I appreciate your invitation to present the views of the Board of Governors on S. 2569, which would amend section 3(d) of the Bank Holding Company Act to allow bank holding companies in the District of Columbia to expand into the suburbs, and grant reciprocal privileges to Maryland and Virginia holding companies.

Section 3(d) prohibits the Board from approving an acquisition by a bank holding company of a bank located outside the State in which the holding company's banking operations are principally conducted, unless the acquisition is specifically authorized by State statute. S. 2569 would add two exceptions to section 3(d). Under the first, a holding company whose banking operations are principally conducted in the District of Columbia on the date of enactment (or when it becomes a holding company if that is later) might acquire, with the Board's approval, banks located in Montgomery and Prince George's Counties in Maryland and in Arlington, Fairfax, Loudoun, and Prince William Counties and the cities of Alexandria and Falls Church in Virginia. Under the second, a holding company whose banking operations are principally conducted in either Maryland or Virginia on the date of enactment (or when it becomes a holding company if that is later) might acquire banks located in the District of Columbia. However,
the authority of a holding company to expand the scope of its operations across State lines might be affected by State law in view of section 7 of the Act, which reserves to the States their rights with respect to banks, bank holding companies, and subsidiaries thereof.

The Board believes that the unique situation in Washington merits special consideration. In its application to the District of Columbia section 3(d) is obviously far more restrictive than it is with respect to any other area. A rule adopted with States like California in mind is unrealistic as applied to an area of 61 square miles that is entirely metropolitan and entirely surrounded by expanding suburbs. The inequity of the situation with respect to the City of Washington is more apparent now than it was when section 3(d) was enacted in 1956. The two States that surround Washington permit banks located therein to expand State-wide, and State-wide banking organizations have become prevalent in recent years in both States. Several of such organizations have offices located in the Washington metropolitan area.

The Board believes that permitting banking organizations in the District of Columbia to establish offices in the suburbs and vice versa would be beneficial to the community interest by promoting competition and facilitating the allocation of resources in meeting credit demands.

Other provisions of section 3 of the Act afford protection against abuses of the proposed new authority. Under section 3(b) of
the Act, the Board is required, upon receipt of an application for its approval of a proposed acquisition by a holding company of a State-chartered bank, to inform the appropriate supervisory authority of the interested State. If such authority opposes approval of the application, the Board must order a hearing and permit all interested parties to testify on the proposed transaction.

Protection against potentially anticompetitive effects arising from enactment of S. 2569 is provided by section 3(c) of the Act and the antitrust laws. Under section 3(c) the Board may not approve an acquisition that would have serious anticompetitive effects, unless it finds that such effects 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. And section 11 of the Act requires the Board to notify the Attorney General of its approval of any acquisition, and establishes procedures under which the Attorney General may invoke the antitrust laws to prevent the consummation of the transaction, despite the Board's approval.

A possible alternative approach to accomplish the purposes of S. 2569 would be to modify the Federal branch banking law (12 U.S.C. 36) to permit national banks (and State member banks so far as Federal law is concerned) with offices located in the Washington metropolitan area to establish new banking offices throughout such area, with the approval of the appropriate Federal supervisory agency and, in the case of a State-chartered bank, with the approval of its State supervisor.
This new-branch alternative might tend to minimize any potentially anti-competitive effects in removing the barrier of political boundaries to the expansion of banking organizations.

A third approach by which District banks might appropriately be permitted to enter the suburbs and suburban banks to enter the District would be by direct acquisition of an existing banking office through purchase of assets, merger, or consolidation. Federal law provides the same kind of protection against harmful consequences resulting from such direct acquisitions as it does for bank acquisitions by a bank holding company.

In the Board's judgment, each of these approaches has merit. However, under the approach of S. 2569, approval of entry by District bank holding companies into the suburbs and Maryland or Virginia holding companies into the District would be centralized in the Board. Although such centralization of authority is not critical to appropriate expansion of banking offices, it would assure that the relevant considerations in expanding banking offices across State lines to the limited extent permitted by the bill are considered on a uniform basis, which would seem to be desirable in departing from the rules based on political boundaries.

In one respect the provisions of S. 2569 may go further than necessary. If a District of Columbia based holding company acquired a bank in the Maryland suburbs, there is nothing in the bill as introduced to prevent the subsidiary Maryland bank from establishing
branches throughout the State. We question whether the new authority
to expand in the metropolitan area should be used to expand throughout
Maryland and Virginia. Accordingly, the bill should provide that a
Virginia or Maryland bank acquired by a District of Columbia based
holding company may not have a banking office outside the metropolitan
area.

The Board recommends enactment of S. 2569 with an amendment
as suggested in the immediately preceding paragraph.