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TO BRANCH OR NOT TO BRANCH

A Review of the Branch Banking Issue in Wisconsin and Other States

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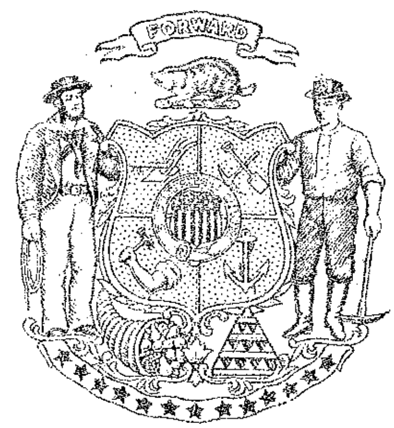

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A Review of the Branch Banking Issue in Wisconsin and Other States

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A Review of the Branch Banking Issue in Wisconsin and Other States

INTRODUCTION

The question of bank branching or not branching in Wisconsin refuses to stay dead for any period of time. The question survives because various factors keep the branch banking issue alive. Assuming that both those for and against branch banking have merit in their arguments, can the problem be resolved by regulating branching in such a way that it will permit a maximum freedom and growth of the banking system while meeting the objections raised against it? To what extent can these objections be logically met and a reconciliation of viewpoints be achieved by regulating the various factors, such as geographical limitations, capital requirements, extent of competition, number of branches, and similar considerations, and by instructing the appropriate banking agency in a state to approve establishment of banks that will provide competition and meet public needs?

At present, Wisconsin is one of 13 states which prohibit branch banking (12 by law, one by regulation in the absence of a specific statutory provision). The pertinent section of the Wisconsin Statutes, Section 221.04 (1) (f), relating to powers of a bank, reads in part:

> "...no bank shall establish more than one office of deposit and discount or, except as provided under par. (i), establish branch offices, branch banks or bank stations, but this prohibition shall not apply to any branch office or branch bank established and maintained prior to May 17, 1947, and any bank may exercise the powers granted by this subsection to carry on the business of banking in any such branch office, branch bank or banking station so established..."

Paragraph (i) permits establishment of a bank station in a town completely surrounded by outlying waters, which pertains only to Washington Island in Door County.

The proposal to amend Wisconsin's statutes in order to permit some form of branch banking has been agitated over a considerable period of time. This study will examine Wisconsin's history in this area, branch banking as it exists in other states, the factors which are causing continued consideration of the matter, and the arguments presented by those who favor and those who oppose branch banking.

Because certain terminology must be used frequently in discussing the subject of branch banking, these terms are herein defined as follows:

Bank - Generally used herein to mean "commercial bank."

Unit bank or independent bank - A bank without branches.

Parent bank or head office bank - A bank with branches.

Branch bank - A branch of the parent bank which engages in the customary banking functions.

Bank station - In this state, a bank office which is used only for paying and receiving. It does not have all the functions of a branch bank.

Bank offices - All banks, whether unit banks, parent banks, or branches.

Group banking - Separately incorporated banks brought under a common control through the device of a holding company.

Dual banking - The system of banking which exists in the United States, wherein a bank can either be chartered by the federal government (national bank) or by the individual state (state bank). Each group is regulated by the appropriate agencies in their respective jurisdictions. State banks, however, in addition to regulation by state banking agencies, also are subject to regulations of the Federal Reserve System and of the Federal Deposit Insurance Corporation if they are members thereof.

THE PROBLEM

Factors Causing Renewed Interest in Branch Banking

The branch banking question has flared up particularly in recent legislative sessions, most notably in the 1965 session. What has caused renewed interest in the subject?

It would seem that, primarily, 3 factors are involved. (1) The geographical shifting of population and of industries is one of these factors. The increasing movement of people since the Second World War into suburban areas has created the problem of servicing these areas. The question arises whether a city bank should be allowed to follow its customers to the suburbs or whether these areas are sufficiently large to support a unit bank. New communities also spring up around new industries. Is a banking system which prohibits branching flexible enough to adjust to rapidly changing economic and social conditions?

(2) A second factor involved in arousing interest in this subject concerns the activities and attitudes of federal government officials, particularly those who supervise the national banks. Since the enactment of the National Banking Act (McFadden Act) in 1927, federal law has prohibited establishment of branches by national banks in states wherein state banks are by state law prohibited from branching. The U.S. Code, Title 12, Sec. 36 (c), reads in part:

> "A national banking association may, with the approval of the Comptroller of the Currency, establish and operate new branches: (1) Within the limits of the city, town or village in which said association is situated, if such establishment and operation are at the same time expressly authorized to State banks by the law of the State in question; and (2) at any point within the State in which said association is situated, if such establishment and operation are at the time authorized to State banks by the statute law of the state in question by language specifically granting such authority affirmatively and not merely by implication or recognition, and subject to the restrictions as to location imposed by the law of the State on State banks..."

The present United States Comptroller of the Currency, James J. Saxon, whose office supervises the national banking system, has advocated legislation permitting branching by national banks regardless of state prohibitions. Addressing the National Association of Supervisors of State Banks in 1962, he stated: "The branching powers of National Banks should, in my judgment, not be limited according to those policies which the individual States find appropriate to meet their local needs through State-chartered banks. By the same token, I believe that the State supervisory agencies should be granted the final authority to approve branching by State-chartered banks, whether or not they are members of the Federal Reserve System." Asked at a 1963 hearing the House Banking and Currency Committee whether he would favor repealing that part of the National Banking Act that puts national banks and state banks on an equal basis so far as branching is concerned, Mr. Saxon stated: "Preferably...we would hope to see a flexibility in the laws of all of the States and action to that end taken by the States... I would hope that any action that the Congress might take, if any, would be based on a provision that would allow the States a sufficient time to adopt similar provisions so that there could be clear and effective competition between the two systems." Speaking before the Senate Permanent Subcommittee on Investigations in 1965, the Comptroller said that his office sought "to make the National Banking System a more effective servant of the people" by "enlarging the operating discretion of bankers, by responding more sensitively to the demands for additional banking facilities, and by pursuing a full disclosure policy."

At the 1963 hearings, one of the committee members summed up the considerable opposition to Mr. Saxon's policies as being that he was disregarding the law or not carrying out the law as written. A statement by Robert L. Myers, Jr., Board Chairman of Lemoyne Trust Co. in Pennsylvania, accused the Comptroller: "In the area of branch establishment, not only have the basic tenets of our national policy with respect to branch banking been disregarded, but specific provisions of the National Bank Act have veen violated. I respect the right of the Comptroller to disagree with that policy, but disregard and evasion of the law as it is written cannot be tolerated. Within the last few years the Comptroller has authorized national banks to circumvent the laws of their States by a variety of methods. ...These techniques violate the intent and purpose of the McFadden amendment and subsequent amendments of the National Bank Act, and seriously threaten its basic requirement that national banks shall conform to State law in establishing branches."

Mr. Saxon conceded that "some conflict does indeed exist between the national authorities and the authorities in some States. And, in truth, this conflict reflects a genuine difference in aims. It has been made abundantly clear to us by representatives of some State authorities that they view the control of bank entry and bank expansion as a matter which should be handled through what amounts to the allocation of financial markets." They would parcel out these markets so that each group and banks within the group would have "assured territories reserved to them." He claimed this view is unsupportable and wholly out of accord with the purposes of the banking system. Questioned at the hearing he stated: "There is no purpose here whatsoever, there never has been to my knowledge, to disregard any State law." In interpreting the law, however, he maintained that although the federal law prescribed that national branching shall be subject to state restrictions as to location, his office is not subject, so far as branches are concerned, to the other requirements. He maintained that this had been the policy for some time and was not an innovation on his part. His actions and ideas, however, have generated a considerable amount of controversy and debate over their effect on the dual banking system.

The Comptroller's efforts to modify restrictive state banking codes has resulted in several court cases, but the court decisions have generally been against his position. According to the United States Investor of November 29, 1965, "The essential questions at stake in each of these court actions is whether or not the Comptroller is bound to the 'letter' of state branching laws, or his interpretation of them, and what is the basis for 'competition' between state and national banks." The decisions have upheld state law as the "measuring stick" of national branch banks.

Studies in recent years by governmental committees have also kept the issue of branching alive. The Commission on Money and Credit, reporting to President Kennedy in 1961, advocated amending the National Banking Act to permit national banks to branch within trading areas and urged states to do likewise. The Advisory Committee on Banking to the Comptroller of the Currency in its report, "National Banks and the Future," recommended authorization of branching by national banks within 25 miles of the principal office of national banks, regardless of state law, but suggested that such an amendment not become effective until 2 years after enactment. This would give state legislatures time to readjust state laws.

(3) A third factor that has arisen to cause renewed interest in the possibility of modifying the state prohibition is the situation relating to the status of savings and loan associations. In October 1965 the Federal Home Loan Bank Board authorized 2 federally-chartered savings and loan associations in Wisconsin to establish branches. (Federal savings and loan branching law differs from the bank branching law). This brought about the possibility of state-chartered associations converting to federal associations in order to compete. As a result of this action, the 1965 Wisconsin Legislature authorized state-chartered savings and loan associations to establish branches within the home county of such an association or within 35 miles of its home office if county lines intervene, but no branch may be established in another city or village in which there are one or more home offices, excepting cities or villages of Milwaukee County (Chapter 427, Laws of 1965).

The legislative authorization of branching by savings and loan associations not only caused immediate concern over the problem of the competitive advantage accruing to savings and loan associations over commercial banks, but has also brought forth an interesting response from the Comptroller of the Currency. He has contended that federally-chartered banks can now establish branches in Wisconsin since savings and loan associations are now allowed by the state to do so. He bases his contention on Title 12, Sec. 36 (h) of the U.S. Code, which provided that the words "State bank" and "bank," as used in that section, were to "include trust companies, savings banks, or other such corporations or institutions carrying on the banking business under the authority of State laws." He contends that savings and loan associations are carrying on banking services. Thereupon, he authorized the Kenosha National Bank to open a branch. The American State Bank in Kenosha subsequently brought suit to enjoin Mr. Saxon from his action. The Wisconsin Attorney General, on behalf of the State Banking Department, filed a motion to intervene as party plaintiff. On denial of the motion by the Circuit Court in Washington, D.C. the decision was appealed. The case is still pending.

The Ability of Unit Banks to Survive

The question of the survival of unit banking is a major aspect of the controversy over branch banking. Where branching is allowed, unit banking appears to survive, but such banks decline in number. In this respect, but to a lesser extent--perhaps because of far greater regulation--it seems to parallel the developments of big business and small business. In a thoughtful speech delivered at the Independent Bankers Association meeting in March 1966, George W. Mitchell, a member of the Board of Governors of the Federal Reserve System, addressed himself to the question of the ability of small banks to survive. He pointed out that community banks are threatened by the growing urbanization in the nation, and many such banks are located in stagnant small towns or shrinking agriculturally-oriented communities. He stated that three-fourths of the banks of the nation are located in one or 2-bank towns. More than half of such towns have less than 1,000 people.

While population in the nation as a whole has increased 36% since 1940 and 50% in the standard metropolitan areas, population was declining in these rural areas. "Thus, the overwhelming proportion of our community banks are in towns that have ceased to grow or are losing population, or are growing very much more slowly than the urban areas." For this reason, he contended that most of the small banks of the country have little to fear from branching systems. Such banks have little interest in communities showing less than average growth. "And for large numbers of our community banks the perils of encroachment from the outside are insignificant compared to the perils of economic stagnation and decline coming from within their historic service areas."

Turning to growing cities, Governor Mitchell said that his experience indicated that "an all important factor accounting for the failure of well-located and well-operated community banks to resist the trend toward larger branching and holding company systems springs, in important part, from the lack of broad based local support of community banking." He concludes, however, that there is "plenty of evidence" that the community bank in a growing area can compete with large branching systems and prosper. "There are also numerous cases where it is not being done." Its natural advantage is to be strongly rooted in the area it serves and the disadvantages of its small size can often be overcome by "a well integrated correspondent relationship." He concludes that "The answer to the survival of the small bank in the growing community, if there is one, may well lie in making the local bank a truly community institution with a wider ownership among the businesses and citizens in the area and a wider participation by the bank in financing local operations and activities."

A California study ("Report of the Governor's Banking Study Committee on the Future of Banking in California," 1965) concluded that although branch banking has been predominant in California (California permits state-wide branching), "this has not meant the elimination of unit banks or of small branch systems serving single communities or relatively restricted regional areas. The trend until recently, of course, was strongly toward a reduction in the number of unit banks, while the number of branches of banks increased absolutely and relatively. Nevertheless, efficiently-operated unit banks, with the ability to provide for management succession, have prospered and, more recently, there has been an upswing in the formation of new small banks, particularly in metropolitan areas where population and business growth has been most rapid and the total volume of banking business most readily makes room for new unit banks to develop. Unit banks may have to meet the tests of higher costs than their branch competitors, without the possibility of higher charges (although available comparative data do not warrant a dogmatic generalization), and the recruitment of management will continue to be a problem; but the final test of survival will continue to be the preference of some depositors and some borrowers for a small 'independent' institution with 'neighborhood' or 'local' management."

The Commission on Money and Credit concluded in its 1961 study that the economy needs many small as well as large banks. "The evidence suggests that small unit banks can compete successfully with large branch banks even in the long-run."

The Accommodation of Differing Viewpoints

Are the points of view of the opponents and proponents of branch banking irreconcilable? Both profess to be seeking the same goal--the maintenance of a healthy and competitive banking system, geared to serve the public's needs. Both agree that competition is important to meet those needs and that monopoly of credit sources is undesirable. In the State of Wisconsin at least, there even seems to be agreement that branch banking, if permitted, should be limited in its geographical area. Whether because of its probable political unfeasibility or because of a genuine preference for limited area branching, branch bank advocates do not seem to be pressing for bank branching on a state-wide scale in this state.

Obviously then, the difference between the 2 groups lies in their differing approaches to their common objectives. Those favoring unit banking believe branch banks, if allowed to operate, will dominate the banking scene and will seriously impair, if not destroy, the existence of unit banks. Those favoring branch banks believe that not only can the 2 types coexist, but that branch banking is necessary to meet changing conditions.

Another factor of the problem in the branch banking controversy lies in the difficulty of proving, statistically, either point of view. For example, although the number of unit banks has certainly been declining, and by approximately the same number as the number of parent banks with branches has been increasing, branch banks have increased far more rapidly. Thus, a unit bank does not disappear every time a branch appears. Furthermore, the question could also be raised as to how many unit banks become parent banks. It would also be difficult to determine how much significance to attach to figures on population per bank or banking office. While unit banks seem to have the edge in such data, that is, they have a lower population per banking office, there is greater range in their figures. It would also seem that population statistics are rough indicators unless they can be refined to reflect such complex factors as population density and nearness of other financial institutions. There seems to be little attempt, when presenting population data, to indicate the optimum population needed to maintain a healthy banking institution.

Again, statistics indicate that states with branches have a higher concentration of deposits, but--as with industry as a whole--this opens up a vast line of questioning: how much concentration is too much, and: how much bigness is necessary to meet modern financial needs? Like other types of enterprise, banks must compete not only with other banks but also with nonbank enterprises that carry on certain banking activities. Thus, it would seem that statistics can show quantitative trends as to how the banking structure develops under branch banking and unit banking, but cannot indicate qualitative results.

Another subjective factor, which must be considered in attempting to determine the relative merits of branch banking versus unit banking, is the extent to which the peculiar nature of banking requires greater regulation of its activities than other forms of private enterprise. Both proponents and opponents of branch banking believe that banking must be subject to more stringent regulation than other private business, but the opponents would impose artificial restraints, such as banning branches, on the normal expansion and contraction of that business, while proponents would not.

HISTORY OF BRANCH BANKING IN WISCONSIN

Branch banking has been banned in Wisconsin since 1909. However, during the depression bank stations were authorized to overcome the lack of adequate banking facilities caused by bank failures. This condition existed from 1932 until 1947, when bank stations were also prohibited. Beginning in the mid-fifties, recurring attempts to lift the ban on branches have been made.

The Two-Thirds Provision

A factor which makes it difficult in Wisconsin to amend banking laws is the constitutional requirement of a two-thirds vote. Article XI, Section 4, of the Constitution provides:

> "The legislature shall have power to enact a general banking law for the creation of banks, and for the regulation and supervision of the banking business provided that the vote of two-thirds of all the members elected to each house, to be taken by yeas and nays, be in favor of the passage of such law."

This unusual provision requiring banking legislation to be enacted by a two-thirds vote of all members of each house instead of by a simple majority dates back to a constitutional amendment adopted in 1902. Prior to that date, however, the procedure was even more restrictive. The causes of these constraints go back to territorial days. A widespread distrust of banks and banking developed during the territorial period when banks both within and without the Territory of Wisconsin failed in large numbers, particularly during the panic of 1837. As a result, the first constitution adopted by the Wisconsin Constitutional Convention in 1846 prohibited the establishment of any banks at all in the new state. Largely because of this provision, this constitution failed of ratification. The second convention thereupon came forth with a new provision in the Constitution of 1848, which was adopted. This article provided for no banks until the Legislature submitted a referendum to the electorate on "banks or no banks." If adopted, the Legislature could then enact a general banking law, but all banking legislation would have to be submitted to popular vote. In 1851 the electorate approved the establishment of banks in a referendum vote and approved a general banking law the following year. Subsequent enactments were duly submitted to popular referendum until 1902. In that year the cumbersome procedure was repealed by constitutional amendment and the present two-thirds requirement adopted.

History of the 1909 Act

The landmark legislation with regard to branch banking came in 1909. In that year Chapter 135 was enacted prohibiting the establishment by state banks of branch offices or branch banks, or more than one office of deposit and discount. Branch banks already in existence were not affected.

A few comments made around that period may serve to indicate the nature of the opposition to branch banking. The Commissioner of Banking, in his 1907 report (Twelfth Annual Report of the Wisconsin Commissioner of Banking), voiced the following objections to branch banks:

> "Branch banking, supplanting as it does, independent banks, and often anticipating and thus precluding their establishment is foreign to the American principle of free banking. It is contrary to the spirit and intent of the Wisconsin banking law, because, each branch being a bank to all intents and purposes, a banking corporation is thus permitted to conduct several banks, on the capital prescribed and intended for one bank. Examination of banks having branches requires the employment of several examiners at one place, in order that a simultaneous examination may be made of the main bank and its branches."

Governor Davidson, in his message to the 1907 Wisconsin Legislature, deplored the increase in the number of branch banks. He urged the Legislature either to prevent the establishment of branch banks or to require an increase in capitalization by the parent bank for each branch.

Throughout the years since the initial ban, there appears to have been persistent opposition to branch banking in this state. State Treasurer Solomon Levitan, in an article in the Wisconsin State Journal, December 3, 1922, accused it of being "a leech system of banking," taking the money out of communities and concentrating it in a few financial centers, and of being "the first overt act toward the creation of a monopoly." He considered branch banking and independent banking incompatible and thought that inevitably the one must destroy the other.

The Commissioner of Banking, in his 1922 report, recommended amending the law prohibiting branch banking to require banks then operating branches either to close or to incorporate them. (The 1909 law had permitted the retention of existing branches and had only prohibited the acquisition of new ones.) The purpose of the commissioner's recommendation was to counteract a ruling of the U.S. Comptroller of the Currency that national banks could establish branches wherever state banks were allowed so to do. Accordingly various national banks in the state contended that they should be allowed to maintain branches since certain state banks did. Although no state legislation resulted from this situation, Congress was memorialized to clarify the language of the National Bank Act.

In 1927 Congress passed the McFadden bill, which permitted national banks to establish branches in those states which allowed branch banking. It is interesting to note that the entire Wisconsin delegation, excepting one senator, voted against the bill.

Since 1909 the only relaxation of the prohibition against branch banking in Wisconsin occurred during the 1930's when legislation was enacted permitting the establishment--under restricted conditions-- of bank stations. The intent of this action was to furnish banking services to areas deprived of it by the closing of banks during the depression. In 1947, however, the ban was again extended to include bank stations. The purpose of the 1947 act was declared to be to forestall the evils of branch banking, and it was noted that the authority to establish such stations had been an expedient to cope with the depression.

Wisconsin Legislation Enacted Since 1909

Chapter 135, Laws of 1909 (Assembly Bill 240), prohibited the establishment of branch offices or branch banks, or more than one office of deposit and discount by state banks. Branch banks already in existence were not affected.

Chapter 555, Laws of 1921, made no substantive changes.

Joint Resolution 30 of 1923 memorialized Congress to clarify the language of the National Bank Act and other laws which might be construed as permitting branch banking so that it should be prohibited.

Chapter 291, Laws of 1923, made no substantive changes.

Chapter 10, Laws of 1931-32 Sp. Sess., permitted the operation of a receiving and disbursing station by a bank in a community of less than 800 population when the latter has been deprived of adequate banking facilities due to the closing of a bank after January 1, 1930 (Chapter 15, Laws of 1931-32 Sp. Sess. changed the date to "after July 1, 1929").

Chapter 8, Laws of 1933, introduced at the request of the Banking Review Board and the State Banking Department, provided that until July 1, 1935 a bank could establish a receiving station, under certain conditions, to replace a bank which had ceased operation since July 1, 1929. No bank could operate more than 4 such stations. Section 221.25 (4), created by Ch. 10, 1931-32 Sp. Sess., supra, authorizing temporary establishment of bank stations, was suspended for the duration of the act.

Chapter 362, Laws of 1933, changed the wording from "receiving station" to "receiving and paying station."

Chapter 396, Laws of 1933, provided that receiving stations could also be established within the trade area of the home office, such area to be determined by the Commissioner of Banking and the Banking Review Board.

Chapter 491, Laws of 1933, was a correction bill, to insert the words "and paying" after the word "receiving" wherever it occurred.

Chapter 215, Laws of 1935, reprealed the section which had permitted the establishment of bank stations in villages of less than 800 people if a bank closing left the village without banking facilities. The change removed the time limit for the establishment of bank stations (July 1, 1935) and liberalized other restrictions to enable a paying and receiving station to be established, under certain conditions, in any community not having adequate banking facilities.

Chapter 11, Laws of 1939, reduced from 4 to 3 miles the distance which had to separate a bank station from a bank or bank station.

Chapter 101, Laws of 1947, prohibited the establishment of bank stations as well as branch banks.

Senate Joint Resolution 54, adopted 1955, directed the Joint Legislative Council to make an interim study of service area banking, branch banking and installation of paying and receiving windows without approval on lawful parking lots.

Assembly Joint Resolution 111 of 1955 directed the Joint Legislative Council to make a study of Senate Bill 587, relating to branch banking.

The Branch Banking Committee of the council, reporting in 1957, recommended a bill to permit consolidation of 2 banks with both offices remaining open for business and a bill to authorize a bank to operate paying and receiving windows on a parking lot owned by the bank. The first proposal did not receive a recommendation for passage from the Legislative Council, the second proposal became Assembly Bill 1, 1957 (this bill was subsequently indefinitely postponed; see also 1957 Chapter 386, below).

Chapter 22, Laws of 1957, permitted the establishment of bank stations in any town completely surrounded by outlying waters and having no banking facilities (that is, the

Town of Washington, Door County).

Chapter 386, Laws of 1957, permitted establishment of paying and receiving windows on real estate contiguous to the land on which a bank is located (similar to Assembly Bill 1).

Senate Joint Resolution 98, adopted 1965, directed the Legislative Council to make a study of branch banking legislation, particularly Assembly Bill 420, and report back to the 1965 Legislature. The interim committee recommended a compromise substitute amendment (see legislation not enacted below), but it did not receive sufficient votes in the Legislative Council for introduction.

Legislation Introduced Since 1909 Which Failed

Assembly Bill 748of 1929, to permit the establishment of branch banks under certain conditions. The number of branch offices authorized would depend upon the size of the city and the capitalization of the bank.

Senate Bill 518 of 1939, to qualify the provision that a station in operation at the time of the bill's passage would not be subject to the 3-mile limit (a building heretofore built as a bank and not readily convertible to another form of business can be a receiving and paying station).

Senate Bill 50 of 1941, to liberalize the provision concerning bank stations by deleting the requirement that such stations be within the trade area of the home office and by changing the distance from the home office from not more than 25 to not more than 50 miles.

Senate Bill 201 of 1947, to permit 1 or more receiving stations of banks in Milwaukee to be drive-in stations located within a 3-mile radius of the parent bank.

Assembly Bill 277 of 1947, to enlarge the scope of activities allowed bank stations to include granting and renewing loans and accepting discounts under certain conditions.

Assembly Bill 278 of 1947, to prohibit the further establishment of bank stations except in communities where a bank currently operating or henceforth established should cease to exist.

Assembly Bill 350 of 1951, to permit the establishment of bank stations under certain conditions.

Senate Bill 259 of 1953, to permit any bank to establish a paying and receiving station, except in counties with a population of 60,000 or over, in any community not having adequate banking facilities, anywhere within the county of the home office or in an adjoining county of less than 16,000 people, or in any other county not more than 25 miles from the home office. Number of such stations limited to 4 per bank, and none shall be within 3 miles of another bank or station.

Senate Bill 118 of 1955, to authorize branch banking in Milwaukee County.

Senate Bill 215 of 1955, to authorize branch banking outside Milwaukee County.

Senate Bill 587 of 1955, to permit a branch bank on an island without banking facilities (Washington Island in Door County).

Assembly Bill 114 of 1955, to authorize branch banks in Milwaukee County.

Assembly Bill 365 of 1955, to permit the establishment of bank service offices in all counties except Milwaukee County.

Senate Resolution 20 of 1955, to direct a Joint Legislative Council study of 1955 Senate Bill 587.

Senate Bill 184 of 1957, to permit banks to continue to operate after consolidation within the same county or a 25-mile trade area. In Milwaukee County, branches resulting from such consolidation were not to exceed 4 and must have been existing for at least 2 years prior to the consolidation.

Senate Bill 258 of 1957, to permit continued operation of banks after consolidation if within the same county, but in Milwaukee County the banking office of each bank party to the merger must have been in operation 5 years.

Assembly Bill 1 of 1957, to permit paying and receiving windows to be established by banks on parking lots within 1,000 feet of the bank without obtaining approval of the Commissioner of Banks.

Assembly Bill 332 of 1957, same as Senate Bill 258.

Assembly Bill 499 of 1957, to exclude from the term "branch banking" the picking up of school savings deposits at schools, the furnishing of armored trucks for transporting deposits from a business place to a bank, and the reimbursement of business places for such security facilities.

Assembly Bill 162 of 1959, to permit the establishment of not to exceed 5 branches within the home county of a bank or within 25 miles if the city borders on a county line, but such branch would have been prohibited in a city, town or village which already had a bank except for Milwaukee County.

Senate Bill 488 of 1963, to permit the Commissioner of Banks to authorize the establishment of one or more branches within the county or within 25 miles of the parent bank, not exceeding 5 branches in resort areas.

Assembly Bill 420 of 1965, to permit establishment of branches in home county or within 35 miles of parent bank if county lines intervene, but not within another city or village, other than its home city or village, in which there are one or more home bank offices, to provide for establishment of seasonal branches in resort areas.

Substitute Amendment 1, A., to Assembly Bill 420, would have changed the 35-mile limit to 20 miles for banks in Milwaukee County and provided that no branch therein could be established within one mile of an existing home bank office.

Substitute Amendment 1, S., would have provided that applications for establishing branches would be investigated and approved or disapproved according to the same procedures and considerations as are provided for under Section 221.01 (2) to (6) for new state banks, but that no application should be approved unless no other bank, the principal office of which is nearer the location of the proposed bank than the principal office of the applicant bank, is willing to establish a branch. Subsections (2) to (6) relate to the contents of the application and procedure.

1965 Bill Draft LRB 6155, 4th draft, a substitute amendment that was not introduced, but was considered by an interim committee and recommended to the Legislative Council, would have set a 35-mile limit from the parent bank for banks in counties under 50,000, and a 20-mile limit in counties between 50,000 and 500,000, but not in other than its home city in which there are one or more principal bank offices and not within a mile of an existing principal bank office other than its own except through merger. In Milwaukee County banks could establish branches within 20 miles, but not in a municipality or county other than Milwaukee County in which there are one or more principal bank offices, except by merger. No branch is to be established within one mile of an existing principal bank office except its own and except by merger, purchase, or consolidation.

BRANCH BANKS AND BANK STATIONS OPERATING IN WISCONSIN*

Of the 109 national banks in Wisconsin on December 31, 1964, 12 operated a total of 24 branches (Federal statistics use the word "branch" to include bank stations). Of these, the largest, First Wisconsin National Bank, operated 12 branches in Milwaukee.

Four of the 474 state banks operating as of December 31, 1965 have one branch each, all in the same city as the main office. Existing branches were established prior to the ban on branch banking. In addition to the state bank branches, there are 131 bank stations, which were established during the period from 1933 to 1947 when the law legalized their establishment.

*Sources: The Banking Structure in Evolution, 102nd Annual Report, U.S. Office of the Comptroller of the Currency, 1964, p. 32.
Seventy-First Annual Report of the Condition of State Banks, Mutual Savings Banks, Trust Companies and National Banks of Wisconsin, Wisconsin Commissioner of Banks, 1965, pp. 4, 44-45.

BRANCH BANKING LAWS OF ALL STATES: SUMMARY

States Permitting State-wide Branch Banking

State	Remarks
Arizona	
California	
Connecticut	Out of town branches limited to towns with no head-office bank.
Delaware	
Idaho	Except in places with no existing bank, an operating bank must be absorbed or consent obtained of all existing banks.
Louisiana	Number of branches in and out of head-office parish subject to various limitations.
Maine	If outside head-office county or adjoining county, only in city, town or village with no operating bank, or where a unit bank or branch is taken over.
Maryland	
Nevada	
North Carolina	
Oregon	No branch may be established in a place of less than 50,000 population except by taking over an existing bank.
Rhode Island	
South Carolina	

States Permitting State-wide Branch Banking--Continued

State	Remarks
South Dakota	Establishment of branch in places with less than 15,000 population only under specified conditions.
Utah	Except in 1st class cities and unincorporated areas of a county with a 1st class city, a branch may be established only by taking over an existing bank.
Vermont	
Washington	
District of Columbia	

States Permitting Limited Area Branch Banking

State	Area	Remarks
Alabama	City and county of head office.	Permitted number of offices varies with population of county.
Alaska	100 miles of head office.	
Arkansas	Town or city of head office, or in head office county town or city with population of 300 or less.	Teller's office only, with number restricted according to size of city.
Georgia	City of head office.	
Hawaii	In district of Honolulu (a limited number of branch banks).	"Subsidiary collection offices" approved by Treasurer are not subject to limitations.
Indiana	City or county of head office.	
Iowa	Head office county and contiguous counties.	New offices limited to receiving deposits and paying checks, and to places with no established bank.
Kentucky	City or county of head office.	
Massachusetts	Town or county of head office.	
Michigan	City (or village) or county, or contiguous county, of head office.	Branch facilities for cashing checks and receiving payments on loans may be established elsewhere under specified conditions.
Mississippi	100 miles of head office.	Branch office, not making loans, may be established within head office county or adjacent county under specified conditions.
New Hampshire	Within town of head office and in contiguous town or noncontiguous town within 15 miles if no other bank.	

States Permitting Limited Area Branch Banking--Continued

State	Area	Remarks
New Jersey	City or county of head office.	
New Mexico	County of head office, or adjoining county or within 100 miles of head office if no bank in such county.	
New York	Banking district, and under specified circumstances in an adjoining district.	State divided into 9 banking districts, each containing from 3 to 15 counties.
North Dakota	County or adjoining county.	Paying and receiving stations only.
Ohio	County or contiguous municipal corporation.	
Pennsylvania	County or contiguous county.	
Tennessee	County of head office.	
Virginia	City, town or county of head office.	

States Prohibiting Branch Banking

Colorado	
Florida	
Illinois	
Kansas	One drive-in teller office permitted within 1/2 mile of bank.
Minnesota	
Missouri	One drive-in facility permitted within specified distance from bank.
Montana	
Nebraska	One drive-in teller permitted within 1/2 mile of bank.
Oklahoma	One drive-in facility permitted within 1,000 feet of bank.
Texas	
West Virginia	
Wisconsin	Bank station with limited powers only permitted in places surrounded by outlying waters.

State Without Statutory Provision on Branch Banking

Wyoming	In practice, opening of branch not permitted.

Source: Comparative Regulations of Financial Institutions, Committee on Banking and Currency, U.S. House of Representatives, subcommittee print, November 23, 1963, pp. 62-63.

CAPITAL REQUIREMENTS FOR ESTABLISHMENT OF BRANCHES, 1963

State	Minimum capital required for permission to engage in branch banking	Additional capital required for each branch established
	States Permitting State-wide Branch Banking	
Arizona	$50,000[1]	$15,000[1]
California	....	In city where bank has head office or existing branch $50,000; elsewhere, capital required for establishing bank in location of branch
Connecticut	$1,000,000[1,2]	Amount required as minimum capital to establish a bank in location of branch.
Delaware	$50,000[1]	$50,000[1]
Idaho	$120,000[1]	Capital stock must aggregate $25,000 for each banking office.[4]
Louisiana	$50,000 in parish of domicile; $100,000 in other parishes.[5]	Maximum number of branches in parish of domicile graduated according to capital: $50,000, 1; $50,000 to $75,000, 2; $75,000 to $100,000, 3; $100,000 to $200,000, 5; $200,000 to $250,000, 6; $250,000 to $300,000, 7; for each additional $100,000, 1.
Maine	....	
Maryland	....	For each branch outside head office city minimum capital to establish a bank in location of branch required.[1]
Nevada	$60,000[1] permits 1 branch in home county.[7]	$25,000[1]
North Carolina	$50,000[11]	Graduated according to population of town or city (in parentheses): $50,000 (3,000 or less); $60,000 (3,000 to 10,000); $100,000 (10,000 to 25,000); $150,000 (over 25,000).
Oregon	$1,000,000 if branch is outside head office county or trade area.	Amount required as minimum capital to establish a bank in location of branch.
Rhode Island	....	
South Carolina	....	Minimum of $25,000, and at least equal to capital stock and surplus required for a bank in the location of the branch.
South Dakota	$100,000	Amount required as minimum capital to establish a bank in location of branch.
Utah	$60,000[1]	$60,000[1] for each branch after the 1st.
Vermont	....	
Washington	$500,000 ($200,000 if branch is in head office county).	Aggregate capital stock must not be less than aggregate required if each branch were a bank.

State	Minimum capital required for permission to engage in branch banking	Additional capital required for each branch established
	States Permitting Limited Area Branch Banking	
Alabama	From none to $1,000,000[1] depending on county population.	
Alaska	....	
Arkansas	$200,000[1]	Bank with total of $300,000[1] may operate a 2d branch; then $1,000,000[1] for each additional branch.
Georgia	....	
Hawaii	(3)	
Indiana	....	1 branch permitted for each $200,000 capital and surplus.
Iowa	....	
Kentucky	$100,000[1]	$100,000[1] if population 7,999 or less; $200,000[1] if population 8,000 to 19,999; $250,000[1] if population 20,000 or more.
Massachusetts	(6)	
Michigan	$50,000 if branch is outside head office city.	
Mississippi	$100,000	Amount required as minimum capital to establish a bank in location of branch.
New Jersey	(9)	Lesser of $100,000[1] or minimum capital for organization of a bank at location of branch.
New Mexico	....	
New York	(10)	Amount required as minimum capital to establish a bank in location of branch.
North Dakota	....	
Ohio	....	Amount required as minimum capital to establish a bank in location of branch.
Pennsylvania	Minimum required for new bank in location.	In head office city, borough, or village, none. In another city, borough, or village with population shown in parentheses: Capital $25,000 and surplus $12,500 (less than 5,000 or any place in a township other than a village); capital $50,000 and surplus $25,000 (less than 6,000); capital $100,000 and surplus $50,000 (6,000 to 50,000); capital $200,000 and surplus $100,000 (over 50,000).[12]
Tennessee	....	
Virginia	$50,000[1]	

[1] Capital and surplus required.

[2] Bank with capital and surplus of $250,000 may establish 3 limited-power branches.

[3]Bank with capital and surplus of $1,000,000 or more may establish branches in other countries or in dependencies or insular possessions of the United States.

[4]Addition of $25,000 new capital required for each "agency" established.

[5]Bank with capital and surplus at least $1,000,000 may establish foreign branches and agencies.

[6]With capital and surplus of $5,000,000 may establish 1 or more branches in foreign countries or dependencies of the United States.

[7]With capital and surplus of $1,000,000 may establish branches in foreign countries or dependencies or insular possessions of the United States.

[8]Except that consolidated bank with capital of $75,000 or more may continue the offices of the consolidating banks.

[9]Must meet minimum for organization of a new bank at location of principal office of the bank.

[10]With capital and surplus of $1,000,000 or over bank may operate branches outside State of New York, including foreign countries.

[11]With capital stock of $1,000,000 bank may operate any number of branches.

[12]For a bank and trust company or trust company required additional capital and surplus for each branch in a city, borough, or village with population shown in parentheses: Capital $75,000 and surplus $37,500 (less than 5,000 or any place in a township other than a village); capital $150,000 and surplus $75,000 (less than 6,000); capital $200,000 and surplus $100,000 (6,000 to 50,000); capital $300,000 and surplus $150,000 (over 50,000).

Source: Comparative Regulations of Financial Institutions, Subcommittee on Domestic Finance, U.S. House of Representatives Committee on Banking and Currency, committee print, 1963, p. 9.

STANDARDS OF BRANCHING

Advocates of branch banking generally recommend that various criteria be applied governing the establishment of branches. Such criteria are reflected in the laws of those states that permit limited area branch banking and in various recent studies. Primarily, they relate to the geographical area within which branches may be established. Limited area branching may be restricted to the same city as the head office; the same county; adjacent counties; 15, 25, 35 or 100 miles from the home office; trading areas; or as in the case of New York State--the state may be divided into banking districts. New York created 9 regions in 1934, within which banks could branch. A 1960 amendment authorized New York City banks to branch outside their district into Nassau and Westchester Counties and accorded the same privilege to banks in the latter counties regarding branching in New York City.

Criteria may also include such factors as the number of branches, limitations on branching in communities of varying sizes that already have some banking facilities, and capital requirements. Capital requirements for the establishment of branches vary considerably from state to state (See pages 15 and 16). The amount may be the same as would be required to establish a bank in the location of the proposed branch; it may vary depending upon the population of the area; varying specific amounts may be set which are lower than that required for the parent bank.

There have been several studies in recent years by states that permit limited area branching on the question of changing their branching standards regarding location. The "Final Report of the Special Commission Established to Make an Investigation and Study relative to the Branch Banking Laws of the Commonwealth of Massachusetts," dated January 26, 1960, concluded that the county-wide limitation on branching, then allowed in that state, was restrictive and was artificially preventing "natural expansion of banks into suburbs." It recommended that banks be permitted to establish not more than 3 branch offices in any county adjoining the county in which the main office is located, such offices, however, to be located in towns or cities not more than 15 miles from the main office. Further, no new branch in an adjoining county should be within one mile of an existing office, but suggested that this not apply in the case of mergers, consolidations or purchase of assets.

The New Jersey Branch Banking Study Committee in 1961 recommended that the standards in that state be changed. A bank could establish branches within its own county, but could not establish a branch outside its home office municipality except through merger or liquidation, or unless the municipality in which the office would be located were without bank or branch. The study recommended that banks be allowed to establish branches across municipal lines within a county when the Commissioner finds that it would serve the public interest and that conditions in the locality "afford reasonable promise of successful operation." Concerning branching outside a county, the committee pointed out that the effects of such limitations would vary with the size of the county and the location of the parent bank within it. It recommended allowing a bank to cross the county line, provided, that the bank should be de novo, that the branch or branches be not more than 15 miles from the head office, and that the Commissioner find that the public interest will be served and local conditions make it feasible.

The Commission on Money and Credit, which recommended in its report to President Kennedy in 1961 that the National Banking Act be amended to permit branch banking within trading areas regardless of state law, also suggested standards which might be applied in passing on applications for branches. It defined a "trading area" as a geographical area that embraces the natural flow of trade from an outlying geographical territory to and from a metropolitan center. It could be state-wide, less than state-wide, or more than state-wide. The commission would have entrusted the task of drawing the boundaries of such areas to a governmental agency as was done in establishing the Federal Reserve districts.

In exercising the power to grant branches, the commission recommended the following standards: (1) Avoid undue concentration of the local market. (2) Give new entrants a chance to compete and place considerable reliance upon their integrity, managerial competence, and judgment regarding the earning prospect of the new branch. (3) Treat applications for new branches on a par with new unit bank applications. (4) Treat applications for new branches of nonlocal banks on a par with applications for new branches of local banks.

The Advisory Committee on Banking to the Comptroller of the Currency, in its 1962 study, thought that although the trading area concept of the boundaries for establishing branches has much to recommend it, it "poses obvious difficulties of definition. At least initially, branching within a fixed radius of 25 miles from the principal office seems appropriate."

EFFECTS OF BRANCH BANKING: STATISTICAL DATA

The tables presented in this section attempt to give a statistical picture of the effects of branch banking by indicating the number of banks and branches in branch banking and unit banking states, banks in relation to the population, and the concentration of bank deposits.

It should be noted that the grouping of states according to whether they are unit banking states or branch banking states in the following tables may not necessarily conform to the statute law of those states. The federal government publications from which these tables are compiled give the basis for their classification system as pragmatic rather than statutory.

Table 1: Number of Banking Offices by State (All Banks)

The following table shows the number of unit banks and banks operating branches by state, with the states grouped according to whether they allow state-wide branching, limited area branching, or no branching.

Looking at the states with state-wide branch banking, the number of unit banks and banks with branches is about the same, with the unit banks having the edge, but the 2 combined comprise only about one-sixth of the banking offices, branches making up the remainder.

In states with limited area branch banking, unit banks outweigh branch banks by about 3 to 2, and although the number of branches outnumber their combined total, they are not nearly as numerous as they are in states with state-wide branch banking.

State	All Offices (Banks plus branches)	Total Banks	Unit Banks	Banks Operating Branches	Branches
U.S.	29,727	14,281	10,999	3,282	15,446
State-wide branch banking					
Alaska	64	13	5	8	51
Arizona	263	16	6	10	247
California	2,478	200	109	91	2,278
Connecticut	520	137	62	75	383
Delaware	92	22	12	10	70
Hawaii	127	12	4	8	115
Idaho	144	24	12	12	120
Maryland	533	127	63	64	406
Nevada	66	8	2	6	58
North Carolina	868	152	67	85	716
Oregon	301	52	27	25	249
Rhode Island	167	17	--	17	150
South Carolina	375	133	75	58	242
Utah	158	55	35	20	103
Vermont	106	55	34	21	51
Washington	494	101	63	38	393
TOTAL	6,756	1,124	576	548	5,632

(Table 1 continued)

Table 1: Number of Banking Offices by State (All Banks)--Continued

State	All Offices (Banks plus branches)	Total Banks	Unit Banks	Banks Operating Branches	Branches
Limited area branch banking					
Alabama	394	252	213	39	142
Georgia	600	431	373	58	169
Indiana	876	435	274	161	441
Kentucky	561	348	252	96	213
Louisiana	445	209	126	83	236
Maine	253	78	39	39	175
Massachusetts	1,015	338	160	178	677
Michigan	1,166	361	193	168	805
Mississippi	387	196	108	88	191
New Jersey	911	257	95	162	654
New Mexico	147	63	27	36	84
New York	2,515	479	226	253	2,036
Ohio	1,422	549	322	227	873
Pennsylvania	1,804	598	369	229	1,206
Tennessee	589	294	200	94	295
Virginia	763	277	151	126	486
TOTAL	13,848	5,165	3,128	2,037	8,683
Unit banking prevalent					
Arkansas	335	245	191	54	90
Colorado	254	246	239	7	8
Florida	441	424	408	16	17
Illinois	1,035	1,030	1,026	4	5
Iowa	896	675	502	173	221
Kansas	644	594	546	48	50
Minnesota	730	721	716	5	9
Missouri	699	643	587	56	56
Montana	132	129	126	3	3
Nebraska	459	432	407	25	27
New Hampshire	131	105	81	24	26
North Dakota	207	163	130	33	44
Oklahoma	453	417	383	34	36
South Dakota	245	173	140	33	72
Texas	1,180	1,130	1,079	51	50
West Virginia	184	184	184	--	--
Wisconsin	752	582	476	106	170
Wyoming	69	68	67	1	1
TOTAL	8,846	7,961	7,288	673	885

Source: Annual Report, Federal Deposit Insurance Corporation, 1964, pp. 144, 160-67.

Table 2: Population per Bank and Office by State

The following table shows the average population per bank and banking office in each state for 1960 and 1964, with the states grouped according to the type of banking structure. "Office" includes both unit banks, parent banks, and branches.

In 1964 the median population per banking office was less than 6,000 in states with state-wide branching, slightly over 6,000 in limited area branch banking states, and slightly above 5,000 in unit banking states, but there was greater variation between the states in the latter group. While the average population per office in state-wide branching states varied from roughly 3,000 to 7,000, it ranged from 3,000 to 8,000 in the limited area states, and from 2,000 to 12,000 in unit banking states.

The average population per bank--as opposed to banking office--was naturally far less in unit banking states than in the other states.

State	December 31, 1964		Change from 1960 to 1964	
	Pop. per Bank	Pop. per Office	Pop. per Bank	Pop. per Office
All States	13,370	6,469	591	-709
State-wide branch banking				
Alaska	19,231	3,906	1,834	-1,011
Arizona	98,813	6,011	-31,403	-879
California	90,420	7,298	-43,915	-1,468
Connecticut	20,190	5,319	2,210	-1,083
Delaware	22,318	5,337	2,032	-242
Hawaii	58,417	5,520	5,686	-937
Idaho	28,833	4,806	7,983	-996
Maryland	27,024	6,439	4,717	-909
Nevada	51,000	6,182	10,246	-302
North Carolina	31,921	5,590	7,024	-1,004
Oregon	35,981	6,216	1,968	-945
Rhode Island	53,765	5,473	3,207	-894
South Carolina	19,211	6,813	2,779	-1,347
Utah	18,036	6,278	223	-904
Vermont	7,436	3,858	1,148	-203
Washington	29,545	6,040	-1,809	-1,257
Limited area branch banking				
Alabama	13,520	8,647	-206	-1,313
Georgia	9,963	7,157	597	-325
Indiana	11,092	5,508	661	-643
Kentucky	9,078	5,631	520	-433
Louisiana	16,593	7,793	-549	-1,106
Maine	12,679	3,909	410	-537
Massachusetts	15,793	5,259	1,331	-784
Michigan	22,432	6,945	1,845	-1,221
Mississippi	11,806	5,979	520	-641
New Jersey	26,000	7,335	3,858	-964

Table 2: Population per Bank and Office by State-- Continued

State	December 31, 1964		Change from 1960 to 1964	
	Pop. per Bank	Pop. per Office	Pop. per Bank	Pop. per Office
Limited area branch banking--cont.				
New Mexico	16,000	6,857	-1,291	-1,834
New York	37,401	7,123	5,676	-100
Ohio	18,397	7,103	1,861	-801
Pennsylvania	19,162	6,352	3,219	-941
Tennessee	12,918	6,448	908	-505
Virginia	15,805	5,738	2,799	-997
Unit banking prevalent				
Arkansas	7,890	5,770	353	-542
Colorado	7,992	7,740	-1,143	-1,074
Florida	13,455	12,937	-2,569	-2,393
Illinois	10,183	10,134	-253	-259
Iowa	4,083	3,076	-14	-145
Kansas	3,746	3,455	35	-105
Minnesota	4,883	4,823	-65	-82
Missouri	6,857	6,308	-44	-328
Montana	5,465	5,341	-112	-190
Nebraska	3,426	3,224	113	2
New Hampshire	6,229	4,992	557	-379
North Dakota	3,957	3,116	-97	-303
Oklahoma	5,911	5,442	-74	-209
South Dakota	4,133	2,918	222	-3
Texas	9,201	8,811	-274	-409
West Virginia	9,766	9,766	-456	-456
Wisconsin	7,057	5,461	38	-20*
Wyoming	5,044	4,971	-957	-923

Source: Annual Report, Federal Deposit Insurance Corporation, 1964, pp. 144-45.

*It is possible for the number of branches in a unit banking state, like Wisconsin, to increase in spite of the branch banking ban, because federal statistics count parking lot windows as branches.

Table 3: Relative Size of Largest Commercial Banks or Bank Groups by State, Classified by Status of Branch Banking

The following table gives the percentage of bank deposits held by the largest commercial banks and bank groups. The bank group classification includes all banks controlled by a holding company. The states are listed within each group according to deposit concentration in the 5 largest banks in each state.

Concentration of deposits is highest in those states that have state-wide branch banking. In 5 of these 16 states, the largest 5 banks in each state held over 90% of the deposits of all commercial banks in the state. In the 16 limited area branching states, the 5 largest banks in 2 states held over 50%, while in the 18 unit banking states, the 5 largest banks in 2 states held over 40% of the deposits. However, group banking occurs more frequently in unit banking states than in the others, and in these states Minnesota's 5 largest bank groups had over 60% of the deposits and those in Montana, over 50%. Group banking is considered to have developed, to some extent, as an alternative to branching. Nevertheless, in state-wide branching states, the concentration of deposits in the 5 largest banks or bank groups went up as high as 98.1% and was over 90% in 5 states, but was over 60% in only one of the limited area states.

	Percentage of deposits of all commercial banks in--			Percentage of deposits of all commercial banks in--		
State	Largest bank	Largest 3 banks	Largest 5 banks	Largest bank or bank group	Largest 3 banks or bank groups	Largest 5 banks or bank groups
State-wide branch banking						
Nevada	57.2%	79.9%	95.2%	66.9%	89.7%	98.1%
Rhode Island	52.0	89.2	94.7	52.0	89.2	94.7
Arizona	46.4	81.5	92.7	46.4	89.8	94.4
Hawaii	39.7	81.1	91.5	39.7	81.1	91.5
Delaware	37.1	75.5	91.0	37.1	75.5	91.0
Oregon	42.1	85.0	87.5	42.1	85.0	87.5
Idaho	36.0	77.4	87.1	36.0	77.4	87.1
Alaska	30.4	67.6	81.5	30.4	67.6	81.5
California	38.6	60.9	78.7	38.6	60.9	78.7
Washington	34.2	61.2	73.2	34.2	61.2	74.1
Utah	29.8	62.5	73.2	30.9	63.6	74.3
North Carolina	22.2	50.2	64.0	22.2	50.2	64.0
Maryland	20.1	44.7	63.1	20.1	44.7	63.1
Connecticut	18.1	42.5	56.1	18.1	42.5	56.1
South Carolina	24.5	46.9	55.4	24.5	46.9	55.4
Vermont	12.5	30.7	43.0	12.5	30.7	43.0
Limited area branch banking						
New York	17.0	42.3	58.4	17.0	42.3	58.4
Massachusetts	26.8	44.0	54.0	26.8	47.5	64.8
Michigan	19.8	39.2	48.9	19.8	39.2	48.9
Maine	13.8	34.1	48.1	13.8	34.1	48.1
Georgia	17.2	39.7	47.9	19.9	46.7	54.9
New Mexico	17.4	36.1	44.9	17.4	43.8	52.8
Tennessee	11.2	30.4	42.8	11.2	30.4	42.8
Alabama	16.5	30.4	39.9	16.5	30.4	39.9
Pennsylvania	14.4	28.1	38.9	14.4	28.1	38.9
Louisiana	13.7	27.4	36.3	13.7	27.4	36.3
Virginia	10.4	25.6	34.9	10.9	30.0	35.7
Kentucky	10.7	26.7	34.3	10.9	27.3	34.9
Ohio	11.5	23.9	31.2	11.5	23.9	33.3
Mississippi	12.2	25.0	29.1	12.2	25.0	29.1
Indiana	9.8	23.4	28.6	9.8	23.4	28.6
New Jersey	5.7	15.9	22.4	5.7	15.9	22.4

Table 3: Relative Size of Largest Commercial Banks or Bank Groups by State, Classified by Status of Branch Banking--Continued

State	Percentage of deposits of all commercial banks in--			Percentage of deposits of all commercial banks in--		
	Largest bank	Largest 3 banks	Largest 5 banks	Largest bank or bank group	Largest 3 banks or bank groups	Largest 5 banks or bank groups
Unit banking prevalent						
Colorado	14.9%	35.4%	44.7%	14.9%	36.0%	46.8%
Illinois	17.4	37.9	44.7	17.4	37.9	44.7
Oklahoma	11.4	29.1	39.6	11.4	29.3	39.7
Wyoming	10.5	27.9	37.7	15.9	34.0	40.8
Nebraska	12.9	25.6	35.6	12.9	28.9	38.9
Minnesota	11.6	30.6	34.8	29.6	60.0	62.4
South Dakota	8.6	22.0	33.1	23.5	39.3	45.1
Missouri	10.5	25.4	32.9	10.5	25.4	32.9
Texas	7.7	20.3	28.2	7.7	20.3	28.2
Wisconsin	13.8	23.0	26.0	17.9	32.1	34.2
New Hampshire	5.6	15.9	25.3	14.1	24.4	33.8
Montana	5.6	15.2	22.6	29.4	47.1	56.0
Arkansas	6.2	16.3	22.4	6.2	16.3	22.4
West Virginia	5.5	15.2	20.8	5.5	15.2	20.8
Kansas	6.8	13.2	18.0	6.8	13.2	18.0
Florida	6.1	12.3	16.9	9.9	22.1	26.7
North Dakota	4.2	10.7	16.8	16.6	40.8	47.2
Iowa	4.7	11.4	16.3	6.4	13.1	18.2

Source: Annual Report, Federal Deposit Insurance Corporation, 1964, p. 141.

Table 4: Commercial Banks and Branches in the United States, 1920-64

The following table shows the change in the commercial banking facilities of the nation over the past 44 years. From the high of 1920, there was a drastic drop during the Depression, and a leveling out to a more stable level in recent years. The number of branches has moved steadily upward during these years, with a pronounced increase occurring in the last decade.

Year	Number of banks	Per cent change in banks	Number of branches	Per cent change in branches	Total commercial banking offices	Per cent change in total offices
1920*	29,086	....	1,281	....	30,367	....
1924	28,185	-3.10%	2,297	79.31%	30,482	0.38%
1928	24,968	-11.41	3,138	36.61	28,106	-7.79
1932	17,802	-28.70	3,195	1.82	20,997	-25.29
1936	15,120	-15.07	3,270	2.35	18,390	-12.42
1940	14,344	-5.13	3,525	7.80	17,869	-2.83
1944	13,992	-2.45	3,924	11.32	17,916	.26
1948	14,164	1.23	4,349	10.83	18,513	3.33

Table 4: Commercial Banks and Branches in the United States, 1920-64--Continued

Year	Number of banks	Per cent change in banks	Number of branches	Per cent change in branches	Total commercial banking offices	Per cent change in total offices
1952	14,049	-.81%	5,274	21.27%	19,323	4.38%
1956	13,642	-2.90	7,360	39.55	21,002	8.69
1960	13,473	-1.24	10,243	39.17	23,716	12.92
1964	13,760	2.13	14,338	39.98	28,098	18.48

*The 1920 data are as of June 30. The remaining data are as of years-end.

Source: The Banking Structure in Evolution, 102nd Annual Report of the Administrator of National Banks, 1964, p. 17.

Table 5: Commercial Banks and Branches Grouped by Branch Law Selected Years, 1919-64

Like the preceding table the following data shows the drastic decline in the number of banks during the Depression. Therefore, just considering the years since 1946, the number of banks has steadily declined in states with state-wide branching, but not to any degree like the increase in the number of branches. While the number of banks has declined by almost a fourth, the number of branches in these states is almost 3-1/2 times as many as in 1946.

In the limited branching states, banks have declined about one-seventh, while branches have almost quadrupled.

In unit banking states, the number of banks has increased by about one-sixth, while the number of branches has increased by about 2-1/2 times the 1946 figure. (The term "unit banking" as used in governmental tables is meant to include states in which unit banking is the predominant form of banking. The basis for classification, however, is pragmatic, rather than statutory.)

	State-wide Branching			Limited Area Branching			Unit Banking States		
Year	Banks	Branches	Total	Banks	Branches	Total	Banks	Branches	Total
1919	3,413	397	3,810	10,608	873	11,481	13,807	11	13,818
1934	1,667	1,236	2,903	7,045	1,628	8,673	6,641	109	6,750
1946	1,410	1,651	3,061	6,479	2,101	8,580	6,155	229	6,384
1950	1,362	2,022	3,384	6,451	2,580	9,031	6,311	234	6,545
1960	1,054	4,054	5,108	5,726	5,841	11,567	6,693	348	7,041
1964	1,087	5,573	6,660	5,500	8,198	13,698	7,173	567	7,740

Source: The Banking Structure in Evolution, 102nd Annual Report of the Administrator of National Banks, 1964.

Table 6: Number of Banking Offices in the United States, 1944-64

The following table shows the change in the number of unit banks, banks with branches and branches over a 20-year period. There was a decline of over 2,400 in the number of unit banks and an increase of over 2,000 in the number of banks with branches. The number of branches increased drastically during this period, far outweighing the net decline in main office banks.

	Total Banks in the United States		
Year	Unit Banks	Banks with Branches	Branches
1944	13,440	1,230	4,071
1954	12,576	1,790	6,616
1964	10,994	3,271	15,284
Change 1944-64	-2,446	+2,041	+11,213

Sources: Annual Reports, Federal Deposit Insurance Corporation, 1944, 1954, 1964.

EFFECTS OF BRANCH BANKING: STUDIES AND STATEMENTS PRO AND CON

Is branch banking beneficial or injurious to the banking system and to the general public? Although it is not the purpose of this study to reach any conclusions on this subject, we shall attempt herein to present the major arguments on both sides of the question.

These arguments usually revolve around several claims or accusations. Those opposed to branch banking accuse it of driving out or seriously damaging unit banking and hence of tending toward monopoly conditions in the banking industry. Those advocating branch banking claim it will provide a more flexible banking system capable of meeting modern needs.

The arguments given below have been culled from as many studies as possible in order to bring out the varying points of view. One of the major sources of information for this section was the hearings of the U.S. House of Representatives Banking and Currency Committee, "Conflict of Federal and State Banking Laws," 1963. In particular, the testimony of Professor Robert Lanzillotti, Chairman of the Department of Economics, Michigan State University, and of Horace R. Hansen, Counsel for the Independent Bankers Association, has been used in presentation of the antibranch banking side of the question, while the testimony presented by Comptroller of the Currency James J. Saxon has been utilized extensively for the arguments favoring branch banking. A 1960 staff report of the House Select Committee on Small Business, "Banking Concentration and Small Business," was also useful.

Several studies or summaries of studies that were consulted were concerned with the branch banking situation in particular states. These include: "The Need and Proposal for Branch Banking Legislation in Wisconsin," a 1958 study by Arnold Schweppe, who worked for the Federal Deposit Insurance Corporation, but made his study while a student at the Graduate School of Banking conducted by the American Bankers Association at Rutgers University; a 1964 study by the New York State Banking Department, "Branch Banking, Bank Mergers and the Public Interest"; a study made by the New York State Bankers Association in 1963, "Planning Ahead for Commercial Banking"; a summary of a study made in 1961 by University of Chicago Professors Irving Schweiger and John McGee concerned particularly with Illinois but also with the Midwest in general; "Report of the New Jersey Branch Banking

Study Committee," in 1961; and an article, "What Price Branching? Banking in New Hampshire and Vermont," appearing in the August 1964 issue of the New England Business Review. Other studies have included pertinent material on branch banking although addressing themselves to other matters. A doctoral thesis for Harvard University made in 1964 by Franklin Edwards and prepared as a research report to the Federal Reserve Bank of Boston dealt with "Concentration and Competition in Commercial Banking: A Statistical Study." The Report of the Commission on Money and Credit, "Money and Credit," ranged over the whole area of monetary and fiscal policy, but included a section on private financial institutions and branch banking.

Using primarily these various sources, we have attempted to summarize the relevant arguments used by each side to explain and justify its position.

The Question of Concentration

1. Does Branch Banking Result in a Serious Decline in the Number of Banks?

Yes

The opponents of branch banking point to the decline of 5.3% between 1955 and 1959 in the number of unit banks in contending that competition in the banking field is being reduced by the decline in the number of unit banks. Over 1,500 banks disappeared between 1952 and 1961 as a result of mergers and acquisitions. During this period, 1,310 independent banks were converted into branches. It has been estimated that the rate of disappearance of banks due to mergers and absorptions is around 141 a year compared with around 100 per year in the 1930's. The fact that many branches are being created and perhaps providing more banking offices is not considered significant. The relevant factor is the number of independent banking judgments which are available to the public. A bank may have numerous branches, but constitutes only one bank and, hence, only one source of credit.

No

Advocates of branch banking are not alarmed by the decline in unit banks, pointing to increased efficiency, flexibility and the sounder condition of banks today. It is contended, moreover, that some branching restrictions may actually increase concentration. While de novo branching can advance the pace of rivalry, it is entirely possible for a unit system to develop "privileged sanctuaries," which are monopolistic.

In his study, Edwards, supra, decided that the fewer the banks the higher the business loan rates. Therefore, everything else being equal, mergers that would substantially raise the level of concentration should not be permitted. He qualified this, however, by saying that everything else is not always equal and that a substantial increase in concentration was an increase to the point where it has a substantial effect on loan rates. Competition might be stimulated by easing entry restrictions, for example, for de novo branches of banks not located in the immediate vicinity.

2. Does Branch Banking Cause a Significant Concentration of Bank Deposits?

Yes

According to the branching foes, concentration of bank deposits is at a very high level. Lanzillotti asserted that in 1962, the 200 largest commercial banks in the nation held 55% of total assets and deposits and 57% of total loans. Statistics indicate that the level of concentration in states with state-wide branch banking is the highest, the next highest in states with limited area branching, and the lowest in unit banking states. Such a trend goes against the American tradition of a highly diffused banking system and is approaching the cartel-like banking prevalent in Europe. As the percentage of deposits controlled by large banks or bank systems grows, the ability of other banks to compete is lessened and the alternative sources of credit are reduced. Domination of credit control is more serious than of industrial products, because money is in limited supply and entry of competitive banks is difficult.

No

The degree of concentration found in the 100 or 200 largest banks is not a true test of concentration. For example, if there were only 200 banks in the nation and each competed in every market, there would be much more competition than we have now.

Banks not only have competition from other banks, but also face competition from other types of financial institutions, such as savings and loan associations, credit unions, finance companies, and insurance companies.

3. Do Unit Banks Have a More Favorable Population per Bank Ratio?

Yes

Unit banking advocates point out that the average population per bank in unit banking states is 6,923, whereas, for all other states it is 28,172. They claim that unit banking states even have a more favorable bank office ratio of 6,549 population as compared with 7,505 per office in branching states. The population per bank is more meaningful, however, because it indicates the extent of alternative sources to which the borrower has access.

No

Schweiger and McGee concluded in their study that branch banking provided "three to four times as many banking offices relative to population in large cities as do unit systems and roughly twice as many in suburban areas." Furthermore, unit banks responded more slowly to shifts in the population.

4. Does Branch Banking Have an Adverse Effect on Small Business?

Yes

Critics contend that branch banks lose personal contact with a community. Personnel in the local branch rotates. Decisions are made in distant offices. The small community bank is important to the farmer and small businessman.

The elimination of independent sources of loans and banking services will adversely affect the potential development of small business.

No

The absence of branch banks results in an incomplete set of banking institutions, an increase in the cost of capital to all except the large firms that can obtain funds elsewhere, and inhibits the growth of small business.

5. Does Branch Banking Promote a More Flexible Banking System?

Yes

If branching is prohibited, the only alternative is to charter new banks. This is not always the most efficient or economical way of providing additional banking facilities. Branching restrictions also lead to undue reliance upon less efficient tools, such as affiliate and satellite banking and leave a gap that is filled by less regulated financial institutions.

Banking authorities should have the discretion to select the means most suitable to meet the banking needs of the public. The forces of private initiative should be allowed to be expressed in the degree and in the forms that are required to assure the public the services they need.

The question should not involve branching as such, but the proper occasions for its use. In individual cases, the technique most suitable for bank expansion, whether it be by unit bank or branch bank, should be used.

<u>No</u>

Multibank systems tend to diminish competition. A viable, healthy banking system depends upon the extent of independent alternative sources of supply of credit.

The Question of Serving the Public

1. Do Branch Banks Have a Better Loan-Deposit Ratio?

<u>Yes</u>

Small banks tend to place a lesser proportion of assets into loans than larger banks, and unit banks, according to the Schweiger-McGee study, averaged smaller loan ratios than branch banks of comparable size. In fact, it found a scale of lending by branch banks so much higher than that of unit banks that small branches averaged a larger ratio of loans to assets than much larger unit banks in comparable communities. The lending pattern of the 2 types of banks is also somewhat different. Small branch banks provided more business financing relative to assets than comparable unit banks as well as more mortgage and consumer financing. Large unit banks concentrated more in commercial and industrial categories, while large branch banks had a more diversified loan portfolio.

In criticizing Wisconsin's ban on branch banking, the Schweppe study contended that the per cent of loans to assets of banks on the outskirts of Milwaukee is low compared with the figure nationwide.

<u>No</u>

The New York State Banking Department study concluded that "some of the data lend some support to, although most of the findings tend to cast doubt on, the validity of the charge that out-of-town branches of branch banks were less active than unit banks in meeting local credit needs." It found that in communities with at least one unit bank and one branch of a bank located elsewhere, the branch's loan-deposit ratio exceeded that of the unit bank in most cases, but in other communities, the average out-of-town branch had a somewhat lower loan-deposit ratio than did the average unit bank. "These results mainly reflect the relatively low loan-deposit ratios of rural branches of major branch banks, and of suburban branches of small branch banks." In suburban areas there was only a slight difference in loan-deposit ratios between the average unit bank and the average branch of major branch banks, but in urban areas the average branch was a more active local lender. Only in rural areas did branches of major branch banks have a much lower average loan-deposit ratio than unit banks. However, the evidence indicated that after merger, the merger-acquired branch increased its loans and loan-deposit ratio at a faster average annual rate than it did before merger.

2. Does the Size of Branch Banks Contribute Toward Efficiency?

Yes

Proponents contend that branching may lessen the risk of bank failures by being able to spread the risk over a wider geographical area and a more diverse loan portfolio. Credit mobility is also increased by permitting transfer of funds from surplus to deficit capital areas. Branch banks are also more likely to be able to maintain formal training programs to provide for management succession. Large scale operations also have cost advantages. This is true in banking as in industry. Greater use can also be made of computers. Therefore, no arbitrary limits should be placed upon the expansion of banking facilities.

No

Evidence indicates that after reaching a relatively small size, no large economies of scale result from operating larger as against small-sized banks. A Federal Reserve Bank of Kansas City study of member banks concluded that "The ratio of gross earnings to total assets was highest for banks in the $1 to $2 million deposit class and lowest for banks with over $50 million deposits... The ratio of total costs to total assets showed a sharp drop from $1 to $2 million deposit class to $2 to $5 million class, and also from the $10 to $50 to the over $50 million class with the latter having the lowest ratio... The ratio of net current earnings to total assets showed very little difference between the $1 to $2 million deposit class."

Statistics fail to prove that branch banks can negotiate a small loan more cheaply than a small or medium-sized unit bank because of cost economies.

3. Does Branch Banking Offer Convenience and Better Service to the Public?

Yes

Branch banks can take the bank to the people and offer a wider range of services. Banking needs are very different today than when the National Banking Act was enacted. New products, new industries, and nationwide markets have developed. These require financing at a greater rate and on a larger scale. Banks are becoming automated. Branch banks can follow their customers to the suburbs. The study of a branching state (Vermont) with a nonbranch state (until recently, New Hampshire) indicated that branch banking provided somewhat more services as measured by population per office.

No

Small banks can generally offer services usually available only from large and multi-banks through a system of correspondent banks. If funds cannot be supplied a borrower from one bank, funds can usually be made available in conjunction with correspondent banks. Therefore, the advantages of large-scale banking can be minimized. Correspondent services enable many banks to serve customers with specialized services usually available only from larger banks. Correspondent banking services are constantly being expanded to meet changing needs and an expanding urban population.

Furthermore, if a neighborhood banker does not offer a wide range of service, it is because the demand for them is too slight. Changing such a bank into a branch will not change the nature of its business.

The Question of Economic Growth

Does Branch Banking Promote Economic Growth?

Yes

In the years ahead there will be a substantial expansion in banking capital needed, and such capital can more readily be obtained by larger banks operating over wider areas. The progress of our economy under the private enterprise system depends upon the free movement of capital, labor and enterprise throughout the country. We must allow sensitive adjustments to changing demands for banking facilities in order to assure the mobility of capital that we require.

No

There is no relationship between economic growth and bank mergers and acquisitions. Independent unit banks, by their willingness to bear substantial local risks, have accelerated the economic development of the nation. It is fallacious to suppose that multibank systems facilitate economic growth. A reduction in banking alternatives may reduce credit availability to marginal risk borrowers, and it is generally such borrowers who are of key importance to economic growth. Our independent banking system has been a vital factor in the development of our country.

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