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The Bank Merger Act of 1966:
Past, Present, and Prospects

Department of Justice Merger Guidelines:
Some Implications for Bank Mergers

Mergers, Branches, and Convenience and Needs

Management Succession in Bank Mergers

About This Issue

The antitrust laws, the noted economist John Kenneth Galbraith told a Congressional committee last year, although a part of the folklore of American business, have become little more than a charade. A decade ago, bankers, bank supervisors, and students of the industry might have agreed with Professor Galbraith. But it is unlikely that many would now look upon the Sherman and the Clayton Acts as simply fun and games for banking.

The rising number of bank mergers in the 1950's produced a policy response that finds proposed combinations today the subject of unusually careful study. Three federal banking regulatory agencies and the Department of Justice analyze every proposed bank merger in which the surviving institution is federally insured. In addition, a state supervisor generally must pass on a merger in which the emerging bank is state-chartered. And two national laws, a series of court decisions, and a vast amount of research effort have sought to clarify the problems and implications of bank mergers.

This issue of the **Business Review** contains four articles on the changing environment for the social control of bank mergers. The first examines the Bank Merger Act of 1966 and probes some of the questions it has raised; the second ponders the meaning of the Justice Department's merger guidelines for commercial banking; the third weighs the role of the convenience-and-needs criterion in merger, **de novo** branching, and new-bank chartering decisions; and the fourth considers implications of management-succession problems for banks contemplating merger.

The following articles were written by economists, not lawyers. Needless to say, it is not our intention to provide commentary of a legal nature. As economists, we believe that the best counsel on matters of antitrust will come from a good counselor.

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Bank merger activity poses a number of issues which should concern every banker whether he is involved as a party to mergers or affected by changes in the banking structure which mergers create. This article examines the highlights of bank merger legislation, some relevant historical background, and the issues which have emerged from a number of key court decisions.

The Bank Merger Act Of 1966: Past, Present, And Prospects

by William E. Whitesell

During the decade of the 1950's, approximately 1,600 banks were involved in mergers—over twice the number for the previous decade. Many of these mergers were subject to the most cursory inspection by regulatory authorities. There were no clear standards by which the desirability of a merger was to be judged, and some mergers escaped even perfunctory review.

The Bank Merger Act of 1960

To insure some degree of uniformity in evaluation of merger applications and, in the minds of some Congressmen, to slow the pace of mergers, Congress passed the Bank Merger Act of 1960 (BMA-60). Congressional debate which eventually produced this legislation was divided along two major lines. One group favored extending the reach of antitrust statutes to include banks because banks were thought to be largely immune from prosecution under the Clayton Act and only marginally affected by the more stringent provisions of the Sherman Act. A second group favored making "banking factors"[1] along with competition the criteria for evaluating merger proposals. The latter group prevailed.

Three key cases

Congressional debate on the question of bank mergers may have been responsible for the rather sudden move in 1961 by the Justice Department (Justice) to file suits under existing antitrust laws to enjoin mergers in three cases: *Philadelphia, Lexington,* and *Manufacturers Hanover.*

In *Philadelphia (PNB),* the Supreme Court declared bank mergers to be subject to provisions of the Clayton Act. Also in the *PNB* case

[1]The six banking factors named were: (1) financial history and condition of the banks involved; (2) adequacy of the resulting bank's capital structure; (3) prospective earnings; (4) character of management; (5) convenience and needs of the community to be served, and (6) consistency of corporate powers of the resulting bank with the purposes of the Act.

The 1960 amendment to the F.D.I.C. Act did not define factors relevant to court decisions because of the belief that antitrust statutes had little applicability to bank mergers.

it was asserted that a merger cannot be saved by some reckoning of social benefits to the community if the merger violates antitrust laws.

Lexington established the principle that elimination of a substantial competitor in banking through merger violated antitrust laws. Thus, banks were found to be subject to the more stringent provisions of the Sherman Act.[2]

The logical application of principles developed in *PNB* and *Lexington* is found in the *Manufacturers Hanover* case. The court found that the merger violated the Clayton Act (based on the *PNB* decision) and the Sherman Act (based on the *Lexington* decision).

With this decision by the District Court, the battle for new banking legislation was given new impetus. Banks claimed that the law had, in effect, been changed; and what they had done in good faith under the law suddenly was interpreted as being illegal. The bill which finally emerged as the Bank Merger Act of 1966 (BMA-66) was thus born out of a considerable furor over interpretation by the courts of the Bank Merger Act of 1960 and the antitrust statutes.

The Bank Merger Act of 1966

A brief outline of some of the essential points of BMA-66 will clarify important concepts involved in later court cases. Briefly, BMA-66 provides that the responsible agency to whom an application for pre-merger approval is addressed shall not approve any merger proposal which will result in a monopoly.[3] If an agency finds adverse competitive effects to be substantial but less than monopolistic and if they 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" the merger may be approved. The banking factors listed in BMA-60 are implicit in a directive to the responsible agency to take into account "financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served."

The Bank Merger Act of 1966 specifically excused from prosecution under the antitrust laws all bank mergers which had been consummated before June 16, 1963, except for those mergers which constituted a monopoly in violation of the Sherman Act.[4] The Act further provided that any merger which had been consummated after June 16, 1963, "with respect to the merger, consolidation, acquisition of assets, or assumption of liabilities of any insured bank" should be tried under principles of law set forth in the amended F.D.I.C. Act.

There is little doubt that BMA-66 was passed because Congress was dissatisfied with BMA-60 as it was interpreted in the *PNB* and *Lexington* decisions, and Congress wanted to make substantial changes in the law as it applied to bank mergers. Both the procedures by which the

[2]The Sherman Act is designed to block any tendency toward monopolization or restraint of trade by contract, combination in the form of trust or otherwise. Section 7 of the Clayton Act prohibits a corporation engaged in commerce from buying the stock or assets of another corporation if the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly.

[3]The approving agencies are: F.D.I.C. if the resulting bank is an insured state bank but not a member of the Federal Reserve System or national bank; Comptroller of the Currency if the resulting bank is a national bank; or the Federal Reserve Board if the surviving bank is a state member bank.

[4]An immediate effect of this provision was the forgiveness of the mergers of Continental Illinois in Chicago, Manufacturers Hanover in New York City, and First Security National Bank and Trust Company in Kentucky regardless of any prior findings of violation of either the Clayton Act or Sherman Act other than Section 2, the anti-monopoly provision.

Justice Department attacked bank mergers and the legal standards the courts were to apply were to be changed. A few Congressmen correctly recognized that the procedures were more clearly specified than the standards by which they were to be judged.

THE BANK MERGER ACT OF 1966: ISSUES IN THE COURTS

Those who were anxious to ascertain the impact of BMA-66 on the policies of the courts had only a brief wait. The courts considered several questions in subsequent cases including: (1) procedure, (2) relevant line of commerce or the product market, (3) market shares, (4) potential competition, and (5) convenience and needs of the community to be served.

Procedural questions and BMA-66

One of the early questions raised under BMA-66 was whether the Justice Department would be required to file its complaints under BMA-66 or whether it could still rely upon traditional antitrust statutes—the Clayton Act and the Sherman Act. The Supreme Court had no difficulty in handing down an early decision that the Justice Department did have to proceed under BMA-66.

A related procedural problem concerned the role of the courts in conducting their own examinations of facts in the case rather than accepting opinions of the regulatory agency. For instance, suppose the Comptroller of the Currency approves a merger. Is the court to accept this decision as binding in the absence of any finding that the decision had been based on inconclusive evidence? Or are the courts to hear all the evidence as if the Comptroller had never ruled on the merger at all? The Supreme Court, perhaps predictably, determined that a separate review of all the facts is required and that any opinion of a regulatory body is not binding on the courts. A two-step process is required: (1) the court determines on traditional antitrust criteria whether a violation of antitrust statutes has occurred; and (2) if a violation is found, the court weighs adverse anticompetitive consequences against positive benefits to the community which the banks may claim. The burden is on the banks to show that the community's convenience and needs are better served by the merger.

The final procedural question is whether banks should be allowed to merge prior to final determination of legality of the proposed union. Here the courts have been explicit in their direction that no merger attacked by the Justice Department will be consummated until the matter has been settled in the courts. Unscrambling merged banks is a formidable task, and both Congress and the courts have gone to some lengths to insure that such unscrambling is unnecessary.

Resolution of these problems of procedure shifted attention to *economic issues*. Bankers were served notice that proposed mergers would be subject to the same standards applied in the usual antitrust analysis—claims by bankers and others that banking is a unique industry notwithstanding.

Competition and the question of the product market

One of the classic problems in antitrust cases is determination of the relevant product market or line of commerce. In *PNB* the Supreme Court held the relevant line of commerce to be commercial banking, a sufficiently unique cluster of services offered in a relevant market to potential customers. However, in BMA-66 the phrase "line of commerce" was deleted

from the amended Act. The Supreme Court has noted this omission but has not yet declared whether it should be considered as significant.

Lower courts have considered the market question, but no uniform definition has emerged. In one case, a court found that the wider field of financial institutions with which banks compete for customers' account and the provision of services must be considered. In another, a court declared that not all institutions are to be included—just those which offer "direct and meaningful competition to commercial banks." This definition of the relevant product market includes mutual savings banks and savings and loan associations because they offer the requisite direct competition but excludes competition from life insurance companies, finance companies, lawyers for trust services, and other financial intermediaries because the competition in such instances is not direct in the same sense as with S & L's and mutual savings banks.

Competition and market shares

Once the relevant product and submarkets are determined, we are faced with the problem of determining the relevant geographic market and market shares.[5] The Justice Department has emphasized an approach which involves: (1) determination of the relevant market, and (2) calculation of the relative shares of each of the market participants. The Department defines relevant competitors narrowly, only commercial banks in the case of bank merger attempts.

The Justice Department employs a quantitative approach which has been distilled into a set of guidelines as to which mergers should be attacked and which left unchallenged. For example, antitrust guidelines recently released by the Department indicate that mergers will be attacked by the Justice Department if the four largest firms in the market control an aggregate of approximately 75 per cent or more of the market, the acquiring firm has 15 per cent or more of the market, and the acquired firm's share is as great as 1 per cent.

These guidelines define rather precisely the allowable market share merging banks may control, although the Justice Department has indicated that the standards would not be applied rigidly. But neither the Justice Department nor any other regulatory agency has developed any similar guidelines for determining the relevant geographic market. Determination of these markets has been handled on a case-by-case basis. It often involves: (1) a great deal of interviewing, (2) appeal to bank records even though no clear rules have been established as to what constitutes enough participation to make one a competitor in a given geographic area, and (3) some amount of intuitive feel for the market which results from a consideration of all the data made available by the merging banks and any additional information which can be gathered. Need to consider potential as well as present competition further complicates an already difficult task.

The issue of potential competition

No bank merger case having potential competition as its key issue has yet reached the Supreme Court. Inferences as to applicable standards must be drawn from less certain precedents set in District Courts. Also, some clue may be gained by considering how the potential competition question has been handled in non-bank antitrust actions. Both sources should be

[5]In some cases, it appears that the court has first determined the relevant geographic market and then considered the question of the line of commerce. This raises the frustrating problem of how to define realistically the relevant geographic market without first defining the product itself.

used with care, however; and conclusions should be considered tentative.

The essential questions seem to be: (1) What is the history of the banks in terms of merging and branching activity? (2) What conditions would exist within the market area of each merger partner and the total relevant market were the applicants to merge? (3) Have the merging banks shown any tendency to invade new territories by *de novo* branching or have they strictly avoided such activity? (4) Have the banks shown any interest in *de novo* branching into the market area of each of the parties to the merger? (5) How many new banks have been formed in the market, and how many applications are there for new banks? If the market is characterized by an increasing tendency toward monopoly, the courts are likely to take a more restrictive view toward mergers than if the market is characterized by a large number of new entrants and many applicants for each bank charter actually granted.[6]

There is also the significant question of developments within market areas of each party to the merger. If one or both of the parties have saturated the market in their particular service area, the courts might easily reach different conclusions about the likelihood of branching outside the service area than if either had considerable potential for expansion within its present area of operations.

[6]A bank which desires to branch into a market by merger may not be willing to branch into a market *de novo*. The premium for the stock of another bank may arise because that bank has the facilities and personnel to conduct a vigorous business. Intuitively the premium would seem to vary directly in proportion to the degree in which the absorbed bank is a competitor of the absorbing bank, i.e., the acquiring bank would be willing to pay a higher premium to be rid of a more aggressive competitor—either potential or actual. However, one can imagine cases in which a bank would not be able to enter at all unless it could acquire another bank by merger.

Finally there is the very important question whether either bank has actively solicited business in the market area of the other. If it can be shown that one or both of the banks involved had actually attempted to gain customers from the market area of the other, then a declaration that the banks are not in competition with each other might be viewed suspiciously.

Product markets may overlap substantially; geographic markets of merging banks may be identical; competition, either potential or actual, may be lessened; and the merger may still be legally consummated. The Bank Merger Act of 1966 provides that a merger otherwise in violation of the antitrust laws may be saved if the banks involved can demonstrate that the convenience and needs of the community are so uniquely served as to outweigh any adverse effects of a diminution of competition.

Convenience and needs of the community to be served

The warning about drawing firm conclusions from insufficient evidence noted in the case of potential competition is equally applicable here. The convenience and needs defense has not been sustained by the Supreme Court in a single case, and this is important in appreciating the difficulties banks are likely to have in substantiating this defense. Lower court decisions may provide some suggestions, however.

District Court decisions uniformally stress the applicability of the concept of convenience and needs to a particular market area which the court is considering. The statewide character of a bank resulting from merger may facilitate a more efficient mobilization of funds, enable a bank to engage in credit-gap financing, provide another underwriter for municipal bonds, and create an institution capable of international operations. In other cases, there

may be a need for a large bank which would be able to offer larger loans and provide more sophisticated services which are not now readily available in the community. Such a bank might be designed to serve a relatively large region including several states or merely designed to serve some portion of a single state which does not have adequate banking facilities.

Even in enumerating these factors, however, one should be reminded that the convenience and needs test will be read restrictively; that is, it will be considered by the court to be a clearly exceptional case. A claim by merging banks that they will be able to offer a broader range of services to their customers is not, *per se,* sufficient to sustain a merger. Nor is the argument that a larger bank will be able to attract additional industry or to improve the financing of trade, through a port facility for example, a compelling reason to approve a merger.

One may suspect that banks are unlikely to be able to justify mergers on grounds of increased convenience and needs with any more ease than other firms have been able to claim superior efficiency as the reason for their monopoly position in traditional antitrust proceedings.

Some concluding questions and observations

A number of questions persist, and only a few can be considered here.

First, what is the status of the failing bank doctrine under BMA-1966? In *PNB* Mr. Justice Brennan noted that the failing company defense "may have somewhat larger contours as applied to bank mergers because of the greater public impact of a bank failure compared with ordinary business failures." However, in *Nashville,* the Supreme Court found that a "floundering" but not failing bank could not be merged to solve problems it faced unless the institutions involved could show that merger was the only realistic alternative open to the floundering bank. It seems clear the Court intends to use the failing-company doctrine restrictively.

Second, there is a question as to whether commercial banking as a separate line of commerce is still the law. Omission of the phrase "line of commerce" in BMA-66 may be significant. District Courts have dealt with this question, but the Supreme Court has not.

Third, the question of potential competition is still not settled at the Supreme Court level. The Justice Department has lost and not appealed one lower court case involving potential competition. Other cases now working their way to the Supreme Court should soon provide some guidelines.

Fourth, even though the defense of convenience and needs of the community to be served has been successfully argued at the District Court level, the Supreme Court has not found this to be an adequate defense in a single case. It seems likely that the Justice Department will be seeking a test case which will clearly define standards in this area.

Finally, the difficult problem of defining the relevant geographic market remains. It seems unlikely that the Justice Department or the

A GUIDE TO KEY CONCEPTS AND THEIR DEVELOPMENT

Procedural Questions
Provident (1966, 1967)
Houston
Crocker-Anglo (1966)

Competition and the Product Market
PNB
Lexington
Manufacturers Hanover
Crocker-Anglo (1967)

Competition and the Geographic Market
PNB
Crocker-Anglo (1967)

Potential Competition
Crocker-Anglo (1967)
Bank of Hawaii
Penn-Olin

Convenience and Needs
Provident (1968)
Crocker-Anglo (1967)

courts will establish precise indicators soon.

Those who expected BMA-66 to result in immediate clarification of standards so that banks could get on with the task of merging into larger institutions have been disappointed. Those who thought that BMA-66 would be the legislation which would finally slow the pace of bank mergers have not seen their expectations completely fulfilled. Observers who said that nothing had been changed with respect to applicability of antitrust laws to bank mergers as established in *PNB* and *Lexington* seem to have been closer than anyone to the truth. A new defense for bank mergers has been added by the convenience and needs test, but we shall have to await the Supreme Court's further interpretation before determining its full significance.

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United States v. *First National Bank of Hawaii, et al.,* 257 F. Supp. 591 (1966).

United States v. *Manufacturers Hanover Trust Company,* 240 F. Supp. 867 (1965).

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United States v. *Philadelphia National Bank, et al.,* 201 F. Supp. 348 (1962); 83 S. Ct. 1715 (1963).

United States v. *Provident National Bank, et al.,* 262 F. Supp. 397 (1966) 87 S. Ct. 1088 (1967).

United States v. *Third National Bank of Nashville, et al.,* 260 F. Supp. 869 (1966); 88 S. Ct. 882 (1968).

The long-awaited recently published guidelines indicate which mergers the Justice Department is likely to attack. They are not aimed solely at commercial banks, but recent suits and the guidelines themselves show they do apply to bank mergers.

Department Of Justice Merger Guidelines: Some Implications For Bank Mergers

by Warren J. Gustus

After observing Justice Department suits against bank mergers in recent years, growth-minded bankers may be concluding that to minimize chances of a suit, candidates for acquisition should be:

1. Geographically remote from the main office or branches of the acquiring bank so that competition between them is now nonexistent and in the future unlikely.
2. Located in markets into which the acquiring bank is unlikely to branch *de novo* and where there are many potential competitors.
3. Small relative to competitors and small relative to the acquiring bank.

In addition, if the bank to be acquired has a record of poor earnings, management succession problems, declining market share, and is not meeting or inadequately meeting the community's banking needs, chances of a suit may be further decreased.

For those banks, however, that would find this kind of partner either too unattractive to consider or impossible to find, the guidelines recently published by the Justice Department should be helpful. In the words of Attorney General Clark: "The purpose of the guidelines is to insure that the business community, the legal profession, and other interested persons are informed by the Department's policy of enforcing Section 7 of the Clayton Act." Section 7 prohibits a merger "where in any line of commerce in any section of the country the effect of such acquisition may be substantially to lessen competition or tend to create a monopoly."

The framework of analysis

The guidelines state that assessment of the impact of a merger on competition first requires specification of the product and geographic dimensions of the market.

Sales of any product or service distinguish-

able as a matter of *commercial practice* from other products or services will ordinarily constitute a relevant product market. But also sales of two distinct products or services may be grouped into a single market if most users consider them reasonably close substitutes. The guidelines do not spell out the "product" of commercial banks. Recent court decisions, however, seem to indicate that bank products are both a unique package of services and a series of sub-products such as checking accounts, consumer loans, and various categories of business loans.

Section of the country may be as small as a single community. It may be as large as several counties and include a commercially significant section of the country. In fact, there may be several geographic markets—for example, one for demand deposits, another for large borrowers, and still another for relatively small, local businesses. The key consideration is where the banks do business. In addition, while the guidelines are less explicit on this point, there is likely to be a time dimension to the analysis. Thus, markets may be separate today, but if the boundaries are likely to change in the future this too will be considered.

Market structure and market share

Once the market is defined in terms of product and geography, the problem is to measure the impact of the merger on competition within this market. The question is whether the merger will increase the surviving bank's market power. And while increments to market share are not necessarily synonymous with increments to market power, the guidelines clearly reaffirm the importance of market share as a proxy measure of market power.

The guidelines define a market as highly concentrated when the share of the four largest firms is 75 per cent or more. By these standards many Third District banking markets are already highly concentrated and the following quantitative standards set out in the guidelines are directly relevant to them.

(a) In these markets, where the acquiring firm has as low a market share as 4 per cent, a merger may be attacked if the acquired firm has a market share of 4 per cent or more.

(b) If the acquiring firm has a market share of 15 per cent or more, the merger may be attacked if the acquired firm has as little as 1 per cent of the market.

Even if the share of the four largest firms is less than 75 per cent, an important acquiring bank in the market—one with 20 per cent or more market share—may be attacked even if the market share of the acquired firm is as low as 2 per cent.

The Department will apply stricter standards when the merger is in a market in which there is a significant trend toward increased concentration. Such a trend will be considered present when the aggregate market share of any grouping of the two largest to the eight largest banks has increased by 7 per cent or more over a five- to ten-year period.

Non-quantitative standards will also be employed. For example, acquisition of an aggressive competitor may be attacked even if market shares are below the critical level. On the other hand, the fact that a bank is a weak competitor will not guarantee freedom from attack. The bank must have no reasonable prospect of remaining viable. Non-viability will not be assumed merely because the bank has been unprofitable for a period of time, has lost market position, or is saddled with poor management.

Potential competition

But even if the merger passes the hurdles of market structure and market share, the potential competition test remains. A merger may be attacked even when the banks do not presently compete if in the future they might.

In evaluating potential competition, the Department will consider such questions as: Would the acquiring bank be likely to enter the market by organizing a new branch; does the merger significantly lessen potential competition because so few potential competitors will be left; is the acquiring bank so strong that potential competition is, in effect, foreclosed?

The question of conglomerates

Banks are restricted by law with respect to the geographic dimensions of their operations. Hence banks, unlike many nonfinancial institutions, have limited freedom to grow by acquiring firms in different geographic markets. Some banks are seeking to grow through acquisition into different product markets. But even here the difficulties may be great.

The economic theory as applied to conglomerates has yet to be developed. Hence the Justice Department guidelines in this area are either general or vague. A good guess, however, is that banking conglomerates such as one-bank holding companies will not be insulated from attack.

For at least two reasons, many one-bank holding companies seek to acquire operations closely related to banking. They believe that this increases the likelihood of a good economic fit among the various units. Also they believe that management competence has limits to its transferability. A good bank manager may have no skill in overseeing the operations of a shoe company.* But the more closely related the activities, the more likely that an acquisition will be open to an anti-trust action. An acquisition by a holding company could be attacked on such grounds as vertical integration and acquisition of a customer resulting in foreclosure of other suppliers of that customer, elimination of potential competition from another important financial institution in the community, or even just the threat of financial power that the conglomerate may pose.

A postscript

A big problem for banks contemplating mergers and attempting to use the criteria set forth in the guidelines is to distinguish between the impact of the merger on competitors and on competition.

Bankers, like other entrepreneurs, are likely to feel that competitors are always too many and hence competition always too intense. Competitors are continually breathing down their necks. Market share is less important to them than profit share, which is continually in danger of erosion by the aggressive competitor down the street.

Nevertheless, if the costly preparations preceding a merger are not to be wasted and if even costlier litigation in the event of a Justice Department attack is to be avoided, the commercial banker will have to think in terms of the impact of the merger, not on competitors but on competition. Basically, he will have to decide whether the merger makes customer alternatives better or worse.

*One solution, of course, is to acquire only those firms with competent management. This, however, will increase the price paid for the acquired firm. The problem will still remain of supervising the activities of the acquired firms.

Mergers, Branches, and Convenience and Needs

by Warren J. Gustus

Commercial bankers, like entrepreneurs in other industries, may find the purposes of public regulation hard to understand and its application to their own operations even harder to accept. However, for bankers the problem may be even more difficult because at times the same principle is used to achieve different ends. One such instance is the principle of convenience and needs and its application to mergers and branches.

BANK MERGERS

The Federal Deposit Insurance Act of 1935 listed five criteria regulatory agencies were to consider in passing on a merger, among them the impact of the merger on the community's convenience and needs. The 1960 amendments to the act repeated these criteria, again including convenience and needs. But in the 1966 Bank Merger Act it appeared as if something new had been added when an explicit defense for mergers likely to lessen competition was created. If the anti-competitive effects of a proposed merger are outweighed by the convenience and needs of the community, the merger is saved.

This sounded eminently reasonable. If a merger is likely to lessen competition, see if convenience and needs pluses offset the lessened competition minuses. In practice, however, the procedure has been and will continue to be more difficult than this. The concept is too ambiguous to provide much comfort to banks attempting to justify a suspect merger.

Meaning of convenience and needs

To begin with, before a judgment can be made about the impact of a merger on convenience and needs it is necessary to specify whose convenience and needs. Thus, if two Philadelphia banks were planning to merge, convenience and needs could refer to the community at large and how it would be affected by the merger.

Or, it could mean convenience and needs of particular classes of customers in which case the answer probably would vary from class to class. For example, it may be more convenient for some bank customers to borrow larger amounts from the combined Philadelphia banks than have to go to other financial centers. On the other hand, it may mean nothing to most borrowers because their loan demands do not exceed the lending limits of the existing banks.

The problem of defining convenience and needs also has a time dimension. A bank may be satisfactorily meeting the needs of a community today. But will it be able to meet the community's needs some years hence? Should convenience and needs be judged in a static framework or in a dynamic one, recognizing that a community's demand for bank services may change?

The problem is still more complicated. In most industries, progressive firms expand their markets by creating "needs," not by merely filling existing ones. Whole new sets of wants have been developed. Color television, synthetic fibers, frozen foods are all created needs. Com-

mercial banks, of course, supply services rather than products. Nevertheless, creativity is equally important in service industries and an aggressive, innovative bank can shape a community's demand for bank services.

Finally and perhaps most basic of all, if a merger is likely to lessen competition but there is a convenience-and-needs offset, what "price" will be charged for it? If merging banks acquire market power, will they not exploit it and charge what the traffic will bear? Is this acceptable under the law?

Some recent clues

The convenience-and-needs principle is not a new one in banking. Nevertheless, specific answers to questions such as those raised above are impossible because the meaning never has been spelled out. Even so, clues to the practical interpretation of the criterion are available from the handful of bank mergers that have been tested in the courts.

Mergers likely to lessen competition will be approved only when the anti-competitive effects are overwhelmed by convenience-and-needs considerations. For a number of reasons, these instances seem likely to be few indeed.

First, a community's economic problems usually are a result of many factors. In practice it will be difficult to prove the relation between banking facilities and these problems. Thus, in a recent merger case the court rejected the defense that the Philadelphia Port suffered from inadequate local banking facilities. While observing that the Port may suffer from inadequate financing, it noted also that it suffers from competition of New York as the hub of commercial activity in the East.[1]

[1] *United States* vs. *Provident National Bank and Central-Penn National Bank of Philadelphia.* U.S. District Court for the Eastern District of Pennsylvania, February 12, 1968.

Second, even the most inefficient bank management is likely to be meeting the more pressing needs of the community. It may be satisfying these needs belatedly and at a relatively high cost. However, these judgments are hard to make and even harder to prove. In addition, there are usually a number of ways of meeting the convenience and needs of a community. For example, if a bank wants to increase its lending limit it can do so by merger; but an alternative is through correspondent relations and loan participations. The relevant question is, how close substitutes are the alternatives? So far, attempts to quantify such relations have been unsuccessful.

Third, even if some bank customers clearly would benefit from a merger, gains to these customers have to be balanced against the costs of lessened competition to other customers. In the past the courts have tended to conclude that a customer is a customer whatever his size. They are not likely to approve a merger because a few large customers would benefit if the many small would not.

Merged banks may be able to compete more effectively with rivals. But this is true of most mergers; otherwise they would not occur. However, when a bank has reached a point of insolvency and near-collapse, it may be relatively easy to establish that the community's convenience and needs would benefit by an acquisition. But because of supervision, instances of failing banks are few. And, in the words of the Justice Department, proof of unprofitability for a period of time, lost market position, and poor management will not be enough.

The courts are likely to continue to be unsympathetic to weighing anti-competitive factors against mere assertions of developing convenience and needs. Even though banks compete with other institutions for most services they

provide, and even though their product mix must change if they are to remain effective competitors, the courts have been reluctant to extend the analysis to these complex and changing competitive interrelations. Convenience and needs today and not tomorrow or next year seems to be the critical consideration.

Finally, the courts say that such things as no branch facilities, no program of correspondent banking, lack of computerized operations, and lack of management do not excuse a merger which reduces competition. The beneficial consequences must be described specifically and the value of these compared with other and less desirable results of the merger. It is also necessary to show that reasonable efforts to solve the bank's problems, short of merger, have been made or that any such efforts would have been unlikely to succeed.

To quote a recent opinion: "The community's primary need is for a competitive banking market. An anti-competitive merger, if approved, eliminates one aspect of the community's need for banking services. Hence, anti-competitive mergers should be approved only in those few instances where the anti-competitive effects are *overwhelmed* by the more compelling needs of the community." [2] [Italics added.]

BRANCH BANKING

The anti-trust statutes are not concerned with the effect of a merger on competitors. Their sole concern is with a merger's impact on competition. By the very nature of its goals, however, bank supervision must be concerned with the impact of a new branch on *competitors* as well as on competition.

Competitors and competition

A bank that enters a market by opening a branch will increase competition in the market. In this case the principle of convenience and needs may have to be used not to justify a lessening of competition, as in a merger, but rather the increase. When prevention of bank failures is the goal, the question is not will there be enough competition but will there be too much.

Even in communities where economic growth is rapid, most of the immediate business of a new branch must be drawn from other banks in the market. This can mean that the existing banks, facing an additional competitor, will compete more vigorously, offer more and better services at lower prices. It could also mean that the weakest institutions will fail. However, the low failure rates in banking indicate this does not often occur. Entry is not free enough to produce the failure rates found in other industries.

The anti-trust statutes seek to protect potential competition and potential future entry into a market. The reason is that even if actual number of competitors is few, the threat of new entries may produce the same results as if competitors were many. A bank merger may be disapproved because it would weaken the policing effect on a market of potential competition. On the other hand, convenience and needs as applied to branching may nullify the beneficial effects of potential competition by making it impossible for a bank to branch into a market. Thus, paradoxically, a merger which the Justice Department concluded would lessen potential competition could be defended on the grounds that state banking regulation precludes new entrants to a market because of their inability to demonstrate convenience and needs. Hence, potential competition could not be lessened because it does not exist.

The problem of freer branching

Opponents of freer branching cite costs of the bank failures of the 1930's to depositors, the country at large as well as to stockholders.

[2] *Ibid.*

They stress that since demand deposits are the major means of payment, widespread bank failures cannot be tolerated. Another ground for opposition is that concentration in banking would be increased. Because competition would be decreased large banks would invade markets and because of greater efficiency drive out smaller competitors.

However, most of the bank failures during the early 1930's were not the result of overbanking or inept management; rather they were the result of a liquidity crisis the banks themselves could do nothing about. Empirical studies, although far from definitive, suggest that beyond, say, a $10 million size, economies of scale in banking are relatively modest.

Whatever the validity of the fears of widespread bank failure—and there are reasons to think they may be exaggerated—it is clear that convenience and needs is an important determinant of the extent and direction of branching. But it is also clear that the application of convenience and needs to branching may impede competition in banking.

SUMMING UP

Both merger and branch applications require an assessment of convenience and needs. In either case, the assessment is difficult to make and hard to prove. In fact, the concept is sufficiently slippery that some students of banking have suggested it be abandoned. This, however, is not likely in the foreseeable future. It is incorporated in the Federal Deposit Insurance Corporation Act. It is part of the Bank Merger Act of 1966. Even if it were removed from federal legislation, it would still remain in state legislation.

Abandonment of convenience and needs would probably mean more branch formation (and more *de novo* chartering) which in turn could mean more bank failures. In spite of general public acceptance that failures are necessary and even good in other industries, there is almost unanimity that failures are a bad thing in the banking business.

Not only is it unlikely that convenience and needs will be abandoned, but it will probably become more important. Clearly, it now must be given specific attention, and attention in depth, in bank mergers. Because of the multiplication of branches during the past decade or two, the chances are greater now than before that new branch formations will at least temporarily affect demand for the services of existing banks. Hence a judgment will be necessary whether convenience and needs offsets the competitive threat to existing banks that a new branch may pose. Therefore, it becomes particularly important that the principle be applied effectively. But if this is to be the case, banks themselves must make more effort to document how convenience and needs will be affected.

Some relevant considerations

It is hard to generalize how bankers are responding or should respond to the requirement that they demonstrate convenience and needs. For one thing, a number of regulatory bodies are involved in administration of the principle. Also, the ingredients of a successful demonstration will vary depending on whether a merger or branch application is involved. Hence, the following is illustrative rather than definitive.

Some bankers in trying to demonstrate convenience and needs have focused on what consumers are willing to pay for additional services to be offered. If it appears, for example, that a new branch will be profitable, then this should be strong evidence that it will advance the conveniences or meet some needs in the community. Judgments about expected profits are, of course,

notoriously hard to make; and, as the number of business failures indicates, they are frequently wrong. Nevertheless, these judgments are necessary for managerial as well as regulatory reasons. Empirical studies based on data collection programs—for example, the Federal Reserve functional cost program—should make estimates more reliable.

In assessing how a merger or a new branch will affect convenience and needs, many bankers have found it helpful to project such things as population and income growth in the market and at least to make rough estimates of changing demands for bank services. A community's convenience and needs changes and it is desirable that banks anticipate these changes. Even if in the past courts have been reluctant to assess convenience and needs within a framework of change, explicit projections will be more convincing than unsupported assertions.

Both regulatory agencies and the courts are likely to assess alternative ways of meeting a community's convenience and needs. Therefore, bankers frequently are able to help their case by an analysis of these alternatives, the adequacy of which they are in the best position to know.

Finally, banks could help by making available their own market research findings on demand for services in a community they intend to enter. If this research is to be persuasive, however, it will be necessary for it to be better-documented than much of it now is.

Management Succession In Bank Mergers

by Robert D. Bowers

Perhaps half of the bank mergers in recent years have involved problems of management succession. In view of a recent decision of the U.S. Supreme Court, however, banks may well find it more difficult in the future to justify mergers as a solution to these problems.

THE RECORD—AND WHAT'S BEHIND IT

When Congress passed the Bank Merger Act of 1960, it specified criteria to guide the three federal regulatory agencies in bank merger cases. It indicated that the supervisors should consider not only the effect of the merger on competition but also "banking factors," one of which was the general character of management. Since then, the deciding agencies often have found themselves facing the task of evaluating the extent and severity of management succession problems in banks seeking to merge.

Of 171 applications for merger filed by Third District banks since Congress passed the Bank Merger Act in 1960, more than one-half cited management succession as one factor explaining the merging bank's desire to merge. Compared with a similar finding published in this Review in 1955, this indicates that the problem is of continuing importance.

Most of the banks absorbed in these mergers were comparatively small. It is clear from the table, however, that the problem has not been limited to the smallest banks.

MERGING BANKS CLAIMING A MANAGEMENT SUCCESSION PROBLEM*

		Number and percentage claiming management succession problem	
Total deposits	Number of banks	Number	Percentage
$2 million or under	18	11	61
2 to 5	54	27	50
5 to 10	49	25	51
10 to 20	28	17	61
20 to 100	18	10	56
Over 100	4	2	50
Total	171	92	54

*In some instances, the merging banks said nothing of their management situation. Others simply stated that a management succession problem existed and said no more. In some, the banks were quite explicit as to the nature of their difficulties.

A closer look at merger applications gives some insight into the several facets of the management succession problem.

Age

In more than one-third of the cases in which management succession was a problem, the banks were concerned about the advanced age of managing personnel. Many executives had reached or surpassed normal retirement age; some were 70 or older with 50 or more years of service.

Loss of key employees

More than 20 per cent of the merging banks noting management difficulties had experienced resignations, dismissals, or health problems with

at least one member of management. For example, in the course of a year, one small bank lost a key officer by resignation, found a replacement from outside the bank, and shortly thereafter its president succumbed. Another lost the full-time services of both its president and chief operating officer through serious illnesses at about the same time.

Low salaries

Many merging banks claimed their executive problems were caused by inability to offer sufficient salary and fringe benefits to attract competent personnel. One bank explained its position this way:

To provide properly for management succession one would be of the opinion that a man 35 years of age, with some experience, should be brought in to understudy present management. It is very difficult to persuade a capable person to come to the bank at a salary of $5,000 a year. The bank cannot afford to pay the amount, say, $8,000, in addition to present salaries to attract the right kind of person.

Gaps in management

In approximately 15 per cent of the cases with management succession problems, banks reported gaps in certain areas of management. The problem was most acute in trust services. Many smaller banks have difficulty in obtaining adequately trained personnel with knowledge of investments and law to run their trust departments. Banks also cited consumer lending as another area in need of managerial personnel.

Part-time bankers

A less important problem of management stems from the fact that the chief executive officer's other business interests often have competing claims on his time. Banks are coming to realize that although this arrangement may have worked in the past, changing market conditions make it increasingly untenable. In one instance, the president of a bank had accepted his position somewhat reluctantly with the understanding that he would be free to devote most of his time to private law practice. However, he discovered that his banking duties left little time for his legal work.

Lack of depth

Roughly 10 per cent of the banks claiming to have a management succession problem lacked management depth. One or more of their officers were not available for positions of greater responsibility. In some cases officers had refused additional duties; in others they were adjudged incapable of further managerial tasks.

Other problem areas

These factors by no means exhaust the list of management problems. For example, some banks in economically depressed areas felt their location was a handicap in recruiting new management. Several others felt unable to offer anything except on-the-job training to management trainees. A few indicated that they were experiencing succession problems with their boards of directors. And, of course, all these factors typically are not found in isolation. Taken together, they constitute the management-succession syndrome that many banks have described as a moving force behind their desires to merge.

ARE MANAGEMENT SUCCESSION PROBLEMS REALLY A CAUSE OF BANK MERGERS?[1]

What is perhaps significant by its omission is that relatively few, less than 5 per cent, of the

[1]This question has been raised by others. David Alhadeff, a pioneer in the study of the economic implications of structural changes in banking, wrote in 1955: "The critical question is whether management problems are a

merging banks claiming to have management-succession problems reported specific attempts to resolve their difficulties. Why this apparent lack of effort to find new management? One reason may be that many bankers strongly believe they would be unable to offer a financial package attractive enough to obtain persons of the required executive caliber. Or, it may be a matter of priorities. In one instance, a bank's president had been urged to hire back-up management, but he was so busy developing his growing and profitable bank that he never seemed to find time to recruit fresh management. When he was suddenly stricken with a serious heart attack, the bank found itself without an officer to pick up the reins. Finally, there is the possibility that management succession in some cases is no problem at all because the bank owners really want to merge with a larger organization.

Merger is generally not the only solution open to a bank with management-succession problems. It is, however, an attractive one in several respects. Usually, mergers promise capital gains for the merging bank's stockholders and salary increases, pension benefits and other job perquisites for operating employees and executives.

In short, a bank whose management and directors are for the most part approaching the end of their working lives faces a choice of continuing as an independent institution or becoming a part of a larger banking organization. The task of recruiting new management, probably at substantially higher salaries, may be arduous and with no guarantee of payoff in terms of higher profits. Merger, on the other hand, typically promises less uncertainty and risk and immediate financial gains. It is not surprising that management and directors of many banks elect to merge.

primary *cause* of mergers or merely *facilitate* them." [Emphasis in original.] He concluded that while management succession problems were present in many merger situations, they were not a "major initiating factor." See his article, "Recent Bank Mergers," *Quarterly Journal of Economics,* Vol. LXIX, No. 4 (November 1955), p. 505. In the same vein, George Mitchell of the Board of Governors of the Federal Reserve System has suggested that profitability is the fundamental explanation behind bank mergers. This view recognizes that the merging parties have different "utility-risk-income-effort preferences," which cause both to accept merger as a solution. George W. Mitchell, "Mergers Among Commercial Banks," *Perspectives on Antitrust Policy.* Almarin Phillips, ed. (Princeton, N.J.: Princeton University Press, 1965), p. 231.

MANAGEMENT SUCCESSION PROBLEMS AND MERGER POLICY

The 1960's have been years of significant developments in public policy towards banking. Bank mergers, after having long been considered exempt, were subjected to the antitrust laws. One result is that horizontal combinations between significant competitors are far less likely than they were a decade ago. While many questions regarding structural change, such as those involving conglomerates and one-bank holding companies, remain unsettled, there is a trend, in both case and statutory law, toward tightening the rules.

One of the areas in which public policy is becoming more explicit involves mergers in which one of the banks is experiencing management difficulties. A recent court decision bears directly on these matters.

In the spring of 1968, the U.S. Supreme Court delivered a key opinion. This was the *Nashville* or "floundering bank" case.[2] At issue was whether banking factors "clearly outweighed" the competitive impact of the merger which combined the Nashville Bank and Trust Company of Nashville, Tennessee, with the Third National Bank of Nashville. A lower

[2] *U.S. vs. Third National Bank of Nashville, et al.,* 88 *S. Ct.* 882 (1968).

court, in approving the merger, found the merging bank beset with internal problems which had affected its market position as a viable competitor. In particular, the absorbed bank was portrayed as a bank with management problems of "serious proportions which made it practically impossible to attract and hold competent young men."[3]

The trial court noted other indications of lack of competitive vigor of the absorbed bank. There had been no change in department heads over an 18-year period. Many officers and board members were old, salaries were low, and fringe benefits were small or non-existent. The judge found that, although floundering, the merging bank was not failing. He stated: . . . *It was no longer capable under its existing ownership and management, and with its existing facilities, procedures, and attitudes to serve the public on a competitive basis with other banks in the market area. It was more attuned to the Victorian Age which gave it birth than to the competitive realities of twentieth century commercial banking.*[4]

The Supreme Court reversed the lower court. It took another view of the absorbed bank's problems. Finding the merger violative of the antitrust laws by tending to lessen competition in banking in Nashville, it decided that the anticompetitive impact was not "clearly outweighed" by the offsetting banking factors. The Supreme Court agreed that the Nashville Bank and Trust Company had "significant problems" which it found to be "primarily rooted in unsatisfactory and backward management."[5] Moreover, it agreed that these problems could be corrected by merger. But the Court added that available alternatives short of merger had not been seriously explored. It questioned whether other solutions might not be in the public interest and "within the competence of reasonably able businessmen."[6]

Specifically, the Supreme Court asked whether the absorbed bank had done enough to deal with its management weaknesses. Might new management or new owners have been sought with the objective of transforming it into a more viable institution? No salary offers had been made to prospective new management in or outside of Nashville with the exception of one letter to a banker in New York. The merging bank had not consulted a personnel recruiting firm. The Court added that the previous owners, who were not bankers, might have considered running the bank. An earlier owner who had done a successful job had not been a banker by profession. In short, the Court uncovered ". . . nothing in the findings indicating that a bank with assets of $50 million was simply too small to attract competent management. . . ."[7]

The implication of the *Nashville* decision for mergers involving both competitive and bank management issues is clear. Mere existence of management deficiencies does not save a proposed merger if a substantive competitive issue is at stake. Rather, owners of the merging institution must be able to demonstrate that they have tried and presumably failed at other posi-

[3] *U.S. vs. Third National Bank of Nashville, et al.*, 260 *F. Supp.* 880 (1966).

[4] *Ibid.*, 884.

[5] In this regard, the court found:

> . . .we think it was incumbent upon those seeking to merge in this case to demonstrate that they made reasonable efforts to solve the management dilemma of Nashville Bank short of merger with a major competitor but failed in these attempts or that any such efforts would have been unlikely to succeed.
>
> • • •
>
> This test does not demand the impossible or the unreasonable. It merely insists that before a merger injurious to the public interest is approved, a showing be made that the gain expected from the merger cannot reasonably be expected through other means. 88 *S. Ct.* 893.

[6] *Ibid.*, 893.

[7] *Ibid.*, 894.

tive alternatives. And, even if they do try and fail, it is not yet clear whether an anticompetitive merger would be permitted to stand.

TO SUM UP

Of 171 merger applications filed in the Third District since the passage of the Bank Merger Act in 1960, more than half involved merging banks claiming problems of management succession. However, the *Nashville* case suggests that in mergers involving significant questions of lessening of competition, a simple "management-succession-problem" defense is unacceptable to the courts.

Bankers facing successor management difficulties must vigorously explore alternative routes open to them before attempting mergers involving serious competitive questions. In *Management and Machiavelli,* Antony Jay writes, "If a firm manages to reach a situation where there is no one of high enough caliber to take command, it is an awful admission of defeat."[8] But such an admission for many banks must be the first step in a program to resolve their internal difficulties.

[8]Antony Jay, *Management and Machiavelli: An Inquiry into the Politics of Corporate Life* (New York: Holt, Rinehart, and Winston, 1967), pp. 157-158.

SOME PREVIOUS STUDIES

Earlier studies have noted the management succession problem in banking against a backdrop of increased merger activity. For example, an examination of the postwar bank-merger movement in the 1950's published in this **Review** stated: "A conservative estimate might be that management problems have played a part in bringing about at least one-half of the mergers included in our study."[1] A study by the C. J. Devine Institute of Finance in 1962 found that the principal motives behind many bank mergers were the need to strengthen management and to cope with problems of management succession, a desire to diversify and improve banking services, and a need for geographic expansion into suburban areas.[2] An analysis conducted several years ago by Professor Donald Jacobs for the House Banking and Currency Committee concluded that approximately one-fourth of the nation's banks were either immediately or within the next five years facing a problem of successor management.[3] A review of published merger decisions of the three federal regulatory agencies between the period May 13, 1960 through December 31, 1962 indicated that management problems were present in a significant number of merger situations. The authors concluded that consideration of the banking factors—"usually reduce to management problems, and these in turn to personnel difficulties."[4] Of those cases decided by the Board of Governors of the Federal Reserve System during that period, it was found that more than 44 per cent of those approved were ones in which managerial difficulties were a factor. Again, the lack of successor management was the most frequently cited factor.[5]

[1] "The Branch and Merger Movement in the Third Federal Reserve District: Part IV," **Business Review,** Federal Reserve Bank of Philadelphia (January 1955), p. 6.

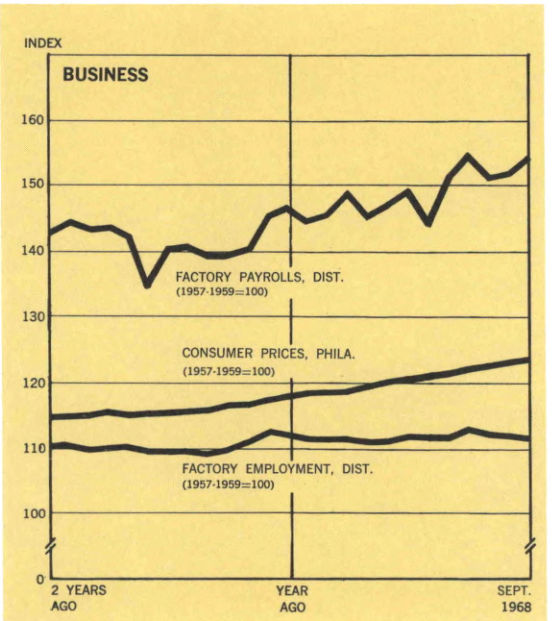
[2] **Bank Mergers,** The Bulletin of the C. J. Devine Institute of Finance, Graduate School of Business Administration, New York University, 1962, pp. 21-22.

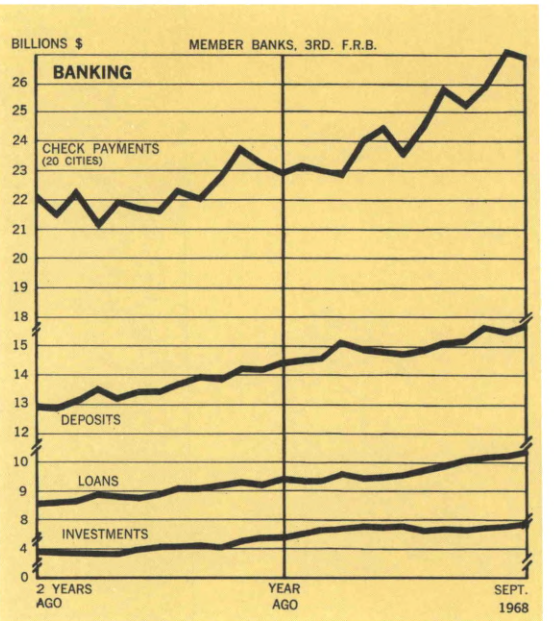
[3] **An Evaluation of the Management Succession Problem in the Commercial Banking Industry,** U.S., Congress, House, Subcommittee on Domestic Finance, Committee on Banking and Currency, 88th Congress, 2d. Sess. 1964, p. 6.

[4] George R. Hall and Charles F. Phillips, Jr., **Bank Mergers and the Regulatory Agencies: Application of the Bank Merger Act of 1960** (Washington: Board of Governors of the Federal Reserve System, 1964), p. 81.

[5] **Ibid.,** p. 58.

FOR THE RECORD . . .





SUMMARY

	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	Sept. 1968 from		9 mos. 1968 from	Sept. 1968 from		9 mos. 1968 from
	mo. ago	year ago	year ago	mo. ago	year ago	year ago
MANUFACTURING						
Production	....	....	....	+ 4	+ 4	+ 4
Electric power consumed	....	....	....	....	....	....
Man-hours, total*	+ 1	− 1	+ 1	....	....	....
Employment, total	0	0	+ 1	....	....	....
Wage income*	+ 2	+ 6	+ 6	....	....	....
CONSTRUCTION**	+106	+107	+29	−18	+ 7	+13
COAL PRODUCTION	+ 2	0	− 1	− 3	+ 2	+ 1
BANKING						
(All member banks)						
Deposits	+ 1	+ 9	+10	+ 2	+ 8	+ 9
Loans	+ 1	+ 10	+ 9	+ 1	+10	+ 9
Investments	+ 2	+ 10	+15	+ 2	+10	+12
U.S. Govt. securities	+ 1	+ 3	+ 7	+ 2	+ 4	+ 7
Other	+ 2	+ 18	+22	+ 3	+15	+17
Check payments***	− 1†	+ 17†	+13†	− 2	+23	+18
PRICES						
Wholesale	....	....	....	0	+ 3	+ 2
Consumer	+ 1‡	+ 5‡	+ 5‡	0	+ 4	+ 4

*Production workers only
**Value of contracts
***Adjusted for seasonal variation
†15 SMSA's
‡Philadelphia

LOCAL CHANGES

Standard Metropolitan Statistical Areas*	Manufacturing				Banking			
	Employment		Payrolls		Check Payments**		Total Deposits***	
	Per cent change Sept. 1968 from							
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Wilmington	+ 4	0	....	....	+ 2	+18	+ 3	+ 5
Atlantic City	....	....	....	....	+ 2	+13	0	+ 8
Trenton	+ 2	− 1	+ 5	+ 6	−11	+26	− 2	+ 9
Altoona	+ 1	+ 3	+ 3	+15	− 3	+ 2	0	+13
Harrisburg	− 3	− 2	− 4	+ 2	+ 5	+11	+ 2	+16
Johnstown	− 8	− 4	− 5	− 1	− 2	+ 8	0	+ 9
Lancaster	− 2	− 1	− 1	+ 5	+ 6	+ 9	+ 4	+10
Lehigh Valley	− 1	+ 1	+ 1	+ 9	+ 2	+16	+ 1	+11
Philadelphia	0	− 2	+ 2	+ 5	− 2	+18	+ 1	+ 8
Reading	− 1	+ 1	+ 2	+12	+10	+35	0	−24
Scranton	0	− 1	+ 3	+ 6	+ 3	+15	+ 1	+11
Wilkes-Barre	− 2	+ 2	0	+10	− 3	+12	0	+12
York	− 1	0	+ 1	+ 9	− 1	+ 7	+ 1	+ 6

*Not restricted to corporate limits of cities but covers areas of one or more counties.
**All commercial banks. Adjusted for seasonal variation.
***Member banks only. Last Wednesday of the month.