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CONVENIENCE AND NEEDS CONSIDERATIONS: A POST-AUDIT SURVEY

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Convenience and Needs Considerations:
A Post-Audit Survey

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I. Introduction

Under Section 3(c) of the Bank Holding Company Act, as amended, the Board of Governors of the Federal Reserve System, in ruling on the merits of bank holding company formations or acquisitions, is required to consider the competitive impact, financial and managerial resources and future prospects of the parties involved and the convenience and needs of the community to be served. In addition, Congress has directed that the Board shall not approve any acquisition "whose effect in any section of the country may be substantially to lessen competition, or to tend to create a monopoly..." unless it finds that the anticompetitive effects of the proposed transaction are clearly outweighed by the resulting convenience and needs of the community to be served. In keeping with these statutory requirements, applicants are required to respond to certain questions relating to proposed changes or new services that are likely to result if the proposed holding company formation or acquisition is approved. These questions are contained within Exhibit D of the Board's Y-1 and Y-2 application forms.¹

Responses to these questions vary between the extremes of "no change" to detailed discussions relating to new or expanded services and operations that will be provided upon approval of the application. For the most part the Board has viewed the statements made by applicants as being "consistent with" approval of the application. Few cases involving substantially adverse competitive issues are ever outweighed by convenience and needs considerations except where the acquired bank is deemed to be in a floundering or failing condition.

The purpose of this study was to determine the extent to which the planned convenience and needs considerations (those items mentioned by applicants in Exhibit D) have been translated into realized public benefits. In more basic terms, the objective of the study is to determine the extent to which bank holding companies live up to the commitments made relative to

convenience and needs considerations. Answers to these questions have several policy implications. If holding companies in general or certain specific holding companies can be shown to have failed to translate planned convenience and needs considerations into realized public benefits, then future cases calling for a balancing of convenience and needs considerations against substantially adverse, adverse, or even slightly adverse competitive issues may already be determined in favor of the latter. The remaining portions of this paper deal with (1) a brief review of the development of convenience and needs considerations in bank holding company legislation, (2) a discussion of the research techniques employed in this study, (3) findings of the study, and (4) conclusions and recommendations derived from this study.

II. Evolution of Convenience and Needs Considerations in Bank Holding Company Legislation

Prior to 1933 the Board of Governors had no statutory authority to regulate the activities of bank holding companies. With the passage of the "Banking Act of 1933" the Board was given limited and ineffective regulatory control over bank holding companies. The 1933 Act required bank holding companies to obtain permits from the Board in order to vote the stock in the selection of directors of any member bank subsidiary. The 1933 Act directed the Board to base its decision upon and in light of the "public interest." In acting upon permit requests, the Board was directed to "consider the financial condition of the applicant, the general character of its management, and the probable effect of the granting of such permit upon the affairs of such bank..."² However, no explicit mention was made in the Act concerning the recognition of competitive issues surrounding permit issuance nor did the 1933 Act call for an evaluation of public benefits that might arise from such a transaction.

In every session of Congress following passage of the Banking Act of 1933 until 1955, bills were introduced to further broaden the scope of control over bank holding companies. Congress, in May, passed the "Bank Holding Company Act of 1956." Among its other provisions, the Act established certain standards intended to guide the Board in its determination concerning bank holding company acquisitions, mergers, or consolidations. Specifically, the Board was directed by law to consider the following factors enumerated in Section 3(c) of the Act:

(1) the financial history and condition of the company or companies and the banks concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs and welfare of the communities and the area concerned; and (5) whether or not the effect of such acquisition or merger or consolidation would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

The first three factors (referred to as "banking factors") were basically the same provisions that had been adopted in the Banking Act of 1933. However, factors four (the "convenience and needs factors") and five (the "competitive factors") represented new standards of concern that had the potential for creating administrative problems surrounding their implementation. As Governor Robertson remarked: "The express requirement of the Holding Company Act that the Board consider the effect of a proposed transaction upon the preservation of competition presents problems that call for the wisdom of Solomon--and there are not many of them around."³

Although the Bank Holding Company Act of 1956 established standards to guide Board policy, these standards were vague and not clearly defined. Terms such as "adequate and sound banking," "public interest," "preservation of competitions" and "convenience and needs" were left undefined and, as

such, became subject to both Board and judicial interpretation. Furthermore, the Act did not specify how the five factors should be weighed. The implication was that each of the factors was of equal importance and would carry equal weight in the decision-making process. As such, a case possessing adverse and unfavorable competitive impacts could, theoretically, be outweighed if the remaining four factors were not adverse.

While the Bank Holding Company Act of 1956 (and the subsequent Bank Merger Act of 1960) set forth both competitive and noncompetitive standards to be considered and evaluated, the Supreme Court in ruling on bank mergers and acquisitions tended to apply the strict antitrust standards as set forth in the Sherman and Clayton Antitrust Acts. In 1963 the Supreme Court in the Philadelphia National Bank case ruled that bank mergers which "may be substantially to lessen competition" are not justifiable on the grounds of "some ultimate reckoning of social or economic debits and credits" that may be considered beneficial to the public interest.⁹ The Supreme Court further concluded that Congress, in light of the Sherman and Clayton antitrust acts, was determined to prevent anticompetitive mergers, "the benign and the malignant alike," even though it might result in a certain amount of social and/or economic loss.

A study conducted by Jules Backman analyzed 61 published decisions issued by the Board between passage of the Bank Holding Company Act in 1956 and December of 1962 in connection with bank holding company formations and acquisitions.⁵ With respect to the banking, convenience and needs, and competitive factors Professor Backman concluded the following:⁶

1. Banking factors (financial history and conditions, prospects, and management) were found to be "satisfactory" in every decision and rarely appeared to be a decisive factor in the Board's decision.

2. In all except the establishment of de novo banks, convenience, needs, and welfare factors were given only minor weight. As with banking

factors, this factor did not appear to be either a decisive or compelling reason for approving or denying a bank holding company formation or acquisition.

3. The study concluded that the "main weight" and most decisive factor had been that of the competitive considerations.

These conclusions, for the most part, are accepted as adequately reflecting the approach and policy of the Board during the formative years of administering the Bank Holding Company Act. With respect to the second conclusion, however, elaboration is essential to place the public interest aspects in proper perspective. In early Board decisions the convenience, needs, and welfare aspects, although perhaps not decisive, were analyzed in great detail. Published orders reveal that the Board adopted a "segmented" approach in analyzing convenience and needs factors. That is, convenience, needs, and welfare aspects were each discussed and analyzed as three separate and related factors. In a number of cases the final decision appeared to rest upon the balancing of convenience and needs and competitive factors. In fact, the first detailed analysis of a bank holding company case published in the Federal Reserve Bulletin by the Board under the 1956 Act reflects the Board's intent to place "special importance" on the convenience and needs and competitive factors.⁶

The conclusion that the "main weight" was given to competitive considerations is not surprising for it reflected the Board's policy of evaluating holding company applications in strictly keeping with antitrust standards as previously applied to nonfinancial sectors of the economy. In fact, it appears that the Board was eager to adopt the strict standards of the Bethlehem-Youngstown steel case,⁸ which viewed "good motives" and "demonstrable benefits" as irrelevant and of no defense where a substantial lessening of competition may result.⁹ The Board's early decisions indicate

that its policy was consistent with the views expressed in the Philadelphia bank case, in that, bank holding company formations and acquisitions possessing anticompetitive elements would not be justified on the basis of "some ultimate reckoning of social or economic debits and credits."

Dissatisfied with the Court's adherence to and application of strict antitrust standards to the field of banking, Congress in 1966 amended both the Bank Holding Company and Bank Merger Acts to include a "convenience and needs" defense so as to insure that, in addition to competitive considerations, noncompetitive factors would be considered in the decision-making process. Section 3(c) of the Bank Holding Company Act was amended in July of 1966 to read as follows:

The Board shall not approve(1) any acquisition or merger or consolidation under this section which would result in a monopoly, or which 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, or (2) any other proposed acquisition or merger or consolidation under this section whose effect in any section of the country may be substantially to lessen competition or to tend to create a monopoly, or which in any other manner would be in restraint of trade, unless it finds 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.

Furthermore, the amended Act directed the Board in every case to consider the financial and managerial resources and future prospects of the company or companies and the banks concerned, and the convenience and needs of the communities to be served. These changes were adopted in toto when the Bank Holding Company Act was amended in 1970.

The procedures specified in the 1966 and 1970 amendments to the Bank Holding Company Act and Supreme Court decisions have made it clear that the benefits that may be argued to outweigh anticompetitive aspects and thus justify a proposed transaction must meet a twofold test.¹⁰ First, the Board must determine whether the formation or acquisition offends the antitrust laws. Second, if the first question is answered in the affirmative,

it must be determined whether the transaction is nonetheless justified on the grounds that the anticompetitive effects are clearly outweighed by the "convenience and needs of the community to be served." Furthermore, the "convenience and needs" must be public in nature, and not simply benefits which inure to the parties of the transaction; and these benefits must not be obtainable through less anticompetitive means. In analyzing the legislative changes, it appears evident that while the procedures were greatly modified, the standards to be used by, and to guide, the Board were no clearer than they were in the original Act.

A review of cases acted on by the Board between 1971 and 1974 tends to indicate that major emphasis is still given to competitive issues. The review of Board Orders set forth in the Federal Reserve Bulletin between January 1971 and December 1974 yield the following observations. For the period of analysis 530 cases were reviewed, of which 456 were approved and 74 were denied. Of the 74 applications denied, 44 were denied on competitive grounds, 24 were denied due to adverse banking factors and five were denied due to a combination of competitive and banking factors issues, and one was denied on the basis of a violation of state banking law. In reviewing these cases, no instance was found where the Board approved an acquisition or formation where "substantially adverse" competitive effects were present.¹⁰ However, 18 cases were approved where "slightly adverse" competitive issues were outweighed by convenience and needs considerations. In analyzing these 18 cases it was found that eight involved the elimination of some future or potential competition, five involved the elimination of existing competition and two involved issues relating to the concentration of banking resources. In general, it appears that, relative to the cases analyzed by Backman, convenience and needs considerations have become somewhat more important in Board decisions involving slightly adverse competitive issues.

This discussion of the evolution of the convenience and needs considerations and of Board interpretation of these issues leads to the general theme of the research project. To wit, what have applicants planned to provide in the way of convenience and needs factors and to what extent have these planned changes become realized public benefits? Each of these issues is discussed in turn.

III. Research Methodology, Objectives, and Procedures

The primary objective of the instant research project was to determine by means of a "post-audit" survey, the extent to which "planned" convenience and needs considerations, as set forth in bank holding company applications, have become "realized" public benefits upon approval of the application. The basic question to be answered is whether or not bank holding companies are providing the services set forth in their applications. Whereas numerous studies have been conducted relating to changes in the performance of banks (both acquired and de novo) upon acquisition by bank holding companies, the absence of statistically quantifiable measures has constrained research efforts into the area of convenience and needs developments.¹¹ To provide the necessary empirical data for this study, past bank holding company applications were reviewed in an effort to determine those changes in services or policies that applicants "planned" to institute upon approval of the application. Then by conducting a "post-audit" survey of the actual changes implemented upon approval, a determination can be made concerning the extent to which "planned" public benefits have become "realized" public benefits.

Bank holding company applications submitted, approved, and consummated within the Seventh Federal Reserve District between January 1, 1971, and

December 31, 1976, were reviewed to identify the nature of the planned public benefits. The review process was limited to the states of Iowa, Michigan, and Wisconsin--the states within the Seventh Federal Reserve District that allow multibank holding companies. Furthermore, the review was limited primarily to acquisitions made by multibank holding companies; however, a limited number of one-bank holding company applications were also reviewed.

Information pertaining to banking services instituted or modified by the acquiring holding company can be obtained, either wholly or in part, from several sources. These sources include annual reports of banks and holding companies, bank examination reports, bank directories, and personal interviews with bankers. It was decided that the most direct and timely means of obtaining the necessary information was through the use of a mail questionnaire (copy attached as Appendix A). The questionnaire was structured to minimize the time required for its completion. Respondents were encouraged to elaborate, via written responses, where they felt a "yes"- "no" response to the question(s) was not adequate. In addition to the questionnaire, each holding company surveyed received a copy of the portion of their application pertaining to convenience and needs factors, thus insuring that each holding company was aware of its statements. A secondary method of obtaining information relating to modifications in services was also employed. Applicants currently filing holding company applications are requested to discuss the extent to which they have complied with prior commitments on previous bank holding company applications. One advantage of this secondary procedure is that the respondent is not constrained by the questionnaire format. One disadvantage of the secondary procedure is that it creates minor problems with respect to the lack of uniformity between the two types of responses.

IV. Application Review

In all, a total of 31 bank holding companies were contacted in the course of the survey: 18 in Michigan, 12 in Wisconsin, and 1 in Iowa. These holding companies were asked to complete the questionnaire with respect to the acquisition of 42 banks.

An analysis of the "planned" convenience and needs statements made in the above-mentioned 42 applications yielded the following general information with respect to the first six questions set forth in Exhibit D of the Y-1 and Y-2 application forms. (See Appendix B for a copy of Exhibit D.) These six questions relate to expected changes in service charges on demand deposit accounts, changes in interest rates paid on time and savings deposits, changes in physical facilities, modification of banking hours, changes in loan terms, and modifications to the loan and investment portfolio. Of the 42 applications reviewed, 26 (or 62 percent) indicated that they planned to make "no change" in service charges on demand deposit accounts; 29 (or 69 percent) stated that there would be "no change" in rates paid on time and savings accounts, and seven of the 42 applications reviewed (or 16.7 percent) indicated that they would raise (or would consider raising) rates paid on time and savings deposits. Thirty-nine (or 93 percent) of the reviewed applications indicated that the acquisition would produce "no change" in interest rates on loans, maximum maturities, or other lending terms. With respect to proposed changes in physical facilities and modifications in banking hours, 50 percent and 69 percent, respectively, of the applicants stated that there would be "no change" in either of these areas. The general review of these 42 applications prior to receiving the holding companies' replies produced the impression that few substantial modifications in convenience and needs factors were and are being proposed by bank holding companies. It was believed that the replies to the questionnaires would either confirm or refute this impression.

V. Analysis of "Realized" Public Benefits

Utilizing the primary (questionnaires) and secondary (information provided in bank holding company applications) methods of collecting information relative to actual modifications made in the acquired bank's services and operations, a total of 44 usable applications were selected for a detailed analysis of the planned versus realized public benefits. These 44 applications were submitted by 24 bank holding companies located within the Seventh Federal Reserve District. The majority of these applications were submitted by 14 bank holding companies located in the state of Michigan. (See Table 1 for a detailed breakdown of the banks analyzed.) With the exception of two applications, all of the Michigan applications analyzed involved multibank holding companies. In terms of deposits, the average size, as of December 31, 1976, of the Michigan banks surveyed was \$29.1 million. Eleven applications involving Wisconsin holding companies and two applications involving an Iowa holding company were also analyzed. In Wisconsin and Iowa the average size of the banks surveyed was \$18.7 million and \$14.0 million, respectively. The findings of the survey relative to these 44 applications are set forth below and the discussion is in terms of the seven specific questions asked in Exhibit D of the Board's Y-1 and Y-2 application forms.

Table 1
 Characteristics of Banks and Holding Companies Surveyed

1. Location.

<u>State</u>	<u>Number of banks</u>	<u>Number of holding companies</u>
Iowa	2	1
in SMSA	2	
not in SMSA	0	
Michigan	31	14
in SMSA	19	
not in SMSA	12	
Wisconsin	11	9
in SMSA	5	
not in SMSA	6	
Total	44	26

2. Bank size, deposits as of December 31, 1976 (million \$).

<u>State</u>	<u>Mean</u>	<u>Largest</u>	<u>Smallest</u>
Iowa	14.0	14.6	13.3
Michigan	29.1	175.6	2.7
Wisconsin	18.7	33.4	8.8

3. Holding company size, deposits as of December 31, 1976 (million \$).

<u>State</u>	<u>Mean</u>	<u>Largest</u>	<u>Smallest</u>
Iowa	501.8	501.8	501.8
Michigan	987.4	4,801.7	22.5
Wisconsin	526.7	2,356.7	10.2

1. Impact on demand deposits - Question 1

Exhibit D asks the applicant to indicate the nature of changes that will be made in the target bank's service charges on demand deposit accounts. Public benefits should result, *ceteris paribus*, if the target bank's service charges are lowered or if new types of accounts are made available. Responses to this question generally fall into two categories: (1) changes directly affecting the cost of demand deposit accounts (e.g., lowering of service charges or lowering of the minimum balance required for "free checking") or (2) changes in the quantity or types of accounts provided (e.g., special types of statements or accounts tailored for certain classes of customers).

Twenty-five of the 44 applications surveyed (or 56.8 percent) had indicated in their applications that upon acquisition of the target bank there would be "no change" made with respect to either the cost or types of demand deposit accounts provided by the target bank. In eight of the reviewed applications the applicants had indicated that they would adopt either full or limited (e.g., free checking for persons over 65 years of age) free checking; six applicants indicated that the target bank would offer overdraft checking; and in four instances the applicants indicated that they would analyze the situation and, upon approval, determine whether or not any changes were necessary. To a lesser extent, some applicants indicated that they would provide itemized statements, offer packages of demand deposit services, or would mail statements to customers as a new service.

The post-audit revealed that 32 out of the 44 applicants (73 percent) complied with the planned changes affecting either the cost or quantity of demand deposit services. Eight of the audited applications (18 percent) were determined not to have complied--to varying degrees--with the changes set forth in

the application. In four out of these eight cases the applicants had planned on making "no change" in demand deposit costs or services. However, the post-audit revealed that they had in effect raised the cost of demand deposit accounts to varying degrees by raising service charges, increasing minimum balance requirements or raising the cost for checks processed against accounts with insufficient funds. In the other four cases the applicants had planned to either lower checking costs or had intended to provide expanded services and as of the time of the survey had not instituted the proposed changes. Responses by the holding companies reveal that the major reason for the absence of compliance in these cases was due to rising costs which made it impossible for them to carry out their plans.

In four of the 44 cases analyzed (9 percent) the applicants were determined to have provided services over and above what had been proposed in their applications. For example, one applicant that had proposed to make "no change" was required, due to competitive pressure, to lower the service charges on commercial accounts. Another applicant had planned on making "no change," but subsequent to approval instituted an expanded selection of checking account services.

2. Interest rates on time savings accounts - Question 2

The segment of the banking public composed of net savers will benefit, *ceteris paribus*, by an increase in rates paid on time and savings deposits. Question two of Exhibit D requests that applicants indicate whether any changes will be made in the target bank's rates paid on time and savings deposits. Twenty-four out of the 44 applications surveyed (54.5 percent) envisioned no alteration in either the rates paid on time and savings accounts or the quantity (type) of accounts offered by the target bank. Eight applicants indicated

that they would raise the rates paid on certain types of savings accounts, and eight stated that they would offer new or expanded savings accounts (e.g., Christmas Club savings accounts) upon acquisition.

The post-audit revealed that whereas 24 applicants had planned to institute "no change," in fact, only 14 of the applications reviewed (32 percent) were found not to have made some alteration either in interest rates paid on time and savings accounts or types of accounts offered. Only two instances (4 percent) were found where the applicant had failed to comply with the modification proposed. Both of these instances involved the addition of new types of accounts, and the applicants indicated that either there was no community interest (no perceived demand) or no interest on the part of the acquired bank to institute these services. Six of the applications reviewed (14 percent) were determined to have expanded services by more than had been forecast in the application. Four of the six applications revealed that the target bank's rate of interest had been increased, whereas the application had anticipated "no change." The major reason given for this alteration in plans was that there had been a modification (increase) in the amount of interest payable by law (primarily discussed as an alteration in regulation Q). In two of the cases where the banks were found to be providing services over and above the forecast level, the change involved the introduction of new types of accounts (e.g., expanded variety of certificates of deposit and a broader range of passbook accounts). In none of the applications reviewed had the applicant proposed to lower rates, and according to the responses to the survey, none of the acquired banks have lowered the rates paid on savings or time deposit accounts since the time of acquisition.

3. Alteration in loans rates and maturities - Question 3

Question three of the Board's forms F. R. Y-1 and Y-2 ask for the applicant's comments concerning any expected changes in interest rates on loans, maximum maturities, and any other loan terms. With respect to the banks surveyed, it was found that very few committed themselves to making any changes in interest rates on loans, maximum maturities, or other terms. Thirty-one of the holding companies surveyed (70 percent) indicated that there would be "no change" in any of these factors upon acquisition of the target bank. Three indicated that they would "remain competitive"; three indicated that they would lower interest rates (usually on certain specific types of loans, such as commercial); and others indicated that they would institute changes, such as more flexible terms, extended loan terms, and/or analysis for changes upon acquisition. Seventeen of the banks surveyed (39 percent) indicated that they had made no alteration in loan rates or terms upon acquisition of the target bank. Seven of the respondents (16 percent) indicated that they had been unable to comply with some or all of the proposed changes with respect to loan rates and terms. Except for one, all had indicated in their applications that there would be "no change." However, upon audit it was found that they had increased interest rates with respect to certain types of loans (e.g., automobile or mortgage rates). Most indicated that this increase was due to outside competitive pressures. The other applicant had indicated in its application that it would lower automobile and mortgage rates; however, in response to the survey it indicated that the proposed reduction had not been made. It did state that it had extended some loan terms, however. Six of the companies (14 percent) were determined to be providing either lower rates or expanded terms over and above their anticipated changes.

All of these involved holding companies that had anticipated "no change" in interest or maturity terms; however, they responded that they had either lowered rates on some categories of loans or had made an extension of maturity dates for various types of loans.

4. Changes in the loan and investment portfolio - Question 4

In Question four applicants are requested to discuss expected changes in the composition of the target banks' loan and investment portfolio. While some applicants provided specific and detailed responses to this question, more often than not they tended to discuss the proposed changes in a generalized manner. Most applicants proposed to make some alteration in the acquired bank's loan or investment portfolio, or both. Only 12 of the applications reviewed (27 percent) indicated that they planned to make "no change" upon acquisition of the target bank. Upon post-audit it was found that only 7 of the applicants (16 percent) had in fact made no change in the composition of the acquired bank's loan or investment portfolio.

For the most part the changes planned and implemented with respect to the loan and investment portfolio are of a quantitative nature. Many of the applicants surveyed indicated that they would expand a certain type(s) of lending activity (e.g., expand installment lending) at the acquired bank. Only infrequently are the changes discussed in terms of dollar amounts or a specific share of the loan or investment portfolio that will be changed. The lack of specifics makes evaluation of compliance, or lack of compliance, difficult. Only seven of the reviewed applications (16 percent) were found to involve instances of non-compliance of one or more proposed changes. For example, two holding companies had planned to increase agricultural lending, and one planned to increase consumer lending at the acquired bank. However, none were able to comply due,

according to the applicants, to an absence of demand for the particular type of loan. While these companies were not able to increase lending activity in the planned areas, they more often than not expanded loans in an alternative area. This substitution effect (e.g., commercial loans substituted for agricultural loans) makes it difficult to evaluate the holding company impact on "net" public benefits.

Some applicants propose certain qualitative changes upon acquisition of the target bank, such as to improve the bank's loan administration analysis, supply lending guidance and expertise to the acquired bank, or improve the overall quality of the loan portfolio. Determination of the degree of compliance (or lack of compliance) with proposed changes involving qualitative aspects is highly subjective. Improvements relating to the management and quality of the loan portfolio might be judged by resorting to an analysis of changes in the profitability associated with different loan categories as a surrogate measure of compliance. However, such an analysis is beyond the scope of this study and would not necessarily confirm or refute the assertion that the planned changes had been made. The basic conclusions derived from analyzing this particular convenience and needs factor are: (1) that a majority of the bank holding companies do plan to make alterations in the acquired bank's loan and investment portfolio and (2) on post-audit it is clear that changes are being made in the acquired bank's portfolios upon acquisition. However, results of this study are not conclusive proof as to the cause and effect relationship existing between holding company acquisitions and alterations in the acquired bank's loan and investment portfolio.

5. Changes in physical facilities - Question 5

Applicants are requested in Question five to discuss any changes that will be made in the acquired bank's physical facilities. The public should benefit from the new and modernized banking facilities that make banking more efficient and convenient. Sixteen of the holding companies surveyed (36 percent) indicated in their applications that they would make "no change" in the acquired bank's physical facilities. However, upon post-audit it was found that only nine (20 percent) of the acquired banks had not made any alteration in facilities. In six cases (14 percent) it was determined that the holding company had not complied with its planned changes in physical facilities as set forth in their application. All six of these cases involved instances where the holding company had indicated that they would build a new facility. One of the applicants yet to comply with its planned alteration indicated that while the new facility has not yet been established (one year and three months after acquisition), it is still being considered. Another holding company responded that plans for the construction of a new facility had been delayed since the company had more basic problems involving operating procedures and management philosophies, which had received higher priority. Another respondent indicated in its application that upon approval of the application it intended to "construct drive-in banking facilities" at the bank. In response to the survey, the applicant indicated that parking facilities were adequate and that the "customers have not indicated a demand for drive-in banking." This applicant further indicated that the additional cost for drive-in banking facilities made the construction of such facilities unwarranted for the near future.

In 11 cases (25 percent) it was determined that the applicants had made changes involving physical facilities over and above the planned modifications.

In nine out of the 11 cases the applicants had indicated in their applications that "no change" would be made in physical facilities. However, the post-audit revealed that these holding companies had either constructed new banking facilities or had conducted major remodeling of existing facilities. It should be noted that all of these applications involved holding companies whose applications had been approved during or prior to 1975. From the responses to this question it appears that holding companies can be expected to make major modifications to their physical facilities in about three to four years after acquisition, if not sooner. It also appears that the holding companies are not engaging in long-range forecasting with respect to major capital investment and remodeling programs with respect to their acquired banks. If such long-range planning is being conducted, it is not being adequately conveyed in their bank holding company applications.

6. Changes in banking hours - Question 6

In Question six of Exhibit D applicants are requested to indicate any changes that will be made in the target bank's hours of operation. In general, public benefits should be increased if the bank to be acquired were open either for longer or more convenient hours of operation, or both. The application review disclosed 30 instances (68 percent) where the acquiring holding company planned to make "no change" in banking hours. Nine of the applicants surveyed (20 percent) indicated that they would expand the target bank's hours of operation. Five of the applicants (12 percent) made no specific commitment to expand the target bank's hours of operation; however, they indicated that consideration would be given to such an expansion after the target bank was acquired. None of the applications reviewed indicated any intention on the part of the acquiring company to decrease the target bank's hours of operation.

Upon post-audit it was determined that 33 of the applicants (75 percent) had complied with their planned alteration in banking hours (or had made "no change" as planned). It is noteworthy that 26 of the applicants (59 percent) made no change in the acquired bank's hours of operation. In eight cases (18 percent) the applicants were determined to have expanded operating hours over and above the planned alteration. In each of these instances the applicant had planned to make "no change" in the target bank's hours of operation. However, the post-audit revealed that these eight companies had expanded the target bank's operating hours by being open either on Saturday or by providing additional banking hours at either the main bank or at one or more branch office(s). In one instance the responding holding company indicated that the hours at the target bank were expanded via the installation of 24-hour automated teller machines (ATMs). The primary reason given by the holding companies surveyed for the extension of operating hours was customer interest in the added service.

In only three cases (6.8 percent) was it determined that the applicants failed to comply with their planned alteration in banking hours. In each case the applicant had planned to expand the hours of operation; however, they indicated that such changes had not been made. That is, approximately 38 percent of the firms that had stated that they intended to expand operating hours either (1) made no change in operating hours or (2) may have extended operating hours but not by as much as indicated in their application. In one instance it appears that the target bank's operating hours may have been slightly reduced in that it extended the hours of operation for a drive-in office but reduced the number of hours during which the main bank was open. On a net basis the bank's total hours of operation decreased by 2.5 hours per week. In all three cases where longer hours were planned but not instituted, the convenience and needs considerations,

expressed in the approval order, were found to be consistent with and lent slight weight toward approval of the application. Furthermore, banking hours were cited as one of the public benefits which were to arise from approval of the acquisition. In none of these three cases were competitive issues or financial considerations considered to be a significant issue.

7. New or expanded services - Question 7

Question seven of the Y-1 and Y-2 application forms asks the applicants to indicate which services, either new or expanded, will be introduced upon approval of the acquisition. Generally, it was found that applicants frequently listed many of the same services that were cited in previous sections of Exhibit D. As a result, the first reading of an application often leaves the impression that applicants intend to provide more services than in reality will be provided. For example, an applicant may mention a new savings deposit program in response to Question seven and may also have provided the same response to Question two. It should also be noted that most applicants employ what might be termed a "shotgun" approach in responding to this question. Frequently, an applicant will list what appears to be as many services as possible without regard to the specific issues of whether there is any need or demand for these services, and if there is a demand, little attention is given to specifying when the service will be instituted. The results of this survey reveal that, on average, holding companies mention six new or improved services to be instituted upon acquisition.

Of the applications surveyed, only three (6.8 percent) responded to this question by stating that they planned to institute no new services upon approval of the application. The remaining 43 applicants indicated that they intended to

institute new or expanded services of one type or another. There appears to be a great deal of variation in the number and kinds of services proposed. A review of the planned new or improved services proposed reveals that services were proposed in about 30 different areas. The most frequently mentioned new or expanded service which was to be provided upon acquisition was trust services. Thirty out of 44 (or 68 percent) applications surveyed indicated that upon approval they would either upgrade or provide de novo trust services at the acquired bank. The second most frequently mentioned new or expanded service was computer services. Nineteen of the reviewed applications indicated that computer services would be provided either via a subsidiary or through the lead bank of the acquiring holding company. Fifteen applicants mentioned introducing one or more national bank credit card system(s), 14 discussed the implementation of training programs, 10 mentioned expanding lending limits as a result of the affiliation, 11 stated that they would provide the acquired banks with audit services, 7 discussed the introduction of leasing, commercial finance, and payroll and accounts receivable financing. Other services mentioned included the introduction of applicant-sponsored advertising and marketing services, portfolio management, central purchasing, expanded consumer and agricultural loan services, international banking and finance services, branch survey assistance, personnel management assistance, municipal financing assistance, and aid in establishing in-plant banking programs. The information provided in the applications is frequently lacking any specific reference to when aforementioned services will be implemented, what local demand exists for the service, and how much the service will cost or by what amount it will lead to cost reductions at the acquired bank.

Given the generalized nature of these responses, one finds, as expected, a substantial amount of deviation between the planned and the realized changes in

this area. Thirty-two out of the 44 companies surveyed (73 percent) were shown to have deviated from what they had originally stated in their applications. Of the 32, 26 were not able to comply completely with either one or more of their proposed changes. Seven of the surveyed holding companies were determined to be providing more services than indicated in their applications. Of the seven that exceeded their planning expectations, two had stated in their applications that they were going to provide no new services; however, upon review they indicated some new services were being provided. One of the holding companies had introduced credit card services, had implemented IRA programs, and had established corporate savings accounts. The other holding company introduced IRA programs and viewed gold sales as a new service.

With respect to the 26 holding companies that were not able to fulfill all of their commitments, the following were found to be the areas of noncompliance. Six of the holding companies indicated that they had either not established or had not significantly expanded the trust services at the acquired bank. This means that out of the 30 holding companies that had proposed to establish or expand trust services, 20 percent of them have been unable to or have decided not to expand or establish the service as planned. One of the respondent's replies to the questionnaire is typical of other responses. In Exhibit D the applicant had stated that upon approval of the application "the following services would become immediately available to Bank or Bank's customers," and among the list of proposed new services was "a full range of trust services." Convenience and needs considerations were found by the Board to be "consistent with and lend some slight weight toward approval." The only service explicitly cited in the Board's Order as a new service to the public was trust services. In response to our questionnaire, the applicant stated that it does not provide trust services

as planned on a regular basis and that the means of providing these services on a regular basis is still being considered, but no determination has been made. The major problem cited by the respondent was that the acquired bank was over 100 miles from the main office of applicant's lead bank, and, furthermore, there was "little or no public interest in trust services" in the area. This statement illustrates one of the major reasons cited by holding companies for the lack of compliance--little or no public demand for the proposed service.

Another area where applicants have yet to provide the planned service is in the area of accounts receivable financing, payroll accounting, and billing services. Seven of the applicants specifically mentioned introducing this service, and upon audit it was found that four were not providing the service. While six applicants had planned to introduce in-plant banking, only two indicated that they were actively providing this service. In at least one instance each of the following services was found not to be currently provided by the applicants as planned: certain computer services, training programs, expanded lending limit (the acquired bank was awash in liquidity due to the lack of loan demand), international services, municipal financing, check credit program, expansion of mortgage lending, and a program designed to attract industry to the community of the acquired bank.

VI. Reasons for Alteration in Target Bank's Services

In conjunction with the survey, the holding companies were asked to specify those factors which, in their view, were most responsible for bringing about changes in the target bank's services and operations. The survey listed nine possible reasons for changes in the target bank's services. The list included: (1) the holding company's philosophy, (2) the acquired bank's philosophy, (3)

competitive pressures from banks either inside or outside the local community, (4) competitive pressure from nonbank financial institutions either inside or outside the local community, (5) changes in government regulation, (6) customer interest, and (7) technological changes in banking. From the list provided the holding companies were requested to rank in order of importance (i.e., 1st, 2nd, 3rd, etc.) those factors that they felt were most responsible for bringing about service and operational changes at the acquired bank. Of the holding companies responding to his question, the consensus was that the holding company's philosophy and policies were the primary factors responsible for changes in convenience and needs factors at the acquired bank. The second most important factor cited was customer interest in these services. The third and fourth most important factors, respectively, were considered to be competitive pressures from commercial banks located within the local community and the acquired bank's philosophy and policies. According to the respondents, the least important factor influencing changes in services and operations at acquired banks was competitive pressure from nonbank financial institutions located outside the local community. Interestingly, technological changes in banking (e.g., automatic teller machines) were not viewed by the responding holding companies as a highly significant factor promoting changes in the target bank's services and operations. The following table summarizes the holding company responses to the question concerning those factors responsible for changes made in the services and operations of acquired banks.

/

Table 2
 Factors Responsible for Changes in Target Bank is Services
 and Operations

<u>Factor cited</u>	<u>Number of holding companies ranking the factor as most important (ranked 1st)</u>	<u>Number of times holding companies cited the fac- tor as being influential</u>
Holding company philosophy	10	18
Customer interest	3	15
Local commercial bank competition	4	12
Acquired bank's philosophy	1	12
Local nonbank competition	2	7
Commercial bank com- petition from out- side the community	1	7
Nonbank competition from outside the community	0	3
Changes in government regulation	0	5
Technological changes in banking	0	4
Other factors mentioned	0	0

VII. Summary

Table 3 summarizes the findings of the survey. As discussed previously and as shown in Table 3, the holding companies surveyed tended to deviate to a large degree between planned and realized changes in convenience and needs factors. In all of the areas analyzed, the percentage of holding companies that actually had "no change" in services is less than the percentage of holding companies planning to make "no change" in the target bank's services. The results of the survey seem to indicate that we can expect, as the holding companies have stated, new services (per Question number 7) to be introduced at the acquired bank. In only two percent of the cases surveyed was there no change with respect to new services. However, the survey also revealed that there is less than perfect correlation between the new services mentioned in the application and the services ultimately instituted. We have also found that the holding companies surveyed were less inclined to alter the hours of operation at the acquired bank and are also not too inclined to make any changes affecting the service charges on demand deposit accounts. On the other hand, it was found that the holding companies surveyed had the greatest problem in complying with commitments made concerning changes in service charges on demand deposit accounts, changes in the composition of the loan and investment portfolio, and lowering interest rates on loans and terms related to these loans. Clearly, these are three areas that should be given closer and more detailed attention by applicants. The study revealed the holding companies are likely to make improvements in the physical facilities of the acquired bank; if the hours of operation are changed, they tend to be longer rather than shorter; and interest rates paid on time deposits can be expected to be higher rather than lower (assuming that interest rate ceilings so permit).

Table 3
Summary of Findings

	Planned Changes		Actual changes		
	"No change" (percent)	Some alteration mentioned (percent)	"No change" (percent)	More services than planned (percent)	Less services than planned (percent)
Demand deposits	57	43	45	9	18
Time & savings deposits	54	46	32	14	4
Loan rates & maturities	70	30	39	14	16
Portfolio alteration	27	73	16	N/A	16
Physical facilities	36	64	20	25	14
Banking hours	68	32	59	18	6.8
New/expanded services	7	93	2	14	N/A

N/A = Not applicable due to nature of question or type of response.

VIII. Conclusions and Recommendations

What conclusions and recommendations can be drawn from the instant survey? Before addressing this question, a few points must be emphasized. First, the findings set forth herein are based on what is considered to be a representative, though limited sample. It involved only bank holding companies located in the Seventh Federal Reserve District and only companies in the states of Iowa, Michigan, and Wisconsin. There is no reason to believe that the same study methodology employed in other states and districts would yield similar findings. Furthermore, not all of the holding companies surveyed responded. This leaves open the question as to whether or not the survey is biased in that only those holding companies that have complied to the greatest extent with their planned changes in convenience and needs considerations were the ones that responded to the survey.

The survey tends to reveal that on an aggregate basis holding companies appear to have committed themselves to making very few changes in the services and operations of acquired banks. As such it would appear difficult, on the basis of the findings reported herein, to defend a position that bank holding companies per se are a driving force, in and of themselves, towards the introduction of new and expanded banking services. It should be noted that on an aggregate basis data such as this may be misleading. In the first place a response of "no change" may merely indicate that the banks being acquired by holding companies are banks that in the past have been adequately meeting the convenience and needs of their communities. That is, bank holding companies may be acquiring banks that have already been offering free or low-cost checking and longer hours relative to their competitors, and banks that have recently built new banking offices and pay maximum Regulation Q rates. Another possible explanation may be that the holding companies are not familiar enough with all

phases and aspects of the acquired bank's operations and competitive environment to be able to commit themselves to any major changes in the bank's operations prior to acquisition. Another possible explanation, and somewhat related to the first, is that the prevalence of the "no change" response may reflect the lack of flexibility open to the banks to modify certain services and rates. With respect to rates paid on time and savings deposits, for example, applicants frequently respond "no change"--except as permitted by regulation. They often state or infer that the bank to be acquired is currently paying the maximum rates allowable under existing legislation and that this policy will be continued. Clearly, the answers to these questions require additional research before the convenience and needs issue is resolved.

It is interesting to note that the post-audit revealed only two holding companies that had responses immediately available to the questions asked in the survey. Both of these holding companies conduct their own holding company application internal audits on an annual basis. They have made an on-going and concerted effort to keep abreast of what commitments they had made with respect to convenience and needs factors, and they document when the changes were made or the reason(s) responsible for no change. On the whole, the responses from these holding companies were quite frank, which may reflect the fact that they were generating this information for internal use by the holding company as a tool for measuring management effectiveness. It is felt that similar internal audits would prove beneficial to other bank holding companies.

The survey also revealed that changes in the types of services and operations, as proposed in holding company applications, can be instituted somewhat more rapidly than had been anticipated. Two of the respondents to the survey provided information with respect to banks acquired in late 1976. By February

of 1977 the holding companies had been able to institute a number of the proposed changes set forth in the application. For example, interest rates on certain categories of loans had been lowered, facility remodeling was under way, rates paid on saving accounts had been raised to the maximum allowable by law, simple interest loans were being extended and trust services were available via the lead bank of the holding companies.

In general, the survey leads to the conclusion that planned changes and alterations that have not been instituted or established within 12 to 18 months after approval are not likely to be implemented. This 12- to 18-month time framework assumes no extenuating circumstances. Within this time period the acquiring company should be aware of those services that can be provided and those that will not be feasible due to whatever reason.

There are, in general, three possible ways to react to the study findings, which may be classified as: a soft line, rule of reason, or letter of the law approach. The soft line approach takes the view that convenience and needs changes are just so much "boiler plate." When Congress directed the Board to examine the convenience and needs considerations, it did not intend much weight to be applied to this factor and, as such, it is of little or no importance whether the applicant complies with its planned changes in services and operations. It should be clear upon reading the Congressional hearings surrounding the Bank Holding Company Act and its amendments that Congress expected more than just "boiler plate" be provided with respect to convenience and needs factors.

The rule of reason approach may be viewed as a middle-of-the-road approach. According to this approach, the Board recognizes that applicants will not be able to transform 100 percent of all planned convenience and needs factors into realized public benefits. Therefore, if the applicants are able to comply with

say, seven or eight out of ten planned changes, or they substitute services for those they are unable to provide, then they have adequately met their commitment to the Board and the public. Under a rule of reason approach, the Board would also recognize that the convenience and needs considerations become significantly more important in those cases where banking factors or competitive considerations involve some degree of adversity. If no adverse financial, managerial, or competitive factors exist, then convenience and needs considerations are of lesser importance.

The third approach, the letter of the law approach, is characterized as the "hard line" approach. If adopted, the view taken would be that any affirmative statement made by applicants with respect to additions or modifications in convenience and needs type factors should be viewed as a firm legal commitment. As such, deviation from application commitments is tantamount to breach of contract. Followed to its logical conclusion, if an applicant is found to have deviated by not providing all of the planned changes, then appropriate judicial or administrative legal action should be taken. An applicant, for example, that planned to extend banking hours and failed to comply should be required to either provide the service or an equivalent substitute. In lieu of the service or a substitute, the company might be required to compensate the public for the foregone public benefits.

It appears that the most reasonable and workable solution lies with the middle-of-the-road approach. It is doubtful that net public benefits would result were the Board to require an applicant to divest of a subsidiary based on the applicant's failure to comply with convenience and needs proposals. However, it is not unreasonable to expect this type of information (failure to comply with previous commitments) to be used as a determining factor in subsequent applications.

The post-audit did reveal that a limited number of holding companies appear to have a tendency towards not converting planned convenience and needs changes into realized public benefits. On future applications the track record of these applicants should be evaluated and considered. So as to be informed of the nature of changes being made, it is suggested that applicants be required to report on a periodic basis to the Board or appropriate Reserve Bank concerning compliance with or substitutions involving convenience and needs factors. This reporting and on-going post-audit might well be handled in conjunction with the holding companies' reports concerning compliance with commitments to augment bank capital. Annual reports such as these would keep the applicants, the Reserve Banks, and the Board informed of changes in convenience and needs factors as they develop.

The results of this survey have been instrumental in causing the Federal Reserve Bank of Chicago to pay closer attention to statements made by applicants in bank holding company applications with respect to proposed changes involving convenience and needs factors. Applicants are explicitly informed that statements made in the convenience and needs section of their applications should reflect not only true public needs, but should be feasible in their scope. The survey also identified certain areas where it is felt that in the past applicants have been unable to fully comply with their commitments. This information, when conveyed to future applicants, should assist them in structuring their applications in a manner that will be both within reason and feasible. It is also incumbent upon prospective applicants to closely evaluate and consider future statements made in the convenience and needs portion of their application.

This survey--the first of its kind in the Seventh Federal Reserve District--represents a step towards post-auditing bank holding company applications with respect to convenience and needs statements. The procedures employed may be modified at a later date in light of the findings of this and other studies. Nevertheless, the results of this and future post-audits should lead to a better understanding of the extent to which bank holding companies have been able to translate planned convenience and needs factors into realized public benefits.

FOOTNOTES

*The author expresses his appreciation to Maryanne Lee for her typing efforts, and to Roby L. Sloan and Sandra Cowen for their editorial assistance; of course, the author bears sole responsibility for all errors.

¹Prior to the March 1973 revision, convenience and needs questions were found within exhibits F and G of forms F.R. Y-1 and F.R. Y-2.

²Banking Act of 1933, Sec. 19.

³J. L. Robertson, "Taking a Long View of the Bank Holding Company Act," Commercial and Financial Chronicle, November 1, 1956, p. 1855.

⁴U.S. v. The Philadelphia National Bank, 10 LEd 2d 915, at 949.

⁵Jules Backman, "The Bank Holding Company Act," The Bulletin of the C.J. Devine Institute of Finance, Bulletin NO. 24-25, April-June 1963.

⁶Ibid., pp. 4547

⁷See Federal Reserve Bulletin, January 1958, p. 12.

⁸U.S.A. v. Bethlehem Steel Corp. et al, (168 F Supp. 576, U.S. District Court, Southern District of New York, 1958).

⁹The Board referred to the standards expressed in the Bethlehem-Youngstown case shortly after passage. See Federal Reserve Bulletin, February 1959, p. 141.

¹⁰U.S. v. Third National Bank in Nashville, 390 US 71 (1968).

¹¹It should be noted that the Board on December 30, 1976, did approve an application involving substantially adverse competitive issues which were outweighed by the "probable effect of the transaction in meeting the convenience and needs of the community to be served." This represents a classic case of the "failing firm" doctrine where convenience and needs factors have been used to outweigh substantially adverse competitive issues. See: Board Order approving the acquisition by Manufacturers National Corporation of the National Bank of Southfield, Michigan (63 FRB 75).

¹²Studies relating to convenience and needs considerations have recently been conducted by the Research Department of the Federal Reserve Bank of Atlanta. See: J.E. Rossman and B. Frank King, "Multibank Holding Companies: Convenience and Needs," Economic Review, July/August 1977.

APPENDIX

Appendix A - Survey Questionnaire.

Appendix B - Exhibit D from FORM F. R. Y-1.

Federal Reserve Bank of Chicago

CONFIDENTIAL
September 1976

SURVEY OF BANK HOLDING COMPANIES

Please answer all questions and return the completed questionnaire to the Federal Reserve Bank of Chicago in the enclosed envelope. All answers will be held strictly confidential and no individual answers or names of respondents will be disclosed.

1. In your application (Exhibit D--Paragraph 1) did you contemplate making any changes in service charges on demand deposit accounts? YES _____
NO _____

- a. If your response above was YES, have the changes contemplated been made? YES _____ NO _____

Specify the nature of the change (e.g., instituted free checking) or indicate the reason(s) for no change (e.g., time factor, costs, changes in bank policy, etc.)

- b. If your response to question #1 was NO, since approval of your application, have there been any changes in these service charges? YES _____ NO _____

If your answer is YES, specify the nature of and reasons for the change (i.e., what changes were made and when they were made)

2. In your application (Exhibit D--Paragraph 2) did you contemplate making any changes in interest rates paid on time and savings deposits? YES _____ NO _____

- a. If your response above was YES, have the changes contemplated been made? YES _____ NO _____

Specify the nature of the change (i.e., what changes were made and when they were made) or indicate the reason(s) for no change.

- b. If your response to question #2 was NO, since approval of your application have there been any changes in these interest rates?
YES _____ NO _____

If your answer is YES, specify the nature of and reason for the changes (i.e., what changes were made and when they were made).

3. In your application (Exhibit D--Paragraph 3) did you contemplate making any changes in interest rates on loans, maximum maturities, and any other loan terms? YES _____ NO _____

- a. If your response above was YES, have the changes contemplated been made? YES _____ NO _____

Specify the nature of the change (i.e., what changes were made and when they were made) or indicate the reason(s) for no change.

- b. If your response to question #3 was NO, since approval of your application have there been any changes in interest rates on loans, maximum maturities, and any other loan terms? YES _____ NO _____

If your answer is YES, specify the nature of and reason for the change (i.e., what changes were made and when they were made)

4. In your application (Exhibit D--Paragraph 4) did you expect to make any significant changes in the composition of BANK'S loan and investment portfolio? YES _____ NO _____

- a. If your response above was YES, have the changes contemplated been made? YES _____ NO _____

Specify the nature of the change (i.e., what changes were made and when they were made) or indicate the reason(s) for no change.

- b. If your response to question #4 was NO, since approval of your application have there been any significant changes in the composition of BANK'S loan and investment portfolio? YES ____ NO ____

If your answer is YES, specify the nature of and reason for the change. _____

5. In your application (Exhibit D--Paragraph 5) did you expect to make any improvements in physical facilities? YES ____ NO ____

- a. If your response above was YES, have the changes contemplated been made? YES ____ NO ____

Specify the nature of the change (i.e., constructed new building) or indicate the reason(s) for no change (e.g., time factor, construction delays, etc.) _____

- b. If your response to question #5 was NO, since approval of your application have there been any changes or modifications in physical facilities? YES ____ NO ____

Specify the nature of change _____

6. In your application (Exhibit D--Paragraph 6) did you contemplate making any changes in your banking hours? YES ____ NO ____

- a. If your response above was YES, have the changes contemplated been made? YES ____ NO ____

Specify the nature of the change (e.g., now open Saturday, etc.) or indicate the reason(s) for no change. _____

- b. If your response to question #6 was NO, since approval of your application have there been any changes in banking hours. YES ____ NO ____

Specify the nature of and reason for the change(s). _____

7. In your application (Exhibit D--Paragraph 7) did you contemplate providing any other new or expanded services? YES ____ NO ____

- a. If your response above was YES, have the changes contemplated been made? YES _____ NO _____

Specify the nature of the change (e.g., instituted a check credit plan, etc.) or indicate the reason(s) for no change.

- b. If your response to question #7 was NO, since approval of your application have you provided any other new or expanded services? YES _____ NO _____

If your response is YES, specify the nature of and reason for the changes. _____

8. With respect to changes made or contemplated to be made in convenience and need factors, which of the following do you feel have been most responsible for bringing about these changes: (If more than one has been responsible, please rank in order of importance, 1st, 2nd, etc.)

_____ Your holding company's philosophy and policy.

_____ Your bank's philosophy and policy.

_____ Customer interest in these services.

_____ Competitive pressure from commercial banks in your community.

_____ Competitive pressure from non-bank (e.g. credit unions) financial institutions in your community.

_____ Competitive pressure from commercial banks out-side your community.

_____ Competitive pressure from non-bank financial institutions out-side your community.

_____ Changes in government regulations.

_____ Technological changes in banking.

_____ Other. Specify _____

9. Do you provide any service(s) to your community that are unique in that they cannot be obtained from another financial institution in your community? YES _____ NO _____

If your response was YES, specify what those services are. _____

10. In your application did you cite certain community banking services that were going unserved? YES _____ NO _____

a. If your answer was YES, which services were cited in your application as being unserved? (Check as many as appropriate).

- Trust services
 - International services
 - Leasing services
 - Computer services
 - Commercial finance services
 - Consumer finance services
 - Credit card plans
 - Free checking
 - Check credit services
 - Other. Specify _____
- _____
- _____

b. Since approval of your formation or acquisition, which of the above services cited are still considered by you as being unserved?

- Trust services
 - International services
 - Leasing services
 - Computer services
 - Consumer finance services
 - Commercial finance services
 - Credit card plans
 - Free checking
 - Check credit services
 - Other. Specify _____
- _____
- _____

11. Please provide the following with respect to the person(s) filling out this form:

Name(s): _____

Position(s): _____

Phone Number(s): _____

APPENDIX B

FORM F. R. Y-1

EXHIBIT D--Convenience and Needs

Indicate the present and anticipated banking needs of the communities served by each BANK and the extent to which those needs will be better met by the formation of Applicant. Comments shall include, but need not be limited to:

1. Expected changes in service charges or demand deposit accounts;
2. Expected changes in interest rates paid on time and savings deposits;
3. Expected changes in interest rates on loans, maximum maturities, and any other loan terms;
4. Expected significant changes in composition of BANK'S loan and investment portfolio;
5. Expected improvements in physical facilities;
6. Expected changes in banking hours;
7. The extent to which other new or expanded services will be provided; and
8. The extent to which Applicant believes that the provision of new or expanded services will meet existing, or anticipated, convenience and needs of the community.