Department of the TREASURY NEWS
COMPTROLLER OF THE CURRENCY
THE ADMINISTRATOR OF NATIONAL BANKS WASH., D.C. 20219 447-1798

For Release
December 8, 1975

Bk Dir/
Stat
Spch
Smith

REMARKS OF
JAMES E. SMITH
COMPTROLLER OF THE CURRENCY
BEFORE THE
CARTER H. GOLEMBE ASSOCIATES, INC., CONFERENCE,
December 8, 1975.

"SAME TIME, NEXT YEAR --
A CALL FOR RESPONSE TO YEARS OF INACTION"

> "I believe in branch banking. Theoretically it is the best system, as it is more economical, more efficient, will serve its customers better . . . If I were outlining a new system for a country in which there was none, I would adopt this system."

While I endorse this view, the words are those of Comptroller of the Currency William B. Ridgely made at the 28th Annual Convention of the American Bankers Association in 1902. I often feel frustration at CBCT's being interpreted as branches; however, there is some solace in noting that certain of my predecessors dealt with a system which forbade national bank branches altogether!

Several recent court decisions trouble me, but no more than the case of <u>First National Bank of St. Louis</u> v. <u>Missouri</u> must have bothered unfortunate Henry M. Dawes. Comptroller Dawes, the fifteenth Comptroller of the Currency, was an adamant foe of branch banking; however, on assuming office in 1923, he inherited a statutory interpretation by the prior Comptroller which allowed national banks to have limited branches. I note, with interest only, that the year 1924 saw both the Supreme Court's decision nullifying the Comptroller's interpretation and Mr. Dawes' resignation.

The attitude which precluded legislation allowing national bank branching was not modified until the McFadden Act and the Banking Acts of 1933 and 1935. But it exists today in a different but still potent form. In its extreme variety, it assumes the shape of a unit banking advocate. The less virulent strain ensnares electronic banking in the morass of geographic branching restrictions. But regardless of the degree of extremity, monopoly protection ill-serves the public.

Let me give you some idea of the degree and importance of the inconvenience which is occasioned by the policy. Convenience is not a matter of little significance to the public. In a study made by the Gallup Poll for the United States Savings and Loan League in 1972 (now known as the United States League of Savings Associations), which covered banks as well as thrifts, the second most important reason for choosing an institution in which to maintain a savings account was convenience; 38% of the survey population spontaneously mentioned convenience. Next to safety, convenience was rated as the most important factor in characteristics at which the public looked.

It would seem then that the public opposes barriers which cause them greater difficulty in banking. The restrictions do not affect just a small portion of the population, either, according to a study the Office of the Comptroller of the Currency made of the 50 largest Standard Metropolitan Statistical Areas in the country.

Of the 98.5 million people residing in these SMSA's, there were 11.1 million citizens who could be defined as commuters. I should add, though, that this figure is low in that a "commuter" here is only so labeled if he crosses a governmental boundary on the way to work. In other words, many Chicago workers who reside within the city would not be designated as "commuters" by the study despite the distances which they may travel since they do not cross a political boundary. Unfortunately, such figures are not readily obtainable. However, we do know that a 1972 study by the Department of Transportation shows that the average home to work trip by all modes of transportation equals 9.4 miles.

Even with this more limited context, the numbers are impressive. For example, 75.3 percent or 3 out of every 4 workers cross a governmental line in the St. Louis area. While this is higher than any other SMSA, it is still indicative of the inconvenience engendered by the restrictive branching laws.

Within the 50 SMSA's, 35 million people were gainfully employed and 11.1 million were defined commuters. This means, assuming the 50 largest SMSA's are representative, that 3 out of every 10 workers in the United States cross a governmental line going to and from work. Many of those in this group are denied that aspect of banking which they deem the second most important factor in banking, convenience. Often, restrictive branching laws preclude these consumers from banking with the same institution where they live and work. There are 16.5 million people within the 50 SMSA's living in states permitting only unit banking or county-wide branching. Of this total 5.3 million cross a governmental line on their commutes.

Even in more liberal branching states, consumers often confront major convenience impediments. There are 8.2 million workers in the selected SMSA's who work in areas where banks are allowed to branch in neighboring counties. We know that 3.2 million of these citizens are commuters as defined earlier. Of these 646,000 commute from outside the SMSA's. The greater the distance of the commute, the greater the likelihood that the consumers cannot bank both where they live and where they work.

Workers living in restricted or limited branching areas equal 48.4 percent of total commuting workers in the SMSA's. Almost half of the commuting work force in the 50 largest metropolitan areas may be precluded from equal rights in accessing the financial institution of their choice.

Much of this is engendered by state law, the McFadden Act, and the Banking Acts of 1933 and 1935; however, interstate workers are also at a disadvantage even were branching permitted intrastate. In New York City approximately 318,000 workers cross a state line to work. In the Washington, D.C. market area, 360,000 workers cross a district or state line to work. This means that almost 40 percent of the District of Columbia work force cannot bank in the same place that they work or live.

New let me rhetorically ask why the public encourages a system which is so clearly against the interests of many of them. The answer, of course, is that the consumer simply has either too small a voice or is not vocal on the issue.

Though many bankers have shown farsighted leadership in the area of less restrictive branching laws, some continue to hesitate fearing the threat of more competition. Of course, aside from the merits or demerits of these fears, they ignore the expanding savings and loan industry. They forget the growing powers of the S & L's as well as the fact that these institutions are not "McFaddenized" at the Federal level. The anti-branching bankers may win the battle against his banking colleagues only to lose the war within the broader financial intermediary constituency.

Another argument which one hears against branch banking is that it encourages a concentration of banking resources. I do not accept this view. First of all, the larger banks are often located in liberal branching states and those institutions have not devoured their markets. Tangentially related to that point is the share of deposits which they hold in national standings. The proportion held by the top 100 banks in the Nation in 1942 was 49.3 percent. After thirty-two years the share was 45.6 percent - down almost 4 percent.

The small, effective community bank is good insurance that giants will not drive competition out of business. To verify this thought, our Strategic Studies Division asked each of our 14 Regional Administrators to identify for close analysis four or five dynamic or progressive smaller banks in their respective regions. We were especially interested in banks in the $25-100 million asset category who were performing well in highly competitive markets. We, of course, discounted banks located in markets which were monopolized environments.

Sixty-five such banks were selected and their data subsequently examined by our financial analysts. The results support the view that sheer size is not necessarily a determinant of success.

Looking first as profitability, we see that in each of the last four years these 65 community banks fared better than the 58 national banks with over $1 billion in deposits, both in return on assets and in annual percentage change in net income. Let's first note the comparison of net income to average assets. In the community group the 1971 ratio was 1.03% compared to the 58 largest national banks' ratio of .84%. This difference continues in 1972, 1973 and 1974: 1.04% against .78%; 1.08% against .77% and 1.09% against .74%.

Profitability Measures of Selected
Community and Large National Banks, 1971-74

	1971	1972	1973	1974
Net Income/Average Assets				
65 Community Banks	1.03%	1.04%	1.08%	1.09%
58 Largest National Banks	.84%	.78%	.77%	.74%

The percentage change in net income is also more impressive in the community group for the four-year period: 11% versus 6%; 17% versus 4%; 18% versus 12%; and 13% versus 10%.

Profitability Measures of Selected
Community and Large National Banks, 1971--74

	1971	1972	1973	1974
Percent Change in Net Income				
65 Community Banks	11%	17%	18%	13%
58 Largest National Banks	6%	4%	12%	10%

Not only were these smaller institutions outperforming the largest banks in terms of earnings - but also held their own with respect to growth during the period 1971 to 1974; 16.1% to 13%; 16.5% to 13.1%; 13.4% to 12.1% and 9.6% to 10.0%.

Annual Growth in Assets of Selected
Community and Large Banks, 1971-74

	1971	1972	1973	1974
65 Community Banks	16.1%	16.5%	13.4%	9.6%
58 Largest National Banks	13.0%	13.1%	12.1%	10.0%

Further, we determined that 15 of these 65 community banks compete most effectively in the same market as 17 of the 58 largest national banks. Interestingly, of these 15 smaller banks, 13 are in states which allow banks to branch.

In earnings performance, the 15 mentioned as competing against giants exceeded that of the large banks with which they competed each year since 1971. Moreover, the yearly percentage increase in their net income exceeded that of the large competing banks each year by a wide margin. The yearly gain in net income of these 15 smaller banks also exceeded that of the 65 smaller banks each year, too.

In return on assets the group of 15 smaller banks had the following results compared to their 17 large competitors: .99% to .80%; .94% to .74%; .97% to .74% and in the final year the trend continued in the widening margin, 1.00% to .73%.

Profitability Measures of 15 Community Banks
and the 17 Large Banks with which They Compete
1971-74

	1971	1972	1973	1974
Return on Assets				
15 Competing Community Banks	.99%	.94%	.97%	1.00%
17 Competing Large Banks	.80%	.74%	.74%	.73%

The gap is also quite noticeable in percentage change in net income: 18% compared to 5%; 20% compared to 6%; 24% compared to 13%; and 17% compared to 10%.

Profitability Measures of 15 Community Banks
and the 17 Large Banks with which They Compete
1971-74

	1971	1972	1973	1974
Percentage Change in Net Income				
15 Competing Community Banks	18%	20%	24%	17%
17 Competing Large Banks	5%	6%	13%	10%

Some community bankers seem particularly fearful of the electronic banking revolution. They feel this development would make competition with giants impossible. A survey just completed by this Office suggests again that progressive community bankers are capable of meeting challenge.

The survey, which had a response rate of 97 percent of 4,700 national banks, showed that fully 10 percent of the banks had at least one Automated Teller Machine. As expected, a high proportion of large banks have an EFT system - 72.9 percent of billion dollar banks and 48.4 percent of those in the half billion to billion dollar range. However, more than half of all EFT systems are in banks with under $100 million in deposits. A third are in banks with less than $50 million in deposits. (Interestingly, urbanization is not the key indicator of which banks will have the machines. Washington, Oregon, Virginia, Mississippi and West Virginia rank in the top ten states having the highest proportion of banks with EFT systems. New York and Pennsylvania are 33rd and 38th in the Union respectively.)

Public need and desire for the new systems is also evident. In general, according to the survey, customer utilization of ATM's has been as great or greater than anticipated by the adopting national banks. Only 22 percent found that use fell below expectations. Most frequently banks reported that customer interest increased slowly, but steadily. Only 1 percent reported a decreased level of use after an initial period of time.

As expected, banks that promoted their electronic services fairly heavily were likely to find that their results exceeded expectations. More than half of the banks which promoted the services more heavily than other bank services found that customer utilization was greater than anticipated. On the other hand, over half of the banks which were disappointed admitted to promoting the new services less heavily than other bank services.

Thus, in both the traditional forms of delivery as well as the electronic field, we find public interest and the ability of smaller institutions to compete effectively.

It is my hope and belief that the next decade will see a lifting of archaic, anticompetitive barriers. And my long connection with banking makes me hope it will be with the assistance rather than over the opposition of the industry.