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# MARKET STRUCTURE, PUBLIC CONVENIENCE, AND THE REGULATION OF BANK MERGERS

A Paper Presented by

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# MARKET STRUCTURE, PUBLIC CONVENIENCE, AND THE REGULATION OF BANK MERGERS

by
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The debate over the changes required in our banking structure to meet the expanding credit needs of the American public is always a lively one, and the role of bank mergers is usually close to the center of the discussion. Today, despite the focus on the question as to whether banks should be allowed to conduct their businesses through operational subsidiaries, loan production offices or under the direction of a holding company, the policies followed by Federal bank supervisory agencies in the regulation of mergers and acquisitions continue to be of vital interest to the banking community. Thus, an annual convention of the American Bankers Association is an ideal setting for an examination and assessment of the way in which the bank supervisory agencies have carried out their statutory responsibilities in recent years.

The Bank Merger Act, originally enacted in 1960, and the Bank Holding Company Act, enacted in May 1956, were both amended in 1966. Principal among the amendments to each of the statutes was a change in the statement of circumstancial factors the Board is required to consider under the Bank Holding Company Act, and which the appropriate Federal supervisory authority (Board, Comptroller of the Currency, or Federal

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Deposit Insurance Corporation -- depending on the charter status of the continuing institution), must consider under the Bank Merger Act. The amended "statutory factor" provisions were made virtually identical in the Bank Merger and Bank Holding Company Acts and, with respect to the competitive aspects of a merger or holding company proposal, the more precise guidelines found in the Sherman and Clayton Acts were made applicable.

Thus, with respect to either a proposed bank merger where the resulting bank is to be a State member bank, or a bank holding company acquisition, the Board may not approve any proposal that would result in a monopoly or that would be in furtherance of any combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States. Nor may the Board approve any proposed merger or holding company acquisition the effect of which, in any section of the country, may be substantially to lessen competition unless the Board finds that the anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served.

Pursuant to the amended provisions of both the Merger Act and the Bank Holding Company Act, a court before which an action is commenced under the antitrust laws, following agency approval of a Merger Act or Bank Holding Company Act proposal, is required to review *de novo* the issues presented, and the standards to be applied by the court are those required to be considered by the agencies under paragraph 5 of the Merger Act, and by the Board under section 3 of the Bank Holding Company Act.

It is in this legal framework that the assessment of bank mergers and bank holding company proposals must be made. In approaching this task, I have attempted to answer the following questions:

- To what extent, if any, can one observe significant differences in the pattern of merger decisions by the Federal Reserve Board, the Comptroller of the Currency and the Federal Deposit Insurance Corporation?

- In deciding proposed bank mergers or bank holding company acquisitions, what weight, if any, should be given to possibilities of future, or potential, competition.

- Should the rate of economic growth in an area influence the policies of the regulatory agencies?

In answering these questions, I have reached the following conclusions:

- The Comptroller of the Currency and the FDIC apparently approve a much higher proportion of merger applications than does the Federal Reserve Board. These divergencies in denial rates seem to reflect differences in policies among the agencies rather than differences in the seriousness of anticompetitive effects involved in the kinds of cases handled.

- Potential competition should be assigned considerable weight in merger cases. However, the Federal Reserve Board seems to follow this practice to a far greater extent than does either of the other two agencies.

- A more permissive approach toward mergers in growth areas is not warranted as a general proposition. However, there may be some cases in which the effect of mergers on competition in such areas is offset by the advantage to the community in convenience and needs.

Before proceeding further, let me stress that the present assessment of bank mergers is entirely my own. To anyone familiar with the record of Federal Reserve Board merger and holding company decisions, it should be obvious that in this area -- as in others -- each Board member speaks for himself.

## The Pattern of Decisions in Bank Mergers and Acquisitions, 1966-1968

From the beginning of 1966, through July of 1968, there were over 460 merger and holding company applications received by the three Federal banking agencies. (See Table I, attached.) The vast majority of these applications (391) have proposed mergers, while only 71 have been for holding company acquisitions and formations.[1/] Applications to the Comptroller of the Currency account for a little less than half of those received, those to the FDIC about 30 per cent and those to the Board close to 25 per cent.[2/]

As one would expect, in view of wide differences in State laws governing multiple-office banking, merger and holding company activity is not evenly distributed throughout the United States. (Table II). Over the period, more than 80 per cent of the applications received came from seven Federal Reserve Districts: New York, Philadelphia, Cleveland, Richmond,

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1/ Nevertheless, since 1964, there appears to have been an upward trend in holding company activity. The following data are for Board decisions in holding company cases, rather than applications: 1964, 11; 1965, 17; 1966, 26; 1967, 31. There may be at least 33 decisions in 1968.

2/ A little more than 1/3 (37 per cent) of the Board applications have been for mergers; the remaining applications have involved holding companies.

Chicago, and Minneapolis. The Richmond district alone accounted for close to 20 per cent of the applications. By and large, each of these Districts includes one or more states in which multiple-office banking is prevalent. On the other hand, there has been less activity in the St. Louis, Kansas City and Dallas Districts, principally because of State restrictions on multiple-office banking.

Over this period, there were 427 decisions by the three banking agencies. There were 409 approvals and 18 denials. (Table III.) While the Board accounted for about one-quarter of the decisions, it also accounted for two-thirds of the denials. The FDIC and the Comptroller each had three denials; the Board had 12. The denial rate at the Board has been close to 11 per cent (with about the same rate for mergers, holding company formations and acquisitions). The denial rate at the FDIC has been less than 3 per cent and at the Comptroller of the Currency, less than 2 per cent. These data strongly suggest that there are significant differences among the agencies with respect to the way each handles its cases, and these differences in approach may have a strong bearing on whether the cases are likely to be approved or denied.[1/]

Either the policies of the Board differ from those of the other banking agencies, or the kinds of cases handled by the Board involve

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1/ For the technicians who may be interested, the relationships appearing in the pattern of merger decisions were tested statistically. Cross classifying Board and "other agency" decisions by "approvals" and "denials" permitted a nonparamatric contingency test which yielded a chi square value of 13.7. This value is significant at better than the 1 per cent level and supports the hypothesis indicated above.

more serious anticompetitive effects. While the latter possibility may account in part for the difference between the denial rate at the Board and the FDIC, it hardly seems likely to account for the difference between the Board and the Comptroller.

If, in fact, the denial rates at the Board and at other agencies reflect a difference in policy, this might be reflected in the way the Board's advisory opinions on competitive effects on merger cases are received. Over the period covered, the Board issued 121 advisory opinions to the FDIC and 204 to the Comptroller of the Currency -- 325 in all. (Table IV.) In 94, or close to 30 per cent of these reports, the Board indicated that the competitive effects of the proposed merger would be serious. (As might be expected, given the small size of the typical insured nonmember bank, the proportion submitted to the FDIC deemed serious was lower -- about 22 per cent -- than the proportion submitted to the Comptroller -- about 33 per cent.)

An indication to another agency that the anticompetitive effect of a merger is serious does not necessarily mean that the Board itself would have denied the application. Serious anticompetitive effects could be offset, or "clearly outweighed" by the convenience and needs of the community. This would, however, have had to be the situation in a little less than two-thirds of the 94 cases in which a serious effect was indicated in order to bring the denial rate down to the Board's own 11 per cent.

In fact, however, the other two banking agencies issued denials in only three of the 94 cases in which the Board found a serious anticompetitive effect. The three other denials issued by the FDIC and the Comptroller were in cases in which the Board did not find a serious anticompetitive effect. There does not appear to be a significant relationship between the finding of a serious anticompetitive effect by the Board and the decisions by the other banking agencies.[1]

In my opinion, the pattern of merger decisions examined here is strong documentation of differences in the approach taken by the three supervisory agencies in carrying out their responsibilities under the bank merger statute. Since each agency must determine for itself how well it is meeting the requirements of the Bank Merger Act, I clearly cannot -- and would not want to -- judge the performance of the other agencies. With respect to the Federal Reserve Board, I obviously believe that we are performing reasonably well.

## The Role of Potential Competition

While one can describe statistically the differences in the pattern of merger decisions by the Federal bank supervisory agencies, it is far more difficult to explain those differences. Whatever the basis for the differences among the supervisory agencies, it appears to be reflected in their attitudes toward potential competition -- that is, the extent to which weight is given to possibilities of future competition

1/ Cross classifying Board findings of serious and nonserious anticompetitive effects, in advisory opinions by "approvals" and "denials" by other agencies permitted a nonparametric contingency test which yielded a chi square value of .48, which cannot be taken as significant.

in a proposed bank merger or holding company acquisition.

Although it is not clear just how much importance the Comptroller and the FDIC assign to potential competition in deciding cases before them, one does get the impression that the weight they accord this factor is quite small. In contrast, the Federal Reserve Board places considerable emphasis on potential competition in the determination of both bank merger and bank holding company applications.

I believe it to be clearly established that the effect of the 1966 amendments to the Bank Merger and Bank Holding Company Acts was to impose on the responsible supervisory agencies a scheme for appraising and determining competitive consequences that, in major respects, is utilized generally in the Government's enforcement of section 7 of the Clayton Act as amended in 1950. Most relevant to this discussion is the question: Does a determination of whether the effect of a proposed merger or holding company acquisition "may be substantially to lessen competition" encompass situations involving "potential competition"?

The concept of "potential competition", treated herein, does not automatically encompass -- nor absolutely exclude -- the related concepts of "potential injury to competitors" and "ease of market entry". Both of these concepts are properly the subject of inquiry in competitive analysis, but are not necessarily related to a determination of the likelihood that parties to a merger or holding company proposal will become active competitors.

Effective, workable competition in a given market exists when buyers of products or services are offered purchasing alternatives sufficiently real to provide these buyers with the opportunity to change from one seller to another, with the possibility of such change influencing sellers to seek improvements in the quality and price of the products and services which they offer. However, particularly in a market in which actual competition is in some manner deficient, sellers may be influenced as much by the realization that a low level of quality or a high price level may attract more competent or efficient entrants from the periphery of the market as they are by the threat posed by existing competitors. Effective competition in such markets, therefore, requires the preservation of the threat of potential competition.[1/] Admittedly, to deal with "the preservation of the threat of potential competition" is, on its face, conjectural. But Congressional concern over probabilities, not certainties, was the precise reason for the Celler-Kefauver Amendment (1950) to section 7 of the Clayton Act.[2/]

It seems fair to say that "potential competition" as a determinative factor in merger and acquisition cases, bank and nonbank alike,

1/ Wilcox, Competition and Monopoly in American Industry, Temporary National Economic Committee Monograph No. 21 (1940), p.7.

2/ Unitd States v. Philadelphia National Bank, 374 U.S. 321 (1963); Brown Shoe Co. v. United States, 370 U.S. 294 (1962).

while recognized for many years past, has become a crucial and, in some cases, a decisive factor only within the last five years or so. In 1964, the United States Supreme Court decided three cases under section 7 of the Clayton Act in which substantial weight was accorded potential competition.[1/] Of these decisions, Penn-Olin provides the most direct statement of law and of criteria for applying the law -- both of which the Board finds applicable, and has applied, to bank merger and bank holding company proposals. Penn-Olin involved a joint venture agreement to produce and sell sodium chlorate in the southeastern United States between Pennsalt Chemicals Corporation, a producer and nationwide distributor of chemicals and chemical products, and Olin Mathieson Chemical Corporation, a producer of chemicals and chemical products with division plants in 15 States. However, at the time of the joint agreement the two corporations did not compete. The relevant market was then dominated by two other corporations, together controlling over 90 per cent of the sodium chlorate market. Pennsalt, pursuant to a sales agreement with Olin, was a minor third competitor in the relevant market. The joint venture agreement was a successor to the above-mentioned sales agreement.

The Supreme Court rejected the finding of the District Court that potential competition between the two joint venturers could be found to have been foreclosed only if, as a matter of reasonable

1/ United States v. Continental Can Co., 378 U.S. 441; United States v. Penn-Olin Chemical Co., 378 U.S. 158; United States v. El Paso Natural Gas Co., 376 U.S. 651.

probability, it could be shown that both Pennsalt and Olin would separately have entered the southeast market by means of plant establishments. Sufficient for a finding of substantial lessening of competition through foreclosure of potential competition, the Supreme Court said, was a finding of a "reasonable probability that either one of the corporations would have entered the market by building a plant, while the other would have remained a significant potential competitor".

Quoting in part from the aforementioned TNEC Monograph No. 21, the Court concluded:

> "Potential competition, insofar as the threat survives . . . may compensate in part for the imperfection characteristic of actual competition in the great majority of competitive markets . . . . The existence of an aggressive, well equipped and well financed corporation engaged in the same or related lines of commerce waiting anxiously to enter an oligopolistic market would be a substantial incentive to competition which cannot be underestimated." 378 U.S. 174.

Nor is the absence of a proven intent or attempt to enter a market a bar to a finding that a given concern is a potential competitor. It is sufficient to establish that such concern is the most likely entrant.[1/]

The doctrine of potential competition, while not relied upon by the courts as a decisive consideration in a court contest involving alleged anticompetitive consequences of a proposed bank merger or holding company acquisition, has been considered and rejected, not as being *per se* inapplicable, but as being inapplicable in view of the facts of record.[2/] Preclusion of entry into a defined banking market by a substantial

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1/ Federal Trade Commission v. Procter & Gamble Co., 386 U.S. 568, 580 (1967).

2/ United States v. Crocker-Anglo National Bank, 223 F. Supp. 849, 856-7 (N.D. Cal. 1963).

potential competitor through consummation of a merger involving the potential entrant, and the question of whether such result violates section 7 of the Clayton Act, and should have been denied under the Bank Merger Act, are issues recently (9/10/68) placed before a Federal District Court by the U.S. Department of Justice, following the Board's approval of merger proposals involving Girard Trust Bank and Doylestown National Bank (Doylestown, Pa.) and The Fidelity Bank & Doylestown Trust Co. (Doylestown, Pa.). The Board, in its 6-1 decision in those cases which were considered together, took into account the possible impact of potential competition. While five members of the majority ruled that the net effect of the proposed mergers on competition would not be adverse, I felt that the over-all competitive effect would be no more than slightly adverse. Nevertheless, I, too, felt the applications should be approved.

The complaints filed by the Department of Justice in each case assert numerous violations of section 7 of the Clayton Act, the majority of which relate to asserted elimination of potential competition in commercial banking between and among the banks involved in the two mergers, and a general allegation of violation premised on the contributory effect of the two mergers on the continuing trend toward reduction in potential bank competitors in the Philadelphia area. We can safely assume, I believe, that the Department of Justice currently takes the position that potential competition is a major factor for consideration in determining the legality of a proposed bank merger; and that proven miscalculation or disregard of a merger's effect on potential competition can require remand to an agency or reversal of agency action.

No less import is attributed by the Board to the factor of potential competition in its consideration of Bank Holding Company Act applications. In the Board's denial action (April 1967, Fed. Res. Bull. 763) on the application of Allied Bankshares Corp., Norfolk, Virginia, to form a bank holding company

through ownership of the Virginia

National Bank, Norfolk, and The Central National Bank of Richmond, existing competition between the banks was found to be insignificant, and the effect of its elimination of minimal consequence. However, the likelihood that substantial potential competition between the banks would be precluded by their affiliation was stated to weigh heavily in the Board's decision. In May 1967, one month following the Allied denial, the Board, by unanimous vote, denied a proposal by BT New York Corporation to acquire Liberty National Bank and Trust Company, Buffalo (50 Fed. Res. Bull. 769). As in the Allied case, the Board concluded that existing competition between and among the banks involved in the proposal was sufficiently negligible that it posed no bar to approval. However, the proposal's probable effect on potential competition was found to present a severely adverse consideration. Rejecting Applicant's assertion that consummation of the proposal would promote deconcentration in the heavily concentrated Buffalo area -- through Liberty National's anticipated greater ability to compete with its two larger rivals -- the Board concluded that Liberty Bank was presently capable of offering to customers in its market area, both large and small, an alternative source of essential banking services. Noting that legal and economic barriers to new entry into the Buffalo market area were already high, the Board expressed its concern that there be preserved whatever incentive might exist for entry by potential competitors having the resources and capacity to surmount existing barriers. Based on the financial and management resources of BT New York Corporation, the Board found that the Applicant was a potential competitor in the Buffalo market, whose greater participation in that market was not dependent on consummation of the proposed acquisition, and that the entry of such a sizable organization by that means would simply raise the entry barriers for others without increasing the banking alternatives already available to the public. Further, it was concluded that Liberty Bank, through a less anticompetitive affiliation, could offer meaningful competition to Applicant and other banking organizations in the upstate banking markets.

Lest the impression be given that there is no limit to the Board's application of the potential competition concept, I can and do speak with knowledge of the Board's efforts to delineate those cases where, because of the facts presented, potential competition has no reasonable role in the Board's determination. Assessing the competitive potential of a given institution is oftentimes difficult. Such assessment requires a definition of the relevant product and geographic markets, and a finding of the ability of a party to a proposal to compete in the market in which the other party or parties are engaged. A determination as to the ability of a bank to compete in given product and geographic markets involves analysis of the cost factor related to such entry. An accurate measure of probable profit, or lack thereof, can often mandate a conclusion as to whether a given bank can reasonably be designated a potential competitor. Similarly, the size of the bank, history of innovation, management ability, and related operational motives all must be taken into consideration in a determination of the presence or not of a potential competitor.

Whatever may be the desirability of taking account of potential competition, the United States Supreme Court has now ruled that it must be done.[1/] As reflected in a Statement in which I joined, dissenting from the 4-3 action of the Board approving the merger of two banks in North Carolina (The State Bank, Laurinburg - Wachovia Bank and Trust Company, 7/11/68), I believe that Federal bank supervisory authorities are required by law in acting upon merger and bank holding company applications to guard against the continuing trend toward concentration of banking resources, a trend that the Bank Merger Act, the Bank Holding Company Act, and the antitrust laws were designed to prevent. The job cannot be done by ignoring the potential competitor, and will be done only if barriers to market entry are removed or substantially reduced.

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1/ The Supreme Court Review, 1964, The Law School, The University of Chicago, p. 188.

Merger Policy and Economic Growth

Should the rate of economic growth in an area influence the policies of the regulatory agencies toward proposed acquisitions? It apparently has been argued that competition tends to be more intense in a rapidly growing area than in a non-growing area; therefore, the regulatory agencies can afford to pursue a more permissive approach toward acquisitions.

There is nothing in current law or in recent court decisions that would suggest that rapid economic growth is taken by the Supreme Court as a relevant competitive consideration offsetting, let us say, the effect of a merger on concentration in an area. Nor has the Court suggested that the growth of an area, past or prospective, constitutes a justification for a merger that would otherwise be illegal -- as might be the case if it were found that mergers in growing areas contributed substantially to the convenience and needs of the community. However, the bank regulatory agencies deal with large numbers of proposals that merit a full scale economic review, many of which are, in all likelihood, not violations of the antitrust laws as currently interpreted. In such cases, there is no necessary reason to adopt exactly the same presumptions as have been applied in antitrust cases by the courts. Moreover, the substantive question would, in any event, remain and it does warrant consideration.

The view that the regulatory agencies need not be as restrictive in preventing mergers in a rapidly growing area as in a slow-growing or stagnant area is presumably based on the belief that economic growth would, in and of itself, intensify competition and would tend to offset high levels of concentration. There are several intuitively appealing reasons why this might be the case. If the economy of an area is growing, there may be a stimulus toward more intensive competition as the aggressive competitors in the area attempt to obtain new customers and also to secure the old ones whose accounts become more valuable. Moreover, marginal banks that might otherwise offer little in the way of effective competition, either because of their small size or limited management, would have an opportunity to grow with their area and to become more vigorous competitors. Finally, in a growing area, there is likely to be room for new entry, either by branching or new charter. Banks in other areas and other entrepreneurs will see an opportunity for profit. Bank supervisors should see a "need" for new facilities.

The above arguments may seem persuasive to many in the banking community. However, the regulatory agencies should not accept them easily. It is by no means obvious that the prospects of obtaining new business will stimulate banks to more effective competition. This would seem to depend on the extent to which banks find it profitable to compete. In a highly concentrated market, it may still be more profitable to follow customary rather than competitive patterns of behavior. Indeed, evidence from the experience of other industries suggest that competition frequently becomes intense, not when conditions are prosperous, but when they are depressed and there is pressure on earnings. I would suggest that we simply do not have enough evidence to state with assurance the effect of the rate of economic growth and changes in the rate of growth on the competitive behavior of banks.

On the other hand, there probably is enough evidence to state that economic growth can, at times, convert a marginal competitor to a larger and more effective competitor. Much would depend on the attitude of management. But, at the same time, such banks may also be very attractive merger partners for larger banks. If a permissive policy is adopted, it is difficult to see how this source of increased competition would be realized.

There should, nevertheless, be room for new banking facilities in a rapidly growing area whereas there might not be room in a slowly growing area. But whether or not the new growth is accommodated by "inside" banks on the one hand, or "outside" banks and new charters on the other, depends in part on the attitude of bank supervisors who regulate branching and new charters, and also in part on the aggressiveness of the larger banks already in the area. If the large and aggressive "inside" banks are permitted to acquire the most favorable office sites through <u>de novo</u> branching or merger, particularly with financially marginal institutions -- and they have some real advantages in finding them -- the entry of new organizations may be quite limited. The establishment of new branches, and mergers with marginal institutions may make it more difficult for new entrants to become established in the fringe areas. In the long-run, the effect would be to maintain the same or even higher levels of concentration.

There appears to be, however, an inverse relationship between concentration and growth. Slow growing areas often have higher concentration ratios than rapidly growing areas. This is understandable. Regulatory policy, which in part is aimed at protecting existing banks from excessive competition, tends to be restrictive toward new entry in stagnant areas and perhaps somewhat more permissive towards mergers. The observed inverse relationship between economic growth and banking concentration has, it should be noted, taken place within a framework of bank supervision that has not been permissive toward mergers in rapidly growing areas.

There is no way of knowing with certainty what kind of relationship between concentration and economic growth would be observed over the next decade if merger policy were to become less restrictive in growth areas. However, as indicated, it seems the competitive benefits deriving from the growth of marginal banks would disappear through acquisition. While there would still remain the possibility for new entry by branching and new charter, the extent to which competition would be benefited from these sources would depend on the extent to which existing banks could strengthen their positions in marginal areas and also on regulatory policies which differ from state to state and, sometimes, from one Comptroller of the Currency to his successor. In any event, it seems doubtful that the regulation of mergers, in the present institutional environment, should be based on assumptions about regulatory policies toward branching and new charters. Finally, as noted, the apparent stimulation of competition among existing competitors when new business is at stake seems dubious, depending, as it does, on hypotheses that have not, to my knowledge, been adequately tested.

If it is not reasonable, in evaluating the competitive effects of mergers, to rely on economic growth in banking as an offset to higher concentration, it does seem reasonable to conclude that merger policy should be viewed as a compliment to economic growth in highly concentrated markets. In an unregulated industry, economic growth and the prospect of high return would tend to attract new capital; and if entry barriers are not too high, this should result in an intensification of competition. In a regulated industry like banking, where barriers to entry and concentration are high in part because of regulation, economic growth should be given the opportunity to produce the degree of competition more prosperous conditions make possible. This means, by and large, permitting new entry to meet rising demands for banking services and also permitting marginal banks to emerge as effective competitors. It is in the slow growth areas that marginal banks are not likely to emerge as effective competitors, and new entry may also be unlikely whatever regulatory policy.

While a more lenient policy toward mergers in growth areas on competitive grounds seems unwarranted as a general proposition, there may, nevertheless, be some justification for such a policy on grounds of convenience and needs. A growing area develops large demands for bank credit. Small local banks may not be able to meet such demands, because of the volume of their resources, their loan limit or simply their customary ways of doing business. It is quite conceivable that, in some cases, mergers in growing areas would involve benefits to the community that offset any anticompetitive impact. This would be particularly true in the absence of banks suitable in size and approach to meet the demands for banking services generated by growth. But just as in the analysis of competition, generalization is difficult, and a careful study of the likely benefits in each case would be required.

It may be concluded that an easier policy toward mergers in growth areas is not warranted as a general proposition. There may, however, be some cases in which the effect of mergers on competition in such areas is offset by the advantage to the community in convenience and needs.

Concluding Remarks

From the above discussion of several key issues relating to bank merger and bank holding company acquisitions, I am personally convinced that important differences exist among the supervisory agencies in the way they carry out their statutory responsibilities. However, I see no ready means of resolving these differences in the near future, although inter-agency consultations may be helpful. Beyond that, from the pattern of court decisions in the several cases challenged by the U. S. Department of Justice there may come a set of guidelines further sharpening the antitrust standards of the Bank Merger Act.

In the meantime, to meet the growing demand for banking services, the nation's banking structure must also grow and adapt. Innovations in banking services in particular markets must be allowed to come forth. However, although acquisitions under some circumstances may have a beneficial effect on competition -- and often on the convenience and needs of the public -- we must carefully guard against the anticompetitive possibilities implicit in widespread acquisitions among banks.

Table I

Merger & Holding Company Applications
Received By Banking Agencies
1966 - 1968*

| Agency | 1966 | 1967 | 1968 (Jan. 1-July 31) | Total for period |
|---|---|---|---|---|
| Federal Reserve | | | | |
| Mergers | 22 | 15 | 5 | 42 |
| Holding Company Formations | 9 | 11 | 6 | 26 |
| Holding Company Acquisitions | 18 | 17 | 10 | 45 |
| Total | 49 | 43 | 21 | 113 |
| Federal Deposit Insurance Corporation | 42 | 47 | 45 | 134 |
| Comptroller of Currency | 99 | 76 | 40 | 215 |
| Total | 141 | 123 | 85 | 349 |
| Total | 190 | 166 | 106 | 462 |

*January 1, 1966 to July 31, 1968.

Table II

District Distribution of Applications Received
By Banking Agencies
1966-1968 *

| Agency | Boston | New York | Phila-delphia | Cleve-land | Rich-mond | Atlanta | Chicago | St. Louis | Minne-apolis | Kansas City | Dallas | San Fran-cisco | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Federal Reserve Board | | | | | | | | | | | | | |
| Mergers | 6 | 7 | 2 | 5 | 6 | - | 10 | - | 2 | - | - | 4 | 42 |
| Holding Company Formations | 1 | 5 | - | 2 | 2 | 6 | 4 | - | 1 | 4 | - | 1 | 26 |
| Holding Company Acquisitions | 2 | 3 | - | 2 | 14 | 10 | 9 | - | 3 | 1 | - | 1 | 45 |
| Sub Total | 9 | 15 | 2 | 9 | 22 | 16 | 23 | - | 6 | 5 | - | 6 | 113 |
| Federal Deposit Insurance Corporation | 11 | 19 | 17 | 16 | 21 | 1 | 10 | 8 | 4 | 3 | 4 | 20 | 134 |
| Comptroller of the Currency | 12 | 29 | 35 | 20 | 47 | 8 | 11 | 3 | 6 | - | 4 | 40 | 215 |
| Total | 32 | 63 | 54 | 45 | 90 | 25 | 44 | 11 | 16 | 8 | 8 | 66 | 462 |
| Proportion of Total | 6.9 | 13.6 | 11.7 | 9.7 | 19.5 | 5.4 | 9.5 | 2.4 | 4.5 | 1.7 | 1.7 | 14.3 | 100.0 |

* January 1, 1966 to July 31, 1968

Table III

Merger and Holding Company
Approvals and Denials
1966 - 1968*

| Agency | 1966 | 1967 | 1968 (Jan. 1-July 31) |
|---|---|---|---|
| Federal Reserve | | | |
| Mergers | | | |
| Approval | 21 | 13 | 4 |
| Denials | 2 | 2 | 1 |
| Holding Company Formations | | | |
| Approval | 6 | 10 | 5 |
| Denial | 2 | 1 | 0 |
| Holding Company Acquisitions | | | |
| Approval | 15 | 16 | 10 |
| Denial | 2 | 2 | 0 |
| Federal Deposit Insurance Corporation | | | |
| Approval | 36 | 38 | 31 |
| Denial | 0 | 2 | 1 |
| Comptroller of Currency | | | |
| Approval | 85 | 76 | 43 |
| Denial | 2 | 1 | 0 |
| Total | | | |
| Approval | 163 | 153 | 93 |
| Denial | 8 | 8 | 2 |

* January 1, 1966 to July 31, 1968.

Table IV

Advisory Opinions of Board of Governors,
Federal Reserve, to Other Banking Agencies
1966-1968*

| | To Federal Deposit Insurance Corporation | To Comptroller of the Currency | Total |
|---|---|---|---|
| Anti-Competitive Effects | | | |
| Serious | 27 | 67 | 94 |
| Not Serious | 94 | 137 | 231 |
| TOTAL | 121 | 204 | 325 |

* January 1, 1966 to July 31, 1968

Note: Between May 29, 1967 and July 31, 1968, the Board's opinions have indicated one of five terms describing anti-competitive effects. These, in order of the seriousness of the effect are: (1) monopoly; (2) substantially adverse; (3) adverse; (4) slightly adverse and (5) no adverse. The first three categories are considered to involve serious anti-competitive effects. Prior to this period, the Board's opinions did not use standardized terminology; however, the reports themselves were reviewed and classified on the two-way basis indicated in the table.