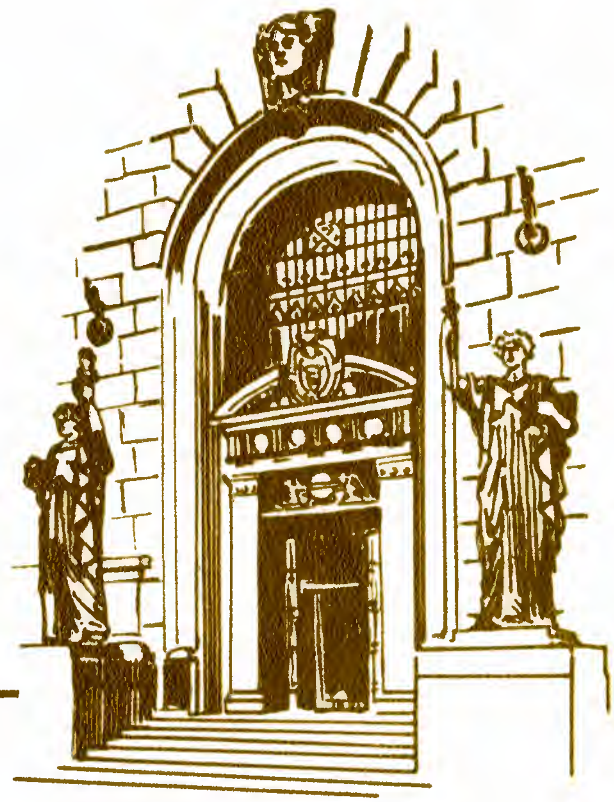
# 1968
# ANNUAL REPORT



*federal reserve bank of cleveland*

## CONTENTS

# FEDERAL RESERVE BANK OF CLEVELAND
# 1968 ANNUAL REPORT

## To the Banks in the Fourth Federal Reserve District:

We are pleased to present the Annual Report of the Federal Reserve Bank of Cleveland for 1968, and to express our appreciation to the agricultural, business, and financial community in the Fourth District for co-operation and encouragement in helping us fulfill our responsibilities.

This year's Annual Report reviews the effects of the regulatory framework on banking structure and structural changes in the Fourth Federal Reserve District. Banking regulation has played an important role in banking structure in the District in recent years. The impact of the Bank Merger Act of 1960 on the size of acquiring banks is significant in the District. In particular, the merger activity of the larger banks declined sharply after the adoption of the 1960 Act.

With the advent of one-bank holding companies, the expansion of registered bank holding companies, and the continued large number of bank mergers, analysis of banking structure has become increasingly important. Hopefully, the information provided in this Annual Report will promote understanding of this subject.

Albert G. Clay W. Braddock Hickman

CHAIRMAN OF THE BOARD PRESIDENT

# BANK REGULATION AND STRUCTURAL CHANGES IN FOURTH DISTRICT BANKING

The structure of commercial banking has changed substantially in recent years, with branch banking, mergers, and holding companies the major avenues of bank expansion. Although many factors influence the structure of banking, the nature and dimensions of bank regulation are particularly significant. This article reviews the regulatory framework that applies to banking structure and, against that background, examines structural changes in banking in the Fourth Federal Reserve District during the 1954-1967 period.

## REGULATION OF BANKING STRUCTURE

The number, size, and geographical distribution of banks and banking offices represent the major elements of banking structure. As presently arranged, a complex set of state and Federal regulations affect that structure. Broadly, these regulations attempt to promote an efficient banking system, one that affords the largest possible volume of banking services to the public at the lowest possible cost. Although the economic theory of competition provides a standard for evaluating the structure of banking, economic theory provides little operational guidance for the regulatory authorities, since it is difficult to reduce competition to measurable dimensions. Consequently, bank regulation has little theoretical guidance in attempting to achieve an "optimum" banking structure. Ironically, there is even a question as to whether an optimum banking structure is feasible or attainable.

In general, bank regulation can alter banking structure by restricting or encouraging entry into banking—the formation of new banks and the dissolution of existing banks—and by limiting or encouraging growth of banks through branching, mergers, and holding companies. Restriction of bank entry, a fundamental structural regulation, is achieved by limiting the issuance of new bank charters, which in turn influences the number of banks. The Comptroller of the Currency has authority to issue new charters for national banks, and state banking authorities issue new charters for state banks. Although state laws establish the broad geographical limits of new branches, the Comptroller of the Currency, the Federal Reserve System, and the state banking authorities are able to influence the number and location of new branches within these broad limits.

Regulation of bank mergers has become an increasingly important means of influencing the structure of banking. Before 1960, a loose combination of capital requirements and branching restrictions were applied to bank mergers. However, the Bank Merger Act of 1960 established specific criteria to evaluate bank mergers. Depending on the type of charter held by the resulting bank, prior written consent must be obtained from the Comptroller of the Currency, the Federal Deposit Insurance Corporation, or the Federal Reserve System for all mergers involving banks insured by the Federal Deposit Insurance Corporation. During the 1960's, the Antitrust Division of the Department of Justice and the courts also entered into bank merger regulation through an extension of antitrust laws to banking.

Authority to regulate bank expansion through holding companies was lodged with the Federal Reserve System under the Bank Holding Company Act of 1956, which applied the general objectives of antitrust laws to banking and restricted the connections between bank holding companies and nonbank businesses. Recently, bank holding companies have generated additional interest among regulatory authorities because of the increased number of registered bank holding companies and one-bank holding companies.

## HOLDING COMPANIES

Under the Bank Holding Company Act of 1956, a bank holding company is required to register with the Federal Reserve System if the holding company controls 25 percent or more of the voting shares of each of two or more banks. Registration is not required if a holding company owns only one bank—a one-bank holding company. One-bank holding companies can be bank or nonbank originated. A one-bank holding company can enter into activities either related or unrelated to banking that are prohibited to an individual bank or a registered bank holding company. The Comptroller of the Currency authorizes national banks (under their incidental powers) to organize subsidiaries, but 80 percent of the stock of the subsidiary must be owned. The Federal Reserve System also recently authorized state member banks to have certain subsidiaries; however, a state member bank must own virtually all of the stock of the subsidiary.

At present, information on one-bank holding companies (either bank or nonbank originated) is still sketchy and incomplete. Nevertheless, there are at least presumptive differences between nonbank corporations or conglomerates that own a bank and banks that acquire both financial and nonfinancial subsidiaries through a bank originated one-bank holding company. Most recently, the emphasis has been on banks that establish a holding company structure in order to acquire both related and unrelated business subsidiaries. The rapidly increasing popularity of bank originated one-bank holding companies has raised a number of questions about the implications of a greater range of nonbank activities for the banking system.

## MERGER LEGISLATION

Although bank holding companies are currently the center of attention, during the past two decades, merger activity accounted for the major structural changes in banking in both the United States and the Fourth District. For example, during the 1950's in the nation as a whole, 1,503 banks with assets of more than $25 billion were absorbed through mergers. The upsurge of merger activity in the 1950's, coupled with the lack of clear standards for judging the desirability of proposed mergers, prompted Congress to pass the Bank Merger Act of 1960. Briefly, the Act states that:

> no insured bank shall merge or consolidate with any other insured banks . . . without the prior written

Chart 1

**COMMERCIAL BANKS and BANKING OFFICES**

United States and Fourth District

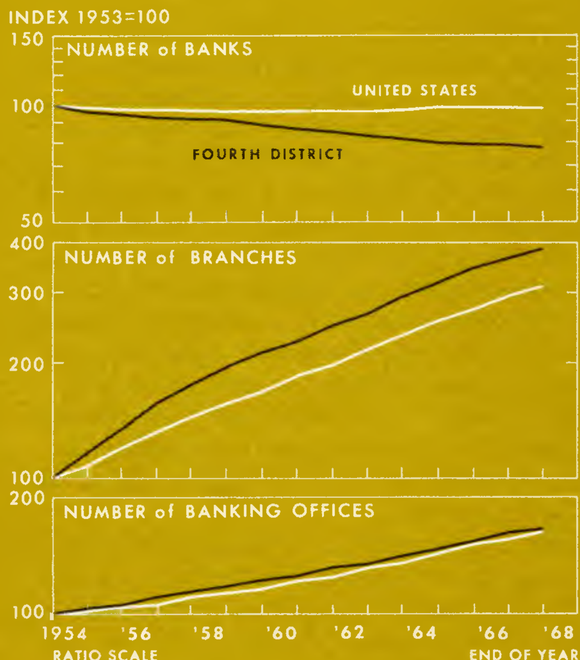
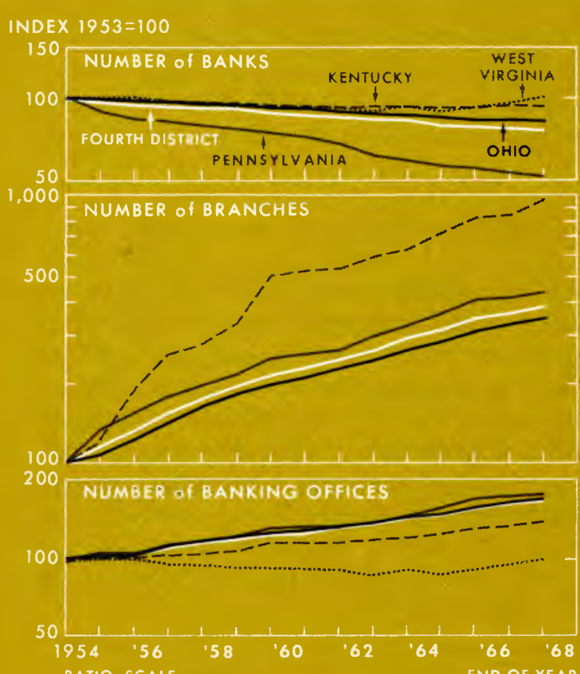



Chart 2.

**COMMERCIAL BANKS and BANKING OFFICES**

Fourth District




consent (i) of the Comptroller of the Currency if the . . . resulting bank is to be a national bank or a District bank, or (ii) of the Board of Governors of the Federal Reserve System if the . . . resulting bank is to be a state member bank (except District bank), or (iii) of the Federal Deposit Insurance Corporation if the . . . resulting bank is to be a nonmember insured bank.

Moreover, seven factors were to be considered in evaluating a merger:

1. The financial history and condition of the banks involved;
2. The adequacy of the resulting bank's capital structure;
3. The future earnings prospects of the resulting bank;
4. The general character of the resulting bank's management;
5. The convenience and needs of the community to be served;
6. Whether or not the corporate powers of the resulting bank are consistent with the purpose of the Act; and
7. The effect of the transaction on competition (including any tendency toward monopoly).

In addition, the 1960 Act stated that the Attorney General and the banking agencies should provide advisory reports on the competitive effects of proposed mergers.

Although the Federal agencies generally believed they had the final authority over bank mergers and that no one of the seven factors was to be regarded as controlling, there was considerable uncertainty about the weight to be attached to the competitive effects of a merger. The uncertainty regarding the role of competitive effects was resolved in 1963, however, when the Supreme Court ruled that the proposed merger of two Philadelphia banks was in violation of Section 7 of the Clayton Act. In general, this section of the Clayton Act prohibits a corporation engaged in commerce from buying the stock or assets of another corporation if the acquisition would substantially lessen competition, or tend to create a monopoly. In addition, the Supreme Court held that a merger cannot be saved by some reckoning of social benefits to the community if the merger violates antitrust laws. The Supreme Court further defined the role of competition and antitrust laws in 1964, when it ruled against the proposed merger of two banks in Lexington, Kentucky, on the grounds that, if a merger eliminated a substantial competitor in banking, the merger violated the Sherman Act.

The confusion about the application of antitrust laws to bank mergers led to Congressional reassessment of the 1960 Act and eventually to the Bank Merger Act Amendment of 1966. The Amendment, which was also incorporated in the Bank Holding Company Act, presented a revised set of standards that the supervisory agencies, the Justice Department, and the courts were to apply to bank mergers. Essentially, the Amendment incorporates Section 2 of the Sherman Act and Section 7 of the Clayton Act into the Bank Merger Act. The relevant section now reads:

The responsible agency shall not approve

(A) any proposed merger transaction 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

(B) any other proposed merger transaction whose effect in any section of the country may be substantially to lessen competition, or tend to create a monopoly, or which in any other manner would be in restraint of trade, unless it 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. In every case, the responsible agency shall take into consideration the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served.

As in the 1960 Act, advisory reports on proposed mergers are required from the Justice Department and the banking agencies. After approval, a merger cannot be consummated until a 30-day waiting period elapses to allow the Justice Department time to initiate antitrust action. If the Justice Department begins antitrust action, an approved merger cannot be consummated, unless the court orders otherwise.

Although the 1966 Amendment removed some uncertainty about the standards to be applied to bank mergers, it did not resolve all of the issues. Nevertheless, since 1966, competitive effects of proposed mergers have been given prime consideration. If there are no

## Table I

**Banking Structure Changes**
**United States and Fourth District**
**Selected Periods, 1954-1967**

| | 1954-1960 | 1961-1967 | Total 1954-1967 |
|---|---|---|---|
| **New Bank Charters** | | | |
| United States | 734 | 1,358 | 2,092 |
| Fourth District | 12 | 24 | 36 |
| **Banks Absorbed Through Merger** | | | |
| United States | 1,250 | 1,038 | 2,288 |
| Fourth District | 151 | 129 | 280 |
| **Branches Established*** | | | |
| United States | 4,452 | 7,812 | 12,264 |
| Fourth District | 499 | 516 | 1,215 |
| **Holding Companies** | **1956** | **1960** | **1967** |
| Registered Holding Companies | | | |
| United States | 53 | 47 | 74 |
| Fourth District | 2 | 2 | 3 |
| Affiliates | | | |
| United States | 428 | 426 | 603 |
| Fourth District | 23 | 24 | 29 |

* Includes conversion of banks acquired through merger into branches of the acquiring institution.

Sources: Board of Governors of the Federal Reserve System and Federal Reserve Bank of Cleveland

Chart 3.
**PERCENT DISTRIBUTION of ACQUIRING BANKS by ASSET SIZE**
Fourth District — 1954-1960 and 1961-1967

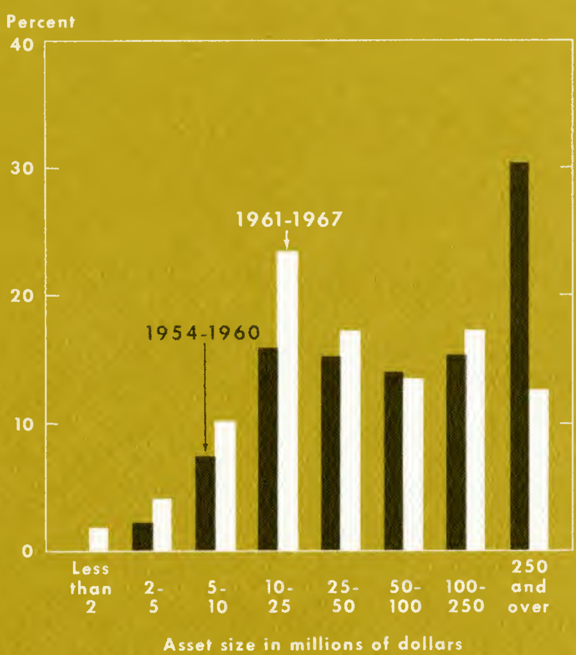
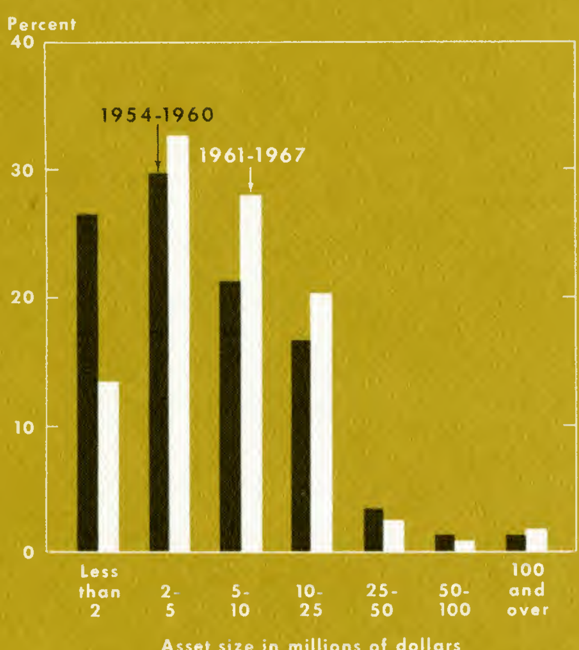



Chart 4.
**PERCENT DISTRIBUTION of ACQUIRED BANKS by ASSET SIZE**
Fourth District — 1954-1960 and 1961-1967




existing or potentially adverse competitive effects, the proposed merger is usually approved, assuming capital structure, managerial, and other factors are satisfactory. If it is determined that the proposed transaction would have adverse competitive effects, then it must be established that the benefits to the public will exceed the anticompetitive effects. For example, the banks participating in the merger must establish that there are needs for banking services that are either unserved or not conveniently available. Moreover, the banks must prove that there are no alternative ways to obtain conveniently the needed banking services with less anticompetitive effects. If there are such alternatives, it must be shown that the alternatives either were tried and failed or would be unlikely to succeed. However, since the Supreme Court has not sustained the convenience and needs defense in any case reaching the court, the competitive factors must be considered as dominant in evaluating proposed bank mergers.

## FOURTH DISTRICT DEVELOPMENTS, 1954-1967

A number of factors—new bank charters, branching, mergers, and holding companies were important in the evolution of banking structure in the nation during 1954-1967, although these factors had different relative effects in the Fourth District and in the nation (see Table I). Bank mergers and the establishment of branch offices were clearly the two major avenues of change in banking structure in the Fourth District during 1954-1967, as shown in Table I.

The most significant difference between the Fourth District and the nation appears to be in the relationship between the number of new bank charters and the number of mergers. During the 1954-1967 period, the number of mergers in the District greatly exceeded the number of new banks established, in contrast to the nation as a whole, where the number of new banks was nearly equal to the number of mergers. As a result, although the net decline in number of banks was about the same in the District and the nation, the decline in the District represented a reduction of 23 percent, while that in the nation was less than 1 percent.

As shown in Table II, the number of branches in the nation tripled during the period under review, while the number of branches in the Fourth District increased fourfold. Reflecting the contrasting patterns between the District and the nation in the number of banks and branches, the relative growth of banking offices (banks plus branches) was about equal (see Chart 1).

In the United States as a whole, the relative decline in the number of national and state banks was nearly the same during the period under review (see Table II). In the District, however, there was a 25.2 percent decline in the number of state banks, compared with a 19.7 percent decline in the number of national banks.

Differences between the District and the nation are also apparent with respect to membership in the Federal Reserve System (see Table II). (Because national banks are required to be members, data are shown for state banks only.) In the nation as a whole, 15 percent of state banks were members of the Federal Reserve System in 1967, compared with 21 percent in 1954. On the other hand, the proportion of state member banks in the Fourth District only declined from 34.6 percent to 30.6 percent between 1954 and 1967.

As indicated in Chart 2, during 1954-1967, the District portion of Pennsylvania experienced the sharpest drop in the number of banks (43 percent). In Ohio and the District portion of Kentucky, the number of banks declined moderately (16 percent and 7 percent, respectively), while the number of banks in the District portion of West Virginia was, on balance, unchanged.

During 1954-1967, the number of branch offices increased at about the same rate in both Ohio and the District portion of Pennsylvania. (In Ohio and Kentucky, branches may be operated throughout the home office county; in Pennsylvania, branches may be operated throughout the home office county and contiguous counties. West Virginia does not permit branch banking.) Few branches were in operation in Kentucky in 1954, but the number grew rapidly thereafter.

As shown in Chart 2, the number of banking offices increased at about the same rate in Ohio and Pennsylvania, somewhat less rapidly in Kentucky, and remained unchanged in West Virginia.

## MAJOR ASPECTS OF FOURTH DISTRICT MERGER ACTIVITY

Bank mergers obviously played an important role in changing the banking structure of the Fourth District

### Table II

**Selected Data on Number and Type of Banks**
United States and Fourth District
January 1, 1954 and December 31, 1967

| | 1954 | 1967 | Percent Change |
|---|---|---|---|
| **Banks and Banking Offices** | | | |
| United States | | | |
| Banks | 13,886 | 13,641 | − 0.8% |
| Branches | 5,816 | 18,080 | +210.9 |
| Banking offices | 19,702 | 31,721 | + 61.0 |
| Fourth District | | | |
| Banks | 1,069 | 823 | − 23.0 |
| Branches | 435 | 1,650 | +279.3 |
| Banking offices | 1,504 | 2,473 | + 64.4 |
| **Number of Banks by Type of Charter** | | | |
| United States | | | |
| National banks | 4,856 | 4,758 | − 2.0 |
| State banks | 9,030 | 8,883 | − 1.6 |
| Fourth District | | | |
| National banks | 431 | 346 | − 19.7 |
| State banks | 638 | 477 | − 25.2 |
| **Membership in the Federal Reserve System** | | | |
| United States | | | |
| State member banks as percent of all state banks | 21.0% | 14.8% | |
| Member banks as percent of all banks | 48.0 | 44.5 | |
| Fourth District | | | |
| State member banks as percent of all state banks | 34.6 | 30.6 | |
| Member banks as percent of all banks | 61.0 | 59.7 | |

Sources: Board of Governors of the Federal Reserve System and Federal Reserve Bank of Cleveland

### Table III

**Number of Bank Mergers**
United States and Fourth District
1954-1967

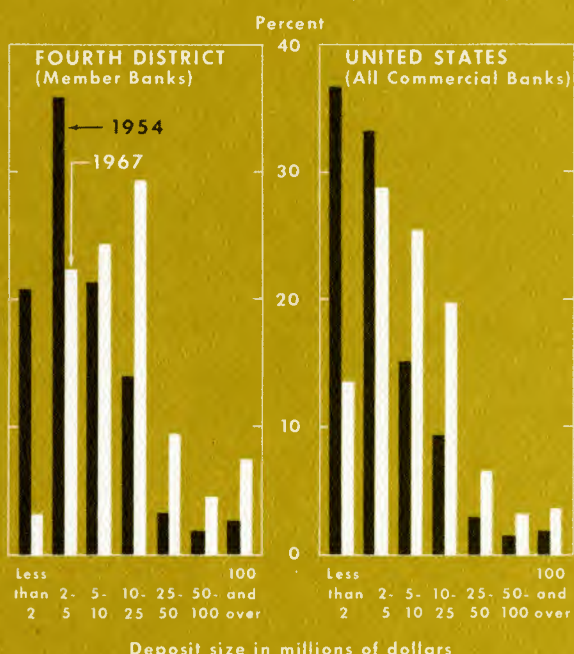
| Year | United States | Fourth District |
|---|---|---|
| 1954 | 209 | 35 |
| 1955 | 235 | 28 |
| 1956 | 191 | 21 |
| 1957 | 158 | 11 |
| 1958 | 158 | 17 |
| 1959 | 169 | 25 |
| 1960 | 130 | 14 |
| Annual Average 1954-1960 | 180 | 21 |
| 1961 | 147 | 21 |
| 1962 | 183 | 29 |
| 1963 | 155 | 23 |
| 1964 | 133 | 16 |
| 1965 | 149 | 18 |
| 1966 | 137 | 9 |
| 1967 | 134 | 13 |
| Annual Average 1961-1967 | 150 | 19 |

Sources: Board of Governors of the Federal Reserve System and Federal Reserve Bank of Cleveland

Chart 5.

**PERCENT DISTRIBUTION of COMMERCIAL BANKS by DEPOSIT SIZE**

Fourth District and United States — Jan. 1, 1954 and Dec. 31, 1967




during the 1954-1967 period. However, the nature of the change is not apparent from the number of mergers only. The Bank Merger Act of 1960 and Bank Merger Act Amendment of 1966 changed the regulatory framework for the evaluation of mergers, especially with respect to the competitive effects of proposed mergers.

For this discussion, the 1954-1967 period is divided into two subperiods—1954-1960 and 1961-1967. Although it is too early to assess the effects of the 1966 Amendment on merger activity, some preliminary judgments of the effects of the Bank Merger Act of 1960 can be made. One fact is immediately clear: there was a reduction in the annual average number of mergers in the nation in the seven years following the Bank Merger Act, compared with the seven years preceding the Bank Merger Act (see Table III). In the United States, there was an annual average of 180 bank mergers for the 1954-1960 period, compared with an annual average of 150 for the 1961-1967 period. In the District, the average number of bank mergers was 21 a year in the period preceding the Bank Merger Act, compared with 19 in the period following the Act.

Information on the size of banks in the District involved in merger activity before and after the Bank Merger Act provides further insight on the merger movement. As a general matter, acquiring banks were much smaller in the period following the Bank Merger Act. Acquiring banks with over $250 million in assets dropped from nearly one-third of all acquiring banks to one-eighth, while banks with assets under $50 million rose from 30 percent to 56 percent of all acquiring banks (see Chart 3). Acquiring banks with $100 million or more in total assets were involved in nearly 46 percent of mergers in the District during 1954-1960, compared with slightly less than 30 percent during 1961-1967. In fact, in the seven years preceding the Bank Merger Act, banks with assets in excess of $1 billion acquired six banks, while no billion dollar bank was involved in merger activity in the District after 1960. The opposite situation is apparent for smaller banks. For example, the proportion of acquiring banks in the $10 to $25 million asset class rose from 16 percent to 23 percent between the two periods. This pattern is also apparent for other small size classes (see Chart 3).

The shift in the asset size patterns of acquiring banks reflects in part the impact of the Bank Merger Act of 1960 and in part the various Supreme Court decisions that emphasized the anticompetitive effects of mergers. However, the shift did not necessarily result from denials of merger applications, but rather from a reduced number of merger applications by larger banks because of the belief that it would be more difficult to obtain approval of such mergers.

Changes between the two periods are also evident in the size of acquired banks (see Chart 4). In the 1954-1960 period, banks with less than $2 million in assets accounted for 26 percent of all acquired banks, in contrast to only 13 percent during 1961-1967. Banks in the next three asset size classes accounted for higher proportions in the latter period. There was relatively little change in the larger asset size classes ($25 million and over) between the two periods.

More significant than the changes in the size of acquired banks between the two periods is the heavy concentration of acquired banks within the smallest asset size classes. Over the entire 14-year period, one-half of the acquired banks had less than $5 million in assets, and three-fourths had less than $10 million in assets. In other words, the great majority of District mergers involved the acquisition of relatively small banks.

A number of factors are undoubtedly related to bank merger activity. From the standpoint of many of the small acquired banks, lack of management succession is one important factor. This factor seems to be particularly significant in nonmetropolitan areas where small, independent banks are often unable to pay the salaries required to attract capable young managers. Moreover, the attractive prices and terms offered to the stockholders of the acquired banks are also important influences on merger decisions. Stockholders of the merged banks frequently obtain the assessed value of their holdings in place of the open market price of the stock, which is often depressed due to the limited market for the shares of small banks.

On the other hand, the management of the acquiring bank often believes that a merger is a more efficient way to establish a branch in an area than to try to open a new branch. Expansion by merger is particularly attractive when the bank to be acquired has strong community ties and/or a convenient location. Such an acquisition brings the acquiring bank the "good will" of an established concern that a new branch might not be able to develop for many years. Finally, mergers increase the

Chart 6.

**SHARE of DEPOSITS HELD at COMMERCIAL BANKS in the UNITED STATES**

Banks Arrayed by Deposit Size — June 1957 and June 1967

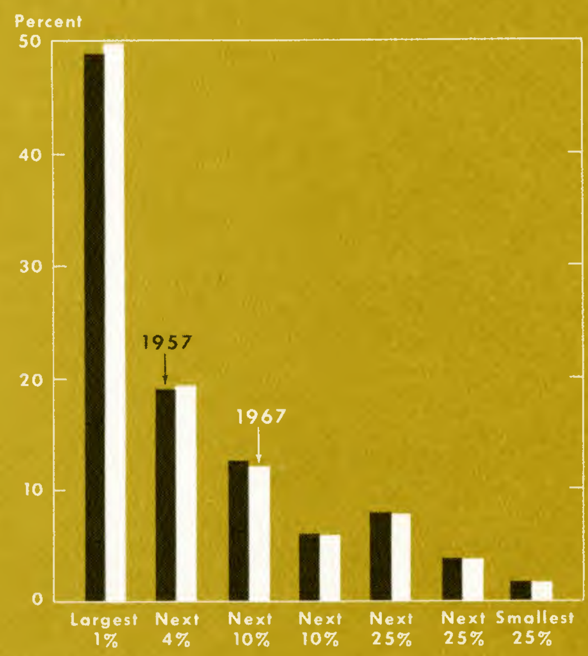



Chart 7.

**SHARE of DEPOSITS HELD at COMMERCIAL BANKS in OHIO**

Banks Arrayed by Deposit Size — June 1957 and June 1967

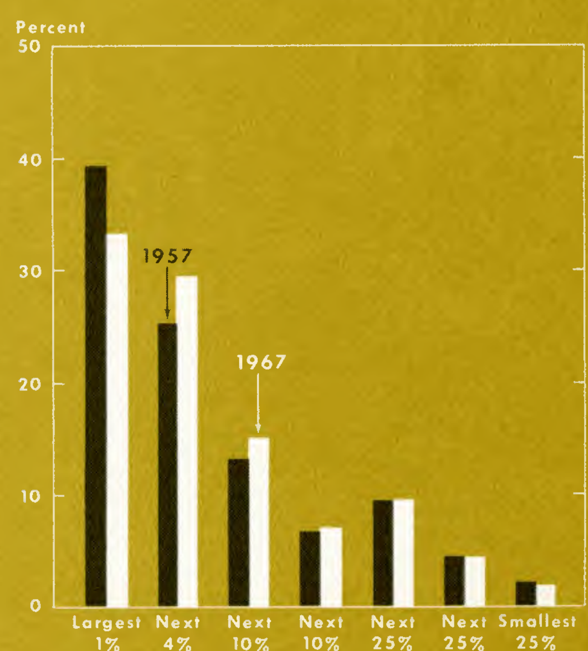
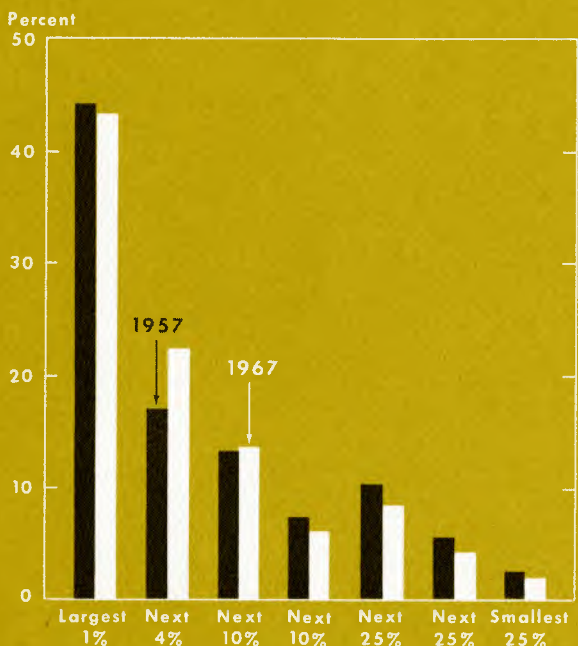


Chart 8.

**SHARE of DEPOSITS HELD at COMMERCIAL BANKS in PENNSYLVANIA**

Banks Arrayed by Deposit Size — June 1957 and June 1967




lending limit of banks, thereby permitting them to make larger individual loans.

## SIZE DISTRIBUTION OF FOURTH DISTRICT BANKS

Between 1954 and 1967, the distribution of banks by asset size changed considerably, largely reflecting the fact that three out of every four mergers in the District involved acquisition of a bank with $10 million or less in assets. As shown in Chart 5, at the beginning of 1954, more than one-half of the member banks in the District held less than $5 million in deposits. (Because data for nonmember banks are limited, the size distribution of banks in the District includes member banks only. As a result, the distribution has some upward bias because larger state banks are usually members of the Federal Reserve System.) In sharp contrast, only one-fourth of all member banks in the District held less than $5 million in deposits at yearend 1967. The sharpest decline occurred in the proportion of banks with less than $2 million in deposits. In 1954, banks in this group accounted for 21 percent of member banks in the District, compared with only 3 percent in 1967. The proportion of member banks in the District with $10 to $25 million in deposits showed the sharpest increase, rising from 14 percent in 1954 to nearly 30 percent in 1967. Although some of the increase can be attributed to normal deposit growth, banks in the $10 to $25 million deposit size class absorbed 54 of the 280 banks acquired in the District during the period under review.

In the United States, the proportion represented by the smallest banks (less than $2 million in deposits) dropped from more than one-third of all banks in 1954 to slightly more than one-eighth in 1967. The largest gains occurred in the two classes ranging from $5 to $25 million in deposits; the proportion of banks in these classes rose from 24 percent to 44 percent of all commercial banks in the nation.

## DEPOSIT CONCENTRATION

Although deposit concentration is one indicator of competition in banking, changes in deposit concentration over time can also be used to show the relative growth of banks. (The bars in Chart 6 represent the share of total deposits held at the largest 1 percent of the banks in the nation, at the next largest 4 percent, at the next 10 percent, etc.) Despite the large number of mergers in the nation and the upward shift in the size distribution of banks, there was virtually no change in the concentration of deposits during the period from June 1957 to June 1967. Although there were more than 13,500 banks in the United States at mid-1967, the largest 1 percent (136 banks) held virtually one-half of all bank deposits, and the largest 0.1 percent (14 banks) held nearly one-fourth of all bank deposits. In fact, the largest 5 percent of the banks in the nation (those over $60 million in deposits in 1967) held 70 percent of all bank deposits, underscoring the high concentration of deposits at the large banks in the nation. As of mid-1967, 95 percent of the nation's banks had deposits of less than $60 million but held only 30 percent of the deposits in the nation.

In contrast to the absence of any change in deposit concentration in the nation between mid-1957 and mid-1967, noticeable changes occurred in Ohio (see Chart 7). At mid-1957, the largest 1 percent of Ohio banks held 39 percent of all bank deposits in the state, compared with 33 percent at mid-1967. On the other hand, the next largest 4 percent of the banks (with deposits ranging from $90 to $500 million in 1967) increased their share of deposits from 25 percent to 29 percent over the period. The next largest 10 percent of banks in Ohio (from $30 to $90 million in 1967) also increased their share of deposits (see Chart 7). Interestingly, there was virtually no change in the share of deposits held by banks in the four smallest size classes. In short, the share of deposits held by the largest 1 percent of the banks in Ohio dropped between mid-1957 and mid-1967, while the shares held by the next largest 4 percent and the next largest 10 percent of the banks increased, due largely to the extensive merger activity of the banks in these two size classes.

The experience of banks in Pennsylvania was essentially the same as that of banks in Ohio (see Chart 8). The share of total deposits held by the largest 1 percent of banks in Pennsylvania declined very slightly (from 44 percent at mid-1957 to 43 percent at mid-1967), while the proportions held by the next largest 4 percent of the banks ($100 to $700 million in deposits in 1967) increased sharply (from 17 percent in mid-1957 to 22 percent in mid-1967). The share of deposits held by the next largest 10 percent of Pennsylvania banks (from $30 to $100 million in deposits) remained about the same, while the share of deposits held by banks in each of the four smallest size classes declined.

In both Ohio and Pennsylvania, changes in deposit shares were due largely to the merger activity of medium-sized banks. In other words, while the medium-sized banks grew externally through merger as well as internally, the growth of the largest banks was primarily internal.

There were very few mergers in Kentucky and West Virginia during the period under review; as a result, little change occurred in deposit concentration in the two states.

## CONCLUDING COMMENTS

Since 1954, regulation of the nation's banking structure has become more formalized through the Bank Holding Company Act of 1956, the Bank Merger Act of 1960, the Bank Merger Act Amendment of 1966, and numerous Supreme Court decisions. In particular, specific criteria were established to evaluate proposed holding company acquisitions and mergers, with special emphasis placed on the competitive effects of proposed transactions.

In addition to changes in the framework of banking structure regulation, significant changes in the nation's banking structure occurred through a combination of new bank formations, new branch offices, mergers, and the formation and expansion of bank holding companies. Within the Fourth District, branching and mergers were the two most important means of structural change. Interestingly, the net decline in the number of banks in the District during 1954-1967 about equalled the net decline in the number of banks in the nation.

The Bank Merger Act of 1960 apparently had a significant effect on the course of merger activity in the District, as the size of acquiring banks in the District was decidedly smaller in the period following the Act than in the period preceding the Act. Bank merger activity, coupled with normal deposit growth, shifted the size distribution of member banks in the District toward the middle of the range, as most of the mergers in the District involved the acquisition of small banks. As a general matter, during the 1957-1967 period, the share of deposits held by the largest banks in Ohio and Pennsylvania declined, while the share of deposits held by medium-sized banks in the two states increased.

## COMPARATIVE STATEMENT OF CONDITION

| | Dec. 31, 1968 | Dec. 31, 1967 |
|---|---|---|
| **ASSETS** | | |
| Gold Certificate Reserves | $ 739,174,302 | $ 921,534,181 |
| Federal Reserve Notes of Other Banks | 66,500,994 | 64,876,776 |
| Other Cash | 23,827,000 | 48,188,824 |
| Discounts and Advances | 11,200,000 | 500,000 |
| U. S. Government Securities: | | |
| Bills | 1,479,245,000 | 1,220,706,000 |
| Notes | 2,263,966,000 | 2,056,860,000 |
| Bonds | 431,758,000 | 465,076,000 |
| Total U. S. Government Securities | 4,174,969,000 | 3,742,642,000 |
| Total Loans and Securities | 4,186,169,000 | 3,743,142,000 |
| Cash Items in Process of Collection | 806,896,292 | 740,247,276 |
| Bank Premises | 4,789,980 | 4,799,415 |
| Other Assets | 224,264,090 | 169,534,321 |
| Total Assets | $6,051,621,658 | $5,692,322,793 |
| **LIABILITIES** | | |
| Federal Reserve Notes | $3,700,086,690 | $3,404,389,597 |
| Deposits: | | |
| Member Bank — Reserve Accounts | 1,538,328,399 | 1,448,512,687 |
| U. S. Treasurer — General Account | 512,836 | 66,320,161 |
| Foreign | 19,800,000 | 12,600,000 |
| Other Deposits | 17,856,952 | 13,658,388 |
| Total Deposits | 1,576,498,187 | 1,541,091,236 |
| Deferred Availability Cash Items | 632,266,337 | 617,152,276 |
| Other Liabilities | 30,755,044 | 21,920,484 |
| Total Liabilities | $5,939,606,258 | $5,584,553,593 |
| **CAPITAL ACCOUNTS** | | |
| Capital Paid In | 56,007,700 | 53,884,600 |
| Surplus | 56,007,700 | 53,884,600 |
| Total Liabilities and Capital Accounts | $6,051,621,658 | $5,692,322,793 |
| Contingent Liability on Acceptances Purchased for Foreign Correspondents | $ 9,828,000 | $ 14,085,000 |

## COMPARISON OF EARNINGS AND EXPENSES

| | Dec. 31, 1968 | Dec. 31, 1967 |
|---|---|---|
| Total Current Earnings | $211,217,526 | $169,185,295 |
| Net Expenses | 17,607,834 | 16,334,774 |
| Current Net Earnings | 193,609,692 | 152,850,521 |
| Additions to Current Net Earnings: | | |
| Profit on Sales of U. S. Government Securities (Net) | 61,657 | 59,194 |
| Profit on Foreign Exchange Transactions (Net) | 724,448 | 128,800 |
| All Other | 3,254 | 13,288 |
| Total Additions | 789,359 | 201,282 |
| Deductions from Current Net Earnings | 17,631 | 685 |
| Net Additions | 771,728 | 200,597 |
| Net Earnings before Payments to U. S. Treasury | $194,381,420 | $153,051,118 |
| Dividends Paid | $ 3,296,071 | $ 3,130,507 |
| Payments to U. S. Treasury (Interest on F. R. Notes) | 188,962,249 | 147,164,761 |
| Transferred to Surplus | 2,123,100 | 2,755,850 |
| Total | $194,381,420 | $153,051,118 |

As of March 1, 1969

# FEDERAL RESERVE BANK OF CLEVELAND

## DIRECTORS

***Chairman***

ALBERT G. CLAY, *President*
Clay Tobacco Company, Mt. Sterling, Kentucky

***Deputy Chairman***

J. WARD KEENER, *Chairman of the Board and Chief Executive Officer*
The B. F. Goodrich Company, Akron, Ohio

JOHN L. GUSHMAN
*President and Chief Executive Officer*
Anchor Hocking Glass Corporation
Lancaster, Ohio

J. WILLIAM HENDERSON, JR.
*President*
Buckeye International, Inc.
Columbus, Ohio

RICHARD R. HOLLINGTON
*President*
The Ohio Bank and Savings Company
Findlay, Ohio

GEORGE F. KARCH
*Chairman of the Board and President*
The Cleveland Trust Company
Cleveland, Ohio

R. STANLEY LAING
*President*
The National Cash Register Company
Dayton, Ohio

SEWARD D. SCHOOLER
*President*
Coshocton National Bank
Coshocton, Ohio

HORACE A. SHEPARD
*President*
TRW Inc.
Cleveland, Ohio

***Member, Federal Advisory Council***

JOHN A. MAYER
*Chairman of the Board and Chief Executive Officer*
Mellon National Bank and Trust Company
Pittsburgh, Pennsylvania

## OFFICERS

***President***

W. BRADDOCK HICKMAN

***First Vice President***

WALTER H. MacDONALD

GEORGE E. BOOTH, JR.
*Vice President and Cashier*

PAUL BREIDENBACH
*Vice President and General Counsel*

ROGER R. CLOUSE
*Vice President and Secretary*

ELMER F. FRICEK
*Vice President*

CLYDE HARRELL
*Vice President*

WILLIAM H. HENDRICKS
*Vice President*

JOHN J. HOY
*Vice President*

HARRY W. HUNING
*Vice President*

FRED S. KELLY
*Vice President*

FRED O. KIEL
*Vice President*

CLIFFORD G. MILLER
*Vice President*

ELFER B. MILLER
*General Auditor*

MARGRET A. BEEKEL
*Assistant Vice President and Economist*

R. JOSEPH GINNANE
*Assistant Vice President*

ROBERT G. HOOVER
*Assistant Vice President*

LESTER M. SELBY
*Assistant Vice President and Assistant Secretary*

LARRY R. SHOTWELL
*Assistant Vice President and Economist*

H. MILTON PUGH
*Chief Examiner*

OSCAR H. BEACH, JR.
*Assistant Cashier*

ANNE J. ERSTE
*Assistant Cashier*

THOMAS E. ORMISTON, JR.
*Assistant Cashier*

ROBERT E. SHOWALTER
*Assistant Cashier*

DAVID J. WEITZEL
*Assistant Cashier*

HAROLD J. SWART
*Assistant General Auditor*

As of March 1, 1969

# CINCINNATI BRANCH

## DIRECTORS

***Chairman***

GRAHAM E. MARX, *President and General Manager*
The G. A. Gray Company, Cincinnati, Ohio

ORIN E. ATKINS
*President*
Ashland Oil & Refining Company
Ashland, Kentucky

ROBERT J. BARTH
*President*
The First National Bank
Dayton, Ohio

JOHN W. HUMPHREY
*Chairman of the Board*
The Philip Carey Manufacturing Company
Cincinnati, Ohio

ROBERT B. JOHNSON
*President*
Pikeville National Bank & Trust Company
Pikeville, Kentucky

FLETCHER E. NYCE
*President*
The Central Trust Company
Cincinnati, Ohio

PHILLIP R. SHRIVER
*President*
Miami University
Oxford, Ohio

## OFFICERS

FRED O. KIEL
*Vice President*

ROBERT D. DUGGAN
*Cashier*

DONALD G. BENJAMIN
*Assistant Cashier*

JOSEPH W. CROWLEY
*Assistant Cashier*

HOWARD E. TAYLOR
*Assistant Cashier*

# PITTSBURGH BRANCH

## DIRECTORS

***Chairman***

LAWRENCE E. WALKLEY, *President and Chief Executive Officer*
Westinghouse Air Brake Company, Pittsburgh, Pennsylvania

CHARLES M. BEEGHLY
*Chairman of the Executive Committee*
Jones and Laughlin Steel Corporation
Pittsburgh, Pennsylvania

CHARLES H. BRACKEN
*President*
Marine National Bank
Erie, Pennsylvania

GEORGE SCULL COOK
*President*
Somerset Trust Company
Somerset, Pennsylvania

RICHARD M. CYERT
*Dean*
Graduate School of Industrial Administration
Carnegie-Mellon University
Pittsburgh, Pennsylvania

BOB RAWLS DORSEY
*President*
Gulf Oil Corporation
Pittsburgh, Pennsylvania

THOMAS L. WENTLING
*President*
First National Bank of Westmoreland
Greensburg, Pennsylvania

## OFFICERS

CLYDE HARRELL
*Vice President*

JAMES H. CAMPBELL
*Cashier*

CHARLES E. HOUPT
*Assistant Vice President*

J. ROBERT AUFDERHEIDE
*Assistant Cashier*

PAUL H. DORN
*Assistant Cashier*

*fourth federal reserve district*