

TESTIMONY OF

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ON

INTERSTATE BANKING

BEFORE THE

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Madam Chairwoman and members of the Subcommittee, I appreciate the opportunity to testify on the status of interstate banking and trends in bank consolidation. For over a decade, the growth of interstate banking has been a fundamental element of the rapidly changing structure of the nation's banking industry. Last year, Congress, recognizing the economic and competitive advantages produced by removing the long-standing geographical restraints on banking organizations, added impetus to the interstate trend by enacting the Riegle-Neal Interstate Banking and Branching Efficiency Act (the "Riegle-Neal Act"). This year, and especially over the last few months, a number of mergers and acquisitions between large banking organizations have been announced. Attachment 1 lists the largest merger announcements of 1995. Thus, the banking industry is in a period of change and transition. The challenges for the Federal Deposit Insurance Corporation and the other banking regulators as the industry passes through this time of restructuring are many.

The first section of this testimony contains a description of the banking industry's ongoing restructuring, a process in which the growth of interstate banking organizations has played a central role. The description includes historical background on the restructuring and places the recent activity in mergers and acquisitions between banking organizations in the context of longer term developments. This section draws from a study on interstate banking in progress by the FDIC's Division of Research and Statistics. The study examines trends in FDIC-insured institutions

over the past decade. The second section of the testimony focuses on the impact of the banking industry's restructuring on customers of banks, and the third section examines the future of the community bank. The final section reviews the FDIC's statutory authority, and the agency's plans and initiatives, with respect to matters affected by the restructuring of the industry.

AN INDUSTRY IN TRANSITION

For much of the nation's history, state boundaries controlled and curtailed the growth of individual banking organizations. In most instances, a U.S. banking organization could not establish domestic deposit-taking offices outside of the state where its home office was located. Moreover, its ability to expand within its home state was often limited. Attachment 2 categorizes states according to their branching laws. One result of this situation was a banking industry with numerous participants and protected geographic markets. The industry was also constrained by state and federal laws that added product limitations to the geographic limitations. Under the product limitations, banking organizations were restricted to offering a limited number of financial products and services. Moreover, the limitations were often interpreted in a narrow fashion that hindered the ability of banks to adjust their products to changes in technology and the marketplace.

These geographic and product limitations had a number of long-

term negative impacts. Businesses and consumers did not enjoy the benefits of full competition among depository institutions and between depository institutions and other providers of financial products and services. Benefits from greater competition can be in the form of lower prices, better products, and better availability of products. The less-than-optimal level of competition among depository institutions hindered the movement of banking resources. This allowed less efficient banks to command excess resources, and prevented more efficient banks from bringing their capital and expertise to markets that could have benefitted from their presence. Finally, banking organizations were constrained in their ability to meet the competition from other segments of the financial services industry. The competitive disadvantage banking organizations operated under is evidenced by their declining share of the assets of the financial services industry. For example, in 1952, banks and thrifts held 63 percent of those assets. That proportion declined steadily over the years and at midyear 1995 was 32 percent.

The marketplace distortions arising from the geographic and product limitations on depository institutions led to a variety of pressures for change. At the institution level, creative management explored ways under existing laws to offer the products and services that businesses and consumers demanded. At the industry level, changes were sought in the state and federal laws that created the competitive inequities.

Indeed, over the brief period of little more than a decade, the U.S. banking industry has undergone a geographic structural change of considerable proportions.¹ Attachment 3 enumerates mergers, failures and new charters of FDIC insured institutions over the past ten years. State banking barriers have dropped significantly. At midyear 1984, 33 percent of the nation's banking assets were controlled by bank and thrift organizations with operations in two or more states. At midyear 1994, the proportion was 64 percent, almost two-thirds of the nation's banking assets (See Attachment 4). A major consequence of the rise of interstate banking has been consolidation in the industry. The number of banking organizations has declined, and the proportions of banking assets and deposits controlled by larger banking organizations have risen. This is reflected in a corresponding decline in the number of commercial banks and savings institutions, as well as an increase in the number and assets of larger institutions (see Attachment 5).

Concerning consolidation -- defined as the reduction in the

¹The focus of the discussion is full-fledged interstate banking, meaning the operation of commonly owned banks or thrifts, or their deposit-taking branches, in two or more states. Banking organizations have other means to conduct operations on an interstate basis, including loan production offices (LPOs), nonbank affiliates, credit cards, deposit brokers, and money desks. Use of some of these options, notably LPOs and nonbank affiliates, pre-date the efforts since the late 1970s and early 1980s to bring about full-fledged interstate banking. LPOs became popular in the 1960s, and the Bank Holding Company Act Amendments of 1970 opened the door to interstate expansion through nonbank affiliates.

number of institutions due to mergers and acquisitions of healthy institutions and to failures of troubled institutions offset by the addition of new institutions² -- a representative statistic is the decline in the combined number of bank holding companies and independent banks and thrifts. This decline was 32 percent, from 14,887 to 9,804, between year-end 1984 and midyear 1995 (see Attachment 6). In contrast, the decline does not mean that new institutions are not being established. In fact, between 1984 and mid-year 1995, 2,476 new commercial banks and savings institutions were chartered. At the national level, the share of industry deposits held by the largest institutions has increased. At year-end 1984, the 42 largest banking organizations held 25 percent of the nation's domestic deposits. By midyear 1995, 25 percent of domestic deposits was held by the largest 16 banking organizations (see Attachment 8). It should be noted that increased consolidation in the banking industry at the national level has not resulted in more concentrated local banking markets. Among the reasons are that much of the consolidation has involved mergers between organizations in different markets and new

²Mergers and acquisitions that have not involved federal assistance have accounted for most of the consolidation among commercial banks and savings institutions over the last decade. From the end of 1984 through the second quarter of 1995, almost 5,800 commercial banks and savings institutions were absorbed in unassisted mergers. Over the same period, more than 2,400 insolvent banks and savings institutions were closed or merged into healthy institutions with federal assistance; while nearly 2,500 new commercial banks and savings institutions were chartered during the period. Overall, there was a net decline of 5,652 commercial banks and savings institutions during the period (see Attachment 7).

institutions have entered markets.

The states have played a major role in the growth of interstate banking and the accompanying industry consolidation. Beginning in the late 1970s and early 1980s, a number of states acknowledged the changing economics of banking by allowing the creation and development of interstate bank holding companies -- companies that own banks in two or more states (see Attachment 9). The state laws varied considerably. Some states acted individually, while others entered into compacts with neighboring states. Some states required reciprocity -- an out-of-state bank holding company could acquire an in-state bank only if the out-of-state holding company's home state granted similar acquisition privileges to holding companies in the target state. Other state laws, particularly those enacted pursuant to regional compacts, limited permissible out-of-state entrants to those from the neighboring geographic region.

Any uncertainties regarding state initiatives to remove barriers to bank holding company expansion across state lines were eliminated in 1985. In the decision of Northeast Bancorp v. Board of Governors of the Federal Reserve System, 472 U.S. 159, the U.S. Supreme Court upheld the ability of the states to reduce selectively, under the Douglas Amendment to the Bank Holding Company Act, restrictions on entry by out-of-state holding companies.

In 1994, Congress in the Riegle-Neal Act added a federal element to the states' initiatives on interstate banking. Under the Act, most remaining state barriers to bank holding company expansion were removed on September 29, 1995. Holding company growth, however, will be restrained by explicit, statutory deposit concentration limits: a 10 percent nationwide and a 30 percent statewide limit.³

The Riegle-Neal Act also authorizes another form of interstate expansion for banks -- branching.⁴ Beginning June 1, 1997, banks may merge across state lines, a process that will result in the offices of one bank becoming branches of the other. Interstate branching through mergers is subject to the same concentration limits as are interstate acquisitions by bank holding companies. States may elect to prohibit interstate branching through mergers or to authorize it prior to June 1, 1997. States may also elect to authorize de novo interstate branching. The current status of state elections is summarized in Attachment 10.

³ The Riegle-Neal concentration limits refer to the proportion of national or statewide deposits controlled by a banking organization. Generally, other than for initial entry into a state, the responsible federal banking agency cannot approve an application for a merger or an acquisition by a banking organization if the resulting organization would exceed the statutory concentration limits. In addition, the growth of banking organizations will continue to be subject to state and federal antitrust laws.

⁴ Savings associations have not been subject to the same federal restrictions on branching across state lines as have banks, and a number of savings associations with branches outside their home states exist.

Recent announcements of mergers and acquisitions by a number of large banking organizations should be viewed in the context of the ongoing trends of consolidation and interstate growth. The long-existing economic pressures on banking organizations to grow and to cross state lines, coupled with the removal of legal barriers based on geography, are likely to continue for the foreseeable future, and the number of banking organizations likely will continue to decline for some time.

Assuming the current restructuring of the industry continues, consumers of banking products and services should benefit. The marketplace over time is likely to perform its function of matching supply and demand, although there may be some disequilibrium during transition periods. Over the long term, fewer restrictions on competition should foster innovation and ensure that consumer financial needs are met and that products and services are available at the lowest economic prices. Furthermore, the reduction of legal barriers based on geographic boundaries should enable banking organizations to expand operations more easily into underserved banking markets.

For their part, banking organizations also should benefit. A consolidating industry is one where excess capacity is being eliminated and costs are being cut.⁵ In addition, when an

⁵A number of studies have indicated the existence of economies of scale in banking, meaning that up to a point, size can result in lower average costs, whereas beyond the point,

institution expands geographically, it is able to diversify its risk against being subject to both localized and rolling recessions. For example, Attachment 11 shows that in nine of the ten years during the period 1985 to 1994, banks and savings institutions in multi-state banking organizations failed less frequently than multi-institution banking organizations confined to single states. The lessons learned from this experience, as well as more recent experience with failed banks in California and New England, are that less diversification renders banks more vulnerable to regional economic downturns than more diversification does. Recent statistics on the profitability of the commercial banking industry in California indicate that the state's largest banks were least affected by the severe recession, reflecting their diverse income sources beyond California's borders. In addition, full interstate banking could also offer to many banks significant risk reduction through increased opportunities for building a

economies of scale are less evident. Studies of scale economies in banking differ somewhat on the ranges of bank size over which economies of scale can be achieved, as well as when these economies disappear. In one recent survey of this literature, Humphrey states that studies generally find economies of scale at small banks but statistically significant diseconomies among large banks. ("Why Do Estimates of Bank Scale Economies Differ" by David B. Humphrey, Federal Reserve Bank of Richmond Economic Review, Sept/Oct 1990, pp. 38-50). Despite these conclusions, however, bankers often cite cost savings in mergers, especially when they involve institutions that operate in the same markets. As a practical matter, it is difficult to compare efficiencies after mergers because other changes are taking place that affect both revenues and expenses. In addition, post-merger cost-cutting measures such as asset write-downs, severance pay, early termination of leases and contracts, and amortization of any goodwill can result in higher reported expenses for a number of years after a merger's consummation.

stable retail deposit base.

IMPACT ON BANK CUSTOMERS

The pace of the restructuring of the banking industry has raised concerns on the part of some observers about possible negative impacts on bank customers. There is little evidence, however, of such detrimental effects. Moreover, the increased competition that is causing the restructuring of the industry should not only prevent any long-term degradation in the availability and quality of banking services but ensure that availability remains widespread and that quality increases.

One indication that bank customers are being served adequately in this period of restructuring is that bank loans have been growing steadily since the recession of 1990-91. For the twelve-month period ending this past June, loans of commercial banks and savings institutions grew by 10.6 percent. In addition, the FDIC's data show that roughly half of the increase in loans by commercial banks and savings institutions consists of growth in retail loans - home mortgages and other loans to consumers. And significantly, for every dollar of loans that banks and thrifts carry on their books, an additional 65 cents in unused loan commitments is outstanding. This suggests that the credit needs of bank and thrift customers are more than being met.

Although the number of banking organizations has been declining over the past decade, the number of banking offices has not significantly changed. As of midyear 1995, there were nearly 83,000 deposit-taking offices of banks and thrifts. In 1984, the number of offices was approximately 81,000. The fact that the number of banking offices is not much different than it was eleven years ago is an indication that access to banking offices has not been curtailed. The statistic is significant when viewed against the decline in the number of banks and thrifts described in the first section of this testimony. Although consolidation among institutions is occurring, banks and thrifts are in general not closing offices.

Furthermore, electronic means of delivering banking services have grown significantly. The number of automated teller machines (ATMs) reached over 109,000 in 1994, up 15 percent from the previous year and almost double the 55,000 in existence in 1984. There also has been significant growth in point-of-sale (POS) terminals. These numbered 95,000 in June of 1992, 155,000 a year later, and 344,000 in June of 1994, an increase of more than 250 percent in two years.

Finally, deposit-taking offices, ATMs, and POS terminals are not the only means through which the banking needs of customers are met. Loan production offices and offices of nonbank affiliates also are significant, and numerous. Moreover, the nation's

customers and businesses are served by a diverse financial industry consisting not only of depository institutions but also of such product and service providers as finance companies, credit unions, pension funds, mortgage bankers, securities brokers and dealers, and mutual funds. Regional banking companies have expanded their office networks to compete in markets beyond the states where they have established deposit-taking branches. An analysis of recent Annual Reports from six prominent bank holding companies shows that while they operate deposit-taking branches in 8 to 15 states, they have loan production offices in nearly three times as many states.

In summary, the ongoing restructuring of the banking industry does not seem to have reduced the availability of bank services to their customers.

THE FUTURE OF THE COMMUNITY BANK

Despite the overall benefits that should result from the current restructuring of the banking industry, some observers have concerns. One set of concerns involves the community bank. What is the future of institutions based in, and serving mainly, a local community? This question is important for their customers and the communities served by these institutions. In addition, the future of these banks is particularly relevant to the FDIC, which is the primary federal regulator for two out of every three insured institutions with less than \$100 million in assets. These 4,912

institutions hold \$180 billion in deposits in more than 25 million accounts. They operate in 49 states and the U.S. territories. Their future is important for their customers as well.

There are many reasons to believe that community banks will continue to play a critical role in the financial system. Smaller banks still account for the majority of institutions. As of June 30, 1995, there were nearly 8,000 commercial banks and savings institutions with less than \$100 million in assets, accounting for two out of every three FDIC-insured depository institutions. More than 95 percent of all insured institutions have less than \$1 billion in assets. Although institutions with less than \$100 million in assets together represent only 6.8 percent of industry assets, they supply nearly one-quarter of all loans to small businesses. They operate in over 4,000 communities in which there are no offices of larger banks, providing essential financial services to consumers and businesses.

Moreover, smaller banks have continued to play an important role in states such as California, New York, and Virginia where statewide branching has long been allowed. For example, in California, which has allowed unrestricted statewide branching since 1927, community banks generally have prospered, despite being challenged by the statewide systems of California's largest banking organizations. Recently, we have observed an increase in charters throughout the country. This would seem to indicate that community

banks can develop combinations of products, services, and fees that are competitive with those of larger institutions. Indeed, by enabling smaller banking organizations to contract for off-site back-office support and to offer products and services from remote vendors, technology in the form of computerized communications may be leveling the field on which small and large banks compete.

In the Federal Reserve Board's most recent Annual Report to the Congress on Retail Fees and Services of Depository Institutions (September 1995), the competitive abilities of local institutions are highlighted. The report compared for the first time fees charged by in-state and out-of-state banks. The report concluded that average fees charged by out-of-state banks are generally higher than those charged by in-state banks. This would seem to support the contention that the growth of interstate banking is not necessarily a death knell for local depository institutions. If they can compete on price or service with out-of-state competitors, in-state banks would seem to be assured of a place in a restructured banking industry.

The recent performance of small banks and thrifts provides testimony to their viability. In four of the last six years, and in four of the last six quarters through the middle of 1995, institutions with less than \$100 million in assets have been more profitable than the industry average as measured by return on assets (ROA). In 1994, and through the first six months of 1995,

more than 95 percent of these institutions were profitable. More than half reported ROAs above one percent, which is recognized as a benchmark for strong profitability. More than three-quarters had ROAs above 0.75 percent. These proportions are comparable to those of larger institutions, and demonstrate the competitiveness and viability of the small-bank segment. Institutions with less than \$100 million in assets have the lowest proportions of troubled assets and the highest capitalization levels of any asset-size group.

Finally, along with all other banks and savings associations, community banks are protected from monopolistic practices and unfair competition by the antitrust laws. Community banks may be subject to rigorous competition, but the antitrust laws ensure that it is fair competition. The competitive effects of mergers and acquisitions between banks are considered both by the appropriate bank regulator and the Department of Justice. Combinations that would result in a monopoly are prohibited by law. Combinations that would lead to concentration in an unconcentrated market may only be approved if such anticompetitive effects would be clearly outweighed by the public interest in meeting the needs of the community to be served.

In summary, the smaller banking organization, focused on service to a particular local community and taking advantage of competitive strengths resulting from that focus, continues to have

a place in the restructuring U.S. banking industry.

FDIC INITIATIVES

The restructuring of the banking industry -- a restructuring due in large measure to the growth of interstate banking -- poses many challenges for industry regulators at both the state and federal levels. The foremost goal of banking regulation is to ensure that regulated institutions adhere to appropriate standards of safety and soundness. Regulators are not just concerned with prudential issues, however. Congress also has given the federal banking agencies duties regarding such matters as the adequacy of banking services to communities, the prevention of discriminatory lending practices, and anti-competitive effects.

The Regulatory Approval Process

Many of the concerns that are raised about particular merger and acquisition transactions between large institutions, including interstate transactions, can be examined and alleviated during the applications process. Banking organizations have long been required to file applications with the federal banking agencies to merge with or acquire other institutions. Pertinent legal provisions are found in the Bank Merger Act, the Bank Holding Company Act, and the Riegle-Neal Interstate Banking and Branching Efficiency Act. These laws set forth criteria that the regulatory

agencies must consider in determining whether to approve transactions.

For example, under the Bank Merger Act, approval is required from the appropriate federal agency for an insured depository institution to merge with, acquire the assets of, or assume the liability to pay deposits made in any other insured depository institution. In considering applications under the Bank Merger Act, the agencies are required to focus on the competitive effects, 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. Under the Riegle-Neal Act, interstate mergers are subject to the above-discussed nationwide and statewide deposit concentration limits as well as an even more probing CRA review.

Merger and acquisition applications also trigger a review of an institution's record under the Community Reinvestment Act in meeting the credit needs of its community, including low- and moderate-income neighborhoods.

As a result of the statutory requirements, the effects of merger and acquisition proposals by banking organizations receive thorough scrutiny. Competition issues, safety and soundness matters, and community service records all are examined. The FDIC is satisfied that the current statutory framework allows the

consequences of merger and acquisition proposals by banking organizations, including the largest ones, to be addressed adequately.

Supervision

Interstate banking organizations generally involve multiple charters and subsidiary banks located in different states. Thus, as the number of interstate organizations increases, the coordination of activities and the sharing of information among the banking regulators will become more important. The FDIC has a long history of working with and assisting the state banking departments. In 1992, the FDIC and the Conference of State Bank Supervisors (CSBS) issued a joint resolution encouraging the adoption of working agreements between the FDIC and the state banking departments. Virtually every state now has some type of working agreement with the FDIC. These agreements typically cover such matters as the frequency and type of examinations, pre-examination procedures, common examination and application forms, the coordination of enforcement actions, the sharing of supervisory information, the training of personnel, and access to the FDIC's computerized database.

The CSBS has played a key role in the cooperative process. This past May, CSBS issued a protocol on interstate banking and branching that outlined the responsibilities of home and host state

regulators in the evolving interstate banking environment. The FDIC is working with CSBS and state regulatory authorities in the implementation of this protocol. Among the issues under discussion are the precise roles and responsibilities of home and host states with regard to supervision, enforcement of state laws and regulations, and the types and frequency of information exchanges.

Concerning coordination among the federal banking regulators, the FDIC is currently working with the Office of the Comptroller of the Currency (OCC), the Federal Reserve Board, and the Office of Thrift Supervision (OTS) to implement Section 305 of the Riegle Community Development and Regulatory Improvement Act of 1994. This provision directs the federal banking agencies to coordinate their examinations of institutions and to develop a system for selecting a lead agency to manage a unified examination of each depository institution. This system will be particularly useful for ensuring that large multi-state institutions are adequately supervised.

Since the primary federal regulator of most large banks is either the OCC or the Federal Reserve Board, the FDIC is dependent to a significant degree on those agencies, as well as the OTS, for some of the information on large institutions required to monitor risks to the deposit insurance funds. The types and amount of financial and other information needed by the FDIC for monitoring risk to the funds, for direct supervision of state nonmember institutions, and for backup supervision of nationally chartered

institutions and state-chartered Federal Reserve members are likely to undergo changes as industry restructuring and interstate banking growth continue.

For example, in order to assess insurance risk and to monitor liquidity, examiners may need to focus more on cash flows, deposit stability, loan commitments, and borrowing arrangements. Data on geographical diversification and product segments may prove to be important. The FDIC does not expect that more information will be needed, only that the type of information may change.

The FDIC is also looking at how data and information might best be gathered. While on-site examinations will continue to be a mainstay of bank supervision, they are expensive to undertake and are generally conducted no more frequently than once a year. In view of these considerations, the FDIC is investigating the use of automated examination tools, and enhanced off-site surveillance techniques.

For example, the FDIC will soon field-test an automated loan review program. This initiative will reduce the amount of time examiners spend evaluating loan quality while at the same time assuring a thorough review. The program will capture relevant loan data in a standardized electronic format from a bank's data files. Those records will then be converted into an automated loan review package. This method of evaluating the loan function will reduce

the number of specialized loan reports requested from the institution by the field examiner and will reduce on-site examination time because the electronic record will be analyzed outside of the bank.

Further, the FDIC is investigating the use of the Internet to permit electronic submission of applications, and to make available materials such as examination manuals, rules and regulations, and agency publications. The FDIC has already used the Internet to receive public comments on proposed rules and to provide banking statistics each quarter from the FDIC's Quarterly Banking Profile and other publications.

Off-site monitoring has long been a tool of the regulators. The FDIC and the other regulators have traditionally used Call Report data and other off-site information to monitor changing risks in individual institutions and in groups of institutions and holding companies. For example, financial ratios computed from the Call Report data enable regulators to compare banks with their peers and to spot movements in an institution's risk profile over time. Call Reports also have been used to link bank performance with the condition of state and local economies.

Interstate banking will likely impact the way the FDIC uses off-site data to support supervision and risk analysis. Because the number of institutions that operate in several states or regions is growing, current off-site information is becoming less

useful to identify high growth and high risk markets. It may be possible to monitor risks to the insurance funds more closely by having large multi-state banking organizations report on geographic and product segments. Reporting requirements would have to be structured to weigh the usefulness of the information against any significant reporting burden. This burden may be minimized or eliminated by relying on information already developed by banking organizations themselves to manage risk internally.

Resolutions

The resolution of a failed or failing large interstate banking organization would present the FDIC, and the other banking regulators involved, with a wide variety of difficult problems and complex issues. FDIC staff has been examining what problems and issues might arise and to the extent feasible we are formulating contingency plans for handling a large institution in trouble. In formulating these plans, the FDIC is in part drawing upon its past experiences in resolving large failed or failing institutions. Among the sizeable institutions included in the FDIC's resolution history are Continental Illinois National Bank and Trust Company (1984), eight of the ten largest banking organizations in Texas (1987-1993), Bank of New England Corporation (1991), and Southeast Bank, N.A. (1991).

More broadly, the FDIC has undertaken a project to analyze the

lessons of the banking problems of the 1980s and early 1990s. This project will document the historical record of this period both through the study of written sources and through interviews with bank regulators, bank executives, and other industry experts. The project will attempt to distill any lessons that can be gleaned regarding early warning signals of banking problems, the efficacy of regulatory efforts to prevent failures, and the cost-effectiveness of alternative strategies for handling bank failures and disposing of their assets. The project will draw on the combined experience of both the FDIC and the RTC in handling failures and disposing of assets.

Local Community Needs

The Riegle-Neal Act amended the Community Reinvestment Act (1) to establish an expanded evaluation process for institutions with interstate branches; (2) to require, in CRA evaluations for institutions wholly located in one state, a separate evaluation for each metropolitan area in which an institution has branches; and (3) to require a more searching CRA review in connection with applications to establish interstate banking facilities. These new Community Reinvestment Act (CRA) requirements are being incorporated into evaluation procedures that will go into effect on January 1, 1996, in conjunction with revised CRA regulations. The new procedures and revised regulations, which also streamline the CRA examination process for smaller institutions, are currently

under review by all four federal regulators of depository institutions: the FDIC, the Federal Reserve Board, the OCC, and the Office of Thrift Supervision. We expect to complete that review soon.

Under the expanded CRA evaluation process for institutions with interstate branches, such institutions are to receive, in addition to an overall CRA evaluation, an evaluation for each state in which they have a branch. A state-level evaluation must present information separately for each metropolitan area in which the institution has a branch and the state's nonmetropolitan area if the institution has a branch in this area. In addition, if it maintains branches in the portions of two or more states comprising a multi-state metropolitan area, an institution is to receive a separate CRA evaluation for this metropolitan area. The state-level evaluations are to be adjusted by any required evaluation for a multi-state metropolitan area.

An important aspect of the revised CRA regulations is the way in which they encourage institutions to provide services to communities. This is particularly true for large institutions, including interstate institutions, that are more likely to serve multiple communities in both urban and rural areas. How a large institution provides services to each of these areas will be considered in the rating of the institution's overall CRA performance. The banking agencies will evaluate service

performance in several ways, including the availability of full service branches throughout the community, alternative means to deliver services, and community development services provided to low- and moderate-income areas.

Convenient access to full-service branches within a community is an important factor in determining the availability of credit and non-credit financial services. The FDIC will continue to focus evaluations on an institution's current distribution of branches among all areas. An institution's distribution of branches, particularly in low- and moderate-income areas, can enhance an institution's rating.

This may be particularly important for large institutions applying to open new branches, or to acquire or merge with other institutions, as such applicants will need to demonstrate how they intend to meet the convenience and needs of their communities. As in the past, the CRA evaluation will continue to take into account an institution's record of opening and closing branches, particularly branches located in low- and moderate-income areas or primarily serving low- and moderate-income individuals.

The new regulations also encourage institutions to provide services to low- and moderate-income areas in other ways. In evaluating an institution, the regulators will consider ATMs, loan production offices, banking by telephone or computer, and other

services. Such means, however, are considered only to the extent they are effective alternatives to providing services through full service branches.

Lastly, the new regulations promote community services that are targeted to low- and moderate-income individuals, or activities that revitalize or stabilize low- or moderate-income areas. The service test of the new CRA examination procedures elevates the importance of services considered vital to the development of safe and sound lending and investment opportunities in low- and moderate-income areas that otherwise may lack the capital to sustain such activity.

For example, financial institutions will receive favorable consideration for providing technical expertise to non-profit, government, or tribal organizations serving low- and moderate-income housing or economic revitalization. Providing credit counseling, home buyers counseling, and home maintenance counseling to promote community development will also benefit an institution's performance. In addition, programs such as low-cost or free government check cashing activities will be considered. As a result, the importance of such vital affordable services in underserved lower income neighborhoods will be emphasized.

Thus the performances of banking organizations in meeting local community needs are subject to a detailed statutory and

regulatory scheme. The FDIC believes that this structure provides adequate monitoring powers to the regulatory agencies and, coupled with incentives from the marketplace, sufficient motivation for banking organizations to provide localized services.

SUMMARY

The many mergers and acquisitions announced by banking organizations this year are part of a long-term restructuring of the banking industry. The restructuring, which is a response to the forces of the marketplace, the greatly expanded use of technology, and the greater mobility of resources within the economy, has been underway since at least the early 1980s. The Riegle-Neal Act of 1994 removed several impediments to this trend.

Although the restructuring of the industry is a natural response to economic and technological changes, and may have real advantages in encouraging greater diversification, it is not without its disruptive aspects. While the number of community banks has declined, the evidence suggests they can hold their own competitively against larger banking organizations in terms of profitability, price and service. Community banks are likely to continue to be effective competitors because they can take advantage of the opportunity to serve particular credit needs or particular markets and to offer products and services at fees that are competitive.

Bank customers ultimately will benefit from the current restructuring. Fewer restrictions on competition should result in innovations in products and services and greater efficiencies in meeting consumers' financial needs. The challenge to banking regulators is to ensure that any disruptive aspects are monitored and mitigated so that the basic safety and soundness of the industry is not threatened and bank customers are not unfairly disadvantaged. The FDIC is striving to meet this challenge.

Attachment 1

Top 25 Acquisitions Announced in 1995 (Through 10/11)

Announcement Date	Seller	Bank/ Thrift	Seller Total Assets (\$000)	Buyer	Bank/ Thrift	Buyer Total Assets (\$000)	Deal Value (\$MM)
1	08/28/95 Chase Manhattan Corporation	Bank	118,756,000	Chemical Banking Corp	Bank	178,531,000	11358.4
2	07/12/95 NBD Bancorp, Inc	Bank	47,755,844	First Chicago Corporation	Bank	72,378,000	5107.0
3	06/19/95 First Fidelity Bancorporation	Bank	35,399,736	First Union Corporation	Bank	77,854,608	5555.0
4	02/21/95 Shawmut National Corporation	Bank	32,399,000	Fleet Financial Group, Inc	Bank	48,757,090	3645.8
5	10/10/95 Meridian Bancorp	Bank	14,911,000	CoreStates Financial Corp.	Bank	29,031,000	3198.0
6	08/28/95 Integra Financial Corp	Bank	14,810,861	National City Corporation	Bank	34,561,538	2081.7
7	07/10/95 Midlantic Corporation	Bank	13,634,216	PNC Bank Corp	Bank	62,094,000	3026.0
8	02/05/95 Michigan National Corporation	Bank	8,691,969	National Australia Bank	Foreign	NA	1517.9
9	05/08/95 West One Bancorp	Bank	8,656,701	US Bancorp	Bank	21,438,970	1574.6
10	05/30/95 FirstFed Michigan Corporation	Thrift	8,512,279	Charter One Financial, Inc	Thrift	6,293,892	555.8
11	05/19/95 BanCal Tri-State Corporation	Bank	7,762,312	Union Bank	Bank	17,211,942	1006.4
12	08/25/95 Fourth Financial Corporation	Bank	7,504,594	Boatmen's Bancshares, Inc	Bank	33,407,940	1179.9
13	09/05/95 Bank South Corporation	Bank	7,439,701	NationsBank Corp	Bank	184,188,000	1624.6
14	09/11/95 Summit Bancorporation	Bank	5,512,343	UJB Financial Corp	Bank	15,442,954	1124.1
15	07/19/95 Premier Bancorp Inc	Bank	5,494,245	Banc One Corporation	Bank	86,783,317	695.5
16	07/05/95 CSF Holdings	Thrift	4,703,250	NationsBank Corp	Bank	183,854,000	516.0
17	09/24/95 Brooklyn Bancorp Inc	Thrift	4,139,215	Republic New York Corporation	Bank	41,715,692	529.6
18	08/28/95 SFFed Corp	Thrift	4,057,142	MacAndrews & Forbes Holdings Inc	Thrift	14,642,942	266.1
19	08/07/95 FirstTier Financial Inc	Bank	3,580,427	First Bank System, Inc	Bank	33,456,000	712.8
20	03/08/95 Chemical New Jersey Holdings	Bank	3,345,000	PNC Bank Corp	Bank	64,145,000	504.0
21	04/06/95 Columbia First Bank, FSB	Thrift	2,911,221	First Union Corporation	Bank	77,313,505	232.8
22	04/28/95 Loyola Capital Corp	Thrift	2,493,485	Crestar Financial Corporation	Bank	14,426,885	254.5
23 *	01/03/95 Coral Gables Fedcorp Inc	Thrift	2,463,933	First Union Corporation	Bank	74,243,118	513.8
24	10/11/95 Boston Bancorp	Thrift	2,086,000	Bank of Boston	Bank	45,254,000	222.9
25	08/04/95 Hawkeye Bancorporation	Bank	1,982,428	Mercantile Bancorporation Inc	Bank	15,296,293	345.5

Seller Assets Total

\$369,002,902

* This merger was completed on 6/1/95. All others are pending.

State Branching Laws*



- Limitations on Branching¹
- Statewide Branching Enacted Within Past Ten Years
- Statewide Branching in Effect For Over Ten Years

Prepared by: Division of Research and Statistics
Sources: Conference of State Bank Supervisors

* States are grouped into the eight FDIC DOS supervisory regions.
¹Arkansas permits statewide branching after 1998; Colorado permits statewide branching in 1997.

Attachment 3

Commercial Banks and Savings Institutions

Year	New Institutions ¹	Unassisted Mergers and Aquisitions ²	Total Failures ³
1985	598	(395)	(149)
1986	431	(388)	(199)
1987	316	(660)	(231)
1988	317	(678)	(413)
1989	217	(462)	(537)
1990	198	(455)	(379)
1991	122	(527)	(269)
1992	81	(525)	(179)
1993	69	(638)	(51)
1994	75	(670)	(14)
1995 ⁴	52	(393)	(6)
1985-1995 ⁴	2,476	(5,791)	(2,427)

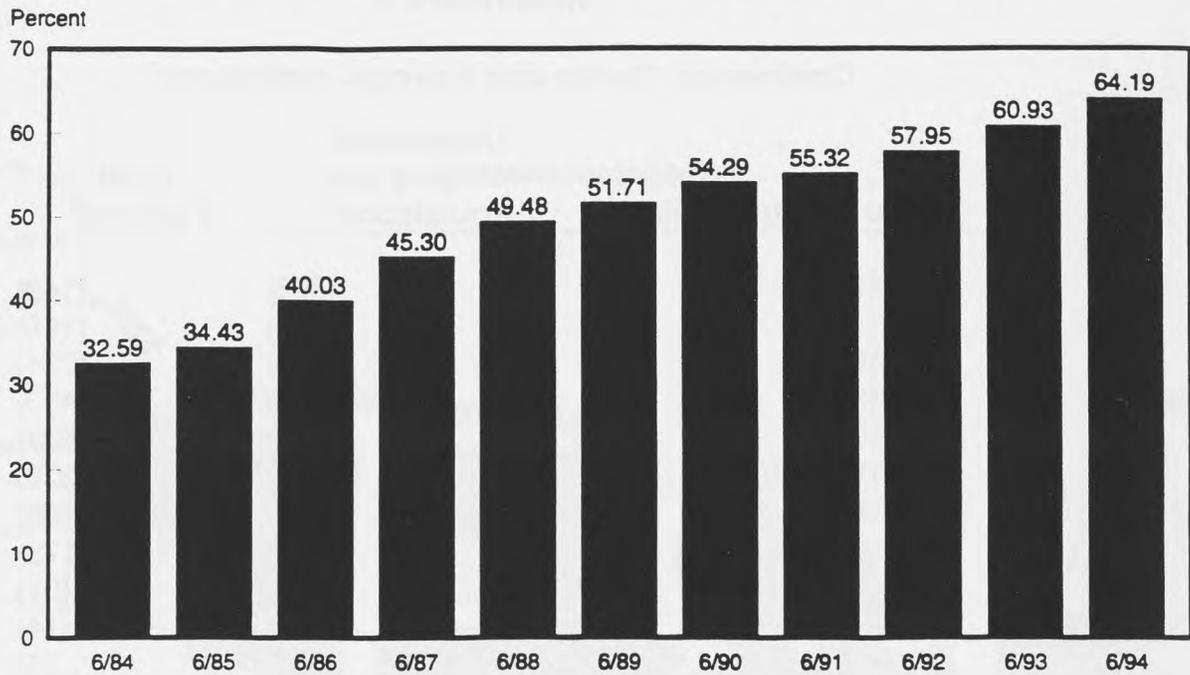
¹ New institutions include DeNovo charters, new charters created to combine other charters, and charters created for other types of uninsured financial institutions.

² Unassisted mergers and acquisitions include combinations of charters and any voluntary liquidations.

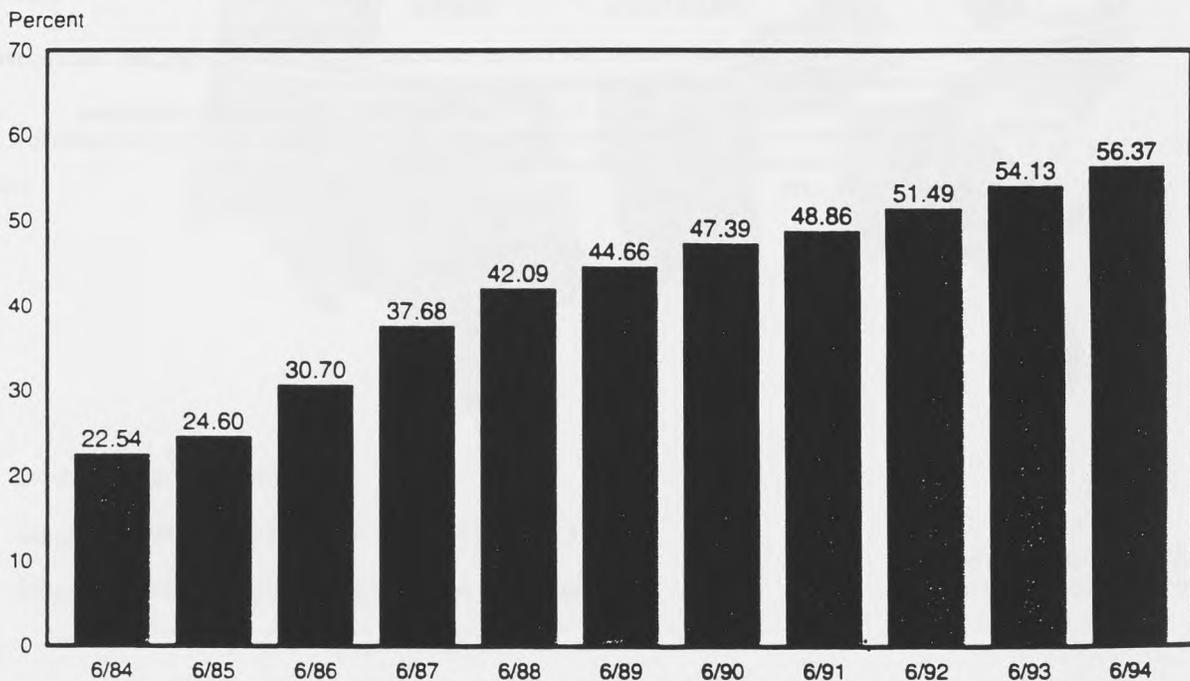
³ Failures include assisted payouts, assisted mergers, and any transfer to the Resolution Trust Corporation. Failures do not include any assistance to institutions that remain open.

⁴ Through June 30, 1995.

Percent of Bank and Thrift Assets in Multi-State Organizations



Percent of Bank and Thrift Domestic Deposits in Multi-State Organizations



Prepared by: Division of Research and Statistics
 Sources: Bank Summary of Deposits
 Thrift Branch Office Survey
 FRB NIC Database
 FDIC DRS RIS Database

Attachment 5

**Number of Federally-Insured Commercial Banks and Savings Institutions
By Asset Size***

Yr./Qtr.	Less than \$100 Million		\$100 Million to \$1 Billion		\$1 Billion to \$5 Billion		\$5 Billion to \$10 Billion		\$10 Billion or more		Total
	Number	% of Total	Number	% of Total	Number	% of Total	Number	% of Total	Number	% of Total	
95:2	7,930	64.7	3,759	30.7	388	3.2	92	0.8	80	0.7	12,249
94:4	8,254	65.5	3,792	30.1	389	3.1	93	0.7	74	0.6	12,602
93:4	8,837	66.8	3,827	28.9	405	3.1	87	0.7	64	0.5	13,220
92:4	9,401	67.9	3,884	28.0	426	3.1	82	0.6	59	0.4	13,852
91:4	9,982	68.9	3,921	27.1	435	3.0	86	0.6	58	0.4	14,482
90:4	10,576	69.8	3,967	26.2	470	3.1	85	0.6	60	0.4	15,158
89:4	11,177	70.8	3,973	25.2	499	3.2	88	0.6	59	0.4	15,796
88:4	11,911	71.9	3,985	24.1	511	3.1	92	0.6	62	0.4	16,561
87:4	12,676	73.1	4,025	23.2	507	2.9	71	0.4	57	0.3	17,336
86:4	13,221	74.0	4,049	22.7	484	2.7	75	0.4	47	0.3	17,876
85:4	13,631	75.6	3,836	21.3	462	2.6	68	0.4	36	0.2	18,033
84:4	13,807	77.1	3,594	20.1	409	2.3	59	0.3	32	0.2	17,901
84:1	14,034	78.5	3,399	19.0	375	2.1	50	0.3	28	0.2	17,886

**Assets of Federally-Insured Commercial Banks and Savings Institutions
By Asset Size***

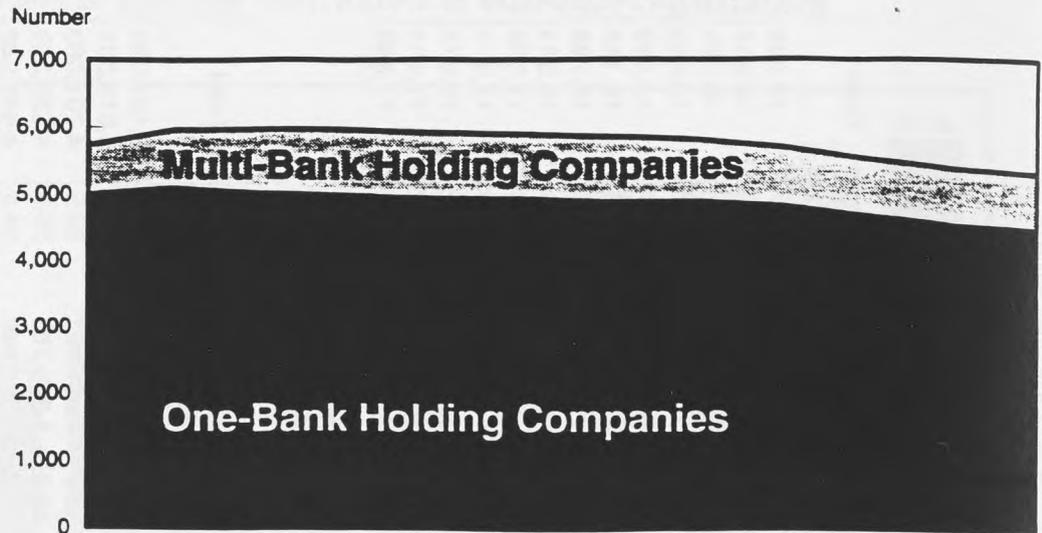
Yr./Qtr.	Less than \$100 Million		\$100 Million to \$1 Billion		\$1 Billion to \$5 Billion		\$5 Billion to \$10 Billion		\$10 Billion or more		Total
	Assets	% of Total	Assets	% of Total	Assets	% of Total	Assets	% of Total	Assets	% of Total	
95:2	\$354,785	6.8	\$962,844	18.6	\$836,752	16.1	\$644,157	12.4	\$2,389,397	46.1	\$5,187,935
94:4	366,345	7.3	969,139	19.3	850,211	16.9	671,097	13.4	2,162,509	43.1	5,019,301
93:4	388,472	8.3	975,725	20.7	883,409	18.8	626,293	13.3	1,833,181	38.9	4,707,080
92:4	401,966	8.9	996,429	22.0	927,719	20.5	580,012	12.8	1,629,763	35.9	4,535,889
91:4	412,705	9.1	1,008,979	22.2	964,673	21.2	604,639	13.3	1,552,646	34.2	4,543,642
90:4	423,960	9.1	1,020,390	22.0	1,034,167	22.2	605,861	13.0	1,564,271	33.7	4,648,649
89:4	436,058	9.2	1,028,182	21.8	1,093,290	23.1	639,324	13.5	1,530,020	32.4	4,726,874
88:4	457,330	9.7	1,037,334	21.9	1,096,655	23.1	620,073	13.1	1,525,893	32.2	4,737,285
87:4	477,774	10.6	1,031,801	22.9	1,073,738	23.8	483,646	10.7	1,435,100	31.9	4,502,059
86:4	490,312	11.3	1,038,162	24.0	992,492	22.9	515,354	11.9	1,291,245	29.8	4,327,565
85:4	489,922	12.3	985,035	24.7	936,800	23.5	472,688	11.8	1,108,881	27.8	3,993,326
84:4	484,170	13.3	934,770	25.6	827,910	22.7	403,091	11.0	1,003,176	27.5	3,653,117
84:1	482,454	14.3	874,915	25.9	746,222	22.1	332,415	9.9	938,115	27.8	3,374,121

* Excludes institutions operating in RTC conservatorship.

FDIC Division of Research and Statistics, RIS

Attachment 6

Number of Bank Holding Companies



	12/84	12/85	12/86	12/87	12/88	12/89	12/90	12/91	12/92	12/93	12/94	6/95
Multi-Bank Holding Companies	730	876	959	980	976	956	965	921	875	848	839	830
One-Bank Holding Companies	4,977	5,101	5,025	5,001	4,961	4,959	4,913	4,909	4,838	4,685	4,547	4,497
Total	5,707	5,977	5,984	5,981	5,937	5,915	5,878	5,830	5,713	5,533	5,386	5,327

Number of Banking Organizations



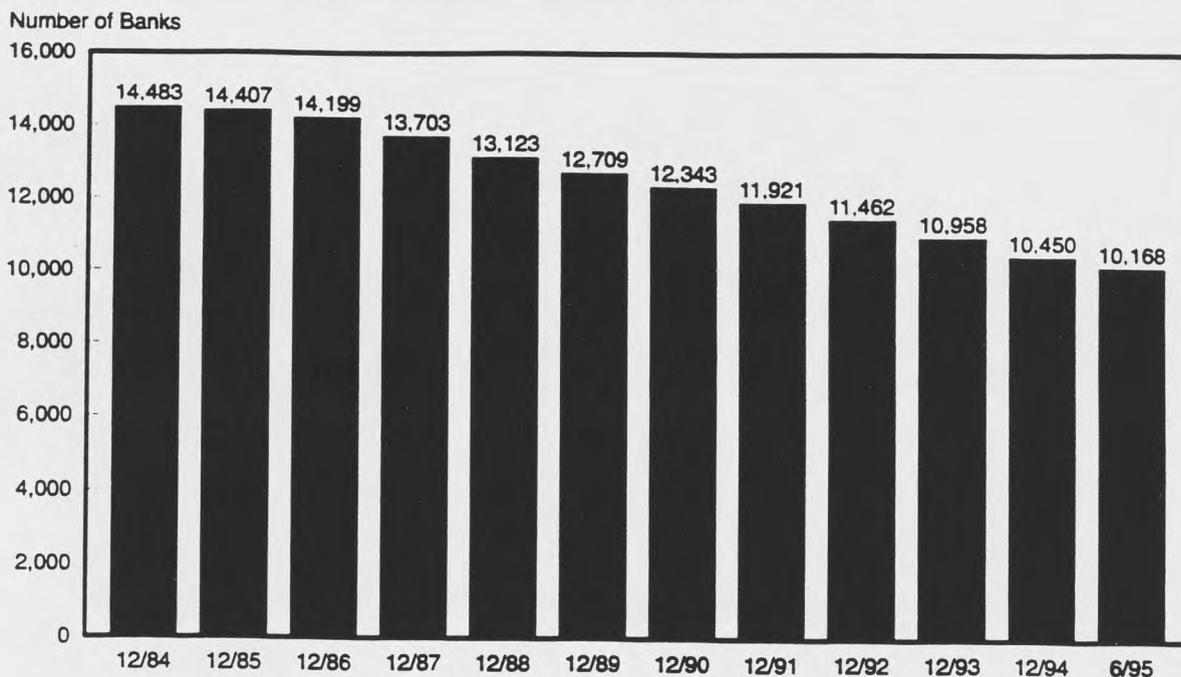
	12/84	12/85	12/86	12/87	12/88	12/89	12/90	12/91	12/92	12/93	12/94	6/95
Bank Holding Companies*	5,707	5,977	5,984	5,981	5,937	5,915	5,878	5,830	5,713	5,533	5,386	5,327
Independent Banks & Thrifts	9,180	8,800	8,331	7,880	7,343	7,020	6,416	5,905	5,536	5,128	4,664	4,477
Total	14,887	14,777	14,315	13,861	13,280	12,935	12,294	11,735	11,249	10,661	10,050	9,804

* Includes one-bank holding companies

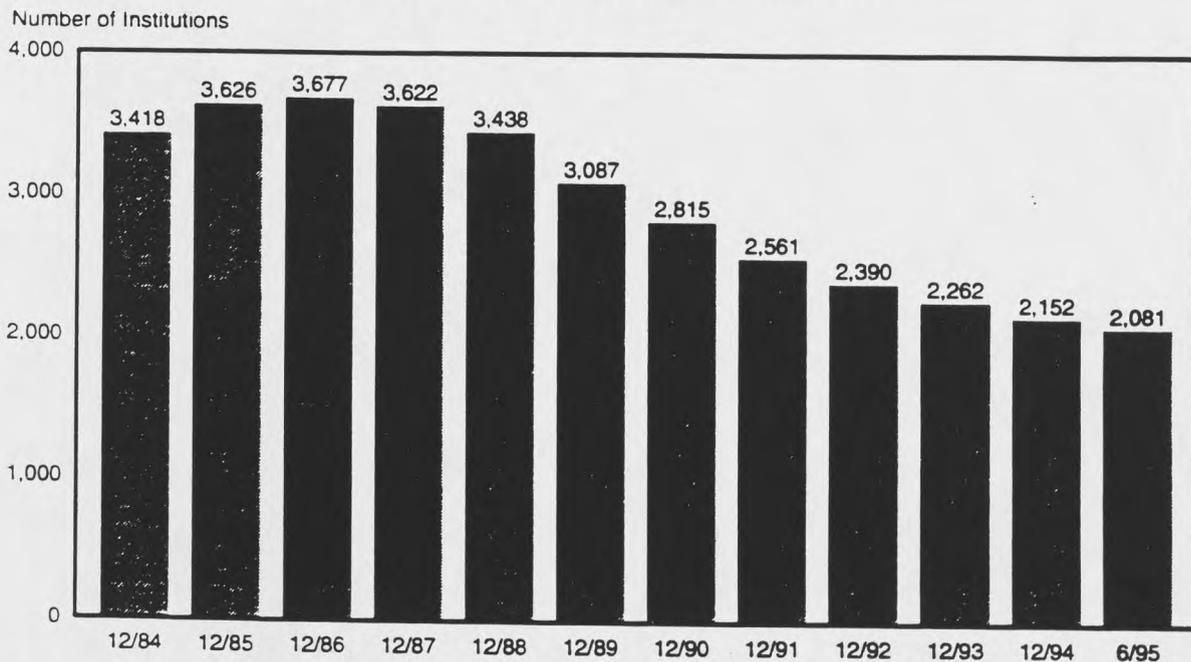
Prepared by: Division of Research and Statistics
Sources: FRB NIC Database
FDIC DRS RIS Database

Attachment 7

Number of Commercial Banks, 1984 - 1995



Number of Savings Institutions, 1984 - 1995*



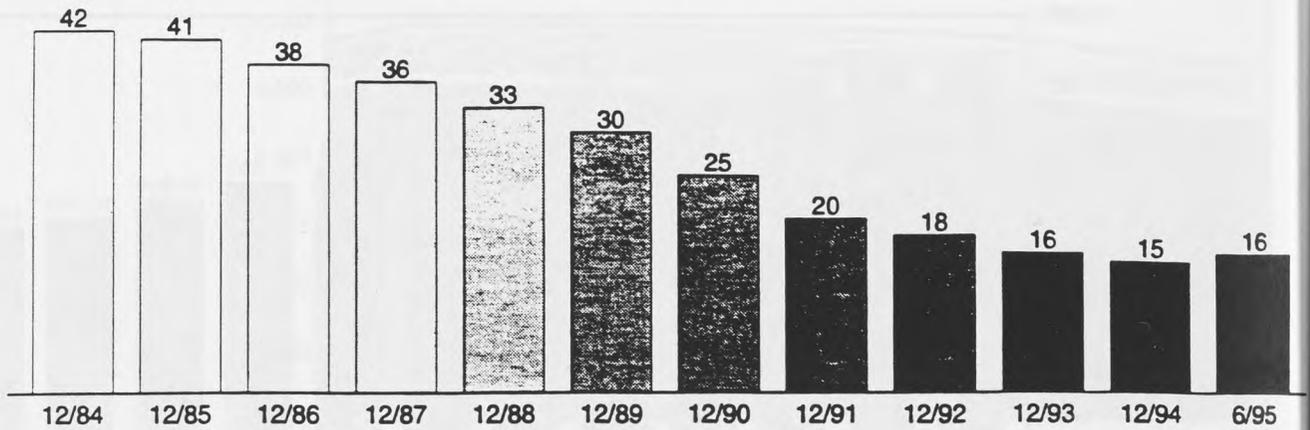
* Excludes institutions in RTC conservatorship

Prepared by: Division of Research and Statistics
Sources: FDIC DRS RIS Database

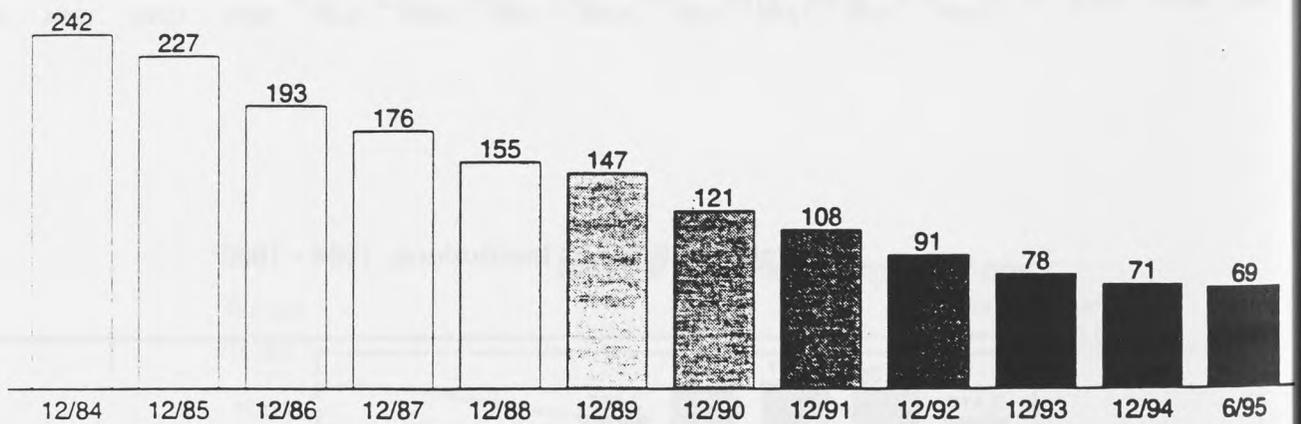
Attachment 8

The Proportion of Domestic Deposits Held by the Largest Banking Companies

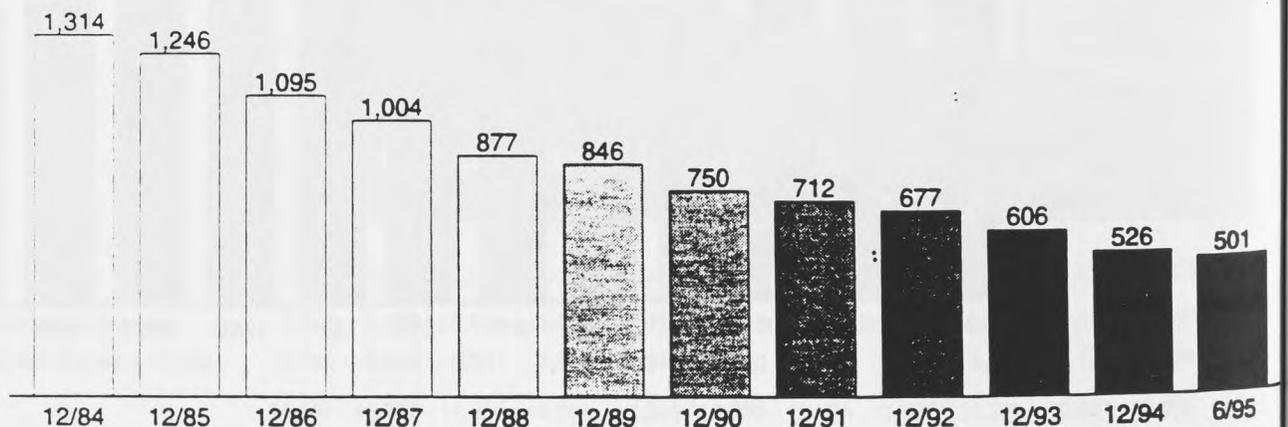
Number of Companies with 25% of Domestic Deposits



Number of Companies with 50% of Domestic Deposits



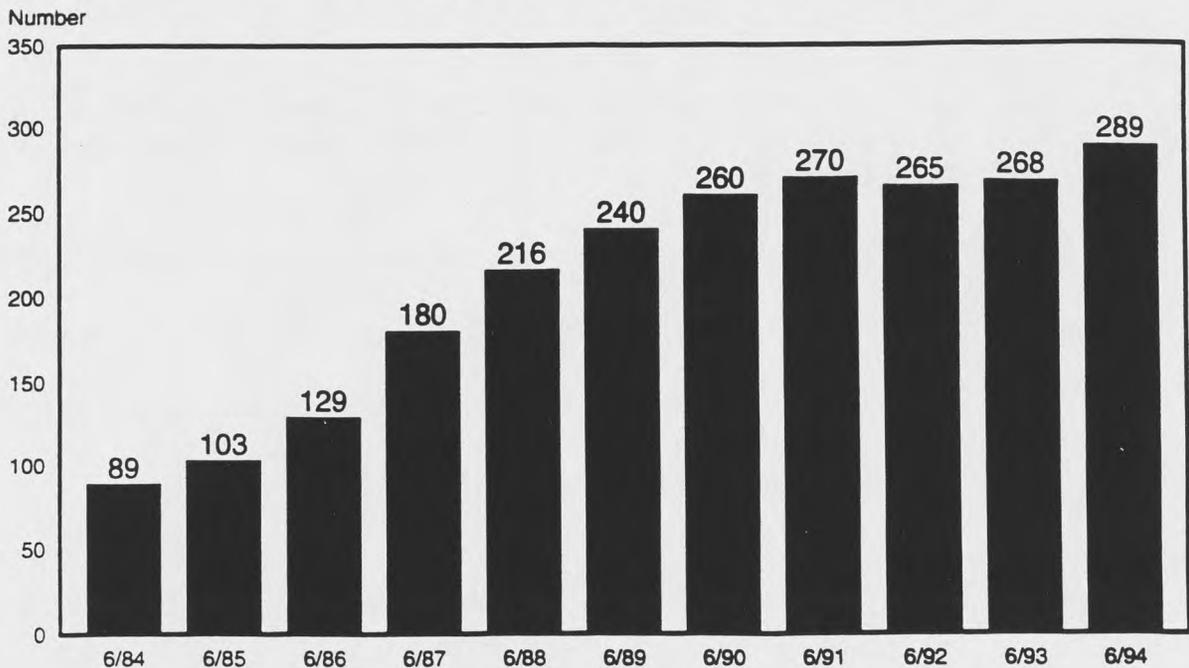
Number of Companies with 75% of Domestic Deposits



* Includes deposits of insured commercial banks and savings institutions.
Individual companies have been accounted for at their highest level of consolidation
(multi-bank bank holding companies, single-bank bank holding companies or independent
banks/thrifts)

Prepared by: Division of Research and Statistics
Sources: FDIC DRS RIS Database

Number of Multi-State Organizations, 1984 - 1994*



* Multi-state organizations are bank holding companies and independent depository institutions with banking operations in two or more states.

Prepared by: Division of Research and Statistics
Sources: Bank Summary of Deposits
Thrift Branch Office Survey
FRB NIC Database
FDIC DRS RIS Database

State Elections Under the Riegle-Neal Act
as of September 29, 1995

Legislation Passed

Opt-In

Alabama – Brings state's existing interstate banking law into conformance with the Riegle-Neal Act, allowing nationwide banking on September 29, 1995. Allows interstate branching through mergers and acquisitions in May 1997.

Colorado – Allows interstate branching through acquisition on June 1, 1997.

Connecticut – Allows interstate branching de novo and by acquisition, effective upon passage.

Delaware – Allows interstate branching by acquisition of institutions at least five years old, effective September 29, 1995.

Idaho – Allows interstate branching through acquisitions, effective July 1, 1995.

Illinois – Permits interstate branching through acquisition; de novo branching prohibited, effective June 1, 1997.

Louisiana – Allows interstate branching by acquisition of institutions at least five years old; de novo branching prohibited, effective June 1, 1997.

Maryland – Out-of-state banks would have several options for establishing a presence: (1) acquisition of existing banks; (2) purchases of single bank branches; (3) de novo entry. The legislation contains a reciprocity provision. Effective September 29, 1995.

Nevada – Provides for interstate branching by acquisition beginning September 28, 1995; acquired institutions must be five years old. De novo branching prohibited in counties of more than 100,000 people.

New Hampshire – Allows interstate branching by acquisition of institutions at least five years old, effective June 1, 1997.

North Carolina – Allows interstate branching de novo and by acquisition of all or substantially all of the assets of a bank or branch, effective immediately (reciprocal until June 1, 1997, unrestricted thereafter).

North Dakota – Removed restrictions in state's interstate banking law. Allows interstate branching by acquisition or merger after May 31, 1997.

Oregon -- The first state to pass opt-in legislation. A 1993 law authorized state-chartered banks to branch across state lines. The current legislation extends this branching authority to national and state member banks.

Pennsylvania -- Authorizes reciprocal interstate branching by acquisition or de novo, effective upon Governor's signing of the legislation.

Rhode Island -- Allows interstate branching de novo on a reciprocal basis, permits acquisition of branch only; effective immediately.

Tennessee -- Provides for interstate branching on June 1, 1997.

Utah -- Mergers and acquisitions across state lines permitted as of June 1, 1995. Institutions must be at least five years old prior to acquisition. De novo branching is prohibited.

Virginia -- Opt-in legislation includes provision for de novo branching on a reciprocal basis.

Opt-Out

Texas -- Opted out of interstate branching, sunsets on September 2, 1999.

Legislation Pending

Opt-In -- California*, Massachusetts, Michigan, New Jersey and New York.

*Legislation authorizing interstate branching on June 1, 1997, has cleared both the House and Senate; the Governor has yet to sign the legislation.

Attachment 11

Failures by Banking Organization (includes commercial banks and savings institutions) (dollars in thousands)

Year of failure	One-institution organizations			Multi-institution, one-state organizations			Multi-institution, multi-state organizations		
	Number	Failures	Percent	Number	Failures	Percent	Number	Failures	Percent
1985	14,165	144	1.02	675	3	0.44	55	0	0.00
1986	13,908	175	1.26	806	5	0.62	70	0	0.00
1987	13,362	214	1.60	858	8	0.93	101	0	0.00
1988	12,897	364	2.82	845	8	0.95	135	1	0.74
1989	12,316	466	3.78	825	11	1.33	151	0	0.00
1990	11,984	355	2.96	787	10	1.27	170	1	0.59
1991	11,332	249	2.20	779	5	0.64	187	5	2.67
1992	10,821	151	1.40	728	3	0.41	193	0	0.00
1993	10,377	48	0.46	681	1	0.15	194	0	0.00
1994	9,814	15	0.15	646	0	0.00	202	0	0.00

Sources: FDIC Division of Research RIS database and failed bank database
FRB NIC database

Prepared 10/10/95 by FDIC Division of Research and Statistics (WSK)