Banking & Finance

AN EIGHTH DISTRICT PERSPECTIVE

SUMMER 1986

Interstate Banking In the Eighth District — An Update

One of the most important developments in the banking industry has been the rapid spread of interstate banking legislation across the United States. According to the *American Banker* (June 20 and 24, 1986), 39 states and the District of Columbia have approved some form of interstate banking. Despite this widespread acceptance of some form of interstate banking, the legislation that has emerged represents a patchwork of laws that differ substantially across states.

While many analysts acknowledge that full nationwide banking eventually will be adopted, the most common means of adopting interstate banking has been through the development of regional banking pacts. The Eighth District experience has followed this trend.[1] Legislatures in all District states, with the exception of Arkansas, have approved regional reciprocal banking pacts. This article examines the interstate banking legislation that exists in the Eighth District.

Interstate Banking Pacts: A National Overview

To illustrate the diversity of legislation pertaining to interstate banking, consider the following breakdown. Six of the 39 states that have passed laws have opted for full nationwide entry, which allows banks from any state to acquire banks within that state. Of these six, three have unlimited national banking, while the other three call for reciprocal national banking. Reciprocal interstate banking provisions hold that for an interstate acquisition to occur, both states must have legislation permitting banks from the other state to acquire banks in the state.

Eight other states have established regional interstate banking zones with "trigger dates," after which full nationwide banking will be allowed. Nineteen states and the District of Columbia have adopted regional banking pacts with no provisions for full nationwide banking. The six other states have restricted interstate banking to the entry of limited-service facilities or to the acquisition of only failing banks by out-of-state institutions. Of the remaining 11 states with no interstate banking provisions, many currently are considering some form of either national or regional interstate banking legislation.

While it is possible to categorize the states' legislation according to the type of interstate banking allowed, this broad aggregation can obscure the diversity of the existing legislation. In most cases, each state's laws provide for slightly different geographical regions. For example, the New Jersey interstate banking region includes Missouri, but Missouri's region is limited to contiguous states and therefore does not include New Jersey.

Numerous other provisions illustrate the uniqueness of state laws. Some states, for example, allow banks to choose not to participate in interstate banking either as a buy-out target or as a purchaser. Other states have established that only banks in existence for a specified period of time can be acquired, while other states limit the size of a banking organization to a percentage of the state's banking deposits. Another difference is the means by which out-of-state institutions can enter a state; in most cases, entry is allowed only by acquiring an existing bank, while in other cases de novo entry is permitted. De novo entry is the act of chartering a new bank in a state. A major reason for the diversity of state laws is the absence of national legislation that could standardize the process of expanding the geographic boundaries in the banking industry. Although in 1985 the House Banking Committee approved a bill to permit a five-year phase-in period of nationwide banking as of 1990, legislative interest in the bill has dimmed and further action is not expected.

[1]The Eighth Federal Reserve District includes all of Arkansas and parts of Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee. This article refers to all seven of these states.

THE FEDERAL RESERVE BANK of ST. LOUIS

Interstate Banking Pacts: An Eighth District Progress Report

Eighth District state legislatures have pursued their individual courses to interstate banking and, as such, have put some District states into most of the categories described earlier. To date, interstate banking in the District has taken the forms detailed below.

Arkansas

An interstate banking bill creating a region of 11 Southeastern states plus the District of Columbia was proposed in the legislature, but was not advanced out of the banking committee. The legislature is scheduled to reconvene in 1987 and is expected to reconsider interstate banking legislation at that time.

Illinois

As of July 1986, institutions from the five contiguous states plus Michigan may enter Illinois by acquiring banks that have been in existence a minimum of 10 years. Acquiring institutions both for interstate and intrastate mergers must have minimum capital-to-asset ratios of 7 percent both before and after any proposed merger. As of mid-July 1986, very little interstate merger activity had been reported.

Currently, all contiguous states, with the exception of Iowa, have interstate banking legislation. Institutions have until September 1986 to opt out of interstate banking, but none have thus far. Nonparticipation would prevent them from being purchased by or from purchasing out-of-state institutions. The Illinois law has no trigger-date provision for allowing nationwide interstate acquisitions.

Indiana

As of January 1986, banks from contiguous states are permitted to acquire Indiana banks that have been in existence for five years or more. The legislation, however, forbids any institution from owning more than 11 percent of the state's commercial banking deposits. This cap will rise to 12 percent after July 1987. Banks also were given the choice of opting out of interstate banking and approximately 15 banks have done so.

Between July 1985 and June 1986, over 130 bank acquisitions have been announced, of which 39 were interstate acquisition announcements. Together, these announcements involve over one-quarter of all banks in the state. The large number of acquisitions is attributable to both the interstate banking legislation and to the legislation which allows multi-bank holding companies. The largest banking organization in the state is now owned by a bank holding company based in Ohio. It also is constrained from further acquisitions by the 11 percent deposit cap and other large institutions are approaching this limit. There are no nationwide trigger-date provisions. All four contiguous states have adopted interstate laws.

Kentucky

Kentucky was the first state in the District to adopt regional interstate banking when it did so in July 1984. The state's trigger-date provision to allow nationwide acquisitions on a reciprocal basis took effect July 13, 1986. Based on this change, the acquisition of the state's largest bank holding company by a Pittsburgh-based institution already has been announced. Numerous interstate acquisitions based on the regional interstate banking legislation already have been consummated. De novo entry is not allowed and acquired banks must be at least five years old.

Missouri

Missouri's regional reciprocal interstate law with contiguous states took effect August 13, 1986. The state's law permits de novo entry, which would allow out-of-state banks to charter new banks in Missouri rather than forcing them to purchase existing ones. The existing legislation has no trigger date, but this option will be discussed in the upcoming legislative session. Only three of the eight contiguous states have adopted interstate banking laws. To date, only three interstate mergers have been announced.

Mississippi

The state's regional reciprocal law takes effect July 1, 1988, for the four contiguous states. The law stipulates that an acquired bank must have been in existence a minimum of five years. As of July 1, 1990, the region expands to include most Southeast states ranging from Missouri to Florida. To date, no interstate acquisitions have been announced.

Tennessee

The Tennessee reciprocal law, which took effect July 1, 1985, includes a region of eight contiguous states plus five other Southeastern states. Acquired banks must have been in existence a minimum of five years. Thus far, only four interstate mergers and acquisitions involving Tennessee banks have been announced.

—Kenneth C. Carraro

Banking & Finance—An Eighth District Perspective is a quarterly summary of banking & finance conditions in the area served by the Federal Reserve Bank of St. Louis. Single subscriptions are available free of charge by writing: Research and Public Information Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, Missouri 63166. Views expressed are not necessarily official positions of the Federal Reserve System.

EIGHTH DISTRICT BANKING DATA

LARGE WEEKLY REPORTING BANKS[1]

	Level	Rates of Change			
		Current Quarter	Current Year	Same Periods Previous Year	
	II/1986 ($ millions)	I/1986-II/1986	II/1985-II/1986	I/1985-II/1985	II/1984-II/1985
Selected Assets & Liabilities					
Total Loans & Leases	$16,335	7.9%	8.1%	6.7%	11.9%
Commercial Loans	5,593	12.3	2.6	2.5	7.6
Consumer Loans	3,860	12.4	18.7	28.5	18.4
Real Estate Loans	3,576	0.6	6.6	2.2	9.4
Loans to Financial Institutions	881	50.1	−5.3	−35.9	−11.0
All Other Loans	2,424	−8.6	14.3	21.7	34.3
Total Securities	3,743	−9.4	−1.8	21.0	2.3
U.S. Treasury & Agency Securities	2,110	−0.6	−9.7	27.9	−2.9
Other Securities	1,632	−19.2	10.8	10.9	11.7
Total Deposits	19,368	10.2	4.5	2.7	6.2
Non-Transaction Balances	11,932	5.8	1.7	2.3	9.2
MMDAs	2,547	18.2	19.9	−5.1	10.1
$100,000 CDs	3,687	−3.3	−4.4	−3.5	8.6
Demand Deposits	5,628	18.6	6.9	1.3	−1.2
Other Transaction Balances[2]	1,808	18.3	18.1	10.6	11.7

SMALL WEEKLY REPORTING BANKS[3]

	Level	Rates of Change			
		Current Quarter	Current Year	Same Periods Previous Year	
	II/1986 ($ millions)	I/1986-II/1986	II/1985-II/1986	I/1985-II/1985	II/1984-II/1985
Selected Assets & Liabilities					
Total Loans & Leases	$5,280	18.6%	6.5%	9.5%	9.9%
Commercial Loans	1,575	18.8	0.9	0.5	3.6
Consumer Loans	1,051	21.2	3.3	4.6	13.3
Real Estate Loans	2,185	22.6	10.0	15.9	16.3
All Other Loans	469	−3.6	19.4	32.0	−1.6
U.S. Treasury & Agency Securities	1,968	3.6	−1.0	5.3	3.5
Other Securities	748	3.1	10.8	−5.7	−1.2
Total Deposits	8,042	20.8	2.2	9.9	7.2

[1] A sample of commercial banks with total assets greater than $750 million. Historical data have been revised to incorporate adjustment factors that offset the cumulative effects of mergers and other changes involving weekly reporting banks during 1985. These adjustment factors, which are computed each year, are used to construct a consistent time series for which year-to-year growth rates can be calculated. Adjustment factors are available upon request from the Statistics Section of the Research and Public Information Department. Rates of change are compounded annual rates.

[2] Includes NOW, Super NOW, ATS and accounts permitting telephone or pre-authorized transfers.

[3] A sample of commercial banks with total assets less than $300 million as of January 1984.

EIGHTH DISTRICT BANKING DATA

Bank Performance Ratios

RATIOS	I/1986	I/1985	I/1984
Loans to Deposits			
Large Banks[4]	78.28%	79.93%	77.08%
Small Banks[5]	58.23	59.38	58.42
Loan Loss Reserves to Total Loans			
Large Banks	1.47	1.49	1.40
Small Banks	1.30	1.15	1.08
Delinquent Loans to Total Loans			
Large Banks	4.23	3.96	4.84
Small Banks	5.57	5.30	5.00
Net Loan Losses to Total Loans			
Large Banks	0.16	0.13	0.11
Small Banks	0.16	0.14	0.08

EIGHTH DISTRICT INTEREST RATES[6]

	June 1986	May 1986	April 1986	Year Ago June 1985
NOWs	5.36%	5.36%	5.40%	6.07%
MMDAs	6.09	6.16	6.21	6.89
Time CDS				
92 — 182 days	6.47	6.50	6.54	7.45
1 — 2½ years	7.14	7.22	7.18	8.30
2½ years and over	7.43	7.54	7.52	8.66

[4] All Eighth District banks with total assets greater than $750 million. Ratios are derived from Call Reports.

[5] All Eighth District banks with total assets less than $300 million.

[6] Average interest rates paid on new deposits by a sample of Eighth District commercial banks.