather than more home purchases. Since 1950, the increase in residential mortgage loans has been significantly greater than the increase in investment in residential housing. Thus, to the extent deposit ceilings have diverted funds from commercial banks to thrift institutions, not all of these funds have found their way into housing investment. Furthermore, there is no convincing evidence that deposit ceilings have led to a greater availability of funds to low- and moderate-income households.

Some argue that unrestrained competition for deposits will lead to unsafe banking practices because institutions will seek to recover higher interest expenses by investing in high-yielding, high-risk assets. There is some evidence that this occurs; however, as long as the yields are sufficiently greater to compensate for the added risk, this can hardly be regarded as an unsafe banking practice. Furthermore, studies of bank failures in the 1930's have demonstrated that deposit rate competition was not a cause.

Recent evidence from the NOW account experience of New England depository institutions, although not conclusive, suggests that rate competition may lead to lower profits in the short run. However, profits tend to return to more normal levels as institutions make adjustments in their operating and pricing policies. Those institutions that are not able to cope with increased competition tend to be poorly managed and have survived only because deposit rate ceilings have protected them from competition. Protection of inefficient competitiors is inconsistent with a free market economy. Moreover, deposit insurance has virtually eliminated the most adverse economic and social consequences of failure.

### Thrift Institution Liquidity and Solvency Are Cause for Real Concern

Thrift institutions are limited by law and regulation in the kinds of liabilities and assets they may hold. The intention of Congress in establishing the Federal Home Loan Bank System was to support and stimulate an industry almost exclusively devoted to homebuilding. Thus, the bulk of assets of savings and loan associations and mutual savings banks to a lesser extent is invested in fixed-rate, long-term residential mortgages. These mortgages are funded by household savings which are essentially short-term owing to household liquidity needs.

During the 1950's and early 1960's when prices and interest rates were relatively stable, thrifts encountered little difficulty in operating profitably and remaining solvent without the need for ceilings on deposit rates. In fact, as long as interest rates are stable over an extended period of time, regardless of level, thrifts will have no difficulties. The mismatching of asset and liability maturities only causes problems when interest rates rise relatively quickly over an extended period of time such as has occurred, with a few temporary interruptions, over the last 15 years. Because savings deposits are relatively liquid, thrift institutions must raise rates to market levels to hold them. However, mortgages made 15 years ago at 6 percent may still be on the books even though current mortgage rates are in excess of 10 percent. When rates are rising, the average return on a portfolio of fixed-rate mortgages will always be lower, sometimes substantially, than current rates.

Thus, payment of market rates on savings during sustained periods of rising rates would cause low or negative earnings and if sustained over a long enough period would eventually result in insolvency and failure. Deposit rate controls preserve thrift institution profitability, but the result is disintermediation and unfair treatment of savers. Regulators have sought to minimize the extent of disintermediation by structuring a system of deposit rate controls that gives sophisticated savers a market or near-market rate while holding rates on the savings of small and unsophisticated savers substantially below the market because it is well known that most of the deposits of these savers will remain regardless of the interest rate. This is patently discriminatory. However, as long as thrift institutions remain vulnerable to interest rate cycles, it will be difficult to eliminate such discriminatory treatment. Commercial banks do not share this problem for the most part because they hold much shorter-term assets.

### Ways of Resolving the Problems Related to Deposit Rate Ceilings

Removal of deposit rate ceilings in the present economic environment would have catastrophic consequences, not only for the thrift industry and some banks but also for the homebuilding industry and perhaps other sectors of the economy. Despite the inefficiencies that result from Regulation Q, the inefficiencies stemming from its removal, at least in the short run, might be much greater. Therefore, any solution to the problem must of necessity involve a gradual phasing in over time.

### What Can Be Done?

The need for basic financial institutions reform is clear. The longer our depository system and mortgage finance remain hostage to thrift earnings problems, the longer the socially wasteful allocation of resources devoted to avoiding deposit rate controls will continue. The decision to begin phasing out deposit rate controls should be made now, and a firm timetable should be established.

There are two types of solutions. The first involves reducing inflation. This would cause interest rates to stabilize or even decline. As this occurs, the earnings problems created by the mismatching of liability and asset maturities would gradually be eliminated. The second solution would involve relaxing statutory and regulatory contraints presently imposed on thrift asset and liability powers with the intent of reducing the asset-liability maturity mismatch. Average liability maturities can be lengthened; average asset maturities can be shortened through investment diversification; flexible rates can be substituted for fixed rates so that a long-term asset behaves more like a short-term asset; usury ceilings on loans can be removed; and the competitive ability of thrifts to attract and hold household deposits can be improved.

Some steps have already been taken. Since 1966, a variety of new deposit instruments has been authorized by regulation, generally with the objectives of increasing the competitiveness of deposit instruments and lengthening the maturity structure of thrift liabilities. Authorization of the 6-month money market and 8-year certificates last year is the most recent step. As a result of these efforts, the proportion of savings and loan deposits in non-passbook accounts has risen from 12 percent in 1966 to over 70 percent. Additional steps intended to enhance the return to savers of modest means and limited financial sophistication and to provide them greater flexibility have been proposed for comment.

However, these actions have not solved, and will not solve, the problem entirely. So long as the fundamental imbalance in the thrift asset and liability structure continues, thrift institutions will continue to be vulnerable to prolonged periods of tight credit.

### Recommendations

It is time to commit ourselves to an orderly phasing out of ceilings on all types of deposits and to structure solutions that enable depository institutions to pay competitive rates of interest without endangering their viability in both the short-run and the long-run.

I am convinced that the agencies charged with regulating deposit rate ceilings are committed to do whatever is possible, consistent with the viability of depository institutions, to eliminate existing inequities in the present structure of deposit rate controls. S. Concurrent Resolution 5 would reenforce this commitment by clearly establishing the sense of Congress that the agencies "should promptly provide an appropriate method under which the interest rate on small savings deposits and accounts is increased equitably in order to reduce the adverse impact of such regulation on the holders of such deposits and accounts." However, S. Resolution 59, by stating the sense of the Senate that the agencies should establish ceilings based on the yields on U.S. government obligations and should reduce minimum denominations to $1,000, will be nearly impossible to meet in the short-run and may prove equally difficult in the long-run unless depository institutions are provided broader asset and liability powers. Some of the necessary modifications can be accomplished through regulatory changes, but much of it will require legislation.

Accordingly, we recommend that depository institutions be permitted to offer an array of mortgage instruments to the consumer and not be limited to the standard fixed rate mortgage. If thrift institutions are to continue to invest primarily in mortgages, then the form of the mortgage instrument must be allowed to change to reflect the uncertainties of today's economy. While we do not believe that the standard fixed rate mortgage should be eliminated, it is important that the thrift institution be provided with a means of adjusting earnings should interest rates change in the future.

Variable rate mortgages with yields which adjust to changes in the cost of funds will eventually provide thrift institutions with sufficient earnings to adjust their deposit rates to market conditions. The mortgages, of course, must be accompanied by adequate consumer safeguards. While a variable rate mortgage need not change the nominal maturity of the mortgage instrument, it can convert the long-term maturity into an effective short-term maturity. The intermediary realizes a return that follows short-term rates while paying deposit costs that are sensitive to long-term rates.

Thrift institutions should also be allowed to offer longer-term liability instruments. Such instruments would help reduce the interest rate risk these institutions now assume when they make long-term fixed rate mortgages. Longer maturity deposits would make a significant contribution to providing thrift institutions with a more stable deposit base.

The thrift industry should also be permitted to offer households the convenience of interest-bearing transaction accounts as a part of one-stop banking convenience. These accounts are less interest-sensitive than savings and time deposits and consequently will provide thrifts with a stable source of funds. Also, the ability to offer their customers easy access to a transactions account will benefit the thrifts in competing for direct deposits of payroll checks, social security and other regularly scheduled benefit payments. If thrift institutions are to continue to be dependent on households as their major source of deposits, these expanded asset powers should also include consumer loans.

Furthermore, the average yield on thrift assets must be made more responsive to changes in deposit interest rates. Short-term assets, which yield market rates of interest and have a frequent turnover during the interest rate cycle, should become part of a thrift's investment alternatives. Furthermore, state usury ceilings frequently prevent depository institutions from earning a market rate of return on loans and mortgages. These ceilings should be repealed or preempted by federal law, at least in the residential mortgage area.

Usury laws are intended to protect small- and low-income borrowers from unscrupulous money lenders and to limit the power of lenders to charge whatever interest rate they want. However, experiences with usury limitations show that conventional credit sources are closed off to high-risk and low-income borrowers. Additionally, housing credit needs are not met, and state economies, business firms, individual borrowers and lending institutions in restricted areas are adversely affected. Funds flow to states that do not have restrictive usury ceilings. Moreover, financial institutions in states with restrictive usury ceilings are reluctant to make costly small- and short-term loans.

Certainly, there are better ways of protecting borrowers, such as truth-in-lending disclosure and the Equal Credit Opportunity Act, than relying on usury ceilings, which prevent institutions from earning a market rate of return and which cause arbitrary distortions in our capital markets.

Even if all these changes were implemented immediately, it would take time for them to take root. Nevertheless, a firm timetable for phasing out deposit ceilings should be established that is consistent with an orderly process of phasing in new asset and liability powers. Without such a firm commitment, institutions are not as likely to make the necessary adjustments in their policies. We would, however, recommend retaining the power to reinstate deposit rate ceilings on a standby basis.

Before concluding my testimony I would like to indicate our views on the relationship between financial institutions reform and housing finance.

The provision of decent and suitable housing for citizens of all incomes has been a national priority. Strengthening the ability of thrift institutions to pay competitive deposit rates and authorizing them to offer a broader range of family financial services will be beneficial to housing by ending the disruptive and unstable pattern of savings flows to mortgage-oriented thrift institutions.

It is doubtful that anyone can accurately predict what the results of these changes will be on the overall flow of funds to housing. Certainly the significant improvements to the secondary mortgage market and the spectacular growth in the mortgage pools since 1966 have increased the potential for greater mortgage investments by the contractual thrift institutions, such as life insurance companies and public and private retirement systems. A number of studies have been conducted in recent years on the effect of expanded thrift asset and liability powers and variable rate mortgages on mortgage flows. They have concluded that the resulting increased thrift earnings and the increased thrift deposit base stemming from the reforms we and others have proposed will allow the thrifts to commit at least the same if not a greater amount of funds to the mortgage market.

Furthermore, to the extent that our financial system does not meet the mortgage financing needs of our country during tight credit periods, we now have in place an array of government and federally sponsored credit agencies which are able to meet any temporary shortfall in mortgage flows.

Finally, there is another reason for supporting asset and liability diversification in thrift institutions. Because of the decline in the birth rate, the rate of new household formation may well diminish sharply in the late 1980's. As a consequence, the priority we now place on new housing may lessen accordingly. Thrift institutions should begin preparing now for that time. Movement toward full-service, family financial centers, as suggested in our recommendations, may be a reasonable direction to take.

## Remarks of Donald R. Johnson, Director for Trust Operations, before the 27th Annual Southern Trust Conference, Mobile, Ala., May 4, 1979

It is indeed a privilege this morning to represent the Trust Operations Division of the Office of the Comptroller of the Currency here at the 27th Southern Trust Conference. While this is my first opportunity to speak to you as a group, it is not my first time in attendance at your sessions. I feel perhaps more at home here at the Southern Trust Conference than at most others, for I spent a number of years examining out of Richmond, Va., and visiting the banks in South Carolina, North Carolina, Virginia, West Virginia, Maryland and the District of Columbia. Your welcome has been warm even though we both are conscious that at times the regulatory stance we take may not always be the most popular one with you at that particular moment. Our industry is a professional one, and in the long run, our overall goals are not contradictory.

It is my belief that the trust industry is faced with greater competition today than perhaps ever before. Competition brings innovation, and this means change. Change often brings increased supervision and eventually more regulation when abuses appear or the potential for abuses are present.

The Comptroller believes that meetings such as yours should be attended by our personnel and that we should participate to the ethical extent that you desire us to do so. Certainly, as speakers or panelists, it does represent a forum in which we may voice our views and acquaint you with the regulatory problems and changes that impact our industry. On the other hand, my appearance here permits me to listen to your views, concerns and suggestions for improvement in our examination approach and procedures and in proposed and existing regulations. Hopefully, you may benefit from my message this morning in that a better understanding will result as to what has been accomplished by the Comptroller as it impacts trust and the securities areas. I will elaborate extensively on what has been the impact of the examination procedures we implemented in October 1976, the later modifications and recently introduced specialized and small bank examination approach.

The subject I have chosen to speak on today is "OCC Trust Examinations—A Viable Approach." It is especially rewarding for me to speak to you about this subject for, in one capacity or another, I have devoted 25 years of my life to regulatory and bank supervisory work. Therefore, I quickly accepted the invitation that was extended to me in April 1975 to serve as one of two members of a task force to review, examine, develop and codify our trust examination approach. I felt that OCC had need of codification of its procedures and that I could contribute materially toward that end. I firmly believe in the approach that we have taken, and I believe you in the industry generally have endorsed both the approach and the results as your individual departments have been examined by our staff. However, prior to setting the stage on why the approach was taken, I feel it would be beneficial for you to briefly understand the magnitude of our examination responsibility.

Nationwide, on December 31, 1978, there were 1,962 national banks with trust powers, of which 1,763 were active. Based on the latest trust department annual report data, which was for December 31, 1977, these departments administered assets with market value of $281,851,809 divided into 874,981 accounts, excluding corporate activities. These assets are currently examined by a total of 162 trust examiners of which 14 are regional directors and another 51 are fully commissioned trust examiners. Our records show that as of February 28, 1979, 1,659 trust departments had been examined under the new procedures for the first time, 345 more for the second time and eight for the third time. Of the 14 regions nationwide, six had examined all trust departments at least once under the new procedures, and an additional seven regions had very nearly completed their assigned examinations. We had set as our goal the completion of all trust departments under the new examination procedures by December 31, 1978, and this was either accomplished or nearly so in all regions with one exception.

While preparing this speech and thinking of the Mardi Gras theme and pondering its meaning, "Fat Tuesday," and the fact that Mardi Gras is often represented by Bacchus, it occurred to me that perhaps Janus, the ancient Roman god of gates and doorways, which was depicted with two faces looking in opposite directions, might also serve to emphasize the point I wish to make. The ancient god had a distinct advantage over us mortals, for he could look backwards and forwards at the same time. Perhaps his image would have been appropriate for a logo for the Trust Operations Division of the Comptroller's Office.

We tried to use our examining experiences of the past to retain those items that were beneficial with proven results and to discard the examination processes that produced only limited results or provided statistical data that were not used to the fullest extent. We also recognized that OCC must operate within the constraints imposed by manpower and budgetary considerations. We recognized that to achieve superior performance we had to rely in a more significant degree on verification procedures performed by others. Therefore, it was decided that to optimize the efficiency and effectiveness of the examinations, the examiner must evaluate the adequacy of the trust departments' policies, practices and controls. Implementation of improved policies, practices and control would be necessary where none or inadequate controls existed in national banks. We also knew that we had to determine the nature and scope of the examination procedures that would be applied and eventually we would attempt to do this in full or limited scope dependent on the condition of the trust department under examination. Our examination procedures up to this time had not been codified and while they were progressive in some areas, they continued to be heavily based on the proof of the entire department and verification of procedures rather than on determining the adequacy of the policies.

We also knew that if we dispensed with the heavy verification procedures that it would be necessary to employ other measures to test the policies promulgated by the banks. It was realized that this could only be done by using statistical sampling which eventually resulted in giving the examiner another tool.

We felt that a new examination report concept was needed, since for many years we had a question and answer type of examination report. We were aware that greater documentation would be needed in our working papers to support the examination approach. We also needed an improved way to communicate with our field staff from the Washington Office.

The need was great for qualified trust personnel to advise regional administrators in our regional offices on trust matters and to eventually handle fiduciary matters from the examination report. Eventually, this gave birth to the regional director for trust operations position which has had very positive results in most of our regional offices.

While trying to focus on all these matters, it was necessary that we keep in mind the role of the Comptroller's Office in trust supervision. These were and are basically that the Comptroller has the responsibility for promoting and assuring the soundness of national banks. In keeping with this responsibility, we knew that the examination process had to have the following essential objectives: (1) to provide an objective evaluation of a bank's soundness, (2) to permit OCC to appraise the quality of management and directors and (3) to identify those areas where corrective action must be required to strengthen the bank, to improve the quality of its performance and to enable it to comply with the applicable laws, rules and regulations. We also felt that the OCC had a responsibility to ensure that fiduciary powers were exercised by national banks in a manner consistent with the best interests of fiduciary beneficiaries and other parties at interest and to conform with the applicable federal and local law, Regulation 9 and sound fiduciary principles. We believed firmly, then as now, that the protection of the interests of the beneficiaries and other parties at interest is essential to the protection of the bank, its depositors and its shareholders.

The stage has been set by the above outline of our major problems at the time. Without describing all of the milestones, I will briefly say the following was accomplished.

The new examination report format that was developed segregates the major and more minor problems the examiner finds during his examination. It also provides a resumé of the examiner's conclusions concerning the condition of your department and its future prospects. New examination materials were developed in the form of a policies, practices and control questionnaire, an examination procedures checklist and a verification procedures checklist. A new handbook was written to replace the 1962 *Representatives in Trusts Manual*. New criteria were developed for examiners' working papers, and field testing of the entire program was done in early 1976. After establishing the regional director for trust operations position in each of our 14 regions, training programs were implemented before we put the system on line. In October 1976, we began examining trust departments under our new procedures, and in June 1977, we met with regional directors to learn from their experiences so that we could make adjustments, if necessary.

In the interim, we also instituted an internal newsletter to keep examiners informed about office policy and decisions concerning particular fiduciary and regulatory problems.

Through all of that, we attempted to keep you informed through the media, or by speeches or nationwide seminars given by our staff members. Early on, the decision was made that we would fully disclose to you our examination procedures, and as you are aware, these are fully set forth through the 1978 modifications in our *Comptroller's Handbook for National Trust Examiners*.

The more recently announced specialized and small bank examination will, in all probability, also appear in the next revision of our own handbook scheduled by year's end.

You may recall that earlier I stated that in applying the examination procedures, we eventually would attempt to insert more flexibility into our examination approach depending on the condition of the trust department under examination. We did not wish to do this until all trust departments had been examined at least once under the full procedures. It was felt that a full general examination was necessary for we were aware that in some cases many small, medium and, indeed, some of the large trust departments did not have adequate policies and procedures, particularly in the investment and securities trading areas. All trust departments needed to become aware of our new examination approach, and this only could be achieved through use of the full procedures where applicable. Small departments, of course, do not usually administer complex accounts or invest in unusual types of assets. For these latter departments, the examiner would perform as much of a given work program as possible.

In a speech before the Massachusetts Trust Bankers in spring 1978, I announced that a uniform interagency trust rating system had been conceived and field tested for 3 months; furthermore, early adoption was planned. After polishing and further refining, the system was announced in a joint press release on September 21, 1978. Copies were available to interested persons as a part of the press release. It did not seem to make the best seller list then, although it has been the subject of much interest of late. It has been on the discussion program at the National Trust Conference, the National Trust and Automation Conference and several state conferences.

It was generally known that national banks were rated and indeed each federal supervisory agency had a system of rating the banks it supervised. It was not well known that each trust department was rated by the respective agency. Each agency had its own system that had been developed separately over the years to meet its individual internal needs. Preston P. Kellogg, former chief representative in trusts, was the author of the OCC trust rating.

The rating applied by the Comptroller's Office originated on the chief trust examiner's desk in Washington, but I believe with the other agencies, the rating was fixed by the field examiner. The OCC trust rating was a system of letters and numbers which combined the capitalization condition of a bank with the actual valuation of (1) trust department condition, (2) its management and (3) quality of fiduciary assets. These were taken from both the trust and commercial examination reports which were reviewed prior to writing to you regarding correction of trust examination report criticisms.

However, when the three federal bank supervisory agencies came together to conceive a uniform interagency approach, it soon became apparent that all looked at much of the same basic criteria in arriving at the individual agency ratings. Due to your interest in our rating system, let me take a minute in passing and review the composite ratings and then comment further on its use.

The trust rating system is based on an evaluation of six critical areas of trust departments' administration and operations that encompass in comprehensive fashion the capability of the departments' management, soundness of adopted policies and procedures, quality of service rendered to the public and effect of trust activities on the soundness of the bank. These areas are (1) supervision and organization, (2) operations, controls and audits, (3) asset administration, (4) account administration, (5) conflicts of interest and (6) earnings, volume trends and prospects. Each of these areas are rated on a scale of one through five in descending order of performance quality. Thus "1" represents the highest and "5" the lowest (and most critically deficient) level of performance. Each trust department is then accorded a summary or composite rating to signify its general position. The composite rating is predicated on the rating assigned to each area and is determined by the sum of the individual numerical ratings. We then defined and distinguished each composite rating by an appropriate paragraph, which I will reduce for the sake of brevity.

Composite 1 is trust departments that are superior in almost every respect; composite 2 is fundamentally sound but does not measure up in one or more respects to the standards of the top rating; composite 3 conducts affairs in a generally adequate manner but may have relatively significant problems that do not affect the soundness of the bank or trust beneficiaries. Composite 4 is marginal overall with problems that if left unchecked could ultimately undermine public confidence in the bank and harm account beneficiaries. Lastly, composite 5 departments are critically deficient in numerous major respects arising from incompetent or neglectful administration, flagrant and/or repeated disregard of applicable laws and regulations, or willful departure from sound fiduciary principles and practices. Such conditions evidence a flagrant disregard for interests of account beneficiaries and may pose a threat to the soundness of the bank.

All departments normally require some degree of examination report criticism correction, but composites 3, 4 and 5 require much more attention. Composites 4 and 5 require immediate attention.

To the Comptroller's Office, this means special board of directors' meetings, 60- to 90-day visitations by the examiner, more frequent report follow-up attention if success is not achieved and additional enforcement action.

The additional enforcement action is the placing of an agreement or a cease and desist order by our enforcement division. Several banks with trust departments are now either parties to such agreements or are in the initial stages of the enforcement actions. We are pleased that the major portion of you who exercise fiduciary powers operate on very high professional standards, but there are some few bank managements which devote too little time and resources to the proper operation of a trust department based on sound legal, accounting and fiduciary standards. For those latter few, additional enforcement action other than moral suasion can be expected.

One of the most frequently asked questions is "Will the examiner disclose to the bank the trust department rating?" Under ordinary circumstances, the answer is "no." I have heard arguments on both sides, for I, too, have sat as a listener and spectator at conferences where the subject was discussed. Our basic reasons for not disclosing the rating to a particular bank or the public is that the rating is a device that we use for our internal purposes. Secondly, we fear that should the rating become known, that either directly or indirectly competing banks could use it to hurt the new business efforts of the examined bank. Lastly, we feel that considerable argument might ensue between the OCC examiner and the examined bank should they disagree with the rating compiled by the examiner.

The examiner is instructed to discuss all matters of criticism with the appropriate person before leaving the bank, and we believe that since the bank knows all of the components of the uniform interagency trust rating system and will be knowledgeable on matters discussed by the examiner, the bank managers can realistically arrive at the approximate rating.

The law does provide that the Comptroller can, under some circumstances, publish or disclose examination information. The possibility exists that the rating could become known through this method, but this is usually highly remote.

You may recall I earlier stated that we wished eventually to insert more flexibility into our examination approach, depending on the condition of the trust department under examination. The uniform interagency trust rating system has provided us with a sound basis for making a decision as to the trust departments where we need to concentrate our supervisory attention. The trust division put into effect on April 2 two new examination approaches closely tied to the uniform interagency trust rating system. Using the same philosophy and approach previously discussed, the trust division developed a specialized examination and a small trust department examination.

It was recognized that after the full general examination approach most trust departments had adopted adequate policies and instituted satisfactory procedures for those that had been nonexistent or deficient. It was recognized that due to the high standards and lack of internal deficiencies some departments did not require a full general examination. Additionally, in recognition of the significant differences that exist between large trust departments and services offered by small community bank trust departments, OCC found it desirable to implement a small trust department examination. Of secondary importance, the implementation of these two new viable approaches could make it possible to improve our use of manpower and reduce the overall cost to you for trust examinations.

Let's focus on the specialized trust examination. The specialized examination approach will be used for all examinations of non-problem trust departments having over $20 million in trust assets. Keeping that basic criteria in mind, the following parameters and requirements must be followed by the regional office and the trust examining staff.

Specialized trust examinations may not be used if the trust department was rated under the uniform interagency trust rating system as either a 4 or 5 at the prior trust examination. Our general policy is that specialized examinations should be alternated with general examinations in trust departments rated 1, 2 or 3. The director for trust operations may authorize consecutive specialized examinations should the region decide that the condition of the department continues to warrant a specialized rather than a full general examination.

The basic concept is that the examiner will perform fully certain mandatory specialized examination work programs. A portion of the work programs cited on page 2 of our practices, policies and controls questionnaire was made mandatory as part of the specialized examination. The field examiner must request special permission of the regional administrator or the regional director for trust operations if it's found during the specialized examination that the performance of one or all of the non-mandatory programs is necessary due to special problems or that an overall general deterioration of the trust department has resulted. However, the scope of the specialized trust examination may not be reduced without Washington approval.

The mandatory work programs are designed to give the examiner an overview of the trust department. In the specialized examination, the designated work programs permit the examiner an opportunity to review the major areas of fiduciary and investment interests which will provide a basis for deciding the soundness of the management process. Our goal is to provide insight into changes which may have occurred since the previous general trust examination. As with the general trust examination process, the examiner is instructed to be keenly alert for any indication that the goals, objectives, policies and general philosophy of the directors, management and others in the bank have not detrimentally changed.

The examiner is further given factors to weigh should the specialized examination approach be expanded into a general examination. Considerations are (1) results of the most recent general examination, (2) level of risk attributable to policies and practices employed, (3) quality of management and board of directors, (4) internal audit functions, (5) scope of the most recent audit conducted by external or internal auditors and its results, (6) significant adverse changes in fiduciary investment qualities or policies, earnings, personnel or other significant factors which come to the examiner's attention when performing specialized trust examination procedures, (7) lack of compliance with laws, regulations, rules and precedents and opinions of OCC and generally recognized sound fiduciary principles, (8) anticipated impact of local or national economic factors of fiduciary assets and (9) management's failure to recognize conflicts of interest and to adopt sound policies to eliminate these and like conditions.

The examination report will indicate if a specialized trust examination should be performed in your bank. Should two consecutive specialized examinations be performed, with my approval, certain work programs will be alternated to prevent some areas of your trust department from being unexamined for an undue length of time.

Perhaps of more interest to those of you who come from smaller banks is the newly developed small examination approach. We have heard extensively from our examiners and the banks with small trust departments that while the general examination approach in small departments is very beneficial, it also is costly to the banks. However, we did not wish to institute a small bank examination until we had an opportunity through the general examination approach to determine how great existing deficiencies might be. We felt the general examination approach would serve to upgrade these small departments, and we believe, overall, such have been the results.

Nevertheless, we were fully cognizant that many of our work program sections and individual procedures were not applicable to small trust departments with limited spheres of operation. Furthermore, we also realized that it would be impossible to design examination work programs perfectly suited to accommodate all individual trust departments. Therefore, it was decided that our approach should be preparation of a "core examination."

The small trust department examination is a basic modification of the general examination procedures with certain designated questions and steps in our practices, policies and controls questionnaire and our examination procedures checklist. Also introduced was a series of special or overriding instructions to the existing general examination procedures to make adjustments in the examination approach more compatible with small trust department environments. The designated procedures, while not all inclusive, are designed to address policies, practices and controls which would typically offer the greatest protection against potential liability to the bank. The procedures are not intended to foster a dual standard of fiduciary performance for trust departments of differing sizes.

Examiners are instructed to be alert to any situation beyond the scope addressed by the designated questions and procedures which could expose a small trust department to unacceptable levels of risks. When examiners become aware of violations of law, regulations or OCC rulings and/or deficiencies in bank policies, practices or controls, they should continue citing such situations regardless of whether or not they relate to a specifically designated small trust department examination procedure.

The small trust department examination will be used for all trust departments with $20 million or less in fiduciary assets. This is based on column 7 of the most recent trust department annual report that is filed with OCC. This cutoff may be adjusted periodically by Trust Operations in Washington. A study was made of the number of national bank trust departments that are $20 million or less in size. There are 1,152 trust departments or approximately 65 per cent of those active trust departments in national banks that fall below the $20 million size. Additionally, with today's technology, most of the banks above $20 million in fiduciary assets are automated. Therefore, we believe that this is a realistic break point for use of the small trust department "core" examination.

Ordinarily, the performance of only the designated small trust department procedures will provide a sufficient scope of the examination for small trust departments. However, the examiners may at their own discretion expand individual sections of the designated work programs.

The examiners have been instructed to use their professional judgment relative to expansion of any individual work program and that the decision should not be arbitrarily made but based on the examiners' evaluations of the risks. A more comprehensive examination of a particular section may be warranted. However, the examiners must be prepared to support to their regional administrators or the regional directors any decision to expand a particular work program. They have been given guidelines to assist them in making decisions on expansion or non-expansion of the small examination approach. The guidelines contain such factors as: (1) Is the department unusually active in a particular area of examination interest?; (2) Are the responsible departmental personnel for a particular area of trust interest deemed to be knowledgeable and experienced?; (3) Do previous audit reports of examination or the audit program indicate weaknesses or deficiencies of sufficient magnitude or of the chronic nature in that particular area of examination interest?; (4) Does the review of the previous examination working papers indicate less than satisfactory coverage of the area?; (5) Does employee turnover suggest the need for a more comprehensive review of the area?; (6) Are there serious peculiarities in the bank's policies, practices, operations or administration that suggest an expanded scope would be beneficial?; (7) Does management provide reasonable supervision of fiduciary activities based on the size and complexity of the accounts administered?; (8) By not expanding the examination, are the risks reasonable in relation to the capital structure of the bank?; and (9) Does the overall evaluation of these or any other pertinent factors suggest that an expanded scope is warranted and can be accomplished within a reasonable time frame?

The manner in which the examiner replies to questions on the practices, policies and controls questionnaire was also altered for these small trust departments. This should reduce the time spent in preparing support documentation but still provide the examiner with sufficient information and documentation for basing an informed decision as to the condition of the department.

For the small trust departments, the examiner has also been provided with an alternate means of preparing the working paper file. This should reduce the amount of indexing and facilitate reviewing and subsequent updating. The examiner has also been instructed to encourage the discriminate use of documentation to support the work program. The examiner has been given more discretion in deleting flow charts, organizational charts and supporting schedules for these small trust departments. The examiner is also instructed to be certain to document all criticisms, exceptions or unorthodox methods that may either be further criticized in the examination report or about which future questions may arise.

The small trust department examination was initially worked on while we were writing the general procedures in 1976. However, for reasons previously stated, we did not pursue the completion of the approach until most all trust departments had been examined at least once under the new procedures. The small trust department procedures were field tested by different examiners in six east coast banks in different geographical areas. We feel that the viability of the general procedures has made it possible to draft several variations, such as the specialized and small trust department examinations. We believe that this small trust department examination will enhance the efficiency of the examination process without material deviation from the basic philosophy of the new examination approach.

I would be remiss if I did not stress to you who are from trust departments of national banks that it is in your best interest to continue to upgrade the handling of fiduciary activities in your bank. Other than the usual competitive, profitability and efficiency reasons, there are at least two other factors that I will stress today. The first reason stems from my introduction to you this morning of the specialized and small trust department procedures. Simply put, it is that the scope of the examination will be largely predicated on the condition of your trust department. Generally, hereafter, the better the department, the less the scope of the examination.

Secondly, you probably are aware that the Financial Institutions Regulatory and Interest Rate Control Act was passed on the last night of the past congressional session. It provides that the Comptroller has the authority to impose civil money penalties of up to $1,000 per day for violations of certain laws and regulations and cease and desist orders. The penalties may be assessed against banks and/or individuals. Regulation 9, which stems from 12 USC 92a, is included as part of the law and regulations to which the civil penalties are applicable. The civil money penalty provisions of the act apply only to violations occurring or continuing after the enactment date of the bill which was November 10, 1978. Already, our examiners have been instructed as to the format they should use in reporting violations of law and regulations in the examination report. OCC has under study when and in what amount such penalties will be applied to fiduciary activities in your bank. Certainly, it would seem that such will be applied to Section 12 of Regulation 9, which applies to conflicts of interest, self-dealing and breaches of fiduciary duties. Another area that may well be affected is the breach of your "Chinese Wall" which is covered under 12 CFR 9.7(d). This may also cause additional sections to be eventually included in Regulation 9 to promote better enforcement.

As to the future, we believe that this viable examination approach implemented in 1976 can be further expanded to give the examiner additional tools that will make application of the procedures even more flexible. We are working now to develop a mini small trust department examination which may be used in the very small trust departments, as for example, those that have $2 million or less in assets. These procedures would be a mini-core type of examination and could be performed in a minimum period of time. We are also giving some thought to using another variation for the extremely large trust department. Recently, the Comptroller's Office established a Multinational Bank Examination Division which currently is handling the commercial examination of approximately 10 of the largest national banks in the country. We believe that a viable trust examination approach can be worked out for examinations of the trust departments of those banks.

Lastly, on December 19, 1978, the trust division of the Comptroller's Office requested information from all large national banks concerning their overseas' trust operations. We now have that information and are determining the location of the recordkeeping facilities for these operations. We intend to begin examining such facilities prior to the end of 1979.

In closing, I wish to return once again to that aforementioned ancient Roman Deity, Janus, after whom the first month of our calendar year is named. In 1976, when we implemented a fresh approach to trust supervision, we attempted to not only look back but to look to the future as to the viability of our examination approach. We believe that the system developed lends itself to deletion of procedures that are no longer applicable and insertion of new procedures as technology, investment procedures and laws change. Collectively, all of us must always remember that "internal vigilance is the price of safety." We believe that our trust examination approach and system has proven that the Office of the Comptroller of the Currency is in the vanguard of trust supervision, and we shall continue our efforts to provide you with a high quality examination at a reasonable cost.

# Statement of John G. Heimann, Comptroller of the Currency, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs, Washington, D.C., May 15, 1979

The subject of these hearings—repeal of the prohibition on the payment of interest on demand deposits and extension of demand deposit powers to thrift institutions—is important to consumers, businesses, depository institutions, the financial system and the economy. These hearings are especially timely in light of the U.S. Court of Appeals' April 20, 1979, ruling that automatic transfer of funds in commercial and savings banks, remote service units of savings and loan associations and share draft accounts of federal credit unions violate the prohibition on the payment of interest on demand deposits. We appreciate this opportunity to discuss issues raised by H.R. 3864, the Consumer Checking Account Equity Act of 1979, and to present the views of the Office of the Comptroller of the Currency. This testimony does not necessarily reflect administration policy.

## Provisions of H.R. 3864

This proposed legislation would repeal those provisions of federal law which prohibit the payment of interest on transactions accounts. In addition, it would give federally insured savings and loan associations, mutual savings banks and credit unions authority to receive demand deposits. The bill would require Federal Home Loan Bank (FHLB) members and federal credit unions to maintain reserves against their demand accounts or deposits as defined by the Federal Home Loan Bank Board (FHLBB) and the National Credit Union Administration (NCUA), respectively, and in such amounts as prescribed by the FHLBB and the NCUA after consultation with the Board of Governors of the Federal Reserve System. Reserves of FHLB members would be in the form of balances maintained in a FHLB or in cash. Reserves of federal credit unions would be in a form specified by the NCUA. The bill is silent on reserve requirements for savings banks, state nonmember commercial banks and state chartered credit unions. At the present time, state law governs reserve requirements in these institutions. H.R. 3864 is also silent on regulatory agency interest rate ceiling setting authority for demand deposits. However, it appears the bill contemplates that the agencies will use existing statutory authority to establish interest rate ceilings on demand deposits after the statutory prohibition is repealed.

The provisions of H.R. 3864 are constructive and reflect the direction in which our financial system must move. Elimination of the prohibition on payment of interest on demand deposits and extension of the power to thrift institutions to receive such deposits is a desirable goal—one we should commit ourselves to achieving. The public, the financial system and the economy will be served better once this goal has been attained. Therefore, we support prompt enactment of H.R. 3864. However, we recommend that the bill be amended to provide for uniform reserve requirements on transactions balances in all depository institutions.

The provisions of the Consumer Checking Account Equity Act of 1979 and existing regulatory authority will enable the appropriate federal agencies to set interest rate ceilings on demand deposits and to establish reserve requirements for most institutions. These agencies can and should develop an approach with a definite timetable to phase in interest on transactions accounts and reserve requirements that minimizes transitional dislocations and provides to the extent possible competitive equality among depository institutions. In light of the NOW account experience, the initial interest rate ceiling on demand deposits should be the same for all depository institutions and should be equal to the rate on regular savings accounts at commercial banks.

It must be realized, however, that enactment of H.R. 3864 has important implications for two other issues which the Congress has frequently considered—interest rate ceilings on time and savings deposits and the differential favoring thrift institutions (Regulation Q) and Federal Reserve membership. While these two issues need not be linked with H.R. 3864, they should be considered within the context of the provisions of this bill.

## Need to Act

Although H.R. 3864 would permit commercial banks to pay interest on the demand deposits of their business customers, the principal beneficiaries, as the title of the bill suggests, would be consumers who find it difficult, inconvenient and sometimes impossible to take advantage of various techniques for earning interest on their demand deposits. Small businesses with transactions balances less than $100,000 would benefit as well. Larger businesses already can obtain interest on such balances, often at market rates, by purchasing negotiable large denomination certificates of deposit, by entering into securities repurchase agreements and by negotiating below-cost prices on other banking and financial services they use. Enactment of H.R. 3864 should provide the same opportunities for small depositors that now exist for large depositors.

Whether to repeal the prohibition of interest on demand deposits is not a new issue for the Congress. The Financial Institutions Act of 1975, as passed by the Senate, contained a provision providing for the repeal of the prohibition not sooner than January 1, 1978, nor later than January 1, 1980. The Financial Reform Act of 1976, the result of the study on "Financial Institutions in the Nation's Economy" conducted by this subcommittee, contained a provision which would have repealed the prohibition effective January 1, 1978. Neither of these pieces of legislation became law. During 1977, hearings were held in both the House and the Senate on the extension of NOW accounts nationwide to all depository institutions. This legislation also failed to receive congressional approval.

Failure to act on H.R. 3864 will mean a continuation and perhaps the exacerbation of existing inequities, inefficiencies and other market distortions. For example:

- Unsophisticated depositors and those of modest means do not have the opportunity to earn as large a return as wealthier and more sophisticated depositors;
- Depository institutions are forced to resort to inefficient and wasteful forms of nonprice competition and to devise roundabout strategies to circumvent ceilings;
- Costly and unnecessary transactions occur as depositors, seeking the best rate of return, move funds in and out of depository institutions or move funds back and forth between interest-bearing and noninterest-bearing accounts; and
- The deposit base of depository institutions is eroded due to the inability to respond fully to the competition of unregulated institutions for funds in the marketplace.

However, if H.R. 3864 is enacted, we should recognize that there will be transitional adjustments in moving from the present state of affairs to an environment in which all depository institutions can offer interest-bearing transactions accounts. It is difficult to predict precisely the exact nature and extent of the transitional problems that may develop. Fear of the unknown leads naturally to a resistance to change and a reluctance to move forward quickly.

Nevertheless, such concerns should not serve as excuses for failing to act. Experience shows that depository institutions have responded effectively and capably to change. There is little reason to expect the changes that would flow from enactment of H.R. 3864 to have a different result. Sticking with the status quo and reinforcing the effectiveness of the prohibition of interest payments on demand deposits will not contain depositors' desire to get a market rate of return in an inflationary environment. It will only lead to greater incentives to find ways to avoid the prohibition. If depository institutions are effectively precluded from offering interest on transactions accounts, it is only natural to expect that other unregulated businesses will step in to fill the void.

### Reasons for Prohibition of Interest Payments on Demand Deposits

Depression era fears that led to the enactment of the prohibition on payment of interest on demand deposits by Federal Reserve member banks in the Banking Act of 1933 no longer seem important, if they ever were. Although the legislative history of the Banking Act of 1933 is silent on this point, several reasons for the prohibition have been advanced. Some have argued that interest payments on demand deposits led banks to cover the cost of these payments by seeking high-yield, high-risk assets, thereby increasing the likelihood of failure. Another reason that has been offered is that payment of interest on interbank balances encouraged rural banks to place funds in money center banks in excess of those needed for liquidity and correspondent purposes rather than making them available to their local communities. It was thought that the prohibition of interest payments would prevent both of these undesirable practices. Another reason put forth for the prohibition is that it was intended to reduce banks' costs so as to enable them to pay deposit insurance assessments.

Several studies have found no evidence that interest rate competition for demand deposits contributed to unsafe and unsound banking practices or led to bank failures prior to the enactment of the prohibition. With respect to the movement of demand deposit balances from small banks to money center banks, it is doubtful that interest payments had much to do with that phenomenon. At the time the Banking Act of 1933 was enacted, bankers' balances were the primary way in which smaller banks held liquid funds. These balances were also held to facilitate check clearing and other transactions with large money center banks. Techniques for holding liquid funds, such as U.S. Treasury securities and federal funds, were extremely limited. In fact, Treasury bills were not introduced until 1929, and the federal funds market did not gain a significant presence until after World War II. Finally, the cost of deposit insurance assessments in today's environment does not have an important impact on bank profitability. In summary, none of these reasons for the prohibition of interest payments on demand deposits seems to be valid now, and it is doubtful that any of them were valid when the prohibition was enacted in 1933.

### Erosion of the Prohibition

For nearly two decades, the prohibition had no practical effect because interest rates were extremely low. The opportunity cost to depositors of holding demand deposit balances was low or nonexistent. However, as interest rates began to rise in the early 1950's, the effectiveness of the prohibition began to erode. One manifestation of this was the rapid decline of demand deposits as a proportion of total deposits.

To keep their deposits, competition in the marketplace forced commercial banks to devise various techniques for evading the prohibition of interest payments on demand deposits. One technique was to provide free checking services, premiums, more convenient banking locations and banking hours, and other kinds of nondeposit services free or at prices substantially below cost. In 1977, implicit interest payments ranged from 4 to 6 percent on a typical personal checking account according to figures compiled by the federal reserve's functional cost surveys.

In addition, banks have been able to earn interest on inter-bank balances by investing in negotiable certificates of deposit, federal funds and securities repurchase agreements. A substantial portion of federal funds and repurchase agreements have maturities of 1 day. Funds are shifted in and out of demand accounts on a daily basis. The practical effect is that interest is earned on demand deposits. Large corporate depositors, although precluded from the federal funds market, actively engage in repurchase agreements. They can also invest temporarily idle funds in large denomination negotiable certificates of deposit. Most knowledgeable observers believe that large corporate accounts earn a market rate of interest through a combination of explicit and implicit interest payments.

Paralleling these developments, competition of nondepository institutions for demand deposit balances has been developing. For example, money market mutual funds, which were established in 1974, have initial investments as low as $500 and many provide check writing privileges. More recently, Merrill Lynch has entered the competitive fray through its cash management account. For many individuals, use of the credit card has become an effective substitute for cash and undoubtedly has contributed to the ability of depositors to minimize balances in checking accounts.

### Regulatory Actions

In the last decade, the regulatory agencies have taken a number of steps that have enabled depositors to hold transaction balances in interest-bearing accounts. For example, in September 1970 savings and loan associations were permitted to make preauthorized non-negotiable transfers from savings accounts for household-related expenditures. In 1972, state-chartered savings banks in Massachusetts and New Hampshire began offering NOW accounts. NOW accounts were authorized in 1974 for all depository institutions in these two states. They were extended to all of New England in 1976 and then to New York in late 1978. In January 1974, First Federal Savings and Loan of Lincoln, Nebr., installed remote service units in two supermarkets allowing its customers to make deposits to or withdrawals from savings accounts. The first experimental share draft accounts in credit unions began in August 1974. Telephone transfer accounts were authorized for commercial banks in April 1975. In November 1978, commercial banks and mutual savings banks were authorized to transfer funds automatically from savings to checking accounts.

### United States Court of Appeals Decision

These and other regulatory rulings have contributed to the erosion of the prohibition on the payment of interest on demand deposits. However, in a decision on three cases challenging the legality of several of these regulatory rulings released on April 20, 1979, the U.S. Court of Appeals stated that "agency regulations have outpaced the methods and technology of fund transfers authorized by the existing statutes." The court ruled that:

> . . . the development of fund transfers as now utilized by each type of financial institution involved herein, commercial banks with "Automatic Fund Transfers," savings and loan associations with "Remote Service Units," and federal credit unions with "Share Drafts," in each instance represents the use of a device or technique which was not and is not authorized by the relevant statutes, although permitted by regulations of the respective institutions' regulatory agencies.

Specifically, the court determined that automatic transfers of deposits from interest-bearing accounts to noninterest-bearing demand accounts in commercial banks and savings banks; withdrawal of funds from an interest-bearing savings deposit account by a device functionally equivalent to a check, such as remote service units operated by savings and loan associations; and the withdrawal of funds from share accounts in federal credit unions through the use of drafts are prohibited by existing law.

### Impact of Decision on Depositors

However, the court, recognizing that the "wisdom of the transfer procedures permitted by the regulations of the several agencies is a matter of high public financial policy," stayed the effective date of its ruling until January 1, 1980. Further appellate proceedings are, of course, possible. In the meantime, however, it is a fact that automatic transfer accounts, remote service units and share draft accounts afford the public a substantial benefit. Elimination of them would affect adversely a substantial number of depositors. In addition, termination of these services would be costly to those financial institutions that have made substantial investments in new operating systems and equipment.

For example, at the close of 1978, just 2 months after the automatic funds transfer service was initiated, about 5,000 commercial banks held $3.3 billion in 420,000 accounts. As of April 25, 1979, total automatic transfer account balances had increased to $6.4 billion. At the close of 1978, there were about 800,000 share draft accounts totaling $720 million in approximately 740 federal credit unions. In addition, there were an estimated 400,000 share draft accounts in 600 state credit unions. About 200 federally chartered savings and loan associations have been approved by the FHLBB to operate remote service units. These units have access to $2.6 billion in savings deposits. During 1978, an estimated 2.25 million transactions occurred through remote service units with a total of $172 million being transferred.

It is clear from these figures that large numbers of depositors have taken advantage of various ways of drawing interest on their transaction balances. This is confirmed by statistics in the six New England states and New York on NOW accounts. At the end of March 1979, there were 2,244,000 accounts totaling $3.7 billion in the six New England states. In New York, where NOW accounts were authorized in November 1978, there were 239,000 accounts with $1 billion at the close of February 1979. By the end of April, the amount of deposits in NOW accounts in New York had increased to $1.6 billion.

### Problems Created by the Prohibition

If the court's ruling becomes effective on January 1, 1980, many depositors will lose a benefit. In addition, problems that the prohibition has created, such as discriminatory treatment of different depositors and inefficient use of resources, will continue. For example, if depositors could simply earn interest on their checking accounts, there would be no need for them to shift funds back and forth between savings and checking accounts. There would be less need for corporate depositors to put energy into fine-tuning cash management. Explicit interest payments and full costing of checking services also might lead to the more expeditious adoption of electronic funds transfer technology. Sufficient transactions volume is the only practical deterrent to making electronic funds transfer devices cost effective. Depositors have little incentive to use these devices so long as fees on check writing are held below cost.

Another problem caused by the piecemeal erosion of the prohibition of interest payments on demand deposits is the growing unreliability of money supply figures. The accuracy of such data is important for the effective implementation of monetary policy. The growth of securities repurchase agreements, NOW accounts, automatic funds transfer accounts and other forms of holding transaction balances in interest-bearing forms has made measurement and interpretation of the monetary aggregates difficult. For example, debate exists at the present time as to whether monetary policy is too tight, as reflected in the recent low-growth rates of $M_1$ and $M_2$, or whether monetary policy is too easy because a substantial amount of balances is being diverted to so-called "invisible money" and unreserved deposit substitutes, and, hence, the monetary aggregates are really growing at a rapid rate. Repeal of the prohibition of interest on demand deposits and clearer separation of transaction balances from time and savings balances ought to have a salutary effect on the conduct of monetary policy, if only by making the monetary aggregates more reliable.

### Transitional Problems

Given these problems and the consequences that may result from failure to take action, H.R. 3864 should be adopted. However, there are at least three transitional problems related to repealing the prohibition of interest on demand deposits and extending demand deposit powers to all depository institutions. First, servicing transactions accounts requires a substantial investment in equipment and a large number of employees. This would require a major adjustment on the part of thrift institutions that decided to compete for transactions balances. Thus, thrift institutions would need some time to prepare themselves, although a major share of check clearing services could be purchased from commercial banks.

Second, both commercial banks and thrift institutions have relatively little experience in pricing transactions services. Institutions that have been offering NOW accounts have gained some experience and, more recently, the automatic transfer service has prompted many commercial banks to look at the cost of providing services and to develop appropriate service charge schedules. The 6-month delay in implementing automatic funds transfer regulations was done purposely to allow banks an opportunity to develop operating and marketing programs. Even then, the 6-month period was apparently not sufficient for many small banks.

Third, allowing thrift institutions to offer transactions services will add a substantial number of suppliers of these services all at once. However, demand for transactions services is likely to change only gradually. Thrifts, as new entrants, are likely to follow strategies aimed at building a market share, while commercial banks will follow strategies aimed at holding on to existing demand deposits. Thrift institutions may price these services initially below cost. If commercial banks, in an attempt to hold deposits, meet prices set by thrift institutions, their profitability could be adversely affected in the short run. However, the NOW account experience in New England demonstrates that commercial banks in a highly competitive market do not necessarily lower service charges to meet those set by thrifts. Further, studies suggest that commercial bank profits have been affected relatively little by NOW accounts. To the extent that profits may have been affected adversely, other adjustments in operating policies apparently have had offsetting effects.

In time, as market shares stabilize, it is likely that prices for checking services will be adjusted to recover full costs. This pattern of experience has occurred in New England as thrifts sought to draw demand deposits balances into NOW accounts. Many thrifts initially offered 5 percent interest on NOW accounts and levied no service charges. However, there has been a trend on the part of thrift institutions over the last 2 years to institute service charges.

### Guiding Principles

Application of several principles would ease these transitional problems. First, all depository institutions offering identical products and services should be able to compete on as equal a footing as possible for those products and services. This principle implies that ceiling interest rates and reserve requirements on transactions balances and the form in which those reserves are held should be the same for all depository institutions. Second, the capacity of each depository institution to compete effectively should not be limited by other restraints. For example, thrift institutions will require additional lending powers to retain competitive viability when interest ceilings on deposits are eliminated. Third, depository institutions should be given the opportunity to minimize administrative and operating expenses. This argues for minimum regulatory constraints and sufficient time to do thoughtful planning.

From the standpoint of depositors, simplicity should serve as a guide. Equity is another important consideration. All depositors should have the same opportunity to earn a fair rate of return on their deposit balances. Finally, from the standpoint of the economy as a whole, the program for phasing in interest on transactions balances should promote efficient use of scarce resources.

### Related Issues

With these principles in mind, it is important to consider two related issues that will be raised by repeal of the prohibition of interest payments on demand deposits and extension of checking account powers to all depository institutions.

One issue is Regulation Q—interest rate ceilings on time and savings deposits. The ceiling for thrift institutions has been 25 basis points higher on most types of time and savings deposits. The ostensible purpose of this differential is to direct savings flows to thrifts for investment in home mortgages, off-setting the competitive advantage that commercial banks hold by virtue of their exclusive power to receive demand deposits. When thrifts obtain demand deposit powers, allowing them to function more nearly as full-service financial institutions, one important reason for the differential will cease to exist. Thus, adoption of H.R. 3864 should hasten the day when all interest rate controls can be eliminated.

Total deregulation of Regulation Q ceilings is appropriate because, like the prohibition on interest payments on demand deposits, Regulation Q ceilings lead to inequities among depositors and inefficiencies in the economy. However, complete removal of ceilings in the present economic environment might have adverse consequences for some institutions, particularly thrifts, because their mix of short-term liabilities and long-term assets makes their earnings and possibly their solvency vulnerable when interest rates are rising rapidly. Thus, to ensure the continued viability of such institutions in a world without deposit interest rate ceilings, they should have sufficient time to adjust their portfolio and operating policies, and in the case of thrift institutions, their powers will have to be expanded to make them less sensitive to changes in interest rates.

Specifically, we recommend that thrift institutions be authorized to:

- Offer a full range of mortgage instruments, including variable rate mortgages, with appropriate consumer protection safeguards;
- Issue longer-term liability instruments and certificates to reduce their dependence on short-term, more interest-sensitive deposits; and
- Offer a range of household services, including checking accounts and some types of consumer loans, to provide consumers with the convenience of one-stop banking and to shorten loan portfolio maturities.

In principle, deregulation of interest rate controls on liabilities argues for similar action on usury laws that restrict interest rates on loans. As we testified before this subcommittee on April 5, 1979, state usury laws should re repealed, preempted by federal law or modified substantially, these ceilings reduce the incentive to make loans and distort the flow of funds by encouraging out-of-state investments of funds. When usury ceilings are below market interest rates, they divert lending and investment activities to markets where no controls exist. This injures the very people usury laws are intended to protect.

A second issue concerns inequities in reserve requirements and the Federal Reserve membership problem. H.R. 3864 is silent on reserves of commercial banks. Thus, existing inequities between member and nonmember banks are perpetuated. While FHLB members and federal credit unions that choose to receive transactions balances will be required to set aside reserves, the FHLBB and the NCUA have discretion to determine the amount and the form in which these reserves can be held. Presumably, the FHLBB and the NCUA could allow these reserves to earn interest. Member commercial banks will continue to be required to hold reserves on demand deposits ranging from 7 to 16 1/4 percent of outstanding balances and earning no interest.

Although the reserves provisions of H.R. 3864 do not materially alter existing arrangements, payment of interest on transactions balances will increase cost pressures on all institutions. Thus, the cost to member banks of holding nonearning reserve balances will become less tenable than it is now. In time, this will exacerbate the Federal Reserve membership problem. While it is not necessary to solve the membership problem in the context of H.R. 3864, the principle of competitive equality argues that all institutions offering transactions accounts be subject to the same requirements and restrictions, including those pertaining to reserves.

Therefore, we recommend that H.R. 3864 be amended to provide for uniform reserve requirements on transactions balances in all depository institutions. We also recommend that the part of such reserves that is not cash should earn interest. In addition to providing competitive equality, payment of interest on reserves would substantially eliminate the existing incentive to switch funds to accounts on which reserve requirements are lower.

We support immediate enactment of H.R. 3864, the Consumer Checking Account Equity Act of 1979. The passage of H.R. 3864 will benefit the consumers, the businesses, the financial system and the economy. We recommend, however, that the bill be amended to provide for uniform reserve requirements on transactions balances in all depository institutions.

Enactment of H.R. 3864 will put greater pressure on us to solve the problems of interest rate ceilings on time and savings deposits and Federal Reserve membership attrition; however, total resolution of these two issues need not be a condition for passage of this legislation. In addition, we believe that the regulatory agencies can develop an approach for implementing H.R. 3864 that minimizes transitional problems. Moreover, as the NOW account experiment in New England and New York has demonstrated, depository institutions have adapted skillfully to the increased competitive pressures stemming from extension of interest-bearing transactions accounts to all depository institutions.

# Statement of John G. Heimann, Comptroller of the Currency, before the Senate Committee on Banking, Housing and Urban Affairs, Washington, D.C., May 23, 1979

I welcome the opportunity to present the views of the Office of the Comptroller of the Currency on the condition of the national banking system. These annual hearings provide a unique forum for an open and informative dialogue between the federal bank regulatory agencies and the members of this committee. We believe these hearings contribute to the public's awareness of the important role of banking in the nation's financial system.

In response to specific questions posed in a letter received earlier this year, we have forwarded statistical and other data to the committee. Rather than restate the data, I will use this opportunity to present an overview of the condition of the banking system and then review the specific actions our agency is taking in the areas of supervision and examination. Furthermore, we will mention those issues we believe the Congress must address in the coming months to increase the strength, soundness, flexibility and efficient functioning of our banking system.

## Present Condition of the National Banking System

During 1978, the condition of the national banking system continued to improve as measured by traditional standards. This improvement reflected in large part the continued strength of the economy over the last 4 years. It must be stressed that the health of our banking system inevitably reflects the basic strength or weakness of the economy. While the performance of individual banks may and does vary independently of overall economic conditions, the financial condition of the banking system as a whole is inextricably linked to the domestic and, increasingly, the international economy.

The traditional standards of measurement for assessing the condition of the commercial banking system are earnings, asset quality, capital adequacy and liquidity.

### National Bank Earnings

National bank earnings continued to increase in 1978, reflecting a significant expansion in total loans outstanding, improved interest margins as a consequence of the general increase in interest rates and a reduction in net loan losses.

**National Bank Earnings**
**($ billions)**

| | Net income | Percent increase | Net income as a percent of average assets |
|---|---|---|---|
| 1974 | $4.1 | 7.3 | .68 |
| 1975 | 4.2 | 2.4 | .68 |
| 1976 | 4.5 | 7.1 | .70 |
| 1977 | 5.1 | 13.3 | .70 |
| 1978 | 6.3 | 23.5 | .76 |

### Asset Quality of National Banks

The improvement in the asset quality of national banks' portfolios reported in 1977 continued through 1978. The relative level of classified assets, a measure of asset quality, declined during 1978, as it did in 1977. Many of these loans represent long-term workout situations which had their origin prior to the 1974-1975 recession. Based on our observations through the examination process, it appears that the proportion of loans made since the 1974-1975 period, which have subsequently been classified, has dropped significantly from those made in the prior period. We believe that this improvement in asset quality reflects a more prudent bank lending policy as well as the favorable impact of an improved economy. Furthermore, it appears that national banks have instituted better portfolio risk diversification.

**National Bank Classified Assets**
**($ billions)**

| | Total classified assets | Percent change | Classified assets as percent of total capital funds |
|---|---|---|---|
| 1974 | $12.8 | 91 | 35 |
| 1975 | 22.3 | 74 | 56 |
| 1976 | 24.8 | 11 | 56 |
| 1977 | 22.5 | − 9 | 47 |
| 1978 | 20.1 | −11 | 38 |

Actual net loan losses last year were also lower, again reflecting improved asset quality in the national banking system.

**National Bank**
**Loan Losses and Loan Loss Reserve**
**($ billions)**

| | Net loan losses | Loan loss reserves as percent of total loans |
|---|---|---|
| 1974 | $1.2 | — |
| 1975 | 2.0 | — |
| 1976 | 2.1 | 0.99 |
| 1977 | 1.7 | 0.93 |
| 1978 | 1.4 | 0.96 |

### Capital of National Banks

The decline in capital ratios which occurred in 1977 continued last year. Despite the increased earnings of national banks, which contributed to substantial increases in retained earnings, equity capital as a percentage of assets declined slightly. This decline was primarily the result of inflation-induced asset growth outstripping the banks' abilities to generate new capital through retained earnings and from public and private resources.

### Growth of National Bank Assets and Equity

| | Assets percent increase | Equity percent increase | Equity as a percentage of assets |
|---|---|---|---|
| 1974 | 10.6 | 1.5 | 5.5 |
| 1975 | 4.6 | 9.2 | 5.8 |
| 1976 | 8.2 | 13.5 | 5.9 |
| 1977 | 13.1 | 10.0 | 5.6 |
| 1978 | 12.0 | 10.5 | 5.5 |

### Liquidity of National Banks

The significant credit demands in 1978 led to a rapid rise in the loans of national banks. Loan growth exceeded the rate of deposit growth resulting in a reduction in liquidity.

The ratio of loans to deposits in national banks rose to 69 percent in 1978 compared to 66 percent the previous year. Banks met their customers' demands for funds by selling securities and increasing their dependence on purchased funds. Part of this increased dependence on purchased funds may be attributable to the rapid rise in interest rates last year relative to the Regulation Q rate ceilings. These ceilings discouraged savings flows despite the introduction of the money market certificates, as depositors sought higher competitive yields from nondepository sources.

### National Bank Liquidity and Purchased Funds

| | Ratio of loans to deposits | Ratio of short-term securities to assets | Ratio of purchased funds to total assets |
|---|---|---|---|
| 1974 | 67.5% | — | — |
| 1975 | 65.3 | — | — |
| 1976 | 64.6 | 12.5% | 35.4% |
| 1977 | 66.3 | 10.9 | 37.5 |
| 1978 | 69.0 | 9.2 | 41.0 |

### International Activities of U.S. Banks

U.S. banks continued a high level of activity in overseas markets. Year-end call report information for all insured U.S. banks indicates that their international assets grew by over 16 percent during 1978, from $202 billion to $235 billion, and equal nearly 16 percent of total U.S. commercial banking assets of approximately $1.5 trillion.

### Consolidated Assets of U.S. Insured Banks, 1976-1978 ($ billions)

| | Foreign | | Foreign and Domestic | |
|---|---|---|---|---|
| Year | Assets | Percent change year to year | Assets | Percent change year to year |
| 1976 | $171.1 | — | $1,182.4 | — |
| 1977 | 201.7 | 17.9 | 1,339.4 | 13.3 |
| 1978 | 235.0 | 16.5 | 1,500.7 | 12.0 |

National banks' international assets as reported in year-end call reports grew by 14 percent from $160 billion to $182 billion and represented 20 percent of total national bank assets. These assets contributed an *estimated* $1.8 billion pre-tax, or 20.7 percent of the total 1978 pre-tax income generated by all national banks.

### Consolidated Assets of National Banks 1976-1978 ($ billions)

| | Foreign | | Foreign and Domestic | |
|---|---|---|---|---|
| Year | Assets | Percent change year to year | Assets | Percent change year to year |
| 1976 | $133.1 | — | $704.4 | — |
| 1977 | 159.5 | 19.8 | 796.6 | 13.1 |
| 1978 | 181.9 | 14.0 | 892.3 | 12.0 |

More precise data on international assets as collected from interagency country exposure reports are not yet available for year-end.

Data for the first 6 months of 1978 indicate little change in the make-up of banks' aggregate portfolios in terms of type of borrower or maturity structure. Fifty-one percent of aggregate international loans continue to be to borrowers in developed countries, 13 percent are to entities in offshore banking centers, 8 percent to OPEC countries, 3 percent to eastern Europe and 25 percent to non-oil exporting developing countries. Fifty percent of banks' international outstandings are to other banks, 19 percent to other public sector borrowers, and 31 percent are to other private borrowers.

### Foreign Bank Activity in United States

International banking continues to play an important role in the domestic banking market of the U.S. Although precise reporting data for all activities of foreign banks in the U.S. are not readily available, November 1978 data suggest that the assets of foreign institutions equal $129 billion, or approximately 9 percent of U.S. commercial bank assets.

The entry and expressed desire for entry of major foreign institutions suggest a pattern not unlike the 1960's and early 1970's when U.S. banks significantly expanded their presence in overseas markets. The United States is the largest banking market in the world and a logical expansion location for world-wide banking institutions. The decline in the value of the dollar, the desire for a dollar-based deposit structure and the book value/market value relationship of U.S. bank equities have no doubt been contributing factors in the desire for entry.

### Foreign Bank Presence in the United States

| End of period | Number of institutions | Number of reporting facilities | Assets ($ billions) |
|---|---|---|---|
| 1974 | 69 | 165 | $56 |
| 1975 | — | 184 | 64 |
| 1976 | — | 202 | 76 |
| 1977 | — | 253 | 94 |
| 1978 | 134 | 305 | 129 |

## OCC Supervision and Examination

Having reviewed the condition of the national banking system, I would like now briefly to describe the OCC activities and policy in the areas of supervision and examination.

### Capital and Earnings

As noted earlier, the traditional capital ratio for the national banking system declined slightly last year, and equity capital as a proportion of total assets equalled 5.5 percent at year-end. Our concern, however, is directed not at the specific year-end figure for the national banking system but instead at the trend of individual bank capital adequacy and earnings.

In last year's testimony before this committee, we emphasized that there might be a substantial shortfall in individual bank capital by the early 1980's if asset growth patterns are maintained at historical levels and if internally generated capital through retained earnings is not both increased and supplemented by external sources. We continue to believe that this statement is true.

Bank capital has a myriad of uses and purposes. It allows a bank to gain competitive entry by acquiring the necessary infra-structure to operate. It provides a cushion to withstand abnormal losses not covered by current earnings, enabling the bank to regain equilibrium and re-establish a normal earnings pattern. It serves the important psychological role of maintaining the confidence of public lenders and investors in the bank's ability to meet maturing demands in most market conditions and to sustain present and contemplated growth patterns. In liquidation it provides protection to both depositors and other creditors.

The purposes and uses of capital in the abstract are easily defined. Capital adequacy, however, is a substantially subjective concept. This explains why attempts to measure capital adequacy have been mired in controversy for years and have resulted in no firm answers. A historical review of the relationship between the capital-to-asset ratio and bank failures demonstrates the system's vulnerability to adverse economic conditions regardless of the level of capital.

**All Commercial Banks**
**Capital Ratios and Bank Failures**

| Year | Average capital to assets ratio | Average number of banks | Total number of failures |
|---|---|---|---|
| 1930-1939 | 13.6% | 16,907 | 5,812 |
| 1940-1949 | 7.5 | 14,246 | 22 |
| 1950-1959 | 7.3 | 13,798 | 31 |
| 1960-1969 | 7.9 | 13,630 | 44 |
| 1970 | 7.5 | 13,686 | 7 |
| 1971 | 7.4 | 13,783 | 6 |
| 1972 | 7.1 | 13,927 | 1 |
| 1973 | 7.0 | 14,171 | 6 |
| 1974 | 6.1 | 14,465 | 4 |
| 1975 | 6.3 | 14,384 | 13 |
| 1976 | 6.6 | 14,397 | 16 |
| 1977 | 6.4 | 14,397 | 6 |
| 1978 | 6.2 | 14,302 | 7 |

Failures during the Depression years were the result of nationwide economic disturbances, not inadequate capital. This holds true today. The only other significant period of bank failures was during the 1974-1975 recession.

Economic factors also directly influence bank earnings because the banking system reflects the health of the economy. If bank revenues are sufficient to absorb most loan and other losses, the relative level of bank capital becomes less important. Current coverage of loan losses illustrates why this is true and explains the ability of the banking industry to withstand the recession of 1974-1975.

**All Insured Commercial Banks**
**($ millions)**

| Year | Pre-tax income before provision for loan losses | Net loan losses | Pre-tax income before provision for loan losses to net loan losses (times) |
|---|---|---|---|
| 1974 | $11,537 | $1,957 | 5.90 x |
| 1975 | 12,589 | 3,243 | 3.88 |
| 1976 | 13,605 | 3,504 | 3.88 |
| 1977 | 14,867 | 2,797 | 5.32 |
| 1978 | 18,602 | 2,492 | 7.46 |

While we think it incautious for either bank regulators or bankers to assume that current political, fiscal and monetary policies will fully anticipate and prevent economic downturns, the methods of dealing with an economic crisis have been vastly improved since the 1930's.

We think it unreasonable to dictate capital levels which assume periodic wide-scale economic collapse because available evidence demonstrates that extraordinarily high capital ratios have not insulated financial institutions from the effects of enormous economic upheavals. So long as periodic economic downturns of limited depth and duration can be assumed and so long as economic conditions support a reasonable level of bank earnings, the capital of all except the most mismanaged banks should be able to cushion abnormal losses arising from limited swings in the economy.

Consistent bank earnings are the key to healthy financial institutions and the principal factor influencing capital adequacy. Earnings affect capital adequacy in a number of ways:

- Earnings provide the first line of defense in absorbing loan losses. As long as pre-tax earnings exceed actual loan losses, banks need not rely on their reserve and equity capital cushions;
- After-tax earnings provide for the payment of cash dividends and heavily influence bank stock prices. Earnings thus maintain investor interest and significantly impact a bank's ability to access capital markets; and
- Retained earnings are the major source of bank capital. Retained earnings contributed $7 billion

to bank equity accounts in 1978 and equalled 90 percent of the total added to bank equity.

Despite substantial retained earnings and significant amounts of equity raised in the capital markets throughout the 1970's, the capital growth of the commercial banking system has not kept pace with the expansion of the resource base. This concerns us because the result has been declining levels of capital relative to assets, particularly risk assets.

The causes of this trend are varied:

- Worldwide inflation;
- Increased competition from foreign banks and other depository and nondepository financial institutions;
- Deposit rate controls;
- Geographical barriers; and
- The increased cost and burden of regulation.

As a result of these and a variety of other factors, the real rate of return on equity adjusted for inflation has declined during the last decade. The erosion of real bank earnings has adversely affected the first two of the following four alternatives banks have of maintaining or increasing equity capital in relation to assets:

- Improving earnings and thus retained earnings;
- Raising new capital;
- Reducing dividends; and
- Curtailing lending and investments.

Improving earnings efficiency in real terms has proved impossible during the last decade and, if inflation continues, appears unlikely to improve in the near term.

Because earnings have declined in real terms, banks have had difficulty attracting sufficient equity from the capital markets because investors, present and prospective, are not receiving and do not perceive they will receive an adequate real rate of return on investment. Other investment opportunities are simply more attractive to them in the prevailing economic environment.

To illustrate this problem, only $374 million in common equity capital and $260 million in preferred equity capital were raised in the public capital marketplace by all banks in 1978. The equity capital raised, however, surpassed all previous years in the 1970's. Contrast this amount ($634 million) with the amount of capital that would be required to raise the equity-to-assets ratios of the 25 largest commercial banks (which hold nearly 40 percent of all bank assets) to the following hypothetical benchmarks:

**Largest 25 Commercial Banks**
**Hypothetical Capital Ratios**
**($ billions)**

| Equity capital/total assets | Additional capital needed |
|---|---|
| 5% | $ 5.5 |
| 6 | 11.2 |
| 7 | 17.1 |
| 8 | 23.0 |

Using the 6 percent hypothetical benchmark, $11.2 billion in new capital would be required. This is equivalent to:

- Three times the level of 1978 profits for the largest 25 commercial banks;
- Eight times the equity capital publicly raised in the capital markets by all commercial banks from 1976 through 1978;
- Eighteen times the equity capital publicly raised in the capital markets by all commercial banks in 1978;
- Three times the aggregate dividends paid by all commercial banks in 1978; and
- 1.2 times the aggregate corporate common and preferred public stock offerings through the first 11 months of 1978.

Reducing dividends increases retained earnings and thus equity capital. However, it is unrealistic to expect that this alternative could be used in sufficient amounts to materially offset asset growth and allow capital growth to keep pace. Any significant reduction will adversely affect and further aggravate commercial banks' prospects for raising additional equity capital.

The final alternative for increasing the capital-to-asset ratio is to restrict growth of loans and investments. If lending is restricted, economic growth is immediately impacted. The ability of banks to continue serving efficiently existing product markets, consumers, businesses and state and local governments is adversely affected. Materially limiting the growth of commercial bank assets thus could have far reaching economic consequences and seriously inhibit the commercial banking system from performing its traditional intermediary role.

Because of the commercial banking system's demonstrated inability to successfully pursue the above alternatives in the economic circumstances of the 1970's, equity capital in the system has continued to decrease in relation to assets. Moreover, the trend can be expected to continue. Seeking solutions to the earnings and capital dilemma will be one of our biggest challenges. The task will be extremely difficult and fundamental adjustments will have to be made. If they are not, the ultimate trade-off may well seriously impair the ability of banks to continue to serve the nation's credit needs.

### OCC's Approach to Capital

The OCC views capital adequacy on an institution-by-institution basis. Our policy for such evaluations is outlined in instructions to all personnel in the *Comptroller's Handbook for National Bank Examiners.* The instructions are founded on the premise that no degree of capitalization can be a substitute for sound lending and investment policies, good earnings performance, experienced and progressive management, well-planned policies for growth and adequate internal control. The instructions stress that capital ratio analysis is but one factor to be considered, and although usually considered in relation to peer group averages, these averages are not intended to constitute capital standards. Using such averaged ratios as standards tends to place all banks on the same level, thus disregarding such important aspects as local economic and environmental factors, deposit and asset composition and diversification, liquidity, risk and quality of assets and, most importantly, management expertise. Such ratios are useful screening devices, but just as the ratios have been proven invalid in assessing the health of the banking system, similarly, average ratios cannot be a reliable measure of strength for an individual bank.

Therefore, believing as we do that capital adequacy is situational, our instructions rely on the professional judgment of our examiners to weigh properly the subjective areas that dominate evaluation, i.e., asset quality and risk diversification; earnings history, retention and prospects; deposit structure and attendant liquidity position and philosophies; overall quality of operations; capacity to meet present and future financial needs; and, of course, management abilities. These areas cannot be adapted to mathematical formulae, but rather the analysis of the individual areas must be performed skillfully to achieve the properly balanced conclusion.

### Bank Failures and Banks Under Special Supervision

During 1978, seven commercial banks failed, one of which was a national bank. This low number of failures primarily results from our strong economy and its favorable impact on banks and bank customers. We are now seeing the resolution of many situations which had their origins in the economic decline of 1974 and 1975. Therefore, the number of banks currently in the special supervisory category should not be taken as an indication of the impact of the current economic environment on the banking system. We would caution that with continued inflation, the possibility of a leveling off of the economy in the next 12 months and the real probability of increased competition in the financial services industry, the low failure rate and the low proportion of banks requiring special supervisory attention is not expected to continue.

With this caveat, we note that banks rates 4 or 5, the most serious categories under the uniform interagency rating system, increased slightly in 1978 from 52 to 55. These problem institutions hold 1.75 percent of the assets of all national banks and equal 1.2 percent of all national banks.

Group 3 – rated banks increased from 207 in 1977 to 251 in 1978. This increase reflects our continuing commitment to identify banks requiring special supervisory attention early and to treat potential as well as existing situations which may pose a threat to the health of the institutions.

### Enforcement Activities

Over the past several years, the formal enforcement actions taken by this Office have increased substantially. For instance, the number of formal administrative agreements and cease and desist orders taken increased from 56 in 1977 to 72 in 1978.

Since the passage of the Financial Institutions Regulatory and Interest Rate Control Act of 1978, much time has been spent on developing policies, procedures, rules and regulations for its implementation. We anticipate that much of the effectiveness of these new powers will come from their deterrent effect, especially through the use of civil money penalties.

Consequently, we have directed our examiners to be alert to potential violations of law, regulations or cease and desist orders which would justify our assessing a civil money penalty against a bank or an individual. In order that the civil money penalty power may be used as an effective supervisory tool, we have told our personnel that they should restrict their recommendations to those violations which are flagrant, willful, recurring or indicative of a disregard for the law or the safety and soundness of the bank.

We have also established training programs for our examiners in the investigation and prosecution of bank fraud cases. Through the assistance of some of these specially trained examiners, we have been able to assist the Department of Justice in developing and prosecuting a number of significant and important cases. Our training courses for fraud examiners have been attended by representatives of the other regulatory agencies as well as other investigative and prosecuting authorities.

Notwithstanding our effectiveness in working with investigating and prosecuting agencies in the past, the restrictions imposed on us by the Right to Financial Privacy Act of 1978 seem likely to impede somewhat our ability to disclose that information to other federal agencies on the most efficient and timely basis.

### Examinations

At the beginning of this year, the Comptroller's Office established a national policy to set priorities on the frequency of on-site examinations with particular emphasis on banks requiring special supervisory attention. All banks requiring special supervisory attention will be examined on-site at least twice annually, including at least one full scope examination.

This policy was adopted in response to the ever increasing demands on examiner time. Over the last 5 years, total domestic and foreign assets of banks supervised by the Comptroller's Office have grown 57 percent. The estimated increase for 1979 is 10.3 percent. The largest national banks continue to expand the scope of their domestic and international operations. An increased variety of services offered by other financial institutions has forced smaller commercial banks to broaden the range of the services they offer.

In addition, Congress has continued to add new duties for federal bank regulators in response to perceived public concerns. In recent years, we have expanded our efforts in monitoring compliance with consumer-oriented laws, such as Truth-in-Lending, Fair Housing Act and Equal Credit Opportunity Act. Our examiners will be spending additional time assessing each bank's record of helping to meet the credit needs of its local community as required by the Community Reinvestment Act.

The combination of those factors with personnel ceilings has meant that we are simply unable to conduct full-scale, on-site commercial examinations of national banks as frequently as in the past. Programs have been instituted to address this issue. Changes in examination approach implemented in 1976, together with the development and continuing refinement of a computer-based monitoring system (the National Bank Surveillance System) have not only increased the effectiveness of bank supervision but also set the stage for tailoring the frequency of on-site examinations for individual banks.

The Federal Reserve and the Federal Deposit Insurance Corporation have the flexibility to examine banks under their supervision with such frequency as is considered appropriate. We have sought a similar discretionary authority to enhance our use of limited resources.

In the present environment, information flows outside the examination process. Remote monitoring is a reality. Examinations no longer serve as the sole means of gathering financial information. Our examination is now geared to understanding a bank's system of operation, including its management processes, policies, practices, procedures and other controls. With an in-depth understanding of those factors, we no longer have need to visit each bank every 8 months on average.

Our housekeeping legislation, included as part of the Financial Institutions Regulatory and Interest Rate Control Act of 1978 package in the last Congress (H.R. 13471, Title XIV), would have amended 12 USC 481 to allow our Office to examine every national bank as often as we deemed necessary. That portion of the legislation failed to reach a floor vote. The need to amend the code still remains. An amendment would provide the needed flexibility to supervise the national banking system in a more effective and efficient manner. It also would allow us to reduce the regulatory and supervisory burden on those banks which adhere to the law and the principles of safe and sound operation.

### Other Real Estate Owned

I would also like to mention 12 USC 29, the federal statute that limits to 5 years the period during which a national bank may hold real estate. The primary purpose of this provision was to prevent national banks from becoming monopolistic holders of real estate. While this law has served its purpose, it has often created unnecessary hardships. Section 29 does not take into account depressed economic conditions which might prevent disposal of real estate at prices reflecting the bank's investment. It also adversely affects the market since prospective purchasers are aware that the sale is compulsory. National banks thus are prevented from mitigating or avoiding their losses, particularly on large construction projects which often require a long period of time to complete and sell. In addition, bankruptcy proceedings or other collection processes may delay completion of real estate development beyond the 5 years allotted.

In our "housekeeping" bill now pending in the House as H.R. 2229, the Comptroller would be authorized to extend the holding period under Section 29 from 5 years to 10 years in those cases which warrant it. The statute would continue to encourage a national bank to dispose of property within 5 years. If a good faith attempt is made and it appears to OCC that the disposal would be detrimental to the bank, an extension of the holding period up to 5 additional years could be granted for specific parcels of real estate.

### Supervision of International Banking Activities

Earlier this year, our Office issued a formal interpretive ruling regarding the applicability of the legal lending limit for national bank loans to foreign governments and their related entities.

The interpretive ruling established guidelines to assist bankers and examiners in determining whether foreign governments and their related entities should be considered as several borrowers or a single borrower for purposes of the law. The banks have been aware for some time of the principles contained in the ruling, and we do not expect that it will have a significant impact on banks' present portfolios. We will continue to monitor the effect of the ruling on future lending and to study other alternatives consistent with the diversification principles inherent in the statute and the realities of the times.

The OCC also participated in establishment of a joint interagency procedure for the assessment of the "country risk" aspects of international lending. This approach emphasizes portfolio diversification as the primary method of moderating country risk in international portfolios. In addition to classification of loans when warranted, the procedures provide for recognition of concentrations of credit within individual countries at varying levels of capital funds in accordance with the perceived potential for debt service difficulties within each country. These procedures insure uniform examination treatment of all insured U.S. banks involved in international lending.

In recognition of the continuing development and importance of multinational activities we have, as you know, created a new Multinational Banking Division within the Office of the Comptroller of the Currency. The objective of this unit will be to develop technical and supervisory responses to the changing activities of multinational banking institutions. Initially, this group will have supervisory responsibility for the 10 largest nationally chartered multinational banks as well as the international activities of other national banks. The unique characteristics and operation of these multinational institutions will be recognized and examination procedures refined to permit an improved assessment of their worldwide activities.

### Impact of Recent Legislation

The legal and regulatory structure in which financial institutions operate has changed significantly. Legislation in the last 18 months includes the Community Reinvestment Act, the Financial Institutions Regulatory and Interest Rate Control Act and the International Banking Act.

The Community Reinvestment Act (CRA) which took effect on November 6, 1978, represents a new departure for bankers, for regulators and for the public. The key phrase in the law is contained in its preamble: "Regulated financial institutions have a continuing and affirmative obligation to help meet the credit needs of the local communities in which they are chartered." We believe that the participation of the private sector is essential if this country is to solve the problems of its disadvantaged and declining communities. We believe that this can be done in a fashion that is consistent with the principles of safe, sound and, indeed, profitable banking.

CRA reflects a clear expression by the Congress that the financial regulators must take certain further steps to encourage financial institutions to meet local credit needs. In light of this congressional mandate, we cannot adopt, and have not adopted, a "business as usual" approach. Finding the appropriate way to achieve the goals of the act at minimum cost and government intervention is the challenge before us.

Another significant step resulting from the adoption of CRA is participation of the public in regulation of financial institutions. The CRA notice encourages the public's involvement; the CRA file is a means to gauge public reaction, which bank examiners are required to review and analyze in assessing a lender's record.

As one distinguished commentator has noted: "Banks must make a commitment to improve communication with local communities and must be prepared to demonstrate that commitment."

The Financial Institutions Regulatory and Interest Rate Control Act of 1978, which took effect on March 10, 1979, is a far-reaching piece of legislation designed, in part, to strengthen the supervisory powers of the financial regulatory agencies. The act also attempts to solve some of the problems which have come to the attention of the regulators, the bankers and the public in recent years.

Specific titles of the act increase the supervisory powers of the federal regulatory agencies with respect to cease and desist orders, insider transactions, correspondent relationships, interlocking directorates and changes in control of federally chartered financial institutions. We believe that Congress tried to address these matters without unduly restricting bankers' private initiatives.

Title X of FIRA established the Federal Financial Institutions Examination Council made up of the five financial regulatory agencies. The council is required to ". . . prescribe uniform principles and standards for the federal examination of financial institutions . . . and make recommendations to promote uniformity in the supervision of these financial institutions." In addition, it will seek to develop uniform reporting systems for federally supervised financial institutions, their holding companies and subsidiaries and to conduct schools for examiners of the constituent agencies. Such schools shall be open to the state examiners as well. The council's first meeting was on March 16, and it has met three times since that date. Its last meeting was on May 3 with members of the State Liaison Committee, a committee appointed pursuant to the act to establish liaison between the council and the state agencies. The committee consists of five members who are representatives of the state regulatory agencies.

The council expects to conduct its work with a very small staff, relying primarily on the staffs from the constituent agencies. Staff task forces on supervision, consumer compliance, reports, examiner education and surveillance have been established. These task forces have been meeting regularly to identify projects, establish work schedules and assign target dates for the completion of their projects. The council will report not later than April 1 of next year on its activities during this calendar year. We have all worked closely together, as have key staff personnel of the agencies, and we are confident that the council will be able to report significant progress.

The International Banking Act of 1978 provides for the first time a federal role in regulation and supervision of foreign banks in the United States. The act establishes a framework for parity of treatment of foreign banks vis-a-vis domestically chartered institutions in their operations within the United States. The three federal banking regulatory agencies are continuing to work together to develop guidelines and proposed rulings for implementation of the provisions of the act. A uniform examination report for foreign branches and agencies has also been developed.

**Realities of the Changing Marketplace—Need for Congressional Action**

The responsibilities of the Office of the Comptroller of the Currency include not only the maintenance of a stable banking system but also the encouragement of innovative responses by banks to the changing needs of their customers. The banking system must have the flexibility to satisfy these needs to facilitate the efficient functioning of our economic system. We must, therefore, express our continuing concern with the way existing banking laws and regulations are inhibiting the responsiveness of the commercial banking sector to fundamental changes taking place in both the domestic and international financial systems. How well the banking system performs over the long-run is dependent on the competitive environment in which it operates and its ability to respond efficiently to changing circumstances vis-a-vis its competitors.

On both counts, the banking system has come under increasing pressure. Competition from other depository institutions has grown intense; the banking system's share of deposits has decreased from 83 percent in 1946 to 59 percent in 1978. Competition from nondepository institutions is also increasing. Large corporations are continuing to tap nonbanking sources of capital, such as the commercial paper market. Investment banking houses, major corporations and money market funds are competing with banks' certificates of deposit. Nonbank competitors have made significant inroads into banking markets. At the end of World War II, the commercial banking sector's share of total assets held in the financial services industry equalled 57 percent; more recently, their share was less than 40 percent. Many of the services offered by bank and nonbank financial intermediaries have become indistinguishable.

Where once banks may have been the sole competitors in particular markets, they must now compete in these same markets with a host of other domestic and foreign intermediaries frequently subject to far less regulation. Transactions accounts which once were available only from commercial banks, today, are offered by credit unions, thrift institutions in the Northeast, money market funds and certain brokerage firms. The large U.S. banks have become truly multinational in nature, offering a wide variety of banking and financial services throughout the world; at home these same banks are finding increased competition from foreign banks operating in the United States.

The ability of the banks to meet the competition has been hampered by the retention of laws enacted over four decades ago when the financial system was far different. One must recognize that the regulatory framework governing the operation and supervision of our financial system has, with only few exceptions, remained basically unchanged since the 1930's. It is difficult to keep this entire system in proper perspective and, thus, worthwhile to step back and take a broad view of the realities of the marketplace for financial services.

The legislation enacted in the 1930's reflected the financial upheaval that shook the entire country as well as the banking system. The banking legislation of the day was basically anti-competitive and sought to protect and insulate financial institutions from further failures.

Since the 1930's, the demands and needs of corporations and households for financial services have expanded rapidly in response to shifting markets, inflation, changing lifestyles, demographic changes, improvements in transportation and innovations in electronics and communications. Yet despite a general acceptance of the need for a redrafting of our banking laws by financial and banking experts both within and outside of government, it has been virtually impossible to obtain congressional approval of comprehensive revisions. Clearly, there is a need for a thorough and fundamental review of the intent and competitive impact of the banking laws and a weeding out of those statutes which are generally anti-competitive. I would like to note that under the leadership of Chairman Proxmire, this committee did report out a comprehensive financial institutions reform proposal, the Financial Institutions Act of 1975, which passed the Senate in December of that year. The House took no action on this legislation.

The consequence is that the banking system has been caught between the changing marketplace on the one hand and inflexible, and in some cases obsolete, statutes on the other. Failure to update the statutory framework governing banking operations in this country has weakened the ability of banks to serve their customers. The regulators have sought to reflect changes occurring in the marketplace through revised interpretations of existing statutes, but there is a necessary limit to their flexibility. Frequently, the results are compromises at best, which do not adequately respond to the needs of the institutions or the public.

As illustrated by recent court decisions affecting loan production offices, remote service units, automatic transfer services, credit union share drafts and branching decisions, interpretations frequently engender an inordinate amount of litigation and uncertainty.

None of us can underestimate the difficulty of enacting comprehensive financial reform legislation. But we must remember that while these issues are debated, the financial system is slowly adapting, circumventing those issues which cannot be resolved. To the extent that the banking system is unable itself to overcome a regulatory or statutory obstacle and therefore prevented from filling a need of the public, other nonbank competitors move in to fill the void. Many of these competitors are subject to either far less regulation or more favorable regulation than commercial banks. A brief review of issues currently being debated illustrates this point:

- *Geographical Barriers.* State and federal anti-branching laws limit the ability of banks to respond to the increased mobility of their customers who may reside and work in different communities or even states. Larger banks, offering financial services on a nationwide basis may still be prevented from opening a retail branch in the suburbs of the metropolitan area in which they are located. Nonbank competitors are not so constrained.

  Savings and loan associations, major competitors for retail deposits, are generally subject to far less restrictive branching restrictions and may soon be able to branch across state lines. Nondepository institutions seeking to attract household savings, such as Sears which recently announced its intention to offer $1,000 denomination notes to its credit card holders, operate on a national basis.

- *Deposit Rate Controls.* Ceilings on deposit rates paid by banks and thrift institutions have distorted the competition for funds. Thrift institutions are permitted to pay higher rates of interest than commercial banks on most savings and time deposits. These ceilings do not extend to nondepository institutions such as Sears or Merrill Lynch which are free to pay market rates of interest.

  The ability of an institution to attract deposits has become a function not of how well it is managed or its profitability, but instead its type of charter and the relationship between existing deposit rate ceilings and market rates of interest. Depository institutions are forced to compete for deposits on the basis of free gifts, convenient branches and longer hours.

- *Thrift Institution Competition.* The growing similarity between the powers and activities of thrift institutions and commercial banks has placed increased pressure on bank earnings and market share. In the northeastern part of the country, especially, where many thrift institutions can offer transaction accounts, the banks and thrifts are in head-to-head competition. The creation of NOW accounts by thrifts seeking to meet their customers' demands for interest bearing transaction accounts has led to the authorization of NOW accounts for all depository institutions in New England and in New York. While the Regulation Q differential has not been applied to NOW accounts, it has remained intact for the majority of other savings and time deposits.

- *State Usury Ceilings*. State usury ceilings lower bank earnings and fail to help those individuals in need of protection. When lenders are unable to charge a rate sufficient to yield a reasonable return, they generally stop lending to the high risk and frequently lower income borrowers. Credit is instead allocated to prime customers or flows to other states not subject to such restrictions. The result may be either an earnings squeeze on in-state depository institutions or an artificial and inefficient out-of-state investment of funds.
- *Federal Reserve Membership*. Federal Reserve membership reduces member bank earnings due to the imposition on members of non-earning reserve requirements. The result is higher deposit costs placing member banks at a competitive disadvantage vis-a-vis nonmember institutions and causing an increasing number of banks to leave the national and Federal Reserve systems.
- *Increased Competition from Foreign Banks*. Expansion of foreign banks into the United States has accelerated considerably in the last decade, with increased competition for U.S. deposits and lending services. While the passage of the International Banking Act places U.S. banks and foreign banks operating in the United States on a more equal competitive footing, foreign banks may still retain some advantage with respect to deposit insurance and reserve requirements.

In closing, Mr. Chairman, I would like to reemphasize our willingness to work with this committee to bring about financial reform in a reasoned and orderly fashion. It is essential that we bring our statutes and regulations into conformity with the realities of the marketplace today.

## Statement of John G. Heimann, Comptroller of the Currency, before the Senate Committee on Banking, Housing and Urban Affairs, Washington, D.C., June 14, 1979

I am pleased to have the opportunity to testify on behalf of the Office of the Comptroller of the Currency on tie-ins between the sale of insurance and the granting of credit, abuses which arise from the sale of credit insurance by banks and bank holding companies, and the question of whether limitations should be placed on the ability of banks and bank holding companies to market various forms of credit insurance. This testimony does not necessarily reflect administration policy.

The offering of credit-related insurance by banks and bank holding companies provides borrowers with an especially convenient source for a service that benefits borrowers and creditors alike. The Office of the Comptroller of the Currency, therefore, believes that the offering of credit-related property and casualty insurance as well as credit life and health insurance by banks and bank holding companies is in the public interest. To the extent that real and potential problems exist, statutory and regulatory remedies short of prohibition are available or can be adopted.

The most apparent problem associated with credit insurance sales at financing institutions is the potential for exercising market power to tie the sale of insurance with the granting of credit. This problem arises when borrowers have no alternative sources of credit or when a lender takes advantage of borrowers' ignorance or lack of understanding about alternative credit insurance options. In addition, there are other troublesome practices which may adversely affect bank customers, minority stockholders or a bank's safety and soundness. In the case of banks, the supervisory process permits monitoring and case-by-case correction of abusive practices when they occur.

In discussing credit insurance, it is important to distinguish between the credit life and health insurance industry and the property and casualty insurance industry. The competitive structure of these industries is very different. The credit life and health insurance industry has relatively few competitors. Thus, the choice of underwriters available to banks and other firms wishing to participate in this line of insurance is limited, and bank customers have virtually no alternative sources. Credit life and health insurance requires minimal servicing and is oriented to the one-time sale of the policy.

In contrast, the property and casualty insurance industry is highly competitive. Independent agents and numerous institutional sellers, including direct insurers, compete actively in the same markets since they have the ability to offer an identical product. Some sellers of property insurance are also major suppliers of credit and compete directly with commercial banks.

Furthermore, the service-oriented nature of the property and casualty insurance industry contrasts sharply with the one-time, sale-oriented nature of the credit life insurance industry. Essentially, a credit life insurance policy is purchased to provide for payment of a particular indebtedness should the debtor die or be disabled. The coverage is designed to be co-extensive with the payment schedule of the loan. No significant servicing is required for such a policy. In contrast, the property and casualty insurance industry is characterized by the handling and processing of claims. Coverage is rarely long-term and is frequently subject to annual renewal. The insurers' awareness that a purchaser may shift coverage to another, if service is inadequate or rates become non-competitive, creates significant competitive pressures which are reflected in prices and services.

Because of the substantial competitive differences between these two industries, it is inappropriate to assume that practices and problems associated with one exist or will occur in the other. Banks and bank holding companies should engage actively in both industries. However, their activity in each should be monitored closely. If abuses occur, they should be corrected to the extent possible under existing law, and, if that is not possible, the supervisory agencies should make recommendations for appropriate statutory change.

### Current Regulation of Credit Insurance

The Bank Holding Company Act Amendments of 1970 prohibit a bank from extending credit or varying the terms of the credit on the condition that the customer obtain some additional service from the bank. Exceptions were made for "traditional banking services;" however, these excepted services are subject to the other antitrust statutes, such as the Sherman Act. Prior to 1970, tying arrangements were illegal only if the bank had appreciable economic power in the market for the tying product, i.e., credit. Because most markets have several financial institutions, one bank would seldom have sufficient market power to establish an antitrust violation. The 1970 amendments made tying arrangements imposed by banks illegal regardless of the degree of market power a bank might possess. Thus, banking is subject to a stricter antitrust standard on tying arrangements than other industries, including other competing nonbank lenders.

Under the Truth-in-Lending Act, any lender that requires credit life insurance must include the premiums in the finance charge and reflect them in the annual percentage rate. Where credit life is not required but made available by the lender and the required disclosures are made, the premium need not be included in the finance charge. Furthermore, the act allows the premium for property and liability insurance against loss of property to be excluded from the finance charge if the lender sets forth the cost and states that the borrower may choose the person through whom the insurance is to be obtained.

The statutes governing credit insurance have been supplemented by various regulatory efforts. In congressional testimony and in its annual reports to Congress, the Federal Reserve Board has recommended amendments to the Truth-in-Lending Act's credit insurance provisions. Last year the bank regulatory agencies adopted the Uniform Truth-in-Lending Enforcement Guidelines which require reimbursement for violations involving credit life insurance sales. In two recent instances, about 850 borrowers were reimbursed a total of $5,850 by national banks for violation of Regulation Z's insurance disclosure provisions. The Federal Trade Commission has actively pursued abusive insurance sales practices by nonbank lenders.

### Experience of the Comptroller's Office with Credit Life Insurance

In 1977, the Comptroller's Office adopted a regulation prohibiting officials of national banks from retaining for their own use commissions from the sale of credit life and health insurance to loan customers. This practice was declared to be an "unsafe and unsound banking practice" partly on the basis of our concern about the prospect of illegal tie-ins. When a loan officer is permitted to retain the commission, the likelihood of a customer being required to purchase credit life insurance that he may not want or need increases. This likelihood and the conflict of interest inherent in a lending officer receiving credit life insurance commissions has been characterized by a court in one case as an "intolerable situation" which may subject the lending bank to treble damages under the antitrust laws.

Shortly after the credit life regulation was adopted, the Independent Bankers Association of America filed suit to invalidate it, alleging among other things that the Comptroller lacks sufficient rulemaking authority to issue such a regulation. That issue remains unresolved because the federal district court decided that the proper forum for challenging the regulation's validity and the adequacy of the Comptroller's rulemaking authority is in an enforcement proceeding against a national bank charged with a violation of the regulation.

Although in our judgment the Comptroller's Office possesses sufficient authority to issue such a regulation, housekeeping legislation introduced in the House and under consideration by this committee would clarify that authority. So long as doubt lingers about our rule-making authority, the Comptroller's efforts to minimize self-dealing and other practices injurious to the safe and sound operation of the national banking system will be impeded.

### Other Practices Related to Credit Life Insurance

Other troublesome practices not addressed by the credit life regulation also concern us. We are monitoring these practices and have taken action in some instances. We will continue to do so when appropriate. For example, the credit life regulation does not explicitly bar bonuses keyed to the volume of credit life sales. Some banks are now offering the officer who sells the most credit life a free skiing vacation in Colorado while others offer merchandise of the loan officer's choice from a department store catalogue. These attractive inducements increase the likelihood of tie-ins. To minimize this likelihood, we have published guidelines restricting the amount of bonuses and the frequency with which they may be paid.

In addition, we are concerned about the growing use of "captive" credit life reinsurance companies. Under a "captive" reinsurance company arrangement, the bank pays the premiums to a "front" underwriter (insurance company) which subtracts its fees and then passes the balance of the premiums on to the reinsurance company. The reinsurance company then passes these profits through to its owners who often are officers in the bank that originally sold the credit life insurance. Such arrangements appear to circumvent the intent of our regulation to prohibit insider receipt of credit life commissions. In fact, the officers have the same incentive to "push" credit life as if they were receiving the commissions directly. Moreover, use of this arrangement deprives the bank of flexibility it should have to change underwriters because the bank, in effect, is locked into a particular underwriter by reason of the personal investment of its officers in the reinsurance company, which usually is a captive of the underwriter.

Another practice that concerns us relates to the allocation of credit life insurance income within a bank holding company system. The issue is whether the income should be credited to the bank's income accounts or to the holding company (or its insurance agency subsidiary). Our credit life regulation allows credit life income to be paid to the holding company provided that the minority stockholders' proportionate share is retained in trust and paid to them periodically. We are not entirely satisfied with this arrangement. While it protects the interests of all shareholders, the bank usually receives little if any compensation, even though the insurance most likely was sold on bank premises by bank personnel to bank customers.

### Cost of Credit Life Insurance

Questions have been raised about the cost of credit life insurance. Chairman Proxmire has estimated that consumers are paying far more than necessary for credit life, health and accident insurance. The Chairman's analysis attributed high premiums to, among other things, the phenomenon of "reverse competition" characterized by competition among credit life underwriters on the basis of how much of the premium they can refund to the lender. This phenomenon tends to lead to higher premiums.

Another issue is the wide variation in credit life insurance rates from state to state, ranging from as much as $1 per $100 of coverage to $0.43 per $100. Some states are actively studying the feasibility of reducing their rates. To the extent that some rates are excessive, failure of the states to take action may eventually lead to pressure for federal regulation in an area traditionally reserved to the states.

### Evidence of Tie-in Sales of Credit-Related Insurance

Available evidence suggests that certain lenders have used their market power to coerce borrowers into purchasing various types of credit-related insurance from them. However, a recent study by the staff of the Federal Reserve Board, entitled "Tie-ins Between the Granting of Credit and Sale of Insurance by Bank Holding Companies and Other Lenders," concludes, in part, that "explicit tying between the granting of credit and the sale of credit-related insurance is practically nonexistent and that implicit pressures brought by lenders on the borrower are neither very strong nor widespread in the industry."

This conclusion was based largely on data from a survey of credit customers. The survey did not distinguish between various types of credit insurance. In support of its conclusion, the Federal Reserve Board staff noted that only 23.5 percent of all bank credit customers felt that credit insurance was either strongly recommended or required. However, 35.9 percent of those bank borrowers who also purchased credit insurance responded that the insurance was either strongly recommended or required. If, in fact, as many as 35.9 percent of borrowers who took credit insurance felt significant sales pressure (defined as those responding that insurance was required or strongly recommended), the case that some type of tying is prevalent in the market is substantially strengthened. The difference between the percentages depends on what interpretation is placed on those bank borrowers who did not purchase credit insurance. If this group of borrowers obtained credit primarily from banks not offering credit insurance or doing little to promote the sale of credit insurance, the 35.9 percent figure takes an added significance. This would suggest that implicit if not explicit tying is a serious problem in a large number of individual banks, although appearing to be somewhat less of a problem when all banks are considered. Thus, the data presented in the Federal Reserve Board staff study are subject to varying interpretations.

More significantly, the data assembled in this study suggest that legislation to prevent abuses in the credit insurance industry should not focus solely on banks and bank holding companies. Of those borrowers who obtained credit and purchased credit insurance at finance companies, 44.8 percent felt significant sales pressure. Similarly, 43.6 percent of credit union customers and 37.3 percent of retailers' credit customers acknowledged significant sales pressure. Banks, with 35.9 percent, had the smallest percentage. Thus, prohibiting banks from selling credit insurance would do little to address the issue of tie-ins. Indeed, by eliminating one important source of competition among providers of consumer finance, such an approach could aggravate the problem. In our view, a better solution would be to provide for adequate disclosure of credit insurance costs and for prohibition of coercive practices on the part of all consumer lenders.

### Sale of Property and Casualty Insurance by Banks and Bank Holding Companies

It seems likely that the ready availability of property and casualty insurance coverage from independent agents and other institutional insurers will substantially reduce the likelihood of the kinds of problems and troublesome practices that have occurred in some instances in the sale of credit life and health insurance by banks and bank holding companies. Although we have not conducted a specific study of the public benefits that might be realized from allowing banks and bank holding companies to sell property and casualty insurance, it is reasonable to expect that the entrance of banks and other lenders into this market will give consumers another alternative to existing sources. This would probably increase competitive pressures on prices and services, resulting in improved benefits for consumers. Additionally, the simple convenience afforded by one-stop shopping and combined billing for a loan and related insurance coverage at a bank are important potential benefits. Some nonbank creditors, including thrift institutions and retailers, now offer this convenience to their customers.

Although the Comptroller's Office favors the sale of credit-related property and casualty insurance by banks and bank holding companies, we have reservations about whether they should be permitted to underwrite this type of insurance. To date, the Federal Reserve has not allowed this activity, although the matter is now in the courts. We are concerned about underwriting principally because most banks and the bank regulatory agencies are not familiar with this industry. While the integration of the underwriting and selling functions in a single organization may lower the cost of insurance to the consumer, underwriting appears to entail special risks which banks and bank holding companies should not assume at this time.

In conclusion, we believe that broad prohibitions on bank and bank holding company sale of credit-related property and casualty insurance would be inappropriate and contrary to the best interests of consumers. Instead, such sales should be allowed to continue subject to monitoring by the appropriate federal banking agencies. In the absence of federal legislation addressing perceived abuses in providing such insurance on a broader basis, we would expect to deal within the scope of our existing authority with troublesome practices that might arise in the providing of such insurance by national banks. We would be pleased to continue to report to Congress the results of our regulatory experience and will make recommendations for statutory change if that appears necessary.

# Statement of Cantwell F. Muckenfuss, III, Senior Deputy Comptroller for Policy, before the Subcommittee on Financial Institutions of the Senate Committee on Banking, Housing and Urban Affairs, Washington, D.C., June 27, 1979

I welcome this opportunity to present the views of the Office of the Comptroller of the Currency on S. 1347, "The Depository Institutions Deregulation Act of 1979." This bill is an important step in the process of achieving meaningful reform of financial institutions. The Office of the Comptroller of the Currency has long supported comprehensive financial reform. We believe that the concept of gradual deregulation embodied in S. 1347 is the correct approach to such reform. Moreover, S. 1347 represents a necessary complement to the administration's efforts and those of the financial institution regulatory agencies in this regard. We applaud these financial reform efforts.

## Need for Financial Reform

The need for financial deregulation is clear. The present system of deposit rate controls represents a regressive and inequitable tax on many of our citizens. This is especially so in times of severe inflation and resulting high interest rates. Combined with portfolio restrictions and usury ceilings, these controls hamstring the competitive vitality of many of the nation's financial institutions and cause substantial disruptions and inefficiencies in the marketplace. The impact of disintermediation on the housing and housing finance industries in times of high interest rates is but one example of the perverse consequences of interest rate controls. Because of restrictions on the composition and character of many institutions' assets, removal of interest rate controls alone is not sufficient. All institutions must be provided with the tools to compete effectively in a deregulated environment to avoid unfair and disruptive consequences for institutions which have served the nation well.

Failure to proceed with phased deregulation of depository institutions will signal a willingness to tolerate existing inequities, disruptions and inefficiencies. And, ultimately it will serve to weaken the competitive vitality of many depository institutions as the unregulated sectors of our financial markets continue to increase their share of the savings that would normally have gone to depository institutions.

## Response of the Administration

Recognizing the need for action, the President established the Interagency Task Force on Deposit Rate Controls more than a year ago to study the effects of deposit rate ceilings on depositors, the availability of housing finance and, more generally, the functioning of the financial system.

Based on the work of the task force, the President recommended in a message to the Congress on May 22, 1979, the enactment of comprehensive financial reform legislation which would provide for an orderly phasing-out of deposit interest rate ceilings, coupled with measures to protect the long-run viability of thrift institutions and to assure continuation of their historic role as suppliers of housing finance. Specifically, the President stated that he would ask the Congress to:

- Provide an orderly transition period during which all deposit interest rates would be permitted to rise to market rate levels. This phase-out will be subject to emergency action by regulators if the safety and soundness of financial institutions are threatened or the implementation of monetary policy so requires;
- Permit all federally chartered savings institutions to invest up to 10 percent of their assets in consumer loans; and
- Permit all federally insured institutions to offer interest-bearing transaction accounts to individuals.

In addition, the President indicated his support of the efforts of the financial regulators to increase the interest rates payable to small savers, urging them to pursue the approach begun with authorization of the 6-month money market certificate.

### Response of the Regulators

Paralleling the deliberations of the administration, the financial regulators in recent months have taken three significant actions aimed at diminishing the inequitable and disruptive consequences of interest rate controls.

To forestall the threat of disintermediation in the face of rising market interest rates and to maintain the availability of mortgage and housing credit, the agencies in May 1978 authorized the $10,000, 6-month money market certificate with a floating ceiling rate that closely follows the discount rate on 6-month Treasury bills. These instruments, attracting $160 billion in funds in 1 year, have been extremely successful in achieving the intended objective and indeed have been credited with avoiding the housing bust which usually accompanies interest rates at high levels.

However, the success of the money market certificate with its market-based rate ceiling served to highlight the discriminatory treatment of those depositors who are unable to obtain market-determined rates of interest on their deposits because of regulator-imposed rate ceilings. Such depositors are typically referred to as "small" depositors, a category that includes depositors of modest means but also, and perhaps more importantly, includes those of modest sophistication in financial matters. These inequities have been dramatized effectively by the Grey Panthers.

After considerable study, the agencies adopted several measures on May 30, 1979, intended to help small depositors, including:

- An increase of ¼ percent in the passbook savings rate;
- A new 4-year certificate of deposit with a floating ceiling rate tied to the average 4-year yield on Treasury securities;
- Elimination of most minimum denomination requirements; and
- A reduction in penalties for early withdrawal, especially on longer-term deposits.

Additionally, the agencies indicated they would meet toward the end of the year to determine whether further adjustments in deposit rate ceilings would be feasible.

In addition to these steps liberalizing the structure of Regulation Q, the commercial bank regulatory agencies in November 1978 authorized automatic transfer of funds between the savings and checking accounts of the same individual. In a related action, the Federal Home Loan Bank Board effective July 1, 1978 authorized federally chartered thrift institutions to make remote service units available to depositors. Combined with the provision of NOW accounts in New England and New York and credit union share drafts, the effect of these arrangements was to permit individuals to earn interest on their transaction balances. On April 20, 1979, the District of Columbia Court of Appeals declared that the automatic transfer service in commercial and mutual savings banks, as well as remote service units of savings and loan associations and share draft accounts in credit unions, violate the statutory prohibition on the payment of interest on demand deposits.

### Need for Congressional Action

The need for congressional action on financial reform was clear before the court of appeals' decision and has been made even more urgent by that decision. Without legislation, many bank customers will lose a valued service on January 1, 1980. This would be a dramatic example of government controls that prohibit financial products that institutions are willing to offer and that customers demand.

Moreover, consumers properly point out that the actions taken on deposit ceilings and terms fall short of providing a market-determined return on deposits. At the same time, many institutions, especially thrifts subject to binding usury rates, point out that the effects of even the modest regulatory actions of May 30 will have a significant effect on their earnings. They argue further that additional relaxation of deposit rate controls could threaten the solvency of numerous institutions. These concerns demonstrate the dangers and problems to which the substitution of regulatory judgments, regarding appropriate deposit rates and deposit conditions, for the decisions of competing financial institutions leads.

Illustrating the bind of many thrift institutions is the experience with the money market certificates authorized in May 1978. Although these instruments were successful in preventing disintermediation, their cost led many in the thrift industry to urge some rollback. The regulators responded in March of this year by forbidding compounding of interest and partially eliminating the differential on these instruments—actions taken in response, at least in part, to the pressures on thrift earnings.

The recent action of the Federal Home Loan Bank Board authorizing federally chartered thrift institutions throughout the country to offer variable rate mortgages responds to the earnings problems of thrifts. This action is consistent with the recommendations of the President and will, over time, enhance the ability of these institutions to pay market rates on deposits by permitting rates earned on long-term mortgages to increase and decrease as market interest rates increase and decrease.

More than this is required, however. Action must be taken to strengthen thrift earnings. In addition, to the extent that thrift institutions lose the marketing advantage implicit in the differential as we move to a world of market determined rates, it becomes critical that their powers be expanded to enable them to provide one-stop banking services. This has been underscored by the sharp increase in the commercial bank share of new money market certificate deposits that occurred in April and May of this year following the elimination of the interest rate differential.

Finally, congressional action is necessary to assure an orderly adjustment by financial institutions to a new competitive environment. The NOW account experience in New England demonstrates that depository institutions can respond effectively when controls which restrain competition are lifted. However, such adjustments will not occur until the institutions are convinced that the controls will be eliminated. Accordingly, a specific timetable for the end of controls is needed to assure that the requisite preparations for the new environment are made.

Although we differ with certain specifics, S. 1347 is responsive to these needs. Enactment of legislation along these lines will allow market forces to work progressively within the depository system and at the same time shape the results in a manner that tends to avoid disruptive consequences. Moreover, S. 1347 wisely recognizes that viable financial reform is a process and not an event.

### Guiding Principles

The combined efforts of the administration, the Congress, the regulatory agencies and the depository institutions to implement financial deregulation should be guided by several principles.

The existing depository system is based on a host of governmental restrictions and controls, most of which were devised in response to the problems of the Depression. Many of these restrictions have caused serious problems, while others have been rendered ineffective with the passage of time. As in other industries, the time has come to dismantle governmental restrictions which have outlived their usefulness and often serve only to protect inefficient competitors. We must come to rely on the market mechanism as the most efficient allocator of resources and determiner of prices. Substitution of governmental judgment for that of depository institutions and the marketplace in structuring financial products is arbitrary. Simply stated, regulators are not the best available designers of financial products. Government should interpose itself between the seller and consumer of financial services only when the public interest clearly demands it.

Fairness among competitors is a second principle. Depository institutions offering similar products and services should be able to compete on as equal a footing as possible in the marketing of these products and services. This principle implies that interest rate ceilings, reserve requirements and the return, if any, on such reserves should be the same for all similar types of deposits. In essence, the playing field of financial competition should be a level one, providing a fair opportunity for institutions of all types and sizes.

A corollary of this principle of fairness is the notion that competitors be given sufficient opportunity to make the required transition to a new environment. At the same time, fairness to those who have relied on existing rules must not be allowed to be used as an excuse for protecting inefficient competitors.

Ultimately and most importantly, it must be remembered that the financial system is meant to serve its various customers. Here again equity is important. All consumers should have the same opportunity to earn a market determined rate of return on their deposit balances. In addition, the financial reforms adopted should permit innovations to increase consumer convenience—convenient access to financial services (one-stop banking) and convenient management of their financial affairs.

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### The Depository Institutions Deregulation Act of 1979

Although our views do not coincide with the provisions of S. 1347 or with the position of the administration in every detail, we heartily support the efforts of the administration and this committee. We believe that S. 1347 provides a viable vehicle to achieve meaningful financial reform of financial institutions and stand ready to work with the committee to accomplish that end.

### Phased Deregulation of Deposit Rate Controls

Section 107 of S. 1347 provides for the ultimate decontrol of the maximum deposit interest rates which depository institutions may pay by December 15, 1989. Although we are not convinced that a transition period of 10 years is necessary, we believe that establishment of a certain date and specific schedule for deregulation is of overriding importance and strongly support this aspect of S. 1347.

The bill provides that beginning on January 1, 1982, and every 6 months thereafter until December 15, 1989, rate ceilings on all categories of deposits are to be raised by the regulators *at least* ¼ percent. Flexibility is provided in the bill to either hasten or slow the rate of decontrol. If the Federal Reserve Board in consultation with the Federal Deposit Insurance Corporation, the National Credit Union Administration and the Federal Home Loan Bank Board, determines that "it is economically feasible or desirable to accelerate the increase" in the rates then the Board must report the decision to Congress. On the other hand, if the Board in consultation with the other agencies determines that a "serious economic emergency exists and that such action is necessary to avoid a threat to the economic viability of depository institutions," it may postpone the scheduled increase but for no longer than 1 year. Here again, the Board of Governors is required to report this decision to Congress. In addition, the bill provides that new categories of deposits may be created only if the rate of interest is at least equal to rates on deposits of equivalent maturities.

As we have indicated, establishment of a schedule of minimum increases leading to total decontrol on a certain date is of critical importance. Moreover, regulatory discretion to modify the schedule where circumstances warrant is also important—especially if we are correct that depository institutions can make the requisite adjustment more quickly than we have anticipated. In this regard, however, we concur with the administration's recommendation that the standard for delaying the scheduled increase in rates be relaxed somewhat.

In short, assuming necessary flexibility on the part of the agencies, we believe that enactment of such a framework for decontrol is an essential ingredient in the process of financial reform.

### Interest-bearing Transactions Accounts

S. 1347 provides for the nationwide extension to all depository institutions of the power to offer interest-bearing NOW accounts to individuals and nonprofit organizations. As we have indicated, enactment of this provision is essential to avoid the loss of valued services to many customers. Moreover, authorization of transactions accounts for all thrifts is an essential component of the powers necessary to enable thrifts to compete for deposits in a world without the benefit of the differential.

Although we have supported repeal of the prohibition on the payment of interest on demand deposits, we recognize that the framework in S. 1347 will ease the transition as institutions learn to price and market the new services effectively. To the extent that depositors perceive NOW accounts to be different and because they will have to make an affirmative decision to obtain such an account, NOW accounts will grow gradually over time. The NOW account transition period appears to have taken about 4 years in Massachusetts and New Hampshire and about 3 years in the other four New England states. Consistent with the approach embodied in this bill with respect to the ultimate elimination of controls on time and savings deposits, the committee may wish to consider establishment of a certain date on which the prohibition of the payment of interest on demand deposits would be eliminated.

S. 1347 limits NOW accounts to individuals and nonprofit organizations. This is consistent with the administration's recommendations which were based on easing the transition for depository institutions. We support limiting NOW accounts to individuals and nonprofit organizations as an interim step, but feel that this restriction should be terminated after a reasonable time period. This could be accomplished at the same time the prohibition on the payment of interest on demand deposits is repealed.

We concur with the administration's recommendation that the effective date for NOW accounts be delayed for 6 months after enactment to give all depository institutions time to determine pricing policies, to plan implementation and to make necessary administrative arrangements. The NOW account experience in New England and New York and the automatic funds transfer service experience should provide considerable assistance to institutions in making NOW account plans and preparations. The effective date of the court of appeals decision should be delayed by the Congress to coincide with the effective implementation date for NOW account authority.

### The NOW Account Interest Rate Ceiling

Section 106(a) requires that the maximum rate of interest shall be uniform for all institutions and equal to ¼ percent less than the member commercial bank passbook rate.

We agree with the administration that the initial interest rate ceiling should be the same for all depository institutions and should be equal to the rate on passbook savings accounts at commercial banks. Furthermore, the ceiling should rise on the same timetable as that applicable to the passbook rate, and the regulators should have authority to accelerate or restrain these increases in the same manner as S. 1347 provides for other deposit instruments.

Restricting the rate ceiling to ¼ percent below the commercial bank passbook savings rate operates against the principles of increasing consumer convenience and minimizing depository institutions' administrative and operating expenses. The New England NOW account experience indicates that when rate ceilings are the same on both NOW and passbook savings accounts, consumers have a strong incentive to consolidate checking and savings balances in the NOW account. This enhances convenience in two respects. First, the consumer has to manage and reconcile only one account instead of two. Second, the consumer does not have to worry about minimizing checking balances and shifting funds back and forth between his or her checking and savings accounts. Banks also benefit. Account consolidation leads to a reduction in account maintenance and transactions handling expenses.

A lower interest rate ceiling on NOW accounts discourages account consolidation because consumers will tend to place funds not immediately needed for transactions purposes in the higher rate savings account. S. 1347 by providing for a ¼ percent differential for commercial banks and a ½ percent differential for thrifts would negate many of the advantages of existing NOW arrangements. The recent regulatory ¼ percent increase in the passbook savings rate ceiling, which becomes effective July 1, and the absence of a similar change for NOW accounts will have the same adverse consequences.

### Reserve Requirements

Section 201 of S. 1347 authorizes the Federal Reserve to set reserve requirements within the range of 3 to 22 percent against NOW and share draft accounts for all depository institutions. In principle, NOW accounts should be treated as demand deposits for reserve purposes. Nonmember institutions may maintain their reserves at a Federal Home Loan Bank, the National Credit Union Central Liquidity Facility, a member bank or a Federal Reserve Bank. Pending a broader resolution of the Federal Reserve membership issue, we have no objections to the provisions of Section 201. The principle of competitive equality argues that all institutions offering NOW accounts be subject to the same requirement and restrictions, including those pertaining to reserves.

### Consumer Lending Powers

Section 301 of S. 1347 would permit federally chartered savings and loan associations to make unsecured loans for personal, family or household purposes and to invest in commercial paper, corporate debt securities and bankers' acceptances up to an aggregate amount not to exceed 10 percent of total assets.

We support the extension of such authority. This authority will assist the competitive capabilities of federal savings and loan associations by rounding out the range of family financial services, including transactions accounts, that they may offer to consumers. This authority will also reduce the sensitivity of earnings by reducing the average maturity of assets. Furthermore, the 10 percent limitation is not so great as to affect greatly their role as suppliers of housing finance. Consumer lending entails greater administrative costs relative to the size of the loan and greater risks than mortgage lending. Savings and loan associations will need time to develop experience in making and pricing consumer loans. This also argues in favor of a 10 percent limitation initially. At a later time, based on experience, a higher percentage might become appropriate.

### Usury Ceilings

Section 303 preempts state constitutional provisions or laws that limit interest rates charged by any depository institution on loans secured by real property. This provision becomes effective on enactment but may be overridden by state legislation within 2 years after the date of enactment.

We support this provision although we would prefer to see all state usury laws phased out. When market interest rates are above usury ceilings, low-income borrowers and higher-risk borrowers generally have been unable to obtain loans from depository institutions and credit has flowed to markets not subject to usury ceilings. This has occurred during every period of high interest rates over the last 15 years. Many states have revised usury statutes in response to market realities, but some have not or could not because usury ceilings were mandated in their constitutions.

Usury laws are intended to protect small and low-income borrowers from unscrupulous money lenders and to limit the power of lenders to charge whatever interest rate they want. These goals are important, but usury laws have a poor record of accomplishing them. Indeed, usury laws have had unintended and adverse effects on borrowers, financial institutions and the public-at-large. There are other means of attaining these goals which would not create the perverse effects on credit flows that usury laws do.

### Trust Powers for Thrift Institutions

Section 302 of S. 1347 would permit federally chartered thrift institutions to exercise fiduciary powers. This is consistent with enhancing the competitiveness of thrift institutions through expansion of powers, and for this reason, we support the thrust of this section. We note, however, that the National Bank Act contains a specific statutory framework under which national banks exercise such powers. And, of course, we have substantial experience administering these provisions. The committee may well wish to consider this statutory pattern and our experience in its deliberations in this regard.

## Statement of John G. Heimann, Comptroller of the Currency, before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations, Washington, D.C., August 1, 1979

I appreciate the opportunity to appear before this subcommittee to present the views of the Office of the Comptroller of the Currency on foreign investment in the U.S. banking industry. It is a subject which has our continuous attention, and these hearings offer an excellent opportunity for public discussion of some of the issues raised.

At the outset, it is important to place the subject of this hearing in the context of the long standing policy of the U.S. government toward foreign investment. In 1791, Alexander Hamilton urged: "Rather than treating the foreign investor as a rival, we should consider him a valuable helper, for he increases our production and the efficiency of our business." Throughout most of our history, Hamilton's view has prevailed. Our country has welcomed, in fact encouraged, foreign investment in our domestic enterprises, and foreign capital has contributed significantly to our economic development.

The open door policy is rooted in economic principle. Foreign investment in the U.S. benefits the economy in the same way as domestic investment, leading to increased competitive ability, greater employment, higher production and improved technology. To date, there is little evidence that foreign ownership of domestic enterprises has been other than beneficial to the public interest.

A comprehensive review of national policy was conducted following an upsurge of foreign investment in 1973 and 1974. The policy statement issued by the Department of the Treasury in July 1977 reaffirmed our government's strong commitment to the free flow of capital among nations. The nation's policy in the banking area is consistent with policy toward the investment of foreign capital generally. In passage of the International Bank Act in 1978, restrictions on foreign investment in banking and policies based on reciprocity were discarded in favor of the principle of national treatment—that is, equality of competitive opportunity for all participants in our banking system whether foreign or domestic.

In recent months, attention has been focused on foreign investment in banks as a result of several proposed foreign acquisitions of relatively large U.S. institutions. Because of the pivotal role which commercial banking plays in our economy and the size of some of these transactions, special concerns have been voiced, including those that we have been asked by the subcommittee to discuss today:

- The factors motivating foreign investment in our banking system;
- The adequacy of supervisory capabilities; and
- The impact of foreign acquisitions on our banks' domestic customers.

We recognize that foreign ownership of U.S. banks can pose special problems. However, we believe that intervention or restrictions which are inconsistent with our policies of national treatment and free and open markets should be adopted only on a clearcut demonstration that such intervention is in the national interest: first, because the existing framework of law and regulation provides significant power and discretion to deal with both anticipated and unanticipated problems and second, and most importantly, because in the long-run, we believe that the policy enunciated by Hamilton is ultimately the better one. Our capitalistic system, the freedom of private enterprise to make market-based investment decisions with but few government restraints, has stood the test of two centuries. Those who, by restricting foreign investment, would tamper with the underlying precepts of our system must bear the burden of proof.

The invitation to testify also inquired about the procedures involved when a state bank makes application to our Office for conversion to a national charter and the standards which we use to reach a decision on the application. While it would be inappropriate to discuss any specific pending applications, we have attached to this statement copies of our conversion policy and forms which indicate the factors weighed in such a conversion.*

The conversion policies of the federal agencies and the state authorities have historically been designed to permit voluntary movement of institutions between federal and state regulatory systems. Such freedom of choice by banks to elect state or national charter is an integral feature of our dual banking system.

### Historical Background

Over the last 20 years, international trade has burgeoned and robust national economies, especially in Europe, Japan and United States, have attracted capital from abroad in search of investment opportunities. Ever larger flows of capital internationally have eroded the national markets barriers, and foreign acquisition of U.S. banks is in many respects just one aspect of this larger phenomenon—the global integration of financial markets.

The process has brought us to a point where the world's major multinational banks compete head-to-head across national boundaries, not only in international services but also in domestic wholesale and occasionally retail banking markets. American banks operate 888 branches and subsidiaries in over 100 countries. U.S. overseas bank assets were $268 billion at the end of December 1977, or 8.1 percent of global banking assets, excluding U.S. domestic banking assets. This is more than five times the size 8 years before. For some of our largest banks, international assets are more than half of total assets, and international operating profits more than half of overall operating profits.

The other side of the integration process from the U.S. viewpoint is that foreign banks operate 265 branches and subsidiaries in our country, controlling assets of $116 billion or 9.3 percent of U.S. domestic bank assets at the end of November 1978. (If the three presently proposed acquisitions are made, foreign-controlled domestic bank assets will increase to $136 billion, or 10.9 percent of U.S. domestic bank assets.) This represents a quadrupling in slightly more than 6 years. Foreign banking presence is found chiefly in three states: New York accounts for 70 percent of all foreign-controlled bank assets in the United States, California for 23 percent and Illinois for 3 percent. (Foreign-controlled bank assets as a proportion of total domestic bank assets in each of those states at the end of December 1978 were 36 percent in New York, 20 percent in California and 4 percent in Illinois.)

Banks provide services to commerce and industry; hence, bank expansion internationally had much of its original impetus in international trade and investment activity. In the early 1960's, the annual flow of U.S. direct investments abroad exceeded foreign investments into the United States by more than nine times, and world commerce during the 1960's grew at an annual rate of nearly 10 percent.

Between 1960 and 1969, the number of foreign branches of U.S. banks quadrupled from 124 to 460. During that time, our largest banks sought international growth by servicing the foreign units of their U.S. multinational corporate customers and participating in the swelling volume of world trade.

Overseas lending limitations were in effect under U.S. voluntary restraint programs in the 1960's. However, Federal Reserve regulations permitted banks to fund a substantial portion of their international business offshore, and this further stimulated the foreign activities of U.S. banks. The process continued into the 1970's as U.S. regional banks expanded internationally and the large multinational banks carried competition into the domestic markets of host countries.

For a number of reasons, including exchange controls, it was not particularly desirable or feasible for foreign interests to invest in the United States in the 1960's, and foreign investment lagged U.S. economic growth. However, conditions changed in the early 1970's, and foreign investment began to catch up with economic growth. Now, the result of the U.S. international account deficit position is to place excess dollars in the hands of foreigners, virtually "inviting" them to invest in the United States.

Foreign bank expansion in this decade initially mirrored that of U.S. banks in the preceding decade as foreign banks followed trade patterns and their home

* The conversion policy and forms are not attached in the annual report because of space limitations. Copies are available elsewhere.

country corporate customers to the United States. The 1973-1977 foreign direct investment figures indicate that the major sources of foreign investment in the U.S. are Europe (66 percent of total), Canada (20 percent) and Japan (3 percent). It is not surprising, then, that the preponderance of U.S. domestic bank assets controlled by foreign banking institutions are accounted for by the banks from Europe (50 percent), Japan (32 percent) and Canada (13 percent).

As has been the case with many U.S. banks overseas, foreign banks in the United States have broadened their activities and expanded into some of our domestic markets. This is reflected by a shift into branches and subsidiaries which, unlike agencies, can accept domestic deposits and offer a wider array of other banking services. The overwhelming portion of the shift was to branches. From 1972-1979, foreign branches grew at more than twice the rate of overall foreign bank activity, increasing their share of total foreign bank-controlled U.S. bank assets from 18 to 50 percent. The trend towards foreign bank activity in the form of subsidiaries was less pronounced. U.S. subsidiaries of foreign banks grew only slightly more than the rate of foreign bank activity generally, increasing their share of aggregate foreign bank assets in the United States from 21 to 23 percent.

The shift from agencies to branches and subsidiaries partially reflects the wider complex of motives for recent foreign bank expansion in the United States:

- Some banks have sought greater diversification of assets;
- Many foreign banks desired a deposit base in U.S. dollars, and their customers wanted to hold dollar deposits in the United States;
- Many foreign banks with U.S. multinational customers at home wanted to compete in our market for a larger share of U.S. corporate business;
- In planning for future growth, foreign banks have been drawn to the U.S., which is the largest discrete banking market in the world;
- Finally and importantly, the United States, because of the stability of our political and economic systems and our provisions for the free inflow, outflow and throughflow of private capital has been viewed as one of the safest investment havens in the world.

However, important as the foregoing factors are in helping us understand generally the growth of foreign banking activity in the United States, they do not fully explain the recent upsurge in foreign acquisitions of U.S. banks. Several other factors linked to U.S. economic and monetary policies and differences in the U.S.' and other countries' inflation rates are also responsible for making our banks unique targets of opportunity for foreign interests.

First, the high U.S. inflation rate relative to inflation rates in other key countries has contributed significantly to the depreciation of the dollar. To the extent that the dollar is perceived to be undervalued (and/or the home currency overvalued), the attractiveness of investment in the United States is enhanced by expectations of investment appreciation when the values adjust to their true levels.

A second factor is the increase in foreign dollar holdings. Foreigners may exchange these dollars for home country currency or invest these holdings in dollar deposits, in securities of U.S. firms or the U.S. government or in direct purchases of equity positions in U.S. firms. The expected investment value of purchasing U.S. firms may be perceived as being greater than returns on more passive dollar investments or conversion into home country investments.

Third, the failure in recent years of current and expected earnings rates in the U.S. banking system to keep pace with the increasing inflation rate has depressed bank stock values. Market prices of bank stocks, as measured by one index, have fallen to 5.7 times 1979 estimated earnings, which is close to the 1974 market low. This compares unfavorably with the average for the Standard and Poor's 500 stocks, which are currently trading at 7.7 times 1979 estimated earnings. "Cheap" bank stock prices combined with the dollar depreciation have increased the number of U.S. banks which foreign banks have resources enough to acquire.

It should be stressed that the relatively depressed valuation placed by private investors on banks has its roots in the economic and monetary policies pursued by this nation over the past decade. Furthermore, unless we as a people come to grips with the overriding problem and its most obvious distressing symptom—inflation—there is no reason to predict an upward revision of bank stock values.

Fourth, low earnings relative to inflation-induced asset growth have impaired the capital positions of some banks. Low stock prices have deterred most U.S. banks from seeking capital in the equity markets over the last several years. This, coupled with the need to strengthen capital positions, has prompted some banks to seek merger partners. However, restraints on geographic expansion imposed by the McFadden Act and the Douglas Amendment to the Bank Holding Company Act limit the eligible domestic suitors for larger banks, virtually reserving acquisitions of larger banks to foreign institutions.

The confluence of conditions which has prompted the dramatic upsurge in foreign acquisitions in the last several years seems likely to continue at least in the short run. However, it would be incorrect to conclude that this latest spurt of foreign investment in our banking system confronts us with events which have no precedents or that we have no historical record from which we can draw useful inferences.

Foreign banks in one form or another have been with us since the mid-19th century. Some subsidiaries of foreign banks antedate their present-day domestic competitors. Their contributions have been positive, paralleling those of foreign investments in other enterprises. On the whole, their record of good citizenship may even exceed that of purely domestic banks. Their presence in our system has brought added management strength and international expertise. In a number of cases, the participation of foreign interests in U.S.

banks has bolstered equity positions through fresh infusions of capital. Most importantly; the added element of competition has helped assure the continuing efficiency of our banking system and its responsiveness to the needs of the market.

### Existing Statutory Entry Controls

The integration of world financial markets has been accomplished largely through the activities of multinational banking institutions. They constitute a growing fraternity of increasingly diverse national origins. These complex organizations accommodate within a single corporate structure numerous entities around the world which operate under different national laws and keep their books according to different national accounting practices.

The relationships between and among the parts of these farflung organizations preclude the isolated treatment of any single related entity by bank supervisors, whether in host or home countries. Thus, U.S. supervisory responsibilities are complicated by the necessity of having to understand and deal with new complexities presented by both our own large multinational banks and various U.S. entities of foreign multinational banks.

In terms of foreign acquisition of U.S. banks, the problem initially emerges when relevant supervisors discharge their responsibilities to screen and approve would-be participants in the U.S. banking system under the statutory framework provided by the Bank Holding Company Act and, more recently, the Change in Bank Control Act of 1978.

Acquisitions of U.S. banks by foreign companies require the approval of the Federal Reserve Board under Section 3(c) of the Bank Holding Company Act. In reviewing such an application involving a national bank, the Board seeks the views and recommendations of the Comptroller of the Currency. The Board is required to take into consideration the financial and managerial resources of the acquiring company, together with the future prospects and plans of the proposed parent and the bank. The statute further mandates that in its deliberations the Board fully consider the convenience and needs of the community which is served by the bank.

In making its determination, the board analyzes the financial condition of the proposed foreign parent, evaluates the record and integrity of its management, assesses the role and standing of the acquiring bank in its home country and requests the views of the bank regulatory authorities in the home country. Specific information is required to be submitted by the acquiring company to permit an adequate assessment of its financial strength and operating performance.

The entry controls of the Bank Holding Company Act have been in place for a number of years, and use of these controls has continually reinforced our confidence in their effectiveness. During this past decade, our experience has been that U.S. banks owned by foreign banking institutions are generally more amenable to normal entry and supervisory procedures than those owned by foreign individuals. Without exception, the few problems experienced by our Office have been with foreign individuals rather than foreign institutional owners. This is at least in part because there are home country bank regulators from whom we can request information.

As New York State Superintendent of Banks, I strongly advocated, endorsed, and used statutory change of control authority. From the vantage point of the Office of the Comptroller of the Currency, passage of such legislation at the national level was especially significant. Powers under the Change in Bank Control Act effective March 10, 1979, have given us statutory means to prevent questionable individuals or groups of individuals irrespective of national origin from gaining control of U.S. financial institutions.

Under the Change in Bank Control Act of 1978 (Title VI of the Financial Institutions Regulatory and Interest Rate Control Act of 1978), the Comptroller of the Currency has the responsibility to determine the appropriateness of proposed acquisitions of national banks by a foreign individual or group of individuals not subject to the Bank Holding Company Act. In contrast to the application procedures of the Bank Holding Company Act, the Comptroller is authorized to disapprove a proposed acquisition within 60 days after receipt of notice of the proposed acquisition. Certain statutory considerations in that law are similar, although not identical, to the standards of the Bank Holding Company Act relating to the likely effects on bank competition and the personal financial resources, competence, experience and integrity of the proposed acquiring person.

The detailed information required to be submitted to our Office includes personal background and financial data, information regarding the acquirer's material business activities and affiliations, detailed information about the financing of the proposed acquisition, any plans or proposals for major changes in the business or management of the bank, terms and conditions of the proposed acquisition and any additional information which we may deem relevant to our determination.

In short, these statutory powers provide substantial opportunity for federal review of proposed foreign acquisitions of domestic banks.

### Ongoing Supervision of Foreign-Controlled Banks

Insofar as the supervision of foreign-controlled U.S. banks involves understanding and monitoring the activities of related non-American organizations, the process is akin to the ways in which we supervise U.S. multinational banking institutions with vast overseas operations. In both cases, access to information is affected by extra-territoriality. Because of differing local secrecy or privacy laws in other nations as well as differences in accounting and reporting requirements and practices from country to country, the financial information available to us whether through public documents or on specific request is not always comparable to that which we receive from purely domestic banks.

With responsibility for national banks, which as a group presently hold some 65 percent of the international assets of the entire U.S. banking system, the Office of the Comptroller of the Currency over the last decade has developed skills in evaluating foreign operations of U.S. banks. This process has afforded us the opportunity to assess different accounting practices and the impacts of different regulatory and legal environments. As a result, we have developed a valuable nucleus of skilled international examiners and a methodology which can be applied to the examination of foreign-controlled U.S. banks.

U.S. banks controlled by foreign interests are supervised, just as all U.S. banks, by the appropriate federal and/or state agencies, depending on the bank's charter, deposit insurance status and Federal Reserve membership. They are subject to the same scrutiny, standards, regulations and laws as domestically controlled institutions.

On-site examinations are the primary procedure used in discharging our supervisory responsibility. The examination procedures of our Office begin at the top, with an assessment of a bank's management and its policies. In light of these, we can continue our examination down through the procedures and practices of a bank, placing emphasis on selected areas which warrant extra scrutiny. Evaluation of management is perhaps most crucial in the supervision of complex multinational institutions whose safety and soundness depend on the quality of decisionmaking.

The strength of our Office's top-down approach to bank examination is that it permits us to tailor our inquiries and investigations to the unique characteristics of individual banks and their affiliates. In the case of foreign-owned U.S. banks, we are able at the outset to take into consideration the potential impact of direction from the foreign owner on a bank's general policies and goals, and, in turn, we can assess the effect of these policies on the condition of the bank.

Foreign-controlled U.S. banks are subject to the same financial and regulatory reporting requirements as all other U.S. banks. Such reports are used between on-site examinations to monitor the continuing operations of these institutions and are used extensively in our computerized National Bank Surveillance System, which permits early detection of possible problems, adverse trends and changes in operating policy as denoted by shifts in asset/liability structure.

A task force of the Federal Financial Institutions Examination Council is developing uniform special reports on intercompany activities of U.S. subsidiaries of foreign banks to supplement the standard U.S. commercial bank reports of condition and income which all commercial banks in the United States now regularly file. Transactions with affiliates come under close surveillance by bank regulators. Some are generally prohibited and/or restricted by statute; those not specifically controlled by law are evaluated in relation to prudent banking practice.

To assure ourselves of the soundness of foreign bank parent organizations, information is collected on a consolidated basis, and we are expanding our contacts with senior managements of those organizations. When necessary, data available in public documents are supplemented by specific direct requests for more detailed information. Our requirements include specific information on earnings, reserves and capital and an explanation of material differences between U.S. and foreign accounting practices. Our experience in working with foreign banking institutions has been quite favorable. In fact, we often find that foreign-controlled U.S. banks make extra efforts to work closely with U.S. supervisors to familiarize themselves with our system and our supervisory needs.

Global integration of financial markets has impelled efforts toward cooperation among banking supervisors around the world. Informal bilateral relationships have developed our confidence in the supervisory strategies of other nations and have provided a communications link for the exchange of information. Within normal constraints of confidentiality which govern the ability of bank supervisors to discuss the affairs of individual banks, these contacts have augmented our knowledge of those foreign banking institutions which control U.S. banks.

Furthermore, both the Federal Reserve and this Office are members of the Committee on Bank Regulations and Supervisory Practices (Cooke Committee) which provides an organized mechanism for bank supervisors from the major industrial countries to discuss common problems of bank supervision. Areas encompassed by the work of the committee are numerous, with concentration on international markets. For example, ongoing efforts toward developing international standards for bank auditing and accounting have recently resulted in preparation by the International Financial Auditing Committee of a standard interbank confirmation report to be used by bank auditors on an experimental basis.

### Impact on Local Communities

For the most part, foreign banks seeking to operate in the United States have come in pursuit of wholesale or corporate business. In those markets, their competitive tactics have closely followed those that our own banks used in their international expansion earlier. It is our impression that the effects on competition in our wholesale markets have been salutary, leading to a breakdown in the preeminent position held by a very small number of our largest banks and providing more and better services at lower cost to U.S. corporations.

The beneficial impact of competition among banks applies no less forcefully to the services available for small businesses and individual consumers. The best and, indeed, the only truly effective means of assuring local communities that their banking needs will be served is the free play of competitive forces in an open market. This allows the consumer the final vote on a particular bank's utility. Those banks that do not provide desired services will be eclipsed by those that do.

Generally speaking, those relatively few foreign banks that have purchased U.S. retail banks have done so in order to participate in lucrative and growing local markets. In California, there are a number of foreign-controlled banks with substantial branch networks throughout the state, and penetration coincides with the areas of greatest population growth. While providing a high degree of expertise and some emphasis on international transactions, the basic orientation of these banks is retail, and the commercial thrust is to local business.

A study on foreign banking conducted by the California State Superintendent of Banks in 1974 observed: "Additional foreign banks, in whatever capacity they are present, have generated increased competition, whether by way of specialized services, more convenient locations, lower costs, or improved communications, which competition has, so far, been to the unqualified interest of consumers."

In a number of quarters, the fear has been voiced that foreign control of a U.S. retail-oriented bank might lead to diversion of assets from the local market or otherwise be inimical to the acquired bank's immediate community. It is true that a new owner of a bank has a certain amount of leeway to change the marketing emphasis of the bank; this holds regardless of the national origins of the new owners. However, neither logic nor experience convinces us that foreign owners of U.S. retail banks are any more likely than domestic owners to shift away from the provision of retail services.

We believe that, taken together, the profitability and growth potential in U.S. retail banking markets, the obligations imposed by the Community Reinvestment Act and the Equal Credit Opportunity Act and, most importantly, the natural play of competitive forces in the marketplace actively protect and promote the needs of consumers and of local businesses.

### Summary and Conclusions

Rapidly changing communications technology, transportation advances, and economic interdependence have worn down barriers between national financial markets and fostered the integration of these markets on a global basis. Expansion by U.S. banks has carried them into the markets of over 100 countries around the world. We are witnessing an increased presence by foreign banks in U.S. domestic markets.

These changes present us with opportunities and pitfalls. The issues raised in the letter from this subcommittee and elsewhere reflect legitimate concerns. While not discounting these concerns, we must not lose sight of the benefits brought by this change or underestimate the cost of insulating our markets through restrictive policies on foreign presence. The basic principle enunciated by Hamilton as to the positive value of foreign investment remains no less valid today than in the earliest years of our republic. Similarly, we must not lose sight of the substantial power and discretion of the government to deal with these concerns.

What we can and must do is to appraise, carefully and continually, the effects of these changes, standing ready to modify law and policy where the need is clear. For our part, we are not persuaded that existing tools of law and policy are inadequate to deal with the concerns presently raised. That being the case, we are loathe to consider the imposition of restrictions which would be inconsistent with a policy that has served this nation and its capital markets well for 200 years.

## Statement of Lewis G. Odom, Jr., Senior Deputy Comptroller of the Currency, before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations, Washington, D.C., September 12, 1979

I welcome this opportunity to testify on behalf of the Comptroller's Office regarding the adequacy of existing federal regulatory supervision of bank advertising practices. Our staff has prepared specific responses to each of the enumerated questions of the committee. Those responses are contained in the document attached to my formal statement. I would like to take this opportunity to review briefly the most significant issues which you have raised regarding bank advertising practices.

The increasing competition both among banks and between banks and other types of institutions offering financial services has caused a surge in recent years in bank advertising efforts. This intensification of competition has resulted from improvements in our transportation and communications technology, and from the development of alternative financial devices by nonbanking institutions for capturing savings dollars. To meet these challenges, banks have made dramatic changes in both their marketing and advertising practices. Because the cause of this expanded advertising is competition, we believe that it is essentially healthy. It demonstrates the vitality of our financial industry.

Several statutory and regulatory schemes restrict advertising conduct by financial institutions:

- The Truth-in-Lending Act (15 USC 1601 *et seq.*) and implementing Regulation Z (12 CFR 226) of the Federal Reserve Board require that standardized finance charge rates and other credit information be provided in consumer credit and lease transactions.
- Regulation Q (12 CFR 217) of the Federal Reserve Board requires that:
    1. Deposit advertising be accurate and not misleading;
    2. Affirmative disclosures be made regarding early withdrawal penalties and time and amount requirements; and
    3. Bank merchandise programs which involve either promotional gifts or products in lieu of prepaid cash interest be restricted as part of interest rate ceilings which it establishes.
- The Federal Trade Commission Act (15 USC 41 *et seq.*) prohibits "unfair or deceptive acts or practices . . . " The act was amended in 1975 specifically to empower the banking agencies to enforce this general concept of fairness as it pertains to the institutions the agencies regulate.

As with the rulemaking provisions of Regulations Q and Z, the substantive rulemaking authority under Section 18(f) of the Federal Trade Commission Act regarding commercial banks has been assigned to the Federal Reserve Board. Congress has recently granted the Federal Home Loan Bank Board substantially identical authority regarding savings and loan associations.

The role of the Comptroller of the Currency has been limited to interpreting and enforcing existing statutes and regulations affecting bank conduct and expanded by Section 18(f) to the extent that it specifically provides for agency resolution of consumer complaints involving national banks. That is, each of the bank supervisory agencies is empowered under its general enforcement authority to detect and correct unfair or deceptive acts or practices on a case-by-case basis, including false or misleading advertising, but the assigned rulemaking responsibilities under these laws regarding advertising are centralized in the Federal Reserve Board and the Federal Home Loan Bank Board.

The Comptroller's Office, even prior to the enactment of the 1975 amendments to the Federal Trade Commission Act, had established a Consumer Affairs Division to assure the performance of our regulatory responsibilities regarding existing consumer protection laws, including those affecting deceptive advertising practices by national banks. Since that time we have expanded and restructured that division so that we can better perform our consumer protection responsibilities. Under the direction of the Deputy Comptroller for Customer and Community Programs, we have also improved our consumer examination techniques and resolution procedures for individual consumer complaints. Our policies and procedures are designed to detect and correct, among other things, instances involving misleading or deceptive advertisements by national banks.

On the whole, our experience does not support the need for further federal legislation in this area. Less than 1 percent of the consumer complaints processed by the Office in 1978 involved allegations concerning the advertising practices of national banks.

The terms of savings and other deposit accounts are fairly complex. This, together with the introduction of many new types of accounts and alternative investment opportunities, may result in customer confusion and misunderstanding of differing terms and conditions. Some standardization in deposit advertising and disclosure terms would be helpful and is desirable. Existing law would authorize regulations providing for this standardization.

Recognizing the expanding use of aggressive advertising practices by competing financial institutions, the industry itself has recently taken steps to reduce potential advertising abuses. In 1975, the Comptroller's Office participated in development of the Financial Advertising Code of Ethics of the Bank Marketing Association, which has since been adopted by the American Bankers Association. This code is provided to all our consumer examiners as a minimum standard to aid in determining whether bank advertisements are inaccurate, misleading or misrepresentative of deposit contracts. Industry self-regulation and voluntarism should, in my opinion, be preferred over direct statutory sanctions.

We have undertaken to supplement these industry efforts by incorporating the code in our revised consumer examination manual. We will specifically remind all national banks of the significance of the code and encourage their compliance when the new manual is distributed.

Should experience with the code prove it to be ineffective—and we are not yet so convinced—the agencies have existing statutory authority to correct demonstrated abuses.

In March 1978, the Federal Reserve Board with the assistance of the Comptroller and Federal Deposit Insurance Corporation undertook a survey of selected bank practices, including advertising and promotional activities. Specific information was gathered by the agencies to ascertain the nature and extent of various bank practices as well as to provide a data base on which the Board of Governors could rely in fashioning specific regulatory requirements if a particular practice was determined to be unfair or deceptive. The staff of the Federal Reserve Board is analyzing the results of that survey in light of the Board's rulemaking authority under Section 18(f) of the Federal Trade Commission Act, as amended.

I would like specifically to address the issues highlighted by your invitation, including (1) misleading or deceptive advertisements, such as "free" or "no-charge" checking accounts which actually impose costs on the customer, (2) merchandise premiums and giveaways and (3) inadequate advertising which fails to disclose material and relevant information to bank customers.

The Comptroller's Office has determined that the term "free checking account" may be used only if there are no qualifying conditions or terms attached to the account. We have objected as a matter of policy to such advertising on the basis that where qualifying conditions exist it may be misleading and violative of federal laws and regulations, including the Federal Trade Commission Act. Similarly, we have determined that use of the term "no-charge checking" is appropriate only in those instances in which any other significant terms or conditions affecting the account are clearly and conspicuously disclosed.

Your invitation also expressed concern regarding certain promotional activities of financial institutions involving free gifts and, secondly, merchandise in lieu of cash interest on deposits. Competition by depository institutions on the basis of such merchandising programs has, unfortunately, been encouraged by government efforts to restrict competition among institutions by controlling deposit rates. Just as the airline industry when faced with controls on airline fares resorted to competition on the basis of free drinks and roomy seats, so deposit rate controls have resulted in institutions competing for savings deposits on the basis of blankets and glasses. It is likely that many depositors might prefer to receive cash interest income, which they can spend as they wish rather than having to choose among free gifts or accept "free" services.

As might be expected, the Federal Reserve Board has restrained the ability of member banks, including all national banks, to give away gifts to encourage deposits. The Board has ruled that premiums in the form of merchandise or cash may be dispensed by banks as part of their advertising budget only in certain circumstances and subject to specified cost considerations. Nominal gifts of less than specified dollar value are considered a legitimate advertising expense incurred by the bank in its promotional efforts.

Merchandise given as prepaid interest in lieu of cash interest is also subject to the provisions of Regulation Q. Provisions of that regulation are designed to prevent misunderstanding or confusion among depositors regarding the effect of such products on the payment of cash interest. Depositors must also be specifically informed of the early withdrawal penalties affecting these accounts. In such cases, we have undertaken to assure that sufficient disclosures are in fact given by banks concerning the terms of such promotional programs.

National banks are not, however, in the business of selling general merchandise. They may not do so under the existing statutory framework. Merchandise is offered to the public only in conjunction with the offering of bank services and then only at the cost of the merchandise. Banks may not, in fact, realize a profit from the sale. Although we do not object to their use of merchandise programs as an advertising or promotional technique, banks are not vendors of general merchandise.

Banking has itself changed substantially from the days in which the reputation of an institution for soundness was sufficient to attract deposits. Aggressive marketing has become commonplace as institutions increasingly compete to capture and retain their share of consumer deposits. In these times where we face the possibility of serious capital shortages, the efforts of financial institutions to promote consumer savings should be encouraged and not unduly restrained. In our opinion, these efforts by the industry to augment banking resources and thereby expand the economy's capital base should not be discouraged or undermined by unnecessary federal restrictions on competition. Financial institutions should be permitted reasonable flexibility to amass deposits by encouraging consumer savings through advertising and promotional efforts.

It should also be recognized that legitimate merchandise premium campaigns benefit consumers by providing additional value in return for their deposits. We cannot concede such promotional efforts by banks to be inherently unfair or deceptive to the consuming public.

Finally, you have asked us to address the issue of advertising by financial institutions which fails to disclose material and relevant information on the actual cost of services, penalties, time requirements, minimum balances and the methods of interest computation. While we support the principle of fair and meaningful disclosure to depositors of the rates of interest and other terms and conditions governing their deposit contracts, we believe that the federal banking agencies presently have sufficient statutory authority to enable them to assure the accuracy and adequacy of disclosures made to bank customers.

The staff of the Federal Reserve Board has drafted proposals for presentation to the Board which would implement this statutory authority. We shall continue to cooperate closely with the Fed staff concerning this effort. We believe such a proposal would provide a timely vehicle for public discussion of standardization regarding deposit advertising and disclosure practices of all financial institutions.

## Remarks of Donald R. Johnson, Director for Trust Examinations, before the 53rd Western Trust Conference, Seattle, Wash., August 8, 1979

Today, for the first time, it is my privilege to address trust bankers at the 53rd Western Trust Conference. Indeed, this is my first appearance here, but I know many of you from having attended the national trust conferences and from your visits to and correspondence with the Comptroller's Office in Washington, D.C. Additionally, I know many of your trust banking problems from your communications with my regional directors in Denver, Portland and San Francisco. The welcome extended to me has been warm, even though we are conscious that at times the regulatory stance taken may not always be the most popular one at the moment. However, in the long run, our overall goals are not contradictory, even though our means of reaching these goals at times seem to collide or brush against each other. Indeed, you may feel that some of my comments today are on matters that best could be handled by the industry itself. However, your legislators in Washington have seen fit to institute laws which they expect and, indeed, direct the regulatory agencies to develop examination procedures for and to properly monitor.

The title of my comments today, "Vigilance is the Price of Safety," was chosen for a two-fold purpose. First, it presents an opportunity to speak with you about internal vigilance in your own trust departments. Secondly, it also affords an opportunity to speak with you about our own trust supervisory procedures, their current and future impact, some of the changes that will take place and some of our newer policies.

We all recognize that over the years, trust has become a very complex business. Indeed, it is also a very serious business, but this is not to say that it should be looked on as a grim business. Indeed, trust banking is viable, and the industry has more vitality today through its service to a greater number of people than perhaps ever before in its history. It can be expensive to die without estate planning, but the planners must be competent and qualified. Competition has stimulated the training and hiring of investment officers and account administrative officers with greater expertise than perhaps ever known before overall throughout the industry. Indeed, the varied mixture of responsibilities and activities that bank trust departments are involved in today emphasize the need for specialists in many fields, such as investment and financial counseling, tax planning, marketing, accounting and employee benefit trust administration and, of course, law. To be effective, these specialists must have rudimentary knowledge of numerous areas in a trust department. Some of this rudimentary knowledge can be gained through training programs within the banks and some can be gained by further training at the National Trust School or through attendance at appropriate courses on the college campuses.

Community trust bankers must be generalists first of all, but, indeed, some areas of specialization are necessary for the trust banker who runs or has a significant job in a community bank. These persons must know estate administration, administration of intervivos trusts and be familiar with the various types of investments that will meet the needs of account beneficiaries.

As your officers and employees specialize, the executive heads of your trust departments ask themselves and the examiners: How do I keep my people informed of the overall workings of a trust department? How do they know when they should perform specified duties? How do I know when they fail to perform until it is too late to prevent loss or embarrassment to my department? I say to you, that preparing and adopting adequate policies and procedures and assembling these into a manual that will be distributed to all bank personnel will go a long way toward solving your problems. It will provide a means for maintaining internal vigilance over your department's operation.

Every trust institution in this country has adopted a philosophy for conducting its business. In the very small community bank trust departments, these policies may exist in a somewhat nebulous way, for these small departments do not handle the variety of accounts and business as do the large urban and metropolitan trust departments. Nevertheless, even the smaller trust departments need written policies and procedures tailored to their individual operations.

In 1975, when we were designing the new trust examination approach, it was recognized that heavy emphasis would have to be placed on determining that the banks had adequate policies, formally committed in writing and distributed among their personnel, and on the procedures to carry out those policies. It was also recognized that the banks must have adequate procedures to monitor the effectiveness of its policies. The *Comptroller's Handbook for National Trust Examiners* enumerates how the adoption of effective policies, practices and controls can serve to protect your bank and make it a more viable organization. The adoption of a policy manual with adequate procedures will enable your bank to (1) comply with the law, 12 CFR 9 and sound fiduciary principles, (2) establish and maintain an effective organizational structure, (3) employ and retain competent personnel, (4) foster high quality in investments and portfolio management, (5) promote high caliber administration and efficient operation, (6) safeguard fiduciary assets, (7) maintain reliable accounting records and (8) promote profitability. The examiner is further instructed that, using these points as bases of evaluation, the examiner should assess the overall condition, management and future prospects of the trust department and report the findings and conclusions to the Comptroller's Office and the bank's board of directors for correction of any violations, deficiencies and weaknesses. Therefore, establishing adequate policies, procedures and controls within your department should be your foremost tool in maintaining effective discipline and carrying out your philosophy for conducting business.

Superficially review with me for a few minutes some of the areas in which a codification of your policies is needed and what can be done to help you maintain the vigilance you need to maintain profitability (however defined) and avoid embarrassment and possible losses to your bank. All are essential and desirable to assist you in obtaining organizational and operational goals.

The organizational structure, individual responsibility and the reporting lines of authority need to be made clear to all bank staff, including, in particular, the trust department personnel. Misunderstandings can arise and more things can "fall between the cracks" by having inadequate policies in this area than perhaps any other facet of a trust department. These standards can be used to improve the performance of your trust staff and to isolate those personnel who consistently fail to observe the required standards. Supervision of this type can reduce possible substantial and costly errors which may go undetected until outside parties lodge complaints.

The second major category of policies which should be treated are those of an administrative nature. These policies reflect the department's philosophy relating to trust administrative matters; however, a listing of them today would take longer than the available time. These would include defined policies relating to the confidentiality of trust records, retention of legal counsel, impartiality among beneficiaries, relations with co-trustees, beneficiaries, settlors, other interested parties and the confidential nature thereof, restitution of accounts under administration, discretionary payments of income from trust, litigation disclosure and the numerous other matters of a general nature that are of interest to the public and of assistance to you as managers.

The third area that should be clearly covered by adequate policies is that of property management. A corporate fiduciary is judged by the public on the effectiveness of management of trust property, both real and personal. This manual section may be segmented into the various types of investment vehicles, such as marketable securities, closely held companies, real estate mortgages, real estate, portfolio management, collective investment funds and other specialized areas as needed. It is appropriate to include the statutory or other local law provisions relating to investment and retention of these various types of assets. This section should also enunciate a policy relating to the use of an approved list of investments and on what basis individual investment officers can depart from this list without prior authority from the appropriate committee. Speaking from my own knowledge and observation, trust departments have experienced sizeable losses at times when employees purchased and sold speculative securities that were not on the approved list. The employees were sometimes noted for having expertise in a particular field of investment and because of this, they were permitted to conduct investment activities either without sufficient supervision or without proper subsequent reporting to the appropriate committee. I emphasize to you that investment activities must be properly monitored. Only through establishment of adequate policies, procedures and monitoring processes can you prevent loss and/or embarrassment to your bank. Policies relevant to documenting investment decisions must be strong and properly enforced.

The fourth major area which necessitates establishing formal policies is operations and administration. Policies regarding these areas touch the very heart of your trust operations. They cover such things as the director's evaluation of the trust department, joint custody of assets and other protective measures, assets held by outside depositories, inappropriate guarantees, purchase and sale of securities for customers of the bank, overdrafts, brokerage allocation policy, acceptance and termination of accounts and numerous other like subjects.

Formal written policies should be adopted for several other areas of the trust department. These include the marketing area, which needs a written document that enunciates management's policies relating to acceptance and solicitation of new business. The corporate trusts, transfer agent, registrar, and employee benefit trusts are among the areas needing treatment. However, I wish to emphasize today only two additional areas, one of which receives much attention and the other not enough.

The first of these areas is a conflict of interest and self-dealing section. It is easy, particularly for portfolio managers and investment officers who are trained to weigh investment performance with risks, to lose sight of the fact that the bank can be penalized rather severely for self-dealing transactions. I have met investment officers who believed that performance was paramount over other considerations and indeed were quick to point out that the best available price was acquired even though the security was sold to a director, officer or employee. While this may be a factor and used by the bank as a defense, self-dealing and, to a certain degree, conflicts of interest are indefensible.

The trust department should have a strong policy that is discussed with all bank employees on the use of insider information. Often it seems that there is a tendency to deal with conflicts as they arise more or less on an ad hoc basis. This may be, and often is, sufficient to prevent or minimize the occurrence and reoccurrence of abuse, but the approach lacks creditability in that it cannot be demonstrated that a realistic system has been put into place to manage conflicts. In writing the policy section on conflicts, in my view, there is an obligation on the part of the trust banker to first think out the extent of the problem and to develop policies and procedures appropriately tailored to individual circumstances of the bank. This entails (1) identifying the magnitude of potential conflicts of interest situations which are or may be faced, (2) putting in place, constraints (such as a "Chinese Wall") to minimize the occurrence of events that could lead to abuse, (3) implementing a monitoring system so that your bank will have knowledge if the constraints put into place are being observed and (4) establishing an affirmative course of action to specify how your personnel are to proceed in the event an actual conflict arises.

Among other areas that need to be treated in the conflict of interest section is the local law pertaining to fiduciary investments. This would include investment, retention and voting of your own or your bank's holding company stock. It would cover transactions between trusts and transactions between fiduciary accounts and the banking department and directors, officers and employees. It would also cover loans to fiduciary accounts and the controlling factors to be considered when a self-dealing transaction is to the best interest of the account and is beyond the power of the bank as trustee to prevent the transaction. In other words, when should the appropriate court of jurisdiction be petitioned and approvals sought?

The conflict of interest section can be expanded into a code of ethics, which numerous trust departments and banks have done. Treated are such areas as gifts, bequests, legacies, acceptance of fees and other improper remuneration from customer or fiduciary interests. It should cover trust department representation on boards of directors of local and/or closely held companies from which they receive remuneration. The improper acceptance of soft dollar services and equipment from brokerage houses and others can also be treated under the code of ethics area.

The last area that I wish to emphasize is the bank's policies concerning compensation and fee schedules. In the past, the legal requirements of each state provided the basic foundations on which a trust institution built its policy of compensation. While this is still true in a limited sense, the phenomenal growth of the pension and investment management business and the unbundling of fees have made it necessary that full disclosure of fees be made. This, in my judgment, should be a part of the trust policy manual even though in the true sense of the word, deviation from those fees would not affect the safety of the trust operation. However, every employee should be made aware that the trust department should be profitable and that management philosophy is one that encourages profitability so that the department remains viable.

Therefore, before examining other tools that assist you in maintaining vigilance, let me summarize briefly what establishment of adequate policies and procedures and their formal promulgation has done for you.

They have served as a communications vehicle which is absolutely essential to the smooth functioning of an organization. Oral pronouncements are often rephrased and modified as they are being communicated. Oral policies are often subject to misinterpretation. The established policies and procedures have provided you with uniformity and codification. They have assisted your staff in carrying out its activities consistently. They have communicated to your staff their responsibilities, and it is possible to hold your managers and staff accountable for their performances or lack thereof. They have helped train and orient your staff, which is necessary in growing departments. They have made it possible to handle revisions rather easily as policies have become partially or wholly obsolete. They have also made it easier to communicate these changes to your staff. They have further made it easier for your banks to comply with the applicable laws and regulations. They serve you as a guide in decisionmaking. If policy manuals are kept current, and they are only effective if they are current, they eliminate the major task of the examiner in questioning you as to what your policies are on various facets of your trust department, which should reduce examination costs. Preparation is not an easy chore, but the rewards of having such a document outweigh the time consumed in compiling it.

Bank management has available to it a second tool that will assist in maintaining vigilance and, in turn, provide protection. This is the internal audit department and its internal audit program. Briefly, let us look at this tool and why it is important.

Under 12 CFR 9.9, a committee of directors, exclusive of any active officers of the bank, shall at least once during each calendar year and within 15 months of the last audit make suitable audits or cause suitable audits to be made by auditors responsible only to the board of directors. The *Comptroller's Handbook for National Trust Examiners* devotes a chapter to internal and external audits. It focuses on the competence and independence of internal auditors and the adequacy and effectiveness of the internal audit program. It further focuses on external audits that are performed by certified public accountants and the necessity of the maintenance of their independence. Perhaps of more importance is the minimum standards of trust department audits for national banks. There are three separate functions required by 12 CFR 9.9, which are (1) audit committee supervision, (2) audit and (3) the report. With the institution of new examination procedures in October 1976, the Comptroller included administrative auditing as part of the overall conforming audit. Until then, OCC had required only the physical aspects of an audit.

Senior trust management through its policies and procedures should have put into place proper internal procedures and controls. Failure to do so can jeopardize the most delicate relationships between the bank and the account beneficiaries to which high duties and responsibilities are owed and must be properly discharged. Therefore, in addition to the examiner, the trust audit committee and the auditor are attempting to determine that the internal controls are adequate and being properly followed in all areas. Thus, in my opinion, and I believe in the opinion of many of you, this Regulation 9 requirement as to audit, is a blessing and not a curse. It provides management with another tool that if used properly can be a significant tool in maintaining vigilance.

Let's look at the other side of the coin for a few minutes as it pertains to external vigilance as maintained by the federal bank supervisory agencies and, in particular, the Comptroller's Office. What is the importance of a trust department examination? How can you as bank management and staff use the trust examination in a meaningful way? Is the trust examination of OCC more detailed now than prior to the new procedures? Will the Securities and Exchange Commission and the Department of Labor visit your bank for examination and, if so, why? These have all been questions that have been asked of me, and I shall try to treat these as part of this brief review of external vigilance and how it affects you.

The major means used by the bank supervisory agencies for carrying out their responsibilities dictated by Congress or the state legislature is the onsite examination process. A report is written by the examiner for the supervisory agency and the report remains the property of that agency but is furnished to the bank for its confidential use. Nevertheless, bank and trust management should look on this examination report and previous discussions with the examiner as a valuable tool to assist them in maintaining their own vigilance and, indeed, the safety of the bank.

The importance of a trust examination is twofold. First, it assists the bank supervisory agency in discharging its responsibility for promoting and assuring the soundness of the banks under its jurisdiction. These examinations are programmed to accomplish the following essential objectives: (1) to provide an objective evaluation of a bank's and trust department's soundness, (2) to appraise the quality of management and directors and (3) to identify those areas where corrective action might be required to strengthen the bank, to improve the quality of its performance and to enable it to comply with applicable laws, rules and regulations. We have a responsibility to also ensure that fiduciary powers are exercised in the manner consistent with the best interest of fiduciary beneficiaries. The protection of the interests of the beneficiaries is essential to the protection of the bank, its depositors and shareholders. Secondly, since it is obvious that you have much of the same responsibilities and duties to discharge, the examination is programmed to assist you through the use of our examination materials and reports in carrying out your responsibilities and in maintaining the proper vigilance.

The relationship of OCC with your bank is normally not adversarial. There are times when an adversary relationship arises because of violations of law that remain uncorrected or violations of policy that affect the basic soundness and profitability of your bank. Therefore, let me review briefly our examination approach so that you will have a better understanding of how to use it as a tool in maintaining vigilance.

I would like to point out that the full general examination approach is set forth in the *Comptroller's Handbook for National Trust Examiners*. A copy of the handbook was furnished to every national bank with trust powers and is available to all other banks at a very minimal fee from publications control, OCC. We felt that full disclosure of our examination procedures were necessary so that Congress and, in particular, the banks would be fully cognizant of the approach and could use some or all of our procedures to assist them in writing their own policy manuals. This decision, in my opinion, has proved to be a wise one, for our approach and procedures are used widely in the trust banking industry as standard ones. The examination report was redesigned to make it more readable in that a narrative approach is used.

Much of the information that was in the confidential section prior to the new procedures was moved into the open section of the report so that bank management could see the examiner's evaluation of the condition of the trust department and its future prospects as disclosed by its marketing efforts. This was another effort to make the examination more meaningful.

The examination approach has proved exceedingly viable. Most of you are familar now with the general examination since it was instituted in October 1976 and solely used until April 2, 1979. Application of the full examination was necessary, for we were aware that many small, medium and, indeed, some of the large trust departments did not have adequate policies and procedures, particularly in the investment and securities trading areas. Small trust departments do not usually administer complex accounts or invest in unusual types of assets. For those latter departments, the examiner performed as much of a given work program as possible.

On September 21, 1978, the three federal bank supervisory agencies jointly announced a uniform interagency trust rating system. It had generally been known that national banks were rated and, indeed, each federal supervisory agency had a system of rating the banks they supervised. It was not well known that each trust department was rated by the respective agency. Each agency had its own system that had been developed separately over the years to meet its individual internal needs. Banks were then provided with a copy of the uniform interagency trust rating system, which is a tool that we use to assist us in maintaining vigilance over problem trust departments. If moral suasion is not successful in effecting correction of weaknesses and violations of law in your department, the bank can be placed on a visitation program where the examiners will visit your trust department every 60 to 90 days. Board meetings can be held, and, if necessary, additional enforcement action can be taken.

The additional enforcement action of which I speak is the placing of an agreement or a cease and desist order by the OCC enforcement division. Several banks with trust departments are now either parties to such agreements or in the initial stages of such enforcement actions. We are pleased that most of you who exercise fiduciary powers operate on very high professional standards. However, there are some few bank managements that devote too little time and resources to the proper operation of a trust department based on sound legal, accounting and fiduciary standards. For these latter few, additional enforcement action other than moral suasion can increasingly be expected.

We wished to insert more flexibility into our examination approach, depending on the condition of the trust department under examination. The uniform interagency trust rating system provided us with a sound basis for making a decision as to the trust departments on which we needed to concentrate our supervisory attention. OCC's trust division put into effect on April 2 two new examination approaches closely tied to the uniform interagency trust rating system. Using the same philosophy and approach previously discussed, the trust division developed a specialized examination and a small trust department examination. Implementing these two viable approaches made it possible to improve our use of manpower and reduce the overall cost to you for trust examinations.

Let's focus briefly on the specialized trust examination. The specialized examination approach will be used for all trust examinations of non-problem trust departments having over $20 million in trust assets. Keeping those basic criteria in mind, the following parameters and requirements must be followed by the regional office and the trust examining staff.

Specialized trust examinations may not be used if the trust department was rated under the uniform rating system as a problem at the prior examination. Our general policy is that specialized examinations should be alternated with general examinations in trust departments having the three best ratings. The director for trust examinations may authorize consecutive specialized examinations should the region decide that the condition of the department continues to warrant a specialized rather than full general examination.

The basic concept is that the examiner will perform fully certain mandatory specialized examination work programs. The field examiner must request special permission of the regional administrator or the regional director for trust operations should he find during the specialized examination that the performance of one or all of the nonmandatory programs is necessary due to special problems or to an overall general deterioration of the trust department. However, this scope of the specialized trust examination may not be reduced without Washington approval.

The mandatory work programs are designed to give the examiner an overview of the trust department. The designated work programs permit the examiner an opportunity to review the major areas of fiduciary and investment interests which provide the basis for a decision on the soundness of the management process. Our goal is to provide insight into changes which may have occurred since the previous general trust examination. As with the general trust examination process, the examiner is instructed to be keenly alert for any indication that the goals, objectives, policies and general philosophy of the directors, management and others in the bank have detrimentally changed.

Perhaps of more interest to those of you who come from community banks is also the newly developed small examination approach. We were cognizant that the small trust department examination approach was needed, but we did not wish to institute a small bank examination until we had an opportunity through the general examination approach to determine how great existing deficiencies might be. We felt that the general examination approach would serve to upgrade these small departments and we believe, overall, such have been the results.

It was decided that our approach should be preparation of a "core examination." The small trust department examination is a basic modification of the general examination procedures and consists of certain designated questions and steps in our practices, policies and controls questionnaire and our examination procedures checklists. Also introduced was a series of special or overriding instructions to the existing general examination procedures to make adjustments in the examination approach more compatible with small trust department environments. The designated procedures, while not all inclusive, are designated to address policies, practices and controls which would typically offer the greatest protection against potential liability to the bank. The procedures are not intended to foster a dual standard of fiduciary performance for trust departments of different sizes. The examiners are instructed that they are to be alert to any situations between the scope addressed by the designated questions and procedures which would expose a small trust department to unacceptable levels of risks. The small trust department examination will be used for all trust departments with $20 million or less in fiduciary assets.

We have put in safeguards to control the unwarranted expansion of the small trust department examination. Other refinements have been made in the small trust department approach. The manner in which the examiner replies to questions and the policies, practices and controls questionnaire have been changed. An alternate means of preparing a working papers file has been provided, which should reduce the time on indexing and facilitate reviewing subsequent updating. The examiner has also been given more discretion in the reduction of documentation to the working papers.

The viability of the general procedures has made it possible to draft several variations, such as the specialized and small trust department examinations. We believe that both of these examination approaches will enhance the efficiency of the examination process without material deviation from the basic philosophy of the new examination approach.

I would be remiss if I did not stress to you who are from trust departments of national banks that it is to your best interest to continue upgrading the handling of fiduciary activities in your banks. Other than the usual competitive, profitability and efficiency reasons, there are other reasons. The scope of the examination hereafter will be largely predicated on the condition of your trust department. Generally, the better the department, the less the scope of the examination.

The Financial Institutions Regulatory and Interest Rate Control Act, enacted effective November 10, 1978, provides that the Comptroller has the authority to impose civil money penalties of up to $1,000 per day for violations of certain laws and regulations and cease and desist orders. The penalties may be assessed against banks and/or individuals. Regulation 9, which stems from 12 USC 92a, is included as being among those regulations to which civil penalties are applicable. Our examiners have been instructed as to the format they should use in reporting violations of law in the examination report. The Comptroller's Office is studying when and in what amount such penalties will be applied to fiduciary activities in your bank.

Title X of the act provides for a Federal Financial Institutions Examination Council. The council is charged with establishing uniform principles and standards for federal bank examinations. Comptroller John G. Heimann is the first Chairman of the council. The council has made considerable progress in proceeding on the congressional directive. A task force has been established to work out uniform training for trust examiners. Another task force has been appointed to study the psychology of each agency's examination approach and its concepts and procedures. The thrust of the study will be to suggest long-term goals for the examination process.

There has been an ongoing committee working on uniformity for the availability of trust department annual reports for the public. Overall, the trust divisions of the three federal bank supervisory agencies have excellent working relationships, but each approaches its trust examination responsibility with different viewpoints and procedures. Regardless of the approach, these examinations can be used by you as a tool in maintaining vigilance.

The Securities and Exchange Commission has the authority to examine registered stock transfer companies. The appropriate federal bank supervisory agency may also examine them. Joint examinations have been arranged to reduce the burden on the companies and to increase the effectiveness of the examinations. The Commission, for the most part, has been most cooperative with OCC, but this is not to say that they will not, from time to time, visit the stock transfer department of your bank for examination or investigative purposes.

The Department of Labor also has the authority to visit your bank to investigate employee benefit trust matters. We have not performed joint examinations with the Department of Labor, but they have reviewed our examination procedures and are currently in the process of reviewing the latest modifications. On the highest level, procedures are being worked out for the interchange of information concerning violations of the Employee Retirement Income Security Act of 1974 in national banks.

The national bank surveillance system, which serves as an early warning system for potential problem national banks, will soon be able to provide certain information on national bank trust departments. You may recall that the trust department annual report for the Comptroller of the Currency was amended last year to provide information on variable amount notes and trust departments' income expenses. A system has been devised to include information in the national bank surveillance system on the profitability of a bank's trust department and its impact on the profitability of the bank as a whole. Historically, insofar as the federal bank supervisory agencies are concerned, only the Federal Reserve has done studies on the financial benefits derived from providing fiduciary services and the related costs. The first full production run will be done within a month, and, hopefully, it will become part of the regular information provided to national banks prior to the end of 1979.

The Comptroller provides you with another tool in maintaining internal vigilance. The trust banking circulars do not serve as an early warning system but as policy statements through which we warn the industry of abuses.

Trust Banking Circular No. 14 discusses forward contracts and repurchase agreements in trust accounts. As you are aware, forward placement or firm commitment contracts may be defined to be an agreement to purchase a security from a seller, usually a broker/dealer or a mortgage banker, at an extended delivery date at a stated price. The agreement binds the seller as to delivery and binds the buyer as to acceptance. The "standby" commitment for optional delivery agreement is a delayed delivery agreement in which the buyer is contractually bound to adopt delivery of a security at a stated price on the exercise of an option held by the other party at a stated future date. The buyer receives an individually negotiated, nonrefundable commitment fee and consideration for the agreement to "standby" to purchase the obligation. The agreement is in essence a "put."

We are primarily concerned with the manner in which the forward contracts are being used. If a transaction is entered into by a bank to provide a trading profit, which can only result if certain interest rate movements occur, or to provide a modest return at the risk of large losses, depending on future market conditions, then the practice may be criticized by our examiners as not being in accordance with the applicable rules and sound fiduciary principles. Our examiners will be concerned with the policies and controls being followed.

In those banks in which a separation of functions is appropriate, they will criticize arrangements whereby the parties making trust department investment decisions also execute securities transactions for accounts involved. They will criticize arrangements where traders can execute transactions for accounts without such transactions being initiated by account managers. They will criticize the execution of transactions without designation of particular accounts for which the contracts were being made. They will criticize transactions which are not reflected on the books of the accounts involved. They will criticize operational arrangements which do not permit receipt of incoming confirmations by someone totally independent of the person executing the trade. They will criticize reporting systems that do not reflect, in value, forward positions. They will criticize account supervision practices that do not provide for regular and frequent management reviews of all accounts engaging in forward contracts or repurchase agreement transactions. They will criticize repurchase agreements which are not entered into pursuant to a written agreement providing for proper collateralization, collateral control, margin and continuing maintenance of margin. Finally, they will criticize transactions entered into for both the commercial and trust sides of the bank at the same time. Therefore, you can see the necessity of establishing your own internal controls and procedures which should serve as an early warning system to you.

The OCC is moving ahead with plans for examining foreign fiduciary activities of national banks and their affiliates and subsidiaries. In December 1978, a special trust department call was issued soliciting information as to the location and dollar amount of such activities abroad by national banks. Two large national banks have been targeted for examination during the last quarter of 1979. The Deputy Comptroller for Specialized Examinations and I have been supervising our trust efforts in this area, and we intend to personally participate in the initial examinations. Out of this pioneer effort should come examination procedures that are tailored to examination of such activities. Thus, we will not only be fulfilling our congressional mandates but providing to those of you involved in foreign fiduciary activities our evaluation of the prudence and safety of your operations.

This speech has not been intended to startle you about new regulatory changes. It has grown out of my sincere concern about some of the attitudes being conveyed to our field examiners by some in the trust industry that written policies are only being adopted to please the examiners. Indeed, I overheard a bank's attorney conveying this very message to his peers during a recent seminar. While the business ethics of your customers and the integrity of your staff is exceedingly important, I think we have learned that these are not enough to protect you and indeed to prevent embarrassment both to you and the federal bank supervisory agencies during these complex and difficult times.

Loren A. Vance, Senior Vice President and Senior Trust Officer of the United Bank of Denver in the June 25th edition of the *American Banker* used a quote from Samuel Johnson which stated "The future is purchased by the present." Vance continued by stating:

> The successful trust institution of the 1980's will not fit in any traditional mold. Challenged by new forms of competition and the nation's changing social and economical profile, trust banking as a business must realign itself with the shifting environment. . . . Trust institutions, if they are to survive, must adapt.

The Comptroller's Office uses both self-appraisal and input from outside sources in reviewing its examination approach and concepts. Trust bankers must continue to recognize the changing parameters of the trust business and act to meet those challenges. As you act and react, your policies and procedures must also change, and you must develop new means of maintaining vigilance as must we as trust banking supervisors. As you meet the new trust banking challenges of the 1980's, there must be a clear understanding of your goals and policies, first of all by you and secondly by your staff. Without this, your trust department will be like a ship without a rudder. A ship without a rudder accomplishes little and can be easily destroyed. So too can your trust business unless you set your goals, plan how to accomplish them and monitor and maintain vigilance as you proceed.

## Remarks of Dean E. Miller, Deputy Comptroller for Specialized Examinations, before the 37th Trust Conference, Florida Bankers Association, Lake Buena Vista, Fla., September 20, 1979

The title of my remarks here today is "Federally Chartered Trust Companies." Because of the current applications pending in our Office filed by a number of out-of-state holding companies to establish such "trust companies" in Florida—applications which have engendered quite a bit of opposition—this title is something of an attention getter, and I hope it hasn't misled any of you as to what I am going to say. Of course, I am not going to discuss specific applications before our Office, for obvious reasons. But, in addition, I am not going to discuss the legality or policy implications of out-of-state ownership of trust companies or of holding company ownership of trust companies. These are issues which have also been raised and will be responded to by the Comptroller in the appropriate forum—not this meeting. So, if any of you have been misled by my title, you may leave at this point, and I'll understand. For those of you who choose to remain, I would like to discuss the question of why I think it is desirable to provide a federal means of chartering and supervising trust companies.

The terms "federally chartered trust company" or "national trust company" are something of misnomers. What we are talking about are national banks which have voluntarily restricted their activities to operating a trust department and such activities as are necessary, incidental or related to such business. As such, they are still national banks which, of course, are the only entities which the Comptroller can charter. In their initial articles of incorporation, these institutions have limited their permissible activities to those of a trust company. The Comptroller has imposed no express limitation, although the Office has in some cases suggested a particular institution include such a limitation in its articles to be consistent with the representations made in its application to organize.

This is not a recent innovation. The first such national bank was approved in 1939. This was the Johnson County National Bank and Trust Company, Prairie Village, Kans. That institution operated as a trust company for several years and later became a full service bank. In 1959, the second such charter was issued when the City Bank Farmers Trust Company—basically a trust institution with a very limited deposit and loan business—converted to the First National City Trust Company to operate as a corporate fiduciary under a national bank charter. That institution later merged into what now is known as Citibank.

In 1965, this Office received its first application to establish such a limited purpose national bank in Florida. This was proposed to be named the National Trust Company of Florida and was to be located in Orlando. After extensive investigation and a hearing in Washington, Comptroller James J. Saxon denied the application. Subsequently, the state of Florida granted a charter to a group of applicants that was essentially the same group that had filed with our Office; this is the present Trust Company of Flordia.

Since that time we have issued charters to three national bank trust companies in Florida. These are the Barnett Banks Trust Company and the Southeast Banks Trust Company, both approved in 1974, and the Security Trust Company of Sarasota, approved in 1977. The latter, of course, is a holding company affiliate of Nortrust in Chicago.

In addition, four other such institutions have been established elsewhere. These are the First Trust Company of Ohio, Columbus, Ohio, chartered in 1973; the Bessemer Trust Company, New York City, approved in 1974; the City Trust Services, Elizabeth, N.J., chartered in 1977; and the Marine Trust Company, Milwaukee, Wis., approved this year. All of these are affiliated with or otherwise related to other institutions.

From the beginning of this history there have been questions of whether the Comptroller could legally approve an application to establish a national bank which was going to operate only a trust department and be a trust company, in effect. This matter was—hopefully—put to rest in the recent litigation involving City Trust Services in New Jersey, with some input from the Congress when it passed the Financial Institutions Regulatory and Interest Rate Control Act last fall. That act provided an additional sentence to Section 5169 of the Revised Statutes (12 USC 27): "A National Bank Association, to which the Comptroller of the Currency has heretofore issued or hereafter issues such certificate, is not illegally constituted solely because its operations are or have been required by the Comptroller of the Currency to be limited to those of a trust company and activities related thereto." The Court of Appeals for the Third Circuit determined that the statute meant what it said and that, therefore, the Comptroller could issue charters to institutions which operated only as trust companies.

The power of the Comptroller to permit establishment of national bank trust companies, therefore, should be clear. Equally clear is that the City Trust case did not pass on the question whether such charters can or should be given to groups whose principal activities are in another state. As noted, that question, and those related to it, are currently being contested in other forums, and I won't presume to comment here.

I would like to offer some opinions of my own, however, with reference to national trust companies. I believe that it is desirable to have federally chartered trust companies and that the Congress and the Third Circuit acted wisely in confirming that our Office may approve such institutions. The principal reasons are twofold: (1) it is desirable that we have corporate fiduciaries and (2) the only existing comprehensive and uniform system of supervision of non-deposit trust companies is that afforded by the Office of the Comptroller of the Currency.

There are a number of trust companies presently in existence which, not having deposit-taking functions, are not insured by the Federal Deposit Insurance Corporation and have not elected to join the Federal Reserve System. This means that there is no federal supervisory authority for such companies and that their only supervisory authority is that afforded by their own state. Make no mistake—many states have very fine examination staffs. But it is an unfortunate truth that the supervisory staffs of most state banking departments are not very heavy in trust department specialists. Some have none. Others have but one or two. Most perform what inquiry is made into state bank trust departments and state trust company activities with commercial examiners. Some states which have had high quality staffs of trust examiners have lost them to better opportunities or through budget cutting.

I make these statements without intent to be critical of the state banking authorities, and, particularly, I am not addressing my remarks to the Florida situation, with which I am not familiar. All state examiners with whom I have associated have been competent, dedicated public servants. We have had many at our training schools. But most such departments with which I have become acquainted have also experienced severe budgetary constrictions—so have we. I know from experience that when the dollars become scarce, you look for "frills" to cut out. Unfortunately, some persons in bank supervision—both state and national, I might add—regard trust department examination as a "frill."

Yet also in fairness to the budget cutters, when reductions are required, allocation of the remaining resources of supervision has to be based on an analysis of priorities, which will usually go like this. Where is the greatest risk? The response to this question invariably is in the commercial banking functions. There, the bad loans are identifiable and the losses susceptible to isolation. It is there where the losses have occurred in the past which have sunk banks. What bank has failed because of losses in its trust department? As a result, supervision of trust departments has received a lower priority. This process has had its effect most markedly in the state supervisory system. It has, for various reasons—I like to think that I am among them—had the least impact on the Comptroller of the Currency, where we continue to have a highly qualified complement of trust examiners—now numbering over 200—supported by an excellent staff and an attentive management in the regional offices and Washington.

The point that I am making is that my experience in bank supervision has shown that we cannot rely on some state supervisory systems alone for effective regulation of trust departments and trust companies. This is not to say that those entities are unregulated. Those which are members or insured banks are examined by the Federal Reserve or the Federal Deposit Insurance Corporation. Of course, all corporate fiduciaries are subject to the supervision of the courts. They are also subject to supervision by the Internal Revenue Service, the Department of Labor, and the Securities and Exchange Commission, in varying degrees. This, I submit, does provide for some protection of various public interests, but it is not the optimal way for government to regulate this business. I think that you would agree. Many of those federal agencies operate more on the punishment-detriment theory than do bank supervisors. That is, violations of the rules enforced by one of these groups will be punished after the fact, if discovered and if it is decided that corrective action should be initiated. Also, the supervision by a court and, to a degree, that afforded through the securities laws are based in large measure on self-help by the aggrieved party, who must sue to right the wrongs in many cases, a lengthy and expensive process. Further, the supervision-enforcement activities of the Securities and Exchange Commission and the Department of Labor are selective. They do not try to detect and correct every violation but are guided by resource priorities and the need to set precedents. Thus, they try to create examples which will both punish and deter. Indeed, the maximum protection under Securities and Exchange Commission-administered laws can only be achieved if trust companies become investment companies and/or investment advisors. This is not the way, I submit, to run the corporate fiduciary supervisory railroad—particularly when a better system is available. The national bank supervisory system is better and as a matter of national policy should be facilitated as an available, ready alternative to that which prevails for state-chartered non-deposit trust companies.

Accordingly, I hope that in the controversy now prevailing that we do not lose sight of the fact that corporate fiduciaries serve very desirable functions. Because of their immortality and ability to provide specialized expertise combined with efficiencies of operations, trust companies provide the best means of administration of trusts and estates. They are preferable by far to individual fiduciaries. In addition, they provide at the least a desirable alternative to insurance companies, investment companies or investment managers in the management of investments for both individuals and pension funds. I think that the public interest is served by this competition.

One further consideration favors fostering a federal supervisory system for trust companies along present bank trust department regulatory lines, although it is a consideration that some of you may not wish to discuss. We have heard it advocated from time to time that banks should be required to divorce themselves from their trust departments. I am not stating that this is desirable, necessary or inevitable. But it might happen. And if that comes to pass and this nation is faced with a widespread movement of trust assets out of banks, it would be most desirable as a matter of national policy and in the public interest to have available, as a vehicle to receive these assets, nationally chartered trust companies.

Let me now leave this subject for a few minutes and deal with some items of possible interest to you. There are a number of significant processes currently occurring which will affect your business and, therefore, mine as well, in the future. One of the most significant of these, in my opinion, is the effect of continuing double-digit inflation. The annual rate for some time now has been 13 percent. Many persons who are more learned than I are saying that this is going to continue for an extended period. This may or may not be—I am offering no opinion on that. I hope that it will decline, of course. I am, however, recognizing the fact that the high inflation is with us and that many learned people have said that this situation will not abate in the near future. Given this situation, what does the prudent man do who is trustee of an account whose principal beneficiary needs income. Or, in what medium does he invest if he wishes to carry out his duty to preserve the principal in an estate with significant remainder interests? Where does he equal or better 13 percent? Isn't he under a duty to try? While one might make a convincing case that the trustee is not required to attempt to match temporary aberrations, when you have a situation which persists for an extended period and you are advised that this situation is not likely to change, I think that the duty of the trustee to try to cope with the problem is clear.

How does he do it? Through investment in stocks? Certainly not blue chips. Bonds? Not likely unless he's going to risk locking himself into some bad terms or issues. Where, then? Without taking you step by step through all possibilities, I think that I can safely leap ahead to the conclusion to which this inquiry leads. The prudent man is going to have to endeavor to carry out his duties to his trust through the investment of its funds in media which offer a higher return and bear a higher risk. Put another way, it means that he will have to make investments which in another day might have been labeled—yes—speculative.

Since I have used that word, I think that it should be analyzed. In the case of *Clucas* v. *Bank of Montclair*, speculation was given a twofold definition. The first is buying or selling with expectation of profiting by a rise or fall in price. The second is engaging in hazardous business transactions for the chance of unusually large profit. It is that latter definition with which we are now concerned; I shall leave aside whether the modern prudent trustee "speculates" in the first sense, although there is no longer an automatic answer to that one either.

But let us look at the second definition. The key words are "hazardous" and "unusually large." They are relative terms, susceptible to variations in interpretation according to conditions which prevail at the time. Is a profit of 13 percent unusually large when your money is depreciating at that rate? Further, can one accurately characterize as hazardous an attempt to reach such a return, particularly if it is conducted through research and analysis—which the prudent trustee will always document—of all possible investment programs which might achieve this objective? You obviously can guess my answers to these questions by the manner in which I phrased them.

If I am right, this course of events is not going to make our life easier. When we had the label "speculative" to rely on, supervision was much less difficult. Now, it may be that nothing is automatically deemed speculative. That is my understanding of the rule of prudence, applicable to all accounts subject to the Employee Retirement Income Security Act of 1974. If so, we are going to have to raise the level of our analytical capabilities or simply abandon any attempt at supervision of investments. This latter course, I believe, would not be acceptable.

This is not to say that bank examiners will now have to be made into investment experts who will second guess the decisions made by the banks. First of all, it would be impossible to train and maintain a force of examiners so qualified. We do not have the time or facilities to do so, and, more critically, we do not have the resources necessary to maintain a corps of investment analysts. To keep them, we'd have to pay them more than the Comptroller and the Congress—and I can assure you that could never happen. However, I do think that we'll have to improve our capabilities in this field in the Washington Office and in at least some of the regional offices—also without the benefit of any salary advantage over our superiors, I hasten to add.

A more basic reason why we shall not be actively participating in your investment decisions is one of role. It is not a proper function of the government to interfere with the decisionmaking process of our private trustees. Ours is not to quibble about relative rates of return, relative propriety of different investment media or whether particular risks are justified. The supervisor should intervene only when it is obvious that the bank has not carried out its responsibility. In terms of evaluation of the appropriateness of a particular investment program, only the obvious case of abuse should be criticized. However, an examiner should either be familiar with, or have readily available, advice as to all types of investment and particularly the more sophisticated ones where experience shows us problems may arise. Supervision by banks of complex transactions sometimes breaks down. Examples which come to mind are foreign exchange or futures transactions. Put frankly, in such areas it is sometimes possible for an expert to "snow" his superiors and the bank examiners. We must minimize this possibility by raising the level of expertise possessed by, or available to, our examiners. However, this can only be one of several approaches to the problem.

The primary area of examination inquiry will have to be the existence of adequate and appropriate controls, policies and procedures; the training and qualifications of personnel; and the quality of documentation of investment procedures. A bank which expects to administer its responsibilities as a modern prudent person would do must be solid in these areas. And a bank supervisor who is administering the bank's responsibilities must focus on them. That is why our examination procedures dwell so heavily on controls, policies and procedures: That is why the securities transaction recordkeeping regulations which will go into effect next January should receive your careful attention—they will receive that of our examiners, I can assure you. That is why, while the other agencies did not agree, we are going to be very concerned with the training of bank investment personnel in our examinations. And, as the U.S. Trust case appeared to confirm, documentation of all investment decisions—particularly those involving novel or more hazardous media—may assist a trustee in avoiding later being judged solely according to the unfailing wisdom of hindsight. We are going to be very interested in seeing your documentation—particularly for the unusual investment. If it reflects a reasoned effort to accomplish the needs of the account through the chosen means, we'll go no further. If, on the other hand, all that it reflects is that the trust officer was sold a bill of goods from some "supersalesman," we may call it imprudent, among other things.

In closing, let me make a request of you—for your understanding and assistance. We frequently receive the comment nowadays that the relationship between bankers and examiners has changed—that it now is characterized by antagonism and that a previous attitude of cooperation and constructiveness has been lost. Let me explain one reason why I think this is happening. We, as examiners, have been given a number of new duties, the performance of which has led us into new lines of inquiries that have not been popular with banks. This has been most notable in consumer examinations but has also been experienced in trust examinations.

I think it is occasionally forgotten that we aren't dreaming up these things. When the Congress acts, we have to follow. They are our bosses. When new regulations are proposed, it serves no purpose for you to tell us things like "This is terrible, don't do it," for by that time, not doing anything is not an option available to us. Instead, if you tell us something like "This is stupid and won't work; here is how to accomplish what you have to do," you are helping mold your regulatory environment in a constructive manner—and, speaking practically, in the only way that you can affect matters when they have reached the point of proposed regulations.

By the time the poor examiner reaches your bank to enforce the regulation that might have been better, dictated by the congressional directive over which we had no control, the antagonisms, I suppose, are inevitable. It is unfortunate, but I hope with greater understanding of what is happening, the situation may be improved. For we do need your help in seeing that in carrying out our responsibilities we don't impose unnecessary or even impossible burdens. I realize that as trust persons you are overworked and underpaid. But, in case you haven't guessed it by now, we—collectively—in your government are not infallible or omniscient. Some of the things we—collectively—have done have been mistakes. And I can assure you that unless and until you participate actively and constructively with us in the supervisory process, it may occur again. None of us want that to happen. I assure you that we are going to do a better job on our side because that is the tradition of the Office of the Comptroller of the Currency.

## Statement of John G. Heimann, Comptroller of the Currency, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs, Washington, D.C., September 25, 1979

It is a pleasure for me to appear before the committee today to testify once again in support of legislation which we believe to be important to the administration of the responsibilities of the Comptroller's Office and the national banking system. H.R. 5280, the Depository Institutions Act of 1979, contains four titles, one relating to savings and loan association powers, which I do not intend to address, and one on regulatory simplification, which I will discuss briefly. The remaining two titles embody essentially the same "housekeeping" provisions as were contained in Titles XIV and XV of the Financial Institutions Regulatory and Interest Rate Control Act reported to the House floor just over a year ago.

We continue to be convinced that enactment of the housekeeping legislation, now contained in Titles I and II of H.R. 5280, will significantly benefit the administration of the national banking laws and the banking public. As we have previously testified, the majority of these amendments will provide procedural flexibility with respect to national bank activities and enhance operating efficiency in the Comptroller's Office. In the interest of time and to avoid unnecessary repetition, we attach for the convenience of the committee a section-by-section analysis* which treats in some detail each of the amendments taken from the original legislation.

These provisions may warrant special emphasis:

- Section 107 corrects a troublesome ambiguity arising from the age of the Comptroller's enabling statute: lack of clear, express authority for the Comptroller to delegate certain powers vested in the office. In confirming the Comptroller's authority to delegate, Section 107 borrows the approach of Federal Deposit Insurance Corporation (FDIC) and Federal Reserve statutes and provides certainty to steps taken

* The analysis section is not included because of space constraints. It is available from other sources.

and contemplated by the Comptroller to improve office efficiency.

- Section 108 clarifies the Comptroller's general rulemaking authority for all laws which the Office must administer. Similar clarification was afforded the FDIC last fall in the Financial Institutions Regulatory and Interest Rate Control Act.
- Section 109 recognizes the growing length and complexity of national bank examinations by removing the increasingly unrealistic requirement that every bank be examined at least three times every 2 years. Today, individual bank problems frequently are pinpointed by computer and staff analysis before onsite examination is conducted. Thus, we are better equipped to determine which banks require closer supervision and to allocate resources accordingly. The mandatory examination frequency required in the present statute compels enormously wasteful misallocations of scarce examination resources. We note that this amendment to the National Bank Act was given full support by the General Accounting Office in its 1977 report. Moreover, the Federal Reserve and FDIC always have had such scheduling flexibility.

Some modifications to the housekeeping portion of the bill appear for the first time in H.R. 5280.

Section 101 amends the National Bank Act to allow the Comptroller in extraordinary circumstances to extend for up to 5 additional years the period during which a national bank may hold real estate if acquired prior to July 1 of this year.

Originally, this amendment was designed to give the Comptroller discretion to ease the holding limitation in selected cases without regard to date of acquisition. In other words, Section 101 was intended to be an ongoing regulatory tool, enabling the Comptroller to work with national banks forced to cope with unexpected shifts in economic conditions. It was never intended to breach the traditional 5-year statutory restriction in the majority of cases. Indeed, we continue to believe that some such restriction is entirely appropriate.

As now drafted, the amendment would provide additional flexibility *only* with respect to those banks straining to divest themselves of real estate acquired during the mid-decade downturn. It would not provide similar flexibility for the future. If history is a guide, the probability is high that future economic slides will pose similar difficulties for other institutions. Thus, continuing statutory authority, which would provide the Office with some flexibility to deal with distress situations, could be valuable. On balance, however, we are comfortable with the changes which the Committee has seen fit to make.

Section 112 is of some concern to us. This amendment seeks to clarify the congressional intent behind the provision in the Financial Institutions Regulatory and Interest Rate Control Act (FIRA) of 1978, Section 1504, which confirmed that the Comptroller may charter national banks engaged exclusively in the provision of trust services. As you know, under authority long contained in the National Bank Act, the Comptroller has chartered six such banks since 1973 without any questions being raised as to the authority of the Office to do so. However, as a result of litigation challenging the exercise of this authority in the context of a New Jersey charter application, the clarifying and confirming language in Section 1504 of FIRA was introduced and enacted as an amendment to a provision of the National Bank Act, located at Section 27 of Title 12, U.S. Code.

In apparent response to some suggestions that this language had inadvertently permitted establishment of national bank trust companies in other states by out-of-state holding companies, Section 112 proposes to add additional language to Section 27 providing:

> Section 5169 of the Revised Statutes (12 USC 27) is amended by adding at the end thereof the following new sentence: 'Notwithstanding the provisions of the preceding sentence, a national bank association the operations of which are limited as provided in the preceding sentence shall be deemed an additional bank within the contemplation of section 1842(d) of this title.'

We believe that the concern which led to this proposed amendment is misplaced. The authority of bank holding companies to establish trust companies—either state or federally chartered—on an interstate basis is derived entirely from the provisions of the Bank Holding Company Act. That law effectively prohibits bank holding companies from establishing out-of-state commercial banks, *i.e.,* banks which accept demand deposits and make commercial loans, but the law does permit their engaging across state lines in a limited range of other activities commonly associated with banking, including establishment of state or federally chartered trust companies. In our view, Section 1504 of FIRA was not intended to affect—and does not affect—this authority one way or the other. Indeed, prior to the adoption of Section 1504 at least two holding companies with Federal Reserve Board approval had established such facilities on an interstate basis, one under a national and two under state charters.

Currently, the level of interstate activity by bank holding companies in the trust area is relatively insignificant. In view of this, we believe that congressional consideration of additional statutory restrictions on this sort of activity should not be a part of the present legislation. Rather, the issue should be fully explored by Congress in connection with overall bank holding company activity and market structure.

As a technical matter, should the committee decide to proceed with its consideration of this provision, we note that the more appropriate statutory placement of the restriction would appear to be in the Bank Holding Company Act. Moreover, the committee presumably would wish to address the expansion issue without regard to which type of charter—federal or state—is carried by a trust company established on an interstate basis.

Before concluding, we wish to applaud Title II of the bill, the "Financial Regulation Simplification Act." Without question, one of the central themes shared by the current administration and the Congress in regulatory reform. Title III is wholly consistent with the purposes underlying Executive Order 12044, "Improving Government Regulations," and the Federal Financial Institutions Examination Council Act of 1978, Title X of FIRA. In keeping with its existing obligations under the executive order, the Comptroller's Office already is actively engaged in careful analysis and review of our regulatory actions. And together with the other agencies on the examination council, we are mounting a broad effort to streamline procedures, eliminate wasteful duplication and clarify the principles of financial institution supervision.

Mr. Chairman, that concludes my remarks. Aside from the few reservations we have expressed, we are anxious that H.R. 5280 be reported to the floor as promptly as possible. Its provisions will benefit not only the Comptroller's Office and the national banking system but, even more importantly, the banking public. We look forward to continuing our work with the committee in furtherance of our mutual concern for more efficient and responsive banking regulation.

## Statement of Lewis G. Odom, Jr., Senior Deputy Comptroller of the Currency, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs, Washington, D.C., October 16, 1979

I am pleased to have the opportunity to testify on behalf of the Office of the Comptroller of the Currency and to present our views on H.R. 2747, H.R. 2856, H.R. 4004 and H.R. 1539. The first three bills propose various amendments to the Bank Holding Company Act and the Bank Merger Act dealing principally with acquisitions by holding companies and banks and would create new restrictions on the activities in which bank holding companies and national banks may engage. H.R. 1539 would permit bank underwriting of revenue bonds.

The essential thrust of H.R. 2747 and 2856 is to protect certain financial institutions from the rigors of competition through the arbitrary imposition of statutory limits on growth and the creation of new barriers to entry in areas now generally viewed as being closely related to banking. We concur with the objectives of preventing excessive concentration of banking resources and assuring competition among financial institutions. On balance, however, we do not believe that these two bills contribute positively to the attainment of these objectives. In fact, the potential exists, if these bills are enacted, for reduced competition.

Over the last decade, the business of banking, or more accurately the business of providing financial services, has changed radically and is continuing to change at an extraordinary pace. More and more, banks are confronted with direct competition from other banks, thrift institutions and nonbank entities. These developments have been positive. The U.S. financial intermediary system is healthier and more efficient as a result and customers are being served better.

Nevertheless, many existing laws and regulations still serve more to protect competitors than to promote competition. Many of these restrictions on competition were believed nearly 50 years ago to be essential to maintaining economic stability. Today, however, it is clear that the maintenance of economic stability does not depend on such restrictions. Furthermore, these restraints are becoming less and less effective because rapid advances in telecommunications and data processing technology have provided the means to expand competitive markets, and inflation has provided the incentive. We are concerned that continuation of these laws and regulations in the face of present market realities will lead to a diminished role for banks. Imposition of further restraints as proposed in H.R. 2747 and H.R. 2856 would worsen matters.

We believe existing statutes provide ample protection from undue concentration of banking resources and effectively separate banking activities from nonbanking activities that clearly involve potential conflicts of interest.

### Proposed 20 Percent Standard

H.R. 2747 and H.R. 2856 would similarly amend Section 3(c) of the Bank Holding Company Act of 1956 to prohibit without further inquiry into other competitive considerations any acquisition by a bank holding company, if as a result of such a transaction the acquiring or resulting company would control over 20 percent of the total banking assets held by all banks and bank holding companies in the state. H.R. 2856 would also amend Section 18(c)(5) of the Bank Merger Act of 1966 to prohibit a merger transaction by a bank, if as a result of the transaction the acquiring or resulting bank would hold more than 20 percent of the total assets held by all banks in the state.

These amendments are presumably premised on a desire to prevent the indiscriminate acquisition of independent banks by holding companies or larger banks merely for the sake of expansion and the belief that undue levels of economic concentration occur when a single institution achieves a greater than 20 percent market share.

We do not believe any rigid numerical constraint, such as the proposed 20 percent figure, should be used in restraining the economic growth of banking institutions. The existing antitrust laws specifically recognize the need to inquire into the unique market conditions of any enterprise in determining the competitive effects of a particular corporate merger or acquisition. In our view, a rigid statutory limitation cannot adequately reflect the many market variables which must be considered in reviewing any given transaction and is not an appropriate device to assure the maintenance of competitive banking markets. Moreover, regulatory authorities have substantial influence under the existing laws in shaping the structure of banking markets through their actions upon charter, branch, merger and holding company applications. Our policies regarding the disposition of such structural applications are designed to achieve a maximum degree of competition between financial institutions consistent with the maintenance of a sound banking system.

Additionally, the proposed 20 percent market test unrealistically assumes that statewide concentration figures provide a relevant measure of banking competition. We believe that such a broad test cannot reflect the power of a particular banking organization in its unique geographic and product markets and fails to consider the size and strength of other bank or nonbank competitors in the financial sector—factors which should be considered in determining the economic concentration in a particular market.

Under the existing statutes, the Bank Holding Company Act and the Bank Merger Act incorporate with minor modifications the antitrust standards applied to all businesses in the United States as the relevant criteria for determining whether unwarranted economic concentration will result in a particular market from a merger or acquisition. The banking industry should not, in our opinion, be subject to more stringent antitrust regulations than that required by other lines of commerce.

As a practical concern, administration of the proposed asset size tests may prove to be very difficult. It may be wholly unrealistic to include all assets of an institution in the calculation of its relative size without regard to a particular asset's location.

**Proposed Constraints Upon Bank-Related Activities**

Section 3 of H.R. 2747 and Section 6 of H.R. 2856 would amend Section 4(c)(8) of the Bank Holding Company Act to significantly constrain the authority of the Federal Reserve Board to authorize bank-related conduct by holding companies. The proposed legislation provides that nonbank companies may be acquired by holding companies only after the Federal Reserve Board has specifically determined the particular activity is so "closely and directly" related to banking or managing or controlling banks as to be a "proper and necessary" incident thereto, and, is likely to produce substantial benefits to the public which clearly and significantly outweigh possible adverse effects. Proposed negative "laundry lists" in these bills variously provide that certain specified types of activities, including insurance (under H.R. 2856) and securities underwriting, motor vehicle leasing, investment advisory and real estate services (under H.R. 2747) would not be permissible for holding companies and their subsidiaries.

Additional restrictions upon the entry of bank holding companies in bank-related activities are unnecessary in view of the existing regulatory scheme and should not be implemented through any statutory "laundry list" of prohibitions. There has been no convincing showing, in our opinion, that the Federal Reserve Board has improperly permitted holding companies to engage in a nonbank-related activity. Banking, like other service industries, is constantly changing to meet the expanding needs and demands of its customers and to adopt new technology to assure the delivery of better and more efficient services to the public. A negative "laundry list" will not allow the Federal Reserve Board sufficient flexibility to adjust the boundaries separating banking and commerce to accommodate such changes.

Moreover, any further narrowing of the possibilities for expansion by bank holding companies may actually lead to a concentration of financial resources in nonbank competitors, rather than deconcentration as the legislation intends.

Section 6 of H.R. 2747 and Section 7 of H.R. 2856 would effectively provide that national banks be treated as bank holding companies for the purposes of Section 4(c)(8) of the Bank Holding Company Act. That is, national banks would be prohibited from engaging in those bank-related activities in which bank holding companies are not permitted to engage. Such legislation would undeniably result in a basic change in the National Bank Act. The enactment of these provisions would have the effect of prohibiting national banks from participating in several currently permissible bank-related activities that under the National Bank Act include any activity which is held by the Comptroller to be "incidental" to carrying out the business of banking.

We are unable to determine without further review the full implications of these proposed amendments. The most obvious impact of one of the proposed restrictions, however, would be to adversely affect the availability of financing to state and local governments by precluding the underwriting of general government obligations by national banks. Moreover, because the proposed provisions affecting national bank activities and the prohibition of insurance activities by holding companies currently contain no grandfathering clause, the legislation if enacted in its proposed form could have the disastrous effect of requiring immediate divestiture of bank-related activities by certain institutions, possibly at substantial losses.

We do not believe that the Federal Reserve Board should be empowered to determine the permissible scope of the activities of national banks. The proposed legislation will, in our opinion, only cloud the regulatory authority over national banks. We believe that the Office of the Comptroller of the Currency, as the regulator of national banks, should retain the authority to determine which activities are incidental to the business of banking in the national banking system.

One of the primary features in the evolution of the dual banking system has been the ability of institutions to elect a charter which allows a bank the authority to best serve the needs of its customers. While the concept of competitive equality to a large extent permeates banking, certain distinct differences exist between the powers of national banks and some state-chartered institutions. This diversity among institutions has encouraged change and innovation. However, the proposed legislation would bar national banks from competing in certain activities, while state institutions may yet be permitted to continue in those activities under their state regulatory schemes.

### Unnecessary Regulatory Duplication

Section 4 of H.R. 2747 further entangles the regulatory responsibilities of this Office and the Federal Reserve Board. That provision would amend Section 3(a)(4) of the Bank Holding Company Act to provide that bank mergers involving a subsidiary bank of a bank holding company would be subject to approval of the Federal Reserve Board. Under this provision, a bank merger involving a national bank subsidiary of a holding company would be subject to the approval of the Federal Reserve Board in addition to approval of this Office.

Under the Bank Merger Act of 1966, the Comptroller's Office must determine whether national banks should be allowed to acquire another institution. Although the purpose of this provision has been explained by its proponents as intended to close a perceived "loophole" of the Douglas Amendment, it would have the effect of significantly altering the regulatory scheme of the Bank Merger Act of 1966 and creating an additional layer of unnecessary regulation. We believe that this proposal would undesirably limit the statutory authority of our Office to supervise national banks.

Section 8 of H.R. 2856 would amend Section 4 of the Bank Holding Company Act by adding a new subsection to require that the Federal Reserve Board, in connection with a holding company's application to engage in a particular activity and the ongoing supervision of bank holding companies, determine that the holding company and its subsidiaries are adequately capitalized and financed in a sound manner. In addition, the bill would require that holding company subsidiaries refrain from preferential lending in favor of their parent corporations or other affiliated subsidiaries. In our opinion, this provision is unnecessary. The Federal Reserve Board already undertakes to review these matters in the performance of its responsibilities. Moreover, the uncertain language of the proposed provision may inadvertently confuse the issue of regulatory responsibility regarding the capitalization of national banks. We firmly believe that the Comptroller's Office, as the chartering authority and ongoing supervisor of national banks, should have the sole responsibility in this matter.

The proposed provision regarding preferential lending practices is duplicative of existing statutes and regulations. As you know, legislation enacted by the Congress last year (Title I of the Financial Institutions Regulatory and Interest Rate Control Act, FIRA) prohibits preferential lending by banks to insiders, including their parent holding companies and their nonbank affiliates. Any further restrictions on inter-affiliate transactions by nonbank subsidiaries should, in our opinion, be carefully considered in light of the need for a free flow of funds within a holding company organization. We do not believe that the proposed additional restrictions have been demonstrated to be justified.

### Holding Company Approval

H.R. 4004 and Section 1 of H.R. 2747 would prohibit the Federal Reserve Board from denying an application for the formation of a one-bank holding company when the primary supervisor of the bank has approved the reorganization. More particularly, the Board would also be prohibited from disapproving the creation of a holding company in a case involving a bank stock loan which is not over 25 years, if the loan is made on substantially the same terms as those prevailing for commercial loans to businesses other than banks. These proposals are designed to facilitate small ownership of bank holding companies and to ease the retirement of debts contracted as the result of acquiring control of a bank.

They also relate to a problem with which this Office has long been concerned—the regulation of various parts of a bank holding company system by different agencies. Many bank holding companies are now subject to supervision by all three federal banking agencies. The difficulty of coordinating supervision and examination of such systems significantly interferes with our effectiveness in supervising either the systems or the banks within them. This Office has consistently recommended that a single agency supervise the bank holding company and its affiliates. Specifically, we had recommended that the federal regulatory agency which has responsibility for supervising the bank or banks that hold a majority of assets of a bank holding company serve as the principal supervisor.

In this respect, we find the proposed amendment to be in the right direction. However, it is limited to applications only and does not address the more basic supervisory question. The Federal Financial Institutions Examination Council in response to its clear congressional mandate has undertaken a review of this issue. I would hope that in this context we can come up with a legislative approach that all the agencies can agree on and that Congress will see fit to act on expeditiously.

### Commercial Bank Underwriting of Revenue Bonds

I would like to turn now to H.R. 1539, a bill which would permit commercial banks to underwrite and deal in revenue bonds. Revenue bonds have become an increasingly important method of state and local government financing. Whereas in 1940, revenue bonds accounted for just 12 percent of all municipal bonds, in 1968, this percentage had jumped to about one-third of all municipals. By 1978, revenue bonds accounted for about two-thirds of the municipal bond market. Certainly, the roles of revenue and general obligation bonds have been reversed over the years.

Pertinent to this reversal is the question of whether it is still appropriate to restrict revenue bond underwriting to investment bankers. Limiting the underwriters of revenue bonds eliminates an important potential source of competition represented by commercial banks. By allowing commercial banks to underwrite revenue bonds, competition in the negotiation, bidding and distribution of these bonds will increase, resulting in savings to the issuing political entity.

Opponents of this legislation fear that bank underwriting of revenue bonds will increase bank risks, induce bank conflicts of interest and tempt banks to sell their underwritten securities to their trust accounts. We believe, however, that the proposed legislation is a satisfactory answer to the specific matter of revenue bond underwriting by banks. The provisions contained in H.R. 1539 and recent rulings by the Municipal Securities Rulemaking Board safeguard against potential conflicts of interest and unsound banking practices and ensure the monitoring of competitive effects within the securities industry.

This Office continues to believe that the specific question of whether commercial banks should be allowed to underwrite revenue bonds is only one part of a larger issue at hand. For instance, the ability of banks to deduct the interest cost of borrowed funds used to carry municipal bond inventories and the competitive advantage this may provide over investment banks should be included in any reconsideration of Glass-Steagall. The roles of commercial banks and investment banks should be considered in light of the evolution of the various forms of financing by governmental and corporate customers, and we would support a comprehensive congressional re-examination of the financial intermediary structure which has evolved within the confines of the Glass-Steagall Act of 1933. This examination should focus on the appropriateness of the Glass-Steagall prohibitions and on the lines of demarcation which make sense with respect to the financial needs and the regulatory environment of today.

### Interstate Operation of Trust Companies

In response to the issue of trust company subsidiaries of bank holding companies, the Comptroller testified before this subcommittee on September 25, 1979, regarding the provision formerly designated as Section 112 of H.R. 5280. A similar proposal is being considered to be incorporated into the legislation before the subcommittee today.

The earlier Section 112 was intended to clarify Section 1504 of the Financial Institutions Regulatory and Interest Rate Control Act of 1978, which confirmed that the Comptroller has authority to charter national banking associations to offer trust services exclusively. As the Comptroller earlier indicated, our office has, in fact, chartered seven such institutions since 1973. However, as a result of litigation challenging this authority in the context of a New Jersey charter application, the confirming language in Section 1504 of FIRA was ultimately enacted.

The chartering of national trust companies is, however, a matter wholly separate from the establishment of bank holding company subsidiaries across state lines. The authority of bank holding companies to establish trust companies—either state or federally chartered—on an interstate basis is derived entirely from the provisions of the Bank Holding Company Act. That law bars bank holding companies from acquiring out-of-state commercial banks, that is, banks which accept deposits and make commercial loans, but does permit their engaging across state lines in a limited range of other activities commonly associated with banking, including trust services. Section 1504 of FIRA does not affect this authority in any way. In fact, before the enactment of FIRA, at least two holding companies with Federal Reserve approval had established trust company subsidiaries on an interstate basis, under both national and state charters.

We are pleased that the subcommittee has removed the national bank trust company provision from H.R. 5280 and is considering it, more appropriately, along with other legislative proposals concerning bank holding company activities.

We remain unconvinced, however, that the issue of the interstate establishment of trust company subsidiaries has been afforded sufficient congressional consideration, especially as it relates to the broader questions involving all forms of interstate bank holding company activities and the existing market structure. In fact, the administration is nearing completion of a study undertaken at the request of Congress to review the entire issue of geographic restrictions on bank and holding company activities. We recommend that any legislative action on the issue of interstate trust operations at least await the completion of that report.

In our opinion, it would be most premature at this time to enact a new restrictive prohibition against one form of holding company activity without re-evaluating the principles which long have been applied equally to other types of permissible interstate activities of holding companies. As you know, this Office has a long standing policy of favoring a free and open system of competition among all providers of financial services. We believe that any geographical restraints on competition should over time be eliminated.

In conclusion, we believe that unfettered competition is the best assurance against undue concentrations of economic power. In our opinion, the proposed legislation is in many ways overly restrictive, and, therefore, essentially anticompetitive.

## Statement of Jo Ann S. Barefoot, Deputy Comptroller for Customer and Community Programs, before the Subcommittee on Consumer Affairs of the Senate Committee on Banking, Housing and Urban Affairs, Washington, D.C., December 11, 1979

I am pleased to have the opportunity to present the views of the Office of the Comptroller of the Currency on S. 2002, a bill which proposes to amend the Truth-in-Lending Act regarding the use of the Rule of 78's. We welcome these hearings, believing they will contribute to the public understanding of this widely misunderstood method of computing earnings and rebates on loans.

The stated purpose of the Truth-in-Lending Act is to assure a meaningful disclosure of credit terms so that the consumer can compare more readily the various credit terms available in the marketplace and avoid the uninformed use of credit. This Office has consistently and strongly supported the purpose of the act.

With respect to S. 2002, we believe that the use of the Rule of 78's may, under circumstances when a loan is paid in full before its scheduled maturity date, contribute to consumer confusion about the cost of that loan. Further, use of the Rule of 78's can increase a lender's yield on a loan significantly beyond the contract rate and the annual percentage rate originally disclosed to the consumer. To the extent a consumer is unaware of the adverse impact that the Rule of 78's may have on the ultimate cost of a loan, we believe that its use conflicts with the purpose of the Truth-in-Lending Act and results in inequities which must be addressed.

### Background

Before discussing the merits of S. 2002 or other alternatives which might ameliorate these problems, I would like to define some of the financial terms relevant to a discussion of the Rule of 78's, recognizing that these terms have caused considerable confusion. I believe it is necessary to review the difference between nonprecomputed and precomputed loans, since the Rule of 78's applies only to the latter. It is also important that I address the methods generally used by lenders to precompute and accrue interest on loans in order to emphasize the impact which the Rule of 78's has on the rebate of unearned interest. These methods include the use of simple interest, add-on, discount and annual percentage rates.

### Non-Precomputed Loans

Since the use of the Rule of 78's applies only to precomputed loans, it is important to make a distinction between precomputed and nonprecomputed loans. A nonprecomputed loan is one in which the amount of the debt obligation, or note amount, represents the principal only. It is the amount which the potential borrower originally requests and may include additional charges such as insurance premiums or a credit report charge, if the lender agrees to finance them. The note amount, in this case, does not include the amount of interest which will be earned on the principal balance. Generally, this type of loan accrues interest, *i.e.,* it earned interest on the basis of a contractual simple interest rate. First, earnings are accrued. The annual interest rate is applied to the outstanding principal balance on a daily or monthly basis. Then the earned interest, as it is accrued, is periodically paid by the borrower. The borrower's periodic payment, usually made monthly, is applied to the earned interest and the residual is applied to principal, thereby reducing the outstanding balance of the loan. Residential real estate loans generally earn interest in this manner.

Nonprecomputed, simple interest loans can be easily understood, and they accurately reflect the contract rate regardless of when the debt is paid in full by the borrower. Whenever the loan is paid in full, the borrower is obligated to pay only the outstanding principal balance and any unpaid earned interest as of the date of prepayment. Thus, when the loan is prepaid in full, the yield on the loan to the lender and the cost to the borrower remains at the rate stated in the contract.

### Precomputed Loans

A precomputed loan, in contrast, is one in which the debt obligation, or note amount, represents both principal and anticipated interest. The amount of interest included in the note amount is generally precomputed on the basis of one of four commonly used methods, although it is not always accrued on the same basis. All of these methods begin with a percentage rate per annum. These rates per annum are referred to as the simple interest, add-on, discount and annual percentage rates. I will describe each of these methods.

- Simple Interest

Simple interest earnings computations for precomputed loans are similar to the simple interest computations for nonprecomputed loans. The difference is that with precomputed simple interest loans the total anticipated interest to be accrued over the life of the loan is precomputed and added to the amount of the principal to arrive at the note amount.

As with the nonprecomputed simple interest loan, the precomputed simple interest loan accrues interest on a daily or monthly basis up to the date of prepayment, so that the borrower would be obligated to pay the outstanding principal balance and any unpaid earned interest as of that date. The unearned precomputed interest, depending on the terms of the contract, may be rebated to the borrower.

If the borrower makes payments as scheduled and the loan is prepaid or matures as agreed, the yield on the loan to the lender and the cost to the borrower is equivalent to the simple interest rate stated in the contract, assuming unearned interest is rebated. Additionally, in either case, the dollar interest cost to the borrower would be the same with the precomputed loan as with the nonprecomputed loan.

- Add-on and Discount Rates

Add-on and discount rates are both annual interest rates which, when used to precompute interest earnings, do not take into account the outstanding principal balances of a loan. They relate only to the original principal amount of the loan, without recognizing that payments periodically reduce that balance. Earnings are precomputed on an annual rather than a daily or monthly basis. For example, if the add-on rate or discount rate is 8 percent per annum, each would generate precomputed interest of $1,200 on a 3-year $5,000 loan. The principal amount of the loan, $5,000, is multiplied by the annual interest rate, 8 percent, to generate the amount of interest to be earned in 1 year, or $400. This amount is multiplied by three, the number of years the loan is to be outstanding, to generate the total precomputed interest amount, or $1,200. Both rates operate under the assumption that the entire principal balance will be outstanding for 3 years. They generate the total amount of interest to be earned but are not used to determine how that interest is to be accrued periodically.

In the case of add-on interest, the precomputed interest amount is added to the loan principal to arrive at the note amount. Given the previous example, the note amount would be $5,000 plus $1,200, or $6,200. Since the contract is not written with a simple interest rate, the lender will generally accrue earnings on the basis of some other method, usually the Rule of 78's. If the borrower prepays the loan in full, a portion of the total interest included in the note amount is considered unearned interest. The amount of that unearned interest and whether it will be rebated to the borrower depends on the accrual method used and the terms of the contract.

In the case of discounted interest, the precomputed interest amount is subtracted from the note amount to arrive at the amount of money actually disbursed by the lender. In the example given earlier, if the borrower requests a 3-year loan at $5,000 and the discount rate is 8 percent, the note amount will be $5,000 and the borrower will receive $5,000 less $1,200, or $3,800. As with the add-on rate approach, the lender will generally accrue earnings on a basis other than the simple interest rate method, usually the Rule of 78's.

- Annual Percentage Rate

In the case of an annual percentage rate (APR), earnings computations can be considerably more complex. While an APR can mechanically operate in a manner identical to simple interest rates, one very important distinction is that an APR is not applied periodically to the loan principal to generate interest. Rather, an APR, as defined by Supplement I to Regulation Z, is applied periodically to the amount financed to accrue the finance charge. I will elaborate on this distinction, because it is important to understanding the difference between the actuarial accrual method proposed in S. 2002 and the simple interest approach.

The amount financed may be equal to but is often less than the principal amount of a loan. It is a mathematical construction defined by Regulation Z which represents the amount of credit actually used by the borrower. If the borrower is required to pay finance charges in addition to interest and those additional charges are paid separately at the time the loan is consummated or are deducted from loan proceeds, the loan principal must be reduced by the amount of such charges in order to arrive at the value of the amount financed. Thus, if the only charge in connection with a loan is interest and the interest is paid after it is earned, the amount financed will equal the principal amount of the loan.

Similarly, the finance charge may be equal to, but is often more, than the amount of interest on a loan. It is the sum of individual loan charges identified by Regulation Z which represent the dollar cost of credit. The finance charge includes interest, but it may also include loan charges such as credit report or loan origination fees. While finance charges may be part of the principal balance of a loan, as when the lender finances a credit report fee, they may not be part of the amount financed.

With a simple interest loan, the simple interest rate is applied to the principal balance and that balance will be reduced and fully amortized by the payments. The APR on that loan is applied to the balance of the amount financed, and that balance will be reduced and fully amortized by those same payments, by a process known as the actuarial method. If the principal balance equals the balance of the amount financed when the loan is consummated, the simple interest rate will normally equal the APR. If the principal does not equal the amount financed, then the simple interest rate will not equal the APR. It will always be less in that case.

For example, let us again use the 3-year $5,000 loan with an 8 percent add-on rate. Assume that the borrower is required to pay in addition to principal and interest a credit report fee in the amount of $35. The fee is paid separately in cash when the loan is consummated.

In this example, the note amount is the total of the principal and add-on rate interest, or $6,199.92. The $1,200 interest amount has been slightly reduced to compute equal monthly payment amounts. If the borrower is to make 36 monthly payments, each payment will be $6,199.92 divided by 36, or $172.22. The total cost of the loan, or finance charge, is the interest amount of $1,199.92 plus the $35 credit report fee, or $1,234.92. The borrower pays the $35 at the time the loan is consummated, so the amount financed is the $5,000 principal balance less the $35, or $4,965. While the simple interest rate for this loan is 14.55 percent, the APR is 15.04 percent, which may be disclosed as 15 percent. Under the actuarial method, the first month's finance charge is earned by multiplying the monthly equivalent of the APR by the original amount financed. The first monthly payment is first allocated to the accrued finance charge, and the residual reduces the amount financed. The monthly equivalent of the APR is then applied to the reduced balance of the amount financed to accrue the finance charge for the second month.

This procedure continues each month until the loan is paid in full. As a result, the total finance charge to be earned by the total of payments will be $35 plus $1,199.92, or $1,234.92. The amount financed, $4,965, plus the total finance charge, $1,234.92, thus equals the total of payments. If earnings are accrued on the basis of the APR, a borrower prepaying the loan will owe only the outstanding balance of the amount financed plus any accrued but unpaid finance charge as of the date of prepayment.

For example, if the borrower prepays the previous loan 10 days after it is made, the payoff amount will be approximately $4,985.74, which does not even equal the $5,000 principal amount of the loan. While it is true that the lender did receive in addition to a finance charge of $20.74 accrued over the 10-day period a cash payment of $35, that cash payment was for an expense actually incurred, a credit report fee. Under the simple interest method, the lender would be entitled to the $35 fee and the $5,000 principal balance plus \$20.21 in accrued interest over the 10-day period. The payoff amount would be \$5,020.21, the sum of the principal and accrued interest. Under the actuarial method, however, the lender would receive less than \$5,000 when the loan is paid in full, since the amount financed plus the accrued finance charge equals \$4,985.74.

**Rebate Methods**

Whether earnings on precomputed loans are calculated by simple interest, add-on, discount or annual percentage rates, the total earnings precomputed over the life of the loan are included in the amount of the note in each case. In each case also, the lender selects an accrual method, such as simple interest, actuarial or the Rule of 78's, to determine how much of the total earnings are earned periodically, such as on a monthly basis. The accrual method selected will determine the amount of the unearned income at the time a loan is prepaid in full.

In the case of the simple interest and Rule of 78's accrual methods, the lender will compute the amount of unearned *interest* which is to be rebated to the borrower. In the case of the actuarial method, the lender will compute the amount of the unearned *finance charge* which will be rebated to the borrower.

The Rule of 78's can be used in conjunction with any loan in which earnings are precomputed, regardless of which type of interest rate is used to precompute those anticipated earnings. For example, in the previous case where the borrower receives \$5,000 which is to be repaid in 36 monthly instalments at \$172.22 each, the precomputed interest will reflect an 8 percent add-on rate, a 6.5 percent discount rate or a 14.55 percent simple interest rate. The APR will equal the simple interest rate unless the borrower pays other finance charges in addition to interest. In the case where the borrower pays a \$35 credit report fee, total earnings are computed on the basis of a 15.04 percent APR. Thus, any method can be used to compute earnings, if authorized by state law. The use of the Rule of 78's relates to how those earnings can be *accrued, i.e.,* how much of the total earnings can be considered earned at any one time.

Under the Rule of 78's, the lender first determines the total amount of *interest* to be earned on a loan. This precomputed interest is included in the note amount. As the borrower makes monthly payments, the total payment amount is subtracted from the note amount. Since the total of payments equals the note amount, which is also the sum of principal plus interest, the final payment will reduce the note amount to zero and the loan will be paid as agreed. Internally, however, the lender will allocate each month a portion of the total precomputed unearned interest to earnings. Thus, throughout the life of the loan, the precomputed interest, which is all unearned on the day the loan is made, is allocated to earned and unearned amounts. The earned portion periodically increases, while the unearned portion decreases. If the borrower prepays the loan, the unearned portion of the precomputed interest may be rebated by the lender.

The Rule of 78's allocates the principal amount of a loan into units of debt. It also makes a unit allocation of the precomputed interest. The total number of units is derived by assigning consecutive numbers to the months over which the loan is to be repaid and adding those numbers together. If a monthly payment loan is to mature in 12 months, the first month is assigned the number one, the second month is assigned the number two, and so on, with each number representing the actual month during which the loan is still outstanding. The sum of those numbers in the case of a 12-month loan is 78, hence the name Rule of 78's. Another name attributed to this method is the Sum of the Digits.

The Rule of 78's further assumes that for 12-month loans the principal balance is reduced by 12 units after the first monthly payment is made. Thus, after the first month, 12/78 of principal have been repaid. Additionally, 12/78 of the precomputed interest have been earned. When the borrower makes the second payment, 11 more units of principal are repaid and 11/78 of the total precomputed interest are earned. This process continues over the life of the loan, with the lender earning 12/78 of the total precomputed interest the first month, 11/78 the second, 10/78 the third, and so on until the last month when 1/78 is earned. The sum of the fractions earned each month is 78/78, or 100 percent of the total precomputed interest.

The Rule of 78's obviously permits the lender to earn more interest during the earlier months of a loan than in the later months. This is also true, of course, under the simple interest method of accruing earnings. In both cases, the accrual methods recognize that more principal is outstanding during the earlier months, resulting in greater cost to the borrower for the use of more money than during the later months of the loan when less money is outstanding. Additionally, under both the simple interest method and the Rule of 78's, the total interest the borrower will have paid is identical to the amount of interest originally agreed upon and originally stated in disclosures required by the Truth-in-Lending Act *if a loan runs to maturity*. In both cases, if the loan is not prepaid, the lender's yield on the loan will not exceed the contractual rate or the APR disclosed. The borrower is, therefore, fully informed of the cost of the loan in dollars and as an APR and is able to make an informed economic decision before entering into the contract.

However, on a precomputed installment loan *which does not run to maturity*, one which is prepaid by the borrower, the use of the Rule of 78's will always result in a greater dollar yield to the lender than the actuarial or the simple interest methods. Perhaps more importantly, under such circumstances, the rate of income to the lender and the resulting cost to the borrower can significantly exceed the simple interest rate or the APR originally disclosed. Under the simple interest method of calculating rebates, in contrast, the interest yield/cost would be equivalent to the rate stated in the contract. Under the actuarial method, the finance charge yield/cost would be equivalent to the APR disclosed.

Using our earlier 3-year \$5,000 loan again as an example, assume the borrower prepays the loan at the end of the first year. The simple interest rate and APR on the loan is originally 14.55 percent. If it is paid in full at the end of 1 year and the Rule of 78's is used, the lender's effective yield is 15.08 percent APR, an increase of more than one-half of 1 percent over the APR originally disclosed. Yet, the APR originally disclosed is considered accurate, since it was based on the assumption the loan would be paid as agreed. Under the same circumstances, using either the actuarial or the simple interest rate method instead of the Rule of 78's to compute the borrower's rebate, the effective yield to the lender and cost to the borrower remains at 14.55 percent, both in terms of simple interest and annual percentage rates.

To simplify comparisons between the Rule of 78's and the simple interest and actuarial methods, I will provide examples in which the simple interest rate is the same as the APR. I will refer to the simple interest rebate method rather than the actuarial, although in those examples the results would be the same.

The difference in rebates between the Rule of 78's and the simple interest method is a function of four variables: the interest rate, the amount of principal, the maturity of the original contract and the date on which the loan is prepaid. On many loans, the rebate difference between the two methods is insignificant. The disparity in the amount of the rebate under the two methods generally becomes significant when the borrower prepays a relatively long-term precomputed loan with a relatively high interest rate. Significantly, this type of loan is becoming quite typical in today's marketplace. For example, 4- and 5-year automobile loans are increasingly popular, and lenders are frequently making home improvement and mobile home loans at an APR of 15 percent or higher with maturities of 10 years or longer. In those situations, a lender using the Rule of 78's will rebate significantly less unearned interest during the earlier months of a loan than a lender using the simple interest method.

It is worth emphasizing that the Rule of 78's can, in fact, result in negative amortization of the loan, with the lender's monthly interest earnings actually exceeding the consumer's monthly payment amount. As unpaid interest accumulates, the principal balance is not reduced, and the borrower instead becomes further indebted, even though the monthly payments are being made as agreed upon.

Let me illustrate the points I have raised using two examples which show the rebate differential between the use of the Rule of 78's and the use of the simple interest method. The first example focuses on the differential resulting from an increase in rates. The second example shows the discrepancy resulting from a long-term maturity.

Assume a consumer borrows $5,000 for 36 months at a simple interest rate of 8 percent. Interest is precomputed at $640.48. If the borrower prepays the loan during the fifth month, the rebate under the simple interest method would be $482.15, and under the Rule of 78's, would be $476.99. The use of the Rule of 78's reflects an unfavorable rebate difference to the consumer of $5.16.

If the same loan were to have a 15 percent simple interest rate instead of 8 percent, prepayment during the fifth month would result in a rebate of $941.30 under the simple interest method and $923.39 under the Rule of 78's. This reflects a rebate difference to the consumer of $17.91. While the simple interest rate increases almost twice as much, from 8 to 15 percent, the differential between the two rebates more than triples.

The differential resulting from a loan with a longer maturity can be even more dramatic than that resulting from a rate increase. An example of a long-term loan might be a 15-year mobile home loan in the amount of $10,000 with a simple interest rate of 15 percent. Interest is precomputed at $15,192.80. Prepayment of the loan in full during the 30th month will result in a closing loan balance of $9,459.64 under the simple interest method and of $10,431.79 under the Rule of 78's. This situation produces the negative amortization effect. Under both rebate methods, the borrower has made the same monthly payment amounts, and payments have been made as scheduled. In the simple interest situation, the borrower *reduces* the loan principal by $540.36. However, under the Rule of 78's, the loan principal is effectively *increased* by $431.79. The dollar difference between the two rebates of unearned interest is a staggering $972.15.

If this same mobile home loan had been paid off 21 months earlier, during the ninth month, the closing loan balance would have been $10,217.67 under the Rule of 78's. The balance is, itself, in excess of the amount originally borrowed. It actually increases to $10,431.79 after 21 additional payments are made. Thus, the borrower makes 21 additional payments totaling $2,939.16, and yet the closing loan balance increases by $214.12. It becomes difficult to rationalize these accruals of earnings as fair and equitable.

The consumer is in all likelihood unaware of the dollars at issue under the different rebate procedures. Under Regulation Z, the lender must disclose to the potential borrower an identification of the method which will be used to compute a rebate of the unearned finance charge. Thus, lenders using the Rule of 78's must disclose the fact but need not explain how that method works or its impact on the ultimate cost of a prepaid loan. Unless the potential borrower has a strong background in financial computational methods, disclosure of the Rule of 78's as the rebate method to be used may be meaningless.

A review of our consumer complaint data shows that many consumers clearly do not understand the impact of the Rule of 78's until they pay off their loans. When they have it explained to them by the bank or our staff, consumers are often surprised to learn that the rebate amount is much less than the amount calculated using the simple interest or annual percentage rates. They are also frequently upset to learn that little or none of the loan principal has been reduced in value or that they owe more than the principal balance after having made many payments.

One of the consumer complaints received by our Office is a good illustration. The consumer had prepaid a mobile home loan and alleged that he was required by the bank to pay a prepayment penalty. The Rule of 78's rebate method and its impact were explained to the consumer. It was also pointed out to the consumer that the rebate method was identified on the truth-in-lending disclosure statement and that under existing statutes and interpretations the use of the Rule of 78's is not considered to be a prepayment penalty or a violation of law. The consumer claimed that the effect of the bank's use of the Rule of 78's was to impose a penalty which should have originally been disclosed. He also stated that the rule has a strictly legal meaning which is not understood by the majority of consumers. He told us that his attorney did not know how the method works; that a banker erroneously told him the method is a complicated calculation performed by a computer which produces the same results as the APR; and that a dealer erroneously stated that since the sum of the digits is 78, the consumer will receive 78 percent of the total interest on prepayment of the loan.

While complaints regarding the Rule of 78's account for less than 1 percent of the complaints which we receive, we believe that the low volume may well indicate that many consumers are too confused by this issue even to understand that their rebates might have been larger under a simple interest approach.

**Recommendations**

It is particularly timely to consider legislation which proposes to restrict the use of the Rule of 78's because, as I indicated earlier, it appears that the rule is being used with increasing frequency on longer-term loans. In 1935, when the Rule of 78's was first statutorily permitted in the United States, it was applied to short-term loans with low interest rates or small loan fees. For such loans, the Rule of 78's approximates the simple interest approach and is not significantly inequitable. Today, however, the term of maturity for the types of loans to which the Rule of 78's has been traditionally applied has been lengthened as a result of higher interest rates and larger loan amounts. Of particular concern to us is the use of the Rule of 78's in connection with home improvement and mobile home loans, which often have maturities of 10 years or more, and which are frequently prepaid. We believe that it is appropriate to consider methods for restricting the use of the Rule of 78's on these longer-term loans, before the practice has become well established.

Concern about these effects of the Rule of 78's has prompted the Chairman of this subcommittee, Senator Tsongas, to introduce S. 2002 to remedy some of the problems presented by its use. The bill would provide for the mandatory refunding of unearned finance charges and unearned insurance premiums and would require, for loan transactions with terms exceeding 36 months, use of a computational method to calculate a rebate which is at least as favorable to the consumer as the actuarial method.

We believe that the proposed legislation is a step in the direction of balancing the inequities which result from the use of the Rule of 78's. At the same time, however, we believe there are potential problems with the implementation of the actuarial method and feel that a more complete examination of the issues is warranted. Accordingly, we suggest that the Congress request the financial regulatory agencies, perhaps under the auspices of the Federal Financial Institutions Examination Council, to undertake a study of the use of the Rule of 78's and remedies for mitigating its undesirable effects.

Such a study should include an assessment of the reasons that the Rule of 78's is used by lenders and the consequences which would result from restricting its use. These consequences might include an adverse impact on earnings; effects on the safety and soundness of lending institutions; creation of alternative pricing methods to offset the loss of earnings, such as higher interest rates or prepayment penalties; large conversion costs to the lender; and the significant amount of dollars that might be saved by consumers. The balance of my testimony will describe some of the issues which we believe should be explored.

First, the study should take account of the advantages to lenders from using the Rule of 78's, aside from the income which may be generated. Perhaps the most important of these is administrative efficiency. The rule permits the lender to put all loans maturing in the same month into a single category and make a single, aggregate calculation of earnings. For example, if a 36-month loan is written in January, then the next year in January a 24-month loan could be put in with it for calculation purposes. Additionally, loans with odd terms, such as 11 months or 17 months, need not be placed in a separate and new category. They can always be combined with a group of other loans having the same maturity date. Such advantages particularly benefit many small lenders who do not have sophisticated computer systems for processing loan accounts under the actuarial rebate method.

We believe that caution should always be exercised when adopting legislative changes which might significantly increase the administrative burdens on small institutions. Such burdens can undermine the viability of those small institutions and, as a result, can weaken competition in the financial sector.

The study we are proposing should evaluate the costs to lenders of having to convert to the actuarial method, against the benefits which may be provided consumers. It would certainly be counterproductive to impose such costs on lenders, only to have those costs passed on in a way that results in a net loss to the consumer. The study may reveal a significant need for a reasonable phase-in period, during which lenders may effect conversion to the actuarial method at reasonable cost and without undue administrative burden.

Second, the study should also address potential conflicts with state laws. Aside from the sensitive problem of federal preemption of those state laws which already set forth currently acceptable methods of accruing earnings, the study should also examine the impact S. 2002 would have on a lender's ability to comply with state usury laws. Many usury laws set forth ceilings or earnings in terms of an add-on or discount rate per annum. Earnings are thus calculated on the basis of one of those rates. The lender must then calculate the APR for Truth-in-Lending Act disclosures. If the simple interest rebate method is ultimately determined to be more desirable than the actuarial method, the lender would then have to initiate a third step of determining the simple interest rate on the loan. This process could become quite complicated and result in many miscalculations. The Federal Financial Institutions Examination Council's recently organized state liaison committee may be able to provide very useful assistance in this area.

Third, the study should also consider whether or not 36 months is the maximum loan maturity which can be permitted under the Rule of 78's without significant adverse impact on the borrower's rebate. Perhaps a 4- or 5-year period may be more desirable.

Fourth, aside from our uncertainty as to what maturity period would be most desirable, we are concerned with the proposal in S. 2002 that earnings under the actuarial method which are less than $7.50 may be increased only to that amount when a loan is prepaid. It would seem appropriate for a lender to impose loan charges for necessary services rendered, such as producing a credit report. A lender should also be permitted to recover at least the cost of processing a loan, a cost which is currently estimated at between $25 and $50. While these fees may be collected separately at the time the loan is consummated, the actuarial method can result in an amount financed balance at the time the loan is prepaid which is actually less than the principal amount of the loan. Such a situation, which was illustrated in one of my earlier examples, would necessitate the lender's having to apply a portion of the *bona fide* fees collected separately to help liquidate the principal balance of the loan.

Fifth, in exploring alternative ways of resolving the problems created by the use of the Rule of 78's, the study could focus on an option to require more complete disclosure to borrowers. Additional disclosure could inform the borrower of the effect the use of the Rule of 78's would have on prepaid loans. One model for such disclosure might be the recently adopted disclosure requirements for variable rate mortgages, which provide the consumer with average and "worst case" scenarios. This type of disclosure may enable consumers to protect their interests by providing them with sufficient information to enable comparative shopping for credit.

Finally, we believe a study should explore the question of whether it is preferable to use the actuarial accrual method prescribed by S. 2002, or the simple interest approach.

A study of all of these issues should greatly benefit from the recent trend in some areas of the country toward the use of the simple interest method. Recently California and Florida, among other states, restricted the use of the Rule of 78's. Lenders in those states have adopted, or will adopt, some form of simple interest accrual system for installment loans. A review of the states' reasons for converting and of the lenders' conversion costs should greatly benefit such a study.

In conclusion, the Comptroller's Office supports the efforts of the Congress to restrict the use of the Rule of 78's. However, we suggest that a study be undertaken to determine the costs and side effects of such action and to explore methods for accomplising this goal with a minimal increase in federal regulation of the banking industry.

## Statement of John G. Heimann, Comptroller of the Currency, before the Subcommittee on International Finance of the Senate Committee on Banking, Housing and Urban Affairs, Washington, D.C., December 12, 1979

I am pleased to appear before the subcommittee today to testify at these oversight hearings on international financial conditions. We have been requested to summarize the findings and recommendations of the *Report to Congress on Foreign Government Treatment of U.S. Commercial Banking Organizations* which was transmitted to Congress by the Secretary of the Treasury on September 17, 1979, pursuant to Section 9 of the International Banking Act of 1978. Several additional questions have been posed, and I will try to respond from the vantage point of the Office of the Comptroller of the Currency (OCC).

### Report to Congress on Foreign Government Treatment of U.S. Banks

The underlying principle of the International Banking Act, national treatment, is consistent with the long-standing U.S. policy of fostering competition on an equitable basis and promoting free world trade and capital flows. The national treatment principle means that foreign banks should have equal competitive opportunity in the United States with U.S. banks.

A national treatment policy is rooted in the belief that fair, open competition among enterprises from different nations will produce economically beneficial results both at home and abroad. The United States and other countries have benefited from the international expansion of banking. Host countries, including the United States, have gained from improved efficiency and performance of financial markets and enhanced financing opportunities that result from a foreign banking presence.

Assessment of the degree to which U.S. banks enjoy equality of competitive opportunity in their overseas operations must be based on a clear understanding of the banking systems and regulatory frameworks of different host countries.

### Overview of the Report

The report was an extensive undertaking, coordinated by the OCC and involving substantial effort by other agencies, particularly the Federal Reserve and the Treasury and State departments. The report contains a substantial amount of background material. The early chapters include a discussion of the concepts of national treatment and equality of competitive opportunity and their application in practice; a survey of U.S. banks' overseas expansion in the post-World War II years; and a review of the sparse earlier research on host governments' official treatment of foreign banks. An overview of the rationale and impact of the different types of entry restrictions and operating restraints is also provided.

The main body of the report consists of studies of the official treatment of U.S. and other foreign banks in 21 countries and six groups of countries (Andean Pact nations, Arab countries, COMECON nations, members of the European Economic Community, developing countries and offshore banking centers). Summary information on U.S. bank presence and regulatory treatment in a total of more than 110 countries is included in an appendix.* In accordance with the congressional mandate, the report also includes chapters which examine whether discriminatory treatment of U.S. banks abroad affects U.S. exports to the host countries and which describe remedial efforts undertaken by the U.S. government in response to official treatment that discriminates against U.S. banks.

A substantial effort was undertaken to gather new primary information. Basic information on laws, regulations, policies and practices affecting U.S. bank entry and operations in foreign countries was supplied by U.S. diplomatic posts throughout the world. That information was supplemented through a detailed questionnaire that was sent to all U.S. banks with overseas operations. Responses providing information on official treatment in 86 countries were received from nearly 120 U.S. banking organizations, representing over 98 percent of U.S. banking assets held overseas. The bank questionnaire also highlighted countries where U.S. banks have an interest in conducting or expanding operations. U.S. embassies worked closely with host government officials and also conferred with U.S. bankers to compile and verify information and also to solicit views on a wide range of matters pertinent to the report.

Rather than recapitulate in detail the report's conclusions, which are presented in chapter 37, the comments which follow are restricted to certain points that warrant particular emphasis.

U.S. banks currently have some form of banking presence in more than 130 different foreign nations and have sought the opportunity to compete in others. In each nation, there are unique circumstances which bear on the relative competitive opportunity of foreign banks. Recognizing such differences and respecting the particular policy objectives of sovereign nations, some essential standards for extension of competitive opportunities to foreign banks may nonetheless be identified, *i.e.*, reasonable opportunity for entry, choice of organizational form and subsequent expansion within the host country's banking market and the opportunity for established foreign banks to pursue essentially the same activities as like-situated domestic institutions in a nondiscriminatory regulatory environment.

Equality of competitive opportunity can only be judged after a detailed examination of the circumstances of foreign banks in each country. The process does not always yield a clear picture. Differential treatment may be restraining or, on occasion, may even be favorable to foreign banks. The effects of explicit discriminatory treatment may be trivial or serious, depending on the actual or desired operations of the banks involved. Also, a host government's policies may have deleterious effects on foreign banks whether or not any discrimination is intended, again depending on particular circumstances. The report focuses on situations where U.S. banks' ability to compete in foreign countries is significantly impaired because of differential treatment vis-a-vis indigenous banks.

Results of the report indicate that the circumstances of a particular case are more important than broad generalizations.

**Opportunities for Entry**

Opportunities for entry and generally unencumbered operations are available to U.S. banks in most foreign financial markets of importance. There are exceptions, of course, and U.S. government remedial actions have focused on those situations. Restrictive conditions appear mostly in developing nations which do not represent markets of key interest. Where restrictions on entry exist, they are usually intended to protect indigenous financial institutions or to maintain national control of the financial system. U.S. banks have generally established foreign operations in the form of branches or *de novo*, wholly owned subsidiaries. Many foreign countries discourage, prohibit or strictly limit foreign acquisition of equity interests in their indigenous banks, either by law or unwritten policy. Evidence of impediments to foreign (including U.S.) acquisition of the largest indigenous banks in the major industrial nations is largely impressionistic, but informed judgment suggests that such acquisitions would be discouraged by most governments. Some observers have argued that it is unfair that U.S. banks are denied comparable acquisition opportunities overseas and have on this basis questioned foreign acquistion of significant U.S. banks. While this observation is seemingly accurate, the claim of inequity ignores salient structural differences between the U.S. and other national banking markets.

The United States is unique in having such a large number of banks, including many banks of substantial size. In other countries, the large banks are few in number, and the markets are generally very highly concentrated; acquisition of any one of the few large banks would imply immediate nondomestic control of a substantial aggregate share of the national market and presence throughout the country.

Opportunity for foreign acquisitions of U.S. banks arises in part from restrictions imposed on U.S. banking organizations by the antitrust laws and from restraints on multistate operations. Many of the largest

* Space limitations prevent publication of summary information and other data for this statement. They are available from other sources.

foreign-acquired U.S. banks could not have been acquired by domestic banks. Most other major banking countries do not have comparable antitrust or geographic limitations.

### Operating Restrictions

Restrictions on operations of established foreign banks are sometimes imposed by host governments to confine them principally to certain segments of the financial market, such as trade and foreign currency financing, or to reserve certain segments to domestic banks, such as household savings or government deposits. Even when explicit discriminatory operating restraints are imposed, they are in many instances of minor concern or consequence to foreign banks because of the nature of their operations and principal business interests in the country. Operating restraints are not often an overriding concern to U.S. banks that perceive sound business opportunities in a foreign market.

Most industrialized nations and some developing countries apply identical laws and regulatory requirements to the operations of foreign and domestic banks as a matter of clearly stated policy. Yet, even where no explicit discrimination exists, the report describes how operating restraints or national economic policy measures, applied equally to foreign and domestic banks, sometimes have a differential competitive impact on foreign banks because of the nature of their operations. Some governments have deliberately reduced competitive inequities by flexible application of regulatory requirements to foreign banks or by granting them privileges not extended to domestic banks to compensate for the differential impact of restrictive regulations.

### Effect on U.S. Exports

Another finding of the report is that U.S. exports do not appear to be significantly impeded, either directly or indirectly, by discriminatory treatment of U.S. banks abroad. This matter was the subject of a careful investigation by a working group including representatives from the Commerce Department and the Export-Import Bank. In fact, the bank questionnaire elicited a number of comments about inadequate flexibility for banks under U.S. law and regulation.

### Remedial Action

An interagency study group surveyed actions taken by the U.S. government to ameliorate or eliminate discriminatory treatment of U.S. banks by foreign governments. The chapter on such "remedial efforts" describes the approaches available to the U.S. government and examines their application in specific cases. U.S. banks themselves are often in the best position to resolve regulatory problems. When an official action is deemed appropriate, it should be tailored to a whole complex of circumstances affecting U.S. banks in the country involved.

The report recommends, first, that U.S. government efforts to promote competitive opportunities for U.S. banks abroad be undertaken on a case-by-case basis, using existing statutory authority of the variously concerned federal agencies. Second, the principle of national treatment is endorsed as the "best foundation for further growth of international banking and efficient capital markets." We share this view and plan to encourage adherence to this principle when the occasion arises through international contacts, meetings and forums. To facilitate identification of emerging problems in foreign official treatment of U.S. banks and to channel U.S. government action, where appropriate, the report recommends that the "Department of Treasury, in collaboration with other U.S. Government agencies, should direct continuing review and maintenance of information on official policies, practices, and regulatory and legislative developments affecting operations of U.S. banks in foreign countries."

### Reciprocity of Equal Competitive Opportunity

In accordance with the principle of national treatment, we have implemented through the International Banking Act a federal regulatory framework according equality of competitive opportunity to foreign banks operating or desiring to operate here; we seek, through our various remedial efforts and continuing encouragement by all available means, similar results for our banks in foreign markets. We have seen progress in some areas as a result of past activity, and we expect progress will continue.

Any rule for regulatory action based on reciprocity would be antithetical to this national treatment approach. Reciprocity implies a country-by-country differentiation of policy which is essentially negative. Rules tend to become rigid, and rules of reciprocity can be especially complicated in their application and administration. These problems characterize reciprocal rules in general and would be exacerbated by attempting through reciprocity to achieve equality of competitive opportunity for U.S. banks in over 130 vastly different countries.

One result of such a rule can be anticipated with confidence: There would be a great deal of controversy surrounding its interpretation. In applying the rule, the U.S. would perhaps be vulnerable to criticism because of state law restrictions and because of restraints on interstate banking which have no analog abroad. Even apart from this special factor, there are differences of opinion now about whether foreign banks are accorded equal competitive opportunity in this country vis-a-vis domestic banks. Some observers argue that foreign bank operations in the U.S. enjoy differential advantages relative to U.S. banks; others claim they suffer competitive disadvantages.

We would also be concerned about possible undue rigidity in applying such a rule. Would we require a detailing of competitive equality at the operational level? For example, if country A allowed entry to our banks but prohibited their engaging in activity X, would we bar entry to A's banks? If our banks enjoyed certain differential advantages in A, possibly of greater impact than prohibition of X, would that matter? How would we treat banks from a country whose policies were perfectly open to U.S. bank operations generally, except that entry by banks from states that prohibit foreign branches was excluded? Would banks from developing countries be excluded altogether because their governments imposed certain restrictions designed to protect their fragile, emerging indigenous financial systems? Such questions point up the disquieting prospect of an administrative system either bogging down in the details of different rules for each different country or stuck in a rigid pattern producing unreasonable results.

### Country Risk Exposure of U.S. Banking System

Country risk trends and exposures within the banking system are monitored through a semiannual report initiated in June 1977. All commercial banks which have substantial foreign operations provide details by individual country on their foreign credit extensions, including information on maturities, guarantees and customers. A measure of exposure is the total of cross-border and cross-currency loans and interbank placements with foreign borrowers adjusted for any guarantees from another country. This measure includes loans to customers in a foreign country by a U.S. bank, or to customers in a different foreign country by a foreign branch of a U.S. bank, or to customers in the country where the U.S. bank's foreign branch is located but where the loans are denominated in a nonlocal currency.

As of June 30, 1979, these claims totalled $196 billion, virtually unchanged from the year-end 1978 total of $196.4 billion. However, these claims increased 12 percent from the previous year figure of $175 billion. Total assets of all U.S.-insured commercial banks increased 13 percent during the same period to $1,574.8 billion as of June 30, 1979. Foreign exposure currently accounts for about 12.5 percent of the U.S. banking system's total assets. The commercial banks reporting these foreign claims had total assets of $861.5 billion as of June 30, 1979. Thus, country risk assets represent about 23 percent of total assets for these banks.

The total of foreign claims on those banks is higher than the $196 billion in cross-border and nonlocal currency claims adjusted for guarantees for two reasons. First, $25.3 billion of foreign loans, which are guaranteed by U.S. residents, are excluded. Second, local currency claims on foreign offices of U.S. banks are not included. Such local currency loans tend to be balanced by local currency liabilities. For example, on December 30, 1978, those loans and interbank placements amounted to $58 billion and were mostly covered by local currency deposits and other liabilities of $48 billion.

### Distribution Across Countries

The international asset portfolio of the U.S. banking system is diversified between developed and nondeveloped nations and on a country-by-country basis. A majority (56 percent) of the cross-border and cross-currency claims consists of credit extended by the U.S. banking system to developed countries. Credits extended to the nonoil exporting developing countries comprise slightly more than 27 percent of the total. The Organization of Petroleum Exporting Countries comprise 10 percent of total claims, and the Eastern European Bloc represents only 4 percent. No one country, with the exception of Japan, comprises more than 10 percent of total cross-currency and cross-border claims. There are only five countries which exceed 5 percent.

### Maturity Structure

The maturity composition of the loans and placements that comprise the majority of the U.S. banking system claims on foreign residents appears balanced: 68 percent of the total cross-currency and cross-border claims mature within 1 year; and 92 percent mature within 5 years. Short-term claims are especially prominent in the Group of Ten plus Switzerland countries and the offshore banking centers where a large volume of interbank placing is conducted. Placements of deposits are usually for very short periods. For most other groups of countries, short-term claims account for slightly less than one-half of total claims, although the proportion varies among countries.

### Types of Borrowers

Business with other banks (54 percent) comprises the majority of claims on foreign residents. Private commercial enterprises represent another 28 percent, and the public sector represents 18 percent. The public sector category includes foreign governments, their agencies and commercial nonbank enterprises that are majority government owned.

### Legal Lending Limit and Country Risk Exposure

Portfolio diversification is a long recognized practical and prudent principle of sound lending. Lenders diversify their portfolios to the extent possible to avoid undue reliance on a single source of repayment. Congress recognized this principle by including a specific provision (12 USC 84) in the National Banking Act, which generally prohibits a national bank from lending an amount greater than 10 percent of its capital and surplus to any one borrower. Statutory lending limits have the effect of buttressing the concept of diversification of source of repayment. In April 1979, OCC adopted an interpretive ruling regarding the application of statutory lending limits for loans to foreign governments and their agencies. A feature of the ruling recognizes the fact that a single source of repayment exists in some circumstances even though a government may use many different borrowing entities. The interpretive ruling sets forth publicly the criteria which will be applied in determining whether foreign public agencies and instrumentalities are relying on a common source of repayment and warrant treatment as a single borrower.

Lending limitations, however, are not directly related to country exposure. In the national banking system, there are no statutory limits that restrict aggregate exposure in any one country. The general principles of diversification, however, are particularly relevant to international lending because assessment of country risk is subject to a considerable margin of error.

To address diversification among countries, OCC formed a committee of examiners in the early 1970's to assess the specific risks involved in lending to borrowers in each individual country. Last year, this committee was expanded to include members from the Federal Reserve System and the Federal Deposit Insurance Corporation. This Interagency Country Exposure Review Committee meets three times a year to discuss the current status of particular countries. The committee attempts to measure when a particular country warrants comment regarding its level of exposure to the U.S. banking system in general. The committee's determinations are used when evaluating a bank's international loan portfolio. Aggregate exposures to borrowers in a particular country are related to certain capital thresholds and, when exceeded, are listed in the report of examination. Additionally, where circumstances warrant, the committee determines classifications based on the degree of credit risk involved. Such classifications are used in the bank examination process to help determine the overall condition of the loan portfolio.

Another important aspect of risk concerns concentrations within a portfolio. Concentrations exist when repayment is dependent on an identified common source of repayment. There are situations where loans are made to varied borrowers, well dispersed individually and geographically; yet, repayment rests, for example, with the export of a common commodity. Therefore, repayment of all the loans is dependent on the common factor of the borrowers' exports of the same commodity at a certain price level. Assessments of the bank's diversification of economic risk are another aspect of our program of supervision.

Our system of bank examination and prudential supervision on a case-by-case basis has revealed some banks with exposures in some countries which stretch the limits. Our response to such cases is to use the supervisory tools at our disposal to try to instill more prudent country lending postures in the banks involved.

The OCC has considered the question of whether Congress should impose limits on country exposure in relation to a bank's capital. We have not considered this a practical course of action for a number of reasons.

It is virtually impossible to arrive at any threshold percentage of capital figure that is meaningful and can be applied rationally to each and every country. Each country has a unique political, economic and social structure. The interplay of all these factors gives rise to country risk. It is not logical to assume that the degree of risk is the same in lending to each country. Moreover, the risk varies in each country as events and conditions change over time. One limit cannot be set that is sensible to every country in every circumstance.

As an alternative, it has been suggested that differing capital limits be set that would be applicable to particular categories of nations. Capital limits would theoretically be set at higher levels for developed nations and lower levels for nondeveloped nations. This could lead to allocation of global resources in an inverse proportion to needs. We cannot advocate initiating such credit allocation for foreign countries through the banking system.

Moreover, the ratio of a bank's gross outstandings to borrowers in a given country to the bank's capital does not by itself accurately portray a bank's exposure. This is the case particularly because this statistic ignores or submerges such considerations as diversification on a portfolio-wide basis, maturity structure of the loans to the country and any potentially offsetting deposits or other liabilities due to customers in the country. These factors may alter entirely the judgment an observer would reach as between gross and net exposure.

### Effects of Oil Price Increases

The Treasury Department is testifying in these hearings on the possible effects of further oil price increases. We have one observation. Any current account surplus in the oil-exporting countries that results from an increase in the price of oil must be balanced by equal current account deficits in other countries. Private commercial banks, including U.S. banks, have participated in the process of recycling such surpluses in the past, and we expect that role to continue. We will continue to emphasize national bank adherence to prudential lending standards in the financing of current account deficits.

### Effect of Using Other Currencies for International Transactions

We do not anticipate that a decrease in the use of the dollar as an international transaction currency would adversely affect U.S. banks. There appears to be underway a gradual diversification involving somewhat greater reliance on other currencies. If this trend continues, it seems likely that banks from those countries whose currencies are receiving more international use will benefit. However, U.S. banks have developed a wide international presence and expertise in dealing in all major currencies and can be expected to remain a potent competitive force in the international banking marketplace. Moreover, the evidence of non-U.S. banks' participation in dollar transactions suggests that U.S. banks will be able to participate on a large scale in nondollar transactions.

### Profitability of International Loans

Published interest rate spreads on international loans have narrowed over the last few years. Figures in the October 1979 issue of the OECD *Financial Market Trends* show that the average interest rate spread has narrowed from 1.05 percent in the first quarter of 1978 to 0.74 percent in the third quarter of 1979.

| | Period | Spread |
|---|---|---|
| 1978 | Q1 | 1.05% |
| | Q2 | 1.10% |
| | Q3 | 0.90% |
| | Q4 | 0.87% |
| 1979 | Q1 | 0.87% |
| | Q2 | 0.76% |
| | Q3 | 0.74% |

Published spreads on international loans are not truly reflective of the overall profitability of international lending. Many factors, some of which are discussed below, must be considered when analyzing profits on international loans.

One factor involves the calculation of the London Interbank Offering Rate (LIBOR). Syndicated loans are priced at a given percent above LIBOR. Syndication agreements specify how LIBOR is to be calculated. It is usually an average of rates quoted by a sampling of specified banks. Although an attempt is made to make the sample representative, it may not, in fact, reflect the cost of funds for all the banks involved. Thus, the LIBOR rate may be set higher or lower than the actual cost of funds to some of the participants.

Furthermore, the borrower in a syndicated credit normally pays a front-end management fee to the agent bank. This fee is generally in the neighborhood of one-half of 1 percent of the total credit. Although it has been customary for the agent bank to retain the entire fee, participating banks have begun to insist on sharing this fee. It is common for syndicated loans also to include fees for the undrawn portion of the credit. Participants receive a fee for insuring that funds will be available to the borrower when needed. These fees, shared by the participants, also increase profitability. Compensating balances, although diminishing in importance, are still required of the borrower in some syndicated loan agreements. A compensating balance reduces the cost of funds for an institution. These balances are used to make additional loans and further enhance a bank's profitability.

It should be clear from this partial listing of factors that the interest rate spread by itself is not a reliable indicator of a bank's true profit.

Furthermore, acceptable profit margins differ among banks, borrowers and loans. Profitability depends on pricing loans to cover a bank's cost of funds and operating costs and to compensate a bank adequately for the risks involved. For example, interest rate spreads are sensitive to risks associated with different sovereign borrowers. The October issue of *Euromoney* contained an analysis of terms and conditions for sovereign borrowers that have tapped the Eurodollar and floating rate deutschemark syndicated loan market in the first 7 months of 1979. A weighted average spread was calculated for each sovereign borrower. Spreads range from a low of .48 percent for France to a high of 2.15 percent for Pakistan.

Bank pricing policy is one of several matters to which U.S. bank supervisory agencies pay particular attention in evaluating a bank's international lending acitivities. We use the supervisory tools available to us to call to the bank's attention any instance where we believe the bank's lending policy has gone beyond the limits of prudence.

### Financing U.S. Exports

OCC does not collect figures on the proportion of U.S. exports financed by U.S. banks. The Department of Commerce may have the necessary data.

According to some available evidence that bears on this issue, exporters have consistently indicated that lack of adequate financing is not a problem. In a November 1977 survey conducted by the Department of Commerce, less than 1 percent of approximately 1,300 manufacturing and export trading firms surveyed reported that lack of financing presented a problem. Those findings were supported by another more informal survey taken by the President's 1978 National Export Policy Task Force in which major trade and industry associations and exporting firms participated. There were no complaints of inadequate financing support by private institutions from over 200 responses.

Larger American manufacturers and producers in general sell finished products directly to foreign customers rather than through a trading company per se. It is our opinion that U.S. banks are actively involved in financing the export activities of larger American manufacturers. Small to medium sized American manufacturers, however, may engage the services of U.S. export management companies. These companies are small, tend to specialize in a particular industry and/or overseas market and perform a more limited range of functions than, say, Japanese or Korean trading companies. U.S. banks apparently do not perceive many American export management companies to be attractive borrowers because of their small size, their high leverage and their tendency to be transaction oriented rather than maintaining continuing relationships with foreign buyers.

U.S. banks outside the money centers and major port cities are becoming more aware of the opportunities open to them regarding direct financing of exports. Increased use of letters of credit and acceptances may indicate that smaller banks are becoming more involved in financing the exports of their customers. Smaller banks are generally hampered from financing a significant portion of export activities because there are limitations with respect to a bank's capital on the total amount of acceptances it may issue. As companies grow larger and wish to enter overseas markets, they have frequently outgrown their local banks. They need the sophistication and the capital base that money center and major port city banks have to offer. When a commercial concern reaches a certain size, it frequently either solicits or is solicited by a larger bank that can offer a fuller range of exporting services to meet the company's growing needs.

While financing is not a major obstacle to U.S. exports, orientation toward exports and knowledge of the requirements for trade arrangements may be lacking in many U.S. firms which could be successful exporters. Recognition of this fact is, of course, the basis for the U.S. government's export promotion and assistance efforts as well as programs operated by various state and local governments and private sector organizations such as the chamber of commerce.

There may also be a need for greater incentives for exports by U.S. commercial and industrial enterprises. If such incentives were created, we are confident that U.S. banks would provide the necessary finance for exports just as they would for any other potentially profitable activity. Many large U.S. banks have separate departments that advise U.S. companies on how to export their goods and services to overseas markets. In a very general way, they serve in certain capacities like a trading company. They provide not only the financing, but the expertise as well. However, with respect to providing exporters with complete trade finance and service packages, banks in some foreign countries are way ahead of those in the United States.

Many major foreign banks own trading companies and confirming houses and can provide convenient one-stop service for exports, including financing, credit checks, foreign exchange, advice on markets and connections to vital distribution channels. In order for U.S. banks to provide such one-stop service, they might need broader authority to undertake some activities that may not be considered incidental or closely related to banking under present rules. There are obviously important policy and technical questions involved here. We are not prepared to deal with them today except to propose that it would be a fruitful inquiry to determine exactly what legal changes would be necessary to authorize U.S. bank establishment of one-stop trade finance and service facilities. We are confident that multinational banks would seize any new opportunity in this area. Moreover, they could offer such a facility to smaller banks through correspondent networks and thereby deliver a product which could be very effective in assisting exports by medium-sized or smaller firms.

## Statement of Cantwell F. Muckenfuss, III, Senior Deputy Comptroller for Policy, before the Senate Committee on Banking, Housing and Urban Affairs, December 21, 1979

I appreciate this opportunity to participate in the committee's oversight hearings on the enforcement of fair mortgage lending laws and regulations. These laws and regulations represent important steps taken by the Congress to assure that all of the citizens of our country have fair access to credit. The Comptroller's Office supported the enactment of these laws and has made substantial efforts to assure that they are enforced.

We believe that these hearings serve a constructive purpose at this time. In times of monetary restraint and resulting credit stringency, it is critical that access to credit be based on rational and objective factors and not prejudice. Moreover, the timing of these hearings is opportune for our Office. We are planning to conduct a comprehensive review of our civil rights and consumer examination and enforcement efforts during 1980. Responding to the committee staff's questions has assisted us in framing the agenda for this review.

Addressing these questions and attempting to convey to the committee both our priorities and the full range of our civil rights examination and enforcement functions, this testimony addresses:

- The principles which we believe should guide responsible efforts to implement the civil rights laws;
- Institution building efforts within our Office during 1978 and 1979 aimed at buttressing the effective and efficient enforcement of these laws;
- Other principal priorities during 1978 and 1979 (development of a computerized data analysis system to assist in detection of discriminatory home lending practices and patterns and implementation of the Community Reinvestment Act (CRA); and
- Finally, our goals for 1980, focusing on areas of concern suggested by the committee staff's questions.

Since the passage of the Fair Housing Act in 1968, implementation of the civil rights laws vis-a-vis financial institutions has evolved. Our experience indicates that systematic and blatantly discriminatory practices, which were relatively common 10 years ago, have been all but eradicated. For example, while not unheard of, it is extremely rare to find evidence that it is a bank's policy to refuse to extend credit to minority citizens. Assessing where we are today, we often forget the route we have traveled. Real and concrete progress has occurred.

At the same time, further work remains. While most systematic and blatantly discriminatory conduct has been eliminated, more subtle, yet pernicious, forms of discrimination do persist—often at institutions that have no intention whatsoever of treating protected classes unfairly. In many cases, such conduct results from the use of time-honored, but ultimately irrational, credit standards and practices without awareness of their possible discriminatory effects. In other instances, illegal discrimination may occur where management is committed to fair lending policies but individual employees, consciously or unconsciously, apply their own biases in screening applicants or recommending credit decisions.

The shift in agency focus from direct to indirect and more subtle forms of discrimination has many consequences. Most importantly, the task of identifying indirect discrimination is much more difficult. However facile the phrases lawyers may use to describe a doctrine, the line between justifiable and, therefore, appropriate conduct and indirect but illegal discriminatory conduct is often a hazy one, requiring judgment that is both complicated and subjective. Moreover, even when the determination is relatively clear, the appropriate government response may be to educate, not punish. And, finally, we must underscore that the degree of difficulty for our examiners is increased by the fact that lawyers, legislators, bankers, public interest groups and regulators disagree fundamentally as to the appropriate governmental response to more subtle forms of discrimination.

## Guiding Principles

Because the role of the government in this area is evolving and, indeed, becoming more difficult, we believe that it is useful to articulate clearly the principles which have guided and will continue to guide our approach in this area:

- First, where direct, conscious and illegal discrimination continues to exist it must be rooted out. Such conduct must be dealt with firmly;
- Second, conduct which is not overtly discriminatory but which has a disparate impact on a class protected by the civil rights laws and which lacks sufficient business justification should be identified and eliminated;
- Third, scarce agency resources—both human and financial—must be targeted so as to achieve the maximum benefits. Accordingly, priorities must be established, with the necessary result that desirable but less pressing activities be put aside in the short run. Our new computerized fair housing home loan data system, which we will discuss in some detail, represents an experimental effort to achieve this goal;
- Fourth, government compliance and enforcement efforts should result in the minimum cost and dislocation in the regulated institutions consistent with achieving compliance with the law. To do otherwise is to pass unnecessary cost through to consumers. A corollary of this principle is the notion that the burdens of regulation should fall most heavily on those institutions whose record of compliance is poorest. Accordingly, we believe government has a responsibility to think through cost impacts *before* we establish new regulations, procedures, forms or requirements and then to select the least burdensome methods which will accomplish the task;
- Fifth, adversarial aspects of the discussion of these issues should be minimized, especially as we attempt to address the subtler forms of discrimination. When in an adversary posture, the natural tendency of the banker, the regulator or the public interest lawyer is to resort to hyperbole and, thus, to antagonize. In this context, where the issues are often genuinely difficult and where the ultimate answer lies in sensitivity and understanding, we believe that education and firm encouragement are preferable to confrontation and litigation. Indeed, one of the great virtues of the new CRA is that it lends itself to this approach; and
- Sixth, and perhaps most importantly, a major focus of our efforts must be institution building. All too often in Washington, energies are totally absorbed with the necessary concerns of the lawyer—the development of laws, regulations, policies and procedures. However, we must not lose sight that *effective and efficient implementation of policy* is dependent on the skills, resources and dedication of organizations of people who must be trained (and retrained when new legislation is passed), motivated and supported. This is particularly true in relatively new or rapidly evolving areas of government concern.

## Institution Building Effort in 1978 and 1979

The process of institution building, which has been accorded highest priority in 1978-79, has been a complex one. Our efforts have included organizational and program design; recruiting (both within and outside the organization); training and sensitization; and, perhaps most importantly, active, demonstrable support by the most senior officials in the agency. Although the payoff for these efforts are difficult to quantify in the short-run, we are confident that the long-run benefits in assuring fair treatment to all citizens will be substantial.

### The Foundation

Before outlining in brief some of the steps that we have taken in the last 2 years, it is important to note the firm foundation upon which we have built. In 1974, the Comptroller established the Consumer Affairs Division. The division, under the leadership of Thomas W. Taylor, was responsible for developing consumer examination procedures and handling consumer complaints. The consumer complaint information system was developed in 1975 and a separate consumer examination was implemented in 1976. The division was also responsible for developing and implementing programs to train examiners in the consumer examination procedures. Mr. Taylor is now the Office's regional administrator in New York, a tribute to the outstanding job he did and indicative of the extent to which our consumer and civil rights functions have been integrated into the overall operation of the Office.

### Establishment of Position of Deputy Comptroller for Customer and Community Programs

In further recognition of the importance of our responsibilities under the consumer and civil rights laws, our new responsibilities under the CRA and the need to pursue community development objectives in a nonregulatory approach, an Office of Customer and Community Programs, headed by a deputy comptroller, was created. Reporting to this deputy comptroller are three divisions: the newly created Community Development Division, the newly created Customer Programs Division and the Customer, Community and Fair Lending Examinations Division. Major responsibilities of the latter office, which was formerly the Consumer Affairs Division, include establishing consumer examination procedures, helping to train consumer examiners, reviewing examination reports, handling consumer complaints, monitoring complaint resolutions and bank responses to examination findings, advising regional offices on examination problems, reviewing bank applications with respect to the CRA and implementing the new fair housing home loan data collection and analysis system. The managerial capacity of the Office of Customer and Community Programs has been further augmented by the creation of the position of Assistant Deputy Comptroller and the appointment of a senior national bank examiner to that position.

### Creation of the Customer Programs Division and the Community Development Division

An important aspect of the creation of the Office of Customer and Community Programs was the creation of the Customer Programs and the Community Development divisions. A primary purpose of both is to develop, foster and facilitate constructive nonregulatory approaches to problems in consumer protection, civil rights and community reinvestment. Successful attainment of this objective will go a long way in achieving the principle of reducing the adversarial and confrontational nature of consumer protection and civil rights regulation.

Specifically, the purpose of the Community Development Division is to encourage and facilitate commercial bank participation in the development process in local communities and neighborhoods through nonregulatory means. It serves as a clearing house for information pertaining to community reinvestment programs of various financial institutions; it informs national banks of governmental programs in the community development area; it will develop model community development programs; and it facilitates communication between community groups and banks.

The Customer Programs Division is responsible for policy initiation and formulation with respect to consumer protection and civil rights. Other tasks include oversight and monitoring in these areas, regulatory reform, outreach to public interest and banking groups, internal advocacy of the interests those whom consumer and civil rights laws seek to protect, and special educational programs.

In addition, a Special Assistant for Civil Rights, who reports to the Deputy Comptroller, is responsible for monitoring, coordinating and strengthening OCC programs and activities involving the fair lending laws and regulations.

### Consumer Examiner Career Path

Our efforts at institution building have extended beyond reorganization and enhancement of our staff in Washington. To assure the development of a highly skilled and committed corps of examiners in the consumer protection, civil rights and community reinvestment areas, we recently established a consumer examiner career path which provides for specialization in these areas by both assistant and commissioned national bank examiners, while still allowing career progression and maintenance of proficiency in commercial examining. The position of regional director for customer and community programs, involving specialization at an administrative level with high visibility, has been established as a part of the career path in each of our 14 regional offices. Regional consumer complaint specialist positions have also been established in most regional offices.

### Training

Recognizing that the fulfillment of our statutory responsibilities for enforcing compliance with the consumer protection and civil rights laws is best accomplished through a well-trained and adequately supported examiner force, we have placed major emphasis on training. Since we began the specialized consumer examination in 1976, we have trained well over 1,000 individuals in 2-week schools aimed at the assistant examiner level. Update schools are conducted at the field examiner level and regional director levels on a regular basis. We have strengthened the content and format of these training programs in 1979. Nearly 300 examiners have received training this fall, and plans have already been made to train another 450 to 500 people next year.

Although our first priority was to train field examiners to perform consumer examinations, we have expanded our training efforts with a special school for senior-level commissioned national bank examiners during 1979. We view this as a long needed and important step toward full integration of our efforts in these areas into the overall operation of the office.

The first of these senior-level schools was held this week for 90 percent of our examiners-in-charge, as well as many of our other senior-level field examiners. Senior policy officials within the agency were also present at the school to demonstrate the importance of the consumer area as a part of the overall examination function of the OCC. The school proved to be very successful. We believe it will provide the basis for rapid progress next year in the quality of examinations performed in the consumer area.

### Other Priorities During 1978 and 1979

In addition to concentrating on institution building over the last 2 years, we have also devoted considerable efforts toward developing a fair housing home loan data collection regulation and data analysis system and toward developing and implementing the CRA regulation. We will address each of these in some detail. However, because we have provided the committee with materials which describe in detail all of our other current efforts to implement the fair lending laws, we will not attempt to describe these programs here. We will instead respond to the questions posed by the committee staff regarding our current activities after discussing our fair housing data analysis and CRA efforts.

### Fair Housing Home Loan Data System

Developing the fair housing home loan data system was a major priority during 1978 and 1979. The system we now have establishes a procedure to monitor national bank compliance with the Fair Housing and Equal Credit Opportunity acts. It is designed to improve the enforcement capabilities of the Comptroller's Office while minimizing paperwork and red tape through a computer-based analysis system which can identify banks with potential discrimination problems. Recordkeeping requirements have been established to assure that adequate information about home loan applications is available for review by bank examiners. The most prominent features of our system, including its objectives, development and primary characteristics, are set forth in greater detail below.

*Objectives*

We determined at the outset that our overriding objective in developing a data analysis system should be to supply to the examiner, prior to an examination, an analysis of a bank's home lending practices. Such information permits him or her to focus on potential problems, thereby enhancing the effectiveness of the examiner in detecting direct and indirect discriminatory home lending practices. In other words, we believed it to be essential to develop a system that could be integrated easily with the examination process. There were two reasons for this emphasis. First, it is sensible to continue using well-trained individuals who are familiar with bank lending procedures. Second, although a data system can process a great deal of information and point out potential problems, it cannot by itself conclusively prove the existence of illegal discriminatory practices.

Recognizing the twin goals of maximizing efficiency in government while minimizing regulatory burdens consistent with effective enforcement, we consider it essential to attempt to develop a data system that minimizes costs both to the Comptroller's Office and to national banks while simultaneously enabling us to enforce fair mortgage lending laws more effectively.

In summary, as we developed the fair housing recordkeeping regulation and the data system, our objectives were to:

- Develop analytical tools and techniques that assist and focus the examiner's onsite investigation;
- Provide for the collection and retention of sufficient information by banks to enable evaluation of compliance;
- Minimize additional recordkeeping burdens on commercial banks;
- Minimize the use of human and financial resources of the Comptroller's Office; and
- Maximize the effectiveness of enforcement.

Development of an analysis system that successfully melds all of these objectives has proved to be a long and arduous process. Although we have not yet completed this task, substantial progress has been made. We anticipate that this careful and deliberate approach will result in more effective supervision of bank compliance with fair mortgage lending laws and less of a regulatory burden in the long run.

*Initial Development of the Data System*

During the first 3 months of 1979, we engaged in several activities which culminated in the release of a proposed rule and guideline for comment on April 13, 1979. One of these activities involved review and study of similar fair housing programs established and operated by the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board. We have benefited greatly from the experience of both agencies.

Second, we surveyed a sample of 28 national banks of various sizes and from all regions of the country to determine current variations and similarities in home loan application processing procedures and in underwriting criteria used to make lending decisions.

Third, banks located in urban and suburban areas in both unit and branch banking states were asked to conduct a study of the costs of meeting the data submission requirements under the proposed regulation. Each bank assigned personnel to retrieve files and record data on a special form for a sample of accepted and rejected applications. Total costs per accepted application ranged from $1.16 to $4.79. Total costs for processing denied loan applications ranged from $1.53 to $3.47 per file. Thus, the cost to the bank would range between $300 and $1,200 for 250 applications, the maximum number that ordinarily would be required for our sample. The cost would be lower for most small banks which have fewer than 250 home loan applications per year.

Fourth, we collected data on several hundred accepted and rejected home loans from a few banks. These data, after editing, served as the basis for experimental development of a data analysis system.

*Scope of the Analysis*

Discriminatory practices can occur before an application is filed (prescreening), in the decision to accept or reject a loan, or in the establishment of the terms (such as interest rate, downpayment and maturity) of a loan. Generally, information from applications is useful in determining whether discrimination occurs in the lending decision or in the setting of terms but not for detecting prescreening. In regard to the committee staff's question about use of data analysis to detect prescreening, information will be collected as a part of the data system on the number of accepted and the number of rejected applications. This will enable us to look for low overall rejection rates. Furthermore, excessively tight standards for accepting loan applications will be revealed by consistently low values of the loan-to-house price ratio and monthly-housing-payment-to-gross-monthly-income ratio. Both low rejection rates and tight lending standards may reflect the presence of prescreening or discouragement, but neither can be taken as conclusive proof. Such measures could be used to trigger other more intensive prescreening investigation procedures. (Prescreening is discussed in greater detail later.)

For the reasons stated, work on the data analysis system to date has been confined to the lending decision and the terms granted. To use our resources most effectively, we concentrated initially on the lending decision. Developmental work on this part has been completed. We have now turned our attention toward developing the data analysis techniques, about which you have inquired, for determining possible discriminatory practices in the setting of loan terms. We expect to complete development of this part of the analysis system by April 1980.

*Analytical Approach for Detecting Possible Discrimination*

The general approach pursued in developing analytical procedures for evaluating a bank's decision to accept or reject applications is to eliminate from further consideration as many applications as possible that are consistent with the bank's credit granting decision standards. Applications involving decisions which appear to be inconsistent will be referred to the examiner for further investigation during the onsite examination. That is, the data analysis system searches for possible discriminatory treatment (rejected loans which have characteristics more nearly like accepted loans) and for possible preferential treatment (accepted loans which have characteristics more nearly like rejected loans).

Using three measures—the ratio of the loan requested to the price of the property, the ratio of the monthly housing payment to gross monthly income and the ratio of total monthly debt repayments to gross monthly income—our analysis indicates that 80 to 90 percent of application decisions would generally require no further consideration. This technique assumes that the bank's standards for these three measures are appropriate and are not unduly restrictive so that prospective applicants from protected classes are discouraged, or actual applicants from protected classes are rejected. One of the staff questions asked whether these standards may themselves tend to have a discriminatory effect. Summary statistics by race and other groupings can be produced by the data system which will aid in evaluating whether this is a problem. The remaining 10 to 20 percent of the loans which were inconsistently classified are analyzed according to race, sex, marital status, age and percentage of gross monthly income earned by any coapplicant. (These applications can also be analyzed according to gross monthly income and house age.) Individual misclassified loans falling into protected classes are singled out for indepth review during the examination. Using standard statistical tests, we can also determine whether a pattern or practice may exist with respect to a specific protected class. In response to the committee staff's questions about data analysis of certain forms of age, sex or marital status discrimination, the data analysis system will identify particular applications which involve possible discriminatory effects on protected classes, including those households in which the wife earns more than 50 percent of the income or the borrower is 55 or older.

It is important to reiterate that the data analysis system does not prove the existence of discriminatory practices. The bank may have legitimate reasons for its conduct which were not considered in the data analysis system. For example, the applicant might have a poor credit history or might have falsified information. We found that it is too costly to collect and process information such as this in relation to the improvement in the ability of the data system to detect discrimination. However, these reasons can be investigated by onsite examination of selected loans. Consequently, the bank is required to maintain such information in the loan file for review by our examiners but is not requested to submit it to us for computerized data analysis. In the case of rejected loans targeted for examination review, the examiner first checks the file to determine whether in his or her opinion the reason given for rejection was bona fide. To assist the examiner in conducting the review, we anticipate providing a list of consistently classified loan applications, a list of inconsistently classified applications, a list of individual loan applications for review, and an indepth summary of each case for review.

Corrective action will be required in cases where illegal discrimination, either direct or indirect, is determined to have occurred. In addition, based on the findings of the examination and using standard statistical tests, it will be possible to determine whether a pattern or practice of violations occurred with respect to any protected class. If it is clear that only isolated instances involved discrimination, no further data analysis may be undertaken. Otherwise, the bank will be required to submit data for other applications not already evaluated by the data analysis system and may be required to maintain an inquiry/application log to closely monitor future lending activity.

Another committee staff question asked about our approach in analyzing discrimination in the setting of lending terms. It is our intent to use a similar approach in developing data analysis procedures for evaluating lending terms of accepted loans for possible discriminatory treatment. First, as many of these accepted loans as possible will be eliminated from further specific review by the examiner. During the onsite examination, the examiner will review the files of those remaining loans that belong to at least one of the protected classes to determine whether sound reasons exist for the terms granted on any of these loans. Corrective action, as appropriate, will then be required.

One of the committee staff's questions asked whether the data analysis system would identify possible discrimination by underappraisal. There are two ways in which underappraisal could lead to a discriminatory effect. First, it may lead to the improper rejection of an application. Second, it could lead to the request for a higher down payment than warranted. We have no way of learning through the analysis system itself whether an underappraisal has occurred. We do have information which will indicate how close the appraisal is to the price offered for the property. If the appraisal was substantially less than the price of the property, of course, there may be reason to believe that an underappraisal may have occurred. In the case of a rejected loan, the examiner, during the course of the examination, could review the appraisal methods of the bank. We have not yet progressed far enough in our development of the analysis system with respect to lending terms to indicate how possible discrimination stemming from the appraisal may be identified.

*Attention to Efficiency and Cost Reductions*

The final fair housing home loan data system regulation was adopted on November 2, 1979, with considerable changes from the proposed regulation in response to 144 written public comments and as a result of our further development of the data analysis system. These changes illustrate our commitment to the principles that we must use our own resources efficiently and seek to minimize compliance burdens on lenders.

- First, the inquiry/application log was eliminated, except as an enforcement tool. Most banks felt that this log would create an excessive burden. It was argued that banks which prescreen illegally might not list inquiries, while banks which do not discriminate would be unjustly burdened. Furthermore, it was determined that the log would be very costly for the OCC to process. Part of the intended purpose of the log was to assist the OCC to designate a sample. However, it was determined that the sample could be determined satisfactorily at far less cost to the banks and to the OCC by using home loan application volume information. As a result, the monthly home loan activity format was substituted for a requirement of a complete log of all inquiries and applications;

- Second, certain categories of home loans, particularly mobile home loans and home improvement loans, were excluded from recordkeeping and data submission requirements because the lack of consistency among banks in how these loans are processed limits the effective use of a data analysis system. As we gain proficiency in the use of data analysis, this decision will be reviewed. Home loan applications for purchase, construction, permanent financing or refinancing of residential real property are covered by the regulation. Each type will be evaluated by the analysis system provided there are enough cases;
- Third, banks which receive fewer than 50 home loan applications a year are exempted from maintaining the monthly home loan activity form. In addition, banks with fewer than 75 applications a year will generally not be requested to submit home data submission forms because statistical data analysis is difficult to perform on a small number of loan applications. The number of home loan data submission forms requested will not exceed 250 per decision center or 2,000 per bank with multiple decision centers, unless there is cause to believe that a bank is not in compliance with fair housing laws. A decision center is the place where home loan applications are accepted or rejected.

*Sampling Procedures*

All loans accepted and rejected during a short time period will be selected by OCC as the loan sample based on information about the volume of applications submitted by the bank on the monthly home loan activity form. Sampling on the basis of protected classes would have required costly maintenance of a more detailed log of all applicants. A time-determined sample, of course, could include too few applications from a particular protected class for data analysis to occur with respect to that class. In such instances, the incidence of that protected group among all applications processed by the bank in question is unlikely to be of sufficient overall size to warrant extraordinary procedures. In any event, our tests to date have indicated that if there is evidence that a bank may be engaging in discriminatory practices, it is likely that it is doing so for more than one protected class. It is also likely that the system will detect possible discrimination toward at least one and possibly more such classes. If such is the case, the bank may be required to submit additional applications for analysis. For these reasons, we believe the sampling procedure is not only the least costly one but will also detect discriminatory practices in most instances where they actually exist.

*Monitoring Costs and Benefits*

Our Regulations Analysis Division will monitor the costs and benefits of the fair housing home loan data system as part of our overall program of regulations analysis. In addition, we intend to review and evaluate the system continually and will modify it to improve effectiveness and reduce costs to the extent possible.

*Discrimination Based on Neighborhood*

The committee staff also inquired whether the number of applications filed would be compared to the expected flow of applications from a neighborhood with certain demographic characteristics. We have no plans at this time to do so and suspect such an analysis would be extremely costly and burdensome. A soundly based analysis would require gathering information for all home lending institutions in the neighborhood.

In response to the question about analysis based on the age of the house, there may be a way to approach this within the confines of the data analysis system as currently designed at virtually no additional cost. Banks are required to submit information on the year the house was built. The age of a house is closely correlated with the type of its neighborhood. Houses are generally older in inner-city neighborhoods and newer farther away from the center of the city. House age, in a manner similar to protected class data, can be analyzed for inconsistently classified applications to determine whether a pattern exists. Although this procedure does not readily permit the evaluation of lending practices in a specific neighborhood, we believe that the information is especially useful in checking for compliance with the CRA. Accordingly, we intend to include an analysis of house age as part of the fair housing home loan data analysis system.

**Implementation of the Community Reinvestment Act**

Substantial effort was required during 1978-1979 to implement the CRA. Following the act's passage in October 1977, six public hearings were held around the country, and proposed regulations were issued in July 1978. After reviewing over 530 public comments, final regulations were issued in November 1978. Joint examination procedures were developed with the other federal financial regulatory agencies which we then incorporated into the Office's consumer examination handbook and examiner training materials. Special training sessions were held for our consumer examiners and the regional office directors for corporate activities, who must consider CRA performance in reviewing applications for new banking facilities. Training materials were developed and provided to banks.

From November 1978 to June 1979, we conducted 1,121 consumer examinations in which a CRA performance assessment was made. We have held three public hearings about applications for banking privileges on which a significant protest on CRA grounds was filed. In addition, 1,113 banking applications have been reviewed for community lending performance under CRA during the first 11 months of 1979.

This effort has directly contributed to our ability to reduce discrimination in mortgage lending. The examination procedures and implementing regulations under CRA are clearly useful in detecting and correcting many discrimination problems. Moreover, the law provides us with a highly flexible, supplementary tool for dealing with certain fair lending problems in the context of various licensing proceedings.

This is true for two reasons. First, the CRA examination procedures can be very effective for detecting geographic and possibly racially motivated "redlining." Since CRA requires us to assess a bank's record of meeting the credit needs of its entire community, specifically including low and moderate income neighborhoods, the examination procedures involve a geographic analysis of the bank's lending patterns in those specific areas. In many instances, low and moderate income census tracts are highly correlated with predominantly minority census tracts. This analysis, therefore, can easily be used to uncover patterns which may reflect racial, as well as income-based, lending practices. Furthermore, the analysis readily allows the comparison of minority census tract information with middle and upper income populations within a bank's service area. The discovery and correction of disproportionate patterns of bank services under the CRA procedures has obvious utility for advancing both Equal Credit Opportunity Act (ECOA) and Fair Housing Act enforcement policies.

Second, the CRA regulations and examination procedures explicitly reinforce the interaction of CRA and fair lending laws by citing evidence of discriminatory practices as one of the explicit assessment factors used in evaluating CRA performance. The agency may thereby use the application denial sanctions provided by CRA as a supplementary tool in dealing with banks which have problems under ECOA or the Fair Housing Act.

In short, CRA can be a backup to the Fair Housing Act and ECOA, and the latter two laws in turn readily supplement CRA. The three laws, used in conjunction with the critically important data base provided by the Home Mortgage Disclosure Act, provide substantial regulatory flexibility to deal with geographically based illegal discrimination. In response to your specific question about issuing substantive regulations or guidelines on neighborhood discrimination, we believe that this combination of statutory tools should be given time to work before the agencies consider adopting additional regulations. After further regulatory experience has been gained under these laws, Congress may wish to consider consolidating the statutes into a single law which could be, at once, more effective and simple.

**Ongoing Enforcement Activities During 1978 and 1979**

In addition to developing the fair housing home loan data system and implementing the CRA, we have continued our ongoing enforcement activities during 1978-79. These activities are primarily directed toward conducting consumer examinations but also involve investigating and resolving individual consumer complaints. We have sent numerous documents and other materials to the committee staff fully explaining our ongoing enforcement program. Rather than describing the program here, let me respond to the particular questions which were posed by the committee staff.

*Enforcement Actions*

The fundamental tool of bank supervision is the bank examination process. This process relies primarily on informal discussions to encourage voluntary bank compliance. It involves the reporting of violations discovered by examiners to bank management and the board of directors both orally and in writing, the soliciting and noting of management's plans for corrective action and the monitoring of bank efforts in taking such corrective action. The field examiner is our most effective tool in this regard because he or she has direct contact with the bank. The consumer examiner not only directs the bank during its examination to cease particular illegal conduct and to initiate corrective action but also provides assistance and advice regarding possible methods to implement necessary corrective action.

We believe we have been successful through this essentially nonadversarial approach in accomplishing substantial voluntary compliance. For example, in 83 percent of the banks which had second consumer examinations between July 1978 and June 1979, there was no repetition in violations of fair lending laws. Of the total 1,026 banks which received such a second examination during that period, only 174 (or 17 percent) had repeat violations of one or more of the provisions of ECOA. The only significant concentration of repeated violations concerned two specific areas of the application process which involved improper requests for marital status or the failure to disclose the optional nature of reporting income from alimony, child support or separate maintenance payments. Neither of these violations necessarily demonstrates that actual discrimination against any applicant has occurred in the bank lending determinations. Only seven violations, or 2 percent of all repeat violations, of the general rule prohibiting discrimination were noted during that period.

In instances in which corrective action is not obtained through the regular supervisory process, we will use our formal enforcement procedures to eliminate violations.

*Uniform Enforcement Guidelines*

The committee staff asked questions about correcting the effects of past violations and the status of the proposed uniform enforcement guidelines. The five federal regulatory agencies have published proposed guidelines for enforcement of the Equal Credit Opportunity Act and Fair Housing Act which call for remedial actions to correct the effects of past violations. Public comments were solicited on the proposed guidelines. An interagency task force subsequently considered those comments in its preparation of final guidelines. In addition, the regulatory agencies conducted a field survey in 1979 to identify potential problems in implementation for banks and regulators. The results of this survey have not yet been completely compiled, but preliminary results indicate that several substantive issues, which remain unresolved, concern correcting the effects of past violations. These include:

- How to identify affected customers in banks with inadequate records and documentation;
- Whether to recognize changes in credit policies and developments in the marketplace in requiring consideration of reapplications; and
- The costs of implementation to agencies and banks when retroactive correction is required.

The agencies will review the issues identified in the completed survey early in 1980. We will proceed in the meantime with regular enforcement activities, fashioning corrective action requirements on a case-by-case basis.

*System for Monitoring Violations*

The committee staff asked about plans to change our system of monitoring violations discovered by examiners. Our present computerized monitoring system records all violations by citation to specific sections of the regulations for each examined bank. Our full-scale review of fair lending enforcement efforts during 1980 will include a review of this current reporting method and the methods used by other agencies to determine whether improvements should be made in the consumer examination information system. We will consider such things as:

- Reporting, by category, effects test problems noted during examinations;
- Reviewing our definition of substantive violations to include all repeated violations; and
- Categorizing types of violations where specific citations do not adequately define the nature of violations.

*Complaint Processing*

The committee staff has specifically inquired about the possibility of developing intermediate investigation procedures, in addition to those procedures set forth in Examining Circular 158, which pertain to the investigation of fair housing complaints. Such procedures would be used in appropriate consumer complaint cases for the review of a bank's policies and particular loan applications prior to a more extensive onsite examination. Recognizing the possibility that some consumer complaints may be evidence of systematic discrimination in a bank's policies or procedures which may not otherwise be documented in a bank's records, we intend to implement in early 1980 detailed complaint investigation techniques and procedures which have already been developed. Such intermediate techniques should enable us to resolve more efficiently individual consumer complaints and better utilize our scarce resources to detect and correct bank policies and practices which violate the fair lending laws or have the effect of precluding protected borrowers from obtaining necessary credit.

To this end, formal procedures have been developed for the further investigation of certain types of complaints—whether or not illegal discrimination has been specifically alleged—which are most likely to be indicative of practices that violate the fair lending laws. Such intermediate procedures will require the review of bank loan policies and the documentation for a particular loan in cases which allege, or may reasonably involve, illegal discrimination or "redlining"—particularly regarding credit denials.

*Specialized Examination Procedures*

One question posed by the committee staff implies that the newly revised specialized procedures for consumer examinations will in some way allow examiners to neglect fair lending laws in institutions in which no conduct in violation of those laws has been previously found. This is not the case.

Since we began performing separate consumer examinations in September 1976, nearly 6,000 consumer examinations have been conducted. Each national bank has, in fact, received at least one generalized consumer examination to determine its compliance with all existing consumer protection laws and regulations which include, among others, the various fair lending laws. These generalized examinations, however, cover many other areas of consumer protection. We have, therefore, developed specialized procedures in 1979 to improve our efficient use of examination time by narrowing the focus of some examination areas to the most important issues.

These specialized examinations always include a full examination of bank compliance with the requirements of the Equal Credit Opportunity Act, the Fair Housing Act and the CRA. Those laws, together with the Truth-in-Lending Act, are the heart of our consumer examinations. Under the new specialized procedures, our examiners can devote more time to review of a bank's compliance with these laws.

The new procedures focus on substantive problems in order to permit the most effective use of examination time on the more significant and timely concerns. The examiner is required, however, to review all areas concerning fair lending and expands his or her investigation if problems are encountered or have been identified in the prior examination. The specialized procedures thus structure the examination to fit the situation in each bank while providing for a complete review of fair lending compliance.

**Future Priorities**

An overall review and strengthening of our entire fair housing enforcement effort is a major priority of the coming year. More particularly, we recognize that continued improvement is necessary in our staffing, training and examination materials to ensure the thorough integration of fair lending principles with the traditional bank supervisory functions of our Office. We anticipate that the task of achieving better fair lending compliance by national banks will require a significant commitment of agency resources, which, in some instances, will require reduced attention to other concerns.

In 1980, we intend to undertake a complete top-to-bottom review of the effectiveness of the existing agency structure and procedures for accomplishing these purposes. We will appoint a task force with a cross section of Washington and regional staff to review the content of consumer examinations, training, organizational structure and implementation and monitoring procedures.

The review will seek to set priorities to assist us in more efficiently focusing our efforts on problem institutions and the most serious, common types of discriminatory conduct. Among the many issues to be considered are two about which you have specifically asked. They are detecting and correcting prescreening and applying the "effects test" to credit granting conduct by financial institutions. We recognize that a commitment to focus upon any particular discrimination issue may, however, require significant resource commitments which must reduce resources available for other regulatory policy priorities.

### Prescreening

Illegal prescreening, or discouraging prospective borrowers from submitting applications for prohibited reasons, is a continuing problem in fair lending enforcement. Such illegal conduct is extremely difficult either to detect or prove conclusively. Conventional bank examination techniques are based essentially upon the review of written records, but prescreening leaves no such record. By prescreening, therefore, an institution may illegally discriminate while avoiding the likelihood of supervisory detection.

Moreover, prescreening by individual employees, because of their personal prejudices, is similarly difficult for a bank's own management to monitor or prevent. Prescreening can occur when a prospective borrower inquires about the availability of a particular loan. The individual with whom a prospective borrower talks is far removed from the immediate supervision of bank management, particularly in larger institutions. Therefore, even in those financial institutions in which the management is fully committed to fair housing lending and has established written procedures and training to implement their policies, each such point-of-contact individual is in the position to introduce personal prejudices into the bank's loan transactions. If a particular loan officer or receptionist paints a misleading or discouraging picture to turn away an applicant because of personal biases, conscious or unconscious, the prospective borrower may never submit a formal application. It is unlikely in such instances that either the supervisory agency or the bank's management itself will know about the discouraged inquiry.

In addition to our resolution procedures for individual complaints about prescreening, our present examination procedures for detecting prescreening consist largely of detailed interviews with bank personnel. In some instances, our procedures for reviewing individual loan application forms have also revealed blatant prescreening practices, such as the use of non-neutral terminology which tends to discourage potential applicants from protected classes. Those examination efforts, however, have produced results which are less than conclusive with respect to the practice of prescreening.

Although our new specialized examination procedures focus on prescreening practices, we are concerned that current examination techniques are not adequate to test some subtle methods of discrimination. We intend, therefore, to implement further procedures to assure more effective enforcement in this area, including the possible adoption of outside investigative techniques. The committee specifically asked about contacting real estate brokers. We plan to revise our existing examination procedures to call for contacts with individuals outside the bank, such as real estate brokers, to investigate possible instances of illegal prescreening. This change in our examining procedures will parallel those currently used with regard to the CRA.

The committee staff has specifically asked whether we currently plan to use "testers" to detect prescreening by posing as applicants. We have no plans to do so at this time.

However, to enhance our abilities to detect prescreening, we recognize that further study will be necessary to determine the extent and nature of discrimination in the pre-application processes of lenders. A prescreening study, proposed by the Department of Housing and Urban Development and the Ford Foundation, could provide new insights into the extent of prescreening and the potential value of such testing techniques. It may yield a methodology which could be employed by civil rights organizations in substantiating instances of discriminatory prescreening conduct.

### Effects Test

The committee staff raised several questions concerning our enforcement efforts with respect to the "effects test." As a part of our comprehensive review in 1980 of fair lending law enforcement, one of the issues we will consider is how to identify and correct more subtle forms of unjustifiable discrimination such as those which would be found to be illegal under the "effects test" doctrine. Resolution of this issue is difficult, because practices which have discriminatory effects may be legitimately designed to evaluate risk or to minimize loan processing costs. Perhaps the greatest challenges today in the fair lending field are (1) to identify which of the myriad, endlessly varied, credit standards in common use have a disparate impact on protected classes, and (2) once these practices are identified, to decide whether the business value of these practices justifies their use in spite of their disparate impact. Despite the inherent difficulty of making regulatory judgments about disparate impact and of balancing business justification against disparate impact, we are committed to improving our enforcement methods.

In response to the committee staff's question, we do not currently plan to issue regulations or formal guidelines unless, and until we find through experience that certain policies or practices usually have a disparate impact and lack sufficient business justification for continued use. Rather, our approach will be to evaluate and correct problems on an individual case basis, while educating and sensitizing our examiners and the banks to potentially discriminatory practices.

In this regard, a major fair lending priority in 1980 will be to review all of our examination materials, including those which were the focus of the committee staff's questions, to strengthen our incorporation of the effects test principle in our enforcement procedures. These revisions will cover the examination handbook, the training materials, the circulars, the format of the examination report and the monitoring through our computer system of problems discovered by examinations or complaints. The revisions will make it clear that examiners are to review credit practices which may have a discriminatory effect as a normal part of the consumer examination and report potential problems to the bank and its board in the written examination report process. When problems do exist, corrective action will be sought and enforcement actions will be used where appropriate. The committee asked about our plans to provide illustrative examples of possible problem areas. We intend to provide such examples to our examiners and, as we gain experience, expect to issue increasingly explicit guidance.

Finally, we believe that prescreening and the effects test are particular issues in which it is important to develop an approach that minimizes adversarial relationships in favor of a cooperative approach. Indirect or inadvertent discrimination is often so subtle that the most effective tool against it in the long run may be to increase the sensitivity of lenders and consumers alike to those practices which lead to it. Thus, we will also make it a priority for 1980 to encourage a public dialogue to develop a consensus on which practices are most likely to have unjustifiable discriminatory effects and to enhance understanding of these important issues.

## Remarks of John G. Heimann, Comptroller of the Currency, before the Joint Luncheon of the American Economic Association and the American Finance Association, Atlanta, Ga., December 28, 1979

This season of the year is a traditional time for reflection and prediction. We look back over the events and lessons of the past and, simultaneously, gaze into our clouded crystal balls and try to predict the future. The end of 1979 gives rise to more than the usual amount of indulgence in the popular exercise known as "putting things in proper perspective." This year has been unusually eventful; it marks the transition between decades, always a time for prognostication, and it celebrates the 50th anniversary of one of the most crucial periods in modern economic history. The temptation for retrospectives on the Crash of '29 and the Great Depression has proven irresistible. Even this scholary assembly could not resist holding a session this morning with the epigraph: "To mark the 50th anniversary of the onset of the Great Depression." I, too, have fallen victim to the urge to take the historical perspective.

### Inflation and the Need for Capital Investment

The dubious distinction of being named "economic watchwords of the 1970's" would, of course, go to *inflation* and *energy*.

Various pundits and students of the subject have offered different explanations for the price inflation experience of the 1970's. Some have seen the genesis in excessively stimulative fiscal and monetary policy in the joint pursuit of the war on poverty and the war in Vietnam. Some have faulted the conduct of monetary policy in general. Others have pointed to the unusually synchronous business cycle expansions of major industrial countries in the early 1970's as overheating world demand, particularly for raw materials, and thus permitting inflation. The depreciation of the dollar in the foreign exchange markets following the adoption of the floating rate regime in the early part of the decade is seen as another piece of the puzzle, as U.S. import prices were bid up in dollar terms causing direct inflationary pressure and a lessening of the restraining influence of imports on prices of substitute domestic items. Some provocative research indicates that the experiment with wage-price controls in the early 1970's itself contributed to the succeeding round of inflationary steam. The dramatic oil price increases from mid-decade on are, of course, identified, in the popular mind at least, as the most potent source of inflationary pressure over this period. There is undoubtedly some truth in each of these, as well as other explanations that have been offered.

A classic definition of inflation is too much money chasing too few goods. This definition implies two possible remedies—less money or more goods. Given our druthers, we would almost all agree to more goods as the preferable remedy.

While there is lively debate on details, more goods and services come from applying greater quantities of labor and/or greater quantities of capital and/or improved technology to the various production processes. And, despite some serious bumps along the way, the 1970's have indeed witnessed a fairly substantial increase in the volume of goods and services produced by the U.S. economy. Measured in dollars of constant purchasing power, GNP this year will come in at a level close to one-third higher than 10 years ago.

This was accomplished in part through a truly phenomenal increase in labor input, which resulted from the coming of age of the bumper crops of the post-war baby boom and a significant increase in labor force participation rates. To give some sense of the magnitude of these efforts, consider that in the decade of the 1970's the U.S. labor force expanded by about 20 million people; the expansion of the labor force for the preceding two decades combined amounted to only 18.5 million.

The 1970's were also a period of substantial increase in capital input. Capital investment over the decade aggregated $1.85 trillion in 1972 dollars, over $3 trillion in dollars of 1978 purchasing power. Although displaying more variability in the 1970's than in earlier decades, the ratio of gross private domestic investment to GNP has been about the same on average in this decade as in the 1950's and 1960's.

Given these increases in inputs, the increase in output has seemed less than satisfactory. The problem can be seen in the allowed rate of productivity improvement in our economy in recent years. From 1948 to 1967, output per unit of labor input expanded by an average annual compound growth rate of 3.2 percent. From 1967 to 1978, this rate was almost halved, averaging only 1.7 percent per year. Indeed, productivity change was actually negative during the sharp 1974-75 recession and again this year.

This means that our real standard of living has been increasing at a slower pace in recent years than we expected on the basis of earlier experience. Resistance to accepting this has added upward pressure on nominal wage rates in excess of productivity growth, thereby raising unit labor costs and putting inflationary pressure on prices.

Historically, one of the most powerful engines of productivity growth has been capital deepening—increases in the capital/labor ratio. The capital/labor ratio expanded by only 13 percent during the 1970's. Over the preceding decade, it had risen by 21 percent.

It is a fascinating exercise to calculate future investment needs consistent with various capital/labor ratios. We can expect an influx of about 7.75 million more workers between now and 1984, as the tail end of the baby boom generation reaches maturity and enters the labor force. Simply equipping those workers at current levels, that is covering depreciation and giving the new workers the same amount of capital to work with that today's workers use on average, will require over the next 5 years a flow of gross nonresidential investment of about $840 billion, again measured in 1978 dollars. This is about $168 billion a year, roughly three-quarters of the gross volume of nonresidential investment we actually accomplished in 1978. And remember, ignoring embodied technological progress, this $168 billion per year does not buy us any improvement in productivity; it just keeps us even.

Achieving again the 2 percent level of average annual growth in capital per worker we enjoyed during the great American growth spurt of the 1960's would require an average annual investment flow of $246 billion between now and 1984, fully 10 percent more than the actual volume of investment we accomplished last year. Note that this figure of $246 billion per year is at 1978 prices; pick whatever rate of inflation you think is most likely over the next 5 years and increase the nominal flows accordingly.

This sort of calculation tends to understate the need for capital widening expenditures to sustain productivity levels. It ignores the composition of the labor force, the fact that additions to the labor force come mostly in the form of young, inexperienced workers and women returning to the labor force in mid-life. One might therefore expect the need for higher capital/labor ratios just to hold labor productivity constant. Additionally, it ignores the composition of investment, the fact that expenditures for pollution abatement and similar purposes, which have been running above one-eighth of nonresidential investment, contribute nothing to our measured indices of output, which is not to say that they have no value. Again, one would expect higher levels of capital investment required for any level of labor productivity.

The capital demands of other national goals in such areas as energy independence, environmental improvement, and improvements to our defense posture add further sizeable numbers to the investment flows which will be "needed" in the coming years. Discussions of capital needs and investment flows often lead to discussion of the financial system and proposals for its reform if we are to achieve our capital investment needs.

### The Role of the Capital Markets

The capital markets, of which you are students and practitioners, perform two important economic functions. By far the larger in terms of volume is intermediating the change of ownership of existing assets. The significance of this for economic growth is that by providing broad and deep opportunities for exchange of existing assets, *i.e.,* liquidity, the financial markets encourage flows of new capital investment. This is the link to the second key function, to channel the resources not consumed, savings, into new capital assets, investment.

How well can we expect the financial system to perform these functions, and especially the latter one, in the face of the heavy capital investment needs of the 1980's? I think the lessons of recent history are reassuring, for the capital markets have proven resilient and adaptable.

In my view public policy should focus on where the problem is, and in my view the problem is not in the financial sector. In the face of some substantial regulatory constraints and hidden or explicit efforts at government credit allocation, the private financial sector has found its way to satisfying market demands.

The 1970's have been a period of high and variable inflation. A reflection of this, although also representing a change in bank pricing practices, has been the behavior of the prime rate. In the two decades of the 1950's and 1960's combined, the prime rate changed a total of 32 times. In the single decade of the 1970's, the prime rate has changed about 132 times.

Not unexpectedly, the variability of interest rates reflected by the behavior of the prime has increased the demand for liquidity and for devices to hedge against interest rate risk. The capital markets have proven highly adaptable in creating financial instruments to satisfy these demands. If adequate incentives exist to create demand for capital assets in the amount of the needs to meet our social goals, I am confident the financial system can accomplish the channeling of real resources, just as it successfully met the demand for liquidity and hedging in this decade.

The liquidity of an asset like real estate, for example, has been enhanced by developments in the mortgage market. In 1978, new residential mortgage debt outpaced the value of new residential construction by $22.5 billion. This means that some $22.5 billion of the increased value of existing residential real estate was converted to cash by the mortgage market last year.

In its turn, the mortgage instrument itself has become more liquid by innovations such as the GNMA pass-through certificate, mortgage-backed bonds and so forth. Total outstandings of GNMA certificates, for example, grew from $450 million in 1970 to $77 billion in mid-1979. The fact that government had a hand in standardizing the underlying mortgages in the GNMA pool probably speeded the development of this innovation, but the private financial community is ultimately responsible for its widespread acceptance.

The tax exempt mutual bond fund, which came into existence only in this decade, has enormously improved the liquidity of state and local debt from the perspective of the household sector. The municipal bond fund industry had net assets of less than $30 million in mid-1976 and over $3 1/3 billion today.

To give just one more example, the money market mutual fund, one of the more commented upon financial innovations of this decade, certainly has increased the already high liquidity of traditional money market instruments. It does this by reducing the minimum denominations of a bank certificate of deposit (CD), for example, from $100,000 to as low as $500 for participation in a fund. The private financial community has shown an exemplary responsiveness to profit incentives—today there are over 75 funds which aggregate net assets of over $44 billion. Three-quarters of the growth in assets has occurred within the last 12 months. The largest fund, managed by Merrill Lynch, was started in 1975. It now has approximately $7.8 billion under management. If it were a commercial bank, which it is not although it provides some bank-like functions, it would be the 19th largest bank in the United States ranked by asset size, all within 5 years.

These examples strike me as convincing evidence that the financial industries are quite capable of creating attractive media for channeling the flow of investment resources. As we contemplate the massive volume of business capital we "need" in the first half of the 1980's and beyond, I think we should focus on the issue of incentives to stimulate investment rather than the capability of the financial system to channel it.

Public policy should not try to achieve the real investment we need through further tinkering with the financial manifestations of real investment. Indeed, given the adaptability of the financial system and the limits of our own knowledge, I think it is better public policy at this juncture to remove some existing constraints on the performance of financial institutions rather than to add new ones.

Witness, for example, the phenomenal success of the depository industries with the money market CD. This relaxation of the Regulation Q constraint attracted $9.1 billion in the first month. A record $32.4 billion worth of money market CD's were sold in October of this year. Over $240 billion worth are outstanding only 18 months after the instrument was first introduced. I think the free flow of capital is worth not only preserving but enhancing, and I therefore support efforts to phase out, in a prudent way of course, the regulatory mechanisms that constrain it.

All of which is not to say that there is no role for public policy in helping to achieve our capital investment needs. On the contrary, I think this is a true challenge, which will require the best minds in government, private industry, and academia.

## Some Policy Options

Clearly the most important policy measure we can adopt to spur investment is restoring a sense of stability through macroeconomic management. High amplitude business cycles increase perceptions of risk and therefore add a premium to required rates of return. High rates of inflation combined with progressive income taxation raise required rates of return on investment more than proportionately. Variable rates of inflation add a risk premium to required rates of return, therefore rationing out some projects which, but for this, would be attractive. In short, a stable macroeconomic environment encourages investment activity.

Beyond this I think there are some specific policy areas where investment incentives can be enhanced. I offer these proposals not for the sake of advocating them in detail, but rather to stimulate thinking about the specific steps which should be taken on the investment front.

I am concerned with the incentive for risk-taking in our economy. In 1970, American corporations raised 15.6 percent of their net new financing through equity issues. This amounted to $6.8 billion. In 1978, American corporations raised only 4.1 percent of their net new financing in the form of equity, amounting to only $4.7 billion. For the sake of comparability, note that when the 1970 and 1978 figures are recast in dollars of equal purchasing power, the equity raised in 1978 is worth only about 40 percent of that raised in 1970. Turning to the smaller business sector, in 1970 there were 198 stock issues, which raised $375 million, for companies with net worth of less than $5 million. In 1978, there were only 21 stock issues for companies in this size class, which raised only $129 million. The 1978 performance was actually an improvement over some of the years in mid-decade, perhaps as a result of the capital gains tax liberalization in the 1978 tax reform act.

A modest proposal in this area might be to permit a deferral of taxation on realized capital gains on securities and real business assets if the proceeds are promptly reinvested in a suitable way. We have just such a mechanism in place in the personal income tax treatment of sales of residential property. If the proceeds of sale of a principal residence are reinvested in another home within 18 months, taxation of any capital gain that may have been realized on the sale is deferred. Perhaps an analogous rule for common stock or real business assets would give greater incentive for risk-taking. Certainly, it will improve liquidity.

There is growing recognition of the need to do something about the double taxation of corporate income distributed to stockholders as dividends. Discussion of this subject has not yet resulted in a solution which is at once practical and politically acceptable.

New policy measures are also needed in the area of depreciation accounting for both balance sheet and tax purposes. We cannot ignore the mounting evidence of capital-intensive companies' self-liquidation through payments of taxes and dividends which exceed true economic profit because historical cost depreciation vastly understates replacement value. This problem is, of course, a product of inflation. A related problem with regard to inventories has been ameliorated by appropriate choices of first-in-first-out or last-in-first-out accounting. I am confident that within the realm of what the treasury can afford there exist useful ways to reflect more accurately the true depreciation experience of American companies.

One possibility is to permit each corporation to choose its own depreciation schedule. Once having chosen a schedule, of course, the firm would have to stick with it over the life of the assets; it could write off the asset only once. Presumably, each firm would attempt to choose that depreciation schedule which maximized its long-run, after-tax profitability. Moreover, the firm should be required to use the same depreciation schedule in reporting its income statements and balance sheets to stockholders that it uses for tax purposes. This would provide market discipline to encourage the firm to reflect true economic depreciation and not just short-run tax or earnings management considerations. Such treatment of depreciation would surely enhance incentives for investment as well as provide internal cash flow to finance it.

Research and development (R&D) expenditures can have tremendous payoffs in terms of improving the productivity of existing capital and labor combined in new and more efficient ways. It can also give rise to new or improved products which add enormously to our economic well-being. R&D expenditure in the U.S. has lagged relative to other industrial countries. The share of patents issued by the U.S. government to residents of foreign countries has risen from about 20 percent in the 1960's to over 35 percent in recent years.

The truly successful innovation which results from R&D activity often spreads so rapidly that some of the profits are earned by entities other than the one which bore the expense. The excess of total benefit over the benefit which can be captured by a private firm making an R&D investment tends to restrain the amount of privately financed R&D below socially optimal levels. This point is perhaps even more true at the basic research stage than at the development and implementation stage. This argues for government involvement in encouraging research activities. One possibility here would be to give firms an added incentive by permitting research expenditures to qualify for the investment tax credit.

At this juncture in economic history the energy field is clearly a prime candidate for increased R&D activity. I would expect increases in the price of energy to provide incentives for private sector exploitation of new opportunities at the development and implementation stage. However, in view of the private sector's difficulty in supporting optimal levels of basic research, I think the government should provide substantial financial support, especially in the areas of energy conservation and substitution, new energy sources and technologies. The results of basic research are, of course, very difficult to predict, but historical experience, in terms of new products and indeed whole new industries, suggests the likelihood of high social rates of return.

In discussing public policy, it is often as important to note what we should not do as it is to suggest what we ought to do. One thing we should not do, as I mentioned earlier, is to hamper artificially the ability of a financial industry to fulfill its role in the capital allocation process, as we seem to have done with some of our regulation of depository institutions. The efforts of the marketplace to find its way around these constraints represent dead-weight losses.

Another thing we should not do is to hamper arbitrarily the free flow of capital from any source. In 1977, for example, net foreign investment in the U.S. added $19.6 billion to gross private domestic investment; in 1978, it added $23.5 billion. These flows of net foreign investment represented the equivalent of almost one-third of savings from the household sector in those years, and boosted gross private domestic investment by about 6.5 percent. The American tradition of permitting relatively free inflows of foreign capital has served us well over our history and should not be jettisoned.

Finally, while a pro-investment effect is a favorable aspect of a policy proposal, it is not dispositive. Our society has other goals to satisfy. In particular, it might not be worthwhile to sacrifice substantial equity aspects of our progressive tax system for marginal gains in efficiency. It all depends on the relative magnitudes of the effects and our willingness to trade off among competing goals. This is where the role of careful, dispassionate, and disinterested analysis is most crucial.

Vast flows of new capital investment will be needed to achieve our economic and social goals in the coming years—especially increased productivity and sustainable improvements in our standard of living. Providing proper incentives to achieve the necessary levels of investment is a topic of vital concern. The academic community has much to contribute in formulating these incentives, and I commend this to you as a subject worthy of your research efforts and public advocacy.

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