Chairman: Ernest T. Baughman

WHAT WE CAN DO ABOUT BANK STRUCTURE

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Asking does banking structure matter is like asking does "money" matter. You can't say it hasn't and doesn't; but as time goes on and our payments mechanism evolves into a "cashless-checkless" electronic transfer, both "money" and banking structure may matter less.

Money and money usages are changing. For example, the direct crediting of salary and wage payments to the bank account of employees, the pre-authorization arrangements to pay rent and utility bills and the growing popularity of cash-credit cards are significant trends for the future. They will reduce if not eliminate the need to go to a banking office to make deposits or withdrawals. Banking business will increasingly be conducted by telephone or by mail. Why not banking services arranged by a long-term or continuing agreement just as insurance protection?

Money trends in being and prospect will add significantly to the banking alternatives available to the public because nonlocal banks can become competitors of local banks. Nonbanking institutions have already become competitors of banks in the business of money payments. Diners Club, American Express, the oil companies, and supermarkets are all active in handling payment and credit transactions on a very large scale. No doubt in another year or so there will be 40 to 50 million credit cards in circulation, and they will not all be bank cards by any means. In time, cards will displace a significant amount of currency and a lot of check volume, too. Because the form of money and way in which it is used is changing, the public's priorities for banking structure are shifting from maintaining as many independent local banking alternatives as possible to providing banking organizations of sufficient size so that banking services can be enriched and multiplied.

On the question of competition, I do not have the view of the nature of banking that Don Hodgman and the Supreme Court seem to have, namely that banking is a unique bundle of services from which a single activity cannot be extracted without the whole bundle falling apart. On the contrary, banks, in their competitive environment seem to me to be active in a number of different markets with varied panels of customers. Moreover, each service market has a different group of competitors, and the service markets are not necessarily related. The only partially unique service of commercial banking in which major competition comes from other local banks is the checking account, and its uniqueness is being pared down by competitive developments outside of the banking system. The time seems to be approaching when it will be almost as convenient for me to get money service from a bank in New York or California as from a bank in Washington or Virginia.

Now let me say a few words about structure and services. In the mid-thirties when supermarkets began to grow in the United States there were laws prohibiting or taxing them on a discriminatory basis. Despite these inhibitions, however, the supermarkets displaced their marketing predecessors. It is hard to think of the present-day function of the supermarket being performed by "Papa and Mama" stores which were the marketing ideal of the law makers who passed the anti-supermarket laws. Essentially, the same kind of functional revolution is taking place in banking. A modern bank, like a modern supermarket, has to have the management, the capital, and the operational resources that are impractical for a small business unit. In a technological sense a bank has to be large enough to justify the use of a computer in its own operations.

There are today about 650 banks that have about 75 percent of the deposits and about 75 percent of the depositors. The smallest of these 650 banks is about $60 million in size. Perhaps it doesn't require a $60-million bank to generate the volume of transactions that makes a computer feasible, but the break-even point is probably in the $40-75 million range. A full range of up-to-date banking services is not possible without a computer, consequently the computer is an essential ingredient of banking services of the future. Computers are expanding and enriching banking services today wherever banks have reasonably competent staffs to provide the requisite software for applications antecedent or subsequent to banking transactions.

Consider a bank that sees profit opportunities in becoming the community's accounts keeper. It could, for example, start with the proposition that doctors are notoriously negligent and inefficient in their billing and accounting practices. The bank computer can take these operations over with a minimum of collaboration on the part of the doctor. But this service only scratches the surface of potential applications. Help is also available on diagnostic problems that can be processed on computerized equipment or expedited by access to medical data banks. When one starts to look at the opportunities which follow from a bank's possession of electronic software and hardware, the possibilities are limited only by the aggressiveness and ingenuity of the institution's management.

Developments along these lines lead me to conclude that the service side of banking is now being seriously neglected. And if one accepts the view that competition is growing between local and nonlocal banks and between banks and nonbanking institutions, it's easy to come to the conclusion that we have given too much attention to fostering large numbers of small local banks and not enough attention to fostering units of a size that can expand the quality and diversity of banking services.

There are alternative banking structures. On the Eastern Seaboard and Western United States branching structures predominate. In the Mississippi Valley unit banking and limited branching prevail. There are some holding companies in the West, some in the Midwest, notably Minnesota and Wisconsin, but mainly they are located in the Eastern and Atlantic Seaboard states where they have grown very rapidly. In New York, for example, there are only one or two more potential lead banks in the "Upstate" area for another statewide holding company application.

In a state like Virginia, which has a very progressive attitude towards its banking structure, there is a combination of holding companies and local branching. While some banks have branched statewide through mergers, the majority of the statewide systems are units of the holding companies with limited local branching.

Holding companies have most of the advantages of centralized management, capital resources, management training, recruiting systems, retirement programs, in-house data processing, centralized accounting, portfolio advice, etc. At the same time, they retain an element of local control and parochial interest which is usually a source of strength and improved service to the community. Not all holding companies, I should add, have this particular vision of what they can and should be and do.

Another structural characteristic of our banking system is the correspondent banking network, an arrangement which has flourished for a long time but seems, in its traditional manifestation, to be declining as branching and holding company systems have grown. Correspondents provide, in some cases, portfolio management, some accounting and data and check processing, overlines and participations, and a large number of infrequently used services. Unfortunately, the prevailing practice of paying for services with correspondent balances entails one of the worst of all possible arrangements for the customer of banks in credit deficit areas.

You might be interested in knowing how the 150 largest banks are divided among these structures. Among the 150 largest banks which have 55 percent of the nation's deposits there are 103 branching systems, 34 holding companies, and 13 unit banks. Seven of the unit banks are in Chicago, five in Texas, and one in Missouri.

Let me say something further about structure and competition. To analyze a bank's competitive position adequately I have indicated that the idea that banking is an interrelated bundle of services should be rejected or qualified. There is, however, a sense in which there is merit to that position. Corporate customers keeping substantial sums on deposit expect and insist on loan accommodation in return for having established a long-term depositor relationship. This somewhat reciprocal arrangement is not ordinarily a matter of contract; it usually is unstated, but is accepted as a normal matter-of-fact business practice.

Thus, there is a linkage between depository and lending service and it is especially significant in banks when corporate or large accounts make up, say, 60 percent or more of the bank's total deposits.

Banks compete in many asset markets. In the national markets for government securities and for state and municipal bonds, for example, banks compete with individuals, other banks and financial institutions, state and local governments, and nonfinancial business institutions. Competition from local banks is no gauge whatever of the extent of the competitive environment. The same conclusion may be reached about large business loans and also residential and nonresidential mortgages to a considerable degree. Among business borrowers only those which are too small to enter the capital markets or attract the attention of insurance companies are dependent on bank competition. But even these businesses have a very important alternative in the form of trade credit--usually tied to a product line, often high priced, but always there and always plentiful.

Nonbank competition is often overlooked in analyses of how much local bank competition should be maintained to provide protection to customers whose alternatives for depository or lending services are limited. My own view from listening to bankers and other lenders is that the most aggressive local competition to banks on the liability, if not the asset, side comes from savings and loan associations. On the asset side it undoubtedly comes from vendors and suppliers. In most merger cases or holding company acquisitions, it seems to me, that the extent and pervasiveness of nonbank competition is seldom adequately evaluated.

Let me now say something about "structure fixations," although I have touched on most of these already. We sometimes encounter opposition to mergers and holding company acquisitions of nonviable institutions. True, the definition of a "floundering bank" is a matter of judgment. And banks usually flounder because of poor ownership or management. The quality of these attitudes is a matter of degree and judgment. Close to floundering is almost as good as floundering to justify an acquisition. A better and more timely criteria in those areas where banks have stagnated and are not adequate to serve the community may be found in the "floundering" quality of the service they offer rather than in the ultimate nonviability of the institution.

Another case of structural fixation is illustrated by a Milwaukee case that came up last winter. Like some other metropolitan area banking organizations, First Wisconsin Bankshares, so far as Milwaukee is concerned, is more or less locked into existing office locations. Its existing branches are by virtue of grandfather branching provisions. Its flexibility is limited to securing permission to relocate an existing branch or to opening a new or acquired holding company affiliate. It has several offices in decling economic areas. Deposit growth in those areas is stagnant or declining. It has been attempting, and at times successfully, to relocate some of its offices and open new offices to tap suburban areas where deposit growth is more promising. In this case the majority of the Board denied the application for a <u>de novo</u>

entry on the ground that First of Wisconsin was already too dominant in the Milwaukee metropolitan area. In my dissent I included a statement showing the concentration ratios in about 15 or 16 cities in the country --number of banks, number of offices, and various measures of concentration. Milwaukee, among these cities of roughly the same size, showed lower levels of concentration than most (see Appendix).

I would not want you to believe, however, that I set great store in concentration ratios especially those that are used uncritically. Let me give you a few examples. In the Chicago SMSA, there are about 295 banks and the largest bank has 19 percent of the area deposits. The largest three banks have 45, and the largest five have 54 percent. Actually Chicago, on a realistic appraisal, is best characterized as a combination of local monopolies scattered over the area. In the city, for example, at least two-thirds of the banks outside of the Loop are a mile or more from another bank. This means that on a convenience basis Chicago has one of the worst banking structures in the country because there is really no competition for the convenience business. San Francisco has about 40 banks and, of course, the Bank of America there accounts for 42 percent of area deposits, three banks for 77 percent and five banks for 87. But I dare say there is much more competition in San Francisco for consumer-type business and for small business loans than there is in Chicago. While there are about 40 banks in San Francisco, there are about five that compete throughout the area. By taking just the raw concentration ratio figures you will often come up with misleading results.

In Buffalo, which shows a higher concentration than any other city that I have listed here, one bank has 50 percent of area deposits, three have 95 percent, and five have 99. It's hard to beat that. Of course to the degree that three banks are spread throughout the area-- there are three alternatives. Perhaps that's better than Chicago.

Another fixation that people have difficulty getting rid of is that banks ought to be confined by state lines. I don't know how long it will be before we will have outright branching across state lines but there are many places where, if a competitive environment is the goal of public policy, it makes sense, e.g., Washington, D. C., Rhode Island, New England, and any multi-state metropolitan area.

The one-bank holding company development is almost certain to change geographical constraints for certain types of activities. The law regarding one-bank holding companies, which I think the Congress is likely to pass, does not contain any geographical constraints on the activities in which subsidiaries may engage. This would enable a one-bank holding company to go into the mortgage or mortgage servicing business without geographical constraints, as they now can with loan production offices. If the law permits the acquisition of finance companies, as I think it's more than likely to, then a bank could through its one-bank holding company buy a finance company with offices in any number of states. The law will encompass other activities making it possible for banks, through their affiliates, to operate across state lines without the restrictions that now apply to banking offices. While banks do operate across state lines for much of their business, at this time, they don't operate successfully across state lines to serve medium-sized and small accounts.

Let me conclude by pointing out policy implications for structure. We should be encouraging the development of a combination of holding company and branching systems in sizes large enough to provide the kinds of banking service that can be made available today. We give insufficient attention to the limitations that smallness imposes upon the quality and diversity of services and--when it matters--to the convenience of availability, for no unit bank can profitably operate on the deposit volume which will justify a branch location.

Secondly, I think that we ought to maintain or extend freedom of entry into banking. Existing state laws and supervisory attitudes need changing. Essentially local monopolies are protected. Competition is stifled on the ground that an area is "over-banked." There are still many states with home office protection clauses. New York and Michigan are examples. New Jersey is in the process of removing some of its anticompetitive provisions.

Finally, I think that state lines should not limit the growth of banking. Banks ought to be able, to some degree at least, to move across state lines to serve all types of customers.

Our thinking needs reorienting about our banking structure. What kind of a banking system can best serve the U. S. economy as it is evolving? The kind of banking structure we have now seems to be singularly inappropriate; it is time to put more emphasis on scale and services and less on locally protected market areas.

APPENDIX

DISSENTING STATEMENT OF GOVERNOR MITCHELL

FIRST WISCONSIN BANKSHARES CORPORATION
MILWAUKEE, WISCONSIN
November 27, 1968

The majority in this case has denied First Wisconsin Bankshares de novo access to a market area in suburban Milwaukee. It has done so by preventing Bankshares from creating a new banking affiliate.

The newly organized bank would have served portions of the communities of Greenfield and Greendale. The estimated population of the two communities is 36,500 and the population of the bank's "primary service" area (defined as the area from which 75 percent of projected deposits will originate) is estimated at 10,600. Bank of Greenfield ($2,234,000 in deposits), State Bank of Hales Corners ($17,835,000 in deposits), and a branch of Layton Park State Bank ($22,000,000 in deposits) are, respectively, 1-1/4, 2-3/4, and 1-1/4 road miles from the proposed location and are the major competitors in the area with deposits estimated at $1,200,000. The other major Milwaukee banks also have customers in the area with undisclosed holdings.

The proposed office would enable Bankshares to better service its existing customers in the area and to attract new customers as the community grows. Denial of this application will impair Bankshares' ability to offer its services in a convenient location and to attract new business on the strength of the quality and diversity of its services.

Most individual depositors and small businesses select a banking connection as close to home or work as is feasible. In suburban residential areas such as Greenfield these customers would ordinarily be within a radius of one to three miles of a banking office, depending on competitive alternatives, the income level of the community, and the population per square mile. Under present-day conditions, rejecting an application for an office in this suburban area is tantamount to excluding Bankshares from effectively competing for such customers in the area.

Only a compelling and plainly evident conflict with the public interest would justify the rejection of the Applicant's right to earn --not purchase through merger or consolidation--the patronage of suburban customers. Does the public interest require so drastic a measure as confinement of internal expansion by First Wisconsin Bankshares?

The proposal could conceivably be rejected on two grounds: that it contravenes state banking policy or that it contravenes federal policy on concentration of power and a trend toward monopoly.

A state government under the so-called "dual banking system" has the power to exclude from effective competition banks chartered under the laws of other states, to restrict competition among the state banks it charters and to limit their market areas in any manner it deems consistent with the state's interest. It may even, through anti-branching restraints and home office protection laws, create local monopolies. A state's power over state banks is all the greater because of the established federal policy to impose on national banks the same office location restrictions as are applicable to state banks.

State laws governing the access of banks to local markets within the state are extremely diverse; but three groupings are roughly distinguishable: (1) statewide access to local markets through branching or holding companies or both, (2) limited access confined to a single city, a county or contiguous county areas, often combined with statewide access through holding company affiliation, (3) local access limited to a one-office location, usually with an explicit statutory prohibition with respect to holding company affiliation or at least uncertainty that other statutory provisions covering banking or general corporate powers would be interpreted to permit such affiliation.

Wisconsin does not fit any of these categories very well but it has more in common with the second category than the others. Some branching has been inherited from earlier statutory provisions, statewide access through holding company affiliation is allowed, and recently the state opened to branching those municipalities without a banking office.

Under the spirit of the federal policy which yields to a state the determination of the scope of banking markets within its boundaries, it could be argued that in the absence of more expansive provisions with respect to branching in Wisconsin, Bankshares should not be allowed an affiliate in locations where branches would be more in keeping with general banking practice. But I am more persuaded to the contrary by the precedents that have come into being under the Wisconsin law. Over a long period of time several affiliates of this type have been organized and operated without statutory challenge or correction. It seems appropriate to regard such affiliates as consistent with state banking policy. The proposal, therefore, should not be struck down on the grounds it contravenes state policy as defined by the legislature.

It is obvious from the facts contained in its statement that the majority has been influenced toward its denial by statistical measures of banking concentration. The concentration ratios for First Wisconsin Bankshares are in their judgment too large; therefore, that organization is denied the right to expand even de novo--in fact, it is exposed to the risk of losing some of its present customers to more convenient banking accommodations because it cannot even adapt to population shifts within the metropolitan area.

The statistical measures of concentration for states or metropolitan areas are useful if used with caution and consideration as to their real significance. The standard metropolitan area as a significant market area for the sale of products, services or labor clearly has its limitations and qualifications. It is not ordinarily a suitable basis for gauging competition in providing banking services to individuals and smaller firms and associations, unless the competitors blanket the entire area with their offices.

The "total deposit" measure most commonly used is also inappropriate in those cases where some deposits are nonlocal in origin reflecting larger banking organizations' penetrations of national and international deposit markets. Thus, while the great majority of a bank's customers may be recruited within close proximity to its offices, the larger businesses, some of the larger local governments or their agencies, nonprofit organizations, and wealthy individuals can and do transact some of their banking business elsewhere, and irrespective of their residence or principal place of business. In some banks these larger depositors hold a preponderance in the bank's deposit aggregate.

Bearing in mind these limitations, what approach should be taken to the problem of judging whether or not some particular level of statistical concentration is or is not compatible with the public interest? We can look at some comparative situations. Before doing so, however, I think the presumption underlying such a procedure should be bared.

It seems to me reasonable to presume that if Congress, after evaluating banking service and performance, held to the view that there was excessive banking concentration in metropolitan areas throughout the nation it would direct the federal supervisory agencies, including the Federal Reserve Board, to attack that problem directly and on a widespread basis by prohibiting further branching of any kind in any such areas by the largest banking organizations. Congress has authorized no such step unless to implement state policy and, in my opinion, the majority in this denial has over-reached its Congressional mandate by so using federal power in the Bankshares case.

Could the majority reasonably contend, however, that the situation in the Milwaukee metropolitan area is so extreme a case of concentration as to justify the unusual constraint it has introduced against de novo entry?

The latest facts on concentration levels in 17 metropolitan areas are contained in the attached table; they are as of June 1966. The metropolitan areas included bracket Milwaukee in population size ranging from 500,000 to 2,500,000 and are located in states where some type of branching and/or holding company affiliation is permitted within all or nearly all of the related metropolitan areas. California SMSAs are excluded because of data noncomparability.

The data in the table reveal the relatively low level of banking concentration in the Milwaukee metropolitan area. Using the market share of the four largest banks in each area as a criterion, Milwaukee ranks seventeenth among 17 in concentration of offices, total deposits, and demand deposits of less than $100,000, and sixteenth in concentration of savings deposits of less than $100,000.

Using the market share of the largest banking organization in each area as a criterion, Milwaukee ranks fifteenth in concentration of offices and savings deposits of less than $100,000, sixteenth in concentration of demand deposits under $100,000 and is tied for thirteenth in concentration of total deposits.

The shares of large (over $100,000) IPC time and demand accounts are also shown in the table but are far less significant indicators of concentration in local markets since they include the balances of regional, national, and international customers as well as those of local depositors.

One finds, therefore, slight justification in terms of the actual banking structure patterns in the nation's metropolitan areas for characterizing the Milwaukee situation as comparatively overconcentrated. These real-life criteria seem to me a sounder basis for approval than the majority intuitive judgment is for denial.

One also finds no hint in the record that the performance of Bankshares, or Milwaukee banks generally, is anticompetitive in consequence of the extant degree of concentration. On the contrary, such performance as can be deduced from the record is indicative of a vigorous competitive climate. The benefits to bank customers show up in the level of interest charges on loans, interest rates paid on deposits, and a variety of service features. On the record, Bankshares' role in the Milwaukee metropolitan area is not one that should be repressed or cut off but one that should be recognized as contributing to the competitive environment the majority seeks.

Shares of Banking Markets in 17 Metropolitan Areas, June 1966

Metropolitan Area (1960 population in thousands)		Number of Banking Org.[1]	Market Shares (Per cent)					
			Number of Offices	Total Deposits	Small Accounts (Less than $100,000)		Large Accounts (Over $100,000)	
					IPC Demand Deposits	Savings Deposits	IPC Demand Deposits	IPC Time Deposits
Pittsburgh, Pa.	(2,405)	48						
Largest			24	52	32	34	70	72
4 largest			72	88	79	77	98	99
Others		44	28	12	21	23	2	1
Cleveland, Ohio	(1,909)	24						
Largest			31	34	42	41	20	24
4 largest			69	82	79	86	83	77
Others		20	31	18	21	14	17	23
Baltimore, Md.	(1,804)	28						
Largest			21	27	29	22	30	79
4 largest			71	81	78	73	93	98
Others		24	29	19	22	27	7	2
Buffalo, N.Y.	(1,307)	10						
Largest			40	49	47	46	58	45
4 largest			96	97	97	96	99	100
Others		6	4	3	3	4	1	—
Milwaukee, Wis.	(1,279)	48						
Largest			19	34	25	28	50	25
4 largest			38	70	60	59	88	57
Others		44	62	30	40	41	12	43
New Orleans, La.	(907)	23						
Largest			14	31	31	34	45	17
4 largest			46	77	72	70	90	62
Others		19	54	23	28	30	10	38
Portland, Ore.	(822)	21						
Largest			26	38	36	36	41	36
4 largest			65	86	81	83	94	99
Others		17	35	14	19	17	6	1
Providence, R.I.	(821)	15						
Largest			29	52	41	59	46	60
4 largest			61	91	89	91	94	95
Others		11	39	9	11	9	6	5
Columbus, Ohio	(755)	16						
Largest			45	45	43	47	51	17
4 largest			78	95	92	93	99	100
Others		12	22	5	8	7	1	—
Rochester, N.Y.	(733)	18						
Largest			26	39	34	32	64	45
4 largest			85	94	93	92	99	98
Others		14	15	6	7	8	1	2
Phoenix, Ariz.	(664)	10						
Largest			36	49	45	49	50	40
4 largest			92	94	93	91	98	97
Others		6	8	6	7	9	2	3
Albany, N.Y.	(658)	18						
Largest			14	32	20	17	32	54
4 largest			54	78	68	54	83	91
Others		14	46	22	32	46	17	9
Akron, Ohio	(605)	11						
Largest			37	42	45	29	47	54
4 largest			66	83	85	83	94	95
Others		7	34	17	15	17	6	5
Norfolk, Va.	(579)	11						
Largest			27	48	41	36	59	72
4 largest			65	79	75	73	92	91
Others		7	35	21	25	27	8	9
Syracuse, N.Y.	(564)	10						
Largest			34	29	27	30	35	30
4 largest			90	93	92	90	99	97
Others		6	10	7	8	10	1	3
Hartford, Conn.	(549)	17						
Largest			23	45	38	37	59	60
4 largest			70	93	89	83	98	99
Others		13	30	7	11	17	2	1
Greensboro, N.C.	(520)	11						
Largest			30	51	37	53	53	62
4 largest			69	94	93	90	98	100
Others		7	31	6	7	10	2	—

[1] Data are consolidated for banks within holding companies.

DISCUSSION

MR. GOODMAN: Governor Mitchell, do you think regional banking would destroy the dual banking system?

GOVERNOR MITCHELL: Perpetuation, per se, of the dual banking system should not be a goal of policy. If the dual banking system is functioning well and in the public interest, fine, it should be fostered. But, at the moment, I think there is a good deal of evidence that federal deference to state banking rules is crippling or stifling both competition and progress in banking. I believe we should have a national banking system. If a state wants to limit the activities of local and regional banks, it certainly can do so. But I don't think the states ought to be able to determine what the national banking system can or cannot do. Under the present law national banking policies are subordinated to parochial interests.

MR. REID: Governor Mitchell, could you tell us how you arrived at the figure of 650 banks.

GOVERNOR MITCHELL: Essentially by looking at how large a bank has to be to have its own computer.

MR. REID: How about leasing or sharing computers?

GOVERNOR MITCHELL: The pattern of computer usage has been that the large banks own or lease their own equipment, while smaller banks use service bureau or correspondent facilities. It is entirely practical for small banks to use out-of-house computer services for their own deposit accounting and bookkeeping, but it is less clear that they are in the same position as a large bank with its own equipment to offer a full line of computer services to their depositors.

MR. REID: In other words, the cost of computers is dictating the future banking structure?

GOVERNOR MITCHELL: I think so, in a significant degree.

MR. KLEBANER: Governor Mitchell, which areas, if any, would you preclude one-bank holding companies from entering?

GOVERNOR MITCHELL: I would have no objection to them entering or acquiring a mortgage servicing or finance company business. I would object to the acquisition of savings and loan associations and mutual savings banks because I think that some of the strongest nonbank competition has come from these institutions. One could argue that finance companies should be in the same category as savings and loan associations but in the past, to the best of my knowledge, banks and finance companies have operated in somewhat different markets.

I believe that banks and holding companies should be given a broad scope in the area of computer services, because the opportunities for better and cheaper public services depend on integration of accounting and bookkeeping antecedent and subsequent to payment.

As for travel agencies, only a small number of banks with established positions would be affected; the public interest at stake is insignificant. As far as mutual funds go, banks have facilities to handle trust funds of all kinds, including common trust funds, so why not mutual funds?

With respect to insurance agencies, I think this business should be credit-related. We have approved agencies for some time on the grounds that they are significantly bank related. Obviously, safeguards against tie-in sales are needed. Finally, there's another provision for real estate redevelopment agencies in the ghetto areas. There's a catch-all in which other activities could be permitted, subject to the agencies' approval with a hearing.

MR. BRIGHAM: Assuming there is a "laundry list," would you distinguish between one-bank holding companies and multi-bank holding companies?

GOVERNOR MITCHELL: No, I would not. I find the Treasury bill, which does not have a "laundry list," acceptable. This is more a matter of strategy because there's always a difficulty with interpretation. If the law is clear then there's no need for a "laundry list." However, if there are problems with interpretation then a "laundry list" is useful.

MR. BAKER: Your statement on computers governing bank structure is of concern to me. You need to weigh the short-run gains, based on present computer technology, against the long-term changes in bank structure which are harder to undo. Your view would tend to create a system of very large banks. Computer time-sharing would permit smaller banks to enjoy access to computers and yet compete as separate institutions.

GOVERNOR MITCHELL: The reason I emphasize the role of computers is that they are becoming the exclusive technology for settling transactions. Banks are built around the money function. The introduction of computers is changing the transfer system so that even small banks must have access to someone's computer. Most small banks are using the facilities of correspondent banks. Unfortunately, the correspondent system has some anticompetitive features in that banks in a correspondent relationship are not exactly aggressive competitors.

MR. BAKER: Should we create units large enough to own computers or take affirmative steps to assure access for all banks to use computers?

GOVERNOR MITCHELL: About 85 percent of the people in this country live in or adjacent to a metropolitan area. These are the areas we're primarily concerned with. Seventy-five hundred banks in the United States are in one-bank towns outside of metropolitan areas. What is practical for that part of the banking structure should not govern what is sought for the rest of the economy. The evidence may show it's inefficient and it's monopolistic, but I think we would all agree it's better than nothing.

MR. GOODMAN: How would you feel, for example if LTV acquired a large New York bank?

GOVERNOR MITCHELL: I'm not in favor of that.

MR. GOODMAN: How about restraints on one-bank holding companies relative to size?

GOVERNOR MITCHELL: In the Treasury bill and in the Patman bill there's a provision against approving acquisitions that result in too large a concentration of power or will be generally anticompetitive. It's stronger language than we've had in any of the recent legislation governing mergers or holding companies.

MR. EDWARDS: You seem to acknowledge that computer services could be provided by correspondents, but this would have the bad side effect of being monopolistic. I agree, but possibly this service could be offered by independent firms. Why be limited to in-house facilities?

GOVERNOR MITCHELL: We don't have complete information on who is doing the demand deposit accounting, but recently we studied the Washington-Baltimore area. Out of 90-odd banks, only about 15 percent had their own computer, three or four used outside data processing services, and 30 percent were serviced by their correspondents. The remaining banks were doing everything by hand. I suspect it will be a short time before all banks are using computer facilities for demand deposit accounting. The changeover is occurring rapidly. For example, of the 30 million checks processed by the Federal Reserve daily, only 3 percent come to the Fed not amount-encoded. The experience has been that correspondents have most of the selling advantages rather than the nonbank service firms.

MR. EDWARDS: Why exclude mutual savings banks and savings and loan associations from bank acquisitions? First, the entry threat would be a positive competitive aspect. Second, there may be economies of scale from combining these functions which might in turn offset any anticompetitive aspects.

GOVERNOR MITCHELL: The statement the Board sent on mutual savings banks and savings and loan associations was that they could acquire them so long as there was no anticompetitive effect. And I have no great objection to that.

MR. HORVITZ: Would you apply the "laundry list" to the businesses holding companies establish de novo as well as to those they acquire? If so, how would you police them?

GOVERNOR MITCHELL: The Board's recommendation doesn't distinguish between acquisitions and de novo. I am satisfied with this because if a bank could do it a lot better, being able to start de novo would mean that eventually they could freeze out competition as effectively as if they had taken it over in the first place.

MR. SPRENKLE: Governor Mitchell, why do you question the importance of local structure?

GOVERNOR MITCHELL: All I'm saying is that the trend is toward competitively adequate banking services from nonlocal banks and nonbank institutions.

MR. SPRENKLE: How about obtaining local information?

GOVERNOR MITCHELL: That isn't a function of banking. Furthermore, households really don't need this. What they need is the money service.

MR. W.P. SMITH: I'd like to comment on a suggestion from the audience that banks get their computer services from correspondents or independents. I think this is frightening. The data processor could be like some clearinghouse arrangements which tend to take on added "responsibilities." This may in turn provide common cost information which can lead to price-fixing.