of alternative strategies for liberalizing existing federal regulations limiting geographic expansion by banking organizations. One proposal suggests easing existing restrictions on electronic branching. Among the options discussed is statewide, within-SMSA, contiguous-state, and nationwide branching through ATMs. Several possible alterations in the Douglas Amendment’s prohibition of interstate acquisitions by bank holding companies are also mentioned. Among the options presented are permitting holding company acquisitions or, alternatively, de novo branching within SMSAS and into contiguous states. In this regard, it should be noted that portions of six of Ohio’s SMSAS lie in contiguous states. Additionally, the proposed legislation would hold companies with deposits exceeding $1 billion operate in states contiguous to Ohio. This state also has also recommended altering the provisions of the McFadden Act. One option considered is statewide branching by national banks. This would put pressure on states to adopt similar regulations or face the prospect of charter conversion by state-regulated banks.

Expansion patterns in Ohio might also be altered if the de facto regulatory prohibition of bank holding company acquisition of thrift institutions were relaxed. The Federal Reserve Board recently asked for comment on this issue, and the Justice Department indicated support for the elimination of this ban. Holding companies in Ohio might choose to expand through such an acquisition, given the wider branching powers of S&Ls. Indeed, the increased ability and willingness of commercial banks to enter new markets could be gained from analysis of bank branching in Ohio since the enactment of branching law changes effective in January 1979. Ohio became one such state.4 Iowa, Nebraska, Missouri, and Florida have liberalized their branching laws in recent years, increasing numbers of state and federal bank regulators, legislators, and the public have recognized the benefits of increased financial services. If geographic barriers to entry do not exist, each banking organization operating in a given market is in a position to provide the mix of services desired by consumers at prices reflecting the lowest possible costs of production. Furthermore, state branching laws by increasing market power, reduce industry competition and, hence, did not represent market share (see table 4). Indeed, examination of changes in the state’s deposit shares of the largest banking organizations over the last two years indicates that these banks have barely managed to hold their relative share of deposits from 1979. Despite their extensive expansion activities.

Because markets for many financial services are often so local, the impact of the changed branching law on the number and size distribution of actual and potential competitors operating in Ohio’s local banking markets is of greater interest. Most of the de novo branching was of the in-county variety and, hence, did not represent market entry by additional competitors. Data on county-county branching over the past two years reveals that branch entry in 14 of the 21 counties was by a new competitor. Actual competition should intensify in these areas. The increased ability and willingness of commercial banks to branch more freely under the new law should make all bank customers more cognizant of potential competitors as well.

The impact of actual and potential regulatory changes on bank branching in Ohio is difficult to predict. The DIDMCA-related stimulus to competition for eliminating retail deposits may render full-service de novo branching a costly competitive strategy, particularly for banks located in Ohio’s urban areas. On the other hand, a more competitive environment may precipitate some degree of defensive branching activity. If limitations on interstate expansion are relaxed, some out-of-state organizations

### Table 4: Ohio Bank Structure Data

<table>
<thead>
<tr>
<th>Share of total bank offices, 12/80</th>
<th>Change in share since 12/78</th>
<th>Share of total deposits, 12/80</th>
<th>Change in share since 12/78</th>
</tr>
</thead>
<tbody>
<tr>
<td>All holding companies</td>
<td>59%</td>
<td>+4%</td>
<td>67%</td>
</tr>
<tr>
<td>Largest three organizations</td>
<td>20%</td>
<td>+2%</td>
<td>25%</td>
</tr>
<tr>
<td>Largest five organizations</td>
<td>31%</td>
<td>+4%</td>
<td>36%</td>
</tr>
<tr>
<td>Largest ten organizations</td>
<td>49%</td>
<td>+5%</td>
<td>56%</td>
</tr>
</tbody>
</table>
| a. Excludes impact of holding company formations.

**Conclusion**

Many banking organizations in Ohio have expanded geographically since 1979. Holding companies, typically the largest banking organizations, have expanded more aggressively than independent banks, both de novo and through acquisition/merger. However, interstate expansion in the region would be modest relative to what would occur in the rapidly growing areas of the country. Consequently, interest in interstate expansion is not altered, it is possible that future bank geographic expansion in Ohio may shift toward electronic branches and/or merger/acquisitions. Off-premise electronic branches provide locational convenience to bank customers typically at costs below those of full-service branches. Geographic expansion through merger/acquisition gives the acquiring institution a fully staffed, going concern with an established customer base in the market entered and simultaneously eliminates one competitor. Because the bank holding company has market power and the courts and the Justice Department indicated support for the elimination of this ban, and the Justice Department optioned presented are permitting holding company acquisitions or, alternatively, de novo branching within SMSAS and into contiguous states. In this regard, it should be noted that portions of six of Ohio’s SMSAS lie in contiguous states. Additionally, the proposed legislation would lead the holding companies with deposits exceeding $1 billion operate in states contiguous to Ohio. This state also has also recommended altering the provisions of the McFadden Act. One option considered is statewide branching by national banks. This would put pressure on states to adopt similar regulations or face the prospect of charter conversion by state-regulated banks.

Geographic expansion can be expected to enter Ohio. Similarly, some of Ohio’s larger banking organizations might elect to expand into contiguous states. However, interstate expansion in the region would be modest relative to what would occur in the rapidly growing areas of the country. Consequently, interest in interstate expansion is not altered, it is possible that future bank geographic expansion in Ohio may shift toward electronic branches and/or merger/acquisitions. Off-premise electronic branches provide locational convenience to bank customers typically at costs below those of full-service branches. Geographic expansion through merger/acquisition gives the acquiring institution a fully staffed, going concern with an established customer base in the market entered and simultaneously eliminates one competitor. Because the bank holding company has market power and the courts and the Justice Department indicated support for the elimination of this ban, and the Justice Department optioned presented are permitting holding company acquisitions or, alternatively, de novo branching within SMSAS and into contiguous states. In this regard, it should be noted that portions of six of Ohio’s SMSAS lie in contiguous states. Additionally, the proposed legislation would lead the holding companies with deposits exceeding $1 billion operate in states contiguous to Ohio. This state also has also recommended altering the provisions of the McFadden Act. One option considered is statewide branching by national banks. This would put pressure on states to adopt similar regulations or face the prospect of charter conversion by state-regulated banks.

**Federal Reserve Bank of Cleveland**

**Economic Commentary**

**Bank Expansion in Ohio** by Gary Whalen

Both economic theory and available empirical evidence suggest that the relaxation of geographic restraints on bank expansion, particularly de novo expansion, promotes actual and potential competition in banking markets. Greater competition, in turn, benefits consumers by increased and improved financial services. If geographic barriers to entry do not exist, each banking organization operating in a given market is in a position to provide the mix of services desired by consumers at prices reflecting the lowest possible costs of production. Furthermore, state branching laws by increasing market power, reduce industry competition and, hence, did not represent market share (see table 4). Indeed, examination of changes in the state’s deposit shares of the largest banking organizations over the last two years reveals that branch entry in 14 of the 21 counties was by a new competitor. Actual competition should intensify in these areas. The increased ability and willingness of commercial banks to branch more freely under the new law should make all bank customers more cognizant of potential competitors as well.

The impact of actual and potential regulatory changes on bank branching in Ohio is difficult to predict. The DIDMCA-related stimulus to competition for eliminating retail deposits may render full-service de novo branching a costly competitive strategy, particularly for banks located in Ohio’s urban areas. On the other hand, a more competitive environment may precipitate some degree of defensive branching activity. If limitations on interstate expansion are relaxed, some out-of-state organizations can be expected to enter Ohio. Similarly, some of Ohio’s larger banking organizations might elect to expand into contiguous states.

**Federal Reserve Bank of Cleveland**

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might influence bank expansion in the future also are discussed.

Ohio's Banking Branching

Ohio's current bank branching law, which became effective January 1, 1979, permits de novo branching by a commercial bank within its home office county and into all counties contiguous to its home office county. Statewide branching through merger also is permitted, with the bank retaining all of the branching privileges enjoyed by all institutions involved prior to the merger. Statewide de novo branching is authorized beginning in 1989. Prior to 1979, de novo branching was restricted to a bank's home office county. However, multi-bank holding companies could acquire banks in any county of the state before the 1979 changes in Ohio's banking structure.

State and federal regulators influence branching patterns permitted under the Ohio law, as they are charged with evaluating the financial, competitive, and convenience and needs impacts of de novo branching and mergers. Generally, regulators view de novo branching as pro-competitive and approve most requests for this type of expansion. Branching through merger is subject to more numerous and stringent analysis of its potentially anti-competitive impact.

De Novo Bank Branching: 1979-80

De novo branching patterns evidenced since 1979 indicate the impact of branching liberalization on Ohio's banking structure and suggest the direction of future trends. A great deal of this branching activity is taking place in Ohio over the two-year period (see table 1). In 1979-80, 180 de novo full-service branches were established or, representing a 39 percent increase over the total number established in the 1977-78 period. Holding company affiliates, responsible for 61 percent of the total branches established, were aggressive in the preceding two-year period, holding company subsidiaries accounted for just 50 percent of the total branches established. Over the 1979-80 interval, 79 different banking organizations (20 holding companies and 59 independent banks) engaged in de novo branching activity; 53 organizations established 1 branch each, 18 organizations established from 2 to 4 branches, and 1 organization established 6 or more. The largest single banking organization was responsible for much of the de novo branching activity. The largest 3 organizations established 38 branches (21 percent of the total); the largest 6 were responsible for 50 branches (28 percent); and the largest 10 established 82 branches (46 percent).

In all, 52 of Ohio's counties experienced some de novo branching in 1979-80. Fifteen counties of Ohio, which are largely rural, received 2 or more branches. Thirteen counties received 1 new branch. These 13 counties were in Franklin County, 15 in Cuyahoga County, 6 in Lake County, and 9 each in Clermont, Montgomery, and Stark counties. The vast majority of the de novo branches (78 percent) were established in the heavily populated, higher-income, urban SMMSA counties (see table 2).

The bulk of de novo branching (75 percent) represented in-county expansion activity. This type of expansion alters the size distribution of banks competing in a given county, while leaving the number of competitors unchanged. The in-county impacts of this type of expansion depend on the relative number and location of the branches established by the bank within the given county, as well as on the type, quality, quantity, and prices of the services offered. The impact of in-county expansion on competition is thus ambiguous. However, it is likely that this type of expansion benefits the public if the new branches offer additional services and/or are conveniently located.

Forty-five branches (25 percent) were established in contiguous counties. Most of this activity (64 percent) was for holding company affiliates. Contiguous counties branching occurring in 21 different counties. Six branches were established in Stark County by two out-of-county organizations; five were established in Lake County by three out-of-county organizations; four were established in Warren County by three organizations; and three were established in Clermont County by three organizations. Some of this contiguous county branching was a result of additional branching by banking organizations located in multi-county markets. However, entry by out-of-county organizations in 14 of these counties represented a new competitor's entrance into a local market, which subsequently should intensify competition in these markets.

It should also be noted that 17 off-premise automatic teller machines (ATMs) were installed in this period—10 by holding company affiliates and 7 by independent banks. Under current law, regulatory authorities make no distinction between off-premise ATMs and full-service branches.

Merger/Acquisition Activity: 1979-80

Statewide branching through merger also was authorized in the 1979 law. Despite the availability of the de novo branching device, it is not surprising that merger/acquisition activity increased sharply in the 1979-80 period compared with the previous two years. This mode of expansion permits the acquisition of a going concern and eliminates a competitor from the market entered. As in de novo expansion, holding companies and their affiliates dominated this activity, accounting for 74 percent of all mergers and acquisitions and 76 percent of all offices acquired (see table 3). Eleven different holding companies made at least one merger/acquisition during 1979-80. The three largest organizations engaged in seven mergers/acquisitions, totaling 33 bank offices and $0.4 billion in deposits. The numbers for the two largest organizations were 13, $0.9 billion; those for the 10 largest were 27, 108, and $1.3 billion. Forty-seven mergers took place in 35 different counties; most of the 21 took place in SMMSA counties and 26 in non-SMMSA counties. Holding companies entered six counties for the first time through mergers/acquisitions during 1979-80.

Several multi-bank holding companies also consolidated totally or partially, i.e., transacted all or some of their banking subsidiaries into branch offices through merger. Because such consolidations are essentially reorganizations, they do not alter the number of bank competitors operating in local markets and, therefore, should not appreciably influence the state of competition in affected locations.

It should also be noted that four holding companies were formed through acquisitions in 1979-80. Of the three largest such acquisitions, $1 billion. Given the expansion patterns noted above, it is probable that these organizations will expand geographically in the near future.

Other Regulatory Influences

In addition to Ohio's branching law, several other factors may influence future changes in Ohio's banking structure. The Federal Depository Institutions Deregulation and Monetary Control Act of 1980 (IDMCA) will substantially alter the structure of financial markets. Prior to the passage of this act, commercial-bank, full-service, conveniently located branches were important competitive weapons. Banks used their greater flexibility and liquidity powers not granted nonbank depository institutions, most notably demand deposit powers, which gave banks an advantage in competing for low-cost retail deposits. Because Regulation Q constrained rates payable on deposits, competition for low-cost funds was on a non-price basis.

The Monetary Control Act permits savings and loan associations (S&Ls) essentially the same retail cluster of services as commercial banks, including transaction accounts. The act also provides for the gradual phaseout of Regulation Q over a six-year period and the elimination of the quarter-point thrift differential on deposit interest rates. S&Ls, which have traditionally relied on retail deposits may increasingly be on a non-price basis. Additionally, in the current turbulence, demand for retail deposits and demand and savings deposits are dwindling as rate-sensitive consumers continue to shift their funds into financial instruments bearing lower or lower interest rates. Like their counterparts in several other states, Ohio S&Ls have broader branching powers than commercial banks and so can utilize their expanded powers throughout the state. Indeed, in 1979-80, Ohio's S&Ls established 149 de novo branches throughout the state; 118 of these were in SMMSA counties. Thus, it appears likely that competition for all types of retail business will intensify in the near future.

Any alteration in federal regulations governing intra- and interstate banking expansion trends. The recently released study by the Carter administration discusses the merits of these alternatives.
might influence bank expansion in the future also are discussed.

Ohio's Branching Law

Ohio's current bank branching law, which became effective January 1, 1979, permits de novo branching by a commercial bank within its home office county and into all counties contiguous to its home office county.5 Statewide branching through merger also is permitted, with the remaining 17 states imposing some limitation on interstate banking branch activity.6

Prior to 1979, de novo branching was restricted to a bank's home-office county. However, the multibank holding company structure would acquire banks in any county of the state before the 1979 changes in Ohio's branching law.7

Table 1

<table>
<thead>
<tr>
<th>Holding company</th>
<th>Banks</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ohio-based</td>
<td>52</td>
<td>175</td>
</tr>
<tr>
<td>In-county</td>
<td>40</td>
<td>140</td>
</tr>
<tr>
<td>Out-of-county</td>
<td>12</td>
<td>45</td>
</tr>
<tr>
<td>Contiguous-SMSA</td>
<td>6</td>
<td>27</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>237</td>
</tr>
</tbody>
</table>

Ohio law, as they are charged with evaluating the financial, competitive, and convenience and needs impacts of de novo branching and mergers. Generally, regulators view de novo branching as non-competitive and approve most requests for this type of expansion. Branching through merger is subject to the potential anti-competitive impact of its potentially anti-competitive impact.

De Novo Branching Activity: 1979-80

Five or more de novo branches were established in 13 counties. Sixteen de novo branches were established in Franklin County, 15 in Cuyahoga County, 10 in Stark County, 9 each in Clermont, Montgomery, and Stark counties. The vast majority of de novo branching (78 percent) was established in the heavily populated, higher-income, urban SMSA counties (see table 2).

The bulk of de novo branching (75 percent) represented in-country expansion activity. This type of expansion alters the size distribution of banks competing in a given county, while leaving the number of competing banks unchanged. The convenience and needs impacts of this type of expansion depend on the relative number and location of the branches established by the new bank within the given county, as well as on the type, quantity, quality, and price of the services offered. The impact of in-county expansion on competition is thus ambiguous. However, it is likely that this type of expansion benefits the public if the new branches offer additional services and/or are conveniently located.

Forty-five branches (25 percent) were established in contiguous counties. Most of this county expansion activity (64 percent) was for holding company affiliates. Contiguous-county branching occurred in 21 different counties. Six branches were established in Stark County by two out-of-county organizations; five were established in Lake County by one out-of-county organization; four were established in Warren County by three organizations; and three were established in Clermont County by three organizations. Some of this contiguous county branching was driven by banking organizations located in multi-county markets.8 However, entry of out-of-county organizations in 14 of these counties represented a new competitor's entrance into a local market, which subsequently should intensify competition in these markets.

It should also be noted that 17 off-premise automatic teller machines (ATMs) were installed in this period—10 by holding company subsidiaries and 7 by independent banks. Under current law, regulatory authorities make no distinction between off-premise ATMs and full-service branches.

Mergers/Acquisitions Activity: 1979-80

Statewide branching through merger also was authorized in the 1979 law. Despite significant additional state branching activity, it is not surprising that merger/acquisition activity increased sharply in the 1979-80 period compared with the previous two years. This mode of expansion permits the acquisition of a going concern and eliminates a competitor from the market entered. As de novo expansion, holding companies and their affiliates dominated this activity, accounting for 74 percent of all mergers and acquisitions. The three largest organizations engaged in seven mergers/acquisitions, totaling 33 bank offices and $0.4 billion in deposits. The numbers for this period of state mergers and acquisitions were 13, 50, and $0.9 billion; those for the 10 largest were 27, 108, and $1.3 billion. Forty-seven mergers took place in 35 of the state's 122 banks. The vast majority of these mergers took place in SMSA counties and 26 in non-SMSA counties. Holding companies entered six counties for the first time through merger activity during this period.

Several multi-bank holding companies also consolidated totally or partially, i.e., through acquisitions of all or some of their banking subsidiaries into branch offices through merger. Because such consolidations are essentially reorganizations, they do not alter the number of bank competitors operating in local markets and, therefore, should not appreciably influence the state of competition in affected locations.

It should also be noted that four holding companies were formed through acquisitions in the 1979 period, involving three of the state's 15 largest banks. Under current law, regulatory authorities make no distinction between off-premise ATMs and full-service branches.

Table 2

<table>
<thead>
<tr>
<th>SMSA Branching Activity: 1979-80</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total de novo branches</td>
</tr>
<tr>
<td>In-county</td>
</tr>
<tr>
<td>Out-of-county</td>
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<td>Contiguous-SMSA</td>
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Other Regulatory Influences

In addition to Ohio's branching law, several other factors may influence future bank expansion in Ohio.21 Federal and state regulatory institutions and the Monetary Control Act of 1980 (DIDMCA) will substantially alter the structure of financial markets. Prior to the passage of this act, commercial-bank, full-service, conveniently located branches were important competitive weapons. Banks generally were at a disadvantage in competing for low-cost retail deposits. Because Regulation Q constrained rates payable on deposits, competition for such deposits in funds basically on non-price basis. The Monetary Control Act permits savings and loan associations (SA's) to offer essentially the same retail cluster of services as commercial banks, including transaction accounts. The act also provides for the gradual phaseout of Regulation Q over a six-year period and the elimination of the quarter-point thrift differential on deposits in the 1980s.22 Future competition for retail deposits may be increasingly on price basis. Additionally, in the current interest rate environment, savings and loans demand and savings deposits are dwindling as rate-sensitive consumers continue to shift their funds into financial instruments bearing more interest.

Like their counterparts in several other states, Ohio SA's have broader branching powers than commercial banks and so can utilize their expanded powers throughout the state. Indeed, in 1979-80, Ohio SA's established 149 de novo branches throughout the state.23 Given the constraints in these states, it is likely that competition for all types of retail business will intensify. Any alteration in federal regulations governing intra- and interstate banking expansion trends could influence Ohio's branching laws. The recently released study by the Carter administration discusses the merits...
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In all, 52 of Ohio’s counties experienced some de novo branching activity. The number of branches established in 13 counties. Sixteen de novo branches were established in Franklin County, 15 in Cuyahoga County, 13 in Lake County, and 9 each in Clermont, Montgomery, and Stark counties. The vast majority of de novo branches (78 percent) were established in the heavily populated, higher-income, urban counties, SMSCA counties (see table 2).

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Forty-five branches (25 percent) were established in contiguous counties. Most of this activity (64 percent) was for holding company affiliates. Contiguous county branching occurred 21 in 2 of the 5 largest counties. Six branches were established in Stark County by two out-of-county organizations; five were established in Lake County by one in-county and three out-of-county organizations; four were established in Warren County by three organizations; and three were established in Clermont County by three organizations. Some of this contiguous county branching activity was produced by banking organizations located in multi-county markets. However, entry by out-of-county organizations in 14 of these counties represented a new competitor’s entrance into a local market, which subsequently should intensify competition in these markets.

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The three largest organizations engaged in seven merger/acquisitions, totaling 33 bank offices and $3.4 billion in deposits. The numbers for the 10 largest in 1979 were 13 offices, $1.4 billion in deposits; for the 10 largest in 1980, 27, 108, and 13.1 billion. Forty-seven transactions took place in SMSA counties and 26 in non-SMSA counties. Holding companies entered six counties for the first time through merger activity during this period. Several multibank holding companies also consolidated totally or partially, i.e., transformed all or some of their banking subsidiaries into branch offices through merger. Because such consolidations are essentially reorganizations, they do not alter the number of bank competitors operating in local markets and, therefore, should not appreciably influence the state of competition in affected locations.

It should also be noted that four holding companies were formed through acquisitions in 1979-80. Three of these transactions were in the 19th, 19, and 42nd largest banks in Ohio, with combined deposits totaling approximately $1.5 billion. Given the expansion trends noted above, it is probable that these organizations will expand geographically in the future.

Other Regulatory Influences
In addition to Ohio’s branching law, several other factors may influence future bank expansion. The Monetary Institutions Deregulation and Monetary Control Act of 1980 (DIDMCA) will substantially alter the structure of financial markets. Prior to the passage of this act, commercial-bank, full-service, conveniently located branches were important competitive weapons. Banks possessed generally low elasticity. Branch prices not granted nonbank depository institutions, most notably demand deposits, which gave banks an advantage in competing for low-cost retail deposits. Because Regulation Q constrained rates payable on deposits, competition for deposits in banks basically on non-price basis.

The Monetary Control Act permits savings and loan associations (S&Ls) essentially the same retail cluster of services as commercial banks, as banking transactions. The act also provides for the gradual phaseout of Regulation Q over a six-year period and the elimination of the quarterly interest points on deposits. Increased competition from nonbank retail deposits may be increasingly on a price basis. Additionally, in the current high-interest-rate environment, low-cost demand and savings deposits are dwindling as rate-sensitive consumers continue to shift their funds into financial instruments bearing more market interest.

Like their counterparts in several other states, Ohio S&Ls have broader branching powers than commercial banks and so can utilize their expanded powers through the state. Indeed, in 1979-80, Ohio S&Ls established 149 de novo branches throughout the state. Given these in-state, in-state S&Ls. Thus, it appears likely that competition for all types of retail business will increase in the future.

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of alternative strategies for liberalizing existing federal regulations limiting geographic expansion by banking organizations. One proposal suggests easing existing restrictions on electronic branching. Among the options discussed is statewide, within-SMSA, contiguous-state, and nationwide branching through ATMs. Several possible alterations in the Douglas Amendment’s prohibition of interstate acquisitions by banking organizations are also mentioned. Among the options presented are permitting holding company acquisitions or, alternatively, de novo branching within SMSAs and into contiguous states. In this regard, it should be noted that portions of six of Ohio’s SMSAs lie in contiguous states. Additionally, 21 holding companies with deposits exceeding $1 billion operate in states contiguous to Ohio. The Federal Reserve Board recently asked for comments on alternative strategies for liberalizing expansion by Ohio’s larger holding companies; this has resulted in appreciable gains in market share (see table 4). However, interstate expansion in the region will be modest relative to what would occur in the rapidly growing areas of the country.

Conclusion

Many banking organizations in Ohio have expanded geographically since 1978. Holding companies, typically the largest banking organizations, have expanded more aggressively than independent banks, both de novo and through acquisition/merger. However, it does not appear that geographic expansion by Ohio’s larger holding companies has resulted in appreciable gains in market share (see table 4). Indeed, examination of changes in the statewide deposit shares of the largest banking organizations over the last two years indicates that these organizations have barely managed to hold on to their own relative to their smaller rivals despite their extensive expansion activities. Because markets for many financial services are thought to be local, the impact of the changed branching law on the number and size distribution of actual and potential competitors operating in Ohio’s local banking markets is of greater interest. Most of the de novo branching was of the in-county variety and, hence, did not represent market entry by additional competitors. Data on contiguous-county branching over the past two years reveal that branch entry in 14 of the 21 counties was by a new competitor. Actual competition should intensify in these areas. The increased ability and willingness of commercial banks to branch more freely under the new law should make all organizations more cognizant of potential competition as well.

The impact of actual and potential regulatory changes on bank branching in Ohio is difficult to predict. The DIDMCAct-related stimulus to competition for diminishing retail deposits may render full-service de novo branching a costly competitive strategy, particularly for banks located in Ohio’s urban areas. On the other hand, a more competitive environment may precipitate some degree of defensive branching activity. If limitations on interstate expansion are relaxed, some out-of-state organizations in which it could not acquire another bank because of antitrust reasons.

Table 4. Ohio Bank Structure Data

<table>
<thead>
<tr>
<th>Share of total bank offices</th>
<th>Change in share since 12/78</th>
<th>Share of total deposits</th>
<th>Change in share since 12/78</th>
</tr>
</thead>
<tbody>
<tr>
<td>All holding companies</td>
<td>59%</td>
<td>+4%</td>
<td>67%</td>
</tr>
<tr>
<td>Largest three organizations</td>
<td>20%</td>
<td>+2%</td>
<td>25%</td>
</tr>
<tr>
<td>Largest five organizations</td>
<td>31%</td>
<td>+4%</td>
<td>36%</td>
</tr>
<tr>
<td>Largest ten organizations</td>
<td>49%</td>
<td>+5%</td>
<td>56%</td>
</tr>
</tbody>
</table>

a. Excludes impact of holding company formations.

This would put pressure on states to adopt similar regulations or face the prospect of charter conversion by state-regulated banks. Expansion patterns in Ohio might also be altered if the de facto regulatory prohibition of bank holding company acquisition of thrift institutions were relaxed. The Federal Reserve Board recently asked for comments on this issue, and the Justice Department indicated support for the elimination of this barrier. Holding companies in Ohio might choose to expand through such an acquisition, given the wider branching powers of S&Ls. Indeed, this mode of expansion might be encouraged if regulators of Bank Research, Banker, or establish a de novo base in the market entered and simultaneously eliminate one competitor. Because geographic expansion through merger/acquisition, into and/or throughout a given market is expected to enter Ohio. Similarly, some of Ohio’s larger banking organizations might elect to expand into contiguous states. However, interstate expansion in the region will be modest relative to what would occur in the rapidly growing areas of the country.

Both economic theory and available empirical evidence suggest that the relaxation of geographic restraints on bank expansion, particularly for de novo expansion, promotes actual and potential competition in banking markets. Greater competition, in turn, benefits consumers by increased and improved financial services. If geographic barriers to entry do not exist, each banking organization operating in a given market is pressured to provide the mix of services desired by consumers at prices reflecting the lowest possible costs of production. Failure to do so would result in changes in structure and/or service offerings; the ultimate effect of these changes is the determination of the final level of market share. Geographically unconstrained rivals that operate within or on the fringes of a market can be expected to perceive market opportunities resulting from a competitor’s inferior performance; rivals might react by branching, either de novo or through merger/acquisition, into and/or throughout the market in an effort to attract profitable business. Just the threat of entry by legally uninhibited rivals and knowledge of the attendant consequences should spur the performance of banks operating in any given market.

In recent years, increasing numbers of state and federal bank regulators, legislators, and banks have recognized the problems associated with the arguments outlined above. As a result, several states have elected to liberalize existing geographic restrictions on multi-office banking. With the enactment of branching law changes effective in January 1979, Ohio became one such state. For instance, institutions with branching-bank charters may now be expected to enter Ohio. Similarly, some of Ohio’s larger banking organizations might elect to expand into contiguous states. However, interstate expansion in the region will be modest relative to what would occur in the rapidly growing areas of the country.

Address correction requested

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The views stated herein are those of the author and not necessarily those of the Federal Reserve Bank of Cleveland or of the Board of Governors of the Federal Reserve System.
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cause of antitrust reasons.

 Conclusion

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 try.12

 The impact of geographic restraints on bank
 expansion in Ohio since
 the enactment of the McKinney-
 Flood Act has been substantial.13
 State regulatory changes have had
 attendant consequences that are only
 now starting to be appreciated. Some
 of the observable changes include: the
 increasing geographic dispersion of
 bank customers; increased competition
 among existing competitors in most
 markets; increased market concentration
 by the largest banks; and increased
 branch entry into areas in which it could
 not acquire another bank because of
 antitrust reasons.

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 the use of the formulation of the arguments, see Alan McCaU and Donald


 9. For details on the proposals of this study, see "What the Report Recommends," American Banker, May 4, 1981. For a restriction on
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