

STATEMENT BY CHAIRMAN MARTIN OF THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
BEFORE THE HOUSE BANKING AND CURRENCY COMMITTEE

ON FEBRUARY 16, 1960

Mr. Chairman and Members of the Committee:

In recent years a substantial number of banks have been absorbed by other banks. In an average year of the past decade, about a hundred and fifty banks have ceased to exist as separate institutions. To put it another way, in the ten years 1950 through 1959, over fifteen hundred banks--more than ten per cent of all banks in the country--have been absorbed by others. Most of the banks thus taken over have been relatively small institutions, but some large banks, also, have merged with other already large institutions.

Under provisions of the Federal Deposit Insurance Act and the statutes governing national banks, many amalgamations of banks require the approval of either the Comptroller of the Currency, the Federal Deposit Insurance Corporation, or the Board of Governors of the Federal Reserve System. A substantial number, however, may and do take place without being subject to any requirement of approval by Federal supervisory agencies, including both absorptions effected through exchange of stock and absorptions through purchase of assets and assumption of liabilities.

The main objective of the bill S. 1062 is to provide that no bank subject to Federal Government supervision (which comprises over ninety-five per cent of all banks in the country) may be taken over by another unless the transaction has first been approved by the Comptroller of the Currency, if the absorbing bank is a national bank; by the Board of Governors, if the absorbing bank is a State member bank; and by the Federal Deposit Insurance Corporation, if the absorbing bank is a nonmember insured bank. Before approving or disapproving a proposed merger, the supervisory authority would be required to consider the banks' financial history, condition, and prospects; the character of their management; the convenience and needs of the communities involved; and whether the effect of the merger "may be to lessen competition unduly or to tend unduly to create a monopoly".

The Board believes that the number of bank mergers in recent years has been sufficiently great to give cause for concern, and that there is a clear need for legislation to prevent bank mergers that would so lessen competition as to be incompatible with the public interest. On the basis of its study, over the years, of many suggested approaches to this problem, the Board has concluded that the procedure prescribed by S. 1062 would be a sound and effective procedure, and accordingly the Board endorses this bill.

In a few relatively minor respects, which do not affect the main purpose and benefits of the measure, the Board believes that S. 1062 might be amended to advantage. In the first place, in its present form the bill would permit the supervisory agency, in emergency cases, to act on proposed mergers without obtaining the views of the Attorney General or--in less pressing emergencies--to obtain his views upon quite short notice. The Board recommends that the bill be amended to include similar provisions with respect to obtaining the views of the other supervisory agencies in emergency situations.

The bill would require each of the supervisory agencies to submit to Congress special semiannual reports with respect to mergers approved by it during the preceding six months. It does not appear that special reports on this subject at such frequent intervals are necessary to apprise Congress adequately of developments in this field. Accordingly, it is recommended that, in lieu of the provision mentioned, the supervisory agencies be instructed to include, in their Annual Reports to Congress, information with respect to bank mergers approved during the preceding year.

The last clause of the bill would require each of the bank supervisory agencies to include in its Reports to Congress "a summary of the substance of the report made by the Attorney General" to the agency with respect to each proposed merger which it thereafter approved. The Board questions the advisability of having the views of

one agency on such involved matters summarized by a different agency; it would seem preferable to require the supervisory agencies to include in their Annual Reports either "a summary by the Attorney General of the substance of his report" or the entire report of the Attorney General on each case.

In closing, I should like to emphasize again that the Board is strongly in accord with the aims of S. 1062, and the general approach of that bill to the bank merger problem.