Economic Review

FEDERAL RESERVE BANK OF ATLANTA MARCH 1985

Special Issue

Interstate Banking Laws

Time To Remodel?

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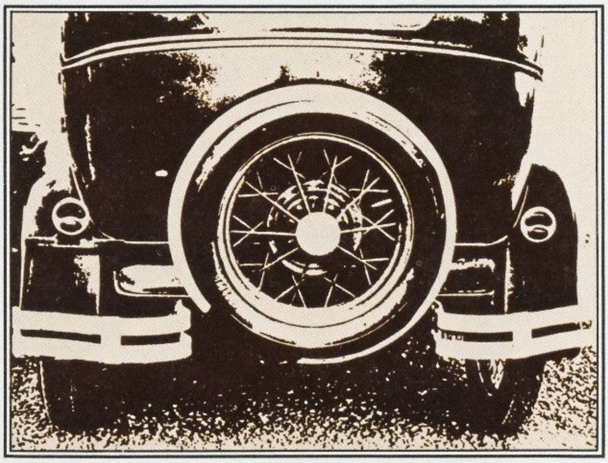


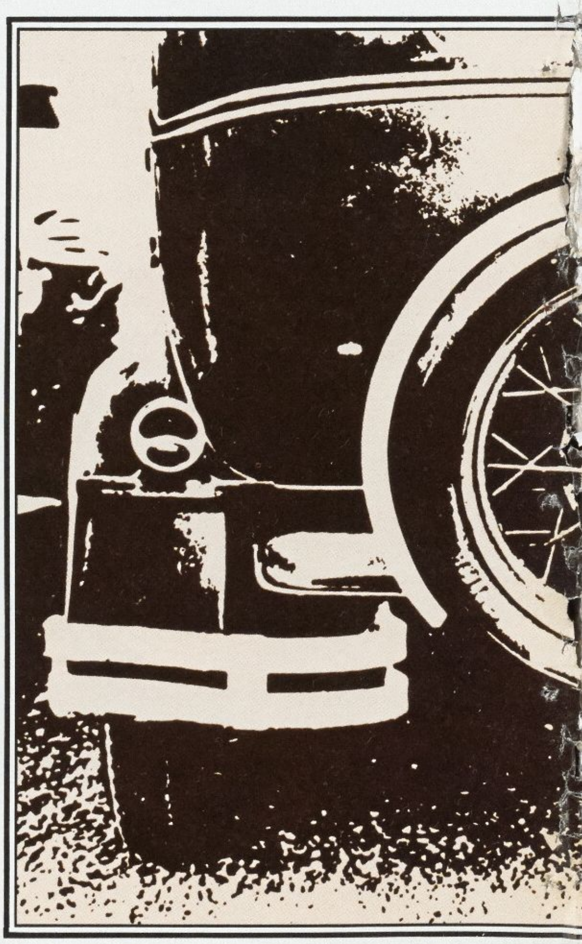
Introduction

Interstate banking and its impact on the public, banks, and other types of financial and nonfinancial institutions is perhaps the hottest topic in today's financial services industry. To a large extent, market forces already have made interstate banking a practical reality and legal interstate banking now is occurring by fits and starts at both the state and federal levels. It seems only a matter of time before the Congress will be forced to pass some type of interstate banking legislation that deals with the realities of the marketplace and with the developing patchwork of state legislation. Recognizing the importance of this question to the financial community and the public at large, the Federal Reserve Bank of Atlanta sponsored a two-day conference in November 1984 that featured experts who explored interstate banking issues and their potential ramifications.

It has become the Atlanta Fed's custom to share the ideas and information generated at such conferences through special issues of our *Economic Review*. This is the second special issue gleaned from the interstate banking conference. The first, which appeared in January, focused on the impact that various forms of interstate banking in its various forms may have on banks and the strategies that could prove useful to both large and small banks in this changing environment. Topics included "Maximizing a Bank's Value," "An Overview of Acquirers' Strategic Choices," "Strategies for Potential Acquirees," "Large Bank Strengths and Weaknesses," "Small Bank Strengths and Weaknesses," "Going Interstate by Franchising or Networks," and "Prices Paid for Banks." Each of these articles addressed the interstate question from the banker's point of view.

This special issue looks at issues beginning to face public policymakers in the emeging interstate banking environment and at their responses to these issues. Among the topics considered are the extent to which interstate banking already exists; legislation various states have passed in response to initiatives of the marketplace; interstate banking options available to Congress; how interstate banking and potential restrictions are likely to affect concentration of financial resources and, ultimately, the consumer; and finally, the potential impact of interstate banking on bank and financial system risk. Each article examines possible changes in the financial services industry resulting from interstate banking as well as how the public may be affected. These concerns are important not only to those supplying financial services, but perhaps even more to those who use them. The transformation of the banking environment will change forever the way we receive financial services; thus, the public policy choices we must make over the next few years will be far-reaching.

Legislation passed in the late 1920s and mid-1930s structured a financial services milieu that discouraged competition among banks and between banks and other financial institutions. Price competition was limited and products were segmented among the various types of financial service suppliers. Geographic restrictions prohibited interstate banking and mandated that nationally chartered banks play by the same rules as state-chartered banks in the host state.



On the whole, this legislation sought to ensure the safety and soundness of the banking system by fostering a stable financial services sector characterized by specialized service providers.

This early legislation spawned the diversified banking structure we enjoy today, with its more than 14,000 commercial banks and many other financial institutions. During the past few years, however, market forces have battered and bridged these legislative barriers, increasing competition among banks and between banks and nonbank financial service suppliers. The Depository Institutions Deregulation Committee is in the final phase of removing interest rate ceilings, thus forcing banks to compete on a price basis. Product segmentation is being severely tested by developments such as the NOW (negotiable order of withdrawal) account offered by thrift institutions, by banks providing discount brokerage services, by expanded powers for thrifts in the Garn-St Germain Depository Institutions Act of 1982, by the money market mutual funds, and by the new financial services offered by nonbank organizations such as Merrill Lynch, J.C. Penney, and Sears, Roebuck.

What's more, the geographic constraints once imposed solely on banks have been bypassed or broken by market forces and legislation. Bank holding companies have for years established nonbank subsidiaries free to expand interstate and to supply many of the same services as banks. Nonbank institutions accept deposits through investment accounts that provide some checking, relying on a bank as clearing vehicle. Moreover, 22 states already have passed legislation that opens the door to limited interstate expansion through reciprocal agreements allowed under the Douglas Amendment to the Bank Holding Company Act.

The lack of comprehensive national legislation has thrown the interstate banking issue into the laps of state governments, which tend to be especially sympathetic toward interstate banking when it fosters a perceived economic advantage. For instance, the reciprocal agreements in New England and the Southeast exclude money center banks while protecting and integrating regional interests. In contrast, Alaska and Maine attempt to attract any new bank by requiring no reciprocal arrangement, and Delaware allows the creation of special-purpose banks and encourages entry by permitting ceiling-free interest rates on credit cards but allows virtually no competition with Delaware banks. In addition, the Garn-St Germain Act enables banks and savings and loan associations to acquire failing institutions across state lines.

In short, market initiatives and legislative actions both at the federal and state levels have altered radically the environment in which banks find themselves. At this point, there is little reason to believe that refusing to repeal the McFadden Act or Douglas Amendment would negate the reality of interstate banking. The following articles underscore the degree to which interstate banking exists today and weigh the public policy questions involved in moving to a de jure interstate environment.

David D. Whitehead

Interstate Banking: Probability or Reality?

David D. Whitehead

Though interstate banking is restricted legally, banks and holding companies have abundant opportunities for providing banking-type services across state lines, as this inventory shows.

The McFadden Act limits branching by a national bank to a single state while the Douglas Amendment to the Bank Holding Company Act restricts holding companies from acquiring banks across state lines. But in fact, banks and holding companies are providing financial services across state lines, and doing so legally. Interstate banking is a reality today in everything except name.

The word "bank" is the key to determining which institutions fall under the prohibitions against interstate banking. For purposes of the Bank Holding Company Act, a bank is defined as "any institution which 1) accepts deposits that the depositor has a legal right to withdraw on demand and 2) engages in the business of making commercial loans." Therefore, any organization offering both demand deposits and commercial loans may be defined as a commercial bank and thus becomes subject to the interstate banking restrictions.

Federal laws limit the ability of a formal banking entity to offer both demand deposits and commercial loans at a single location—that is, to function as a bank—in more than one state. But no other type of organization providing financial services is prohibited by federal law from interstate activities. Whereas a chartered bank may not branch interstate and a holding company may not acquire a "bank" across state lines, an individual is free to own banks in several states. Moreover, despite the branching restrictions, banks may sell CDs nationwide; they may send out calling officers or establish loan production offices and Edge Act offices; they may advertise across the country for deposits or loans; they may offer credit cards throughout the nation and tie these to unified demand and time accounts accessible by mail or telephone. A bank holding company may skirt restrictions by establishing nonbank subsidiaries capable of engaging in almost any type of financial service activity that a bank does; and as long as the subsidiary does not offer both demand deposits and commercial loans, it may provide its services on an interstate basis.

The purpose of my presentation is to point out the avenues banking organizations have taken to establish an interstate brick-and-mortar presence. I will present six of these avenues and, where possible, the number of interstate offices maintained. This review should give a realistic picture of the extent to which interstate banking is in fact a reality today.

Grandfathered Activities

Quite often, banking organizations initiate an activity and legislators react to the evolving market circumstances. In some cases it is detrimental or impossible to require an organization to cease that activity, even though a general prohibition is thought desirable. One equitable means of dealing with such a situation is to allow organizations already so engaged to continue but to prohibit them from expanding the activity. A clause written into legislation for this purpose is termed a "grandfather provision."

A number of banking organizations, both domestic and international, enjoy grandfather provisions in the interstate banking context. Table 1 shows which organizations operate banks across state lines under grandfather provisions, their state of residence, and the number of interstate banking subsidiaries they are operating. Each is a banking office, not limited just to certain activities banks may perform. In total, 9 domestic banking organizations control 139 banks and 1,137 branch offices in 21 states. Seven international banking

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Table 1. Grandfathered Bank Holding Companies with Subsidiary Banks in More Than One State

Bank Holding Company	Home State	Number of States	States in Which Banks Are Located	Number of Interstate Offices
First Interstate Bancorporation	CA	11	AZ, CA, CO, ID, MT, NM, OR, NV, WA, WY, UT	626
Norwest Corporation	MN	7	IA, MN, MT, NE, ND, SD, WI	140
First Bank System	MN	5	MN, MT, ND, SD, WI	89
First American Bancshares Corporation	DC	5	DC, MD, NY, TN, VA	131
Bremer Financial Corporation	MN	3	MN, ND, WI	31
General Bancshares Corporation	MO	3	IL, MO, TN	25
First Security Corporation	UT	3	ID, WY, UT	71
NCNB Corporation [1]	NC	2	FL, NC	159
Northern Trust Corporation	IL	2	FL, IL	4
Bank of Montreal*	NY	2	CA, NY	3
Canadian Imperial Bank of Commerce*	NY	2	CA, NY	23
The Bank of Tokyo Ltd.*	NY	2	CA, NY	4
The Sumitomo Bank Ltd.*	CA	2	CA, HI	16
Barclays Bank Ltd.*	NY	2	CA, NY	58
The Royal Bank of Canada*	NY	2	NY, PR	17
Banco Central, S.A.*	NY	2	NY, PR	17
Total				1,414

[1]Includes the February 1984 acquisition of Ellis Banking Corporation.
*Foreign Banking Organizations.
Source: Federal Reserve Board of Governors, data as of December 31, 1983.

Table 2. Foreign Banking Organizations Controlling Interstate Offices

State	Number of Foreign Banking Organizations Controlling Interstate Offices by State of Residence	Number and Type of Interstate Office Locations by Type of Office				Total Number of Interstate Offices Controlled by Foreign Banking Organizations Headquartered Outside the State***
		Banks	Branches	Edge Acts	Agencies	
California	26	8	2	2	63	75
District of Columbia	—	—	1	—	—	1
Florida	1	—	—	6	22	28
Georgia	—	—	—	—	10	10
Hawaii	—	1	—	—	2	3
Illinois	1	1	36	3	—	40
Louisiana	—	—	—	—	1	1
Massachusetts	1	—	4	—	—	4
New York	58	3	37	2	18	60
Oregon	—	—	7	—	—	7
Pennsylvania	—	—	6	—	—	6
Texas	—	—	—	9	—	9
Washington	—	—	10	—	—	10
Total	103*	13**	103	22	116	254

*16 of these organizations that have offices in more than one state are international organizations having no residence state—i.e., agency offices of international banks.
**Two additional banks are located in Puerto Rico.
***Excludes branches of foreign-owned U.S. banks.
Source: Federal Reserve Bank of New York, data as of June 30,1982.

Table 3. Interstate Loan Production Offices

Parent State	Number of Organizations Establishing Loan Production Offices	Number of Interstate Loan Production Offices Maintained	Number of States Entered by LPOs
California	5	36[a]	14
District of Columbia	1	7	7
Florida	1	1	1
Illinois	4	31	13
Kentucky	2	8	7
Maryland	1	3	3
Massachusetts	3	14	12
Michigan	1	1	1
Minnesota	2	5	5
Missouri	2	22[b]	6
New Jersey	1	2	2
New York	8	31[c]	13
North Carolina	2	4	2
Oklahoma	1	1	1
Pennsylvania	2	4	2
Rhode Island	2	6	5
Texas	2	5	3
Virginia	2	12	5
Washington	2	9	7
Total	44	202	34[d]

Notes: [a]Only 3 LPOs from California are in New York.
[b]General Bancshares Corporation of St. Louis, MO has full service banks in Missouri, Illinois, and Tennessee. They have 13 LPOs in Tennessee and 4 LPOs in Illinois.
[c]10 of the 31 are in California.
[d]A total of 34 different states contain interstate LPOs.

Source: Federal Reserve Bank of Atlanta, Survey of Largest 200 Banking Organizations, data as of December 31, 1982.

organizations also have grandfathered status and control 138 interstate offices. Fifteen foreign organizations control 15 interstate banks with 214 branches. If we include the foreign banking organizations controlling branch banks, Edge Act offices, and agency offices, the number grows to 103 organizations controlling 254 interstate offices (see Table 2).

Loan Production Offices and Edge Act Corporations

Domestic banking organizations may also establish loan production offices and Edge Act corporations on an interstate basis. Loan production offices can do little more than calling offices, yet they are useful in establishing a wholesale brick-and-mortar presence. Edge Act offices likewise are aimed at wholesale customers but are limited to servicing organizations engaged in international trade. A survey by the Federal Reserve Bank of Atlanta in December 1982 identified 44 banking organizations controlling 202 loan production offices spread over 34 states (see Table 3). In addition, we were able to identify 143 interstate Edge Act offices, largely concentrated in New York, Florida, California, and Texas, maintained by 49 domestic banking organizations. Obviously, these banking organizations were following their international customers (see Table 4).

4(c)8 Subsidiaries

Another avenue for a bank holding company wishing to establish a physical presence across state lines is the acquisition or creation of

Table 4. Interstate Edge Act Corporations of Domestic Banking Organizations

Parent State	Number of Organizations with Edge Act Corporations	Number of Edge Act Offices
Alaska	1	1
California	5	27
Connecticut	1	1
District of Columbia	3	3
Georgia	1	2
Illinois	4	19
Maryland	1	1
Massachusetts	4	4
Minnesota	2	3
Missouri	1	1
New York	9	54
North Carolina	3	3
Ohio	1	1
Pennsylvania	5	9
Rhode Island	1	1
Tennessee	1	1
Texas	3	4
Washington	2	3
Wisconsin	1	1
Total	49	143

Source: Federal Reserve Bank of New York, data as of June 30,1982.

so-called 4(c)8 subsidiaries. In its Section 4(c)8, the Bank Holding Company Act as amended in 1970 provides that holding companies may engage in certain nonbank activities. Bank holding companies may acquire "shares of any company the activity of which the Board after due notice and opportunity for hearing has determined (by order or regulation) to be so closely related to banking or managing or controlling banks as to be a proper incident thereto."

Table 5 lists the 4(c)8 activities permitted by regulation (generally approved for all holding companies), activities permitted by order (case-by-case approval by the Board of Governors because of special circumstances), and activities denied by the Board as of November 1984. The 4(c)8 subsidiaries are not banks, and so once established they may open offices in any number of states. Since the vast majority of approved nonbank activities are those in which banks may engage—activities "closely related to banking or managing or controlling banks"—the 4(c)8 provisions effectively allow holding companies to provide financial services similar to those banks offer, but on an interstate basis.

The survey by the Federal Reserve Bank of Atlanta identified 139 holding companies that controlled a total of 382 4(c)8 subsidiaries with at least one interstate office. The holding companies' geographic distribution is portrayed in Map 1. Map 2 shows the number of 4(c)8 subsidiaries controlling interstate offices. The number in each state represents the interstate 4(c)8 subsidiaries established by holding companies residing within the state; for example, holding companies in New York have established 96 such subsidiaries with at least one interstate office.

The number of interstate 4(c)8 offices controlled by holding companies in various states is displayed on Map 3. Bank holding companies in New York have been most active in establishing 4(c)8 subsidiaries that have opened interstate offices. Map 4 shows the number of interstate offices of 4(c)8 subsidiaries controlled by nonresident bank holding companies. Each office is providing at least one type of financial service allowed under the Bank Holding Company Act outside the state where its parent holding company resides.

In total, the survey uncovered more than 5,500 interstate offices, each providing a financial service across state lines and each ultimately controlled by its parent holding company. These findings lend substantial support to the reality of interstate banking.

Reciprocal and Nonreciprocal Interstate Banking Laws

Recent legislation adopted by a number of states to allow entry by out-of-state banking organizations represents a less traditional avenue for interstate expansion. To date 22 states have adopted such legislation, either on a reciprocal or nonreciprocal basis (see Table 6). Alaska and Maine passed the most liberal measures, permitting any out-of-state banking organization to enter without requiring reciprocal treatment, and they were followed closely by New York, which will reciprocate with any state. Nine additional states passed regional reciprocal interstate banking laws—Connecticut, Rhode Island, Massachusetts, Utah, North Carolina, South Carolina,

Table 5. Permissible Nonbank Activites for Bank Holding Companies under Section 4(c)8 of Regulation Y November, 1984

Activities Permitted by Regulation

1. Extensions of credit[2]
   Mortgage banking
   Finance companies:
     consumer, sales, and commercial
   Credit cards
   Factoring
2. Industrial bank, Morris Plan banks, industrial loan company
3. Servicing loans and other extensions of credit[2]
4. Trust company[2]
5. Investment or financial advising[2]
6. Full-payout leasing of personal or real property[2]
7. Investments in community welfare projects[2]
8. Providing bookkeeping or data processing services[2]
9. Acting as insurance agent or broker primarily in connection with credit extensions[2]
10. Underwriting credit life, accident, and health insurance
11. Providing courier services[2]
12. Management consulting to all depository institutions
13. Sale at retail of money orders with a face value of not more than $1000, travelers checks, and savings bonds [1, 2, 7]
14. Performing appraisals of real estate[1]
15. Issuance and sale of travelers checks
16. Arranging commercial real estate equity financing
17. Securities brokerage
18. Underwriting and dealing in government obligations and money market instruments
19. Foreign exchange advisory and transactional services
20. Futures commission merchant
21. Options on financial futures
22. Advice on options on bullion and foreign exchange

Activities Permitted by Order

1. Issuance and sale of travelers checks[2, 6]
2. Buying and selling gold and silver bullion and silver coin[2, 4]
3. Issuing money orders and general-purpose variable denominated payment instruments[1, 2, 4]
4. Futures commission merchant to cover gold and silver bullion and coins[1, 2]
5. Underwriting certain federal, state, and municipal securities[1, 2]
6. Check verification[1, 2, 4]
7. Financial advice to consumers[1, 2]
8. Issuance of small denomination debt instruments[1]
9. Arranging for equity financing of real estate
10. Acting as futures commissions merchant
11. Discount brokerage
12. Operating a distressed savings and loan association
13. Operating an Article XII Investment Company
14. Executing foreign banking unsolicited purchases and sales of securities
15. Engaging in commercial banking activities abroad through a limited purpose Delaware bank
16. Performing appraisal of real estate and real estate advisor and real estate brokerage on nonresidential properties
17. Operating a Pool Reserve Plan for loss reserves of banks for loans to small businesses
18. Operating a thrift institution in Rhode Island
19. Operating a guarantee savings bank in New Hampshire
20. Offering informational advice and transactional services for foreign exchange services

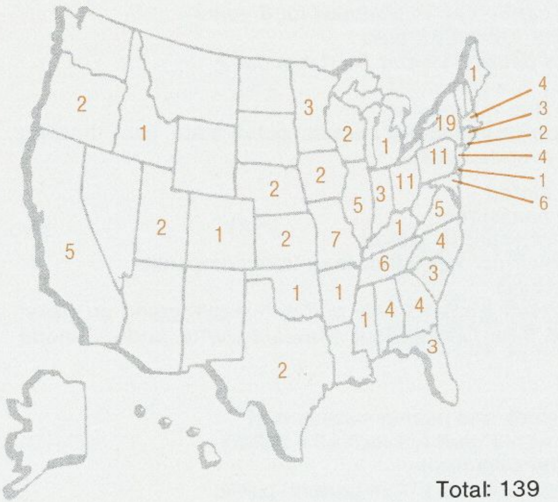
Activities Denied by the Board

1. Insurance premium funding (combined sales of mutual funds and insurance)
2. Underwriting life insurance not related to credit extension
3. Sale of level-term credit life
4. Real estate brokerage (residential)
5. Armored car
6. Land development
7. Real estate syndication
8. General management consulting
9. Property management
10. Computer output microfilm services
11. Underwriting mortgage guaranty insurance[3]
12. Operating a savings and loan association[1, 5]
13. Operating a travel agency[1, 2]
14. Underwriting property and casualty insurance[1]
15. Underwriting home loan life mortgage insurance[1]
16. Investment note issue with transactional characteristics
17. Real estate advisory services

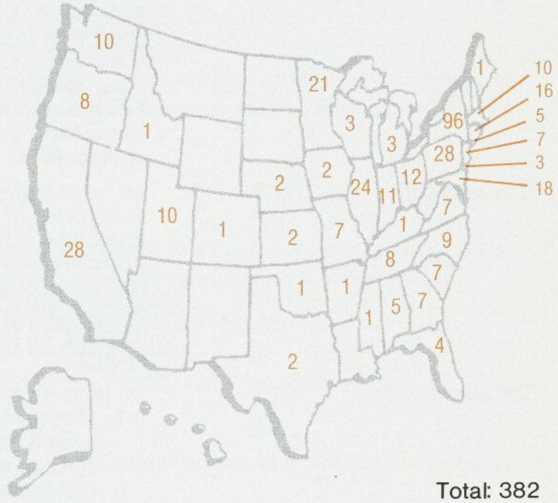
[1]Added to list since January 1, 1975.
[2]Activities permissible to national banks.
[3]Board orders found these activities closely related to banking but denied proposed acquisitions as part of its "go slow" policy.
[4]To be decided on a case-by-case basis.
[5]Operating a thrift institution has been permitted by order in Rhode Island, Ohio, New Hampshire, and California.
[6]Subsequently permitted by regulation.
[7]The amount subsequently was changed to $10,000.

Source: Federal Reserve Board.

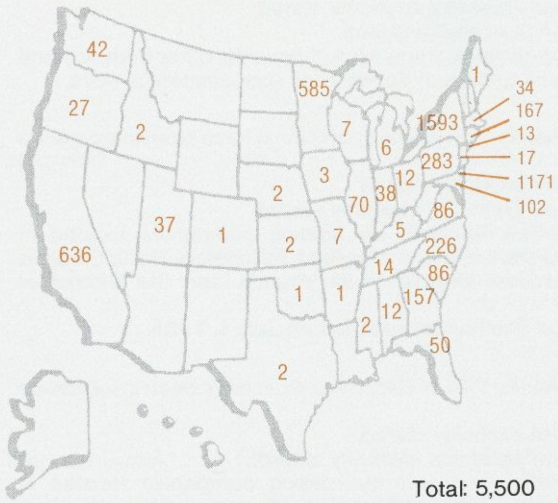
Map 1
Resident State of Bank Holding Companies Controlling Interstate 4(c)8 Subsidiaries



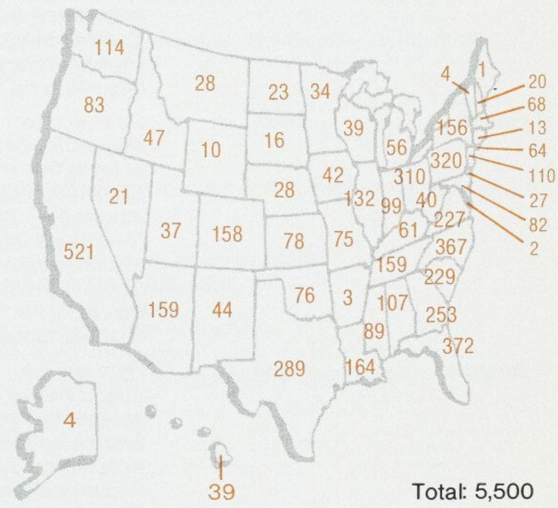
Map 2
Number of Interstate 4(c) 8 Subsidiaries of Holding Companies Home-Officed in State



Map 3
Number of Interstate 4(c)8 Offices Established by Nonbank Subsidiaries of Holding Companies Home-Officed in State



Map 4
Total Number of Offices in State, by Primary Activity of Interstate 4(c)8 Subsidiaries



Source: All maps, Federal Reserve Bank of Atlanta, data as of 12/82.

Table 6. States with Out-of-State Banking Laws As of December 1984

State	Year Passed	Provisions
Alaska	1984	*De novo*-No *Acquisition of existing banks*-Yes, in business for 3 years *Branching into state*-Not explicitly stated *Acquisition SB (savings bank), S&L and Trust company*-Trust companies only *Reciprocal agreement*-No *Miscellaneous provision*-Unrestricted, permits out-of-state bank holding companies to acquire in-state banks.
Connecticut	1983	*De novo*-Not explicitly stated *Acquisition of existing banks*-Yes *Branching into state*-Not explicitly stated *Acquisition SB, S&L, and Trust*-Yes, other than trust companies (variety of other restrictions) *Reciprocal agreement*-New England only and anti-leapfrogging provision (non-NE to Maine and then Connecticut, Massachusetts, and/or Rhode Island)
Delaware	1981	*De novo*-Yes, if 1. Minimum capital stock and paid-in-surplus is at least $10 million, with 1 year to reach $25 million 2. Employ at least 100 persons 3. Not likely to attract customers from general public *Acquisition of existing banks*-Not explicitly stated *Branching into state*-Not explicitly stated *Acquisition SB, S&L, and Trust*-Not explicitly stated *Reciprocal agreement*-Not explicitly stated *Miscellaneous provision*-No interest rate ceiling on credit cards
	1983	*De novo*-Yes, if above 3 conditions are met and bank holding company was present under 1981 law. May also charter de novo bank although capital requirements for consumer credit banks may be different (initial capital requirement different if affiliated with credit card bank). *Acquisition of existing banks*-Not explicitly stated *Branching into state*-Not explicitly stated *Acquisition SB, S&L, and Trust*-Not explicitly stated *Reciprocal agreement*-Not explicitly stated *Miscellaneous provision*-Bank may only accept deposits other than demand deposits and make loans to natural persons for noncommercial uses.
Florida	1984	*De novo*-No *Acquisition of existing banks*-Yes, in-state bank must have been in existence at least five years *Branching into state*-Not explicitly stated *Acquisition SB, S&L, and Trust*-Not explicitly stated *Reciprocal agreement*-Yes, but only by holding companies located in Alabama, Arkansas, Georgia, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, West Virginia, and the District of Columbia *Miscellaneous provision*-The law takes effect on July 1, 1985.
Georgia	1984	*De novo*-No *Acquisition of existing banks*-Yes, in-state bank must have been in existence at least five years *Branching into state*-Not explicitly stated *Acquisition SB, S&L, and Trust*-Not explicitly stated *Reciprocal agreement*-Yes, but only by holding companies located in Alabama, Arkansas, Florida, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, West Virginia, and the District of Columbia *Miscellaneous provision*-The law takes effect on July 1, 1985.

Illinois	1981	*De novo*-Not explicitly stated *Acquisition of existing banks*-Only grandfathered interstate bank holding companies under Bank Holding Company Act of 1956 *Branching into state*-Not explicitly stated *Acquisition SB, S&L, and Trust*-Not explicitly stated *Reciprocal agreement*-Not explicitly stated
	1984	*Miscellaneous provision*-Permits an out-of-state banking organization to acquire an in-state institution with liquidity problems and more than $1 billion in assets.
Iowa	1972	*De novo*-Not explicitly stated *Acquisition of existing banks*-Yes, if on 1-1-71 bank holding company was registered as a bank holding corporation and owned 2 banks in Iowa *Branching into state*-Not explicitly stated *Acquisition SB, S&L, and Trust*-Not explicitly stated *Reciprocal agreement*-Not explicitly stated
Kentucky	1984	*De novo*-No *Acquisition of existing banks*-Yes, in-state bank must have been in existence for at least five years *Branching into state*-Not explicitly stated *Acquisition SB, S&L, and Trust*-Not explicitly stated *Reciprocal agreement*-Yes, only with contiguous states *Miscellaneous provisions*-The contiguous state limitation will be dropped in two years.
Maine	1984	*De novo*-no *Acquisition of existing banks*-Yes *Branching into state*-Not explicitly stated *Acquisition SB, S&L, and Trust*-Not explicitly stated *Reciprocal agreement*-No *Miscellaneous provision*-Unrestricted, permits out-of-state bank holding companies to acquire in-state banks.
Maryland	1983	*De novo*-Yes, if 1. Minimum capital stock and paid-in-surplus of $10 million, rising to $25 million in 1 year 2. Employ at least 100 persons 3. Not likely to attract customers from general public *Acquisition of existing banks*-Not explicitly stated *Branching into state*-Not explicitly stated *Acquisition SB, S&L, and Trust*-Not explicitly stated *Reciprocal agreement*-Not explicitly stated *Miscellaneous provision*-24% interest rate ceiling on credit cards
Massachusetts	1982	*De novo*-Yes *Acquisition of existing banks*-Yes *Branching into state*-Yes *Acquisition SB, S&L, and Trust*-Yes *Reciprocal agreement*-Yes, New England only and anti-leapfrogging provision

Nebraska	1983	*De novo*-Yes, if 1. Limited to one office 2. Minimum capital stock and paid-in-surplus is at least $2.5 million 3. Employ at least 50 state residents within one year 4. Operate in a manner not likely to attract customers from the general public *Acquisition of existing banks*-Not explicitly stated *Branching into state*-Not explicitly stated *Acquisition SB, S&L, and Trust*-Not explicitly stated *Reciprocal agreement*-Not explicitly stated *Miscellaneous provision*-No interest rate ceiling on credit cards
	1983	*De novo*-Not explicitly stated *Acquisition of existing banks*-Yes, if on 3-12-63 the bank owned at least 2 banks in state *Branching into state*-Not explicitly stated *Acquisition SB, S&L, and Trust*-Not explicitly stated *Reciprocal agreement*-Not explicitly stated
Nevada	1984	*De novo*-Yes, limited purpose wholesale-oriented, single-office banks *Acquisiton of existing banks*-Not explicitly stated *Branching into state*-Not explicitly stated *Acquisition of SB, S&L, and Trust*-Not explicitly stated *Reciprocal agreement*-Not explicitly stated
New York	1982	*De novo*-Yes *Acquisition of existing banks*-Yes *Branching into state*-Not explicitly stated *Acquisition SB, S&L, and Trust*-No *Reciprocal Agreement*-Yes
North Carolina	1984	*De novo*-No *Acquisition of existing banks*-Yes *Branching into state*-Not explicitly stated *Acquisition SB, S&L, and Trust*-Not explicitly stated *Reciprocal agreement*-Yes, only by holding companies located in Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, South Carolina, Tennessee, Virginia, West Virginia, and the District of Columbia *Miscellaneous provision*-The law becomes effective January 1, 1985.
Oregon	1983	*De novo*-No *Acquisition of existing banks*-Yes, but of mutual savings banks only *Branching into state*-No *Acquisition SB, S&L, and Trust*-Mutual savings banks only *Reciprocal agreement*-No
Rhode Island	1983	*De novo*-Not explicitly stated *Acquisition of existing banks*-Yes *Branching into state*-Not explicitly stated *Acquisition SB, S&L, and Trust*-Yes, but not trust companies *Reciprocal agreement*-Yes, New England states only; after 7-1-86, nation-wide *Miscellaneous provision*-Law does not take effect until 7-1-84.

South Carolina	1984	*De novo* -No *Acquisition of existing banks*-Yes, in-state bank must have been in existence at least five years *Branching into state*-Not explicitly stated *Acquisition SB, S&L, and Trust*-Not explicitly stated *Reciprocal agreement*-Yes, only by holding companies located in Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Tennessee, Virginia, West Virginia, and the District of Columbia *Miscellaneous provision*-The law takes effect on July 1, 1986.
South Dakota	1983	*De novo*-Yes, if 1. Minimum capital of $5 million 2. Operated in manner not likely to attract the general public 3. Limited to one banking office *Acquisition of existing banks*-Yes, but must not be for acquisiton of additional offices *Branching into state*-Not explicitly stated *Acquisition SB, S&L, and Trust*-Not explicitly stated *Reciprocal agreement*-Not explicitly stated *Miscellaneous provision*-State-chartered banks may engage in all facets of insurance business.
Utah	1984	*De novo*-No *Acquisition of existing banks*-Yes *Branching into state*-Not explicitly stated *Acquisition SB, S&L, and Trust*-Yes *Reciprocal agreement*-Yes, only by bank holding companies located in Alaska, Arizona, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Washington, and Wyoming *Miscellaneous provision*-Permits out-of-state banking organizations to acquire failing in-state institutions.
Virginia	1983	*De novo*-Yes, if 1. Minimum capital and paid-in-surplus of $5 million 2. Employ at least 40 state residents 3. Operate in manner that is not likely to attract the general public *Acquisition of existing banks*-Not explicitly stated *Branching into state*-Not explicitly stated *Acquisition SB, S&L, and Trust*-Not explicitly stated *Reciprocal agreement*-Not explicitly stated *Miscellaneous provision*-No interest rate ceilings on credit cards
Washington	1983	*De novo*-Not explicitly stated *Acquisition of existing banks*-Yes, but bank must be in danger of closing and there must be no in-state institution willing to acquire it *Branching into state*-Not explicitly stated *Acquisition SB, S&L, and Trust*-Trust companies only *Reciprocal agreement*-Not explicitly stated

Source: *Banking Expansion Reporter*, vol. 3 (August 20, 1984), and B. Frank King, "Interstate Banking: Issues and Evidence," *Economic Review*, Federal Reserve Bank of Atlanta, vol. 69 (April 1984), pp. 38-39.

Table 7. Bank Holding Companies with Limited Purpose Banks in Other States

Bank Holding Company	Home State	Number of States	Other States in Which Banks Are Located
Citicorp	NY	3	DE, SD
J. P. Morgan & Company	NY	2	DE
Mellon National Corporation	PA	2	DE
Chase Manhattan Corporation	NY	2	DE
PNC Financial Corporation	PA	2	DE
Maryland National Corporation	MD	2	DE
Philadelphia National Corporation	PA	2	DE
First Maryland Bancorp	MD	2	DE
Equitable Bancorporation	MD	2	DE
Chemical New York Corporation	NY	2	DE
Manufacturers Hanover Corporation	NY	2	DE
NCNB	NC	2	VA

Source: Federal Reserve Bank of Atlanta.

Table 8. Nonbank Bank Applications Filed with Office of the Comptroller of the Currency after March 31, 1984
(as of January 11, 1985)

Alabama	6	Mississippi	3
Arkansas	3	Missouri	3
Arizona	11	Nevada	2
California	14	New Hampshire	3
Colorado	8	New Jersey	12
Connecticut	10	New Mexico	6
Delaware	5*	New York	10
DC	9*	North Carolina	9
Florida	42	Ohio	9*
Georgia	22	Oklahoma	5
Hawaii	3	Oregon	6
Idaho	2	Pennsylvania	17
Indiana	4	South Carolina	8
Illinois	10	Tennessee	14
Kansas	1	Texas	28
Louisiana	8	Utah	4
Maryland	14	Vermont	2
Massachusetts	11	Virginia	19
Michigan	1	Washington	11
Minnesota	4	West Virginia	1
Total			360*

*Total includes 3 applications for Delaware, DC, and Ohio that were withdrawn.

Source: Office of the Comptroller of the Currency.

Florida, Georgia, and Kentucky. The first of the regional compacts was established by four New England states approximately two years ago. However, no regional mergers or acquisitions have been consummated, largely because of court actions initiated by Citicorp and the Northeast Bancorp of New Haven, Connecticut. These banks seek to outlaw the regional reciprocal limitations, which would mean that each of the four New England states must reciprocate with any other state wishing to reciprocate. The U.S. Supreme Court probably will resolve the constitutional issue by midyear.

Nonbank Banks

An even more recent means of expanding interstate is through the creation of nonbank banks. "Nonbanks" are chartered as banks but engage in only one of the two activities that define a bank, either accepting demand deposits or making commercial loans. Three basic types of nonbanks exist—special-purpose banks, consumer banks, and commercial lending banks. Special-purpose banks are the creation of state legislation that enables out-of-state institutions to establish a bank limited to certain operations. For example, an out-of-state bank holding company may set up a single office to engage in wholesale banking or credit card operations. To date, South Dakota, Delaware, Virginia, Maryland, Nebraska, and Nevada have adopted such special-purpose provisions. Table 7 shows the organizations using state laws to establish special-purpose banks.

Both the consumer-oriented and commercial-oriented nonbank banks grew out of the Bank Holding Company Act's definition of a commercial bank as an institution that accepts demand deposits and makes commercial loans. Because the nonbank bank does not engage in both activities it does not meet the definition and therefore is not subject to interstate restrictions. Nonbank banks may be established as either state-chartered or nationally chartered institutions.

As of early 1985, fully 55 applicants had filed with the Office of the Comptroller of the Currency to establish 360 nationally chartered nonbank banks. Most of these applications (218) are for consumer-oriented nonbank banks, which will offer demand deposits but not commercial loans. The remaining 142 applications are for the commercial-oriented type of nonbank institution, offering commercial loans but not demand deposits. Commercial-oriented nonbanks may offer deposit accounts such as time certificates and savings accounts, which are not classified as demand deposits.

The proposed locations of nonbank banks by state are depicted in Table 8. Seven states—Colorado, Connecticut, Florida, Maryland, New Jersey, North Carolina, and Pennsylvania—have enacted legislation barring nonbank banks and more states are expected to follow. This may slow geographic expansion via the nonbank avenue. Interestingly, applications that have been filed for nonbank banks generally follow the same geographic patterns as the spread of interstate 4(c)8 subsidiaries across the country. There are 42 applications pending for nonbank banks in Florida, the most popular location; 28 in Texas; and 22 in Georgia.

Conclusion

Given all the avenues open to banks or holding companies for providing banking-type financial services across state lines, it is hard to deny that interstate banking is a reality today. Though somewhat dated, Table 9 gives a good overview of the extent to which banking organizations already are providing interstate financial services. Since its numbers count only the brick-and-mortar locations of these organizations, the table generally understates the level of services provided. In every way except name, then, interstate banking is here today, and its proponents are urging legislators to lift remaining interstate restrictions.

Table 9. Summary of Interstate Activity

Location	Grandfathered (as of 12/83) Domestic Holding Companies*	Domestic Banks	Domestic Branches	Foreign[A] Holding Companies*	Foreign Banks	Foreign Branches	Foreign Banks (as of 6/82) Agency	Edge	Branch
Alabama									
Alaska									
Arizona	1	1	171						
Arkansas									
California				8	8	135	63	2	2
Colorado	1	3	5						
Connecticut									
Delaware									
District of Columbia									1
Florida	2	22	141				22	6	
Georgia							10		
Hawaii				1	1	15	2		
Idaho	2	2	103						
Illinois	1	6	5	1	1	0		3	36
Indiana									
Iowa	1	11	32						
Kansas									
Kentucky									
Louisiana							1		
Maine									
Maryland	1	2	28						
Massachusetts									4
Michigan									
Minnesota									
Mississippi									
Missouri									
Montana	3	25	18						
Nebraska	1	5	11						
Nevada	1	1	72						
New Hampshire									
New Jersey									
New Mexico	1	5	29						
New York	1	1	8	3	3	32	18	2	37
North Carolina									
North Dakota	3	32	40						
Ohio									
Oklahoma									
Oregon	1	1	164						7
Pennsylvania									6
Puerto Rico				2	2	32			
Rhode Island									
South Carolina									
South Dakota	2	6	72						
Tennessee	2	2	24						
Texas									
Utah	1	1	38			9			
Vermont									
Virginia	1	2	78						
Washington	1	1	91						10
West Virginia									
Wisconsin	3	6	7						
Wyoming	2	4	0						
Totals		139	1137		15	214	116	22	103

*The columns are not included in total number of offices per state.
U - Allow unrestricted entry.
F - Allow out-of-state acquisition of a failing bank.
R - Reciprocal agreements.
O - Allow entry of limited purpose banks.
☐ - Allow expansion of grandfathered banks.
M - Allow acquisition of mutual savings banks.
A - Six of the foreign bank holding companies own only one U.S. bank, but the bank is located outside the home state of the foreign banking organization.

Source: Federal Reserve Bank of Atlanta.

Limited Purpose Banks* (as of 12/84)	States with Interstate Banking Provisions* (as of 12/84)	Preferred Stock Deals Filed with Board* (as of 3/83)	Interstate S&Ls* (as of 9/83)	Offices of 4(c)8 Subsidiaries (as of 12/82)	Loan Production Offices (as of 12/82)	Edge Act Corporations (as of 10/82)	Total Offices per State
		1	1	107	1		108
	U			4	1		5
				159			331
				3			3
			2	521	22	23	776
			1	158	14		180
	R	1		64	1		65
11	○			27	3	5	35
			2	2	3		6
	R	1	7	372	6	25	594
	R	1	2	253	8	5	276
			2	39			57
			2	47			152
	□F		1	132	21	11	215
				99	1		100
	□	1		42	2		87
			1	78			78
	R		1	61			61
				164	4	1	170
	U	1		1			1
	○		3	82	7		119
	R	2	1	68	6	3	81
				56	2		58
		1		34	5	4	43
				89			89
			1	75	6	2	83
			2	28	1		72
	○□			28	2		46
	○		1	21			94
				20	1		21
				110	2		112
				44			78
	R	4	5	156	16	31	304
	R			367	3		370
				23	1		96
		2		310	8	4	322
		1		76	3		79
	M		4	83	7	3	265
		2		320	7	2	335
							34
	R			13			13
	R	1		229			229
1	○			16			94
				159	14		199
		1	6	289	19	17	334
	RF		1	37	1		77
				4			4
1	○		2	227	1		308
	F		2	114	3	6	225
				40			40
				39		1	53
			1	10			14
13	22	20	51	5500	202	143	7591

States' Interstate Banking Initiatives

Robert A. Richard

Traditionally, states have been in the vanguard of banking legislation reform. Current developments at the state level, particularly in the Midwest, may indicate how the interstate banking issue ultimately will be resolved.

The Conference of State Bank Supervisors never suggests to any state legislature what type of statutes it ought to adopt, regardless of whether it favors or opposes interstate banking. Each state will best decide that matter individually, recognizing its own economic situation, demographic factors, and political make-up, and will achieve what is in its best interest. My observations on interstate banking do not constitute a policy statement on behalf of the Conference of State Bank Supervisors (CSBS) but simply reflect my views of current issues.

To begin, I would like to present six true-or-false statements.

Number one: States have taken the lead in providing options to the banking industry today.

Number two: Congress is deadlocked in making a decision because of too many diverse concerns.

Number three: Congress is not acting because the states are taking action.

Number four: States know what is in their own best interests.

Number five: Congress is struggling to determine what is in the country's best interest.

And number six: States are acting because the federal government has failed to do so.

All of those statements are true, with the exception of number six. On that question, there is some feeling that the states are reacting to congressional inaction—that a vacuum has been created and the states are moving in—but that is simply not true. As they have in the past, the states are acting in their own best interests, once again taking the lead in developing innovation in the banking industry. States are tailoring legislation, be it from the area of product or geography, to suit their own needs and economic conditions. For example, some regions in this country regard regional banking as a benefit to their local economies while others adamantly oppose the trend. Sentiment also exists that it is proper to reassert the rights of the states in this country's dual banking system.

For too long, the dual banking system has been considered relevant only to the examination and supervision of institutions, while its importance in the regulative and legislative aspects has fallen into dim memory. The dual banking system actually began accidentally, back in 1863. When the federal troops at Gettysburg needed to be paid and the U.S. Treasury was strapped for funds, the National Banking Act was passed to create the national banking system as a counterpart to state banking.

At times conventional wisdom has dictated that if you wanted to operate a progressive bank, you needed a national charter. Although I am a former state bank commissioner who now works for the CSBS, I have worked only for national-chartered rather than state-chartered banks. Regardless of their charters, however, I understand that bankers make the same basic credit and service-oriented decisions.

Branching is said to be an old nemesis of the states. Although states have been viewed as standing in the way of branching, it was a state innovation. The McFadden Act, if you look at it carefully, is a pro-branching statute, one that was drafted to enable national banks to branch. Prior to that, national banks suffered in competing against state banks with more liberal powers including branching.

What about the nonbank, or the "non-what-we-know-it-is"? The list of those "nons" and the states' role in their development is illuminating. How about the non-demand checking account

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known as the NOW account? Or the non-branch that we know as a facility? Or the nonbank bank, which we know as a consumer bank? Or the nonbank holding company, which we know as Dimension, J.C. Penney, Merrill Lynch, Prudential, American Express, and so forth? The states were quite active in initiating the first three "non" items, and they have not been slackers in the fourth category, the nonbank holding companies.

In the history of this country, the regulative arm has followed industry initiatives and marketplace developments. I believe that is the way it should be. If a regulator ever tries to get out in front and lead the industry or tell the industry what markets it should penetrate, we are going to see stifling monotony and a failure to provide adequate services to the public.

While the dual banking system is not a complete answer to a wide-open market, it does provide two different chartering authorities to handle issues facing the industry, and can respond to industry applications. It is not surprising that the states have a history of addressing banking issues earlier. After all, they are closer to the people, or the "action," and they face fewer complexities in their decision-making as their choices need not always take on global importance. Let us consider groups of laws so that industry or state representatives can see how legislative action could be fit to suit their needs.

Predictably, the Southeast and Northeast were the first areas not only to conceive of regional interstate banking, but to pass the necessary laws. Just where the idea originated is debatable, but I happen to believe it sprouted in the Southeast. However, it took Massachusetts to pass the first statute bringing about regional interstate banking.

This country's first interstate banking law actually was passed in 1975 by the State of Maine. Its legislation introduced the concept of reciprocity, but was nationwide in scope. Any state that wished could enter into interstate banking with Maine, as long as they would permit a Maine institution to acquire one of their banks. Six years later New York passed a comparable nationwide banking law with a reciprocal requirement. Today, New York is the only state having such a nationwide law with a reciprocal provision, because Maine dropped that requirement in 1984.

Massachusetts came on board when it passed the law describing a six-state New England area and specifying the area as one of shared economic interest and common concern. Massachusetts' legislation was followed quickly by that of Connecticut and Rhode Island, which gave four of the six New England states some form of interstate banking statute permitting a mixture within those four states.

Rulings of the courts rapidly come into play, of course, and the best laid plans of legislators go awry. As it turned out, Maine's attorney general determined that the state's statute was not reciprocal with Massachusetts because of a problem centering around the nationwide reciprocal issue. To avoid that conflict, Maine dropped the reciprocity requirement.

Four southeastern states now have passed interstate laws: North Carolina, South Carolina, Florida, and Georgia. It is interesting that the number of states each includes in its legislation ranges up to about 13, although not all four agree. The region ranges as far north as Maryland and Washington, D.C. and as far west as Arkansas on the lists of North Carolina and South Carolina; the other two have a different list. Clearly, the notion of a compact and an equivalent region is not as well defined in the Southeast as is frequently charged. And on the fringe of the Southeast area is Kentucky, whose basically contiguous state-regional reciprocal law with a two-year trigger to nationwide interstate banking is very different from the other four statutes in the region.

In the western United States only Utah has passed a regional interstate bill, which includes the traditional western states with one significant omission—California. Aside from Maine and New

"If a regulator ever tries to get out in front and lead the industry or tell the industry what markets it should penetrate, we are going to see stifling monotony and a failure to provide adequate services to the public."

York, other states with nationwide interstate banking bills are Alaska and South Dakota. Three states, Florida, Iowa, and Nebraska, permit some form of additional acquisitions under a grandfather status. States that have passed "failing bank statutes," which under certain conditions permit banks in danger of failing to be sold to out-of-state bidders, are Washington and Illinois.

As a result, 22 states now allow some form of interstate banking. Though not all at the legislative level, at least 20 additional states are debating whether interstate banking would be advantageous for them. We can expect only a handful to come forth early, because while the debate is not overly complex, it certainly is tedious.

Various interests within neighboring states must be considered when a state weighs the merits of interstate banking. For instance, it should be instructive to see how the Midwest, which is well represented in that group of 20 states, cracks the nut, if it cracks it at all. The Midwest is tied together geographically by the Great Lakes, and the region's industry provides further ties, such as those in agriculture, the iron and steel industries, automobile manufacturing, automotive products, and so forth. Yet, there always has been a rivalry between the midwestern states. No single historic accident has occurred, as it did in the Southeast and New England, to forge that group into a unity. Somehow, each state has felt itself in contention with the rest and has pursued an independent course. The states have passed local tax incentives and revenue issues and have tried to attract new plants or new product lines rather than let them go to a neighboring state.

How the Midwest solves the interstate banking question may be a lesson for the whole nation. Several states will introduce legislation in 1985, and I am waiting to see what they do in terms of reciprocity and of defining the region. Will it be an eight-state region? Will it be based on contiguous states? Will it be nationwide? What will the states do with the issues of leapfrogging or the national trigger? When we find united but diverse states like these formalizing their provisions, we will discover answers as to whether there will be compacts, and how far and how fast this movement will progress across the nation.

Any state passing such an interstate banking law should realize that it is entering into this activity to gain some objective, whether it be an economic objective or stronger banking institutions for its region. To reach those goals, it is important that the state place some sort of oversight or monitoring capacity in its statute and ensure that its officials can see that those objectives are pursued by the institution.

My remarks may sound as though the Conference of State Bank Supervisors and I are all in favor of interstate banking. But I can assure you that several states are not— and as long as several states are not, part of me will not be in favor either. Previously, in a morning I have helped one state write a statute permitting interstate banking and helped another in the afternoon draft legislation prohibiting interstate banking. So I know some of the tricks on both sides of the fence. This diversity of interest among the states requires CSBS to hold a policy of neutrality on the merits of interstate banking while standing ready to help individual states of either persuasion.

Congressional Update and Outlook on Interstate Banking

John T. Collins

Barring a crisis, Congress is unlikely to enact interstate banking legislation this year unless disputants reach general agreement and the public expresses a clear need.

Innovation is a key word to describe what is happening in banking today. I would like to begin with a story about one approach to change and how one person handled it.

A fisherman went out every day and returned with a loaded boat, while the other fishermen came back empty-handed. One night, after this had gone on for several weeks, the game warden asked the fellow if he could accompany him the following day to view his techniques. The fisherman agreed.

The next morning they both got into the boat, and headed out into an area the other fisherman had not tried. After dropping anchor the fisherman reached into his tackle box, picked up a stick of dynamite, lit it, and threw it over the side. In a few seconds a loud explosion followed and many fish rose to the surface. The fisherman reached over with a net and scooped all the fish into the boat. This procedure was repeated a few times before the warden, becoming emotional, finally stood up and said, "You've got to stop; you're disobeying all the state's laws. If you don't stop, I'm going to arrest you and send you to jail for several years."

But the fisherman kept tossing dynamite and hauling in fish until he grew tired. Then he noticed the warden still jumping up and down waving his arms. The fisherman reached into the tackle box, pulled out a stick of dynamite, threw it to the warden, and asked, "Do you want to fish or do you want to talk?"

The moral of that story is that you should be dynamic in your approach, but avoid using dynamite.

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This interstate banking conference focuses on one part of the transition that the financial system is undergoing. It concerns location—where a particular type of organization will engage in a business activity—but it does not address other issues facing banks, such as the mix of products that a regulated organization may offer.

The interstate issue is as old as the nation. One national bank was chartered in 1791 and another in 1816; however, principally because the banks were interstate organizations with significant potential for growth, their charters were not renewed. In those periods Congress was concerned about concentration and monolithic financial organizations. That suspicion of large organizations, especially in the financial area, persists today and contributes to Congress' reluctance to deal with the interstate banking issue.

For the most part, progress on the issue is taking place away from Capitol Hill, with state, court, and some regulatory actions. Until 1984, the impetus for change in the interstate banking area arose primarily in the states, which is consistent with Congress' tradition of relying on the states with respect to location of financial institutions.

In the past year, the development of interstate banking operations has increasingly become a federal issue, as banking organizations have applied to the Comptroller of the Currency for nonbank charters (now over 360 separate charter applications) across state lines. This market expansion vehicle has begun to eclipse other interstate options, such as the regional agreement approach in New England and the Southeast. If Congress is to continue to rely on the states to determine bank location policy and if it is to have any influence over the way in which interstate operations develop, it will have to act in 1985 both on the nonbank bank and the regional interstate banking issues. Otherwise, it will be left to the courts (for example, the pending Supreme Court appeal by Northeast Bancorp and Citicorp regarding New England regional banking statutes), state legislatures, federal agencies, and the marketplace to struggle over the confused state of federal banking provisions.

Congressional Interstate Banking Policy

In 1927 Congress enacted the McFadden Act, empowering national banks to branch within their communities, just as most of the states had enabled state-chartered banks to do. Federal legislation was amended again in the early 1930s to permit national banks to go statewide in those states where state banks were permitted such freedom. An innovation at first, many today view the McFadden Act as an anomaly.

Whereas the bank branching provisions expanded opportunities for national banks, the general thrust of financial institutions legislation enacted during the 1930s was to establish a utility-type banking system. Under the system, deposit or inventory costs were controlled, as were loan rates. While their product-lines, costs, revenues, and locations were heavily regulated, bankers were generally assured of profits because the system minimized their risks and to some extent insulated them from competition.

In 1956, the Bank Holding Company Act, came into being. Section 3(d) of the 1956 Act, known as the Douglas Amendment, is a corollary to the McFadden Act. Congress decided in the 1956 Act that the states should determine whether a bank holding company should be allowed to acquire a subsidiary bank in a state other than the holding company's. Yet even then, worried about potential future abuses, Congress wanted to leave the door slightly ajar. For example, it "grandfathered" some existing interstate bank holding company operations. (Norwest and First Interstate are notable among these organizations.) In addition, Congress did not announce that chain banks—a group of banks owned by several individuals—were illegal, nor did it impose restrictions on conducting non-banking activities across state lines.

The Bank Holding Company Act was amended in 1970 when Congress decided it had to address the proliferation of one-bank holding companies. Such companies were placed within the same regulatory framework that had existed for multibank holding companies since 1956. Among the major changes in these amendments was a redefinition of the word "bank" to mean any institution that accepts demand deposits and is engaged in the business of making commercial loans. The dual test in the definition was intended primarily to exempt a specific trust company, but today the definition is being used to establish nonbank banks.

Following the 1970 amendments, Congress took no action in the interstate area until 1978. At that time, it reviewed the operations of foreign banks in the United States and expressed concern that federal laws permitted such banks to expand their operations across state lines, whereas they limited the interstate options of U.S. banking organizations. As a result of this and other similar statutory disparities, Congress decided to enact the International Banking Act of 1978, which subjected foreign banks coming into this country to the same branching and interstate operation restrictions as U.S. banks. Congress grandfathered operations that were in existence as of 1978—some 103 foreign banks with multi-state operations.

In 1982, Congress acted to assist the troubled thrift industry, acknowledging that not enough merger or capital-raising solutions existed within that industry. Through the Garn-St Germain Act of 1982, Congress authorized the acquisition of

"Until 1984, the impetus for change in the interstate banking area arose primarily in the states, which is consistent with Congress' tradition of relying on the states with respect to location of financial institutions."

failing thrift institutions across or within state lines by other types of organizations. The Federal Home Loan Bank Board had begun this process in 1981 by approving interstate acquisition of failing thrift institutions by healthy thrift organizations. Thus, Congress really was confirming the Bank Board's action.

Since 1982, the failing-thrift provision has allowed the interstate acquisition by banking and thrift organizations of more than 40 failing thrift institutions based in over 25 states. The 1982 statute shows that Congress has not shut the door entirely to interstate banking. However, it should be emphasized that the Garn-St Germain Act only permitted limited interstate operations in response to a significant problem confronting the financial system.

The 98th Congress

Congress did not take any final action in 1983 or 1984 on the interstate question or other bank operational and structural issues. The International Monetary Fund legislation enacted in 1983 was the most significant bank-related legislation that the 98th Congress enacted. In addition to authorizing an increase in U.S. funding for the IMF, that statute mandated improvements in bank capital positions and accounting practices and directed the regulatory agencies to upgrade their bank supervisory procedures. While the IMF legislation reaffirmed Congressional reliance on the regulatory system, the 98th Congress began to review some of the changes occurring within the banking industry.

The Senate acted on a number of banking issues when, on September 13, 1984, it passed Senate bill 2851, the Financial Services Competitive Equity Act. That bill would have closed the nonbank bank loophole, defined qualified thrift lenders, broadened bank holding company securities powers, and mandated more effective disclosure of check holding policies, in addition to affirming regional interstate banking agreements.

The bill's regional interstate banking provisions were modeled after legislative proposals introduced earlier in the 98th Congress by Senators Mack Mattingly of Georgia and Paul Tsongas of Massachusetts. (Similar legislation also was introduced in the House by Congressman Douglas Barnard of Georgia.) In S. 2851 the Senate made it clear that it preferred to continue the policy of permitting states to determine interstate banking standards.

Both the Senate and the House considered redefining the term "bank" in the Bank Holding Company Act to plug the nonbank bank loophole. One difference in approach was that the Senate, in S. 2851, would have grandfathered all nonbank banks acquired or controlled as of July 1, 1983. Some House members agreed with a July 1, 1983 date while others supported less restrictive dates, which in part prevented the House from taking action. Most of the pre-July 1, 1983 nonbank banks were established by nonbanking companies, and those established or applied for after that date were affiliated with bank holding companies; thus, the July 1 date generally divides the grandfather issue between those seeking nonbank banks for product expansion (the nonbanking firms) or for interstate expansion (the bank holding companies).

"Congress regularly has chosen the grandfather approach, authorizing firms to continue a business activity in which they already are engaged, when it has acted to eliminate potential problems."

Those holding companies that acquired control of nonbanks after July 1, 1983, when the issue clearly was being considered by Congress, have depended on Congress to grandfather their activities. Over the past 50 to 60 years, Congress regularly has chosen the grandfather approach, authorizing firms to continue a business activity in which they already are engaged, when it has acted to eliminate potential problems. Although some argue that the July 1, 1983 date is unfair, in the minds of Senator Jake Garn, chairman of the

Senate Banking Committee, and Congressman Fernand St Germain, chairman of the House Banking Committee, as well as Senator William Proxmire, the ranking Democrat on the Senate Banking Committee, that date is equitable because there was a reasonable expectation that Congress would act to limit such institutions as of that date.

The lack of agreement in Congress prevented approval of financial services legislation in 1984. Although the Senate passed S. 2851, the House did not pass comparable legislation nor was any taken up on the House floor. Ironically, although the Senate passed its banking legislation by a vote of 89 to 5, no separate votes were taken on the Senate floor on the regional interstate banking provisions despite several days of debate and discussion. Moreover, no separate votes were taken on the limited security powers in that legislation. All but two of the votes were on final passage and procedural matters. Another irony is that the legislation was not—as it has been cast by some—a broad banking powers bill.

The legislation in the Senate benefited from the fact that both Senators Garn and Proxmire were pursuing the same general objective. Action in the House was hampered partly owing to differences about legislative objectives and to the split jurisdiction of financial services issues among three House Committees. When it became clear that no legislation would be enacted, Senators Garn and Proxmire and Congressman St Germain issued a joint statement emphasizing their intent to make financial services legislation (dealing with competitive and regulatory structure issues) the first priority of the 99th Congress and, in doing so, to retain the July 1, 1983 grandfather date for nonbank banks.

The 99th Congress

What would cause Congress to act in 1985? The pace of change will determine that. Congress usually acts for one of three reasons. First, it acts in response to a crisis, as in 1933, and in 1982 when thrifts were threatened. At this point, no crisis of comparable magnitude is on the horizon. Second, Congress will act when general agreement exists among differing parties, each of whose position has reasonable merit. It is an understatement to suggest that there was no general agreement in 1984. Third, Congress may choose to act when the public urges that some type of new banking system or service is a benefit rather than a threat to the existing system.

General agreement may crystallize as those involved in or affected by the legislative process finally realize that the situation that prevailed in 1984 only added to the confusion in the financial system. Congress will have to consider ways in which to permit the system to evolve, but in a manner that poses no threat to the safety or soundness of the system and that benefits the commercial and retail customers of the system through increased, diversified, and better priced financial services.

Will Congress act on comprehensive financial services legislation in 1985? I believe that it will. Congressional leaders realize that there is a need to respond to shifts in the financial system and time is short for their reply. As has been the pattern over the last few years, the Senate probably will look at legislation sooner than the House. If the Senate passes legislation, perhaps by June, I think that the House will follow and that a House-Senate Conference Committee will agree on legislation. Senator Garn and Congressman St Germain are not that far apart on the issues; they have worked well together in the past, and I would expect them to join efforts again in the 99th Congress.

"Congressional leaders realize that there is a need to respond to shifts in the financial system and time is short for their reply."

With regard to interstate banking being a part of such legislation, the litigation in the Supreme Court involving the New England regional agreement (a slight misnomer since Vermont and New Hampshire have not enacted interstate banking laws) may have an impact on congressional action. If the Supreme Court affirms the Court of Appeals decision approving the validity of the New England statutes, Congress may choose not to act. If the Court of Appeals decision is overturned, it is very likely that Congress will seek a legislative solution to the interstate question. Such a solution would almost certainly be based on Congress' historical approach to this issue—basically to rely on state actions.

Although a good chance for action exists, what Congress ultimately will do in 1985 is uncertain. What is certain, however, is that changes will continue, and that the system will remain in transition.

Through many decades of banking legislation and regulation, we still have a diverse system with 14,000 banks, 4,000 savings institutions, and 21,000 credit unions. And throughout all of this some interstate operations continue. Whether they involve the New England experiment, the Southeast arrangements, the acquisition of a failing thrift across state lines, or a credit union organization with worldwide operations, interstate banking and interstate depository institution networks have emerged.

Current banking laws, many of which have been in place for 50 years, fail to take into account all of the technological, economic, demographic, and competitive changes that have occurred in the past several years. So long as both individual and business consumers welcome the continuing changes and the financial system remains strong, Congress will face even greater challenges in 1985 in its attempt to catch up with the evolving marketplace.

Concentration in Local and National Markets

Stephen A. Rhoades

The concentration of banking resources seems likely to rise sharply nationwide with the advent of interstate banking. Yet no significant shift in concentration at the local market level is expected. Prices and services thus would not be greatly affected.

Though interstate banking is prohibited in the United States, banking organizations have used numerous mechanisms to provide some bank-like services nationwide. Recently, a loophole in the Bank Holding Company Act has permitted both banks and non-financial institutions to set up nonbank banks on an interstate basis. At the same time, regional pacts are developing and proposals for nationwide interstate banking are being discussed at the federal level.

Two significant issues raised by the prospect of interstate banking are the implications for national and local market banking concentration. Concern over interstate banking's effect on the concentration of banking resources at the national level arises from this country's long-held aversion to concentration of power of any kind. Interstate banking's effect on concentration in local banking markets generates interest because of the apparent relationship between market concentration and competition, and thus the prices paid and services received by consumers and small businesses.

Nationwide Banking Concentration

Interstate banking does raise the prospect of increasing concentration of the nation's banking resources. Historically, many in this country have been concerned that any growth in the concentration of control of economic resources could affect the economy as a whole or a major segment. However, unlike heightened concentration in well-defined markets, increased concentration in the aggregate is difficult to analyze with the standard models of economic theory. This may be because the implications of an increasing overall concentration of resources are largely socio-political in nature. Thus, the concern over augmented concentration of economic resources in the aggregate is in keeping with the nation's general repugnance toward concentration of power. With overall concentration, the problems are not quantifiable or mathematically tractable, but they are quite real. Consequently, it seems likely that any feasible proposal for interstate banking will need to take into account its implications for the concentration of banking resources nationwide.

Since 1970, no measurable trend has appeared in the national concentration of banking resources. Domestic deposit data show that concentration remained nearly constant from 1970 through 1975, declined somewhat from 1975 through 1980, and increased from 1980 through 1983. The result for the entire 1970-83 period was a slight decline, from 38.9 to 37.9 percent, of deposits held by the 50 largest organizations and a slight increase, from 48.1 to 48.9 percent, of deposits held by the 100 largest organizations.

Concentration ratios based on U.S. domestic plus foreign deposits reveal that for the same period, there was an increase of 3 to 4 percentage points in the deposits held by both the 50 and 100 largest banking organizations. This increase is attributable largely to dramatic growth in international banking activity by the largest U.S. banks over the last decade or so.

These trends of national concentration may be interesting and indicative of important changes occurring in the industry. They are not, however, particularly useful for speculating about the possible effects of interstate banking on national banking concentration. For that purpose, data on the concentration of banking resources at the

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state level are more relevant, because some states permit statewide branching while others prohibit or greatly restrict branching. Using such data enables us to compare statewide concentration in states having liberal expansion laws with those having restrictive laws. Differences observed between the states may indicate the directional change in national concentration that would occur if the United States were to reduce or eliminate prohibitions on interstate banking.

Differences in statewide concentration ratios between the various groups of states are quite sharp. Furthermore, the data show consistently that in states where the opportunity for geographic expansion is greatest, the statewide concentration ratio is relatively high. For example, the 25 statewide branching states have an average five-firm deposit concentration ratio of 72.4 percent, ranging from a low of 44.6 percent to a high of 95.3. States with limited branching laws, but with multi-bank holding companies that hold at least half the state's deposits, have an average concentration ratio of 51 percent. This compares with an average statewide concentration ratio of only 25.8 percent for those limited branching states where multi-bank holding companies account for less than half the deposits. The unit banking states in which multi-bank holding companies control over half of the deposits have a concentration ratio of 49 percent, on average, while unit banking states where less than half the deposits are controlled by multi-bank holding companies have an average concentration ratio of 31.6 percent.

Based on the individual states' experience with geographic expansion of opportunities, it is quite likely that interstate banking will significantly increase the concentration of banking resources at the national level. Three points regarding this conclusion are warranted. First, since this outcome is so reasonable and since relevant evidence supports the conclusion so strongly and consistently, it seems unrealistic to suggest otherwise. Good public policy requires that if we embark on interstate banking, we should do so with the fullest possible awareness of the consequences. Second, there appears to be little or no basis for believing that some increase in national banking concentration will have demonstrable adverse economic effects. Third, one may infer from the states' experience that the increase of national banking concentration probably would be substantial.

Local Market Concentration

The reason for interest in the effect of interstate banking on local market concentration is relatively straightforward compared with the question of national banking concentration. The basic questions raised are economic in nature, and so our analytical tools can deal with them. Thus, economic theory suggests that the degree of competition in a market will affect the quality of services received and prices paid by customers. Furthermore, a large body of evidence suggests that the concentration of a market is an indicator of the degree of competition.

Nevertheless, some economists cite two reasons why concern over local market concentration is unfounded. First, they note that since nonlocal providers offer credit, borrowers have alternative sources. This argument, however, seems to ignore the fact that survey evidence indicates that a great majority of consumers and small businesses rely on commercial banks for credit. Consequently, for those locally limited customers, local market structure and competition remain important. Second, some economists contend that the high profits generally found in concentrated markets are not attributable to market power, as authors of most structure-performance studies hold, but rather to the relative efficiency of the firms that have come to dominate the market. It should be noted, however, that the monopoly power explanation for high profits is neither ideologically motivated nor an after-the-fact rationalization of the results. Indeed, the hypothesis and the

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explanation for the findings of high profits in concentrated markets come directly from theoretical work done during the 1930s and 1940s by Edward Chamberlin, Joan Robinson, Edward Mason, and others. For this reason, these studies' findings should not be dismissed casually.

Local banking markets showed a persistent decline in concentration and presumably became more competitive between 1966 and 1981. Results are the same using either a concentration ratio or Herfindahl Index to measure market structure. Furthermore, the number of organizations increased in both SMSA (Standard Metropolitan Statistical Area) and non-SMSA markets over the entire 1966-1981 period, as well as in both subperiods, 1966-1973 and 1973-1981. Data based on non-bank thrifts plus commercial banks exhibit the same pattern of change between 1973 and 1981. While these data offer an overview of trends in the concentration of local banking markets, they do not provide a meaningful indication of the likely effect of interstate banking on local market structure. A comparison of concentration in local banking markets between states that have relatively liberal geographic expansion laws with those that have relatively restrictive laws is more helpful.

In general, the average market concentration data for different groups of states differ only negligibly. For example, the average SMSA concentration ratio in statewide branching states, 73.4 percent, is about the same as in the other four groups of states: 72.8 percent for limited branching in which multi-bank holding companies (MBHCs) hold over one-half of state deposits; 70.1 percent for limited branching in which MBHCs hold less than one-half of state deposits; 71.9 percent for unit banking in which MBHCs hold over one-half of state deposits; and 56.0 percent for unit banking in which MBHCs hold less than one-half of state deposits. The extent of multi-bank holding company activity seems to make no difference in the market concentration ratios. The only exception arises in the most restrictive situation—the three states with unit banking laws and multi-bank holding companies accounting for less than 50 percent of all deposits—where the average SMSA concentration ratio is the 56 percent figure mentioned earlier. Data for the non-SMSA county markets follow the same pattern, but without exceptions. The average non-SMSA county concentration ratios for the five groups of states are 88, 86, 89, 93, and 85.

These data indicate that more or less restrictive laws on geographic expansion have no substantial effect on concentration in local banking markets. Thus, it seems fair to conclude that interstate banking alone will have little impact on concentration in local banking markets. The antitrust laws and the manner in which they are applied are likely to have far greater repercussions in that sphere.

Conclusion

In conclusion, the prospect of interstate banking has raised questions about the effect of a concentration of banking resources at the national level as well as in local markets. Interest in interstate banking's impact on national concentration stems largely from the socio-political implications of an increased overall concentration of financial power. Interest in the local market concentration issue arises from the apparent effect of local market concentration on prices and services in local markets.

Data indicate that since 1970 the national concentration of banking resources has remained fairly stable, while concentration in local banking markets has generally declined since 1966. These trends are of interest because they may be indicative of fundamental changes in the industry. They are not, however, indicative of the likely effect of a move to interstate banking.

A comparison of the statewide concentration and average local market concentration in states with liberal geographic expansion laws and states that have restrictive laws is far more useful for assessing the likely effect of nationwide banking on concentration both in national and local markets. Relevant data indicate that states with relatively liberal expansion laws and experience have substantially higher statewide concentration than states with more restrictive laws. In contrast, average local market concentration ratios are essentially the same regardless of laws governing expansion. This suggests that interstate banking, per se, would lead to a substantial increase in the nationwide concentration of banking resources, but would not change local market concentration significantly.

Interstate Banking's Impact upon Financial System Risk

Robert A. Eisenbeis

The prospect of interstate banking menaces neither the existence of small banks nor the safety and soundness of the financial system, according to this scholar. However, he believes today's increased general riskiness of large banks is legitimate cause for concern.

Participants in public policy debates on interstate banking usually conclude that relaxing restrictions would have a positive effect on safety and soundness. However, this benefit is not judged so great as to argue overwhelmingly in favor of multi-office banking.[1] These conclusions typically have rested on two types of arguments: the supposed benefits of increased geographical diversification associated with multi-office banking, and the fact that branch banks generally are larger and historically have tended to experience a lower incidence of failure.

A number of troubling developments suggest that the effects of multi-office banking should be reexamined. These include the acceleration of deregulation and resulting pressures on margins, the recent problems with foreign debt in large bank portfolios, the failure of Continental Bank, and the radical increase in both the number and average size of problem banks and failed banks. There is also a short-run concern that a movement to branch banking will 1) increase competition, 2) be disruptive, and 3) lead to the failure or absorption of numerous small banks, thereby undermining financial stability. Such concerns have led many observers to conclude that interstate banking may threaten the safety and soundness of the banking system.[2] We will review briefly the traditional evidence on the relationship of multi-office banking to bank safety and soundness and attempt to evaluate what may, or may not, be relevant concerns in the current economic environment.

Safety and Soundness

It is widely believed that multi-office banking reduces funding risk by lowering the variability and cost of deposits, which decreases the likelihood of failure.[3] Evidence on the variability of deposits is scarce but tends to support this contention.[4] However, the arguments for interstate banking rest mostly on the historically lower failure rates of branch and bank holding company subsidiaries.

Historical Evidence. Evidence from as far back as the 1920s and 1930s suggests that failure rates were lower among multi-office organizations than unit banks. Moreover, acquisitions by multibank holding companies and branch banks provided many local and rural communities with access to financial services that would have been unavailable had local banks not been merged into more robust organizations.[5] Citing more recent evidence from the 1960-1975 period, studies by both the Senate Banking Committee and Carter administration noted that a greater proportion of the banks that failed were in unit rather than in branching states.[6] Similarly, there is no evidence that multi-office institutions have shown up more frequently on the Federal Deposit Insurance Corporation problem list than have unit banks, at least through 1978.[7] This meager evidence tends to conform to the traditional view supporting multi-office banking.

However, Alan S. McCall and John Lane also note that, while the number of failures was higher in unit banking states, the dollar volume of deposits involved in failures was greater in branching states. Other evidence indicates that larger organizations, which tend to be located in branching states and states that permit multibank holding companies, are likely to have lower profit margins, greater leverage, greater proportions of loans, and less liquidity than unit banks, all of which suggests that these banks are riskier.[8] On balance, most scholars agree that multi-office banking has not increased the overall risk of banking organizations significantly. The benefits of geographic

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Table 1. Profitability and Performance of All Insured U.S. Commercial Banks (By Size Category)

Year	All Banks	Year End Assets (millions of dollars) 0-25	25-50	50-100	100-500	500-1000	1000+
Loan Loss Provision							
1979	.31	.30	.27	.27	.26	.30	.33
1980	.33	.33	.30	.29	.29	.35	.35
1981	.34	.37	.31	.31	.32	.32	.35
1982	.51	.52	.46	.43	.47	.48	.53
Return on Average Assets							
1979	.81	1.20	1.17	1.10	1.00	.88	.64
1980	.79	1.31	1.21	1.14	1.00	.88	.61
1981	.76	1.21	1.17	1.09	.94	.86	.60
1982	.72	1.04	1.11	1.08	.88	.79	.57
Return on Average Equity							
1979	13.9	13.6	14.5	14.3	14.1	13.5	13.8
1980	13.7	13.4	14.6	14.4	13.8	13.1	13.4
1981	13.1	12.9	13.7	13.5	12.8	12.7	13.1
1982	12.2	10.9	13.0	13.3	12.0	11.7	12.1
Adjusted Net Interest Margin							
1979	3.95	4.71	4.50	4.42	4.29	4.29	3.57
1980	3.93	4.96	4.67	4.54	4.35	4.37	3.46
1981	3.86	5.13	4.70	4.53	4.37	4.39	3.35
1982	3.76	4.87	4.61	4.52	4.33	4.30	3.27

Source: Federal Reserve Board, Reports of Condition and Income.

diversification seem to have played a positive role in offsetting the effects of increased portfolio risk.[9]

Recent Evidence. Critics of interstate banking cite recent evidence which, they claim, validates concern over its risk implications. First, reports indicate that both the number and average size of banks on the failure list have increased radically. Edward J. Kane notes that the bank failure rate, which was 6.3 banks a year during the 1961-1970 period, rose to 8.3 banks yearly during the 1971-1980 period and has jumped to over 40 banks annually since 1982. In addition, the average deposits in closed banks soared from $34.2 million in the 1961-70 period to $537 million between 1971 and 1980. More alarming is the fact that, of the ten largest banks that failed through 1976, only three remain among the largest on today's list of bank failures.[10]

Second, bank loan losses have soared, and even in good years are now running at rates far above those of the 1960s.[11] Furthermore, the loss rates are greater for large banks than for small banks, as Table 1 shows.[12] These current losses, together with the buildup of underwater assets on a current market basis, chiefly because of large banks' mortgage and foreign debt holdings, suggest that bank asset quality has deteriorated. In addition, the FDIC lists asset quality problems as the principal cause of failures during 1971-1983.[13] The potential losses attributable to these perceived increases in risk have prompted government regulators to promulgate revised capital adequacy standards. Some argue that these more stringent standards could slow the movement to interstate banking.[14]

Third, the deregulation of deposit interest rate ceilings, the threat of narrowing spreads, and the erosion of low-cost "core" deposits have led many to question the wisdom of investing, either through new offices or by acquisition, in branching networks that already may be obsolete.[15] Thus, the viability of utilizing an interstate branching strategy to reduce dependence on purchased moneys for funding purposes may be short-lived as more consumer and traditionally interest-insensitive deposits begin to earn market rates.[16]

Fourth, the growth of daylight overdrafts and the potential domino effects if organizations find themselves unable to cover their overdraft positions have focused attention on large organizations' operations risks.[17]

portfolio. It is interesting that the two largest Chicago banks have a history of periodic financial troubles. Do their funding problems and dependence upon out-of-area loan and deposit business result from the lack of multi-office banking in Illinois?[19] Once Continental began to experience funding difficulties, major loan customers began to leave the bank, for fear that they could not obtain future funding.

A close look at other large bank failures still does not establish that multi-office banking contributed significantly. Franklin National Bank of New York failed because an imprudent management attempted to expand the bank into a money center institution too quickly.[20] U.S. National Bank and United American Bank failed because of improper insider dealings by the chief executives.[21] First National Bank of Midland

"Apparently, the traditional causes of failure—management improprieties and excessive risk-taking due to insufficient balance sheet diversification—continue to be the overriding reasons for problems in U.S. banks."

Finally, along with the failure of Continental Bank and the subsequent market reaction to unfounded rumors about Manufacturers Hanover Bank, these recent trends have heightened the perception that large banks are more risky and less able to respond to changing market conditions than was previously believed. Such fears are reinforced by the erosion of bank capital positions over the past two decades.[18] Furthermore, it is now clear that large banks are not immune to the threat of failure.

Analysis of the Issues. On reflection, it is clear that the concerns over safety and soundness that spring from the recent evidence are in fact associated far more closely with the problems generated by large banks' financial difficulties—be they unit or branching organizations—than they are with multi-office banking. For example, a unit banking organization, Continental, failed primarily because of improper internal controls over the loan portfolio, excessive concentration in energy-related loans (mostly originated through a single correspondent), improper dealings by individual loan officers, and heavy dependence upon purchased money to fund the bank's loan

(Texas) and Penn Square Bank of Oklahoma City were both unit banks with business concentrated in energy lending. Hamilton National Bank of Chattanooga suffered from excessive concentration in real estate-related loans.[22] In each of these instances, mismanagement rather than multi-office banking was a major factor in the bank's failure.

Apparently, the traditional causes of failure—management improprieties and excessive risk-taking due to insufficient balance sheet diversification—continue to be the overriding reasons for problems in U.S. banks. The nation's multinational banks, whose financial condition is now a major source of concern, appear to be the most diversified geographically in terms of where they can make loans and access funds. Yet it also seems that these banks are less diversified than their geographical reach might suggest because they depend so heavily on access to funding in large-volume but highly rumor-sensitive markets. Moreover, their asset portfolios are heavily concentrated in loans that, while geographically diverse, are subject to the same systematic risks. Critics of the present federal deposit insurance system would link these problems to improperly priced deposit insurance and the built-in incentives to excessive risk-taking that underpriced or unpriced implicit government guarantees provide.[23]

In the case of daylight overdrafts, some contend that banking structure affects the overdraft pattern. Unit banks and correspondent banks usually generate a higher incidence of overdrafts than do branch banks. That is because branch banks transfer funds across long distances internally whereas unit banks, bank holding company subsidiary banks, and correspondent banks do not. It is generally conceded that, as branching expands, the daylight overdraft problem and accompanying risks to the system are reduced.

In short, the major causes for concern should be the lack of effective diversification and its attendant consequences when large banks take a major role in financial markets, as well as improperly priced government guarantees—not the effects of multi-office banking on risk-taking.

Multi-Office Banking, Competition, and Viability

Critics long have argued that interstate banking poses a short-term threat to system safety and soundness by undermining the viability of small banks. Virtually no evidence has been found to demonstrate that small banking organizations cannot compete effectively with large organizations, even where institutions compete head-to-head in major metropolitan markets.[24]

The extensive body of literature on costs and economies of scale and scope disputes the widely held belief that large banks are more efficient than small banks.[25] In fact, it clearly demonstrates the existence of some diseconomies. Such empirical evidence is strengthened by the data in Table 1, which show that small banks consistently outperform large banks. From the late 1970s into the 1980s, large banks have had lower returns on equity, lower returns on assets, and lower net interest margins than small banks.

Equally important, the data show that the spread between the net interest margins for small banks widened over that for large banks following the recent deregulation of deposit rate ceilings—a development that almost no one forecast. Only the smallest banks appear to be at a competitive disadvantage, and this is more likely a result of the predictable weaker performance of new institutions than of competitive pressures.

Summary and Conclusions

From a public policy perspective, there is scarce evidence to warrant concern about the relationship between interstate banking and financial system safety and soundness. Notwithstanding the doomsday predictions of some, fear that multi-office banking poses a threat to the viability of small banks and hence to the safety and soundness of the system seems unfounded. However, there is cause for concern that large banks have become more risky, and that their demise may affect the stability of the banking system. But this concern is related more to the changing nature of funding markets, to these banks' dependence upon highly volatile funds that can dry up quickly, and to the lack of effective diversification in their asset portfolios than it is to any causal link to multi-office banking. Especially when coupled with deposit insurance reform, a good case can even be made for a more permissive attitude toward interstate banking as one means to help large banks diversify and to reduce their overall risk.

Nonetheless, to the extent that interstate banking creates a climate for consolidation of the banking system, it is worthwhile to probe the implications of system concentration for public policy toward bank regulation and supervision.

"A good case can even be made for a more permissive attitude toward interstate banking as one means to help large banks diversify and to reduce their overall risk."

NOTES

[1]See, for example, Department of the Treasury (1981), Golembe Associates (1979), Eisenbeis (1984), or Gilbert (1976).
[2]See, for example, the discussion in Golembe Associates (1980) or Waite (1982).
[3]See Treasury Department (1981).
[4]See, for example, Lauch and Murphy (1970) for supporting evidence.
[5]See Golembe Associates (1979) or Rose (1978).
[6]See Gilbert (1976) and McCall and Lane (1981).
[7]See McCall and Lane (1981).
[8]See McCall and Lane (1981) and Rose (1978).
[9]Two studies by Eisenbeis, Harris, and Lakonishok (1984) and Born, Eisenbeis, and Harris (1983) have attempted to quantify some of the benefits of interstate expansion. The evidence is mixed. Eisenbeis, Harris, and Lakonishok found that stockholders perceived some benefits from interstate expansion but not as great as those associated with intrastate expansion. Born, Eisenbeis, and Harris found no evidence of great benefit from interstate banking.
[10]See Kane (1984) and Sinkey (1979).
[11]See FDIC (1983).
[12]See Hanley, Rosenberg, D'Arista, and Mitchell (1984) and Danker and McLaughlin (1984).
[13]Interestingly, the Committee on Government Operations disputes the FDIC data suggesting that the traditional causes of problems and failures—fraud and insider dealings—continue to be the major cause of failures today.
[14]See Wall (1983).
[15]See, for example, Dennis (1984).
[16]For a discussion of how interstate branching restrictions have eroded and of innovations that have come into existence to provide locally limited depositors with market rates, see Eisenbeis (1984, 1985).
[17]See, for example, Association of Reserve City Bankers (1983).
[18]See, for example, Talley (1983).
[19]This dependence on nonlocal business is not a recent development. An analysis of the lending patterns of Chicago banks using 1955 data from the Federal Reserve's Business Loan Survey reveals a heavy dependence by Chicago's large banks on nonlocal borrowers and money center type activities. See Eisenbeis (1972).
[20]See Sinkey (1979).
[21]Ibid.
[22]Ibid.
[23]See Kane (1984).
[24]For discussions of this evidence see Savage and Rhoades (1981).
[25]See Humphrey (1985).

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FINANCE

$ millions	JAN 1985	DEC 1984	JAN 1984	ANN. % CHG.		JAN 1985	DEC 1984	JAN 1984	ANN. % CHG.
UNITED STATES									
Commercial Bank Deposits	1,488,647	1,441,062	1,351,109	+ 10	Savings & Loans**				
Demand	346,122	316,536	339,855	+ 2	Total Deposits	729,323	717,731	630,088	+ 16
NOW	101,202	94,049	88,719	+ 14	NOW	23,146	21,493	18,904	+ 22
Savings	386,170	460,560	350,184	+ 10	Savings	166,291	163,392	175,541	- 5
Time	700,957	698,497	619,801	+ 13	Time	543,387	535,820	439,989	+ 24
Credit Union Deposits	59,025	58,264	60,745	- 3		DEC	NOV	DEC	
Share Drafts	6,607	6,355	5,546	+ 19	Mortgages Outstanding	598,559	598,425	483,596	+ 24
Savings & Time	52,460	55,543	50,491	+ 4	Mortgage Commitments	37,584	40,633	32,331	+ 16
SOUTHEAST									
Commercial Bank Deposits	171,155	165,195	152,054	+ 13	Savings & Loans				
Demand	40,299	36,948	38,739	+ 4	Total Deposits	97,207	95,617	N.A.	
NOW	13,068	12,131	11,360	+ 15	NOW	3,784	3,430	N.A.	
Savings	43,609	42,223	39,297	+ 11	Savings	21,152	20,711	N.A.	
Time	79,250	78,404	67,269	+ 18	Time	72,882	72,252	N.A.	
Credit Union Deposits	6,599	6,511	6,025	+ 10		DEC	NOV	DEC	
Share Drafts	610	595	502	+ 22	Mortgages Outstanding	75,325	75,225	68,866	+ 9
Savings & Time	5,892	5,813	5,168	+ 14	Mortgage Commitments	4,364	4,507	4,640	- 6
ALABAMA									
Commercial Bank Deposits	17,856	17,450	15,930	+ 12	Savings & Loans**				
Demand	4,134	3,821	4,106	+ 1	Total Deposits	6,075	5,998	5,222	+ 16
NOW	1,226	1,141	1,040	+ 18	NOW	251	224	151	+ 66
Savings	3,417	3,350	3,210	+ 6	Savings	923	903	865	+ 7
Time	9,715	9,649	8,186	+ 19	Time	4,989	4,937	4,242	+ 18
Credit Union Deposits	994	979	915	+ 9		DEC	NOV	DEC	
Share Drafts	105	109	89	+ 18	Mortgages Outstanding	4,315	4,306	3,846	+ 12
Savings & Time	866	860	791	+ 9	Mortgage Commitments	215	174	288	- 25
FLORIDA									
Commercial Bank Deposits	60,983	58,296	53,616	+ 14	Savings & Loans**				
Demand	14,277	13,083	13,440	+ 6	Total Deposits	62,648	61,454	53,387	+ 17
NOW	5,407	4,985	4,707	+ 15	NOW	2,629	2,357	2,119	+ 24
Savings	20,456	19,793	18,364	+ 11	Savings	14,435	14,039	14,591	- 1
Time	22,553	21,930	18,417	+ 22	Time	45,734	45,191	37,152	+ 23
Credit Union Deposits	2,970	2,925	2,638	+ 13		DEC	NOV	DEC	
Share Drafts	310	294	253	+ 23	Mortgages Outstanding	44,589	44,447	41,223	+ 8
Savings & Time	2,545	2,510	2,114	+ 20	Mortgage Commitments	2,870	2,916	3,181	- 10
GEORGIA									
Commercial Bank Deposits	26,526	25,678	22,248	+ 19	Savings & Loans				
Demand	8,058	7,434	7,458	+ 8	Total Deposits	8,346	8,222	N.A.	
NOW	1,773	1,626	1,509	+ 17	NOW	314	295	N.A.	
Savings	6,556	6,318	4,885	+ 34	Savings	1,854	1,823	N.A.	
Time	11,708	11,654	9,692	+ 21	Time	6,337	6,242	N.A.	
Credit Union Deposits	1,387	1,371	1,359	+ 2		DEC	NOV	DEC	
Share Drafts	98	93	75	+ 31	Mortgages Outstanding	8,990	9,004	8,326	+ 8
Savings & Time	1,297	1,280	1,208	+ 7	Mortgage Commitments	401	420	477	- 16
LOUISIANA									
Commercial Bank Deposits	27,948	26,820	25,717	+ 9	Savings & Loans**				
Demand	6,237	5,608	6,376	- 2	Total Deposits	11,221	11,067	8,997	+ 25
NOW	1,663	1,562	1,474	+ 13	NOW	301	281	202	+ 49
Savings	5,773	5,518	5,449	+ 6	Savings	2,319	2,272	2,400	- 3
Time	14,867	14,637	13,105	+ 13	Time	8,752	8,679	6,494	+ 35
Credit Union Deposits	182	183	202	- 10		DEC	NOV	DEC	
Share Drafts	16	20	22	- 27	Mortgages Outstanding	9,266	9,304	8,046	+ 15
Savings & Time	179	177	195	- 8	Mortgage Commitments	434	511	446	- 3
MISSISSIPPI									
Commercial Bank Deposits	12,708	12,465	11,784	+ 8	Savings & Loans				
Demand	2,580	2,373	2,541	+ 2	Total Deposits	1,597	1,611	N.A.	
NOW	919	869	827	+ 11	NOW	54	52	N.A.	
Savings	2,409	2,346	2,442	- 1	Savings	351	434	N.A.	
Time	7,126	7,198	6,320	+ 13	Time	1,204	1,362	N.A.	
Credit Union Deposits	*	*	*			DEC	NOV	DEC	
Share Drafts	*	*	*		Mortgages Outstanding	2,062	2,074	2,035	+ 1
Savings & Time	*	*	*		Mortgage Commitments	178	147	63	+183
TENNESSEE									
Commercial Bank Deposits	25,134	24,486	22,759	+ 10	Savings & Loans**				
Demand	5,013	4,629	4,708	+ 6	Total Deposits	7,320	7,265	6,765	+ 8
NOW	2,080	1,948	1,803	+ 15	NOW	235	221	180	+ 31
Savings	4,998	4,898	4,947	+ 1	Savings	1,270	1,240	1,354	- 6
Time	13,281	13,336	11,549	+ 15	Time	5,866	5,841	5,282	+ 11
Credit Union Deposits	1,066	1,051	911	+ 17		DEC	NOV	DEC	
Share Drafts	81	79	63	+ 27	Mortgages Outstanding	6,103	6,090	5,390	+ 13
Savings & Time	1,005	986	860	+ 17	Mortgage Commitments	266	339	185	+ 44

Notes: All deposit data are extracted from the Federal Reserve Report of Transaction Accounts, other Deposits and Vault Cash (FR2900), and are reported for the average of the week ending the 1st Wednesday of the month. This data, reported by institutions with over $15 million in deposits as of December 31, 1979, represents 95% of deposits in the six state area. The major differences between this report and the "call report" are size, the treatment of interbank deposits, and the treatment of float. The data generated from the Report of Transaction Accounts is for banks over $15 million in deposits as of December 31, 1979. The total deposit data generated from the Report of Transaction Accounts eliminates interbank deposits by reporting the net of deposits "due to" and "due from" other depository institutions. The Report of Transaction Accounts subtracts cash items in process of collection from demand deposits, while the call report does not. Savings and loan mortgage data are from the Federal Home Loan Bank Board Selected Balance Sheet Data. The Southeast data represent the total of the six states. Subcategories were chosen on a selective basis and do not add to total.

* = fewer than four institutions reporting.

** = S&L deposits subject to revisions due to reporting changes.

N.A. = not comparable with previous data at this time.

CONSTRUCTION

	DEC 1984	NOV 1984	DEC 1983	ANN % CHG		DEC 1984	NOV 1984	DEC 1983	ANN % CHG
12-month Cumulative Rate									
UNITED STATES									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	61,483	60,962	51,297	+ 20	Value - $ Mil.	74,412	74,554	67,830	+ 10
Industrial Bldgs.	8,800	8,569	5,550	+ 59	Residential Permits - Thous.				
Offices	14,810	14,759	12,555	+ 18	Single-family units	890.7	898.1	891.2	- 0
Stores	9,542	9,381	6,998	+ 36	Multi-family units	748.2	744.9	699.1	+ 7
Hospitals	1,851	1,755	2,045	- 9	Total Building Permits				
Schools	993	950	858	+ 16	Value - $ Mil.	135,895	135,515	119,126	+ 14
SOUTHEAST									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	9,497	9,388	8,096	+ 17	Value - $ Mil.	13,854	13,824	12,660	+ 9
Industrial Bldgs.	987	960	668	+ 48	Residential Permits - Thous.				
Offices	2,246	2,313	1,942	+ 16	Single-family units	186.1	187.1	183.2	+ 2
Stores	1,902	1,877	1,329	+ 43	Multi-family units	171.7	171.2	160.7	+ 7
Hospitals	402	345	481	- 16	Total Building Permits				
Schools	104	116	155	- 33	Value - $ Mil.	23,351	23,212	20,756	+ 13
ALABAMA									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	730	687	526	+ 39	Value - $ Mil.	449	456	434	+ 3
Industrial Bldgs.	197	181	33	+ 497	Residential Permits - Thous.				
Offices	98	100	60	+ 63	Single-family units	8.0	8.1	8.0	0
Stores	127	128	94	+ 35	Multi-family units	6.7	6.9	8.0	- 16
Hospitals	53	26	4	+1225	Total Building Permits				
Schools	6	6	9	- 33	Value - $ Mil.	1,179	1,143	960	+ 23
FLORIDA									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	4,747	4,657	4,032	+ 18	Value - $ Mil.	7,964	7,946	7,387	+ 8
Industrial Bldgs.	479	468	364	+ 32	Residential Permits - Thous.				
Offices	1,079	1,096	897	+ 20	Single-family units	100.8	102.0	98.4	+ 2
Stores	1,071	1,057	753	+ 42	Multi-family units	97.9	95.4	88.8	+ 10
Hospitals	162	153	289	- 44	Total Building Permits				
Schools	46	49	58	- 21	Value - $ Mil.	12,711	12,604	11,420	+ 11
GEORGIA									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	1,809	1,844	1,341	+ 35	Value - $ Mil.	2,828	2,820	2,405	+ 18
Industrial Bldgs.	189	183	163	+ 16	Residential Permits - Thous.				
Offices	558	608	445	+ 25	Single-family units	43.9	43.7	41.5	+ 6
Stores	293	293	155	+ 89	Multi-family units	26.4	27.3	25.4	+ 4
Hospitals	51	45	31	+ 65	Total Building Permits				
Schools	18	18	28	- 36	Value - $ Mil.	4,637	4,664	3,747	+ 24
LOUISIANA									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	1,166	1,169	1,186	- 2	Value - $ Mil.	1,039	1,063	1,093	- 5
Industrial Bldgs.	31	30	35	- 11	Residential Permits - Thous.				
Offices	283	295	375	- 25	Single-family units	13.9	14.2	16.8	- 17
Stores	228	219	131	+ 74	Multi-family units	13.0	14.0	17.1	- 24
Hospitals	99	96	119	- 17	Total Building Permits				
Schools	26	34	49	- 47	Value - $ Mil.	2,205	2,232	2,278	- 3
MISSISSIPPI									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	250	254	191	+ 31	Value - $ Mil.	383	376	312	+ 23
Industrial Bldgs.	12	15	10	+ 20	Residential Permits - Thous.				
Offices	40	39	18	+ 122	Single-family units	6.0	5.8	4.8	+ 25
Stores	56	54	38	+ 47	Multi-family units	4.8	5.0	4.8	0
Hospitals	9	9	19	- 53	Total Building Permits				
Schools	3	2	6	- 50	Value - $ Mil.	633	629	503	+ 26
TENNESSEE									
Nonresidential Building Permits - $ Mil.					Residential Building Permits				
Total Nonresidential	795	777	820	- 3	Value - $ Mil.	1,191	1,163	1,029	+ 16
Industrial Bldgs.	79	83	63	+ 25	Residential Permits - Thous.				
Offices	188	175	147	+ 28	Single-family units	13.5	13.3	13.7	- 1
Stores	127	126	158	- 20	Multi-family units	22.9	22.6	16.6	+ 38
Hospitals	28	16	19	+ 47	Total Building Permits				
Schools	5	7	5	0	Value - $ Mil.	1,986	1,940	1,848	+ 7

NOTES:
Data supplied by the U. S. Bureau of the Census, Housing Units Authorized By Building Permits and Public Contracts, C-40. Nonresidential data excludes the cost of construction for publicly owned buildings. The southeast data represent the total of the six states. The annual percent change calculation is based on the most recent month over prior year. Publication of F. W. Dodge construction contracts has been discontinued.

GENERAL

	LATEST DATA	CURR. PERIOD	PREV. PERIOD	YEAR AGO	ANN. % CHG.		JAN 1985	DEC (R) 1984	JAN (R) 1984	ANN. % CHG.
UNITED STATES										
Personal Income						Agriculture				
($bil. - SAAR)	3Q	3,032.7	2,970.9	2,755.1	+10	Prices Rec'd by Farmers				
Taxable Sales - $bil.		N.A.	N.A.	N.A.		Index (1977=100)	134	135	145	- 8
Plane Pass. Arr. 000's		N.A.	N.A.	N.A.		Broiler Placements (thous.)	85,507	84,689	79,404	+ 8
Petroleum Prod. (thous.)	JAN	8,737.2	8,795.9	8,778.4	- 0	Calf Prices ($ per cwt.)	62.30	59.50	61.40	+ 1
Consumer Price Index						Broiler Prices (¢ per lb.)	30.9	28.5	36.9	-16
1967=100	JAN	316.1	315.5	305.2	+ 4	Soybean Prices ($ per bu.)	5.77	5.82	7.49	-23
Kilowatt Hours - mils.	NOV	183.2	181.7	170.5	+ 7	Broiler Feed Cost ($ per ton)	221	216	243	- 9
SOUTHEAST										
Personal Income						Agriculture				
($bil. - SAAR)	3Q	370.8	361.8	333.7	+11	Prices Rec'd by Farmers				
Taxable Sales - $ bil.		N.A.	N.A.	N.A.		Index (1977=100)	127	124	131	- 3
Plane Pass. Arr. 000's	NOV	4,358.1	4,277.0	4,000.0	+ 9	Broiler Placements (thous.)	32,984	32,566	30,610	+ 8
Petroleum Prod. (thous.)	JAN	1,510.0	1,508.0	1,482.0	+ 2	Calf Prices ($ per cwt.)	58.4	54.3	56.0	+ 4
Consumer Price Index						Broiler Prices (¢ per lb.)	29.7	27.5	37.0	-20
1967=100		N.A.	N.A.	N.A.		Soybean Prices ($ per bu.)	5.95	5.90	7.78	-24
Kilowatt Hours - mils.	NOV	28.5	29.3	26.8	+ 6	Broiler Feed Cost ($ per ton)	215	210	235	- 9
ALABAMA										
Personal Income						Agriculture				
($bil. - SAAR)	3Q	40.5	39.8	37.0	+ 9	Farm Cash Receipts - $ mil.				
Taxable Sales - $ bil.		N.A.	N.A.	N.A.		(Dates: SEP, SEP)	1,406	-	1,390	+ 1
Plane Pass. Arr. 000's	NOV	109.4	121.6	109.3	+ 0	Broiler Placements (thous.)	11,152	10,960	10,362	+ 8
Petroleum Prod. (thous.)	JAN	53.0	53.0	52.0	+ 2	Calf Prices ($ per cwt.)	55.6	55.5	54.7	+ 2
Consumer Price Index						Broiler Prices (¢ per lb.)	29.0	26.5	36.5	-21
1967=100		N.A.	N.A.	N.A.		Soybean Prices ($ per bu.)	5.85	5.89	7.42	-21
Kilowatt Hours - mils.	NOV	4.0	4.0	3.5	+14	Broiler Feed Cost ($ per ton)	205	191	270	-24
FLORIDA										
Personal Income						Agriculture				
($bil. - SAAR)	3Q	140.0	136.1	125.1	+12	Farm Cash Receipts - $ mil.				
Taxable Sales - $ bil.	JAN	85.1	84.0	74.3	+15	(Dates: SEP, SEP)	3,272	-	3,341	- 2
Plane Pass. Arr. 000's	NOV	2,081.9	1,870.5	1,827.0	+14	Broiler Placements (thous.)	2,087	2,065	1,783	+17
Petroleum Prod. (thous.)	JAN	37.0	37.0	43.0	-14	Calf Prices ($ per cwt.)	64.2	58.4	58.7	+ 9
Consumer Price Index - Miami		JAN	NOV	JAN		Broiler Prices (¢ per lb.)	29.0	27.0	36.0	-19
Nov. 1977 = 100		168.6	168.3	165.0	+ 2	Soybean Prices ($ per bu.)	5.85	5.89	7.42	-21
Kilowatt Hours - mils.	NOV	8.2	8.6	7.6	+ 8	Broiler Feed Cost ($ per ton)	235	235	260	-10
GEORGIA										
Personal Income						Agriculture				
($bil. - SAAR)	3Q	67.7	65.9	59.8	+13	Farm Cash Receipts - $ mil.				
Taxable Sales - $ bil.		N.A.	N.A.	N.A.		(Dates: SEP, SEP)	2,213	-	2,132	+ 4
Plane Pass. Arr. 000's	NOV	1,688.4	1,724.5	1,610.9	+ 5	Broiler Placements (thous.)	13,165	13,022	12,459	+ 6
Petroleum Prod. (thous.)		N.A.	N.A.	N.A.		Calf Prices ($ per cwt.)	53.7	49.8	53.1	+ 1
Consumer Price Index - Atlanta		DEC	OCT	DEC		Broiler Prices (¢ per lb.)	29.0	27.0	36.0	-19
1967 = 100		318.2	317.8	307.3	+ 4	Soybean Prices ($ per bu.)	5.74	5.79	7.67	-25
Kilowatt Hours - mils.	NOV	4.4	4.6	4.1	+ 7	Broiler Feed Cost ($ per ton)	245	245	220	+11
LOUISIANA										
Personal Income						Agriculture				
($bil. - SAAR)	3Q	49.0	48.2	45.6	+ 7	Farm Cash Receipts - $ mil.				
Taxable Sales - $ bil.		N.A.	N.A.	N.A.		(Dates: SEP, SEP)	841	-	810	+ 4
Plane Pass. Arr. 000's	NOV	285.5	343.6	272.7	+ 5	Broiler Placements (thous.)	N.A.	N.A.	N.A.	
Petroleum Prod. (thous.)	JAN	1,331.0	1,329.0	1,297.0	+ 3	Calf Prices ($ per cwt.)	61.0	54.0	55.9	+ 9
Consumer Price Index						Broiler Prices (¢ per lb.)	32.0	29.5	38.0	-16
1967 = 100		N.A.	N.A.	N.A.		Soybean Prices ($ per bu.)	5.96	5.90	8.21	-27
Kilowatt Hours - mils.	NOV	4.8	5.0	4.3	+12	Broiler Feed Cost ($ per ton)	255	255	295	-14
MISSISSIPPI										
Personal Income						Agriculture				
($bil. - SAAR)	3Q	23.1	22.6	21.1	+ 9	Farm Cash Receipts - $ mil.				
Taxable Sales - $ bil.		N.A.	N.A.	N.A.		(Dates: SEP, SEP)	1,173	-	1,239	- 5
Plane Pass. Arr. 000's	NOV	33.8	36.9	31.4	+ 8	Broiler Placements (thous.)	6,580	6,517	6,006	+10
Petroleum Prod. (thous.)	JAN	89.0	89.0	90.0	- 1	Calf Prices ($ per cwt.)	59.9	57.9	57.6	+ 4
Consumer Price Index						Broiler Prices (¢ per lb.)	32.0	29.8	40.0	-20
1967 = 100		N.A.	N.A.	N.A.		Soybean Prices ($ per bu.)	6.01	5.89	7.72	-22
Kilowatt Hours - mils.	NOV	1.9	2.0	1.8	+ 6	Broiler Feed Cost ($ per ton)	162	160	191	-15
TENNESSEE										
Personal Income						Agriculture				
($bil. - SAAR)	3Q	50.5	49.3	45.1	+12	Farm Cash Receipts - $ mil.				
Taxable Sales - $ bil.		N.A.	N.A.	N.A.		(Dates: SEP, SEP)	1,103	-	1,161	- 5
Plane Pass. Arr. 000's	NOV	159.1	179.9	148.7	+ 7	Broiler Placements (thous.)	N.A.	N.A.	N.A.	
Petroleum Prod. (thous.)		N.A.	N.A.	N.A.		Calf Prices ($ per cwt.)	55.4	49.4	55.3	+ 0
Consumer Price Index						Broiler Prices (¢ per lb.)	29.0	27.0	35.0	-17
1967 = 100		N.A.	N.A.	N.A.		Soybean Prices ($ per bu.)	6.07	5.99	7.75	-22
Kilowatt Hours - mils.	NOV	5.2	5.1	5.5	- 5	Broiler Feed Cost ($ per ton)	188	185	225	-16

Notes:
Personal Income data supplied by U. S. Department of Commerce. Taxable Sales are reported as a 12-month cumulative total. Plane Passenger Arrivals are collected from 26 airports. Petroleum Production data supplied by U. S. Bureau of Mines. Consumer Price Index data supplied by Bureau of Labor Statistics. Agriculture data supplied by U. S. Department of Agriculture. Farm Cash Receipts data are reported as cumulative for the calendar year through the month shown. Broiler placements are an average weekly rate. The Southeast data represent the total of the six states. N.A. = not available. The annual percent change calculation is based on most recent data over prior year. R = revised.

EMPLOYMENT

	DEC 1984	NOV 1984	DEC 1983	ANN. % CHG.		DEC 1984	NOV 1984	DEC 1983	ANN. % CHG.
UNITED STATES									
Civilian Labor Force - thous.	114,028	114,115	111,795	+ 2	Nonfarm Employment- thous.	96,431	96,252	92,645	+ 4
Total Employed - thous.	106,049	106,246	102,803	+ 1	Manufacturing	19,736	19,782	19,085	+ 3
Total Unemployed - thous.	7,978	7,869	8,992	-11	Construction	4,403	4,564	4,050	+ 9
Unemployment Rate - % SA	7.2	7.1	8.2		Trade	22,893	22,514	21,796	+ 5
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	16,341	16,368	16,085	+ 2
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	21,052	21,041	20,046	+ 5
Mfg. Avg. Wkly. Hours	41.3	40.7	41.2	+ 0	Fin., Ins., & Real Est.	5,736	5,717	5,534	+ 4
Mfg. Avg. Wkly. Earn. - $	388	379	372	+ 4	Trans. Com. & Pub. Util.	5,265	5,254	5,080	+ 4
SOUTHEAST									
Civilian Labor Force - thous.	15,101	15,077	14,669	+ 3	Nonfarm Employment- thous.	12,356	12,305	11,889	+ 4
Total Employed - thous.	13,910	13,889	13,414	+ 4	Manufacturing	2,270	2,277	2,229	+ 2
Total Unemployed - thous.	1,192	1,188	1,254	- 5	Construction	746	746	692	+ 8
Unemployment Rate - % SA	8.0	7.9	8.8		Trade	3,104	3,050	2,925	+ 6
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	2,211	2,211	2,171	+ 2
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	2,470	2,471	2,371	+ 4
Mfg. Avg. Wkly. Hours	41.6	41.1	41.6	0	Fin., Ins., & Real Est.	713	710	679	+ 5
Mfg. Avg. Wkly. Earn. - $	344	337	326	+ 6	Trans. Com. & Pub. Util.	714	711	695	+ 3
ALABAMA									
Civilian Labor Force - thous.	1,806	1,801	1,733	+ 4	Nonfarm Employment- thous.	1,351	1,357	1,339	+ 1
Total Employed - thous.	1,596	1,600	1,536	+ 4	Manufacturing	336	345	346	- 3
Total Unemployed - thous.	211	201	197	+ 7	Construction	66	64	62	+ 6
Unemployment Rate - % SA	11.8	11.5	11.9		Trade	293	289	282	+ 4
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	289	291	286	+ 1
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	218	218	218	0
Mfg. Avg. Wkly. Hours	41.5	41.0	41.6	- 0	Fin., Ins., & Real Est.	63	62	60	+ 5
Mfg. Avg. Wkly. Earn. - $	347	337	322	+ 8	Trans. Com. & Pub. Util.	72	72	71	+ 1
FLORIDA									
Civilian Labor Force - thous.	5,188	5,144	5,101	+ 2	Nonfarm Employment- thous.	4,267	4,240	4,056	+ 5
Total Employed - thous.	4,872	4,824	4,719	+ 3	Manufacturing	515	511	488	+ 6
Total Unemployed - thous.	316	320	382	-17	Construction	319	320	288	+11
Unemployment Rate - % SA	5.9	5.7	7.5		Trade	1,174	1,155	1,109	+ 6
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	662	660	643	+ 3
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	1,035	1,034	988	+ 5
Mfg. Avg. Wkly. Hours	41.5	41.0	42.2	- 2	Fin., Ins., & Real Est.	319	317	298	+ 7
Mfg. Avg. Wkly. Earn. - $	327	320	317	+ 3	Trans. Com. & Pub. Util.	233	233	233	0
GEORGIA									
Civilian Labor Force - thous.	2,799	2,795	2,722	+ 3	Nonfarm Employment- thous.	2,502	2,485	2,341	+ 7
Total Employed - thous.	2,643	2,638	2,553	+ 4	Manufacturing	538	537	522	+ 3
Total Unemployed - thous.	156	157	169	- 8	Construction	144	144	117	+23
Unemployment Rate - % SA	5.7	5.7	6.4		Trade	645	631	577	+12
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	440	440	440	0
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	438	438	403	+ 9
Mfg. Avg. Wkly. Hours	41.9	40.8	42.3	- 1	Fin., Ins., & Real Est.	131	131	123	+ 7
Mfg. Avg. Wkly. Earn. - $	331	317	312	+ 6	Trans. Com. & Pub. Util.	158	157	152	+ 4
LOUISIANA									
Civilian Labor Force - thous.	1,954	1,975	1,891	+ 3	Nonfarm Employment- thous.	1,583	1,581	1,581	+ 0
Total Employed - thous.	1,750	1,773	1,696	+ 3	Manufacturing	183	183	178	+ 3
Total Unemployed - thous.	204	202	195	+ 5	Construction	106	107	116	- 9
Unemployment Rate - % SA	11.1	10.4	10.7		Trade	381	376	380	0
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	325	324	320	+ 2
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	310	312	308	+ 1
Mfg. Avg. Wkly. Hours	41.8	42.2	40.7	+ 3	Fin., Ins., & Real Est.	84	84	83	+ 1
Mfg. Avg. Wkly. Earn. - $	434	435	402	+ 8	Trans. Com. & Pub. Util.	116	116	116	0
MISSISSIPPI									
Civilian Labor Force - thous.	1,090	1,101	1,044	+ 4	Nonfarm Employment- thous.	819	816	805	+ 2
Total Employed - thous.	970	979	937	+ 4	Manufacturing	210	210	210	0
Total Unemployed - thous.	120	122	106	+13	Construction	32	32	34	- 6
Unemployment Rate - % SA	11.5	12.0	10.7		Trade	179	175	170	+ 5
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	187	187	183	+ 2
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	129	129	126	+ 2
Mfg. Avg. Wkly. Hours	40.9	40.8	41.6	- 2	Fin., Ins., & Real Est.	34	34	34	0
Mfg. Avg. Wkly. Earn. - $	292	286	289	+ 1	Trans. Com. & Pub. Util.	39	40	39	0
TENNESSEE									
Civilian Labor Force - thous.	2,264	2,261	2,178	+ 4	Nonfarm Employment- thous.	1,834	1,826	1,767	+ 4
Total Employed - thous.	2,079	2,075	1,973	+ 5	Manufacturing	488	491	485	+ 1
Total Unemployed - thous.	185	186	205	-10	Construction	79	79	75	+ 5
Unemployment Rate - % SA	8.1	8.7	10.5		Trade	432	424	407	+ 6
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	308	309	299	+ 3
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	340	340	328	+ 4
Mfg. Avg. Wkly. Hours	41.7	40.9	41.1	+ 1	Fin., Ins., & Real Est.	82	82	81	+ 1
Mfg. Avg. Wkly. Earn. - $	334	326	314	+ 6	Trans. Com. & Pub. Util.	96	93	84	+14

Notes: All labor force data are from Bureau of Labor Statistics reports supplied by state agencies.
Only the unemployment rate data are seasonally adjusted.
The Southeast data represent the total of the six states.
The annual percent change calculation is based on the most recent data over prior year.

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