1980 ANNUAL REPORT

Comptroller of the Currency
Administrator of National Banks

Office of the Comptroller of the Currency 1980

Comptroller . . . . .John G. Heimann
(Resigned May 15, 1981)

Policy Group

Senior Deputy Comptroller. . . . . .Lewis G. Odom, Jr.
(Retired November 1980)
Senior Advisor to the Comptroller . . . . .Charles E. Lord
Senior Deputy Comptroller for Operations . . . . .H. Joe Selby
Senior Deputy Comptroller for Bank Supervision. . . . . .Paul M. Homan
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Chief Counsel . . . . .John E. Shockey
(Resigned August 9, 1981)

Background

The Office of the Comptroller of the Currency (OCC) was established in 1863 as a bureau of the Department of the Treasury. The OCC is headed by the Comptroller who is appointed by the President, with the advice and consent of the Senate, for a 5-year term.

The OCC regulates national banks by its power to:

- Approve or deny applications for new charters, branches, capital or other changes in corporate or banking structure;
- Examine the banks;
- Take supervisory actions against banks which do not conform to laws and regulations or which otherwise engage in unsound banking practices, including removal of officers, negotiation of agreements to change existing bank practices and issuance of cease and desist orders; and
- Issue rules and regulations concerning banking practices and governing bank lending and investment practices and corporate structure.

The OCC divides the United States into 14 geographical regions, with each headed by a Regional Administrator.

The Office is funded through assessments on the assets of national banks.

The Comptroller

John G. Heimann became the 24th Comptroller of the Currency on July 21, 1977.

By statute, the Comptroller serves a concurrent term as a Director of the Federal Deposit Insurance Corporation; from August 1978 until February 1979, Mr. Heimann served as Acting Chairman. Mr. Heimann is Chairman of the Federal Financial Institutions Examination Council, and was a Director of the Federal National Mortgage Association from July 1977 until May 1980. He is Chairman of the Commercial Reinvestment Task Force and a Director of the National Neighborhood Reinvestment Corporation, a principal agent of the federal government charged with revitalizing communities and neighborhoods.

Before becoming Comptroller, Mr. Heimann was Commissioner of Housing and Community Renewal for New York State. From June 1975 to November 1976, he was New York State's Superintendent of Banks.

A native of New York, Mr. Heimann received a B.A. degree in economics from Syracuse University in 1950. The university awarded him its Chancellor Medal in 1978.

NOTE: The annual report of the Comptroller of the Currency for 1980 will be issued in two parts. The first part, 1980 *Report of Operations,* is scheduled for release in spring 1981 and the second part, 1980 *Annual Report,* is scheduled for release in summer 1981. The first part contains a summary of Office activities for 1980 and some summary materials on the national banking system. The second part contains merger decisions, enforcement actions, speeches and testimony and national banking system summary statistics for 1980.

1980
Annual Report
Office of the
Comptroller of the Currency

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Condition of the National Banking System

The year 1980 was a period of both high and very volatile interest rates. The average monthly rate on federal funds, an important source of short-term financing for commercial banks, ranged from a low of 9.0 percent to a high of 18.9 percent. That is in contrast to 1979 when that average rate varied less than 400 basis points. Similarly, the prime, a benchmark rate for lending to large corporate customers, rose rapidly from 15.25 percent at the start of the year to a then unprecedented peak of 20 percent shortly after the Federal Reserve Board instituted an emergency credit restraint program on March 14. The prime rate then fell even more rapidly than it had risen, dropping to 11 percent in July, only to rise again to a new record of 21.5 percent by year-end. During 1979, the prime rate was unchanged for more than 5 months before climbing 400 basis points to the year's high of 15.75 percent in November.

Despite the extreme volatility of interest rates and the general economic downturn in the spring, national banks generally operated profitably, and net income for the system increased nearly 6 percent over 1979. That increase in net income, however, was well below the corresponding increase in total assets and sharply below the 17.4 percent increase in net income enjoyed in 1979.

Successful commercial bank operations are more difficult in a period of rapidly rising interest rates because an increasing portion of banks' liabilities are relatively short-term and interest sensitive funds. Although in the past smaller banks, with their greater reliance on demand and savings deposits, have been relatively insulated from changes in the cost of funds, that situation is also changing. Greater consumer awareness of interest rates and particularly the rapid expansion of money market certificates led smaller banks to rely increasingly on purchased funds. To compensate for the increasing variability in their costs of funds, commercial banks continued the trend toward greater reliance on variable-rate or shorter term loans and toward reduced reliance on long-term securities.

Total assets of the national banking system, both foreign and domestic, totaled $1,095 billion at year-end 1980, an increase of $99 billion, or 9.9 percent, over the total for the previous year. That was the slowest rate of change in total assets since 1975 when assets increased only 6.9 percent.

Reacting to rising interest rates followed by the credit constraint program initiated in the spring, loan growth failed to keep pace with total assets, increasing 8.6 percent, or $48 billion, over the 12-month period. That loan growth was still disproportionately concentrated in foreign offices, with domestic office loans increasing only 6.3 percent. However, the long-term trend of more rapid growth in total foreign office assets was virtually stalled in 1980. Total assets at domestic offices, including the substantial net amount of $19 billion due from foreign branches and subsidiaries, increased 9.9 percent. Foreign office (including Edge Act subsidiaries in the United States) assets, excluding amounts due to the head office, increased over 10 percent to $236 billion, nearly 21 percent of the national banking system's assets.

Although total loan growth was modest, residential real estate lending held up well considering the historically high interest rates prevailing during the period. Total holdings of residential real estate mortgages at domestic offices of national banks increased 7.9 percent to $85 billion. In part, that increase resulted from the innovative use of both short-term and variable-rate mortgages by national banks.

For the first time in several years, national banks actually increased the proportion of securities in their asset portfolios. Their total holdings increased nearly $20 billion, a rise of 12.7 percent over the preceding December. However, the trend to shorter maturities continued. At year-end 1980, 28 percent of domestic office holdings of $80 billion in U.S. Treasury and agency securities had maturities of 1 year or less, compared to 25 percent at year-end 1979.

The effects of rising interest rates and changes in the competitive situation of commercial banking were most readily seen on the liability side of the balance sheet. Although the 9.6 percent increase of $57 billion in domestic office deposits exceeded the growth rate in foreign office deposits for the first time in a number of years, a higher proportion of those domestic office deposits were paying a market rate of interest. Money market certificates of deposit, available in denominations of $10,000, increased 67 percent to $93 billion. Similarly, large negotiable certificates of deposits increased $32 billion to $141 billion. However, the rate of growth in foreign office deposits dropped sharply from previous years'. Those deposits increased only 8.2 percent in 1980, to $206 billion, compared to a nearly 22 percent increase of $34 billion during 1979. Other sources of purchased funds (federal funds transactions, liabilities for borrowed money and Treasury demand notes) continued to increase more rapidly than total liabilities, increasing $12 billion or nearly 12 percent in 1980.

For the first time since 1976, equity capital increased at a faster rate than total assets, interrupting the long-term decline in the equity-to-capital ratio for the national banking system. As national banks continued to retain more than 60 percent of their net income, total equity capital increased $5.6 billion to nearly $60 billion. Total equity capital was equal to 5.5 percent of total assets at year-end 1980, up marginally from the preceding year.

Net income of national banks operating at year-end 1980 was $7.7 billion, a modest increase of 5.8 percent over 1979. That increase was less than asset or equity capital growth so that both the return on assets and the return on equity declined slightly. It was also in marked contrast to the preceding 2 years which saw very rapid increases in net income. Indeed, 1978's in-

Table 1

Assets, liabilities and capital accounts of national banks, 1979 and 1980
(Dollar amounts in millions)

	December 31, 1979 4,448 banks		*December 31, 1980 4,425 banks*		*Change 1979-1980 Fully consolidated*	
	Consolidated foreign and domestic	*Domestic offices*	*Consolidated foreign and domestic*	*Domestic offices*	*Amount*	*Percent*
Assets						
Cash and due from depository institutions	$188,554	$106,731	$204,453	$114,831	$15,899	8.4
U.S. Treasury securities	44,281	44,126	51,372	51,237	7,091	16.0
Obligations of other U.S. government agencies and corporations	24,751	24,702	28,774	28,765	4,023	16.3
Obligations of states and political subdivisions	71,268	70,796	79,197	78,455	7,929	11.1
All other securities	15,095	9,485	15,712	9,368	617	4.1
Total securities	155,395	149,109	175,055	167,825	19,660	12.7
Federal funds sold and securities purchased under agreements to resell	36,447	36,119	39,254	39,030	2,807	7.7
Total loans (excluding unearned income)	552,858	442,986	600,417	471,018	47,559	8.6
Allowance for possible loan losses	5,461	5,296	6,023	5,850	562	10.3
Net loans	547,397	437,690	594,394	465,168	46,997	8.6
Lease financing receivables	8,074	6,780	9,575	7,910	1,501	18.6
Bank premises, furniture and fixtures, and other assets representing bank premises	13,756	12,923	15,538	14,493	1,782	13.0
Real estate owned other than bank premises	1,312	1,193	1,314	1,190	2	.2
All other assets	45,346	41,711	55,539	59,123	10,193	22.5
Total assets	996,281	792,256	1,095,123	869,570	98,842	9.9
Liabilities						
Demand deposits of individuals, partnerships and corporations	187,201	187,201	185,858	185,858	−1,343	−.7
Time and savings deposits of individuals, partnerships and corporations	317,654	317,654	369,729	369,729	52,075	16.4
Deposits of U.S. government	1,902	1,902	1,794	1,794	−108	−5.7
Deposits of states and political subdivisions	43,484	43,484	41,945	41,945	−1,539	−3.5
All other deposits	37,268	37,268	44,453	44,453	7,185	19.3
Certified and officers' checks	7,461	7,461	8,066	8,066	605	8.1
Total deposits in domestic offices	594,970	594,970	651,845	651,845	56,875	9.6
Demand deposits	234,937	234,937	237,652	237,652	2,715	1.2
Time and savings deposits	360,033	360,033	414,193	414,193	54,160	15.0
Total deposits in foreign offices	190,302	0	205,847	0	15,545	8.2
Total deposits	785,272	594,970	857,692	651,845	72,420	9.2
Federal funds purchased and securities sold under agreements to repurchase	79,310	79,152	91,357	91,230	12,047	15.2
Interest-bearing demand notes issued to U.S. Treasury	7,687	7,687	5,958	5,958	−1,729	−22.5
Other liabilities for borrowed money	17,719	9,439	19,607	9,236	1,888	10.7
Mortgage indebtedness and liability for capitalized leases	1,277	1,234	1,367	1,354	90	7.0
All other liabilities	47,434	42,444	55,581	46,648	8,147	17.2
Total liabilities	938,699	734,926	1,031,561	806,271	92,862	9.9
Subordinated notes and debentures	3,285	3,034	3,691	3,428	406	12.4
Equity Capital						
Preferred stock	31	31	34	34	3	9.7
Common stock	11,403	11,403	11,939	11,939	536	4.7
Surplus	17,846	17,846	18,991	18,991	1,145	6.4
Undivided profits and reserve for contingencies and other capital reserves	25,017	25,017	28,907	28,907	3,890	15.5
Total equity capital	54,296	54,296	59,871	59,871	5,575	10.3
Total liabilities, subordinated notes and debentures and equity capital	996,281	792,256	1,095,123	869,570	98,842	9.9

crease of 20 percent was the greatest increase of the decade and was nearly matched by 1979's increase of more than 17 percent. The modest growth in net income during 1980 resulted from the continued rapid growth in interest expense. That expense equaled 65 percent of total operating income in 1980, up from 60 percent the year before, and was an effect of both the high levels of interest rates prevailing for much of the year and the shift in liability structure at national banks.

Interest and fees on loans totaled $77.5 billion in 1980 and accounted for 67 percent of total operating income. That was an increase of more than 25 percent over 1979, with total loans outstanding increasing only 8.6 percent. That disparity reflects the ability of national banks to adjust the return on their loan portfolios fairly quickly. For example, large national banks carry more than 60 percent of their nonresidential loan portfolios on an adjustable rate basis, and nearly 58 percent of their $365 billion in nonresidential loans had a maturity of 1 year or less.

The fastest rising and second most important component of operating income, interest on balances with depository institutions, jumped 53.4 percent to $10.6 billion. That resulted from both the relatively large increase in those balances and the fact that most are either short-term or adjustable to changes in market interest rates. Despite the total rise in operating income of 27.7 percent, the impact of rising rates on interest expenses led to an even higher rate of increase in operating expenses.

Interest on deposits, which accounted for more than 52 percent of total operating expenses, increased $16.4 billion, nearly 38 percent, over 1979. Interest on deposits in foreign offices continued as the most rapidly rising component, jumping $7.5 billion, a 44.6 percent increase. However, the interesting change was the increasing responsiveness of interest on other deposits, largely savings accounts and small time deposits, to changes in interest rates. The rapid expansion of $10,000 money market certificates issued at current interest rates made that expense item far more variable.

The surge in the federal funds rate between January and April and again at year-end resulted in an increase of 36.7 percent, to $11.6 billion, in the expense of federal funds transactions. In addition to rapid increases in interest expense, all noninterest expense categories increased more rapidly than the growth in national bank assets. The effect was a 30.5 percent increase in total operating expenses, which reached $104 billion.

Income before taxes and securities transactions totaled $10.8 billion, an increase of 6.1 percent. After applicable taxes of $2.8 billion, income before securities transactions was 7.8 percent ahead of the 1979 figure. However, securities losses, which national banks have experienced since 1978, continued to increase rapidly to $319 million after taxes, nearly double the net losses incurred in 1979. Those increased losses, combined with a very small gain from extraordinary items, left national banks with $7.7 billion in net income.

Net loan losses, which increased slightly in 1979 for the first time since their recessionary peak in 1975, continued to rise in 1980. Both rising interest rates and the sharp downturn in the economy in the second quarter put some borrowers in difficulty. However, through increased provisions, national banks actually increased their allowance for loan losses by 10 percent after net losses of $2.2 billion.

Despite severe interest rate fluctuations, a sharp downturn in the economy and increasing competition from nondepository institutions, particularly money market funds, national banks generally were able to continue to expand and enjoy profitable operations.

Table 2

Income and expenses of national banks, 1979 and 1980

(Dollar amounts in millions)

	1979 *4,448 banks*		*1980* *4,425 banks*		*Change, 1979-1980*	
	Amount	*Percent distribution*	*Amount*	*Percent distribution*	*Amount*	*Percent*
Operating income:						
Interest and fees on loans	$61,801.9	68.8	$77,492.6	67.5	$15,690.7	25.4
Interest on balances with depository institutions	6,931.2	7.7	10,634.5	9.3	3,703.3	53.4
Income on federal funds sold and securities purchased under agreements to resell	3,551.2	4.0	4,818.9	4.2	1,267.7	35.7
Interest on U.S. Treasury securities and on obligations of other U.S. government agencies and corporations	5,367.2	6.0	6,639.2	5.8	1,272.0	23.7
Interest on obligations of states and political subdivisions in the United States	3,748.2	4.2	4,423.3	3.9	675.1	18.0
Income from all other securities (including dividends on stock)	754.9	.8	879.6	.8	124.7	16.5
Income from lease financing	730.5	.8	899.2	.8	168.7	23.1
Income from fiduciary activities	1,345.0	1.5	1,569.1	1.4	224.1	16.7
Service charges on deposit accounts	1,316.1	1.5	1,671.6	1.5	355.5	27.0
Other service charges, commissions and fees	2,453.0	2.7	2,976.2	2.6	523.2	21.3
Other operating income	1,887.0	2.1	2,813.0	2.5	926.0	49.1
Total operating income	89,886.1	100.0	114,817.1	100.0	24,931.0	27.7
Operating expenses:						
Salaries and employee benefits	12,403.7	15.6	14,190.4	13.6	1,786.7	14.4
Interest on time certificates of $100,000 or more (issued by domestic offices)	10,723.5	13.5	14,979.1	14.4	4,255.6	39.7
Interest on deposits in foreign offices	16,903.5	21.2	24,436.2	23.5	7,532.7	44.6
Interest on other deposits	15,737.0	19.7	20,360.2	19.6	4,623.2	29.4
Expense of federal funds purchased and securities sold under agreements to repurchase	8,498.4	10.7	11,614.9	11.2	3,116.5	36.7
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	2,014.7	2.5	2,762.1	2.7	747.4	37.1
Interest on subordinated notes and debentures	265.4	.3	296.3	.3	30.9	11.6
Occupancy expense of bank premises, net, and furniture and equipment expense	3,571.3	4.5	4,218.8	4.1	647.5	18.1
Provision for possible loan losses	2,251.7	2.8	2,703.5	2.6	451.8	20.1
Other operations expenses	7,356.2	9.2	8,470.5	8.1	1,114.3	15.1
Total operating expenses	79,725.5	100.0	104,032.0	100.0	24,306.5	30.5
Income before income taxes and securities gains or losses	10,160.6	....	10,785.1	....	624.5	6.1
Applicable income taxes	2,753.7	....	2,802.8	....	49.1	1.8
Income before securities gains or losses	7,406.8	....	7,982.3	....	575.5	7.8
Securities gains (losses), gross	−349.4	....	−538.7	....	−189.3	−54.2
Applicable income taxes	−163.2	....	−220.0	....	−56.8	−34.8
Securities gains (losses), net	−186.2	....	−318.6	....	−132.4	−71.1
Income before extraordinary items	7,220.7	....	7,663.7	....	443.0	6.1
Extraordinary items, net	26.0	....	2.1	....	−23.9	−91.9
Net income	7,246.7	....	7,665.8	....	419.1	5.8
Cash dividends declared on common stock	2,648.2	....	2,948.9	....	300.7	11.4
Cash dividends declared on preferred stock	1.5	....	2.5	....	1.0	66.7
Total cash dividends declared	2,649.7	....	2,951.4	....	301.7	11.4
Recoveries credited to allowance for possible loan losses	756.6	....	801.0	....	44.4	5.9
Losses charged to allowance for possible loan losses	2,296.5	....	3,004.9	....	708.4	30.8
Net loan losses	1,539.9	....	2,203.9	....	664.0	43.1
Ratio to total operating income:	*Percent*		*Percent*			
Interest on deposits	48.2		52.1			
Other interest expense	12.0		12.8			
Salaries and employee benefits	13.8		12.4			
Other noninterest expense	14.7		13.4			
Total operating expenses	88.7		90.6			
Ratio of net income to:						
Total assets (end of period)	0.73		0.70			
Total equity capital (end of period)	13.35		12.80			

Merger Decisions

I. Mergers consummated, involving two or more operating banks

II. Mergers consummated, involving a single operating bank

FIRST AMERICAN NATIONAL BANK OF ST. CLOUD,
St. Cloud, Minn., and First State Bank of Rice, Rice, Minn.

Names of banks and type of transaction	Total assets	Banking offices: In operation	Banking offices: To be operated
First State Bank of Rice, Rice, Minn., with	$ 2,733,000	1	———
and the First American National Bank of St. Cloud, St. Cloud, Minn. (11818), which had	116,480,000	2	———
merged January 1, 1980, under charter (11818) and title of "The First American National Bank of St. Cloud." The merged bank at date of merger had	119,059,000	———	3

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge First State Bank of Rice, Rice, Minn. (State Bank), into the First American National Bank of St. Cloud, St. Cloud, Minn. (First). The application was accepted for filing on April 5, 1979, and is based on a written agreement executed by the proponents on January 31, 1979.

State Bank operates from a single office approximately 15 miles from St. Cloud. It reported total deposits of $2.8 million on December 31, 1978.

First also operates from a single office in St. Cloud and reported total deposits of $87.5 million on December 31, 1978. It is a subsidiary of the Otto Bremer Foundation, a registered bank holding company that is the state's third largest banking organization with 2.8 percent of the commercial bank deposits.

The applicants contend that First competes in a banking market which is approximated by the St. Cloud SMSA. First, the only subsidiary of the Otto Bremer Foundation operating within this market, is the largest of 24 banking organizations with 19 percent of the market's commercial bank deposits.* Consummation of the merger would increase its share of market deposits by less than 1 percent.

The Federal Reserve System has delineated a more limited definition of the relevant banking market, approximated by the eastern half of Stearns County, the western half of Sherburne County and all of Benton County. Within this market, First is the largest of 19 banking organizations with 21 percent of commercial bank deposits. Consummation of the proposal would increase its share of this market's deposits by less than 1 percent.

Because of its size, State Bank serves only its small community and nearby rural areas. State Bank's market is entirely included in either the Federal Reserve or the SMSA definition of First's banking market. First reports that it has extended 13 direct loans totaling $1.4 million in this area (2.6 percent of its total loans), and it also undoubtedly receives some deposits from the area. Consummation of the proposal would eliminate some existing competition but because of the large number of commercial banks competing in the market, including the state's two largest banking organizations, and the small market share of State Bank, the effect on competition would not be adverse.

First could not now establish a branch (detached facility) in Rice due to the head office protection provisions of Minnesota banking law. Since detached facilities are not protected, consummation of the merger would open the community to branching by other commercial banks.

First's financial and managerial resources are satisfactory, and its future prospects are favorable. State Bank's financial and managerial resources are limited. Its future prospects are uncertain due to substantial operating problems and its small size.

First will provide additional banking services to the present customers of State Bank if the merger is consummated. These services include automated tellers and data processing, larger loans and additional lending expertise. The continuing bank will also be a single source of banking services that is convenient to both home and work for those customers who commute from Rice to St. Cloud. Consummation of the merger will result in increased convenience and satisfaction of additional needs for the consumer of banking services in Rice.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that First's record of helping to meet the credit needs of its entire community, including low and moderate income communities, is less than satisfactory.

* Market data are as of December 31, 1977, unless otherwise indicated. Market totals do not include deposits of Granite City National Bank, St. Cloud, which opened in 1978 or deposits of a branch of Santiago State Bank which are not reported separately.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the merger.

November 21, 1979.

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have any adverse effect upon competition.

* * *

FIRST NATIONAL BANK OF FLORIDA,
Tampa, Fla., and The First National Bank in Plant City, Plant City, Fla., and The Broadway National Bank of Tampa, Tampa, Fla.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The First National Bank in Plant City (14793), Plant City, Fla., with	$ 43,073,000	1	———
and The Broadway National Bank of Tampa (14388), Tampa, Fla., with	51,348,000	1	———
and First National Bank of Florida (3497), Tampa, Fla., which had	660,624,000	3	———
merged January 2, 1980, under the charter and title of the latter (3497). The merged bank at date of merger had	755,045,000	———	5

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The First National Bank in Plant City, Plant City, Fla., and The Broadway National Bank of Tampa, Tampa, Florida (Merging Banks), into and under the charter of First National Bank of Florida, Tampa, Fla. (Tampa Bank). The application was filed on July 12, 1979, and is based on a written agreement executed by the applicant banks on June 12, 1979.

The proponent banks are wholly owned, with the exception of directors' qualifying shares, and controlled by First Florida Banks, Inc., Tampa, Fla., a registered bank holding company. Consummation of this corporate reorganization would have no effect on competition. A review of the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved (see 12 USC 1842(c)(21)).

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the merger.

October 22, 1979.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are all wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

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HERITAGE BANK NATIONAL ASSOCIATION,
Cherry Hill, N.J., and Coastal State Bank, Ocean City, N.J.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Coastal State Bank, Ocean City, N.J., with	$ 63,170,000	5	———
was purchased January 2, 1980, by Heritage Bank National Association, Cherry Hill, N.J. (1209), which had	743,861,000	46	———
After the purchase was effected, the receiving bank had	799,213,000	———	51

COMPTROLLER'S DECISION

This is the Comptroller's decision on the application of Heritage Bank National Association, Cherry Hill, N.J. (Heritage), to purchase the assets and assume the liabilities of Coastal State Bank, Ocean City, N.J. (Coastal). This application was filed on August 13, 1979, and is based upon an agreement executed by the proponents on August 6, 1979. As of June 30, 1979, Heritage had total deposits of $648.9 million, and Coastal's total deposits were $55.5 million. Heritage is a wholly owned subsidiary of Heritage Bancorporation, Cherry Hill, N.J. (Bancorporation), a registered bank holding company. Bancorporation is the fifth largest commercial banking organization in New Jersey and controls approximately 3.9 percent of total domestic deposits in the state.

The relevant geographic market for Coastal is the eastern portion of Atlantic and Cape May counties along the southeastern coast of New Jersey where the bank's five offices are located. Within this market, there are 11 commercial banking organizations that operate a total of 63 offices and had total market deposits of $887 million on June 30, 1978. The three largest banks in the market operate 38 offices and collectively hold approximately 66.6 percent or $591 million of total market commercial bank deposits. Coastal ranks as the fifth largest bank in the market with 6.4 percent of total market deposits. Since Bancorporation has no banking offices in the market, it would merely succeed to Coastal's share in this market. The closest banking offices of the proponents are some 25 miles apart. These offices are separated by a number of communities, and there are offices of other commercial banking organizations conveniently available to the public. Therefore, approval of this acquisition would not eliminate any meaningful degree of existing competition.

New Jersey state banking statutes allow statewide *de novo* branch expansion by commercial banks. Thus, the proponent banking organizations could branch into the areas served by the other. Coastal has shown no desire to expand outside its market area, and it is unlikely that the bank would expand *de novo* into any area currently served by Bancorporation. The likelihood that Bancorporation would enter Coastal's market *de novo* appears remote since a previous branch it opened in this market proved to be unsuccessful and was closed in 1972. Consequently, the overall competitive effects of this acquisition would not substantially lessen competition in any relevant market or violate the standards found in 12 USC 1828(c)(5).

The financial and managerial resources of both Heritage and Coastal are satisfactory. The future prospects of the two banks, independently and in combination, appear favorable (12 USC 1828(c)(5)).

After consummation of this transaction, the additional capabilities of Heritage, in conjunction with its corporate parent, will be made available to the present customers of Coastal in such areas as international banking, full trust services, equipment leasing and a substantially larger legal lending limit. These are positive considerations on the issue of convenience and needs.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the bank's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the proposed transaction.

November 21, 1979.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Heritage Bancorporation does not have offices in either Atlantic County or Cape May County, where Bank operates its five offices. The closest offices of the two institutions are approximately 25 miles apart. Although Heritage Bancorporation does operate two offices in the "Hammonton market" (as defined by the Philadelphia Federal Reserve Bank), it operates none in the adjacent "Atlantic City market" where Bank's two Atlantic County offices are located. Hence, the merger would not eliminate any significant existing competition between the institutions.

New Jersey law permits *de novo* branching throughout the state, and Atlantic and Cape May counties are attractive areas for expansion. However, in view of Bank's market share in those counties (2 percent and 10.9 percent) and Heritage Bancorporation's unsuccessful experience in branching in Pleasantville, N.J., it does not appear that the merger will have a significantly adverse effect on potential competition.

We conclude that the merger would not have significant adverse effects upon competition.

* * *

THE FIRST NATIONAL EXCHANGE BANK OF VIRGINIA, Roanoke, Va., and Eagle Rock Bank, Inc., Eagle Rock, Va.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Eagle Rock Bank, Inc., Eagle Rock, Va., with	$ 3,851,000	1	———
and The First National Exchange Bank of Virginia, Roanoke, Va. (2737), which had	1,090,470,000	35	———
merged January 25, 1980, under the charter and title of latter bank (2737). The merged bank at date of merger had	1,094,350,000	———	36

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Eagle Rock Bank, Inc., Eagle Rock, Va. (Bank), into and under the charter of The First National Exchange Bank of Virginia, Roanoke, Va. (Exchange). This application was filed on July 18, 1979, and rests on an agreement signed by the proponents on June 19, 1979. As of March 31, 1979, Bank and Exchange had total deposits of $4.3 million and $866.1 million, respectively. Exchange serves as the lead bank for its parent corporation, Dominion Bankshares Corporation (Dominion), a registered bank holding company. Dominion is the fourth largest banking organization in Virginia and controls 8.7 percent of total domestic deposits in the state.

The relevant geographic market is the Botetourt County portion of the Roanoke SMSA. Roanoke is about 34 miles from Eagle Rock, which is in the rural northern part of Botetourt County. The closest office of Exchange to Bank is its Hollins headquarters office, 26 miles from Bank's sole office. Although Roanoke and Eagle Rock are connected by a main highway, they are separated by rugged terrain, and there are intervening communities. If the proposed merger is consummated, Exchange will continue to rank as the largest commercial bank in the Roanoke SMSA, and it would increase its share of the deposits in the SMSA by a modest 0.5 percent to a total of 42.6 percent. The Comptroller finds that the proposed merger would eliminate only a negligible amount of existing competition between Bank and Exchange, and the overall competitive effects of this proposal are not likely to substantially lessen competition or otherwise be a violation of antitrust standards found in the Bank Merger Act.

The financial and managerial resources of Exchange are satisfactory. The financial and managerial resources of Bank are unsatisfactory, and the future prospects of the institution due to its distressed financial condition are extremely limited. The future prospects of Exchange and the combined bank are favorable.

As a result of this merger, Exchange will continue to provide the banking public in the Eagle Rock area with continued and uninterrupted convenient banking services. Additionally, Exchange will provide new and expanded banking services that are beyond the abilities and resources of Bank to provide. These services include trust services, FHA and VA loans, bank credit cards, equipment leasing (through an affiliate company) and investment services. These are positive considerations on the issue of convenience and needs.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that Exchange's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This is the prior written approval required for the applicants to proceed with the proposed merger.

December 14, 1979.

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have an adverse effect upon competition.

* * *

THE CITIZENS NATIONAL BANK AND TRUST COMPANY, Wellsville, N.Y., and The State Bank of Belmont, Belmont, N.Y.

Names of banks and type of transaction	Total assets	*Banking offices*	
		In operation	*To be operated*
The Citizens National Bank and Trust Company, Wellsville, N.Y. (4988), with	$112,347,000	1	
and The State Bank of Belmont, Belmont, N.Y., which had	3,224,000	7	
merged January 31, 1980, under the charter and title of "The Citizens National Bank and Trust Company." The merged bank at date of merger had	115,570,000		8

COMPTROLLER'S DECISION

This is the Comptroller's decision on the application to merge The State Bank of Belmont, Belmont, N.Y. (Belmont Bank), into and under the charter of The Citizens National Bank and Trust Company, Wellsville, N.Y. (CNB). The application was accepted for filing on October 15, 1979, and is based on a written agreement executed by the proponents on May 24, 1979.

CNB is a national bank that had total deposits of $96.9 million as of June 30, 1979. It operates a main office and five branch offices in Allegany County and one additional branch office in Cattaraugus County.

Belmont Bank, a state-chartered bank, had total deposits of $3 million as of June 30, 1979. It presently operates a single banking office in Belmont, the county seat of Allegany County. Belmont Bank does not accept any interest-bearing deposits.

Belmont is in central Allegany County in Amity Township. Because of its small size, Belmont Bank serves only the village of Belmont and its immediate environs. In fact, the applicants maintain that a substantial portion of the bank's demand deposits come from the principals of the bank, Belmont (population approximately 1,100) and from Allegany County. Belmont Bank states that it carries out virtually all of its business in Belmont and Amity Township. This geographic area is approximated by a circle around Belmont with a radius of about 3 miles. Consequently, the relevant geographic market for analysis of this proposal is a 3-mile radius around Belmont. Within this market, Belmont is the only commercial bank. There are only three commercial banks in Allegany County. The largest is First Trust Union Bank of Wellsville, a subsidiary of Security New York State Corporation, a billion dollar banking organization headquartered in Rochester. CNB is the second largest, and Belmont is the smallest. The banking office nearest to Belmont Village is First Union's Friendship branch, approximately 6 miles away. First Union has another branch 8 miles from Belmont, and CNB's closest branch is in Wellsville, 9 miles away.

Because of Belmont Bank's small size, lack of interest-bearing deposits and low loan limit (approximately $50,000), citizens of Belmont must travel to other banking offices for the services not offered in their village. Consequently, other banks do have business within Belmont Bank's geographic market area. This is business that Belmont Bank is unwilling or unable to serve. It can be hardly considered business won by the vigors of competition but, rather, is business by default. In the case of applicant CNB, it obtains $370,000, or less than 2 percent of its total demand deposits, from Belmont's market and has extended loans totaling $1.4 million, or less than 2 percent of its total loans in this market. The amount held by First Union is not known. In light of the foregoing and the additional fact that Belmont Bank offers its customers little more than convenience, which is, itself, a product not of competition but of New York's home office protection law, the Comptroller finds that consummation of this proposal would eliminate minimal competition between applicants.

On the other hand, consummation of this merger will be in the best interest of Belmont and the surrounding area. Home office protection will be eliminated, making Belmont available for branching if that possibility becomes economically feasible. Interest-bearing accounts will be available without a lengthy commute. Trust services and credit cards will be available for the first time. The Comptroller finds that the adverse effects, if any, due to a loss of competition between Belmont Bank and CNB, are greatly outweighed by the convenience and needs factors which would result from the merger, including increased competitive opportunities for other banks in Belmont.

The financial and managerial resources of both banks are satisfactory. The future prospects of Belmont Bank are limited due to its small size. The future prospects of the combined bank are good.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the bank's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with this merger.

December 31, 1979.

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have an adverse effect upon competition.

* * *

ELLIS NATIONAL BANK OF TAMPA,

Tampa, Fla., and Ellis National Bank of Davis Islands, unincorporated Hillsborough County, Fla., and Ellis National Bank of West Hillsborough, unincorporated Hillsborough County, Fla., and Ellis National Bank of North Tampa, unincorporated Hillsborough County, Fla.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Ellis National Bank of Tampa, Tampa, Fla. (14932), with	$30,262,000	1	———
and Ellis National Bank of Davis Islands, unincorporated Hillsborough County, Fla. (16459) with	4,820,101	1	———
and Ellis National Bank of West Hillsborough, unincorporated Hillsborough County, Fla. (16438) with	4,827,000	1	———
and Ellis National Bank of North Tampa, unincorporated Hillsborough County, Fla., which had	4,038,159	1	———
merged February 1, 1980, under the charter and title of "Ellis National Bank of Tampa." The merged bank at date of merger had	43,883,369	———	4

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Ellis National Bank of Davis Islands, unincorporated Hillsborough County, Fla., Ellis National Bank of West Hillsborough, unincorporated Hillsborough County, Fla., Ellis National Bank of North Tampa, unincorporated Hillsborough County, Fla., and Ellis National Bank of Tampa, Tampa, Fla. This application was accepted for filing on May 1, 1979, and is based on a written agreement executed by the applicants on March 15, 1979.

All four banks are subsidiaries of Ellis Banking Corporation, Bradenton, Fla. Ellis Banking Corporation is motivated to consolidate its operations in Hillsborough County by a recent change in Florida banking law which permits county-wide branching. Consummation of the merger will have no effect on competition in any market in which the holding company competes.

The financial and managerial resources and the future prospects of all four banks are satisfactory. The future prospects for the continuing bank are favorable. Consummation of the merger will result in a more efficient corporate structure that will allow the continuing bank to more efficiently serve the banking needs of its community. This should result in increased convenience and greater satisfaction of community financial needs.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibility revealed no evidence that the applicants' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, is less than satisfactory.

This is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the merger.

November 30, 1979.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are all wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

BAYBANK FIRST EASTHAMPTON, NATIONAL ASSOCIATION, Easthampton, Mass., and Mohawk Bank and Trust Company, Greenfield, Mass.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Mohawk Bank and Trust Company, Greenfield, Mass., with	$ 5,483,500	1	———
was purchased February 16, 1980, by Baybank First Easthampton, National Association, Easthampton, Mass. (428), which had	14,811,500	1	———
After the purchase was effected, the receiving bank had	20,295,000	———	2

COMPTROLLER'S DECISION

On February 16, 1980, application was made to OCC for prior written approval for Baybank First Easthampton, National Association, Easthampton, Mass. (Assuming Bank), to purchase certain of the assets and assume certain of the liabilities of Mohawk Bank and Trust Company, Greenfield, Franklin County, Mass. (Mohawk).

Mohawk was a state bank operating a single office with deposits of approximately $5 million. On February 16, 1980, Mohawk was declared insolvent, and the Federal Deposit Insurance Corporation (FDIC) was appointed as receiver. The present application is based on an agreement, which is incorporated herein by reference, by which the FDIC, as receiver, has agreed to sell certain of Mohawk's assets to Assuming Bank, and Assuming Bank has agreed to assume certain of the former liabilities of Mohawk. For the reasons stated hereafter, Assuming Bank's application is approved, and the purchase and assumption transaction may be consummated immediately.

Under the Bank Merger Act, 12 USC 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain anticompetitive effects unless these anticompetitive effects are found to be clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served. Also, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institution, and, in addition, the convenience and needs of the community to be served. When necessary, however, to prevent the evils associated with the failure of a bank, the Comptroller can dispense with the standards applicable to usual acquisition transactions and need not consider reports on the competitive consequences of the transaction ordinarily solicited from the Department of Justice and other banking agencies. In such circumstances, the Comptroller is authorized to act immediately to approve an acquisition and to authorize the immediate consummation of the transaction.

The proposed transaction will prevent disruption of banking services to the community and potential losses to a number of uninsured depositors. Assuming Bank has the financial and managerial resources to absorb Mohawk and to enhance the banking services available in the Greenfield banking market.

The Comptroller thus finds that the proposed transaction will not result in a monopoly, be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any part of the United States, and that the anticompetitive effects of the proposed transaction, if any, are clearly outweighed in the public interest by the probable effect of the proposed transaction in meeting the convenience and needs of the community to be served. For these reasons, Assuming Bank's application to assume the liabilities and purchase certain assets of Mohawk as set forth in the agreement executed with the FDIC as receiver is approved. The Comptroller further finds that the failure of Mohawk requires immediate action, as contemplated by the Bank Merger Act, to prevent disruption of banking services to the community. The Comptroller thus waives publication of notice, dispenses with the solicitation of competitive reports from other agencies, and authorizes the transaction to be consummated immediately.

February 16, 1980.

Due to the emergency nature of the situation, no Attorney General's report was requested.

* * *

BANCOHIO NATIONAL BANK,
Columbus, Ohio, and The Citizens Bank of Shelby, Shelby, Ohio

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The Citizens Bank of Shelby, Shelby, Ohio, with	$ 27,019,000	3	———
and BancOhio National Bank, Columbus, Ohio (5065), which had	4,730,831,000	222	———
merged February 29, 1980, under charter and title of the latter bank (5065). The merged bank at date of merger had	4,753,000,000	———	225

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The Citizens Bank of Shelby, Shelby, Ohio (Bank), into and under the charter of BancOhio National Bank, Columbus, Ohio (BONB). This application was accepted by this Office on October 17, 1979, and is based on an agreement signed by the participants on September 11, 1979.

Bank operates two full-service offices and one drive-in facility in Shelby. It operates no offices outside Shelby. It reported total deposits of $24 million on June 30, 1979.

BONB operates over 200 offices in approximately 40 counties in Ohio. It reported total deposits of $3.5 billion on June 30, 1979, and ranks as the second largest banking organization in Ohio with approximately 9.2 percent of the total commercial bank deposits.

Bank is in northwestern Richland County. Because of its small size, it competes only in Shelby and its immediate environs. It obtains 85 percent of its deposits and extends virtually all of its loans within a 3-mile radius of the city. Therefore, the relevant geographic market for analysis of the competitive effects of this proposal is a 3-mile radius around Shelby.

Bank is the smaller of two commercial banks operating in this market with approximately 42 percent of the market's commercial bank deposits. BONB operates no offices in this market or Richland County and reports that it has extended no loans and obtained only a nominal $60,000 in deposits from the market area. The closest offices of the two banks are approximately 40 miles apart.

BONB does operate offices in adjacent Knox County and under Ohio branching law could establish branches in Shelby. The city has a stable population of less than 10,000 and is already served by two commercial banks operating six offices. Additional financial services are provided by a savings and loan association and four credit unions. There have been no new entrants into the Shelby or Richland County banking markets in the last 4 years. It is unlikely that BONB would choose to establish a *de novo* office in Shelby in the foreseeable future.

There is no significant existing competition between the two banks, and it is unlikely that any significant competition between the two banks will develop in the near future. Therefore, consummation of the merger would have no significant effect on competition. Additionally, BONB's share of commercial bank deposits in Ohio would be increased by a modest 0.06 percent, and the merger would not adversely affect a concentration of banking services in Ohio.

The financial and managerial resources of BONB are satisfactory. The financial and managerial resources of Bank, although limited, are generally satisfactory. The future prospects of Bank are also limited in view of its relatively small size. The future prospects of the resultant bank are good.

The Shelby banking community should benefit from the expanded and additional banking services that BONB will offer. These services include a significantly larger legal lending limit, accounts receivable financing, leasing, agricultural leasing, real estate construction loans and trust services. These are positive considerations on the issue of convenience and needs.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that BONB's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the proposed merger.

BONB is also authorized to operate all former offices and facilities of Bank and branches and facilities of BONB.

January 7, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have an adverse effect upon competition.

* * *

NATIONAL BANK OF NORTH AMERICA,
New York, N.Y., and Sixteen Branches of Bankers Trust Company, New York, N.Y.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Sixteen Branches of Bankers Trust Company, New York, N.Y., with	$ 177,301,000	16	———
were purchased March 10, 1980, by National Bank of North America, New York, N.Y. (7703), which had	4,477,000,000	138	———
After the purchase was effected, the receiving bank had	4,643,301,000	———	154

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application filed by National Bank of North America, New York (P.O. Jamaica), N.Y. (NBNA), to purchase the assets and assume the liabilities of 16 branches of Bankers Trust Company, New York, N.Y. (Bankers). This application was accepted on October 24, 1979, and is based on an agreement executed by the proponents on July 31, 1979.

NBNA had total domestic deposits of approximately $3.7 billion on June 30, 1979, and operated its main office and 136 branches in New York City, Long Island and Westchester County. NBNA is a subsidiary of National Westminster Bank, Ltd., London, England.

Bankers is a subsidiary of Bankers Trust New York Corporation, New York, N.Y., a registered bank holding company with total deposits of $18.4 billion.

The relevant market in which to evaluate the competitive consequences of the proposed acquisition is the metropolitan New York City banking market comprised of the New York City SMSA and the Nassau-Suffolk SMSA. There are 106 domestic commercial banks operating 2,125 offices and holding $122 billion in deposits within this market. NBNA proposes to acquire 10 branches in Westchester County, three in Bronx County, two on Staten Island (Richmond County), and one in New York City. These 16 branches have total deposits of approximately $177 million.

Within the New York City banking market, NBNA ranks as the 10th largest bank controlling 2 percent of the market's total commercial bank deposits, and Bankers ranks as the 6th largest bank with almost 8 percent of the total market deposits. Approval of this application would not alter either Bankers' or NBNA's relative ranking in the market and would add only 0.10 percent of total market deposits to that presently controlled by NBNA. Consummation of this proposal would not eliminate any meaningful existing competition between Bankers and NBNA and would have little impact on the concentration of banking resources within the market.

There is little potential for additional competition developing between the proponents within the foreseeable future since Bankers has publicly announced intention to sell its retail banking offices.

The financial and managerial resources of both NBNA and Bankers are generally satisfactory, and the future prospects of both banks appear good. NBNA's operation of Bankers' 16 branches will provide the banking public with a continued and uninterrupted convenient source of banking services. This is a positive factor on convenience and needs considerations and lends considerable weight toward approval of the application.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that NBNA's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with this proposed transfer of bank deposits and assets. NBNA is also authorized to operate Bankers' 16 offices as branches of NBNA.

January 11, 1980.

The Attorney General's report was not received.

* * *

FIRST NATIONAL BANK OF MANSFIELD,
Plymouth, Ohio, and Buckeye State Bank, Galion, Ohio

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Buckeye State Bank, Galion, Ohio, with	$ 24,205,000	3	———
and First National Bank of Mansfield, Plymouth, Ohio (2577), which had	238,028,000	20	———
merged March 12, 1980, under the charter of the latter (2577) and title "First Buckeye Bank, N.A."			
The merged bank at date of merger had	262,233,000	———	23

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge the Buckeye State Bank, Galion, Ohio (Buckeye Bank), into the First National Bank of Mansfield, Plymouth, Ohio (FNB), with the surviving institution assuming the title of "First Buckeye Bank, N.A." This application was filed on September 19, 1979, and is based on an amended agreement executed by the proponents on September 12, 1979. The merger application incorporates an application for change of name to be effective on consummation of the merger. As of June 30, 1979, FNB had total deposits of $198.3 million, and Buckeye Bank had total deposits of $120.9 million.

FNB operates 19 offices, and all but one are in Richland County. Its primary office and six branches are in Mansfield, the major city of Richland County. Using ZIP code analysis, FNB determined that 75 percent of its deposits originate in the Mansfield, Lexington, Ontario and Crestline ZIP codes. A similar analysis of Buckeye Bank's deposits shows 86 percent originating in the southeast corner of Crawford County, which is the Galion ZIP code. Buckeye Bank's head office and two branches are in this geographic area. The deposit data, standing alone, would tend to indicate that the banks operate in separate geographic markets. Commuting patterns and economic interchange data support this conclusion and have led Rand McNally to place Galion and Mansfield in separate Rand McNally areas. Further, Galion banks charge lower mortgage interest rates and maintain shorter banking hours than the Mansfield banks. This data caused the Federal Reserve Bank of Cleveland to conclude that the proponents serve separate, adjacent banking markets. The Comptroller agrees with this conclusion.

Since applicants do not compete in the Galion market, this merger would merely replace Buckeye Bank with FNB in that market. As such, it is a market extension merger for FNB. FNB could legally enter this market by a *de novo* branch, however, the Federal Reserve Bank of Cleveland found the probability of this to be fairly small, citing Galion's slow population growth* and the lack of excess profits in existent Galion banks.†

The financial and managerial resources of FNB are satisfactory. The financial and managerial resources of Buckeye Bank are uncertain. It has had a below peer rate of return for the last 3 years and now faces, as its sole competitor in Galion, the third largest holding company in Ohio.‡ The future prospects of the combined bank are good. The combined bank will be much better equipped to compete with the First National Bank of Galion. It will offer services such as trust and electronic banking, not now offered by Buckeye Bank. The needs and convenience of customers in Galion will be better served by two strong competitors than by one strong and one weak competitor.

The review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that FNB's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with this merger. The proposed name change is approved conditioned upon consummation of the merger.

February 11, 1980.

The Attorney General's report was not received.

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* Population grew from 18,244 in 1960 to 18,525 in 1970.

† The Federal Reserve Bank reports return on assets as between 2 and 29 percent below banks of similar size in Ohio in the period of June 1975 to 1978.

‡ The only other bank in Galion, the First National Bank of Galion, was recently acquired by National City Corporation.

* * *

FIRST NATIONAL BANK OF NEW JERSEY,
Totowa, N.J., and South Amboy Trust Company, South Amboy, N.J.

Names of banks and type of transaction	Total assets	Banking offices In operation	Banking offices To be operated
South Amboy Trust Company, South Amboy, N.J., with	$ 23,439,000	1	———
was purchased March 21, 1980, by First National Bank of New Jersey, Totowa, N.J. (329), which had	743,879,000	25	———
After the purchase was effected, the receiving bank had	763,792,000	———	26

COMPTROLLER'S DECISION

This is the Comptroller's decision on the application of First National Bank of New Jersey, Totowa, N.J. (First), to purchase the assets and assume the liabilities of South Amboy Trust Company, South Amboy, N.J. (Amboy). This application was accepted for filing on November 2, 1979, and is based on a written agreement executed by the proponents on September 10, 1979.

First had total deposits of $659 million on June 30, 1979. It operates 25 branches in Passaic, Bergen and Morris counties. Amboy, a unit bank in Middlesex County, had total deposits of $20 million on June 30, 1979.

The relevant geographic market is South Amboy and neighboring Sayreville. There are four commercial banks serving this market. The two largest banks control, respectively, 54 percent and 24 percent of the market's deposits. Amboy, the third largest, holds 18 percent of the deposits. First does not have any branches in the market and would merely succeed to Amboy's share of the market. The closest offices of the two banks are approximately 40 miles apart, and there are two heavily populated counties with numerous banking alternatives separating the distinct markets served by the two banks. There is no significant competition between First and Amboy. The market is heavily banked and would not present a likely target for *de novo* entry by First. Even after this merger, there would be 12 independent commercial banks, including five with total deposits of less than $50 million, available for acquisition by outside organizations.

The financial and managerial resources of both First and Amboy are satisfactory. The future prospects of the two banks, independently and in combination, are favorable.

After consummation of this transaction, the additional capabilities of First will be available to the present customers of Amboy. Additional services to be made available include statement savings, long-term savings certificates, overdraft checking, credit cards, trust services and a substantially large legal lending limit. These are positive considerations on the issue of convenience and needs.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that First's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This is the prior written approval required for the applicants to proceed with the proposed purchase and assumption.

February 20, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect upon competition.

* * *

SOCIETY NATIONAL BANK OF CLEVELAND,
Cleveland, Ohio, and First National Bank of Clermont County, Bethel, Ohio

Names of banks and type of transaction	Total assets	Banking offices In operation	Banking offices To be operated
Society National Bank of Cleveland (14761), Cleveland, Ohio, with	$1,644,175,000	42	———
and First National Bank of Clermont County (5627), Bethel, Ohio, which had	29,779,000	1	———
merged March 21, 1980, under charter of the former (14761) and title of "Society National Bank."			
The merged bank at date of merger had	1,673,954,000	———	43

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge First National Bank of Clermont County, Bethel, Ohio (First), into Society National Bank of Cleveland, Cleveland, Ohio (Society). This application was filed on July 12, 1979, and is based on an agreement executed between the applicants on May 10, 1979. As of April 30, 1979, First had total deposits of $26.5 million, and Society had total deposits of $1.2 billion. Society is a subsidiary of Society Corporation, Cleveland.

On February 7, 1979, the Federal Reserve Bank of Cleveland, acting pursuant to authority delegated by the Federal Reserve Board, approved an application for Society Corporation, Cleveland, to acquire the successor by merger to First. On March 14, 1979, OCC approved an application to merge First into First Bank of Clermont County, N.A., a bank being organized by Society Corporation. Effective at the close of business on April 13, 1979, the merger was consummated, and First became a wholly owned commercial banking subsidiary of Society Corporation.

Since both First and Society are subsidiaries of the same bank holding company, this application is merely a corporate reorganization whereby Society Corporation is realigning and consolidating a portion of its banking interests throughout the state. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c). Additionally, a review of the financial and managerial resources and future prospects of the existing and proposed institutions and convenience and needs of the community to be served has disclosed no information why this application should not be approved (12 USC 1828(c)(5)).

Finally, OCC considered this application in light of the Community Reinvestment Act (CRA) (12 USC 2091). CRA requires that OCC assess the Applicants' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, consistent with their safe and sound operations, and to take their records into account in evaluating this application (12 USC 2903). This review included a thorough consideration of protests filed by the Union-Miles Community Coalition and the Buckeye-Woodland Congress (collectively, Protestants), information presented at a public hearing and information available to this Office as part of its supervisory responsibilities.* Based on this review and on positive indications from Society that promised future improvements will be achieved, approval of this merger application was found to be in the public interest, and the application was approved on February 8, 1980.

Community Reinvestment Act Supplement

This supplement discusses in detail the Comptroller's assessment of Society National Bank's (Society) record under the Community Reinvestment Act (CRA). Particular coverage is given to the CBCT branch applications approval with general discussion of the merger decision.

In deciding the applications, the OCC is required to evaluate Society's record in helping to meet the credit needs of its community (12 USC 2903). A regular consumer examination starting February 20, 1979, revealed no serious problems with Society's performance under the CRA at that time. Subsequently, CRA protests to Society's CBCT applications were filed with the OCC on July 26 and 31, 1979, by the Union-Miles Community Coalition (UMCC) and the Buckeye-Woodland Congress (BWC), collectively, "Protestants."† A public hearing under the provisions of 12 CFR 5 was held on October 20, 1979. The basic issues raised by the Protestants at the hearing centered on faulty communications by Society with elements of its community and on allegations of discriminatory lending practices.

Society contended that its obligations and therefore principal efforts are aimed at meeting the credit needs of its entire community and, that in so doing, it is possible or even probable that certain neighborhoods or geographical areas within the community may be served less than other areas.

The Protestants, on the other hand, contended that the bank cannot serve its "entire community" without serving each individual neighborhood, including the neighborhood which they represent. The contention was not that applications for credit had been denied for discriminatory reasons but rather that very few applications had been submitted from the neighborhoods in question because of a perception by their residents that Society did not or would not serve these areas. The issue, therefore, became the extent to which Society has an obligation to promote the filing of more credit applications.

A second matter of emphasis by the Protestants was Society's practice of having concentrated heavily on indirect dealer paper in minority neighborhoods in meeting home improvement credit needs, while making direct home improvement loans in other areas.

The evaluation of Society's record of performance, for purposes of this opinion, will focus on the following assessment factors contained in the regulations which implement the CRA.

The first factor focuses on activities conducted by the bank to ascertain the credit needs of its community. Society's efforts in this regard consist primarily of membership in community and professional organizations. These efforts have not included significant contact with citizen organizations concerned with neighborhood disinvestment or with the credit needs of low and moderate income areas, such as those represented by the neighborhood groups which pursued this issue at the hearing. Society has undertaken efforts to strengthen this area of performance, including the appointment of a community affairs director who appears to be knowledgeable of and acceptable to the community.

The second assessment factor concerns the bank's marketing and special credit-related programs to

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* In addition to this merger, Society filed five applications to establish customer-bank communications terminal (CBCT) branches in Fisher-Fazio Food Stores in Mentor-on-the-Lake, Mentor, Painesville Twp., Wickliffe and Willowick, Ohio, during the period this merger was pending. Protestants filed objections to these branch applications and requested a public hearing which was held October 20, 1979. Because Protestants' objections dealt with Society's CRA performance, processing of the merger application was conducted simultaneously with CBCT branch applications. During this processing, Society and Protestants had considerable dialogue and were able to reach a mutually agreeable understanding. The OCC considers this joint effort a positive example of how a bank can work effectively with its community and has attached a special CRA supplement to this decision which addresses CRA aspects of Protestants' objections against CBCT branch applications in particular and this merger in general.

† An application was accepted by OCC on July 12, 1979, to merge First National Bank of Clermont County into and under the charter of Society National Bank of Cleveland. This application was also reviewed under the CRA.

make members of the community aware of its credit services. The lack of an effective marketing program to inform the community of the credit services offered by Society was exhibited throughout the hearing and was one of the focal points of the complaint by the Protestants. Society has agreed to undertake measures to strengthen its marketing program. It will, for example, carry a specific form of advertisement on a monthly basis in specified general-distribution newspapers. Reprints of those advertisements will be furnished to UMCC for its newsletter, with Society providing financial assistance to UMCC for the reprints. Society has also agreed to make real estate brokers and developers aware of its willingness to extend creditworthy loans for worthwhile projects.

A third relevant assessment factor deals with practices intended to discourage applications for types of credit set forth in the bank's CRA statement. While there is no evidence of any intent by Society to discourage applications, it does appear that Society's past emphasis on indirect dealer-originated home improvement loans may unwittingly have had the effect of discouraging applications for direct credit. Subsequently, Society has agreed to (a) provide a clear indication on the indirect loan credit application form that the individual has an option to apply for a direct loan, (b) better advise would-be indirect loan customers of Society's willingness to help resolve disputes with the contractors and (c) consult with UMCC as to complaints against specific contractors.

A fourth factor is the geographic distribution of the bank's credit extensions, credit applications and credit denials. The assessment factors require a comparison of the bank's performance in low and moderate income areas to its activities in its entire community. The geographical distribution of Society's credit extensions was criticized by the Protestants. A majority of Society's real estate mortgage lending has been in the suburban areas of its entire community, with a smaller volume in the older, central city areas. The uneven geographic distribution of Society's loans appears to result from the combination of the community perceptions of the bank as described above, with patterns resulting from branch locations and uneven levels of economic activity among the areas in question.

The assessment factors require an analysis of any evidence of prohibited discriminatory or other illegal credit practices. In this case, there is no evidence of prohibited or other illegal credit practices. However, Society's past indirect home improvement lending practices are perceived by the community to be discriminatory. The bank has agreed to advertise and solicit direct home improvement loans in the Union-Miles area.

A sixth area of assessment focuses on the bank's origination of residential mortgage loans, rehabilitation loans, home improvement loans and small business loans. The Protestants' challenge is based primarily on Society's residential lending activities, and the Protestants, Society and the OCC have accordingly concentrated on residential mortgage loans and home improvement loans. The assessment factors emphasize the importance of extending housing-related credit. Data for all institutional lenders in Cuyahoga County in 1977 generally indicates that Society has as good a record in Cleveland as any other lender. In the Union-Miles area, Society's volume of housing-related loans is low in comparison to other lenders. Society has granted fewer residential mortgage and direct home improvement loans in the Union-Miles area than it has in other parts of its total community, notably the suburban areas. Society has no branch office within the Union-Miles area and has received a very limited number of applications for such loans from that area. There is no evidence, however, of direct discouragement of the filing of such applications or of unreasonable adverse decisions on applications filed.

This same assessment factor also includes "the purchase of such loans originated in its community." Society has historically relied on purchased loans (indirect, dealer-originated paper) for the financing of home improvements. However, the Protestants have raised concerns regarding the effects which the use of this financing mechanism has had on the community's perception of Society.

Society has responded positively to these concerns by agreeing to advertise and solicit direct home improvement loans and to notify each indirect home improvement loan customer that the completion certificate should not be signed until the contracted work has been done according to the terms of the contract. These activities are viewed as positive factors in evaluating these applications.

Finally, the assessment reviewed the bank's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors. The OCC has determined that Society's condition is excellent, and within constraints imposed by the overall condition of the economy on the volume of loanable funds, the bank is well-equipped to meet the credit needs of its community.

The OCC has examined the submissions of the Protestants and Society regarding the issues raised by the Protestants. It has also taken into consideration continued meetings since the hearing between Society and the UMCC which resulted in an understanding in principle on all remaining points of contention on December 18, 1979. On January 7, 1980, Society and UMCC finalized this understanding to the satisfaction of both parties.

The OCC believes that Society has responded to the concerns of the Protestants very positively, as evidenced by the bank's decision to enter into an agreement with them and by other recent actions and commitments which the bank has made. This responsiveness has been taken into consideration and, along with the bank's past record of performance, was the basis for the OCC's action approving the merger and branch application on February 8, 1980. The OCC believes that the improved community access to bank credit which has resulted and will result from the hearing must be continued to be effective. The continuance in good faith of all promised actions will be monitored through the examination process.

Society has reassessed its indirect home improvement loan policies and practices and has agreed to better conform this program to the needs of the community and, at the same time, make would-be borrowers aware of their access to direct bank credit. Favorable consideration of requests for the specific types of credit raised by the protesting community groups have been agreed to by Society, although without specific dollar floors or limits. Society has agreed to do a better job of advertising and communicating its credit services. However, the bank cannot guarantee that individuals will submit loan applications. Society agrees to show its willingness to realtors and developers to extend creditworthy loans for worthwhile projects.

The OCC feels that the changes and improved access to bank credit which have been and will be brought about by the hearing and the understanding reached by both Society and the Protestants, must be continued to be effective.

On February 8, 1980, the merger and branch applications were approved with the understanding to Society and to the Protestants that the continuance in good faith of all promised actions will be monitored through the examination process.

March 21, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Society National Bank of Cleveland would become a subsidiary of Society Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Society Corporation, it would have no effect on competition.

* * *

PACIFIC NATIONAL BANK OF WASHINGTON, Seattle, Wash., and American Commercial Bank, Spokane, Wash.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
American Commercial Bank, Spokane, Wash., with	$ 54,228,000	7	———
was purchased March 24, 1980, by Pacific National Bank of Washington, Seattle, Wash. (3417), which had	1,717,120,000	73	———
After the purchase was effected, the receiving bank had	1,764,169,000	———	80

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application of Pacific National Bank of Washington, Seattle, Wash. (PNB), to purchase the assets and assume the liabilities of American Commercial Bank, Spokane, Wash. (Bank). This application was accepted by this Office on October 2, 1979, and is based on an agreement signed by the participants on August 28–29, 1979. As of June 30, 1979, PNB and Bank had total commercial bank deposits of $1.3 billion and $47.8 million, respectively. PNB is the third largest commercial bank in Washington and is a subsidiary of Western Bancorporation, Los Angeles, Calif., a registered multibank holding company.

The relevant geographic market for consideration in this proposal is Spokane County. There are 10 commercial banks that operate 69 offices and have total commercial bank deposits of $1.1 billion in the market. PNB ranks as the sixth largest commercial bank in the market and controls 3.4 percent of the market's total commercial bank deposits. Bank is the seventh largest bank in its market and controls 3.2 percent of the total commercial bank deposits. The resultant bank would rank as the fourth largest bank in the market. The participants' closest offices are 6 miles apart. Only three of PNB's 72 banking offices are in Spokane County. Bank operates six of its seven offices in Spokane County and one branch in Pend Oreille County.

The market is dominated by Old National Bank with total market deposits of $278.7 million and 22 offices; Seattle-First National Bank, total market deposits of $397.8 million; and Washington Trust Bank, total market deposits of $163.8 million. These three banks control in excess of 81 percent of the market's total commercial bank deposits, and the resultant bank would rank a distant fourth with approximately 6.6 percent. Approval of this application would not substantially lessen competition in the market because of the relatively small market share held by each proponent, the fact that only one of PNB's offices is in Spokane (the other two branches are in Longview, Wash.) and the fact that both PNB and Bank experience direct competition in the market from both the largest commercial banks and largest mutual savings banks in the state and from other financial institutions.

The financial and managerial resources of both PNB and Bank are satisfactory. The future prospects of PNB are good. The future prospects of Bank are somewhat limited in view of its relatively small size and the fact that it experiences direct competition from substantially larger competitors. The future prospects of the resultant bank are good, and the resultant bank should invigorate the competitive atmosphere of the Spokane market by being a more meaningful banking alternative.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that PNB's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the participants to proceed with the proposal.

February 21, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a substantial competitive impact.

* * *

THE HUNTINGTON NATIONAL BANK,
Columbus, Ohio, and The Farmers and Merchants Bank, Milford Center, Ohio

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Huntington National Bank, Columbus, Ohio (7745), with	$2,463,535,000	105	———
and The Farmers and Merchants Bank, Milford Center, Ohio (368), which had	15,342,000	2	———
merged March 29, 1980, under charter and title of "The Huntington National Bank." The merged bank at date of merger had	2,508,403,000	———	107

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The Farmers and Merchants Bank, Milford Center, Ohio (F&M), into and under the charter of The Huntington National Bank, Columbus, Ohio (Huntington). This application was filed on December 7, 1979, and is based on an agreement executed by the proponents on February 13, 1979.

As of September 30, 1979, F&M had total deposits of $13 million and operated two banking offices.

On June 29, 1979, this Office granted preliminary approval to organize Huntington. The new bank charter was organized by principals of Huntington's corporate parent, Huntington Bancshares Incorporated, Columbus, Ohio (Bancshares), a registered bank holding company, to facilitate a corporate reorganization of Bancshares. On November 27, 1979, this Office granted approval for Bancshares to merge 15 of its banking subsidiaries into Huntington. The resultant bank has total deposits of almost $2 billion.

F&M is headquartered in Milford Center and has one branch approximately 7 miles northeast of its main office in Marysville, the county seat of Union County. It is the smallest of three banks in Union County, Ohio, the relevant geographic market area for analysis of competitive issues in this application. It obtains virtually all of its deposits from Union County and controls approximately 19 percent of this market's commercial bank deposits. Huntington obtains approximately $1.8 million in deposits from the F&M's market area.

The largest competitor in Union County is BancOhio National Bank with 47 percent of the market's deposits. It has two branches in Marysville with total deposits of $31.3 million. BancOhio is the second largest commercial banking organization in Ohio. The second largest bank in the market, The Richmond Banking Company, has total deposits of $22.5 million, representing 33.7 percent of the market's total deposits.

Consummation of this merger would not eliminate a significant amount of existing competition between the applicants. Consummation of the merger would result in the substitution of Huntington for the smallest bank in the market.

Huntington is headquartered in Franklin County, which is adjacent to Union County. Under Ohio branching laws, the two banks could branch into each other's markets. The likelihood of F&M branching into Huntington's market within the foreseeable future is remote, given its relatively small size. Likewise, it does not appear likely that Huntington would choose to enter Union County on a *de novo* basis since there are already three banks with six offices serving the county's 25,000 residents.

The financial and managerial resources of both banks are satisfactory. The future prospects of the two banks, both separately and merged, are good.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that Huntington's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the proposed merger.

February 11, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Farmers and Merchants Bank would become a subsidiary of Huntington Bancshares Incorporated, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Huntington Bancshares Incorporated, it would have no effect on competition.

* * *

SECURITY PACIFIC NATIONAL BANK,
Los Angeles, Calif., and Inyo–Mono National Bank, Bishop, Calif.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Inyo–Mono National Bank, Bishop, Calif. (15398), with	$ 28,129,000	1	———
and Security Pacific National Bank, Los Angeles, Calif. (2491), which had	23,573,033,000	602	———
merged March 30, 1980, under charter and title of the latter (2491). The merged bank at date of merger had	23,600,445,000	———	603

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Inyo–Mono National Bank, Bishop, Calif. (Bank), into and under the charter of Security Pacific National Bank, Los Angeles, Calif. (Security). This application was accepted on November 8, 1979, and is based on an agreement signed by the participants on October 15, 1979. On June 30, 1979, Security had total commercial bank deposits of $16.2 billion, and Bank's total deposits were $21.6 million.

The relevant geographic market for analysis of this proposed merger is Inyo and Mono counties, Calif. This market, which lies along the California-Nevada border, has a mountainous terrain and is geographically isolated and sparsely populated. There are two banks in this market, Bank of America, N.T. & S.A. (B of A) and Bank. B of A and Bank operate a total of 11 banking offices in the market. B of A is by far the larger of the two banks in the market and has total market deposits of $72.1 million, which represents over 77 percent of the market's total commercial bank deposits. Bank is a distant second and controls about 23 percent of the market's deposits. There is no existing competition between Security and Bank because they compete in separate markets and the nearest offices of the two banks are separated by 75 miles of desert. Consequently, approval would have no adverse effect on existing competition.

With prior regulatory approval, Security could enter the Inyo–Mono market *de novo* by establishing a branch. However, this market is not considered attractive for *de novo* entry, and there is no recorded evidence that any of the banking needs of this market are going unmet. Additionally, there is no reason to believe that Security would enter the market absent this proposal.

The financial and managerial resources of Security are satisfactory. Although the financial and managerial resources of Bank are generally satisfactory at present, its ability to attract highly qualified and competent management and its ability to provide a myriad of financial and banking resources is limited. Accordingly, Bank's future prospects are considered limited in view of its relatively small size and the fact that it experiences direct competition from the largest commercial bank in California. The future prospects of the resultant bank are good.

As a result of this merger, Security will provide new and expanded banking services to the present banking customers of Bank. Among these services are bank credit cards, overdraft checking, a variety of personal asset management services (including trust services), estate planning and investment advice. Also, the banking community should benefit from the stimulated competitive environment which should develop in the Inyo–Mono market with the introduction of Security into the area. These are positive considerations on the issue of convenience and needs and lend additional weight toward approval of the application.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities, revealed no evidence that the applicants' records of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the merger. Additionally, Security is also authorized to operate, as branches of Security, all former offices of Bank.

January 14, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a substantial competitive impact.

* * *

THE COMMONWEALTH NATIONAL BANK
Harrisburg, Pa., and The First National Bank of Shippensburg, Shippensburg, Pa.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	*To be operated*
The First National Bank of Shippensburg, Shippensburg, Pa. (834), with	$ 48,712,000	4	———
and The Commonwealth National Bank, Harrisburg, Pa. (580), which had	1,035,853,000	48	———
merged April 1, 1980, under the charter and title of the latter bank (580). The merged bank at date of merger had	1,085,206,000	———	52

COMPTROLLER'S DECISION

This is the Comptroller's decision on the application to merge The First National Bank of Shippensburg, Shippensburg, Pa. (Shippensburg Bank), into and under the charter of The Commonwealth National Bank, Harrisburg, Pa. (Commonwealth National). The application was accepted for filing on September 20, 1979, and is based on a written agreement executed by the proponents on March 14, 1979.

Commonwealth National is a national bank that had total deposits of $796.2 million as of June 30, 1979. It operates 43 banking offices: 14 in Lancaster County, nine in Dauphin County, eight in Cumberland County, 10 in York County and one in both Lebanon and Perry counties.

Shippensburg Bank had total deposits of $44.4 million on June 30, 1979. It operates a main office and one branch office in Cumberland County and two additional branch offices in Franklin County.

Shippensburg is on the western edge of Cumberland County and is divided into two parts by the Cumberland-Franklin County line. The Shippensburg Bank originates approximately 85 percent of its total deposits and extends a majority of its loans within five townships in western Cumberland County and three townships in eastern Franklin County. Therefore, the relevant geographic market for analysis of the competitive effects of the proposed merger consists of these townships in the two counties of the Shippensburg area.

Shippensburg Bank is the largest of the four commercial banks operating in this market with 44 percent of the market's commercial bank deposits. Commonwealth National has no banking offices in this market and would merely succeed to Shippensburg Bank's share of the market. The closest banking offices of the two banks are some 20 miles apart. The area between these offices is sparsely populated, rural and predominantly agricultural. Therefore, there is no significant existing competition between Commonwealth National and Shippensburg Bank.

Applicable state banking statutes permit branching by a commercial bank within its home office county and all counties immediately contiguous. As a result, Commonwealth National could only branch into a part of Shippensburg Bank's market, western Cumberland County, and cannot legally establish branches in Franklin County. The likelihood that Commonwealth National would expand into western Cumberland County *de novo* is remote since this area is predominantly agricultural with a relatively slow economic growth rate and low population density.

The financial and managerial resources of both Commonwealth National and Shippensburg Bank are satisfactory. The future prospects of the two banks, independently and in combination, appear favorable.

After consummation of this transaction, the additional capabilities of Commonwealth National will be made available to the present customers of Shippensburg Bank in such areas as full trust services, bank credit cards, additional expertise in agricultural lending, statement savings accounts and a substantially larger legal lending limit. These are positive considerations on the issue of convenience and needs.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with this merger. Because Pennsylvania law would not permit Commonwealth to operate offices in Franklin County, this approval is conditioned on either the relocation or disposal of Shippensburg Bank's two banking offices in Franklin County.

January 25, 1980.

The Attorney General's report was not received.

* * *

THE PIERRE NATIONAL BANK,
Pierre, S. Dak., and The Badlands State Bank, Kadoka, S. Dak., and Vivian State Bank, Vivian, S. Dak.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The Badlands State Bank, Kadoka, S. Dak., with	$ 9,073,000	2	———
and Vivian State Bank, Vivian, S. Dak., with	4,028,000	1	———
were purchased April 1, 1980, by The Pierre National Bank (4104), Pierre, S. Dak., which had	49,667,000	2	———
After the purchase was effected, the receiving bank had	62,364,000	———	5

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application of The Pierre National Bank, Pierre, S. Dak. (PNB), to purchase the assets and assume the liabilities of The Badlands State Bank, Kadoka, S. Dak. (Kadoka), and Vivian State Bank, Vivian, S. Dak. (Vivian). This application was filed on November 30, 1979, and is based on an agreement executed by the proponents on October 9, 1979.

On June 30, 1979, the participants had total deposits as follows: PNB, $44.1 million; Kadoka, $8.2 million; and Vivian, $3.7 million. PNB is a subsidiary of a one-bank holding company, South Dakota Bancshares, Inc.

The three banks operate in separate and distinct markets. Vivian is 35 miles from Pierre and 70 miles from Kadoka. Kadoka is approximately 100 miles from Pierre. PNB's market includes Hughes and Stanley counties where it is the largest of five commercial banks with approximately 42 percent of the market's total commercial bank deposits. Vivian's market area is Lyman County with no other commercial bank located in that area. Kadoka Bank is headquartered in Jackson County where it operates two offices and is one of three commercial banks serving the Jackson County banking market.

Because of the distance separating the three banks, there appears to be only negligible existing competition among the proponents. Additionally, all three banks are under common ownership and control, and there is little possibility for increased competition among the proponents within the foreseeable future. This application is essentially a corporate reorganization. The resultant bank would rank as the 13th largest in South Dakota and would control less than 2 percent of the state's total commercial bank deposits.

The financial and managerial resources of all three banks are satisfactory. The future prospects of Vivian and Kadoka are limited due to their small size. The future prospects of the resultant bank are far more favorable, as it will be better able to meet the banking needs of the communities now served by Kadoka and Vivian.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that PNB's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with this proposal. PNB is authorized to operate all former offices of Vivian and Kadoka Bank as branches of PNB.

February 28, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have an adverse effect on competition.

* * *

LA SALLE NATIONAL BANK,
Chicago, Ill., and Hartford Plaza Bank, Chicago, Ill.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
La Salle National Bank, Chicago, Ill. (13146), with	$1,051,407,000	1	———
and Hartford Plaza Bank, Chicago, Ill., which had	35,335,000	1	———
merged April 21, 1980, under charter and title of the former bank (13146). The merged bank at date of merger had	1,081,781,000	———	2

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Hartford Plaza Bank, Chicago, Ill. (Hartford), into La Salle National Bank, Chicago (La Salle), and under the charter of La Salle National Bank, Chicago. This application was filed with this Office on February 1, 1980, and is based on an agreement executed by the participants on January 4, 1980. As of December 31, 1979, La Salle had $781 million and Hartford had $34 million in commercial bank deposits.*

* La Salle National Bank was recently acquired by Algemene Bank Nederland N.V., a bank headquartered in the Netherlands.

La Salle and Hartford are in the central business district of Chicago in an area commonly called "the loop." The portion of the loop in which these banks are located is a focal point for transportation to and from downtown Chicago. Consequently, both banks serve large numbers of commuters from Cook County and the Chicago SMSA. In fact, ZIP code analysis shows that 79 percent of the total deposits for La Salle and 89 percent of Hartford's are generated from Cook County. Although the banks are in direct competition in Cook County, both are small when compared to large Chicago banks. For example, La Salle holds only 1.63 percent of Cook County commercial bank deposits and Hartford holds only 0.08 percent. The Comptroller finds that the merger of these banks will not substantially lessen competition in Cook County or any relevant market in which they compete.

Illinois permits banks to operate no more than two extended facilities in addition to their main offices. La Salle operates one such facility at 335 West Jackson Boulevard in Chicago in a building which will be demolished in the immediate future. To maintain its competitive position in the central business district of Chicago, La Salle must move to a location which offers commuters nearly equal convenience. Hartford Plaza's location and physical plant meet this need. When merged with La Salle, Hartford will offer its customers a wide range of services not now available. Among these services are trust, data processing and automatic savings to checking account transfers. The combined bank will be better equipped to offer aggressive competition with the largest Chicago banks. La Salle's present detached facility at Jackson Boulevard serves 9,500 customers and holds 12 percent of La Salle's total retail accounts. If La Salle is unable to move to a comparable location, it will be even less able to compete with the very large Chicago banks. In sum, the convenience and needs of Cook County residents will be better served by approval of this merger.

The financial and managerial resources of La Salle and Hartford are satisfactory. The future prospects of Hartford are restricted due to its small size in relation to the relatively large banks found in the central business district. The future prospects of La Salle will be enhanced by avoiding the loss of its present detached facility.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that La Salle's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the required prior written approval of the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the proposed merger.

March 14, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect upon competition.

* * *

SECOND NATIONAL BANK OF GREENVILLE, Greenville, Ohio, and Fort Recovery Banking Company, Fort Recovery, Ohio

Names of banks and type of transaction	Total assets	*Banking offices*	
		In operation	*To be operated*
Fort Recovery Banking Company, Fort Recovery, Ohio, with	$16,848,000	1	———
and Second National Bank of Greenville, Greenville, Ohio (2992), which had	58,094,000	6	———
merged April 30, 1980, under charter of the latter and title of "Second National Bank." The merged bank at date of merger had	76,345,000	———	7

COMPTROLLER'S DECISION

This is the Comptroller's decision on the application to merge the Fort Recovery Banking Company, Fort Recovery, Ohio (Fort Recovery Bank), into the Second National Bank of Greenville, Greenville, Ohio (Greenville Bank). The application was accepted for filing on December 19, 1979, and is based on a written agreement executed by the proponents on November 28, 1979.

Greenville Bank operates six offices in Darke County, Ohio, with four in Greenville. Darke County is in the western portion of Ohio along the Indiana border. As of June 30, 1979, Greenville Bank held $49.4 million in deposits.

Fort Recovery Bank has one office in Fort Recovery which is in Mercer County north of Darke County and also coterminous with the Indiana border. As of June 30, 1979, Fort Recovery Bank had deposits of $15.2 million, representing 5.9 percent of Mercer County deposits.

Fort Recovery and Greenville are 24 miles apart and connected by a two-lane road. The distance between these cities, the banks' small size and their rural location indicate that the banks serve different markets. According to data submitted in the application, customer loan and deposit overlap within Fort Recovery Bank's and Greenville Bank's primary service areas is minimal.* The Federal Reserve Bank of Cleveland concurred with the applicants' analysis and found that they do not compete to any significant degree. We agree with this finding.

Although Greenville Bank could branch into Mercer County, the present ratio of banking offices to popula-

* In fact, Greenville Bank shows only deposit customers totaling $69,000 in Fort Recovery Bank's primary service area.

tion does not make this likely. In any case, Fort Recovery Bank's small share of this market makes this merger a foothold entry for Greenville Bank and serves to strengthen competition in this market.

The financial and managerial resources of both banks are satisfactory. The future prospects of Fort Recovery Bank are limited due to its small size. The future prospects of the combined bank are good.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the Greenville Bank's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with this merger.

March 27, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have an adverse effect upon competition.

* * *

BRANCH COUNTY BANK,
Coldwater, Mich., and Hickory National Bank of Michigan, Fawn River, Mich.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Hickory National Bank of Michigan, Fawn River, Mich. (9497), with	$15,805,000	3	———
and Branch County Bank, Coldwater, Mich., which had	62,793,000	6	———
consolidated May 1, 1980, under charter of Hickory National Bank of Michigan and under title of "Branch County Bank, N.A." with headquarters in Coldwater. The consolidated bank at date of consolidation had	78,598,000	———	9

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to consolidate Hickory National Bank of Michigan, Fawn River (P.O. Sturgis), Mich. (Hickory), and Branch County Bank, Coldwater, Mich. (Branch), under the charter of Hickory National Bank of Michigan and the title of "Branch County Bank, N.A.," with headquarters in Coldwater. This application was filed on September 7, 1979, and is based on an agreement signed by the participants on April 9, 1979, and amended July 20 and 30, 1979.

Hickory was organized in 1909 with the title of "First National Bank of Burr Oak." In 1976, its head office was relocated from Burr Oak to Fawn River, adjacent to Sturgis, Mich. It retained the Burr Oak office as a branch and operates a second branch in Nottawa, Mich. On September 30, 1979, Hickory had total deposits of approximately $15 million.

Branch's main office is in Coldwater. Three operating branch offices and one approved, but unopened, office are also in that community. It has another branch in the village of Reading, approximately 15 miles east of Coldwater. On September 30, 1979, Branch had total deposits of approximately $55 million.

Hickory obtains virtually all of its deposits from the eastern half of St. Joseph County and a small portion of southwestern Branch County near its Burr Oak office. This area is the relevant market for analysis of the competitive effects of this proposed consolidation.

Hickory is the smallest of three banks headquartered in its market. These three banks operate a total of 10 offices. Additionally, four banks headquartered outside of the market each operate a single branch within the market. All 14 banking offices had a total of $141 million in deposits on June 30, 1979. The two largest banks in the market had, in the aggregate, 64 percent, and Hickory was the third largest with approximately 11 percent of these deposits. Branch has no offices in this market.

The closest offices of the two banks are 18 miles apart, and Branch competes in Hickory's market only in the vicinity of the small village of Bronson in western Branch County. Branch has approximately $1.5 million, and Hickory has approximately $1.7 million in deposits from this area. The applicants have estimated that six banks have in total approximately $18 million in deposits originating from the vicinity of Bronson. Consummation of this proposal would eliminate only a nominal amount of competition in the Bronson area, and overall consolidation of the two banks would not have a substantially adverse effect on competition in Hickory's market.

Michigan banking law permits branching into adjacent counties within 25 miles of a bank's head office except that a bank may not branch into incorporated cities, towns or villages in which a bank or branch is already in operation. Branch could, therefore, legally establish branches inside the perimeter of Hickory's market. It has the resources to expand *de novo* into this market. However, it is unlikely that competitors in St. Joseph County would expect Branch to significantly expand its operations there or that Branch would, in fact, expand its operations in view of the home office protection provisions of the Michigan Banking Code and the rural nature of the areas into which it could legally branch.

Branch's financial and managerial resources are satisfactory, and its future prospects are favorable. Hickory's extremely limited financial and managerial resources severely restrict its ability to meet the expanding needs of its customers. Its future prospects are limited, but the future prospects of the resulting bank are favorable.

The consolidation offers an opportunity to improve service for residents of Hickory's market area. The resultant bank will possess sufficient resources and management expertise to serve the convenience and needs of the communities in which it will operate.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, is less than satisfactory.

This merger may not be consummated until a $32,943 liability of certain directors to Hickory National Bank of Michigan is repaid.

This decision is the required prior written approval of the Bank Merger Act, 12 USC 1828(c), in order for the applicants to proceed with the merger.

April 1, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have an adverse effect on competition.

* * *

REPUBLIC NATIONAL BANK OF NEW YORK, New York, N.Y., Twelve Branches of Bankers Trust Company, New York, N.Y.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Twelve Branches of Bankers Trust Company, New York, N.Y., with	$ 150,728,000	12	———
were purchased May 27, 1980, by Republic National Bank of New York, New York, N.Y. (15569), which had	3,679,275,000	20	———
After the purchase was effected, the receiving bank had	3,821,403,000	———	32

COMPTROLLER'S DECISION

This is the Comptroller's decision on the application of Republic National Bank of New York, New York, N.Y. (Republic), to purchase the assets and assume certain liabilities of 12 branches of Bankers Trust Company, New York, N.Y. (BTC). The application was accepted for filing on February 5, 1980, and is based on a written agreement executed by the proponents on September 30, 1979.

Republic is a national bank that had total deposits of $2.6 billion as of June 30, 1979. It is headquartered in New York City and operates 19 offices in the metropolitan area. BTC is a state-chartered banking subsidiary of Bankers Trust New York Corporation. BTC held $18.3 billion in deposits on June 30, 1979, and was the eighth largest commercial bank in the United States and the sixth largest in New York State. Recently, BTC has decided to divest itself of much of its retail banking business and to concentrate its resources on corporate banking, trusts, money market and securities business. Therefore, BTC has reached agreement with five banks to purchase 80 of its 103 branches. Republic has agreed to purchase 12 of these branches with assets valued at $150.5 million. Of the 12 branches to be purchased, 10 are in Manhattan, one in Brooklyn and one in the Bronx.

The New York City metropolitan area extends over the city, its immediate environs and portions of New Jersey and Connecticut. Within this area, goods, services and population flow freely and frequently. It is an identifiable economic unit and for these reasons, the Federal Reserve Bank of New York has defined it to be a relevant banking market. This Office feels this is an appropriate market for analysis of this transaction. In this market, 195 commercial banks operate 2,340 banking offices. Republic ranks 13th with 1.17 percent of the total deposits. BTC ranks sixth with 6.83 percent of deposits. Approval of this transaction would not change Republic's rank and would raise its share of market deposits nominally. The impact on competition would be inconsequential. Viewing this transaction from the more narrow New York State portion of this market does not change this conclusion. In the more narrow market, the purchase and assumption will only raise Republic's share of deposits from 1.22 to 1.33 percent. Consequently, this Office finds the proposal does not violate the competitive provisions of the Bank Merger Act.

The financial and managerial resources of Republic and BTC are satisfactory. The future prospects of Republic, with the addition of the 12 branches proposed for purchase, are good.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that Republic's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with this merger.

March 28, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have an adverse effect upon competition.

* * *

THE FIRST NATIONAL BANK OF, ASHLAND,
Ashland, Ohio, and Polk State, Polk, Ohio

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The First National Bank of Ashland, Ashland, Ohio (183), with	$71,100,000	5	———
and Polk State Bank, Polk, Ohio, which had	5,097,000	1	———
merged May 30, 1980, under charter and title of the former bank (183). The merged bank at date of merger had	76,197,000	———	6

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Polk State Bank, Polk, Ohio (PSB), into and under the charter of The First National Bank of Ashland, Ashland, Ohio (First). The application was filed on November 29, 1979, and is based on an agreement executed by the proponents dated October 1, 1979.

PSB is one of the 10 smallest banks in Ohio. It held only $4.4 million in deposits as of December 31, 1978. PSB's sole office is in Polk which had a 1976 population of 504 and is located in the northeast section of Ashland County, Ohio.

First is headquartered in Ashland City, the county seat of Ashland County. As of December 31, 1978, First held $53 million in deposits. First is a subsidiary of National City Corporation, a $2.9 billion deposit holding company. First's four branches are in central and southern Ashland County. It controls 39 percent of the commercial bank deposits in the county and is the county's largest commercial bank.

A commercial bank's geographical market is the area within which its customers can practically turn for the services it offers (*United States* v. *Philadelphia Bank,* 374 U.S. 321, 1962 at 359). Banks frequently rely on ZIP code analysis of customer accounts to determine their geographic markets. ZIP codes are usually small enough geographic units to give sufficiently precise gradients of market share. They are also easily processed by EDP equipment, making them an inexpensive and quick guide to market delineation. However, in this application, ZIP codes are not useful. The ZIP code data submitted by the applicants does not permit the relevant market to be defined with comfortable certainty.

Applicant's data shows both banks with significant deposits in ZIP code 44805. Ashland and 40 percent of the land area of the county is in ZIP code 44805 which extends to within 1 mile of Polk. And yet, Polk and Ashland are 8 miles apart. PSB's limited hours, small number of services, low lending limit and low growth all indicate an extremely local orientation. The deposits it holds in ZIP code 44805 are most likely on the very fringe of the ZIP code closest to the village of Polk. A county or ZIP code 44805 market would clearly be inappropriate, as Polk is simply too small to compete over such a wide area.

First's closest branch is about 6 miles from Polk on the outskirts of Ashland. A branch office usually serves an area of about 3 to 5 miles in radius, with the exception of highly urbanized locations where a branch's service area is considerably smaller, sometimes even a few blocks.

PSB can only serve very small loan needs due to its $25,000 legal lending limit. Consequently, it does not compete at all for loans over $25,000. Because of its limited services, it can only attract deposit customers who prize the convenience of PSB's location over First's closest branch. Since First offers these customers more of every banking service, except convenience, and they have not shifted, it follows that, absent a branch in Polk, First cannot really compete for Polk's core deposit customers. The area of competitive overlap, if any, between these banks would be in the rural area midway between Polk and First's closest branch. The ascertainable facts concerning the applicants, combined with the experience of this Office, leads to the conclusion that the actual direct competition between them is probably quite small. Consequently, the loss of this competition through merger would not be substantial and does not violate the Bank Merger Act.

Assuming, arguendo, that this merger would substantially lessen competition, then it should not be approved unless this Office finds that the anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served (12 USC 1828(c)(5)(B)). The citizens of Polk are now served by a bank which offers little more than a checking account. PSB does not use modern electronic data processing; checks are cleared and posted manually. In recent years, deposits have grown very slowly. The bank's chief operating officer is preparing for retirement after 36 years of service. PSB's current lending limit is $25,000, an amount which cannot meet modern mortgage or agricultural equipment needs. PSB does not offer credit cards. Certificates of deposit over $100,000 are not accepted. Advantages of computerized banking are not available. All these services, and more, will be available if this merger is approved.

Polk is so small that construction of a new branch bank is not cost feasible. There is barely enough business to keep PSB operating and certainly not enough to justify a new entry. Growth prospects are minimal. The banking needs of Polk's citizens will be much better served by a branch of a large bank where the cost of providing services can be distributed throughout the system. Consequently, the OCC finds that this merger meets the convenience and needs test of the Bank Merger Act assuming, but not finding, that the merger has substantial anticompetitive effects.

The financial and managerial prospects of First are favorable. The financial and managerial prospects of PSB are unclear due to its small size, isolated location and impending management turnover. The financial and managerial prospects of the combined bank are good.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that First's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with this merger.

April 23, 1980.

The Attorney General's report was not received.

* * *

FIRST NATIONAL BANK OF NEW JERSEY,
Totowa, N.J., and Commonwealth Bank of Metuchen, Metuchen, N.J.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Commonwealth Bank of Metuchen, Metuchen, N.J., with	$ 43,189,000	1	
was purchased June 23, 1980, by First National Bank of New Jersey, Totowa, N.J. (329), which had	730,985,000	26	
After the purchase was effected, the receiving bank had	768,191,000		27

COMPTROLLER'S DECISION

This application was accepted for filing on March 7, 1980, and is based on an agreement executed by the proponents on November 13, 1979.

First National Bank of New Jersey, Totowa, N.J. (FNB), is a national bank which held $657.3 million in deposits as of December 31, 1979. FNB operates 26 offices including 20 in Passaic, four in Bergen and one each in Morris and Middlesex counties.

Commonwealth Bank of Metuchen, Metuchen, N.J. (CBM), is a state-chartered bank which held $39 million in deposits as of December 31, 1979. It operates two offices in the borough of Metuchen.

Metuchen is in northern Middlesex County, N.J. CBM's market is Metuchen and its immediate environs, an area wherein its customers can conveniently reach CBM's offices for banking services. FNB's nearest office is in Perth Amboy, 7 miles southeast of Metuchen. There are numerous offices of large statewide banks in the intervening area. Although the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Bank of New York defined different markets for CBM, both found a lack of market concentration and a minimal impact on competition. This Office agrees with that conclusion. For example, in the market selected by the FDIC, a 10-mile radius around Metuchen, consummation of this proposal would raise FNB's market share from 2.5 to 7 percent of deposits. In the market, as defined by the Federal Reserve Bank of New York, the increase would be from 1.9 to 5.4 percent.

The financial and managerial resources of both banks are satisfactory. The future prospects of the combined bank are good.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that FNB's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with this purchase and assumption.

May 23, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect upon competition.

* * *

FIRST NATIONAL STATE BANK—EDISON,
South Plainfield, N.J., and Three Branches of Franklin State Bank, Somerset, N.J.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Three Branches of Franklin State Bank, Somerset, N.J., with	$ 16,485,000	3	———
were purchased June 27, 1980, by First National State Bank—Edison, South Plainfield, N.J. (15845), which had	244,870,000	21	———
After the purchase was effected, the receiving bank had	263,355,000	———	24

COMPTROLLER'S DECISION

This is the Comptroller's decision on the application of the First National State Bank—Edison, South Plainfield, N.J. (Edison Bank), to purchase the assets and assume certain liabilities of three branches of Franklin State Bank, Somerset, N.J. (Purchased Branches and Franklin Bank, respectively). The application was accepted for filing on February 5, 1980, and is based on a written agreement executed by the proponents on November 20, 1979.

Edison Bank is a subsidiary of First National State Bancorporation (Bancorporation). As of June 29, 1979, it had $204.4 million in deposits. Edison Bank has 21 offices, 10 in Middlesex County, four in Monmouth County and seven in Ocean County.

Franklin is a state-chartered bank which had as of June 29, 1979, $371 million in deposits. Franklin is selling the Purchased Branches to enhance its capital position to sustain present and future growth. As of June 29, 1979, the Purchased Branches held total deposits of $19.8 million. Two branches are in Ocean and Freehold in Monmouth County; one is in East Windsor in Mercer County.

Although Bancorporation is present in Monmouth and Mercer counties, its share of county-wide deposits in both is small: 2.4 percent in Monmouth and 6 percent in Mercer. Franklin Bank's Monmouth County branches would add 0.8 percent to Bancorporation's total in the county. In Mercer County, Franklin's East Windsor branch would add only 0.3 percent to Bancorporation's total. Bancorporation's nearest office to any of the Purchased Branches is 8.5 miles. In no case is a Bancorporation office within the same township or borough as the Purchased Branches and, in all cases, there are intervening offices of competing banks. In light of the foregoing, this Office finds that there is virtually no direct competition, and this purchase and assumption would not substantially lessen competition.

This purchase and assumption will enhance the needs and convenience of the customers of the Purchased Branches. Edison Bank will pay the maximum rate on savings accounts which is not now offered to Franklin customers. Edison Bank has available, through Bancorporation, a large and sophisticated trust department. International banking services will also be available.

The financial and managerial resources of Edison Bank and the Purchased Branches are both satisfactory. The future prospects of the combined entity are good.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that Edison Bank's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with this merger.

April 21, 1980.

The Attorney General's report was not received.

* * *

KEY BANK OF SOUTHEASTERN NEW YORK, N.A.,
Chester, N.Y., and The Valley National Bank, Wallkill, N.Y., Walden, N.Y.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Key Bank of Southeastern New York, N.A., Chester, N.Y. (1349), with	$ 79,028,000	1	———
and The Valley National Bank, Wallkil, N.Y., Walden, N.Y., (10155), which had	40,466,000	13	———
merged June 27, 1980, under charter and title of the former bank (1349). The merged bank at date of merger had	119,495,000	———	14

COMPTROLLER'S DECISION

The application was filed on February 5, 1980, and is based on an agreement signed by the participants on November 13, 1979.

Key Bank of Southeastern New York, N.A., Chester, N.Y., is a subsidiary of Key Banks, Inc., Albany, N.Y. (Key Banks). Key Banks controls six subsidiary banks that operated 130 offices in eastern and central New York at year-end 1978. On June 30, 1979, its banking subsidiaries had total deposits of approximately $1.6 billion. Based on deposit size, it is the 15th largest commercial banking organization in the state with approximately 1 percent of the commercial bank deposits. Consummation of this proposal would not have a material effect on the concentration of banking resources in New York.

On December 31, 1979, The Valley National Bank, Wallkill, N.Y., Walden, N.Y. (Valley), had total deposits of approximately $36 million. It operates three offices in northern Orange County and two offices in the southern portion of Ulster County.

Because of its small size and the location of its offices, Valley is an effective competitor only in southern Ulster County in the vicinity of Wallkill and Madura and in northern Orange County in the vicinity of Walden, Scotts Corners and Chrenamen Valley. The application states that within this market seven commercial banks operate a total of 22 offices. Valley is the fifth largest with 12 percent of the deposits. The four largest commercial banks have 59 percent of the deposits.

In aggregate, the 22 commercial banking offices in the market served by Valley had $279 million in deposits on June 30, 1978. Key Banks has no offices in this market, and it obtains only $8 million in deposits from the market. Key Banks' closest office is over 6 miles from any office of Valley. There are offices of competing institutions conveniently located in the intervening area. Consummation of this proposal is unlikely to have a significant effect on competition in the portions of Ulster and Orange counties presently served by Valley.

The financial and managerial resources of the two banks, both separately and merged, are satisfactory. If the merger is consummated, the larger resources of Key Banks will be conveniently available to satisfy additional banking needs of the communities served by Valley.

A review of the record of this application and other information available to this Office as part of its regulatory responsibility revealed no evidence that the applicants' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, is less than satisfactory.

The application is approved. This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the proposed merger.

May 20, 1980.

The Attorney General's report was not received.

* * *

FIRST NATIONAL BANK IN BELLAIRE,
Bellaire, Ohio, and The Union Savings Bank of Bellaire, Bellaire, Ohio

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
First National Bank in Bellaire, Bellaire, Ohio (13914), with	$18,269,000	2	———
and The Union Savings Bank of Bellaire, Bellaire, Ohio, which had	14,752,000	2	———
consolidated June 30, 1980, under the charter of the former bank (13914) and with the title "First-Union Bank, N.A." The consolidated bank at date of consolidation had	32,840,000	———	4

COMPTROLLER'S DECISION

This is the decision of the Comptroller on an application to consolidate The Union Savings Bank of Bellaire, Bellaire, Ohio (Union), and the First National Bank in Bellaire, Bellaire (First). This application was filed on September 14, 1979, and is based on an agreement signed by the participants on August 8, 1979.

On June 30, 1979, Union had total deposits of $12 million, and First had total deposits of $16 million. Union operates one office in Bellaire and one office in Shadyside, Ohio. First operates two offices in Bellaire.

Bellaire is in Belmont County which is included in the Wheeling, W. Va., SMSA. Bellaire is adjacent to Wheeling, although the two cities are separated by the Ohio River. The area exhibits many characteristics of a unified metropolitan area with substantial numbers of people commuting between the Ohio and West Virginia portions of the SMSA for shopping, employment and transaction of business.

The applicants contend that the SMSA is the relevant market to determine the competitive effects of the proposal. The Wheeling SMSA includes Marshall County and Ohio County in West Virginia and Belmont County in Ohio. Within this three-county area, First is the 14th largest, and Union is the 17th largest of 23 commercial banks. The consolidated bank would rank as the 12th largest with approximately 4 percent of the market's commercial bank deposits.

Both the Federal Reserve System and the Federal Deposit Insurance Corporation have defined markets that are smaller than the market defined by the applicants. Both agencies, however, included portions of the West Virginia counties of the SMSA. Because of the small size of the two banks and the large number of banks competing in the markets selected neither agency concluded that consummation of the proposal would have a substantially adverse effect on competition.

Although the applicants have presented substantial evidence in support of their contention that the relevant market should include the entire SMSA, the Ohio and West Virginia portions of the SMSA are separated by the Ohio River. Because of this and the small size of the two banks, a market definition that includes the West Virginia portion of the SMSA may be too large to accurately assess the probable effects of the proposal on competition. Therefore, in considering this application, the banking structure in Belmont County was also analyzed.

The applicants are the sixth and eighth largest of 11 commercial banks in Belmont County. The consolidated bank would rank as the fifth largest with 10 percent of the county's commercial bank deposits. The four largest banks have from 13 to 23 percent of the county's commercial bank deposits. In aggregate, these four control 69 percent. Even if the relevant market includes only Belmont County, the consolidated bank's nominal increase in its market share is unlikely to have a significant effect on banking competition.

Any apparent anticompetitive effects of the proposal are mitigated by the affiliated relationship that now exists between the two banks. Shareholders owning a majority of the shares of First also own a majority of the shares of Union. While the banks do not have common directors or management, it is unlikely that any vigorous competition now exists between them or will develop.

Although limited by their small size, the financial and managerial resources of both banks are generally satisfactory. Their future prospects are generally favorable, although the future prospects of the combined bank are considerably better than the prospects of either bank individually.

The consolidated bank will have a larger legal lending limit and will be able to satisfy additional credit needs of its community. Additionally, economies of scale will enable the bank to offer additional and improved services to its community. These positive considerations on the issue of convenience and needs are consistent with approval of the application.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that First's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

The application is approved. This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the banks to proceed with the proposed consolidation. The consolidated bank is authorized to operate all offices of the applicant banks.

April 25, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Belmont County (1977 population of 83,200) is located in southeast Ohio directly across the Ohio River from Wheeling, W. Va., (1977 population 43,200). While there is a toll bridge across the Ohio River at Bellaire, the principal free bridge into downtown Wheeling is at Bridgeport, 3.5 miles north of Bellaire. The county's two main population centers appear to be (1) a string of towns along the Ohio River and (2) the area around St. Clairsville and to the west. The two largest river towns in Ohio, Martins Ferry (1977 population 10,222) and Bellaire (1977 population 8,726), have lost 5 and 9.6 percent of their population, respectively, since 1970.

Applicant and Bank are direct competitors; both have offices at the corner of 32nd and Belmont Streets in downtown Bellaire. It is thus apparent that the proposed merger will eliminate substantial existing competition between Applicant and Bank. The area within which it is appropriate to measure the competitive effects of the proposed merger appears to be eastern Belmont County, Ohio, including St. Clairsville, Powhatan Point and Martins Ferry, plus western Ohio County, W. Va. Fifteen banking organizations operate offices in this area. Banking is relatively unconcentrated there; the top four banks hold approximately 52 percent of the area's deposits. Applicant holds approximately 3.1 percent and Bank holds approximately 1.9 percent of the total deposits held by the banking offices in the area, the 10th and 13th largest shares. If the proposed merger is consummated the resulting bank would hold approximately 5 percent of the area's deposit, the ninth largest share.

We conclude the proposed transaction will have an adverse effect on competition.

* * *

BARNETT BANK OF PORT CHARLOTTE, N.A.,
Port Charlotte, Fla., and Barnett Bank of Sarasota, N.A., Sarasota, Fla.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Barnett Bank of Port Charlotte, N.A., Port Charlotte, Fla. (15923), with	$39,362,000	2	———
and Barnett Bank of Sarasota, N.A., Sarasota, Fla. (16206), which had	19,265,000	3	———
merged July 1, 1980, under charter and title of the latter. The merged bank at date of merger had	60,046,000	———	5

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Barnett Bank of Port Charlotte, N.A., Port Charlotte, Fla., into Barnett Bank of Sarasota, N.A., Sarasota, Fla., under the charter and title of the latter. The application was filed on March 21, 1980, and is based on an agreement executed by the applicant banks on February 20, 1980.

With the exception of directors' qualifying shares, the two banks are wholly owned and controlled by Barnett Banks of Florida Incorporated, a registered bank holding company. This proposed merger is a corporate reorganization which would have no effect on competition. A review of the financial and managerial resources and future prospect of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

The record of this application and other information available to this Office as a result of its regulatory responsibilities reveals no evidence that the banks' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the merger.

The merger may not be consummated prior to July 1, 1980.

May 20, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

THE FIRST NATIONAL BANK AND TRUST COMPANY OF HAMILTON, Hamilton, Ohio, and First National Bank of Middletown, Monroe, Ohio

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The First National Bank and Trust Company of Hamilton, Hamilton, Ohio (56), with	$220,784,000	12	———
and First National Bank of Middletown, Monroe, Ohio (14565), which had	153,056,000	7	———
consolidated July 1, 1980, under the charter of the former (56) and title "First National Bank of Southwestern Ohio." The consolidated bank at date of consolidation had	373,840,000	———	19

COMPTROLLER'S DECISION

On March 27, 1980, the OCC approved this application. As of June 30, 1979, First National Bank of Middletown, Monroe, Ohio (Middletown Bank), had total deposits of $116.6 million. As of March 31, 1979, The First National Bank and Trust Company of Hamilton, Hamilton, Ohio (Hamilton Bank), had total deposits of $153.9 million. The banks are in Butler County and are approximately 13 miles apart.

Applicants submitted extensive statistical sampling which indicate that the banks' primary service areas (the areas where the banks drew 80 percent of their loans and deposits) did not substantially overlap geographically. The data submitted show that Hamilton Bank draws only 1.5 percent of its loan accounts, .95 percent of its dollars lent, .89 percent of its deposits and 1.06 percent of its deposit dollars from the primary service area of Middletown Bank. Middletown Bank draws only 2.87 percent of its loan accounts, 1.3 percent of its dollars lent, 1.78 of its depositors and 1.43 of its deposit dollars from the primary service area of Hamilton Bank.

The banks are different Federal Reserve banking markets and each is in different Rand McNally metropolitan areas. Hamilton and Middletown each have newspapers with no cross-circulation. Butler County is between the Cincinnati and Dayton urban areas. Hamilton is generally included in the greater Cincinnati urban area, while Middletown is just outside the greater Dayton urban area. Each bank is oriented towards the nearest urban area rather than to Butler County as a whole.

Recent changes in Ohio banking law open Butler County for the first time to entry by Cincinnati and Dayton banks. Applicants submitted evidence that this type of entry is imminent. Although the two banks could branch into each other's trade area, the loss of that possibility is not deemed significant in light of the number and size of potential new entrants into Butler County from Cincinnati and Dayton. In sum, the Comptroller finds that the facts summarized above do not indicate a violation of the Bank Merger Act. The OCC finds the financial and managerial resources and future prospects of both banks to be satisfactory and that each bank's record of meeting the credit needs of its respective community, including low and moderate income neighborhoods, is satisfactory.

The Attorney General's report was not received.

* * *

RAINIER NATIONAL BANK,
Seattle, Wash., and Bank of Everett, Everett, Wash.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Bank of Everett, Everett, Wash., with	$ 119,124,000	10	———
and Rainier National Bank, Seattle, Wash. (4375), which had	4,635,806,000	124	———
merged July 21, 1980, under charter and title of the latter (4375). The merged bank at date of merger had	4,752,942,000	———	134

COMPTROLLER'S DECISION

This application was accepted for filing on February 1, 1980, and is based on an agreement executed by the proponent banks on October 18, 1979. As of June 30, 1979, Rainier National Bank, Seattle, Wash. (Rainier), held $3.2 billion in deposits, and the Bank of Everett, Everett, Wash. (B of E), held $107 million in deposits.

B of E has 10 offices, all in Snohomish County. Snohomish County is rectangular in shape with a length of approximately 66 miles, east to west, and a width of 27 miles. The bulk of the population is concentrated in Everett and the southwest portion of the county which is an extension of the northern suburbs of Seattle. The remainder of the county has thinly populated areas with a number of small towns and large areas of wilderness and mountains which are virtually uninhabited.

The relevant geographic markets in which the competitive effects of this merger must be measured are the markets in which B of E, the bank to be acquired, operates. B of E's 10 offices operate in several noncontiguous markets. Four small B of E offices operate in Granite Falls, Monroe, Marysville and Snohomish. The deposits held by B of E offices in these four towns constitute 31.5 percent of its total deposits. Each of these towns is a self-contained banking market. Rainier does not have an office in any of these towns. Accordingly, consummation of this merger would not affect any actual competition therein.*

B of E has five offices in the Everett metropolitan area which constitutes a separate relevant geographic market.† Rainier has established no branch offices in that area and, assuming it had the intention to do so, would be prevented from doing so by Washington's restrictive branching law. The applicants' ZIP code data show that 80 percent of the deposits held by B of E's five offices in Everett are derived from the Everett metropolitan area. These deposits totaled approximately $47 million and constituted approximately 21,000 accounts. Although Rainier has deposit customers in the Everett metropolitan area, the amount is insignificant, and its ability to compete there is severely circumscribed by its inability to establish *de novo* branch offices under state law.‡

Both Rainier and B of E have offices in the portion of southwest Snohomish County which is an extension of the Seattle metropolitan area. B of E's one office there holds 6 percent of the bank's *total* deposits, approximately $6 million. Data submitted by applicants show that the penetration of this office does not extend beyond 1½ miles in a southerly direction towards Seattle. Rainier's two offices in this portion of Snohomish County are 6 miles south of the B of E office. A substantial number of banking offices lie between those of Rainier and B of E, and there would appear to be minimal competition between Rainier's and B of E's offices in this market.

This Office finds that all of these data tend to support the applicants' claim that B of E and Rainier are not in significant direct competition in any relevant market.§

The lack of significant actual competition between B of E and Rainier may be due, in part, to the state's restrictive branching law. Moreover, since Rainier is headquartered in King County, state law further prevents it from being considered a perceived or actual potential entrant into the Everett metropolitan area. Consequently, this merger will have no effect on potential competition in the markets in which B of E now operates. The financial and managerial resources of B of E and Rainier are satisfactory, and their future prospects are favorable.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities, revealed no evidence that Rainier's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

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* It should be noted that the branch banking law of Washington, RCW 30. 40. 020., restricts *de novo* branching to the city and the unincorporated area of the county in which a bank's main office is located. The only permissible manner in which a branch can be established outside a bank's home county is by acquiring an existing bank or the branch of an existing bank operating in an incorporated city or town in a county outside of its home county.

† The metropolitan area of Everett consists of the city and narrow strips of residential area just outside the city limits. Everett is an old, established city with an industrial and commercial base separate and distinct from that of Seattle. B of E's deposits in this market constitute 62.5 percent of its *total* deposits.

‡ Rainier's deposit data are based on the census tracts, while B of E's are based on ZIP codes. Rainier's data show 966 accounts totaling $1.9 million in the Everett metropolitan area.

§ Rainier does maintain an office in the ferry terminal at Mukilteo, population 1,423, located on Puget Sound west of Everett. The small deposit accounts held by both Rainier and B of E in this town and the geographic barriers to commutation between Mukilteo and Everett, make this competitive overlap inconsequential to the overall transaction.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the proposed merger.

June 19, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Snohomish County (1970 population 265,236) is located on Puget Sound immediately north of King County, in which Seattle is located. Everett (1970 population 53,622), the principal city in Snohomish County, has a diversified and growing economic base which is primarily industrial. Outside of Everett, Snohomish County is sparsely populated; most of the county is mountainous forest land, although the southwestern portion of the county appears to be a growing residential area.

Applicant operates two offices in Snohomish County. Its Mukilteo office, located just beyond the city limits of Everett, is only 4 miles from Bank's closest office, and Applicant's office in Edmonds, in the southwestern portion of the county, is only 6 miles from Bank's office in Lynnwood. It therefore appears that the proposed transaction would eliminate some existing competition between Applicant and Bank.

The area within which it appears appropriate to assess the competitive effects of the proposed merger is approximated by Snohomish County. There are 12 banks operating a total of 58 offices in Snohomish County. The largest share of the county's deposits is held by Seattle-First National Bank, the state's largest banking organization, which controls approximately 37 percent of the county's deposits. Bank, the third largest bank in terms of county deposits, and Applicant, the fifth largest, control 12.4 percent and 5.6 percent of those deposits. If the merger is consummated, Applicant would be the third largest bank in Snohomish County, controlling 18 percent of the county's deposits. Concentration among the four largest banks in the county in terms of local deposits would increase from 80.1 percent to 85.6 percent.

We note that because of their proximity to Seattle, in King County, it may be appropriate to exclude the communities in the southwestern corner of Snohomish County from the area within which the primary impact of the proposed merger would be felt. Applicant's office in Mukilteo is its only office in Snohomish County outside of its southwestern corner. That office holds approximately $11 million in deposits, which represents 1.7 percent of the total deposits held in bank offices located in the portion of Snohomish County exclusive of its southwestern corner. Bank's offices in that area hold deposits of approximately $100 million, which represents 15 percent of the area's deposits.

Washington law prevents Applicant from establishing *de novo* branches in the city of Everett, the major population center in Snohomish County. There are six banks operating a total of 17 offices in the city of Everett. Bank controls 16 percent, the third largest share, of the deposits held in these offices; the largest and second largest share of deposits held in bank offices in Everett are 39.5 percent and 31.4 percent. While it would be preferable from a competitive standpoint for Applicant to enter Everett by acquiring a smaller share of deposits, there is some question whether that is a reasonably feasible alternative to the present proposal.

We conclude that the proposed merger would have adverse competitive effects.

* * *

STUART NATIONAL BANK,
Stuart, Fla., and Port Salerno National Bank, Port Salerno, Fla., and Florida National Bank of Martin County, Stuart, Fla.

Names of banks and type of transaction	Total assets	*Banking offices*	
		In operation	*To be operated*
Stuart National Bank, Stuart, Fla. (15991), with	$109,516,000	5	
and Port Salerno National Bank, Port Salerno, Fla. (16160), with	22,735,000	2	
and Florida National Bank of Martin County, Stuart, Fla. (Organizing), which had	12,500,000	0	
merged August 1, 1980, under the charter and title of "Florida National Bank of Martin County" (15991). The merged bank at date of merger had	156,986,000		7

COMPTROLLER'S DECISION

This is the Comptroller's decision on the application to merge Stuart National Bank, Stuart, Fla. (Stuart), and Port Salerno National Bank, Port Salerno, Fla. (Port Salerno), into Florida National Bank of Martin County (Organizing), Stuart, Fla. (Florida National), under the charter and title of Florida National Bank of Martin County. This application was accepted for filing on March 31, 1980, and is based on a written agreement executed by the proponents on March 24, 1980.

Florida National is being organized by individuals associated with Florida National Banks of Florida, Inc. (FNBF), a registered bank holding company. The merger is part of a process whereby FNBF will acquire 100 percent (less directors' qualifying shares) of Stuart and Port Salerno. It will have no effect on competition.

The financial and managerial resources of Stuart, Port Salerno and Florida National are satisfactory. Their future prospects, both separately and combined, are favorable.

After consummation of this transaction, the additional capabilities of FNBF will be made available to the present customers of Stuart and Port Salerno. These services include expanded trust and funds management services, revolving line of credit with overdraft protection and automatic teller machines. These are positive considerations on the issue of convenience and needs.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, is less than satisfactory.

This is the prior written approval required in order for the applicants to proceed with the proposed merger.

June 11, 1980.

The Attorney General's report was not received.

* * *

PEOPLES NATIONAL BANK OF WASHINGTON, Seattle, Wash., and Columbia Bank, N.A., Kennewick, Wash.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Columbia Bank, N.A., Kennewick, Wash. (15741), with	$ 37,607,000	5	———
was purchased August 7, 1980, by Peoples National Bank of Washington, Seattle, Wash. (14394), which had	1,488,461,000	79	———
After the purchase was effected, the receiving bank had	1,515,829,000	———	84

COMPTROLLER'S DECISION

This application is based on an agreement executed on January 17, 1980, and filed with this Office on March 26, 1980. Peoples National Bank of Washington, Seattle, Wash. (Peoples), has offices throughout the state and held $1.2 billion in deposits as of December 31, 1979. Columbia Bank, N.A., Kennewick, Wash. (Columbia Bank), maintains offices in Kennewick and Richland, Benton County, in southeast Washington on the south side of the Columbia River. Columbia Bank held $33.6 million in deposits as of December 31, 1979.

Peoples maintains one branch in Pasco. Pasco is across the Columbia River from Kennewick, but is in Franklin County. Applicants argue that the Columbia River forms a natural barrier separating Kennewick and Richland from Pasco, which results in separate banking markets. The Federal Reserve Bank of San Francisco, on the other hand, defines Pasco, Kennewick and Richland as a single economic unit and banking market. This area is commonly known as the "Tri-Cities area" and forms the urban heart of the Columbia River basin.

If applicant's market definition is correct, there is virtually no competitive overlap between Peoples and Columbia Bank. If the Tri-Cities area is taken as the market, Peoples ranks fifth holding 5.3 percent of market deposits, and the Columbia Bank ranks fourth with 7.8 percent of market deposits. The combined bank would rank fourth with 13.1 percent. Seattle First National Bank would continue as first with 40 percent and Rainier National Bank second with 27 percent. The Office finds that this result, while producing some lessening of competition, would not violate the standards found in the Bank Merger Act, 12 USC 1828(c). This is especially true in light of Washington's restrictive branching law which prevents Peoples from branching into Kennewick and Richland or Columbia Bank from branching into Pasco.

The financial and managerial resources of both proponents are satisfactory, and their future prospects are favorable.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities, revealed no evidence that the applicants' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the proposed merger.

July 7, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have an adverse effect upon competition.

* * *

THE FIRST JERSEY NATIONAL BANK,
Jersey City, N.J., and Home State Bank, Teaneck, N.J.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Home State Bank, Teaneck, N.J., with	$ 26,761,000	1	———
and The First Jersey National Bank, Jersey City, N.J. (374), which had	785,046,000	28	———
merged August 15, 1980, under the charter and title of the latter (374). The merged bank at date of merger had	810,435,000	———	29

COMPTROLLER'S DECISION

This application is based on an agreement between the proponents executed February 1, 1980, and accepted for filing on March 26, 1980. The First Jersey National Bank, Jersey City, N.J. (First Jersey), operates 27 branches in six New Jersey counties. As of December 31, 1979, it held $617 million in deposits. Home State Bank, Teaneck, N.J. (Home State), has one office, which is in Teaneck in southeastern Bergen County, N.J. As of December 31, 1979, it held $24.5 million in deposits.

Eighty-three percent of Home State's deposits are drawn from Teaneck and surrounding municipalities in south and central Bergen County. This is the market in which Home State operates. First Jersey has one office in Hasbrouck Heights, which is within this market area. A total of 26 banks have offices in the market. Home State ranks 19th with less than 1 percent of market deposits. First Jersey's one office holds a minimal 0.34 percent of the market, and after consummation of the proposed merger, First Jersey would rank 18th with 1.24 percent of market deposits. This Office finds that consummation of this merger would have a negligible impact on competition.

The financial and managerial resources of the applicants are satisfactory, and their future prospects are favorable. Home State's future prospects are enhanced by the proposed merger due to the competitive environment in Bergen County, which includes the largest New Jersey banking institutions and is impacted by the large New York City banking institutions.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that First Jersey's record of helping to meet the credit needs of its entire community, including low and moderate neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the proposed merger.

July 14, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have an adverse effect on competition.

* * *

FIRST NATIONAL BANK NORTHWEST OHIO,
Bryan, Ohio, and Tiffin Valley National Bank, Archbold, Ohio

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
First National Bank Northwest Ohio, Bryan, Ohio (13899), with	$48,901,000	3	———
and Tiffin Valley National Bank, Archbold, Ohio (15227), which had	31,511,000	4	———
merged September 8, 1980, under charter and title of the former (13899). The merged bank at date of merger had	80,746,000	———	7

COMPTROLLER'S DECISION

This application was filed with OCC on April 22, 1980, and is based on an agreement executed by the applicants on February 4, 1980. As of year-end 1979, First National Bank Northwest Ohio, Bryan, Ohio (First), had total deposits of $41.9 million, and Tiffin Valley National Bank, Archbold, Ohio (Tiffin Valley Bank), had total deposits of $26.1 million.

First is headquartered in Bryan. Bryan is in Williams County, which forms the northwest corner of Ohio bordering Michigan and Indiana. First's offices are all in Williams County, with two in Bryan, one in Stryker and an approved, but unopened, office in Edgerton.

Tiffin Valley Bank has four offices, all located in Fulton County which is adjacent to Williams County on its eastern border. Two of Tiffin Valley Bank's offices are in Archbold; one is in Fayette; and one is in Pettisville. Archbold is approximately 5 miles east of Stryker where the nearest branch of First is located. Data submitted by applicants indicate that Tiffin Valley Bank's market lies in central and western Fulton County. This data shows that First obtains less than 1 percent of its deposits from Archbold and the immediate environs.

The Federal Reserve Bank of Cleveland found the two banks to be operating in separate but contiguous markets. OCC concurs with this conclusion and finds no significant direct competition between these banks. Although First could legally branch into Fulton County, this is unlikely because, *inter alia,* Fulton County's ratios of population and income per banking office are substantially below the average for counties of similar size in Ohio.* Consequently, this Office finds no likelihood that First would branch into Fulton County.

The financial and managerial resources of First are satisfactory, and its future prospects are favorable.

* See report of the Federal Reserve Bank of Cleveland to the OCC regarding this application, p. 4.

The financial and managerial resources of Tiffin Valley Bank are unclear due to capital, asset and liquidity problems. The future prospects of the combined bank are favorable.

A review of the record of this application and other information available to OCC as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the proposed merger.

August 8, 1980.

The Attorney General's report was not received.

* * *

METRO BANK OF HUNTINGTON, INC.,
Huntington, W. Va., and Heritage National Bank, Huntington, W. Va.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Metro Bank of Huntington, Inc., Huntington, W. Va., with	$23,000,000	1	———
was purchased September 13, 1980, by Heritage National Bank, Huntington, W. Va. (11893), which had	2,000,000	1	———
After the purchase was effected, the receiving bank had	25,000,000	———	2

COMPTROLLER'S DECISION

On September 13, 1980, application was made to OCC for prior written approval for Heritage National Bank, Huntington, W. Va. (Assuming Bank), to purchase certain of the assets and assume certain of the liabilities of Metro Bank of Huntington, Inc., Huntington (Metro Bank).

On September 12, 1980, Metro Bank was a state-chartered, nonmember bank, operating through one office with deposits of approximately $22 million. At the close of business on September 12, 1980, Metro Bank was declared insolvent by the state's Commissioner of Banking. It was placed in receivership, with the Federal Deposit Insurance Corporation (FDIC) acting as receiver. The present application is based on an agreement, which is incorporated herein by reference, by which the FDIC, as receiver, has agreed to sell certain of Metro Bank's assets in consideration of the assumption of certain of Metro Bank's liabilities by the Assuming Bank. For the reasons stated hereafter, the Assuming Bank's application is approved, and the purchase and assumption transaction may be consummated immediately.

Under the Bank Merger Act, 12 USC 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain anticompetitive effects unless it is found that these effects are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institution and also the convenience and needs of the community to be served. When necessary, however, to prevent the evils attendant on the failure of a bank, the Comptroller can dispense with the standards applicable to usual acquisition transactions and need not consider reports on the competitive consequences of the transaction ordinarily solicited from the Department of Justice and other banking agencies. The Comptroller is authorized in such circumstances to immediately approve an acquisition and to authorize the immediate consummation of the transaction.

The proposed transaction will prevent disruption of banking services to the community and potential losses to a number of uninsured depositors. The Assuming Bank has sufficient financial and managerial resources to absorb Metro Bank and enhance the banking services it offers in the Huntington community.

The Comptroller thus finds that the anticompetitive effects of the proposed transaction, if any, are clearly outweighed in the public interest by the probable effect of the proposed transaction in meeting the convenience and needs of the community to be served. For these reasons, the Assuming Bank's application to purchase certain of the assets and acquire certain of the liabilities of Metro Bank, as set forth in the agreement executed with the FDIC as receiver, is approved. The Comptroller further finds that the failure of Metro Bank requires him to act immediately, as contemplated by the Bank Merger Act, to prevent disruption of banking services to the community. The Comptroller thus waives publication of notice, dispenses with solicitation of competitive reports from other agencies and authorizes the transaction to be consummated immediately.

September 13, 1980.

Due to the emergency nature of the situation, no Attorney General's report was requested.

* * *

FIRST EASTERN BANK, NATIONAL ASSOCIATION
Wilkes-Barre, Pa., and South Side National Bank, Catawissa, Pa., and North Scranton Bank and Trust Company, Scranton, Pa.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
South Side National Bank, Catawissa, Pa. (4548), with	$ 25,454,000	3	———
and North Scranton Bank and Trust Company, Scranton, Pa., with	70,348,000	2	———
and First Eastern Bank, National Association, Wilkes-Barre, Pa. (30), which had	704,270,000	28	———
merged September 19, 1980, under charter and title of the latter bank (30). The merged bank at date of merger had	789,831,000	———	33

COMPTROLLER'S DECISION

This application is based on agreements executed on December 19, 1979, between First Eastern Bank, National Association, Wilkes-Barre, Pa. (First Eastern), and the banks to be acquired, South Side National Bank, Catawissa, Pa., and North Scranton Bank and Trust Company, Scranton, Pa. (South Side Bank and North Scranton Bank). It is, in reality, two proposed mergers combined into a single application. First Eastern is headquartered in Wilkes-Barre, Luzerne County. It operates 27 offices in the northeastern Pennsylvania counties of Luzerne (15 offices), Columbia (six offices) and Monroe (six offices). As of December 31, 1979, it held total deposits of $556 million. South Side Bank operates its main office and one branch in Catawissa with an additional branch office 6 miles south of Catawissa in Numidia, Pa. As of December 31, 1979, South Side Bank held total deposits of $24 million. North Scranton Bank operates its main office and one branch in the northern metropolitan area of Scranton. As of December 31, 1979, it held total deposits of $60 million.

Catawissa has a population of about 1,500 and is in mountainous terrain along the east side of the Susquehanna River. Largely because of topography, South Side Bank's market area tends to run east and south away from the Susquehanna River.

The applicants assert there is little competition between South Side Bank's offices and First Eastern's two offices in Bloomsburg, Pa., which is across the Susquehanna River about 6 miles northwest of Catawissa. The Comptroller's field examiner confirmed this assertion by reviewing First Eastern's internally generated data. The examiner found that First Eastern had $209,533 in savings and $93,923 in checking accounts in South Side Bank's trade area. This is equivalent to 1.5 percent of South Side Bank's deposits. The OCC finds that the elimination of this small degree of competition would not be significant.

As noted above, the North Scranton Bank's two offices are in the northern metropolitan area of Scranton which is the county seat of Lackawanna County. First Eastern's closest office to North Scranton Bank is in Wyoming, Pa., about 15 miles southwest of Scranton in adjacent Luzerne County. There does not appear to be any significant degree of competition between First Eastern and North Scranton Bank. Consequently, this merger would not violate the standards found in the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of First Eastern, South Side Bank and North Scranton Bank are satisfactory, and their future prospects are favorable.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities, revealed no evidence that the applicants' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicants to proceed with the proposed merger.

August 20, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The effect of the proposed merger between First Eastern and North Scranton will be felt primarily in Lackawanna County. Lackawanna County is located in northeastern Pennsylvania (Scranton is the county seat), and its economy is based on manufacturing and retailing.

The closest offices of the banks (First Eastern's branch in Wyoming, Luzerne County and North Scranton's main office in Scranton) are 15 miles apart, and there are a number of offices of other banks in the intervening area. It therefore appears that the proposed merger between First Eastern and North Scranton would not eliminate a significant amount of direct competition. In addition, while First Eastern could be permitted, under Pennsylvania law, to establish *de novo* branches in Lackawanna County, it does not appear that the proposed merger would eliminate a significant degree of potential competition. Banking is not highly concentrated in Lackawanna County (the four largest banking organizations there together hold 57 percent of local deposits), and North Scranton is the ninth largest bank in Lackawanna County, in terms of local deposits, holding 4.3 percent of those deposits.

The effect of the proposed merger between First Eastern and South Side will be felt primarily in the area approximately surrounding Bloomsburg and Catawissa (both located in Columbia County) which the Federal Reserve Bank of Philadelphia has designated as the Bloomsburg market area. Located in Central Pennsylvania, the area includes Columbia and Montour counties and portions of North Cumberland and Luzerne counties.

The closest offices of the banks (First Eastern's two offices in Bloomsburg and South Sides' two offices in Catawissa) are approximately 5 miles apart and separated by the Susquehanna River. There are no offices of other banks in the intervening area, but there is one other bank in Catawissa and two other banks in Bloomsburg. It therefore appears that the proposed merger will eliminate a significant amount of existing competition between First Eastern and South Side.

There are 17 banks operating 38 offices in the Bloomsburg market; the top four banks in terms of local deposits hold approximately 45 percent of those deposits. First Eastern holds the second largest share, 12.5 percent, and South Side holds the 10th largest share, 4.1 percent of local deposits. If the proposed merger is consummated, the resulting bank would rank first in the area with about 16.6 percent of local deposits, and concentration among the four leading banks in this area would increase from 45.2 percent to 49.3 percent.

We conclude that the proposed merger of First Eastern and North Scranton will not adversely affect competition, but that the proposed merger between First Eastern and South Side will adversely affect competition.

* * *

SOCIETY NATIONAL BANK OF CLEVELAND,
Cleveland, Ohio, and First National Bank of Harrison, Harrison, Ohio

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
First National Bank of Harrison, Harrison, Ohio (8228), with	$ 28,004,000	3	———
and Society National Bank of Cleveland, Cleveland, Ohio (14761), which had	1,963,587,000	44	———
merged September 19, 1980, under charter of latter bank (14761) and with the title "Society National Bank." The merged bank at date of merger had	1,961,844,000	———	47

COMPTROLLER'S DECISION

This application was filed with OCC on March 25, 1980, and is based on an agreement executed by the participants on November 15, 1979. As of December 31, 1979, First National Bank of Harrison, Harrison, Ohio (First), had deposits of approximately $23.4 million and Society National Bank of Cleveland, Cleveland, Ohio (Society), had deposits of approximately $1.3 billion.

Society is the lead bank of Society Corporation. Both the bank and the holding company are headquartered in Cleveland. Society recently merged with The First National Bank of Clermont County, a wholly owned subsidiary which held six offices in Clermont County, which is immediately to the east of Hamilton County where Cincinnati is located. Society has recently received approval to open two new branches in Hamilton County. One of these branches is in downtown Cincinnati and the other in the northeastern section of the county.

First operates its head office and one branch in Harrison. Harrison is in the northwest portion of Hamilton County about 15 miles from downtown Cincinnati. Harrison is developing as a bedroom community to Cincinnati. First also operates a branch in Monfort Heights about 8 miles from Society's newly opened downtown Cincinnati branch. However, due to First's small size and stated policy of local service and the existence of numerous competing financial institutions between applicants' offices, there is little or no competitive overlap between the two banks. Although the Federal Reserve Bank of Cleveland found the market to be the Cincinnati SMSA, it concluded that within this market the applicants do not compete.* The Comptroller agrees with this conclusion.

According to the Cleveland Federal Reserve Bank, there will be six independent banks subsequent to this merger with market shares under 2 percent available as entry vehicles for other bank holding companies. Consequently, application of potential competition arguments is inappropriate to this merger.

The financial and managerial resources of both banks are satisfactory, and their future prospects are favorable. First's future prospects will be especially enhanced by the increased lending limit and ability to make residential loans in the rapidly developing western Cincinnati suburbs.

A review of the record of this application and other information available to this Office as a result of its reg-

* The Federal Reserve Bank reported that Society's share of this market would reach 1 percent after the proposed merger, and the resulting bank would rank 15th in this market.

ulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, are less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with this merger.

July 3, 1980.

* * *

MICHIGAN NATIONAL BANK—STERLING,
Sterling Heights, Mich., and Sterling Heights Office of Michigan National Bank of Detroit, Detroit, Mich.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Sterling Heights Office of Michigan National Bank of Detroit, Detroit, Mich. (14948), with	$19,295,000	1	———
was purchased October 14, 1980, by Michigan National Bank—Sterling, Sterling Heights, Mich. (16707), which had	21,160,000	6	———
After the purchase was effected, the receiving bank had	40,455,000	———	7

COMPTROLLER'S DECISION

This is the Comptroller's decision on the application of Michigan National Bank—Sterling, Sterling Heights, Mich. (Sterling) to purchase certain assets and assume certain liabilities of the Sterling Heights branch office of Michigan National Bank of Detroit, Detroit, Mich. (Detroit). This application was accepted for filing on April 4, 1980, and is based on an agreement executed by the proponents on March 19, 1980.

Sterling had total deposits of $17.5 million on January 31, 1980. Its four branches are all in Sterling Heights. Detroit had total deposits of $1.3 billion on January 31, 1980. Detroit operates 45 branches in Wayne, Macomb and Oakland counties. Its only branch in Sterling Heights had total deposits of $19 million on January 31, 1980.

Both Sterling and Detroit are wholly owned subsidiaries, except for directors' qualifying shares, of Michigan National Corporation, a multibank holding company. This application is merely a corporate reorganization whereby Michigan National Corporation is realigning and consolidating its banking operations in Sterling Heights. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c). Additionally, a review of the financial and managerial resources and future prospects of the existing and proposed institutions and of the convenience and needs of the community to be served has disclosed no information why this application should not be approved.

A review of the record of this application and information available to this Office as a result of its regulatory responsibilities revealed no evidence that Sterling's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This is the prior written approval required for the applicants to proceed with the proposed purchase and assumption. However, due to the substantial increase in assets and liabilities of Sterling after the transaction, this approval is conditioned on Michigan National Corporation's injection of $350,000 of equity capital and $350,000 of long-term debt as stated in the March 19, 1980, agreement. This approval is also expressly conditioned on an assumption, with no change in terms, of the existing Sterling Heights branch office leases by Sterling.

September 10, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The banks are both wholly owned subsidiaries of the same bank holding company. As such, the proposed transaction is essentially a corporate reorganization and would have no effect on competition.

* * *

SUN BANK OF WILTON MANORS, NATIONAL ASSOCIATION,

Wilton Manors, Fla., and Sun Bank of Lauderdale Beach, Lauderdale–by–the–Sea, Fla., and Sun Bank of Broward County, Tamarac, Fla.

Names of banks and type of transaction	Total assets	*Banking offices* In operation	*Banking offices* To be operated
Sun Bank of Lauderdale Beach, Lauderdale–by–the–Sea, Fla., with	$ 65,008,000	2	———
and Sun Bank of Broward County, Tamarac, Fla., with	25,926,000	1	———
and Sun Bank of Wilton Manors, National Association, Wilton Manors, Fla. (14732), which had	99,418,000	5	———
merged October 24, 1980, under charter of the latter and with the title "Sun Bank/Broward, National Association." The merged bank at date of merger had	192,596,000	———	8

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Sun Bank of Lauderdale Beach, Lauderdale–by–the–Sea, Fla., and Sun Bank of Broward County, Tamarac, Fla., into Sun Bank of Wilton Manors, National Association, Wilton Manors, Fla., under the charter of the latter and with the title of "Sun Bank/Broward, National Association." The application was filed on March 21, 1980, and is based on a written agreement executed by the applicant banks on February 14, 1980.

The three banks are wholly owned, with the exception of directors' qualifying shares, and controlled by Sun Banks of Florida, Inc., Orlando, Fla., a registered bank holding company. Consummation of this corporate reorganization would have no effect on competition. A review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

The record of this application and other information available to this Office as a result of its regulatory responsibilities, reveals no evidence that the Sun Bank of Broward County's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the merger.

July 1, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are all wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

FIRST & MERCHANTS NATIONAL BANK,

Richmond, Va., and The Bank of Chatham, Chatham, Va.

Names of banks and type of transaction	Total assets	*Banking offices* In operation	*Banking offices* To be operated
The Bank of Chatham, Chatham, Va., with	$ 20,828,000	1	———
and First & Merchants National Bank, Richmond, Va. (1111), which had	2,130,169,000	102	———
merged October 31, 1980, under charter and title of the latter. The merged bank at date of merger had	2,144,879,000	———	103

COMPTROLLER'S DECISION

This application was filed with OCC on July 11, 1980, and is based on an agreement executed by the applicants on June 18, 1980. As of March 31, 1980, The Bank of Chatham, Chatham, Va. (Chatham Bank), had total deposits of $16.8 million, and First & Merchants National Bank, Richmond, Va. (F&M), had total deposits of $1.8 billion.

F&M is headquartered in Richmond, Va., and operates 98 banking offices in 28 counties and cities in Virginia. Chatham Bank maintains its sole office in Chatham, the county seat of Pittsylvania County, which is in the south central portion of the state contiguous with the border between Virginia and North Carolina.

Savings customers represent the largest category of deposit accounts held in Chatham Bank. The applicants selected a random sample of Chatham Bank's regular savings customers, and using this sample, determined that 75 percent of Chatham Bank's deposits are derived from a circular area surrounding Chatham with a radius of approximately 9 miles. The Comptroller finds that this is a reasonable market delineation, typical of isolated rural communities like Chatham.* Within its market area, Chatham Bank holds $16.5 million in deposits, or approximately 27 percent of total market

* F&M's nearest branch is in Danville, 15 miles from Chatham and clearly outside Chatham Bank's market area.

deposits. Within this same area, F&M holds $2.88 million in deposits, or 4.7 percent of market deposits. Chatham is also served by branches of United Virginia Bank and Fidelity American Bank, both of which are major banking organizations with offices throughout the state. The Comptroller finds that the loss of the present degree of competition between Chatham Bank and F&M will not substantially lessen competition in the Chatham market in violation of the Bank Merger Act, 12 USC 1828(c). Furthermore, the replacement of a weak and relatively ineffective bank facing competition from large statewide institutions with a strong institution should enhance competition.

The financial and managerial resources of the applicants are satisfactory, and their future prospects are favorable, although Chatham Bank's future prospects are hampered by its small size. The prospects of the combined institution are good.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that F&M's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicants to proceed with the proposed merger.

September 29, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Pittsylvania County, in which the independent city of Danville is located, is situated in the southwestern portion of Virginia. The county's 1970 population was 58,789; Danville's 1970 population was 45,000. The county's economy is chiefly agricultural, though Danville is the center for industrial development in the area. Applicant's closest office to Bank is its North Danville office, 13.5 miles from Chatham; Applicant's other five Pittsylvania County offices are located within 18.5 miles of Bank's only office in Chatham. There are offices of other banks in Danville and Chatham and in the intervening area between Bank's office and Applicant's offices. The application indicates that Applicant draws some business from Bank's primary service area; it draws $2.9 million in IPC demand deposits (3.2 percent of total deposits of Applicant's offices in the primary service area) and $2.7 million in loans from that area.

Eleven banks operate 24 offices in Pittsylvania County. Applicant is the largest, holding total deposits in its Pittsylvania county offices of $83.4 million, and Bank is the ninth largest, holding total deposits of $16.5 million, 23.8 percent and 4.7 percent, respectively, of the deposits held in Pittsylvania County bank offices. If the merger is consummated, the resulting institution would hold 28.5 percent of the total Pittsylvania County deposits, and the share of those deposits held by the three largest banking organizations in Pittsylvania County would increase from 60.1 percent to 64.8 percent.

We conclude that the proposed merger would have an adverse effect on competition.

* * *

FIRST NATIONAL BANK OF ATLANTA,
Atlanta, Ga., and Cobb County Bank, Powder Springs, Ga.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Cobb County Bank, Powder Springs, Ga., with	$ 29,722,000	8	———
and First National Bank of Atlanta, Atlanta, Ga. (1559), which had	2,564,326,000	62	———
merged October 31, 1980, under charter and title of the latter. The merged bank at date of merger had	2,662,272,000	———	70

COMPTROLLER'S DECISION

This application was filed with this Office on June 18, 1980, and is based on an agreement executed by the applicants on June 13, 1980. As of December 31, 1979, First National Bank of Atlanta, Atlanta, Ga. (FNB), held $1.9 billion in deposits and Cobb County Bank, Powder Springs, Ga. (CCB), held $24 million in deposits. FNB operates 61 banking offices in Georgia with the greatest proportion, 53, in the Atlanta metropolitan area counties of Fulton and DeKalb. CCB operates all eight of its offices in Cobb County, which is adjacent to Fulton County and the northwest portion of Atlanta. Cobb County is separated from Fulton County by the Chattahoochee River.

Applicants state that CCB draws over 80 percent of its deposits from Cobb County. For this reason, they assert that Cobb County is the relevant geographic market. Considering CCB's small size and low loan limits, as well as its deposit penetration, the OCC finds that Cobb County approximates the market of the bank to be acquired.* However, Cobb County's proximity to the Atlanta metropolitan area cannot be ignored. Although banks headquartered in Fulton County, which includes the downtown area of Atlanta, cannot branch

* The Atlanta Federal Reserve Bank found the market to be the Atlanta banking market, an eight-county area. Within this market, the Atlanta Federal Reserve Bank concluded that the addition of CCB's 0.3 percent to FNB's 22 percent would have only a marginal impact. Assuming this was the correct market, the OCC concurs in the Atlanta Federal Reserve Bank's finding and would approve the merger on competitive grounds.

into Cobb County, their presence is felt. Commuting patterns and advertising efforts contribute to this effect. Additionally, several Cobb County banks are already part of Atlanta-based holding companies.†

Applicants have addressed the issue raised by the proximity of Atlanta banks by assuming the Cobb County market includes deposits from the major Atlanta banks that do not have branch offices in Cobb County. There are four banks in addition to FNB that are large enough to affect the competitive situation. Of these, FNB has recent figures for itself and one other. Assuming that the other four banks have a percentage of deposits equivalent to that found for FNB and the other bank for which there are figures, applicants have reconstructed the Cobb County market taking these four additional Atlanta banks' deposit shares into the county deposit calculations. Using these figures, this merger would combine the fifth (FNB) and ninth (CCB) largest banks for a combined deposit share of 12 percent. The OCC finds that this is not sufficient to cause a violation of the standards found in the Bank Merger Act, 12 USC 1828(c).

† Indeed, the Atlanta Federal Reserve Bank had noted that CCB is part of a chain commonly owned and controlled and that, even after the merger, the chain would continue as a competitor in the Atlanta market.

The financial and managerial resources of CCB and FNB are generally satisfactory, and the future prospects of both banks appear good.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that FNB's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicants to proceed with the proposed merger.

September 18, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect upon competition.

* * *

FLORIDA FIRST NATIONAL BANK OF JACKSONVILLE, Jacksonville, Fla., and Florida First National Bank at Fernandina Beach, Fernandina Beach, Fla.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Florida First National Bank at Fernandina Beach, Fernandina Beach, Fla. (4558), with	$ 28,032,000	2	———
and Florida First National Bank of Jacksonville, Jacksonville, Fla. (8321), which had	466,493,000	13	———
merged October 31, 1980, under charter of the latter and with the title "Florida National Bank of Jacksonville." The merged bank at date of merger had	503,518,000	———	15

COMPTROLLER'S DECISION

Florida First National Bank at Fernandina Beach, Fernandina Beach, Fla., and Florida First National Bank of Jacksonville, Jacksonville, Fla., are majority-owned and controlled by Florida National Banks of Florida, Inc., Jacksonville, a registered bank holding company. This proposed merger is a corporate reorganization which would have no effect on competition.

A review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

The record of this application and other information available to this Office as a result of its regulatory responsibilities reveals no evidence that the banks' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, are less than satisfactory.

This is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the merger.

September 9, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

FLORIDA NATIONAL BANK OF MIAMI
Miami, Fla., and Florida Bank at Fort Lauderdale, Fort Lauderdale, Fla.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Florida Bank at Fort Lauderdale, Fort Lauderdale, Fla., with	$ 36,416,000	3	———
and Florida National Bank of Miami, Miami, Fla. (13570), which had	433,332,000	8	———
merged October 31, 1980, under charter and title of the latter. The merged bank at date of merger had	465,117,000	———	11

COMPTROLLER'S DECISION

Florida Bank at Fort Lauderdale, Fort Lauderdale, Fla., and Florida National Bank of Miami, Miami, Fla., are majority-owned and controlled by Florida National Banks of Florida, Inc., Jacksonville, Fla., a registered bank holding company. This proposed merger is a corporate reorganization which would have no effect on competition.

A review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

The record of this application and other information available to this Office as a result of its regulatory responsibilities reveals no evidence that the banks' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, is less than satisfactory.

This is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the merger.

September 25, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

WATSEKA FIRST NATIONAL BANK,
Watseka, Ill., and Iroquois County Trust Company, Watseka, Ill.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Iroquois County Trust Company, Watseka, Ill., with	$ 1,000	1	———
and Watseka First National Bank, Watseka, Ill. (10522), which had	17,515,000	1	———
merged October 31, 1980, under charter and title of the latter. The merged bank at date of merger had	17,512,000	———	1

COMPTROLLER'S DECISION

Iroquois County Trust Company, Watseka, Ill. (Trust Company), is presently a wholly owned subsidiary of Watseka First National Bank, Watseka (Bank). This application is a prerequisite to converting Trust Company into a department of Bank. A merger plan of reorganization is being pursued, rather than liquidation, since there is no feasible answer under Illinois state law to the question of who would succeed Trust Company as executor, administrator or trustee of estates. The application presents no competitive issues under the Bank Merger Act, 12 USC 1828(c). The financial and managerial resources of Bank and its wholly owned Trust Company are satisfactory, and the future prospects of the combined entity are favorable.

A review of the record ot this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with this merger.

September 17, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it is essentially a corporate reorganization and would have no effect on competition.

* * *

AMOSKEAG NATIONAL BANK & TRUST CO., Manchester, N.H., and Amherst Bank & Trust Company, Amherst, N.H.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Amherst Bank & Trust Company, Amherst, N.H., with	$ 13,392,000	2	———
and Amoskeag National Bank & Trust Co., Manchester, N.H. (574), which had	88,586,000	8	———
merged November 1, 1980, under charter and title of the latter. The merged bank at date of merger had	102,486,000	———	10

COMPTROLLER'S DECISION

This application was filed with this Office on April 3, 1980, and is based on an agreement executed by the applicants on January 2, 1980. As of September 30, 1979, Amoskeag National Bank & Trust Co. (Amoskeag), had total deposits of $54 million and Amherst Bank & Trust Company (Amherst Bank), had total deposits of $10.8 million.

Amoskeag's main office and four branches are in Manchester, N.H. It operates one office in Bedford, Goffstown and Hooksett, all of which are contiguous to Manchester. Amherst Bank has its head office in Amherst, N.H., and one branch in Bedford which adjoins Amherst. Data submitted by the applicants show that, with the exception of their offices in Bedford, they serve separate and distinct markets approximated by Manchester and Amherst. Both the Federal Deposit Insurance Corporation and the Federal Reserve Bank of Boston in their competitive factor reports note that the deposit overlap in Bedford is minimal and that its loss would not substantially lessen competition.* The OCC finds that the banks are in different markets except in Bedford where the loss of competition is not significant.

The financial and managerial resources of both proponents are satisfactory, and their future prospects are favorable.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the record of Amoskeag in helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the proposed merger.

July 30, 1980.

* Each bank holds roughly $2 million in deposits in its Bedford office.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Hillsborough County (1970 population 223,941) is located in south central New Hampshire adjacent to the Massachusetts border. Manchester, the state's largest city (1978 population 93,257) and a major industrial center, is located on the northern edge of the county. Nashua, the state's second largest city (1970 population 61,800), is located on the southern edge of the county, about 15 miles south of Manchester. Bedford, which is contiguous to Manchester, is located on Route 101 about 5 miles southwest of Manchester. Amherst, about 10 miles further southwest on Route 101, is approximately 15 miles northwest of Nashua, and there appears to be a substantial amount of commuting from Amherst into Nashua. The population of southern New Hampshire has grown rapidly since 1970, and its economy continues to undergo a healthy period of expansion.

Thirteen commercial banks operate a total of 58 offices in Hillsborough County. In the greater Manchester area (which includes Manchester, Hooksett, Goffstown and Bedford), there are eight commercial banks which operate a total of 27 branch offices. Applicant and Bank's Bedford offices are only 2 miles apart, and given the not insignificant amount of business which, according to the Application, the parties draw from Bedford, it appears that the merger would eliminate a substantial amount of direct competition. Banking is highly concentrated in the greater Manchester area, with the top three banks accounting for 78.8 percent of the area's commercial deposits. Applicant is the third largest, with 15.8 percent, and Bank is the smallest, with .39 percent. While the proposed merger may have somewhat less of an impact on competition due to Bank's relatively small size and its weak financial history, nevertheless it appears that elimination of direct competition in such a highly concentrated market would have an adverse effect upon existing competition.

We conclude that the merger will have an adverse effect on competition.

* * *

SUN FIRST NATIONAL BANK OF ORLANDO,
Orlando, Fla., and Sun Bank of Osceola County, St. Cloud, Fla., and Sun Bank of Seminole, National Association, Fern Park, Fla.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Sun First National Bank of Orlando, Orlando, Fla. (14003), with	$ 943,699,000	16	———
and Sun Bank of Osceola County, St. Cloud, Fla., with	56,587,000	3	———
and Sun Bank of Seminole, National Association, Fern Park, Fla. (16108), which had	89,380,000	3	———
merged November 14, 1980, under charter of the latter and with the title "Sun Bank, N.A." Headquarters will be in Orlando. The merged bank at date of merger had	1,064,112,000	———	22

COMPTROLLER'S DECISION

Sun First National Bank of Orlando, Orlando, Fla., Sun Bank of Osceola County, St. Cloud, Fla., and Sun Bank of Seminole, National Association, Fern Park, Fla., are majority-owned and controlled by Sun Banks of Florida, Inc., Orlando, a registered bank holding company. This proposed merger is a corporate reorganization which would have no effect on competition.

A review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

The record of this application and other information available to this Office as a result of its regulatory responsibilities reveals no evidence that the banks' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, is less than satisfactory.

This is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the merger.

September 10, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are all wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

FIRST SECURITY BANK OF UTAH, NATIONAL ASSOCIATION,
Ogden, Utah, and First Security Bank of Logan, National Association, Logan, Utah

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
First Security Bank of Logan, National Association, Logan, Utah (16241), with	$ 9,373,000	1	———
and First Security Bank of Utah, National Association, Ogden, Utah (2597), which had	1,672,758,000	68	———
merged November 21, 1980, under the charter and title of the latter bank (2597). The merged bank at date of merger had	1,682,131,000	———	69

COMPTROLLER'S DECISION

First Security Bank of Logan, National Association, Logan, Utah (Logan), and First Security Bank of Utah, National Association, Ogden, Utah (Security), are both wholly owned subsidiaries of First Security Corporation (FSC). FSC is a multibank holding company with commercial bank subsidiaries in three states and is the largest banking corporation headquartered in Utah.

Security intends to acquire all the outstanding stock of Logan by exchanging 3.35 shares of Security stock for each share of Logan stock. Logan was established in 1973 by agents of FSC as a *de novo* unit bank to serve the Cache County area where Security already had four branch offices operating. It was chartered as a *de novo* unit bank solely because the home office protection provided by state law prevented branching in Logan because of the existence there of a local unit bank, First National Bank of Logan. State law does, however, specifically allow the acquisition of a *de novo* unit bank which has been in existence 5 years and the subsequent operation of it as a branch of the acquiring bank (Utah Code Ann. 7-3-6). Accordingly, this proposal is a corporate reorganization and will have no adverse competitive effect on the performance of the financial institution in Logan or in Cache County. On the other hand, the establishment of Logan as a branch of Security will allow Logan to transcend various regulatory and size restrictions that limit the activities and responsiveness of a small *de novo* bank and will thereby enable it to offer a wider range of banking services to the community on a more convenient basis.

In addition, the elimination of one of the two unit banks in Logan by this merger increases the chances that the city may be opened to branching in the near future. To that extent, this is a potentially procompetitive affiliation. Indeed, this merger, and the merger of First National Bank of Logan, the second of the two unit banks in Logan, with Zions First National Bank, which was judicially sanctioned by the U.S. District Court in Utah on August 14, 1980, will end "home office protection" in Logan and will allow other commercial banks to branch into the city.

The financial and managerial resources of both banks and the future prospects of Security are favorable. A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of their communities, including low and moderate income areas, is less than satisfactory.

Accordingly, this merger application is approved in accordance with the Bank Merger Act, 12 USC 1828(c).

October 8, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

ELLIS NATIONAL BANK OF VOLUSIA COUNTY, DeBary, Fla., and Ellis Bank of Seminole County, Altamonte Springs, Fla.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Ellis Bank of Seminole County, Altamonte Springs, Fla., with	$ 5,671,000	1	———
and Ellis National Bank of Volusia County, DeBary, Fla. (15348), which had	21,578,301	2	———
merged December 1, 1980, under charter and title of the latter bank (15348). The merged bank at date of merger had	26,423,542	———	3

COMPTROLLER'S DECISION

Ellis Bank of Seminole County, Altamonte Springs, Fla., and Ellis National Bank of Volusia County, DeBary, Fla., are majority-owned and controlled by Ellis Banking Corporation, Bradenton, Fla., a registered bank holding company. This proposed merger is a corporate reorganization which would have no effect on competition.

A review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

The record of this application and other information available to this Office as a result of its regulatory responsibilities reveals no evidence that the banks' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, is less than satisfactory.

This is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the merger.

October 6, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

THE HUNTINGTON NATIONAL BANK, Columbus, Ohio, and The First National Bank of Burton, Burton, Ohio

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The First National Bank of Burton, Burton, Ohio (6249), with	$ 79,764,000	6	———
and The Huntington National Bank, Columbus, Ohio (7745), which had	2,594,001,000	108	———
merged December 5, 1980, under charter and title of the latter bank (7745). The merged bank at date of merger had	2,751,981,000	———	114

COMPTROLLER'S DECISION

This application was accepted for filing on July 14, 1980, and is based on an agreement between the proponent banks dated April 9, 1980. As of March 31, 1980, The First National Bank of Burton, Burton, Ohio (Burton), had total deposits of $65.3 million, and The Huntington National Bank, Columbus, Ohio (Huntington), had total deposits of $2 billion. Huntington is the primary subsidiary of Huntington Bancshares, Inc., a one-bank holding company which ranks fifth largest in the state with nearly 5 percent of total commercial bank deposits.

The relevant geographic market for the purposes of competitive analysis is Geauga County and the adjacent village of Chagrin Falls in Cuyahoga County. As of the application date, Burton derived more than 80 percent of its total deposits from this area. Moreover, all of Burton's six offices and one approved, but unopened, branch are within Geauga County. Huntington operates 105 offices statewide, but none in Geauga County. However, two of these offices are in an area defined by the Board of Governors of the Federal Reserve System as the Cleveland, Ohio, banking market, which includes Geauga County.

There appears to exist little, if any, direct competition between the proponents within the relevant geographic market. Even if they are considered direct competitors within the aforementioned Cleveland banking market, the proposed merger would have no significant competitive effect. A total of 32 banking organizations are in this area, and the combined market share of the proposed banks would be less than 1 percent. Moreover, the merger would have no meaningful effect on the concentration of banking resources in the state, with Huntington's share remaining less than 5 percent. Similarly, there is nothing in the application which would tend to support a conclusion that the proposed merger would eliminate significant prospects for future competition between the banks. This Office therefore concludes that the proposed merger would not violate the standards found in the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of Burton and Huntington are satisfactory, and their future prospects, together with those of the combined bank, are favorable.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the proposed merger.

October 30, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a substantial competitive impact.

* * *

THE CITIZENS AND SOUTHERN NATIONAL BANK OF SOUTH CAROLINA, Charleston, S.C., and Colonial State Bank, Inc., Marion, S.C.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Colonial State Bank, Inc., Marion, S.C., with	$ 20,935,000	2	
was purchased December 8, 1980, by The Citizens and Southern National Bank of South Carolina, Charleston, S.C. (14425), with	916,938,000	92	
After the purchase was effected, the receiving bank had	934,431,000		94

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application of The Citizens and Southern National Bank of South Carolina, Charleston, S.C., (C & S), to purchase the assets and assume the liabilities of Colonial State Bank, Inc., Marion, S.C. (Colonial). This application was accepted for filing on August 12, 1980, and is based on an agreement signed by the participants on July 25, 1980.

C & S is a wholly owned subsidiary of The Citizens and Southern Corporation, a one-bank holding company, and is the second largest commercial bank in the state. At year-end 1979, C & S had assets of $916.9 million and deposits of $751.2 million. On the same date, Colonial was the second largest bank in its market with assets of $21 million and deposits of $16.8 million.

The area for assessing the competitive effects of this proposal consists of Marion and Mullins, Marion County, S.C. Colonial operates two offices in Marion and has received approval to open a third office in Mullins. There are five banks operating in the Marion-Mullins market with total deposits of $63 million. C & S operates no offices within Marion County, and its closest office is in Florence, S.C., some 22 miles distant.

C & S could enter Colonial's market *de novo* by establishing a branch. However, there is no evidence on the record that any of the banking needs of this market are not being met, and there is no reason to believe that C & S would enter the market absent this proposal. There is no existing competition between C & S and Colonial, and approval of this proposal would not reduce the number of competitors in the market. Consequently, approval would not have a significantly adverse effect on existing competition.

The financial and managerial resources of both C & S and Colonial are satisfactory. The future prospects of both banks are good, although Colonial's immediate future expansion is somewhat limited due to the bank's present capital structure. The future prospects of the resultant bank are favorable, and the resultant bank should provide a stronger and more diversified banking alternative in the Marion-Mullins market.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that C & S's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with this proposal. C & S is authorized to operate all former offices of Colonial as branches of C & S.

November 7, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a substantial competitive impact.

* * *

THE SPRINGFIELD BANK,
Springfield, Ohio, and The Xenia National Bank, Xenia, Ohio

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Springfield Bank, Springfield, Ohio, with	$153,063,000	5	———
and The Xenia National Bank, Xenia, Ohio (2932), which had	52,627,000	2	———
merged December 13, 1980, under the charter of the latter and with the title "Society National Bank of the Miami Valley," with headquarters in Springfield. The merged bank at date of merger had	202,690,000	———	7

COMPTROLLER'S DECISION

Both The Springfield Bank, Springfield, Ohio, and The Xenia National Bank, Xenia, Ohio, are wholly owned subsidiaries of Society Corporation, Cleveland, Ohio, a registered bank holding company. This application represents a corporate reorganization of two subsidiaries of the same holding company and will result in no direct impact on competition.

A review of the financial and managerial resources, the future prospects of both the existing and proposed institutions and the convenience and needs of the community to be served has revealed no reason why this application should not be approved.

The record of this application and other information available to this Office as a result of its regulatory responsibilities reveals no evidence that the banks' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, is less than satisfactory.

This is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the merger.

November 5, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

FIRST BRISTOL COUNTY NATIONAL BANK,
Taunton, Mass., and The National Bank of Wareham, Wareham, Mass.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The National Bank of Wareham, Wareham, Mass. (1440), with	$ 25,316,000	1	———
and First Bristol County National Bank, Taunton, Mass. (2232), which had	157,266,000	17	———
merged December 15, 1980, under charter and title of the latter bank. The merged bank at date of merger had	182,928,000	———	18

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The National Bank of Wareham, Wareham, Mass. (Wareham), into and under the charter of First Bristol County National Bank, Taunton, Mass. (First Bristol). This application was accepted on August 21, 1980, and is based on an agreement signed by the participants on May 30, 1980. On June 30, 1980, Wareham had total commercial bank deposits of $21.1 million, and First Bristol's total deposits were $131.4 million.

The relevant geographic market for analysis of this proposal is Bristol and Plymouth counties in southeastern Massachusetts. Wareham is one of eight commercial banks in Plymouth County and controls approximately 2.5 percent of the market's deposits. Wareham operates branches in Marion and Carver. First Bristol is the largest of 12 banks in Bristol County with a total market share of 15.6 percent. First Bristol operates 13 offices in the county. There is no existing competition between Wareham and First Bristol since they compete in separate markets; the nearest branches of the banks are separated by a 10-mile wide, largely undeveloped "green belt." Approval of this proposal would not have a significantly adverse effect on existing competition.

First Bristol could enter Wareham's market *de novo* by establishing a branch. However, that market is not considered attractive for *de novo* entry, and there is no evidence in the record that any of the banking needs of this market are not being met. Additionally, there is no reason to believe that First Bristol would enter the market absent this proposal.

The financial and managerial resources of both banks are considered satisfactory. However, the future prospects of Wareham are limited due to its relative position in the Plymouth County market and its unaggressive nature. The future prospects of the combined entity are good and will be further enhanced by the availability of expanded banking services to Wareham's market, including money market certificates, individual retirement accounts and a complete line of fiduciary services, which are not presently offered by Wareham.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with this merger.

November 7, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect upon competition.

* * *

FLINT OFFICE OF MICHIGAN NATIONAL BANK, Lansing, Mich., and Michigan National Bank—Mid Michigan, Burton, Mich.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Flint Office of Michigan National Bank, Lansing, Mich. (14032), with	$172,782,000	1	———
was purchased December 22, 1980, by Michigan National Bank—Mid Michigan, Burton, Mich. (16234), which had	84,236,000	15	———
After the purchase was effected, the receiving bank had	260,136,000	———	16

COMPTROLLER'S DECISION

Michigan National Bank—Mid Michigan, Burton, Mich. (Mid Michigan), has made application to purchase certain assets and assume certain liabilities of the Flint Office of Michigan National Bank, Lansing, Mich. (Lansing). This application was accepted for filing on July 10, 1980, and is based on an agreement executed by the proponents on June 18, 1980.

Mid Michigan had total deposits of $77 million on April 30, 1980. It operates 13 offices, none of which are in Flint. Lansing had total deposits of $1.3 billion on April 30, 1980; its one Flint office had total deposits of $149 million on April 30, 1980.

Both Mid Michigan and Lansing are majority–owned and controlled by Michigan National Corporation, a registered bank holding company. This application is merely a corporate reorganization whereby Michigan National Corporation is realigning and consolidating its banking operations in a common primary service area. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c). Additionally, a review of the financial and managerial resources and future prospects of the existing and proposed institutions and of the convenience and needs of the community to be served has disclosed no information why this application should not be approved.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that Mid Michigan's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This is the prior written approval required for the applicants to proceed with the proposed purchase and assumption. However, due to the substantial increase in the assets and liabilities of Mid Michigan after the transaction, this approval is conditioned upon the injection, by Michigan National Corporation, of $15.5 million of equity capital into Mid Michigan as indicated in the application.

December 5, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The banks are both wholly owned subsidiaries of the same bank holding company. As such, the proposed transaction is essentially a corporate reorganization and would have no effect on competition.

* * *

NATIONAL BANK OF DEFIANCE,
Defiance, Ohio, and National Bank of Paulding, Paulding, Ohio

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
National Bank of Defiance, Defiance, Ohio (15512), with	$35,306,000	2	———
and National Bank of Paulding, Paulding, Ohio (14300), which had	28,232,000	2	———
merged December 26, 1980, under charter of the latter and with the title "Maumee Valley National Bank," with headquarters in Defiance. The merged bank at date of merger had	68,108,000	———	4

COMPTROLLER'S DECISION

An application was filed on June 24, 1980, with this Office pursuant to the Bank Merger Act, 12 USC 1828(c), by National Bank of Paulding, Paulding, Ohio (Paulding Bank), for approval to merge with National Bank of Defiance, Defiance, Ohio (Defiance Bank), under the charter of National Bank of Paulding and with the title "Maumee Valley National Bank." The application is based on a written agreement executed by the banks on May 13, 1980.

Financial Institutions Involved

Defiance, the bank to be acquired, was organized as a national banking institution in 1965. As of December 31, 1979, it had total deposits of $31.6 million. It presently operates its two offices, including its main office, in Defiance, Defiance County. It recently received approval for an additional temporary branch in Defiance to serve its customers north of the Maumee River until the river bridge is repaired.

Paulding, the acquiring bank, was established as a national bank in 1934. In January 1979, it was acquired by Toledo Trustcorp, Inc., Toledo, Ohio (Toledo). Paulding, a unit bank, is headquartered approximately 21 miles southwest of Defiance in Paulding, Paulding County, which is contiguous to Defiance County. It held total deposits of $21.8 million as of year-end 1979.

Toledo Trustcorp was formed in 1970 by Toledo Trust Company. It became a multibank holding company in 1974 by acquiring Northwest Ohio Bank, Bowling Green. Since that time, it has acquired six additional banks and presently has an application pending before the Federal Reserve System to acquire Farmers and Merchants State and Savings Bank, Montpelier ($9.8 million in deposits). Toledo, the 12th largest multibank holding company in Ohio, had consolidated deposits of $828 million, representing 2.10 percent of the total commercial bank deposits in the state as of December 31, 1979. After the proposed merger, Toledo would remain the 12th largest multibank holding company, and its share of commercial bank deposits in Ohio would be 2.18 percent.[1]

Defiance Bank's Service Area

Defiance, the county seat with a 1977 population of 15,827, serves as a manufacturing and retail center for Defiance County, which is primarily an agricultural area.

Defiance Bank's service area, from which its two offices drew 81.1 percent of its deposits (and 95 percent of its loans) as of May 12, 1980, is essentially confined to Defiance and Jewell. The only other commercial bank in the area, State Bank and Trust Company (State Bank), is a $58.5 million deposit bank that operates four of its six offices, including its main office, in Defiance and drew approximately 88 percent of its deposits from Defiance Bank's service area. First Federal Savings and Loan Association ($188.9 million total deposits) and Home Savings and Loan Association (total deposits of $119.9 million) also compete in this area. As of March 31, 1979, these two savings and loan associations derived $139.5 million in deposits from Defiance Bank's service area, 65 percent more than the $84.8 million in deposits derived by Defiance Bank and State Bank from this area. In addition, Defiance Bank, with 32 percent of its loans in real estate, faces significant direct competition from these depository institutions for its loan business.

By comparison, Paulding Bank derived only 3.2 percent ($795,000) of its total deposits (and 4 percent of its loans) from Defiance Bank's service area which is less than 1 percent of the combined deposits of all financial offices (commercial banks and savings and loan associations) in this area. Moreover, nearly 70 percent of these deposits is attributable to only four customers.[2]

[1] In April 1980, the Board of Governors of the Federal Reserve System denied an application by Toledo Trustcorp to acquire Defiance Bank as a subsidiary. This denial was based on a finding that Paulding Bank (already owned) and Defiance Bank competed in the same market, which the Board defined as all of Defiance County, except Hicksville; all of Paulding County, except Carryall; Flatrock and Pleasant in Henry County; and Monroe and Perry in Putnam County.

[2] No other subsidiary of Toledo significantly competes with Defiance Bank in its service area. In addition to National Bank of Paulding, Toledo Trustcorp owns two banks with offices within 30 miles of Defiance—Liberty State Bank, Liberty Center (branch office in Napoleon) and National Bank of Fulton County, Delta (branch office in Wauseon)—and has an application pending with the Federal Reserve Board to acquire a third bank—Farmers and Merchants State and Savings Bank, Montpelier. The three banks combined drew a total of $90,000 in deposits from the service area of National Bank of Defiance, or 0.1 percent of total deposits of the banking offices in that area; each of the three banks derived less than 0.6 percent of its deposits from the Defiance area. Similarly, National Bank of Defiance drew a total of $466,000, or 1.5 percent of its deposits, from the service areas of the two current and proposed Toledo Trustcorp subsidiaries.

Paulding Bank's Service Area

Paulding County is also a rural area whose economy is primarily dependent on agriculture. It had an estimated 1977 population of 20,470 while Paulding, the county seat, numbered 2,923.

As of May 8, 1980, approximately 82.1 percent of Paulding Bank's deposits (and 93 percent of its loans) originated from an area centered around Paulding including Cecil, Haviland, Latty and Payne, a service area which essentially incorporates all of Paulding County. Sixty-six percent of these deposits came solely from Paulding. The sole office of Union State Bank, Payne, with $15.2 million in deposits, and the recently opened (September 1979) branch of State Bank are the only other commercial banks within Paulding Bank's service area. A branch of Home Savings and Loan Association, with $19.8 million in deposits, is also in this area and would appear to compete directly and substantially with Paulding Bank for deposits and real estate loans which make up approximately 50 percent of Paulding Bank's loan portfolio.

Defiance Bank drew only 2.1 percent ($643,000) of its total deposits (and 2.7 percent of its loans) from within this service area, a figure that represents less than 2 percent of the combined deposits of the commercial banks and savings and loan associations in the area. Moreover, approximately one-half of Defiance Bank's deposits in Paulding Bank's service area is attributable to 10 customers.

Banking Structure in Ohio

The banking structure in Ohio is characterized by a number of strong, large bank holding company systems, which by and large have been regional in nature.[3] A review of merger applications filed with this Office since January 1, 1979, indicates an emerging pattern of statewide acquisition activity whereby holding companies are not only penetrating each other's markets but small rural areas as well where there are no holding companies present. We believe this has resulted in increased competition among larger banking organizations more capable of offering a full range of services, particularly in small towns. This proposed acquisition is consistent with this procompetitive trend.

In addition to expansion through holding company acquisition, commercial banks have been permitted since January 1979, with regulatory approval, to establish *de novo* branches in counties contiguous to the county in which their main office is located and to branch statewide by acquisition.[4] Prior to this time, Ohio only allowed unrestricted county-wide branching. Beginning January 1989, banks will be permitted to establish *de novo* branches statewide, It should also be noted that federally chartered savings and loan associations are allowed, with regulatory approval, to branch statewide.[5] Commencing January 1, 1981, state-chartered savings and loan associations will acquire this same ability. At the present time, state associations are limited to establishment of branches within a 100-mile radius of their main offices.

Effective January 1, 1981, savings and loan associations in Ohio and nationwide, will be able to engage in certain activities historically reserved for commercial banks. Pursuant to the Depository Institutions Deregulation and Monetary Control Act, all savings and loan associations will be able to offer NOW accounts (negotiable orders of withdrawal). Federally chartered savings and loan associations gain new consumer lending powers, including the ability to offer credit cards and overdraft services and expanded real estate lending powers essentially akin to those enjoyed by commercial banks. Moreover, a federally chartered savings and loan association may offer trust services and establish remote service units pursuant to regulations prescribed by the Federal Home Loan Bank Board. In addition, the investment powers of federally chartered savings and loan associations are expanded to include, *inter alia,* the ability to invest in commercial paper, corporate debt securities and residentially related government obligations.

Competitive Analysis

The threshold question in determining whether the proposed acquisition will violate the Clayton and Bank Merger Acts is whether Paulding Bank and Defiance Bank engage in substantial, direct competition. The Federal Reserve Board has argued that the banks are in direct competition in the same market, namely, the Defiance banking market, and that the proposed merger will thereby result in a substantial lessening of competition.[6] There may be some support for the prop-

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These deposits amount to 0.66 percent, 0.03 percent, and 0.003 percent of total deposits, respectively, of banking offices in the service areas of Liberty State Bank, National Bank of Fulton County, and Farmers and Merchants State and Savings Bank.

[3] As of year-end 1979, the 10 largest multibank holding companies, with deposits ranging between $1 and $3 billion, held only 56 percent of the total commercial bank deposits in the state (BancOhio Corporation, $3.8 billion in deposits, 9.4 percent; AmeriTrust Corp., $3.5 billion, 8.8 percent; National City Corp., $3.1 billion, 7.8 percent; Society Corp., $2.4 billion, 6 percent; BancOne Corp., $2.1 billion, 5.2 percent; Centran Corp., $1.9 billion, 4.8 percent; Huntington Bancshares, Inc., $1.8 billion, 4.6 percent; Central Bancorporation, $1.6 billion, 4.1 percent; First National Cincinnati Corp., $1.3 billion, 3.3 percent; Union Commerce Corp., $1 billion, 2.6 percent). This reflects one of the lowest statewide deposit concentration ratios.

[4] Thus far, two bank holding companies have realigned and consolidated their banking interests throughout the state. BancOhio Corporation has merged its 39 banking subsidiaries into and under the charter of The Ohio National Bank of Columbus. Similarly, Huntington BancShares Incorporated has merged its 15 subsidiaries into the Huntington National Bank.

[5] First Federal Savings and Loan Association operates under a federal charter.

[6] As required by the Bank Merger Act, the Comptroller has received reports on the competitive factors involved in the proposed transaction from the Board of Governors of the Federal Reserve System (Board), the Federal Reserve Bank of Cleveland (Reserve Bank) acting on behalf of the Board of Governors of the Federal Reserve System, the Federal De-

osition that there is one market which encompasses both Defiance and Paulding Counties. The presence of State Bank and Home Savings and Loan Association in both Defiance and Paulding Counties may be seen as such evidence. Accordingly, if Paulding Bank and Defiance Bank are operating substantially in the same single market, this affiliation, viewed from the perspective of market shares, does raise troublesome antitrust issues. However, the facts presented in the application refute a finding that Defiance Bank and Paulding Bank are substantial, direct competitors.

In the area from which Paulding Bank derived 82.1 percent of its deposits and 93 percent of its loans, Defiance Bank drew only 2.1 percent of its total deposits and 2.7 percent of its loans. Similarly, Paulding Bank derived only 3.2 percent of its total deposits and 4 percent of its loans from the area that produced approximately 81.1 percent of Defiance Bank's deposits and 95 percent of its loans. Thus, although some direct competition between Paulding and Defiance Banks does exist, it is not substantial, and its elimination does not constitute a substantial lessening of competition in any relevant market.

Even if we were to assume that the Defiance banking market, as defined by the Federal Reserve Board, were the relevant market, this affiliation would not result in a substantial lessening of competition in view of several important factors. First, the banks involved in the proposed merger are relatively small in size and hardly capable of dominating locally limited consumer financial services in the market. Second, the presence of aggressive savings and loan associations exerts a procompetitive influence on the commercial banks therein. Third, the introduction of Toledo Trustcorp into the market by this merger will improve the quality of services available to the market and directly enhance its competitive performance. Finally, there currently exists a large pool of potential entrants throughout the state (*e.g.,* there are 13 other multibank holding companies in Ohio with a total of 84 banks) which may expand their activities into this market.

On the other hand, since we find that Paulding Bank and Defiance Bank do not significantly compete within the same geographic market, this transaction may be viewed as a geographic market extension merger. In that respect, it is our judgment that even assuming *arguendo* that Paulding Bank is a potential entrant into Defiance County, its elimination as a potential *de novo* entrant into the county will not harm the performance or future competitive structure of this market due to the presence of a significant number of remaining potential entrants throughout the state after the merger.

Banking Factors

We find the financial and managerial resources of Defiance Bank and Paulding Bank to be satisfactory. The future prospects of the proponent banks, independently and in combination, are considered favorable.

As a result of this merger, Paulding Bank intends to make available new and expanded banking services to the present customers of Defiance Bank, including, but not limited to, trust services, increased lending capability and expertise in farm lending and investment securities. These facts are positive considerations with respect to the issue of convenience and needs, and this Office is unaware of any negative factors relating to this issue.

Community Reinvestment Act

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, is less than satisfactory.

We have carefully considered the application pursuant to the Bank Merger Act, 12 USC 1828(c), as well as the reports received by this Office from the Depart-

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posit Insurance Corporation (FDIC) and the Attorney General of the United States (Department of Justice).

In its advisory report, the Reserve Bank initially determined that "although the service areas of Applicant [Paulding] and Bank [Defiance] do not presently overlap they operate in the same banking market," to with "the Defiance banking market [which] includes all of Defiance County except the Township of Hicksville, all of Paulding County except the Township of Carryall; the Townships of Flatrock and Pleasant in western Henry County; and the Townships of Monroe and Perry in northwestern Putnam County." The Reserve Bank concluded that the merger would have an adverse effect on competition since it "would combined [sic] the second and third largest banking organizations and thereby increase the concentration in the market." Significantly, however, the Reserve Bank, stating that "in this case . . . thrifts should be considered as full competitors of banks because the makeup of their [commercial banks] deposits and loan structure is similar to that of thrift institutions," found that "the anticompetitive effect of the proposed merger would be mitigated to a large extent by the significant presence of thrift institutions in the market."

The Board submitted, as its report, a copy of its decision on Toledo's application to acquire Defiance Bank as a subsidiary. In that statement, the Board, delineating the relevant geographic market as that set forth in the Reserve Bank's report concluded that "consummation of this proposal would have substantially adverse effects on competition in the relevant market." The Board, in its transmittal letter of August 6, 1980, noted that the recently enacted Depository Institutions Deregulation and Monetary Control Act will enable the thrift institutions "to compete more vigorously with commercial banks."

The report received from the Department of Justice concluded that "the proposed merger would have a significantly adverse effect on competition." Similarly, this finding was premised on a determination that Defiance Bank and Paulding Bank operate in the same banking market, adopting the Board's delineation of that market.

The FDIC found that "the effect of the proposed transaction on competition would be adverse" because it "would eliminate existing competition and the potential for increased future competition. It would also serve to reduce the number of banking alternatives in the local area and increase the area's concentration of banking resources." The FDIC found the relevant geographic market within which to analyze the competitive effects of the merger to be the market area in which Paulding operates, which, it determined, "consists of nearly all of Paulding County and extends into Defiance County to include the City of Defiance."

ment of Justice, the Federal Reserve Board, the Federal Reserve Bank of Cleveland and the FDIC. We conclude that the proposed merger will not violate Section 7 of the Clayton Act, will be in the public interest and will, therefore, otherwise satisfy the requirements of the Bank Merger Act. Accordingly, the application of National Bank of Paulding to merge with National Bank of Defiance under the charter of National Bank of Paulding with the title "Maumee Valley National Bank" is approved.

December 12, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Defiance County (estimated population 37,200) is located in northwestern Ohio along the Indiana border. Although it has experienced negligible population growth during the 1970's, it still has the largest population among the seven counties in northwestern Ohio. The town of Defiance (estimated population 15,800) is the largest town in this region. The nearest cities larger than Defiance are Lima and Toledo, more than 50 miles distant, and Fort Wayne, Ind., more than 40 miles distant.

Paulding County (estimated population 19,400) is located immediately south of Defiance County. It has experienced a 4.5 percent population growth during the 1970's. The town of Paulding (estimated population 3,000) is the principal community in the county.

Applicant's sole office in Paulding is approximately 18 miles southwest of Bank's offices in Defiance. In addition, Liberty State Bank, another Toledo Trustcorp subsidiary, has an office in Napoleon in Henry County, approximately 15 miles northeast of Bank's offices in Defiance.

There are no bank offices in the area between Paulding and Defiance, and there is only one other bank, State Bank and Trust Co., in each of these two towns. According to the application, Bank draws $643,000 in deposits and $624,000 in loans from Applicant's service area, as defined in the application (approximately 2.9 percent and 4.4 percent, respectively, of Applicant's total deposits and net loans), and Applicant draws $795,000 in deposits and $563,000 in loans from Bank's service area, as defined in the application (approximately 2.6 percent and 2.5 percent, respectively, of Bank's total deposits and net loans). It therefore appears that the proposed merger would eliminate a significant amount of existing competition between Applicant and Bank.

The area within which it appears appropriate to assess the competitive effects of the proposed merger includes all of Defiance County, except the township of Hicksville, all of Paulding County, except the township of Carryall, the townships of Flatrock and Pleasant in Henry County and the townships of Monroe and Perry in Putnam County.* Banking is highly concentrated in this market; the four largest of the eight banks operating there control 75.8 percent of the total deposits held in bank offices in the area. Bank is the second largest, and Applicant is the third largest bank in the area, controlling 19.5 percent and 12.9 percent, respectively, of the area's total deposits (on the basis of June 30, 1979, branch office deposit data). If the proposed merger is consummated, Applicant would control almost one-third of the area's bank deposits, 32.4 percent, the second largest share of local deposits (the largest share, 34.5 percent, is held by State Bank and Trust Co.), and concentration among the four largest banks would increase from 75.8 percent to 83.5 percent.†

Under Ohio law, a bank may establish *de novo* branches in the county within which its home office is located and in counties adjacent to its home office county. Thus, Toledo Trustcorp, through its subsidiaries, Applicant and Liberty State Bank, may enter Defiance County *de novo*. Similarly, Bank may enter Paulding County and Henry County (in which Liberty State Bank is located) by *de novo* branching. The application states (p. 38), moreover, that Defiance could support additional branches. The proposed merger would therefore eliminate the potential for increased future competition between Toledo Trustcorp's subsidiaries and Bank through *de novo* branching as well as through increased promotional efforts by the parties.

We conclude that the proposed merger would have a significantly adverse effect on competition.

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* This is the market within which the Federal Reserve Board assessed the competitive effects of Toledo Trustcorp's proposed acquisition of Bank in denying an earlier application to acquire Bank.

† Applicant and its parent, Toledo Trustcorp, have urged several other areas as markets both in this application and in the application the Federal Reserve Board denied. Based upon a field survey conducted by the Federal Reserve Bank of Cleveland, the Board rejected the contention, renewed in this application, that Defiance County and Paulding County constitute separate markets. The board also rejected a much broader market urged by the parties consisting of Defiance and Paulding Counties, the western half of Henry County and the northwestern portion of Putnam County. We note that in this broader market Bank and Toledo Trustcorp would be the third and fifth largest banking organizations, controlling 12.4 percent and 9.5 percent, respectively, of the area's total bank deposits.

* * *

CITIZENS AND SOUTHERN NATIONAL BANK,
Savannah, Ga., and The Citizens and Southern Emory Bank, Decatur, Ga., and The Citizens and Southern Bank of Fulton County, East Point, Ga., and The Citizens and Southern DeKalb Bank, Avondale Estates, Ga., and C & S Interim National Bank, Savannah, Ga.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Citizens and Southern National Bank, Savannah, Ga. (13068), with	$3,673,476,000	86	———
and The Citizens and Southern Emory Bank, Decatur, Ga., with	264,427,000	13	———
and The Citizens and Southern Bank of Fulton County, East Point, Ga., with	154,085,000	6	———
and The Citizens and Southern DeKalb Bank, Avondale Estates, Ga., with	95,949,000	2	———
and C & S Interim National Bank, Savannah, Ga. (Organizing), which had	240,000	0	———
merged December 31, 1980, under the charter of the latter bank (13068) and title "The Citizens and Southern National Bank." The merged bank at date of merger had	3,964,706,000	———	107

COMPTROLLER'S DECISION

Citizens and Southern Interim National Bank, Savannah, Ga., is being organized by Citizens and Southern Holding Company, Atlanta, Ga., a bank holding company and a wholly owned subsidiary of The Citizens and Southern National Bank. The Citizens and Southern Emory Bank, Decatur, Ga., The Citizens and Southern Bank of Fulton County, East Point, Ga., and The Citizens and Southern DeKalb Bank, Avondale Estates, Ga., are wholly owned subsidiaries of Citizens and Southern Holding Company. The merger of The Citizens and Southern National Bank, The Citizens and Southern Emory Bank, The Citizens and Southern Bank of Fulton County and The Citizens and Southern DeKalb Bank into C&S Interim National Bank is part of a process of corporate reorganization whereby the structure of the Citizens and Southern group will be substantially realigned, causing the resulting bank, The Citizens and Southern National Bank, to become a subsidiary of Citizens and Southern Holding Company. Since this merger is a vehicle for a bank holding company reorganization and merely combines four existing commercial bank affiliates of that holding company with a nonoperating bank, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c), and, consequently, will have no effect on competition.

A review of the financial and managerial resources and future prospects of the existing, organizing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, was less than satisfactory.

The proposed merger may not be consummated until evidence of compliance with 12 USC 215a(2) is submitted to this Office.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the proposed transaction.

November 18, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are all wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

FIRST NATIONAL BANK OF SOUTH JERSEY,
Egg Harbor Township, N.J., and First National State Bank of Central Jersey, Trenton, N.J.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
First National Bank of South Jersey, Egg Harbor Township, N.J. (1326), with	$633,293,000	3	———
and First National State Bank of Central Jersey, Trenton, N.J. (13039), which had	120,888,000	45	———
merged December 31, 1980, under the charter of the latter bank (13039) and title of "First National State Bank of South Jersey." The merged bank at date of merger had	754,181,000	———	48

COMPTROLLER'S DECISION

An application was filed on February 17, 1978, with OCC according to the Bank Merger Act, 12 USC 1828(c), by First National State Bank of Central Jersey, Trenton, N.J. (Central), for approval to merge with First National Bank of South Jersey, Egg Harbor Township, N.J. (South), under the charter of First National State Bank of Central Jersey and with the title "First National State Bank of South Jersey" (FNSJ). The application, which is based on a written agreement executed by the banks on January 5, 1978, was amended on October 11, 1978, and provides for the divestiture of certain offices by South and by First National State Bank of West Jersey, Burlington, N.J. (West). Central and West are wholly owned subsidiaries of First National State Bancorporation, Newark, N.J. (Bancorp).

Financial Institutions Involved

South, the institution to be acquired, was organized as a national banking association in 1907 and holds 2 percent, approximately $520 million, of the state's total commercial bank deposits. It presently operates 45 offices in seven counties in southern New Jersey, including 22 in Atlantic, nine in Gloucester, five in Cape May, three each in Salem and Burlington, two in Camden and one in Cumberland. South's relative position in southern New Jersey has shown a marked decline in recent years, notwithstanding its acquisition of seven southern New Jersey banks between 1969 and 1975. South's nonaggressive competitive stance is exemplified by its 40 percent loan-to-deposit ratio and the fact that 60 percent of its earning assets are investment securities, both factors which result in limiting the amount of credit available to its communities. In addition, South pays less than 5 percent interest on regular savings accounts and is the only one of the nine banks in Atlantic County which does not offer free checking.

As a part of this transaction, South proposes to sell two of its five offices in Atlantic City, with approximately $37 million in deposits, to large institutions not presently in that market. Their sale will reduce South's percentage of total commercial bank deposits in the county from 46.1 to 40.8 percent and in the city from 50.7 to 45 percent.[1] In addition, South proposes to sell two of its three offices in Burlington County, located at Bordentown and holding approximately $18 million in deposits, to a banking organization which is not presently represented in that area.

Central, the acquiring bank, was organized as a national banking association in 1927. In 1972, Security National Bank of Trenton, Trenton, merged into Central, and the resulting bank was acquired by Bancorp. Central is the smallest bank in the holding company, operating four offices in the Trenton area with deposits of approximately $84.9 million and assets of $93 million.

Although Central, a relatively small banking entity by itself, is requesting approval to merge with South under Central's charter, the merger has been analyzed as if Bancorp, the holding company which owns Central and West and will own the resulting bank (FNSJ), were a single consolidated entity. Bancorp was incorporated under New Jersey law on July 10, 1969. On January 15, 1970, it acquired all of the outstanding stock of the First National State Bank of New Jersey, Newark, and began operations as a one-bank holding company. On December 21, 1970, it became a multibank holding company by acquiring four national banks. It is now the largest banking organization headquartered in the state with six member banks in the system operating 106 offices. As of December 31, 1977, those six banks had approximately $2.1 billion in deposits representing 8.01 percent of the total commercial bank deposits in the state. After the proposed merger and divestiture, Bancorp's share of commercial bank deposits in the state would be 9.74 percent.

West, another Bancorp subsidiary, with $201 million in deposits, operates in the southern portion of the state and is relevant to the competitive analysis of the proposed transaction. It has three offices in Atlantic County which it acquired in November 1974. These offices hold deposits of approximately $20.3 million, representing 3 percent of the commercial bank deposits in the county. Bancorp proposes to remove its presence from the county prior to the merger by selling these three West offices to two new market entrants. West also has offices in Burlington County with approximately $93.6 million in deposits, representing 10.6 percent of that county's commercial bank deposits.

The divestiture of South's four offices and West's three offices will reduce the geographic markets served by each. Except for South's single $15.6 million deposit office in the Philadelphia-Camden market area of Burlington County, neither Bancorp or South will have offices in the same market area within New Jersey.

New Jersey and the Local Markets

Since 1973, New Jersey has been one of the 16 states which permit statewide branching. It is the least concentrated of these states and would remain so after consummation of this transaction. As of December 31, 1977, the five largest banking organizations in New Jersey controlled approximately 32 percent of the state's commercial bank deposits. In addition to Bancorp, United Jersey Banks had 7.71 percent of the total state deposits with $1.98 billion; Midlantic Banks, Inc., had 6.77 percent with $1.74 billion; Fidelity Union Bancorporation had 5.72 percent with $1.47 billion; and Heritage Bancorporation had 3.91 percent with $1.01 billion. There are at least 11 other commercial banking organizations with deposits in excess of $500 million which control approximately 29 percent of the state's commercial bank deposits.[2] In addition to this low degree of deposit concentration, the competitive banking environment in New Jersey is also affected significantly by its physical proximity to New York and Pennsylvania.

New Jersey is comprised of 12 counties and, according to the economic staff of the Federal Reserve Board, 19 banking markets. Section 7 of the Clayton Act and of the Bank Merger Act refer to "any section of the country" as the appropriate geographic market to measure the competitive effects of a merger. To date,

[1] These figures assume that all deposits associated with a divested office will remain with that office, an assumption that is not necessarily so. At the same time, it should be recognized that FNSJ will probably lose some customers as a result of the loss of its local identification.

[2] Of additional note, applicable New Jersey statutes limit the aggregate deposits of any one banking organization to no more than 20 percent of the total average deposits of all commercial banks in the state.

the focus of the Supreme Court in banking cases has been on local markets. Accordingly, this application has been analyzed in terms of the seven counties in which South is located and certain other arguably relevant markets.

Atlantic County

In Atlantic County, there are nine commercial banking organizations operating 51 offices. South operates 22 of its offices there and ranks first in deposits held with $322.2 million, representing 46.1 percent of the county's total commercial bank deposits. West operates three offices in the county and ranks 11th with $20.3 million in deposits, representing 2.9 percent of the county's total commercial bank deposits. The development of banking in Atlantic County over the last 10 years reveals a marked trend toward deconcentration. Between 1968 and 1978, the number of competitors in the county increased from five to 10, and at the same time, South's share of the commercial bank deposit market declined 17 percent. Between June 30, 1975, and June 30, 1978, Guarantee Bank and Trust Company, the second largest bank in Atlantic County, increased its total deposits by at least $45 million, and Atlantic National Bank, the third largest bank in the county, increased its total deposits by $27 million. During this same period, however, the total market share of three leading banks in the county declined.

Within Atlantic County, there are two relevant submarkets. In the first, the Atlantic City market, eight banks operate, with South having approximately 50.7 percent of the deposit market, compared to Bancorp's (West) 2.7 percent. The largest competitor after South, Guarantee Bank and Trust Company, has 19.1 percent of the deposit market, and the three largest banks in Atlantic City control some 79 percent of the total commercial bank deposits there. In the other submarket, the Hammonton market, South controls approximately 48.4 percent of the total deposits with $27.5 million, compared to 2.8 percent controlled by Bancorp (West). The three largest banks control 72 percent of this market.

In assessing existing market structure data in Atlantic County, it should be recognized that in recent years the prospects of the county, particularly Atlantic City, have not been bright. Once a mecca for tourists and conventioneers, the city has fallen on hard times. However, since the passage of legislation by the New Jersey state legislature authorizing casino gambling in the city, the future prospects for Atlantic City and surrounding areas are viewed as being vastly improved.

Burlington County

Seventeen commercial banking organizations operate 83 offices in Burlington County and hold $880 million in deposits. Six of those commercial banks are affiliated with holding companies. Bancorp (West) operates 11 offices in Burlington County and is the second largest bank there with approximately $93.6 million in deposits, representing 10.6 percent of the county's total commercial bank deposits.

South operates three offices in the county and ranks 11th in deposits with $33.6 million, representing 3.8 percent of the total county commercial bank deposits. With the divestiture of two of South's three offices in Burlington County, Bancorp's share of the county's deposits after the merger would increase to 12.4 percent, or $109.2 million. The merged bank, FNSJ, would rank second in the county behind Burlington County Trust Company which holds 20 percent of the county's deposits.

Burlington County stretches between and includes portions of two important submarkets: the Greater Trenton market and the Philadelphia-Camden market. South operates two offices in the Greater Trenton market in northwest Burlington County (Bordentown) which are approximately 6 miles from several offices of Central in Mercer County and West in Burlington County. In Mercer County, where Central is headquartered and operates all of its four offices, there are 14 commercial banks with 68 offices. Central holds $84.9 million in deposits, representing 5.8 percent of the county's total commercial bank deposits. Six other banks hold larger shares of the county's deposits, the largest held by New Jersey National Bank, Trenton, at $546 million in deposits, representing 37 percent of the total.

In the Greater Trenton market, Bancorp's subsidiaries hold 4.9 percent of the estimated $2.7 billion in commercial bank deposits there, making Bancorp fifth among the 42 banks with offices in the area. South ranks 31st in deposits held in this market with $18 million, representing 0.6 percent of the total. The proposed merger would not affect Bancorp's share of the Greater Trenton market, and Bancorp would continue to rank fifth in the market area since South will sell its two offices to a banking organization not presently in the area.

In the Philadelphia-Camden market, some 51 banks operate with $15.7 billion in deposits. West and South each have 0.3 percent of the total commercial bank deposits in the market, ranking them 24th and 25th, respectively. The merged bank (FNSJ) would rank 20th with 0.64 percent of the total commercial bank deposits in the market.

Cape May, Gloucester, Salem, Cumberland and Camden Counties

Bancorp is not presently represented by offices in any of these five southern New Jersey counties; however, Central's merger with South would result in Bancorp assuming South's market position in each county.

South operates five offices in Cape May County with approximately $70.8 million in deposits, representing 18.4 percent of the $385.9 million in commercial bank deposits there. Seven other banks operate 25 offices in the county. Marine National Bank of Wildwood, Wildwood, N.J., ranks first in county deposits with 22.7 percent. First Peoples Bank of New Jersey, Westmount, N.J., a $747 million deposit bank has four offices in the county which hold $44.1 million in deposits. There are no other holding companies currently operating in the county.

There are 15 commercial banks operating 58 offices in Gloucester County. National Bank and Trust Company of Gloucester County, with 13 offices, ranks first in county deposits with $159.4 million, representing 29.6 percent of the county's total commercial bank deposits. South has nine offices in the county and ranks third in deposits with approximately $55.9 million, representing 10.4 percent of the county's total commercial bank deposits. A major portion of Gloucester County falls within the Philadelphia-Camden market area where South holds only 0.32 percent of the market.

In Salem County, nine commercial banks operate 23 offices. South operates three offices there and ranks third in deposits with $31.2 million, representing 15.2 percent of the county's $205.7 million in commercial bank deposits. City National Bank and Trust Company of Salem and Penns Grove National Bank and Trust Company hold more with 18.3 percent and 16 percent, respectively. First Peoples Bank of New Jersey controls 11.6 percent of the county's total commercial bank deposits, and Midlantic Banks, Inc., the third largest holding company in New Jersey, is represented in Salem County by a bank holding 8.2 percent of the commercial bank deposits there.

In the Greater Wilmington market area, which includes a portion of Salem County, South has an estimated $29 million in deposits, representing 1.45 percent of the market and ranking it as the 11th largest commercial bank there.

Ten banks operate 43 offices in Cumberland County. South has one office there and controls the smallest share of market deposits, ranking 10th with $2.4 million. In addition to First Peoples Bank of New Jersey, three other banks which are all subsidiaries of large bank holding companies operate 24 offices in the county. Cumberland County, with the exception of the southern-most tip, is included in the Philadelphia-Camden market area along with most of Gloucester and Burlington counties.

In Camden County there are 15 commercial banks with 91 offices. South has two offices there and holds $4.9 million in deposits, representing 0.3 percent of the county's total commercial bank deposits. Five large holding companies and First Peoples Bank of New Jersey are represented in Camden County. Each has market shares greater than South.

Competitive Analysis

As the advisory competitive reports submitted by the Justice Department and the other commercial bank regulatory agencies reflect,[3] the prospect of the largest banking organization in the state acquiring the largest bank in a certain market area (Atlantic County) suggests troublesome questions under the antitrust laws. Nevertheless, our judgment is that the proposed acquisition will, in fact, not result in a lessening of competition but will be procompetitive and will lead to an immediate enhancement of market performance. We believe that this view is consistent with the realities of competition in the marketplace and the case law which has evolved under the Bank Merger and Clayton acts.

The Bank Merger Act requires this Office to consider whether the effect of the proposed merger transaction could substantially lessen competition in any section of the country. If such anticompetitive effects are identified, the transaction may be approved only if:

> the anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served.

The act (12 USC 1828(c)(5)) provides that in every case the Comptroller must take into account the traditional banking factors: the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served.[4] In addition, according to

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[3] As required by the Bank Merger Act, the Comptroller has received reports on the competitive factors involved in the merger transaction from the Attorney General of the United States, the Federal Reserve Board (FRB), and the Federal Deposit Insurance Corporation (FDIC).

The report received from the Department of Justice (Justice) concludes that the proposed merger will have a "significantly adverse effect on competition." The report seems to suggest four separate theories of law to support that conclusion. Justice argues first that the proposed merger would eliminate some direct competition between Bancorp and South; second, that the proposed merger would eliminate potential competition in certain markets between the two; third, that the level of concentration would eventually increase due to the entrenchment and establishment of a dominant banking force (Bancorp) in certain market areas; and finally, that the developing trend of concentration in the relevant markets should prohibit this merger.

In its advisory report, the Board of Governors of the Federal Reserve System concluded that the proposal would have adverse effects on competition since it " . . . would result in the largest banking organization in New Jersey gaining control of the bank which ranks first in two markets holding more than one-third of the commercial bank deposits in the Hammonton market and over one-half of the commercial bank deposits in the Atlantic City market."

Lastly, the Board of Directors of the FDIC found that the effect of the proposed merger transaction on competition would be substantially adverse, since " . . . Bancorp and its subsidiary banks have the managerial and financial resources to expand operations through *de novo* branching activities or by means of less anticompetitive merger proposals with banks that are not dominant in their local markets." FDIC also stressed that the " . . . continued trend toward concentration is not looked upon as being desirable, and poses a growing threat to the competitive structure of commercial banking in the state."

[4] The requirements of 12 USC 1828(c)(5) are:

(5) The responsible agency shall not approve —

(A) any proposed merger transaction which would result in a monopoly, or which would be in furtherance of any combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States, or,

(B) any other proposed merger transaction whose effect in any section of the country may be substantially to lessen competition, or to tend to create a monopoly, or which in any other manner would be in restraint of trade, unless it finds that the anticompetitive effects of the proposed transaction are clearly outweighed in the

the Community Reinvestment Act regulations,[5] which were enacted pursuant to the requirements of the act,[6] the Comptroller must take into account, among other factors, a merger applicant's record of performance in meeting the credit needs of the local communities in which it is chartered.

In applying the Clayton and Bank Merger acts, courts and the agencies have addressed both transactions involving firms competing directly in the same geographic markets and transactions involving geographic market extensions. As the facts and the advisory reports reflect, the proposed transaction is a hybrid from the point of view of competitive analysis.

At the present time, there exists some direct competition between certain offices of Bancorp banks (Central and West) and South. However, in light of the small degree of direct competition in the relevant markets[7] and the divestitures by Bancorp and South[8] that will result in the addition of new entrants into heretofore concentrated markets, the elimination of current direct competition between the two firms does not constitute grounds for a violation of the antitrust laws[9] and, hence, a basis for denial of the application to merge. Indeed, we believe that the merger will not damage the structure of competition in the relevant markets but will, in fact, enhance the competitive performance in those areas.

The advisory opinions, however, raise more serious questions regarding Bancorp's extension of its geographical market area through this acquisition. Accordingly, in light of the insignificant amount of existing direct competition and the divestiture of seven offices by Bancorp and South, we have analyzed the proposed transaction primarily as a geographic market extension case even though South and Bancorp are presently competing directly to a certain extent.

Although the Supreme Court suggested as early as 1963 in the *Philadelphia National Bank* case, *supra*, that a merger's probable future, and its present effects must be addressed in applying Section 7 of the Clayton Act, it did not fully examine the potential competition doctrine in a banking case until *United States* v. *Marine Bancorporation, Inc.*, 418 U.S. 602 (1974). Prior to *Marine,* a number of unsuccessful suits[10] had been initiated by Justice challenging bank mergers as Section 7 violations on the basis of its developing theory of potential competition. Consequently, it was thought that the decision in *Marine* would directly address and resolve the issues presented by the potential competition doctrine in the banking field. However, after *Marine,* the law remained unsettled.

Because of the weight which the other agencies have attached to the potential competition theory and because of the interest of merger applicants generally, we believe it appropriate to review briefly the status of the law in this difficult area.

In *Marine,* the court held that "geographic market extension mergers must pass muster under the potential competition doctrine." (See 418 U.S. at 627) However, the court carefully distinguished two different branches of the potential competition doctrine—the "perceived potential entrant" or "wings effect" theory and the "actual potential entrant" theory[11]—and spe-

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public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served.

In every case, the responsible agency shall take into consideration the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served.

[5] 12 CFR 25.8.

[6] 12 USC 2901 *et seq.*

[7] See discussion earlier.

[8] See discussion earlier.

[9] The standard set forth by the Supreme Court defining a "substantial lessening of competition" under Section 7 in such circumstances is as follows:

> (A) merger which produces a firm controlling an undue percentage of the relevant market, and results in a significant increase in the concentration of firms in that market, is so inherently likely to lessen competition substantially that it must be enjoined in the absence of evidence clearly showing that the merger is not likely to have such anticompetitive effects.
>
> (See *United States* v. *Philadelphia Nat'l Bank,* 374 U.S. at 363)

In addition, divestiture prior to merger is an acceptable technique to avoid an antitrust violation. *FTC* v *Atlantic Richfield Co.,* 549 F.2d 289, 299 (4th Cir. 1977); *United States* v. *Connecticut Nat'l Bank,* 362 F.Supp. 268, 286; 418 U.S. 656, 659.

[10] *United States* v. *Deposit Guaranty Nat'l Bank of Jackson,* 373 F.Supp. 1230 (S.D. Miss. 1974); *United States* v. *United Virginia Bankshares, Inc.,* 347 F.Supp. 891 (E.D. Va. 1972); *United States* v. *First Nat'l Bancorporation, Inc.,* 329 F.Supp. 1003 (D. Colo. 1971), *aff'd per curiam,* 410 U.S. 577 (1973); *United States* v. *Idaho First Nat'l Bank,* 315 F.Supp. 261 (D. Idaho 1970); *United States* v. *First Nat'l Bank of Maryland,* 310 F.Supp. 157 (D. Md. 1970); *United States* v. *First Nat'l Bank of Jackson,* 301 F.Supp. 1161 (S.D. Miss. 1969); *United States* v. *Crocker-Anglo Nat'l Bank,* 277 F.Supp. 133 (N.D. Ca. 1967).

The difficulty associated with this doctrine is reflected in the statement of a Justice Department attorney, who later became Assistant Attorney General of the Antitrust Division, which succinctly summarized the Justice Department's theory and its incidence of success:

> Accordingly, the Department of Justice has filed several recent cases to enjoin state-wide leaders from acquiring banks with leading local market positions.
>
> * * * * *
>
> These cases have generally rested on the theory that the acquiring bank would be eliminated as a potential entrant into the market of the acquired bank and that the acquired bank's leading local market position would be entrenched by the merger.
>
> * * * * *
>
> . . . So far, however, the Department of Justice has not yet secured a victory on this theory in the banking field. Not to say we won't but the issues are close and difficult.
>
> (See *United States* v. *Deposit Guaranty Nat'l Bank of Jackson,* 373 F.Supp. at 1233-34)

[11] Justice Powell described these two facets of Justice's argument as follows:

> The United States bases its case exclusively on the potential-competition doctrine under Section 7 of the

cifically limited its holding to the first. Relying on *United States* v. *Falstaff Brewing Corp.*, 410 U.S. 526 (1973), the court said of the "perceived potential entrant" theory: " . . . the principal focus of the doctrine is on the likely effects of the premerger position of the acquiring firm on the fringe of the target market. . . ."[12] (See 418 U.S. at 624) While making abundantly clear that "(T)he elimination of . . . *present* procompetitive effects may render a merger unlawful under Section 7" (See 418 U.S. at 625), the court indicated that its decision did not go beyond the application of the "perceived potential entrant" or "wings effect" theory. (See 418 U.S. at 639) In so doing, the court expressly reserved judgment as to the vitality of the "actual potential entrant theory" under the potential competition doctrine.[13]

Thus, in analyzing this transaction as a geographic market extension, we are bound to find a violation of Section 7 of the Clayton Act and of the Bank Merger Act only if the case runs afoul of the "perceived potential entrant" theory. We believe it would be inappropriate to consider denial of a merger based on a theory of illegality (*i.e.*, the "actual potential entrant" theory) whose validity is in doubt. Nevertheless, although our perception of the future competitive effects of this transaction departs from those enunciated by the other agencies in their advisory reports, we believe that it may be appropriate to examine this merger within the framework of the "actual potential entrant" theory as well as the "perceived potential entrant" theory.[14]

In *Marine*, the court identified three criteria necessary for finding illegality under the Clayton Act using the "wings effect" theory of potential competition:

> The court has recognized that a market extension merger may be unlawful if the target market is substantially concentrated, if the acquiring firm has the characteristics, capacities and economic incentives to render it a perceived potential *de novo* entrant, and if the acquiring firm's premerger presence on the fringe of the target market in fact tempered oligopolistic behavior on the part of existing participants in that market.
> (See 418 U.S. at 624)

Since Bancorp is presently in the principal market areas under consideration, application of the "wings effect" test to a case such as this, notwithstanding the impending divestiture, is not precise. The basic notion underpinning the "wings effect" theory is that the performance of the market in question is adversely affected as a result of the removal of the tempering effect of a perceived potential entrant on a market which, but for its influence, would be characterized by oligopolistic behavior. Thus, in applying this concept to the facts at hand, the merger might appropriately be denied only if it could be shown that the loss of any premerger procompetitive effects which Bancorp exerted on the market because of the possible expansion of its existing presence would substantially damage the performance of these markets.

Although Bancorp's potential for expansion in the relevant markets, particularly Atlantic City, may exert a procompetitive force, important factors indicate that the elimination of the potential for aggressive *de novo* expansion by Bancorp will not result in damage to the performance of the market. These include the presence of other leading banks about to enter the market; the competitive impact of out-of-state banks; the role of thrift and other financial institutions in New Jersey; the apparent decline of South as a dominant banking force in the market; and the continual decrease of the level of concentration in the Atlantic County market.[15]

The substitution of Bancorp for South coupled with the entry of new competing banks after the divestitures

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> Clayton Act. It contends that if the merger is prohibited, the acquiring bank would find an alternate and more competitive means for entering the Spokane area and that the acquired bank would ultimately develop by internal expansion or mergers with smaller banks into an actual competitor of the acquiring bank and other large banks in sections of the state cutside Spokane. The government further submits that the merger would terminate the alleged procompetitive influence that the acquiring bank presently exerts over Spokane banks due to the potential for its entry into that market.
> (See 418 U.S. at 605)

[12] In further explanation of the "perceived potential entrant" theory, the court stated:

> (T)he court has interpreted Section 7 as encompassing what is commonly known as the "wings effect"—the probability that the acquiring firm prompted premerger procompetitive effects within the target market by being perceived by the existing firms in that market as likely to enter *de novo*. *Falstaff, supra,* at 531-537. The elimination of such present procompetitive effects may render a merger unlawful under Section 7.
> (See 418 U.S. at 625)

[13] The court stated:

> The court has not previously resolved whether the potential-competition doctrine proscribes a market extension merger solely on the ground that such a merger eliminates the prospect for long-term deconcentration of an oligopolistic market that in theory might result if the acquiring firm were forbidden to enter except through a *de novo* undertaking or through the acquisition of a small existing entrant (a so-called foothold or toehold acquisition).
> (See 418 U.S. at 625)
> And further:
> Indeed, since the preconditions for that theory are not present, we do not reach it, and therefore we express no view on the appropriate resolution of the question reserved in *Falstaff.* We reiterate that this case concerns an industry in which new entry is extensively regulated by the state and federal governments.
> (See 418 U.S. at 639)

[14] Clearly, the Atlantic County market presents the more challenging issues, if not the only ones, with respect to potential competition. Accordingly, the applicability and significance of the doctrine will be primarily discussed with respect to the facts and markets found in Atlantic County. Any potential competition questions which might arise in other relevant markets will be adequately addressed by that discussion.

[15] *Supra.*

will, in our opinion, lead to substantially better performance in the Atlantic County market. The merged entity intends to offer more competitive pricing practices, better interest rates and additional community credit facilities. In addition, the possible alienation of portions of South's customer base because of the insertion of a new, unfamiliar banking entity should encourage existing banks in the area to vie for these customers and stimulate increased competition. Assuming that the "wings effect" test could be extended to cover the facts at hand, we cannot find that the elimination of the threat of Bancorp's expansion in the relevant markets would violate the Clayton or Bank Merger Acts.

As indicated, the Supreme Court in *Falstaff* and *Marine* expressly reserved decision as to whether the potential competition doctrine proscribes a market extension merger solely on the ground that it eliminates the prospect for long-term deconcentration of an oligopolistic market that might result if the acquiring firm were compelled to enter *de novo* or through the acquisition of a small existing entrant.[16] Responding to Justice's assertions in *Marine,* the court stated:

> Two essential preconditions must exist before it is possible to resolve whether the Government's theory, if proved, establishes a violation of Section 7. It must be determined: (i) that . . . (the bank) has available feasible means for entering the . . . market other than by acquiring . . . (the target bank); and (ii) that those means offer a substantial likelihood of ultimately producing deconcentration of that market or other significant procompetitive effects. The parties are in sharp disagreement over the existence of each of these preconditions in this case. . . . The controversy turns on what methods of entry are realistically possible and on the likely effect of various methods on the characteristics of the . . . commercial banking market.
> (See 418 U.S. at 633)

In the case before us, the first of these preconditions may be met, assuming there are no substantial legal or regulatory barriers to Bancorp's further expansion. We should note, however, that for practical business and regulatory reasons Bancorp could not be expected to compete in the relevant markets on the scale contemplated by this merger in the near future, if ever. In addition, although it can be argued that expansion of Bancorp's existing operations or the *de novo* entry of other institutions would be procompetitive and would ultimately lead to deconcentration (thereby conceivably satisfying the second precondition), these assumptions are highly speculative and cannot form the basis for a finding of illegality.

In contrast, we know that the proposed transaction involves the acquisition of a bank which holds a significant share of its market and demonstrates noncompetitive pricing policies and practices. We also know that the divestiture of seven offices by the applicants will lead to the introduction of several new banks into the markets and will provide *immediate* and *tangible* competitive benefits there. Moreover, the existence of a number of other potential entrants and the reality of competition in the Atlantic City area posed by savings banks, other financial institutions and New York and Philadelphia banks assures that, once created, vigorous competition in Atlantic County will remain viable.[17]

A different conclusion might well be appropriate if Bancorp were dominant in New Jersey, if there were a paucity of other strong potential entrants or if South were itself a strong and viable competitor in the market. However, these factors which would suggest harm to the future competitive structure in Atlantic County are not present.

For the same reasons, we find Justice's other two arguments involving the future competitive structure in the relevant markets without merit. Justice argued that the acquisition of South by Bancorp would entrench Bancorp in a dominant position which would deter other potential entrants from a *de novo* or foothold entry in the market and that the merger would hasten an illegal trend of concentration in the state or in the geographic markets under consideration. The vital competitive structure in New Jersey provides a ready response. The number of New Jersey banks ready, willing and able to compete vigorously with Bancorp assures that it will not entrench itself in a dominant position in Atlantic County or elsewhere and that current levels of competition will be enhanced after this merger. This is reinforced by the attractiveness of the Atlantic City market resulting from the revitalization that legalized gambling is likely to engender, a fact recently underscored by the proposed acquisition of Atlantic National Bank by Midlantic Bank, Inc. It is further insured by the divestitures in this transaction which will bring still other new competitors into the markets and the fact that many markets in the state, including those relevant to this analysis, will undergo substantial deconcentration as statewide branching systems evolve in New Jersey. Finally, we cannot ignore the significant long-term effect of New York and Philadelphia banks on the structure of banking in New Jersey and the competitive viability of New Jersey-based banks at present and in the future.

Banking Factors

Since we find that this proposed merger will not substantially lessen competition and is, therefore, not a violation of Section 7, the *defense* of convenience and

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[16] *Supra,* footnote 13.

[17] Although one might describe an even more desirable scenario of transactions, the Bank Merger Act and the Clayton Act do not contemplate regulatory or judicial speculation to divine and shape the *optimal* banking structure in a given market. Such a standard, in our judgment, would be almost impossible to administer. The Clayton Act deals with reasonable probabilities, not ephemeral possibilities. Moreover, we believe that a requirement that every transaction be optimal in terms of future competition is inconsistent with the thrust of the antitrust laws whose object is to prevent substantial anticompetitive behavior. The transaction before us is procompetitive and will lead to immediate tangible enhancement of the structure and performance of the markets in question. Therefore, it is not illegal and should not be disapproved.

needs is not necessary. However, such an analysis is still required since in every bank merger case, the Comptroller must "take into consideration the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served." (See 12 USC 1828(c)(5)).

For the following reasons, we conclude that the proposed merger will better serve the convenience and needs of the communities involved and, therefore, will be in the public interest.

First, as we have indicated, the divestitures will introduce new banking entrants into the primary markets under consideration which will immediately increase the public's banking alternatives in those areas and, at the same time, be of sufficient size and character to effectively compete with the merged bank and other prominent banking forces in those markets.

Second, South's conservative operating philosophy will be replaced by a more competitive and aggressive style which should benefit the banking public. In this respect, FNSJ intends to significantly increase the loan-to-deposit ratio from the current 40-percent level that South has maintained and, thus, make an additional $100 million in credit available immediately for commercial and consumer lending in the market areas. It also intends to offer free checking and higher interest yields on savings accounts. Naturally, it will be able to offer greater amounts of credit through participation agreements with its affiliates, as well as a significant number of additional banking services and departments: international, leasing and equipment financing, commercial finance, cash management, lock box rental, government banking, payments services, home improvement lending, coin and currency operations, methods and systems data processing, money market operations and investment securities. In addition, Bancorp and FNSJ are committed to the establishment of the First National State Bancorporation Community Development Corporation which will take an active role in community affairs and provide credit and counseling services to small businessmen, consumers and homeowners.

Third and last, the presence of FNSJ in the primary market areas in question will substantially enhance the overall atmosphere of financial competition that currently exists between commercial banks, credit unions, savings and loan associations and other financial service corporations.[18] Because of this level of increased competitive activity between commercial banks and other financial institutions, the proposed merger will clearly have a positive competitive effect in the relevant market areas.

Similarly, the southern New Jersey area constitutes but a part of the developing east coast banking corridor that stretches between the prominent banking markets of New York and Philadelphia. Within that context, the proposed merger will help provide New Jersey with a banking force which can effectively compete with the powerful New York and Philadelphia banks for larger commercial and industrial customers and will, therefore, increase competition in that east coast corridor, while at the same time directly enhancing and enlarging the banking services which should be made available in southern New Jersey.

We have considered the financial and managerial resources of Bancorp, its subsidiary banks and South and find these to be satisfactory. The future prospects of the proponent banks, independently and in combination, are considered favorable.

Community Reinvestment Act

This application was filed for consideration prior to the November 6, 1978, effective date of the Comptroller's Community Reinvestment Act regulations now codified in 12 CFR 25. However, consistent with the spirit of the Community Reinvestment Act (Public Law 95-128), a review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, is less than satisfactory.

We have carefully considered the application pursuant to the Bank Merger Act, 12 USC 1828(c), in light of the issues raised in the reports received by the Comptroller from Justice, FRB and FDIC. We conclude that the proposed merger will not violate Section 7 of the Clayton Act, will be in the public interest and will, therefore, otherwise satisfy the requirements of the Bank Merger Act. Accordingly, the application of First National State Bank of Central Jersey to merge with First National Bank of South Jersey under the charter of First National State Bank of Central Jersey with the title "First National State Bank of South Jersey" is approved.

As we have indicated, the application before us contemplates divestiture of certain offices. Since we have reviewed the proposed transaction in this context, we will consider the facts and conditions of the application complete and complied with, and thus approval valid, on the execution by Bancorp (West) and South of good faith binding contracts (subject to the appropriate regulatory approvals required by law) for the divestiture of the offices specified in the application to nonaffiliated banking institutions or organizations not previously operating or represented in the market areas. Disapproval of any of the specific divestiture contracts by an appropriate regulatory body will not vitiate the parties' responsibilities and duties to contract for divestiture and seek to consummate the transaction as submitted.

May 8, 1979.

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[18] In Atlantic County in 1976, there were 10 commercial banks having $578 million in deposits. At the same time, there were five thrift institutions with $428 million in deposits. Two of those commercial banks had over $100 million in deposits, as did two of the thrift institutions. In addition, there was significant competition presented by the presence of 15 credit unions, two insurance premium finance companies and 10 small loan companies.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The staff has carefully reviewed the supplemental information provided by Applicant and has reexamined the competitive factors involved in the proposed acquisition in light of such information. We nevertheless continue to adhere to the views and the conclusion expressed in our letter of April 19, 1978, regarding the effects of this merger on competition in various New Jersey banking markets.

* * *

GULFSTREAM FIRST BANK AND TRUST, N.A.,

Boca Raton, Fla., and Gulfstream Bank of Boynton Beach, National Association, Boynton Beach, Fla., and Gulfstream American Bank and Trust, N.A., Fort Lauderdale, Fla.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Gulfstream Bank of Boynton Beach, National Association, Boynton Beach, Fla. (16224), with	$ 45,961,000	2	———
and Gulfstream American Bank and Trust, N.A., Fort Lauderdale, Fla. (14741), with	183,088,000	6	———
and Gulfstream First Bank and Trust, N.A., Boca Raton, Fla. (15421), which had	302,303,000	6	———
merged December 31, 1980, under the charter of the latter (15421) and title "Gulfstream Bank, N.A." The merged bank at date of merger had	574,441,000	———	14

COMPTROLLER'S DECISION

Gulfstream Bank of Boynton Beach, National Association, Boynton Beach, Fla., Gulfstream American Bank and Trust, N.A., Fort Lauderdale, Fla., and Gulfstream First Bank and Trust, N.A., Boca Raton, Fla., are majority-owned and controlled by Gulfstream Banks, Inc., Boca Raton, a registered bank holding company. This proposed merger is a corporate reorganization which would have no effect on competition.

A review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

The record of this application and other information available to this Office as a result of its regulatory responsibilities reveals no evidence that the banks' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, is less than satisfactory.

This is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the merger.

November 24, 1980

SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are all wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

* * *

II. *Mergers consummated, involving a single operating bank*

SOUTHWEST NATIONAL BANK,
San Antonio, Tex., and Wurzbach Road National Bank, San Antonio, Tex.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Wurzbach Road National Bank (Organizing), San Antonio, Tex. (16209), with	$ 240,000	0	———
and Southwest National Bank, San Antonio, Tex. (16209), which had	24,563,000	1	———
merged February 1, 1980, under the charter of the former (16209) and title of "Southwest National Bank." The merged bank at date of merger had	25,473,000	———	1

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Southwest National Bank, San Antonio, Tex. (Southwest), into and under the charter of Wurzbach Road National Bank, San Antonio (Road Bank). This application is a part of a process whereby Republic of Texas Corporation, Dallas, Tex. (Republic), a registered multibank holding company, is acquiring 100 percent (less directors' qualifying shares) of Southwest. Road Bank has been organized by Republic solely to facilitate the acquisition of Southwest.

On November 16, 1979, the Federal Reserve Board approved Republic's application under the Bank Holding Company Act, 12 USC 1841, *et seq.*, to acquire 100 percent (less directors' qualifying shares) of the successor institution by merger to Southwest. This merger merely combines a nonoperating bank with an existing bank and has no effect on competition.

The financial and managerial resources of both entities are satisfactory. Their future prospects, both separately and consolidated, are favorable. After the merger, Southwest will draw on the financial and managerial resources of Republic. This will permit it to more effectively serve the convenience and needs of its community.

A review of the records of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicant to proceed with this proposed merger.

December 17, 1979.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Southwest National Bank would become a subsidiary of Republic of Texas Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Republic of Texas Corporation, it would have no effect on competition.

* * *

FIRST NATIONAL BANK OF McMINNVILLE,
McMinnville, Oreg., and The First National Interim Bank of McMinnville, McMinnville, Oreg.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
First National Bank of McMinnville, McMinnville, Oreg. (3399), with	$34,271,000	1	———
and The First National Interim Bank of McMinnville (Organizing), McMinnville, Oreg. (3399), which had	120,000	0	———
merged February 4, 1980, under charter of latter bank (3399) and title of "The First National Bank of McMinnville." The merged bank at date of merger had	33,416,000	———	1

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge First National Bank of McMinnville, McMinnville, Oreg. (FNB), into and under the charter of The First National Interim Bank of McMinnville, McMinnville, Oreg. (Interim Bank). This application is one part of a process whereby Pacwest Bancorp, a proposed bank holding company, will acquire 100 percent (less directors' qualifying shares) of FNB. As a part of this process, Pacwest Bancorp sponsored a charter application for a new national bank which was given preliminary approval by this Office on August 22, 1979. This merger is therefore a vehicle for a bank holding company acquisition and merely combines a corporate shell with an existing bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicant to proceed with the merger. This merger may not be consummated until proof of compliance with 12 USC 215a(a)(2) is submitted to this Office.

November 30, 1979.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which First National Bank of McMinnville would become a subsidiary of Pacwest Bancorp, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Pacwest Bancorp, it would have no effect on competition.

* * *

HARDIN NATIONAL BANK,
Kenton, Ohio, and F.B.G. National Bank of Kenton, Kenton, Ohio

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Hardin National Bank, Kenton, Ohio (3505), with	$24,757,000	2	———
and F.B.G. National Bank of Kenton (Organizing), Kenton, Ohio (3505), which had	470,000	0	———
merged February 6, 1980, under the charter of the latter bank (3505) and title "Bank One of Kenton, N.A." The merged bank at date of merger had	25,356,000	———	2

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Hardin National Bank, Kenton, Ohio (Hardin), into and under the charter of F.B.G. National Bank of Kenton (Organizing), Kenton, Ohio (F.B.G.). This merger application is one part of a process whereby Banc One Corporation (formerly first BancGroup of Ohio, Inc.), Columbus, Ohio (Corp.), a registered multibank holding company, will acquire 100 percent (less directors' qualifying shares) of the successor institution by merger to Hardin. F.B.G. has been organized by principals of Banc One Corp. solely to facilitate the acquisition of Hardin by Corp.

On June 30, 1979, Hardin had total commercial bank deposits of $21.7 million. F.B.G. was given preliminary approval to organize by this Office on October 22, 1979, and, to date, has engaged in no revenue producing activities. This merger merely combines a nonoperating corporate shell with an existing bank and would not adversely affect competition.

The financial and managerial resources of both proponents are satisfactory. Their future prospects, both separately and combined, are favorable. After the merger, Hardin will draw on the financial and managerial resources of Banc One Corp. and will more effectively serve the convenience and needs of its banking community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities, revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the proponent to proceed with this merger.

January 7, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Hardin National Bank would become a subsidiary of Banc One Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Banc One Corporation, it would have no effect on competition.

* * *

THE MOUNTAIN NATIONAL BANK OF CLIFTON FORGE,
Clifton Forge, Va., and Colonial American National Bank—Clifton Forge, Clifton Forge, Va.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The Mountain National Bank of Clifton Forge, Clifton Forge, Va. (14180), with	$18,629,000	2	———
and Colonial American National Bank—Clifton Forge (Organizing), Clifton Forge, Va. (14180), which had	50,000	0	———
merged February 25, 1980, under charter of the latter bank (14180) and title of the former. The merged bank at date of merger had	18,691,000	———	2

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The Mountain National Bank of Clifton Forge, Clifton Forge, Va. (Merging Bank), into and under the charter of Colonial American National Bank—Clifton Forge (Organizing), Clifton Forge (Charter Bank), and with the title of "The Mountain National Bank of Clifton Forge." This application was filed on December 13, 1979, and is based on an agreement executed by the proponents on December 11, 1979. The proposal is part of a process whereby Colonial American Bankshares Corporation, a registered bank holding company, will acquire 100 percent of the outstanding shares (less directors' qualifying shares) of the successor institution. This merger merely combines a nonoperating bank with an existing commercial bank and has no effect on competition.

The financial and managerial resources of both proponents are satisfactory. The future prospects of the resulting bank are favorable. After the merger, Merging Bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicants to proceed with the merger.

January 23, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Mountain National Bank of Clifton Forge would become a subsidiary of Colonial American Bankshares Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Colonial American Bankshares Corporation, it would have no effect on competition.

* * *

ATLANTIC NATIONAL BANK,
Atlantic City, N.J., and Midlantic National Bank/Atlantic, Atlantic City, N.J.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Atlantic National Bank, Atlantic City, N.J. (15781), with	$101,308,937	7	———
and Midlantic National Bank/Atlantic (Organizing), Atlantic City, N.J. (15781), which had	127,225	0	———
merged March 1, 1980, under charter of the latter bank (15781) and title "Atlantic National Bank." The merged bank at date of merger had	101,436,000	———	7

COMPTROLLER'S DECISION

This is the Comptroller's decision on the application to merge Atlantic National Bank, Atlantic City, N.J. (ANB), into and under the charter of Midlantic National Bank/Atlantic, Atlantic City (Interim Bank). This application is one part of a process whereby Midlantic Banks Inc., West Orange, N.J., a registered bank holding company, will acquire 100 percent (less directors' qualifying shares) of ANB. As a part of this process, Midlantic Banks, Inc., sponsored a charter application for a new national bank which was given preliminary approval by this Office on October 29, 1979. To date, Interim Bank has no operating history.

This merger is a vehicle for a bank holding company acquisition and merely combines a corporate shell with an existing bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c). A review of the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served has disclosed no reason why this application should not be approved.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities, revealed no evidence that the bank's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicant to proceed with the merger. This approval is conditioned on the approval by the Federal Reserve Board of an application filed under the Bank Holding Company Act, 12 USC 1841, *et seq.,* for Midlantic Banks Inc. to acquire the successor institution by merger to ANB. This merger may not be consummated prior to the expiration of the 13th day after the approval of the bank holding company application.

January 7, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Atlantic National Bank would become a subsidiary of Midlantic Banks, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Midlantic Banks, Inc., it would have no effect on competition.

* * *

PITTSFIELD NATIONAL BANK,
Pittsfield, Mass., and Old Colony Bank of Berkshire County, National Association, Pittsfield, Mass.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Pittsfield National Bank, Pittsfield, Mass. (1260), with	$21,477,000	2	———
and Old Colony Bank of Berkshire County, National Association (Organizing), Pittsfield, Mass. (1260), which had	247,000	0	———
merged March 17, 1980, under charter and title of the latter bank (1260). The merged bank at date of merger had	21,724,000	———	2

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Pittsfield National Bank, Pittsfield, Mass. (Pittsfield), into and under the charter of Old Colony Bank of Berkshire County, National Association (Organizing), Pittsfield (New Bank). This application is one part of a process whereby First National Boston Corporation, Boston, Mass. (Boston Corp), a registered multibank holding company, will acquire 100 percent (less directors' qualifying shares) of Pittsfield. As a part of this process, Boston Corp sponsored an application for a new national bank charter for New Bank which was given preliminary approval by this Office on August 9, 1979. To date, New Bank has engaged in no revenue producing activities. This merger is a vehicle for a bank holding company acquisition and merely combines a corporate shell with an existing bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both proponents are satisfactory, and their future prospects, both separately and combined, are favorable. After the merger, Pittsfield will draw on the financial and managerial resources of Boston Corp. This will permit it to more efficiently serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval necessary for the applicant to proceed with the merger and is conditioned on the approval of the acquisition of the successor by merger to Pittsfield by the Federal Reserve Board.

February 13, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Pittsfield National Bank would become a subsidiary of First National Boston Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by First National Boston Corporation, it would have no effect on competition.

* * *

BUSEY FIRST NATIONAL BANK,
Urbana, Ill., and Urbana National Bank, Urbana, Ill.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Busey First National Bank, Urbana, Ill. (14521), with	$135,367,000	3	———
and Urbana National Bank (Organizing), Urbana, Ill. (14521), which had	250,000	0	———
merged March 20, 1980, under charter of the latter (14521) and title of "Busey First National Bank." The merged bank at date of merger had	135,746,000	———	3

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Busey First National Bank, Urbana, Ill. (Urbana), into and under the charter of Urbana National Bank (Organizing), Urbana (New Bank). This application is one part of a process whereby First Busey Corporation, Urbana (First Busey), will acquire 100 percent (less directors' qualifying shares) of Urbana. As part of this process, First Busey sponsored an application for a new national bank charter for New Bank which was preliminarily approved by this Office on January 23, 1979. To date, New Bank has no operating history.

On September 17, 1979, the Federal Reserve Board approved First Busey's application under the Bank Holding Company Act, 12 USC 1841, *et seq.*, for formation of a bank holding company through acquisition of 100 percent (less directors' shares) of the successor by merger to Urbana. This merger is therefore a vehicle for a bank holding company formation and merely combines a corporate shell with an existing bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the bank's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This is the required prior written approval necessary for the applicant to proceed with the merger.

February 19, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Busey First National Bank would become a subsidiary of First Busey Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by First Busey Corporation, it would have no effect on competition.

* * *

FIRST NATIONAL BANK IN SIOUX CITY,
Sioux City, Iowa, and First National Interim Bank, Sioux City, Iowa

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
First National Bank in Sioux City, Sioux City, Iowa (13538), with	$153,017,000	3	———
and First National Interim Bank (Organizing), Sioux City, Iowa (13538), which had	240,000	0	———
merged March 31, 1980, under charter of the latter (13538) and title of the former. The merged bank at date of merger had	153,282,000	———	3

COMPTROLLER'S DECISION

This is the Comptroller's decision on the application to merge First National Bank in Sioux City, Sioux City, Iowa, into First National Interim Bank (Organizing), Sioux City, under the charter of First National Interim Bank and with the title of "First National Bank in Sioux City."

First National Interim Bank is being organized by Banks of Iowa, Inc., Cedar Rapids, Iowa, a bank holding company. This application is part of a process whereby the holding company will acquire 100 percent of the voting shares (less directors' qualifying shares) of First National Bank in Sioux City. The merger would combine a nonoperating bank with an existing commercial bank and would have no effect on competition.

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. Consummation of the proposal will result in a more efficient corporate organization, promoting the convenience and needs of the community.

A review of the record of this application and other information available to this Office as a result of its regulatory activities revealed no evidence that the applicant's record of helping to meet the credit needs of its entire community was less than satisfactory.

This is the prior written approval required by the

Bank Merger Act, 12 USC 1828(c), for the applicant to proceed with the merger.

February 27, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which First National Bank in Sioux City would become a subsidiary of Bank of Iowa, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Banks of Iowa, Inc., it would have no effect on competition.

* * *

BANK OF NEW HAMPSHIRE, NATIONAL ASSOCIATION, Manchester, N.H., and New Hampshire Bank, National Association, Manchester, N.H.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Bank of New Hampshire, National Association, Manchester, N.H. (1059), with	$254,274,000	16	———
and New Hampshire Bank, National Association (Organizing), Manchester, N.H. (1059), which had	240,000	0	———
merged April 30, 1980, under charter of the latter bank (1059) and title of the former. The merged bank at date of merger had	254,274,000	———	16

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Bank of New Hampshire, National Association, Manchester, N.H. (Merging Bank), into and under the charter of New Hampshire Bank, National Association (Organizing), Manchester (Charter Bank). This application was filed on December 17, 1979, and is based on an agreement executed on November 28, 1979. The proposal is part of a process whereby Bank of New Hampshire Corporation will become a bank holding company by acquiring 100 percent of the outstanding shares (less directors' qualifying shares) of the successor. This merger merely combines a nonoperating bank with an existing commercial bank and will have no effect on competition.

The financial and managerial resources of both entities are satisfactory, and their future prospects appear favorable. After the merger, Merging Bank will draw on the financial and managerial resources of its corporate parent, Bank of New Hampshire Corporation. This will permit the bank to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory authority revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicant to proceed with the proposed merger.

March 25, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Bank of New Hampshire, National Association, would become a subsidiary of Bank of New Hampshire Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Bank of New Hampshire Corporation, it would have no effect on competition.

* * *

THE POMEROY NATIONAL BANK,
Pomeroy, Ohio, and Bank One of Pomeroy, N.A., Pomeroy, Ohio

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Bank One of Pomeroy, N.A. (Organizing), Pomeroy, Ohio (1980), with	$ 120,000	0	———
and The Pomeroy National Bank, Pomeroy, Ohio (1980), which had	33,299,000	3	———
merged June 2, 1980, under charter and title of the former bank (1980). The merged bank at date of merger had	33,419,000	———	3

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The Pomeroy National Bank, Pomeroy, Ohio (Pomeroy), into and under the charter of Bank One of Pomeroy, N.A. (Organizing), Pomeroy (Bank One). This application was filed with this Office on March 25, 1980, and is based on an agreement executed by the participants on February 15, 1980.

Bank One is being organized by individuals associated with Banc One Corporation, a registered bank holding company. The merger of Pomeroy into Bank One is one part of a process whereby Banc One Corporation will acquire 100 percent (less directors' qualifying shares) of Pomeroy. This merger is a vehicle for a bank holding company acquisition and merely combines a corporate shell with an existing bank. As such, it presents no competitive issues under the Bank Merging Act, 12 USC 1828(c).

The financial and managerial resources of both proponents are satisfactory, and their future prospects, both separately and combined, are favorable. After the merger, Pomeroy will draw on the financial and managerial resources of its corporate parent, permitting it to more effectively serve the convenience and needs of its community. A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

May 2, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Pomeroy National Bank would become a subsidiary of Banc One Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Banc One Corporation, it would have no effect on competition.

* * *

THE MARINE NATIONAL BANK OF WILDWOOD,
Wildwood, N.J., and Horizon Marine National Bank, Wildwood, N.J.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Horizon Marine National Bank (Organizing), Wildwood, N.J. (6278), with	$ 60,000	0	———
and The Marine National Bank of Wildwood, Wildwood, N.J. (6278), which had	106,640,000	5	———
merged June 4, 1980, under charter of the former (6278) and title of the latter. The merged bank at date of merger had	106,700,000	———	5

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge The Marine National Bank of Wildwood, Wildwood, N.J., into Horizon Marine National Bank (Organizing), Wildwood, under the charter of Horizon Marine National Bank and with the title of "The Marine National Bank of Wildwood," Wildwood.

Horizon Marine National Bank (interim bank) is being organized by Horizon Bancorp, Morristown, N.J., a registered bank holding company. This application is part of a process whereby the holding company will acquire 100 percent (except directors' qualifying shares) of the voting stock of The Marine National Bank of Wildwood. The merger would combine a nonoperating bank with an existing commercial bank and would have no effect on competition.

The financial and managerial resources of both banks and the future prospects of the resulting bank are favorable. Consummation of the proposal will result in a more efficient corporate organization which will promote the convenience and needs of the community.

A review of the record of the application and other information available to this Office as a result of its regulatory authority revealed no evidence that the applicant's record of helping to meet the credit needs of its entire community, including low or moderate income areas, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act, 12 USC 1828(c), for the applicant to proceed with the merger.

May 5, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Marine National Bank of Wildwood would become a subsidiary of Horizon Bancorp, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Horizon Bancorp, it would have no effect on competition.

* * *

GATEWAY NATIONAL BANK OF BEAUMONT,
Beaumont, Tex., and New Gateway National Bank of Beaumont, Beaumont, Tex.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
New Gateway National Bank of Beaumont (Organizing), Beaumont, Tex. (14871), with	$ 300,000	0	———
and Gateway National Bank of Beaumont, Beaumont, Tex. (14871), which had	32,740,000	1	———
merged June 6, 1980, under charter of the former (14871) and with the title "Gateway National Bank of Beaumont." The merged bank at date of merger had	32,985,000	———	1

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Gateway National Bank, Beaumont, Tex. (Gateway), into New Gateway National Bank of Beaumont (Organizing), Beaumont, under the charter of New Gateway National Bank of Beaumont and with the title of "New Gateway National Bank of Beaumont." This application was filed with this Office on January 23, 1980, and is based on an agreement executed by the participants on December 3, 1979. As of December 31, 1978, Gateway had total commercial bank deposits of $25.4 million.

This application is one part of a process whereby First City Bancorporation of Texas, Inc., a registered bank holding company, will acquire 100 percent (less directors' qualifying shares) of Gateway. As part of this process, First City Bancorporation of Texas, Inc., sponsored a charter application for a new national bank which was given preliminary approval by this Office on October 1, 1979. This merger is therefore a vehicle for a bank holding company acquisition and merely combines a corporate shell with an existing bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both proponents are satisfactory, and their future prospects, both separately and combined, are favorable. After the merger, Gateway will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community. A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the required prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

April 9, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Gateway National Bank of Beaumont would become a subsidiary of First City Bancorporation of Texas, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by First City Bancorporation of Texas, Inc., it would have no effect on competition.

* * *

BANK OF IDAHO, N.A.,
Boise, Idaho, and New Bank of Idaho, N.A., Boise, Idaho

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Bank of Idaho, N.A., Boise, Idaho (16237), with	$540,283,000	38	
and New Bank of Idaho, N.A. (Organizing), Boise, Idaho (16237), which had	240,000	0	
consolidated June 30, 1980, under charter and title of the former bank (16237). The consolidated bank at date of consolidation had	540,527,000		38

COMPTROLLER'S DECISION

New Bank of Idaho, N.A., Boise, Idaho, is being organized by Western Bancorporation, Los Angeles, Calif., a bank holding company. The consolidation of Bank of Idaho, N.A., Boise, with New Bank of Idaho, N.A., is part of a process whereby Western Bancorporation will acquire 100 percent (less directors' qualifying shares) of Bank of Idaho, N.A. The consolidation is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the consolidation, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that applicant's record of helping to meet the credit needs of its entire community was less than satisfactory.

This is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

May 28, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed consolidations are parts of plans through which the existing banks will become subsidiaries of Western Bancorporation, a bank holding company. Each of these transactions, however, will merely combine existing banks with nonoperating institutions; as such, and without regard to the acquisition of the surviving banks by Western Bancorporation, they would have no effect on competition.

* * *

THE CONRAD NATIONAL BANK OF KALISPELL,
Kalispell, Mont., and New Conrad National Bank of Kalispell, Kalispell, Mont.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The Conrad National Bank of Kalispell, Kalispell, Mont. (4803), with	$85,996,000	2	
and New Conrad National Bank of Kalispell (Organizing), Kalispell, Mont. (4803), which had	120,000	0	
consolidated June 30, 1980, under the charter and title of the former bank (4803). The consolidated bank at date of consolidation had	86,118,000		2

COMPTROLLER'S DECISION

New Conrad National Bank of Kalispell, Kalispell, Mont., is being organized by Western Bancorporation, Los Angeles, Calif., a bank holding company. The consolidation of The Conrad National Bank of Kalispell, Kalispell, with New Conrad National Bank of Kalispell is part of a process whereby Western Bancorporation will acquire 100 percent (less directors' qualifying shares) of The Conrad National Bank of Kalispell. The consolidation is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the consolidation, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that applicant's record of helping to meet the credit needs of its entire community was less than satisfactory.

This is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

May 28, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed consolidations are parts of plans through which the existing banks will become subsidiaries of Western Bancorporation, a bank holding company. Each of these transactions, however, will merely combine existing banks with nonoperating institutions; as such, and without regard to the acquisition of the surviving banks by Western Bancorporation, they would have no effect on competition.

* * *

FIRST NATIONAL BANK, Fort Collins, Colo., and New First National Bank, Fort Collins, Colo.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
First National Bank, Fort Collins, Colo. (14146), with	$192,068,000	2	———
and New First National Bank, Fort Collins (Organizing), Fort Collins, Colo. (14146), which had	240,000	0	———
consolidated June 30, 1980, under the charter and title of the former bank (14146). The consolidated bank at date of consolidation had	192,312,000	———	2

COMPTROLLER'S DECISION

New First National Bank, Fort Collins, Colo., is being organized by Western Bancorporation, Los Angeles, Calif., a bank holding company. The consolidation of First National Bank, Fort Collins, with New First National Bank is part of a process whereby Western Bancorporation will acquire 100 percent (less directors' qualifying shares) of First National Bank. The consolidation is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the consolidation, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that applicant's record of helping to meet the credit needs of its entire community was less than satisfactory.

This is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

May 28, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed consolidations are parts of plans through which the existing banks will become subsidiaries of Western Bancorporation, a bank holding company. Each of these transactions, however, will merely combine existing banks with nonoperating institutions; as such, and without regard to the acquisition of the surviving banks by Western Bancorporation, they would have no effect on competition.

* * *

FIRST NATIONAL BANK OF ARIZONA, Phoenix, Ariz., and New First National Bank of Arizona, Phoenix, Ariz.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
First National Bank of Arizona, Phoenix, Ariz. (3728), with	$3,288,031,000	142	———
and New First National Bank of Arizona (Organizing), Phoenix, Ariz. (3728), which had	240,000	0	———
consolidated June 30, 1980, under the charter and title of the former bank (3728). The consolidated bank at date of consolidation had	3,288,275,000	———	142

COMPTROLLER'S DECISION

New First National Bank of Arizona, Phoenix, Ariz., is being organized by Western Bancorporation, Los Angeles, Calif., a bank holding company. The consolidation of First National Bank of Arizona, Phoenix, with New First National Bank of Arizona is part of a process whereby Western Bancorporation will acquire 100 percent (less directors' qualifying shares) of First National Bank of Arizona. The consolidation is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the consolidation, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that applicant's record of helping to meet the credit needs of its entire community was less than satisfactory.

This is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

May 28, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed consolidations are parts of plans through which the existing banks will become subsidiaries of Western Bancorporation, a bank holding company. Each of these transactions, however, will merely combine existing banks with nonoperating institutions; as such, and without regard to the acquisition of the surviving banks by Western Bancorporation, they would have no effect on competition.

* * *

FIRST NATIONAL BANK OF CASPER,
Casper, Wyo., and New First National Bank of Casper, Casper, Wyo.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
First National Bank of Casper, Casper, Wyo. (6850), with	$256,224,000	1	———
and New First National Bank of Casper (Organizing), Casper, Wyo. (6850), which had	120,000	0	———
consolidated June 30, 1980, under the charter and title of the former bank (6850). The consolidated bank at date of consolidation had	256,346,000	———	1

COMPTROLLER'S DECISION

New First National Bank of Casper, Casper, Wyo., is being organized by Western Bancorporation, Los Angeles, Calif., a bank holding company. The consolidation of First National Bank of Casper, Casper, with New First National Bank of Casper is part of a process whereby Western Bancorporation will acquire 100 percent (less directors' qualifying shares) of First National Bank of Casper. The consolidation is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the consolidation, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that applicant's record of helping to meet the credit needs of its entire community was less than satisfactory.

This is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

May 28, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed consolidations are parts of plans through which the existing banks will become subsidiaries of Western Bancorporation, a bank holding company. Each of these transactions, however, will merely combine existing banks with nonoperating institutions; as such, and without regard to the acquisition of the surviving banks by Western Bancorporation, they would have no effect on competition.

* * *

FIRST NATIONAL BANK OF OREGON,
Portland, Oreg., and New First National Bank of Oregon, Portland, Oreg.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
First National Bank of Oregon, Portland, Oreg. (1553), with	$4,663,501,000	156	———
and New First National Bank of Oregon (Organizing), Portland, Oreg. (1553), which had	240,000	0	———
consolidated June 30, 1980, under the charter and title of the former bank (1553). The consolidated bank at date of consolidation had	4,663,745,000	———	156

COMPTROLLER'S DECISION

New First National Bank of Oregon, Portland, Oreg., is being organized by Western Bancorporation, Los Angeles, Calif., a bank holding company. The consolidation of First National Bank of Oregon, Portland, with New First National Bank of Oregon is part of a process whereby Western Bancorporation will acquire 100 percent (less directors' qualifying shares) of First National Bank of Oregon. The consolidation is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the consolidation, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that applicant's record of helping to meet the credit needs of its entire community was less than satisfactory.

This is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

May 28, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed consolidations are parts of plans through which the existing banks will become subsidiaries of Western Bancorporation, a bank holding company. Each of these transactions, however, will merely combine existing banks with nonoperating institutions; as such, and without regard to the acquisition of the surviving banks by Western Bancorporation, they would have no effect on competition.

* * *

SANTA FE NATIONAL BANK,
Santa Fe, N.M., and New Santa Fe National Bank, Santa Fe, N.M.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Santa Fe National Bank, Santa Fe, N.M. (14543), with	$90,473,000	3	———
and New Santa Fe National Bank (Organizing), Santa Fe, N.M. (14543), which had	120,000	0	———
consolidated June 30, 1980, under the charter and title of the former bank (14543). The consolidated bank at date of consolidation had	90,595,000	———	3

COMPTROLLER'S DECISION

New Santa Fe National Bank, Santa Fe, N.M., is being organized by Western Bancorporation, Los Angeles, Calif., a bank holding company. The consolidation of Santa Fe National Bank, Santa Fe, with New Santa Fe National Bank is part of a process whereby Western Bancorporation will acquire 100 percent (less directors' qualifying shares) of Santa Fe National Bank. The consolidation is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both banks and the future prospects of the resulting bank are favorable. After the consolidation, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that applicant's record of helping to meet the credit needs of its entire community was less than satisfactory.

This is the prior written approval required by the

Bank Merger Act for the applicant to proceed with the proposed merger.

May 28, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed consolidations are parts of plans through which the existing banks will become subsidiaries of Western Bancorporation, a bank holding company. Each of these transactions, however, will merely combine existing banks with nonoperating institutions; as such, and without regard to the acquisition of the surviving banks by Western Bancorporation, they would have no effect on competition.

* * *

FIRST NATIONAL BANK OF TOLEDO, Toledo, Ohio, and Toledo National Bank, Toledo, Ohio

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
First National Bank of Toledo, Toledo, Ohio (14586), with	$495,564,000	26	———
and Toledo National Bank (Organizing), Toledo, Ohio (14586), which had	240,000	0	———
merged July 1, 1980, under charter of the latter (14586) and with the title "First National Bank of Toledo." The merged bank at date of merger had	496,734,000	———	26

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge First National Bank of Toledo, Toledo, Ohio (First), into Toledo National Bank (Organizing), Toledo (Toledo), under the charter of Toledo National Bank and with the title of "First National Bank of Toledo." This application was filed on March 10, 1980, and is based on an agreement executed by the participants on February 27, 1980.

Toledo is being organized by individuals associated with First Ohio Bancshares, Inc., a proposed bank holding company. The merger of First into Toledo is part of a process whereby First Ohio Bancshares, Inc., will acquire 100 percent (less directors' qualifying shares) of First. The merger is a vehicle for a bank holding company acquisition and merely combines a corporate shell with an existing bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both proponents are satisfactory, and their future prospects, both separately and combined, are favorable. After the merger, First will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of the community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities, revealed no evidence that First's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

May 13, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which First National Bank of Toledo would become a subsidiary of First Ohio Bancshares, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by First Ohio Bancshares, Inc., it would have no effect on competition.

* * *

GARDEN STATE NATIONAL BANK,
Paramus, N.J., and New Garden State National Bank, Paramus, N.J.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Garden State National Bank, Paramus, N.J. (15570), with	$838,491,000	36	
and New Garden State National Bank (Organizing), Paramus, N.J. (15570), which had	125,000	0	
consolidated July 7, 1980, under the charter (15570) and title of the former bank (15570). The consolidated bank at date of consolidation had	856,603,000		36

COMPTROLLER'S DECISION

This is the Comptroller's decision on the application to consolidate Garden State National Bank, Paramus, N.J. (Garden State), and New Garden State National Bank, Paramus (Interim Bank), under the charter of and with the title of "Garden State National Bank." This application is one part of a process whereby Fidelity Union Bancorporation, Newark, N.J., a registered bank holding company, will acquire 100 percent (less directors' qualifying shares) of Garden State. As a part of this process, Interim Bank is being organized by representatives of the holding company. This consolidation is a vehicle for a bank holding company acquisition and merely combines a corporate shell with an existing bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the bank's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicant to proceed with the consolidation.

June 5, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed consolidation is part of a plan through which Garden State National Bank would become a subsidiary of Fidelity Union Bancorporation, a bank holding company. The instant transaction, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Fidelity Union Bancorporation, it would have no effect on competition.

* * *

SUMMIT NATIONAL BANK,
Fort Worth, Tex., and West Freeway National Bank, Fort Worth, Tex.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Summit National Bank, Fort Worth, Tex. (16422), with	$43,759,000	1	
and West Freeway National Bank (Organizing), Fort Worth, Tex. (16422), which had	240,000	0	
merged July 8, 1980, under charter (16422) of the latter and with the title "Summit National Bank." The merged bank at date of merger had	44,971,000		1

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge Summit National Bank, Fort Worth, Tex. (Summit), into and under the charter of West Freeway National Bank, Fort Worth, Tex. (Freeway). This application was filed with this Office on October 17, 1979, and is based on an agreement executed by the participants on September 14, 1979. As of June 30, 1979, Summit had total commercial bank deposits of $31.7 million.

This application is one part of a process whereby Summit Bancshares, Inc., a proposed bank holding company, will acquire 100 percent (less directors' qualifying shares) of Summit. As a part of this process, Summit Bancshares, Inc., sponsored a charter application for a new national bank which was given preliminary approval by this Office on August 20, 1979. This merger is therefore a vehicle for a bank holding company acquisition and merely combines a corporate shell with an existing bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both proponents are satisfactory, and their future prospects, both separately and combined, are favorable. After the merger, Summit will draw on the financial and managerial resources of its corporate parent. This will permit it to more efficiently serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the required prior written approval of the Bank Merger Act for the applicants to proceed with the proposed merger.

May 20, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Summit National Bank would become a subsidiary of Summit Bancshares, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Summit Bancshares, Inc., it would have no effect on competition.

* * *

PENINSULA NATIONAL BANK,
Cedarhurst, N.Y., and 516 Central Avenue National Bank, Cedarhurst, N.Y.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Peninsula National Bank, Cedarhurst, N.Y. (11854), with	$114,757,366	11	———
and 516 Central Avenue National Bank (Organizing), Cedarhurst, N.Y. (11854), which had	120,000	0	———
merged July 31, 1980, under charter of the latter (11854) and title of the former. The merged bank at date of merger had	114,877,000	———	11

COMPTROLLER'S DECISION

The 516 Central Avenue National Bank, Cedarhurst, N.Y., is being organized by United Bank Corporation of New York, Albany, N.Y., a bank holding company. The merger of Peninsula National Bank, Cedarhurst, into 516 Central Avenue National Bank is part of a process whereby United Bank Corporation of New York will acquire 100 percent (less directors' qualifying shares) of Peninsula National Bank. The merger is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the merger, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its entire community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that applicant's record of helping to meet the credit needs of its entire community was less than satisfactory.

This is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

June 30, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Peninsula National Bank would become a subsidiary of United Bank Corporation of New York, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by United Bank Corporation of New York, it would have no effect on competition.

* * *

BANK OF INDIANA, NATIONAL ASSOCIATION,
Gary, Ind., and Indiana Interim National Bank, Gary, Ind.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Bank of Indiana, National Association, Gary, Ind. (15455), with	$270,199,000	13	———
and Indiana Interim National Bank (Organizing), Gary, Ind. (15455), which had	240,000	0	———
merged September 18, 1980, under charter of the latter (15455) and with the title of the former bank. The merged bank at date of merger had	264,955,000	———	13

COMPTROLLER'S DECISION

This application is essentially a corporate reorganization whereby Money Management Corporation, holding company for Bank of Indiana, National Association, Gary, Ind., will acquire 100 percent of Bank of Indiana, National Association. It was filed with this Office on April 16, 1980, and is based on an agreement executed by the participants on March 27, 1980. As part of the reorganization, Money Management Corporation sponsored a charter application for a new national bank which received preliminary approval from this Office on October 20, 1978. This merger completes the process of reorganization and presents no competitive, financial or managerial issues under the Bank Merger Act, 12 USC 1828(c).

A similar application was disapproved on November 2, 1979, because this Office concluded the bank's record of performance under the Community Reinvestment Act (CRA), 12 USC 2901 *et seq.*, was unsatisfactory. The Office has prepared, as a supplement to this decision, an opinion which addresses the CRA aspects of this application and describes the conditions under which it is now being approved. The supplement is an intrinsic part of this decision which is the prior written permission required by the Bank Merger Act for the applicant to proceed with the transaction.

Community Reinvestment Act Supplement

This supplement discusses the OCC's assessment of Bank of Indiana, National Association's (bank) record of performance under the Community Reinvestment Act (CRA). The CRA requires that the OCC evaluate a bank's record of meeting the credit needs of its community and consider that record when deciding certain applications for structural change.

The bank has applied for permission to reorganize its corporate structure. The current application was protested by the Gary Human Relations Commission, which indicated that, while they had seen improvement in the bank's consumer services, they had no evidence that there had been or would be improvement in the commercial loan area.

A similar application was disapproved on November 2, 1979, because OCC concluded the bank's record of performance under the factors contained in the CRA regulation (12 CFR 25) was unsatisfactory. OCC examinations of the bank revealed a lack of lending within neighborhoods in Gary, little evidence of meaningful communication with members of the community regarding banking services and no marketing or special credit-related programs to inform Gary residents of the types of credit available at the bank.

At the time of the original denial, OCC noted that the bank had recently taken steps to improve its performance. However, OCC concluded that the recent actions taken by the bank were not sufficient to warrant approval of the application. The bank was, however, encouraged to follow through on its recent and proposed actions in response to CRA and to review other areas where improvements could be made. The bank was advised that the results of subsequent examinations would determine when approval of future applications would be warranted.

The OCC recently completed another examination of the bank to determine its compliance with consumer laws and regulations and to evaluate its record of performance in meeting community credit needs. This supplement discusses the bank's CRA record and is based primarily on the results of the recent examination.

For a bank to serve effectively the needs of a community, it must know what those needs are. For this reason, part of the CRA assessment of all banks is a review of their efforts to ascertain community credit needs. The bank has undertaken a number of activities to determine the credit needs of its community. Since May 1979, the bank has been meeting with community and civic leaders to discuss credit needs and describe available bank services. In addition, the bank hired an outside firm to survey a sample of 3,000 Gary area households. As a result of the survey, the bank is considering implementation of alternative branch banking hours. In December 1979, the bank established regional advisory boards of local community residents for each of its branches. The regional advisory boards will assist bank management in its efforts fo ascertain community credit needs. Moreover, the bank plans to establish a citizens advisory group to provide feedback to and from the community regarding consumer complaints.

The bank has also undertaken marketing efforts to increase its lending activities in Gary. These efforts have included minority newspaper advertising, billboards and direct mail solicitations. Additionally, in January 1980, the bank held the first of a planned series of seminars and workshops for proprietors of small businesses in Gary. These forums are designed to provide technical expertise in marketing, advertising, accounting and financial planning for small business proprietors.

The CRA evaluation process also considers the geographic distribution of the bank's credit extensions, credit applications, credit denials and evidence of prohibited discriminatory or other illegal credit practices. The recent evaluation of the bank's lending practices revealed no evidence of discrimination. The previous loan policies and procedures which had discriminatory effects had been corrected prior to denial of the previous application, and the bank is now developing internal audit and control procedures to assure compliance with the Equal Credit Opportunity Act. The previous evaluation had disclosed a significant disparity between credit extensions made in Gary and its suburbs. As noted earlier, the bank has made efforts to increase its loan penetration in Gary. While it is too early to make a complete evaluation of the results of these efforts, loan volume at the bank's downtown offices exceeded the bank's original projections at the time of our recent evaluation.

The CRA assessment also reviews bank participation in community development projects. The bank has committed $10 million in credit for revitalization of downtown Gary in connection with a federal urban development action grant project undertaken by the city with private sector support. This commitment is subject to completion of three construction projects now underway or planned.

The bank has also committed to lend funds to rehabilitate 21 homes in a Gary neighborhood located in a low and moderate income census tract. Management has expressed interest in working with other neighborhood groups to develop similar programs.

Another aspect of CRA performance is extension of housing-related credit. Due to loan portfolio factors and recent economic conditions, the bank is not extending 1–4 family real estate loans. Management plans, instead, to emphasize consumer and commercial lending, including small business credit. Meanwhile, all applicants for 1–4 family mortgages are being referred to Calumet Securities, a mortgage banking corporation. The OCC believes that the moratorium on single family mortgage lending is a reasonable management decision. However, management must be careful to apply this policy to all types of mortgage applicants and fulfill the plan to increase small business and consumer loan volume in its community. Management's intention to accomplish these objectives is evidenced by a mail solicitation of installment loan applicants from Gary for debt consolidation loans and small business forums which may result in establishing small business lending relationships. In addition, an SBA loan committee has been recently established to assist in a budgeted $2 million increase in SBA-guaranteed loans.

At the time of our previous assessment, the bank's investment security portfolio contained only $300,000 in city issues, and no bids had been placed on Gary tax anticipation warrants. Since then, the bank has purchased nearly $10 million in securities of local municipalities and placed a competitive bid on a $7.75 million city issue.

In a letter dated May 13, 1980, the Gary Human Relations Commission expressed opposition to approval of the application. The letter stated:

> While the Commission has been able to see considerable improvement in the bank's consumer services, there is no evidence that there has or will be improvement in the commercial loan area.

The OCC has reviewed the protest and determined that the bank has made a good faith effort to improve its commercial and installment lending performance in Gary. This effort, because of the time frame involved and general economic conditions, may not have yet resulted in significant expansion in the bank's Gary-originated loan portfolio. This Office believes that close monitoring of the bank's continued efforts in the commercial and installment loan areas, which is one of the stipulations of this decision, will ensure continued progress.

In summary, our assessment revealed that the bank has made substantial efforts to ascertain the credit needs of its community. Further, while the results of these efforts have not yet been fully realized, progress had been made in helping to meet local credit needs. Overall, the bank has been responsive to the suggestions of the examiner and to the comments contained in the Comptroller's opinion explaining the decision to deny the bank's previous application. We believe that the bank's response must be considered favorably under CRA, even though its actions may not yet have resulted in substantial expansion of actual lending in Gary. The bank has responded positively to the CRA since the denial of the original application in November 1979, and the OCC believes the bank's record of performance and good faith efforts have been sufficient to warrant conditional approval of the merger application.

This decision is made with the understanding that additional and continued progress is expected and necessary for approval of future applications from the bank. The board of directors and management are instructed to develop and submit an affirmative CRA plan acceptable to the OCC prior to the planned reorganization. Specific areas to be addressed in the plan include, but are not limited to:

- Continue efforts to market the availability of commercial and installment loans to Gary residents and to review the bank's SBA lending policy;
- Develop a reporting system showing home mortgage applicants referred to Calumet Securities, and when the bank lifts its current moratorium on 1–4 family mortgages, an affirmative program to market these loans to areas which were adversely affected by the bank's previous loan policies and procedures for housing-related credit;
- Continue affirmative marketing efforts, especially those that encourage dialogue between the bank and segments of its community, including local government and organizations which are representative of the diverse Gary community;
- Continue efforts to use the Gary Regional Advisory Boards to help ascertain community credit needs and follow through with plans to establish the citizens advisory group to provide feedback to and from the community; and
- Complete planned written operating and control procedures to ensure compliance with the Equal Credit Opportunity Act.

The OCC will closely monitor the bank's progress in carrying out the affirmative CRA plan through quarterly reports and future examinations.

August 18, 1980.

No Attorney General's report was received.

* * *

COUNTY NATIONAL BANK OF ORANGE,
Orange, Tex., and County Bank, National Association, Orange, Tex.

Names of banks and type of transaction	Total assets	Banking offices: In operation	Banking offices: To be operated
County National Bank of Orange, Orange, Tex. (14884), with	$44,848,110	1	———
and County Bank, National Association (Organizing), Orange, Tex. (14884), which had	121,824	0	———
consolidated September 18, 1980, under charter and title of the former bank (14884). The consolidated bank at date of consolidation had	44,969,934	———	1

COMPTROLLER'S DECISION

County Bank, National Association, Orange, Tex., is being organized by Southwest Bancshares, Inc., Houston, Tex., a bank holding company. The consolidation of County National Bank of Orange, Orange, and County Bank, National Association, is part of a process whereby Southwest Bancshares, Inc., will acquire 100 percent (less directors' qualifying shares) of County National Bank of Orange. The consolidation is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the consolidation, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed consolidation.

August 18, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed consolidation is part of a plan through which County National Bank of Orange would become a subsidiary of Southwest Bancshares, Inc., a bank holding company. The instant transaction, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Southwest Bancshares, Inc., it would have no effect on competition.

* * *

FIRST NATIONAL BANK OF SOUTH CENTRAL MICHIGAN,
Quincy, Mich., and SCM National Bank, Quincy, Mich.

Names of banks and type of transaction	Total assets	Banking offices: In operation	Banking offices: To be operated
SCM National Bank (Organizing), Quincy, Mich. (2550), with	$ 870,000	0	———
and First National Bank of South Central Michigan, Quincy, Mich. (2550), which had	51,558,000	4	———
consolidated September 29, 1980, under charter and title of the latter bank (2550). The consolidated bank at date of consolidation had	53,726,000	———	4

COMPTROLLER'S DECISION

SCM National Bank, Quincy, Mich., is being organized by First American Bank Corporation, Kalamazoo, Mich., a bank holding company. The consolidation of First National Bank of South Central Michigan, Quincy, with SCM National Bank is part of a process whereby First American Bank Corporation will acquire 100 percent (less directors' qualifying shares) of The First National Bank of South Central Michigan. The consolidation is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the consolidation, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed consolidation.

August 29, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which First National Bank of South Central Michigan would become a subsidiary of First American Bank Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by First American Bank Corporation, it would have no effect on competition.

* * *

AMERICAN NATIONAL BANK, Omaha, Nebr., and ANB Bank, N.A., Omaha, Nebr.

Names of banks and type of transaction	Total assets	*Banking offices*	
		In operation	*To be operated*
American National Bank, Omaha, Nebr. (15435), with	$69,825,000	3	———
and ANB Bank, N.A. (Organizing), Omaha, Nebr. (15435), which had	240,000	0	———
merged September 30, 1980, under charter of the latter (15435) and title of the former. The merged bank at date of merger had	69,825,000	———	3

COMPTROLLER'S DECISION

ANB Bank, N.A., Omaha, Nebr., is being organized by American National Corporation, Omaha, a proposed bank holding company. The merger of American National Bank, Omaha, into ANB Bank, N.A., is part of a process whereby American National Corporation will acquire 100 percent (less directors' qualifying shares) of American National Bank. The merger is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the merger, the resulting bank will draw on the financial and managerial resources of ts corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

August 18, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which American National Bank would become a subsidiary of American National Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by American National Corporation, it would have no effect on competition.

* * *

FIRST NATIONAL BANK OF WOODSTOCK, Woodstock, Ill., and FNW National Bank, Woodstock, Ill.

Names of banks and type of transaction	Total assets	*Banking offices*	
		In operation	*To be operated*
First National Bank of Woodstock, Woodstock, Ill. (14137), with	$61,647,000	2	———
and FNW National Bank (Organizing), Woodstock, Ill., which had	120,000	0	———
merged September 30, 1980, under charter of the latter (14137) and title "First National Bank of Woodstock." The merged bank at date of merger had	72,680,000	———	2

COMPTROLLER'S DECISION

FNW National Bank, Woodstock, Ill., is being organized by First Woodstock Corp., Woodstock, a proposed bank holding company. The merger of First National Bank of Woodstock, Woodstock, into FNW National Bank is part of a process whereby First Woodstock Corp. will acquire 100 percent (less directors' qualifying shares) of First National Bank of Woodstock. The merger is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the merger, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

August 28, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which First National Bank of Woodstock would become a subsidiary of First Woodstock Corp., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by First Woodstock Corp., it would have no effect on competition.

* * *

BANK ONE OF FAIRBORN, N.A.,
Fairborn, Ohio, and The First National Bank of Fairborn, Fairborn, Ohio

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Bank One of Fairborn, N.A. (Organizing), Fairborn, Ohio (9675), with	$45,371,000	0	———
and The First National Bank of Fairborn, Fairborn, Ohio (9675), which had	120,000	3	———
consolidated October 1, 1980, under charter of the latter bank (9675) and title of the former. The consolidated bank at date of consolidation had	47,249,000	———	3

COMPTROLLER'S DECISION

Bank One of Fairborn, N.A., Fairborn, Ohio, is being organized by BancOne Corporation, Columbus, Ohio, a bank holding company. The consolidation of The First National Bank of Fairborn, Fairborn, with Bank One of Fairborn, N.A., is part of a process whereby BancOne Corporation will acquire 100 percent (less directors' qualifying shares) of The First National Bank of Fairborn. The consolidation is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the consolidation, the resulting bank will draw on the financial and managerial resources of the corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed consolidation.

August 18, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed consolidation is part of a plan through which First National Bank of Fairborn would become a subsidiary of BancOne Corporation, a bank holding company. The instant transaction, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by BancOne Corporation, it would have no effect on competition.

* * *

THE FIRST NATIONAL BANK OF MADISONVILLE,
Madisonville, Tex., and New First National Bank, Madisonville, Tex.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The First National Bank of Madisonville, Madisonville, Tex. (6356), with	$41,388,000	1	——
and New First National Bank (Organizing), Madisonville, Tex. (6356), which had	60,000	0	——
merged October 1, 1980, under charter of the latter (6356) and title of the former. The merged bank at date of merger had	43,734,000	——	1

COMPTROLLER'S DECISION

New First National Bank, Madisonville, Tex., is being organized by First City Bancorporation of Texas, Inc., Houston, Tex., a bank holding company. The merger of The First National Bank of Madisonville, Madisonville, into New First National Bank is part of a process whereby First City Bancorporation of Texas, Inc., will acquire 100 percent (less directors' qualifying shares) of The First National Bank of Madisonville. The merger is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the merger, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

August 28, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which First National Bank of Madisonville would become a subsidiary of First City Bancorporation of Texas, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by First City Bancorporation of Texas, Inc., it would have no effect on competition.

* * *

LIBERTY NATIONAL BANK AND TRUST COMPANY OF LOUISVILLE,
Louisville, Ky., and Liberty Bank of Louisville, National Association, Louisville, Ky.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Liberty National Bank and Trust Company of Louisville, Louisville, Ky. (14320), with	$931,916,000	35	——
and Liberty Bank of Louisville, National Association (Organizing), Louisville, Ky. (14320), which had	252,000	0	——
merged October 1, 1980, under charter of the latter (14320) and title of the former. The merged bank at date of merger had	932,161,000	——	35

COMPTROLLER'S DECISION

Liberty Bank of Louisville, National Association, Louisville, Ky., is being organized by Liberty National Bancorp, Inc., Louisville, a proposed bank holding company. The merger of Liberty National Bank and Trust Company of Louisville, Louisville, into Liberty Bank of Louisville, National Association, is part of a process whereby Liberty National Bancorp, Inc., will acquire 100 percent (less directors' qualifying shares) of Liberty National Bank and Trust Company of Louisville. This merger is a vehicle for a bank holding company acquisition and merely combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both proponents are satisfactory, and their future prospects, both separately and combined, are favorable. After the merger, Liberty National Bank of Louisville will draw on the financial and managerial resources of its corporate parent. This will permit it to more efficiently serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the required prior written approval of the Bank Merger Act for the applicant to proceed with the proposed merger.

August 18, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Liberty National Bank and Trust Company of Louisville would become a subsidiary of Liberty National Bancorp, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Liberty National Bancorp, Inc., it would have no effect on competition.

* * *

O'HARE INTERNATIONAL BANK, NATIONAL ASSOCIATION, Chicago, Ill., and O'Hare National Bank, Chicago, Ill.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
O'Hare International Bank, National Association, Chicago, Ill. (14888), with	$156,261,000	2	———
and O'Hare National Bank (Organizing), Chicago, Ill. (14888), which had	240,000	0	———
merged October 20, 1980, under charter of the latter (14888) and title of the former. The merged bank at date of merger had	153,541,000	———	2

COMPTROLLER'S DECISION

O'Hare National Bank, Chicago, Ill., is being organized by O'Hare Banc Corp., Chicago, a proposed bank holding company. The merger of O'Hare International Bank, National Association, Chicago, into O'Hare National Bank, is part of a process whereby O'Hare Banc Corp. will acquire 100 percent (less directors' qualifying shares) of O'Hare International Bank, National Association. The merger is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the merger, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

August 28, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which O'Hare International Bank, N.A., would become a subsidiary of O'Hare Banc Corp., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by O'Hare Banc Corp., it would have no effect on competition.

* * *

THE COMMERCIAL NATIONAL BANK OF LITTLE ROCK, Little Rock, Ark., and Commercial National Bank of Little Rock, Little Rock, Ark.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Commercial National Bank of Little Rock, Little Rock, Ark. (14000), with	$363,729,000	13	———
and Commercial National Bank of Little Rock (Organizing), Little Rock, Ark. (14000), which had	240,000	0	———
merged October 21, 1980, under the charter and title of the latter bank (14000). The merged bank at date of merger had	363,729,000	———	13

COMPTROLLER'S DECISION

Commercial National Bank of Little Rock, Little Rock, Ark., is being organized by Commercial Bankstock, Inc., Little Rock, a bank holding company. The merger of The Commercial National Bank of Little Rock, Little Rock, into Commercial National Bank of Little Rock is part of a process whereby Commercial Bankstock, Inc., will acquire 100 percent (less directors' qualifying shares) of The Commercial National Bank of Little Rock. The merger is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the merger, the resulting bank will be in a position to draw on the financial and managerial resources of its new corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that Commercial National Bank of Little Rock's record of helping to meet the credit needs of its entire community was less than satisfactory.

This is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

September 9, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which The Commercial National Bank of Little Rock would become a subsidiary of Commercial Bankstock, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Commercial Bankstock, Inc., it would have no effect on competition.

* * *

THE FIRST NATIONAL BANK OF COLUMBUS, Columbus, Ga., and New Columbus National Bank, Columbus, Ga.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The First National Bank of Columbus, Columbus, Ga. (2338), with	$190,592,000	11	———
and New Columbus National Bank (Organizing), Columbus, Ga. (2338), which had	252,000	0	———
consolidated November 3, 1980, under charter and title of the former bank (2338). The consolidated bank at date of consolidation had	202,470,000	———	11

COMPTROLLER'S DECISION

New Columbus National Bank, Columbus, Ga., is being organized by First South Bancorp, Columbus, Ga., a bank holding company. The consolidation of The First National Bank of Columbus, Columbus, with New Columbus National Bank is a part of a process whereby First South Bancorp will acquire 100 percent (less directors' qualifying shares) of The First National Bank of Columbus. The consolidation is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the consolidation, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of its entire community was less than satisfactory.

This is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

October 3, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed consolidation is part of a plan through which First National Bank of Columbus would become a subsidiary of First South Bankcorp, a bank holding company. The instant transaction, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by First South Bancorp, it would have no effect on competition.

* * *

THE CITIZENS NATIONAL BANK AND TRUST COMPANY, Wellsville, N.Y., and Key Bank of Western New York N.A., Wellsville, N.Y.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The Citizens National Bank and Trust Company, Wellsville, N.Y. (4988), with	$123,174,424	8	———
and Key Bank of Western New York N.A. (Organizing), Wellsville, N.Y. (4998), which had	60,000	0	———
merged November 7, 1980, under charter and title of the latter (4988). The merged bank at date of merger had	123,176,224	———	8

COMPTROLLER'S DECISION

Key Bank of Western New York N.A., Wellsville, N.Y., is being organized by Key Banks Inc., Albany, N.Y., a bank holding company. The merger of The Citizens National Bank and Trust Company, Wellsville, into Key Bank of Western New York N.A. is part of a process whereby Key Banks Inc., will acquire 100 percent (less directors' qualifying shares) of The Citizens National Bank and Trust Company. The merger is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the merger, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of its entire community was less than satisfactory.

This is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

October 6, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Citizens National Bank and Trust Company would become a subsidiary of Key Banks Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Key Banks Inc., it would have no effect on competition.

* * *

THE CITY NATIONAL BANK AND TRUST COMPANY OF SALEM, Salem, N.J., and Second City National Bank and Trust Company of Salem, Salem, N.J.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The City National Bank and Trust Company of Salem, Salem, N.J. (3922), with	$43,296,000	6	———
and Second City National Bank and Trust Company of Salem (Organizing), Salem, N.J. (3922), which had	120,000	0	———
merged November 17, 1980, under charter of the latter (3922) and title of the former. The merged bank at date of merger had	43,416,000	———	6

COMPTROLLER'S DECISION

Second City National Bank and Trust Company of Salem, Salem, N.J., is being organized by Heritage Bancorporation, Cherry Hill, N.J., a bank holding company. The merger of The City National Bank and Trust Company of Salem, Salem, into Second City National Bank and Trust Company of Salem is part of a process whereby Heritage Bancorporation will acquire 100 percent (less directors' qualifying shares) of The City National Bank and Trust Company of Salem. The merger is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the merger, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of its entire community was less than satisfactory.

This is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

October 17, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which City National Bank and Trust Company of Salem would become a subsidiary of Heritage Bancorporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Heritage Bancorporation, it would have no effect on competition.

* * *

FIRST NATIONAL BANK AND TRUST COMPANY OF RACINE, Racine, Wis., and 1st Bank and Trust Company of Racine, N.A., Racine, Wis.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
First National Bank and Trust Company of Racine, Racine, Wis. (457), with	$139,236,000	2	———
and 1st Bank and Trust Company of Racine, N.A. (Organizing), Racine, Wis. (457), which had	240,000	0	———
merged November 21, 1980, under charter of the latter bank (457) and title of former. The merged bank at date of merger had	139,476,000	———	2

COMPTROLLER'S DECISION

This is the Comptroller's decision on an application to merge First National Bank and Trust Company of Racine, Racine, Wis. (Merging Bank), into and under the charter of 1st Bank and Trust Company of Racine, N.A. (Organizing), Racine (Charter Bank). This application was filed on December 7, 1979, and is based on an agreement executed by the proponents on November 27, 1979. The proposal is part of a process whereby The Marine Corporation, Milwaukee, Wis., a registered bank holding company, will acquire 100 percent (less directors' qualifying shares) of the successor institution. Charter Bank is being organized by The Marine Corporation solely to facilitate the acquisition of Merging Bank. The merger would combine a nonoperating bank with an existing commercial bank and have no effect on competition.

The financial and managerial resources of both banks are satisfactory, and their future prospects appear favorable. After the merger, Merging Bank will more effectively serve the convenience and needs of its community by drawing on the financial and managerial resources of its corporate parent.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required of this Office by the Bank Merger Act, 12 USC 1828(c), for the applicant to proceed with the proposed merger.

October 6, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which First National Bank and Trust Company of Racine would become a subsidiary of Marine Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Marine Corporation, it would have no effect on competition.

* * *

THE NATIONAL BANK OF NORTHERN NEW YORK,
Watertown, N.Y., and Key Bank of Northern New York N.A., Watertown, N.Y.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The National Bank of Northern New York, Watertown, N.Y. (2657), which had	$255,154,000	16	———
and Key Bank of Northern New York N.A. (Organizing), Watertown, N.Y. (2657), which had	120,000	0	———
merged November 28, 1980, under charter and title of latter bank (2657). The merged bank at date of merger had	255,157,000	———	16

COMPTROLLER'S DECISION

Key Bank of Northern New York N.A., Watertown, N.Y., is being organized by Key Banks Inc., Albany, N.Y., a bank holding company. The merger of The National Bank of Northern New York, Watertown, into Key Bank of Northern New York N.A. is a part of a process whereby Key Banks Inc., will acquire 100 percent (less directors' qualifying shares) of The National Bank of Northern New York. The merger is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the merger, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of its entire community was less than satisfactory.

This is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

October 6, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which National Bank of Northern New York would become a subsidiary of Key Banks Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Key Banks Inc., it would have no effect on competition.

* * *

HARBOR NATIONAL BANK OF BOSTON,
Boston, Mass., and New Harbor National Bank, Boston, Mass.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Harbor National Bank of Boston, Boston, Mass. (15483), with	$19,216,000	3	———
and New Harbor National Bank (Organizing), Boston, Mass. (15483), which had	240,000	0	———
merged December 5, 1980, under charter of the latter (15483), and with the title "Harbor National Bank of Boston." The merged bank at date of merger had	19,216,000	———	3

COMPTROLLER'S DECISION

New Harbor National Bank, Boston, Mass., is being organized by Patriot Bancorporation, Boston, a proposed bank holding company. The merger of Harbor National Bank of Boston into New Harbor National Bank is part of a process whereby Patriot Bancorporation will acquire 100 percent (less directors' qualifying shares) of Harbor National Bank of Boston. The merger is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the merger, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

August 21, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Harbor National Bank of Boston would become a subsidiary of Patriot Bancorporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Patriot Bancorporation, it would have no effect on competition.

* * *

NORTHPARK NATIONAL BANK OF DALLAS, Dallas, Tex., and National Bank of NorthPark, Dallas, Tex.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
NorthPark National Bank of Dallas, Dallas, Tex. (15529), with	$199,948,000	1	———
and National Bank of NorthPark (Organizing), Dallas, Tex. (15529), which had	240,000	0	———
merged December 11, 1980, under charter of the latter (15529) and title of "NorthPark National Bank of Dallas." The merged bank at date of merger had	199,774,000	———	1

COMPTROLLER'S DECISION

National Bank of NorthPark, Dallas, Tex., is being organized by NorthPark National Corporation, Dallas, a bank holding company. The merger of NorthPark National Bank of Dallas, Dallas, into National Bank of NorthPark is part of a process whereby NorthPark National Corporation will acquire 100 percent (less directors' qualifying shares) of NorthPark National Bank of Dallas. The merger is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the merger, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of its entire community was less than satisfactory.

This is the prior written approval required by the Bank Merger Act for the applicants to proceed with the proposed merger.

October 31, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which NorthPark National Bank of Dallas would become a subsidiary of NorthPark National Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by NorthPark National Corporation, it would have no effect on competition.

* * *

SECURITY NATIONAL BANK, Lynn, Mass., and Security Bank, N.A., Lynn, Mass.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Security Bank, N.A., Lynn, Mass. (Organizing), with	$ 250,000	0	———
and Security National Bank, Lynn, Mass. (7452), which had	108,002,000	11	———
consolidated December 11, 1980, under charter and title of the latter bank (7452). The consolidated bank at date of consolidation had	108,752,000	———	11

COMPTROLLER'S DECISION

Security Bank, N.A., Boston, Mass., is being organized by Security Bancorp, Inc., Boston, a proposed bank holding company. The consolidation of Security National Bank, Lynn, Mass., and Security Bank, N.A., is part of a process whereby Security Bancorp, Inc., will acquire 100 percent (less directors' qualifying shares) of Security National Bank. The consolidation is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the consolidation, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of its entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicants to proceed with the proposed consolidation. This approval is conditioned on the approval by the Federal Reserve Board of an application filed under 12 USC 1841, *et seq.*, for Security Bancorp, Inc., to acquire the successor institution by merger to Security Bank, N.A. This merger may not be consummated prior to the expiration of the 30th day after the approval of the bank holding company application.

August 21, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed consolidation is part of a plan through which Security National Bank would become a subsidiary of Security Bancorp, Inc., a bank holding company. The instant transaction, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Security Bancorp, Inc., it would have no effect on competition.

* * *

THE CITY NATIONAL BANK OF FORT SMITH,
Fort Smith, Ark., and Third National Bank of Fort Smith, Forth Smith, Ark.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The City National Bank of Fort Smith, Fort Smith, Ark. (10609), with	$157,350,000	5	———
and Third National Bank of Fort Smith (Organizing), Fort Smith, Ark. (10609), which had	240,000	0	———
merged December 15, 1980, under charter of the latter (10609) and title of the former. The merged bank at date of merger had	156,122,000	———	5

COMPTROLLER'S DECISION

Third National Bank of Fort Smith, Fort Smith, Ark., is being organized by First City Corp., Fort Smith, a bank holding company. The merger of The City National Bank of Fort Smith, Fort Smith, into Third National Bank of Fort Smith is part of a process whereby First City Corp. will acquire 100 percent (less directors' qualifying shares) of The City National Bank of Fort Smith. The merger is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the merger, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

November 13, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which City National Bank of Fort Smith would become a subsidiary of First City Corp., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by First City Corp., it would have no effect on competition.

* * *

THE FIRST NATIONAL BANK OF DES PLAINES, Des Plaines, Ill., and Prairie Lee National Bank, Des Plaines, Ill.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The First National Bank of Des Plaines, Des Plaines, Ill. (10319), with	$245,083,000	2	
and Prairie Lee National Bank (Organizing), Des Plaines, Ill. (10319), which had	247,000	0	
merged December 19, 1980, under charter of the latter (10319) and title of the former. The merged bank at date of merger had	245,330,000		2

COMPTROLLER'S DECISION

Prairie Lee National Bank, Des Plaines, Ill., is being organized by First Des Plaines Corporation, Des Plaines, a bank holding company. The merger of The First National Bank of Des Plaines, Des Plaines, into Prairie Lee National Bank is part of a process whereby First Des Plaines Corporation will acquire 100 percent (less directors' qualifying shares) of The First National Bank of Des Plaines. The merger is a vehicle for a bank holding company acquisition and will combine a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the merger, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

November 19, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which First National Bank of Des Plaines would become a subsidiary of First Des Plaines Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by First Des Plaines Corporation, it would have no effect on competition.

* * *

NATIONAL BANK OF COMMERCE OF BIRMINGHAM, Birmingham, Ala., and Commerce Bank, N.A., Birmingham, Ala.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
National Bank of Commerce of Birmingham, Birmingham, Ala. (15303), with	$48,070,000	4	
and Commerce Bank, N.A., Birmingham (Organizing), Birmingham, Ala. (15303), which had	240,000	0	
merged December 29, 1980, under the charter of the latter (15303) and title of the former. The merged bank at date of merger had	55,696,000		4

COMPTROLLER'S DECISION

Commerce Bank, N.A., Birmingham, Ala., is being organized by National Commerce Corporation, Birmingham, a bank holding company. The merger of National Bank of Commerce of Birmingham, Birmingham, into Commerce Bank, N.A., is part of a process whereby National Commerce Corporation will acquire 100 percent (less directors' qualifying shares) of National Bank of Commerce of Birmingham. The merger is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the merger, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

November 24, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which

National Bank of Commerce of Birmingham would become a subsidiary of National Commerce Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by National Commerce Corporation, it would have no effect on competition.

* * *

THE FIRST NATIONAL BANK OF DECATUR, Decatur, Ill., and Third National Bank of Decatur, Decatur, Ill.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The First National Bank of Decatur, Decatur, Ill. (4920), with	$191,061,000	3	———
and Third National Bank of Decatur (Organizing), Decatur, Ill. (4920), which had	240,000	0	———
merged December 31, 1980, under the charter of the latter bank (4920) and title "The First National Bank of Decatur." The merged bank at date of merger had	190,978,000	———	3

COMPTROLLER'S DECISION

Third National Bank of Decatur, Decatur, Ill., is being organized by First Decatur Bancshares, Inc., Decatur, a bank holding company. The merger of The First National Bank of Decatur, Decatur, into Third National Bank of Decatur is part of a process whereby First Decatur Bancshares, Inc., will acquire 100 percent (less directors' qualifying shares) of The First National Bank of Decatur. The merger is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the merger, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

December 1, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which First National Bank of Decatur would become a subsidiary of First Decatur Bancshares, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by First Decatur Bancshares, Inc., it would have no effect on competition.

* * *

FIRST NATIONAL BANK OF McDONOUGH, McDonough, Ga., and First National Interim Bank of McDonough, McDonough, Ga.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
First National Bank of McDonough, McDonough, Ga. (7969), with	$39,665,000	3	———
and First National Interim Bank of McDonough (Organizing), McDonough, Ga. (7969), which had	250,000	0	———
merged December 31, 1980, under the charter of the latter (7969) and title of the former. The merged bank at date of merger had	39,665,000	———	3

COMPTROLLER'S DECISION

First National Interim Bank of McDonough, McDonough, Ga., is being organized by Trust Company of Georgia, Atlanta, Ga., a bank holding company. The merger of First National Bank of McDonough, McDonough, into First National Interim Bank of McDonough is part of a process whereby Trust Company of Georgia will acquire 100 percent (less directors' qualifying shares) of First National Bank of McDonough. The merger is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the merger, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of its community, including low and moderate income neighborhoods, is less than satisfactory.

This is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

November 19, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which First National Bank of McDonough would become a subsidiary of Trust Company of Georgia, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Trust Company of Georgia, it would have no effect on competition.

* * *

THE LAREDO NATIONAL BANK,
Laredo, Tex., and New Laredo National Bank, Laredo, Tex.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Laredo National Bank, Laredo, Tex. (5001), with	$433,728,000	1	———
and New Laredo National Bank (Organizing), Laredo, Tex. (5001), which had	240,000	0	———
merged December 31, 1980, under charter of the latter (5001) and title of the former. The merged bank at date of merger had	433,728,000	———	1

COMPTROLLER'S DECISION

New Laredo National Bank, Laredo, Tex., is being organized by Laredo National Bancshares, Inc., Laredo, a bank holding company. The merger of The Laredo National Bank, Laredo, into New Laredo National Bank is part of a process whereby Laredo National Bancshares, Inc., will acquire 100 percent (less directors' qualifying shares) of The Laredo National Bank. The merger is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the merger, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of its community, including low and moderate income neighborhoods, is less than satisfactory.

This is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

November 24, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Laredo National Bank would become a subsidiary of Laredo National Bancshares, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Laredo National Bancshares, Inc., it would have no effect on competition.

* * *

SECURITY NATIONAL BANK,
Houston, Tex., and Allied Bank—West Loop, N.A., Houston, Tex.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Security National Bank, Houston, Tex. (16440), with	$62,217,000	1	———
and Allied Bank—West Loop, N.A. (Organizing), Houston, Tex. (16440), which had	2,000,000	0	———
merged December 31, 1980, under the charter and the title of latter bank (16440). The merged bank at date of merger had	64,217,000	———	1

COMPTROLLER'S DECISION

Allied Bank—West Loop, N.A., Houston, Tex., is being organized by Allied Bancshares, Inc., Houston, a bank holding company. The merger of Security National Bank, Houston, into Allied Bank—West Loop, N.A., is part of a process whereby Allied Bancshares, Inc., will acquire 100 percent (less directors' qualifying shares) of Security National Bank. The merger is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the merger, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

November 13, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Security National Bank would become a subsidiary of Allied Bancshares, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Allied Bancshares, Inc., it would have no effect on competition.

* * *

THE TALLADEGA NATIONAL BANK,
Talladega, Ala., and First Alabama Bank of Talladega County, N.A., Ala.

Names of banks and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The Talladega National Bank, Talladega, Ala. (7558), with	$40,446,000	3	———
and First Alabama Bank of Talladega County, N.A. (Organizing), Talladega, Ala. (7558), which had	122,000	0	———
merged December 31, 1980, under charter and title of the latter (7558). The merged bank at date of merger had	40,568,000	———	3

COMPTROLLER'S DECISION

First Alabama Bank of Talladega County, N.A., Talladega, Ala., is being organized by First Alabama Bancshares, Inc., Montgomery, Ala., a bank holding company. The merger of The Talladega National Bank, Talladega, into First Alabama Bank of Talladega County, N.A., is part of a process whereby First Alabama Bancshares, Inc., will acquire 100 percent (less directors' qualifying shares) of The Talladega National Bank. The merger is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the merger, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result if its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the entire community, including low and moderate income neighborhoods, is less than satisfactory.

This decision is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

November 20, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Talladega National Bank would become a subsidiary of First Alabama Bancshares, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by First Alabama Bancshares, Inc., it would have no effect on competition.

* * *

WEST SIDE NATIONAL BANK OF SAN ANGELO,
San Angelo, Tex., and New West Side National Bank of San Angelo, San Angelo, Tex.

Names of banks and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
West Side National Bank of San Angelo, San Angelo, Tex. (14995), with	$44,853,000	1	———
and New West Side National Bank of San Angelo (Organizing), San Angelo, Tex. (14995), which had	240,000	0	———
merged December 31, 1980, under the charter of the latter bank (14995) and title of the former. The merged bank at date of merger had	45,093,000	———	1

COMPTROLLER'S DECISION

New West Side National Bank of San Angelo, San Angelo, Tex., is being organized by West Side Bancshares, Inc., San Angelo, a bank holding company. The merger of West Side National Bank of San Angelo, San Angelo, into New West Side National Bank of San Angelo is a part of a process whereby West Side Bancshares, Inc., will acquire 100 percent (less directors' qualifying shares) of West Side National Bank of San Angelo. The merger is a vehicle for a bank holding company acquisition and combines a nonoperating bank with an existing commercial bank. As such, it presents no competitive issues under the Bank Merger Act, 12 USC 1828(c).

The financial and managerial resources of both entities and the future prospects of the resulting bank are favorable. After the merger, the resulting bank will draw on the financial and managerial resources of its corporate parent. This will permit it to more effectively serve the convenience and needs of its community.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicant's record of helping to meet the credit needs of the community, including low and moderate income neighborhoods, is less than satisfactory.

This is the prior written approval required by the Bank Merger Act for the applicant to proceed with the proposed merger.

October 27, 1980.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which West Side National Bank of San Angelo would become a subsidiary of West Side Bancshares, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by West Side Bancshares, Inc., it would have no effect on competition.

* * *

Enforcement Actions

Civil Money Penalties

1. Bank with assets of less than $25 million

A specialized examination disclosed four violations of 12 USC 84. The documentation concerning two of the Section 84 violations indicated that the approving bank officers and the board of directors should have known that the cited extension of credit would violate Section 84. The regional office recommended that civil money penalties be assessed for these violations. The remaining Section 84 violations were less serious in nature as they involved standby letters of credit under which no funds had been disbursed. Due to the less serious nature of those violations, the regional office recommended that they not serve as the basis of a civil money penalty assessment. In addition, the previous report of examination disclosed 10 Section 84 violations. At that time the regional office instructed the bank to adopt procedures designed to prevent the recurrence of Section 84 violations. All violations were corrected shortly after the close of the examination.

In light of the recurring nature of the Section 84 violations, the Comptroller assessed a $2,000 Civil Money Penalty against the bank. The Comptroller agreed with the region's recommendation to base the assessment only on the more serious Section 84 violations.

2. Bank with assets of less than $25 million

A specialized examination of the bank disclosed four violations of 12 USC 84 and two violations of 12 USC 375b(2). In addition, two of the three prior examinations disclosed Section 84 violations.

The two violations of 12 USC 375b(2) concerned extensions of credit to the interests of a member of the board of directors which did not receive prior board approval. One of the Section 84 violations involved extensions of credit to a corporation in which both a director and the bank's chief executive officer (CEO) had substantial financial interests. In addition, this credit was classified substandard. The other Section 84 violation did not involve bank insiders.

The Comptroller considered the Section 84 violation and the two 12 USC 375b(2) violations involving bank insiders to be serious and to evidence a general disregard for the law. Therefore, the Comptroller issued the following Civil Money Penalty assessments: (1) The bank was assessed a $5,000 penalty; (2) The CEO was assessed a $10,000 penalty, but based on the CEO's financial resources the Comptroller suspended $8,000 of this penalty; and (3) The director involved in the insider violations was assessed a $10,000 penalty, but based on the director's financial resources the Comptroller suspended $8,000 of this penalty.

3. Bank with assets of $75 to $100 million

A general examination of the bank revealed violations of statutes and regulations which appeared, in certain instances, to be intentional. Four violations of 12 USC 84 were cited in the report. These violations were continuous and principally involved the bank's chief executive officer (CEO). One of these violations was corrected prior to November 10, 1978 and, thus, was not a proper basis for the assessment of civil money penalties. The regional office recommended that civil money penalties be assessed for the remaining three violations.

The bank and its CEO admitted the violations of 12 USC 84. The bank indicated that it had arranged participations of the amount in excess of its lending limit but, in practice, would only finalize the participations if the examiners discovered the violations.

The bank informed the OCC that these practices would be discontinued and that the CEO would resign and be replaced within several weeks. In total, the bank demonstrated that it was taking swift and serious steps to comply with the letter and spirit of the law and to eliminate any deficient policies and procedures cited in the report of examination.

In light of the bank's improvement and the CEO's agreement to resign, the Comptroller assessed Civil Money Penalties against the bank for $10,000 and against its CEO for $2,000. Both penalties were consented to simultaneously with the issuance of the Order of Assessment.

4. Bank with assets of less than $25 million*

The accounts of a director and principal shareholder and his related interests were overdrawn on a regular basis over a substantial period of time. Though technically overdrawn, this status was not normally reflected on the bank's books—insufficient funds checks were continuously carried as cash items. By failing to return these checks in a timely manner, the bank became liable for them. That practice resulted in the bank's extending credit greatly in excess of its lending limit without any compensation. A later CPA review revealed that the accounts averaged an overdraft balance of $85,000 for prolonged intervals over a 5-year period. These extensions of credit to a director and principal shareholder were an unsafe and unsound banking practice and constituted violations of 12 USC 84 and 375(b) and 12 CFR 215.4(a) through (d).

The Comptroller issued an Order to Cease and Desist requiring the bank to discontinue its practice of extending credit to insiders by honoring checks not covered by sufficient deposit balances. The bank was

* This bank was also the subject of an administrative action during 1980.

also ordered to develop and implement policies and procedures to prevent a recurrence of those problems.

The director involved was required to reimburse the bank for interest and other charges which should have been collected for extensions of credit comparable to those resulting from the bank's treatment of his insufficient funds checks. Preliminary reviews indicate that reimbursement of approximately $15,000 will be made.

A Civil Money Penalty of $10,000 was assessed against the director whose accounts were overdrawn. The bank's president and chairman of the board of directors was assessed a penalty of $10,000. He was dominant in the affairs of the bank and was responsible for its treatment of the director's overdrafts. The vice president and cashier, who was also a director, was assessed a penalty of $2,500. She was aware of the practice and took no action to stop it. Two outside directors were not penalized. They first learned of the situation in an audit report, and voiced strong objection to it. The problem was remedied shortly thereafter.

5. Bank with assets of $25 to $50 million

After a history of generally sound operations, the most recent examination report of the bank revealed a significantly deteriorated condition. Specifically, the quality of assets had declined considerably, insider abuse was in evidence and the institution was suffering from a variety of less serious operational deficiencies. Violations of law principally involved bank insiders and included violations of 12 USC 84, 375a and 371c and 12 CFR 2 (credit life insurance).

In order to remedy these conditions, a written Formal Agreement pursuant to 12 USC 1818(b) was being negotiated. Among other corrective measures, the Agreement would have required certain insiders (who were also controlling shareholders) to restore to the bank significant amounts which they received in violation of the credit life insurance regulation. While negotiations over the Formal Agreement were actively underway but before the issuance of a Notice of Charges, the bank converted to state charter.

After the conversion to state charter, the OCC proceeded under its authority to assess fines for violations occurring while the bank operated under national charter. On this basis, the OCC assessed a Civil Money Penalty of $5,000 against the bank for violations of 12 CFR 2 and 12 USC 84, 375a and 371c. The two insiders who had illegally received the credit life insurance proceeds each were fined $5,000 and each reimbursed $10,000 to the bank in wrongfully acquired credit life insurance proceeds. (Substantial credit life insurance proceeds had previously been reimbursed by these individuals during settlement negotiations.) A lesser bank officer was also fined $2,000 for violations of 12 USC 375a and 371c. Because of that officer's depleted financial condition, $1,000 of the assessed penalty was suspended.

6. Bank with assets of $25 to $50 million*

The bank had made little effort to remedy previously criticized banking practices and violations of law. Classified assets had increased to 56 percent of gross capital funds from 33 percent at the preceding examination. The past dues stood at 9.5 percent of gross loans. Even that excessively high percentage was understated in light of the bank's program of granting "catch up" loans to customers who were seriously delinquent. The allowance for possible loan losses was seriously inadequate, equalling 0.62 percent of total loans. The board failed to adequately supervise management. The chairman and vice chairman of the board received excessive salaries. Although earnings were above averages for the bank's peer group, liquidity, at 9.9 percent of net deposits, was strained. The investment portfolio, which consisted primarily of extended issues with heavy depreciation equal to 49 percent of adjusted capital funds, provided little support to overall liquidity. The bank had consistently violated the provisions of 12 USC 84 even though the regional office had warned the board on several occasions that the continuation of such violations could result in the assessment of civil money penalties. The consumer and commercial examinations also disclosed numerous other violations of law, rule or regulation, including 12 USC 85, 375b and 371d; 12 CFR 7.3025; 12 CFR 202 (Regulation B); and reimbursable violations of 12 CFR 226 (Regulation Z).

An Order to Cease and Desist required the bank to correct each cited violation of law, rule or regulation and to adopt procedures to prevent the recurrence of similar violations. The bank was directed to comply with the restitution provisions of Section 608 of the Truth in Lending Simplication and Reform Act, 15 USC 1607, with respect to the reimbursable Regulation Z violations cited in the consumer report. The bank was also directed to adjust the accounts of all borrowers who had been charged interest in an amount exceeding the maximum permissible under 12 USC 85. The bank was also required to obtain and maintain current and satisfactory credit information on all extensions of credit and to correct each collateral exception. The order directed that the bank immediately increase its allowance for possible loan losses to an amount equal to not less than 1 percent of loans outstanding. In addition, the bank was ordered to develop a program to improve its liquidity position. As part of that program, the bank was required to maintain minimum liquidity of 15 percent, computed according to the Comptroller's formula. The order also required the bank to maintain sufficient documentation to fully disclose all of its affiliate relationships. The requirements that the order placed on the board included (1) the development and implementation of controls prohibiting management from restoring charge-offs to an active status except in strict conformance with OCC guidelines, (2) the adoption and implementation of a written program designed to eliminate all assets from a criticized status, (3) the adoption of a system for identifying and monitoring problem loans, (4) the assessment of the staffing needs of the bank's collection department and the correction of any identified collection department staffing deficiencies, (5) the conduct of quarterly reviews of the allowance for possible loan losses and the establishment of a program designed to main-

* This bank was also the subject of an administrative action during 1980.

tain the allowance at an adequate level, and (6) the amendment of the bank's lending and collection policies as necessary to improve the lending function. Finally, the order restricted the salaries, fees, bonuses and expenses paid by the bank to the board's chairman and vice chairman to an amount commensurate with the value of the services they actually performed.

As a result of the repetitive and continuous nature of the violations of 12 USC 84, a Civil Money Penalty of $5,000 was assessed against the bank. The bank did not contest the assessment and paid the penalty in full.

7. Bank with assets of $25 to $50 million

In the course of misappropriating bank funds and making false statements in violation of federal criminal laws, the bank's chief executive officer, also a board member, caused, handled and approved excessive loans to his own related corporate interests and failed to report to the board his extensive borrowings from other banks. Credit was extended by this bank to three corporations which were in fact the related interests of the chief executive officer. Those extensions of credit were handled by the chief executive officer and, when aggregated with other outstanding extensions to his related interests, exceeded the bank's legal lending limit, thereby violating the restrictions on executive officer borrowing under 12 USC 375b(1). These extensions of credit were not approved in advance by the bank's board of directors, although the amount exceeded $25,000, thereby violating 12 USC 375b(2). Later, also under the auspices of the same chief executive officer, the bank renewed loans to the related interests and failed to cause them to come into compliance with the lending limits and, thus, violated 12 CFR 215.6a.

When these activities came to light, the individual resigned from the bank. He was indicted and pleaded guilty to violations of 18 USC 656 (misappropriation) and 18 USC 1014 (false statements). He is presently in prison.

The OCC concluded that the bank and its directors had taken significant actions to prevent the recurrence of similar unlawful conduct by adopting and implementing corrective procedures. Additionally, the directors had reimbursed the bank $7,000 of these loans from their personal assets. No assessment was made against them or the bank. However, due to the serious misconduct on the part of the former chief executive officer, he was assessed a Civil Money Penalty of $25,000. Because of his depleted financial resources, all but $1,000 of the penalty was suspended.

Administrative Actions

1. Bank with assets of less than $25 million

The Comptroller issued an Order to Cease and Desist requiring the bank to discontinue its practice of extending credit to insiders through honoring of checks not covered by sufficient deposit balances. The bank was also ordered to develop and implement policies and procedures to prevent a recurrence of these problems.

The entire summary of this action may be found at #4 under the Civil Money Penalty heading.

2. Bank with assets of less than $25 million

Preferential treatment to insiders, violations of law and regulation, and insider abuse by the chief executive officer caused the problems. Self-dealing and conflicts of interest were noted, and a general disregard for the banking statutes was apparent. Classified assets amounted to 20 percent of gross capital, and overdue paper exceeded 6 percent of gross loans. Two violations of 12 USC 84, three violations of 12 USC 375a and four other violations were disclosed.

A Formal Agreement required correction of the violations of law and regulation, initiation of a written policy regarding conflicts of interest and self-dealing by insiders, a full review of extensions of credit which accrued to the benefit of the chief executive officer and reimbursement of income lost as a result of preferential treatment. A compliance committee consisting of at least three directors, a majority of whom are not officers, was formed on the date of the Agreement. Sixty-day compliance reports were required.

3. Bank with assets of $50 to $75 million

The bank was operating under an Agreement. That Agreement required, among other things, an adequate asset and liability management plan, a program to improve the bank's earnings, no payment of dividends without the prior written approval of the regional administrator, a plan to meet the present and future capital needs of the bank, the maintenance of an adequate allowance for possible loan losses, an adequate written investment policy, a program to improve credit files and to eliminate assets from criticized status, an appraisal of the fair market rental value of one of the bank's branches, and a justification of the salaries and expenses paid to executive officers of the bank. The bank complied with very few of the articles of the Agreement. As a result, the capital of the bank deteriorated to the point where the bank's future viability was threatened. In addition, the bank's reliance on rate-sensitive funds continued at an excessive level, its earnings did not improve, its allowance for possible loan losses was not maintained adequately, and the bank continued to increase the salaries of its top officers without justification. It was also discovered that the bank's supposed leasing arrangement for its branch was simply a method of disguising the bank's actual investment in the branch in violation of 12 USC 371d.

A Notice of Charges and a Temporary Order to Cease and Desist were issued against the bank and its top management. They refused to consent to the issuance of a final Order to Cease and Desist. The matter was litigated at an administrative hearing before an administrative law judge. The judge's findings, based on the hearing and the briefs submitted by both sides, found almost all of the allegations contained in the Notice of Charges to be supported by substantial evidence. He consequently adopted the Order to Cease and Desist proposed by counsel for the Comptroller. The Comptroller of the Currency, in his final review of the case, confirmed the judge's findings and recommendations in all respects. The matter is currently being appealed to the circuit court of appeals.

4. Bank with assets of $25 to $50 million

The bank had been a matter of supervisory concern because of an ineffective board of directors. The bank entered into a Formal Agreement in 1976 and, since that time, had been in substantial compliance. However, major problems were identified including high asset classifications due to inadequate loan administration, poor earnings, insufficient capital, uncontrolled growth, weak internal controls and internal audit procedures, apparent self-dealing by the board and the control group, and a disregard for national banking laws and regulations.

A Formal Agreement required correction and elimination of existing violations of law and regulation, and procedures to ensure that similar violations did not occur in the future. The board was to submit a capital program covering the next 5 years of operation, and was to submit a plan for a $2 million equity capital injection by year-end. Further, the bank was to prepare a detailed budget along with assumptions used in developing the forecast. The board was to adopt a program to eliminate the grounds of criticism of each asset criticized at the last examination. The bank was to obtain and maintain satisfactory credit information and collateral documentation. Additional credit to borrowers whose loans had been criticized was prohibited unless that action would be substantially and critically detrimental to the best interests of the bank. The bank was not to renew or extend credit to insiders unless it was made on substantially the same terms as those for comparable transactions, did not involve more than the normal risk of repayment, and was approved in advance by a majority of the board. The board of directors was to review and revise the bank's lending policy; they were to perform a study of current management and adopt a written management plan; they were to conduct a review of the adequacy of the bank's allowance for possible loan losses; they were to adopt a liquidity, asset and liability management policy; and they were to develop an audit program which was to address the deficiencies cited at the last examination. Detailed reports of all expenses claimed by directors and officers were to be reported to the board on a monthly basis for review and approval. Additionally, a review was to take place on the bank's practice of payment of consulting, management and other fees. A committee was to be formed to review the bank's correspondent bank relationships. The board of directors was to monitor and ensure compliance with the provisions of the Agreement.

5. Bank with assets of less than $25 million

Mismanagement of the investment portfolio caused heavy losses and culminated with the resignation of several senior officers, including the chief executive officer (CEO). One of the bank's directors, with little banking experience, assumed the role of CEO. Under that individual's leadership, further problems occurred, resulting in losses and straining capital. The bank had several violations of the statutory lending limit and 12 USC 375a. The bank had a high level of criticized assets and lacked adequate credit information on numerous loans. The bank was also failing to maintain its allowance for possible loan losses at a level reflecting the risk inherent in the bank's loan portfolio.

A Formal Agreement required the board to inject capital and to submit a capital plan and maintain the bank's capital at an adequate level. The board was further required to initiate actions to improve earnings, including developing a comprehensive budget and an analysis of the pricing of all bank services and the cost of funds, along with specific plans to control operating expenses. The board was required to remedy the violations of 12 USC 84 and any other violations of law, rule or regulation, and to take action to protect its interests with regard to criticized assets. The bank was also required to refrain from extending any credit to a borrower whose credit was criticized. The board was directed to take all steps necessary to obtain and maintain current and satisfactory credit information and to refrain from granting credit without first obtaining adequate credit information. The board was directed to review the allowance for possible loan losses at least quarterly and to augment that allowance to reflect the bank's potential for loss. The board was further required to adopt procedures to ensure compliance with its written loan policy and to adopt and implement a policy regarding liquidity and funds management. The board was also required to evaluate the performance of its chief executive officer and to report the findings of that evaluation to the regional administrator, along with its recommendations. The board was further required to reduce concentrations of credit and to form a compliance committee, the majority of which would be nonofficer directors. The compliance committee was charged with submitting reports to the regional administrator detailing the bank's compliance with the terms of the Agreement.

6. Bank with assets of $75 to $100 million

An examination in 1979 reflected rapid loan growth, lack of qualified management and inability of management to handle problem credits which resulted in an excessive volume of classified assets, heavy loan losses, inadequate capital and marginal liquidity. The bank was placed on a monthly reporting basis so that problems could be monitored. Additionally, a $2 million equity capital injection was requested by the OCC.

The subsequent general examination reflected deterioration in the overall condition of the bank. The quality of the loan portfolio was becoming worse, and most of the bank's lending deficiencies were repeated criticisms. Although the bank had an adequate loan policy, it was not being followed by the lending officers nor was it being enforced by management or the board. Credit and collateral exceptions were high. Many loans lacked well-defined repayment programs, and liberal renewal and extension policies were being followed. The bank did not maintain an internal problem loan list. The president was servicing a credit in which he had a financial interest. The allowance for possible loan losses was considered inadequate based on the bank's loan loss history, low recovery success and excessive volume of classified assets. Although no directors' loans were criticized, several of their credits lacked well-defined repayment programs.

Net liquid assets were low in comparison to net deposits, and liquidity was considered marginal. The investment portfolio's extended maturity structure and a shift in asset mix away from investments and toward loans were major causes for the low liquidity. The long maturity structure of the investment portfolio had resulted in a relatively large depreciation. The portfolio was not considered an adequate reserve for secondary liquidity. Deposits had increased rapidly and were considered volatile. Growth in deposits came primarily from rate-sensitive money market certificates and certificates of deposit of $100,000 and more.

Although the bank had a reasonably good return on assets, the earnings were clouded by a practice of renewing notes without a reduction in principal or a payment of interest. It was evident that rapid growth in loans and assets had not been supported by a similar growth in capital and, as a result, capital was considered inadequate. The $2 million equity capital application was in process.

The bank's internal controls were considered mediocre. The external audit of the bank was of limited scope and the CPA firm had not issued an opinion on the audit because several audit functions had been omitted and did not cover all areas of the bank.

Management was rated as poor because of its inability to deal effectively with identified problem assets and to comply with the bank's lending policies. There was no program for management succession.

A Formal Agreement was issued to assist the bank in returning to a safe, sound and more profitable condition. The Agreement required the board to perform a study of the bank's present and future requirements regarding management and, once the study had been completed, to form a management plan. The board was to ensure that the $2 million equity capital issue was consummated and that the funds were injected into the bank's equity accounts by year-end. The Agreement required the board to adopt a program to eliminate criticized assets. The bank was not to lend money to any borrower whose loan had become criticized unless that loan had been collected or unless such action would be detrimental to the best interests of the bank. The board was required to review and revise the bank's loan policy, and several areas to be considered were incorporated into the Agreement. The bank was to obtain and maintain satisfactory credit information and collateral documentation. The Agreement required the board to adopt a liquidity, asset and liability policy; several areas to be addressed by the policy were incorporated in the Agreement. The directors were to review the adequacy of the bank's allowance for possible loan losses. A budget was to be developed. Violations of law and regulation were to be corrected, and procedures were to be adopted to ensure that similar violations did not occur in the future. A compliance committee was to be adopted to monitor the Agreement.

7. Bank with assets of $25 to $50 million

The growth rate of the bank had been rapid, with asset and loan growth exceeding capital retention. Classified assets were high, 75 percent of gross capital funds; an additional 32 percent were subject to special mention. Loan losses were substantial and equalled approximately twice the allowance for possible loan losses. Providing an adequate allowance for possible loan losses will significantly impact earnings. A capital shortfall existed. Loans not supported by current and satisfactory credit and collateral information and overdue loans exceeded prudent banking standards. Loans had been renewed and extended on liberal terms and there had been only nominal adherence to the bank's lending policy. Violations of 12 USC 161, 282 and 371d and 12 CFR 2, 18 and 7.3025 were cited.

A Formal Agreement required correction of the statutory violations and required procedures to be adopted to prevent future violations. The bank was required to employ a qualified loan administration officer to supervise lending. Additionally, the bank was to: (1) formulate and submit a capital plan including provisions for an equity injection; (2) submit a budget; (3) establish a loan committee to enforce the lending policy; (4) implement procedures to obtain satisfactory credit and collateral documentation; (5) establish and maintain an adequate allowance for possible loan losses; (6) implement a written program to eliminate all assets from criticized status; and (7) develop a written audit program and employ an auditor. The bank was also required to establish a committee to ensure the compliance of the bank with the articles of the Agreement.

8. Bank with assets of less than $25 million

Poor supervision by a board of directors exacerbated the bank's problems. The board had recently hired its fourth president in its brief history. Classified assets had increased to 40 percent of gross capital funds; overdue loans had reached a staggering 27 percent of gross loans. The bank's lending officer resigned between examinations rendering loan collections and lending activities nonexistent. The allowance for possible loan losses was replenished during the examination but remained inadequate. The bank suffered a net loss in 1979. The presence of an unskilled, untrained staff placed a tremendous burden on already weak internal controls and audit procedures.

A Formal Agreement was executed which directed the board to clarify the authority of the new chief executive officer (CEO); designate a qualified senior operations officer; establish procedures to govern board activities; establish a committee to evaluate the performance of the board, the new CEO and the COB; and review the performance of all bank personnel and develop a comprehensive personnel policy and organization chart. The bank was also required to establish written operating procedures, auditing procedures and internal controls; formulate a program to eliminate classified assets; establish a written lending policy; adopt a written program to improve collection efforts; take all necessary steps to obtain current and satisfactory credit information on all loans; correct collateral exceptions; develop a broader deposit base; develop a written investment policy; develop a procedure to ensure timely review of the allowance for possible loan losses; and submit monthly reports to the regional administrator.

9. Bank with assets of less than $25 million

Lack of proper direction from the board of directors and management resulted in substantial deterioration in the quality of the lending function, depletion of the loan loss reserve, and poor funds management and accounting procedures. Loan quality had deteriorated primarily due to liberal lending to marginal and out-of-area borrowers and expansion of the loan portfolio beyond the abilities of one lending officer to supervise. Additionally, loan documentation has been poor, repayment terms were not established at the inception of a loan, and collection efforts were weak. Four violations of 12 USC 84 and one violation each of 12 USC 375b, 12 CFR 21, and 31 CFR 103 were cited.

A Formal Agreement between the bank and the OCC required the directorate to formulate and implement written programs to (1) remove each asset from a criticized status; (2) provide a written loan policy to correct the lending deficiencies set forth in the examination report; (3) document quarterly reviews of the allowance for possible loan losses; (4) establish written funds management guidelines; and (5) adopt a written program designed to augment and strengthen the bank's capital structure. The Agreement further required the board of directors to take steps to obtain and maintain current and satisfactory credit information on all loans and establish procedures to prevent recurrence of violations of law. Subject to the approval of the regional administrator, the directorate is to provide the bank with a new senior lending officer within 90 days and employ the services of a qualified CPA firm to audit the bank.

10. Bank with assets of less than $25 million

An examination of the bank reflected substantial deterioration in the volume of classified assets, particularly in the doubtful and loss categories; numerous violations of the lending limits, some of which are sizable in amount indicating a disregard and lack of understanding of the applicable statutes; lack of funds management policy; and an unacceptable external audit. The bank operated on a cash accounting basis and did not have a reserve for possible loan losses. Management was considered inept and the board of directors did not provide satisfactory supervision. Earnings were satisfactory, but a downward trend was anticipated due to loan losses and the lack of a formalized asset/liability management policy. Under existing management, the future prospects were not good.

A Formal Agreement required management to (1) correct the violations of law and implement procedures to prevent future violations; (2) develop procedures which were designed to eliminate all assets from a criticized status; (3) provide the bank with a new, capable senior lending officer; and (4) employ a qualified CPA firm to review accounting records and procedures and conduct a "full scope directors' examination."

11. Bank with assets of less than $25 million

A change of ownership, resulting in a change in banking philosophies from conservative to aggressive, led to a significant increase in the bank's notecase. Accompanying the increase was a lack of managerial experience and size of staff sufficient to properly supervise the loan portfolio. Further aggravating sizable loan growth and lack of adequate staff was the new owner's anxiety for income. Those factors led to classified assets equalling 82 percent of gross capital funds. Accompanying problems included numerous loans not supported by satisfactory credit information, excessive delinquencies, high volume of out-of-territory credits, below average earnings, and marginal capital. Violations of several banking laws were noted, including 12 USC 84, and 375a and 375b, 31 USC or 31 CFR, and 12 CFR 217 and 221.

A Formal Agreement required the directorate to formulate and implement written programs to (1) remove all assets from a criticized status and establish and maintain adequate credit files, (2) implement policies and procedures to prevent future violations of law, and (3) strengthen and maintain an adequate capital structure. The Agreement further specified that deviations from loan policy must be reported to the board monthly, that no dividends could be paid unless in conformance with law and with the regional administrator's approval, and that monthly progress reports must be submitted to the regional administrator indicating corrective actions taken and the results of those actions. Subject to the approval of the regional administrator, the board was to employ an experienced senior lending officer for the bank within 90 days. A new chief executive officer will be requested if substantial improvement in the bank's condition and compliance with the Agreement is not evident within 6 months.

12. Bank with assets of less than $25 million

During 1979 the bank grew by 25 percent, funded primarily by the purchase of rate-sensitive funds. The examination disclosed an increase in criticized assets from 33 to 88 percent of gross capital funds. The increase in criticized assets was attributed to aggressive lending policies of management and depressed local agricultural conditions. Equity growth, 10 percent in 1979, did not keep pace with the accelerated asset growth. Equity capital to total assets was between 5.0 and 5.5 percent at year-end 1979 compared to the peer group average of 8.71 percent. Liquidity declined from 21 percent at the prior examination to 11 percent with average liquidity at approximately 13 percent. Rate-sensitive funds equalled 44 percent of total deposits and the bank was in a net borrowed position 343 days in the preceding 12 months. Violations of 12 USC 375b, 12 CFR 7.6120, and 31 CFR 103.33 were cited.

A Formal Agreement required the bank to (1) correct all violations and adopt procedures to ensure violations did not recur; (2) establish a committee of at least three nonofficer directors to ensure strict compliance with the lending policy and give prior approval on all extensions of credit in excess of $75,000; (3) develop a written program to improve the administration and supervision of the loan portfolio; (4) develop a written program to strengthen and improve funds management and submit weekly liquidity and market rate analysis reports; (5) prepare an analysis of the bank's present and future capital needs and formulate a 3-year capital plan; (6) increase equity capital by not less than $50,000; (7) conduct quarterly reviews of the allowance for possible loan losses; and (8) submit monthly reports.

13. Bank with assets of less than $25 million

The overall condition of the bank continued to deteriorate over recent years primarily because of lax administration by the chief executive officer and ineffective board supervision. The examination disclosed criticized assets at 80 percent, compared to 56 percent at the prior examination. Supervision of the loan portfolio was extremely lax with credit exceptions representing 24 percent of loans and past due loans of 12 percent. The classified assets involved a high volume of loss and doubtful loans which resulted in an inadequate allowance for possible loan losses. Supervision of bank operations and internal controls were considered poor. Violations of 12 USC 29, 375a and 375b and 12 CFR 1.4, 1.8, 7.3025, 23.3, 209.3, 217.1 and 221.3(a) were cited.

A Formal Agreement required the bank to (1) correct all violations and adopt procedures to ensure violations do not recur; (2) develop a written program to improve administration and supervision of the bank's loan portfolio; (3) immediately increase the allowance for possible loan losses to 1.5 percent of total loans and review the allowance quarterly; (4) prepare a comprehensive written analysis of its internal operations; (5) implement a formal, written internal loan review program; and (6) submit monthly reports.

14. Bank with assets of $50 to $75 million

A specialized examination revealed a significant breakdown in the bank's credit administration activities as evidenced by substantial increases in the volume of risk assets, volume of loans not supported by current financial data, overdue loans, and the increase of classified assets from 10 to 66 percent of gross capital. The bank had acquired investment securities in excess of the limitations of 12 USC 24, and subsequently incurred a loss on the sale of the excess. There were two violations of 12 USC 84 and violations of 12 USC 29.

A Formal Agreement required the bank to correct all existing violations of law and ensure that future violations would be prevented. The bank was required to review and amend its written loan policy. It was also required to submit a plan for the disposal of the mineral rights held in violation of 12 USC 29. Additionally, it was required to obtain the opinion of special counsel as to the liability of the directors for the loss on the 12 USC 24 violation. The board agreed to establish and implement written programs to (1) augment and strengthen the capital structure; (2) achieve and maintain a liquidity position of not less than 20 percent, excluding purchased funds; (3) restore the allowance for possible loan losses to a final amount; and (4) eliminate all assets from criticized status.

15. Bank with assets of $25 to $50 million

Classified assets were high, 80 percent of gross capital funds, and little progress had been accomplished in improving loans classified at the previous examination. The heavy losses identified at the examination exceeded the allowance for possible loan losses. Loans not supported by current and satisfactory credit information and delinquent loans exceeded prudent banking standards. The development of a comprehensive lending policy, which was recommended at the previous examination, was finally completed during the current examination. A material decline in earnings was the result of high loan losses, high occupancy expenses (new premises), and a decrease in the bank's net interest margin. The bank had a capital shortfall. Violations of 12 USC 29, 74, 371d and 375a; 12 CFR 21.4(a) and 21.5(a); and 31 CFR 103.33 were cited in the commercial examination. Violations of 12 CFR 202, 217 and 226; provisions of a state consumer credit code; and OCC Banking Issuances were cited in the consumer affairs examination.

A Formal Agreement required correction of the statutory violations and required adoption of procedures to prevent future violations. The board of directors was required to (1) employ a loan administration officer to supervise lending activities, (2) formulate and implement a written program to eliminate all assets from criticized status, (3) establish procedures to assure compliance with the newly adopted lending policy, (4) maintain an adequate allowance for possible loan losses, and (5) ensure that the bank obtains current and satisfactory information on all loans lacking such information and refrain from granting or renewing loans until said information has been gathered. The board was also required to develop and submit to the regional administrator (1) a written capital plan which included a provision for an injection of equity capital, (2) a comprehensive budget, and (3) written guidelines governing liquidity and asset/liability management.

16. Bank with assets of less than $25 million

Ineffective supervision by the board of directors and chief executive officer (CEO) caused the deterioration in the bank's condition. Classified assets jumped from 20 percent of gross capital funds to 65 percent. Substantial loan losses totalling $688,000 offset more than one-third of the bank's capital structure. After amending official reports, the fiscal loss stood at $262,000. Capital was inadequate. Internal controls were weak and no internal audit plan existed. Several violations of law were noted.

A Formal Agreement was executed requiring the board and the bank to (1) clarify the authority and responsibility of the new CEO; (2) establish a program to reduce criticized assets; (3) develop a written lending policy and a program to improve loan administration; (4) conduct a quarterly review of the allowance for possible loan losses; (5) develop a written investment policy; (6) correct internal control deficiencies and establish an internal audit function; (7) monitor liquidity on a monthly basis; (8) submit a written capital plan and an earnings plan, including a 1980 budget; (9)

correct all violations of law; and (10) submit monthly compliance reports to the regional administrator.

17. Bank with assets of $50 to $75 million

An examination of the bank's commercial and consumer departments revealed significant deterioration in the bank's overall condition and disclosed possible insider abuses by the bank's president. In addition, the examination revealed that the president had been receiving credit life insurance commissions in violation of 12 CFR 2.4. The examination also cited several other violations of law and regulation and significant deficiencies in the administration of the bank's consumer department. The overall quality of the loan portfolio was satisfactory, but the volume of low quality loans and the amount charged off showed an increase. The investment portfolio reflected adequate quality and risk diversification, but market depreciation equalled a sizeable proportion of adjusted capital funds. Liquidity was marginal, with net liquid assets of 14.5 percent of net deposits. Rate-sensitive deposits comprised 39 percent of total deposits. The allowance for possible loan losses was considered inadequate at 0.46 percent of total loans. Internal controls were deficient because a separation of duties was not required for many of the bank's functions. Credit information exceptions were excessive at 12.5 percent of gross loans.

A written Formal Agreement required the bank to appoint a compliance committee. The compliance committee was required to appoint independent legal counsel and an independent certified public accountant to investigate and issue a written report on whether the president or any other employee, officer, or director of the bank had engaged in improper or abusive transactions with the bank. The bank was required to act upon all findings and recommendations contained in said report within 30 days of its completion. The committee was also required to ensure that the provisions of the Agreement were adhered to. The Agreement required the bank to correct all violations of law and regulation and to adopt procedures to prevent recurrences of similar violations. The bank agreed to adopt a written policy prohibiting conflicts of interest and specifying the means by which transactions involving insiders and their interests were to be approved and handled. The bank was to take the necessary steps to obtain and maintain satisfactory credit information on all loans and to correct the imperfections pertaining to the securing of collateral, and to establish an internal loan review. The board was to review the adequacy of the bank's allowance for possible loan losses. The bank agreed to correct the deficiencies in its internal controls and to implement a written program to formulate and implement a written funds management policy. Finally, the board agreed to appoint an experienced and capable consumer compliance officer.

18. Bank with assets of $25 to $50 million

Poor loan administration, coupled with a 22 percent, 3-year average loan growth rate, resulted in a significant escalation of classified assets to equal 76 percent of gross capital funds. Loans not supported by current and satisfactory credit information, delinquent loans and inadequate collateral files were contributing factors.

The bank had traditionally waited for the examiners to request most charge-offs. Heavy losses identified at the examination depleted the allowance for possible loan losses and required an additional charge to earnings to replenish the reserve to an adequate level. The bank had already lost as much as it earned during the previous year as a result of that provision expense. Loss potential is significant due to the high volume of doubtful loans. Also, the bank's historical recovery record has not been good, with only 23 percent of the last 4 years' losses recovered. Consequently, the bank is now undercapitalized.

Rate-sensitive funds increased from 8 to 31 percent of total deposits. Money market certificates of deposit funded 76 percent of the loan growth in 1979. That is partially offset by the relatively short-term nature of the loan portfolio. Violations of 12 USC 29; 12 CFR 18 and 7.3025; and numerous violations of 31 CFR 103.33 were cited in the commercial examination.

A Formal Agreement required correction of the statutory violations and stipulated adoption of procedures to prevent future violations. The board of directors agreed to (1) employ a loan administration officer to supervise lending activities, (2) formulate and implement a written program to eliminate all assets from criticized status, (3) revise lending policy and establish procedures to ensure compliance and improvement of overall loan administration, (4) maintain an adequate allowance for possible loan losses, and (5) ensure that the bank obtains current and satisfactory information on all loans lacking such information and refrain from granting or renewing loans until said information has been ascertained.

The board was also required to develop and submit to the regional administrator (1) a written capital plan which included a provision for an injection of equity capital, (2) a comprehensive budget, (3) written guidelines governing liquidity and asset/liability management, and (4) a written audit program to correct internal control and audit deficiencies.

19. Bank with assets of less than $25 million

Poor supervision by a complacent board and self-serving on the part of the chief executive officer caused the problems. Classified assets exceeded 72 percent of gross capital, the reserve for possible loan losses was inadequate, overdue paper was approximately 7 percent of gross loans, and numerous violations of law and regulation were disclosed—including four violations of 12 USC 84 and violations of 12 USC 375a. Thirty-four other violations were reported.

A Formal Agreement required correction of the violations of law and regulation and reimbursement to the bank for all lost income which resulted from violations of law and regulation. In addition, the Agreement required action to reduce criticized assets and improve collections, revision of loan policies, regular monitoring of the allowance for possible loan losses, employment of an outside CPA firm to conduct an audit, adoption of a comprehensive investment and liquidity policy, submission of a written equity capital plan, correction of internal control deficiencies, and expansion of the five-member board for the purpose of achieving wider community representation. A compliance committee was formed on the date of the Agreement. Virtually all violations were corrected and the bank had been reimbursed for lost income at the time the Agreement was signed. Sixty-day compliance reports are required.

20. Bank with assets of less than $25 million

A specialized examination conducted early in 1980 reflected deterioration in the bank's overall condition. There was a high dependence upon rate-sensitive deposits, especially public funds and individual certificates of deposit of more than $100,000. There was an increase in the doubtful and loss classifications. There had been no action taken on capital injection. There was noncompliance with a written Formal Agreement. In addition, several top officers resigned, leaving the chairman of the board in charge of bank affairs. Unfortunately, this person was the prime cause for the bank's overall poor condition. Before the examination had ended, a Notice of Charges and Temporary Order to Cease and Desist were placed on the bank. Subsequently, new management was hired and the chairman of the board no longer was managing the daily affairs of the bank.

A final Order to Cease and Desist required the board to submit a 5-year capital plan which included the injection of $1 million in equity capital by year-end. If the injection was not consummated by year-end, the board was to submit a written proposal for sale or merger of the bank. The bank was to maintain an adequate liquidity position by collateralizing all public funds and maintaining liquid assets of not less than 20 percent, exclusive of short-term borrowings. Because of the bank's precarious liquidity position, the bank could not make any loans unless the board certified that there was adequate liquidity to support the loan. The board was to develop contingency plans for the payment of large certificates of deposit, including public deposits, as they matured. In developing these plans, the board was to consider as a goal the elimination of the bank's overdependence upon rate-sensitive deposits. The board was also to consider liquid assets and core deposits of the bank. The bank was to correct and eliminate all violations of law, rule or regulation and to ensure that the bank suffered no losses on any loan granted in contravention of 12 USC 84. If necessary, this action was to include indemnification of the bank by the directors who approved of the credit.

The board was to regularly review the adequacy, competency and effectiveness of bank management and to make the improvements necessary to provide capable management for the bank. The board was to review the adequacy of the bank's allowance for possible loan losses, and was to establish a program to maintain an adequate allowance. The bank was to adopt and implement a written program for the elimination of all assets from criticized status, and was not to lend any additional money to any borrower whose loan had been criticized, unless the criticism had been eliminated. The bank was to take the necessary steps to obtain and maintain current and satisfactory credit information and to correct all collateral exceptions listed in the latest report of examination. No new loans were to be made unless they were supported by current and satisfactory credit information and were properly collateralized. The board was to review the bank's written loan policy annually and make any necessary modifications. The board was to develop a written audit program designed to correct the deficiencies in the bank's internal control and audit procedures. A person was to be employed or appointed to implement the audit program. The board was to submit complete written reports to the regional administrator on a monthly basis detailing the actions taken to correct the criticisms in the report of examination, the progress realized in strengthening, reducing, or eliminating each criticized asset, the action taken by the bank to comply with the order, and the results of those actions.

21. Bank with assets of $25 to $50 million

The bank's criticized loan volume had increased substantially. Delinquencies and credit exceptions were also inordinate. Loan losses were excessive. Internal audit controls were unsatisfactory.

The board of directors of the bank was required, through a written Formal Agreement, to adopt plans addressing managerial assessment, loan portfolio and internal audit and control. The bank further agreed to develop plans for eliminating criticized assets, improving its lending function and establishing an adequate allowance for possible loan losses. The bank was further required to monitor liquidity and capital needs. The bank was also required to establish and implement internal audit and control functions.

22. Bank with assets of less than $25 million

A specialized examination of this bank revealed serious deterioration in its financial condition, as well as a large number of violations of law. Classified assets equalled 137 percent of gross capital; past due loans constituted 19 percent of all loans; and 27 percent of loans lacked satisfactory credit information. Net liquid assets were 10 percent of net liabilities, and the bank had inadequate capital, poor earnings, an inadequate allowance for possible loan losses, and violations of 12 USC 84.

A Notice of Charges and a Temporary Order to Cease and Desist were served upon the bank.

An Order to Cease and Desist, like the previous Temporary Order, required the correction of all violations of 12 USC 84 and prohibited additional extensions of credit in excess of the bank's lending limits. The board was required to take necessary actions, including immediate indemnification by the responsible directors, to ensure that the bank suffered no loss on a specific line of credit which violated Section 84. The bank was prohibited from extending additional credit to any borrower whose loan was criticized and also prohibited all extensions of credit unless the bank had acquired current and satisfactory credit information and had perfected its interest in any collateral. The allowance for possible loan losses was to be maintained at 1.5 percent of total loans. Loan and investment policies were to be adopted. The bank was required to take all action necessary to recover past due loans, and was prohibited from extending additional credit to any borrower whose loan was past due. The bank was ordered to reduce its dependence on rate-sensitive funds, and maintain net liquid assets equal, at least, to 15 percent of net liabilities. The bank was prohibited from declaring any dividends except with the written permission of the regional administrator. The board was required to inject $400,000 into the bank's equity capital accounts and to provide for additional subsequent augmentation of up to $250,000. A detailed budget was also required. The internal control deficiencies were to be corrected.

23. Bank with assets of $25 to $50 million*

The bank was operating under a written Formal Agreement when a subsequent examination revealed significant increases in total criticized assets, loans without adequate credit information, overdue loans, and the number and seriousness of violations of law, rules and regulations. Heavy loan losses resulted in a strained capital position. In addition, the president and chairman of the board of the bank, an attorney, was receiving an excessively high salary and was billing the bank for excessive legal fees for legal work which the OCC alleged was unnecessary for the bank, was performed by someone other than the president or, in fact, was not performed at all. Expenses for automobiles and other perquisites were very high and, despite an extremely high net interest margin, the bank was only marginally profitable. Loan losses were extremely high, particularly with regard to significant violations of the bank's lending limits.

A Notice of Charges was served on the bank and accompanied a Temporary Order to Cease and Desist. The Temporary Order addressed violations of the lending limit, loans to criticized borrowers and insider abuses through excessive fees and salaries. Notices of Charges were also issued to six individual directors seeking reimbursement for losses on lending limit violations and certain other losses suffered by the bank.

Subsequently, a Notice of Intention to Remove the president from his positions as president and chairman of the board was issued. The parties described above have filed answers to the charges against them and administrative law judges have been appointed to preside over hearings on these matters. A civil money penalty referral was made and is under review.

24. Bank with assets of less than $25 million

The condition of the bank continued to deteriorate after the execution of a written Formal Agreement with the OCC. Criticized assets equalled approximately 200 percent of the bank's gross capital funds. Capital was considered inadequate and violations of law, including 12 USC 84, were discovered. The loan policy was not considered adequate. Internal control and audit deficiencies subjected the bank to potential loss.

A Notice of Charges was served on the bank alleging the above unsafe and unsound banking practices and violations of law. Subsequently, the bank stipulated to and was served with an Order to Cease and Desist. The order required the bank to increase its equity capital accounts by not less than $1 million; correct all violations of law, including 12 USC 84; strengthen the loan portfolio and eliminate criticisms; reevaluate the lending policy; strictly adhere to the requirements of a prior written Agreement; and eliminate internal control and audit deficiencies.

The bank was also required to submit monthly written reports to the regional administrator outlining the bank's progress in complying with the order.

25. Bank with assets of $25 to $50 million

A general examination disclosed possible violations of the federal securities laws and unsafe and unsound banking practices by the bank and its former president. The Comptroller therefore issued an Order of Investigation in order to determine the nature and extent of any such violations and unsafe and unsound banking practices. This investigation disclosed that the former president had engaged in a course of conduct in violation of Section 10(b) of the Securities Exchange Act and Rule 10b-5, thereunder. It was determined that the former president had fraudulently caused several of the bank's shareholders to sell their stock to him for substantially less than market value. The OCC investigation also determined that the bank had aided and abetted the former president in committing the aforementioned violations.

An examination of the bank's trust department disclosed serious deficiencies in all operational areas of the department. Violations of law and regulation included 12 USC 92a and 12 CFR 9.7, 9.9 and 9.12. The 12 CFR 9.12 violations concerned mortgage participations sold between fiduciary accounts at unpaid principal value and the practice of bank officers and employees of purchasing assets from estates being administered by the bank. The examination also determined that trust accounts and investments were not adequately reviewed or documented.

The bank stipulated and consented to the issuance of an Order to Cease and Desist prohibiting it from violating the antifraud provisions of the federal securities laws in connection with the offer, purchase or sale of securities issued by the bank. Additionally, the board of directors was required to engage independent legal counsel to investigate and issue a written report detailing the former president's participation in all transfers of the bank's stock occurring since 1975 and any other related matters pertaining to any possible impropriety or abuse by the former president or any other officer or director of the bank. The independent counsel was also required to review and investigate all estates administered by the bank since 1975 for possible conflicts of interest. The order directed the board to act upon all findings and recommendations contained in the independent counsel's report within 30 days of the report's completion. All market-making activities in the bank's stock by bank officers, directors, and employees were prohibited, and the board was directed to submit to the regional administrator, for his approval, a written policy setting forth an appropriate

* This bank was the subject of two administrative actions in 1980.

method for handling inquiries from persons interested in buying or selling the bank's stock. The order also contained provisions directing the bank to correct the numerous and varied deficiencies in the trust department. Finally, the bank was required to discount all mortgage participations that were sold between fiduciary accounts at unpaid principal value so as to reflect interest rates in effect on the date of the transactions. The bank was then directed to reimburse the purchasing fiduciary accounts for the excess purchase price paid.

The former president stipulated and consented to the issuance of a separate Order to Cease and Desist. The order prohibited him from violating the antifraud provisions of the federal securities laws in connection with the offer, purchase or sale of securities issued by any national bank. The former president was required to disgorge and make restitution of all profits plus interest that he had made as a result of his violations of the federal securities laws. He was also required to reimburse the bank for all expenses that it incurred as the result of engaging independent legal counsel to investigate his transactions in the bank's stock. A separate Formal Agreement between the former president and the OCC was also executed. That Agreement prohibited the former president from serving as a director, officer or employee or participating in any manner in the conduct of the affairs of (1)any national bank, without the prior written consent of the Comptroller of the Currency; (2)any state-chartered bank which is a member of the Federal Reserve System, without the prior written consent of the Federal Reserve Board; or (3)any "non-member" bank which is insured by the Federal Deposit Insurance Corporation, without the prior written consent of the Chairman of the Federal Deposit Insurance Corporation.

26. Bank with assets of less than $25 million

A small trust department examination revealed numerous violations of law, regulation and sound fiduciary principles. A majority of the criticisms were recurring from a prior examination. The management's lack of expertise in trust matters was compounded by the absence of written policies and procedures to guide the trust department personnel in performing their respective functions. Numerous violations of 12 CFR 9.12, involving improper investments in own bank time deposits, were revealed. Other violations included 12 CFR 9.9, failure to audit trust activities at bank's branch; 12 CFR 9.13, assets kept in account files not under joint control; 12 CFR 9.8, incomplete books and records; and 12 CFR 9.10, funds awaiting investment or distribution not made productive within a reasonable amount of time. Additional deficiencies included: (1) estates held open for undue periods of time, (2) appointments and inventories not on file, (3) synoptic records not prepared for new accounts, (4) court accounts lacked biennial accountings required by state law, (5) incomplete documentation of corporate trusts and agencies, and (6) inadequate management of real estate held in trust.

A Formal Agreement required correction of all violations of law, regulation and deficiencies cited in the examination report. The bank was required to correct each violation of 12 CFR 9.12 at no loss to the account. In addition, the bank was required to reimburse the account for all penalties incurred for early withdrawal of certificates of deposit where that was a necessary corrective measure. The bank was further required to reimburse the trust accounts for profits earned by the bank on those accounts. Profits were computed for the years 1974 through 1978 by subtracting the interest paid by the bank on the involved trust accounts from the bank's average yield on loans for each of the years involved. For the period of January 1979 until the correction of each violation, the bank was required to calculate the amount of reimbursement by subtracting the interest paid by the bank to the accounts involved from the average prevailing rate of interest charged by the bank on commercial loans as of the end of each month during the involved period. The bank was required to provide the beneficiary of each trust account which was reimbursed with a written explanation detailing the reasons for restitution.

The board of directors was required to perform a study of the advisability of the continued operation of the trust department and the bank's present and future requirements with respect to management of the trust department.

The board of directors was required to develop a number of specific policies and procedures designed to ensure compliance with 12 CFR 9. The board of directors was also required to develop measures to properly monitor and document investments made for all trust accounts, measures to ensure proper account administration and measures to ensure proper management of real estate held in a fiduciary capacity. An internal control and auditing program was required to be implemented. Finally, the bank was required to collect all fees due from accounts.

27. Bank with assets of $50 to $75 million

The bank had been operating under a written Agreement. Continued weak management supervision resulted in asset problems. A subsequent examination revealed that the bank's overall condition had deteriorated and several provisions of the Agreement were not being complied with. Insiders were extended preferential treatment. Criticized assets had tripled from the previous examination. The bank also suffered from a high volume of credit and collateral exceptions, past due loans and a failure to adopt procedures to insure the adequacy of the bank's allowance for possible loan losses. Violations of 12 USC 375a, 375b and 375c were cited. Liquidity, capital and internal controls were inadequate. Bank expenses were excessive and poorly documented.

The bank stipulated to the issuance of an Order to Cease and Desist. The order required the bank to correct violations of law and to adopt procedures to prevent their recurrence. The bank was also required to adopt and adhere to a comprehensive loan policy and a written plan to eliminate each criticized asset. Credit to criticized borrowers would be restrained. Credit information and collateral were to be perfected. Problem loans were to be monitored, and the bank's allowance for possible loan losses was to be maintained at an adequate level. The bank was required to formulate overdraft guidelines. A liquidity plan was to be formulated. The bank was also required to adopt a written liquidity/funds management policy. The bank was required to review its management team, a special counsel was retained to review the bank's expenses, and an expense policy was to be adopted and implemented. A capital program was required. The bank was also compelled to adopt a business code of ethics. Periodic reports to the regional administrator were also required.

28. Bank with assets of $75 to $100 million

Two prior administrative actions in the form of Formal Agreements had proven unsuccessful in improving the condition of the bank. Prior problems included fraud, inordinate asset risk, inadequate capital and loan loss reserves, poor earnings and ineffective management systems. A general examination revealed no improvement in the overall condition of the bank. The major problem was inadequate capital. Capital plans submitted by majority ownership and management were not viable solutions to the problem. Total classified assets equalled 63 percent of gross capital funds. Loans lacking satisfactory credit information represented 6 percent of gross loans. Liquidity problems were significant. Overdue loans represented 9 percent of gross loans. Internal control and audit deficiencies, inadequate loan review program, inadequate allowance for loan losses, and ineffective supervision by management were also causes of concern. Three violations of 12 USC 84 and one violation of 12 USC 371c were cited. An examination of the bank's trust department revealed that the bank's pension trust fund was not being administered in compliance with the Employee Retirement Income Security Act.

An Order to Cease and Desist required that all violations cited be corrected immediately. The board of directors was to provide the bank with a new chief executive officer and also to inject $2.5 million in equity capital into the bank's capital accounts. The board of directors was also directed to employ independent outside counsel to review the violations of 12 USC 84 and to determine the board's liability for those violations. Written programs were required to (1) improve and sustain the bank's earnings, (2) provide adequate capitalization, (3) remove all assets from criticized status, (4) obtain current and satisfactory credit information on all loans so lacking, (5) maintain an adequate allowance for possible loan losses, (6) reduce delinquent loans, (7) implement an internal loan review system, and (8) improve its internal audit program. The bank was required to amend its written loan policy to cure the cited deficiencies. Dividends were prohibited without the prior approval of the regional administrator. Increases in salaries, fees, bonuses and other remuneration paid by the bank to its directors were prohibited until the bank's condition and capital were restored to a satisfactory level. Finally, the bank was directed to submit a written plan designed to ensure that the bank's pension trust fund was administered in compliance with the Employee Retirement Income Security Act.

29. Bank with assets of $50 to $75 million

A specialized examination disclosed that weak management and ineffective board supervision had resulted in substantial deterioration in the bank's overall condition. Criticized assets were excessive with classified assets at 47.5 percent of gross capital funds and other assets especially mentioned at 19.5 percent of gross capital funds. Credit information exceptions were also excessive, 18.5 percent of gross loans, and past due loans were high at 6.5 percent. The bank failed to maintain the allowance for possible loan losses at an adequate level. Liquidity was marginal at 16.5 percent. The bank's overreliance on rate-sensitive deposits, which accounted for 35.4 percent of total deposits, further evidenced the bank's poor liquidity position. Capital was inadequate in view of the size and quality of the loan portfolio. Particularly disturbing was the fact that loans to certain directors and their interests violated banking laws and regulations. Extensions of credit to insiders and their interests represented 4.7 percent of all criticized credit extensions. In addition, the examination indicated that certain loans to insiders and their interests may have been made on preferential terms.

A Formal Agreement required the correction of all violations of law and the adoption of procedures to prevent the recurrence of similar violations. The board was required to submit a 5-year capital plan to the regional administrator for approval. The bank was prohibited from declaring or paying any dividends without the prior written approval of the regional administrator until the capital plan had been approved and the bank had completed its current program to raise $1 million in equity capital. The bank agreed to adopt and implement written programs designed to eliminate all criticized assets and improve collection efforts and effect a reduction in the level of delinquent loans. The board was required to formulate and implement a new written loan policy of a safe and sound nature, and the bank was to take all necessary steps to obtain and maintain current and satisfactory credit information on all present and future loans. The Agreement directed the bank to extend credit only in conformity with all applicable laws and regulations, and the board was required to engage an independent certified public accountant to investigate whether the bank had made credit extensions to the bank's insiders on a preferential basis. Written funds management and investment policies were required to be formulated and implemented and the board was to regularly review the adequacy of the allowance for possible loan losses. Finally, the Agreement required the appointment of a compliance committee to ensure adherence with the Agreement and to perform a management study and to thereafter formulate and implement a written management plan.

30. Bank with assets of $25 to $50 million

A special supervisory examination revealed significant deterioration in several major areas of the bank's operations. Insider abuse resulting in violations of 12 USC 84, 371c, 375a and 375b and 12 CFR 215 were a major concern. The asset condition of the bank had seriously deteriorated. Total classified assets had reached 78 percent of gross capital funds. Over 80 percent of the criticized loans were out-of-territory credits. The bank's capital position was severely strained. Depreciation in the bank's investment accounts had reached 97 percent of gross capital funds. Liquidity was also a significant problem. Three violations of 12 USC 84, five violations of 12 USC 371c and numerous violations of 12 USC 375a and 375b and 12 CFR 215 were found.

A Temporary Order to Cease and Desist directed the board of directors to prohibit the chairman of the board and the president of the bank from performing certain functions in the bank including the making of loans, the expenditure of bank funds, the investment of bank funds, the sale of bank assets, any borrowing on behalf of the bank, the obligation of the bank in any contract, initiation of personnel actions within the bank, participation in bookkeeping functions and removal of bank records. The bank was directed to establish a loan committee consisting of three outside directors to review and approve every extension of credit exceeding $25,000. Further violations of the statutes and regulations cited were prohibited. The bank was directed to take immediate action to complete an injection of equity capital of not less than $1 million. The bank was prohibited from extending credit to a number of named insiders of the bank and their related interests. Extensions of credit to named criticized borrowers were also prohibited except if deemed to be in the best interest of the bank. Out-of-territory loans were also prohibited in the same manner. The bank was also directed to raise its liquidity ratio to an acceptable level by developing methods to match liquid asset maturities with those of rate-sensitive deposits and other short-term, non-deposit liabilities. Further dividends by the bank were prohibited without the prior approval of the regional administrator. Finally, the bank was prohibited from making any payments as expenses or fees to the chairman of the board, except directors' fees, at their current rate.

31. Bank with assets of $75 to $100 million

The bank was operating under a Formal Agreement, however, it was incurring persistent operating losses and operating with inadequate capital and had an excessive volume of classified assets and substantial amounts of other real estate owned and other nonperforming assets. Supervision of the bank's loan portfolio was deficient and classified assets amounted to 187 percent of gross capital funds. The bank failed to comply with the provision in the Formal Agreement which called for an injection of $3 million in capital. The bank's capital needs warranted an injection of $6 million.

An Order to Cease and Desist required either an injection of $6 million in equity capital or the sale or merger of the bank. The order further called for the submission of a written capital program and prevented the bank from declaring any dividends. The order required the bank to employ a senior lending officer, an operations officer and an auditor. The bank was required to improve the quality and sufficiency of its staff in the lending and collections areas. The board was directed to take action to improve the bank's earnings, including developing strategies to reduce the volume of nonperforming assets and noninterest expenses, and strategies to eliminate losses in certain of the bank's divisions. The submission of budgets and accompanying materials were required and the bank was required to adopt and implement policies regarding the charges for legal services and the reimbursement of directors for travel and related expenses as well as lodging and incidental expenses. Furthermore, the bank was precluded from entering into any new contracts with any of its directors, or directors' firms without the approval of the regional administrator, and was required to discontinue its practice of providing directors with bank-owned or -leased automobiles. Additionally, payments to directors were limited for attendance at board and committee meetings. The bank was required to review its payments to former directors and to adjust them to reasonable levels and to monitor any expenditures to firms in which directors or combinations of directors have a significant interest and to refrain from any such expenditures unless specified criteria were met. The bank was required to strengthen its loan account and credit administration process and continue to take action necessary to protect its interest with regard to criticized assets. The bank was required to obtain and maintain current and satisfactory credit information on all loans lacking such information and to review its allowance for possible loan losses quarterly and maintain that allowance at an adequate level. Management was required to correct the violations of law, rule and regulations and institute measures to prevent their recurrence. The board was required to provide the regional administrator with copies of its executive committee minutes and board minutes and submit monthly reports. The bank is being sold to investors willing to increase the bank's capital.

32. Bank with assets of less than $25 million

The bank had been operating under a Formal Agreement since May 1978, and had substantially complied with its provisions. The bank also had made substantial progress in reducing its volume of criticized assets and past due loans and in generating positive earnings. There continued to exist, however, serious deficiencies in these areas. In addition, the bank had numerous credit and collateral exceptions; was relying excessively on rate-sensitive funds; and was in need of a qualified chief executive officer and cashier. Lastly, the bank had made various preferential extensions of credit to its insiders; had entered into an unwarranted and excessive lease with its chairman; and had paid its chairman for legal services which were not properly documented or justified. Finally, the bank was delinquent in filing its annual report to shareholders and holding its shareholders meeting.

The outstanding administrative action against the bank was upgraded to an Order to Cease and Desist to which the bank consented. The order requires the bank to (1) obtain a formal, independent appraisal and review of the insider leasing transaction; (2) to cease using the chairman's law firm for legal services; (3) to receive proper documentation and justification before paying for legal services; (4) to obtain a new chief executive officer and cashier; (5) to file its annual report to shareholders (Form F-2); and (6) to implement programs addressing capital, criticized assets, earnings, liquidity and rate-sensitive funds.

33. Bank with assets of less than $25 million

The specialized examination reflected significant credit administration deficiencies resulting in a sharp increase in classified assets, large loan losses and poor earnings. Criticized assets equalled 100 percent of gross capital funds and included a large volume of loans classified doubtful. More than half of the classified assets was indirect lease obligations of an automobile leasing company. Losses of approximately $140,000 were taken by the bank and additional losses were anticipated. The allowance for possible loan losses was not adequate. The volume of collateral exceptions and extensions of credit lacking adequate supporting financial information was also excessive. Four violations of 12 USC 84 were discovered, as were other violations of law. Other problems included poor earnings, continued insider abuses and internal control and audit deficiencies.

A Formal Agreement required correction of the statutory violations and adoption of procedures to prevent recurrence. The board was required to formulate and implement written programs to (1) eliminate the grounds upon which each asset was criticized; (2) ensure collection of all loans past due, either as to principal or interest; (3) formulate a safe and sound loan policy; (4) establish and maintain an adequate allowance for possible loan losses; (5) prepare an analysis of the bank's present and future equity capital needs; (6) define the duties and responsibilities of each member of the management team; (7) formulate a safe and sound investment policy; and (8) develop and implement an effective internal control and audit program.

The board was also required to develop a compensation plan for the senior management staff commensurate with their assigned duties and responsibilities. The Agreement required the board to provide indemnification of the bank for any loss suffered on extensions of credit granted in violation of 12 USC 84. The bank was required to correct each violation of law, rule or regulation and adopt procedures to prevent recurrence of similar violations.

34. Bank with assets of $25 to $50 million

Examinations conducted of the bank's commercial and trust departments revealed significant deterioration in the bank's overall condition attributable in large part to weak management and an inattentive board of directors. Classified assets were high at 84.7 percent of gross capital funds. Heavy provisions for loan losses substantially impacted earnings and rendered capital inadequate. The allowance for possible loan losses was also considered to be insufficient in light of the bank's excessive loan losses. Loans not supported by current credit information amounted to 24.6 percent of gross loans. Noninterest expenses were allowed to remain at an extremely high level. The bank's internal audit was not acceptable, and accounting procedures throughout the bank have traditionally been poor. Violations of law in the commercial department included two violations of 12 USC 84, two violations of 12 USC 375a, and one violation of 12 USC 371d. The bank's trust department, which only administered five fiduciary accounts with a total market value of less than $500,000, was operated and administered in an unsafe and unsound manner. The examination disclosed numerous violations of 12 CFR 9 and sound fiduciary principles. In particular, the department was not properly administered and supervised by the board of directors as required by 12 CFR 9.7. The administration of fiduciary powers was assigned to an inexperienced trust officer with little or no board supervision. Neither a trust committee nor a trust audit committee were appointed as required by the bank's bylaws. Other deficiencies in the department primarily concerned the lack of internal procedures, controls and audits.

A Formal Agreement required correction of all violations of law and required procedures to be adopted to prevent future violations. The board was required to provide the bank with a new active and capable chief executive officer and to evaluate management's performance on a regular basis. The board agreed to develop and submit to the regional administrator for approval a written capital program designed to provide the bank with an equity capital injection of not less than $500,000. The board also agreed to immediately replenish the allowance for possible loan losses to a minimum balance of $409,000. Written programs were required to be established and implemented in order to (1) remove all assets from criticized status, (2) maintain an adequate allowance for possible loan losses, (3) obtain current and satisfactory credit and collateral information on all current and future credit extensions, (4) adopt loan policies of a safe and sound nature, (5) improve and sustain the earnings of the bank, and (6) correct all internal audit and internal control deficiencies. The bank also agreed to surrender its fiduciary powers and to divest itself of all previously accepted trust accounts in an expeditious manner.

35. Bank with assets of less than $25 million

A general examination of the bank disclosed a serious and substantial violation of 12 USC 84. The bank extended credit for the benefit of a single corporation in an amount that approximately doubled the bank's legal lending limit. A significant portion of this credit extension was classified as doubtful. Shortly after the close of the examination the OCC became aware of facts which indicated that the bank was planning to extend additional funds to this corporation in further violation of Section 84.

A Temporary Order to Cease and Desist prohibited the bank from extending credit to any borrower in violation of 12 USC 84. The order also required the bank to reduce all extensions of credit in excess of the Section 84 lending limitation to conform, without loss to the bank.

36. Bank with assets of $25 to $50 million

Liberal lending practices, a lax board, marginally active management and a poor local economy caused the bank's problems. Classified assets equalled 78 percent of gross capital, the allowance for possible loan losses was inadequate, liquidity was strained and earnings were only fair. Capital was inadequate and several violations of law and regulation were disclosed.

A Formal Agreement required correction of the violations of law and regulation and reimbursement to the bank for all lost income which resulted from preferential rates to insiders. Strengthening of the lending function by employment of a senior lending officer was required. The Agreement also required action to reduce criticized assets, improve collections, revise loan policies, maintain an adequate allowance for possible loan losses, formulate and implement written funds management policies, injection of equity capital and compilation of a 5-year capital plan.

A compliance committee was formed on the date of the Agreement. Sixty-day compliance reports were required.

37. Bank with assets of less than $25 million

Weak executive management and the self-serving practices of the controlling owner and chairman of the board contributed to the bank's unfavorable conditions. Problems included insider transactions involving continuous sizeable drawings against uncollected funds and violations of laws and regulations.

In addition to the above, there were six major areas of concern (1) significant increase in classified assets, to 84 percent of gross capital funds; (2) equity capital shortfall; (3) need for an asset/liability, liquidity management policy due to the rate-sensitive nature of the bond portfolio and deposit structure; (4) excessive credit and collateral exceptions; (5) heavy volume of delinquencies; and (6) an inadequate lending policy.

A Formal Agreement required correction of the statutory violations and required the adoption of procedures to prevent future violations. The board of directors was required to (1) perform a management study, including an assessment for retention purposes of the capabilities of the chairman of the board and president, (2) develop a management plan based upon the management study, (3) formulate and implement a written program to eliminate all assets from criticized status, (4) revise lending policies and establish procedures to assure compliance and improvement of overall loan administration, and (5) ensure that the bank obtained current and satisfactory information on all loans lacking such information and refrained from granting or renewing loans until said information was obtained.

The board was also required to develop and submit to the regional administrator (1) a written capital plan, including a provision for an equity capital injection; (2) written guidelines governing liquidity and asset/liability management; and (3) a written policy addressing drawings against uncollected funds, insufficient funds checks and overdrawn accounts.

A number of the repetitive and flagrant insider-related law violations similar in nature were referred by the regional office for consideration for civil money penalties.

38. Bank with assets of $25 to $50 million

Classified assets were high, 67 percent of gross capital funds. The heavy losses identified at the examination exceeded the allowance for possible loan losses. Loans not supported by current and satisfactory credit information and delinquent loans exceeded prudent banking standards. The development of a more comprehensive lending policy was needed. Many of the loans deviated from the bank's existing lending policy and were recommended by members of the board. No profits for 1980 were expected because of high loan losses and poor loan pricing. The bank had inadequate capital. A formal funds management policy was needed. Fees paid to the chairman of the board were excessive and not in compliance with Banking Circular 115. Three violations of 12 USC 84 and violations of 12 USC 29, 375b and 463 were cited. One violation of 12 USC 84 included several illegal advances which were identified as loss at the examination.

A Formal Agreement required correction of the statutory violations and required adoption of procedures to prevent future violations. The board was required to (1) indemnify the bank for losses suffered on any extensions of credit granted in violation of 12 USC 84, (2) assess management quality and depth, (3) revise and enforce the bank's lending policy, (4) formulate and implement a written program to eliminate all assets from criticized status, (5) maintain an adequate allowance for possible loan losses, and (6) ensure that the bank obtains current and satisfactory information on all loans lacking such information and refrain from granting or renewing loans until said information has been ascertained. The board was also required to develop and submit to the regional administrator a written capital plan which included a 1980 equity capital injection, a comprehensive budget and written guidelines governing liquidity and asset/liability management.

39. Bank with assets of less than $25 million

The bank had asset quality problems, loan losses and weak earnings which led to a capital deficiency. A Memorandum of Understanding, signed by the board of directors in 1979 was not effective in reversing negative trends. Management supervision was poor, with classified assets totaling 92 percent of gross capital funds, and a year-to-date operating loss was shown for the first 5 months of the year because of heavy loan losses and poor interest margins. Control of the bank was sold subsequent to the examination. Two violations of 12 USC 84 and one violation of 12 USC 61 were disclosed.

A Formal Agreement required the bank to (1) provide the bank with a capable senior lending officer; (2) establish and implement a loan review committee designed to remove each asset from a classified status; (3) ensure that all possible steps are taken to obtain current and satisfactory credit information on all existing and future loans; (4) take appropriate action to reduce and maintain the volume of past due loans more in accordance with the industry average; (5) conduct quarterly reviews of the allowance for possible loan losses and make appropriate adjustments; (6) develop and implement written guidelines for the coordination and management of the bank's assets and liabilities; (7) adopt a written program designed to maintain a level of earnings adequate to provide capital to support future growth, absorb loan losses and provide an acceptable return to shareholders; (8) inject $100,000 in equity capital; (9) prohibit extensions of credit which exceeded the lending limitations of the bank; and (10) if improvement was not noted in the bank's condition, provide the bank with a new, capable chief executive officer.

40. Bank with assets of $25 to $50 million

The bank had a large volume of criticized assets which resulted from poor credit administration, inadequate policies and nonadherence to existing policies. Classified assets equalled 54 percent of gross capital funds and had doubled since the previous examination. Included in the criticized assets and the violations of law were extensions of credit to various insiders and related interests. Other problems included a large volume of speculative and defaulted securities, a low level of liquidity supported by steady use of purchased funds, low earnings, an inadequate allowance for possible loan losses and poor internal controls.

A <u>Formal Agreement</u> required correction of the statutory violations and required the adoption of procedures to prevent future violations. The board was required to formulate and implement written programs to (1) eliminate grounds upon which assets were criticized, (2) remove from criticized status all loans to insiders and related interests, (3) establish and maintain an adequate allowance for possible loan losses, (4) maintain an adequate level of capital, and (5) formulate an investment policy.

The board was also required to develop a written program governing liquidity and funds management. The Agreement also required the board to assess the sufficiency and quality of active management. The bank was also required to obtain current and satisfactory credit information on deficient loans.

41. Bank with assets of less than $25 million

An aggressive and liberal lending philosophy and poor loan supervision resulted in an overloaned position, a significant volume of classified assets (equal to 74 percent of gross capital funds), and an illiquid asset structure with a disproportionate reliance on borrowings. The bank's liability structure was one of the most costly in its peer group. Weak earnings and a relatively high dividend payout left the bank in an undercapitalized position. The bank had recently undergone an ownership change and new management was trying to cope with inherited problems and had failed to properly supervise installment lending activity. The examination disclosed a delinquency rate of 26 percent which led to the dismissal of the responsible officer.

Included among several violations of law were violations of 12 USC 84 and 371c and three violations of 12 USC 375a and 375b. The consumer examination, conducted concurrently with the commercial examination, disclosed consumer law violations.

A <u>Formal Agreement</u> required correction of all violations of law and regulations and required procedures to be adopted to prevent future violations. Dividend restrictions were imposed and the bank was required to forward a program to strengthen capital. Additionally, the bank was required to formulate and implement policies governing (1) elimination of all assets from criticized status, (2) collection procedures and internal problem loan identification, (3) capital standards and dividends, (4) transactions with affiliates, and (5) liquidity and asset/liability management. Actions to remedy deficiencies with respect to internal controls and the internal audit function were also addressed.

42. Bank with assets of less than $25 million

The location of the bank in an economically depressed area and a less than effective management team contributed to the increase in classified paper. Such classified assets equalled 55 percent of gross capital funds at the last examination. High levels of loan delinquencies and credit file exceptions were also reported. Earnings for the year will be nominal due to the volume of loan write-offs and the low and declining net interest margin. Capital adequacy would become a problem unless deterioration in condition of the bank was arrested. One violation of the bank's lending limit and several consumer violations of law were cited in the report.

A <u>Formal Agreement</u> addressed the lending practices and procedures of the bank and the capacities of the lending staff. The bank was required to formulate and implement written programs to eliminate the grounds of criticism of all criticized assets and improve the lending function. The board was also to establish and maintain an adequate allowance for possible loan losses and to take all necessary steps to obtain sufficient credit information. The board was to perform a study to identify the reasons for declining earnings and to formulate asset/liability guidelines designed to improve the bank's profitability. All violations of law were to be corrected.

43. Bank with assets of less than $25 million

Loan portfolio administration deficiencies caused an increase in classified paper, with such paper equalling 61 percent of gross capital funds at the last examination. An inordinate volume of credit file exceptions and higher than average loan delinquencies were also reported. An overall reevaluation of loan policies and procedures was recommended by the examiner. Technical violations of law were also reported in the commercial and consumer sections of the report. Capital, liquidity and earnings were satisfactory.

A <u>Memorandum of Understanding</u> addressed the need to review the bank's lending policies and related procedures. The board was required to perform this review and to amend the bank's loan policies as necessary to ensure that the lending function was operated in a safe and sound manner. The board also was to develop a written program to eliminate the grounds of criticism for each classified asset. In addition, the board was to develop and implement written programs to ensure that no loans are granted without the bank first having obtained sufficient credit and collateral documentation. The board was also to correct each violation of law and adopt procedures to prevent them in the future.

44. Bank with assets of less than $25 million

Problems were centered around poor earnings, inadequate capital, decreasing liquidity and a high level of classified assets. Accounting methods did not conform to generally accepted methods and earnings were negatively impacted by rising interest rates and cost of funds coupled with high occupancy expense. Deficit earnings resulted. Loan growth along with operating losses and a liberal dividend policy rendered capital inadequate. Nine violations of 12 USC 84, as well as five other violations of law were disclosed. Several of the excess loans were apparently the result of a miscalculation of the lending limit due to inaccurate accrual of income and expenses.

A Memorandum of Understanding required correction of the violations of law and regulation, restrictions on payment of dividends, and a review of the earning capacity of the bank as well as actions to provide for capital adequacy. In addition, actions were to be taken to improve and strengthen liquidity, funds management, the system for identifying problem loans, and providing for the adequacy of the allowance for possible loan losses. The bank was also required to undertake an analysis of management needs and strengthen internal and external audit functions and internal controls. Monthly compliance reports were required.

45. Bank with assets of $50 to $75 million

A trust examination revealed that the bank's trust department had not maintained adequate documentation of its trust accounts. General carelessness was noted. The master Keogh plan incorporated the law of the wrong state. Recordkeeping requirements of 12 CFR 9.9 were violated. Poor administration was resulting in an unacceptable exposure to losses. Employee benefit accounts were participating in collective investment funds without proper authorization in violation of the Employee Retirement Income Security Act.

A Memorandum of Understanding required the bank to correct all violations of law, rule or regulation cited in the trust report of examination. The bank was required to institute a revised audit program to ensure adequate review of documentation and ledger control and to submit a new trust department policy and procedures manual. The bank was also required to organize a document retention and retrieval system and to establish procedures to ensure compliance with the documentation requirements of the Employee Retirement Income Security Act.

46. Bank with assets of $25 to $50 million

A general examination disclosed incompetent management, high concentration of credits in one individual's related interests (74 percent of total capital funds), violations of 12 USC 84 that apparently stemmed from nominee borrowing, inadequate or suspect credit information and collateral documentation, and payment of checks against uncollected funds without a bank policy to govern that activity. Classified assets equalled 90 percent of gross capital funds, with 90 percent of the classified assets to one individual's related interests; past due loans amounted to approximately 6 percent of total loans; the allowance for possible loan losses of $100,000 was inadequate in view of charge-offs during the examination that amounted to $990,000; and capital was inadequate.

During the examination the board replaced the bank's chief executive officer with a new, qualified chief executive officer who immediately began to work with the board in the problem areas.

A Notice of Charges and Temporary Order to Cease and Desist were issued against the bank addressing the conditions that could threaten the solvency of the bank. The board was prohibited from any further extensions of credit, including renewals for the benefit of a named individual, his family and any company in which he occupied a position as director, officer, employee, agent or trustee or owned more than 5 percent interest. The bank was directed to take steps to correct collateral and credit exceptions and to take immediate action to establish and maintain the allowance for possible loan losses at an adequate level. The bank was prohibited from declaring or paying any dividend, except in compliance with 12 USC 56 and 60, and with prior approval of the regional administrator. The board was to take immediate action to correct the violations of law, rule and regulation and to adopt procedures to prevent them from recurring. An administrative hearing is pending.

47. Bank with assets of less than $25 million

Results of the examination revealed that the bank faced possible insolvency due to extremely inept management of the loan portfolio. Classified assets amounted to 185 percent of gross capital funds. Past due loans equalled 13.7 percent of gross loans and loans lacking proper collateral documentation amounted to 39 percent of gross loans. Collection efforts were ineffective or nonexistent. One violation of 12 USC 84 and one violation of 12 CFR 2 (credit life insurance) were cited in the examination.

A Notice of Charges and a Temporary Order to Cease and Desist were issued against the bank. The board of directors was directed to provide the bank with a new active and capable chief executive officer. The bank was prohibited from payment of dividends, except in accordance with 12 USC 56 and 60 and the approval of the regional administrator. The board of directors was required to inject $1 million in equity capital or take action to cause a ratified agreement providing for the sale or merger of the bank with specified time limits. The board was required to establish and maintain an allowance for possible loan losses and correct violations of law. An administrative hearing is pending.

48. Bank with assets of less than $25 million

The general examination reflected significant credit administration deficiencies resulting in a large increase in classified assets, an illiquid position and poor earnings. Classified assets amounted to 116 percent of gross capital funds. Based on the current condition of the loan portfolio, the allowance for possible loan losses was inadequate and required a substantial loan loss provision. This provision impacted an already low level of earnings. Many of the bank's problems were traced to a former, inadequate officer. Since the dismissal of the former officer, many of the bank's problems became evident because of increased board involvement.

A Formal Agreement required the board to take actions and implement written programs to (1) correct each violation of law and adopt procedures to prevent recurrence; (2) provide the bank with a new active and capable chief executive officer; (3) eliminate the grounds upon which assets were criticized; (4) obtain and maintain current and satisfactory credit information; (5) ensure collection of all loans past due, either as to principal or interest; (6) establish and maintain an adequate allowance for possible loan losses; (7) prepare an analysis of the bank's present and future capital needs; and (8) achieve and maintain an acceptable level of liquidity which does not place undue reliance on purchased funds.

49. Bank with assets of less than $25 million

Poor lending practices coupled with a depressed business environment had a detrimental effect on the bank. Management and supervision were lax with many deviations from set policies noted. Classified assets increased to 146 percent of gross capital funds. Past due loans and credit and collateral documentation exceptions were at excessive levels. A provision to the allowance for possible loan losses was necessary to cover losses identified. The bank's capital was marginal. Violations were cited involving insider transactions as well as violations of 12 USC 371c and 371d, 12 CFR 1.8 and 7.4305(b), and several consumer violations.

A Formal Agreement required the board to thoroughly review (1) the effectiveness of management, particularly in the lending area; (2) loan administration; (3) the adequacy of the reserve for possible loan losses; and (4) capital adequacy. Conclusions and corrective actions were to be submitted to the regional administrator, who had a power of veto over the proposed capital program. The Agreement required correction of the statutory violations and required procedures to be adopted to prevent future violations.

The board was required to establish a program to eliminate all criticized assets. Proper credit and collateral documentation was also required. A comprehensive budget for 1981 was also required, as were written asset/liability guidelines. The Agreement also required a written program to eliminate internal control deficiencies identified by the OCC and the internal auditor. The bank was also required to establish a committee of outside directors to ensure compliance with the articles of the Agreement.

50. Bank with assets of less than $25 million

The bank's strong growth outpaced management's capabilities to control. Lack of quality control over the loan portfolio resulted in classified assets totaling 67 percent of gross capital funds, with losses depleting the allowance for possible loan losses and earnings. Earnings have also been adversely affected by the opening of a large and expensive branch. Capital had not kept pace with the strong growth and was further strained by the loss in earnings. The loan portfolio reflected high delinquency, excessive documentation exceptions, noncompliance to loan policy and inadequate training and supervision. A significant number of internal control exceptions were uncorrected; violations were cited under 12 USC 371d, 31 CFR 103 and 12 CFR 217.4(f); and numerous consumer violations were identified.

A Formal Agreement required correction of the statutory violations and required procedures to be adopted to prevent future violations. The board was required to review the effectiveness of management and the bank's lending functions. Conclusions and corrective actions were to be submitted to the regional administrator. The board was to develop a program for the elimination of each criticized asset and to correct the loan documentation exceptions. A thorough review of the allowance for possible loan losses was required. A comprehensive budget was required to be developed together with a capital program that met the approval of the regional administrator. The budget was to be prepared in conjunction with the development of an asset/liability management policy, while maintaining 20 percent liquidity. The board was to conduct a comprehensive review of the investment account, particularly the recent trading activity. The board was to develop and implement an internal audit program and correct all internal control deficiencies.

51. Bank with assets of less than $25 million

Heavy officer, employee and director turnover, an overbanked market area, and domination by the chairman of the board contributed to the unsatisfactory condition of the bank. Classified assets to gross capital exceeded 52 percent, overdue loans were approximately 12 percent of total loans, the allowance for possible loan losses was inadequate, several violations of law and regulation were disclosed, and earnings were poor due to inadequate funds management and poor interest spreads.

A Formal Agreement required correction of the violations of law and regulation, establishment of detailed position descriptions for the chairman of the board and chief executive officer, creation of plans to reduce turnover in the bank's staff and action to reduce criticized assets and improve collection of delinquent loans. In addition, the Agreement required the board to review the bank's allowance for possible loan losses at least quarterly, obtain and maintain satisfactory credit information, revise the existing loan policy, formulate and implement a written funds management policy, submit a 3-year capital plan, correct internal control deficiencies, and designate duties and authority of the consumer compliance officer. Sixty-day compliance reports were required.

52. Bank with assets of less than $25 million

Classified assets increased to 63 percent of gross capital funds. Loan losses exceeded the losses of comparable banks. Loans not supported by current and satisfactory credit information and delinquent loans exceeded prudent banking standards. The bank's lending staff granted loans without a thorough credit analysis. The bank's capital was strained and grew beyond projections contained in the submitted capital program. Recent official reports required amendment because of accounting errors which overstated capital. A formal liquidity and funds management program is needed. Violations of laws, rules and regulations were cited in the commercial consumer affairs examination.

A Memorandum of Understanding required correction of the law violations and the adoption of procedures to prevent future violations. The board of directors was to (1) formulate and implement a written program to eliminate all assets from criticized status, (2) establish procedures to ensure compliance with the bank's lending policy, (3) ensure that the bank obtains current and satisfactory information on all loans lacking such information and refrain from granting or renewing loans until said information has been ascertained, (4) develop a system for identifying and monitoring problem loans, (5) develop a program to improve loan collections, and (6) maintain an adequate allowance for possible loan losses.

The board was required to submit to the regional administrator (1) an acceptable written capital program, (2) written guidelines governing liquidity and asset/liability management, and (3) amendments to inaccurate regulatory reports.

53. Bank with assets of less than $25 million

Classified assets were 58 percent of gross capital funds. Loan losses almost depleted earnings. Loans not supported by current and satisfactory credit information and delinquent loans exceeded prudent banking standards. A majority of the bank's loans were in noncompliance with the lending policy. The bank's president granted and supervised most of the bank's loans. Additional lending staff was needed. The bank also had a capital shortfall. A formal liquidity and funds management program was needed. Violations of 12 USC 84 and 74, and 12 CFR 1.8 were cited in the commercial examination. Bank officials did not respond regarding correction of violations cited in a consumer affairs examination.

A Memorandum of Understanding required correction of violations of law and the adoption of procedures to prevent future violations. The board was required to (1) assess the adequacy of and make any desired additions to the bank's lending staff, (2) formulate and implement a written program to eliminate all assets from criticized status, (3) establish procedures to ensure compliance with the bank's lending policy, (4) ensure that the bank obtains current and satisfactory information on all loans lacking such information and refrain from granting or renewing loans until said information has been ascertained, and (5) develop a system for identifying and monitoring problem loans. The board was also to submit to the regional administrator a written capital plan with injection, a comprehensive budget, and written guidelines governing liquidity and asset/liability management.

54. Bank with assets of $100 to $250 million

The bank's asset and loan growth rates had been large, almost tripling in 3 years. Capital accounts had not kept pace with the asset growth and were inadequate. The investment portfolio was of adequate quality but represented a small percentage of assets and was of a long-term nature. A majority of the asset growth had been funded by purchased liabilities. As a result of these practices, liquidity was unsatisfactory. In addition, the loan portfolio reflected signs of deteriorating quality with increases in classified assets and overdue loans. The report of examination showed several violations of law and regulations.

An Agreement required that the board formulate and submit a 5-year capital plan, including an immediate capital injection. The Agreement further required the board to adopt and implement (1) a written liquidity/funds management policy, (2) a lending policy, and (3) an investment policy. The bank was to take the necessary steps to obtain and maintain satisfactory credit information on all loans and to correct the imperfections pertaining to the securing of collateral. The board was to correct violations of law and regulation and to adopt procedures to prevent recurrence of similar violations. In addition, the Agreement required the board to conduct a study of the effectiveness and depth of current management and make adjustments where necessary.

55. Bank with assets of $500 million to $1 billion

The bank was the lead bank of a holding company. The financial condition of the holding company closely paralleled that of the lead bank. The problems at the bank were identified as poor asset quality centered in the loan account, poor earnings, capital inadequacy, and weak management. Problems in the lending area were caused by a disregard for sound principles and, in many instances, good credit analysis and effective collection procedures were lacking. The volume of past due loans was high and illustrated the weaknesses of the loan portfolio and the collection effectiveness of management. Net loan losses continued to deplete the allowance for possible loan losses. Past earning records were poor with a steady downward trend. An equity capital shortfall existed, primarily due to unsatisfactory retention of earnings caused by heavy loan losses. The board of directors and active management were cooperative, but the problems of the bank appeared overwhelming for management and they lacked the capacity to effectively solve them.

A Notice of Charges was served upon the bank, and the board stipulated to a final Order to Cease and Desist. The board was ordered to appoint a compliance committee, which would monitor the order and report on the bank's progress. The board was to initiate steps to employ an executive management officer whose primary responsibility would be in the lending area and who would be accountable only to the board. If the regional administrator was not satisfied with the bank's overall progress by year-end, the board would provide the bank with a new chief executive officer. The bank was to take action necessary to protect the bank's interest concerning criticized assets, and to adopt a program to eliminate each asset from criticized status. No new credit or renewals were to be made to criticized borrowers unless in the best interest of the bank. The reasons were to be documented. The bank was to obtain and maintain current and satisfactory credit information and grant no new credit without this information. The bank was to maintain the allowance for possible loan losses at an adequate level and to review that adequacy on a quarterly basis. The board was to submit a written 5-year capital plan to the regional administrator which would provide for a large equity injection by year-end and, if necessary, an equal equity injection at the end of the next year. The bank was to pay no dividends without the prior written approval of the regional administrator until the full equity injections had been accomplished. The board was also required to select a capital committee which would report the bank's efforts to raise the additional capital. The bank was to prepare a written profit plan describing the bank's objectives and the action taken to achieve those objectives. Projections, adjustments and comparisons of the profit plan were to be monitored and reported on a periodic basis. The board was to formulate and implement a written funds management policy. The bank was to correct all violations of law, rule or regulation and establish procedures to prevent further violations.

56. Bank with assets of less than $25 million

Loan administration problems were identified; classified loans increased from 21 to 73 percent of gross capital funds, with the deterioration attributed to inadequate supervision and failure to adhere to the lending policy. Also of concern is an increasing volume of rate-sensitive funds along with the lack of a written asset/liability management plan. The consumer report reflected four violations, including one repeat violation of Regulation Z. There were two violations of 12 USC 84 on the date of examination, and a number of loans were made in excess of the lending limit between examinations.

A Formal Agreement required the bank to (1) cause all extensions of credit which were in excess of the limitations provided in 12 USC 84 to be reduced to conforming amounts, (2) amend existing policies and procedures to prevent future violations of 12 USC 84, (3) implement an effective internal control program designed to prevent future violations of consumer laws and regulations, and (4) develop and implement a written program designed to remove each asset from a criticized status. The bank was also required to strictly adhere to the written loan policies adopted by the board, conduct at least quarterly reviews of the allowance for possible loan losses and adjust it appropriately, develop and implement written guidelines for coordination and management of the bank's assets and liabilities, and formulate and adopt a written program to restore and maintain earnings.

A civil money penalty referral was made concerning repeated violations of 12 USC 84.

57. Bank with assets of $25 to $50 million

Initial results of a general examination of the bank revealed deterioration of condition raising a possibility of insolvency. Assets classified as doubtful and loss amounted to 118 percent of gross capital funds and total criticized assets represented approximately 213 percent of gross capital funds. The loan portfolio contained a heavy concentration of insider and out-of-territory loans. There were unexplained wide fluctuations between financial statement dates, numerous collateral imperfections and lack of information about the ownership of many of the classified corporate borrowers and/or their affiliates. Missing, outdated or suspect financial information, including highly inflated asset values, increased the difficulty of evaluating certain loans. Numerous, unwarranted, unsecured advances, often without an identified source of repayment, were uncovered.

A Notice of Charges and Temporary Order to Cease and Desist were served upon the bank. The Temporary Order stopped payment of dividends except in accordance with 12 USC 56 and 60 and with prior approval of the regional administrator. The bank was prohibited from extending further credit to certain borrowers and was required to take all steps necessary to obtain and maintain credit information and collateral documentation for loans listed in an appendix to the Temporary Order. Finally, the bank was prohibited from payment of checks drawn against uncollected deposit balances with respect to certain accounts. An administrative hearing is pending.

58. Bank with assets of $25 to $50 million

Classified assets amounted to 85 percent of gross capital funds, an increase from 46 percent in the previous examination. Past due loans were high in all categories and represented 9 percent of gross loans. Overall administration of the loan portfolio was poor. Earnings were below the peer group average due to high personnel expenses and other operating expenses. Equity capital growth did not keep pace with asset growth; the equity capital to total asset ratio was 7:1, low compared with other banks in its peer group.

A Memorandum of Understanding required the bank to immediately correct all violations of law. The bank was to perform a review of management and to appoint a new chief executive officer within 90 days. Management and director fees were to be evaluated under listed criteria and a plan to prevent excessive payment of such fees was required to be submitted to the regional administrator who had veto power over the plan. The bank was to develop and implement a plan to improve loan administration which addressed specified areas. The bank also was to develop and implement a revised 5-year capital plan, to be reviewed by the regional administrator. A plan to identify, monitor and limit concentrations of credit, particularly in the construction loan area, was required.

59. Bank with assets of $50 to $75 million

Serious problems were revealed in the examination of the bank due to mismanagement in administration of the lending function by the senior executive officers. Violations of 12 USC 84 were uncovered indicating improper management and inadequate director supervision. One of the loans in violation of 12 USC 84 exhibited tremendous loss potential. Inadequacy of capital was exacerbated by high dividend payments. The bank lacked control over overdrafts, particularly to certain borrowers whose loans were classified. Classified assets amounted to 148 percent of gross capital funds and credit data and collateral exceptions were at the inordinately high levels of 18 and 13 percent, respectively. Due to the loss potential, the allowance for possible loan losses was inadequate.

A Temporary Order to Cease and Desist prevented the bank from further extensions of credit to any borrower cited in violation of 12 USC 84 and required the bank to take steps to correct these violations. The bank was ordered not to pay or declare dividends except in conformity with 12 USC 56 and 60, and with prior written approval of the regional administrator. Establishment of an overdraft policy was required as was an analysis of the bank's allowance for possible loan losses. The bank was prevented from extending additional credit without necessary credit information and collateral documentation. A civil money penalty referral has been made and a hearing on the Order to Cease and Desist has been scheduled.

60. Bank with assets of $50 to $75 million

The bank's identified problems included inadequate supervision, poor operating procedures and poor lending practices. These problems had led to an inordinate level of classified assets and delinquent loans, deficient earnings and a marginal capital position. The examination revealed continuation of previous problems which included extensive employee turnover at all levels and inadequate management. A change in ownership of the bank occurred, initiating slow but positive change in operation of the bank. New ownership focused attention on reducing expenses, analyzing the investment portfolio, correcting violations of law and revising the budget. Although a new commercial loan officer was hired, the bank was ill without a full time chief executive officer.

A Formal Agreement required the board of directors to conduct a management review and hire a new chief executive officer within 60 days. The board was required to develop and implement a profit plan to improve earnings and a program to strengthen equity capital. Declaration of dividends was prohibited except in accordance with 12 USC 56 and 60 and with approval of the regional administrator. The bank was prohibited from rebooking loans and was directed to correct internal control deficiencies. The board was directed to develop and implement an overdraft policy, adopt a written plan for each criticized loan and review the adequacy of the present loan policy in correcting the deficiencies listed in the report of examination with respect to that loan policy.

61. Bank with assets of less than $25 million

The bank's condition under current ownership reflected asset problems, a capital shortfall and self-serving practices. Ownership promised to correct these deficiencies. The examination reflected classified assets equal to 43 percent of gross capital funds and other assets especially mentioned equalling an additional 25 percent. The classifications excluded $285,000, equal to 23 percent of gross capital funds, in insider loans that were refinanced at another institution during the examination. A capital injection had not been accomplished. Several violations of law were reported, including insider violations.

Additional deficiencies were (1) unstable earnings, (2) an incomplete lending policy, (3) loan documentation exceptions, (4) need for an investment policy, and (5) need for a liquidity and asset/liability management policy.

A Formal Agreement required adoption of procedures to prevent violations of law. The Agreement also required (1) strict requirements regarding extensions of credit to executive officers, directors and principal shareholders of the bank, (2) completion of an equity capital injection during 1980 and compliance with the bank's capital plan, (3) submission of a comprehensive budget, (4) revision of the lending policy, (5) formulation and implementation of a written program to eliminate all assets from criticized status, (6) maintenance of an adequate allowance for possible loan losses, (7) acquisition of current and satisfactory information on all loans lacking such information and no granting or renewing of loans until such information has been ascertained, (8) establishment of written guidelines governing liquidity and asset/liability management, and (9) adoption of a written investment policy.

A referral has been made by the region for consideration of civil money penalties for insider violations.

62. Bank with assets of $100 to $250 million

The bank was in deteriorating condition as a result of a poor local economy and lax management. There were significant increases in classified assets, which grew from 43 to 72 percent of gross capital, substantial loan losses, liberal rewrite and loan extension policies, high credit card charge-offs, and overline and out-of-trust situations. Violations of law included 12 USC 29 and 84, and two violations of Regulation Z, 12 CFR 226.

A Memorandum of Understanding required the board to perform a study of its management and correct any deficiencies. The board was required to correct all violations of law. The board was to submit a written program to eliminate each asset from criticized status, formulate an internal loan review system, maintain an adequate allowance for possible loan losses, reduce the level of delinquent loans, adopt a nonaccrual policy, adopt floor plan lending and credit card lending policies, and adopt a funds management policy. Loans to any borrower whose loans or other extensions of credit had been criticized were restricted.

63. Bank with assets of $25 to $50 million

This $1 million trust department with nine fiduciary accounts was operating at a loss as a service to bank customers. The examination revealed that the board failed to supervise the administration of the trust department, having delegated that function to a trust investment committee which had only met once in the last year. The bank's fiduciary activities were not being suitably audited; there were no general ledger controls or annual written account reviews. Real estate held in trust was not being appraised. There were no written policies or procedures.

A Formal Agreement required the board to evaluate whether the bank should continue to operate a trust department and to consider its profitability and the quality and depth of its management. Policies and procedures were established to bring the trust department into compliance with 12 CFR 9, particularly with regard to the investment of fiduciary funds in accordance with 12 CFR 9.11. Adequate books and records were also required in conformance with 12 CFR 9.8(a), and periodic account reviews were required in conformance with 12 CFR 9.7(a)(2). Proper documentation of discretionary actions was required, as were policies prohibiting the use of material insider information and self-dealing transactions in conformance with 12 CFR 9.12. Real estate held in trust was required to be properly administered. Recordkeeping and confirmation of securities transactions were also required to conform with 12 CFR 12.

64. Bank with assets of $75 to $100 million

The bank's condition markedly deteriorated since the last examination. Classified assets increased from 29 to 73 percent of gross capital funds and liquidity was down to 11 percent. Earnings had declined which contributed to a strain on capital. Management was ineffective, with employee turnover amounting to 45 percent in 1979.

A Memorandum of Understanding required the board to review bank management, augmenting it where appropriate, and to review the causes of excessive employee turnover. The board was required to correct all violations of law. The board was also required to review its loan supervision system, eliminate each criticized asset, not lend additional money to a borrower whose loan was criticized, maintain current credit information and review the allowance for possible loan losses. The board was required to raise the level of liquidity, implement a written funds management policy, analyze the bank's capital needs and submit a capital plan to the regional administrator.

65. Bank with assets of $250 to $500 million

The bank had engaged in heavy speculative real estate lending and maintained a large portfolio of low yielding real estate loans. Heavy loan loss provisions resulted in depressed earnings. Although the bank's liquidity was stable and at a comfortable level, the bank's holding company continued to draw virtually 100 percent of the bank's net income in the form of dividends. Management's progress in working out of the real estate situation was exceptionally slow and it was felt that some regulatory input was needed to move the bank toward correction.

A Memorandum of Understanding required the board to (1) create and implement new written programs and policies to eliminate criticized assets, (2) establish an amended written loan policy, (3) handle and dispose of other real estate owned, (4) establish guidelines governing the loan review system, (5) identify problem loans in a timely manner, and (6) create a revised asset/liability management policy.

66. Bank with assets of less than $25 million

The bank's problems included an inadequate capital structure, continued operating losses, a rate-sensitive liability structure, and increased criticized assets. Lax management of the loan portfolio, inadequate documentation and liberal rewrites and renewals contributed to the problems. Lack of earnings and recent loan losses also had an adverse impact on the bank's capital.

A Formal Agreement required the adoption of a plan to reduce criticized assets and the implementation of a program to improve collection efforts and increase supervision over the loan portfolio. Current and satisfactory credit information was to be obtained and maintained for all loans. The allowance for possible loan losses was to be monitored to ensure it is maintained at an adequate level. A capital plan and a profitability plan were required to be developed and implemented in a timely fashion. All violations of commercial banking laws and consumer laws were to be corrected and procedures were to be adopted to prevent recurrence.

67. Bank with assets of less than $25 million

The bank, with a history of asset problems, was in deteriorating condition. Classified assets increased to 127 percent of gross capital funds. Self-serving ownership and frequent management changes were cited as the cause of the bank's problems. The bank had four presidents in 3 years. The directors had violated 12 USC 375b and had received unreasonable or unjustifiable expenses and fees. The directors interfered with management's handling of the lending function by committing the bank to make loans. One director's loan had been classified as a loss. High loan losses resulted in poor earnings and impaired capital.

A Formal Agreement required that the bank correct violations of 12 USC 375a and 375b. An equity capital injection was required, along with a 3-year capital plan. The board was required to engage an independent special counsel to evaluate compensation paid to certain directors for salaries, fees and expenses and to determine whether restitution was warranted. The board was required to submit a plan to ensure that future compensation paid to officers, directors or employees was reasonable for services rendered and adequately documented. The board was required to perform a management study and to develop a plan to strengthen loan administration. The plan was to include procedures ensuring that no director could unilaterally commit the bank to make a loan. Loans to criticized borrowers were prohibited. The bank was required to take immediate action, including legal action, to collect the classified loan of its director. The allowance for possible loan losses was required to be increased immediately by $150,000. A written funds management policy and investment policy were required.

68. Bank with assets of less than $25 million

The bank was in deteriorating condition. The level of classified assets and delinquent loans had increased. Credit and collateral exceptions had also increased. Loan losses were negatively impacting earnings. The problems were, in part, caused by ineffective management and liberal lending philosophies. Some audit deficiencies were also disclosed.

A Memorandum of Understanding required that extensions of credit in excess of the bank's lending limits be reduced to conforming amounts. All other violations of law were to be corrected. The board was required to make a management study. The bank was not allowed to lend additional money to a borrower whose loan had been criticized and the board was required to formulate a plan to eliminate each asset from criticized status. The board was required to establish its own monitoring program for problem loans and to take action to protect the bank's position with respect to delinquent loans. The board was required to obtain current and satisfactory credit information and obtain and perfect collateral. The allowance for possible loan losses was to be maintained at an adequate level. Internal control deficiencies were to be corrected.

69. Bank with assets of less than $25 million

The bank experienced a massive embezzlement by the former chief executive officer. The total amount of the defalcation amounted to nearly half of the bank's capital. A pension fund was the principal account which suffered losses. Although the bank had no trust charter, the chief executive officer may have misrepresented that he was acting as fiduciary in his capacity as a bank officer. The board allegedly was apprised of the embezzlement as early as 1978, but did not report it to the OCC or other authorities in violation of 12 CFR 7.5225. The board also failed to record any discussion of the matter in the board minutes. It was possible that the bank's bonding company would refuse to honor part of the claim or would cancel coverage. Additionally, the board received excessive compensation for expenses. Internal control deficiencies also existed.

An Order to Cease and Desist required the board to appoint two independent directors and a third director acceptable to the regional administrator, to comprise a compliance committee to (1) determine the extent of the losses resulting from the defalcation; (2) ensure that all possible claims were filed with the bonding company; (3) advise the bank whether any cause of action exists against any director, officer or employee as a result of the defalcation; (4) request any necessary restitution from any director, officer or employee for any claims dishonored by the bonding company; and (5) determine what disclosure should be made to shareholders. The board was required to inject equity capital in an amount requested by the regional administrator to cover any losses resulting from defalcation. The board was to adopt policies to ensure that any known or suspected criminal activity was immediately reported to the bonding company and the proper authorities. The board was required to pursue all claims against the bonding company and to maintain fidelity insurance coverage in an adequate amount. Minutes of all matters reviewed, discussed and acted upon were required to be maintained by the board. A new chief executive officer was to be hired. Policies and procedures for fees and expenses were required to be instituted. The special counsel was required to review expenses and recommend whether reimbursement should be requested by the bank from the recipient. Internal control deficiencies were required to be corrected, as were all violations of law. The bank was also required to adopt a program for improving collection efforts and reducing the level of delinquent loans and to submit a written funds management policy. No further dividends were allowed without the prior approval of the regional administrator. A budget and profit plan were required. The board was required to either obtain a trust charter or ensure that none of its officers act in a fiduciary capacity with a depositor unless the board was satisfied that the relationship was sufficiently independent of the bank.

70. Bank with assets of $50 to $75 million

The bank's problems stemmed primarily from the rapid growth and poor loan administration and supervision. There were violations of 12 USC 84, with the excessive lines subject to criticism. Liquidity was considered inadequate and there was a need for improved asset/liability management. Earning figures were overstated due to inadequate provisions to the allowance for possible loan losses and questionable loan accrual methods. Capital growth had not kept pace with asset growth and capital ratios were well below peer group averages. Some directors' loans were criticized and directors generally were uncooperative.

A Formal Agreement required the bank to reduce loans in violation of 12 USC 84 to conforming amounts, and the board was to insure that the bank suffered no loss on any loan in violation of 12 USC 84. Additionally, the bank was to correct each violation of law and adopt procedures to prevent future violations. The board was to submit a written capital plan to the regional administrator which included the completion of an equity capital injection. The bank was to submit a budget which included a detailed balance sheet and income and expense items and assumptions used in developing the forecast. The board was to perform a study of current management and implement a written management plan. The board was to establish and implement procedures to monitor and enforce adherence to the lending policy. The board was to adopt a program to eliminate the grounds of criticism of each asset criticized and not to extend credit to borrowers whose loans had been criticized, unless in the best interest of the bank. The board was to conduct quarterly reviews of the adequacy of the bank's allowance for possible loan losses and make adjustments to the allowance which would be reflected in regulatory reports and obtain and maintain current and satisfactory credit information and collateral documentation on loans. The board was to adopt a written liquidity, asset and liability management policy. The bank's liquidity was to be maintained at a level commensurate with the bank's needs. The board was to formulate a written policy to define the circumstances under which depositors would be permitted to draw against uncollected funds. The board was to review and revise the bank's investment policy and to establish procedures to monitor and enforce adherence to that policy. The board was to assess the appropriate amount of directorate and committee fees paid by the bank. Their conclusions and recommendations were to be reported to the full board and the regional administrator.

71. Bank with assets of $25 to $50 million

The bank suffered from liberal lending practices and poor collection efforts as evidenced by high classified assets. Loan documentation was deficient and loan portfolio delinquency was high. It was apparent that improved loan administration was needed. Earnings had been satisfactory but losses and charges to replenish the allowance for possible loan losses impacted current earnings. There was a capital shortfall and a need for a capital plan. Several violations of 12 USC 84 and four other violations of laws, rules or regulations were cited in the report of examination.

A Memorandum of Understanding required a written capital plan acceptable to the OCC. The bank was required to correct loan documentation deficiencies. The board was to review the allowance for possible loan losses at least quarterly and maintain the account at a balance which would reflect the risk inherent in the loan portfolio. The board was to adopt a written program to improve management's collection efforts. The board was to review and revise the existing lending policy to include a method of monitoring and enforcing compliance with the policy, a system to identify and monitor problem loans and provisions for extension of credit to insiders. The Memorandum required a written program to eliminate grounds for criticism of each asset criticized and to correct all violations of laws, rules and regulations. All losses resulting from a loan extended in violation of 12 USC 84 were to be documented and a method of reimbursement for any losses was to be developed. The board was to adopt a written liquidity, asset and liability management policy. Additionally, a written internal audit program was to be adopted and the board was to appoint a capable and independent individual to perform such procedures.

72. Bank with assets of $100 to $250 million

The specialized examination revealed a significant deterioration in the condition of the bank. Liquidity had dropped to less than 6 percent because of sustained growth in real estate credits. This concentration in real estate amounted to nearly 300 percent of gross capital funds. Classified assets represented 141 percent of gross capital funds (80 percent of which were real estate related); delinquencies were 8 percent of gross loans, and 11 percent of the loan portfolio was not supported by current credit information. The allowance for possible loan losses was inadequate. Insider abuses had occurred, consisting of violations of 12 USC 375a and 375b, and unjustified payment of expenses and salary advances. Illegal political contributions had been made. Extensions of credit had exceeded the bank lending limit, in violation of 12 USC 84. There had also been excessive extensions of credit to the bank's affiliate, in violation of 12 USC 371c, and violations of 12 CFR 226 (Regulation Z), and 12 CFR 7.3025. Additionally, a contract had been awarded to a director to construct the bank's new building without first requiring competitive bidding.

A Formal Agreement required the board to reduce the Section 84 violations to conforming amounts, cease extending credit to its officers, directors, principal shareholders or their related interests in violation of 12 USC 375a and 375b, cease extending credit to affiliates in violation of 12 USC 371c, and cease violating Regulation Z. The board was required to obtain the regional administrator's approval before issuing any dividends, maintain adequate liquidity and adopt a funds management policy. A management study was required, as well as the employment of a new senior lending officer. The bank was required to eliminate each asset from criticized status and refrain from lending additional money to a borrower whose loan had been criticized. Current and satisfactory credit information was required. The board was also required to review its policy for the purpose of reducing concentrations of credit in real estate, formulate a new policy, and take action to bring each concentration into compliance with that new policy. The board was also required to engage an independent appraiser to appraise other real estate owned, in conformity with 12 CFR 7.3025. The board was to identify and review problem loans and maintain the allowance for possible loan losses at an adequate level. Delinquent loans were to be reduced and a loan policy implemented. Reimbursement of officer overdrafts was required, along with the institution of a policy covering overdrafts. A capital plan and an expense policy were required. The board was required to hire a special counsel to review expenses paid and the circumstances under which the construction contract had been awarded. The special counsel was to recommend restitution where necessary. Reimbursement was required for illegal political contributions if the recipients failed to voluntarily repay the bank. Audit deficiencies were to be corrected.

73. Bank with assets of $50 to $75 million

The examination revealed a deteriorating asset condition, with classified assets amounting to 57 percent of gross capital funds and total criticized to 76 percent of gross capital funds. Past due loans represented 7.5 percent of the portfolio; credit and collateral exceptions were excessive. Liquidity was unacceptable at 11 percent. Violations of commercial and consumer laws were noted. The administration of the trust department was deficient. The bank was not administering its common trust funds in compliance with 12 CFR 9.18; common trust fund units had been pledged to the commercial department. One common trust fund, a tax exempt bond fund, had invested more than 10 percent of its assets in a single private placement. That fund had not been valued properly, and the bank had not instituted a procedure for approval of entries or withdrawals of units. The trust department violated 12 CFR 9.12 by purchasing bonds that the bank had contracted to purchase. Active officers of the bank were acting as members of the trust audit committee in violation of 12 CFR 9.9. Internal controls were weak. No checklists or synoptic records to ensure proper administration of trust accounts were maintained. Real estate held in trust was not being appraised frequently enough and was not adequately insured.

A Memorandum of Understanding required the bank to cease violating the law, to correct all violations and to implement policies and procedures to prevent future violations, including consumer violations. The board was required to formulate a capital plan, to implement a written funds management policy and to maintain an adequate liquidity position. A written plan to eliminate each criticized asset was required. The board was required to implement a problem loan identification and monitoring procedure and to review the allowance for possible loan losses to ensure that it is maintained at an adequate level. A review of the bank's delinquent loan procedures was required, as was the collection of satisfactory credit information and collateral documentation. The tax exempt bond fund was to be revalued with readjustments to each affected account. The board was required to sell the trust department's interest in the issuance that the bank had contracted to purchase at no loss to the trust accounts and was specifically required to implement procedures to prevent further self-dealing. The bank was required to release all common trust fund units pledged as collateral for loans. Various procedures to correct the deficiencies in operation, administration and investment of collective investment funds in conformance with Section 9.18 were required. The bank was also required to correct deficiencies in the administration of real estate held in a fiduciary capacity. A written trust audit program was required, as was the elimination of active officers from membership on the trust audit committee. A trust department policy manual was required to be drafted.

74. Bank with assets of less than $25 million

An Order to Cease and Desist prohibited extensions of credit in excess of the lending limitations of 12 USC 84. It also required the board of directors to indemnify the bank against losses resulting from loans or other extensions of credit made in violation of 12 USC 84. Prior to the Order to Cease and Desist, the bank had extended credit to a corporation in an amount that would have exceeded the lending limitation of 12 USC 84, except that a portion of the extension was participated to a correspondent bank. After the order became effective, the corporation and its owner filed for bankruptcy. The correspondent bank charged the participation back to the bank. Subsequently, the board of directors of the bank approved the charge off of the amount of the participation as a loss. The reacquisition by the bank of the participation was a new extension of credit which exceeded the lending limitation of 12 USC 84 and violated the Order to Cease and Desist.

An Agreement with the board of directors of the bank required the board to make restitution to the bank for the amount of the participation reacquired by the bank and charged off by the board. The Agreement also required the board to reimburse the bank for all legal fees paid to the board's counsel by the bank in connection with the matter.

75. Bank with assets of $75 to $100 million

Speculative investment practices of the bank continued to hinder the bank's earnings, liquidity and balance sheet flexibility. Bond depreciation was 111 percent of adjusted capital funds with 51 percent of the investment portfolio maturing beyond 10 years. Criticized investments amounted to 38 percent of gross capital funds. Progress by the bank in correcting this situation was extremely slow. Criticized loans equalled 74 percent of gross capital funds. Of primary concern was a large extension of credit to or for the benefit of a corporation; that extension equalled 35 percent of gross capital funds and constituted a violation of 12 USC 84. The extension of credit had been on nonaccrual and without reduction for an extended period. The allowance for possible loan losses was also inadequate. Due to a deterioration of the net interest margins the bank's earnings had declined considerably. Bank capital was unduly leveraged in terms of asset growth, risk assets and inadequate levels of retention.

A Notice of Charges was filed against the bank charging that it had violated the lending limitations of 12 USC 84. It also alleged that the bank was operating with inadequate capital, had accumulated criticized assets which totaled 114 percent of the bank's gross capital funds and had failed to properly review and supervise the bank's loan portfolio, develop a current investment policy and develop an asset/liability management policy designed to reduce the bank's reliance on rate-sensitive liabilities to support fixed rate assets. An administrative hearing is pending.

76. Bank with assets of $25 to $50 million

The bank's problems were centered in the loan portfolio. Total criticized assets equalled 90 percent of gross capital funds. Net loan losses for the prior year totaled 4 percent of average total loans. Past due loans totaled 8 percent of total loans. Credit and collateral exceptions represented 23 percent of gross loans. Other real estate owned and repossessed automobiles represented 11 percent of gross capital funds. The condition of the loan portfolio was a result of problems in the executive management and lending personnel. Although the bank had implemented detailed loan policies and procedures, the executive officer of the bank had not adequately supervised the loan portfolio to ensure adherence to the loan policies. Supervision of the loan portfolio and lending authority were delegated to three officers who did not display the capability to adequately manage the loan portfolio. Violations of law included 12 USC 74 and 375a; 12 CFR 7.3025, 23 and 221; and 31 CFR 103.33.

A Memorandum of Understanding required measures to improve the quality of management including a study of current management and the implementation of a written management plan. The progress of the bank in complying with the articles of the Memorandum and in improving the condition of the bank were to be reviewed by the regional administrator 4 months after the effective date of the Memorandum and, if sufficient progress had not been made, the board was required to obtain a new chief executive officer for the bank. In addition, the bank was required to submit (1) a written capital program, (2) a written program to improve the earnings of the bank, (3) procedures to ensure compliance with lending policies, (4) a written program to eliminate all assets from criticized status, (5) a written program to improve collection efforts, (6) a quarterly review of the allowance for possible loan losses, (7) procedures to obtain satisfactory credit and collateral documentation and (8) a plan for correction of internal control deficiencies. A compliance committee was also to be formed.

77. Bank with assets of $250 to $500 million

An examination revealed deterioration in the condition of the bank. Total criticized assets amounted to 67 percent of gross capital funds. Loans not supported by current credit information represented 13 percent of gross loans. The loan review procedures used by the bank were in need of revision to ensure the review function was independent and accountable to the board. The bank was undercapitalized and earnings were inadequate. In view of the substandard earnings, the depreciated investment portfolio, the high net borrowed position of the bank, a negative growth in demand deposits, and the overall volatility of the deposit structure, liquidity was considered marginal. Violations of law included 12 CFR 7.5225, 23.1 and 7.7000. Deficiencies were also noted in the trust department; the most serious of those was the out of proof condition of a corporate stock transfer account.

A Memorandum of Understanding directed the board to strengthen the quality of supervision by management including adjustments to staffing if necessary. The board was required to review the bank's written capital program and ensure that the projections detailed in the program were being met. If the review indicated that the projections were not being met, then revision of the program to provide a level of equity capital acceptable to the regional administrator was required. Additionally, the bank was required to (1) implement a written program to eliminate all assets from criticized status, (2) implement procedures to obtain satisfactory credit and collateral documentation, (3) revise its funds management policy, (4) submit a budget, and (5) correct and eliminate all violations of law. The bank was also required to take all necessary steps to correct the deficiencies cited in the trust report of examination. Finally, the bank was required to establish a committee to ensure the bank's compliance with the Memorandum of Understanding.

78. Bank with assets of $25 to $50 million

The bank had previously suffered substantial loan and operational losses which threatened its continued existence. These problems were related to the lack of management experience and controls. Criticized assets approximated 50 percent of gross capital funds, past dues exceeded 6 percent of gross loans, and credit information was insufficient. Management had embarked on a growth program, with assets doubling in approximately 1.5 years. That growth was funded largely by rate-sensitive and volatile deposits, with approximately one-third of the bank's footings supported by a single, overnight demand deposit account. At the same time, the bank was using those funds to provide medium term real estate loans at fixed rates. Between examinations, loans to deposits had grown to approximately 99 percent. Increased levels of earnings came with that growth, and the board approved a compensation program for the chief executive officer solely tied to a specific percentage of pretaxed net income. Additionally, the bank was cited for violations of 12 USC 84, 83 and 375b; 12 CFR 217 (Regulation Q); and 15 USC 1681.

A Formal Agreement required the board to develop a written management plan, including a summary of their own duties and responsibilities and written position descriptions for chief officers, which addressed the current compensation program. The board was not to base compensation solely upon the bank's operating performance. Additionally, the Agreement required that the board develop a comprehensive financial plan, including a liquidity and asset/liability management program, a program to sustain the bank's earnings and a capital maintenance program. The board was also required to reduce the bank's exposure in criticized assets and not to extend any further credit to a borrower whose loan was criticized. Each of the items was required to be submitted to the regional administrator for his review and approval. A loan policy was required to be developed with respect to insider transactions, delinquent loans and credit information.

79. Bank with assets of less than $25 million

Poor asset quality, loss operations, a capital shortfall and an inadequate funds management policy were attributed to poor management and inadequate directorate supervision. The examination revealed that the bank's overall condition had deteriorated because of continued poor management and insufficient directorate supervision. Classified assets increased from 62 to 126 percent and delinquent loans rose from 11 to 14 percent. Recently hired management proved to be inadequate as shown by continued poor internal operations and limited loan loss recoveries.

An Order to Cease and Desist required the bank to (1) obtain a new chief executive officer acceptable to the regional administrator, (2) have the board regularly review the adequacy of bank management, (3) produce and implement a written outline of senior management's duties and responsibilities, (4) eliminate criticized assets, (5) take action to remove loans to directors from criticized status, (6) strengthen its lending policy by review and revision, (7) take action to obtain current and satisfactory credit information on all existing and future loans, (8) take necessary steps to correct collateral exceptions and establish procedures to ensure sufficient collateralization in the future, (9) conduct quarterly board review and adjustment of the adequacy of the allowance for possible loan losses, (10) provide delinquent loan percentage reports to the regional administrator, (11) review and revise the written liquidity, asset and liability management policy, (12) develop and implement a written audit program, and (13) record all board and board-appointed committee meetings.

80. Bank with assets of less than $25 million

Ineffective board supervision and frequent senior management turnover contributed to loan portfolio deterioration, poor operations and violations of law. Internal controls and audit procedures were weak. The lending staff was considered inadequate. Classified assets equalled approximately 85 percent of the bank's gross capital funds. Loans not supported by current and satisfactory credit information represented approximately 25 percent of total loans and past due loans were almost 30 percent of gross loans. Four violations of 12 USC 84 were noted. The bank had failed to conform to the requirements of a Memorandum of Understanding previously executed.

An Order to Cease and Desist ordered the board to correct violations of 12 USC 84 and other violations cited. The board was further required to evaluate present management. The bank was ordered to protect the interests with regard to criticized assets, not to lend to certain criticized borrowers and to improve and strengthen its collection efforts. The bank's allowance for possible loan losses was also to be increased and maintained on a periodic basis. The bank was also required to obtain current and satisfactory credit information on all loans. The board was required to eliminate certain internal control and audit deficiencies and to establish a comprehensive formal written audit program and to develop a capital plan subject to the review and approval of the regional administrator.

81. Bank with assets of $25 to $50 million

Inadequate management, violations of law and regulation, increased classified assets, loans not supported by current and satisfactory credit information, and past due loans were the primary problems affecting this bank. One violation of 12 USC 29, two violations of 31 CFR 103, and one violation of 12 CFR 217 were disclosed.

A Formal Agreement required immediate correction of all violations of law. A committee was established to study and evaluate the bank's current management. The bank was required to retain the services of an independent appraiser. The bank was further required to adopt and implement a written program for strengthening criticized assets and to adopt written procedures for recovery of charged off loans and delinquent loans, as well as to develop a program to maintain current and satisfactory credit information. The bank was also directed to evaluate its lending policy and not to extend credit without having adequate collateral. The bank was required to increase its allowance for possible loan losses and further required to develop investment policies. The bank was required to review its capital and to develop a program to maintain and strengthen the capital structure of the bank. The bank was prohibited from declaring dividends without the prior written approval of the regional administrator.

82. Bank with assets of $25 to $50 million

Violations of 12 USC 84, coupled with insider abuse, led to a severe deterioration in the condition of this bank. Classified assets had increased, the reserve for possible loan losses was inadequate and loans not supported by current credit information represented approximately one-third of the bank's loan portfolio. Past due loans were approximately one-fourth of all loans.

An Order to Cease and Desist ordered the bank to immediately correct all violations of 12 USC 84 and any other violations cited. The bank was required to obtain independent special counsel to review the violations of 12 USC 84 and 12 CFR 215 to determine what liability the board may have had in granting such loans and causing such violations. The bank was further required to develop a compliance committee to develop procedures to ensure compliance with the order. The bank was prohibited from extending credit to certain former bank officials and loans were not permitted to certain persons cited in the report of examination as having indulged in insider transactions, self-dealing, and abuse. The bank was also required to evaluate its management needs and to adhere to certain lending policies. The bank was required to develop a plan to recover certain assets that had been charged off. The bank was further required to develop an investment policy in liquidity and to improve its liquidity. The bank was required to evaluate its capital needs. The bank was ordered to develop a plan to obtain and maintain satisfactory credit information and was prohibited from extending credit to criticized borrowers. The bank was further required to increase and maintain its allowance for possible loan losses. The board of directors was required to adopt a written code of ethics. Dividends and compensation paid to officers were restricted.

83. Bank with assets of less than $25 million

The bank was initially required to enter into an Order to Cease and Desist with this Office. However, in view of improved conditions, the order was terminated and the board entered into the Memorandum of Understanding. The bank still needed a capital injection and had to undertake action to improve and sustain its earnings. The allowance for possible loan losses was not adequate and internal controls needed to be improved.

A Memorandum of Understanding required the board to seek capital injection through the sale of common stock and to develop plans to improve and sustain its earnings. The bank was prohibited from paying dividends without the prior written approval of the regional administrator, and the board was required to improve its funds management policies. The board of directors was further required to review its allowance for possible loan losses and to obtain and maintain current and satisfactory credit information on loans listed in the report of examination as lacking such information.

84. Bank with assets of $500 million to $1 billion

Criticized assets amounted to approximately 110 percent of the bank's gross capital funds. Past due loans represented 12 percent of total loans. A violation of 12 USC 371c was noted. The bank was issuing due bills to retail customers without fully complying with 12 CFR 204.110. Payments of monies to the bank's holding company were considered excessive and certain of the bank's correspondent accounts were considered inappropriate. Management was not considered adequate. The bank was also using short term and rate-sensitive funds to support long term and fixed rate assets which had a subsequent adverse impact on the bank's profitability. Capital, liquidity and funds management policies were inadequate.

A Formal Agreement restricted credit to certain criticized borrowers and required the board to develop a plan to improve criticized assets. The bank was required not to extend credit in violation of 12 USC 371c and 375b and 12 CFR 215. The bank was required to eliminate and correct all violations of laws, rules and regulations. Dividends were restricted. The bank was prohibited from maintaining any correspondent accounts for the benefit of any affiliate unless in compliance with law, rules and regulations. The bank was required to review its management structure and to make any necessary changes. The board was directed to review its asset and liability management policies and to develop and adopt a written policy addressing capital as well as covering the payment of dividends and liquidity.

85. Bank with assets of less than $25 million

The bank was suffering from severe problems. Classified assets equalled approximately 150 percent of the bank's gross capital funds. Insider abuse had been noted by previous management. Loans not supported by current and satisfactory credit information represented approximately 20 percent of gross loans as did the past due loans. Management was not considered adequate. Seven violations of 12 USC 84 and two violations of 12 USC 375a were noted.

An Order to Cease and Desist required the bank to inject equity capital into the bank and to maintain equity capital equal to not less than 10.5 percent of the bank's total assets. The bank was also ordered to retain the services of a new chief executive officer. The bank was further required to correct the violations of 12 USC 84, providing indemnification for any loss suffered, and to correct the other violations noted in the report of examination. The bank was required to take immediate action to protect its interests concerning criticized assets. The bank was restricted from lending to certain criticized borrowers. The bank was further required to maintain its allowance for possible loan losses at an adequate level and was required to adopt a written program to improve its collection efforts. The bank was also required to improve and maintain its level of liquidity and to improve its earnings. As required by the order, the bank adopted comprehensive written lending and investment policies. Internal control deficiencies and audit deficiencies were corrected.

86. Bank with assets of less than $25 million

An examination of the bank disclosed violations of 12 USC 84, 375b and 371c; 12 CFR 1.8; and 31 CFR 103 as well as inadequate capital, classified assets, inadequate liquidity and excessive management fees to the bank's holding company.

A Notice of Charges was served upon the bank alleging the above violations of law and regulation and unsafe and unsound banking practices. An administrative hearing is pending.

87. Bank with assets of less than $25 million

An examination of the bank revealed that the bank had accepted excessive deposits of volatile, rate-sensitive funds through the use of retail repurchase agreements and had failed to match the repurchase agreements with the obligations backing the agreement. The condition of the bank was such that any further mismatching by bank management would cause the bank to fail in a short period of time.

A Notice of Charges was served on the bank alleging that unsafe and unsound banking practice and a Temporary Order to Cease and Desist was issued which prevented the bank from further indulging in the repurchase agreements on a mismatched basis. An administrative hearing is pending.

88. Bank with assets of less than $25 million

The bank's criticized assets had increased to approximately 93 percent of the bank's total loans. The bank's allowance for possible loan losses was considered inadequate and the bank was in need of new executive management.

A Memorandum of Understanding required the bank to take prompt and continuing action to protect its assets which had been criticized in the report of examination. Limits were made on extensions of credit to borrowers and the bank was required to develop a comprehensive written lending policy. The allowance for possible loan losses was required to be adjusted periodically by the bank, and the bank was required to develop and implement written guidelines for coordination and management of the bank's assets and liabilities. The bank also was required to retain a new chief executive officer.

89. Bank with assets of less than $25 million

The bank had criticized assets amounting to approximately 100 percent of its gross capital funds. Its allowance for possible loan losses was inadequate. Loans not supported by current and satisfactory credit information represented approximately 20 percent of total loans. Violations of 12 USC 29 and 375a were noted.

A Memorandum of Understanding required the bank to adopt a written program to eliminate criticized assets and to eliminate each violation of law, rule and regulation. The bank was also required to submit a capital program to the regional administrator. The bank was directed to maintain the allowance for possible loan losses at an adequate level and to take action necessary to obtain and maintain current and satisfactory credit information. The bank also was required to revise its lending policies, as well as its liquidity assets and liability management policies.

90. Bank with assets of less than $25 million

The bank was being operated by inadequate management. Classified assets amounted to approximately 150 percent of the bank's gross capital funds. Overdue loans were approximately 15 percent of total loans. The bank's loan loss reserve was inadequate and capital was deficient. Three violations of the bank's lending limit, 12 USC 84, were noted.

A Notice of Charges and a Temporary Order to Cease and Desist were served on the bank. The Notice of Charges alleged the above conditions as unsafe and unsound banking practices and the Temporary Order required the bank to develop a capital plan for the immediate injection of capital and/or to deposit certain monies in the bank. An administrative hearing is pending.

91. Bank with assets of more than $1 billion

A trust examination revealed a substantial number of violations of law, rule and regulation which were recurring. The bank, in an effort to relieve itself of liability for the management of trust account assets, as a matter of practice required that an investment advisor be appointed before it would accept an account. The trust instruments signed by the settlors delegated varying degrees of responsibility to the investment advisor and attempted to totally relieve the bank of liability for investment decisions and account management. The bank's failure to provide any type of supervision for trust accounts managed by an investment advisor led to a number of deficiencies in trust account administration and conflicts of interest. Some of the areas of concern included the lack of organizational structure in the trust department, the lack of supervision by the board and the trust committees, inadequate audits, lack of internal controls, lack of documentation in the accounts, lack of investment policies and procedures, and lack of policies and procedures governing account administration. Those deficiencies led to problems such as failure to abide by the terms of the governing instrument, imprudent investments, lack of diversification, purchase of the bank's holding company stock for trust accounts in violation of law, and numerous other violations of law and regulation.

A Formal Agreement required formation of a trust investment committee, a majority of whose members were outside directors. The committee was responsible for making investment decisions, reviewing the bank's compliance with the Agreement, reviewing annually each trust instrument to determine whether the account had been administered in accordance with its terms during the previous year and, most importantly, reviewing each account to determine whether there had been any past violation of the terms of the governing instrument or violation of law with respect to that account. The trust investment committee was required to determine whether corrective action was necessary, including restitution to the beneficiaries. The board was required to adopt and implement written policies and procedures designed to ensure compliance with 12 CFR 9 and sound fiduciary principles and specifically designed to correct the deficiencies noted in the trust examination. The bank was required to enforce its procedures to ensure compliance with all rules of the Securities and Exchange Commission relating to transfer agent activity. It was required to obtain court approval for all investments for court supervised accounts. The bank was also required to obtain funding policies for its pension plans, take measures to correct deficiencies with respect to corporate trust activities, and to perform customer notification in conformance with 12 CFR 12.4. With respect to investment advisor accounts, the bank was required to review the language of each instrument appointing an investment advisor and limiting the bank's liability to determine whether the instrument conformed with state law, whether the bank was in fact insulated from liability and, if not, to determine the actual liability and duties the bank had. The Agreement required specific language to be included in all new trust account instruments the bank accepted which had the intention of limiting the bank's liability to the extent permitted by law. Before acting on any instruction received from an investment advisor, the bank was required to determine that the instruction conformed to the governing instrument and that, to the bank's knowledge, that the instruction did not breach the investment advisor's fiduciary duty. The bank was also required to formulate a written program describing audit procedures for the trust department and a program for information processing which conforms to standards established by the OCC. There was also a prohibition on the purchase of bank holding company stock unless specifically authorized by the governing instrument.

92. Bank with assets of $100 to $250 million

A trust examination revealed numerous deficiencies primarily with respect to the adoption and implementation of sound policies and procedures governing the operation of the trust department. Of primary concern were the lack of an orderly filing system, inadequate control of trust assets in violation of 12 CFR 9.13, insufficient supervision of closely held companies, inadequate real estate loan supervision, deficiencies in the supervision of real estate held as assets in trust accounts, and the lack of adequate employee benefit trust account management. Also of concern were violations of 12 CFR 9.12, involving improper use of own bank time deposits, and 12 CFR 12, involving lack of the required recordkeeping and confirmation procedures. Other deficiencies were also noted including large uninvested cash balances, inadequate investment review material and lack of proper approval for deposits and withdrawals in the collective investment fund.

A Memorandum of Understanding required correction of each violation of law, rule or regulation at no loss to the accounts. The Memorandum also required the adoption of policies and procedures designed to ensure that all trust account documentary files were maintained in an organized and current condition, to ensure the prompt recording of deposited trust assets, to address the supervision of investments and closely held companies, to address the proper supervision of real estate loans held as assets in trust accounts, to ensure maintenance of a program of information processing for the recording of trust account liabilities, to ensure the maintenance of detailed minutes of all meetings in accordance with 12 CFR 9.9 and to ensure that funds awaiting investment are supervised and invested in a comprehensive and timely manner. The bank was also required to provide the trust department with a qualified employee benefit account administrator. The board was required to report at frequent intervals the bank's progress in achieving compliance with the terms of the Memorandum.

93. Bank with assets of less than $25 million

The bank embarked on an extensive growth program, doubling its assets in approximately 1 year. That growth was funded by a large amount of rate-sensitive deposits; however, the bank had maintained control of its costs and priced each loan on a variable rate basis. Net profits were good. The bank had lost control of the level of its current outstandings and commitments granted to customers. Liquidity had been reduced to approximately 10 percent, with loans to deposits of approximately 84 percent. During the examination, net liquid assets were reduced to −0.81 percent, and loans to deposits increased to 98 percent. The bank began an immediate program to curtail commitments and to funnel all cash flow into liquid assets. Some success was immediately apparent, and liquidity ratios improved rapidly. Initially, based on the immediate improvement in the bank's liquidity, administrative action was waived. Upon examination of the bank approximately 5 months later, it was determined that the bank had adopted an unsafe and unsound practice regarding the method with which they had improved their liquidity. In order to rapidly acquire deposits, the bank had requested excessive compensating balances (equalling approximately four times current outstandings) from three criticized borrowers. In order to acquire those deposits, the borrowers had entered into agreements with funds brokers to provide the bank with deposits and to pay the required brokers' fees. That resulted in an effective cost of funds to each borrower equivalent to an annual percentage rate of 50 percent. The bank had put at risk substantial loan proceeds to solve the liquidity problems rather than prudently redistributing assets through normal cash flow.

A Memorandum of Understanding required that the bank search its records to determine that all such relationships were fully disclosed and that the board adopt a policy to discontinue the practice. Amendments to the bank's asset/liability management policy regarding the use of broker deposits and purchased funds, aggregate limitations, restrictions on use, individual transaction limits, specific liquidity guidelines, and reporting requirements to ensure the maintenance of all policies were also required. Also included were requirements that the board adopt a program to improve the level of criticized assets which equalled approximately 77 percent of gross capital funds. Each of the programs was required to be submitted to the regional administrator for comment or approval.

94. Bank with assets of less than $25 million

The bank showed a continuing significant asset deterioration with 52 percent classified and 52 percent other assets especially mentioned. Credit and collateral exceptions and past dues were excessive. A funds management strategy was also lacking. There was a sizable influx of money market certificates of deposit and a rapid deterioration in interest margins. Two directors were replaced at the shareholders meeting by illegal voting procedures. Several other violations were noted. Despite continued deterioration in the bank's condition, a substantial cash dividend was paid. Lending officers were considered weak. Deficiencies were found in the internal controls and audit procedures.

An Order to Cease and Desist required the bank to cause all extensions of credit to conform with 12 USC 84, and required the adoption of policies and procedures to ensure compliance with Section 84. A new chief executive officer was required and the regional administrator was given the power of veto prior to that appointment. The order prohibited the issuance of official checks without prior payment from the customer and required that any such checks issued be properly recorded and reconciled at least monthly by an individual without authority to issue such checks. Interest earnings were not to be reflected in the books until actually received. A program designed to eliminate criticized assets was to be promulgated and no credit in excess of $5,000 was to be extended to any borrower whose credit had previously been criticized unless failure to do so would be detrimental to the bank and the extension had received prior written approval of a majority of the board. The bank was to submit a written loan policy. All loans, present and future, were to be supported by current and satisfactory credit information. The allowance for possible loan losses was to immediately be no less than $200,000, with the maintenance of an adequate level in the future monitored by quarterly reviews by the board. A program addressing asset and liability management was to be implemented as was an operating plan for capital and earning needs. Dividends were not to be declared unless in conformity with 12 USC 60 and justified by safe and sound banking. All deficiencies in internal control and internal audit procedures cited were to be corrected and a CPA was to be employed to perform an audit, which was to form the basis of a plan to be drafted to improve internal controls and internal audit procedures. Blanket bond insurance was to be maintained at an adequate level.

95. Bank with assets of $500 million to $1 billion

An examination of the bank disclosed that an excessive amount of criticized assets, primarily real estate construction loans, had negatively impacted on earnings. An increasing imbalance between rate-sensitive assets and liabilities had caused the bank to become extremely vulnerable during periods of high interest rates. The increased reliance on rate-sensitive funds also caused a decline in liquidity. Problems at the holding company level also contributed to the deterioration in the bank's condition. Bank earnings had, to a large extent, been upstreamed to service the holding company's debt. In addition, the bank had purchased $20 million in low yielding, long term real estate credits from another holding company subsidiary. As a result, capital growth from profit retention was virtually nonexistent.

A Memorandum of Understanding prohibited the bank from declaring or paying dividends unless it first received written approval of the regional administrator. The bank was also required to establish a program to reduce criticized assets. The board was required to (1) draft and implement a policy prohibiting the bank from entering into any transactions with its affiliates which required the bank to make any payment to said affiliates unless the bank first received written notification of the regional administrator's intent not to disapprove the transaction; (2) implement a policy statement governing the maintenance of bank correspondent accounts for the benefit of affiliates; (3) adopt a policy and procedures prohibiting the bank from engaging in any financial futures contracts, forward placement contracts, or standby contracts in its commercial banking activities except in conformance with Banking Circular 79; (4) adopt a written profit plan; and (5) conduct an analysis of the bank's capital requirements and adopt a written plan designed to meet future capital requirements. Management was required to design a plan providing for the improvement of the bank's position with respect to the imbalance between the level of rate-sensitive assets and liabilities.

96. Bank with assets of $100 to $250 million

The bank's overall condition deteriorated as a result of poor lending practices coupled with a rapidly growing area economy. The bank did not have a sufficient number of trained and experienced lending officers to administer the increasing volume and complexity of its loan portfolio. Classified assets had doubled since the prior examination, and equalled 115 percent of gross capital funds. The allowance for possible loan losses, at 0.7 percent of total loans, was inadequate. The bank had aggressively expanded loan volume at the expense of other balance sheet components. As a result, net liquid assets equalled only 7 percent of net deposits and the bank has been a consistent and substantial borrower of funds. Those factors resulted in an inadequate capital situation. Equity capital equalled only 6 percent of total assets. The examination disclosed several serious violations of 12 USC 84, one of which resulted in a loss to the bank in excess of $1 million.

A Formal Agreement required the correction of all violations of law, rule or regulation cited in the commercial and consumer affairs reports of examination, and the adoption of procedures to prevent the recurrence of similar violations. The individual board members who approved the excessive credit extensions in violation of 12 USC 84 were required to indemnify the bank for all losses and expenses that the bank incurred as the result of said credit extensions. The board was also required to (1) modify the bank's management information system; (2) evaluate the sufficiency and competency of the bank's existing officer staff and make any appropriate staffing changes; (3) submit to the regional administrator, for his approval, a written capital program deisgned to provide the bank with an equity capital injection of not less than $1.35 million; (4) conduct an analysis of the bank's future equity capital needs; and (5) conduct quarterly reviews of the allowance for possible loan losses and make any necessary adjustments. The bank was required to take immediate and continued action to protect its interests with respect to all assets criticized in the report of examination. The bank was also required to submit to the regional administrator a written program designed to achieve and maintain an acceptable level of liquidity. The Agreement directed the board to establish an oversight committee composed of outside directors to monitor the bank's progress in complying with the Agreement.

97. Bank with assets of $100 to $250 million

Examination of the bank disclosed that classified and criticized assets had remained excessive at 58 percent of gross capital funds. Additionally, delinquent accounts increased to 11 percent of gross loans and collateral exceptions and loans not supported by current credit information remained well above acceptable levels. As a result, the bank incurred substantial loan losses. Management structure was unsatisfactory, with the president assuming responsibility for the administration of the entire loan portfolio without properly delegating responsibility. There existed no specific lines of authority and areas of responsibility for senior management positions. The board did not exercise adequate supervision over the conduct of the bank's affairs. Violations of 12 USC 371c and 375a, 12 CFR 7.3025 and 215, and 31 CFR 103.33 were cited.

A Memorandum of Understanding required the bank to correct all violations of law, rule or regulation, and adopt procedures designed to prevent the recurrence of similar violations. Compliance with the Memorandum was to be monitored by a compliance committee composed of five outside directors. The Memorandum further required the board to (1) conduct an evaluation of current management and to formulate and implement a written management plan for the correction of identified management and staffing deficiencies, (2) review the bank's lending and collection policies and procedures and to amend said policies and procedures as deemed necessary, (3) adopt and implement a plan designed to remove all assets from criticized status, (4) adopt and implement a plan to improve the bank's earnings and to maintain an adequate capital structure, and (5) develop an asset/liability management plan.

98. Bank with assets of less than $25 million

Examination of the bank disclosed that classified assets had increased from 13 to 55 percent since the prior examination. Other assets especially mentioned amounted to an additional 16 percent of gross capital funds. Loans not supported by current credit information were intolerably high, at 28 percent of gross loans. The poor quality of the loan portfolio resulted in a significant increase in loan charge-offs and negatively impacted on the bank's capital structure. Total assets equalled 18 times adjusted capital. The capital shortfall had been estimated at approximately $250,000. Management complacency in the administration of the lending function was cited as a primary cause for the poor condition of the loan portfolio. In addition, the board was criticized for not requiring management to maintain an ongoing list of problem loans. The examination also disclosed violations of 12 USC 84 and 375a, 12 CFR 7.3025 and 215.4, and 31 CFR 103.33.

A Memorandum of Understanding required the bank to correct all cited violations of law and to adopt adequate procedures to prevent the recurrence of similar violations. The board was required to (1) indemnify the bank against any losses resulting from extensions of credit made in violation of 12 USC 84; (2) implement a written program designed to remove all assets from criticized status; and (3) submit to the regional administrator, for his approval, a written program designed to increase equity capital by at least $250,000 and to immediately implement the program upon receipt of said approval.

99. Bank with assets of $50 to $75 million

Examination of the bank disclosed continued deterioration in the bank's overall condition. Ineffective supervision had resulted in a loosely run lending operation with no organizational structure. Fundamental lending principles were not followed. In 2 years, classified loans had increased from 14 to 80 percent of gross capital funds. Over the same period, overdue loans and credit information exceptions had almost doubled. Excessive loan losses resulted in negative retained earnings for the first half of 1980. The bank's problems were compounded by a weakening of the bank's capital structure. Heavy asset, loan and deposit growth had strained capital ratios to the point where an additional equity injection was required. Capital equalled 16 percent of total assets. Factors contributing to those deficiencies included the absence of effective management supervision, a weak organizational structure, nonadherence to policy, absence of a realistic internal loan review function and nonaggressive collection efforts. Violations of 12 USC 84 and 375b and 31 CFR 103.33 were cited.

An Order to Cease and Desist required the bank to correct all existing violations of law, rule or regulation and to adopt procedures adequate to prevent the recurrence of similar violations. The order directed the board to (1) undertake an assessment of the sufficiency, quality and capability of all officers participating in the bank's lending function and to make any necessary staffing changes; (2) make such amendments to the bank's lending and collection policies and procedures as deemed necessary to improve the lending function; (3) formulate and implement an internal loan review system; (4) implement a written program for eliminating all assets from criticized status; (5) conduct quarterly reviews of the allowance for possible loan losses and to make any necessary adjustments; (6) develop and implement written asset/liability management guidelines; (7) submit to the regional administrator, for his approval, a written program designed to provide for an injection of at least $1 million in equity capital and to implement said program upon receipt of the regional administrator's approval; (8) develop a comprehensive financial plan; and (9) take all necessary action to improve the effectiveness and adequacy of the bank's internal controls. The order also directed the board to establish a compliance committee, the majority of which was outside directors, to monitor the bank's compliance with the order.

100. Bank with assets of $100 to $250 million

The bank's overall condition continued to deteriorate after the execution of a written Formal Agreement with the OCC. Criticized assets had increased to 98 percent of gross capital funds. The allowance for possible loan losses, which equalled 1.2 percent of total loans, was considered inadequate in view of the unacceptable level of delinquent loans, the severity of the classified loans, the bank's lax collection procedures, and the depressed local economy. Past due loans were excessive, at 17 percent of total loans, and credit information exceptions were high, at 19 percent of gross loans. Management was considered poor and the unsatisfactory condition of the loan portfolio was attributed, in large part, to the lending practices of the bank's president. The commercial report of examination cited violations of 12 USC 371d and 375b, 12 CFR 215 and 7.3025, and 31 CFR 103.33. The consumer affairs report of examination also disclosed numerous violations of law and regulation, including violations of 12 CFR 226 (Regulation Z) and 12 CFR 202 (Regulation B). The examination of the bank's trust department disclosed that it was in very poor condition, with numerous violations of 12 CFR 9 cited.

An Order to Cease and Desist prohibited the president from participating in the supervision and administration of the bank's lending function and required the bank to limit its loan portfolio to no more than 70 percent of its deposits. The bank was required to correct all existing violations of law, rule or regulation, and to adopt procedures to prevent the recurrence of similar violations. The bank was also prohibited from extending credit to any of its insiders, except in conformity with the provisions of 12 CFR 215. In addition, the bank was prohibited from declaring or paying any dividends in an amount exceeding 50 percent of net income, after taxes, without the prior written approval of the regional administrator. The order directed the board to (1) provide the bank with new, experienced and capable senior lending, loan review and operations officers; (2) conduct a study of the quality and quantity of current management and implement a written management plan for the timely correction of identified management and staffing deficiencies; (3) adopt and implement a written plan for removing all assets from criticized status; (4) adopt and implement a system for monitoring problem loans; (5) review and formulate a new comprehensive written loan policy; (6) formulate and implement a policy regulating the circumstances under which the bank may pay overdrafts; (7) conduct quarterly reviews of the adequacy of the bank's allowance for possible loan losses and to make appropriate adjustments thereto; (8) adopt and implement a funds management policy; and (9) submit a 5-year capital program to the regional administrator, for his approval. In view of the poor condition of its trust department, the bank was prohibited from accepting any new trust accounts. Finally, the bank was ordered to identify all violations of Regulation Z, subject to the reimbursement provisions of 15 USC 1607, and to make reimbursement in accordance with those provisions. The board was directed to establish a compliance committee to monitor the bank's progress in complying with the order.

101. Bank with assets of $100 to $250 million

Increases in both the volume and severity of classified assets were disclosed by the examination. Classified assets amounted to 92 percent of gross capital funds. Management structure was poorly organized, with no established lines of authority and responsibility. Excessive reliance had been placed on the credit judgment of the president. The bank had become too large for the president to serve as loan officer, problem loan collector and public relations officer. Overall delinquency was up to 7 percent of gross loans. Loans not supported by current credit information were unacceptable, at 10 percent of gross loans. The allowance for possible loan losses, at 0.7 percent of total loans, was considered inadequate in view of the large volume of credits classified as doubtful. Although the bank's capital ratios were above average for its peer group and were considered adequate, the heavy potential loan loss on the doubtful credits threatened the bank's earnings and capital ratings. The internal audit program was criticized as lacking both independence and effectiveness. Audit programs had not been updated and, in many cases, audit procedures were not followed or documented. The commercial report of examination disclosed two violations of 12 USC 84. In addition, the consumer affairs report of examination disclosed several violations, including violations of 12 CFR 226 (Regulation Z) and 12 CFR 202 (Regulation B). The trust report of examination cited violations of 12 CFR 12 and 9.18.

A Memorandum of Understanding required the bank to correct all violations of 12 USC 84, and all consumer and trust violations cited in the reports of examination. The bank was also required to adopt procedures designed to prevent the recurrence of similar violations. The Memorandum directed the board to (1) perform an indepth study of the bank's management structure with the aid of outside assistance, as necessary, and to correct all identified management and staffing deficiencies; (2) adopt and implement a written program for removing all assets from criticized status; (3) review immediately the adequacy of the allowance for possible loan losses and continue to do so on a quarterly basis; (4) adopt a written program to provide for improved collection efforts; (5) complete and adopt the bank's new written lending policy; (6) formulate and implement an internal loan review system consisting of personnel independent of the lending function; and (7) amend and expand the bank's internal audit program.

102. Bank with assets of more than $1 billion

Examination of the trust department confirmed the overall satisfactory condition of the department but revealed certain serious conditions, including violations of the transfer agent regulations. Prior to the examination, bank management discovered serious discrepancies in the records maintained by the bank, in its transfer agent function, for several issuers. Those out of proof conditions had existed for almost a decade but had been concealed from senior management. The bank's prompt action in reimbursing the issuers and in retaining an accounting firm and performing an independent review of the bank's transfer agent activities resulted in substantial correction of all problems prior to the execution of a Memorandum of Understanding.

Additional problems included the bank's failure to make turnaround calculations for approximately 4 months and deficient internal procedures, controls and audits. Physical security in the transfer agent area and controls over unissued certificates was similarly deficient, as were the controls over the automated recordkeeping system.

A Memorandum of Understanding required the bank to continue to take action to correct each violation and adopt procedures to ensure they did not recur. The bank was directed to ensure that no individual who it had reason to believe directed the concealment of discrepancies in the transfer agent function remained in the bank, and to identify every individual it had reason to believe participated in the concealment of the discrepancies. The board was required to assess the sufficiency of the staffing of the bank's transfer agent function. The board was further required to cause actions to be taken to eliminate the deficiencies in the trust report of examination and to provide the regional administrator with a copy of the report of the outside auditors. The board was required to implement the recommendations of the outside auditors or explain why they did not.

The bank was to comply with the turnaround requirements, improve its handling of written inquiries regarding its performance as a transfer agent and improve physical security in its corporate agency areas. The bank further was to improve controls over unissued certificates and safeguards against overissuance. The bank was to reconcile the out of proof condition, maintain an allowance and regularly audit the transfer agent function. The bank was also required to refrain from acting as transfer agent for any new issuers until it fully complied with the Memorandum of Understanding and obtained written authorization from the regional administrator.

103. Bank with assets of less than $25 million

Inadequate supervision of the lending function coupled with the bank's rapid growth resulted in escalating asset problems and a declining capital base. Loans not supported by current, satisfactory credit information; delinquent loans; inadequate collateral files; and unsatisfactory compliance with the bank's lending policy contributed to this condition. Loan losses and past due loans increased significantly, thereby requiring a charge to earnings to replenish the allowance for possible loan losses to an adequate level. This resulted in a net loss for the year and an increased capital shortfall. Also, excessive noncompliance with the lending policies continued.

The bank entered into a Formal Agreement which required the board to perform an evaluation of management and implement a management plan regarding the positions, authority and responsibility of management. The board was to obtain a new chief executive officer if the bank's condition did not improve sufficiently to satisfy the regional administrator before the next examination of the bank. The board was required to submit a revised capital plan and to refrain from declaring any dividends without the written approval of the regional administrator. The board was required to implement a program to eliminate criticized assets and to refrain from extending additional credit to any borrower whose credit was criticized. The board was directed to obtain and maintain adequate credit information and to refrain from extending credit without obtaining adequate credit information and collateral documentation. The board was further required to adopt and implement a written program to improve collection efforts, reduce delinquent loans, and improve recovery rates on charged off assets. The board was directed to improve lending policies and procedures, and to review and augment the allowance for possible loan losses on a quarterly basis. The board was required to correct any violations of law and ensure they did not recur. The board was required to revise its written policies regarding liquidity and asset and liability management. The board was directed to submit monthly reports to the regional administrator.

104. Bank with assets of more than $1 billion

Prior to the action, the bank reflected instability in the ranks of senior management. Classified assets equalled 77 percent of gross capital funds. The bank's asset/liability management policies and operations were deficient as was its management information system. The bank was experiencing an unsatisfactory earnings performance and its capital was becoming strained. Certain of the institution's overseas trust and data processing operations were experiencing a variety of problems.

A Memorandum of Understanding required the bank to reconstitute its asset and liability management committee and establish improved asset/liability policies and funds management strategies. Further, the bank's board of directors was required to direct that a management study be performed and to implement a plan to satisfy the bank's managerial needs. In addition, the bank was required to develop a strategic plan addressing its future needs, including capital, and to submit the plan to the OCC for review. The Memorandum also required the bank to improve its management information system and specified a number of operational areas to be covered by the system. The Memorandum further required actions to improve asset quality as well as operations in the trust and data processing functions which had been subject to criticism.

105. Bank with assets of less than $25 million

The bank had inadequate capital, poor earnings, heavy losses, a violation of 12 USC 29 and 84, a total lack of improvement in the volume of classified assets, heavy depreciation in its investment portfolio, a dominating chief executive officer, and a complete lack of supervision by the board of directors.

An Order to Cease and Desist required the bank to obtain a new chief executive officer and $500,000 in new equity capital. The order also required a program to improve the earnings of the bank, to restrict the payment of dividends without the prior written approval of the regional administrator, and to ensure active involvement and supervision by the board.

106. Bank with assets of $25 to $50 million

An Order to Cease and Desist required the bank to correct each cited violation of law, rule or regulation and to adopt procedures to prevent the recurrence of similar violations. The bank was directed to comply with the restitution provisions of Section 608 of the Truth in Lending Simplification and Reform Act, 15 USC 1607, with respect to the reimbursable Regulation Z violations cited in the consumer report.

The entire summary of this action may be found at #6 under the Civil Money Penalty heading.

107. Bank with assets of $75 to $100 million

The quality of the bank's loan portfolio had deteriorated. Between examinations, criticized assets jumped from 41 to 99 percent of gross capital funds. Past due loans, at 18 percent of gross loans, and loans not supported by current credit information, at 23 percent of gross loans, were excessive. Although the deterioration in the loan portfolio was largely attributed to depressed local economic conditions, unsound lending practices were also a factor. Management's philosophy and practices with respect to overreliance on collateral, inadequate emphasis on determining the borrower's repayment capacity, a rather liberal renewal policy, and laxness in collection procedures also contributed to the present situation. Loan charge-offs, at $380,000, depleted the allowance for possible loan losses, which stood at only 0.32 percent of total loans outstanding. The bank's capital base was strained as a result of substantial asset growth, weak earnings and a large cash dividend. The violations of laws, rules and regulations resulted primarily from management's unfamiliarity with the applicable laws and a lack of internal controls. In addition, the consumer affairs report of examination disclosed violations of law, rule and regulation, including reimbursable violations of 12 CFR 226 (Regulation Z).

A Memorandum of Understanding required that the bank take all action necessary to correct every violation of law, rule or regulation cited in the commercial and consumer affairs reports of examination, and to establish procedures designed to prevent the recurrence of similar violations. In particular, the bank was required to comply with the restitution provisions of Section 608 of the Truth in Lending Simplification and Reform Act, 15 USC 1607, with respect to the reimbursable Regulation Z violations. The board was required to (1) perform a comprehensive review of the bank's lending function and develop measures designed to ensure that the bank's lending function was performed in a safe and sound manner; (2) implement a written program to remove all assets from criticized status; (3) develop a comprehensive and detailed budget for 1981; (4) develop and implement written asset/liability management guidelines; (5) prepare an analysis of the bank's present and future capital needs and to, thereafter, adopt and implement a written plan designed to increase the equity capital of the bank to a specified capital to asset ratio; and (6) cause the bank's internal control deficiencies to be corrected. The Memorandum required the bank to immediately increase its allowance for possible loan losses to an amount not less than $400,000. The Memorandum also restricted dividend declarations or payments if the bank failed to reach certain specified capital to asset ratios.

108. Bank with assets of more than $1 billion

Although the solvency of the institution was not in jeopardy, the bank was suffering from a range of problems which made its overall condition generally unsatisfactory. The bank's management structure did not provide for management succession and was inadequately staffed at the middle management level. The bank was cited for a deficient management information system and criticized for lacking a meaningful strategic planning function. In addition, classified assets equalled approximately 70 percent of gross capital funds. The bank's lending policies were generally deficient. Finally, the bank was criticized for having inadequate capital to support its level of operations.

A Memorandum of Understanding required the bank to develop and implement a written management program designed to alleviate the cited deficiencies in bank management. The bank was also required to improve its management information system and to expand the system to include certain specified components. The bank also was to improve its system for determining the sufficiency of its allowance for possible loan losses and to improve strategic planning. Lending policies governing all lending activities were required to be developed, approved by the bank's board, and implemented. The Memorandum also required the bank to take measures to strengthen its capital base, as well as its position with regard to criticized assets. The bank was further required to formalize an asset/liability management policy, a policy for disposing of other real estate owned, and procedures for identifying transactions with its affiliates.

109. Bank with assets of $25 to $50 million

Criticized assets as a percent of gross capital funds increased from 27 to 40 percent on a stronger capital base, indicating deterioration in asset quality. Earnings had declined. Liquidity and the allowance for possible loan losses were also declining. The volume of loans, at 81 percent of total deposits, was beyond the ability of management to properly supervise. The loan portfolio was comprised primarily of low yielding, fixed rate assets. Loan demand was being funded by rate-sensitive liabilities. The bank had been in a net borrowed position throughout most of 1979. The bank's heavy reliance on borrowed funds, as well as increasing dependence on money market certificates, contributed significantly to the decline in the bank's earnings. The bank had been attempting to control loan growth for several years but had been unsuccessful. Management's inability to control loan demand, coupled with decreasing deposits, a heavy reliance on borrowed funds, and an illiquid investment account, resulted in a declining liquidity position. Capital was not adequate. The examination disclosed several violations of 12 USC 84 and 375b, and 12 CFR 215, which involved directors or their related interests. The bank's deficiencies were attributed, in large part, to inadequate board and management supervision.

A Memorandum of Understanding required the bank to correct all existing violations of law, rule or regulation and to adopt adequate procedures to prevent their recurrence. In particular, the bank was required to seek reimbursement for any loss of fee or interest income sustained by the bank as a result of credit extensions to insiders made in violation of the provisions of 12 CFR 215. The Memorandum also required the development and implementation of a written program for improving the bank's liquidity position and amendment of the bank's written investment policy. The board was required to (1) develop and adopt a written program to improve and sustain the earnings of the bank; (2) review the bank's capital structure on a semiannual basis to ensure that capital is maintained at an adequate level; (3) conduct quarterly reviews of the allowance for possible loan losses and make any necessary adjustments; (4) review the bank's lending policies and make all necessary amendments; and (5) provide the bank with a new, active and capable senior lending officer, unless a ratified agreement providing for the sale or merger of the bank could be submitted to the regional administrator within 120 days of the effective date of the Memorandum. The board was also required to take prompt and continuing action to protect the bank's interest with respect to all criticized assets.

110. Bank with assets of $25 to $50 million

A Notice of Intention to Remove the president from his positions as president and chairman of the board was issued.

The entire summary of this action may be found at #23 under the Administrative Actions heading.

111. Bank with assets of $50 to $75 million

Although the asset quality of the bank and its earnings were adequate, the bank refused to engage in constructive capital planning with the result that the bank was inadequately capitalized. That problem was exacerbated by the high growth rate experienced by the bank and projected for the future. The bank wanted to change the location of its main office and approval of the bank's application was conditional on the bank's injection of an adequate amount of equity capital. The bank ignored that written condition and relocated. The bank incurred two violations of the legal lending limit and further violated 12 USC 29, 371d, 375a and 30.

A Notice of Charges was issued based on the violations of law, the condition imposed in writing by the OCC in connection with the granting of the bank's application to relocate, and the bank's inadequate capital. Subsequent to the administrative hearing, the administrative law judge accepted the proposed findings and conclusions of representatives of the OCC and made a recommended Order to Cease and Desist which would require the bank to submit a written capital program to provide for the bank's immediate and future needs. The proposed order would require the board of directors to obtain the regional administrator's approval of the bank's capital program. That program would also provide for the increase and maintenance of the bank's equity capital to a level at least equal to 7 percent of the bank's total assets. The order would require the bank to reach the 7 percent equity to asset position within 30 days from the effective date of the order. The order would require the board of directors to take action to correct the violations cited in the Notice of Charges. The Comptroller's final decision is pending.

112. Bank with assets of less than $25 million

The bank lacked sound management. The chief executive officer and his family constituted three-fifths of the board of directors. Classified assets continued to be a problem and the bank failed to comply with certain provisions in an outstanding Agreement. New classified loans and a continued high volume of loan delinquencies along with inadequate credit information and collateral documentation remained major problems in the bank. Violations of law, particularly 12 USC 84, along with internal control deficiencies, deficient earnings and inadequate capital continued to plague the bank.

A Formal Agreement required the bank to increase the membership of the board of directors by adding at least two outsiders not related by blood or marriage to directors or officers of the bank. Furthermore, the chief executive officer's authority to perform many functions within the bank was severely restricted as a result of his inability to perform his duties responsibly. The Agreement required the bank to hire a new senior lending officer, to correct the lending limit violations, and to take actions to ensure they did not recur. Additionally, the board of directors was to indemnify the bank for any losses resulting from the illegal extensions of credit. The bank was prohibited from extending credit in violation of any statute and to take action to correct all violations of law, rule or regulation and to ensure that they did not recur. The bank was to take continuing action to reduce its volume of criticized assets and to obtain and maintain current and satisfactory credit information. The Agreement required a written program to be implemented by the bank to improve collections. The bank was further required to adopt a program to augment its capital. The Agreement precluded the bank from paying dividends and required the board to increase the bank's allowance for possible loan losses and maintain the allowance at an adequate level. The Agreement required improved lending policies and an improved investment policy. The bank was to correct its internal control and audit deficiencies and adopt adequate auditing procedures and internal controls. The board was also required to take action to improve the bank's earnings, including the preparation of a comprehensive budget and an analysis of the pricing of all bank services along with plans to control the bank's operating expenses. The bank was to submit monthly reports monitoring its improvement and compliance with the provisions of the Agreement.

113. Bank with assets of $50 to $75 million

The existence of a significant number of violations of the Currency and Foreign Transactions Reporting Act and the regulations promulgated thereunder were disclosed during an examination of the bank. Although those violations had been detected by the directors' examining committee and corrective action had been initiated, administrative action was deemed appropriate.

A Memorandum of Understanding required the bank to correct past violations of the Currency and Foreign Transactions Reporting Act. The board was required to establish a compliance committee composed of at least three outside directors to ensure compliance with the provisions of the Memorandum, with periodic progress reports to be submitted to the regional administrator. The board was further required to adopt a code of ethics for the bank. That code was to include a policy statement regarding bank involvement in large currency transactions. Written programs were required to (1) adopt a system of internal controls, (2) establish training programs, (3) establish a records retention program, and (4) establish internal audit programs designed to ensure compliance with the Currency and Foreign Transactions Reporting Act.

114. Bank with assets of $25 to $50 million

An examination of the bank disclosed that classified assets had increased to 58 percent (from 22 percent in 1979) and loan losses were $300,000. Those loan problems required a heavy loan loss provision which, in turn, impaired earnings. The lack of a strong senior lending officer and ineffective loan policies and procedures were causal factors.

A Memorandum of Understanding required a new, qualified senior loan officer, a review of lending personnel, a review of loan policies and procedures, the maintenance of proper credit information, an internal loan review, and a quarterly review of the allowance for possible loan losses. Other areas covered by the Memorandum were a profitability program, a capital program, internal control policies, correction of violations of law, and creation of an oversight committee to monitor compliance.

115. Bank with assets of $25 to $50 million

The bank's primary problems were a direct result of personnel turnover, ineffective chief executive officers, and a weak board. As a result of those deficiencies, the chief executive officer resigned during the examination. As his replacement, the board appointed the bank's number two officer as chief executive officer, which caused further deterioration and created morale problems among the employees of the bank. The complacency on the part of the board was further evidenced by heavy loan losses over the past 3 years, high levels of criticized and classified assets, continuing delinquency problems, ineffective collection/recovery procedures, poor lending practices, operational inefficiencies, and poor internal organization. As a result of those inefficiencies, the bank's net income had been reduced dramatically over the past several years.

A Memorandum of Understanding required the bank to report monthly progress to the regional administrator. Additionally, constant monitoring on the Action Control System was initiated. The Memorandum addressed the following areas requiring specific action on the part of the board (1) a study of management structure and the assigned duties of the chief executive officer, (2) an assessment of all managerial employees, (3) adoption of written policies in all areas necessary to improve the bank's operations, (4) reduction or elimination of all criticized assets in the report of examination, (5) improved credit collateral documentation, (6) adoption of adequate internal controls or procedures to prevent future violations of law, and (7) adoption of a program to achieve profitability.

116. Bank with assets of $25 to $50 million

In part due to a poor local economy, the bank had experienced a significant increase in criticized and delinquent obligations. Liquidity had been severely impaired. Both of those factors exacerbated a marginal capital base. Of major concern was a violation of 12 USC 84 which resulted from a sale of installment paper subject to repurchase.

A Memorandum of Understanding required that the 12 USC 84 violation be eliminated, liquidity be restructured to reduce reliance on short term borrowings, no dividends be paid without prior approval of the regional administrator, and a committee of outside directors be established to formulate a capital plan. Establishment of a more reasonable loan to deposit ratio, maintenance of an adequate allowance for possible loan losses, and reduction of criticized assets and credit data exceptions were also addressed.

117. Bank with assets of less than $25 million

For a prolonged period of time the bank experienced major deficiencies in the areas of loan portfolio management and funds management. Classified assets were excessive and an undue reliance was placed on outdated collateral values as opposed to the creditworthiness of the borrower. Large numbers of credit data and collateral exceptions were also noted. The chief executive officer approved an excessive overdraft to a problem credit line, resulting in a violation of 12 USC 84.

A Memorandum of Understanding required that the directors pledge and maintain a U.S. Treasury bill to cover the potential loss on the excessive credit, that a new chief executive officer be hired and that a detailed and complete financial forecast be compiled. Reduction of criticized assets, collateral and credit data exceptions, collection procedures and internal controls were also addressed.

118. Bank with assets of less than $25 million

An examination of the bank disclosed adverse trends in the condition of the loan portfolio. Classified assets had increased to 29 percent of gross capital funds. In addition, loans not supported by current credit information were excessive, at 9 percent of gross loans, and overdue loans were rapidly increasing, at 8 percent of gross loans. Supervision and administration by both management and the board were considered lax. The president was cited for being inattentive to the conduct of the bank's affairs. The investment portfolio function was severely deficient. The examination cited several violations of law, including 12 USC 371; 12 CFR 1.8, 1.11 and 21.5; and 31 CFR 103.33.

A Memorandum of Understanding required the bank to correct each violation of law, rule or regulation and to adopt adequate procedures to prevent the recurrence of similar violations. The bank was also required to take all steps necessary to obtain and maintain current and satisfactory credit information on all outstanding extensions of credit and to correct all collateral exceptions. The Memorandum directed the board to (1) conduct an indepth study of the bank's management with the aid of outside assistance, as necessary, and to implement a written management policy for the correction of all identified staffing deficiencies; (2) take immediate action to remove all assets from criticized status, in particular to develop and implement a written program to provide for improved collection efforts; (3) conduct quarterly reviews of the bank's allowance for possible loan losses and to ensure that allowance is maintained at an adequate level; (4) develop or amend, as necessary, a written investment policy which addresses all criticisms of the investment function cited in the report of examination; and (5) review the adequacy of the bank's fidelity insurance coverage and increase such coverage as necessary.

119. Bank with assets of $50 to $75 million

The bank's condition deteriorated. Classified assets were excessive, at 49 percent of gross capital funds. Additionally, in spite of the bank's ultra-liberal renewal and extension practices, past due instalment loans exceeded 19 percent of outstanding loans. Loan losses of $500,000 were high, and it appeared that further heavy losses would be sustained when latent problems in the loan portfolio came to light. Because of large loan loss provisions, the earnings picture was also bleak. Poor earnings allowed loan growth to outpace growth in equity capital and rendered capital inadequate. Liquidity was marginal at 14 percent, supervision and administration by management and the board was poor, and violations of laws and regulations were disclosed.

A Formal Agreement required correction of the statutory violations and required procedures to be adopted to prevent future violations. The board was required to employ a new senior lending officer, appoint a committee to perform a management study, and implement a management plan. The bank was required to eliminate all assets from criticized status, improve collection efforts overall, and take necessary steps to maintain current credit information on all borrowers. The bank was required to formulate a written loan policy, funds management policy, profit plan, and a standard procedures manual. The board was required to review the allowance for possible loan losses quarterly and develop a 5-year capital plan, and was prohibited from declaring dividends without the prior approval of the regional administrator. The board was to ensure that deficiencies in the internal controls were eliminated and that an adequate internal audit was established.

120. Bank with assets of less than $25 million

Examination of the bank revealed apparently fraudulent activity within the loan portfolio, along with 21 violations of the statutory lending limit and excessive classified loans (equal to 198 percent of gross capital funds). The bank lacked adequate credit files and any safe policy regarding overdrafts. Furthermore, inadequate controls existed throughout the lending function resulting in a high volume of past due loans and other instances where notes appeared to have been altered.

Examination revealed insufficient liquidity and additional violations of 12 USC 375a and 375b, with the condition of the bank evidencing incompetent, if not fraudulent, activity by the chief executive officer.

Upon discovery and while the examination continued, a Notice of Charges and Temporary Order to Cease and Desist was served upon the bank. The Temporary Order restricted the activity of the bank's chief executive officer, effectively suspending him from participating in the affairs of the bank. The order prohibited violations of 12 USC 84, 375a, and 375b, and prevented extension of credit to any borrower with criticized credit. The order also prohibited extension of credit without adequate credit information and collateral documentation, and required the bank to increase and maintain liquidity. The bank was required to reduce its ratio of loans to deposits to a safe level and to refuse to honor checks creating an overdraft of greater than $250 for any customer without the prior approval of the board.

While the Temporary Order was in effect, the chief executive officer was not able to falsify bank records to hide his fraudulent activity. Management confessed involvement in fraudulent activity to the board and the FBI began an investigation. Continued examination of the bank revealed that the fraud and mismanagement was so extensive that the bank was declared insolvent by the Comptroller, and the FDIC was appointed as receiver.

The bank's chief executive officer was subsequently convicted on the basis of his fraudulent activity and is currently serving time in prison. The vice president of the bank was also convicted for his role in the fraud.

121. Bank with assets of more than $1 billion

The bank was suffering from a variety of problems which made its overall condition unsatisfactory but not critical. The principal deficiencies centered on asset quality (classified assets equalled 50 percent of gross capital funds), ineffective management response to identified problems, and inadequacies in the bank's internal controls.

A Memorandum of Understanding required the bank to take action to improve its asset quality and loan administration. The Memorandum also directed a management study to identify deficiencies and propose solutions. Further, certain improvements in internal control and audit procedures were required by the Memorandum.

122. Bank with assets of $25 to $50 million

The bank's ineffective management, as well as a disappointing earnings performance and an increase in classified assets, resulted in inadequate capital. Criticized assets amounted to 63 percent of gross capital funds and loan delinquencies and credit file exceptions were a concern. The bank's trust department was not adequate.

A Memorandum of Understanding required elimination of management staffing deficiencies and a review of the capital needs of the bank as well as an improved earnings performance plan and loan portfolio and internal audit control plans. The board was also required to establish adequate internal control functions, monitor liquidity, and operate its trust functions in a safe and responsible manner.

123. Bank with assets of $25 to $50 million

Examinations of both the commercial and trust operations of this bank disclosed that an Agreement placed on the bank in 1979, designed to correct several areas of weakness, was not being complied with satisfactorily. Major problems included weak and inefficient management along with inadequately supervised lending activities and a lack of appropriate policies and procedures. Further, the chief executive officer and an executive vice president were suspected of improprieties resulting in personal gain. Finally, the bank's trust operation had been operated in an improper manner, which included failure to keep proper records of trust assets, improper real estate management, and lack of proper trust department auditing.

An Order to Cease and Desist required, among other things, the hiring of a new chief executive officer and new loan officer. The bank was required to eliminate criticized assets, maintain adequate credit file information, and review and maintain the adequacy of the allowance for possible loan losses. The order then required the bank not only to correct the deficiencies in the trust department operations and have it audited, but also to study the operations of that department to consider the costs and the need for proper management talent. Continued operation of the department was then to be justified in detail to the regional administrator.

124. Bank with assets of less than $25 million

Supervision and administration of the bank's affairs has been adversely affected by internal conflict among board members. That conflict carried over to bank management and was reflected by poor planning and policies, particularly in the areas of liability management and lending. Those problems resulted in a large volume of classified assets, serious earnings problems and a volatile liability structure.

A Memorandum of Understanding was executed which required the bank to (1) correct and eliminate the violations of law, (2) eliminate grounds upon which the assets were criticized, (3) obtain and maintain current and satisfactory credit information, (4) improve collection efforts, (5) adopt written liquidity and funds management policies, (6) develop a budget and plan to improve earnings, (7) develop job descriptions for senior management, and (8) designate a consumer compliance officer.

125. Bank with assets of less than $25 million

A large volume of criticized assets resulted from liberal lending policies, poor credit administration and overlending to marginal borrowers. The substantial and increasing volume of assets classified doubtful and loss had a serious effect on earnings because large loan loss provisions were necessary. Classified assets represented 56 percent of gross capital funds. Management had not shown an ability to effectively supervise the lending area.

A Memorandum of Understanding was executed which required the bank to (1) eliminate grounds upon which the assets were criticized, (2) obtain and maintain current and satisfactory credit information, (3) improve collection efforts, (4) establish and maintain an adequate allowance for possible loan losses, (5) amend written lending policies, (6) adopt written liquidity and funds management policies, and (7) prepare an analysis of present and future capital needs.

126. Bank with assets of less than $25 million

The bank's primary problem was a large volume of criticized assets resulting from weak credit administration and compounded by a depressed agricultural economy. Other problems included violations of law, inadequate liquidity and internal control and audit deficiencies. Criticized assets represented 66 percent of gross capital funds. Violations of law included a violation of 12 USC 84; a violation of 12 USC 375b, involving two executive officers and a director; and a violation of the Employee Retirement Income Security Act where funds of the profit sharing plan were invested in loans acquired from the bank. Earnings were good and capital adequacy had not been an issue. Major problems of the bank have been caused by the lack of administrative support to the president.

A Memorandum of Understanding required correction of violations of law and required procedures to prevent recurrence. The bank also was required to (1) formulate a written program to eliminate all assets from a criticized status, (2) ensure reasonable steps have been taken to obtain current credit information and collateral documentation on all loans, (3) implement a written collection and loan administration program, (4) review and amend the written lending policy, (5) adopt a written investment policy and a written liquidity and funds management report, (6) assess the sufficiency and quality of active management, (7) correct internal control and audit deficiencies and implement a written program in those areas, and (8) provide sufficient information to the board of directors to enable effective supervision of the bank's affairs.

127. Bank with assets of less than $25 million

Mismanagement of the bank by the former president and principal shareholder was disclosed during an examination. Liberal lending practices resulted in heavy loan losses and a high volume of classified loans. Inept funds management caused dependence on out-of-area, rate-sensitive deposits and borrowings, and resulted in low liquidity. All of those factors impacted adversely on earnings and capital. A management change and a change in ownership produced positive results. Classified assets had been reduced to 53 percent of gross capital funds. Earnings were considered good in spite of heavy loan losses. Capital and liquidity are also considered adequate. Present management put sound and effective policies in place.

An Order to Cease and Desist was placed on the bank because of the problems noted at a prior examination. The subsequent improvement in the bank's condition led to termination of the order and its replacement by a Memorandum of Understanding. The Memorandum required the bank to (1) take immediate action to protect its interests with regard to criticized assets and, also, to adopt a written program to eliminate all criticized assets and not extend additional credit to criticized borrowers; (2) take steps to obtain current credit information on all loans lacking such information and institute procedures to ensure current credit information is maintained on an ongoing basis; (3) implement a written collection and loan administration program; (4) ensure fees paid to controlling owner and his related interests conform to Banking Circular 115; (5) correct internal control deficiencies; and (6) extend credit in conformance with the Truth in Lending Act and Regulation Z.

128. Bank with assets of less than $25 million

Substantial deterioration in asset quality, primarily resulting from imprudent investment policies, was disclosed during an examination. Classified assets equalled 42 percent of gross capital funds, with investment securities representing close to half of that amount. Violations of law, many of which were in the investment area, were listed. A substantial and unwarranted volume of bond trading since the previous examination was also disclosed. The brokerage firms used by the bank for most of those transactions were out-of-area firms with questionable reputations. Separate, independent pricings were obtained on all acquisitions and trades since initiation of those business relationships. The serious problems noted in the investment area were the result of the president's complete control over the area and total lack of board awareness and supervision. Problems in the loan area were the result of a lack of support to the executive vice president. Other problems of the bank included declining liquidity, steady use of borrowings, declining earnings, inadequate internal controls and audit coverage, general lack of any effective policies, and overall weak management and inadequate board supervision.

A Memorandum of Understanding required the bank to (1) correct all violations of law and establish procedures to prevent recurrence; (2) take steps to protect interests regarding criticized assets and implement a written program for the elimination of all criticized assets; (3) not extend additional credit to borrowers whose loans were not supported by adequate credit information; (4) implement a written collection and loan administration program to determine the allowance for possible loan losses at least quarterly; (5) review and amend the written lending policy; (6) develop and adopt a written investment policy; (7) determine whether securities trading will be engaged in; (8) develop a written program to achieve and maintain an adequate liquidity position, without undue reliance on rate-sensitive funds; (9) assess the sufficiency and quality of active management; (10) correct internal control and audit deficiencies and establish written operating procedures; and (11) provide sufficient information to the board to allow them to effectively supervise the bank's affairs.

129. Bank with assets of $500 million to $1 billion
130.

The overall condition of the bank was unsatisfactory. Classified assets, loan losses, delinquencies and nonaccruals had reached unacceptable levels. The poor condition and performance of the loan portfolio resulted in an inadequate return on assets. Insufficient earnings retention, coupled with liberal dividend payouts, resulted in a strained equity capital base. Those deficiencies were exacerbated by the excessive and improper involvement by certain members of the board of directors in the day-to-day operations of the bank and administration of the lending function. Adverse publicity regarding the bank's unsatisfactory condition severely threatened the bank's access to the professional funding sources, thereby further straining an already marginal liquidity posture.

A Formal Agreement, which was enforceable to the same extent and in the same manner as an effective and outstanding Order to Cease and Desist, prohibited the bank from declaring or paying any dividends without the prior written approval of the regional administrator. The bank was also prohibited from violating the antifraud provisions of the federal securities laws with respect to the purchase or sale of the bank's securities and the filing of any proxy materials, annual, periodic, or other reports filed with the OCC pursuant to Sections 12, 13 or 14 of the Securities Exchange Act. The bank was further required to amend any document previously filed with the OCC, pursuant to Section 12, 13 or 14, which contained untrue or misleading information. The Agreement required the board to: (1) fill all board vacancies by appointment until at least two-thirds of the board was independent from any affiliate of the bank; (2) appoint a nominating committee, composed of at least five independent directors which was required to nominate, as management candidates for election to the board, a slate of directors, composed of at least two-thirds independent directors who were acceptable to the regional administrator; (3) appoint a compliance committee of the board responsible for monitoring the bank's adherence to the Agreement; (4) provide the bank with a new, active and capable chief executive officer experienced in banking operations, lending and investment who is acceptable to the regional administrator; (5) provide the bank with a new, experienced and capable senior lending officer acceptable to the regional administrator; (6) perform a study of the bank's current senior management; (7) develop a strategic plan identifying projections and goals for the bank's future operations; (8) review the bank's current lending policies and procedures and make such amendments as necessary to ensure safe and sound lending practices; (9) implement a written program for elimination of all assets from criticized status; (10) strengthen the bank's credit examination function; (11) develop and implement written guidelines for the coordination of the bank's assets and liabilities, in order to promote profitability and adequate liquidity; (12) adopt a written comprehensive code of ethics to be applicable to all directors, principal shareholders, officers and employees of the bank; and (13) review the allowance for possible loan losses quarterly and ensure that it is maintained at an adequate level. The Agreement directed the compliance committee to determine whether the bank should seek reimbursement from any person or entity, including present or former officers, directors or the bank's principal shareholder, for losses sustained by the bank as the result of certain credit extensions.

The OCC and the Federal Reserve Board entered into a separate Formal Agreement with the bank and its majority shareholder, a registered bank holding company, which required the holding company to abide by the terms of the bank's Agreement with the OCC. The holding company was directed not to participate in the bank's management, operations and policies other than through its representation on the bank's board. Finally, the holding company was required to vote its shares in support of the nominating committee's proposed slate of directors.

131. Bank with assets of less than $25 million

The lack of a solid core deposit base penalized this bank's earnings heavily. Weak deposit generation for several years had caused bank to fund growth with rate-sensitive liabilities. Escalating interest rates contributed to significant operating losses. The balance sheet mix would not sustain earnings in an environment of volatile interest rates. In addition, the board of directors needed strength and diversification, loan quality was questionable, and several lawsuits had caused much unfavorable publicity.

A Memorandum of Understanding required formulation of an asset/liability policy. The board was also required to evaluate management. A profit plan and budget were required because the planning process was inadequate. Also, monthly comparisons to the budget were required. The bank was to develop internal control and audit programs. Finally, a bankwide code of ethics, new directors and committee to oversee compliance with the Memorandum of Understanding were required.

132. Bank with assets of $25 to $50 million

The bank's board of directors had failed to adequately monitor the condition of the bank. Credit exceptions were heavy, financial information was not adequately analyzed, loans were granted based on personal relationships rather than repayment capacity, and the impact of interest rates on earnings was not recognized. Those problems resulted in high classified assets and loan losses, a thin capital base and a history of mediocre earnings.

A Memorandum of Understanding required the board to implement responsible policies and at the same time recognize that continued interference with management only heightened the problems. The bank was required to correct violations of law. Various loan policies and procedures were requested and the bank was instructed to develop a plan to reduce criticized assets. An internal audit program and an external audit were required. A capital plan was also required. Finally, a profitability plan, including a budget, was required.

133. Bank with assets of less than $25 million

An examination revealed serious deterioration in virtually every aspect of the bank's condition and was attributed to management and the board's emphasis on growth and their failure to properly supervise the affairs of the bank during a period of very rapid asset expansion. Criticized assets equalled approximately 80 percent of gross capital funds. Past due loans were 22 percent of gross capital funds, with 30 percent of the portfolio having credit and collateral exceptions. Violations of law were also of primary concern, including 12 violations of 12 USC 84, and violations of 12 USC 375a and 371d, 31 CFR 103.33, and seven different violations of consumer laws, rules and regulations. Weak earnings and rapid asset growth resulted in a severely undercapitalized position. The allowance for possible loan losses was inadequate. A severe liquidity crisis, with liquidity dropping as low as 4 percent, resulted in the bank becoming heavily dependent upon federal funds borrowings to support its liquidity requirements. Other problems included the lack of documentation for expenses incurred by officers and directors of the bank, internal control and audit deficiencies and failure to adhere to the recommendations of outside auditors, and the lack of supervision of operations as reflected by unlocated differences in several general ledger accounts.

An Order to Cease and Desist prohibited extensions of credit in violation of 12 USC 84 and called for the appointment of an independent special counsel to investigate the previous violations. Special counsel was directed to determine whether the bank had a cause of action against any current or former officers and directors with respect to the violations and to make recommendations including what action should be taken by the bank for the protection of its shareholders. The board of directors was directed to act upon the special counsel's recommendation and to notify all the shareholders that a copy of the report was available for their inspection. The bank was also prohibited from any extension of credit in violation of 12 USC 375a, as well as any other violations of law cited in the report of examination. The order required the appointment of a compliance committee and required it to review all loans, overdrafts or other extensions of credit to any bank insiders for preferential treatment. The compliance committee was also directed to review all time deposits, entered into by the bank, which were subject to the interest penalty requirements imposed by 12 CFR 217.4(d) to determine if the interest penalty charged by the bank on early deposit withdrawals exceeded the amount required by 12 CFR 217.4(d). The board of directors was required to review the committee's reports and to secure reimbursement to the bank of all interests and fees which would have been paid to the bank had all extensions of credit to the insiders been made on non-preferential terms. The board was also directed to secure reimbursement for each depositor whose deposit was assessed a penalty charge in excess of the amount disclosed when the deposit was made. The board of directors was required to analyze the bank's management needs. It was also directed to perform an analysis of the bank's continuing capital needs and to submit a capital plan. The board of directors was required to develop a written plan for achieving and maintaining an average daily liquidity of not less than 20 percent, which also addresses the matching of assets and liabilities. The board was further required to adopt and implement a program to eliminate all assets from criticized status and to review its written lending policy with the objective of inserting guidelines regarding the handling of overdrafts. The board was required to take all steps necessary to obtain current credit information and to perfect collateral on all secured loans. The board was also required to seek to reduce the level of delinquencies in its loan portfolio and to establish formal procedures for ensuring the ongoing adequacy of its allowance for possible loan losses. The bank was prohibited from reimbursing any employee or former employee for expenses incurred which were not reasonable and properly documented. Finally, the bank was directed to eliminate all internal control and operational deficiencies listed in the report of examination.

134. Bank with assets of $25 to $50 million

An examination of the bank revealed assets to be in a deteriorating condition with classified assets equal to approximately 130 percent of gross capital funds. One-fourth of total loans were not supported by current credit information and 5 percent were past due. The investment portfolio suffered 50 percent depreciation and the bank's earnings were not satisfactory. The examination also revealed 11 violations of 12 USC 84, as well as violations of 12 USC 60 and 375a and 31 CFR 103, as well as other violations of law.

An Order to Cease and Desist required the immediate correction of all violations of law cited in the report of examination, an immediate increase in the equity capital accounts of the bank, a new chief executive officer, a program to eliminate classified assets, and a prohibition of further loans to classified borrowers. The bank was also required to take immediate steps to maintain current and satisfactory credit information on all loans lacking such information, as well as on future loans. The bank was also required to develop a plan eliminating past due loans. Dividends were prohibited. The board was required to employ the services of an independent professional auditing firm acceptable to the regional administrator. Criticized expense reimbursement to certain insiders was prohibited. The order also required the review of the allowance for possible loan losses on a periodic basis as well as the development of comprehensive written loan policies and investment policies. The bank was required to immediately correct its internal control and audit deficiencies cited in the report of examination and to develop a coordinated asset and liability management plan. The board was required to develop a comprehensive budget. The bank was also required to correct deficiencies in its electronic data processing department and make periodic reports to the regional administrator concerning compliance with the order.

135. Bank with assets of less than $25 million

The bank suffered from inadequate capital as a result of mismanagement by the bank's chief executive officer. The condition of the bank had deteriorated to a point that the bank needed a substantial injection of capital. The bank had an unsafe level of criticized assets and a high level of loans which were not supported by adequate credit information. Additionally, the bank's allowance for possible loan losses was depleted. Further problems within the bank's loan function included a high level of past due loans. The bank's earnings were very poor and the bank needed a funds management policy. The bank had two violations of 12 USC 375a and a history of insider lending violations. The bank had high levels of concentrations of credit to insiders.

An additional problem within the bank was the chief executive officer's violation of Rule 10(b)(5). That individual had knowledge that the bank had agreed to merge with another institution and that, under the terms of that agreement, the bank's stock would appreciate in value. He began purchasing stock from other shareholders of the bank without disclosing his material, inside information to the sellers. Although that agreement to merge never materialized, the chief executive officer had deprived the bank's shareholders of an opportunity to sell their stock at higher prices by his trading in the bank's stock without disclosing his material, inside information.

The bank consented to an Order to Cease and Desist which required the submission of a plan to sell or merge the bank or to provide the bank with a new chief executive officer and a capital injection, along with a capital plan addressing the bank's future capital needs. The order also required the bank to refrain from declaring any dividend and to refrain from extending credit to any borrower whose loans were criticized or did not have adequate credit information. The board was also required to reduce the level of criticized assets and obtain and maintain adequate credit information. Furthermore, the board was required to augment the allowance for possible loan losses and review and maintain that allowance at an adequate level. The board was required to reduce the bank's level of past due loans and to take action necessary to increase the bank's earnings. Additionally, the order required the board to implement a funds management policy and to correct the violations of law and ensure that they did not recur. The order further required the board to reduce the concentration of credit to the insiders and to submit reports to the regional administrator detailing the bank's compliance with the order and improvement.

The chief executive officer of the bank stipulated to a separate Order to Cease and Desist and also signed a Formal Agreement with the Office of the Comptroller of the Currency. That order required him to refrain from violating the provisions of Rule 10(b)(5) and to make restitution of the paper profits he would have recognized had the merger of the bank gone through as planned. Through the Formal Agreement with the OCC, the chief executive officer agreed not to participate in the affairs of any national bank, FDIC-insured bank, or bank which was a member of the Federal Reserve System, without obtaining the prior written consent of the appropriate federal bank regulatory agency.

136. Bank with assets of $25 to $50 million

Inadequate supervision by both the board and management led to an escalation of classified assets, an inadequate loan loss reserve, operations and reconcilement problems, and an excessive volume of internal control exceptions. The loan account was administered almost exclusively by the bank's president who demonstrated an unwillingness to delegate responsibility. An inordinate volume of credits lacked adequate supporting credit information or were subject to collateral or documentation exceptions and numerous accounting deficiencies and regulatory report errors. The bank's budget was not effectively monitored. The bank lacked written policies in several key areas, some of which represented relatively new activities for the bank, such as credit card loans, direct lease financing, and gold transactions. The bank's auditor was burdened with operational duties and was inadequately trained. The audit program was deemed inadequate. Several violations of law existed.

A Memorandum of Understanding addressed all significant areas of concern. Included in the Memorandum were the requirement for a management plan; development of written policies or policy supplements, where needed; and internal control and audit improvements. Management provided lengthy and comprehensive response material to the Memorandum.

137. Bank with assets of $25 to $50 million

The bank's liberal lending philosophy and lax credit administration practices resulted in unacceptable levels of classified assets and past due, non-accrual, and loans lacking current credit information. Provisions for loan losses were determined by the bank's external accountant on the basis of tax considerations. The allowance for possible loan losses was deemed inadequate, requiring an immediate provision. Internal audit was inadequate, and the internal auditor's independence was compromised by performance of operational duties. Approximately half of the numerous violations of law and regulation that had previously been cited remained uncorrected. The board discontinued the payment of fees to salaried officers, but granted substantial raises to the officers. Salaries and directors' fees appeared excessive, although earnings were satisfactory. The board had taken virtually no action to correct those weaknesses.

A Memorandum of Understanding was prepared including the following provisions (1) a written lending policy was required, (2) actions to reduce the volume of criticized assets were mandated, (3) quarterly analysis of the loan loss reserve was to be accomplished and recorded in writing, (4) written investment and funds management policies were to be prepared, (5) justification for individual officers' and directors' fees was to be performed, (6) a written audit program was to be developed, (7) all violations of law were to be corrected, and (8) trust department deficiencies were also to be corrected.

138. Bank with assets of $25 to $50 million

Ineffective leadership on the part of the bank's former president and controlling owner resulted in a deteriorated loan portfolio, inadequate reserve for loan losses, poor earnings, inadequate capital, poor asset/liability management, and poor internal controls. Apparent business and travel expense abuses were uncovered by an audit. Capital was inadequate.

A Memorandum of Understanding required the bank's management plan to be amended to include position descriptions of key senior officers, compensation ranges, and justification for the level of payments to those officers. A new president was to be employed. A program to improve the bank's earnings was to be prepared and accompanied by an acceptable budget. A capital analysis addressing related key issues was to be developed, to include the sources and timing of additional capital. Earlier business expenses were to be formally reviewed, and written procedures were to be developed to ensure proper documentation of all future business, travel and other expenses. Monthly progress reports concerning the bank's ongoing new computer installation were to be provided.

139. Bank with assets of $25 to $50 million

The primary areas of concern in the bank were unsatisfactory earnings, ineffective operating and audit policies, an unproven management team, weak asset/liability management procedures, and high loan losses that resulted from deficiencies in the lending area.

A Memorandum of Understanding required the drafting of an asset/liability management policy, the maintenance of an adequate allowance for possible loan losses, financial budgets for 1981, the implementation of audit policies, and the adoption of programs to reduce delinquencies and improve collections. The correction of internal control deficiencies and violations of law was also required, along with the adoption of procedures to prevent their recurrence.

140. Bank with assets of $25 to $50 million

Ineffective loan portfolio management led to an inordinate volume of criticized assets, an excessive delinquency rate, and an excessive level of loans not supported by adequate credit information. The bank's growth rate placed increasing pressure on the bank's capital base.

A Memorandum of Understanding required the formulation of a written program for eliminating the underlying basis upon which each asset was criticized. All actions necessary to strengthen the bank's loan account were required to be taken. The allowance for possible loan losses was to be maintained at an adequate level. A capital plan was to be developed and each violation of law was to be corrected and its recurrence prevented.

141. Bank with assets of less than $25 million

An examination of the bank revealed deterioration in all important areas. Classified assets increased to approximately 140 percent of gross capital funds, the earnings for the bank had been eliminated by a much needed increase in the allowance for possible loan losses. The bank's capital had been strained by a rapid loan volume growth; liquidity was not adequate; and violations of law and regulation, including 12 USC 84 existed. Many of the problems were attributed to the inexperience of a new management team.

A Formal Agreement required the correction of statutory violations and required the bank to develop procedures to prevent future violations. The bank was required to establish detailed procedures for the recovery of charged off assets, and was also to implement a new written loan policy. The bank was further required to take necessary steps to obtain and maintain current and satisfactory credit information on all loans and to correct all collateral exceptions. The bank was required to develop a plan to correct criticized assets and was prohibited from lending additional funds to the bank. The bank was to maintain an acceptable level of liquidity and its allowance for possible loan losses was to be maintained at an adequate level. The board was required to create an audit committee to monitor the bank's internal and external audit procedures. The board was required to submit a capital plan to the regional administrator for his approval. The bank was required also to review correspondent accounts of certain other banks. A compliance committee was required to coordinate compliance with the provisions of the Agreement.

142. Bank with assets of $25 to $50 million

A general examination of this bank revealed a seriously deteriorated condition. Affected areas were spread throughout the bank and included asset quality, credit administration, an inadequate allowance for possible loan losses, inadequate capital, illiquidity, poor earnings, and continuing violations of law. The problems of the bank were compounded by weak and ineffective management and lack of supervision by the board of directors. A sale or merger of the bank was needed; the alternative was an injection of capital to give the bank time to remedy its problems.

An Order to Cease and Desist required remedial action in the various problem areas and included a provision for obtaining a new chief executive officer. Further, the order required the injection of $375,000 in equity capital within a short time or, alternatively, the sale or merger of the bank. The order also required corrections of violations of 12 USC 84, 375a and 375b and 12 CFR 215; a compliance policy for criticized assets; a lending policy; a policy for credit information and the collection of past due loans; compliance with a capital program and a plan for sale or merger of the bank; a review of the allowance for possible loan losses; development of internal controls; an investment policy; and an analysis of liquidity.

Selected Addresses and Congressional Testimony

Statement of John G. Heimann, Comptroller of the Currency, before the Senate Committee on Banking, Housing and Urban Affairs, Washington, D.C., January 25, 1980

It is a pleasure to appear before this committee to discuss the 1980 budget of the Office of the Comptroller of the Currency. The OCC has previously transmitted to the committee the 1980 budget as well as information specifically requested.

Budget Overview

Budget and OCC—The 1980 OCC budget of $107,759,000 represents a nominal annual increase of 7.1 percent over 1979's spending. Based on the consensus forecast of a 9 percent increase in the GNP price deflator in 1980, this projected nominal increase would become a decrease in real dollars of 1.7 percent.

Actual expenditures in 1979 were $100,585,000, or approximately 1.4 percent less than the $102,013,000 1979 budget presented to this committee last year. When adjusted for inflation, the 1979 actual expenditures in real dollars decreased 0.4 percent from the 1978 level. This result coupled with the anticipated absence of a real spending increase in the 1980 budget reflects careful fiscal and operational management.

OCC's policy and operating objectives of the past several years have resulted in improved operations, streamlined organizational structure, improved supervisory effectiveness, institution of procedures to meet new statutory responsibilities and successful recruitment efforts, all of which have prepared the OCC to meet the challenges of the 1980's.

1980 Environment—The commercial banking system during the 1970's underwent substantial change and is entering a new decade which promises even greater change and complexity, as well as intensified competition. Assets in the commercial banking system were $1.64 trillion as of September 30, 1979. Of the 14,399 commercial banks in the U.S., 169 banks with $1 billion or more in assets (slightly more than 1 percent of all banks) held 60 percent of total bank assets. Commercial banks with assets between $100 million and $1 billion numbered 1,316, or 9.1 percent of all banks, and held 19.7 percent of total bank assets. The 12,914 banks with less than $100 million in assets, 89.7 percent of all banks, held 20.5 percent of total assets.

National bank assets were $967 billion, or 59 percent of commercial bank assets. Foreign assets of national banks continued growing more rapidly than domestic assets and now account for more than 20 percent of national bank assets.

The 113 largest national banks, with assets of $1 billion or more, accounted for 2.5 percent of all national banks but held over $671 billion, or 69.5 percent of total national bank assets and 41 percent of all commercial bank assets. There were 691 national banks with assets between $100 million and $1 billion, 15.4 percent of national banks, which held 18.1 percent of national bank assets. The 3,676 national banks with less than $100 million in assets, representing 82 percent of all national banks, held 12.4 percent of national bank total assets.

As would be expected, the differences in the operational complexity and the kinds of financial services offered by the small local community banks and the large multinationals are enormous and have been growing larger over time. The disparity in size and complexity between the biggest and smallest banks indicates the need for flexibility in achieving OCC's goals, and several changes have been instituted that recognize the differing supervisory and regulatory needs of national banks.

For both small and large banks, the business of commercial banking, or more accurately the business of providing financial services, has changed radically during the 1970's. What, for instance, do the following phrases have in common: NOW accounts; money market certificates; automated teller machines; Merrill-Lynch cash management accounts; automatic transfer accounts; telephone bill payer accounts; bank issued mortgage-backed bonds; credit union mortgage powers; and money market mutual funds? None of these existed in 1970, the beginning of the last decade.

Spurred by inflation, significant advances in communication and data processing technology and the financial requirements of our increasingly complex and interconnected national and international economy, financial institutions, vying for advantage in the marketplace, have been breaking down the traditional barriers of financial services specialization. However, the legal environment for financial services has not kept pace with many of the changes. Indeed, the limitations on some classes of institutions, such as deposit interest rate ceilings, have contributed to the growing complexity of financial markets. Financial institutions with the legal capacity to perform new services have taken advantage of the legal restrictions on other participants.

Banks, thrift institutions and credit unions will continue seeking larger shares of traditional financial services markets, and nondepository institutions will increasingly be competitors for deposit markets. For example, as of December 30, 1979, money market mutual funds stood at $45.1 billion, a growth of 314 percent over the previous year. The Merrill Lynch cash management plan and the Sears plan to sell its medium-term notes to its credit card holders are but two of the 1970's innovations which presage more of the same inventiveness in the coming decade.

OCC Management—The uncertainty created by rapid changes within the financial services world is compounded by the uncertainty of the general economic picture for 1980. The 1980 environment will require that the OCC be prepared to anticipate problems and to respond quickly when they occur. Considerable improvement has been made in the agency's abilities to look ahead and to handle unexpected contingencies.

Beginning in 1974, a major review of our operations and effectiveness was undertaken. This review led to considerable changes in examination procedures, personnel requirements and organizational structure. These changes, necessary to equip the OCC to carry out its mission effectively in light of the increasing complexity and rapid change in the financial system, required substantial increases in expenditures. In addition, 1975 and 1976 were difficult years for banks. As the table shows, actual dollar expenses increased 23.6 percent in 1975 and 17.2 percent in 1976. Since 1976, nominal increases have been smaller, and spending over the last 3 years has increased by a total of only 1.1 percent, in real dollars, and actually was negative in 1977 and 1979.

Year	Expenses (000)	Nominal increase	Real increase
1974	$ 55,505		
1975	68,582	23.6%	12.8%
1976	80,359	17.2	11.4
1977	83,882	4.4	−1.5
1978	92,724	10.5	3.1
1979	100,585	8.5	−0.4
1980	107,759*	7.1*	−1.7*
Average annual increase 1974-79		12.6	4.9
Average annual increase 1974-80		11.7*	3.8

*Estimated.

The process of strengthening the OCC begun in 1974 has taken several years. Substantial realization of many of the Office's goals set forth over the last 5 years has been achieved. In addition to comprehensive revision of examination policy and procedures, other improvements include an intensive personnel development program, hiring consumer and supervisory specialists, developing new capabilities in bank supervision (the national bank surveillance system and the Multinational Banking Division are two examples), establishing new programs to implement laws such as the Community Reinvestment Act, streamlining old programs such as the processing of national bank corporate applications and adopting an organizational and managerial structure that allows flexible but effective use of the OCC's resources.

Thus, while the problems ahead in any given budget year are not precisely predictable, the quality of resources and flexibility of operation now in place at OCC will enable us to anticipate and handle better the actual problems encountered.

Evaluation of the performance of any organization is a meritorious objective. One measure of performance is how well the office anticipates and acts to prevent or minimize problem situations. While bank failures do and should occur in an efficient and competitive financial system, it is difficult to determine to what extent OCC examiners and examination and supervisory techniques prevent or remedy problem situations that might otherwise have led to failures. And, how can the effect of devoting resources to facilitating community development programs and enforcing compliance with civil rights and consumer protection laws be measured?

Because precise measurements are not possible, it is important that there be assurance that the personnel, programs and management are of the highest caliber and that there be a continual program of review to update and upgrade to meet the challenges of the changing world. Minimization of expenses is a worthy goal and one we pursue diligently. However, when the effective conduct of the OCC's mission requires, we must have the flexibility and the willingness to devote or reallocate the resources necessary and to incur the attendant costs.

Before leaving the 1980 budget overview, it is important to note that the continuing withdrawal of national banks from Federal Reserve membership makes it difficult to anticipate precisely assessment revenues and operating expenses. The Office is aware of a substantial number of national banks with a large volume of assets that are seriously contemplating conversion to state charters. Withdrawal of large national banks could adversely affect resource allocation and planning because their contribution to OCC revenues is far greater than the cost of examining them.

Budget Specifics

Expenditures—1979 to 1980—Of the total anticipated 1980 expenses of $107,759,000, a total of $76,840,000, or 71.3 percent, will be spent for salaries and benefits, $12,679,000, or 11.8 percent, will be for travel and $2,572,000, or 2.4 percent, for the tuition and travel costs of education and training, although the total cost of OCC education is closer to 12 percent of total budget as noted later. Rent and maintenance expense is $5,939,000, or 5.5 percent, office expense is $2,265,000, or 2.1 percent, and all other expenses total $7,464,000, or 6.9 percent.

The principal resource of the OCC is its people. It is not surprising, therefore, that costs pertaining directly to human resources traditionally account for such a large proportion of the OCC budget. Eighty-six percent, or a total of $92.1 million, will be spent for salaries, benefits, education and travel in 1980. The examiner corps, distributed geographically throughout the United States, requires highly trained professionals to supervise properly the condition of national banks; correspondingly, the Washington office needs sufficient experience and management depth to oversee and support the entire OCC operations. Our recruitment efforts must be directed toward selecting and retaining the highest quality personnel. The ever-increasing complexity and sophistication of the commercial banking system require that OCC's training programs be continually updated and expanded to keep pace with the industry.

The OCC expects to maintain employment in 1980 commensurate with the number of positions allocated by the Office of Management and Budget. Full employment is necessary to maintain ongoing programs and to institute required new programs. The 7.1 percent increase in salary expense provides for the attendant costs of new employees, merit promotions, awards and cost of living increases, including newly budgeted Senior Executive Service (SES) awards in 1980 as part of the government-wide SES Program expansion.

The total amount spent for education and training in the OCC is not reflected in that line item in the budget, since it only shows tuition and travel costs related to education. Salaries, benefits and travel costs incurred for the days our employees spend in education and training is projected at approximately $12.3 million, of which $4.4 million represents on-the-job training provided to entry-level employees. And adding the cost of course development, preparing texts and materials and instructor charges brings the total OCC expenditure for educational purposes to $13 million, or 12 percent of the total budget.

As mentioned previously, existing training must be expanded as the complexity of the industry changes, and new training programs must be developed and put on line to meet new responsibilities. Both existing training and new programs are being addressed through the Federal Financial Institutions Examination Council for uniform application to all member agencies of the council. The 1980 OCC budget includes costs of sending our people to council-approved courses and costs associated with using our personnel to develop programs for the council.

Any consideration of the Office's education and training costs must take into account the high turnover rate among the bank examiners who compose over 75 percent of the total OCC employment. The effective conduct of our supervisory mission depends on an experienced, knowledgeable and well-trained examiner force. The high examiner turnover, which was 15 percent in 1979, is expensive, disrupts productivity and impedes the development of proper levels of experience. There are three experience level categories of examiners that are relevant to a discussion of turnover: (1) entry-level examiners, (2) mid-career examiners and (3) career examiners.

In 1976, the OCC formalized a successful national recruitment program to recruit entry-level examiners from colleges and universities. At this level, salaries and benefits are competitive with the private sector. Normal attrition in this category occurs as employees make decisions on career and occupational opportunities. The majority who leave the OCC do so in realization that they are in the wrong job.

Examiners enter a mid-career period after 4 to 5 years when required skills, knowledge and training enable them to be fully productive and responsible employees. Mid-career turnover is of significant concern to the OCC simply because at this point the OCC is not competitive with compensation available outside. Minority and female examiners at mid-career are particularly recruited by and employed within the banking industry.

Examiners with 10 or more years of experience have typically become career professionals and assumed administrative responsibilities. At this level, examiners are generally subject to the same ceiling as other government professionals, and both horizontal and vertical movement becomes less available. The OCC bridges the federal employment sector and the professional-financial sector, and yet it exists within both environments as it relates to people. The plethora of opportunities in the banking industry and the ability of examiners at the federal pay ceiling to earn salaries between 50 and 100 percent more in that industry has resulted in an increasing attrition rate at the career level. Historically, professionalism and loyalty to the Office have kept many of our top career managers on board. However, unless we can decrease the disparity between federal government compensation and private sector executive pay, these professionals will be lost and, once lost, difficult to replace.

The modest 1980 increase of 2 percent for employee travel unrelated to education, although directly affected by high energy costs, has been achieved through our experiments with compressed work schedules in the OCC field offices, conscious energy conservation efforts, utilization of a consolidated examination concept and managed travel policies.

In the last quarter of 1979, the OCC field offices began experimenting with the 4/5 workweek arrangement permitted under government-approved compressed work schedules. Preliminary figures show reduced travel and attendant costs, without sacrificing productivity in examinations of national banks.

The new initiative in consolidated examinations provides for the consumer, electronic data processing, commercial, trust and international examiners to conduct concurrent examinations, permitting both joint travel and conservation of energy. These initiatives, along with a more closely managed travel policy which encourages and monitors maximum use of vehicles in official travel, produces tangible savings in travel costs.

The amount budgeted in 1980 for rent and maintenance represents a 19 percent increase and results largely from the expiration of leases of the Washington Office in 1979. Current renegotiation of the contracts has not been completed, and the budget figure represents the lessor's request, which is the highest cost OCC could incur.

A 14.3 percent increase in other expenses will occur as a result of the purchase and implementation of a new word processing system. The total integrated system which pulls together word processing, data processing and management information systems is designed to improve our ability to allocate resources, provide current and valid information throughout the organization, enhance distribution of information from OCC supervisory activities and improve processing of a variety of workloads.

Comptroller's Equity—At year-end 1979, the OCC equity account totaled $37 million. This gives the OCC a 4-month reserve from which operating expenses can be drawn. The equity account avoids disruption of OCC operations and assures continued stability in the supervisory and examination processes when problems in the economy or in the banking system adversely affect OCC revenues or expenses unexpectedly increase. A small portion of the equity fund is administratively restricted to provide for possible legal liabilities in conjunction with receivership funds antedating 1936.

The planned surplus for 1980 is $2.6 million. That excess is dependent on actual expenditures as budgeted, particularly whether full staffing can take place, on sudden unanticipated expenditures and on the revenues received. A reduction in total national bank assets upon which assessments are based or in number of national banks would have a direct and immediate effect on revenues.

Programs

The 1980 budget centers on expenditures necessary to carry on the existing programs and activities of the Comptroller's Office. New programs have minimal impact on expenditures but continue the pattern of improvement in our operations and management established the past several years. The continuing development and refinement of our supervisory activities provides much of the flexibility which will be needed to meet the challenges of the 1980's.

Developments in Supervision—Multinational Banking, which was created in late 1978 to centralize the supervision of the 10 largest national banking organizations and the international operations of all national banks, will reach full operation in 1980. Examinations of 105 overseas offices of 29 banks are planned for 1980. For those 10 banks in the multinational region, the traditional examination will be supplemented by a new quarterly visitation program to provide more frequent and timely information than previously available. In 1980, the division's capacity to monitor and project bank performance will be enhanced by a data-based program.

Special Surveillance will initiate a review program in 1980 to increase the level of information and analysis for 99 regional banks, each with assets ranging from $1 to 10 billion. The program is intended to contribute to OCC's awareness of the activities and trends in regional banking by expanding our analysis of key financial information and by onsite visits.

During 1979, the national bank surveillance system was structured to include data on international operations and introduced a new analytical tool, the bank holding company performance report, which will assist in evaluating bank holding companies and affiliated bank operations. A major addition to the national bank surveillance system will be video display units that will be in operation by the end of the first quarter of 1980, both in Washington and in our regions. The video display capability will enhance the analysis of individual banks and will produce tailored screens for earlier detection of emerging problems.

Another innovation in examination techniques will be tested in 1980 involving examination of multibank holding companies and their national bank subsidiaries. When a multibank holding company is highly centralized in management control and operating policies, we believe it is possible to supervise subsidiary national banks by examining and analyzing the information available at the holding company level. This approach may eliminate the need for some onsite examinations entirely and is expected to produce other cost and efficiency benefits as well.

Customer and Community Programs—Significant resources have been directed toward administering the OCC's mandates in customer protection, community affairs and civil rights, and these efforts are producing tangible results.

The Community Development Division was created to encourage and facilitate commercial bank participation in the development activities of a bank's local community or neighborhood. The division serves as a clearinghouse for information pertaining to community reinvestment programs of various financial institutions; it informs national banks of governmental programs in the community development area; and it will develop model community development programs and facilitate communication between community groups and banks. The facilitative approach of the division is an appropriate adjunct to the regulatory approach taken by the federal bank agencies to achieve the goals of the Community Reinvestment Act.

In 1979, the division published the *Program Guidebook to Help Meet Community Credit Needs* which describes federal, state and local government programs in which a bank may participate directly and several marketing programs for bank use in communicating with customers and community groups.

In 1980, the division will be expanding its "clearinghouse" activities to information on existing community development projects which may serve as models for other communities.

The Customer Programs Division is responsible for policy initiation and formulation with respect to consumer protection and civil rights, oversight and monitoring in these areas, regulatory reform, outreach to public interest and banking groups, internal advocacy of the interests which consumer and civil rights laws seek to protect, and special education programs.

The Customer, Community and Fair Lending Examinations Division continued to build on the examination approach developed in previous years. Examiner training continues as a high priority with 450 examiners trained and 165 senior level supervisory examiners given special training on management of the consumer examination during 1979. The development of specialized examination procedures has enabled us to reduce examination time and cost.

The Office of Customer and Community Programs plans to conduct a comprehensive review of its civil rights and consumer examination and its enforcement efforts during 1980.

Other Programs—The need to improve the OCC's ability to act in a more efficient manner on applications for bank charters, mergers and related concerns led to reorganization and expansion of the Bank Organization and Structure Division in 1979. That division is now better equipped not only for its traditional corporate applications functions but also its enlarged responsibilities stemming from new or amended laws which govern management interlocks, bank control changes, international banking and community reinvestment.

By year-end 1979, the Comptroller had implemented expedited application procedures to reduce the time involved in processing routine branch, customer-bank communications terminal, relocation and title change applications. The Comptroller's Office has eliminated unnecessary delays by delegating authority to act on certain applications to the 14 regional administrators. In 1980, the division will undertake a thorough review of its policies, procedures and forms for corporate applications.

The Regulations Analysis Division has contributed significantly to an improved regulatory process at the agency. There has been a 40 percent reduction in the number of disclosure items required in statutory financial reports for the 90 percent of national banks which have assets under $100 million. Exemptions appropriate for smaller banks were made for recordkeeping and reporting on bank securities transactions and for dissemination of annual shareholder reports.

One of the OCC's most dramatic efforts at better, but less burdensome, compliance regulation in 1979 involved the Office of Customer and Community Programs. The new fair housing home loan data system was developed on a computer-based analysis system which detects possible patterns of illegal discrimination. This system will be used as a tool by examiners to focus their in-bank efforts on critical areas where problems are most likely to occur in bank compliance with the Fair Housing and Equal Credit Opportunity acts. OCC has attempted to make this system workable with a minimum of information from the bank, keeping new recordkeeping requirements to a low level.

A significant achievement in interagency cooperation occurred during 1979 when OCC and the Federal Deposit Insurance Corporation (FDIC) successfully merged their processing of quarterly financial reports from banks. Those reports, which are nearly identical, had previously been processed using the personnel and processing programs maintained by each agency. Joint processing was achieved by transferring some personnel to the FDIC and adapting their computerized processing programs to meet additional requirements of this Office. To date, processing of three quarterly reports from the 13,400 national and state nonmember banks have been handled jointly, and this arrangement has reduced the total number of personnel required to do that task.

Development of the "National Treatment Study" which reported to Congress on foreign government treatment of U.S. banks pursuant to the International Banking Act of 1978 was an extensive undertaking of OCC's Research and Economic Programs Division in 1979. The OCC received substantial assistance from the Federal Reserve Board and the Treasury and State departments in developing the comprehensive report. The final report discusses the types of restraints and restrictions facing U.S. banks operating in other countries and provides individual studies of the official treatment of U.S. and other foreign banks in 21 nations and six groups of countries.

In conclusion, I would like to summarize some of the activities of the Comptroller's Office discussed here which illustrate our attempts to build a government agency that can perform effectively in the face of many different contingencies and one that can function well over time:

- Continuing improvements in Multinational Banking to meet the challenge of supervising the most sophisticated multibillion dollar banks;
- A new and efficient use of the Office's special surveillance capabilities to improve the supervisory oversight of banks in the $1 to 10 billion asset range;
- Refinement of the national bank surveillance system by adding data and video display capabilities for earlier detection of emerging problems;
- Increasing attention to the supervision of bank holding companies with plans to test a different approach to examination of multibank holding companies and their national bank subsidiaries which promises considerable savings in examiner time and travel costs;
- A nonregulatory approach in the Community Development Division to encourage private entities to help meet community credit needs;
- More effective monitoring at a minimum of additional regulatory cost in the compliance requirements of the fair housing home loan data system; and
- Considerable reduction in time delays involving our corporate applications function.

Those and other creative uses of the agency's personnel, operational and managerial capacities will permit the Comptroller's Office to carry out and actually improve the accomplishment of our mandates without an increase in real spending in 1980.

Statement of Jo Ann S. Barefoot, Deputy Comptroller for Customer and Community Programs, before the Senate Committee on Banking, Housing and Urban Affairs, Washington, D.C., February 19, 1980

Mr. Chairman, I am pleased to appear before the committee this morning to offer the views of the Office of the Comptroller of the Currency on the Home Mortgage Disclosure Act (HMDA) of 1975. We have examined the benefits and available cost information concerning the act in the context of its goals and the related regulatory systems for enforcing civil rights laws and encouraging investment by banks under the Community Reinvestment Act.

The enactment of HMDA in 1975 was a first step in a new federal approach to urban policy. Prior to that time, federal urban development efforts relied primarily on direct federal grants and other forms of subsidy. HMDA departed from that tradition by focusing on the role which private financial institutions can play in responding to the needs of their local communities. In the years since its adoption, this theme has become the cornerstone of other federal urban policy initiatives. Increasingly, our objective has been to create a partnership between the private sector, local government and the residents of the community to respond to local problems. HMDA, like the Community Reinvestment Act (CRA) which followed it in 1977, is clearly intended to promote this objective.

We believe that HMDA is an effective and necessary tool in efforts to promote urban reinvestment and that the law should be permanently extended. At the same time, however, we recognize that HMDA, in its current form, is far from perfect. It does not achieve its full potential as an information source and does not appear to minimize the costs that it imposes on financial institutions and, indirectly, on their customers. We recommend, therefore, a number of specific amendments at this time and further study of ways to strengthen HMDA and reduce its costs in the future.

In my testimony this morning, I will discuss the uses and benefits of HMDA, explore its costs and discuss some of the problems raised by the existing statutes, regulations and procedures. Finally, I will make recommendations which we believe the committee should consider in deciding the future of the act.

Uses and Benefits of HMDA Data

When HMDA was enacted by Congress in 1975, its purposes were two-fold. First, the law was intended to provide citizens and public officials with sufficient information to evaluate the performance of depository institutions in meeting housing credit needs. Second, HMDA was designed to provide a foundation for the design of public programs to improve the private investment environment.

HMDA reports have been used for both purposes. While the regulatory agencies do not collect data on the number of people or organizations using HMDA reports, informal surveys conducted by national reinvestment groups have identified some 300 users. Since the enactment of CRA, local citizens have used HMDA data in about 50 instances to challenge applications for structural changes, including branches or mergers, by banks and savings institutions. HMDA data analysis was an important component of most of those challenges, a number of which resulted in specific reinvestment commitments by the affected institutions. We also know of situations where local community residents or officials compiled HMDA data to help identify basic trends and conditions in housing markets and to develop revitalization programs involving public and private financing. It is worth citing a few examples.

In Cleveland, a regional planning agency compiled the data for the metropolitan area. Community groups used the compilation in reviewing the records of individual institutions and developing revitalization programs. The groups presented HMDA data at agency hearings during the application review process, as did the lenders in defense of their lending records. Further, the housing market problems revealed by the study are now being addressed through programs cooperatively developed by the community and local lenders.

In New Haven, Conn., the city government used HMDA data in 1978 to develop city housing programs and choose target areas for local programs. The data enabled city officials to approach local lenders with specific proposals. The city and local financial institutions worked together to develop home rehabilitation and purchase loan programs.

In a Boston savings bank case, neighborhood advocates used HMDA data to challenge a proposed branch. Rather than arguing for special public programs, the group helped design an affirmative marketing program through which the lender substantially increased its market share in the target neighborhood.

These examples illustrate the importance of the local partnership process which I described at the outset. HMDA data are only the starting point, however, for such successful reinvestment activities. They give the public and lending institutions insight into geographic lending patterns and indicate problem areas which need additional research and dialogue. The quality of that dialogue and whether the problems are actually solved depend heavily on the techniques used to supplement HMDA information. Organizations such as the U.S. Conference of Mayors, the National Community Development Association and the Center for Community Change are actively promoting the use of such supplementary information through community reinvestment seminars and manuals. Their publications emphasize that to understand the local real estate market, individual HMDA reports must be used along with demographic and sales data, compared to other local institutions' reports and assessed in light of individual applicant experiences and local real estate practices.

When HMDA was enacted, use by the public and local government was the primary focus of congressional interest. Since that time, however, HMDA information has become essential to the ability of the federal financial regulatory agencies to carry out responsibilities under the Fair Housing and Community Reinvestment acts. Use of HMDA data for fair housing and CRA assessments is now required by the Comptroller's Office in every consumer examination in metropolitan area banks. In addition, our written procedures for handling fair housing complaints and for reviewing the CRA applications of banks which have not had a recent consumer examination include HMDA data analysis.

All consumer examiners are trained in using HMDA and demographic data. Fair housing examination procedures require that HMDA data be arrayed in tables, plotted on census tract maps and analyzed in light of census information on minority population. If the patterns reveal differential treatment, the examiner pursues the reasons for the disparity with bank management and, when necessary, with local people knowledgeable about the housing market.

Similarly, agency CRA evaluations focus on ascertaining an institution's commitment to serving its entire community, including low and moderate income areas.

HMDA information is the only tool available to examiners, short of time-consuming and costly analyses of individual loan files, to make CRA assessments on patterns of housing investment in particular neighborhoods. We also use HMDA reports when evaluating bank applications for structural changes from a CRA standpoint. The first denial of an application by the Comptroller's Office on CRA grounds relied heavily on agency analysis of home mortgage disclosure and demographic data.

In summary, the benefits of HMDA have been to stimulate local dialogue, to create a base for local reinvestment strategies and to provide a realtively simple regulatory tool for monitoring CRA and Fair Housing Act compliance.

Costs

The Comptroller's Office has no independent information on the cost of Home Mortgage Disclosure Act data. The study recently released by the Federal Deposit Insurance Corporation (FDIC) and the Federal Home Loan Bank Board estimates the overall average cost to be about $1.50 per loan, with costs two or three times higher for small volume lenders. This suggests that the total cost for creating HMDA data is more than $5 million per year.

Problems with HMDA Data

We have outlined our reasons for believing that HMDA fulfills important purposes for both the general public and the regulators. However, a number of problems significantly reduce the effectiveness of HMDA as a tool for regulators and other users alike. Most of those problems are examined in detail in the report prepared by the FDIC and the Federal Home Loan Bank Board. Some of the difficulties can be readily solved. Others cannot without a restructuring of the requirements of the law.

Comparability—HMDA data are not now reported for comparable time periods or in comparable formats by different institutions. This prevents users from comparing or compiling the data to place the record of one institution in a total context or to evaluate the complete picture of housing investment in an area.

Accuracy—HMDA data are not always accurate enough to be usable. Significant errors were reported in both census tract address matching and data aggregation for the institutions in the three standard metropolitan statistical areas (SMSA's) included in the FDIC/Bank Board study. While our examination findings indicate that errors have been reduced since those data were collected in 1978, it is clear that accuracy needs to be improved. Such improvements will entail additional costs to the regulators and may have to be undertaken at the expense of other examination priorities.

Accessibility—HMDA data are not always readily accessible to the public. The availability of the data has not been widely known, and institutions have not been uniformly responsive to requests for mailed or photocopied reports. In some SMSA's, people must travel considerable distances to bank offices to obtain statements. That may be a significant barrier to using HMDA data in areas with hundreds of institutions.

Completeness—HMDA information from one institution or from several is most useful when it can be evaluated in terms of local demographic data and the total number of local residential sales. However, total sales cannot be ascertained from one statement, or even from a compilation of all HMDA statements, since institutions covered by HMDA do not account for all mortgage originations. It is extremely difficult, and sometimes impossible, to obtain this missing information from local property transaction records. For example, according to the Mortgage Bankers Association, in 1978, the approximately 700 mortgage banks accounted for 17.4 percent of total mortgage lending, and their market share has been increasing. Such institutions are not, however, subject to HMDA reporting requirements. The loans made by mortgage bankers are about equally divided among FHA insured, VA guaranteed and conventionally financed mortgages.

Analysis Costs—Even if complete and accurate data were produced by lenders, mechanisms for aggregating and analyzing the data are costly and time consuming. For example, the cost to develop and produce the previously mentioned Cleveland study was $75,000. The FDIC/Bank Board study describes a system to computerize and aggregate data for all institutions by census tract. It estimates, however, a year delay and cost of $1 million to adequately analyze the HMDA data for 1 year. Moreover, even if the federal agencies compiled HMDA data, additional analysis would be required for detailed understanding of local problems. Local resources for analysis of this type are extremely limited.

Recommendations

I have said that HMDA data are unique and provide important information for a number of vital missions, but are costly to collect and somewhat cumbersome and imprecise to use. The recommendations of the OCC are aimed at moving incrementally toward more useful and cost effective data products over the next several years. The first part of our proposal is to promote immediately the maximum usefulness of the data which financial institutions currently produce. The second part is to continue evaluating the information tools for achieving fair housing and reinvestment objectives and to improve or replace them based on the results of that evaluation. We will be pleased to cooperate with the other regulatory agencies to this end through the established mechanism of the Federal Financial Institutions Examination Council.

We recommend, therefore, that HMDA be adopted as a permanent law, subject to certain changes.

First, we support legislative and regulatory changes to standardize report time frames and formats. Such uniformity will improve the comparability and usefulness of the data at minimal cost. We recommend that a uniform annual reporting date be required. However, to avoid the end of the year reporting burden on many institutions, a date other than year-end may be appropriate. Specific federal preemption of unnecessarily duplicative state reporting requirements would be appropriate.

Second, we support several initiatives to improve data access by the public. Specifically, we propose the following:

- The availability of HMDA data should be explained in the CRA statements now maintained in every branch of the covered financial institutions. This change would require a minor revision in the agencies' CRA regulations.
- A central collection point should be established in each SMSA where HMDA statements will be stored and copied. Local governments of central cities in SMSA's should be provided with limited funding by the Department of Housing and Urban Development (HUD) to operate such centers. Perhaps HUD could commit some of its community development block grant funds for that purpose.

Third, the financial regulatory agencies should take steps to improve HMDA accuracy, within the constraints of examination priorities. This would require clarifying some of the definitions in the act, providing improved guidance to covered institutions on procedures and revising examination procedures to identify major problems.

Fourth, we recommend that the regulatory agencies cooperate with HUD to aggregate HMDA data for 2 years, following a brief period during which regulations are revised and techniques for improving accuracy are communicated to the institutions. To be more complete, such aggregated data should include census tract information on FHA mortgages, together with VA mortgage information to the extent such could be developed.

While we recognize that this process entails additional cost to the federal government, we believe such data aggregation will have several major benefits. Even after the delay required to compile statements, the data would be in a readily usable form for hundreds of jurisdictions. Thus, local institutions would have valuable information to develop reinvestment programs, and federal officials could systematically use the data in considering alternatives for urban policy. Data aggregation would also provide a more complete picture of the mortgage market, creating a framework for a definitive evaluation of HMDA requirements. It would allow us to analyze the effect of selectively eliminating requirements or of allowing exemptions for certain institutions or entire metropolitan areas.

Fifth, we oppose any extension of HMDA requirements to nonurban lenders. We have no evidence that HMDA, which was specifically designed for city neighborhoods, would be very meaningful in rural areas. We support the development of other tools which can be used by the public sector, lenders and regulators to assess rural community credit needs. Our office is currently sponsoring, together with the Farmers Home Administration, a study to identify rural community data sources. We believe continued research into rural credit needs is warranted before additional reporting requirements are imposed on thousands of small banks.

Finally, it is essential to develop alternative reporting methods to improve efficiency and reduce the burdens and costs to affected institutions. Recent improvements in the agencies' fair housing collection systems may point the way toward improving and integrating fair lending data requirements. While our limited experience with these new systems does not yet allow us to recommend cost-cutting innovations, these efforts may be the key to making HMDA more useful and less burdensome in the future.

For example, the fair housing home loan data system which is being developed by the Comptroller's Office requires that, prior to an examination, institutions submit data from a sample of mortgage loan files selected by us for computer analysis. The sample is evaluated for any patterns related to racial, ethnic or sex discrimination, and the examiner is instructed to follow up on any problems identified.

The system, while it requires census tract reporting, is not now designed for geographic assessment. In most cases, the sample selected will not be of sufficient size for determining geographic patterns. Furthermore, unlike HMDA, this system currently lacks data on home improvement lending. However, in the next few years, as we experiment with this system and use it in the examination process, we may discover significant opportunities to develop a comprehensive system for fair lending and CRA data collection and analysis.

We recommend, therefore, that the regulatory agencies actively assess the potential of meshing the reporting requirements of CRA, HMDA and the fair housing regulations and creating uniform reports. Furthermore, we believe the use of sampling and computer analysis techniques may be able to provide reports for fair lending and CRA supervisory purposes and possibly for public purposes. The agencies should be able to report the results of their assessment to Congress within 3 years and to recommend needed changes.

In conclusion, we believe that HMDA is a vital part of a larger system to stimulate local dialogue and secure compliance with fair housing and CRA mandates. It complements other information used by regulatory agencies and local planners. It contributes significantly to the processes needed for local reinvestment activity. We recommend permanent extension of HMDA and believe our other recommendations will strengthen its effectiveness. At the same time, we intend to continue developing improved ways to assure the revitalization of the nation's communities and neighborhoods.

Statement of John G. Heimann, Comptroller of the Currency, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs, Washington, D.C., February 20, 1980

I am pleased to have the opportunity to present the views of the Office of the Comptroller of the Currency on deposit rate controls, financial institutions reform and other issues under consideration by the committee at this time. Because of the broad range of issues which your invitation asked that we address, my testimony is divided into several sections. First, I will comment on the various proposals to eliminate deposit rate controls (Regulation Q) and to expand thrift institution powers, including the related sections of the Senate-passed version of H.R. 4986, as well as H.R. 6198, H.R. 6216, and the alternative proposals in Chairman St Germain's statement on financial reform. Second, I will comment, and largely reiterate positions taken in previous testimony, on the most significant sections of the other titles of the Senate bill, including our proposed "housekeeping" provisions.

Financial Institutions Reform

We believe it is imperative to move forward immediately with financial institutions reform. We support the thrust of the legislative proposals under consideration as a step in the right direction.

Beginning with the recommendations of the Commission on Money and Credit nearly 20 years ago, the need for financial institutions reform has been clear. Since that time, numerous studies have concluded that Regulation Q should be phased out and that thrift institutions should be granted broader asset and liability powers. The OCC has on many occasions testified in support of financial institutions reform. Yet, despite calls for legislation to improve the competitiveness of our depository system, deposit rate controls, including the rate differential favoring thrifts, and restrictions on thrift institution asset and liability powers have remained in place.

In the meantime, the problems prompting calls for reform have continued to worsen. As a result, we are confronted today with a depository institution system, particularly the thrift institution segment, whose powers are constrained in ways that do not enable the system to compete effectively in financial markets, which themselves have been evolving in response to changing economic conditions. Thrift institution earnings, especially in the Northeast, once again are coming under pressure as a consequence of high interest rates and continued concentration of thrift investments in long-term, fixed rate mortgages. Furthermore, below-market rate ceilings have caused all depository institutions to lose deposits. Disintermediation has been particularly severe in smaller commercial banks and thrift institutions which depend primarily on consumer deposits.

For a time, deposit interest rate ceilings, imposed on all depository institutions in 1966, protected earnings and postponed the need to deal directly with the thrift institutions' earnings problem through removal of limitations on asset powers. This solution, while buying time, has had a number of faults:

- Deposit rate controls have been a regressive and inequitable tax on many of our citizens. They are not applied to all deposit instruments, but primarily to those traditionally held by unsophisticated and moderate- to low-income savers who lack sufficient familiarity with financial markets to take advantage of alternative instruments or do not have enough savings to meet the minimum denomination requirements of open market instruments. The 5.25 percent ceiling on passbook accounts at commercial banks is only 1.25 percentage points higher today than the 4 percent ceiling rate that existed in 1962. Over this same period, rates on 3-month Treasury bills have gone from 2.78 percent to 13.34 percent.
- Deposit rate controls disrupt credit flows, especially to the mortgage markets, during high interest rate periods because they result in disintermediation as sophisticated depositors, seeking the best return, move funds out of depository institutions and into Treasury securities, money market mutual funds and other instruments yielding market rates of interest.
- Deposit rate controls have resulted in inefficient competition for deposits. Rate controls have not eliminated competition among depository institutions. Rather, controls have resulted in institutions competing on the basis of other factors such as premiums, free services and greater convenience in the form of more branches and longer hours.

These adverse consequences of deposit interest rate ceilings make it clear that they were never a good solution. Market-rate instruments, such as money market funds, assisted by advances in data processing technology and high interest rates, preclude a return to the old solution of protecting earnings by controlling deposit rates. Deposits, once viewed as the stable "core" of a bank's funds, are becoming increasingly sensitive to yield. The dynamics of the marketplace are such that a continuation of deposit rate controls will lead to a restructuring of the financial services industries, changing and diminishing the role of depository institutions.

For example, in the last 24 months, money market mutual fund (MMF) assets have increased from $4 to over $53 billion. Money market mutual funds offer a highly liquid, low-cost investment instrument paying investors market rates of interest. Increasingly, bank and thrift institution executives are reporting a loss of deposits to those funds and to other open market instruments such as Treasury bills and notes. While a significant proportion of MMF assets is invested in commercial bank certificates of deposit and other bank paper, these investments tend to be concentrated in only a few of the largest U.S. banks. Should MMF's and other instruments attract significant amounts of deposit funds, the liquidity and earnings of smaller commercial banks and thrift institutions, which do not have as much of a ready access to purchased sources of funds as larger institutions, would be adversely affected.

To limit disintermediation pressures, the financial institutions regulatory agencies already have been easing deposit rate ceilings. The $10,000 money market certificate of deposit (MMCD), with a floating rate ceiling tied to the 6-month Treasury bill rate, was authorized in June 1978. At the end of 1979, MMCD balances at federally insured savings and loan associations totaled $127 billion, or 27.6 percent of all deposits at those institutions. On July 1, 1979, a 4-year certificate with a floating rate ceiling tied to the yield on Treasury securities of comparable maturity was authorized. That certificate was superseded on January 1, 1980, by a 2½-year certificate with a floating rate ceiling that is closer to the yield on Treasury securities of comparable maturity than was the ceiling on the 4-year certificate.

To attempt to solve the problem of disintermediation by imposing rate controls on unregulated market instruments would interfere with the efficient functioning of financial markets and would reduce consumer incentives to save. Furthermore, the pressures are so great now that new means of offering market rates would be developed almost as quickly as old ones were restricted. Thus, such an approach would only ensure a decline in the role of depository institutions in the U.S. financial system, particularly those dependent on consumer deposits.

While inflation and market developments have forced *de facto* deregulation of depository institution liabilities, the continuing impasse in the Congress with respect to reform and deregulation of restrictions on financial institution asset powers imperils the ability of such institutions to function profitably. Thrifts are increasingly faced with a choice of either defending their deposits by paying market rates of interest, thus adversely affecting earnings, or attempting to protect their earnings by paying less than market rates and suffering deposit withdrawals. This dilemma occurs because thrift institutions are required to concentrate their investments in long-term, fixed rate mortgages. Shorter term assets and longer term assets with variable rates are elements of financial reform essential to eliminate this Hobson's choice.

Our entire financial system, as well as the mortgage market, will be best served by strong and well-capitalized depository intermediaries. Strengthening the thrift industry by permitting savings and loan associations and mutual savings banks to offer a broad range of services, coupled with the elimination of deposit rate controls, will place these institutions in a far better position to attract deposits. Elimination of deposit rate ceilings, including the thrift institution differential, will also substantially improve the ability of commercial banks to compete for deposits.

While expanded asset powers for thrift institutions might decrease the proportion of thrift investments in the mortgage market, these same powers, depending on the impact of removing the deposit rate differential, might increase the thrifts' share of the deposit market. In any event, the development of a strong secondary mortgage market, innovations in the packaging and selling of mortgages and the existence of government-sponsored mortgage pools have already reduced the dependence of the mortgage market on thrift institutions. Increasingly, the mortgage market is becoming more national in scope and is attracting renewed interest from the contractual thrifts such as pension funds and life insurance companies.

It is urgent that we begin an orderly process of financial institutions reform. The piecemeal easing of Regulation Q by the regulatory agencies in response to the prospect of disintermediation must be matched by an accompanying liberalization of thrift powers to address the thrift earnings problem. Thrift institutions need authority to begin the process of adapting their services in response to the more competitive marketplace.

In fact, this process of adaptation should have begun long ago, when market interest rates were closer to the ceiling rates and competitive pressures from nondepository institutions were less intense. As we noted in our testimony before this committee last year, it will take time for thrift institutions to implement new asset and liability powers and to make necessary adjustments in their portfolio and operating policies. Those commercial banks dependent on retail deposits will also need the opportunity to adjust the services they offer. For these reasons, we supported a gradual phaseout of deposit interest rate ceilings.

Events of the last year, however, cast doubt on the feasibility of a gradual phaseout, certainly one which would extend over a 10-year period. For example, since last May, interest rates have risen dramatically. The prime rate charged by commercial banks has gone from 11¾ percent to the current high of 15¾ percent. The yield on 3-month Treasury bills has increased from 9.60 percent to 13.34 percent. By comparison, over this same period, the rate on passbook savings accounts at thrift institutions has gone from 5¼ percent to 5½ percent.

In response to high interest rate and regulatory adjustments in deposit rate ceilings, 1979 profit margins at thrift institutions declined from 1978 levels and are expected to decline sharply in 1980 if interest rates remain at present levels.

Adding to the pressure on all depository institutions is the increased competition from nationally based competitors such as securities firms, large financial services companies, mortgage bankers and large retailers, all of which are seeking to increase their market share of financial services.

These developments increase the urgency for prompt action on financial institutions reform. They also mean that the necessary adjustment process will be more painful. Continued delay is unlikely to ease the transition problem and may, in fact, exacerbate it further.

It is important to recognize that there may never be a perfect time for implementing major changes in an industry. Moreover, it is impossible to operate with absolute certainty with respect to the ultimate ramifications of change. Alfred Kahn, in a 1978 speech which reviewed his experience as Chairman of the Civil Aeronautics Board during the deregulation of the airline industry, told of his conversion from a belief in gradualism to advocacy of achieving total deregulation as quickly as possible. After participating in this major deregulation of the airline industry, Chairman Kahn noted:

> What has been genuinely illuminating to me is how rich a comprehension I have acquired of the distortion of the transition, and how thoroughly I have as a result been converted to the conclusion that the only way to move is fast. The way to minimize the distortions of the transition I am now thoroughly convinced, is to make the transition as short as possible.

Financial Institutions Reform Agenda—A key element of financial institutions reform is elimination of all rate controls on deposits. This will enable commercial banks and thrifts to compete effectively for funds with nondepository institutions. Furthermore, commercial banks will no longer be subject to the competitive disadvantage of the thrift rate differential.

There are three other essential components to a financial institutions reform package that should accompany the elimination of Regulation Q. First, thrifts should be permitted to offer a full array of consumer services including transaction accounts, consumer loans, credit card services and trust services. Those powers are necessary to make thrifts more competitive with commercial banks once Regulation Q ceilings are completely removed.

Second, yields on mortgage portfolios must reflect and adjust to changing market interest rates. The high rates of inflation since the mid-1960's and accompanying high interest rates have made long-term, fixed rate lending unprofitable. If thrift institutions are to continue to depend on relatively short-term liabilities, then their earnings on assets must become more sensitive to changes in market rates of interest. One way to accomplish this objective is to permit them to offer a full range of mortgage instruments with adequate consumer safeguards, including alternative mortgage instruments such as rollover mortgages. Commercial banks should have the same flexibility.

Action must also be taken to remove usury ceilings to make all loans to which such ceilings apply attractive and profitable investments. We testified before this subcommittee on April 5, 1979, recommending that state usury laws be repealed, pre-empted by federal law or modified substantially. Congress recently granted temporary relief from such ceilings affecting mortgage loans and certain business and agricultural loans until March 31, 1980. Permanent relief is needed in those states where below market usury ceilings exist. Below market usury ceilings divert lending and investment activities to markets in which no controls exist. Those ceilings reduce the incentive to make certain types of loans and further distort the flow of funds by encouraging out-of-state investments. This injures the very people usury laws were intended to protect.

Third, thrift institutions should be permitted to diversify their assets to include more short-term and liquid assets such as commercial paper, corporate debt securities, bankers' acceptances, consumer loans and, in the case of mutual savings banks, commercial loans. These additional powers will permit thrifts to shorten the maturity of their asset portfolios as well as provide highly liquid instruments for storing unanticipated or temporary deposit inflows. To be truly useful, the commercial lending power for mutual savings banks must be accompanied by the power to accept corporate deposits.

Regulatory Reform Agenda for the Future—The competition between financial intermediaries both for consumer savings and in offering financial services will continue to intensify in coming years. Our banking statutes, however, continue to reflect the view, prevalent in the 1930's, that the various financial institutions have clearly differentiated functions, each of which should be regulated in a compartmentalized fashion. The commitment of the thrift industry and especially the savings and loan industry to residential mortgage lending, may have reflected voluntary decisions early in their history, but governmental regulations and statutes now make such specialization largely involuntary. As we have already stated, continuation of governmentally mandated specialization does not provide thrift institutions with the flexibility required to compete effectively in the kind of financial system that is evolving. This is why financial institutions reform is necessary.

The process of deregulation, which would begin through enactment of the legislation before us today, should be viewed as one step towards an eventual total freeing up of the financial system. Such a process will undoubtedly raise significant issues and may require a significant rethinking of our regulatory structure to ensure that all financial intermediaries offering similar products and services are able to compete on the same basis and on the same terms and conditions. This principle implies that reserve requirements, lending restrictions, geographical barriers, tax treatment and a host of other factors be applied evenhandedly to similar institutions.

Legislative Proposals

We support the thrust of the legislative proposals presently being considered. Because the OCC has previously testified on many of these proposals, we have provided only summary comments in this testimony.

Interest Bearing Transaction Accounts—H.R. 4986, as passed by the Senate, provides for the nationwide extension to all depository institutions of authority to offer interest-bearing transaction accounts (NOW accounts) to individuals and nonprofit organizations. The bill also makes permanent the authorization of automatic transfer services at commercial banks, remote service units of savings and loan associations and share accounts at federal credit unions. If action is not taken by March 31, the authority for these transaction arrangements will expire. We support these provisions. These services afford the public a substantial benefit. Moreover, authorization of transactions account powers for all thrifts is an essential component of the powers necessary to enable thrifts to compete for deposits in a world without the benefit of deposit rate ceilings and the differential. We also support limiting NOW accounts to individuals and nonprofit organizations, but only as an interim step to ease the transition for depository institutions. We believe that this restriction should be terminated as soon as possible and that ultimately all depository institutions should be permitted to offer interest-bearing demand deposit accounts to any kind of customer.

The Senate version of H.R. 4986 is silent on reserve requirements for commercial banks and thrift institutions. Thus, existing inequities between member banks and nonmember depository institutions are perpetuated. Member banks will continue to be required to hold sterile reserves on transaction account balances.

Payment of interest on transaction balances will increase cost pressures on all depository institutions. Thus, the cost to member banks of holding nonearning reserve balances will become even less tenable than it is now. This will exacerbate Federal Reserve membership attrition. We strongly believe that the public will be better served by insuring that all institutions offering transaction accounts be subject to the same requirements and restrictions, including those pertaining to reserves.

Phased Deregulation of Deposit Rate Controls—Four separate approaches to eliminating deposit rate controls are presently under consideration by this subcommittee.

Section 107 of H.R. 4986, as amended by the Senate, provides for the total decontrol by January 1, 1990, of the maximum deposit interest rates which depository institutions may pay. The bill provides that, beginning on January 1, 1982, and every year thereafter through January 1, 1989, rate ceilings on all categories of deposits are to be raised by the regulators at least one-half of a percentage point. Flexibility is provided in the bill for the Federal Reserve Board to hasten or slow the rate of decontrol, if economic conditions warrant. The bill also provides for reducing minimum denominations on certificates of deposit to at least $1,000 as soon as feasible by unanimous agreement of the agencies. Again, if economic conditions warrant, this action could be postponed. In addition, the bill provides that new categories of deposits may be created only if the rate of interest is at least equal to rates on deposits of equivalent maturities.

H.R. 6198 provides for a more rapid phasing out of Regulation Q through lifting ceilings on all savings and time deposits by one-half percentage point per year beginning July 1, 1980, and eliminating ceilings at the end of 5 years (July 1, 1985). The bill also directs the agencies to reduce all minimum denomination requirements on all time deposits within 5 years after the date of enactment. In addition, interest rate ceilings would be removed each year on specific deposit categories on the basis of maturity, beginning with ceilings on time deposits with initial maturities of 6 years or more, individual retirement accounts and accounts maintained by qualified pension plans.

H.R. 6216 directs the federal financial regulatory agencies to raise the passbook interest rate to an undefined market rate of interest 5 years after enactment of the legislation. The bill does not address the continuation of ceilings on other deposit categories.

Chairman St Germain has proposed a fourth approach, which would require the Interagency Coordinating Committee to raise the ceiling on passbook savings accounts by one-half of a percentage point as soon as possible but no later than 1 year after enactment of legislation. Second, the committee, while operating under Regulation Q until 1985, would be directed to take into account market rates of interest and economic conditions and establish more equitable rate ceilings on savings accounts. At the end of 1985, deposit rate controls on all deposits would be removed.

The establishment of a date certain for eliminating Regulation Q and a specific schedule for its phaseout is of overriding importance and an essential ingredient in the process of financial reform. Moreover, regulatory discretion to modify the schedule where circumstances warrant is also important.

We are in agreement with Chairman St Germain's stated position and Congressman Barnard's suggested approach in H.R. 6198 that a transition period of 10 years, as provided for in H.R. 4986, is unnecessarily long. We support phaseout of Regulation Q along the lines contained in H.R. 6198, which includes a provision authorizing the Federal Reserve Board, in consultation with the other financial regulatory agencies, to accelerate or slow the phaseout of deposit rate controls if economically feasible.

Expanded Thrift Powers—H.R. 4986 would permit federally chartered savings and loan associations to issue credit cards and engage in credit card operations, make and hold unsecured consumer loans and invest in commercial paper, corporate debt securities and bankers' acceptances in an amount not to exceed 20 percent of the assets of the association. H.R. 4986 and, to a lesser degree, H.R. 6198 make a number of other changes in thrift powers and structure. These include the authority for savings and loan associations to invest in certain mutual funds, the authority to exercise fiduciary powers, a broadening of thrift residential real estate lending authority to match the powers of national banks, the permission for a state stock savings and loan association to obtain a federal charter if it has never previously existed in a mutual form, and the authority for savings and loan associations to issue mutual capital certificates.

H.R. 4986 would also allow federally chartered mutual savings banks to place up to 20 percent of their assets in loans or investments of any kind phased in over an 8-year period, so long as 65 percent of such loans and investments are made within the state where the bank is located or within 50 miles of such state. Federal mutual savings banks would also be permitted to accept demand deposits from any source.

H.R. 6198 and H.R. 6216 do not have comparable provisions for expanded powers for federal mutual savings banks and do not include credit card powers for savings and loan associations. H.R. 6198 further sets a 10 percent of assets limitation on expanded savings and loan association asset powers.

The OCC supports the broadening of thrift powers as contained in H.R. 4986. The authority for federal savings and loan associations to make consumer loans and issue credit cards will improve their competitive capabilities by rounding out the range of family financial services, including transactions accounts, that they may offer to consumers. This authority will also improve the ability of thrifts to pay market rates on their short-term liabilities by reducing the average maturity of their assets. We are unaware of any reason for excluding "secured" consumer lending from the new thrift powers.

We also support providing mutual savings banks with the additional powers contained in H.R. 4986. We question, however, the need for including geographical restrictions as part of the expanded mutual savings bank lending authority. Such a restraint limits the free flow of capital and may create inefficiencies with no clear public benefit.

We support placing an initial 20 percent of assets limitation on the new thrift lending powers. Savings and loan associations and mutual savings banks will need time to develop expertise in their newly acquired loan areas. For instance, consumer lending entails greater administrative costs relative to the size of the loan and greater risk than mortgage lending.

However, consideration may need to be given in the future to raising the percent of assets limitation and perhaps further easing restrictions on thrift asset powers. We expect thrift institutions will continue to concentrate their lending activity in the mortgage market—their area of expertise. However, changes in the marketplace and in regional economic conditions might require their having increased access to liquidity and, at the same time, additional options to improve their earnings flexibility.

Real Estate Mortgage Lending Authority—Among the various provisions to expand the asset powers of thrift institutions, H.R. 4986 and H.R. 6198 provide that federally chartered savings and loan associations may invest in, sell or otherwise deal in loans or investments secured by liens on residential real estate to the same extent and in the same manner and amounts without limitation as national banks can pursuant to the provisions of Section 24 of the Federal Reserve Act, 12 USC 371. By that grant of expanded authority to federal savings and loan associations, such institutions will be able to undertake the more flexible and creative approaches to residential real estate lending which are now available to national banks. For example, while most loans by federal savings and loan associations cannot exceed an 80 percent loan-to-value ratio and a $75,000 aggregate limit, national banks may make loans up to 90 percent of appraised value on improved real estate and, more significantly, without dollar limitations. The application of Section 24 to federal savings and loan associations will also remove geographical limitations, first lien requirements and certain other asset limitations on savings and loan associations.

We believe that such authority will provide necessary increased lending flexibility to federal savings and loan associations. We suggest, moreover, that such authority be extended to federally chartered mutual savings banks to enhance their capacity to compete with other depository institutions.

OCC Housekeeping

During the first session of the 95th Congress, Chairman St Germain introduced our so-called housekeeping proposal to amend the National Bank Act and other federal laws principally affecting the OCC. These provisions, which are for the most part intended to streamline certain functions of the agency under existing laws, were included in the Financial Institutions Regulatory Act of 1978 (H.R. 13471), which was favorably reported out of the House Banking Committee on July 20, 1978. We still believe this legislation is necessary.

The housekeeping provisions in Title III of H.R. 4986 are, for the most part, noncontroversial and affect such matters as the ability of the Comptroller to delegate certain responsibilities in a manner similar to provisions affecting the Federal Deposit Insurance Corporation (FDIC), to revoke a national bank's abused or unused trust powers and to have greater flexibility in scheduling bank examinations. Provision is also included in Title III for terminating the National Bank Closed Receivership Fund. Certain sections of the housekeeping provisions are noteworthy, however, including those affecting real estate holdings of national banks, clarification of OCC rulemaking authority and the recently added restrictions on the interstate establishment of trust companies.

Other Real Estate Owned—Section 301 of H.R. 4986 would amend the National Bank Act to authorize the Office when necessary to extend for up to 5 years the period for which a national bank may hold real estate acquired from a debt previously contracted. This provision is designed to provide sufficient regulatory flexibility to deal with situations in which a national bank is unable to dispose of such real estate during the normal 5-year holding period at other than an unreasonably low price which would result in a substantial loss to the bank. Section 301 also provides us with authority to allow national banks to expend limited funds for the development and improvement of such real estate in certain extenuating circumstances.

We believe that this proposed authority is necessary. We understand that there is some concern, however, that the proposed language of the provision, as it is presently drafted, may only authorize development and improvement of such real estate when an application is formally made to the Comptroller and approval is granted. It would only allow such developments or improvements in demonstrably extenuating circumstances. If this provision is enacted in its present form, we would endeavor to establish expedited review processes to minimize any additional regulatory burdens on national banks. Alternatively, we are available to work with the subcommittee to modify the provision to permit greater procedural flexibility if that is desirable.

OCC Rulemaking—Section 308 of H.R. 4986 concerns the rulemaking authority of the OCC. Recently, the U.S. Court of Appeals for the District of Columbia substantially clarified the Office's authority by deciding that an explicit grant of substantive rulemaking authority exists under the Financial Institutions Supervisory Act.

Formal rulemaking is an essential part of the administrative decisionmaking process. It provides for maximum public and industry participation in developing standards. In certain cases, as noted by the Court of Appeals, it may be infinitely preferable to case-by-case adjudication.

It is necessary, however, that the Congress enact unambiguous legislation. In our opinion, the language of the Senate bill is inadequate to fulfill this need. More particularly, the added phrase "under the Financial Institutions Supervisory Act of 1966" may cloud certain express grants of specific rulemaking authority under other statutes and grossly impede our ability to coordinate rulemaking with the other regulatory agencies.

The statutory clarification, as originally proposed in H.R. 2229 and H.R. 5280, would provide specific language paralleling the rulemaking authority of the FDIC. We request, therefore, that the added language in Section 308 be stricken and the provision as originally proposed and accepted last year by the House Banking Committee by a vote of 34 to 5 in H.R. 13471 be restored.

That is, we ask that Section 308 be changed to amend the National Bank Act by adding new Section 5329A to Chapter 4 of Title LXII of the Revised Statutes to read as follows:

> Except to the extent that authority to issue such rules and regulations has been expressly and exclusively granted to another regulatory agency, the Comptroller of the Currency is authorized to prescribe rules and regulations to carry out the responsibilities of the office.

Interstate Trust Companies—Section 312 was not part of our originally proposed housekeeping bill. It was added by the Senate to amend the National Bank Act and the Douglas Amendment of the Bank Holding Company Act to prohibit the chartering and acquisition of trust companies by out-of-state holding companies. This Office has a longstanding policy of favoring a free and open system of competition among all providers of financial services. In our opinion, the proposed provision is overly restrictive and essentially anticompetitive. We therefore oppose its enactment.

The interstate establishment of trust company subsidiaries relates to the broader questions involving all forms of interstate bank holding company activities and market structure. In fact, the Administration is conducting a study which was undertaken at the request of the Congress to review the entire issue of geographic restrictions on bank and holding company activities. We recommend that any legislative action on the issue of interstate trust operations at least await the completion of that report.

In our opinion, it would be premature at this time to enact a new restrictive prohibition against one form of holding company activity without reevaluating the principles which long have been applied equally to other types of permissible interstate activities of holding companies.

Truth-In-Lending Simplification

Our Office has consistently and strongly supported efforts to simplify the Truth-in-Lending Act. While the act is an important consumer protection tool, it has proved to be unwieldy and unnecessarily complex in its present form. This complexity places a costly and wasteful administrative burden on both the lending industry and the regulatory agencies and, at the same time, tends to confuse rather than assist the prospective borrower. As a result, Truth-in-Lending is often cited as an example of government overregulation, which imposes costs without commensurate benefits.

We believe it is time to correct this imbalance of costs and benefits by simplifying both the law and the regulation to focus on the original extremely worthwhile goal of disclosing key loan terms in an understandable manner. We, therefore, strongly support the pending simplification amendments.

We support the specific amendments in the Senate bill which clarify the authority of the financial regulatory agencies to provide for reimbursements to consumers harmed by certain violations of the act. These amendments reflect a recognition of the problems which the agencies encountered in their attempts last year to implement reimbursement guidelines through administrative actions. Based on those problems, we believe that any workable reimbursement system must be flexible, operate uniformly among the agencies, incorporate reasonable tolerance levels for lender errors and be limited to a realistic period of retroactivity.

Regarding this last point, we oppose proposals to make the bill's reimbursement provisions retroactive to January 1, 1977. The agencies used a 1974 retroactivity date in last year's reimbursement program and found that it was too rigid to be fair. We prefer the Senate bill's provision, which is modeled on the agencies' proposal as published in the *Federal Register* last fall. This approach tailors the retroactivity period to the past performance of each individual institution, based on whether or not it responded properly to notification by its regulatory agency that it was in violation of the regulation. This approach to retroactivity recognizes the complexity of the present law and regulation and will not penalize the lending institution which has made good faith efforts to comply with them. We recommend that it be adopted in the final version of the Truth-in-Lending Simplification and Reform Act.

Proposed Moratorium on Foreign Acquisitions

We do not believe that a moratorium on foreign acquisitions of U.S. financial institutions, such as contained in Title X of the Senate bill, is justified. Such legislative action would be unwise and inconsistent with the longstanding U.S. policy of free and open capital markets. Our country has traditionally welcomed and encouraged foreign investment in our domestic enterprises, and foreign capital has contributed significantly to our economic development.

Our nation's banking policies have been consistent with this open policy toward foreign investment. In adopting the International Bank Act of 1978, the Congress discarded both proposed restrictions on foreign investment in banking and policies based on reciprocity in favor of the principle of national treatment. A shift in this policy would be justified only in the face of a clear and present threat to national interests, especially in light of the potential costs to our own system of such a shift. We find that there is no evidence that such danger exists.

Taking into account both known consummated and approved acquisitions, less than 1 percent of our country's 14,367 insured commercial banks have 10 percent or more foreign ownership. Those institutions account for less than 5 percent of our aggregate commercial bank assets. Those are modest levels, far from being sufficiently threatening to risk the potential costs of a moratorium. Moreover, we believe that an objective review of the concerns raised thus far reveals that potential problems associated with foreign ownership—especially ownership by foreign institutions—can be dealt with satisfactorily within the existing framework of laws and regulations.

At the same time, we recognize that significant public policy issues have been raised regarding foreign ownership of U.S. financial institutions. We support, therefore, the General Accounting Office study into those issues initiated by Chairman St Germain and other efforts to illuminate this complex and, at times, troubling subject.

Remarks of H. Joe Selby, Senior Deputy Comptroller for Operations, before the 40th Assembly for Bank Directors, Palm Springs, Calif., February 22, 1980

In September 1978, I appeared before the 32nd assembly in Colorado Springs and spoke on the changing standards of bank regulation and their effects on the responsibilities of bank directors. I related how the standards of bank regulation had not, in effect, changed but rather the emphasis which regulators place on those standards had changed and how the increasing complexities of the industry had enlarged the director's role in assuring the bank's soundness and success.

Today, I will talk about the evolving responsibilities of the bank director, and yet the fundamental responsibilities have changed very little. It is a fact that your legal responsibilities as a bank director have increased substantially as a result of congressional actions on social concerns. In addition, you must deal with the fact that the bank exists in a changing marketplace where there's no choice but to compete, and you must be concerned with the cost and burden of regulation, since the banking business is a heavily regulated business. Unfortunately, it is going to continue that way in the future.

Membership on a bank's board should be considered an honor, and the ability to attract or bring business to a bank may be a relative factor in the choice of a director. However, those do not define the function of a bank director nor describe the important responsibilities the person assumes in joining a bank's board of directors. In essence, a director has a legal duty to supervise the business of the bank diligently and in good faith. Shareholders, depositors and creditors have the right to expect no less.

Throughout the last decade, an enormous amount of press was devoted to the bank director's role. Numerous commentators stated that the duties and responsibilities of a director had undergone profound change. Admittedly, we witnessed, and will continue to witness, the imposition of an increasing number of legal strictures on directors and their banks. We can also expect that the dynamics of the banking system will continue to pulsate from further innovation and development. This will also increase the demands on bank directors. Nonetheless, it is misleading to assert that the fundamental role of the bank director has been appreciably altered. What has, in fact, occurred is a transformation in perception of the mission for which a bank exists and a groundswell of new, novel bank services and operations. Viewed in proper perspective, the climate of ever-increasing requirements may best be viewed as attempts to establish the operating procedures and internal controls which, when followed, will help any board of directors in meeting today's public and private expectations for the banking community.

Regulators have not been misled by pronouncements of change in director responsibilities. Federal regulation of the commercial banking industry is more than 117 years old, and during that time, we have always assigned tremendous import to the duties and responsibilities of the bank director. We have held, consistently, that a director must be a leader, imparting an amassed knowledge and business expertise to attain the goal of a prosperous, safe and sound institution servicing its community.

Examiners sometimes have to impress bank directors with the extent of their duties and responsibilities. Unless bank directors realize the importance of their positions and act accordingly, they are failing to discharge their obligations to shareholders and depositors. They are also failing to take advantage of the opportunity to exercise a sound and beneficial influence on the economies of their communities. The OCC has compiled what we feel to be eight major duties and responsibilities of a bank director. They are:

- To select competent executive officers and to dispense with officers who prove unable to meet reasonable standards of executive ability and efficiency;
- To effectively supervise the bank's affairs—the character and degree of supervision required involves reasonable business judgment and confidence and sufficient time to become informed about the bank's affairs;
- To adopt and follow sound practices and objectives—the directors must provide a clear framework of objectives and policies within which the chief executive officer must operate and administer the bank's affairs;
- To avoid self-servicing practices—a self-serving board, whether weak or strong in other respects, has historically worked to the bank's detriment;
- To be informed on the bank's condition and management policies, through usable data which show the direction the bank is taking and the implications of change if policies are followed;
- To maintain reasonable capitalization—a bank's capital base supports growth while protecting depositors against the uncertainties of investing funds;
- To observe banking laws, rules and regulations—speaking as a regulator, this almost goes without saying, but directors *must* exercise care to see that laws are not violated;
- To insure that the bank has a beneficial influence on the economy of its community—this is very difficult to quantify, directors have a continuing responsibility to provide banking services which will be conducive to well-balanced economic growth.

What, specifically, has happened to make your corporate lives a jungle of seemingly tedious—and often apparently extraneous—rules, regulations and requirements? In part, the proliferation of new requirements was fostered by the birth of broad-based social activism which permeated the national conscience. The year 1969 may be viewed as a watershed, the dawning of this new era, for in that year Congress passed the Truth-in-Lending Act. This act was not the omega of congressional action in the arena of social measures. On the contrary, passage of the act merely presaged a decade of enforcement and compliance legislation that had little to do with the fundamental business of banking. Unfortunately, it also ignored the need for structural reform. The litany of socially oriented legislation includes such items as equal credit opportunity, affirmative action, home mortgage disclosure, fair housing, community reinvestment, etc. Each of those proposed to alleviate perceived social problems and were well intended. The end result to the banking community and, therefore, you, however, was a maze of exacting strictures which, if violated, even inadvertently, could lead to sizable adverse impact on the financial posture and public image of your respective corporations.

During this period of unprecedented congressional action, banks were also confronted with a rapidity of change under which the industry was evolving. The recessionary period of the early 1970's, when large banks at home and abroad failed, placed the banking industry prominently in the news media. Confidence remains the key to our economic system, and confidence is derived from the public's collective perception of the soundness and integrity of our financial institutions—a perception based largely on the public's judgment of the individuals who manage our banks.

Not all was bleak during this period, however. The resiliency of the industry was manifested in the latter half of the decade as bank performance laid to rest fears of pervasive weakness and susceptibility. Furthermore, the marketplace witnessed an enormous influx of new services, more efficient techniques and fresh sources of competition. Those elements aggravated the already heavy demands on the bank director. Competition continued to thrive and grow as bank holding companies expanded across state borders with increasing frequency via their subsidiaries. Numerous states liberalized or abolished branching restrictions. While facilities grew, internal capabilities to deal with expansion were enhanced by more sophisticated data processing systems.

Creativity and innovation were hallmarks of the period as well. Increasingly, banks shunned traditional asset management techniques and focused instead on directing their financial destiny. Funding sources were aggressively sought, and not merely by the giants of the industry. Concurrently, competition for retail business swelled. "Brick and mortar" facilities were supplemented or replaced by automatic teller machines. New services were introduced and elaborate total customer packages were marketed. Competition from the thrifts also forced banks into action as negotiable order of withdrawal accounts, automatic transfer arrangements, etc., lured depositors away. Interindustry competition flourished and helped boost the stampede to salvage the customary deposit core. Today, we cannot pick up a newspaper or periodical without somewhere reading of money market certificates of deposit, money market mutual funds or such arrangements as payment of interest on credit card credit balances. Again, directors found themselves struggling to help their banks adequately meet the growing competition and to formulate controls and reviews ensuring maintenance of profitability, liquidity and soundness.

What many would term the apex of the directors' plight happened later in the era. Legislative oversight of the banking community has never suffered from want, and the significance of accelerated change within the industry was not lost on Congress. Certainly, the public and government perception of the system's stability and integrity was damaged by large bank failures, fears of expanded foreign competition and ownership and revelation of questionable self-serving practices by highly visible former bank officials. Motivated by their concern and fortified by the public out-one of the proposed acquisitions has been consummated. I am happy to report that the condition of the bank has improved significantly in the year since the acquisition was consummated.

The OCC has acted on notices within an average time of 43 days. The average processing time for notices filed by U.S. citizens has been 42 days, and the average time for notices filed by foreign persons has been 60 days. That time difference largely results from the additional time required to retrieve and carefully verify information on foreign individuals. The fact that the small sample size makes the averages misleading should be noted. One foreign change-in-control notice which took 94 days to process distorts the foreign average.

The relationship of the CBCA and the Bank Holding Company Act should be recognized. Corporate acquisitions subject to the prior approval provisions of the Bank Holding Company Act are not subject to the CBCA. Foreign Bank Holding Company Act acquisitions are likely to be far more significant than acquisitions by individuals in terms of gross economic impact. However, if one looks at frequency of transactions, rather than the gross assets involved, foreign individual acquisitions are significant. As I noted previously, more than half of the foreign acquisitions since 1970 have been by individuals. More importantly, they present much thornier issues for the supervisor.

In particular, gathering information on foreign individuals, especially from third parties, is not an easy task, given the time frame within which we must operate. Indeed, there may not be the same quantity or quality of information available on individuals (foreign or U.S. citizens) as there is on domestic and foreign corporations. Although law and custom in many, if not most, countries do not provide for the U.S. type of information disclosure, the regulatory and reporting framework in many countries are designed to make available at least certain types of financial information about a corporation. In addition, foreign bank regulators may have access to detailed information about indigenous banks and bank holding companies, the usual corporate acquirers of U.S. banks, which they will share.

Here, it is important to remember that the CBCA permits the interdiction of an acquisition when the filing party ". . . neglects, fails, or refuses to furnish the appropriate federal banking agency *all* the information *required by the appropriate federal banking agency.*" (Emphasis added.)

That provision is invaluable. It places on the filing person an affirmative duty to supply all information, appropriately verified, which we believe to be necessary to complete a fair and complete review of the proposed transaction. Those who balk at providing necessary information may be disapproved.

On occasion, adverse information received in connection with a change-of-control notice might not be of sufficient quality to warrant disapproval, but it may nonetheless be appropriate to trigger further scrutiny during the ongoing supervisory and examination process. It may, for example, trigger special examination procedures, and supervisory action may be taken after the change in control, if necessary. We will, of course, continue to hone and refine our information gathering techniques as more experience is gained under the law.

GAO Recommendations

Turning to the specific recommendations of the GAO report, GAO suggests, when processing a notice of proposed change in control, that the appropriate federal bank regulator:

- Contact the foreign individual acquirer's home country banking regulator to determine the acquirer's financial reputation and
- Deny those applicants who are given unfavorable referrals from their regulator.

We endorse the GAO's first recommendation without qualification. It is fully consistent with our present policy. We have opened and maintained relationships with other regulators, including state bank supervisors and authorities in other countries. Our domestic and foreign field offices serve as listening posts. Our Multinational Banking personnel are well informed on activities in the international arena. The usefulness of those formal and informal lines of communication in obtaining the kind of background information useful in the supervisory process is readily apparent. In addition, where necessary, we seek information on individual proposed acquirers from other state or federal agencies and elsewhere, although federal statutes make the exchange of information among federal agencies somewhat difficult. That process is important whether foreign or U.S. citizens are seeking control of a bank. As previously mentioned, especially where individual foreign investors are concerned, neither domestic or foreign bank regulators may be familiar with the proposed acquirer. In such cases, we have pursued and will continue to pursue all other available sources for relevant information.

The GAO also seems to recommend interdiction solely on the basis of an unfavorable referral received from a home country regulator. Although it is not clear, we presume the GAO is addressing issues which arise under the "financial resources" standard and the "competency, integrity and experience" standards of the law. Polling foreign regulators to the extent that they have and will share relevant information is useful and necessary. If the GAO intends to suggest that a foreign regulator should be able automatically to force a denial through an "unfavorable referral," however, we do not agree. While the opinions of foreign bank regulators can, of course, be given appropriate weight, we believe that the ultimate decision under the statute must rest with the appropriate federal agency after consideration of all available information.

CBCA should be viewed as an initial, large mesh screen within our comprehensive system of bank supervision, examination and regulation. It does not and was never intended to provide a perfect and certain net, barring entry to all but the most qualified. But it has proven a valuable supervisory tool for shielding the banking sector from individuals with questionable foreign controlling shareholder and, in the extreme, revoke the bank's charter and seize its assets. Resort by U.S. authorities to extreme measures is not anticipated to be necessary with regard to foreign bank holding companies, which have a major stake in maintaining a good reputation in world markets. That consideration, together with the reasonable expectation that such companies will wish to safeguard their U.S. bank investments, makes it highly unlikely that foreign bank holding companies would intentionally cause damage to a U.S. bank subsidiary.

Reports, cooperative interchange among supervisors and available enforcement remedies can be expected to provide U.S. authorities with the necessary means to obtain information and ensure responsible performance most effectively when the foreign owner of a U.S. banking organization is a foreign bank holding company. In general, there is less basis for confidence that any combination of those approaches would always be effective if serious problems were to arise out of control of a U.S. bank by foreign individuals. However, our systems for detection of significant misdealing and for limiting risk to the system arising out of the difficulties of any individual institution lead us to conclude that the potential enforcement problems here are well within the bounds of acceptability.

Change in Bank Control Act of 1978

You have also requested our comments regarding the Change in Bank Control Act of 1978 (CBCA), Title VI of the Financial Institutions Regulatory and Interest Rate Control Act of 1978. The following comments deal principally with the application of the CBCA to foreign investment in U.S. banks. In addition, we will address the specific recommendations made by the GAO concerning the CBCA. At the outset, let me state that the CBCA is an extremely valuable supervisory tool, especially in the context of foreign acquisitions.

It should be noted that the first of a series of required periodic reports on the act, together with agency recommendations for changes, is due before the end of March 1981. A more detailed analysis of our experience with the act, as it applies to both domestic and foreign acquistions, will be made at that time. We may also, after consultation with the other regulatory agencies, make specific recommendations for appropriate legislative actions at that time.

The CBCA was enacted to close a gap in our supervisory scheme. Corporate acquisitions of banks have been regulated by the Bank Holding Company Act since 1956. Not until the enactment of the CBCA, however, were acquisitions of banks by individuals subject to similar federal scrutiny. The need for that type of legislation was exemplified by the so called "rent-a-bank schemes," which were investigated by this subcommittee in 1976. Testimony offered during the hearings at that time indicated that in some cases banks were being bought by persons intent on using the bank's resources for the purpose of self-dealing. The evidence also indicated that in many, if not most, of those cases the federal supervisory agencies knew very little about the new owners of the institutions.

I have personally supported some type of change-in-control legislation since assuming my duties as Comptroller in 1977. My support for a federal change-in-control statute was based, in part, on my experience as Superintendent of Banks for the State of New York, where similar change-in-control legislation is in effect. My tenure in New York made me aware of what a valuable tool such legislation can be, especially in monitoring and screening proposed acquisitions by foreign nationals.

However, my experience in the financial sector has also made me sensitive to the impact that such legislation can have on the individual rights of the sellers of bank securities and the need to avoid legislation which would unnecessarily infringe on the ability of the banking system to raise capital.

Congress addressed those concerns in crafting a statute which strikes a balance among those competing regulatory, economic and legal interests. The law limits administrative discretion by providing for a notice format with strict time frames for agency action rather than an application procedure, achieving a delicate equilibrium between demonstrated supervisory needs and individual property rights.

Before turning to the GAO's recommendations, I would like to briefly summarize our experience under the CBCA and comment on certain concerns unique to the gathering of information on foreign individuals and the use of that information in our supervisory process.

OCC Experience to Date

From March 10, 1979, the effective date of the CBCA, through August 30, 1980, the OCC received 110 notices of proposed changes in control—53 in 1979 and 57 this year. Of that number, three were withdrawn prior to any action, three were disapproved and 14 are pending. The OCC did not object to 90 of the acquisitions of control.

Six proposed change-in-control notices—less than 5 percent of the total—have been filed by foreign persons. One such notice was withdrawn prior to any action. Letters of intent not to disapprove the other proposed changes in control were issued in the other five instances. Total assets of those five banks aggregated $180 million as of March 31, 1980. The average asset size of the acquired banks was approximately $36 million.

Disapprovals of proposed changes in control have been rare. Two of the three disapprovals issued so far, all affecting proposed domestic acquirers, were based on the proposed acquiring party's insufficient financial capacity to service the debt that would be incurred. One other proposed change in control was disapproved because the acquiring party's record of performance as a controlling person in another bank was less than satisfactory.

Approximately 75 percent of the banks for which a notice of change in control was received were not subjects of significant supervisory concern. The remaining 25 percent were subject to more than normal supervisory attention by the OCC. Three of that latter category were targets for acquisition by foreign individuals. Only plement those systems to provide reports in accordance with U.S. generally accepted accounting principles would impose substantial cost and reporting burdens on them. We are not convinced that such burdens are justified by any supervisory necessity for the GAAP requirement. The Y-7 report would require a detailed discussion of the accounting principles used in preparing the information submitted, facilitating translation and understanding of the information required for supervisory purposes.

The OCC believes that reports, such as the proposed Y-7 and Y-8(f) reports, should provide an adequate base from which U.S. supervisors could monitor the condition and trends of foreign banking organizations on an ongoing basis. The U.S. banking agencies could use the reports for analysis and evaluation of an individual foreign bank or groups of banks. Finally, the analyses and the report information about intercompany transactions, affiliates and insider interests would be available to bank examiners during their inspections of the U.S. subsidiary banks.

It is only realistic to anticipate that situations will arise in which information provided by reports is inadequate to deal with a particular supervisory question or problem. Standardized reports cannot possibly capture all the variances in law and convention which foreign banks face. Bank financial reports may not reflect all aspects of banks' earnings or condition. Thus, the U.S. supervisors may have occasion to request supplementary information directly from the foreign bank or to obtain it onsite with the cooperation of the bank and its regulator. That, in fact, is how the OCC proceeded with its review of the Hongkong and Shanghai Banking Corporation when Marine Midland Bank applied for a national charter.

We do not rule out the possibility that a foreign owner of a U.S. bank might refuse to disclose necessary supervisory information requested by a U.S. banking agency. That refusal in itself would justify U.S. supervisory concern and trigger requests for cooperation and assistance from foreign supervisors and closer surveillance of the U.S. subsidiary bank. While the nature and depth of prudential bank supervision varies among countries, foreign banking authorities can generally provide U.S. supervisors with necessary assistance. Furthermore, foreign supervisors share with U.S. banking agencies a vital interest in maintaining confidence in the international banking system. Any lack of cooperation by a foreign supervisor to resolve an international supervisory concern would jeopardize the international integrity and reputation of all banks under the control of that supervisor.

Supervisory Cooperation

The growing internationalization of the banking industry has caused the supervisory authorities from the leading industrialized nations to work toward better cooperation and communication. Events affecting banking organizations and markets in one country can have ripple effects elsewhere. The expansion of banking organizations from the home country into other locations necessitates working relationships and coordination among parent company and host country supervisors.

Supervisory authorities have benefited from increasing communications, formal and informal contacts, and efforts to coordinate their activities. The Committee on Banking Regulations and Supervisory Practices, formed in 1974 under the auspices of the Bank for International Settlements, is perhaps the single most important forum for constructive interchange and cooperative efforts among supervisors of different countries. The committee's main focus has been development of broad principles and standards upon which bank supervisors can agree, notwithstanding the various differences in banking laws and regulatory practices among the countries represented. For instance, the committee has supported international standards for bank accounting on a more consolidated basis than now exists in many countries.

The committee also serves as a vital clearinghouse wherein bank supervisors compare supervisory approaches, identify gaps in the regulatory coverage of international banking, develop guidelines to demarcate the responsibilities of host and parent authorities and exchange information of a sensitive nature derived from a variety of sources. The committee has been instrumental, for example, in promoting legislation abroad to facilitate arrangements among supervisors for confidential exchanges of information. The European Economic Community (EEC), in its first banking directive, provides for exchanges of banking information among member banking authorities to strengthen the bank supervisory process within the EEC. On that point, we strongly support the recommendation of the Federal Reserve Board in its "Report to the Congress on the International Banking Act" that the IBA be amended to provide additional specific statutory authority for confidential treatment of exchanges of information between foreign bank holding companies and U.S. banking agencies and between those agencies and their foreign counterparts

Other important initiatives have been undertaken by bank supervisors on an international basis to foster the study, improvement and coordination of supervisory methods. Whenever supervisors from different countries meet, whatever their immediate purpose, there is always an invaluable side effect in cementing old contacts or forging new ones and further developing the network that can be tapped, when the need arises, to obtain information or to obtain support or assistance in dealing with an international bank supervisory problem.

Formal Enforcement Action

There is no question that foreign owners of a U.S. bank could conceivably escape certain formal enforcement remedies traditionally used by U.S. authorities, and, short of that result, that legal enforcement processes would be encumbered in the international context. Formal enforcement remedies can, of course, be applied forcefully and unambiguously to the foreign-owned U.S. bank, and as a practical matter, that is a key point. To the foreign owner, the most powerful consideration is the potential loss of investment. U.S. authorities can prohibit expansion, interdict dividend payments, render the investment useless to a in the home country, which is critically dependent, of course, on established contacts, communications and cooperative attitudes.

There is no question that the most difficult supervisory challenge related to foreign acquisitions of U.S. banks is the verification of the character and financial integrity of foreign individuals who seek or have control of U.S. banks. Those individuals often submit financial statements showing complex overseas holdings through family or group relationships. Foreign individuals generally are not subject to the ongoing supervision of foreign banking authorities. Nevertheless, the record of U.S. banks controlled by foreign individuals has been good to date. As in the case of domestic individual control, foreign individual control has been a factor in some U.S. bank failures. Problems associated with acquisitions by foreign individuals will be discussed in the section of this testimony covering the Change in Bank Control Act.

Unlike foreign individuals, foreign banking organizations are subject to established supervisory systems which provide the U.S. banking agencies with adequate measures to determine whether the foreign banking organizations are sources of strength to the U.S. banks they control. The Bank Holding Company Act and the International Banking Act, as well as established communications with foreign supervisors and the marketplace, enable U.S. bank supervisors to verify the financial integrity of foreign banking organizations on a regular basis.

Required Reports

Two new reports proposed by the Federal Reserve Board would significantly improve U.S. authorities' current information on foreign banking organizations. The proposed reports would require foreign banking organizations to file, on a periodic basis, financial and organizational information essentially equivalent to that required from domestic bank holding companies.

The first new report—FR Y-8(f)—covers intercompany transactions between foreign bank holding companies and all affiliates, including their U.S. bank subsidiaries. The report would be filed quarterly and should provide an effective basis in most instances not only for monitoring intercompany transactions but also, more generally, for enabling U.S. supervisors to determine whether foreign parent companies serve as a continuing source of strength to their U.S. subsidiary banks. The report would show the degree of interdependence between a foreign banking organization and its U.S. subsidiary bank and how the U.S. bank performs in its global network.

The second part—FR Y-7—would represent a dramatic expansion in the amount and detail of supervisory information to be filed annually by foreign banking organizations. The Y-7 would require foreign bank holding companies to submit consolidated balance sheets and detailed information about earnings, capital accounts and reserves. Information about shareholders, directors, officers and related companies also would be required.

Supervisory information about shareholders, directors, officers and related companies, as well as a detailed discussion of the accounting principles used in preparing the Y-7, would also be provided. That would include statements as to how majority and associated companies are carried and valued.

The Y-7 proposal does not require foreign banking organizations to complete the Y-7 in accordance with U.S. generally accepted accounting practices (GAAP). The GAO recommended that U.S. banking agencies require foreign banks to submit reports in accordance with GAAP. The U.S. banking agencies believe that such a requirement is impractical and that complete consolidation of subsidiaries could generate less meaningful information for supervisory purposes than that required in the Y-7. In addition, a GAAP requirement would be contrary to laws and conventions in some countries and would impose an undue reporting burden on many foreign banks. In effect, the Y-7 would request foreign bank holding companies to report essential bank supervisory information while accommodating the vast reporting systems those banks already have in place, as well as the laws and conventions within which those banks must operate.

Foreign bank holding companies' main line of business is banking, and fundamental bank accounting does not vary significantly from country to country. However, consolidation and disclosure of bank accounts do vary among nations. Recognizing the evolving interdependence of the multinational banking system, the International Accounting Standards Committee and other international groups, as well as the world's banking supervisors, are working for harmonization of national accounting practices. Yet, every country still imposes or encourages its own bank reporting standards, reflecting its own concerns for maintaining confidence and stability in its national banking system. For instance, some governments, because of their desire to have banks report steady, not fluctuating, earnings and dividends, mandate that banks not disclose publicly all earnings and reserves.

Another possible problem of requiring complete consolidation of subsidiaries arises from the fact that banking laws of many countries do not require complete separation of banking and commerce, and permit banks to have equity holdings in nonfinancial companies. Given the wide range of some banks' investments, it would be difficult to capture all pertinent information in a meaningful consolidated format, and the result could be a confusing mix of financial and commercial accounts, possibly misrepresenting the principal business of the foreign bank and detracting from the usefulness of the reports for bank supervisory purposes. In fact, because of that potential for misrepresentation, many U.S. multinational companies do not consolidate their financial subsidiaries.

Foreign banks have established complex accounting and reporting systems to report financial results of their multinational operations in accordance with home country requirements. Those systems are reviewed and audited by accounting firms, and U.S. supervisors can generally rely on the quality and integrity of the audit and accounting work done by those firms. To require foreign banking organizations to modify and supder a new policy for phasing in interstate acquisitions, such benefits could be required of large bank acquisitions by domestic or foreign banks alike, even when the antitrust implications of the proposal are not adverse. Domestic or foreign acquirers of large banks would have to satisfy the public benefit standard. However, the same standards would apply in either case, and the present unfairness problem would be resolved.

If Congress should proceed with phasing out the Douglas Amendment, there would be an increased number of potential purchasers for any bank desiring or needing affiliation to enhance its competitive prospects or to strengthen its current position. Any selling institution would clearly benefit from the larger number of eligible bidders. New acquisition opportunities also would be opened for domestic institutions. U.S. banks would thus stand to gain as both buyers and sellers. It seems likely that there would be strong mutual interests in certain types of transactions—for example, regional or interregional combinations of like-sized banks. The key point is to create new possibilities for acquisitions or combinations that could offer benefits to the domestic banking system and the public it serves.

International Bank Supervisory Matters

The GAO report discusses difficulties U.S. banking authorities may face in exercising supervisory control over foreign owners of U.S. banks and supervising foreign bank holding companies and direct operations of foreign banks in this country. It is true that the dynamic growth and increasing complexity of the interdependent, multinational banking system poses challenges to bank supervisory authorities throughout the world. Our experience in international supervisory activities can shed some light on the tools and techniques required for adequate understanding and regulatory control in the case of ownership by foreign banks and individuals. The rest of this testimony summarizes our observations on existing and proposed supervisory measures and remaining concerns in that area, acquisitions by foreign individuals under the Change in Bank Control Act and our experience to date in implementing the International Banking Act.

U.S. Supervisory Authority and Foreign Ownership of U.S. Banks

The basic supervisory goals of U.S. bank regulatory agencies are to assure the safety and soundness of individual banks and the entire banking system, and to monitor and enforce banks' compliance with all applicable laws, regulations and orders. Effective bank supervision depends on broad examination authority and the ability to obtain accurate, timely information concerning operations of banks and bank holding companies. Foreign acquisitions have raised concerns about the ability of U.S. authorities to obtain adequate information on proposed foreign acquirers and to exercise effective supervision of foreign-controlled banks.

Foreign ownership does raise supervisory difficulties not present with domestically owned banks. U.S. authorities cannot probe directly and unilaterally overseas into the affairs of foreign owners of U.S. banks. Some foreign banks use, and their governments may even mandate, accounting and disclosure practices quite different from those required in the United States. Under the laws of their countries most foreign banks are allowed to conduct a wider range of financial activities than U.S. laws permit U.S. banks.

Notwithstanding those special challenges, we believe that existing supervisory tools are adequate to ensure the safety and soundness of foreign-owned banks. Most importantly, those banks are U.S. banks, after all, and subject to the same comprehensive supervision, examination and sanctions as any domestic bank. In recent years, U.S. bank regulatory agencies have gained significant new enforcement powers and have developed more rigorous and flexible bank examination and monitoring techniques, including computer-based early warning systems and improved analyses of intragroup transactions. The OCC is further strengthened in dealing with international banking matters by virtue of its substantial international bank examination experience.

U.S. authorities' ability to supervise foreign-owned banks has been enhanced by the increasing communication and cooperation among bank supervisors of many countries that have evolved since the international banking problems of 1974. Regular meetings and other contacts and exchanges with foreign supervisors are now a common occurrence. That is important. The cooperation of bank supervisors in other countries allows U.S. authorities to gain deeper insight and verification when necessary to supplement information obtained from reports required from foreign owners or applicants to acquire U.S. banks. The agencies are also in regular contact with the marketplace through their examination of U.S. multinational banks. Those examinations provide direct access to current information on international banking developments.

Concerns

Three basic concerns have been expressed about the effectiveness of U.S. supervisory authority with respect to foreign ownership of U.S. banks. Can U.S. authorities adequately evaluate foreign banking organizations and individuals seeking to acquire U.S. banks? Will sufficient information be available in a timely manner and on an ongoing basis to enable effective monitoring of developments in foreign-controlled U.S. banking organizations? Are U.S. authorities' enforcement powers adequate to ensure necessary changes in bank policies or personnel when the controlling interests are located overseas?

A valid concern about potential information problems is indicated in the first two questions. U.S. authorities do not routinely have direct access to financial records of existing or prospective foreign owners and must rely primarily on reports filed by them. Verification of reported information may be difficult in some cases and impossible in others, particularly when nondisclosure provisions, like privacy laws in the United States, exist in the foreign party's home country. A major recourse in such situations is to the supervisory authority would represent a clear and significant breach of principle and shift of U.S. policy. Although GAO now calls for a specific time limit on a moratorium, we remain concerned that even a short time frame could be damaging. Moreover, the possibility of an extended moratorium would persist.

Another potentially serious consequence of the moratorium proposal is of special concern to all U.S. bank supervisors. A moratorium would eliminate the possibility of foreign acquisition and strengthening of U.S. banks that are troubled or weak but not at the point of bankruptcy or insolvency. Such positive effects have, of course, characterized a significant number of foreign acquisitions to date, as the GAO report itself emphasizes. We believe that it would be short-sighted to cut off a potentially important source of additional capital for our banking system.

Rationale for Constructive Change

The confinement of U.S. banking organizations' full-service banking activity to a single state is not only anomalous and unfair relative to foreign banks' acquisiton opportunities but also outmoded and, in our opinion, a serious impediment to rational development of a strong U.S. banking system that could best serve the needs of the American public. Rather than setting up barriers to foreign acquisitions, Congress should begin lifting the barriers to interstate expansion of domestic institutions. The Congress has quite accurately perceived the confluence of issues surrounding foreign bank expansion and U.S. bank confinement in this country. The IBA placed new limits on multistate expansion by foreign institutions but also called for a review of old limits on domestic institutions. That law also called for revising the Edge Act expansion rules to facilitate interstate expansion of foreign and domestic banks in international or trade-related activities.

We have consistently supported gradual elimination of restrictions on bank expansion, in the interest of increasing competitive opportunities and in maximum reliance on the discipline of the marketplace to bring about the efficient production and delivery of financial services. The advantages of such a program are clear and need only be recapitulated briefly:

- Full-service banking expansion by U.S. banks would supplant and to some extent replace the less efficient alternative means now available for establishing interstate presence, such as loan production offices, Edge Act facilities and nonbank affiliates—devices that have been used in part as second-best solutions to legal confinement.
- Domestic banks would be able to match the multistate facilities of foreign banks, over 60 of which have multistate banking operations which are grandfathered under the IBA.
- Banking institutions would be better able to respond to the competitive challenges of nonbank providers of financial services, companies whose innovative successes have been attributable, in part, to the legal restraints on banks.
- A means would be provided for orderly evolution of our financial services industry in an increasingly competitive and complex banking environment, subject to dynamic technological change, uncertainty about volatile interest rates, and inflation.
- New growth opportunities would be made available to domestic institutions, which have steadily lost ground in the rankings of the world's largest banks; interstate acquisitions could be structured and regulated to foster a stronger, more competitive domestic system.
- No longer would domestic banks seeking to enhance their competitive ability or needing assistance through affiliation with a larger institution be limited to foreign bank partners; new possibilities for procompetitive domestic bank acquisitions and combinations would be created.

The last point is nearest to the heart of the matter in these hearings. That is where the foreign acquisition and interstate banking issues have their major intersection. At this juncture, we must begin to formulate new rules to govern acquisitions of healthy banks, including large bank combinations, not merely extraordinary measures to provide for the rescue of failing institutions. We fully support H.R. 7080, of course, but, in the context under discussion here, that proposal must be regarded as the minimum required legislative adjustment to the realities of the financial marketplace today. Looking beyond emergency acquisitions, there are many alternative proposals for opening up interstate expansion opportunities for U.S. banks and bank holding companies. At a miminum, the Congress should devise a practical plan for phasing out the Douglas Amendment restrictions on interstate bank holding company acquisitions.

In devising a plan for phasing out the Douglas Amendment, Congress may find most troublesome the acquisitions of large and sound banks. Such transactions will raise concerns not addressed by traditional banking structure and antitrust concepts. Those concerns are likely to be especially pressing in a transition period for phasing out the Douglas Amendment. To address concerns arising in the context of acquisitions of large banks, Congress might consider fashioning a policy that would require proponents to demonstrate not only that the proposal would pass muster under traditional antitrust standards but also that there are substantial public benefits to be derived from the transaction.

Benefits of a specific transaction might include some combination of factors such as the following: strengthening of the capital position of the acquired or resulting bank, improved management resources or special expertise, provision of new or better services to customers of the acquired institutions, gains in efficiency to be realized by the resulting combination, or enhanced competition in markets served by the acquired or acquiring bank, stemming from any of the above factors or others. However, the benefits requisite to an approval could not be mere tokens.

Benefits such as those just discussed have been recognized in foreign acquisitions of U.S. banks. Unown laws and policies that has been widely recognized.

GAO is correct to emphasis this unfairness to domestic institutions. However, to elevate this concern as the sole basis for recommending a moratorium is another matter. Alternative reasons for supporting a moratorium were explicitly considered and, in our view, properly rejected by GAO. GAO does not support a moratorium on any other grounds and indeed rejects as insufficient or unsubstantiated those concerns that the soundness of acquired banks may be jeopardized, that U.S. banking agencies lack adequate tools for controlling foreign entry or activity, or that existing foreign ownership of U.S. banking assets is perceived as too high.

Since the fairness issue is thus isolated as GAO's rationale for a limited moratorium, the question can be squarely posed and addressed: Is this sole concern adequate grounds for even a limited moratorium? The GAO finds it to be "compelling." We disagree. In our opinion, the inequity is overstated by GAO, and the potential costs of the recommended moratorium are not given appropriate consideration. Thus, while we share the GAO's concern about the unfairness to U.S. banks, we urge the Congress to reject the proposed moratorium.

The Congress should move expeditiously to resolve the problem of unfairness which arises under existing law by creating new opportunities for domestic banks. Specifically, the OCC endorses a relaxation of the Douglas Amendment constraint on interstate bank holding company acquisitions.

It is time to consider new public policy that addresses both foreign and interstate acquisitions by relaxing existing restrictions and creating new standards that apply even-handedly to both types of transactions. Before considering a possible basis for such a policy, we should state the concerns that lead us to oppose the moratorium proposal as a way to solve the unfairness problem. Our concerns are, first, that GAO has overstated the extent of the inequity and, second, that GAO has given insufficient weight to possible adverse consequences of its recommendation.

Unfairness Problem in Perspective

The fairness issue must be put in perspective. The actual number of foreign banks able or likely to take advantage of opportunities for large U.S. bank acquisitions is limited by several factors. Most importantly, the recently enacted International Banking Act (IBA) limits foreign banks to a single home state, in effect treating them the same as U.S. banks once they have established an initial banking presence in the United States. Although foreign banks may change their home state, it seems reasonable to expect that they will continue to concentrate U.S. banking activities in money center locations where they have overwhelmingly located their operations to date. A foreign bank already established here is subject to the same restrictions as domestic banks—it cannot acquire a new bank subsidiary outside its home state and any proposed acquisition within its home state would be subject to the same antitrust scrutiny as a domestic acquisition. In that situation, the unfairness question does not apply. That point should be taken into account in evaluating the fairness issue, particularly since such a large number of the major foreign banks are already established here. The latest data indicate that 41 of the top 50 non-U.S. banks (based on December 31, 1979, ranking by deposits, *American Banker*) presently have branches or subsidiary banks in the United States. The home state provision limits the probable scope of foreign banks' prospective acquisition advantage.

The extent of the unfairness is limited further, prospectively, by the fact that a number of the largest foreign banks cannot realistically be viewed as likely buyers, at least at this time. This is because some are actually rather specialized institutions with limited or nonexistent international activities (for example, "central banks" for savings or cooperative banks in their home countries), and others must avoid U.S. acquisitions—and resultant bank holding company status—to retain their present investments in U.S. securities affiliates. In addition, it must be recognized that the number of large U.S. banks available for purchase in money center locations, where foreign banking activity has been concentrated, is limited and likely to remain so.

The unfairness problem will persist in the absence of a moratorium—unless U.S. laws are changed—but those considerations suggest that the actual number of foreign acquisitions dependent on exploiting an unfair advantage may be quite limited.

Adverse Consequences of a Moratorium

The GAO does not claim to have assessed the possible consequences of a limited moratorium but stated its belief that "resolving the policy conflicts outweighs any potential costs." The possible consequences of a moratorium need to be weighed carefully. Several considerations are extremely important. First, any moratorium, however limited, would represent a fundamental conflict with the general U.S. policy of nonintervention with respect to international investment. Reimposition of a moratorium could damage the interest of U.S. banks abroad and possibly the interests of other U.S. investors as well.

U.S. banks have a substantial overseas presence, far exceeding foreign banks' aggregate assets held in this country. As for overall investment of all multinational exterprises, year-end 1979 figures indicate that "our direct investment position overseas approached $193 billion, nearly four times the total of foreign investment here."† Because the consequences of such action are potentially quite serious, the possibility, however remote, of foreign government retaliation against new barriers erected by the United States, should not be overlooked. Even a limited moratorium

†Statement of Vincent D. Travaglini of the International Trade Administration, Department of Commerce, before the Subcommittee on Consumer Protection and Finance of the Committee on Interstate and Foreign Commerce, House of Representatives, in hearings on H.R. 7791, "The Reciprocity in Foreign Investment Act," September 9, 1980, p. 5.

rate citizens. The record to date does not indicate any problems in that area.

- Whether any level of foreign ownership of U.S. banks is "unacceptable" in some sense is a national policy question involving social, political, economic and foreign policy considerations. There is no clear basis for identifying any particular aggregate foreign share of U.S. banking resources as a threshold level to trigger policy concern.

Considering the evidence to date, we have concluded, as did the Federal Reserve Board, that no concern about foreign acquisition of U.S. banks now justifies reimposition of a moratorium on foreign takeovers. Our conclusion is based on examination of all the facts that have been assembled about foreign acquisitions to date and the performance of foreign-owned banks. The factual record does not support fears that have been expressed or the opinion that a mortaorium is needed because foreign acquirers may damage the safety and soundness of U.S. banks or because foreign ownership may jeopardize the extension of credit to particular communities or industries, diminish competition in U.S. financial markets, complicate or distort monetary policy, or otherwise threaten vital national interests. In summary, the facts do not justify imposing a moratorium on the basis of such fears.

The possibility always exists that foreign banks may act contrary to U.S. interests, particularly when such banks are government-owned or sponsored. Most countries have mixed economies and in many cases government involvement in the banking system is substantial. Government-controlled banks could be used to promote government policy objectives that run counter to U.S. interests. However, foreign government-owned banks have had operations in this country for years through branches and, to a lesser extent, subsidiary banks. Their record to date does not indicate any problems arising from conflicting national objectives. Even in the unlikely event that a hostile foreign government attempted to harm the U.S. economy or financial system through a state-owned bank's branch or subsidiary here, the government, including U.S. regulatory authorities, has adequate tools to detect and stop such action. We do not believe that the potential for such an action poses any significant risk.

The GAO report does not support the fears expressed by some opponents of foreign takeovers, but recommends a moratorium on quite different grounds. The GAO argues that a moratorium is needed because foreign banks are able to make acquisitions of U.S. institutions that are precluded for domestic banks and bank holding companies by U.S. law and policy, and that the inequity is so grave that it should not be allowed to continue. That argument is the single most important and controversial part of the GAO report and the conclusion which we find most troublesome.

GAO Report

The GAO report factually recounts and describes foreign bank expansion in the United States and assesses the subsequent performance of banks acquired by foreign interests. It includes a brief review and appraisal of the legal and supervisory framework affecting foreign bank expansion and operations in the United States and a discussion of the relative competitive opportunities accorded to domestic and foreign banks. The report will surely serve as a valuable resource document for all persons interested in the nature, extent and control of foreign bank operations. It should be noted that the GAO's findings generally agree with the conclusions of the studies by the OCC and the Federal Reserve Board. Indeed, our staff reviewed the GAO draft report and offered numerous technical comments, many of which were incorporated into the final report. Others are included in our comment letter which is reprinted as Appendix XIII of the report.

For the sake of an informed public consideration of the issues, several important conclusions from GAO's study warrant special emphasis, particularly the findings that foreign acquisitions have generally had positive effects on the acquired banks, that existing regulatory and supervisory mechanisms are adequate to control foreign bank entry and activity and that the current extent of foreign control of U.S. banking assets is not considered "too high," nor can a reasonable threshold level triggering legitimate concern be identified by objective analysis.

Our discussion today of international bank supervisory matters will cover the views of the OCC on several specific GAO recommendations to the banking agencies. Most importantly, we oppose GAO's major policy recommendation of a moratorium.

Opposition to a Moratorium

The GAO report recommends that

> Congress enact a limited moratorium on acquisition of domestic banks with total assets of $100 million [or more] by foreign banks or bank holding companies unless such acquisitions are necessary to prevent bankruptcy or insolvency.

GAO recommends that the moratorium:

> should continue for only as long as necessary for the Congress to fully address [but not necessarily resolve] the basic policy conflicts regarding interstate banking, antitrust considerations, and foreign acquisitions of U.S. banks.

In response to agency concerns that resolution of those matters could easily require a long period of time, GAO urges the Congress to "set an expiration date for the moratorium and a specific timetable for the actions it will take to address the policy issues."

The GAO report states clearly that the moratorium recommendation is founded in the "basic unfairness" resulting from foreign banks' ability, in some circumstances, to purchase large U.S. banks that are unavailable, in practice, for acquisition by domestic banking organizations because of federal and state restrictions on bank expansion and antitrust policy. That is indeed an inequitable situation, an anomalous result of our acquisitions of U.S. banks and analyze the possible effects of foreign ownership.* I would like to submit those papers for the hearing record. Along with other bank regulatory agencies, the Comptroller's Office is actively monitoring current developments in that area. The Federal Reserve issued an important staff study on June 30 summarizing its findings and observations on the record of foreign acquisition of U.S. banks to date and the adequacy of existing regulatory and supervisory tools. The extensive report prepared by the Government Accounting Office (GAO) for this subcommittee is the latest addition to our growing fund of knowledge on the subject. Rather than discussing those studies in detail, we will simply recapitulate some of the major findings, which have no significant dispute.

Background

Foreign acquisitions of existing U.S. banks are largely a phenomenon of the 1970's, particularly the latter half of the decade. From 1970 through the first half of 1980, there have been 96 foreign acquisitions of U.S. banks, 39 by foreign banking institutions and 57 by individuals. The median asset size of foreign-acquired banks is less than $50 million. Foreign acquisitions reflect primarily the long-run strategic interests of bank acquirers and economic and political features of the U.S. market that are attractive to foreign investors. Formerly weak or failed U.S. banks are disproportionately represented among foreign acquisitions. Depressed bank stock prices and a weak dollar may also have been factors facilitating foreign acquisitions, but their significance is unclear. Another factor reflected in foreign acquisition of U.S. banks is an historical trend toward an increasing transnational banking presence. The increasing interest on the part of foreign banks in retail and "middle market" banking activities mirrors U.S. banks' growing interest in such "nontraditional" banking markets overseas.

Findings with Respect to Major Concerns

The studies to date provide evidence that should ameliorate the concerns which have been expressed with regard to supervisory, community service, competitive and national interest implications of foreign acquisition and ownership of U.S. banks:

- The supervisory record of acquired banks has been strong, generally, and many acquired institutions have been strengthened by their foreign owners.
- While foreign ownership, particularly ownership by foreign individuals, does pose some special challenges for U.S. supervisors, existing procedures are adequate and will be further strengthened by measures currently under consideration.
- The financial performance of acquired banks has been satisfactory; no unfavorable comparison vis-a-vis domestically owned banks can be made.
- The evidence does not suggest that foreign owners reorient the activities of acquired banks so as to neglect the needs of local communities or to favor home country industry at the expense of U.S. companies.
- Many foreign bank acquisitions have procompetitive effects through the strengthening of acquired banks' capital or management and the provision of new services or specialized expertise, thereby enabling the acquired institution to more effectively challenge larger rivals in competitive banking markets.
- The ability of foreign banks to acquire large U.S. banks has helped maintain or enhance the competitive position and world rank of some individual acquirers but has not had a significant impact on the overall global standing or competitive abilities of U.S. multinational banks.
- U.S. regulators apply statutory criteria evenhandedly to foreign and domestic acquirers, but because of interstate banking prohibitions, state branching and bank holding company restrictions and antitrust laws, foreign banks are able to acquire large U.S. banks that are foreclosed to domestic banking institutions.
- U.S. banks generally lack opportunities to acquire large banks overseas, although that is largely attributable to structural characteristics of foreign banking markets or to socio-economic policy considerations that may differ from traditional U.S. policies.
- Shareholders of acquired banks have received attractive terms from foreign buyers, and U.S. bank shareholder interests are generally promoted by permitting foreign acquisitions, especially when domestic bank acquirers are ruled out by U.S. law or policy.
- For monetary policy purposes, the Federal Reserve now has adequate authority over foreign bank operations, and there is no evidence to date that foreign or foreign-owned banks are unresponsive to Federal Reserve policy.
- Foreign-owned banks may conceivably be subject to conflicting policy objectives of their home government versus U.S. national interests, but foreign banks have good reasons to see that their U.S. subsidiaries are good corpo-

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*John E. Shockey and William B. Glidden, *Foreign-Controlled U.S. Banks: The Legal and Regulatory Environment;* Diane Page and Neal Soss, *Some Evidence on Transnational Banking Structure;* William A. Longbrake, Melanie Quinn and Judith A. Walter, *Foreign Ownership of U.S. Banks: Facts and Patterns;* Judith A. Walter, *Foreign Acquisition of U.S. Banks: Motives and Tactical Considerations;* Thomas A. Loeffler and William A. Longbrake, *Prices Paid by Foreign Interests to Acquire U.S. Banks;* Judith A. Walter, *Supervisory Performance of Foreign-Controlled U.S. Banking Organizations;* Blair B. Hodgkins and Ellen S. Goldberg, *Effect of Foreign Acquisition on the Balance Sheet Structure and Earnings Performance of American Banks;* Ellen S. Goldberg, *Analysis of Current Operations of Foreign-Owned U.S. Banks;* Ellen S. Goldberg, *Comparative Cost Analysis of Foreign-Owned U.S. Banks;* Steven J. Weiss, *The Competitive Balance Between Domestic and Foreign Banks in the U.S.;* C. Stewart Goddin and Steven J. Weiss, *U.S. Banks' Loss of Global Standing;* Steven J. Weiss, *A Critical Evaluation of Reciprocity in Foreign Bank Acquisitions;* Wm. Paul Smith and Steven J. Weiss, *Potential Acquisition Partners for Large U.S. Banks: The Discriminatory Effects of Law and Policy;* Steven J. Weiss, *Competitive Standards Applied to Foreign and Domestic Acquisitions of U.S. Banks* met. We must be mindful of the legitimate concern for the small, financially weak borrower who may fall prey to disreputable lending practices. In those parts of the country where credit markets are not yet reasonably competitive, there is pressing need for minimum safeguards to protect the rights of those most vulnerable.

We, therefore, have reservations with respect to specific provisions in H.R. 7735. We believe a sweeping elimination of consumer usury laws such as contemplated in the bill could have an adverse effect on consumers in states which have established adequate legal safeguards. Some states have enacted small loan acts, retail installment credit sales laws, automobile sales finance acts or other credit codes, such as the Uniform Consumer Credit Code. Those laws often limit or prohibit prepayment penalties, late fees, attorney's fees, use of the Rule of 78's or acquisition fees. To the extent that those measures contain reasonable provisions to protect small borrowers, unsophisticated consumers or the public in general, we would be concerned with their blanket removal.

We also believe that serious consideration should be given to any transitional problems that might arise as a consequence of an immediate lifting of usury ceilings. Individuals with large outstanding balances on open-end lines of credit should not have to experience possible serious difficulties in handling unanticipated increases in their monthly payments caused by sudden increases in their finance charges. One approach would be to require that the former interest rate be retained on the present outstanding balance.

We do not believe that excluding transaction fees from the computation of the finance charge in connection with open-end credit transaction disclosures, as proposed in H.R. 7735, would be appropriate. In fact, it would appear that such a proposal is inconsistent with the purpose of the Truth-in-Lending Act. Disclosure of the finance charge provides consumers with a measure for comparison shopping for credit. A finance charge is basically a cost to the consumer conditioned by or incidental to an extension of credit according to the Truth-in-Lending Act and its implementing Regulation Z. We see no reason to exclude transaction fees from the finance charge computation, since such fees are obviously directly related to the cost of credit to the consumer. We also believe that transaction fees should be reflected in the disclosed annual percentage rate.

The OCC supports consideration by Congress of federal pre-emption of usury ceilings on consumer credit. In the current environment of inflation and high interest rates, fixed-rate usury laws are counterproductive. As I have stated earlier, they tend either to restrict the availability of credit or encourage abuses by unregulated lenders. Recent legislation which provides for the phasing out of interest rate ceilings on deposits by March 1986 represents an important step towards creating a competitive marketplace. Meaningful reform of usury laws combined with protection of consumers against anticompetitive practices fits logically into that legislative pattern.

Statement of John G. Heimann, Comptroller of the Currency, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs, Washington D.C., September 25, 1980

These hearings are indeed timely, and I welcome this opportunity to express the views of the Office of the Comptroller of the Currency on foreign acquisitions and related policy issues. In response to the subcommittee's invitation letter of August 27, 1980, we will also discuss some current international bank supervisory matters, including the Office's experience and observations on the implementation and operation of the International Banking Act (IBA) and the Change in Bank Control Act (CBCA).

Events of the last few years have brought into sharp focus important policy questions affecting the future structure and long-run development of banking in the United States. Foreign acquisitions of U.S. financial institutions have dramatically highlighted that our banks operate in a competitive arena which is ever more pervasively global in scope. The challenge of international bank competition now affects banks throughout the country. It is no longer a phenomenon limited solely to major money center locations. For years, pressure has been building for relief from the legal restraints that artificially confine the expansion of U.S. institutions' full service banking operations to a single state. Some of that pressure is internally generated, deriving from rapid technological change and new initiatives of nonbank revivals. Pressure from the increasing foreign bank expansion in this country also demonstrates that the geographic restraints on U.S. banks have become outmoded. Those artificial restraints impede the rational development of strong domestic institutions that can best serve the banking needs of the American public and maintain leadership in the worldwide financial arena.

Foreign Acquisitions

The Comptroller's Office has completed a series of 14 staff papers which examine the record of foreign obtain credit. Instead, good risk customers may be forced to "double-up" by acquiring costly multiple loans to get the amount of credit they desire.

Moreover, because credit is an essential ingredient to commerce, restrictions such as usury ceilings that limit credit availability may tend to adversely affect employment and dampen economic growth. For example, a 1977 study by Gustely and Johnson showed that in Tennessee, which until 1978 had a constitutional interest cap of 10 percent, the economy grew faster than the national economy except when market interest rates rose above the state usury ceilings. For instance, between 1974 and 1976, when market rates rose above the usury ceilings, the study found that Tennessee's annual loss in production averaged $50 million; the annual loss of jobs averaged 7,000; the annual loss of retail sales averaged $80 million; and the annual loss of assets in financial intermediaries averaged $1.25 billion.

Because lending practices are regulated at the state level, variations in state usury rates distort the geographic distribution of credit as well. That is apparent from differences in business activity among various states. Arkansas, which has a 10 percent constitutional usury limit, is a notable example. In a 1976 study of Texarkana by Holland and Lynch, it was noted that there were distinct differences between the types of firms on the Texas side of the city and those on the Arkansas side. There was considerably less retail trade on the Arkansas side, despite the approximately equal distribution of Texarkana's population between the states. The majority of automobile dealers, appliance stores and other businesses that rely on consumer credit had moved to the Texas side of the city. Clearly, inefficiency and inconvenience result from such locational patterns.

Timeliness for Change

The inescapable conclusion, we believe, was well stated 116 years ago by the first Comptroller of the Currency, Hugh McCulloch. McCulloch took issue with the caprice of state usury laws in his initial report to Congress and concluded: "Where money is abundant it is cheap, where scarce it is dear; and no legislation has been able to control the effect of this general law."

Congress has recognized the problems associated with usury ceilings. With enactment of the Depository Institutions Deregulation and Monetary Control Act of 1980, state usury ceilings on first lien mortgage loans were pre-empted. The act also authorized for 3 years a usury ceiling on business and agricultural loans of $25,000 or more at the greater of the state usury ceiling or 5 percentage points in excess of the Federal Reserve discount rate. However, the act permits states to override those federal pre-emptions prior to April 1, 1983. In addition, for all other types of loans, the act provided that all federally insured lenders may lend at the greater of 1 percentage point in excess of the Federal Reserve's discount rate or the rate permitted by state law.

While those provisions of the act represent a step towards creating a more competitive, less regulated environment, further reforms are needed. The flexible federal usury ceiling on agricultural and business loans is only temporary. In addition, the maximum rate authorized the act is currently too low to provide relief from state usury ceilings on consumer loans. The current Federal Reserve discount rate is 10 percent. Because most state usury laws establish ceilings at or above 12 percent, the provision of the act which permits federally insured lenders to charge a rate on consumer loans of 1 percentage point in excess of the discount rate is not effective in providing lenders relief from usury laws.

Retention of usury ceilings is also inconsistent with the direction Congress has moved in phasing out deposit interest rate ceilings. With the ultimate elimination of all deposit rate limitations, changes in the average cost of funds to depository institutions will reflect more closely changes in market rates of interest. If banks and other financial institutions are to maintain their long-term viability, they must be able to adjust interest charges and fees to accommodate their cost of funds and operating expenses. When market interest rates are above usury ceilings, it is difficult for institutions to pay market rates for deposits. Therefore, if ceilings on consumer loans are set at unrealistically low levels, commercial banks will find it increasingly difficult to engage profitably in consumer lending, amid high and volatile costs.

Finally, state usury ceilings are quickly becoming an anachronism in a financial system which is becoming national in scope. Legal restrictions that attempt to set the terms and conditions for local lending are becoming less and less effective. Households in New York may use bank credit cards issued by a California bank and, therefore, be subject to the less restrictive California usury ceilings. Similarly, lenders in a state subject to low usury limits may increase their purchases of out-of-state loans or may sell their loanable funds in unregulated national markets such as the interbank federal funds market. While some individuals and institutions may be able to adapt to usury ceilings, the impact of the ceilings on the availability of credit in the local community can still be quite severe.

Recommendations

We support congressional consideration of an override of state usury ceilings on consumer lending. Such action would recognize existing market realities and result in substantial public benefits.

While we would prefer that the problem of usury ceilings be resolved at the state level, we recognize that individual state actions may not come in time to accommodate the increasing demands of the credit market. Moreover, it is clear that no state legislature acting alone has the power to bring about change on a national scale. Since the problem transcends political boundaries and the states find it difficult to adopt consistent solutions, federal involvement to remove the ceilings may be the best approach.

In moving toward elimination of usury limits, it is important that the objective of protecting weak and unwary borrowers from unscrupulous lenders also be

Justice can be made. If an institution is recalcitrant and refuses to adopt corrective measures required by the OCC, proceedings can be instituted to terminate FDIC insurance or revoke a national bank's charter.

The vast array of regulations, reports, onsite examination procedures and other supervisory tools presently available should assure that MMB will be protected in its dealings with HSBC and related entities. Supervisory initiatives being implemented specifically in connection with bank holding companies and multinational banking organizations should result in stronger coordination among the three U.S. bank regulatory agencies and increased cooperation with supervisory authorities from other countries.

Statement of Lewis G. Odom, Jr., Senior Deputy Comptroller, before the Subcommittee on General Oversight of the House Committee on Small Business, Washington, D.C., September 23, 1980

I appreciate the opportunity to present the views of the Office of the Comptroller of the Currency on H.R. 7735, a bill which provides for the pre-emption of state usury ceilings on consumer credit. This statement does not necessarily reflect the views of the administration.

We have been concerned for some time with the impact of usury ceilings on the availability of credit in local markets. As we have stated on several occasions, usury laws should be repealed, pre-empted or substantially modified because they create arbitrary distortions in our capital market system. In opposing usury ceilings we have carefully weighed the costs and potential benefits of usury laws.

Usury laws have persisted because they are widely perceived as a means of protecting small and unsophisticated borrowers from unscrupulous lenders by limiting the power of lenders to charge exorbitant interest rates. However, in practice, usury ceilings have either had minimal effect or have been harmful. When market rates rise above artificially set usury ceilings, borrowers perceived to be marginal risks generally have been unable to obtain credit from commercial banks or other financial institutions, and credit has flowed from regulated markets to other markets not subject to usury ceilings. This has occurred during every period of high interest rates over the last 15 years.

Goals vs. Effects

Evidence collected over several years overwhelmingly indicates that the elimination of usury ceilings would be in the public interest. Generally, usury laws:

- Fail to accomplish their desired objectives;
- Have an adverse effect on production and employment; and
- Distort the allocation of credit among markets and states.

Usury ceilings set below market rates of interest have generally eliminated conventional credit sources, particularly to high-risk or low-income borrowers. This occurs because lenders subject to low usury ceilings generally stop lending to high-rish borrowers when they are unable to charge interest rates high enough to yield a reasonable rate of return. Instead, they seek out preferred low-risk borrowers or lend in markets not subject to the ceilings. Thus, the intended beneficiaries of usury ceilings, the high-risk and small borrowers, are those most likely to be hurt by such ceilings and must either go without credit or borrow from nonconventional and unregulated lenders.

Even individuals who are considered low risks may be unable to obtain credit if the total cost of making small loans exceeds the rate allowable under usury ceilings. Because of the substantial fixed costs associated with originating and servicing consumer loans, the break-even rate a lender must charge on small and short-term consumer loans is quite high.

For example, the 1978 functional cost analysis compiled by the Federal Reserve System estimated that for a medium-size commercial bank, the average cost of making and servicing a $1,000 consumer loan payable in 12 monthly installments is $157.13. This includes $54.24 to process the application, $45.12 to collect and process 12 payments, $52.41 for the cost of funds and $5.36 to cover the average expected default loss on a loan of that type. To break even, the bank would have to charge an annual rate of about 22 percent.

The break-even rate on smaller and shorter term loans is even higher because loan acquisition and collection costs are fixed with respect to the size and maturity of the loan. The estimated cost of making and servicing a 1-year $500 loan with 12 payments would be $128.14. To break even, an interest rate of over 30 percent would have to be charged. Therefore, because of the costs of originating and servicing consumer loans, it is not surprising that financial institutions in states with restrictive usury ceilings are reluctant to make small and short-term consumer loans.

Institutions operating in markets subject to usury restrictions are discouraged from offering a full array of lending services. Commercial banks may avoid making smaller, more costly consumer loans except to preferred customers. When low legal-loan size limits are combined with low ceilings on interest rates, the number of loans may increase, but low-income or high-risk customers may still find it difficult, if not impossible, to agree, notwithstanding significant differences in banking laws and regulatory practices among the countries represented. For example, a 1975 concordat established agreement in a number of areas of bank supervision. Most pertinent to the present discussion, it was recognized that practical cooperation should be promoted on a reciprocal basis in three ways: (1) the direct transfer of information between host (branch of subsidiary bank) and parent (bank or bank holding company) supervisory authorities; (2) direct inspections by parent authorities in the territory of the host authority; and (3) indirect inspections by host authorities at the request of parent authorities. The committee also serves as a clearinghouse wherein supervisors identify gaps in the regulatory coverage of international banking, compare supervisory approaches, exchange information of a sensitive nature derived from a variety of sources and suggesting potential banking problems, and develop further guidelines to demarcate the responsibilities of host and parent supervisors.

Although Hong Kong is not represented on the Cooke Committee, the authorities there have committed to abide by the basic supervisory principles and strategies that are established and implemented by the G-10 countries. Since Hong Kong is a major international banking market, the government has a strong incentive to assure that the institutions operating in that market remain reputable and financially sound.

OCC bank examination procedures *(Comptroller's Handbook for National Bank Examiners)* emphasize a probe into the management, ownership and activities of customers new to the U.S. bank since its preceding supervisory examination. That inquiry generally develops information about relationships between the bank and its foreign bank holding company group. Examination procedures also emphasize another type of inquiry, *i.e.,* an inquiry into whether the relationship complies with 12 USC 371c, the statute governing affiliate transactions. The OCC, however, can have difficulty tracing a transaction abroad for precise determination of compliance with 12 USC 371c. The cooperation of foreign bank supervisors may assist in that tracing, depending on the degree to which the disclosure laws of a particular nation permit such an investigation. Nevertheless, when the OCC cannot be satisfied that transactions between a U.S. bank and its foreign affiliates are in conformity with legal requirements, it can institute specialized supervisory enforcement measures to stop intragroup activities. OCC bank examination procedures require close scrutiny of intragroup activities. (See Appendix C for detailed regular examination procedures associated with insider and affiliate transactions.) In addition, Sections 203, 204 and 813 of the *Comptroller's Handbook for National Bank Examiners* require examination of intragroup money market dealings and the profits/losses accruing to a U.S. bank from such dealings.

Bank holding companies, domestic or foreign, influence the activities of a subsidiary bank with other holding company entities and with customers common to the holding company and other holding company units. The influence may be exerted through policies centralized at the parent level or through holding company representatives place in the subsidiary bank as key bank officers and/or as members of the bank's board of directors.

Intragroup and group-related transactions can be detected through NBSS and the FR Y-8 reporting systems. NBSS would detect unusual changes in a bank's balance sheet and operations statement categories which could represent intragroup activities. For instance, NBSS would reflect increases in other expenses (in amount and as a percent of average assets). NBSS also would report changes in borrowings or interest margins which might indicate the occurrence of transfer pricing. The proposed quarterly FR Y-8(f) will assist detection because the report requires a U.S. bank to report all intragroup transactions by volume and type. Unusual activities disclosed through either system would lead to a specialized bank examination. Ordinary examination procedures are also designed to identify intragroup activities and concentrations (Appendix C). If unsafe and unsound intercompany transactions or group-related concentrations are discovered, then specialized supervisory enforcement measures can be instituted.

However, as is generally true with all areas of bank examinations, OCC supervisory resources cannot possibly audit all transactions between a large subsidiary and its affiliates abroad and completely prevent improper intragroup activities. To police intragroup transactions, supervisory authorities must also rely on the quality of a bank's internal policies and controls, external audits by public accountants and information from external market intelligence, which often is accurate and directs supervisors to potential problems. Although the proposed FR Y-8(f) will assist U.S. supervisors in monitoring intragroup activities, the area is a warranted supervisory concern.

Sanctions—Finally, buttressing the system of U.S. bank regulation and supervision is a comprehensive set of legal and administrative sanctions that can be applied against banks and bank-related individuals and companies that commit violations of law or participate in unsafe or unsound banking practices. Directors and officers have a fiduciary duty to pursue policies that are in the best interest of the bank. Directors of a national bank are personally liable in damages for willful violations of the National Bank Act. The most general administrative remedies are provided by 12 USC 1818, which empowers the appropriate federal banking agency to issue a cease and desist order against a bank or any director, officer, employee, agent or person participating in the conduct of the affairs of the bank that the agency finds is violating a law or regulation or is engaging in an unsafe or unsound practice. The order may require the bank or person to take "affirmative action" to correct the conditions resulting from any such violation or practice. In addition, the banking agency may impose civil money penalties on a bank and bank-related individuals for violations of various banking statutes and regulations, including the restrictions on lending to affiliates. Removal of bank officers and directors is possible in specified circumstances, and criminal referrals to the Department of tives with respect to foreign bank holding companies to promote two broad goals: first, to assure that the U.S. subsidiary bank is operated in a safe and sound manner and, second, to assure that the parent bank holding company is a source of strength to the U.S. bank. Those initiatives include increasing examiner surveillance of intercompany transactions and common customer credits, soliciting the views of foreign bank regulatory authorities with regard to foreign banks subject to their jurisdiction, improving the quality of annual financial information on foreign bank holding companies, and requiring quarterly reports on transactions between the U.S. subsidiary bank and its foreign parent.

The Federal Reserve's Y series of reports deals directly with intragroup activities. The present FR Y-8 requires domestic bank holding companies to file quarterly reports on intragroup transactions. Soon the Federal Reserve will issue final regulations covering new reporting requirements for foreign bank holding companies.

The first report is a revision to the *Annual Report of Foreign Bank Holding Companies* (FR Y-7) which would require foreign bank holding companies at entry, and annually thereafter, to submit detailed supervisory information about their consolidated condition, shareholders, officers and directors, and affiliates. To ensure identification of significant affiliates, the proposed report requires foreign bank holding companies to submit:

- An organization chart showing the names of *all* entities of which the foreign bank holding company owns or controls 25 percent or more, as well as showing the location of the entity and the manner in which the 25 percent or more control is exercised;
- A list of each shareholder who directly or indirectly owns, controls or holds, with the power to vote, 5 percent or more of any class of outstanding shares of a foreign bank holding company. Such listing is to include the name of the shareholder and the beneficial owner of the shares, the principal residence or office of the shareholder and beneficial owner and the number and percentage of each class of voting securities, or the equivalent thereof, owned, controlled or held with power to vote the shares.
- A list of each director and executive officer, or equivalent, of the foreigh bank holding company which shows the person's name, principal location and country of citizenship, principal occupation, if other than employment with the foreign bank holding company, and title or position with the bank holding company and number and percentages of each class of voting securities, or the equivalent thereof, owned, controlled or held, with power to vote, of the foreign bank holding company and its related entities.

The second report proposed by the Federal Reserve Board is a *Report of Intercompany Transactions for Foreign Bank Holding Companies and Their U.S. Bank Subsidiaries* (FR Y-8(f)). The Federal Reserve proposes that this report be filed quarterly for a 2-year period. The report is designed to monitor intragroup transactions and ensure U.S. supervisors that foreign bank holding companies are serving as a source of financial strength to their U.S. bank subsidiaries. Specifically, the report requests data on the following intragroup activities:

- Transfer of assets, *e.g.*, securities and loans;
- Expenses paid by a U.S. subsidiary to other group members, *e.g.*, interest expenses or service fees;
- Liabilities and claims between the U.S. subsidiary bank and group members, *e.g.*, deposits or borrowings;
- U.S. bank subsidiary participation in loans originated or syndicated by other bank holding company members, including guarantees and standby letters of credit;
- Compensating balances between the U.S. subsidiary and other group members;
- U.S. bank subsidiary loans or commitments made in connection with credit extended by third parties to other bank holding company members; and
- Foreign exchange transactions, including information about the profitability of those transactions to the U.S. subsidiary bank or the affiliated counterparty.

Examination Procedures—OCC onsite bank examination procedures and market intelligence have been the traditional supervisory means for detecting the relationships of a foreign bank holding company and its affiliates with a U.S. subsidiary national bank. Most foreign bank holding companies are major multinational organizations which publish annual reports disclosing most affiliations. Any affiliate relationship not so disclosed generally is minor but still known to the banking community at large. The OCC has access to banking community information through periodic bank examinations and contacts with U.S.-based multinational banks and through regular communications with bankers, other U.S. bank supervisors, foreign bank supervisors and other U.S. and foreign government entities.

For instance, supervisory and examination initiatives, particularly with respect to the multinational banking organizations, are taking place in the context of increasing cooperation among authorities in the developed nations of the world. The most important international forum is the Committee on Banking Regulations and Supervisory Practices, known informally as the Cooke Committee after its incumbent chairman. Established in 1974, that committee includes representatives from the supervisory authorities and central banks of the countries of the Group of Ten (G-10) plus Switzerland and Luxembourg. It has a secretariat provided by the Bank for International Settlements at Basel (Switzerland) and meets regularly three times a year.

The committee's main focus has been to establish broad principles on which the supervisors could kets. In that context, it is important to note that the OCC has established a mutually beneficial relationship with the banking authorities in Hong Kong as a result of the examinations of U.S. banks which OCC conducts semiannually in the colony.

Laws and Authorities—Agreements and assurances aside, it is, of course, fundamental that MMB, as any national bank, must comply with a vast array of laws and regulations (See Appendix B.) that are specifically designed to promote the safety and soundness of the national banking system. For example, a national bank in the United States can invest only in government obligations and in certain other types of investment securities that are, by definition, marketable and nonspeculative in nature. Bank directors may periodically declare dividends out of net profits, but only if there is an adequate surplus fund. A national bank is restricted in the amount of money it may borrow, in the types and amounts of real estate loans it may make, in the amount of credit it may extend to a single borrower and in the type and amount of drafts and bills of exchange it may accept.

Extensions of credit to insiders—officers, directors, shareholders who own more than 10 percent of a class of securities, and their related interests—are limited as to type, cannot exceed specified individual and aggregate amounts, cannot be preferential in any way and require the prior approval of a disinterested majority of the bank's entire board of directors. The executive officers and principal shareholders of a bank must file an annual report with the board of directors concerning any indebtedness they may have with a correspondent bank. A bank must file annually a publicly available report with the appropriate federal banking agency listing its principal shareholders and all of its officers and directors who are indebted, or whose related interests are indebted, to the bank or one of its correspondents, along with the aggregate amount of indebtedness.

Section 23A of the Federal Reserve Act (12 USC 371c) deals specifically with intercompany transactions and provides that a member bank cannot lend to or make investments in any affiliated institution, including the bank's parent holding company, in excess of 10 percent of the bank's capital stock and surplus. A 20 percent lending limit is imposed on all affiliate transactions in the aggregate. The term "affiliate" includes any corporation, business trust, association or similar organization which is controlled by the bank or by controlling shareholders of the bank or any organization which owns or controls a majority of the stock of the bank or can elect a majority of the bank's directors. Any extension of credit by the bank to an affiliate must ordinarily be secured by specified collateral having a market value in excess of such extension of credit. Loans to individuals associated with an affiliate are deemed to be extensions of credit to the affiliate. Any foreign person or organization, wherever located, falls within the coverage of those provisions. Section 2(h) of the Bank Holding Company Act specifically states that the application of the law:

> . . . shall not be affected by the fact that the transaction takes place wholly or partly outside the United States or that a company is organized or operates outside the United States.

The federal bank regulatory agencies have broad examination authority to enforce compliance with those and all other applicable laws and regulations. Under the Federal Deposit Insurance Act, for example, the appropriate federal banking agency, or its designated representatives:

> . . . are authorized to administer oaths and affirmations, and to examine and take and preserve testimony under oath as to any matter in respect to the affairs or ownership of any [insured] bank or institution or affiliate thereof.

The attendance of witnesses and the production of documents "may be required from any place in any state or in any territory or other place subject to the jurisdiction of the United States. . . ." The National Bank Act provides that refusal to give to the OCC "any information required" in the course of examination of any affiliate of a national bank, including the parent holding company, subjects the bank to forfeiture of its "rights, privileges, and franchises. . . ." Each of the bank regulatory agencies has authority to demand information in the form of regular or special reports sworn to be accurate and complete by appropriate bank officials. Failure to submit complete and timely reports exposes a bank and its management to civil penalties. Submission of false statements to examiners, falsification of bank records or false reports to the regulator constitute a felony punishable by fine and imprisonment.

Reporting Requirements—Banking agencies in the United States and elsewhere, including Hong Kong, conduct two forms of examinations—remote and onsite. Remote examination traditionally has emphasized monitoring through various reporting requirements. In the U.S., current reporting requirements provide data for computerized analysis of banks, with that analysis then directing or assisting onsite examination.

The OCC and the Federal Reserve currently require, from large banks and holding companies such as MMB, specialized reports of condition which facilitate remote examination of the bank and its holding company. The OCC has developed and continues to strengthen its National Bank Surveillance System (NBSS) for all national banks and especially for U.S. multinational banks. The OCC has also established a Multinational Banking Department (headed by a Deputy Comptroller) which quarterly conducts a sophisticated quantitative analysis of the largest national banks, including MMB. The OCC's requirements include reports that permit sophisticated analysis of a bank's earnings and capital formation, financial planning, strategic new business planning, funding management and changes in balance sheet composition and earnings components. It should be pointed out, however, that OCC's reporting requirements are only likely to permit detection on a remote basis of immoderate intragroup activities which would cause unusual changes in a bank's earnings and balance sheet composition.

The Federal Reserve is undertaking several initiaanalysis of foreign-owned banks' performance in the U.S. shows that they tend to have a higher overall cost of funds than geographically similar domestically owned peers.

Finally, it is conceivable that foreign banks' ability to offer services abroad (directly or through affiliates) which U.S. institutions are unable to provide here could attract a certain amount of business from U.S. multinational firms at the expense of domestic banks. That possibility is limited by the fact that U.S. banks could respond to most substantial challenges through their activities overseas, where they have greater freedom to engage in nonbanking activities. There is no evidence that U.S. banks have been seriously hurt by foreign banks' ability to offer a broader range of services in other markets. There is certainly no stampede of U.S. banks seeking foreign bank holding company affiliation to reap such perceived advantages.

On the whole, there is no reason to believe that U.S. banks are adversely affected because foreign banks are allowed to own nonfinancial enterprises. Present U.S. policy constitutes a reasonable adjustment to the realities of multinational banking and the different laws and practices prevalent in other nations. The balance of essentially equal competitive opportunity is not disturbed by the exemption of foreign nonfinancial activities, and the national treatment policy objective is intact.

What consideration was given by the OCC, in its review of the charter conversion application of Marine Midland Bank, to the nonfinancial overseas activities of the Hongkong organization?

The OCC's review of the charter conversion application by MMB included an inquiry into HSBC since the Federal Reserve, on March 16, 1979, had approved, under the Bank Holding Company Act, a proposed acquisition by HSBC of control of MMB's parent holding company (MMBI).

The OCC's inquiry into HSBC's direct and indirect affiliations found that most of those affiliations, including nonfinancial units, were insignificant to the overall activities and financial condition of HSBC. Accordingly, the OCC concentrated on the activities and financial condition of the small number of material HSBC investments to determine their quality and the expertise with which HSBC monitored and managed those affiliations. The objectives of OCC's inquiry into HSBC were to determine the degree to which HSBC might be a source of ongoing financial strength to MMB and to determine what managerial support HSBC might provide MMB if necessary. The OCC considered HSBC's direct and indirect nonfinancial activities in terms of the effect on HSBC's potential financial and managerial support to MMB. The Federal Reserve, in its decision of March 16, 1979, approving HSBC's proposal to acquire control of MMBI stated, among other things, its conclusion that HSBC would be a source of financial and managerial strength to MMB. While the OCC did not review the Federal Reserve decision, and had no authority to do so, its onsite examination of HSBC produced no evidence that would necessitate reconsideration of that conclusion by the Federal Reserve. (See Appendix A for a chronology of the OCC's process in dealing with the conversion application.)

How will present regulations, reporting requirements and examination procedures control inappropriate transactions between MMB and other components of the HSBC organization?

The OCC does not anticipate inappropriate transactions between MMB and the HSBC group. HSBC acquired control of MMBI to expand its global banking network. That acquisition involves an investment by HSBC of $314 million. Therefore, it is reasonable to expect that HSBC will not endanger its investment, reputation and long-term global strategy by entering into inappropriate or abusive transactions with MMB.

The OCC does anticipate a certain amount of intragroup activity between MMB and the rest of the HSBC group. Such activity would represent natural extensions of commercial business arising from the U.S. bank's affiliation with a foreign bank holding company. For instance, a foreign bank holding company can normally be expected to redirect some of its U.S. correspondent business from other U.S. banks to its subsidiary. A foreign bank holding company also can be expected to "market" its U.S. subsidiary bank to group-related clients as a dollar lending source or as a source of services not offered by other members of the parent group, such as trust or data processing services. Intragroup transactions are also common between a foreign parent's U.S. subsidiary bank and the U.S. branch or agency of the parent. Those transactions may range from settlement of intragroup accounts to participation in loans to traditional, "institutional relationship" clients of the foreign bank holding company group.

Although supervisory experience shows no patterns of abuse in intragroup transactions between a U.S. subsidiary bank and its foreign bank holding company system, federal banking agencies continue to scrutinize closely all such transactions. The supervisory tools available for monitoring and controlling intragroup activities include supervisory arrangements, laws and authorities, reporting systems, examination procedures and sanctions.

Supervisory Arrangements—As the OCC stated on January 28, 1980, in announcing its decision to approve the conversion of MMB, the OCC and MMB entered into a supervisory agreement in which MMB agreed to maintain procedures to segregate and identify transactions with or involving affiliated entities, and HSBC agreed to provide or give the OCC access to information the OCC deems necessary to enable it adequately to discharge its supervisory responsibility with respect to MMB. HSBC also gave assurances to OCC that it will not permit any of its nonbank subsidiaries to borrow from MMB or its affiliates. Finally, there are understandings among the world's supervisory authorities which emphasize the need for bank supervisory cooperation to assure the integrity of financial market transactions and the banking institutions in those mar-tion in the United States, many countries have traditionally permitted and, in some cases, actively encouraged close business relationships between banks and nonfinancial firms. The challenge for U.S. policy has been to accommodate such differences so that foreign banks may compete in this country on an equitable basis, while at the same time preserving the separation of banking and commerce in our domestic markets.

U.S. Policy Toward Foreign Banks' Nonfinancial Investments and Activities—U.S. policy has been designed, in essence, to insulate the U.S. market from the combination of banking and commerce permitted overseas and to minimize possible competitive disadvantages to U.S. banks stemming from foreign banks' involvement with commercial enterprises. The Bank Holding Company Act was amended in 1966, 1970, and again in 1978—as part of the IBA—to permit foreign bank participation in our banking markets on a basis consistent with those objectives.

Foreign bank holding companies' operations in the U.S. have been subject to the separation of banking and nonbanking activities according to standards similar to those applied to domestic institutions. As a condition of entry, the Federal Reserve Board has required foreign bank holding companies to divest their U.S. securities affiliates or other nonbanking companies whose activities are inconsistent with restrictions imposed on domestic banking institutions.

Neither Congress or the Federal Reserve, however, has presumed to attempt to restrict foreign banks' overseas operations or investments so as to conform with our domestic requirements. Instead, Congress deliberately provided that foreign nonbanking activities and investments of foreign banking organizations may be exempt from the nonbanking prohibitions of U.S. law. The Federal Reserve Board has implemented regulations to carry out the congressional policy.

The wisdom of that policy is made clear by considering the practical impact of the alternative approach, namely attempting to impose the U.S. nonbanking prohibition on the overseas activities of foreign banks. Any such attempt would represent an unwarranted extraterritorial extension of U.S. regulatory principles to countries with quite different well-established standards of their own. If the foreign policies permitting the combination of banking and commerce were a matter of grave concern and there were doubts about our ability to insulate U.S. markets from possible adverse effects, it would, of course, be possible to impose our will by denying entry to foreign banking organizations with substantial nonfinancial interests and requiring divestiture of such interests by foreign banking organizations already operating here. Such action would, in effect, amount to putting up a discriminatory screen against foreign entry, denying most foreign banks any opportunity to compete in our markets. Retaliation by foreign governments would likely follow, to the clear detriment of our own commercial interests. Most importantly, perhaps, we would deny ourselves the benefit of foreign competition, expertise and capital in our own domestic financial markets.

We believe that the present U.S. policy poses no significant threat to the separation of banking and commerce in the United States or to the domestic competitive position of U.S. banks. The exemption of foreign banking organizations from U.S. nonbanking prohibitions does represent differential treatment of foreign concerns, but it represents a deliberate policy choice and does not compromise the principle of national treatment. Foreign banking organizations do have some advantage because of the exemption, but it is important to consider whether any such advantage is significant or important in the balance of domestic competitive opportunity.

Competitive Impact of the Exemption—The possibility of adverse competitive impacts on domestic banks in U.S. markets from foreign banks' overseas nonfinancial activities or investments has received very little attention. One reason for this is that there has been no outpouring of complaints or charges concerning unfair competitive practices. Nonetheless, it may be worth considering the different ways that U.S. banks could be affected by foreign banks' involvement with nonfinancial enterprises overseas.

First, if foreign nonbank companies operating in the United States channel their banking business exclusively to related foreign-owned banks in this country, U.S. banks are denied an opportunity to gain domestic business. Present laws and regulations preclude domestic operations of direct commercial affiliates and prohibit preferential credit extension to exempt nonbank companies. Even so, home-country ties may be informal, and relationships may exist even though no clear determination of control is warranted. While some foreign corporations undoubtedly follow those home-country ties, such a tendency is little different from normal business practices of multinational companies which can be expected to gravitate toward home-country banks whether or not formal or informal relationships exist. Some concentration of loans to home-country multinational corporations has been noted by bank examiners, particularly in the loan portfolios of foreign-owned banks that were established *de novo* and whose activities typically complement those of the worldwide group. In the same way, U.S. banks' overseas activity is heavily oriented to serving the needs of U.S. multinationals. As multinational banking competition intensifies, however, traditional home-country loyalties are tending to weaken or break down.

It has also been argued that affiliated nonbank companies could channel funds to foreign-owned banks at below-market rates or borrow funds at noncompetitive rates, thereby indirectly subsidizing the foreign-owned banks' U.S. operations. If this occurred, the foreign-owned banks would have an advantage in competing for other business not affected by such nonmarket behavior. That type of activity is not unknown among multinational corporations. There is, of necessity, a compensatory loss to the nonbank firms whose nonmarket transactions indirectly subsidize the foreign-owned banks. Such activity would tend, therefore, to be self-limiting in most circumstances. Moreover, it would affect only a small segment of foreign bank activity in the United States. Indirect evidence suggests that this type of cross-subsidy is not a problem: Our ship of overseas nonfinancial enterprises by foreign bank holding companies? (2) What consideration was given by the OCC, in its review of MMB's charter conversion application, to the nonfinancial overseas activities of the Hongkong organization? (3) How will present regulations, reporting requirements and examination procedures control inappropriate transactions between MMB and other components of the Hongkong organization? Our statement responds to each of those questions, and, in addition, a comprehensive description of the OCC's decisionmaking process relating to the MMB conversion application, a summary of applicable laws and regulations and a detailed description of regular examination procedures associated with insider and affiliate transactions are attached as appendices.*

U.S. National Treatment Policy and Foreign Banks' Involvement with Nonfinancial Enterprises

The structure of the financial sector in any nation reflects many factors, including historical traditions, overall size and diversity of financial markets and particular government policy objectives which underlie laws and regulations defining and limiting the permissible business of banking institutions. In the United States, the size, complexity and diversity of the economy have fostered an unparalleled development of financial services. Government policy has historically enforced the separation of banking and commerce, leading to the creation of a structure wherein involvement of banks with nonfinancial enterprises, whether directly or through affililates, is more narrowly circumscribed than in many other industrial countries and wherein financial markets are highly segmented. Into this structure, we have welcomed the entrance of foreign competitors and have defined their permissible activities in terms of the principle of national treatment, which asserts that foreign banking organizations should be able to compete in domestic markets on essentially equal terms vis-a-vis domestic institutions.

Foreign banking organizations operating in the United States are permitted ownership of overseas nonfinancial enterprises. In our opinion, that does not violate the principle of national treatment. In a world characterized by complex multinational banking relationships and by the diverse traditions and policy interests of individual nations, implementation of a national treatment policy requires a balancing of competitive factors rather than strict equality of regulatory requirements. The statutory exemption for overseas nonbanking involvement of foreign banking institutions operating in the United States reflects a practical response by Congress to differences in other nations' banking systems. There is no evidence that the exemption has caused a competitive imbalance between foreign and domestic banks in this country.

National Treatment in Principle and Practice—Our government has followed a policy of openness to foreign trade and investment throughout most of our history. The principle of national treatment is in keeping with the general U.S. policy of avoiding impediments to the free flow of capital across our national borders. The Federal Reserve Board has based its regulation of foreign bank holding companies on the national treatment approach, and the Congress, in enacting the International Banking Act of 1978 (IBA), adopted national treatment as the basis for federal regulation of foreign banking operations.

The intent of our national treatment policy is to establish a federal regulatory framework which is *nondiscriminatory* in its effects on domestic and foreign banks operating in this country and which affords foreign banks essential *equality of competitive opportunity* vis-a-vis domestic institutions in similar circumstances.†

In practice, an equitable competitive balance between foreign and domestic banks in a particular country may not be achieved by applying identical regulations and requirements to each. Because of inherent differences in the structure and operations of foreign banks, some differential regulatory treatment may be necessary. This was clearly recognized by Congress in its deliberations on the IBA. A House report noted that:

> . . . the same regulatory structure of foreign and domestic banks will not result in equal treatment and discretion is needed to devise a regulatory framework which is appropriate to the actual operations and status of foreign banking institutions.

Several provisions of the IBA illustrate clearly the deliberate effort by Congress to adjust regulatory requirements to obtain a reasonable balance of competitive opportunity for foreign and domestic banks.

The U.S. commitment to the policy of separation of banking and commerce is clear and strong. It reflects a policy objective that is not generally shared by other nations of the world, including some which are the homes of major multinational banks. Unlike the situa-

* The appendices are not attached to this statement because of space limitations. They are available elsewhere.

†In the IBA, Congress rejected reciprocity as an alternative basis for U.S. federal regulation of foreign banks. National treatment is a preferable approach, in our view, for several reasons: (1) Reciprocity would conflict with the U.S. policy of neutrality with regard to international capital flows by selectively restricting investment from certain countries; (2) Reciprocity represents a reactive rather than a positive approach; national treatment is a flexible approach that enables the host country to adopt a policy that best serves its interests, irrespective of other governments' views; (3) In significant practical ways, reciprocity would create an administrative nightmare, entailing detailed differentiation of regulation on a country-by-country basis; (4) Experience in international relations, generally, has demonstrated that reciprocal arrangements tend to degenerate to the lowest common denominator of permitted activities, restricting options available to all affected parties; and (5) Reciprocity is conceptually ambiguous as a basis for policy: It can be interpreted in several different ways and, internationally, it is implemented quite differently by various nations. (For a more complete discussion, see *Report to Congress on Foreign Government Treatment of U.S. Commercial Banking Organizations,* Department of the Treasury, 1979, pp. 3, 20-21.)

Several states impose reciprocity requirements on foreign banks as a means of applying pressure on other countries to open their markets to competition by banks from that state. The U.S. government has chosen to apply pressure instead through diplomatic and other channels (*Ibid.,* Ch. 36). In its regulation of federal branches and agencies of foreign banks, the OCC has determined that it is not bound by state reciprocity requirements (12 CFR 28).

ing law enforcement mechanisms and laws to determine if conflicting statutory purposes may unjustifiably frustrate law enforcement purposes.

Recent Amendments to 31 CFR 103

The Department of the Treasury has recently adopted certain amendments to its regulations regarding financial record-keeping and reporting of currency and foreign transactions. The amendments generally affect banks by requiring that (1) the reports required to be filed under the regulation be more timely, (2) the banks retain certain reports for 5 years, (3) more complete identification be obtained regarding customers whose cash transactions exceed $10,000, (4) the exemption for established customers maintaining a deposit relationship be limited to retail businesses and (5) reports be filed regarding certain presently exempt transnational currency transactions.

With certain exemptions, a financial institution within the United States must file a Currency Transaction Report, Internal Revenue Service (IRS) Form 4789, for each deposit, withdrawal or exchange of currency or other transaction which involves more than $10,000 in currency. That report is required to be filed with the IRS on or before the 45th day following the date on which the transaction occurred. The recent amendment would require that such reports be filed within 15 days after the day on which the transaction occurred. The recent amendment is to provide enhanced capability to monitor and to assure compliance with the act.

The second amendment to the regulations requires financial institutions to retain a copy of each Currency Transaction Report for 5 years. No such retention was previously required. Although many banks routinely retain copies of such reports, that requirement will ensure that copies would be available for the use by bank regulatory agencies that have responsibility for examining bank compliance with the reporting requirement.

Previously, the regulations did not require that financial institutions obtain adequate information regarding the identity of individuals whose transactions exceed $10,000 in cash. Under the recent amendments, a financial institution must obtain and record additional specific information regarding the name and address of the person presenting the transaction and record the identity, account number and social security or taxpayer identification number, if any, of the person whose account such transaction is being effected. Verification of aliens may be by passport or other official documentation evidencing foreign nationality or residence. Verification of identity, in any other case, may be by any document normally acceptable as a means of identification when cashing checks, such as a driver's license or credit card. In each instance, the method of verification must be recorded on the report.

Banks previously were not required to report currency transactions with established customers in amounts which the bank may reasonably conclude do not exceed amounts commensurate with the customary conduct of the business, industry or profession of the customer. That regulatory exemption has been limited to retail establishments and certain other businesses and further requires that banks maintain a list identifying the location and character of exempt businesses to be furnished to Treasury on request.

Lastly, banks were not required to report transactions solely with, or originated by, financial institutions or foreign banks. The exclusion for such transactions has been limited to domestic banks to alert the Department of the Treasury of unusal transnational movements of currency.

The intent of those amendments is to provide Treasury with increased capability to monitor and assure compliance with the Bank Secrecy Act and to provide additional information concerning possible illegal flows of currency in the United States. We believe that the recent regulatory amendments may also facilitate the investigation of narcotics trafficking, tax evasion and other "white collar" criminal activities; however, it should be recognized that the Bank Secrecy Act and its implementing regulations are limited tools for use by law enforcement officials in pursuing criminals. Expanded agency cooperation and assistance to detect unlawful conduct would better assure the eradication of criminal elements from our society. We are prepared to assist in such an effort to the fullest extent possible under the existing law.

Statement of John G. Heimann, Comptroller of the Currency, before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations, Washington, D.C., June 25, 1980

The subcommittee has requested testimony regarding foreign bank takeovers of U.S. banks and the matter of the recent Hongkong and Shanghai Banking Corporation (HSBC) acquisition of Marine Midland Bank (MMB) in particular. The subject is broad, but inasmuch as we have been specifically asked to present the views of the Office of the Comptroller of the Currency on three particular issues, the testimony will focus on those specific concerns.

In connection with the HSBC acquisition of 51 percent of the common stock of the holding company of MMB, three questions have been posed: (1) How does the principle of national treatment apply to the present policy of the Federal Reserve Board toward the owner-of more than a sample of millions of daily cash transactions. Our policy, therefore, is to first assess the bank's internal and external controls and audits with the objective of evaluating their adequacy under the recordkeeping procedures. It is essential that the banks themselves have adequate internal and external controls in place to ensure their routine compliance with existing regulatory requirements.

The second step of our examination is to sample transactions occurring in those bank asset and liability accounts which are relevant to the recordkeeping and reporting requirements. Finally, if those procedures disclose operational inadequacies or possible illegal conduct, we perform an indepth examination of the problem areas and make appropriate criticisms and referrals to the Department of the Treasury.

Since implementation of the financial recordkeeping regulations, this Office has worked closely with representatives of the Department of the Treasury responsible for enforcement of the law. On a quarterly basis, the OCC refers all possible violations of the Bank Secrecy Act which were discovered through the examinations conducted in the preceding 3 months. Appendix A* summarizes our reported experience for 1979 with bank violations of the act.

During the last quarter of 1979, 10 national banks in Florida were reported to Treasury as having had one or more possible violations of the recordkeeping and reporting requirements. Only one of those banks, however, was cited for possible violation of the currency reporting provisions of the regulation. In that case, the required reports were prepared before the close of the examination.

Problems Encountered by OCC Regarding Narcotics-Related Money or Banks Alleged to be Controlled by Drug Traffickers

The principal problems we have experienced in this area are, first, the inability of either the OCC or banks themselves to identify "drug-related money" or to determine "control" of a particular bank by drug traffickers of their associates. Second, existing laws encumber our ability to communicate and coordinate activities with other law enforcement agencies.

It should be recognized that commercial banks can be used as facilities through which drug traffickers and others can launder cash without violating the laws and regulations governing cash transactions. The Bank Secrecy Act and its regulations require only that banks report certain currency transactions and maintain certain records. There exists no obligation that the institution inquire into the source or intended use of large amounts of currency brought into or taken out of the bank. Historically, in the absence of a credit relationship, banks have been under no such obligation to inquire into the private financial affairs of their customers. We have no statutory authority to require such inquiry.

Similarly, a bank customer in a currency transaction is under no duty to disclose the source or intended. use of his or her money. Large deposits and withdrawals of cash—which may be typical of narcotics trafficking activities and numerous legitimate business activities—are not in and of themselves illegal. Illegality results only if the required reports are knowingly not made and necessary records are not maintained.

Our ability to prevent criminal elements from obtaining control of a bank has been recently enhanced. Persons involved in narcotics or other unlawful activities may become associated with a bank through acquiring an ownership interest. To prevent such, we require detailed financial and biographical information from all organizers and initial directors of any new bank and from any individual or group prior to their acquiring control of an established national bank. Based on that and additional information obtained through our investigations, we attempt to screen the owners and organizers of national banks. While that procedure is somewhat effective, we recognize that such scrutiny may not in every case uncover all of the information necessary to properly evaluate the proposed acquirer or official. It is therefore possible that persons bent on illegal activity may, in fact, acquire control of or become employed by a national bank. When that happens and sufficient probative information comes to our attention, we will and have used the statutory power of our Office to ensure that the bank is run in accordance with all applicable laws, rules and regulations and in a safe and sound manner.

In addition, when during examinations or background investigations we uncover information indicating violations of law, we have closely assisted law enforcement officials in their followup efforts. Our cooperation has led to several investigations, prosecutions and convictions for criminal activities that had involved the use of financial institutions.

Although our review processes are unable to uncover all information, we believe that those reviews coupled with our examination activities generally discourage undesirable individuals from using national banks.

Notwithstanding our successes and the need to cooperate with other agencies to inform them of discovered illegal transactions, our ability to freely exchange information with other agencies has been severely restricted. In light of statutory proscriptions, contacts between this Office and other agencies have been curtailed. This, unfortunately, seriously detracts from coordinated federal efforts to attack the financial aspects of narcotics trafficking. Coordinated financial investigations are necessary to effectively address those problems. We believe that unwarranted barriers to the exchange of information between agencies should be eliminated to the fullest extent possible.

In the context of drug trafficking, we believe that it is essential for the experts in regulated industries to work closely with prosecutors and investigatory agencies to understand and follow winding paper trails of financial transactions often leading through several banks and corporate shells. We, therefore, believe it to be extremely important for Congress to reexamine the exist-

* Appendix A is not included in the *Annual Report* because of space limitations. The appendix is available elsewhere.

Financial Integrity and Social Repsonsibility of Banks

A study recently released by the Department of the Treasury indicates that net receipts of currency through the Jacksonville and Miami offices of the Federal Reserve increased from $921 million in 1974 to in excess of $4 billion in 1979. Such a volume of currency, whether a product of legal or illegal activities, passing through the financial institutions in those areas in and of itself would not create serious problems for individual banks handling the currency inflow. The stability of a particular institution is not likely to be undermined by large inflows of currency if such funds are invested by the institution so as to match assets with those potentially volatile deposits.

Although the financial threat of such funds is minimal, the integrity of a bank or its officers nonetheless may be called into question because of the type of customers with which it deals. The perceived integrity of an institution can be compromised by forces beyond the normal investment and operating policies of the bank. In addition to the individual criminal liability of bank officers, which arises when such individuals can be proven to be knowingly aiding or abetting the commission of specific crimes, loss of public confidence could occur if a bank or its officers is disclosed to be dealing routinely with elements of the criminal community.

The vast majority of our nation's banks are, we believe, fully aware of this threat and are sensitive to preserving their earned reputations as responsible members of the communities. Few bankers would allow their institutions to be used in furtherance of criminal conduct. When such conduct is discovered, we use the full force of our regulatory powers to ensure its curtailment and the removal of culpable individuals from the conduct of the bank's business.

OCC Efforts Regarding Narcotics-Related Money in Florida Banks.

Although, as earlier indicated, the supervisory responsibilities of the bank regulatory agencies under existing law and regulations are basically limited to compliance monitoring activities under the Bank Secrecy Act, we have undertaken to assist law enforcement investigations to the fullest extent possible. We have undertaken, among other things, to:

- Coordinate to the extent possible with all federal, state, local and international supervisory, investigatory and prosecutorial agencies;
- Obtain information available from other agencies when we review any application for a new bank charter and any change in control of the ownership of a national bank;
- Supply expert witnesses and counsel to work with the law enforcement community in understanding financial transactions;
- Participate in such groups as the Interagency Study Group on International Financial Transactions formed to improve coordination and cooperation among concerned agencies and INTERPOL conferences on international fraud;
- Render assistance and coordinate with bank regulatory agencies in foreign countries, including the Caribbean Island jurisdictions;
- Provide training to our examiners, examiners of other agencies and countries, and investigatory agencies in the detection and prosecution of financial crimes;
- Adopt and periodically revise examination procedures applicable to determining compliance with the Bank Secrecy Act and its regulations;
- Refer violations to the appropriate agencies and to require banks through formal and informal enforcement actions to comply with all applicable laws and regulations; and
- To remind the chief executive officers of all national banks of their responsibility to have adequate policies and procedures which assure total bank compliance with the act and newly revised regulations.

In addition to our routine monitoring activites, since the Department of the Treasury's study of currency flows in the Florida area, our staff has participated on an interagency task force, which includes representatives from the Department of the Treasury, the Internal Revenue Service and the Bureau of Customs, to develop specialized detailed procedures to assist in tracking such funds in certain Florida institutions.

The OCC is also testing expanded examination procedures, developed under the auspices of the Federal Financial Institutions Examination Council, to identify unusual currency flows and to ascertain bank compliance with the reporting requirements of the recently revised Treasury regulations.

OCC Examination Procedures for Monitoring Bank Compliance with the Bank Secrecy Act.

Our responsibilities under the act and implementing regulations of the Department of the Treasury, contained in 31 CFR 103, are basically limited to compliance monitoring activities. To carry out our responsibilities, the bank regulatory agencies, in cooperation with the Department of the Treasury, devised a check list for examiners to use in reviewing a bank's compliance with regulations. The procedures of this Office require that possible violations of the Bank Secrecy Act's reporting requirements be listed in the report of examination. Regional offices have been instructed to establish adequate followup procedures to ensure subsequent compliance by delinquent banks. Copies of our examination procedures and related materials were provided earlier to the committee. All possible violations disclosed in examination reports are reported to the Department of Treasury for disposition.

Bank compliance with the Bank Secrecy Act regulations is checked during our examinations, under our established procedures. As a practical matter, however, we are not physically in each bank on a continuous basis since onsite examinations are conducted on a periodic basis with many months intervening. In addition, the volume of cash transactions in 4,448 national banks with over 17,000 branches throughout the United States alone—and through many additional overseas offices—precludes our analysis and review any changes in the process of setting margin requirements should be implemented only after careful study by those thoroughly familiar with the intricacies of the markets.

Another common control device is position limits. During the turmoil in the silver market, such limits were imposed by the two principal exchanges. However, as indicated in the Commodity Futures Trading Commission's report to the Senate Agricultural Committee, those limits were not rigorously enforced. Uniform position limits should be explored as a means for preventing unreasonably large and speculative concentrations.

In summary, we believe that both congressional and regulatory action is warranted in light of the events leading up to late March and thereafter. At the same time we must move with care, since the futures markets play an important role in the U.S. economy by providing producers and consumers with means of hedging against severe price fluctuations. Accordingly, we recommend that a comprehensive evaluation of the issues precede legislative or regulatory action.

Statement of Paul M. Homan, Senior Deputy Comptroller for Bank Supervision, and Robert B. Serino, Director of the Enforcement and Compliance Division, before the Senate Committee on Banking, Housing and Urban Affairs, Washington D.C., June 6, 1980

We are pleased to appear before this committee to testify concerning your inquiry into the effects of unusally large cash flows, which presumably include drug-related funds, on banks in southern Florida. The Office of the Comptroller of the Currency is charged by the Congress with general supervisory responsibility over the activities of national banks. The statutory mandate of the Comptroller is to determine whether national banks operate both in conformance with safe and sound banking practices and in compliance with the many and varied statutes affecting bank conduct, including the Currency and Foreign Transactions Reporting Act. That law is designed to assist law enforcement officials in detecting and prosecuting criminal conduct by documenting certain fund flows which could involve such activities.

More commonly known as the Bank Secrecy Act, that law requires banks to obtain and preserve financial information and to file certain reports which have a high degree of usefulness in criminal, tax or regulatory investigations and proceedings. Essentially, the act requires banks to record and retain the details of certain customer financial dealings and, in some cases, to report information which is deemed likely by the Secretary of the Treasury to be useful in subsequent law enforcement investigations and prosecutions.

The act requires, among other things, that financial institutions maintain records of their customers' identities, make microfilm copies of checks and similar instruments and keep records of certain other items. It specifically requires that certain foreign and domestic financial transactions be reported to the federal government. The implementing regulations require banks to file reports with the Department of the Treasury of customer transactions involving deposit, withdrawal, exchange or other payment of currency in amounts of $10,000 or more.

The legislative history of the act emphasizes its purpose to facilitate investigation of narcotics trafficking, tax evasion and other "white collar" criminal activities. Banks and other financial institutions have been perceived to be frequent intermediaries in a growing variety of transactions involving movements of large sums of money derived from both legal and illegal sources. Since banks act as depositories or clearinghouses for virtually all transfers of large sums of money, criminals have presumably made use of them as part of their operations. Inasmuch as such criminal elements frequently carry on their activities in cash, they may leave no recorded evidence of to whom money is paid or when. Cash is essentially a fungible commodity which leaves no audit trail. When money is withdrawn from a bank in currency and then transported to or from the United States by courier there remains no record of the money leaving or entering the country. A principal purpose of the Bank Secrecy Act is to reduce those evidentiary problems by establishing a trail of records available to government scrutiny and use in law enforcement efforts.

The OCC shares the concern of the committee and law enforcement officials regarding the possible use of our nation's financial institutions by criminal elements in the handling of funds obtained through illegal activities. We are aware that the large inflows and outflows of currency, especially in the Florida area, may be directly related to illegal drug traffic. Nevertheless, the ability of either the banks or this agency to determine the source of such funds is severely limited. Separating and identifying illegitimate currency flows from legitimate financial transactions involving divergent economic activities is a complex and time-consuming process which would require an extensive coordinated investigatory commitment of resources by a number of agencies.

Unlike the several law enforcement agencies whose investigatory functions under the Bank Secrecy Act are extensive, the bank regulatory agencies have limited responsibilities under that act. We are not empowered to conduct criminal investigations. Essentially, the bank regulatory agencies are charged with determining whether banks retain records and report certain information required under the act and regulations.

You have requested that we comment on several enumerated issues of interest to the committee.

vestors to buy into the market as well, escalating the upward trend in price and movement.

Even though silver is produced and supplied from multiple sources, as the tables attached to this testimony illustrate,* regulators became concerned in late 1979 that the American exchanges might not be able to continue supplying silver at the rate at which speculators were purchasing positions and equally concerned about the effect those speculators were having on silver prices. It was at that point that two factors converged and a reversal in the silver markets began to take place.

First, during January, February and March 1980, private supplies of silver began to pour into the market. Smelters were running at a round-the-clock pace—thus affecting the price in the spot market and, subsequently, at the exchanges. Second, the exchanges, after consultation with the regulators, took actions in late 1979 and early January 1980 in the form of position limits, and increased margin requirements to discourage large concentrations of holdings by investors.

Regulatory Response

Based on information gathered by the OCC from meetings with other regulatory agencies, from conversations with a variety of market participants and from special examinations of a number of national banks, we believe that during the rapid rise of silver prices, principal credits to the Hunts came from commodity, commercial and brokerage firms and international institutions. At that time, most of the credit directly available through the U.S. domestic banking system to the Hunts appears to have been extended for the normal business use of Hunt-related companies. Loans made directly to the Hunts by banks when silver prices began falling were generally protected by underlying collateral.

In terms of assessing systemic risks, our concerns extended to the exposure which could be indirectly transmitted to the banking system as a result of financial difficulties of brokers, commodity dealers and certain commercial firms, which could have had their abilities to service normal business obligations to the banking system undermined if they took large losses arising from transactions involving the Hunt silver trading.

The regulators have testified concerning their roles in monitoring the accumulation of silver by the Hunts and their efforts to determine the causes of the aberrations in the marketplace. As we noted at the beginning of our testimony, a number of key questions have arisen as a consequence of the Hunt activity in the silver market. A question of particular concern to us is whether the various regulators had sufficient information available following March 26th to make an immediate determination as to exposures and risks.

The answer to this last question is no. A determination, in an orderly fashion and within an expedient time frame, of the cause and related effects of the problem was not possible. The primary reasons were the difficulty in obtaining information on actions by the holding companies of the securities firms, in obtaining complete information on the exposure of the Hunts (particularly vis-a-vis private investors and foreign institutions) and finally the lack of a central coordinator and focal point for all of the information obtained by the various agencies. While coordination has taken place with respect to recent events, there is room for improvement.

The OCC has conducted a basic review of its supervisory powers relating to the national banking system and is basically satisfied that it has the tools necessary to deal directly with the banks.

We do not have the ability, however, to obtain timely information on the indirect exposure of the banks via the brokerage houses. For example, from our discussions with the banking community, we learned that the banks that did the lending were not aware for the most part that the brokerage houses were lending funds to the Hunts. A bank lending funds to a brokerage house which is an established customer generally looks to the brokerage firm for repayment and bases its credit analysis on the collateral and credit worthiness of the firm rather than on the credit worthiness of the firm's customers. Banks lending funds to brokerage houses to finance their silver positions did so on the basis that those positions had been fully hedged by the firm. It is important to note at this juncture that there is no system in place to determine on a consolidated basis to what extent brokerage houses and their affiliates may have extended credit to their customers to finance positions in the futures market. The level of exposure, therefore, of the brokerage firms to potential problems in the futures market is uncertain.

The OCC does not have a primary function in commodities regulation and therefore does not have the professional expertise to comment on all aspects of the commodities-related questions.

We do have questions, however, which relate to the proposed regulation of the market. It appears that S. 2704 which seeks to address some of these problems we have discussed this morning is very broad in scope. The language of the bill would seem to embrace not only financial futures on an organized exchange, but also the underlying cash markets themselves and forward commitments, including foreign exchange contracts among banks and corporate customers. We do not believe that it was the intent to restrict foreign exchange contracts which are necessary to facilitate trade, commerce and normal interbank flows.

We are also concerned about the process used to establish margin requirements on the exchanges. Increased margin requirements, which raise the amount of capital required to take a position, will tend to decrease the number of participants in the commodities market and, as a consequence, will reduce the liquidity in the market. Too high a margin requirement by one exchange may also drive participants to other futures exchanges both domestic and overseas. Margin requirements should be set sufficiently high to cover any initial losses resulting from an adverse price change. Because of the complexity of those markets,

* The tables for this statement were not included because of space constraints. The tables are available from other sources.

Statement of John G. Heimann, Comptroller of the Currency, before the Senate Committee on Banking, Housing and Urban Affairs, Washington, D.C., May 29, 1980

I am pleased to appear here today to begin a discussion concerning the events of mid-March in the financial markets and the broader policy questions relating to futures trading. We welcome the opportunity to work with the Congress and the other regulators to take steps which will improve the understanding and increase the stability of those markets.

Many questions have been raised as a result of the mid-March events which cannot yet be answered. Those questions should be answered before legislative and regulatory action is taken. We believe the answers will only be forthcoming through careful study and through comprehensive understanding of the marketplace. We therefore suggest that further study be conducted to determine answers to these questions:

- Was the marketplace threatened by fluctuations in silver prices?
- Did the government have accurate, timely and sufficient information?
- Were limitations on periodic price changes adequate?
- Were margin requirements adequate?
- Who should set margin requirements? Should they be standardized for all of the exchanges?
- Should limits be placed on the percentage of an exchange's commodity stocks which may be purchased by an individual, partnership or corporation? Who should set limits?
- Should regulations be set to limit the amount of credit used to finance the acquisition or maintenance of positions?
- Should there be regulations governing the type of collateral used to finance credits? Should the underlying commodity be eligible as collateral?
- How would regulatory changes affect liquidity in the marketplace?
- How is the existing regulatory structure affected by tax law?,
- What would be the effect of changes in our regulatory structure vis-a-vis the ability of our exchanges to compete with the overseas exchanges?

Function of the Futures Markets

It is important to recognize that the futures markets provide a means for individuals and corporations to buy and sell contracts for future delivery of various commodities at a fixed price. These commodities range from agricultural products, such as pork bellies, lumber and wheat, to financial instruments, such as Treasury bills and foreign currencies, to metals, such as gold, silver and copper. Producers and consumers of the commodities who use the futures market as an insurance policy are called hedgers. Through the futures market, hedgers gain price protection, thereby stabilizing income, reducing procurement and inventory costs and gaining greater flexibility in the timing of their purchases and sales. It should be noted that most futures positions are eliminated before the specified delivery date. The commodities are not actually delivered, but rather an opposite contract is bought or sold to close the position. For the hedger, the futures contract is a temporary substitute for an actual cash transaction.

Another participant in the market is the speculator who does not produce, grow or process the particular product. Instead the speculator places his capital at risk, attempting to take advantage of price fluctuations in the futures market. The term "speculator" has acquired certain notoriety. However, in this context, the speculator assumes the hedger's risk by taking the opposite side of the hedger's contract. The speculator supplies the essential liquidity to the market, acting as an intermediary between the users and producers.

A primary attraction of the futures market to the speculator is the great profit potential, along with commensurate risk, as a result of the speculator's ability to leverage capital. Limitations are placed on the trading activities of the speculator and hedger. The trader in the futures market, when establishing a position, is required to meet a margin requirement by putting up a security deposit or earnest money. The amount of money advanced by the trader is not a partial payment for the product—it might be better viewed as a performance bond that can be used to cover any initial losses caused by adverse price movements.

Limitations may also be placed by either the brokerage firm or exchange on the positions of individual customers and on the amount the price of a particular contract can rise or fall on a given day. Of primary importance, of course, is the evaluation by the brokerage firm of the liquidity of its customers. Finally, the Commodity Futures Trading Commission has emergency powers to set margins and position limits after public hearings.

This morning I would like to look specifically at what appears to have happened recently in the silver market and at the regulators' capabilities to respond, and then comment briefly on S. 2704 which is before the committee today.

Recent Events in the Silver Market

In late summer 1979, the federal government became aware that several traders in the silver market, including the Hunts, were acquiring large amounts of silver and silver futures. It now appears that as the price of silver went up and the Hunts reinvested their paper profits into greater holdings, they did not insure that they were sufficiently liquid to cover possible increased margin requirements set by exchanges or losses incurred as a result of decreases in the price.

As the price of silver began to increase, reports began to circulate in the marketplace and in the press that the Hunts were accumulating an extremely large silver position. Such rumors naturally caused other in-

In the past, the FDIC has been able to avoid any significant payout in the case of a large insitution in threatened condition. Our success to date may not always be repeated, and further statutory changes are necessary, in our opinion, to assure the future soundness of our financial system.

First, and perhaps most important, the structure of present law severely limits the number of potential acquirers for very large institutions. The present Bank Holding Company Act limits interstate acquisitions and forces the FDIC to look for either a domestic in-state acquisition partner or a foreign partner. Some state laws have even precluded an acquisition by an in-state bank or holding company. Additionally, the pool of potential domestic acquisition partners becomes more limited with a large bank in distress. There are several reasons for that. If a statutory merger or acquisition is contemplated, short of receivership and without any form of FDIC assistance, the takeover bank must be large enough to absorb the risks of the failing bank and must have, or be able to obtain, sufficient capital and management to support a sudden expansion of its deposit base. Those risks are likely to include significant overseas exposures the larger the size of the problem bank, and even the nation's largest banks may be unwilling to take on sizable foreign risks, for example, without government support.

Moreover, FDIC assistance, short of receivership, can only be provided in very narrow circumstances under existing law. Thus, prior to providing assistance to a failing bank, the FDIC must find that the continued operation of the institution is essential to provide adequate banking service to its community. Second, such open-bank FDIC assistance is only workable if the institution possesses management and organizational capabilities sufficient to assure viable long-term operations. Even if FDIC financial support or indemnities are provided in connection with a purchase and assumption transaction of an institution out of receivership, the management of the takeover bank will probably also be expected to acquire a substantial portion of the assets and branch offices of the failing bank. The number of healthy domestic banks in a state capable of even a government-assisted takeover of a large bank in distress decreases rapidly as the size of the failing bank increases.

Under existing law, of course, none of those larger banks or their parent holding companies would be eligible to acquire such a problem bank unless they operated in the same state, even assuming the terms of the transaction could be worked out to their satisfaction. Moreover, even in the same state, relative size differences between the first and second largest banks suggest that, antitrust considerations aside, the necessary capital and management resources might preclude supervisory approval of an acquisition. This problem is illustrated in the following table. For example, in state A the largest bank is almost twice as large as the second largest bank. It is doubtful that the second largest bank would have the necessary resources to acquire the largest, especially under the circumstances that might surround the failure of the largest.

Ten-State Example
Nonmoney Center States

	Total assets of largest bank as a percentage of total assets of second largest
State A	195%
State B	226
State C	202
State D	532
State E	188
State F	300
State G	188
State H	169
State I	195
State J	345

It is also important to note that while foreign acquisition partners with sufficient resources to absorb very large failed institutions may be an option in a particular case, the recently enacted International Banking Act incorporates a provision restricting multistate acquisitions, similar to that contained in the Bank Holding Company Act. The number of potential foreign acquirers is thus also dwindling under the new law. Furthermore, a potential foreign acquirer may be dissuaded from a particular purchase because of the location of the failed institution in a state of secondary financial significance to the potential acquirer.

The existing paucity of potential acquisition partners for very large failed banks is both undesirable and troublesome. The potential lack of partners increases the likelihood that the FDIC will not be able to arrange a purchase and assumption transaction in a particular case. Conversely, if the pool of potential purchasers is increased, the FDIC has a much better chance to arrange a transaction. In our opinion, a large FDIC payout could cause an incalculable loss of confidence in the banking system both at home and abroad. We believe it is also important to minimize ripple effects that might occur from the loss of a major financial institution.

The economic environment of 1979 was reflected in strong performance by the banking system, particularly in asset quality and earnings. However, we believe that an economic downturn has begun, and the banking system will reflect this in the coming period.

As the banking system continues to grow and diversify and as the economic environment becomes more complex, the need for flexible supervisory methods to monitor and guide its development in a variety of economic circumstances grows apace. We are bending all efforts toward improving our supervisory capacity to assure continued health of the banking system and the vital role it plays in our nation's financial and economic life.

nificant discounts from book value, have made the largest banking companies reluctant to raise new equity from external sources.

As we have previously testified, we evaluate capital adequacy on an institution-by-institution basis and firmly believe that no degree of capitalization can substitute for sound lending and investment policies, sound earnings performance, experienced and competent management, planned growth and adequate internal controls. Capital ratios are useful screening devices but by themselves are not a complete measure of the adequacy of an individual bank's capital accounts.

We are continuing to bring regulatory pressure to bear on individual banks to correct capital shortfalls. Our corrective supervisory actions usually begin as a part of the examination process. In certain instances, where we believe that additional capital is necessary to the safe and sound operation of a bank, we use formal and informal administrative actions or the corporate approval process to bring about improvement. Those techniques provide a flexible means for correcting capital inadequacies in the overwhelming proportion of national banks.

The largest national banks play a pivotal role in the national and international financial community. Because of their size and importance to the banking industry and the economy, they have a unique responsibility to help preserve stability and confidence in the financial system. It is of particular importance that those institutions maintain capital positions which are adequate to support the volume and variety of activities they undertake and to assure continuing public confidence in their operations and in the industry as a whole.

While we believe that the present capital levels of the largest banking companies are generally adequate to withstand the likely pressures of the early 1980's, we have concern about the long-term trend toward increased leverage in those companies. Therefore, we have initiated, and are presently implementing, a program to assure that certain institutions either maintain or improve current equity capital ratios, depending on their individual circumstances.

We expect those banking companies to develop and implement consolidated capital plans which will maintain or improve their equity capital ratios over time. Improved equity ratios can be achieved by various means, including control of asset growth rates improvement of earnings and earnings retention and offerings of equity or equity-equivalents. We recognize that the corporate strategies developed to meet those objectives must permit flexibility to accommodate unanticipated pressures and events. Nevertheless, we intend to monitor each company's plan on an ongoing basis and use our supervisory powers, if necessary, to assure those objectives are met.

Improving Agency Flexibility to Manage Problem Situations—In a system with as many financial organizations as ours, it is inevitable that a few institutions will find themselves in financial distress periodically. In the current environment of economic softening, monetary and credit restraint and interest rate volatility, the financial regulatory agencies must be especially diligent, creative and effective at managing such situations.

The financial regulators have an extensive array of tools available for managing such situations without impairing public confidence in the safety and soundness of the system as a whole. Some of those tools, such as access to the Federal Reserve discount window, the cease and desist order or the purchase and assumption transaction, are familiar. Sometimes situations arise, which recently occurred with a relatively large bank in an Eastern urban center, that require the application of uncommon techniques. In that case, a unique cooperative effort between the Federal Deposit Insurance Corporation (FDIC) and a group of private banks resulted in an assistance package which, if implemented, should ward off an unnecessary and potentially damaging problem for the bank, the public it serves and the banking community.

Nonetheless, in keeping with the concerns of this committee and the responsibility of financial regulators in attempting to anticipate and prepare for possible systemic shocks, we strongly recommend the enactment of the legislative proposal developed by the financial regulatory agencies and introduced in the Senate as S. 2575. The proposal would assure the continuous availability of adequate financial services by permitting the interstate acquisition of very large failed depository institutions in extraordinary circumstances.

An extraordinary acquisition would be permitted only in a situation involving a commercial bank in receivership with assets in excess of $1.5 billion, a thrift institution in receivership with assets in excess of $1 billion, or one of the three largest such banks or thrift institutions in a state, and only after determination by the Federal Financial Institutions Examination Council that an emergency exists in a particular case and that an intrastate sale is not feasible. The proposed legislation also would provide the Federal Home Loan Bank Board, the FDIC and the National Credit Union Administration with greater flexibility to assist financially troubled banks and thrift institutions.

In our opinion, this proposal is a necessary and prudent safeguard to assure the continued soundness of our financial intermediary system in these volatile times. Under existing law, in the case of a bank failure, the FDIC as receiver may arrange for purchase of the assets and assumption of the liabilities, including the deposits of the closed institution, by another institution or make a payout from federal insurance funds to depositors up to $100,000 per account. The Federal Savings and Loan Insurance Corporation (FSLIC) has similar options in the case of a failed savings and loan association. Under the proposed legislation, the FDIC and FSLIC would be better able to assure the continued services of the failed institution to the public while simultaneously minimizing the attendant costs to the funds in a case involving an extremely large commercial bank or thrift institution. Such added federal flexibility will also avoid damage to public confidence and to national and international markets which might follow an FDIC payoff of a large insured bank.

The past year can be characterized as one of evolution for the department. In addition to organizational planning and staffing efforts, personnel played a prominent and active role in designing, conducting and analyzing all phases of the examination process. At year-end, examinations had either been completed or were in process for each of the 10 multinational banks. Initial efforts to develop specialized examination procedures concentrated on strategic planning, treasury functions and capital formation.

A periodic visitation program is being implemented as an extension of the examination process. That supervisory program emphasizes limited scope, brief duration and high degree of examiner flexibility. Its objective is to obtain more frequent and timely information on the financial condition, activities and plans of the multinational banking corporations.

An historical data base is being constructed for a financial monitoring program to yield both performance and projection monitoring capabilities. The goal is to permit continual evaluation of the current performance of each institution and to attain the capacity to anticipate the financial impact of planned internal strategies or external economic or legislative factors.

Also incorporated into the Multinational Banking structure is the supervisory responsibility for the international banking activities of all national banks. In this regard, Multinational Banking is responsible for managing OCC's role in the Interagency Country Exposure Review Committee process, which was formalized in 1979.

To gauge the magnitude and the trends developing within the banking system regarding country risk exposure, the three federal bank regulatory agencies instituted a semiannual country risk report in 1977 for banks with substantial foreign operations. Using information from that report and other sources, the Country Risk Exposure Review Committee attempts to measure when the level of exposure of the U.S. banking system to a particular country warrants comment. Although, for various reasons, the imposition of legal limits on country exposure in relation to a bank's capital is impractical, examination procedures used for individual banks call for an evaluation of systems employed by the bank to monitor and control country risk exposures. Banks are expected to have established country risk exposure limits, based on an evaluation of the political, social and economic climate in each country.

Regional Bank Review Program—A Regional Bank Review Program has been started to develop an increased awareness of the activities and direction of approximately 100 large regional banking companies with aggregate assets of $275 billion. The program will provide centralized review and analysis of the condition and performance of the regional banks through a comprehensive OCC management information system and visitations to those banking companies. The program will encourage an ongoing dialogue between the OCC and senior members of regional banking companies. The program will also bring together market, industry and banking company information to provide OCC management, in Washington and the regional offices, with timely input for their supervisory decisions.

Bank Holding Company Examinations—In an effort to increase the efficiency of bank holding company inspections and subsidiary bank examinations, the federal banking agencies are implementing a recommendation of the Federal Financial Institutions Examination Council to coordinate the examinations of all bank holding companies with consolidated assets exceeding $10 billion and certain classes of companies requiring special supervisory attention. In addition, the agencies are attempting to coordinate examinations of all other bank holding companies and their bank subsidiaries where resources permit.

To reduce examination time and still provide adequate supervision to each national bank, the OCC is developing a system for examining multibank holding companies and their national bank subsidiaries. Our goal is to examine, in cooperation with the Federal Reserve, the parent company and the individual banks from the holding company level using the company's plans, policies and internal monitoring mechanisms, including management information systems, as source material. By using information available at the holding company, we may reduce the frequency of onsite examinations or significantly reduce the time spent at individual banks.

Our ability to implement that concept may differ from one bank holding company to another because of organizational differences. What we do in a specific case will depend on the degree to which a company is involved in managing the subsidiary banks. Our greatest efficiencies will come when the holding company provides policy direction, monitors the subsidiary bank's performance, audits the reports it receives and displays the depth of capital and managerial resources to support its subsidiaries.

Capital Adequacy—The nominal decline in the equity-to-assets ratio for the national banking system in 1979 is not a systemic problem, but rather, reflects the significant impact which declining equity positions in the largest banks have on the aggregate ratio. Inflation has contributed to a level of asset growth which has outpaced the ability of most of the largest banks to augment their capital accounts, either from retained earnings or from external sources.

Increases in the proportion of earning assets, improved rates of return on assets and reduced loan loss provisions have all contributed to an improving level of bank earnings. And banks have been retaining a larger share of those improved earnings. The 35 largest bank holding companies retained over 68 percent of their earnings in 1979, as compared to 67 percent in 1978 and 64 percent in 1977. However, maintaining the status quo of the equity-to-asset relationship requires that banks increase earnings at a rate which, after taxes and dividends, matches the rate of inflation-induced asset growth. Earnings growth in the system's largest banks has not been equal to that task. In addition, markets have not been receptive to the equities of depository financial institutions in recent years. As a result, low earnings multiples, and in certain cases sig-

An important part of our enforcement effort also includes our coordination and cooperation with other agencies in investigating and prosecuting bank fraud cases. Because of our concern for that aspect of supervision, we have developed a specific training course, available to other agencies, in the nuances of bank fraud matters. Our employees are, on a continual basis, assisting other agencies in that area.

We indicated in our testimony last year that the Right to Financial Privacy Act of 1978 might impede our ability to work effectively with other federal agencies. After over a year of working under its proscriptions, we believe it has created additional difficulties for this Office in coordinating with the other regulatory agencies and with prosecutorial and investigatory agencies. Congress should consider amendments to the act which will avoid unnecessarily inhibiting coordination among federal agencies and resolve ambiguities which threaten to interfere with the Justice Department's investigation and prosecution of offenses.

Current Economic and Financial Environment

The economic and financial instability which had been growing through 1979 reached dramatic proportions in the first part of 1980. Short-term and long-term interest rates reached extraordinarily high levels, exemplified by the 20 percent prime rate. The long-term bond market posted severe losses on outstanding securities. Substantial fluctuations in commodity markets, particularly silver, threatened to create turmoil in the financial markets.

On March 14, the President and the Federal Reserve announced a program of fiscal and monetary restriction designed to reduce inflation and reestablish an environment conducive to orderly economic activity. As the President noted at the time, the effort to control inflation will not be without cost.

Recent months have given evidence of significant softening in the economy. The pace of real gross national product growth slowed from an annual rate of 2 percent in the fourth quarter of 1979 to 1.1 percent in the first quarter of this year. Housing starts and domestic auto sales, which had been weakening in 1979, declined dramatically in early 1980. Interest rates have begun to ease with remarkable swiftness, some rates falling as much as 1 percentage point per week. The increase in the unemployment rate from 6.2 percent in March to 7 percent in April lends further support to the view that the economy has entered a period of recession. If this period is like earlier periods of cyclical downturn, the financial system will not be immune to a certain amount of difficulty.

Adverse economic conditions impact on the banking system through many channels. Liquidity usually suffers first, but modern central banking techniques have the capacity to reduce the severity of liquidity problems. The regulatory agencies have shown a willingness and ability to act promptly to prevent a local situation from turning into a systemic liquidity crisis. Nonetheless, as we note later in this testimony, certain measures designed to improve regulatory flexibility to handle severe economic disruptions are, in our judgment, prudent and warranted at this time.

Another feature of deteriorating economic conditions is the reduction in the quality of assets held by depository institutions. Declines in production, income and sales in a recession reduce the ability of some borrowers to continue orderly servicing of their debts. A greater than average proportion of loans becomes past due, goes into default or in some other way requires increased management attention. A recession increases the number of personal and business bankruptcies and thereby results in increased loan losses. The extent of the asset quality problems that banks will face in the next few years depends on the breadth, severity and duration of the recession.

In addition to the concerns on the domestic front, we see increased perceptions of risk in the international arena arising from the near doubling in Organization of Petroleum Exporting Companies (OPEC) oil prices in 1979 and political unrest in the Near East. The international burden of recycling is of significant magnitude, but with perhaps less prospect than in the period after 1973-74 that real oil prices or the OPEC surpluses will decline substantially over the next few years.

Recent legislative and regulatory and monetary policy changes will also differentiate the environment of 1980 and subsequent years from that of 1979. The Depository Institutions Deregulation and Monetary Control Act of 1980 initiates a process of evolution toward a more competitive environment among all depository institutions. While welcoming that process, we recognize that it will present a challenge to many institutions. Many banks, especially smaller suburban and rural institutions, will have to pay more careful attention to pricing their services, especially with respect to new services such as NOW accounts. Banks will also have to adjust to new competition from thrift institutions for consumer, commercial and trust business. Continued erosion of cheap, stable funding from core deposits seems likely as the phase-out of Regulation Q brings depository institutions into greater competitive alignment with the money markets.

The new techniques of monetary control adopted by the Federal Reserve in October and the credit control program adopted in March require accommodating changes in the behavior of banks. Again, we believe those measures will be beneficial to the banking system and the economy in the long run, but we recognize that they may create specific difficulties for some banks in the short run.

Supervisory Matters

The OCC continues with specific steps to improve the capacity to supervise the national banking system in light of the complexity of the current economic environment.

Multinational Banking Department—The Multinational Banking Department was created to centralize the supervision of those large national banks which operate through diverse multinational structures. In 1979, the 10 largest national banks, each with an active presence domestically and in the international marketplace, formed the nucleus of the responsibility of the Multinational Banking Department.

Ratios of Average Equity Capital to Average Assets (percent)
(Largest bank holding companies)

Year	Five largest	10 largest	35 largest
1975	3.86	4.05	4.29
1976	4.06	4.18	4.53
1977	4.02	4.14	4.47
1978	3.96	4.07	4.29
1979	3.80	3.91	4.17

The equity pattern was not uniform across all national banks. The smaller banks, those with assets under $100 million, added to their capital positions, on average, during 1979, showing an increase in equity capital as a percentage of total assets from 7.83 percent at year-end 1978 to 8.07 percent at year-end 1979. Banks with assets over $1 billion, on the other hand, experienced a decline from a ratio of 4.70 percent at year-end 1978 to 4.63 percent at year-end 1979. The 10 largest national banks increased the amount of equity capital through retained earnings in 1979 by $1.7 billion, or 11.4 percent; yet, despite this, the banks were unable to keep pace with asset growth of 14.5 percent and recorded a decline in the equity-to-asset ratio of .11 percentage points to a level of 4.02 percent at year-end.

Equity Capital of National Banks by Size
($ millions)

Size class	Total equity 1978	Total equity 1979	Equity as percent of assets 1978	Equity as percent of assets 1979
Less than $100 million	$ 9,371	$ 9,703	7.83	8.07
$100 million to $1 billion	11,479	12,279	6.76	6.89
More than $1 billion	28,349	32,315	4.70	4.63
Ten largest	14,966	16,669	4.13	4.02

Banks Under Special Supervision and Bank Failures—One of our most direct supervisory programs concerns national banks characterized by the uniform financial institutions rating system as having "financial, operational or managerial weaknesses so severe as to pose a serious threat to continued financial viability," that is, 4- and 5-rated banks. The number of such institutions decreased to 49 at year-end 1979, compared to 55 the previous year. Those 49 banks accounted for 1.1 percent of all national banks and held 1.45 percent of the assets of all national banks.

A significant improvement in 3-rated banks, those which do not have a strong possibility of failure or insolvency but still warrant some supervisory concern, was noted in 1979. The number of those national banks dropped from 251 in 1978 to 217 in 1979.

We view that improvement as a reflection of several influences, including the economic climate; timely detection of and supervisory reaction to problems or potential problems; and implementation of effective remedial measures by the respective banks' owners and management.

Three small national banks failed in 1979. Each of those failures was managed by the federal banking authorities with minimal disruption to the communities served by those banks. Additionally, one bank was merged to avert failure.

The OCC believes strongly in protecting and fostering competition in the financial system. Protecting competition, however, is not necessarily synonymous with protecting individual competitors. To the extent consistent with statutory requirements, we believe in relatively free entry by private entrepreneurs willing to risk their capital to form a new bank, and we believe in relatively free exit from the system when circumstances warrant. The disappearance of banks should not be viewed as an index of the success or failure of the supervisory structure as long as the banking system as a whole is not disrupted. Our supervisory procedures are aimed at early detection and remedial efforts for individual bank problems principally to avoid systemic disruptions.

Enforcement Activities Involving National Banks—The principal means of eliminating problems in national banks continues to be the daily supervision given through the examination process, the report of examination provided to the bank and the meetings held with the bank management and the directors. In the vast majority of cases, bank problems once identified are promptly resolved. That ongoing supervisory process accomplishes early resolution of the majority of banking problems we encounter.

In some cases, however, more formal enforcement procedures are required. Over the past several years, the OCC's increasing use of the administrative remedies provided under the Financial Institutions Supervisory Act of 1966 (FISA) and strengthened by the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (FIRA) has helped resolve many problems in national banks. At the beginning of 1978, there were 235 actions brought pursuant to the cease and desist powers outstanding against national banks. In 1979, 95 additional actions were started. At year-end 1979, 218 actions remained outstanding.

We believe that our increased use of formal enforcement powers has acted and will continue to act as a deterrent to bank managers and owners. We believe that through our consistent approach to enforcement and regular publication of summaries of enforcement actions taken, many problems will be averted in the future.

In addition to the formal enforcement actions brought pursuant to FISA and FIRA, the OCC in 1979 continued to develop appropriate rules, policies and procedures for implementing the new powers given by FIRA. Under those new powers, we conducted investigations into areas relating to removal of bank officials, manipulation of bank stocks and municipal securities dealers' activities. We also used the cease and desist power against individuals. Civil money penalty cases were instituted for change-in-control violations and certain other violations of statutes and regulations.

Past Due Loans at National Banks— December 31, 1979 ($ millions)

	Amount outstanding	Amount past due	Percent past due
Domestic office loans			
Real estate	$136,248	$5,598	4.1
Commercial and industrial	155,768	6,296	4.0
Consumer	104,367	3,551	3.4
All other	59,013	3,170	5.4
Subtotal	455,396	18,615	4.1
Foreign office loans	111,354	1,855	1.7
Total	566,750	20,470	3.6

Liquidity—The liquidity of the national banking system was increasingly strained through 1979. Strong credit demand in 1979 resulted in continued loan portfolio expansion. The fevered competition for deposit dollars among both depository and nondepository institutions resulted in a shift from traditional deposit instruments. Those two factors are largely responsible for the lower level of liquidity in the system.

The ratio of loans to deposits, a traditional measure of liquidity, has deteriorated through the post-1974-75 recession period, rising from 65.3 percent at the end of 1975 to 69 percent at year-end 1978 and 70.4 percent at year-end 1979.

Loan-to-Deposit Ratio (percent)

Year-end	National banks	All insured commercial banks
1975	65.3	63.4
1976	64.6	63.2
1977	66.3	64.7
1978	69.0	67.4
1979	70.4	68.4

As noted earlier, traditional sources of deposit funds have become more volatile as a consequence of inflation and the greater availability of rate-sensitive instruments. Traditional savings deposits, for example, declined during 1979 from 21.3 percent of all domestic deposits at national banks to 18.6 percent by year-end. The 6-month money market certificate, on the other hand, increased from 2.2 percent of domestic deposits to 9.3 percent by year-end.

Rate-Sensitive Funds NBSS Banks (All member banks and selected nonmember banks)

Size class	Ratio of rate-sensitive funds to total assets (percent) 1978	1979
Less than $100 million	11.26	22.02
$100 million to $1 billion	21.23	29.27
More than $1 billion	36.55	41.13

The larger banks are traditionally more dependent on rate-sensitive liabilities to fund their assets. Banks with total assets in excess of $1 billion, on average, funded 36.6 percent of assets with rate-sensitive liabilities at year-end 1978, and that figure increased to 41.1 percent by year-end 1979. The smaller banks, on the other hand, are less dependent in an absolute sense upon rate-sensitive liabilities than the large banks but experienced a much greater growth in such dependence in 1979. The ratio of rate-sensitive funds to total assets in banks with total assets of less than $100 million almost doubled from 11.26 percent at year-end 1978 to 22.02 percent at year-end 1979. That development has significant implications for the smaller banks which will have to practice asset and liability management with greater sophistication as they become more dependent on rate-sensitive funds than when they could rely more heavily on traditional core deposits.

Capital—The total equity capital of the national banking system grew by 10.4 percent in 1979, reaching a level of over $54 billion by year-end. Strong earnings performance for the year as a whole permitted addition to capital through retained earnings, but did not match the pace of inflation-induced asset growth. In consequence, the conventional equity-to-asset ratio for the system as a whole decreased to 5.45 percent at year-end 1979 from 5.51 percent at year-end 1978.

Equity Capital of National Banks ($ millions)

Year-end	Total equity	Annual percent increase equity	assets	Equity as percent of assets
1975	$36,654	9.2	3.8	5.61
1976*	41,325	12.7	7.7	5.87
1977	44,999	8.9	13.1	5.65
1978	49,199	9.3	12.0	5.51
1979	54,298	10.4	11.7	5.45

* Addition to equity for 1976 is affected by changes in definitions.

Equity Capital of All Insured Commercial Banks ($ millions)

Year-end	Total equity	Annual percent increase equity	assets	Equity as percent of assets
1975	$64,276	8.8	4.7	5.87
1976*	72,266	12.4	7.9	6.11
1977	79,291	9.7	13.3	5.92
1978	87,430	10.3	12.6	5.80
1979	97,244	11.2	12.2	5.75

* Addition to equity for 1976 is affected by changes in definition.

the 10 national banks most active internationally, the corresponding figures are 41.6 percent of total assets and 88.1 percent of foreign assets. The largest 10 banks accounted for over 85 percent of the growth of foreign office assets in 1979.

Earnings—National bank earnings for 1979 as a whole continued the trend of improvement of the post-1974-75 recession period. Return on average assets (ROA) reached .84 percent, up from .76 percent in 1978; and return on average equity (ROE) reached 14.4 percent, up from 13.4 percent the previous year.

Income Before Securities Transactions of National Banks ($ millions)

Year	Income	Annual percent increase	ROA (percent)	ROE (percent)
1975	$4,207	2.4	.68	11.7
1976	4,477	6.4	.68	11.4
1977	5,060	13.0	.70	11.8
1978	6,268	23.9	.76	13.4
1979	7,406	18.2	.84	14.4

Income Before Securities Transactions of All Insured Commercial Banks ($ millions)

Year	Income	Annual percent increase	ROA (percent)	ROE (percent)
1975	$ 7,146	NA	.7	11.3
1976	7,615	6.5	.7	11.0
1977	8,726	14.6	.7	11.5
1978	10,899	24.9	.8	13.1
1979	13,126	20.4	.8	14.3

The factors which appear most responsible for overall earnings improvement are lower loan loss provisions (reflecting the general strength of the economy) and better control of overhead and other noninterest expenses. Despite this improvement for the year as a whole, there is evidence of a softening of earnings performance in the latter part of the year as the cost of funds escalated and net interest margins narrowed, especially at the banks which are more dependent on purchased and other rate-sensitive liabilities to fund their operations.

In 1979, the commercial banking system as a whole reported income before securities transactions of $13.1 billion, representing an increase of 20.4 percent from the 1978 figure. Return on average assets for the commercial banking system as a whole in 1979 was .8 percent; essentially unchanged from the previous year, while return on equity for 1979 was 14.3 percent, up from 13.1 percent in 1978. The 20 largest bank holding companies reported a lower average return on assets of .64 percent than the industry as a whole but, because of their generally higher leverage, reported a higher return on equity of 14.8 percent.

International operations continued to provide a significant share of income for the 111 national banks with foreign offices. International operations provided 25 percent of their aggregate net income, down slightly from 28 percent in 1978.

Income From International Operations of National Banks, 1978-79 ($ millions)

Year	Number banks with foreign offices	Net income	Net income from international operations	International share of net income (percent)
1978	104	$3,421	$ 969	28
1979	111	4,211	1,063	25

The very largest bank holding companies in the system show higher proportions of total assets at foreign offices and similarly derive larger proportions of total income from foreign operations, which accounted for 49 percent of the aggregate net income of the five largest bank holding companies in 1979.

Asset Quality—Continuing a trend that began in 1977, the level of classified assets again declined in 1979. Total classified assets as a percentage of gross capital funds were reduced from 38 percent in 1978 to 32 percent in 1979. Classified assets are viewed as a lagging indicator of the health of the economy, and this trend, therefore, reflects the improvement since the 1974-75 recession. Banks continued to resolve the many loan problems which were spawned before and during the 1974-75 economic downturn, and there was further success in reducing the volume of nonperforming assets.

Loan delinquencies edged up slightly during the year but, at 4.1 percent of domestic outstandings and 1.7 percent of foreign office outstandings, were not yet considered a serious problem in the aggregate. However, increased loan delinquencies may serve as a leading indicator of the current economic environment.

Past Due Loans at National Banks, 1975-79 (percentage past due)

Year-end	Real estate	Commercial	Consumer	Other	Domestic total	Loans at foreign offices	Total
1975	6.9	4.3	3.5	5.7	5.0	NA	NA
1976	5.8	3.7	3.0	4.3	4.2	NA	NA
1977	4.5	3.3	3.0	4.2	3.7	NA	NA
1978	3.8	3.5	3.3	4.2	3.6	1.6	3.2
1979	4.1	4.0	3.4	5.4	4.1	1.7	3.6

Size Distribution of National Banks
($ billions)

Size class	Number of banks 1978	Number of banks 1979	Assets (Percent share of system assets) 1978		Assets (Percent share of system assets) 1979	
Less than $50 million	3,075	2,868	$69.9	(7.8)	$67.5	(6.8)
$50 to $100 million	711	760	49.8	(5.6)	52.8	(5.3)
$100 million to $1 billion	669	703	169.9	(19.0)	178.3	(17.9)
$1 to $10 billion	99	107	240.5	(27.0)	282.8	(28.4)
More than $10 billion	10	10	362.2	(40.6)	414.9	(41.6)

Size Distribution of All Insured Commercial Banks
($ billions)

Size class	Number of banks 1978	Number of banks 1979	Assets (Percent share of system assets) 1978		Assets (Percent share of system assets) 1979	
Less than $50 million	11,356	11,051	213.8	(14.2)	217.4	(12.9)
$50 to $100 million	1,615	1,764	112.1	(7.4)	122.0	(7.2)
$100 million to $1 billion	1,236	1,367	301.2	(20.0)	333.7	(19.7)
$1 to $10 billion	148	158	345.2	(22.9)	401.9	(23.8)
More than $10 billion	17	17	535.7	(35.5)	616.4	(36.4)

Foreign Office Assets of National Banks*
($ billions)

Year	Foreign office assets	Annual percent increase	Domestic office assets	Annual percent increase	Foreign office share of total assets (percent)
1975	$100.3	NA	$553.4	3.6	15.3
1976	120.9	20.6	583.3	5.4	17.2
1977	145.4	20.2	651.4	11.7	18.2
1978	169.9	16.9	722.3	10.9	19.1
1979	204.0	20.0	792.3	9.7	20.5

* Includes Edge Act subsidiaries in the United States.

Foreign Office Assets of All Insured Commercial Banks*
($ billions)

Year	Foreign office assets	Annual percent increase	Domestic office assets	Annual percent increase	Foreign office share of total assets (percent)
1975	$147.6	NA	$ 947.8	4.2	13.5
1976	175.1	18.6	1,007.3	6.3	14.8
1977	206.0	17.1	1,133.4	12.5	15.3
1978	239.8	16.9	1,268.2	11.9	15.9
1979	291.1	21.4	1,400.3	10.4	17.2

* Includes Edge Act subsidiaries in the United States.

tutions are becoming increasingly aware of the problems of long-term, fixed rate lending funded by short-term liabilities. Increasingly, those lenders are either refusing to lend long-term or insisting on loans with floating or renegotiable rates. While that may reduce the interest rate risk of future investments, it does not address the problem of long-term, fixed rate loans in existing portfolios.

The larger banks have had substantial experience at managing assets and liabilities in a volatile, highly competitive environment. Many thirft institutions and smaller commercial banks need to develop greater management expertise to deal successfully with an environment where core deposits erode in favor of interest-sensitive funding sources, and interest rates themselves display great variability.

Moreover, as those institutions enter the 1980's, an increasingly competitive marketplace will provide no easy transition period for them to raise the yield on their portfolios to better approximate market rates of interest. The financial marketplace continues to become broader and more competitive within particular industries, across industry lines and across geographic boundaries. Financial service providers, some regulated and some unregulated, engage in a variety of activities we have traditionally associated with commercial banking. Savings and loan associations, credit unions, mutual savings banks, securities firms, finance companies, computer and data processing companies and larger retailers are offering similar banking services and competing for the same customers as commercial banks.

Current economic and financial problems have been years in the making. They became progressively more severe through 1979, but their most startling symptoms became visible only late in the year and, even more dramatically, in early 1980. They set the stage for much of what we will be discussing in future years, without producing their most visible effects on the condition or performance of the banking system as of 1979.

Condition of the National Banking System in 1979

The strength of the economy in 1979 was, as expected, reflected in the condition of the national banking system, which continued the post-1974-75 recession trend of improvement as measured by certain traditional standards. Asset quality and earnings improved systemwide. Capital-to-asset relationships declined only nominally. However, results were not uniformly good, since systemic liquidity declined during the year and interest margins declined in the fourth quarter. Within those overall patterns, results were decidedly different for banks in different size classes.

The following discussion of the condition of the national banking system is organized around the topics of asset growth, earnings, asset quality, liquidity and capital. The discussion focuses on national banks, but for the sake of completeness and comparability, much of the statistical information is provided also for the entire commercial banking system. Information is also presented in this section of the testimony on the record of banks under special supervision, bank failures and enforcement activities involving national banks in 1979.

Asset Growth—Consolidated domestic and foreign assets of the national banking system drew by 11.7 percent in 1979 to almost $1 trillion, continuing the trend of growth in bank assets induced by inflation. An illustration of this is the expansion in the average size of national banks from $138 million at year-end 1975 to $224 million at the end of 1979.

Consolidated Assets of National Banks
($ millions)

Year-end	Number of banks	Assets	Annual percent increase: Assets	Annual percent increase: Consumer price index
1975	4,744	$653,751	3.8	7.0
1976	4,737	704,329	7.7	4.8
1977	4,655	796,851	13.1	6.8
1978	4,564	892,274	12.0	9.0
1979	4,448	996,284	11.7	13.4

Consolidated Assets of All Insured Commercial Banks
($ millions)

Year-end	Number of banks	Assets	Annual percent increase
1975	14,467	$1,095,389	4.7
1976	14,494	1,182,391	7.9
1977	14,439	1,339,393	13.3
1978	14,372	1,508,217	12.6
1979	14,357	1,691,474	12.2

Asset growth, however, was not uniform across banking organizations. In 1979, continuing recent trends, the 10 largest banks in the system grew at a more rapid pace (14.5 percent) than the system as a whole (11.7 percent). This resulted in an increased share of national bank assets accounted for by the 10 largest banks (41.6 percent in 1979 as opposed to 40.6 percent in 1978). In 1979, 117 national banks had total assets of greater than $1 billion, up from 109 in 1978. Those banks accounted for 70 percent of all national bank assets, up from 67.6 percent the previous year.

Also continuing a recent trend was the more rapid pace of asset growth at foreign offices of national banks than at domestic offices. In 1979, foreign office assets grew by 20 percent, more than twice the 9.7 percent rate of growth of domestic office assets. Foreign office assets now represent over 20 percent of total assets of the national banking system.

Only 111 national banks are active internationally, and they are not all equally active. Indeed, the five national banks which are most active internationally account for about one-third of all national bank assets, but 80 percent of all national banks' foreign assets. For

Statement of John G. Heimann, Comptroller of the Currency, before the Senate Committee on Banking, Housing and Urban Affairs, Washington, D.C., May 21, 1980

I am pleased to appear before this committee to present the views of the Office of the Comptroller of the Currency on the condition of the national banking system. These annual hearings make an important contribution to public understanding of the financial system and its significant role in the economic life of our nation.

The condition and performance of the financial system as a whole are intimately related to the overall economic environment. Periods of general economic prosperity tend to be reflected in healthy results for the financial system. Such was the case for the national banking system in 1979.

We believe the national banking system as a whole is in sound condition to withstand the likely pressures of the early 1980's. However, the condition and performance of individual banking institutions are heavily influenced by management decisions and the local economic environment, and will vary from one institution to another.

Therefore, a supervisory matter, which we will discuss in greater detail later in this testimony, concerns the legislative proposal developed by the members of the Federal Financial Institutions Examination Council to provide greater regulatory flexibility in managing the situation of the failure of a large depository institution. The provisions of that proposal would be used only in extraordinary circumstances when other mechanisms could not assure uninterrupted availability of financial services. In light of the uncertainties we face, we believe the provisions of that proposal provide additional tools which would prove beneficial to the banking system and the banking public.

This testimony begins with a brief overview of the economic and financial environment in 1979, proceeds to a discussion of the condition of the national banking system in 1979 and then discusses the current economic climate and certain supervisory matters, including that legislative proposal.

The Economic and Financial Environment in 1979

In 1979, overall rates of economic growth slowed from 1978 levels but were still unexpectedly strong. The gross national product grew at 11.3 percent in nominal terms and 2.3 percent in real terms.

Nineteen seventy-nine opened amid expectations of an economic recession following the tighter monetary policy stance undertaken by the Federal Reserve in November 1978. The Federal Reserve initiated another round of monetary tightening in October 1979, renewing expectations of an economic slowdown. The automobile and housing industries did slow down, but despite the expectations of most forecasters, the economy as a whole did not, although recent evidence strongly indicates that the long-anticipated recession is now under way.

In 1979, many of the financial stresses and strains created by prolonged inflation manifested themselves in more visible ways than previously. Consumer price inflation worsened from an annual rate of under 10 percent in late 1978 to over 13 percent by late 1979. Interest rates displayed great volatility and moved sharply upward. The Federal Reserve discount rate rose from 9.5 to 12 percent, the prime lending rate from 11.75 to over 15.25 percent and the 6-month Treasury bill rate from 9.5 percent to almost 12 percent.

The decidedly upward trends in inflation and interest rates, which have been in evidence since the 1960's continued in 1979. High interest rates significantly raise the opportunity cost of holding funds in noninterest earning demand accounts and low-yielding passbook and time deposits. In recent years, financial institutions introduced and refined a series of financial innovations to provide higher returns on funds than is permitted from more traditional deposit instruments.

The most commented upon innovations in 1979 were in the retail area. The 6-month money market certificate of deposit, bearing an interest rate linked to the Treasury bill rate, expanded from $79 billion, or 5 percent of domestic deposits at commercial banks and thrift institutions, at year-end 1978 to $271 billion, or 16 percent of domestic deposits, by the end of last year. For the commercial banking industry, money market certificate balances expanded from $23 billion to $103 billion during the year, accounting for 10 percent of total domestic deposit funds by year-end.

The other financial innovation which attracted a great deal of attention in 1979 is the money market mutual fund, which represents direct competition for deposit funds from outside the depository sector. During the year, the number of funds rose from 61 to 76, and total assets mushroomed from $11 to $45 billion.

The availability of those market-yielding instruments is revolutionizing the liability structure of the smaller and retail-oriented depository institutions. Banks and thrift institutions can no longer depend on a stable "core" of deposits insensitive to changes in market interest rates. The effect of those new instruments was a relatively large increase in the average cost of funds at depository institutions in 1979, but the disintermediation pressures of previous high-interest rate periods were substantially reduced. Deposit funds were, therefore, more readily available than in the last high-interest rate cycle, but at a much higher cost.

The result of that rapid increase in the cost of funds was a rethinking of investment and lending practices. By raising the cost of deposits and making them more sensitive to changes in market interest rates through deposit instruments such as the money market certificates, high interest rates prompted institutions to begin pricing their loans and services more in line with costs.

High and varying interest rates also forced financial institutions to pay more attention to matching the maturities of their assets and liabilities. Most financial instinancial services permitted to the host country's institutions in the entrant's home country? Or should it adopt a rule of national treatment—*i.e.*, permitting a foreign entrant to compete equally with similarly situated financial institutions in the host country?

- What is the appropriate mode and instrumentality for disciplining an international financial institution whose performance threatens the long-term stability of the marketplace?

These are but a sample of some of the thornier questions posed by the confrontation between diverse national supervisory systems and the reality of international financial interdependence. Indeed, not all these problems have been satisfactorily resolved by all the relevant governments, although rough working answers do exist for most of them. Meeting in Basel (Switzerland) in 1974, central bankers from the major industrialized countries developed a "concordat" concerning the responsibilities of home and host country authorities for the lender-of-last-resort function and for the bank examination and supervision function. The progress in multilateral cooperation demonstrated in the "concordat" is encouraging.

The practical key to resolving these problems for all participating countries in the commercial banking field, and more generally across the broad spectrum of financial institutions, is increased multilateral cooperation among national financial supervisors.

This does not mean that uniform restrictive regulations must be adopted for all types of financial institutions. Developments are not taking this course in the case of commercial banking, nor, in my view, should they. Such an approach might tend to converge on the lowest common denominator of rigidity from each supervisory tradition, stifling innovation and robbing the world economy of the creativity of free capital markets. The more promising course of international financial supervision is through the dissemination of complete, accurate and timely information about the condition of the world financial system. An environment of more complete information supports the flexible cooperation of national financial supervisors to solve international financial problems.

Following the difficulties of 1974-75, the Bank for International Settlements sponsored creation of the Committee on Banking Regulations and Supervisory Practices, now known colloquially as the Cooke Committee. This committee is composed of representatives of the G-10 countries plus Luxembourg and Switzerland. It meets regularly to assess the quality of government oversight of the international commercial banking system and to foster cooperation among national banking supervisors on matters of common concern.

A major focus of the cooperative effort to date has been the improvement of the flow of information. A broad consensus has been developed in support of the view that national banking authorities should obtain complete information from their banks on the cross-border exposure of parent, branch and subsidiary banks through a consolidated balance sheet approach. This approach was implemented by the United States in 1973 and is now coming "on-stream" in other countries.

Without minimizing the significance of these developments, even greater emphasis needs to be placed on the availability of information concerning international financial practices and activities. This will require continued diligence in working toward internationally accepted accounting principles. This would help permit more accurate audit and verification techniques in international financial transactions. It would also help permit ready comparability of data reported by financial institutions in different countries. Comparability will not necessarily require adoption of the same accounting conventions in each country, but it will require that users of financial information understand differences among accounting systems and make appropriate adjustments to meet their specific needs.

I would stress that although the justification for improved information may be more self-evident in the case of commercial banks because of concern for the protection of depositors, the same principles apply with respect to other classes of financial institutions.

The maintenance of orderly international financial markets must be a transcendent concern as the international financial system becomes increasingly interdependent. Your own willing cooperation in providing adequate information to permit accurate assessments of the condition of the markets in which you are active is in the global public interest and, therefore, in your own enlightened self-interest.

The internationalization of the marketplace may not be a new phenomenon—but what is new is the degree of our interdependence.

Technology has shrunk the distances between nations, and commerce has given us increased incentives to overcome the barriers that divide us. As our financial interdependence increases, we have a greater incentive to retain the fruits of that interdependence by avoiding political disruptions.

Sigmund Freud and Albert Einstein wrote a series of letters debating whether it was possible to move all of humanity to act on behalf of the common good. Einstein argued that it was only through the recognition of the commonality of man that the world will survive and that it is in fact possible to achieve a state of common interest. Freud contended that while it is impossible to suppress humanity's aggressiveness, a state of peace can be achieved through a fear of the result of failing to work for the common good.

In my view, the internationalization of the marketplace is bringing us significantly closer to the state described by Freud: a world in which nations recognize that the benefits of peace outweigh the benefits of disruption. We will never be entirely free of extremists and political madmen, but in such a world, the fruits of acting responsibly—and the sanctions against acting irresponsibly—hopefully will prove to be a strong curb against political excesses.

large. In 1965, foreign branch assets amounted to $9 billion. At year-end 1979, foreign branch assets of U.S. banks exceeded $250 billion. Indeed, U.S. banks' foreign branch assets have more than tripled just in the period since 1972.

The 1970's have also witnessed an enormous expansion of foreign banks' activity in the United States to the point where this activity constitutes a complex and significant component of the U.S. financial system.

The Federal Reserve reports comprehensive bank structure statistics on the presence of foreign banks in the various states of the United States. November 1979 data indicate that 151 different banking organizations from foreign jurisdictions maintain a bank presence in the United States. In all, foreign-based banking organizations operate 161 agencies, 125 branches, 42 subsidiary commercial banks, six investment companies and two agreement corporations in the United States. New York is host to 160 to these offices, California 98 and Illinois 35.

Twelve foreign banking organizations operating in the United States have five or more outlets. Those include banking organizations from France, the Netherlands, United Kingdom, Canada, Hong Kong, Israel and Japan. Of the 151 foreign banking organizations operating in the United States, 73 have a banking presence in only one state, 39 are present in two states, 27 are present in three states and four foreign banks have a presence in as many as six states.

While the origins of foreign bank presence in the United States go back to the 19th century, growth in recent years has accounted for much of the current position. From 1972 to 1979, the number of foreign bank agencies almost tripled, branches quintupled and subsidiaries almost doubled. The total number of outlets more than tripled.

In terms of volume of banking activity, the recent expansion has been even more dramatic. Measured by assets, foreign banks' activity in the United States almost tripled between 1972 and 1977 and more than doubled again by 1979, reaching a level in excess of $155 billion, about 10 percent of U.S. banking assets.

Even this summary does not present the complete picture because it concentrates on commercial banking activities. It does not cover banking-related activities such as ownership of factoring and finance companies which foreign bank holding companies may, and do, conduct in the United States. It also does not cover certain operations such as securities affiliates which foreign banks were permitted to establish before the adoption of the International Banking Act of 1978. The act permits pre-existing securities affiliates of foreign commercial banks to continue in operation, although no new ones may be established.

If we looked at similar statistics from other locations, notably London, we would see a similarly rich and complex pattern of transnational banking.

The increased globalization of the financial system reflected by the experience of commercial banks has been enormously beneficial to the world community, improving the efficiency of the capital markets and the world allocation of resources. At the same time, global economic interdependence has created new and challenging problems in oversight and supervision of commercial banks and other components of the international financial system.

Each of the major countries has developed over the years its own governmental structures and mechanisms to maintain order in their financial markets. These structures and methods reflect the political and economic traditions of each country and differ in important ways from one another. It is important to recognize that in the development of these supervisory systems the primary focus was, in most cases, on domestic problems, needs and aspirations. For that reason, each of these systems has its own traditions and methods of operation.

These supervisory systems function reasonably well in meeting the domestic goals in each country. However, as the major financial institutions of countries around the world have become more internationally oriented in the past two decades, the supervisory systems of the various countries have come into conflict with one another.

Interdependence poses numerous questions which are being addressed by different national supervisors of the financial system:

- Which central bank should be expected to assume the role of lender of last resort in a liquidity crisis affecting an international bank or other significant international financial organization: the central bank of the home country or of the host country where the liquidity problem may emerge? Should the answer be the same for branches and subsidiaries?
- Who shall be responsible for prudential supervision of the foreign activities of an international financial organization: supervisory authorities from the home country or the host country? Again, should the answer be the same for branches and subsidiaries?
- Whose standards should be used in setting monetary policies such as reserve requirements, interest rate restrictions or legal lending limitations: those of the home country of the parent institution or those of the jurisdiction where the foreign branch or subsidiary is located?
- Should the Eurocurrency markets be regulated? If so, how and by whom?
- Should supervisory standards such as those for documentation, disclosure or legal lending limitations be different for domestic and foreign activities? Does it make any difference if the foreign client or customer of a financial institution is a government?
- What accounting treatment should be accorded to assets and liabilities denominated in foreign currencies? More generally, how can accounting principles be rationalized to improve data comparability among institutions from different countries?
- In determining rules for the conduct of foreign financial institutions in domestic markets, should a country adopt a rule of reciprocity, *i.e.*, permitting a foreign entrant to perform those fi-

Remarks of John G. Heimann, Comptroller of the Currency, before the Association of International Bond Dealers, New York, New York, May 15, 1980

We tend to think of the integration of the world's financial system—exemplified by your own association and your first meeting on this side of the Atlantic—as a relatively recent development. But, in fact, economic interdependence goes back at least as far as the ancient Egyptians and Sumerians, who used papyrus letters of credit and clay tablet checks to facilitate the flow of international trade. All of us have read accounts of the medieval and Renaissance Italian merchant bankers who set up shop all over Europe to conduct international finance. The name of Lombard Street in London is one reminder of this era. So is the word "bank," derived from the benches in the Italian marketplaces where financial transactions were conducted. The word "bankrupt" comes from the symbolic breaking of the bench when an Italian financial house could not meet its obligations. Other terms, such as vostro, nostro and Lombard loans and rates are additional legacies from this era of international financial operations.

Over the centuries, the evolution of modern political states, improvements in communications and transportation technology and the emergence of industrial and colonial powers created the basis for increasing financial interdependence. By the middle of the last century the international financial system had taken on a configuration easily recognizable as a precursor of the current system. The relative peace of the era of Pax Brittanica provided a great impetus for international trade and economic growth. International financial arrangements expanded apace, with the existing economic dominance of Western Europe and the emerging power of the United States serving as focal points.

Foreign direct investment from developed economies such as England to emerging economies such as the United States, Canada and Argentina was extensive by the mid-1800's and increasingly took the form of investment in the securities of such capital intensive enterprises as railroads. The laying of the first trans-Atlantic cable in the middle of the last century permitted much tighter arbitrage between markets in the United States and Europe and cemented the roles of London and New York as the premier financial centers of the world.

By the mid-1800's, commercial banks had already begun the processes of overseas branching and of establishing or acquiring subsidiaries in foreign countries. In the second half of the 19th century, German banks, for example, acquired controlling interests in banks in New York, Paris, Vienna and Madrid and had branch offices in China and Japan. By 1880, two British-owned banks were the third and fourth largest commercial banks in California and accounted for 15 percent of all deposits in the state. By 1875, the Hong Kong and Shanghai Banking Corporation had established an agency in California, and the Bank of Tokyo was conducting business in the United States through a California state-chartered subsidiary by 1899. The Guaranty Trust Company of New York opened a London office in 1897, which is still maintained through its corporate successor, Morgan Guaranty Trust Company. Examples of such early international financial structures abound and give evidence of a high level of global financial and economic integration.

Observing that global financial integration is not a new phenomenon should not detract from the unprecedented degree of international financial integration which characterizes the present. Advances in computer technology, telecommunications and transportation have made for a smaller and more interrelated world in finance as in other fields of endeavor. For example, it is now possible to transmit newspaper layouts by satellites to printing plants around the world. That means that we may soon see the emergence of worldwide financial newspapers such as *The Wall Street Journal* appearing on newsstands in London, New York, Los Angeles, Hong Kong, Riyadh and Rome—all at the same time. Consider the impact of the financial press when that possibility becomes reality.

Commercial banking has participated fully in the process of international financial integration—indeed, banking activities are the core of this process. According to research by the Office of the Comptroller of the Currency, over 430 commercial banks from countries around the world maintain a banking presence outside their home countries. On average, these banks have a banking presence in four to five different foreign countries. The United States and the United Kingdom play host to the largest numbers of foreign banks, but almost every country of any importance in the world economy is host to some form of foreign bank presence.

The most complete data available concerning the international activities of commercial banks cover the operations of U.S. banks abroad and foreign banks in the United States.

Research conducted in 1979 for the *Report to the Congress on Foreign Government Treatment of U.S. Commercial Banking Organizations* revealed that U. S. commercial banks have branch offices in 67 different foreign jurisdictions, subsidiaries in 33 jurisdictions and affiliates in 69 jurisdictions, sometimes maintaining multiple offices of different types in a jurisdiction. Of course, not all U.S. banks are active abroad. In fact, out of over 14,300 commercial banks in this country, only 144 have a banking presence in a foreign country. The banks that are active internationally, however, are the largest banks, and their foreign operations often account for substantial portions of their total business. The 10 U.S. banks which are the most active internationally account for about 30 percent of the assets of the entire U.S. commercial banking system and over three-fourths of all foreign office assets of the U.S. banking system. On average over one-third of the total assets of these banks are at foreign offices, and for some banks, this figure is even higher.

The rapid growth of U.S. banks' international activity is illustrated by their branching activities. As recently as 1965, U.S. banks maintained a total of 211 foreign branches; today that number is almost four times as

- Do the restrictions on investment banking activities of commercial banks in the Glass-Steagall Act need to be modified to meet the financial needs of the American public in the last two decades of this century?
- The geographic barriers to branching established by the McFadden Act have been repeatedly breached by aggressive institutions. Should the law be changed to bring it into line with the realities of the 1980's?
- Technological innovation is changing the face of banking and making it possible for institutions other than the traditional depository institutions to provide many financial services. What does this mean for the regulation of financial services in this country?

That brings up the question of the role regulators will play in the new deregulated environment. Our role traditionally has been to protect the competitors—sometimes, to protect them from themselves. Now, I believe our role will be to protect competition—in some cases, that may mean the failure of some of the competitors, a traditional way in the free enterprise system for inefficient operators to exit an industry.

Deposit insurance and acquisition of troubled banks by sound institutions with federal assistance have successfully muted the effects of bank failure in the past. In many cases, the result has been better service to the community.

There is no question that competition will be more difficult for financial institutions in even this modestly deregulated environment. Bank managers will have to do a better job of planning, pricing and marketing their services. They won't be able to rely on regulations to do the job for them.

For starters, as of December 31, 1980, bank managers will have the option of offering NOW accounts for the first time in more than four decades. They will have to pay close attention to how they price and market that new product.

In a world without Regulation Q, bank managers will have to pay far greater attention to matching the maturity structure of assets with the maturity structure of liabilities. That will prove to be a difficult, although not insolvable, problem for all but the largest institutions.

The nature of the difficulty becomes more apparent in an inflationary environment where the primary focus is on the short term. On the liability side, institutions will no longer be able to rely on the government to tell them what interest rates to pay for what maturities. Today there is a big table that tells bankers and others the maximum rate they may pay for deposits of different maturities. That will disappear. Today there is a law prohibiting the payment of interest on checking accounts. That will disappear. Today there is a regulation telling them the minimum penalty that must be imposed if deposits are withdrawn before maturity. That, too, will disappear. For the first time, bank managers will have to make those decisions and decide when to make them public. Only institutions that have offered large certificates of deposit have had some valuable experience in this area.

On the asset side, appropriate maturity matching means a large volume of short-term or variable-rate loans. Large institutions, especially those operating at the regional level or higher, are experienced in their use. Smaller institutions have less experience, if any. Thus, they and their customers will have to adapt to a new way of doing business.

Added to all this is the fact that banks and other deposit-taking institutions will still have to compete with those who operate under different ground rules, some of which are less restrictive.

In summary, my message is that change is far from over—in fact, it will continue at an accelerating rate during the 1980's. NOW accounts will be a reality in 8 months. Interest rate ceilings will disappear in 1986. The dynamics of the marketplace, abetted by the forces of inflation, will increase the pressures for change and innovations.

Historically, change has meant opportunity. If there was ever a time in the past 40 years for bankers to start focusing on the opportunities that will be presented by the new realities of the marketplace, it is the decade of the 1980's. As competition for the provision of financial services gets hotter and hotter, the opportunity is still there for bank managers to shape change to their advantage. I believe that most will seize the opportunity.

At the same time, there will be those who either are unwilling or unable to adjust management practices to the new realities of the marketplace. If they do not, of course, they will suffer the consequences. Hopefully, through the leadership of the industry and the regulators, the number of those will be few. This is one of our challenges of the 1980's. As the pressures of competition increase, some may call for protection. I hope we may be able to resist. At the very least, we should permit that competition to take place to assess the results and not to succumb now to demands to regulate the unregulated.

reflect that belief—changes that drive home some important economic lessons.

One important lesson is the ultimate futility of government price controls. During the past 15 years, there were four periods—1966, 1969, 1974 and 1978-80—when market interest rates rose above government limits. In each period, the protection that was supposed to be provided by ceilings for consumers, financial institutions and the housing industry proved to be illusory. Thrift institutions lost funds, not to commercial banks, but to unregulated competitors, such as money market funds and even the government itself. Lost deposits meant lost loans; funds were not available to traditional borrowers, such as consumers and home buyers, at any price. Far from protecting financial institutions and borrowers, the rate ceilings prevented them from getting needed funds. The result was a serious distortion in allocation of lendable funds.

Inflation has brought us other lessons. Even without the handicap of interest ceilings, financial institutions might have had difficulty attracting or keeping savings. Rising prices attack the ability and incentive to save, and those who do save tend to focus on short-term instruments to maximize opportunities for taking advantage of the next rise in market rates. There is no easy solution to this problem—no government act that will invigorate the public's appetite for savings—for only the elimination of inflation can do that.

Finally, inflation has taught us the need for greater flexibility in the management of assets. In an environment of rising prices, no financial institution can survive with a portfolio of long-term, fixed rate assets supported by short-term, interest-sensitive deposits.

Those lessons of the past 15 years of inflation have important implications for those competing in the delivery of financial services. Some of the implications are now accepted as fact. For example, everyone generally agrees that the competitive barriers erected to protect banks and other financial institutions no longer serve the public interest. Everyone understands that new competitors have emerged on the scene to offer the kinds of services banks are prevented from offering. Everyone agrees that the old competitive barriers, in concert with inflation, have created significant distortions in the flow of funds and have caused suffering for all of us.

One product of this widespread agreement was the Depository Institutions Deregulation Act of 1980, which President Carter signed on March 31. It takes the first step in reexamining and dismantling some of the competitive barriers that have proved so detrimental to the provision of financial services over the past 15 years. It is the most important financial legislation since the 1930's and establishes, for the first time, a mandatory reserve requirement on all transaction or checking accounts.

To begin with, the bill phases out the ceilings on deposit interest rates over a 6-year period. In the interim, rate ceilings are to be administered by a six-member committee composed of the Secretary of the Treasury, the Comptroller of the Currency and the Chairpersons of the Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, Federal Reserve Board and National Credit Union Administration. The Comptroller is a nonvoting member. The law says that deposit ceilings are to be raised to market levels as soon as practicable, consistent with economic conditions and the viability of institutions.

The viability of institutions is a key phrase. The law recognizes that thrift institutions, with their portfolios of fixed rate, long-term assets, need more flexibility in managing assets and liabilities than they have had in the past. So thrifts will now be able to offer so-called negotiable order of withdrawal (NOW) accounts that are, for all intents and purposes, interest-bearing checking accounts. Banks also have this authority, and I want to talk more about that in a moment. Federally chartered thrifts will be able to offer short-term loans to consumers and businesses that may reach 20 percent of total assets.

The law also provides some relief from usury limitations. State interest ceilings on business and agricultural loans of $25,000 and above are pre-empted for 3 years. Ceilings on mortgage loans will be pre-empted permanently unless a state acts to reinstate them within 3 years. On all other loans, state banks can charge as much as national banks, or a maximum of 1 percent above the Federal Reserve's discount rate.

The new law includes other important provisions such as truth-in-lending simplification. Rather than go into those provisions, however, I would like to stress two important points that should not get lost in the shuffle.

First, while the law does remove some of the barriers to product competition, it provides no guarantee that all financial institutions are going to end up looking virtually the same. Institutions certainly will become more like each other—but they will still retain certain areas of expertise. Thrift institutions have generations of experience in the real estate market, for example. That expertise surely will continue to give them a significant competitive advantage in that sector of the financial market.

Second, while this law is an important first step, it is only a first step. We must find answers to the many other questions generated by the changes in our society over the past 40 years.

Perhaps the most important unanswered question is raised by inflation. Our experience since March 14 has driven home to Americans a point that most bankers already recognized: Resisting and reversing inflation is not without pain, but not to fight inflation exacts a price far greater than the costs of bringing it under control. There is no question but that, at least for the foreseeable future, financial competition will be directly affected by government efforts to control inflation.

Even if we succeed in bringing down the rate of inflation, however, a number of important questions will remain unresolved. Without going into any detail, I will list a few to give you an idea of the task that lies before us:

- Inflationary expectations will persist, and that fact has important implications for the future of the long-term debt market. Will banks and others be called on to meet the needs of borrowers for long-term debt?

through their credit cards and direct consumer deposit borrowing through the notes. In addition, Sears, through its Allstate Enterprise subsidiary, operates over 80 savings and loan branches in California, including Allstate Savings and Loan Association, the 14th largest in the country with nearly $2.4 billion in assets. Through other subsidiaries, Sears already lends money for automobiles, boats and recreational vehicles, manages investment portfolios, operates a mutual fund and mortgage business and runs an executive transfer service, not to mention that it is a dominant force in the nation's casualty insurance business and even fills out income tax forms and eyeglass prescriptions. With its 26 million customers, 850 major retail stores, hundreds of smaller catalogue stores and nationwide computer network, the potential exists for Sears customers to deposit money with the retailer to completely bypass the financial intermediaries.

- Commercial Credit Company, the finance subsidiary of Control Data Corporation, recently began lending millions of dollars to small businesses under the Small Business Administration program. Commercial Credit began with $4.6 billion in loans and plans to have 400 small business loan offices operating by 1985.

Of course, banks have not been sitting back passively while all this was going on. They've been doing their own share of moving into new territory. Demand deposits dropped from 74 percent of commercial bank deposits in 1948 to 29 percent at the end of 1979 as banks began competing much more aggressively for household savings deposits. During the same period, the commercial banks' share of the consumer installment credit market has increased from 38 to 49 percent, while the combined share of finance companies and retailers has declined from 58 to 30 percent.

It is really quite surprising when you start adding up the number of services banks and bank holding companies now routinely provide that simply were not considered standard 15 or 20 years ago: equipment installment lending, commercial leasing, securities and options brokerage, investment fund management, investment counseling, and, albeit under limited circumstances, life, health and casualty insurance, management consulting, equipment rental and leasing. And the list is increasing with each passing month.

This is a far cry from the world envisioned by those who drafted the major bank legislation of the 1930's, and there is no sign that the pace of change is slowing down.

This whole scenario of change has been played out against a backdrop of restrictive legislation enacted during the 1920's and 1930's.

This legislation erected narrowly defined product market entry barriers for several financial services industries. It also sought to protect financial institutions, principally deposit-taking institutions, from competition by erecting geographic entry barriers and by establishing price controls. The result has been to protect competitors rather than competition.

Geographic barriers in commercial banking markets were given the force of law in 1927 when Congress passed the McFadden Act, which generally limited branch locations of national banks to those determined by state law. In 1956, the Douglas Amendment to the Bank Holding Company Act generally prohibited interbank acquisitions of additional banks by a bank holding company.

Product barriers were the result of several laws. The Glass-Steagall Act prohibited commercial banks from engaging in investment banking. The Home Owner's Loan Act of 1933 established federal savings and loan associations and defined permissible lending and deposit activities. The Federal Credit Union Act of 1934 defined and limited the powers of federal credit unions.

Finally, Congress made financial institutions subject to a whole host of price controls. Some states already had long-standing usury laws intended to protect borrowers from supposed price gouging by unscrupulous lenders. In 1933, Congress prohibited paying interest on demand deposits and imposed rate ceilings on time and savings deposits of commercial banks in an effort to keep funds in thrift institutions by limiting competition from commercial banking. Later legislation extended these interest controls to thrifts and credit unions.

We could spend considerable time debating the advisability of erecting these kinds of competitive barriers—hindsight is always 20/20. I suspect, however, that we would all agree on at least one fundamental fact. The barriers were designed for a world that is a far cry from the one we have today.

In the 1930's, much of the population still lived on farms, was largely self-sufficient and required minimal financial services. Even in urban areas, a substantial volume of financial needs was satisfied by family, friends or local business. In a world of uncomplicated financial needs, the effects of competitive barriers were hardly felt.

However, as our society became more industrialized and urbanized, self-sufficiency diminished and interdependency increased. This change led to an increased need for financial transactions to facilitate the exchange of goods and services. Economic growth and prosperity led to the accumulation of wealth by a larger and larger portion of the population who sought convenient means to invest their resources. Through universal public education, Americans gained a better understanding of their financial affairs and searched out new ways to maximize returns on investments. The competitive barriers of the 1930's began to look more and more like a cage, as financial institutions were prevented from meeting the new needs for financial services, and the incentive to find legal ways around the barriers grew.

Perhaps the most important change since the 1930's—and ultimately the greatest pressure to dismantle the old competitive barriers—has been inflation. Americans have been living with inflation and its twin, high interest rates, for the past 15 years. It is no longer a new or temporary phenomenon, and they have made changes in their thinking and behavior to wish to position your bank or your holding company to take advantage of the impending reality. Most bankers I know who favor some form of interstate banking believe that such structural alteration can best be achieved with minimum shock to the banking system as a whole by changes in the Douglas Amendment rather than taking on the McFadden. There is no unanimity, however, regarding what changes in the Douglas Amendment would be desirable. While I think that the majority would favor limited expansion into contiguous states or perhaps standard metropolitan statistical areas via the bank holding company mechanism, there are many who would favor nationwide holding companies as offering an opportunity to combine forces and take on the giants head to head.

In summary, my message is that change is inevitable, and it is going to take place at an accelerating rate during the 1980's. NOW accounts will be a reality in 8 months. The dynamics of the marketplace, abetted by the forces of inflation, mean that consolidation of banking units will continue to take place. Accordingly, the possibility of branching comes ever closer to reality, accompanied or certainly followed closely by the possibility of interstate banking. Historically, change has meant opportunity. If there ever was a time in the post-Depression history of the commercial banking industry for bankers to start focusing on the opportunities that will be presented by the new realities of the marketplace, it is the decade of the 1980's. As the thrift industry is freed up to compete even more effectively on your turf, and as the competition from nonbank providers of financial services intensifies, the opportunity is still there for you to take the lead and shape change to your own advantage. I venture to predict that if you follow that course, then as the cocoons disappear, you will truly enjoy being butterflies.

Remarks of Lewis G. Odom, Jr., Senior Deputy Comptroller, before the National Management Conference, Society for Advancement of Management, Chicago, Ill., May 9, 1980

Of all the factors that complicate the lives of managers today, perhaps the most difficult to deal with is inflation. Inflation distorts the meaning of the information used by all managers in decisionmaking. Inflation makes it impossible to plan for the future with any degree of certainty. It is a tax that hinders the growth of individual business and saps the strength of our entire economy.

What many of us may not yet recognize is that inflation has also become a powerful force for change in the functioning of our economy. And nowhere is that force more evident than in the financial marketplace.

For more than four decades, this nation has lived with a highly regulated financial system. The government has laid down rules that cover a good part of financial market operations—what kinds of services a financial institution can offer, how many offices a financial institution may set up, who may be served by different classes of financial institutions, how much interest a financial institution may charge on loans and pay on deposits, and the list goes on and on.

That system is undergoing some fundamental changes—changes that result, in part, from the impact of 15 years of inflation. When inflation sent interest rates soaring, regulated financial institutions were largely unable to pay their depositors a market rate of return. Unregulated competitors were only too happy to leap into this void, and the result has been strong pressure to ease the restrictions on financial institutions' ability to compete.

I don't mean to give the impression that the day of free and open competition in the financial arena is upon us—far from it. But the marketplace is changing, and the pace of change is accelerating. Let me cite just a few innovations that have already occurred:

- Merrill Lynch now offers a cash management account that allows customers to write checks and make VISA charges against their securities investment account. Even more important, its ready asset trust money market fund has assets over $10 billion and is still growing. Merrill Lynch has also announced plans to acquire 40 realty firms over the next 4 years. It has already acquired Western Pacific Financial Corporation of California, the nation's 18th largest mortgage company and servicer of $1.5 billion in loans. With its 395 offices around the world, Merrill Lynch is a formidable competitor in the banking arena and is not subject to any of the traditional banking regulations.
- Money market funds had grown from $4 billion in 1978 to about $60 billion before March 14, when the Federal Reserve began requiring reserves on any increase in these funds. The reason is not too hard to figure out. The funds offer investors 1-day liquidity, with no early withdrawal penalties, and they are free to pay a market rate of interest. The Federal Reserve's reserve requirement is not likely to deter these funds. Already, new clone funds are being established. The $100 million exemption offers an opportunity for a series of funds which conceivably could avoid the reserve entirely. The reality of the market cannot be denied.
- Sears, the world's largest retailer, has announced plans to offer $500 million in 2- to 10-year notes in $1,000 denominations through a direct mailing to its customers. With this plan, Sears will have come full circle by providing both direct consumer installment lending

to be thinking about the pros and cons of branching and preparing themselves for the possibility of such an environment.

Perhaps because my own banking experience was in a state which permitted statewide branching, albeit with head office protection for independent banks, I look upon branch banking positively rather than as a threatening or disruptive experience. I recall that during the early 1950's when the management of Hartford National made the first decision to expand out of the Hartford area, the bank acquired two banks in southeastern Connecticut in a single merger transaction and became the dominant force in that market area. I realize you couldn't do that today, but the point of my story is that because the bank enjoyed substantial excess deposits in Hartford from the local insurance companies, it was easily able to make capital available in the southeastern Connecticut area which was growing rapidly and where demand was strong. Within 2 years of the merger, the southeastern Connecticut banks and their branches, which at the time of acquisition showed loan-to-deposit ratios of 45 to 50 percent, were able, as branches of Hartford National, to carry loan-to-deposit ratios approaching and sometimes exceeding 100 percent. I very much doubt that Clif Poole and his associates would permit an affiliate in a holding company banking system to show that kind of loan-to-deposit ratio, even though on a consolidated basis, the holding company was "as strong as the Rock of Gibraltar."

While a branch banking system probably provides the most efficient way of allocating financial resources in accordance with supply and demand factors within the market area of a depository institution, there are, from the standpoint of holding company management, other benefits to be derived from branching vis-a-vis the holding company structure. Some of the other benefits of branch banking include reduction in administrative overhead, elimination of certain legal barriers to expansion, centralization of control and authority, ability to provide larger credit facilities to wholesale customers and prospects and ability to operate a larger number of outlets with a given level of equity, to name a few. Some disadvantages are the loss of local identity and autonomy, the greater risks of decentralizing decisionmaking and authority and the fact that unit banks are frequently less interested in affiliating with a branch system than a holding company system when a choice is offered. The management philosophy and style at the holding company level will determine whether the benefits outweigh the costs. In a state as large and as diverse as Texas, however, it can safely be assumed that there will be holding companies which perceive more advantage to branching than to the holding company structure and inevitably the option will become available. My point is that you should neither fear nor reject branching as a possible alternative, but rather consider the pros and cons as you plan for the future and at least be prepared to position your bank or your holding company where you want it when the possibility becomes reality.

One last thought about branching. I have just suggested that you should not fear, particularly if you are a unit bank, the prospect of branch banking in Texas. I say this because it was my experience in Connecticut, and certainly the experience in California bears it out, that in a branch banking state a strong, well-managed, independent community bank can beat the pants off a big city bank in virtually every segment of the local marketplace. The fear always is that the branch banking system will come into a community and try to get business by cutting prices. I suspect that those who express that fear are of the "monkey see, monkey do" school of bankers who do not see that kind of competitive tactic as an opportunity to unload an unprofitable or marginal book of business onto the newcomer's back. As a matter of fact, smart branch banking management knows that price cutting tactics are counterproductive at the community banking market level, although they may work with sophisticated corporate treasurers. In my opinion, therefore, it is only in that one segment of the market, to the extent that it exists in the community, that the strong community bank has anything to fear from the out-of-town branch, and that segment is vulnerable with or without the branch presence.

Finally, what about interstate banking? It seems to me that many of the same forces that are working within Texas to bring about a reduction in the number of independent banking institutions are also at work worldwide and nationwide to dismantle the geographic barriers imposed by the McFadden Act and the Douglas Amendment. Already the largest U.S. bank holding companies are busily expanding their networks of financial services offices on a nationwide basis, and since they have long ago ceased to depend on the core deposit as a principal source of funds, they have no difficulty funding on a worldwide basis whatever asset growth targets they set for their nationwide financing business. Unfortunately, the mere mention of interstate banking usually leads to the issue of nationwide branching and the impassioned accusation that nationwide branching will mean that 10 or 12 banks will be all that is left of the U.S. system. That argument, I think, reflects more rhetoric than reason, since anyone who seriously believes that a nation of 230 million people and as diverse economically and politically as this one can be served by 10 or 12 banks either has previous little understanding of how this country works, or else has perhaps subliminally concluded that most of what we think of as the business of banking today will be done in the future by nonbank institutions—in which case 10 or 12 so-called banks could probably handle what little may be left.

As a practical matter, it seems that the reality is that with the introduction of the NOW account and the elimination of Regulation Q, what may remain of the traditional stable low cost core deposit will rapidly disappear, since existing technology means that a bank customer can, if he or she chooses, already conduct banking business without ever going inside a bank building. Existing geographic constraints are, therefore, increasingly illusory. Once again, the point I want to make in this discussion of interstate banking is that it's not too soon to start thinking about what will be best for you when the changes come and how you

you that 6 years ago in the Northeast, many of these lessons were being learned for the first time and that is not so long ago.

Finally, for some or perhaps many of you, aggressive promotion of the NOW account to substantially increase your customer base may indeed be the appropriate strategy. For example, competition in your market area for the thrift industry may be severe and as you look ahead to a non-Q world where the differential no longer exists, you may decide to invest in that future by using the NOW account as a loss leader to bring in customers who eventually can be persuaded to shift their thrift accounts when it becomes an economic advantage to do so. Others of you may already have systems and technological capabilities that are highly volume sensitive and represent a potential for significant operating leverage if the customer base can be rapidly expanded. In such an environment, the NOW account can be a very attractive product for building such volume. Here again, however, the decision to market aggressively should be based on careful analysis and be part of a well-considered institutional strategy, not a "knee jerk" reaction to what the others are doing or what you are afraid they might do.

As you ponder what course to take with NOW accounts in the coming months, you can at least benefit from a large body of literature that was not available in New England when the product was first introduced in the early 1970's. Banking publications carry articles from time to time on the subject. I would recommend the July 1979 and November 1979 editions of the *Savings and Loan News* which carried articles entitled, respectively, "NOW Account Costs: Some Myths Won't Die" and "NOW Accounts Teach Marketing Lessons." Additionally, the *New England Economic Review* published by the Federal Reserve Bank of Boston has periodically researched the NOW account experience in New England and published informative articles. The July/August 1978 issue develops some interesting statistics on the impact of NOW accounts on the pricing of personal checking services in Connecticut and reports that a significant number of commercial banks took advantage of the NOW account environment to introduce or increase service charges and minimum balance requirements on checking accounts. An article in the March/April 1979 issue reported on the annual functional cost study by the Federal Reserve Bank of Boston and stated:

> . . . a previous regular checking account averaging $2,500 which earned the bank about $10 a month was converted to a NOW account which lost $.05 a month. With current levels of costs and earnings rates on loans and investments, a bank cannot both pay 5 percent and offer free checking on NOW accounts with average balances of less than about $3,000 and still make a profit.

Obviously, these numbers will be different in today's interest rate environment, but this is the type of analysis and information which is essential in arriving at proper pricing decisions. In addition to the literature on the subject, the American Bankers Association is well versed on the New England experience and has been conducting a series of workshops around the country during the past few months, including one in Dallas last November. I would urge you, either directly or drawing on the resources of the Texas Bankers Association, to use all the sources of assistance available as part of your decision process.

Let me turn from NOW accounts to the second subject on my agenda, one in the realm of things that might be: branching. While the prospect may seem remote—perhaps even "over my dead body"—to you and while no one from Washington, and before that Connecticut, should presume to be an authority on what the future may hold in Texas, it nevertheless seems to me that there are powerful forces already at work which may mean that branching is closer to becoming a reality than it might appear on the surface. The continuing rapid expansion of the bank holding company movement both statewide by the larger institutions and on a local level by entrepreneurial investors is perhaps the most visible and the strongest of these forces. In addition, the market conditions of the past year have probably changed the nature of the banking business permanently, particularly on the liability side. Margins have been irretrievably eroded; interest differential banking is a reality for the smallest unit bank and for the largest global institutions; and even the best managed unit banks will have difficulty achieving future levels of return on assets that they have been accustomed to in the past. I believe that many independent banks will decide that the game is no longer worth playing in the next few years and that the best thing they can do for their shareholders is to accept an offer of one and a half or two times book from a bank holding company and let somebody else wrestle with the problems of an increasingly competitive and high pressure environment. I should point out that I do not come to that conclusion in a vacuum, but rather that as I have traveled around the country during the past year, I found, starting last fall, an increasing number of bankers in holding company or branch states telling me that the rate of inquiry regarding affiliation from small banks was accelerating noticeably. I don't know if that's the case yet in Texas, but I am sure it will be.

Other forces one might mention are the increased level of competition that the thrift industry will present in the world of the Depository Institutions Deregulation and Monetary Control Act, the increased competition from the unregulated nonbank financial services providers, and the fact that communications technology combined with the plastic card allows an individual in the most remote of rural communities to conduct a significant portion of his or her traditional banking business with institutions far removed from the hometown bank. With all of these forces working, it is difficult to see how the end result can be anything other than a continuing reduction in the number of independent banks in the coming years. If that is the case, then the pressures will grow to add the branching option to the holding company structure at a time when the number of opponents is steadily diminishing. Accordingly, it seems to make sense for bankers, even now, at least would point out that when cocoons burst some of the inhabitants are transformed into spectacularly beautiful, free-soaring butterflies. In terms of the banking industry, I would point out that the forces of change, which include the marketplace, competition, government action and economic growth, are working with increasing intensity from within and without to ensure that the cocoons will indeed burst.

Let's leave metaphors to the poets for the moment. We have to live in the world of reality and attempt to cope with things as they are, although we cannot afford to ignore completely, and refuse to prepare for, what will be and what might be. I would like to review with you some of the potential effects on your banks of three significant events, one which falls into the category of what will be and two that are what might be. I refer to negotiable order of withdrawal (NOW) accounts, branch banking and interstate banking.

After years of study, debate, frustration, intensive lobbying, wrangling, political "chutzpah," brinkmanship and you-name-it, the Congress finally produced on March 31, 1980, the Depository Institutions Deregulation and Monetary Control Act, a landmark piece of legislation that among its many titles provides for nationwide NOW accounts as of December 31, 1980. I need hardly remind this audience that ever since their introduction by a small mutual savings bank in Worcester, Mass., in 1972, NOW accounts have been a subject of continuing controversy in the banking industry. As the product spread quickly to savings banks in Massachusetts and New Hampshire, the reaction of commercial bankers was predictably hostile. We, for I was one of them, roundly cursed the Judas in our midst who contracted to clear the devilish drafts, thereby giving them legitimacy. We branded them illegal and unfair, a further evidence of the scoundrelly, if not indeed criminal, conduct of the thrift institutions. We said they were a threat to bank profitability and, therefore, clearly a device that would undermine the moral fiber of the general public. Having reached that last conclusion, it was unthinkable to ask whether or not the general public might welcome the product.

Like it they do. One study of the New England experience showed that in June 1972 the demand deposits of individuals in Massachusetts were estimated to be approximately $1.5 billion, but by December 1977, NOW account balances exceeded $1.9 billion. Perhaps more significant is the fact that roughly three out of four households in Massachusetts have active NOW accounts. Given the rapidly increasing level of general public sophistication about household financial matters, I think it is safe to predict that NOW accounts will be as popular in Texas as they are in New England and New York.

Reports coming out of the Northeast during the early days of the NOW account experiment suggested that the whole affiar was an unmitigated disaster. That is perhaps an overstatement, but it is true that NOW accounts had a significant adverse effect on earnings in many banks when first introduced. In most cases, I suspect the reason was because they made the one major mistake I would caution all of you against making: they adopted what I think of as the "monkey see, monkey do" response. In other words, without doing any real analysis, they simply said they would meet whatever terms the competition offered in order not to lose a customer. If my admonition is superfluous for this audience, I hope you will forgive me, but I find to my surprise as I travel around the country that some bankers still think that even if they lose money on the unit they can make it up on the volume—or those who have never had to come face to face with real competition and are unprepared for it.

In determining what to do about the NOW account, there are essentially three basic marketing strategies available to you. They are outright rejection, acceptance and aggressive promotion, and, of course, there are variations on each theme available along the way. Whatever decision is made, it will be sound only if it's based on your knowledge of the market area and customer base, your view of how to position your bank in the marketplace, knowledge of your costs, and the balance sheet and profit objectives of your instittition.

At one extreme, if you have a small town bank with a relatively stable economy and population and the nearest competition is 15 miles away, you may conclude there's no need to offer NOW accounts, which have an element of increased cost for you. Perhaps at most you will make them available but price the product, in terms of minimum balance and/or activity charges, so expensively that only a small number of the very largest depositors will choose to convert to NOW accounts. And you will certainly not advertise the product.

While such rejection may work in a few cases, I imagine that most of you will be looking at some variation of the acceptance strategy, although many of you may decide to market NOW accounts aggressively. The acceptance strategy essentially says that you recognize that the NOW account is here to stay, that it is popular with customers and that you are going to add it to your product mix to retain customers who are important to the bank. The acceptance strategy involves establishing a price structure for the NOW account that will enable you to keep those customers whose relationships are desirable, recognizing that you may well lose other customers to competitors who offer lower prices. While the pricing decision is the key ingredient in the marketing strategy, other decisions covering advertising and promotion, packaging, staff training, etc., will be necessary. Before you can make intelligent decisions in those areas, you must:

- Know the demographics of your market area;
- Know the economy of the area;
- Know the economic profile of the market segments you wish to attract or retain;
- Know the competitive factors at work;
- Know your own operating costs;
- Know how to make financial projections based on costs and various price and volume estimates;
- Know your bank's market power at various levels of promotional effort; and
- Know the sales capability of your staff.

All of this may seem elementary, but I would remind

Size of Each Interest Rate Adjustment

In theory, there should be no limit on the magnitude of a rate change. However, in an inflationary economy with volatile interest rates it may be appropriate to impose some limitation on the size of rate changes. Changes in the index in excess of any such limit should be permitted to be carried over to future periods.

Aggregate Change in the Interest Rate

For reasons discussed earlier, restrictions on overall rate changes may have some merit as a means of limiting risk to the borrower. Such aggregate limits would reduce the uncertainty to the borrower, increasing the attractiveness of adjustable-rate mortgage instruments. Too severe a limitation on rate changes, of course, would not allow the adjustable-rate mortgage to fill completely the need of the lender for increased earnings flexibility. Delineation of how changes in market-rate risk should be shared between the borrower and the lender will, of necessity, be arbitrary.

In summary, we believe that it may be appropriate to place reasonable limits on the frequency and size of individual interest rate changes. We also intend to study whether and how aggregate interest rate changes should be limited on VRM's and RRM's. We have not at this time determined what specific limits are appropriate for today's financial conditions.

Choice of Mortgage Instruments—We are sympathetic to the objective of proposals that federal regulations should require institutions to offer home buyers a choice of fixed or adjustable-rate mortgages. How- the only practical way to encourage fixed rate lending is through a reduction in the rate of inflation and the volatility in interest rates. Thus, we are reluctant to require by regulation that institutions make what they perceive to be unprofitable loans. This is especially so in light of the pending phase-out of interest rate restrictions on deposits. It may be unrealistic and even imprudent from a safety and soundness standpoint in today's economy to require institutions to make a certain percentage of fixed rate loans and then expect them to compete in the marketplace for funds against institutions holding all variable-rate and short-term assets. If institutions are forced to offer a fixed rate mortgage option in an extremely tight and volatile market, they will, necessarily, price it in a way that discourages or precludes most borrowers from choosing it. Obviously, this would reduce the meaningfulness of mandating a choice.

We believe that ultimately the most appropriate way to assure the consumer an adequate choice of mortgage instruments is to encourage development of a competitive mortgage market. The major thrust in recent years of financial institutions reform has been to remove anticompetitive regulations and statutes which have limited the ability of depository institutions to respond to market forces. Regulations governing residential mortgage financing should be consistent with this objective. The best way to meet the needs of this country's home buyers is to encourage development of a strong and competitive financial system.

Regulations should be designed to encourage, not discourage, innovation in the mortgage market. In this vein, it is essential to avoid moving too quickly with regulations which might prevent or inhibit further development of alternative mortgage instruments that are responsive to the realities of the marketplace and are acceptable, even attractive, to home buyers.

Regulations should facilitate and encourage development of mortgage securities attractive to nondeposit lenders, particularly institutional investors such as insurance companies and pension funds.

Regulations should encourage a reduction in mortgage financing transactions costs. An important consumer safeguard with respect to adjustable-rate mortgage lending is that borrowers have the ability to switch to another lender with minimal transaction costs.

In conclusion, we must emphasize that adjustable-rate mortgages by themselves will not eliminate the cyclicality of the housing market or solve the growing affordability problem. The root cause of this country's housing finance problem is inflation. While the financial system may be able to minimize distortions and inequities arising from inflation, it cannot eliminate them. The only way to assure a smooth and steady flow of housing credit at reasonable rates is to bring inflation under control.

Remarks of Charles E. Lord, Senior Advisor to the Comptroller, before the National Bank Division Meeting of the 96th Annual Convention of the Texas Bankers Association, Houston, Tex., April 28, 1980.

In that marvelously perverse way that characterizes so much of the American political process, the nation has over two centuries devised a financial services industry that includes a commercial banking system of some 15,000 separate units—controlling $1.4 trillion worth of assets—all stuffed into 50 separate cocoons. Surely no rational person, if asked to design a banking system to meet the needs of the American economy in 1980, would come up with 50 cocoons, but that is what we have. It appears that the great majority of the inhabitants of those cocoons enjoy the protective shelter and do not want to see it changed. I would not want to carry the analogy with nature so far as to suggest that the inhabitants of the cocoons look like worms, but I transaction being considered. At the same time, care should be taken to ensure that disclosures are not so detailed and lengthy as to become more confusing than enlightening.

Prepayment Penalties and Other Fees—Another issue is whether borrowers should be allowed to prepay their mortgages without penalty and who should absorb the costs due to frequent mortgage-rate adjustments inherent in ROM's and RRM's. On the surface, it seems unfair to charge the borrower for costs arising from mortgage-rate adjustments to an ROM or RRM. On the other hand, a regulation stipulating that lenders bear all loan renegotiation costs is no guarantee that the borrower will not be the ultimate bearer of those costs in the form of a higher initial interest rate. Regulations prohibiting borrower renegotiation fees cannot force lenders to absorb the added costs of adjustable-rate mortgages. Similarly, the prohibition of borrower prepayment penalties might distort mortgage terms as lenders pass on the anticipated costs from prepayments to all borrowers. For those reasons, we tend to favor a market determination of borrower renegotiation fees and prepayment penalties. Clearly, an effort should be made to minimize those costs. Minimal document processing fees and prepayment penalties would seem in order.

Choice of Index—If the mortgage market were more competitive, it would be reasonable to allow mortgage lenders to choose their index because any lender which chose an unfair index or which did not price its mortgages competitively would lose customers to other institutions. However, present high transactions costs associated with refinancing a mortgage inhibit borrowers from shifting to other lenders. Because of concern about the possibility that mortgage lenders might take advantage of such borrowers, we are considering either establishing an index or indices.

One possible index would be an institution's or a group of institutions' cost of funds. Institutions might wish to use such an index so that they could synchronize their earnings with their cost of funds. Increased income from mortgage-rate increases would be passed to the depositors. Similarly, reductions in deposit rate costs would be passed on to borrowers through adjustments in mortgage rates. While this index is appealing in terms of the financial intermediary acting primarily as a conduit between the borrower and depositor, it suffers a major handicap. Markets for consumer deposits are not competitive at this time. Competition for consumer deposits is impeded by state and federal restrictions on branching. In addition, federal regulations limit the maximum rates of interest that depository institutions may pay on consumer deposits. As rate ceilings are phased out over the next few years, cost of funds indices may rise even if mortgage rates are stable or declining. For those reasons, an index based on an institution's cost of funds may not be appropriate at this time.

Another alternative is to use the institution's rates on new mortgages as the index. However, if such an index were used without limitations at the time of renegotiation of an RRM, the effect would be to shift interest rate risk entirely to the borrower. Use of this index without limitations has two further shortcomings. First, the borrower may be totally in the dark until the last minute as to the new rate. If the increase in the rate is substantial and unexpected, this could impose significant hardship on the borrower. Providing the borrower greater certainty about future rate and payment changes seems desirable. Second, the recent rapid escalation in new mortgage rates demonstrates the potential unfairness to the borrower who must renegotiate an RRM at the peak of the interest rate cycle. Appropriate means to avoid such an outcome should be considered.

Other indices could be tied to U.S. government or corporate bond rates or the new mortgage rates such as those published by the Federal Home Loan Bank Board and the Federal National Mortgage Association.

We have not determined which of the indices in use or proposed are best, although nationally based indices seem preferable. We intend to solicit comments on the merits of various indices. Our consideration of which index or indices we should prescribe in regulations will be assisted not only by public comments but also by the significant research that the Federal Home Loan Bank Board has already conducted. Our decision will be guided by the following principles:

- The index should move with market interest rates;
- The index should be simple to understand; and
- The index should not be subject to unfair or discriminatory manipulation by individual institutions.

Interest Rate Adjustments—Because of the potential volatility of some indices and home buyers' preferences for certainty, we intend to solicit comments on the desirability of placing some limits on the frequency of adjustments in the mortgage interest rate, the size of such adjustments and the aggregate changes in the interest rate. Limitations, by reducing uncertainty about future rate increases, may be essential to gain borrower acceptance of adjustable-rate mortgages.

If markets were more competitive, the market could be relied upon to determine the terms and conditions on which adjustable-rate mortgages are offered. Establishment of mortgage lending terms and conditions through federal regulations introduces a degree of arbitrariness which has the potential for operating against the interests of borrowers and lenders.

Frequency of Adjustment

Home buyers generally prefer predictable monthly mortgage payments. Thus, as a general rule, rate changes should be sufficient to keep mortgage yields in line with market rates without creating excessive uncertainty for home buyers. The advantage of frequent changes is that rate adjustments can be made in small, presumably more manageable, increments. The disadvantage is that frequent adjustments raise administrative costs and may increase price volatility and uncertainty. On the other hand, lengthening the time interval between interest rate changes increases the likelihood that the change, when it occurs, will be substantial.

swered, we are preparing proposed regulations and intend to solicit comments from the public. We believe it is important to develop regulations for adjustable-rate mortgage instruments originated by national banks for a number of reasons:

- To make the mortgage plans operate as efficiently as possible;
- To provide for satisfactory consumer acceptance and protection;
- To reduce inconsistencies between federal and state regulations; and
- To encourage states to adopt similar regulations to produce greater uniformity and to minimize confusion, facilitating the sale of adjustable-rate mortgages in the secondary market.

Specifically, we intend to solicit comments on:

- Items that should be disclosed to the consumer at the time of application for a mortgage;
- Whether institutions should be permitted to charge prepayment fees and fees when mortgage rates are renegotiated;
- Whether an interest rate index should be determined by regulation and, if so, what index is most appropriate;
- Whether regulations should include limits on aggregate interest rate changes and the size and frequency of periodic adjustments;
- Whether ROM's should include guaranteed refinancing; and
- Whether regulations should require institutions to provide a choice of fixed rate and adjustable-rate mortgages to consumers and, if so, on what basis.

We believe that the market should be relied on to the maximum degree to shape and design alternative mortgage instruments that meet borrower and lender needs. In some states, however, local law may restrict the ability of national banks to offer a range of adjustable-rate mortgages in the absence of federal regulations. Limiting the number of institutions offering adjustable-rate mortgages is contrary to the public interest which is best served by providing the home buyer with a wide range of options. Moreover, we recognize a responsibility to ensure that certain safeguards are met.

Full and Complete Disclosure—Adjustable-rate mortgages, as well as other types of alternative mortgage instruments, are by their very nature more complex than the standard fixed rate, level-payment mortgage. Borrowers find their provisions more difficult to become familiar with and to understand. It is clearly essential that new forms of mortgage lending not be discriminatory and that consumers be given adequate information in an intelligible format to decide whether and where to borrow.

Those concerns are already addressed to a degree by the Equal Credit Opportunity Act, the Truth-in-Lending Act, the Real Estate Settlement Procedures Act and the implementing regulations under those laws. However, there are several matters crucial to full borrower understanding of adjustable-rate mortgage instruments that are not presently addressed by those statutes and regulations.

The cost of adjustable-rate mortgages depends greatly on the provisions regarding the magnitude, frequency and timing of interest rate changes and the provisions for prepayment and assumption. It is important that the borrower be familiar with the terms and conditions in the contract so that there are few, if any, misunderstandings at later dates when various provisions take effect and rates and monthly payments change.

Federal Reserve Regulation Z (truth in lending) presently requires the following disclosures on variable interest rate loan contracts:

- The interest rate is subject to change;
- The conditions under which the rate may increase, including identification of the index and any limitations on increases;
- The manner in which the rate increases may be effected, such as by increases in the number of payments, increases in the amount of each payment or combinations of these; and
- The disclosure, specifically on residential mortgages, of hypothetical numerical examples for the consequences of an immediate increase of one-quarter of 1 percent in the annual rate effected alternately through an increase in the number of payments up to the maximum permissible maturity or an increase in the amount of each payment.

However, these disclosures are not sufficient to enable the borrower to understand the terms and conditions of an adjustable-rate mortgage. Additionally, there are presently no regulatory requirements for disclosing specific information on increases which may occur when a borrower accepts an RRM or an ROM. Instead, regulations merely require lenders to identify certain balloon payments and state the conditions under which such payments may be refinanced. Therefore, it is appropriate to consider the kinds of disclosures national banks should make that may be considered material to the borrower in comparing alternative mortgage instruments with the standard, fixed rate mortgage and in understanding completely the terms and conditions of the mortgage ultimately selected.

Adjustable-rate mortgages include a number of key provisions that a borrower should carefully consider when shopping for a mortgage loan. To assist the borrower, we are considering requiring disclosure of information covering the initial contract rate and initial value of the interest rate index, an historical series of the index, limits on the size and frequency of rate changes, floors and/or ceilings on cumulative rate changes, examples of the monthly payments and total costs resulting under a variety of conditions, including no change in the index, fees associated with prepayment, assumption and renewal, and information on the renegotiation process and availability of refinancing.

Our objective is to encourage disclosures that will help the borrower have a better understanding of the justments are made less frequently. An ROM generally has a short-term maturity (3 to 5 years), but the monthly payments are based on a 30-year amortization schedule. On the roll-over date, the mortgage interest rate is adjusted to reflect current market conditions. The borrower may either accept the new rate offered by the lender or seek a new lender. A loan renewal would incur minimal document processing charges, whereas a new loan application would, under current market practices, entail new closing costs.

Effect of Adjustable-Rate Mortgages on the Lender—An adjustable-rate mortgage has clear advantages to the issuing depository institution. One is the shifting of some or all of the risk of future unanticipated interest rate increases to the borrower. By periodically adjusting the rate on outstanding mortgages to reflect current market interest rates, the institution can generate a sufficient cash flow to pay a market rate of interest on its liabilities.

In an unconstrained market, if future short-term interest rates were predicted correctly, neither lender or borrower would be any worse off with an adjustable-rate mortgage than with the standard fixed rate mortgage. Whether the adjustable-rate or fixed rate loan is more beneficial to either party depends on actual interest rates relative to the predicted rates. However, home buyers generally prefer the standard fixed rate mortgage because they are protected against increased monthly payments resulting from unexpected higher rates. Their monthly payments would remain fixed rather than rising. Thus, with a fixed rate mortgage, the lender absorbs entirely the risk of unexpected rate increases. For this protection, however, home buyers pay a rate premium in the form of higher interest rates on fixed rate mortgages. This premium is similar to premiums on any other insurance policies.

A lender generally should prefer mortgages whose interest rates change with changes in its cost of funds. If changes in interest rates on its loans and deposits are completely synchronized, the lender is totally hedged and assumes no interest rate risk. If rates go up unexpectedly, borrowers bear the cost; if rates go down, depositors bear the cost (borrowers benefit). However, in an unconstrained market, some lenders would be willing to assume the risk inherent in the standard fixed rate mortgage either because they disagree with the market's interest-rate expectations or because they wish to realize the premium from selling interest-rate insurance. When interest rates have been relatively stable for extended periods of time, the lender's perception of the risk involved in fixed rate loans is low and the willingness to extend fixed rate loans is high. This willingness declines, as we are presently witnessing, as the risk increases.

A second advantage is that the liquidity of the mortgage portfolio may be improved to the extent that the market value of the mortgages remains much closer to its original value. As a result, those mortgages can be sold close to par during a period when market interest rates are above the initial contract rate. The liquidity of the adjustable-rate mortgage, however, is dependent on its acceptance in the secondary market. Such acceptance may be improved by some standardization of the mortgage terms and possibly through use of a standard nationwide index.

Effect of Adjustable-Rate Mortgages on the Borrower—Because adjustable-rate mortgages shift the risk of unexpected interest rate increases to the borrower, they may be less attractive to home buyers. On the other hand, to the extent mortgage-lending intermediaries view the risks of fixed rate loans as too high, adjustable-rate mortgages are more likely to assure a steady flow of mortgage funds in times of uncertainty. Furthermore, initial contract rates on adjustable-rate mortgages should generally be lower than the rate on a fixed rate mortgage. Such a difference should help overcome the home buyer's preference for a fixed rate mortgage. In addition, the adjustable-rate mortgage can be designed to reduce the uncertainties for borrowers without, at the same time, reducing greatly the advantages to lenders. This can be done by restricting the magnitude, frequency and timing of both the individual periodic changes in mortgage rates and the cumulative overall rate changes. Such restrictions would make the lender and borrower share the risk of unexpected interest rate increases, rather than entirely shifting it from lender to borrower.

Consumer Safeguards

The variety of alternative mortgage instruments proposed over the past few years is the market's response to unstable interest rates and high rates of inflation. These instruments are neither proconsumer or anticonsumer. Instead, they reflect the market's compromise between the borrower's desire for long-term financing and the lenders reluctance to commit long-term funds at a fixed rate in view of the extraordinary volatility in the capital markets.

Need for Regulations—We support the development of adjustable-rate mortgages because they appear to be a practical way to help stabilize the flow of mortgage credit over the business cycle. We recognize, however, the complexity of some instruments, especially to a public accustomed to a standard, fixed rate mortgage. Therefore, we support well-formulated and practical consumer safeguards which emphasize the need for disclosure and consumer understanding.

The OCC has been considering issuing regulations governing adjustable-rate mortgage lending by national banks for over 2 years. Because we have been aware of only a few national banks issuing adjustable-rate mortgages and because we have received no consumer complaints regarding their activities, we have felt no compelling need to issue regulations.

However, we expect that so long as inflation persists, depository institutions will increasingly move towards adjustable-rate lending. Already our smaller rural banks, which for years have made fixed rate agricultural loans, are reporting that they are shifting to floating-rate loans. We are also receiving inquiries from banks regarding adjustable-rate mortgages. Thus, it now seems appropriate to consider regulations.

Although a number of questions remain unanthe rise in rates has been sustained. If future interest rates continue to rise and exceed anticipated levels, fixed rate lending will further weaken many mortgage-lending institutions, particularly those dependent on short-term consumer savings deposits.

In an attempt to support thrift institutions' earnings and protect their deposit base, interest-rate ceilings (Regulation Q) were imposed on thrifts in 1966. However, Regulation Q has not succeeded. When interest rates have risen above deposit rate ceilings, sophisticated depositors have withdrawn their savings and invested outside of the depository system in Treasury and agency securities, corporate bonds and notes, and money market mutual funds. This has meant less credit available to finance housing during high interest rate periods, which, in turn, has exacerbated the cyclical swings in the housing industry.

While depositor inertia and the inconvenience of moving money out of a depository institution has kept a core of deposits in thrifts, the public's increased awareness of market-rate instruments has created an unknown level of potential volatility in traditionally stable "core" deposits. Deposit gains at thrifts in recent months have been primarily in short-term accounts and instruments, principally 6-month money market certificates of deposit offered at rates tied to market interest rates. As of the end of February, money market certificate balances of federally insured savings and loan associations totaled $146 billion, or 31 percent of all deposits at those institutions. Thus, thrifts are faced increasingly with a choice of either defending their deposit base by paying current market rates of interest, thus adversely affecting earnings, or attempting to protect their earnings by paying less than market rates and suffering deposit withdrawals.

Measures have been and are being taken to improve thrift institutions' earnings flexibility through expanded investment powers. Under H.R. 4986, the Depository Institutions Deregulation and Monetary Control Act of 1980, which is awaiting final action by the House and Senate, thrifts would be granted additional powers, including consumer lending authority and authority to invest in a wider array of eligible short-term investment instruments. In addition, H.R. 4986 preempts state usury laws on residential mortgages. While these actions will make thrift earnings more responsive to rising interest rates, they may not be sufficient by themselves to overcome the earnings consequences of long-term, fixed rate mortgage lending. None of those measures directly addresses the profitability problem of long-term, fixed rate residential mortgage lending when rates rise rapidly and more than was anticipated. Moreover, the phase-out of deposit rate ceilings provided for in H.R. 4986 will increase the sensitivity of earnings to market-induced changes in deposit interest costs.

The time has come, therefore, to devise a better way to serve the housing finance needs of the public and to assure a steady supply of mortgage funds—a way that protects the interests of the home buyer and meets the needs of the depository institutions for competitive earnings. If, in the future, the cost of funds to depository institutions varies with changes in the market rates of interest paid to depositors, then the return on their assets must either vary with market rates of interest or be high enough to compensate for increased rate uncertainty. Moreover, should depository institutions' liabilities remain relatively short-term, then, as a hedge against uncertainty, those institutions will strive to shorten asset maturities and will adjust rates on long-term assets periodically. The home buyer, on the other hand, needs a fairly lengthy period over which to repay a mortgage because of its size relative to his or her annual income. The home buyer may also require some degree of certainty about the level of future monthly mortgage payments.

Adjustable-Rate Mortgage Instruments

To meet the needs of the home buyer for a long-term, fully amortizing mortgage and the needs of the depository institution for better synchronization of mortgage earnings and liability costs, a variety of instruments responsive to the particular needs of the borrower and the lender is required. Since the late 1960's, housing prices, mortgage costs and other costs associated with homeownership have together been increasing faster than median family income. As a result, homeownership has become more difficult to realize for a growing number of American families.

The standard fixed rate mortgage instrument has accentuated the affordability problem. It eliminates many young people from becoming homeowners because of high initial payments. Those households need an instrument that has a lower downpayment and lower monthly payments initially. In addition, the standard mortgage does not meet the needs of the elderly who, while often wealthy in terms of equity in their homes, do not necessarily have the current income to cover taxes and maintenance on their homes.

Several alternative mortgage instruments have been suggested in recent years. Each has different effects on borrowers and lenders. For example, the graduated-payment mortgage enables those home buyers with good potential for rising incomes to acquire mortgages for which they might not otherwise qualify under conventional guidelines for fixed-payment mortgages. The reverse annuity mortgage enables homeowners to withdraw periodically some of the equity that has built up in their homes to meet the expense of continued homeownership. Studies have demonstrated that significant homeownership benefits can be derived from alternative mortgage instruments. For example, homeownership by low and middle income households could be increased.

Two instruments of particular interest to these hearings are the variable-rate mortgage (VRM) and the renegotiated-rate mortgage (RRM).

The typical VRM allows for frequent changes in the interest rate of a mortgage loan in accordance with changes in an established index that is linked to market rates. Changes in the interest rate are translated into changes in the amount of the monthly mortgage payments, changes in the maturity of the mortgage or a combination of both.

The RRM or rollover mortgage (ROM) is basically an extended version of the VRM where interest rate ad-

Statement of Cantwell F. Muckenfuss, III, Senior Deputy Comptroller for Policy, before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations, Washington, D.C., March 27, 1980.

I appreciate the opportunity to appear before this subcommittee to present the views of the Office of the Comptroller of the Currency on adjustable-rate mortgages. These hearings are especially timely in view of recent developments in the long-term debt market and the significant reduction in mortgage lending being forecast for this year. Moreover, pending legislation, which would phase out deposit rate ceilings, has increased the pressure to improve the earnings flexibility of mortgage-oriented depository institutions.

Summary

The secular increase in interest rate levels over the last two decades has made long-term, fixed rate loans increasingly unattractive to lenders. Therefore, a reassessment of traditional financial services is under way with the objective of adapting them to current market conditions. The adjustable-rate mortgage is one such innovative response to the unstable economic environment in which we currently find ourselves. The Federal Home Loan Bank Board has been instrumental in promoting the development of those instruments through its major study of alternative mortgage instruments in 1977 and its more recent regulatory initiatives.

We support development of adjustable-rate mortgages because they appear to be a practical way to help stabilize the flows of mortgage credit over the business cycle. We recognize the complexity of some of those instruments, especially to a public accustomed to the standard fixed rate mortgage and, therefore, recognize the need for consumer safeguards which emphasize the need for disclosure and consumer understanding.

While adjustable-rate mortgages have been issued primarily by thrift institutions, we anticipate that in the future all financial institutions will be moving towards adjustable-rate lending. Accordingly, we will develop regulations to govern adjustable-rate mortgage lending by national banks. Because of the complexity of the issues raised by adjustable-rate mortgages, we intend to make a concerted effort to have maximum public participation in the development of those regulations.

It should also be noted that we view the development of adjustable-rate mortgages as part of the solution to the mortgage financing problem. Adjustable-rate mortgage instruments are the market's way of adapting to the high and volatile rates of interest resulting from high inflation. The ultimate and best overall solution to our mortgage financing problem is to reduce the rate of inflation and encourage increased savings and investment.

Historical Perspective of Housing Finance

Since the mid-1960's, the rate of inflation, accompanied by high interest rates, has grown progressively worse with each new business cycle. Lenders have continually underestimated future rates of inflation and have failed to add a sufficient inflation premium to the interest rates charged on their loans. As a result, lenders are becoming increasingly reluctant to extend long term, fixed rate loans.

Because interest rates on most existing long-term, fixed rate loans and investments are significantly below current rates of interest, they can only be sold at a deep discount from their face values. Recent estimates indicate that individuals and institutions have lost from $500 to $700 billion in the value of their long-term debts since last September. Thirty-year 10-percent mortgages made as recently as 12 months ago are now worth less than 70 cents on the dollar.

As a result of the recent sharp upward movement in interest rates and increasing uncertainty concerning future inflation rates, long-term lending has been curtailed significantly. If lenders could anticipate future short-term interest rates correctly, they could set an interest rate that would make them willing to lend long-term. However, the volatility of interest rates in an inflationary economy increases the risk and diminishes the incentive of long-term lending at fixed rates and may, in the extreme, discourage it altogether.

It is imperative that we make progress in bringing inflation under control. In this regard, it is critical to support the Administration's program to deal with inflation. Controlling inflation, however, will be a long and difficult process. In the interim, financial institutions must adjust to meet the priority financial needs of our nation in a sound and prudent manner.

Mortgage-lending institutions, principally thrift institutions, have been affected adversely by climbing inflation and rising interest rates. Those institutions have found it increasingly difficult to operate profitably during periods of rapidly rising interest rates because of the nature of their balance sheets—long-term assets and short-term liabilities. Since the 1930's, the long-term, fixed rate fully amortizing mortgage has been the principal vehicle for Americans to finance purchases of homes and the primary asset of thrift institutions. The liabilities of most mortgage-lending institutions consist, for the most part, of highly liquid consumer savings. While an effort has been made to extend liability maturities in thrift institutions, the majority of their liabilities remain concentrated in passbook savings accounts and time deposits of 1 year or less.

When interest rates rise rapidly, interest expenses on short-term liabilities adjust more rapidly than interest earnings on long-term mortgages. The result is declining or even negative earnings for most mortgage lending institutions. Had the increases in interest rates since the 1950's been anticipated, mortgage rates would have been set higher. However, the rise was not anticipated. Had the rise been temporary, a short-term decline in earnings could have been absorbed. But, strong currency countries have not been represented in recent acquisitions, the importance of the value of the dollar as a motivating factor may have been overrated. Likewise, the attractions of bank stock currently selling at low levels both historically and relative to other industries may have been accorded too much importance as an inducement to acquirers. Recent OCC research indicates that acquisition bids are related not to market value but to book value and that foreign interests have paid premiums substantially higher than those paid by domestic acquirers of banks.

However, depressed bank stock prices undoubtedly do influence the willingness of bank shareholders to sell, and in cases where the bank needs more capital, selling to foreigners can be a more attractive avenue than issuing equity.

Marriages of Convenience

In fact, the foreign acquisition phenomenon has been marked by a high frequency of purchases of troubled or failing U.S. banks, suggesting that many of those transactions are marriages of convenience. Of 34 U.S. banks acquired by foreign institutions during the 1970's, six were failing, and their purchase was arranged by U.S. regulatory authorities. Another three were in serious difficulty at the time of acquisition, and purchases of six others were accompanied by injections of new capital. Thus, nearly half were ailing or weak institutions. A sample of 24 banks acquired by foreign individuals similarly demonstrated a high incidence—11 of the 24—of seriously troubled or weak banks.

For three banks—National Bank of North America, LaSalle National Bank and First Western Bank and Trust (now Lloyds)—forced divestiture under 1970 amendments to the Bank Holding Company Act provided impetus for foreign acquisition. These three cases, in fact, exemplify the anomalous impact of U.S. laws, which effectively push many large banks into the arms of a *foreign* partner if they need to be acquired.

Effects of Acquisitions

The U.S. economy in general and the banking system in particular have benefited from this acquisition activity. Like foreign investments in other enterprises, these bank acquisitions have brought additional capital and a new element of competition. Foreign ownership has frequently meant greater depth and strength of management, innovative and less costly services and new international expertise. A study of foreign banking conducted by the California State Superintendent of Banks in 1974 enumerated similar competitive benefits and concluded that all had been "to the unqualified interest of consumers."

From a supervisory standpoint, our own research shows that foreign-owned U.S. banks generally have strong capital positions, on the average probably stronger than their domestically owned peers. The foreign-owned banks also have a record of conservative management and diligent adherence to U.S. banking law and practice. Even for cases where results are somewhat mixed, evidence of deleterious effects of foreign ownership appears to be the exception rather than the rule. In our judgment, these banks, for the most part, do not present greater supervisory problems than similar banks with domestic owners.

Some observers seem to have an exaggerated notion of the impact of foreign acquisition of large banks on the structure of the banking system and the relative world ranking of U.S. institutions. Even taking into account the four large acquisitions of the past year, our analysis indicates that the substantial presence of foreign banks is overwhelmingly—roughly 80 percent—attributable to *de novo* activities and growth, rather than acquisitions. While the U.S. bank share of global banking resources has indeed declined, that is due to fundamental economic forces, most notably the robust post-war growth of other economies. In comparison to those secular movements, foreign acquisitions of U.S. banking assets have had a barely detectable effect.

Since I regard foreign bank activity in this country as a healthy phenomenon which has benefited our banking system and the economy in general, I regret the apparent momentum that supports a moratorium on acquisitions. As for the specific proposal before Congress, it is, at least, limited in scope and would extend only until July 1, 1980. Existing foreign bank operations will be affected by the IBA changes in ways that I consider fair, in keeping with the national treatment approach. The full effect on the balance of competitive opportunity between domestic and foreign banks will be registered in due time. I expect that foreign bank activities will continue exerting pressure on the outmoded laws confining the geographic expansion of U.S. banks. I welcome that pressure for reform which, in my opinion, is long overdue. As change inevitably comes about, we will be indebted to the foreign bank invaders.

which is not terribly glaring in view of alternative means for U.S. banks to solicit domestic loan business. Nonetheless, extension of limited branch opportunities to domestic banks would seem to be reasonable.

Foreign banks can acquire large U.S. banks that are in practice unavailable for purchase by domestic institutions because of interstate banking restrictions (the McFadden Act and the Douglas Amendment to the Bank Holding Company Act), state laws limiting branching or bank holding company acquisitions, and antitrust laws that rule out combinations between substantial competitors in the same state. The limiting effect of these laws on *domestic* takeovers is indicated by our research. Preliminary analysis suggests that if an acquisition were necessary, short of a failing bank situation, no *domestic* partner would be available for any of the four largest banks in 36 states, nor for any of the top 10 banks in eight states.

The new IBA home state requirement does *not* significantly reduce foreign bank acquisition opportunities. Under proposed regulations, foreign banks may make a one-time change in home state. A foreign bank with grandfathered branches in one or more states could redesignate its home state to acquire a bank in another. Except for foreign banks that already have a U.S. subsidiary bank, others are free to acquire a bank in any state at little or no sacrifice to their existing U.S. banking operations. I don't object to this at all, but this situation does point up the anomaly of domestic bank confinement to a single state for full-service operations in the face of greater acquisition opportunities available only to foreign bank buyers.

The clearly desirable course of action, in my view, is to begin freeing up geographic constraints. This matter is the subject of a major study mandated, logically enough, by the IBA. Phasing out of the geographic restraints on U.S. institutions is the only way to give them a fair opportunity to acquire U.S. banks, which are otherwise available for purchase only by foreign banks.

IBA and Acquisitions

The IBA has probably contributed in two ways to recent acquisition moves on the part of foreign banks. First, the legislative debates which culminated in passage of the IBA raised concerns about future constraints on foreign banking activity generally. Just before passage of the IBA for instance a British journalist linked several British bank acquisitions to the impending legislation, observing that the bankers were "anticipating the day when the rules for competing in the United States changed. When that day comes, they want to be on the inside looking out."

Second, since the IBA eliminates or reduces advantages previously enjoyed by foreign branch and agency operations, the act may have been a spur to acquisitions. The IBA tipped the competitive scale in favor of subsidiary operations, making acquisition a very sensible option for foreign banks. Serge Bellanger, Chairman of the Institute of Foreign Bankers, commented that the "deliberate effect of the IBA has been to encourage foreign bank entry through subsidiaries."

Acquisitions in some part also have grown out of an increasing foreign bank interest in the U.S. retail market. This was evidenced perhaps earliest in California in the late 1960's when a number of wholesale-oriented foreign bank subsidiaries that were created *de novo* began expanding into the retail market by acquiring nearby U.S. banks. This practice continued through the 1970's and was echoed more recently in the New York market when the sale of Bankers Trust branches brought successful acquisition offers from three foreign banks. The 1979 acquisition of American Credit by Barclays follows the lead of some of the largest U.S. banks by using acquisition of multistate finance companies as a means to participate in the retail market on a broader geographic basis.

Activity Builds in the Late 1970's

A crescendo of policy debate on the acquisition phenomenon occurred throughout most of 1979. I will review the facts briefly and make some observations.

Acquisitions of U.S. banks have been a phenomenon mostly of the 1970's, particularly the latter half. Of the 82 identified acquisitions during the decade, roughly three-fourths occurred in 1975-79. Acquirers have been both banks, primarily the largest foreign multinationals headquartered in industrialized countries, and individuals, nearly two-thirds from developing countries. Very generally speaking, acquisition activity by foreign banks has been concentrated in the money centers—New York and California—and relatively large banks have been acquired. Acquisitions by individuals have been distributed through 19 states with some concentration in New York and California, and even more in Florida, where at least 15 banks currently have significant foreign ownership. The banks acquired by foreign individuals have preponderantly been smaller than $500 million in assets, and roughly half presently have less than $50 million in assets.

Factors Contributing to Acquisitions

What has brought about the recent upsurge in acquisitions? For those making the acquisition, U.S. banks provide access to a dollar base, important for major multinational banks, the bulk of whose international transactions may be denominated in dollars. U.S. banks also offer participation in a market widely perceived to have good long run growth potential, notwithstanding current troubles. For both foreign individual and bank investors, U.S. banks provide an opportunity to diversify risk—a significant factor, especially for those whose assets might otherwise be concentrated in less stable areas in the world or in international markets where future earnings potential has been open to question.

Two other factors frequently judged to have an impact on the increasing momentum of acquisitions in the late 1970's are the decline in the value of the dollar and depressed bank stock prices. However, since authorized for the first time to insure deposits of foreign branches. Such insurance is required in certain circumstances and, depending on the business interests of a particular foreign bank, may be perceived as a burden or a blessing.

The IBA also created significant chartering and organizational opportunities for foreign banks:

- Foreign banks are permitted to own and operate Edge Corporations, entities authorized to engage in international or foreign banking and related financial operations. Capital requirements and branching regulations for Edge Corporations have been liberalized.
- The chartering of *federal* branches and agencies is authorized for the first time, as an alternative to state licensing. Thus, foreign banks can now share in the unique U.S. dual banking system. The OCC is empowered to approve federal branches in any state which does not expressly prohibit foreign bank activity. Federal branches may engage in all the banking powers available to a national bank, including, with specific permission, fiduciary powers. Where state law is silent, we do not construe prohibition nor do we consider that specific state requirements such as reciprocity are binding on federal branch decisions.
- "Limited" federal branches may also be authorized outisde a foreign bank's home state. They have all the powers of a federal branch except that their deposit-taking is limited to deposits permitted to an Edge Corporation, that is, deposits from foreign residents or customers or directly related to international transactions.

Impact on Foreign Banks' Competitive Position

The changes brought about by the IBA will have achieved a substantial, though imperfect, leveling of the playing field. Some regulations are yet to be fully implemented, and the effects of the new rules will only be fully discernible with the passage of time. The ultimate impact on the competitive balance will depend on how foreign banks respond to new conditions and new opportunities, the reactions of their domestic rivals and any further changes in U.S. laws and regulations that may be brought about by the dynamic unfolding of events.

Cost of Funds Advantage

In recent years, foreign banks have competed vigorously for loans by offering advantageous rates and terms. They were able to do so in part because of the nature of their operations. Many were new to the U.S. market and directed low-overhead operations to winning an initial share of the prime wholesale market. To continue growing, they will have to expand operations, which will add to costs and squeeze margins. Also, to the extent that any excessive rate shaving has occurred, market forces can be counted on to exert a self-correcting effect.

The imposition of reserve requirements by the Federal Reserve (and deposit insurance premiums for retail operations) will increase the cost of foreign branch and agency funds, probably virtually eliminating any differential advantage that may have existed earlier. Foreign banks have already been brought along as voluntary participants in the Federal Reserve's program of marginal reserve requirements on managed liabilities imposed last October and are part of the Credit Restraint Program announced on March 14.

Domestic banks have an inherent cost of funds advantage because they are well established and known to the market. Some foreign banks' names are not so familiar to a broad range of market participants, and they must usually pay a premium for funds. A number of foreign banks have been deliberately working to make themselves better known through time to reduce the premium. With the new option of federal branches available, some foreign banks have moved to convert agencies into branches, gaining access to the certificate of deposit market and as a lower cost alternative to bringing in offshore or home office funds.

A residual advantage may accrue to branches and agencies (but not U.S. subsidiaries) of some banks that are subject to unusually low capital requirements in their home country. This factor is difficult to assess, and it is only one piece of a complicated picture. Country-to-country comparisons are vitiated by differences in accounting conventions and disclosure requirements, not the least of which is the existence of hidden reserves for some banks. Moreover, across-the-board generalizations are not possible since available comparisons indicate that capital ratios for major U.S. banks are somewhere in the middle—higher, for instance, than the 1.4 percent for a selected group of French banks and considerably lower than the 8.4 percent for a similar group of British banks. In any case, the importance of differing capital ratios as a competitive factor is likely to diminish over time since there are indications of a trend toward convergence of capital and other prudential requirements. On the whole, I see no reason to believe that foreign banks will enjoy a cost of funds advantage in the post-IBA environment. The contrary seems more likely to be true.

Multistate Operations—a Partial Freeze

The substantial grandfathering of foreign banks' multistate operations, in itself an appropriate action, nonetheless perpetuates a locational advantage that domestic institutions cannot quite match. They can, of course, come close by using alternative devices, and the IBA-mandated liberalization of Edge Corporation regulations increases the interstate options of both domestic and foreign banks.

In two other respects, foreign banks will enjoy greater locational flexibility than their U.S. counterparts. First, domestic banks may not establish limited branches whose activities are limited only in that their deposits must originate in the course of international banking operations or from nonresidents. They are clearly better than Edge Corporations because they can engage in domestic lending. Congress was aware of this difference, and I do not object to the disparity, were given permanent rights to continue in place despite the new rules. The Congress felt, quite correctly in my view, that it would be inequitable to require divestiture of facilities and investments that were established legitimately under earlier rules of the game. In perspective, I would note that any actual advantages because of grandfathered positions are likely to dissipate through time, given the interplay of market forces and the creative energies of U.S. bankers who have found many ways to expand their geographic and product markets within the confines of U.S. banking law. Lest I appear to be painting too rosy a picture, however, I would hasten to renew my call for reassessment in the United States of the traditional restraints on domestic banking activity, which in my view, have served only to protect inefficient institutions and to frustrate banks' responses to challenges by nonbank competitors.

Allure of 'Reciprocity'

The geographic restrictions of U.S. banking law and the limited range of permissible nonbanking activities and investment are all the more frustrating to foreign banks because they are accustomed to operating without such restraints in their home markets and in other countries. National treatment here has a particular bite for foreign players because the banking game is played differently on U.S. grounds than elsewhere. Foreign banks would prefer reciprocal privileges enabling them to play by their accustomed rules on our turf, or at least permitting their banks the full array of activities authorized to U.S. banks in their own countries.

The Congress preferred national treatment to reciprocity as the basis for the IBA and chose wisely, in my view, notwithstanding the compromises and imperfections that I have described. Reciprocal rules in international relations have an unfortunate tendency to degenerate through rounds of restrictions imposed by one side or another into a situation where only the last common denominator of activities is available to all participants. Moreover, a policy based on reciprocity could create an administrative nightmare, entailing enforcement of a different set of rules for banks from different countries. Rather than striving for competitive balance, as the IBA attempts to do, such an approach would inevitably create competitive inequities between domestic institutions and different groups of foreign banks. A policy based on reciprocity also represents an essentially reactive posture rather than a deliberate attempt to establish a regulatory framework tailored to foster domestic policy goals.

Some U.S. observers, while generally satisfied with the national treatment approach governing foreign bank activity here, are troubled by foreign bank takeovers of large U.S. institutions and have argued that such acquisitions should be subject to a test of reciprocity. Reciprocal acquisition opportunities for U.S. banks are indeed limited. That is partly because of foreign laws and practices, but it is important to note the striking structural differences between the United States and most foreign banking markets. Where there are over 14,600 banks in this country, including many of substantial size (169 banks over $1 billion in assets), the typical foreign market is dominated by a small number of large banks, each with a substantial market share and nationwide network of offices. Foreign acquisition of such an institution is bound to be a troublesome prospect to most national authorities. The U.S. circumstances are different, and U.S. policy has indeed been open to foreign acquisitions, even of large banks, in keeping with our long-standing policy preference for open capital markets and avoidance of impediments to foreign investment.

The relevant U.S. statutes are nation-blind, reflecting that policy of neutrality. That policy pre-dates the IBA. As a matter of fact, the IBA did not cover foreign acquisitions at all, except in some indirect, incidental effects.

In the wake of four major foreign takeovers in the last year, however, such acquisitions have been the subject of continuing controversy here. A proposed moratorium is now under consideration. I have opposed any such move as a breach in traditional U.S. policy, which could have unfortunate effects, and as unnecessary, given the broad regulatory tools and discretionary authority already available to U.S. regulators and the lack of any deleterious effects on the U.S. economy or banking system. I will share with you some results of research recently undertaken at the Comptroller's Office. But first, let me summarize briefly some of the major provisions and likely effects of the IBA.

New Regulatory Requirements and New Opportunities

The IBA both imposes new regulatory requirements on foreign banks and creates new opportunities for them.

These are the new regulatory requirements:

- Foreign branches and agencies are subject to reserve requirements set by the Federal Reserve; these are more burdensome in several respects than requirements established by state laws, which previously applied to those foreign operations.
- Interest rate ceilings on deposits now apply to foreign branches in the same way that they apply to domestic banks.
- Limitations are now imposed on new nonbanking activities of foreign banks' operations here, essentially paralleling the restrictions on domestic banks and bank holding companies.
- New retail deposit-taking activity is to be restricted to a single "home state," subject to rules promulgated by the Federal Reserve. Both this geographic constraint and the restrictions affecting new nonbanking activities bring foreign banks under rules more nearly equivalent to those affecting domestic organizations.
- The Federal Reserve Board is charged with responsibility for collecting financial and other information on all foreign banking operations in the United States and coordinating supervision and regulation of branches and agencies at the state and federal levels.
- The Federal Deposit Insurance Corporation is

Most state laws are silent on the matter. Only 11 states have enabling legislation specifically authorizing foreign banks. Those states were apparently motivated by their economic priorities, for instance, promoting development of international banking centers within their borders or facilitating their banks' overseas expansion by providing a hospitable environment for foreign banks.

Foreign banks have been able to establish facilities in a number of states, an opportunity unavailable to domestic banks. Seventy-six foreign banks have established multistate operations. Foreign branches, subsidiaries or agencies exist in 10 different states, although most foreign bank operations are heavily concentrated in three states: New York, California and Illinois, the major money center locations. The host states imposed requirements on foreign banks, but no one state could control the overall U.S. operations of a foreign bank with multistate presence. That role—a natural for the federal government—was unfilled. The Federal Reserve regulates and monitors bank holding companies and has exercised jurisdiction over foreign banks and other foreign companies that acquire a U.S. bank, but no federal agency had jurisdiction over foreign branches, agencies and other banking entities.

Thus, a rather substantial vacuum existed at the federal level. I don't know of any comparable situation in other countries with well-developed indigenous banking systems. Of course, there are some countries, such as Cape Verde, with no law pertaining to foreign banks, but the pre-IBA combination of fractured state regulation and only partial federal authority is without parallel. Nonetheless, the system worked well enough for many years. Its success was testimony to the robust adaptive capacity of the dual banking system in the United States, which features 50 state authorities and three federal bank regulatory agencies, each with its own—though often overlapping—bailiwick. The uniquely multifaceted U.S. bank regulatory structure, perplexing to many, worked to the foreign banks' advantage. They were able to establish full-service interstate banking and affiliated nonbank operations that are out-of-bounds for their U.S. counterparts.

Forces for Change

In the mid-1960's, foreign bank presence in the United States was not obvious to many people nor was it a matter of any widespread concern. Some bright young Washington lawyers reportedly surveying the regulatory scene I have just described, concluded that it was, if not distressingly illogical, simply just not "neat." A limited flurry of concern arose when it was reported that the Bank of China intended to apply for a branch in New York. Some observers were alarmed that such an application, carrying with it weighty foreign policy implications, could be approved by a state regulator without even a nod from the federal government. About the same time, the failure of a foreign bank with a substantial branch in New York also aroused concerns about the lack of a federal regulatory role. A study of foreign banks in the United States was ordered by Congress, and the first bill to establish federal regulation was filed.

However, it was not until the early 1970's that momentum began building, finally yielding the IBA in 1978 after many rounds of debate, controversy and very serious study by Congress, the regulatory authorities and others. By that time, foreign bank entry had begun to accelerate, and a few large banks had been taken over by foreigners. At a time when there was turmoil in international financial markets, some people even feared that foreigners would dominate our system. In addition, a few foreign banks had growing retail operations in this country, so their presence was increasingly noticed outside corporation treasurers' offices and the money center banks. Most importantly, perhaps, more U.S. banks began feeling foreign banks' competitive thrusts quite directly and objected to differential advantages enjoyed by their foreign rivals, and the Federal Reserve stated the case for regulation of foreign banks to enhance its ability to carry out monetary policy responsibilities.

'National Treatment' in an Imperfect Setting

The new rules affecting competition between foreign and domestic banks in the country are designed to provide equivalent opportunities for both sets of players—and similar burdens as well—in accordance with the principle of national treatment. Devising new rules for a fair contest has not been easy nor has it been free of controversy. For one thing, foreign players are unaccustomed to playing on a field that is carved into many pieces called states. They have never been welcomed in all states, and now they are compelled to restrict their full banking operations to limited areas of the turf. The fact that their U.S. rivals are similarly limited is not very consoling to them. The foreign players also find that their usual full array of plays is now constrained by U.S. rules requiring a separation of banking and commercial activities.

The IBA and implementing regulations have a number of compromises, with some being the source of controversy. For example, under IBA, foreign banks are required to maintain reserves according to requirements by the Federal Reserve. While a bill calling for uniform reserve requirements for all U.S. banks is now making its way through Congress, such requirements have not been mandatory for all domestic banks in the past. However, the largest U.S. banks, which compete most directly with foreign banks, are virtually all Federal Reserve members. The IBA foreign bank reserve requirement therefore rectified the most significant competitive imbalance vis-a-vis domestic institutions. Under IBA, deposit insurance is now mandatory for foreign banks engaging in retail deposit-taking. This will increase those banks' cost of funds, but it also represents a new opportunity, since federal deposit insurance was not previously available to foreign branches.

From the perspective of the U.S. banks, the new rules are generally welcomed for their intended effect of leveling the playing field. Some serious bumps and ruts remain, however, to the perceived advantage of the fleet-footed foreign players. Most importantly, perhaps, foreign banks' multistate branching and certain nonbanking operations (particularly securities affiliates) were "grandfathered" by the IBA. That is, they is particularly significant in the current environment of fiscal austerity.

I believe there would be great merit in the undertaking of such a study by the Presidential Commission on the Agenda for the Eighties or by a congressional commission.

Such a study should address the following nonexhaustive agenda:

- Who should be eligible to receive subsidy and how much? At what income levels should subsidy be provided, how large a subsidy and for what kind of housing?
- How much money should the government spend annually and over a longer period of time to support housing?
- What mix of housing subsidy programs and approaches should be undertaken?
- What are the relative merits of programs targeted to specific segments of the population and programs which provide broad-based support to the market as a whole?
- To what extent should housing be assisted directly and indirectly through subsidization of financing?
- What are the relative merits of direct expenditure and tax expenditure programs?
- What are the proper roles for the various levels of government?
- Should government seek to assure a minimum annual level of housing construction?
- If so, what should this level be, and, again, what form should government support take?

I know those questions are difficult. I mean that they go to the core of our approach to housing policy. Our common goal remains as enunciated in law and in the title of this meeting—"A Decent Home in a Suitable Environment." And I think the achievement of this goal would be advanced by a careful study of the government's activities in the housing sector, followed by action implementing the results of that study.

Remarks of John G. Heimann, Comptroller of the Currency, before the Consular Law Society, New York, New York, March 26, 1980

Foreign banks have a long and successful history of operations in the United States. While their presence can be traced back to agency and branch facilities and subsidiary banks in California and New York over a century ago, foreign bank growth was moderate until the late post-war years but did not enter what might appear to be a boom phase until the 1970's. Currently, over 150 banks from more than 30 countries have established banking presence in this country. By mid-1979, their banking operations controlled assets of $143 billion, representing over 10 percent of total U.S. banking assets. The International Banking Act of 1978 (IBA) will directly affect the operations of all foreign banks in this country.

The act affects foreign bank operations here in three ways:

- It provides a new structure of federal oversight and regulation;
- It creates new opportunities for foreign banks; and
- It rolls back some privileges formerly enjoyed by foreign—but not domestic—banks in this country.

The basis for the IBA is a policy of national treatment. That is, the Congress sought to create a regulatory framework that would provide essentially equal competitive opportunity for foreign banks vis-a-vis their domestic counterparts. Equality of competitive opportunity means that the rules of the game should be fair and entails a rough "leveling of the playing field." The establishment of new rules has meant some gains and some losses for foreign banks.

I would observe at this point that foreign banks are generally welcomed to the United States, and for good reasons. Their presence adds an extra competitive vigor to our banking system, and, as examples of some concrete benefits, they may also bring new expertise and services and infuse capital.

Before describing the major provisions of the IBA and assessing their impact on foreign bank competition, it may help to retrace some of the events that gave IBA its impetus. Furthermore, some description of the extraordinary features of the U.S. banking system and its regulatory structure is necessary, for the U.S. system must be perplexing indeed from a foreign perspective and these features have, in fact, complicated implementation of the IBA.

After a brief review of the IBA and its impact on the competitive balance between domestic and foreign banks, I also want to make some observations on foreign acquisitions of U.S. banks. That is a subject which has caught the public and political eye in the last year and which must be of great interest to foreign banks as well.

Pre-IBA Situation

The situation of foreign banks in this country prior to the IBA was anomalous and remarkable in several respects. Foreign agencies and branches were not subject to any *federal* regulation or control whatsoever but were subject only to regulation by the states where they were located. State treatment of foreign banks has not been uniform by any standard. A small number of states prohibit foreign bank presence altogether.

passes legislation to reinstitute usury restrictions.

There are two important points to consider in assessing the new structure of financial institutions that this bill contemplates.

First, in the absence of Regulation Q reform, the thrift industry and smaller commercial banks could not be expected to continue as a viable source of mortgage credit. The Regulation Q reform legislation permits thrifts and commercial banks to compete in the real world of today. That means that the thrift industries can continue providing valuable financial services, including mortgage lending.

Second, elimination of Regulation Q restraints over the next 6 years will not restore the structure that existed before its adoption in 1966. Too much inflation and inflation-induced rate sensitivity have intervened. The thrift institutions and smaller commercial banks which are heavily invested in low-yield mortgages made in the past will labor under an earnings burden for some years if inflation persists. The ability to pay market interest rates on deposits will require comparable rate flexibility on the asset side. Thrifts will exploit their new powers to shorten the average maturity of their assets through consumer loans, commercial paper, etc. Additionally, the mortgage instrument will have to accommodate the variability of deposit rates.

This bill alters the financial intermediary framework. The future of depository institutions, especially the thrifts and smaller commercial banks, and the products and services they offer will represent a change from the past. For housing, the new framework should provide a flow of market-rate mortgage credit at whatever levels and on whatever terms required by the inflation rate at the time.

If we knew the exact sequence of the struggle to bring inflation under control, we could predict with reasonable assurance the ways in which the post-Regulation Q financial structure will develop. Since that is unknown, we can only plan for the possible contingencies. And we had better plan carefully and well, for there is an enormous need for housing in the coming years.

Fundamental demographic characteristics of the American population mean there will be continued demand for housing in the coming decade, and especially in the next 5 years or so. The Federal Home Loan Bank Board projects a need for more than 2 million new housing units yearly. This need is partly a reflection of the age distribution of our population resulting from the post-war baby boom.

The demand for housing has been bolstered by a sociological development of major significance—the secular increase in the number of households relative to the population. Delays in the age at first marriage, divorce and longer life spans have altered the composition of the American household in the post-war period. Let me cite just one aspect of this: In 1950, only about 9 percent of all households were accounted for by persons living alone; in 1960, 13 percent; in 1970, 17 percent, and by 1978, 22 percent.

Since there is no obvious reason to anticipate a dramatic or rapid reversal in the trend to a smaller average household size, the outlook is for more households and more housing demand.

Moreover, housing demand has gone beyond a question of mere shelter. Housing is now viewed also as an investment, an inflation hedge and a source of support for consumption expenditures. The home has turned out to be one of the few widely available assets whose real value appreciated during the inflation of the last decade. As a result, an inflation psychology has taken hold in which Americans have been stretching themselves to previously unheard of degrees to own equity in housing. Data Resources Incorporated has estimated that almost 20 percent of consumer spending on housing in 1979 was inflation-induced hedge buying. Until inflationary psychology dissipates, this source of housing demand is likely to remain with us.

There will also be a need for extensive investment in new and existing housing to conserve energy. The residential sector accounts for about 17 percent of total domestic energy consumption. A successful national energy policy will require conservation and improved energy efficiency in housing, just as it will in other sectors.

The need for continued substantial investment in housing in coming years is clear. Precisely how we will meet that need is not so clear. The new system of housing finance involving thrift institutions with expanded asset powers and significant direct and indirect government intervention is still taking shape. The future course of market structure and the mortgage instrument are clouded by uncertainty as to the progress of our inflation control efforts. At the same time, a substantial affordability problem is emerging as housing construction costs rise more rapidly than incomes and nominal mortgage interest rates rise with other market rates. The first-time home buyer is, of course, most adversely affected by this, but the rental markets and labor market mobility are also adversely affected.

Those members of our society who can afford access to housing on market terms will continue to be served by the new system of housing finance. Those who cannot will need government subsidization on below-market terms to assure their access to housing. But the precise form that government subsidy programs should take is far from clear.

There is always a need for evaluating government programs in all sectors of the economy. But in the case of housing, that need is compounded by the uncertainties surrounding the evolution of the housing and housing finance markets in an era of inflation, inflation fighting and structural change.

What is needed is a careful study of how well the interaction of the private and government systems of housing finance and support has worked in the past, how well we can expect it to work in coming years and what policies could be adopted to improve it. At the root of such a study is the question of how the American people spend their money. That question housing sector without a healthy economy, and the economy cannot be truly healthy until we get control over inflation.

To see some of the ramifications for housing of the effort to control inflation, it is worthwhile to consider the housing finance system over the post-war period.

The early years of the post-war period witnessed an enormous expansion in the depository institutions, especially the thrifts, and a rapidly growing role for them in housing finance. From 1950 to 1965, the deposits of savings and loan associations and mutual savings banks expanded from $34 to $163 billion. Their holdings of residential mortgage debt expanded from $20 to $142 billion, accounting for about 60 percent of the total expansion of mortgage debt over this period. The long-term, fixed rate, self-amortizing mortgage was the primary instrument of owner-occupied residential finance. In that period, new housing starts averaged 1.5 million per year.

The housing finance system worked reasonably well for those who could afford housing at prices, rents and interest rates established by the market.

Despite that record, there were problems in the housing sector in that period as well as later. One was how to meet the needs of those who could not afford access to housing at market prices or rents or at market rates of interest. Gradually a structure of governmental programs grew up to deal with this problem. These programs mainly involve the indirect subsidization of housing finance rather than direct subsidization of housing itself.

In addition, programs like the favorable tax treatment of expenses of real estate ownership provide support to the housing and mortgage markets as a whole—in effect a government subsidy of the financial costs of housing, both owner-occupied and rental. These programs tend to have the effect of benefiting many people who could afford housing even without these subsidies, but they also have some, arguably large, trickle down effects which benefit those who could not afford housing on market terms.

Another major housing sector problem is the boom-bust cyclical aspect of residential construction. This was perceived as inefficient and conducive to inflation because it inhibits development of a stable homebuilding industry with a stable base of supply of labor, raw materials, etc. This cyclical problem became acute in 1966 as a rise in market interest rates resulted in a 50 percent reduction in the annual deposit inflow to the thrift institutions, an earnings squeeze and a reduction in the ability of thrift institutions to provide mortgage support for the housing industry. Housing starts weakened by over 20 percent relative to the previous year.

Two actions were taken in an attempt to moderate the cyclical problem. The first was an enormous expansion in government's role of supporting the mortgage market. In 1966, nearly 30 percent of net new mortgage money was provided through the Federal National Mortgage Association, the Federal Home Loan Bank System and similar creatures of the federal government. In later periods when private financial support for housing weakened, government-related entities again provided substantial support to the mortgage market. In 1969 and 1970, government entities accounted for almost 40 percent of net new mortgage finance, and in 1974, they accounted for an astounding 53 percent. Indeed, these entities provided significant support, even in periods when private support was not terribly weak. In the 1970's, 30 cents out of every dollar provided to the mortgage market came directly or indirectly through a federal government-related entity.

The second action to smooth out the housing cycle was the extension of Regulation Q deposit rate ceilings to thrift institutions and the provision of a differential allowing thrifts to pay higher interest rates on deposits than commercial banks. Regulation Q was originally intended in 1966 as a temporary measure to support thrift earnings and protect the thrift deposit base to provide a stable flow of mortgage money and a more stable construction industry. But it has been kept in place for too long and is now widely recognized to be the cause of severe inequities and distortions.

Ironically, Regulation Q did not succeed in stabilizing the thrift industry's deposit base. When interest rates have risen above deposit rate ceilings, relatively well-to-do and sophisticated depositors have withdrawn their savings and invested outside of the depository system in Treasury and agency securities, corporate bonds and notes, and money market mutual funds. This has meant that there is less credit available to finance housing during high interest rate periods, which in turn has exacerbated the cyclical swings in the housing industry.

While depositor inertia and the inconvenience of moving money out of a depository institution has kept a core of deposits in thrifts, the general public's increased awareness of market rates has created an unknown level of potential volatility in traditionally stable "core" deposits. All net deposit gains at savings and loan associations in January, for example, were in accounts offered at rates tied to market interest rates. At the end of January, money market certificate balances at savings and loan associations totaled $137 billion, or 30 percent of total deposits at these institutions.

The rapid escalation of inflation, and hence cost of funds, has created an earnings problem for many thrift institutions and smaller commercial banks which have substantial holdings of long-term fixed rate mortgages made at a time when rates were lower.

In recognition of these problems, congressional action to reform the financial intermediary structure now appears imminent. Conferees of the House and Senate have reportedly reached agreement on a multifaceted bill which would allow institutions to compete for deposit funds and provide thrift institutions with new powers. The bill has three features of particular importance to housing:

- Deposit rate ceilings would be phased out over the next 6 years;
- Savings and loan associations and federal mutual savings banks would be permitted to invest portions of their assets in new ways, generally with shorter maturities; and
- State usury statutes on residential mortgage loans would be pre-empted unless a state

pate that economies of specialization will continue providing well-run small financial firms able to compete effectively with large diversified firms.

While consolidation into more broadly based nationwide networks seems plausible, given trends in data processing and communications, this need not necessarily occur. Amalgamations of related financial firms at the local level is one possibility. Another possible configuration, one given prominence in the fast-food business, is franchising, where large integrated financial services firms would license small, local independent firms to deliver their financial products. Developments such as these will take time, if they occur at all.

In the nearer term, banks and nonbanks which are intent on turning change to their advantage will repackage existing services and develop new ones. For example, one very large regional bank, Security Pacific, well aware that inflation and increased consumer rate-sensitivity may be eroding its advantage in funding loan growth, is already making plans to assume as many investment banking functions as it can. The *American Banker* has reported:

> In the future, Security will be packaging installment loans, auto leases, homeowner-equity paper, etc., for resale to emerging aftermarkets—*e.g.,* insurance companies, pension funds and public noninstitutional investors.

Along similar lines, a smaller, well-run regional bank plans to develop its comparative advantage in initiating, processing and servicing mortgage, consumer and short- to medium-term commercial loans. It would then privately place such loans, leases and tax-free revenue bonds, for a fee, with other financial institutions such as insurance companies and pension funds.

Uncertainty

It should be clear by now that I am skeptical of those who would forecast in elaborate detail the shape of competition among the providers of financial services, even so close in the future as 1985, and certainly beyond. But I am equally skeptical of those who would cloak themselves in the mantle of uncertainty and say that even the broad outline of the future is beyond our ken.

Obviously, the rapidity of change and the extent of stresses that financial institutions undergo will depend, in large measure, on our ability to control inflation and avoid other economic problems.

Which competitors are most successful in the coming years will depend in part on the political process. For example, if the present restrictions on deposit-taking institutions remain in place, then we should expect continued and rapidly expanding incursions of nonbank competitors into traditional banking markets. If, on the other hand, we free traditional deposit-taking institutions from many of their restrictions, then I am equally confident in predicting that their traditional role as a principal provider of financial services will continue and, indeed, will expand.

A short, simple answer to the question "Who will provide banking services in 1985?" (and I would add the years beyond) is those who have the minimum interference from government and the capacity, competence and will to shape their destinies in the face of fundamental forces acting on our financial systems and economies. In short, those who are able and willing to adapt.

Remarks of John G. Heimann, Comptroller of the Currency, before the 49th Annual Meeting of the National Housing Conference, Washington, D.C., March 17, 1980

There is an old Spanish proverb that seems appropriate to describe the decisions our nation faces today: "Take what you want—but pay for it, says God." Resisting and reversing inflation will not be without cost, but as President Carter noted last Friday, not to fight inflation will exact a price far greater than costs of bringing it under control.

The President has outlined a five-point program to deal with the inflation problem. The program includes greater fiscal discipline by the federal government, reinforcement of the Federal Reserve's activities to restrain the growth of credit, voluntary wage and price restraint, additional steps to reduce our country's use of imported oil and consideration of longer term measures to increase productivity and investment.

I fully support this program and have committed all the resources of my office to assure that both the letter and spirit of these initiatives will be adhered to by the financial institutions under our supervision. If this program is to succeed, it will need the support of all concerned Americans. I urge you all to support this program.

The successful implementation of the antiinflation program will depend on achieving a greater level of efficiency in all sectors of the economy. Governmental restraint increases the necessity of assuring that government support for every sector of the economy is as efficient as possible. In the coming months, government programs should be reevaluated to assure that they are being administered in the most cost effective manner, that there is no duplication and overlapping of programs and that financial assistance is targeted to meet the needs of the intended beneficiaries. This is as true for housing and housing finance as for any other activity which receives government support.

To state the obvious, there cannot be a healthy means final, breaking down of geographic barriers to competition. The domestic aspect of this trend was the topic of my remarks at this conference last year.

Internationalization of the Competition in the Provision of Financial Services—It is important to note also the significant reduction in geographic barriers in international competition. The two symbolic centers of this phenomenon have been London and, somewhat later, New York.

In response to policies fostering freer international trade and investment, multinational commercial and industrial corporations have grown in number and size over the last 35 years. Multinational banks have grown as banks followed their customers into foreign markets. Initially, this was a large bank phenomenon, but in the latter half of the 1960's, smaller regional banks from the United States began to make an appearance on the international scene.

Gradually the activities of U.S. banks in foreign markets expanded from servicing the trade and investment finance needs of their U.S. multinational corporate customers into lending to new customers, including sovereign governments, through the emerging Eurocurrency markets. These markets, by the way, can be viewed as the essence of international financial integration and, as such, epitomize the new order of international banking.

U.S. banks abroad have also begun lending to domestic industries in host country markets and participating in providing financial services to local consumer markets.

To give some sense of the magnitude of these developments, consider that, at the beginning of 1979, 144 U.S. banks operated 777 branches overseas in addition to numerous representative offices, 262 majority-owned subsidiaries and 348 minority-owned affiliates in 141 different foreign jurisdictions, the aggregate assets of which were in excess of $300 billion. More than 48 percent of the total loan portfolios of the 10 largest U.S. banks were loans to foreigners. An indication of the rapid growth of international banking is the tripling of assets in foreign branches of U.S. banks from 1972 to 1978.

During the 1970's non-U.S. banks undertook significant expansion into foreign markets, including in many instances the United States. By mid-1979, assets of all foreign banking institutions in the United States, for example, amounted to $143 billion, or 10 percent of the total U.S. banking assets. One hundred fifty-one institutions from over 30 countries maintained a banking presence in the United States through 336 entities, including branches, agencies, subsidiaries, investment companies and so forth.

As has been the case with many U.S. banks overseas, foreign banks in the United States have been expanding their activities from the wholesale side into some of the domestic markets. This has been done through acquiring U.S. banks and *de novo* establishment of domestically chartered banks by foreign interests. The activities of those foreign-owned U.S. banks are often indistinguishable from their domestically owned counterparts. The national treatment philosophy of the International Banking Act of 1978 and some of its specific provisions such as reserve requirement and deposit insurance will likely mean that foreign banks' branches and agencies in the United States will also be increasingly indistinguishable from domestic banks.

That all adds up to a more vigorously competitive international banking environment. There will be a more rapid spread of financial innovation as banks adapt the successful techniques and banking practices of competitors around the world.

Possible Difficulties and Painful Period of Adjustment

Communications and data processing technology provide the means for a radical restructuring of the U.S. financial system. The pace of this restructuring will depend on the intensity of the various forces I have described and on the impact of economic conditions on financial institutions as presently constituted. The ability of existing institutions to adapt will depend on their ingenuity, as well as flexible interpretation of law, modification of regulation and, of course, outright change in the law.

Moreover, timing is crucial. Institutions require time to adjust to change. If change occurs too rapidly or economic conditions preclude orderly adjustment, government will have to intervene or else accept, by default, a haphazard restructuring of the financial services industries.

Institutions that are less constrained and that have the managerial and financial capacity to adapt more quickly will be better positioned to take advantage of change. It seems likely that adjustment for some institutions will be difficult and painful.

Possibility of Consolidation—One of the predictable effects of economic difficulties such as uncontrolled inflation or deep recession would be consolidation of financial institutions. For many years, speechmakers and forecasters have been predicting that the U.S. commercial banking system will witness significant consolidation of the more than 14,000 commercial banks. If I am correct that significant changes are likely in the coming years and the process of adjustment to those changes will be difficult, then we may well be approaching a period in which the long-forecasted consolidation activity will occur. It should be noted, however, that depository institution behavior in the United States will not replicate the British or Canadian systems. Rather, consolidation will mean fewer institutions, but not just a few. The size and diversity of the United States requires a broad-based, differentiated system.

New Roles and Configurations—One form consolidation might take is that of the integrated financial services firm. Already, firms with different financial bases such as Merrill Lynch, American Express, Citicorp, and Sears are consciously moving in this direction. However, many services provided by large financial conglomerates will be brokered rather than produced directly. In some instances, the actual financial products might be produced by specialized subsidiaries, in other cases by independent firms. I anticitions through a direct mailing to its 26 million credit card holders. That would constitute a direct challenge to the savings deposit business of banks and thrift institutions and would be attractive to Sears' customers primarily because of government controls which keep deposit rates substantially below current high market rates.

Indeed, deposit rate controls and inflation-induced high interest rates are responsible for the birth of a new financial services industry which competes directly for savings deposits.

Money market mutual funds, which under U.S. law are investment companies rather than depository institutions, provide depositors a means of investing their funds at a market rate of interest. A money market fund can serve as a checking account and a savings account. It has instantaneous liquidity and can provide direct access to other kinds of investments. In short, it is an all-purpose account combining into one many of the individual's most frequently used financial services. The only major shortcomings of money market funds are that balances are not insured by the federal government and minimum check amounts preclude the use of the account as a household's normal checking account. Until now, investor knowledge and understanding of money market funds has been extremely limited. However, this is changing rapidly. In the last 2 years, these funds have grown from $4 billion to $58 billion.

There are many additional examples of competition between banks and nonbanks. To give just one more, consider that Control Data Corporation, a computer and data processing firm, has announced intentions to open a chain of 400 small business loan offices throughout the country to lend to small companies under the government's Small Business Administration loan guarantee program. Those offices, in addition to providing loans, will offer small businessmen a range of financial, data processing and advisory services in areas such as sales, accounts receivable, inventory and payroll. In addition, Control Data expects this will facilitate sale of its computers to small businesses. While many banks have viewed Small Business Administration lending as uneconomical, Control Data expects large volume, nationwide operations to overcome this problem.

These few examples of incursion by nonbanks into activities which were once regarded as the preserve of banks are the product of inflation, technological advances and regulatory restrictions which inhibit banks from adapting and competing while leaving nonbanks relatively free.

Forays by Banks Into Areas Not Traditionally Considered As the Province of Bankers—While we in the banking sector are forever talking about the incursions of nonbanking competitors, it is certainly fair to say that commercial banks themselves have increasingly made forays since the 1930's into activities which have not been in their province.

Over the postwar period, inflation, technological advances in cash management and prohibition of interest on demand deposits have led to a substantial decline in demand deposits as a source of funds. Demand deposits, which constituted 74 percent of bank deposits in 1948, declined to 29 percent by year-end 1979.

In response, commercial banks began competing more aggressively for household savings deposits, long the preserve of the thrift institutions. A natural complement was greater involvement in consumer installment and real estate lending as banks sought to provide a full range of household financial services. In the late 1960's, this was supplemented by the rapid spread of bank credit cards. As a result, commercial banks' share of the consumer installment credit market has increased since World War II from 38 to 49 percent, while the combined share of finance companies and retailers has declined from 58 to 30 percent.

Commercial banks have also adapted their commercial lending strategies to compete more directly with lenders of longer term funds by moving aggressively into term lending. This has been supplemented by equipment installment lending and commercial leasing. Both forms of lending compete directly with nonbank lenders.

During the 1960's, commercial banks also sought to respond to the needs of a growing economy by diversifying into a wide range of banking-related financial services. Most major banks established one-bank holding companies to acquire nonbank affiliates such as finance companies and leasing companies which were unrestricted in interstate expansion. For example, BankAmerica Corp. now operates 16 nonbanking subsidiaries, including FinanceAmerica, which has 382 offices in 38 states and Canada.

Over the last decade, commercial banks have continued expanding their range of financial services. Major banking organizations now provide services such as securities and options brokerage, investment fund management, investment counseling, life insurance, health insurance, fire and casualty insurance, management consulting and equipment rental and leasing.

One of the more recent developments is the move toward real estate brokerage services by commercial banks. Commercial banks generally are prohibited from engaging directly in real estate brokerage. However, Chemical, Citibank, Chase and Morgan have begun offering real estate consultation services. Rather than charge a brokerage fee, the banks receive fees for consultation services such as contacting potential buyers and providing advice as to price, terms and financing.

While not a direct example of bank forays into nonbank activities, I cannot resist mentioning the innovative adaptation of telecommunications technology to one of banking's traditional service areas. A bank in Columbus, Ohio, is experimenting with a new bill payer system which links the bank's computer with the customer's television. Whenever the customer chooses, he or she can see a list of bills and balances for checking and savings accounts and can instruct the bank's computer to pay all or selected bills in whole or in part.

The discussion so far illustrates the breaking down of product market barriers which had served to insulate some financial institutions from the competition of others. There has also been some important, but by no more, while we use the term "banking," we are really talking about providing a broad range of financial services.

Forces and Factors

The U.S. financial system is being reshaped by at least four fundamental forces. These will continue to cause change, perhaps decisive change, in the financial system in the next few years. They are all familiar, but perhaps not often thought of in this connection. They are:

- *Inflation*—This is the most profound and disturbing force affecting financial institutions. Inflation and its twin, high interest rates, have made heretofore noncompetitive markets and markets dominated by price controls attractive to aggressive institutions seeking new profitable opportunities by circumventing artificial regulatory barriers. Simultaneously, inflation has increased the sensitivity of savers and investors to market interest rates.
- *Integration of World Economic and Financial Markets*—Since the end of World War II, policies favoring relatively free international trade and investment have contributed to a progressive integration and internationalization of world commodity and financial markets. We believe that integration process will continue.
- *Technological Innovation*—Improvements in transportation and advances in data processing and communications technology continue to facilitate the geographic growth and reach of markets, including, prominently, markets for financial services. The changes that technology has already brought to the U.S. financial system pale in significance compared to those which should occur in coming years.
- *Law and Regulation*—We must add the effects of the unique legal and regulatory system which governs U.S. financial institutions. This statutory structure, which reflects several basic elements of U.S. political philosophy, is both profound and pervasive in its effects on the behavior of the U.S. financial system, especially with regard to depository institutions.

These elements of U.S. political philosophy include fear of undue concentration of economic and financial power, deference toward the rights of states as sovereign members of the Union, predisposition to the separation of commerce and finance and desire for institutional stability. They have manifested themselves in laws and regulations restricting geographic competition among depository industries and, more broadly, product line competition among financial intermediaries. In addition, they have manifested themselves in restrictions on price competition in deposit-taking and in price restraints on certain financial products.

All of this has contributed to a fragmentation and segmentation of the U.S. financial system into a variety of industries. Moreover, each industry historically has tended to fill specific roles—a natural outgrowth, in several instances, of economies of specialization. Frequently those roles have been codified by state and federal law. As a result, the providers of financial services in the United States include commercial banks, savings banks, savings and loan associations, credit unions, finance companies, insurance companies, investment bankers, securities brokers, real estate services firms and investment companies.

While sometimes overlooked, it is important to recognize that the U.S. legal and regulatory framework clearly serves to constrain the ability of certain financial institutions to adapt to change. The shape of things, therefore, depends in part on what happens in the political, legislative and regulatory arena.

Trends

It is possible to pinpoint certain trends that are likely to result from the interaction between the forces I have been discussing and the U.S. financial system.

Incursion of Nonbank Competitors—The very topic I have been asked to address is, of course, suggestive of one fundamental trend. Institutions which do not call themselves banks and which are not legally defined as banks are engaging in a variety of activities we have traditionally associated with banking. There is nothing magical about the term "banking." We are talking about the provision of financial services in various forms. And, the incursion of nonbanks into areas which were traditionally the provinces of commercial banks merely reflects adaptation to change.

The reality of nonbank competition is clear. The nation's largest securities firm, Merrill Lynch, for example, has already put together a package of services called the cash management account which combines a securities margin account with a money market fund that can be accessed through checks and a VISA card.

Merrill Lynch has ascertained that the average affluent household consumes 38 different financial services from 20 different entities, including lawyers, accountants, finance companies, real estate brokers, financial advisors, insurance companies, securities brokers and banks. Within a decade, Merrill Lynch hopes its customers will turn to its account executives for nearly all their financial services. Account executives would become financial advisors rather than salespeople. While some financial services would be provided by other companies, they would be designed to meet Merrill Lynch's requirements and sold by its account executives. Consistent with these long-range objectives, Merrill Lynch recently entered the residential and commercial real estate brokerage business in addition to the real estate relocation services they already offer.

Sears, the world's largest retailer, recently established a new company, Searco Enterprises, Inc., to coordinate many of its consumer-oriented financial services. The company will include Sears' savings and loan association, the 14th largest in the country, and subsidiaries engaged in mortgage insurance, mortgage banking, real estate development, real estate relocation services and commercial leasing. More than a year ago, Sears announced its intention to offer up to $500 million in 2- to 10-year notes in $1,000 denominahaps the act was, in part, so motivated. But, viewed simply as a set of internal controls similar to those in each bank which guide your actions, they are not as controversial.

An axiom of banking is that bank growth and prosperity are intricately entwined with the health of the trade area. Society today expects bankers to assume a point position in addressing social ills. This is infinitely more taxing than simply providing first-rate service. It is only enlightened self-interest to promote dialogue and discussion with the elements presently in your community. Your wholesale commitment and personal participation at all levels is vital to solving contemporary problems. The OCC has recognized your need by establishing a Community Development Division to provide direct technical assistance to national banks seeking advice on community lending activities. Evidence of private efforts in this area are reflected by Citibank's recent $1 billion commitment to home mortgage lending in the New York metropolitan area and the community development corporations established by North Carolina National Bank, First National Bank and Trust Company of Rockford, Ill., and First Chicago Corporation.

If the past teaches us anything, it is that the future cannot be accurately determined. On the horizon, it appears possible that Congress and the public are now becoming more preoccupied with structural questions. Such topics as Federal Reserve System membership, abolition of Regulation Q, authorization of transaction accounts, the McFadden Act and Glass-Steagall are debated actively today. Many of these shelters from competition now may be approaching extinction. You, as bankers and directors, must diligently prepare to operate under different constraints. The future clearly holds no less of a challenge than the past, for banking simply is not a stagnant enterprise. It beats with excitement and is truly dynamic. As you strive with management to determine the future direction of your bank, do not neglect the discernible trends in the industry and the multitude of forces at work in the financial marketplace. You have willingly chosen roles of leadership, and it is your charge to perpetuate public confidence in and satisfaction with our free enterprise system of banking.

You have to assess the power and opportunities that you have day in and day out as bankers. To waste or misuse such power is a serious breach of moral standards and the trust that you assume with your position. Many people are deeply influenced by events which they are not fully capable of evaluating. Your voice and your leadership are required. Remember, though, you are not alone. We all have to go down the same road.

Let me end with an old tale about the wise man and the merchants in the marketplace. The tale is analogous to the regulator and the bank director. The wise man used to sit in the marketplace every day passing judgment on disputes between the merchants and the customers. They were fair, just decisions, but sometimes they annoyed the merchants.

So one day three merchants got together and said, "Let's embarrass the wise man and make him look like a fool in front of all the people and then maybe they won't accept his judgments anymore." Their plan was to catch a bird and to carry it to the wise man behind their leader's back. They would then ask the wise man if the bird was alive or dead. If he said it was alive, the leader would crush it behind his back and present the dead bird to the wise man. If the wise man said it was dead, the leader would take it from behind his back alive, open his hands and let it fly away.

The next morning, the merchants caught a bird and went to the wise man as he was sitting among his followers in the marketplace. The leader held the bird in his hands behind his back and asked the wise man if the bird was alive or dead. The wise man hesitated, then replied, "The answer is in your hands."

Remarks of John G. Heimann, Comptroller of the Currency (presented by Charles E. Lord, Senior Advisor to the Comptroller), before The Government Research Corporation's Second Policy Forum on American Banking, London, England, March 10, 1980

"Incursions by Nonbanking Institutions—Who Will Provide Banking Services in 1985?"—although I cannot predict with any great precision which companies will be successfully and profitably providing banking services in 1985, it is possible to identify forces and factors which will have a substantial impact on shaping the answer. It is possible to pinpoint ways in which these forces are already affecting our financial institutions, and it is possible to suggest some of the resultant trends.

For my own part, I believe that the forces and factors now at work hold forth the prospect of change more fundamental than any other during the postwar period. Although predicting great change is a regular practice of speechmakers, the record reveals that change ordinarily occurs through slow evolution rather than great discontinuity. Still, we should recognize that this is a period of considerable turbulence which makes fundamental change not only possible but probable.

Although our topic is U.S. banking in 1985, we should not limit our focus to the United States or even, indeed, to banking. One of the most dramatic phenomena in recent years has been the internationalization of world banking systems. Thus, the phenomena shaping banking in the United States are also likely to be played out in other major banking markets. Further-cry, Congress passed sweeping legislation in 1978: the Financial Institutions Regulatory and Interest Rate Control Act, or FIRA. The breadth and complexity of the act and the regulations promulgated to implement it are claimed to have discouraged and inhibited many an existing and prospective director.

As early as 1935, Comptroller J.F.T. O'Connor suggested that bankers adopt a code of ethics to uphold the highest standards of banking practice and to make banking a profession rather than a business. He believed that improper practices could be corrected by bankers as a group and that penal statutes covering such practices were unnecessary. He clearly indicated that such codes mainly restrain a minority of members whose acts sometimes place the entire profession in a defensive position. While the great majority of banks take the public trust seriously and operate in a manner to justify that trust, the minority, through preferential treatment of bank insiders, has placed the industry under a rather strict code.

Historically, the banking industry has withstood challenges time and time again. Commercial banking has always been the cornerstone of this great nation's growth dating back to the days of Alexander Hamilton. Simply put, it has stood the test of time. But the ability of the industry to recognize that preferential treatment of bank insiders is unfair to the public and to denounce in the strongest way possible abusive, preferential treatment by insiders should be your challenge and, more than that, your objective. Too often, obvious deficiencies in the banking system have been addressed by reactive legislation which has not benefited either the public or the banking industry. You must remember that if you don't address deficiencies within your own industry, Congress has the moral responsibility to do so. Once the issue reaches Capitol Hill, Congress then has numerous special interest groups to satisfy and, even at that point, bankers are generally not a cohesive group. One can certainly dispute the burdensome requirements of the consumer laws, but no one can dispute that in far too many instances the consumer, in fact, was receiving unfair treatment from banks. Since the banking industry did not address its problems, Congress did, and the federal banking agencies established consumer examinations to enforce these very same burdensome laws.

Of course, not all legislation is derived from a need or from perceived deficiencies. As an example, I would quote Herbert Stein who said:

> Franklin Roosevelt's ability to come up with an endless series of programs and proposals was enlarged by his lack of commitment to any philosophy or principles of economic policy. This gave him a great variety of actions to choose from. He could choose from the box of economic planning or from the box of measures to promote a competitive economy—on one occasion, he even briefly made an action out of inaction by declaring in 1936 that he would give business a 'breathing spell' during which he would propose nothing new. Such broadmindedness in the choice of actions is sometimes called pragmatism and sometimes called not having the foggiest notion of what to do.

I must confess to painting a stark landscape dominated by hazards confronting the bank director. It is not a barrier too broad to jump, nor a crutch on which you may lean. Rather, it is presented as a challenging and rewarding position. For if the life of the financial system exemplifies anything, it is that managers and directors will positively and forthrightly resolve the demands pressed on them.

How can the bank director weigh the frequently conflicting nature of the forces interacting on the bank and still achieve a profitable, stable, community-oriented entity? Please recognize that there is no magical formula which can accomplish this. Each director or candidate for a director's position must define his or her role. How many of you have paused and taken time to develop a job description for your role? You do it for members of the management team, and you perform no less crucial a function for the bank. Sit down and ponder what your task entails and what you expect to contribute to the well-being of your institution. Once you have established your criteria, discuss them with fellow directors so that you may work together with a common sense of purpose. Just as your responsibilities change, the description of your job will also change, so don't chisel it in stone. Review it periodically—update it—and be specific (or general) as to what the job demands, but when you are unable to meet the job requirements or meet your own self-established standards, you have a legitimate reason to ask why.

Having decided on the individual role, it is imperative that a consensus be reached by the directors regarding the bank. Clearly, it is chartered to serve the community. But for how long can it meet the public need without profits and capital? Can it survive long without shareholder support? Will management perform as desired without explicit direction from the directors? From those questions, the need for formulating objectives and policies to meet the goals is readily seen. Our examination approach, often described as "top-down," focuses intensely on the actions of the board of directors. Examiners devote appreciable time and effort to appraising the diligence and commitment of the board as evidenced by well-defined goals, effective policies, competent management and efficient systems of measuring compliance with established standards. To properly fulfill these duties requires vigilance and active participation at committee or board meetings. Directors cannot function *in absentia*.

Your role as a director extends beyond the boundaries of your bank building. Be an advocate not only of your respective institutions but of banking as a whole. Don't permit yourselves to become protestants, merely voicing personal annoyance. Where legitimate concerns exist, address them. If your efforts fail, abide by the new precepts, accepting them for what they are intended to accomplish. A striking example in this regard is the Financial Institutions Regulatory and Interest Rate Control Act. While debate was ongoing, and following passage, many bankers attacked it as impugning their individual and corporate integrity. Per-records and those with inadequate resources to support acquisition debt. Moreover, the very existence of the CBCA may effectively discourage attempted entry by certain interests.

Although the CBCA is designed to accommodate competing regulatory, legal and economic goals and rights, it is not a panacea. It has been a useful and, we believe, important instrument in our supervision of foreign acquisitions to date.

International Banking Act

In response to the increased presence of foreign banks in the United States, the Congress, in 1978, enacted legislation designed essentially to equalize the domestic treatment of foreign and U.S. competitors under American law. While grandfathering existing U.S. operations of certain foreign banking organizations which had already established their U.S. presence, the new law applies the basic U.S. legal principles affecting domestic banking organizations to the conduct and future expansion of foreign-owned institutions. It also affords certain opportunities to foreign-owned institutions which had previously been only permitted to domestic banks, including federal deposit insurance, option of a federal or state charter or license and the ability to establish Edge Act subsidiaries.

The principal new responsibilities of the OCC under the IBA are licensing and supervising federal branches and agencies of foreign banks in the United States. OCC has followed the congressionally mandated policy of national treatment, as embodied in the new law, with regard to licensing of foreign facilities. We believe that viable, fair licensing procedures and effective supervisory arrangements have been established parallel to the long-existing state systems, extending the essence of our unique dual banking system to foreign and domestic banks.

During the last 2 years, over 75 foreign banks have inquired about the federal branch/agency system. So far, 20 applications for federal licenses have been filed. Of those, 14 have been approved, and one has been withdrawn before agency disposition. No such application has been denied to date. We expect interest in federal licenses to continue at a steady, but not overwhelming, pace.

The IBA authorizes the OCC to license federal branches and agencies in any state where such offices are not prohibited by state law. A number of states which permit foreign banks to establish branches or agencies impose limitations or conditions on such entry. Certain states, for example, impose a reciprocity requirement that U.S. banks be afforded equivalent access to the banking system in the home country of the foreign bank before an application for a license can be approved. Some state bank supervisory authorities have criticized OCC for processing applications for an initial federal branch or agency on the merits and without regard to a reciprocity provision that might be imposed on a similar application for a state charter. We believe, however, that a federal approach based on reciprocity would be incompatible with the policy of national treatment embodied in the IBA. A state law reciprocity requirement is, in our opinion, in the nature of a condition or limitation rather than a prohibition on foreign entry. Dual banking has always been characterized by differences among regulatory jurisdictions, and this continues to be true of the dual chartering option that Congress has extended to foreign banks.

We have also rejected minimum size or standard performance ratio screening criteria to restrict filing or acceptance of federal branch and agency applications despite the wide range in size of foreign applicant banks and differences in the nature of their home country origins, including developing and highly industrialized countries. The primary considerations for admittance of a foreign bank to the United States should, in our opinion, be the financial and managerial resources of the individual foreign bank, the effectiveness of bank supervision in its home country, the recommendations and observations of the bank's local bank supervisor and the effect of the foreign bank's entry into the United States on commerce and competition. We are convinced that competition within the U.S. banking system will be enhanced as each foreign bank defines its market objectives and consequently develops its own particular competitive position.

Foreign banks have spent considerable resources on analyzing the advantages and disadvantages of obtaining a federal branch or agency license versus a similar state license and comparing those conclusions with the alternatives of establishing Edge Act corporations, acquiring existing U.S. banks or establishing *de novo* national or state bank subsidiaries. There is no dominant structural form which is always "best"; decisions regarding preferred form depend largely on the types and scope of banking services which a particular foreign bank seeks to provide.

In addition to our licensing responsibilities, the IBA requires that we examine all federal branches and agencies at least once each calendar year. To date, only three federal branches, four agencies and one limited branch have actually opened, and one examination has been completed so far this year. Accordingly, our experience in that area is still quite limited.

The Federal Reserve Board has shared oversight responsibility for all branches, agencies and subsidiaries of foreign banks operating in the United States. The IBA mandates that the board use, whenever possible, the examination reports of the appropriate federal or state supervisor in fulfilling its oversight role. To provide uniformity, the board, the OCC, the FDIC and the Conference of State Bank Supervisors, under the auspices of the Federal Financial Institutions Examination Council, jointly developed a uniform report of examination for foreign bank branches and agencies. Seminars were conducted at a number of Federal Reserve banks throughout the country to introduce that report of examination to state and federal field examination personnel. The uniform report of examination will be implemented shortly for all field examinations. In addition, a uniform quarterly report of assets and liabilities of U.S. branches and agencies of foreign banks will be used to monitor the activities of federal branches and agencies, as well as detect adverse trends and monitor capital equivalency levels for federal offices. Finally, the FR Y-7 and Y-8(f) reports presently being developed by the board will include financial data on a worldwide basis for all foreign banks engaged in commercial banking in the United States in any form. Our newly developed procedures in conjunction with the proposed reports should provide adequate supervisory tools to permit monitoring of foreign banking activities in the United States.

Remarks of John G. Heimann, Comptroller of the Currency, before the American Bankers Association, Chicago, Ill., October 14, 1980

Since we met last year we have experienced an extraordinary number of unanticipated events which have been unsettling for the country, the economy, financial markets and financial institutions. These events not only reflect but are reinforcing basic trends that are shaping the societal, economic and business environment within which banks and other institutions operate. Moreover, the trends are gathering force, and their convergence is fundamentally altering the financial system. The world for financial institutions is already different from that of 1 year ago, and it will soon be very, very different.

At least five factors assure this. One is the pace of change in the economy. Inflation and volatility in interest rates, unemployment rates and the level of output in recent years have heightened uncertainty and made the business of providing financial services much more difficult and risky.

In addition, the economy is undergoing a fundamental readjustment as a result of the rapid increase in the cost of energy, although different regions of the country are being affected unevenly. Declining productivity and slower growth, if not arrested, foreshadow even more significant problems. It is clear that we should continue to anticipate economic uncertainly, expecting the unexpected.

A second factor is the erosion of barriers to competition that have traditionally separated providers of financial services. Money market funds, Merrill Lynch's cash management account, American Express and Sears compete with you directly. Savings and Loan Associations, credit unions and mutual savings banks have a dramatically expanded arsenal of services which they will begin offering. Many of these institutions are not bound by the restrictions of the McFadden Act and the Douglas Amendment to the Bank Holding Company Act. Moreover, bank holding companies continue to extend the geographic scope of their operations through nonbanking affiliates, and banks are extending operations across the country through loan production offices and Edge Act corporations.

That process has accelerated as a result of the third factor—increasing use of more sophisticated technology in the delivery of financial services. Predicted for years, the "checkless" society is not yet reality. Nevertheless, the use of innovative technology in providing financial services may be on the verge of take-off. This increasing use of technology is making banking more sophisticated and complex. Moreover, geographical constraints on the ability to branch are becoming less and less relevant as a result of technological innovation.

A fourth factor is deregulation of price controls, product limitations and market restrictions in a variety of industries. The enactment of the Depository Institutions Deregulation and Monetary Control Act took several steps in that direction for depository institutions. Over the next 5½ years and thereafter, your cost of funds will increasingly fluctuate in line with changes in market interest rates. When deregulation is complete, the government will no longer define what liability products may be offered. You will design your own. You also will have many additional competitors as thrift institutions take advantage of their new asset, liability and fiduciary powers. All these developments will require hard pricing decisions on both sides of the balance sheet. While deregulation means that depository institutions will be able to become more effective competitors, particularly with unregulated providers of financial services, it is clear that banking in the 1980's will become not only more challenging, but more difficult as well.

A fifth factor is the government. Our system of regulating commerical banks is unique and utterly pervasive. For better or worse, decisions we make in the public sector—whether pertaining to geographic restraints on competition, monetary policy, consumer disclosures or capital adequacy—profoundly affect how you in the private sector conduct your business. We need only mention the Financial Institutions Regulatory and Interest Rate Control Act, the Community Reinvestment Act, the International Banking Act and, finally, the Depository Institutions Deregulation and Monetary Control Act to realize that we have witnessed an explosion of new law unparalleled since the 1930's. Indeed, we have even created two new regulatory agencies, the Federal Financial Institutions Examination Council and the Depository Institutions Deregulation Committee. It seems, ironically, that although we are all committed to the concept of deregulation, law and regulation have become more, not less, pervasive in recent years.

If I am correct in my assessment of these factors, the financial services business will not only be different in the 1980's, it will be significantly more difficult. It will be uncertain; it will be more complex; it will be intensely competitive; and it will involve far greater potential for error. In this light, it is easy to appreciate why many of you are concerned, frustrated, downright angry and not a little puzzled about how to respond. To my mind, your feelings are entirely natural.

Two things are clear. Financial services cannot be provided successfully by relying on the old ways nor, I believe, can we continue the old ways of regulating financial institutions. Indeed, inappropriate and inefficient regulation may substantially impede your ability to adjust and may ultimately smother the vitality of the commercial banking system.

In this context, the laws and regulations that define the framework within which you operate must be systematically reexamined and revised to make them responsive to a dramatically different set of circumstances. This process has, of course, begun. Much remains, however; the agenda is long and the politics difficult. While it is possible that we can muddle along, I am convinced that the failure to address this agenda of issues with a new seriousness and a perspective that transcends narrow interest will threaten the long-run strength and vitality of our commercial banking system and the people it serves.

The entire agenda is far too extensive to be dealt with exhaustively or competently in this speech. Therefore, I would like to single out only three of the topics that I think are of great importance to the future of the banking business.

My first topic is the optimal structure of the agencies responsible for supervision of deposit-taking institutions. The subject is hardly new, but the reasons for addressing it carefully have never been more urgent. Indeed, I am now convinced that the benefits to be derived from reorganizing the existing system substantially outweigh the costs. This appraisal is based on my strong belief that we must design a framework that is suitable for today and sufficiently flexible to accommodate change. The existing framework is increasingly inefficient—an inefficiency that should not be tolerated in a world of expanding agency missions and limited government resources.

I have several reasons for believing that we should get on immediately with the process of shaping a new regulatory and supervisory framework.

One reason—the problem of effectively supervising a bank holding company and its component parts—is obvious. Over two-thirds of the multibank holding companies have at least one bank which is nationally chartered *and* at least one bank which is state-chartered. Indeed, it is not uncommon for a holding company system to include national banks, state member banks and state nonmember banks, sometimes in several states.

The possibilities for regulatory confusion and duplication are real and present concerns. It is not sensible for a multiplicity of regulators to have safety and soundness jurisdiction over various segments of an integrated business enterprise. Inevitably, this approach will be at times conflicting and uncoordinated. Moreover, it is not sensible from the point of view of bank managers either, for it confronts them with duplicative and sometimes inconsistent regulatory demands.

Some admittedly modest steps are being taken to rationalize the system, Under the auspices of the Federal Financial Institutions Examination Council, the federal bank regulators are proceeding to coordinate the federal examinations of all bank holding companies with consolidated assets exceeding $10 billion and other classes of companies requiring special supervisory attention. In addition, the agencies are attempting to coordinate examinations of all other bank holding companies and their bank subsidiaries where resources permit.

In an effort to improve productivity, the OCC is developing a system for examination of multibank holding companies and their national bank subsidiaries from the holding company level, using the company's plans, policies and internal monitoring mechanisms as source material. This may result in less frequent onsite examinations or significantly reduced time at individual banks.

These steps are worthwhile and go in the right direction, but they do not go to the heart of the matter. A unified supervisory perspective on and authority over the whole entity is needed.

My second reason for favoring reexamination and modification of the current structure arises from my belief that we simply must make more effective use of the limited supervisory resources at our disposal. It should not escape attention that with the creation of the Examination Council and the Depository Institutions Deregulation Committee, the Congress has in effect expanded the number of federal regulatory agencies from five to seven.

Creation of the Examination Council reflected a desire for greater uniformity in training examiners and the methods of examination, supervision and data collection used by the OCC, Federal Reserve System, Federal Deposit Insurance Corporation, Federal Home Loan Bank System, National Credit Union Administration and the states.

I support the Examination Council's goal of achieving greater uniformity in regulation because of my belief in the more basic principle of applying equal regulatory and supervisory standards to similarly situated participants in the financial system. However, it is far from easy to define who is similarly situated and to achieve agreement among the agencies on the principles of how to proceed in substantive areas of regulation and supervision. Even where agreement on the principles can be achieved, assuring uniform implementation through the management systems of the different agencies is cumbersome at best, and perhaps impossible in some instances. Thus, despite the considerable progress the Examination Council has made, I am increasingly convinced that it is an inefficient tool for coordinating the activities of independent regulatory agencies. It is my judgment, therefore, that it is now time to move beyond the Examination Council.

My third reason for advocating modernization of the current structure, and I recognize this reason is most sensitive politically, is the need to adjust to the competitive impact of the thrift institutions and nondepository financial intermediaries. As you know, thrift institutions, armed with new powers, are your direct competitors. They are in your business—transaction accounts, credit cards and other forms of personal credit—and you are in theirs, evidenced particularly by the growing participation of commercial banks in the residential mortgage market. I favor a framework which, at all levels, provides for equal regulatory treatment of equally situated players. The new asset and liability powers of the thrifts underscore the need to include them in a restructured regulatory framework.

A regulatory structure that ignores marketplace realities will only serve to perpetuate anachronisms and delay—or make more expensive and painful—the very adjustments which the financial industry must go through.

I need not repeat the numerous options which have been suggested, beginning as early as 1937, for modifying the current structure. Indeed, either of two basic options which have been proposed, a single agency or separate agencies for federally and state-chartered depository institutions, could be structured in ways that would resolve the three immediate concerns I have just identified. Other options certainly exist, and it is not my purpose here to suggest any particular one. I do strongly suggest, however, that the time has come to proceed with a rationalization of the structure in a way which at least resolves these three concerns. In that process, a number of issues could and should be addressed, including:

- What is the appropriate role for the states in the multistate financial services system that is now evolving?
- How should regulation of the financial activities of nondeposit-taking organizations be coordinated with the regulation of banks and thrifts?
- How should regulation of financial institutions be coordinated with the regulation of providers of telecommunications and similar technologies on which financial institutions are increasingly relying and which they are using in a local and multistate environment?
- Where should responsibility for the protection of investors in deposit-taking companies be lodged?
- What is a responsible, practical distribution of supervisory authority over smaller, locally oriented institutions?

That brings me to my second topic: effective, efficient and equitable supervision of smaller banks. The highly technical nature of many laws and regulations put into place in recent years has affected smaller banks disproportionately by creating economies of scale in banking that did not exist 20 years ago. Larger institutions can spread the fixed costs of regulatory compliance over a greater volume of assets or transactions than smaller banks. Moreover, the rapidity of statutory and regulatory change has exacerbated this problem.

These advantages are paralleled and reinforced by other factors. Although many smaller institutions have flourished in intensely competitive markets in the past, others have enjoyed relative insulation. As the barriers to more intense competition disappear, the financial advantage of larger institutions relative to their formerly protected smaller competitors is becoming more apparent.

Similarly, deregulation of the liability side of the balance sheet is likely to have a more profound short-run impact on smaller institutions than larger ones because the average cost of funds has been lower for smaller institutions. In addition, technological developments and the new freedom to price and design one's products, while providing new opportunities, will also require more delicate and sophisticated judgments, which will stretch managerial resources.

We are concerned about the difficulties facing smaller banks. Smaller banks are an important and integral part of our unique American financial system. Thus, it is imperative for bankers, regulators and Congress to devise supervisory and regulatory systems that permit smaller well-managed banks to compete profitably alongside larger institutions. To the extent possible, we must revise statutes, regulations and supervisory procedures to make distinctions according to the capacities of smaller and larger banks. This task requires our urgent attention.

Some changes can be made by the agencies under current law. For example, we have established a senior task force in our Office to review and propose revisions of examination and enforcement efforts with respect to the Community Reinvestment Act, the civil rights laws and the consumer protection laws. I am personally convinced that we can achieve the goals of these statutes in ways that are more realistic and less burdensome. The overall objective of the task force review is to develop ways to reduce burdens on smaller banks while assuring greater efficiency and effectiveness in our efforts in those areas. One possible approach to reducing supervisory burdens in those or other areas might be to announce general regulatory and supervisory objectives, rather than dictating specific technical procedures, and then examine for good faith compliance with the more generally stated goals.

Beyond this, we might consider relaxing certain prudential standards, such as permitting sound and well-managed smaller banks to reduce modestly their traditionally high capital ratios, and accept the increased risk this would entail. That change would give smaller institutions a greater competitive opportunity to seek new markets as they see fit. The resulting benefits of more aggressive, competitive smaller banking organizations might more than compensate for the increased risks.

In short, there may be much that we can do. However, the detailed provisions of many statutes limit our ability to adopt flexible regulatory approaches. Thus, statutes also need to be reviewed, and the Congress should be encouraged to amend laws to eliminate detailed requirements where the intent of laws can be achieved equally well through flexible supervisory techniques that differentiate among banks according to their size, activities, practices and needs.

The final topic concerns geographical restraints on banking. OCC's views on this issue hardly need restatement. Briefly, we believe that such restraints on bank expansion are anticompetitive and impede the effectiveness and efficiency of the banking system. In raising this issue, I am aware that it is, to a certain extent, old hat. It is axiomatic that periodic changes in law, regulation and supervisory practices in response to changes in the marketplace are necessary to preserve the viability of existing institutions. The marketplace for financial services has changed drastically in the last 50 years, and further changes are already visible. Yet, commercial banks are still constrained by virtually the same geographical limitations. In raising this issue yet again, I want to reiterate and emphasize my concern for the future of commercial banking.

Preservation of the McFadden Act and Douglas Amendment restrictions will continue to provide banks with some protection from other bank competitors. But in the meantime, institutions that are not similarly restricted will have ample opportunity to increase their share of product markets in which banks compete. Even in banking, the interstate activities of loan production offices, Edge Act corporations and nonbank affiliates of bank holding companies are making McFadden Act protection virtually meaningless in every area but deposit competition. And, advances in communications technology may eliminate even this modest protection in the not-so-distant future.

Moreover, since the beginning of this year, all federal savings and loan associations have been permitted to establish branches on a statewide basis. In addition, they could be permitted to establish branches across state lines. And when savings and loans use their new powers, it is clear that statewide branching and, potentially, interstate branching will give them a substantial competitive advantage over banks.

For these reasons, I am convinced that for its own sake, commercial banking must deal with the issue of geographical restraints now. We should concentrate initially on phasing out the Douglas Amendment restrictions on interstate bank holding company expansions, including establishment of new banks and acquisition of existing banks. A number of proposals for effecting such a phase-out have been offered. Such a phase-out might be based on regional groupings, natural market areas or some limitations on the number of nonhome state penetrations that might be made during a specified time period. Certainly, we should make it possible for bank holding companies to acquire failing or floundering banks in other states. In any event, the key point is to create new possibilities for acquisitions or combinations that could offer benefits to the domestic banking system and the people it serves and to begin this as quickly as possible.

The most troublesome aspect of such an approach is likely to be combinations of larger banks. Such acquistions raise legitimate concerns about the aggregation of large amounts of financial resources that are not addressed by existing antitrust concepts or laws. A remedy would be to fashion a statutory policy that requires proponents to demonstrate not only that a proposed interstate acquisition would pass muster under traditional antitrust standards but also that substantial public benefits would be derived from the transaction.

I am well aware that implementing these ideas will be difficult. Geographical restraints on competition lie at the very heart of American banking tradition. Nevertheless, it should be clear that interstate banking is already a reality. It should be equally clear that it will not be possible to stem the tide of developments that are inexorably eroding the remaining effectiveness of geographical limitations. The power of the marketplace propelled by technological innovations that reduce costs in an inflationary environment is too great to stop. This leads me inescapably to the conclusion that whatever the merits of the past debate on the McFadden Act and the Douglas Amendment, the competitive vitality of commercial banking depends importantly on developing solutions to the problems posed by these laws.

In conclusion, I believe that we must continue to modernize our commercial banking system and its regulatory framework in light of present and predictable realities. To do this we must permit a phased and fair expansion of geographical reach; we must redesign our supervisory systems to accommodate the real and pressing needs of small institutions; and we must realign our supervisory system so that it can respond efficiently and effectively. Let me express the hope that I have conveyed to you some of my sense of urgency about getting on with the agenda for regulatory and statutory reform. The challenges of economic volatility, continued inflation, greater competition in the financial industry and technological innovation require no less if we are to preserve the vitality of the commercial banking industry and the significant contribution it can make to the nation's economic well-being.

Statement of John G. Heimann, Comptroller of the Currency, before the Senate Committee on Banking, Housing and Urban Affairs, Washington, D.C., November 21, 1980

I am pleased to have this opportunity to testify before the committee and to present the views of the Office of the Comptroller of the Currency on whether new statutory barriers should be raised between commercial banking and thrift institutions. Legislation which would impose an indefinite moratorium on the acquisition or ownership of thrift institutions by bank holding companies or banks was recently passed by the Senate as an amendment to H.R. 5625. The express purpose of that amendment is to prevent a "wave of takeovers" of thrift institutions by banks during the period of transition and adjustment that savings and loan associations and mutual savings banks are now entering. In our opinion, the enactment of rigid statutory constraints on the evolution of our financial intermediary system could result in further distortions in the flow of funds to financial markets. Such action would also dangerously impede regulatory flexibility to accommodate changes and to respond to problem situations.

Our experience with rigid statutory constraints on the ability of depository institutions to pay market rates is not encouraging. The resultant deposit disintermediation should serve to underscore the distorting effects of attempts to legislate against market forces. In the spirit of deregulation and in recognition of the adverse effects upon the depository system of past constraints, Congress has recently undertaken to permit greater flexibility for marketplace solutions. The enactment of the Depository Institutions Deregulation and Monetary Control Act of 1980 (Public Law 96-221) was the culmination of many years of thoughtful congressional inquiry and debate concerning the structure of the depository system. The amendment to H.R. 5625 is inconsistent with the basic concepts underlying the policy of gradual deregulation of that system.

The changes occurring in the financial intermediary system reflect the demands of users of financial services and the recognition by lawmakers and supervisors of the substantial external pressures presently affecting the depository system. Foremost among those presssures is inflation which has substantially affected asset values and liability costs for depository institutions.

Inflation has heightened the awareness of large and small savers of the availability of deposit substitutes which afford greater returns than time and savings accounts which are subject to deposit rate ceilings. The deposit bases of all commercial banks, thrift institutions and credit unions have thereby been eroded, undermining the competitiveness of the depository system. Deregulation, facilitated by the Depository Institutions Deregulation and Monetary Control Act, will permit greater diversity and strength in thrift institutions to overcome such debilitating pressures.

Economic pressures have resulted in an inevitable blurring of institutional roles. Deregulation of our traditionally separated banking and thrift institutions has proceeded on the basis that it is necessary for the continued health and viability of the depository system. Recent legislation represents an attempt to restore the ability of the marketplace to allocate savings flows among institutions and to permit lenders to choose among the services they will offer. New powers have been made available to thrift institutions to be exercised at their option based on each institution's assessment of its strengths and weaknesses and the nature of its specific market.

We do not espouse—or even particularly expect—that cross-institutional acquisitions will play a significant role in this period of adjustment. A cross-fertilization of experience and skills is already occurring, largely through bidding for the most qualified personnel. However, if permitted, cross-institutional mergers between banking and thrift institutions would provide another, perhaps more efficient, means for the infusion of new consumer-service management expertise into thrift institutions which cannot now practically use their expanded potential consumer-lending authority. Conversely, banks could gain expertise to help expand mortgage financing activities. Acquired expertise and new capital would facilitate the introduction of new technology and stimulate further innovation of services in depository institutions to the benefit of consumers. Innovation could occur in the development of both loan and deposit services and the packaging of such services by depository institutions.

One concern of proponents of the Senate-passed amendment is a possible adverse effect on the financing of the housing industry of bank holding company ownership of thrift institutions. The importance to the country of maintaining the flow of funds to the mortgage market is, of course, clear. We strongly believe, however, that government efforts to augment mortgage flows should be designed to complement and strengthen the nation's private mortgage lenders rather than limiting opportunities available to the managers of those institutions. Efforts to assist housing need neither prevent us from strengthening the depository system or weaken the ability of financial regulators to maintain public confidence in that system.

Another concern requently expressed with regard to bank holding company ownership of thrift institutions is that significant cross-institutional consolidation could result in undue concentrations of financial resources. That concern is, in our opinion, essentially misdirected. The threat to viable competition among depository institutions arises not out of any near-term trend toward concentration but out of existing statutes which artificially separate competitors or preclude entrance of viable competitors into markets. Any concentration of financial resources which might result from a particular acquisition in a particular market is appropriately a subject for scrutiny under antitrust laws. To the extent that commercial banks and savings and loan institutions are competitors, antitrust standards should guard against any abuses of market power.

Finally, further restrictions on our ability to assist weakened depository institutions through free market solutions can only serve to perpetuate instabilities. We have recently requested Congress to expand the existing flexibility of the federal supervisory agencies to deal with large floundering and failing banks and thrift institutions. Proposed legislation was jointly drafted and endorsed by the member agencies of the Federal Financial Institutions Examination Council to permit expanded federal assistance and wider options for resolving problems affecting large endangered institutions. That bill, S. 2575, is still pending before this committee.

Although the Senate-passed amendment also contains a special emergency exception from its general prohibition, that provision differs significantly from the agencies' jointly sponsored bill. Essentially, the newly proposed amendment would impose additional procedural requirements and substantive standards on existing federal decisionmaking processes that relate to the acquisition or merger of a failed federally insured institution. We urge, instead, that maximum regulatory flexibility which will permit the agencies to act quickly and decisively in such extraordinary circumstances is essential. At a minimum, regulatory flexibility should be preserved. In our opinion, greater institutional flexibility, reduced product and geographic restraints, and supervisory authority to resolve the problems of particular institutions will best assure the viability and strength of depository institutions.

Statistical Tables

Table A–1

Comptrollers of the Currency, 1863 to the present

No.	Name	Date of appointment	Date of resignation	State
1	McCulloch, Hugh	May 9, 1863	Mar. 8, 1865	Indiana.
2	Clarke, Freeman	Mar. 21, 1865	July 24, 1866	New York.
3	Hulburd, Hiland R.	Feb. 1, 1867	Apr. 3, 1872	Ohio.
4	Knox, John Jay	Apr. 25, 1872	Apr. 30, 1884	Minnesota.
5	Cannon, Henry W.	May 12, 1884	Mar. 1, 1886	Minnesota.
6	Trenholm, William L.	Apr. 20, 1886	Apr. 30, 1889	South Carolina.
7	Lacey, Edward S.	May 1, 1889	June 30, 1892	Michigan.
8	Hepburn, A. Barton	Aug. 2, 1892	Apr. 25, 1893	New York.
9	Eckels, James H.	Apr. 26, 1893	Dec. 31, 1897	Illinois.
10	Dawes, Charles G.	Jan. 1, 1898	Sept. 30, 1901	Illinois.
11	Ridgely, William Barret	Oct. 1, 1901	Mar. 28, 1908	Illinois.
12	Murray, Lawrence O.	Apr. 27, 1908	Apr. 27, 1913	New York.
13	Williams, John Skelton	Feb. 2, 1914	Mar. 2, 1921	Virginia.
14	Crissinger, D.R.	Mar. 17, 1921	Apr. 30,1923	Ohio.
15	Dawes, Henry M.	May 1, 1923	Dec. 17, 1924	Illinois.
16	McIntosh, Joseph W.	Dec. 20, 1924	Nov. 20, 1928	Illinois.
17	Pole, John W.	Nov. 21, 1928	Sept. 20, 1932	Ohio.
18	O'Connor, J.F.T.	May 11, 1933	Apr. 16, 1938	California.
19	Delano, Preston	Oct. 24, 1938	Feb. 15, 1953	Massachusetts.
20	Gidney, Ray M.	Apr. 16, 1953	Nov. 15, 1961	Ohio.
21	Saxon, James J.	Nov. 16, 1961	Nov. 15, 1966	Illinois.
22	Camp, William B.	Nov. 16, 1966	Mar. 23, 1973	Texas.
23	Smith, James E.	July 5, 1973	July 31, 1976	South Dakota
24	Heimann, John G.	July 21, 1977	May 15, 1981	New York

Table A–2

Deputy Comptrollers of the Currency

No.	Name	Dates of tenure		State
1	Howard, Samuel T.	May 9, 1863	Aug. 1, 1865	New York.
2	Hulburd, Hiland R.	Aug. 1, 1865	Jan. 31, 1867	Ohio.
3	Knox, John Jay	Mar. 12, 1867	Apr. 24, 1872	Minnesota.
4	Langworthy, John S.	Aug. 8, 1872	Jan. 3, 1886	New York.
5	Snyder, V. P.	Jan. 5, 1886	Jan. 3, 1887	New York.
6	Abrahams, J. D.	Jan. 27, 1887	May 25, 1890	Virginia.
7	Nixon, R. M.	Aug. 11, 1890	Mar. 16, 1893	Indiana.
8	Tucker, Oliver P.	Apr. 7, 1893	Mar. 11, 1896	Kentucky.
9	Coffin, George M.	Mar. 12, 1896	Aug. 31, 1898	South Carolina.
10	Murray, Lawrence O.	Sept. 1, 1898	June 27, 1899	New York.
11	Kane, Thomas P.	June 29, 1899	Mar. 2, 1923	District of Columbia.
12	Fowler, Willis J.	July 1, 1908	Feb. 14, 1927	Indiana.
13	McIntosh, Joseph W.	May 21, 1923	Dec. 19, 1924	Illinois.
14	Collins, Charles W.	July 1, 1923	June 30, 1927	Illinois.
15	Stearns, E. W.	Jan. 6, 1925	Nov. 30, 1928	Virginia.
16	Awalt, F. G.	July 1, 1927	Feb. 15, 1936	Maryland.
17	Gough, E. H.	July 6, 1927	Oct. 16, 1941	Indiana.
18	Proctor, John L.	Dec. 1, 1928	Jan. 23, 1933	Washington.
19	Lyons, Gibbs	Jan. 24, 1933	Jan. 15, 1938	Georgia.
20	Prentiss, Jr., William	Feb. 24, 1936	Jan. 15, 1938	Georgia.
21	Diggs, Marshall R.	Jan. 16, 1938	Sept. 30, 1938	Texas.

Table A-2—Continued

Deputy Comptrollers of the Currency

No.	Name	Dates of tenure		State
22	Oppegard, G. J.	Jan. 16, 1938	Sept. 30, 1938	California.
23	Upham, C. B.	Oct. 1, 1938	Dec. 31, 1948	Iowa.
24	Mulroney, A.J.	May 1, 1939	Aug. 31, 1941	Iowa.
25	McCandless, R. B.	July 7, 1941	Mar. 1, 1951	Iowa.
26	Sedlacek, L. H.	Sept. 1, 1941	Sept. 30, 1944	Nebraska.
27	Robertson, J. L.	Oct. 1, 1944	Feb. 17, 1952	Nebraska.
28	Hudspeth, J. W.	Jan. 1, 1949	Aug. 31, 1950	Texas.
29	Jennings, L. A.	Sept. 1, 1950	May 16, 1960	New York.
30	Taylor, W. M.	Mar. 1, 1951	Apr. 1, 1962	Virginia.
31	Garwood, G. W.	Feb. 18, 1952	Dec. 31, 1962	Colorado.
32	Fleming, Chapman C.	Sept. 15, 1959	Aug. 31, 1962	Ohio.
33	Haggard, Hollis S.	May 16, 1960	Aug. 3, 1962	Missouri.
34	Camp, William B.	Apr. 2, 1962	Nov. 15, 1966	Texas.
35	Redman, Clarence B.	Aug. 4, 1962	Oct. 26, 1963	Connecticut.
36	Watson, Justin T.	Sept. 3, 1962	July 18, 1975	Ohio.
37	Miller, Dean E.	Dec. 23, 1962	....	Iowa.
38	DeShazo, Thomas G.	Jan. 1, 1963	Mar. 3, 1978	Virginia.
39	Egertson, R. Coleman	July 13, 1964	June 30, 1966	Iowa.
40	Blanchard, Richard J.	Sept. 1, 1964	Sept. 26, 1975	Massachusetts.
41	Park, Radcliffe	Sept. 1, 1964	June 1, 1967	Wisconsin.
42	Faulstich, Albert J.	July 19, 1965	Oct. 26, 1974	Louisiana.
43	Motter, David C.	July 1, 1966	....	Ohio.
44	Gwin, John D.	Feb. 21, 1967	Dec. 31, 1974	Mississippi.
45	Howland, Jr., W. A.	July 5, 1973	Mar. 27, 1978	Georgia.
46	Mullin, Robert A.	July 5, 1973	Sept. 8, 1978	Kansas.
47	Ream, Joseph M.	Feb. 2, 1975	June 30, 1978	Pennsylvania.
48	Bloom, Robert	Aug. 31, 1975	Feb. 28, 1978	New York.
49	Chotard, Richard D.	Aug. 31, 1975	Nov. 25, 1977	Missouri.
50	Hall, Charles B.	Aug. 31, 1975	Sept. 14, 1979	Pennsylvania.
51	Jones, David H.	Aug. 31, 1975	Sept. 20, 1976	Texas.
52	Murphy, C. Westbrook	Aug. 31, 1975	Dec. 30, 1977	Maryland.
53	Selby, H. Joe	Aug. 31, 1975	....	Texas.
54	Homan, Paul M.	Mar. 27, 1978	....	Nebraska.
55	Keefe, James T.	Mar. 27, 1978	....	Massachusetts.
56	Muckenfuss, Cantwell F., III	Mar. 27, 1978	....	Alabama.
57	Wood, Billy C.	Nov. 7, 1978	....	Texas.
58	Longbrake, William A.	Nov. 8, 1978	....	Wisconsin.
59	Odom, Jr., Lewis G.	Mar. 21, 1979	Nov. 16, 1980	Alabama.
60	Martin, William E.	May 22, 1979	....	Texas.
61	Barefoot, Jo Ann	July 13, 1979	....	Connecticut.
62	Lord, Charles E.	Apr. 13, 1981	....	Connecticut.

Table A-3

Regional administrators of national banks, December 1980

Region	Name	Headquarters	States
1	Ralph W. Gridley	Boston, Mass.	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont.
2	Thomas W. Taylor	New York, N.Y.	New Jersey, New York, Puerto Rico, Virgin Islands.
3	R. Coleman Egertson	Philadelphia, Pa.	Pennsylvania, Delaware.
4	Larry T. Gerzema	Cleveland, Ohio	Indiana, Kentucky, Ohio.
5	John F. Downey	Richmond, Va.	District of Columbia, Maryland, North Carolina, Virginia, West Virginia.
6	Robert J. Herrmann	Atlanta, Ga.	Florida, Georgia, South Carolina.
7	Rufus O. Burns, Jr.	Chicago, Ill.	Illinois, Michigan.
8	Dean S. Marriott	Memphis, Tenn.	Alabama, Arkansas, Louisiana, Mississippi, Tennessee.
9	Michael A. Mancusi	Minneapolis, Minn.	Minnesota, North Dakota, South Dakota, Wisconsin.
10	John R. Burt	Kansas City, Mo.	Iowa, Kansas, Missouri, Nebraska.
11	Clifton A. Poole, Jr.	Dallas, Tex.	Oklahoma, Texas.
12	Peter C. Kraft	Denver, Colo.	Arizona, Colorado, New Mexico, Utah, Wyoming.
13	M. B. Adams	Portland, Oreg.	Alaska, Idaho, Montana, Oregon, Washington.
14	Kent D. Glover	San Francisco, Calif.	California, Guam, Hawaii, Nevada.

Table A–4

Changes in the structure of the national banking system, by states, 1980

	In operation Dec. 31, 1979	Organized and opened for business	Consolidated and merged under 12 USC 215		Insol-vencies	Liqui-dated	12 USC 214		In operation Dec. 31, 1980
			Consoli-dated	Merged			Converted to state banks	Merged or consolidated with state banks	
United States	4,448	67	1	21	0	5	46	17	4,425
Alabama	99	0	0	0	0	0	0	0	99
Alaska	6	0	0	0	0	0	1	0	5
Arizona	3	0	0	0	0	0	0	0	3
Arkansas	68	0	0	0	0	0	0	0	68
California	42	11	0	1	0	0	2	2	48
Colorado	139	3	0	0	0	0	0	0	142
Connecticut	19	0	0	0	0	0	0	0	19
Delaware	6	0	0	0	0	0	0	0	6
District of Columbia	16	0	0	0	0	0	0	0	16
Florida	221	2	0	10	0	0	6	3	204
Georgia	63	0	0	0	0	0	0	0	63
Hawaii	3	0	0	0	0	0	1	0	2
Idaho	7	0	0	0	0	0	0	0	7
Illinois	410	1	0	0	0	0	4	0	407
Indiana	119	0	0	0	0	0	0	0	119
Iowa	99	1	0	0	0	0	1	0	99
Kansas	148	0	0	0	0	0	0	0	148
Kentucky	79	1	0	0	0	0	2	0	78
Louisiana	55	0	0	0	0	0	2	0	53
Maine	14	0	0	0	0	0	0	0	14
Maryland	31	0	0	0	0	0	0	0	31
Massachusetts	71	0	0	1	0	0	0	0	70
Michigan	123	5	0	0	0	0	2	0	126
Minnesota	205	3	0	0	0	0	4	0	204
Mississippi	38	0	0	0	0	1	0	0	37
Missouri	98	1	0	0	0	0	0	0	99
Montana	56	0	0	0	0	0	1	0	55
Nebraska	117	1	0	0	0	0	1	0	117
Nevada	4	0	0	0	0	0	1	0	3
New Hampshire	36	0	0	0	0	0	0	0	36
New Jersey	93	0	0	0	0	0	2	1	90
New Mexico	40	1	0	0	0	0	1	0	40
New York	116	1	0	1	0	0	0	3	113
North Carolina	26	0	0	0	0	0	0	2	24
North Dakota	41	0	0	0	0	1	1	0	39
Ohio	177	0	1	5	0	0	0	1	170
Oklahoma	190	0	0	0	0	0	6	0	184
Oregon	6	0	0	0	0	0	0	0	6
Pennsylvania	223	0	0	2	0	2	4	5	210
Rhode Island	5	0	0	0	0	0	0	0	5
South Carolina	18	1	0	0	0	0	0	0	19
South Dakota	33	0	0	0	0	0	0	0	33
Tennessee	69	0	0	0	0	0	1	0	68
Texas	615	30	0	0	0	0	3	0	642
Utah	11	2	0	1	0	0	0	0	12
Vermont	12	0	0	0	0	0	0	0	12
Virginia	72	0	0	0	0	0	0	0	72
Washington	21	0	0	0	0	1	0	0	20
West Virginia	107	2	0	0	0	0	0	0	109
Wisconsin	131	1	0	0	0	0	0	0	132
Wyoming	47	0	0	0	0	0	0	0	47

NOTE: Does not include one nonnational bank in the District of Columbia supervised by the Comptroller of the Currency.

Table A–5

Branches of national banks, by states, calendar 1980*

	Branches in operation December 31, 1979	De novo branches opened for business Jan. 1 to Dec. 31, 1980	Branches acquired through merger or conversion Jan. 1 to Dec. 31, 1980	Existing branches discontinued or consolidated Jan. 1 to Dec. 31, 1980	Branches in operation December 31 1980
Total	18,274	581	535	509	18,881
Alabama	346	13	0	6	353
Alaska	80	3	0	4	79
Arizona	333	8	0	1	340
Arkansas	181	7	0	5	183
California	2,845	32	37	126	2,788
Colorado	36	1	0	0	37
Connecticut	204	2	0	3	203
Delaware	5	1	0	0	6
District of Columbia	136	14	0	1	149
Florida	374	96	27	12	485
Georgia	343	7	31	4	377
Hawaii	11	0	0	1	10
Idaho	184	4	0	0	188
Illinois	211	26	0	8	229
Indiana	526	19	0	5	540
Iowa	94	5	0	3	96
Kansas	79	0	3	3	79
Kentucky	263	11	0	14	260
Louisiana	290	15	0	9	296
Maine	118	4	0	10	112
Maryland	373	2	0	7	368
Massachusetts	457	7	0	5	459
Michigan	956	60	13	57	972
Missesota	91	17	0	1	107
Mississippi	271	7	0	4	274
Missouri	72	5	0	6	71
Montana	9	0	0	0	9
Nebraska	58	2	0	1	59
Nevada	75	27	0	13	89
New Hampshire	104	2	2	10	98
New Jersey	991	7	6	33	971
New Mexico	121	2	0	0	123
New York	1,518	9	357	17	1,867
North Carolina	853	5	0	20	838
North Dakota	30	1	0	4	27
Ohio	1,259	58	20	5	1,332
Oklahoma	62	1	0	7	56
Oregon	329	15	2	1	345
Pennsylvania	1,440	30	5	37	1,438
Rhode Island	116	2	2	1	119
South Carolina	335	16	2	6	347
South Dakota	90	1	3	0	94
Tennessee	368	6	0	17	357
Texas	27	4	0	8	23
Utah	117	1	1	0	119
Vermont	43	2	0	1	44
Virginia	712	12	0	6	718
Washington	615	7	24	23	623
West Virginia	28	1	0	2	27
Wisconsin	95	4	0	2	97
Wyoming	0	0	0	0	0

* Does not include CBCT or foreign branches. For those branches see Table A–6 and A–34.

Table A–6

CBCT branches of national banks, by states, calendar 1980*

	Branches in operation December 31, 1979	*De novo branches opened for business Jan. 1 to Dec. 31, 1980*	*Branches acquired through merger or conversion Jan. 1 to Dec. 31, 1980*	*Existing branches discontinued or consolidated Jan. 1 to Dec. 31, 1980*	*Branches in operation December 31, 1980*
Total	946	192	0	83	1,055
Alabama	11	11	0	0	22
Alaska	2	0	0	0	2
Arizona	0	1	0	0	1
Arkansas	7	3	0	0	10
California	3	0	0	0	3
Colorado	15	3	0	0	18
Connecticut	0	0	0	0	0
Delaware	0	0	0	0	0
District of Columbia	1	0	0	0	1
Florida	49	6	0	11	44
Georgia	25	6	0	2	29
Hawaii	0	0	0	0	0
Idaho	1	0	0	0	1
Illinois	0	24	0	0	24
Indiana	5	6	0	0	11
Iowa	47	10	0	0	57
Kansas	47	4	0	0	51
Kentucky	4	13	0	0	17
Louisiana	17	0	0	0	17
Maine	0	0	0	0	0
Maryland	4	1	0	0	5
Massachusetts	2	0	0	0	2
Michigan	49	40	0	0	89
Minnesota	17	4	0	0	21
Mississippi	1	0	0	1	0
Missouri	1	0	0	0	1
Montana	2	8	0	0	10
Nebraska	113	8	0	0	121
Nevada	0	0	0	0	0
New Hampshire	0	0	0	0	0
New Jersey	4	0	0	0	4
New Mexico	0	0	0	0	0
New York	107	0	0	1	106
North Carolina	3	2	0	0	5
North Dakota	14	3	0	1	16
Ohio	69	1	0	0	70
Oklahoma	109	15	0	0	124
Oregon	8	0	0	8	0
Pennsylvania	22	1	0	16	7
Rhode Island	0	0	0	0	0
South Carolina	18	8	0	0	26
South Dakota	8	3	0	0	11
Tennessee	49	11	0	0	60
Texas	0	0	0	0	0
Utah	0	0	0	0	0
Vermont	3	0	0	3	0
Virginia	19	0	0	19	0
Washington	9	0	0	9	0
West Virginia	0	0	0	0	0
Wisconsin	81	0	0	12	69
Wyoming	0	0	0	0	0

* Customer-bank communications terminal branches.

Table A–7

De Novo branch applications of national banks, by states, calendar 1980

	*Received**	*Approved*	*Rejected*	*Abandoned*	*Pending December 31, 1980*
Total	808	633	6	52	117
Alabama	12	11	0	0	1
Alaska	1	1	0	0	0
Arizona	9	8	0	0	1
Arkansas	10	8	0	0	2
California	111	87	1	10	13
Colorado	3	3	0	0	0
Connecticut	3	3	0	0	0
Delaware	3	3	0	0	0
District of Columbia	14	9	0	3	2
Florida	110	93	0	5	12
Georgia	12	10	0	0	2
Hawaii	0	0	0	0	0
Idaho	4	2	0	2	0
Illinois	19	17	0	1	1
Indiana	25	13	2	0	10
Iowa	10	7	0	3	0
Kansas	2	2	0	0	0
Kentucky	19	15	1	1	2
Louisiana	13	10	1	0	2
Maine	1	1	0	0	0
Maryland	18	16	0	1	1
Massachusetts	9	7	0	1	1
Michigan	63	44	0	6	13
Minnesota	24	20	0	1	3
Mississippi	8	6	0	0	2
Missouri	10	9	0	1	0
Montana	1	1	0	0	0
Nebraska	3	3	0	0	0
Nevada	5	3	0	1	1
New Hampshire	3	1	1	0	1
New Jersey	30	23	0	1	6
New Mexico	4	3	0	0	1
New York	20	17	0	1	2
North Carolina	19	17	0	1	1
North Dakota	4	3	0	0	1
Ohio	62	52	0	3	7
Oklahoma	9	2	0	0	7
Oregon	16	14	0	1	1
Pennsylvania	41	33	0	4	4
Rhode Island	3	3	0	0	0
South Carolina	17	15	0	1	1
South Dakota	1	1	0	0	0
Tennessee	10	4	0	2	4
Texas	9	8	0	0	1
Utah	3	2	0	0	1
Vermont	3	2	0	0	1
Virginia	11	6	0	1	4
Washington	11	8	0	1	2
West Virginia	3	3	0	0	0
Wisconsin	7	4	0	0	3
Wyoming	0	0	0	0	0

* Includes 174 applications pending as of December 31, 1979.

Table A–8

Federal branches and agencies of foreign banks, by state

	Federal branches and agencies—open Jan. 1, 1980	Federal branches and agencies—approved but unopened Jan. 1, 1980	Applications, 1980						Federal branches and agencies opened or converted in 1980	Federal branches and agencies approved/unopened Dec. 31, 1980
			Pending Jan. 1	Received	Approved	Disapproved	Withdrawn	Pending Dec. 31		
Total *de novo*	0	2	4	13	13	0	1	3	8	7
Federal branch										
New York	0	1	1	6	6	0	0	1	2	5
Limited federal branch										
California	0	0	0	1	0	0	0	1	0	0
District of Columbia	0	0	1	0	0	0	1	0	0	0
New York	0	0	2	0	2	0	0	0	1	1
Ohio	0	0	0	1	1	0	0	0	1	0
Washington	0	0	0	1	0	0	0	1	0	0
Federal agency										
California	0	1	0	1	1	0	0	0	0	1
Florida	0	0	0	1	1	0	0	0	2	0
New York	0	0	0	2	2	0	0	0	2	0
Total conversions	0	0	0	6	5	0	0	1	4	1
State agency to federal branch										
New York	0	0	0	6	5	0	0	1	4	1

Table A–9

Applications for national bank charters and charters issued, by states, calendar 1980*

	Received†	Approved	Rejected	Withdrawn	Pending	Chartered
Total	182	107	14	3	58	61
Alabama	0	0	0	0	0	0
Alaska	0	0	0	0	0	0
Arizona	1	0	0	0	1	0
Arkansas	0	0	0	0	0	0
California	35	20	2	1	12	11
Colorado	14	8	0	0	6	2
Connecticut	0	0	0	0	0	0
Delaware	0	0	0	0	0	0
District of Columbia	0	0	0	0	0	0
Florida	6	3	2	0	1	2
Georgia	1	0	0	1	0	0
Hawaii	2	1	0	0	1	0
Idaho	0	0	0	0	0	0
Illinois	5	3	2	0	0	1
Indiana	1	1	0	0	0	0
Iowa	0	0	0	0	0	1
Kansas	0	0	0	0	0	0
Kentucky	0	0	0	0	0	1
Louisiana	2	2	0	0	0	0
Maine	0	0	0	0	0	0
Maryland	0	0	0	0	0	0
Massachusetts	0	0	0	0	0	0
Michigan	2	2	0	0	0	4
Minnesota	2	0	0	1	1	2
Mississippi	0	0	0	0	0	0
Missouri	2	2	0	0	0	1
Montana	1	1	0	0	0	0
Nebraska	0	0	0	0	0	1
Nevada	0	0	0	0	0	0
New Hampshire	1	0	1	0	0	0
New Jersey	1	0	0	0	1	0
New Mexico	1	1	0	0	0	1
New York	1	0	0	0	1	0
North Carolina	0	0	0	0	0	0
North Dakota	0	0	0	0	0	0
Ohio	1	1	0	0	0	0
Oklahoma	5	2	0	0	3	0
Oregon	0	0	0	0	0	0
Pennsylvania	0	0	0	0	0	0
Rhode Island	0	0	0	0	0	0
South Carolina	0	0	0	0	0	1
South Dakota	1	1	0	0	0	0
Tennessee	0	0	0	0	0	0
Texas	85	51	6	0	28	28
Utah	0	0	0	0	0	2
Vermont	0	0	0	0	0	0
Virginia	2	1	1	0	0	0
Washington	1	0	0	0	1	0
West Virginia	5	5	0	0	0	2
Wisconsin	0	0	0	0	0	1
Wyoming	3	1	0	0	2	0
Puerto Rico	1	1	0	0	0	0

* Excludes conversions and corporate reorganizations.
† Includes applications pending as of December 31, 1979.

Table A–10

Applications for national bank charters pursuant to corporate reorganizations and charters issued, by states, calendar 1980

	*Received**	*Approved*	*Rejected*	*Withdrawn*	*Pending*	*Chartered*
Total	109	85	0	7	17	52
Alabama	2	2	0	0	0	2
Alaska	0	0	0	0	0	0
Arizona	2	1	0	0	1	1
Arkansas	3	2	0	0	1	2
California	0	0	0	0	0	0
Colorado	1	1	0	0	0	1
Connecticut	0	0	0	0	0	0
Delaware	0	0	0	0	0	0
District of Columbia	2	0	0	0	2	0
Florida	2	2	0	0	0	1
Georgia	8	8	0	0	0	3
Hawaii	0	0	0	0	0	0
Utah	1	1	0	0	0	1
Illinois	22	20	0	0	2	5
Indiana	1	0	0	0	1	1
Iowa	0	0	0	0	0	1
Kansas	0	0	0	0	0	0
Kentucky	4	2	0	1	1	1
Louisiana	2	1	0	0	1	0
Maine	0	0	0	0	0	0
Maryland	0	0	0	0	0	0
Massachusetts	4	3	0	1	0	3
Michigan	3	2	0	1	0	1
Minnesota	0	0	0	0	0	0
Mississippi	0	0	0	0	0	0
Missouri	0	0	0	0	0	0
Montana	1	1	0	0	0	1
Nebraska	2	1	0	1	0	1
Nevada	0	0	0	0	0	0
New Hampshire	1	1	0	0	0	1
New Jersey	5	3	0	1	1	4
New Mexico	1	1	0	0	0	1
New York	5	5	0	0	0	3
North Carolina	0	0	0	0	0	0
North Dakota	0	0	0	0	0	0
Ohio	7	6	0	0	1	4
Oklahoma	0	0	0	0	0	0
Oregon	2	2	0	0	0	2
Pennsylvania	0	0	0	0	0	0
Rhode Island	0	0	0	0	0	0
South Carolina	0	0	0	0	0	0
South Dakota	0	0	0	0	0	0
Tennessee	2	1	0	0	1	0
Texas	22	17	0	2	3	9
Utah	0	0	0	0	0	0
Vermont	1	1	0	0	0	0
Virginia	1	0	0	0	1	1
Washington	1	0	0	0	1	0
West Virginia	0	0	0	0	0	0
Wisconsin	0	0	0	0	0	1
Wyoming	1	1	0	0	0	1

* Includes applications pending as of December 31, 1979.

Table A–11

Applications for conversion to national bank charter and charters issued, by states, calendar 1980

	Received*	Approved	Rejected	Withdrawn	Pending December 31, 1980	Chartered
Total	24	16	0	0	8	6
Alabama	1	1	0	0	0	0
Alaska	0	0	0	0	0	0
Arizona	0	0	0	0	0	0
Arkansas	1	1	0	0	0	0
California	0	0	0	0	0	0
Colorado	1	1	0	0	0	1
Connecticut	0	0	0	0	0	0
Delaware	0	0	0	0	0	0
District of Columbia	0	0	0	0	0	0
Florida	0	0	0	0	0	0
Georgia	0	0	0	0	0	0
Hawaii	0	0	0	0	0	0
Idaho	0	0	0	0	0	0
Illinois	0	0	0	0	0	0
Indiana	0	0	0	0	0	0
Iowa	0	0	0	0	0	0
Kansas	0	0	0	0	0	0
Kentucky	0	0	0	0	0	0
Louisiana	0	0	0	0	0	0
Maine	0	0	0	0	0	0
Maryland	0	0	0	0	0	0
Massachusetts	0	0	0	0	0	0
Michigan	4	1	0	0	3	1
Minnesota	1	1	0	0	0	1
Mississippi	0	0	0	0	0	0
Missouri	10	8	0	0	2	0
Montana	0	0	0	0	0	0
Nebraska	0	0	0	0	0	0
Nevada	0	0	0	0	0	0
New Hampshire	0	0	0	0	0	0
New Jersey	1	0	0	0	1	0
New Mexico	0	0	0	0	0	0
New York	2	2	0	0	0	1
North Carolina	0	0	0	0	0	0
North Dakota	0	0	0	0	0	0
Ohio	0	0	0	0	0	0
Oklahoma	0	0	0	0	0	0
Oregon	0	0	0	0	0	0
Pennsylvania	0	0	0	0	0	0
Rhode Island	0	0	0	0	0	0
South Carolina	0	0	0	0	0	0
South Dakota	0	0	0	0	0	0
Tennessee	0	0	0	0	0	0
Texas	3	1	0	0	2	2
Utah	0	0	0	0	0	0
Vermont	0	0	0	0	0	0
Virginia	0	0	0	0	0	0
Washington	0	0	0	0	0	0
West Virginia	0	0	0	0	0	0
Wisconsin	0	0	0	0	0	0
Wyoming	0	0	0	0	0	0

* Includes applications pending as of December 31, 1979.

Table A–12

Mergers, calendar 1980*

	Transactions involving two or more operating banks	*Others pursuant to corporate reorganization*	*Total*
Applications received 1980:			
Mergers	45	53	98
Consolidations	3	14	17
Purchases and assumptions	15	0	15
Total received	63	67	130
Approvals issued 1980:			
Mergers	34	43	77
Consolidations	4	12	16
Purchases and assumptions	18	0	18
Total approvals	56	55	111
Abandoned 1980:			
Mergers	2	0	2
Consolidations	0	0	0
Purchases and assumptions	0	0	0
Total abandoned	2	0	2
Consummated 1980:			
Mergers	39	38	77
Consolidations	3	12	15
Purchases and assumptions	14	0	14
Total consummated	56	50	106

* Includes mergers, consolidations and purchases and assumptions where the resulting bank is a national bank.

Table A–13

Applications for national bank charters, approved and rejected, by states, calendar 1980*

	Approved	*Rejected*
ARKANSAS		
Caddo First National Bank, Glenwood	Aug. 16	———
CALIFORNIA		
Pacific Western National Bank, Pico Rivera	Jan. 30	———
Palm Desert National Bank, Palm Desert	Feb. 6	———
High Desert National Bank, Hesperia	Feb. 8	———
The Village Bank, N.A., Westlake Village	Feb. 21	———
Western National Bank, Santa Ana	Mar. 13	———
Rancho Viejo National Bank, Mission Viejo	June 11	———
The Wilshire Bank, N.A., Los Angeles	June 11	———
Inglewood	———	June 27
Founders National Bank, Brea	July 9	———
The National Bank of Carmel, Carmel	July 11	———
Vineyard National Bank, Rancho	July 30	———
Huntington National Bank, Huntington	Aug. 25	———
United Mercantile Bank & Trust Company National Association, Pasadena	Aug. 26	———
Palos Verdes National Bank, Rolling Hills Estates	Aug. 26	———
Continental National Bank, Fresno	Aug. 29	———
Pacific National Bank, Irvine	Sept. 9	———
Marine National Bank, Costa Mesa	Sept. 19	———
Pioneer National Bank, Fullerton	Oct. 27	———
Beverly Hills	———	Nov. 25
Credit Banque of California National Association, Beverly Hills	Nov. 25	———
Fidelity National Trust Company, Glendale	Dec. 8	———
National Bank of La Jolla, La Jolla	Dec. 10	———

Table A-13—Continued

Applications for national bank charters approved and rejected, by states, calendar 1980*

	Approved	Rejected
COLORADO		
The Snow Bank National Association, Dillon	May 19	———
The First National Bank of the Southwest, Denver	May 30	———
Ken-Caryl National Bank, Littleton	July 18	———
Yampa Valley National Bank, Hayden	Aug. 22	———
Evergreen National Bank, Evergreen	Oct. 22	———
First Colorado Bank National Association, Colorado Springs	Oct. 22	———
United Bank of Arapahoe National Association, unincorporated Arapahoe County	Nov. 25	———
Southeast Arapahoe National Bank, unincorporated Arapahoe County	Nov. 25	———
FLORIDA		
The Flagship National Bank of Sarasota County, Sarasota	June 26	———
Fort Pierce	———	July 17
Community National Bank, unincorporated Brevard County	Aug. 7	———
Dania	———	Sept. 21
First National Bank of Sumter County, unincorporated Sumter County	Dec. 12	———
HAWAII		
Aloha National Bank of Maui, Kihei	Dec. 5	———
ILLINOIS		
First National Bank of Hoffman Estates, Hoffman Estates	Apr. 28	———
Mahomet	———	July 14
Mahomet	———	Aug. 7
Suburban National Bank of Arlington Heights, Arlington Heights	Aug. 29	———
Regency National Bank, Bloomingdale	Sept. 9	———
INDIANA		
Citizens National Bank of Madison, Madison	May 16	———
LOUISIANA		
St. Tammany National Bank, Mandeville	Feb. 26	———
Security National Bank of Shreveport, Shreveport	May 6	———
MICHIGAN		
First Community Bank, N.A., West Branch	Feb. 29	———
Michigan National Bank—Grosse Pointe, Grosse Pointe Woods	Oct. 23	———
MINNESOTA		
Osseo	Withdrawn	Oct. 22
MISSOURI		
Landmark Bank of Sunset Hilla, N.A., Sunset Hilla	June 11	———
Mercantile Bank of South County, National Association, unincorporated area of St. Louis County	June 12	———
NEW HAMPSHIRE		
New London	———	June 5
NEW MEXICO		
First City National Bank, Carlsbad	Feb. 15	———
OHIO		
The Community National Bank, Franklin	Nov. 16	———
OKLAHOMA		
MetroBank, National Association, Oklahoma City	Oct. 22	———
Exchange National Bank, Tulsa	Nov. 7	———
SOUTH DAKOTA		
Citibank (South Dakota) N.A., Sioux Falls	Nov. 19	———
TEXAS		
American National Bank of Plano, Plano	Jan. 10	———
Alta Mesa National Bank, Fort Worth	Jan. 10	———
Metropolitan National Bank, Farmers Branch	Jan. 10	———
Alvin National Bank, Alvin	Jan. 29	———
Alvin Community Bank, N.A., Alvin	Jan. 29	———
Citizens National Bank of Killeen, Killeen	Jan. 31	———
Killeen	———	Jan. 31
City National Bank of Kilgore, Kilgore	Feb. 15	———
Westfield National Bank, Houston	Feb. 27	———
Bank of San Felipe Green, National Association, Houston	Feb. 27	———
Capitol National Bank, San Angelo	Feb. 29	———
National Bank of Commerce, Temple	Feb. 29	———
Lakeway National Bank, Lakeway	Mar. 3	———
Westlake National Bank, Westlake	Mar. 7	———
Marble Falls National Bank, Marble Falls	Mar. 14	———
Travis County	———	Mar. 17
Brazos County National Bank, College Station	Apr. 22	———
International Bank, National Association, Brownsville	Apr. 24	———
Citizens National Bank—West, Harris County	June 11	———
Harlingen	———	June 20
Security National Bank, Amarillo	June 25	———
Bent Tree National Bank, Dallas	July 28	———
TCB—Prestonwood, National Association, Addison	July 28	———
Federal National Bank, Addison	July 28	———
Copperfield National Bank, Harris County	July 28	———
Lubbock	———	Aug. 1
Mesa National Bank, El Paso	Aug. 7	———
Metropolitan National Bank, Farmers Branch	Aug. 7	———
First National Bank, Snyder	Aug. 7	———
First National Bank of Cedar Park, Cedar Park	Aug. 10	———
First National Bank of Burleson, Burleson	Aug. 26	———
Houston National Bank West, Houston	Sept. 10	———
First National Bank of Azle, Azle	Sept. 10	———
Plaza National Bank, Del Rio	Sept. 10	———
Citizens National Bank of Wills Point, Wills Point	Sept. 10	———
American Bank of Commerce, National Association, Del Rio	Sept. 10	———
United National Bank of Plano, Plano	Sept. 10	———
Community National Bank, Hondo	Sept. 10	———
American National Bank, Bay City	Sept. 10	———
Kingwood Houston National Bank, Kingwood	Sept. 10	———
First National Bank of Allen, Allen	Sept. 10	———
Allen National Bank, Allen	Sept. 10	———
Houston National Bank, Houston	Sept. 10	———
Frontier National Bank, Round Rock	Sept. 21	———
Slaton	———	Oct. 2
Commerce Bank, N.A., Laredo	Oct. 4	———
Security National Bank, Nacogdoches	Oct. 4	———
Southside National Bank, Nacogdoches	Oct. 4	———
Fort Worth	———	Oct. 9
Franklin National Bank, Mount Vernon	Oct. 22	———
Westside National Bank, Houston	Oct. 22	———
Charter National Bank, Plano	Oct. 22	———
Clear Lake National Bank, Houston	Nov. 16	———
Texas Commerce Bank—Clear Lake, National Association, Houston	Nov. 16	———
Chisholm National Bank, Plano	Nov. 18	———
Wood County National Bank, Quitman	Dec. 4	———
Collin Creek Bank, National Association, Plano	Dec. 4	———
VIRGINIA		
Colonial American National Bank—Montgomery County, Blacksburg	Feb. 27	———
Sterling	———	Mar. 7
WEST VIRGINIA		
American National Bank, Logan	June 11	———
Crossroads National Bank, Bradley	June 13	———
National Bankers Trust, Bradley	June 13	———
Heritage National Bank, Huntington	Sept. 13	———
The Old National Bank of Huntington, Huntington	Mar. 18	———
WYOMING		
First Wyoming Bank, N.A.—Torrington, Torrington	Oct. 8	———
PUERTO RICO		
Rural National Bank of Puerto Rico, Naranjito	May 15	———

* Does not include applications for conversion or pursuant to corporate reorganization.

Table A–14

Applications for national bank charters pursuant to corporate reorganizations, by states, calendar 1980

	Approved	Rejected
ALABAMA		
Commerce Bank, N.A., Birmingham	Aug. 26	———
First Alabama Bank of Talladega County, N.A., Talledega	Sept. 5	———
ARIZONA		
New First National Bank of Arizona, Phoenix	Jan. 18	———
ARKANSAS		
The Third National Bank of Fort Smith, Fort Smith	Sept. 5	———
First National Bank of El Dorado, El Dorado	Nov. 19	———
COLORADO		
New First National Bank, Fort Collins, Fort Collins	Jan. 18	———
FLORIDA		
Florida National Bank of Martin County, Stuart	Mar. 3	———
The Reynolds National Bank in Palm Beach, Palm Beach	Nov. 25	———
GEORGIA		
The Citizens & Southern Interim National Bank, Savannah	July 1	———
New Columbus National Bank, Columbus	July 15	———
Moultrie—Interim National Bank, Moultrie	July 28	———
First National Interim Bank of McDonough, McDonough	Aug. 16	———
Commerce National Interim Bank of Warner Robins, Warner Robins	Oct. 4	———
American National Interim Bank, Brunswick	Oct. 8	———
First National Interim Bank of Valdosta, Valdosta	Dec. 15	———
Interim Cobb Bank, N.A., Marietta	Dec. 16	———
IDAHO		
New Bank of Idaho, N.A., Boise	Jan. 18	———
ILLINOIS		
Bloomington Bank, N.A., Bloomington	Feb. 27	———
FNW National Bank, Woodstock	Feb. 27	———
O'Hare National Bank, Chicago	Mar. 6	———
First Seaway Bank of Chicago, N.A., Chicago	Mar. 18	———
Citizens National Bank of Aurora, Aurora	May 30	———
Republic National Bank of Elgin, Elgin	June 26	———
Second National Bank of La Grange, La Grange	July 28	———
Prairie Lee National Bank, Des Plaines	July 28	———
The Third National Bank of Danville, Danville	July 28	———
Republic National Bank of Streator, Streator	July 28	———
Republic National Bank of Moline, Moline	July 28	———
Second National Bank of Libertyville, Libertyville	July 28	———
Second National Bank of Antioch, Antioch	Aug. 1	———
Republic National Bank of Waukegan, Waukegan	Aug. 1	———
Second National Bank in Chicago Heights, Chicago Heights	Aug. 16	———
Third National Bank of Decatur, Decatur	Aug. 20	———
Subpal National Bank, Palatine	Sept. 9	———
Woodfield National Bank, Schaumburg	Sept. 9	———
Elk Grove National Bank, Elk Grove	Sept. 9	———
Centralia National Bank, Centralia	Dec. 4	———
KENTUCKY		
Liberty Bank of Louisville, National Association, Louisville	May 22	———
PNB National Bank, Pikeville	Nov. 5	———
LOUISIANA		
New First National Bank of Shreveport, Shreveport	Sept. 10	———
MASSACHUSETTS		
Security Bank, N.A., Lynn	June 6	———
Old Colony Bank of North Essex County, N.A., Haverhill	Oct. 30	———
Old Colony Bank of Franklin County National Association, Shelburne Falls	Oct. 30	———
MICHIGAN		
SCM National Bank, Quincy	May 8	———
AC National Bank, Kaufman	Dec. 29	———
MONTANA		
New Conrad National Bank of Kalispell, Kalispell	Jan. 18	———
NEBRASKA		
ANB Bank, N.A., Omaha	Feb. 29	———
NEW HAMPSHIRE		
Second Hampton National Bank, Hampton	Oct. 21	———
NEW JERSEY		
Horozon Marine National Bank, Borough of Wildwood	Feb. 29	———
New Garden State National Bank, Paramus	July 7	———
Second City National Bank and Trust Company of Salem, Salem	Sept. 10	———
NEW MEXICO		
New Santa Fe National Bank, Santa Fe	Jan. 18	———
NEW YORK		
516 Central Avenue National Bank, Cedarhurst	Mar. 17	———
Key Bank of Northern New York, N.A., Watertown	Aug. 7	———
Key Bank of Western New York, N.A., Wellsville	Oct. 6	———
Key Bank of Northern New York, N.A., Watertown	Dec. 12	———
BT National Bank, Albany	Dec. 17	———
OHIO		
Bank One of Pomeroy, N.A., Pomeroy	Feb. 5	———
Toledo National Bank, Toledo	Feb. 21	———
Bank One of Fairborn, N.A., Fairborn	June 11	———
TNB Bank of Dayton, N.A., Dayton	July 18	———
Caldwell New National Bank, Caldwell	Oct. 22	———
Circleville Bank, N.A., Circleville	Dec. 3	———
OREGON		
New First National Bank of Oregon, Portland	Jan. 18	———
Unity National Bank of Oregon, Forest Grove	Oct. 4	———
TENNESSEE		
The Fourth National Bank of Gibson County, Humboldt	May 16	———
TEXAS		
Port Neches Commerce Bank National Association, Port Neches	Feb. 27	———
New Laredo National Bank, Laredo	Mar. 17	———
County Bank, National Association, Orange	Apr. 3	———
New First National Bank, Madisonville	May 19	———
New Westside National Bank of San Angelo, San Angelo	June 20	———
East Waco National Bank, Waco	June 26	———
National Bank of NorthPark, Dallas	June 26	———
Allied National Bank of Abilene, Abilene	July 28	———
Allied Bank—West Loop, N.A., Houston	Aug. 7	———
New Texas National Bank, Waco	Oct. 8	———
New Texoma National Bank of Sherman, Sherman	Oct. 9	———
Gulfway Commerce Bank, N.A., Corpus Christi	Oct. 24	———
Mercantile Commerce Bank, National Association, Corpus Christi	Nov. 4	———
McKinney National Bank, McKinney	Nov. 24	———
Richmond National Bank, Richmond	Dec. 12	———
American Bank, National Association, Garland	Dec. 16	———
New Merchants National Bank, Kaufman	Dec. 29	———
VERMONT		
New Vermont National Bank, Springfield	Sept. 10	———
WYOMING		
New First National Bank of Casper, Casper	Jan. 18	———

Table A–15

Newly organized national banks, by states, calendar 1980

Charter number	Title and location of bank	Total capital accounts
	Total, United States: 61 banks	$118,035,310
	CALIFORNIA	
16930	San Dieguito National Bank, Encinitas	2,500,000
16839	Nevada County National Bank, Grass Valley	1,500,000
16891	California Pacific National Bank, Los Angeles	6,000,000
16840	Monterey Park National Bank, Monterey Park	3,000,000
16838	Newport Harbour National Bank, Newport Beach	5,000,000
16858	University National Bank and Trust Company, Palo Alto	4,200,000
16912	Pacific Western National Bank, Pico Rivera	2,000,000
16836	Meridian National Bank, Pleasant Hill	2,000,000
16908	California National Bank, San Francisco	5,000,000
16931	Western National Bank, Santa Ana	2,585,310
16923	The Village Bank, National Association, Westlake Village	2,500,000
	COLORADO	
16881	The Snow Bank, National Association, Dillon	1,000,000
16909	Foothills National Bank, Fort Collins	1,000,000
	FLORIDA	
16831	The National Trust Company, Fort Myers	1,500,000
16870	Alexander Hamilton National Bank, North Lauderdale	1,750,000
	ILLINOIS	
16880	First National Bank of Hoffman Estates, Hoffman Estates	2,000,000
	IOWA	
16886	Community National Bank of Muscatine, Muscatine	2,000,000
	KENTUCKY	
16905	First National Bank of Versailles, Versailles	1,000,000
	MICHIGAN	
16842	Pacesetter Bank—Lansing, National Association, Lansing	1,500,000
16843	The Detroit Bank—Novi, National Association, Novi	2,000,000
16857	Huron National Bank, Rogers City	1,250,000
16932	First Community Bank, N.A., West Branch	1,000,000
	MINNESOTA	
16929	Community National Bank, Branch	1,000,000
16894	Tri-County National Bank, Forest Lake	1,200,000
	MISSOURI	
16850	Battlefield National Bank, Springfield	1,500,000
	NEBRASKA	
16921	Siouxland National Bank, South Sioux City	1,250,000
	NEW MEXICO	
16885	First City National Bank, Carlsbad	2,000,000
	SOUTH CAROLINA	
16918	Liberty National Bank, Charleston	2,500,000
	TEXAS	
16903	Alvin Community Bank, National Association, Alvin	1,500,000
16887	Alvin National Bank, Alvin	1,500,000
16888	American National Bank of Abilene, Abilene	2,000,000
16835	First United Bank—Arlington, N.A., Arlington	1,250,000
16827	Mercantile National Bank of Arlington, Arlington	2,000,000
16824	Forestwood National Bank of Dallas, Dallas	2,000,000
16852	Liberty National Bank, Dallas	3,000,000
16851	Lincoln Centre Bank, National Association, Dallas	2,500,000
16860	West El Paso National Bank, El Paso	1,500,000
16829	First City Bank—Westheimer, N.A., unincorporated area of Harris County	1,500,000
16849	Willowbrook National Bank, unincorporated area of Harris County	1,250,000
16892	Woodforest National Bank, unincorporated area of Harris County	2,000,000
16902	First City Bank—North Belt, National Association, Houston	1,500,000
16875	Humble National Bank, Humble	2,000,000
16910	City National Bank of Kilgore, Kilgore	2,000,000
16845	Bayport National Bank, La Porte	1,500,000
16856	Angelina National Bank, Lufkin	1,750,000
16911	Town North National Bank, Longview	3,000,000
16878	First United Bank—Richland, N.A., North Richland Hills	1,250,000
16907	American National Bank of Plano, Plano	2,000,000
16879	Pioneer National Bank, Richardson	1,400,000
16889	Exchange National Bank, San Antonio	1,600,000
16830	First National Bank, Sherman	1,250,000
16832	First National Bank of Sulphur Springs, Sulphur Springs	2,000,000
16846	Universal City Bank, National Association, Universal City	1,800,000
16890	Citizens National Bank, Victoria	2,500,000
16883	City National Bank, Weslaco	2,000,000
16874	The Woodlands National Bank, Woodlands	1,250,000

Table A–15—Continued

Newly organized national banks, by states, calendar 1980

Charter number	Title and location of bank	Total capital accounts
	UTAH	
16853	Zions First National Bank of Cedar City, Cedar City	1,000,000
16901	Zions First National Bank of Orem, Orem	1,000,000
	WEST VIRGINIA	
16873	Upshur National Bank, Buckhannon	1,000,000
16893	Heritage National Bank, Huntington	2,000,000
	WISCONSIN	
16823	The Marine Trust Company, N.A., Milwaukee	500,000

Table A–16

Mergers consummated pursuant to corporate reorganizations, by states, calendar 1980*
(Dollar amounts in thousands)

Effective date	Operating bank New bank Resulting bank	Total capital accounts	Total assets
	ALABAMA		
	National Bank of Commerce of Birmingham, Birmingham Commerce Bank, N.A., Birmingham Charter issued December 29, 1980		
December 29	National Bank of Commerce of Birmingham, Birmingham	$ 10,244	$ 55,696
	The Talladega National Bank, Talladega First Alabama Bank of Talladega County, N.A., Talladega Charter issued December 29, 1980		
December 31	First Alabama Bank of Talladega County, N.A., Talladega	3,905	40,568
	ARIZONA		
	First National Bank of Arizona, Phoenix New First National Bank of Arizona, Phoenix Charter issued June 30, 1980		
June 30C	First National Bank of Arizona, Phoenix	171,740	3,288,275
	ARKANSAS		
	The City National Bank of Fort Smith, Fort Smith Third National Bank of Fort Smith, Fort Smith Charter issued December 15, 1980		
December 15	The City National Bank of Fort Smith, Fort Smith	11,041	156,122
	The Commercial National Bank of Little Rock, Little Rock Commercial National Bank of Little Rock, Little Rock Charter issued October 21, 1980		
October 21	Commercial National Bank of Little Rock, Little Rock	18,254	363,729
	COLORADO		
	First National Bank, Fort Collins New First National Bank, Fort Collins Charter issued June 30, 1980		
June 30C	First National Bank, Fort Collins	13,180	192,312
	GEORGIA		
	The First National Bank of Columbus, Columbus New Columbus National Bank, Columbus Charter issued November 10, 1980		
November 3C	The First National Bank of Columbus, Columbus	17,432	202,470
	First National Bank of McDonough, McDonough First National Interim Bank of McDonough, McDonough Charter issued December 29, 1980		
December 31	First National Bank of McDonough, McDonough	3,705	39,665
	IDAHO		
	Bank of Idaho, N.A., Boise New Bank of Idaho, N.A., Boise Charter issued June 30, 1980		
June 30C	Bank of Idaho, N.A., Boise	30,154	540,527
	ILLINOIS		
	O'Hare International Bank, National Association, Chicago O'Hare National Bank, Chicago Charter issued October 20, 1980		
October 20	O'Hare International Bank, National Association, Chicago	12,666	153,541

Table A–16—Continued

Mergers consummated pursuant to corporate reorganizations, by states, calendar 1980*
(Dollar amounts in thousands)

Effective date	*Operating bank* *New bank* *Resulting bank*	*Total capital accounts*	*Total assets*
	The First National Bank of Decatur, Decatur Third National Bank of Decatur, Decatur Charter issued December 29, 1980		
December 31	The First National Bank of Decatur, Decatur	13,014	190,978
	The First National Bank of Des Plaines, Des Plaines Prairie Lee National Bank, Des Plaines Charter issued December 19, 1980		
December 19	The First National Bank of Des Plaines, Des Plaines	18,099	245,330
	Busey First National Bank, Urbana Urbana National Bank, Urbana Charter issued March 20, 1980		
March 20	Busey First National Bank, Urbana	7,663	135,746
	First National Bank of Woodstock, Woodstock FNW National Bank, Woodstock Charter issued September 30, 1980		
September 30	First National Bank of Woodstock, Woodstock	5,712	72,680
	INDIANA		
	Bank of Indiana, National Association, Gary Indiana Interim National Bank, Gary Charter issued September 18, 1980		
September 18	Bank of Indiana, National Association, Gary	18,998	264,955
	IOWA		
	First National Bank in Sioux City, Sioux City First National Interim Bank, Sioux City Charter issued March 31, 1980		
March 31	First National Bank in Sioux City, Sioux City	12,550	153,282
	KENTUCKY		
	Liberty National Bank and Trust Company of Louisville, Louisville Liberty Bank of Louisville, National Association, Louisville Charter issued October 1, 1980		
October 1	Liberty National Bank and Trust Company of Louisville, Louisville	51,894	932,161
	MASSACHUSETTS		
	Harbor National Bank of Boston, Boston New Harbor National Bank, Boston Charter issued December 5, 1980		
December 5	Harbor National Bank of Boston, Boston	6,666	19,216
	Security National Bank, Lynn Security Bank, N.A., Lynn Charter issued December 3, 1980		
December 11	Security National Bank, Lynn	7,957	108,752
	Pittsfield National Bank, Pittsfield Old Colony Bank of Berkshire County, National Association, Pittsfield Charter issued March 17, 1980		
March 17	Old Colony Bank of Berkshire County, National Association, Pittsfield	3,494	21,724
	MICHIGAN		
	First National Bank of South Central Michigan, Quincy SCM National Bank, Quincy Charter issued September 29, 1980		
September 29C	First National Bank of South Central Michigan, Quincy	4,272	53,726
	MONTANA		
	The Conrad National Bank of Kalispell, Kalispell New Conrad National Bank of Kalispell, Kalispell Charter issued June 30, 1980		
June 30C	The Conrad National Bank of Kalispell, Kalispell	6,584	86,118
	NEBRASKA		
	American National Bank, Omaha ANB Bank, N.A., Omaha Charter issued September 30, 1980		
September 30	American National Bank, Omaha	5,436	69,825
	NEW HAMPSHIRE		
	Bank of New Hampshire, National Association, Manchester New Hampshire Bank, National Association, Manchester Charter issued April 30, 1980		
April 30	Bank of New Hampshire, National Association, Manchester	15,253	254,274
	NEW JERSEY		
	Atlantic National Bank, Atlantic City Midlantic National Bank/Atlantic, Atlantic City Charter issued March 1, 1980		
March 1	Atlantic National Bank, Atlantic City	7,748	101,436

Table A–16—Continued

Mergers consummated pursuant to corporate reorganizations, by states, calendar 1980*
(Dollar amounts in thousands)

Effective date	Operating bank New bank Resulting bank	Total capital accounts	Total assets
	Garden State National Bank, Paramus New Garden State National Bank, Paramus Charter issued July 7, 1980		
July 7C	Garden State National Bank, Paramus	48,844	856,603
	The City National Bank and Trust Company of Salem, Salem Second City National Bank and Trust Company of Salem, Salem Charter issued November 17, 1980		
November 17	The City National Bank and Trust Company of Salem, Salem	6,499	43,416
	The Marine National Bank of Wildwood, Wildwood Horizon Marine National Bank, Wildwood Charter issued June 4, 1980		
June 4	The Marine National Bank of Wildwood, Wildwood	7,968	106,700
	NEW MEXICO		
	Santa Fe National Bank, Santa Fe New Santa Fe National Bank, Santa Fe Charter issued June 30, 1980		
June 30C	Santa Fe National Bank, Santa Fe	5,762	90,595
	NEW YORK		
	Peninsula National Bank, Cedarhurst 516 Central Avenue National Bank, Cedarhurst Charter issued July 31, 1980		
July 31	Peninsula National Bank, Cedarhurst	9,279	114,877
	The National Bank of Northern New York, Watertown Key Bank of Northern New York N.A., Watertown Charter issued November 26, 1980		
November 28	Key Bank of Northern New York N.A., Watertown	21,417	255,157
	The Citizens National Bank and Trust Company, Wellsville Key Bank of Western New York N.A., Wellsville Charter issued November 7, 1980		
November 7	Key Bank of Western New York N.A., Wellsville	6,550	123,176
	OHIO		
	The First National Bank of Fairborn, Fairborn Bank One of Fairborn, N.A., Fairborn Charter issued October 1, 1980		
October 1C	Bank One of Fairborn, N.A., Fairborn	4,948	47,249
	Hardin National Bank, Kenton The F.B.G. National Bank of Kenton, Kenton Charter issued February 6, 1980		
February 6	Bank One of Kenton, N.A., Kenton	1,779	25,356
	The Pomeroy National Bank, Pomeroy Bank One of Pomeroy, N.A., Pomeroy Charter issued June 2, 1980		
June 2	Bank One of Pomeroy, N.A., Pomeroy	3,116	33,419
	First National Bank of Toledo, Toledo Toledo National Bank, Toledo Charter issued July 1, 1980		
July 1	First National Bank of Toledo, Toledo	42,876	496,734
	OREGON		
	First National Bank of McMinnville, McMinnville The First National Interim Bank of McMinnville, McMinnville Charter issued February 1, 1980		
February 4	The First National Bank of McMinnville, McMinnville	3,396	33,416
	First National Bank of Oregon, Portland New First National Bank of Oregon, Portland Charter issued June 30, 1980		
June 30C	First National Bank of Oregon, Portland	248,694	4,663,745
	TEXAS		
	Gateway National Bank of Beaumont, Beaumont New Gateway National Bank of Beaumont, Beaumont Charter issued June 5, 1980		
June 6	Gateway National Bank of Beaumont, Beaumont	2,893	32,985
	NorthPark National Bank of Dallas, Dallas National Bank of NorthPark, Dallas Charter issued December 11, 1980		
December 11	NorthPark National Bank of Dallas, Dallas	8,711	199,774
	Summit National Bank, Fort Worth West Freeway National Bank, Fort Worth Charter issued July 8, 1980		
July 8	Summit National Bank, Fort Worth	3,828	44,971
	Security National Bank, Houston Allied Bank—West Loop, N.A., Houston Charter issued December 29, 1980		
December 31	Allied Bank—West Loop, N.A., Houston	4,582	64,217

Table A–16—Continued

Mergers consummated pursuant to corporate reorganizations, by states, calendar 1980*
(Dollar amounts in thousands)

Effective date	*Operating bank / New bank / Resulting bank*	*Total capital accounts*	*Total assets*
	The Laredo National Bank, Laredo		
	New Laredo National Bank, Laredo		
	Charter issued January 15, 1981		
December 31	The Laredo National Bank, Laredo	21,970	433,728
	The First National Bank of Madisonville, Madisonville		
	New First National Bank, Madisonville		
	Charter issued October 1, 1980		
October 1	The First National Bank of Madisonville, Madisonville	3,257	43,734
	County National Bank of Orange, Orange		
	County Bank, National Association, Orange		
	Charter issued September 18, 1980		
September 18C	County National Bank of Orange, Orange	3,442	44,969
	West Side National Bank of San Angelo, San Angelo		
	New West Side National Bank of San Angelo, San Angelo		
	Charter issued December 29, 1980		
December 31	West Side National Bank of San Angelo, San Angelo	2,950	45,093
	Southwest National Bank, San Antonio		
	Wurzbach Road National Bank, San Antonio		
	Charter issued February 1, 1980		
February 1	Southwest National Bank, San Antonio	3,365	25,473
	VIRGINIA		
	The Mountain National Bank of Clifton Forge, Clifton Forge		
	Colonial American National Bank—Clifton Forge, Clifton Forge		
	Charter issued February 25, 1980		
February 25	The Mountain National Bank of Clifton Forge, Clifton Forge	2,007	18,691
	WISCONSIN		
	First National Bank and Trust Company of Racine, Racine		
	First Bank and Trust Company of Racine, N.A., Racine		
	Charter issued November 21, 1980		
November 21	First National Bank and Trust Company of Racine, Racine	9,780	139,476
	WYOMING		
	First National Bank of Casper, Casper		
	New First National Bank of Casper, Casper		
	Charter issued June 30, 1980		
June 30C	First National Bank of Casper, Casper	19,091	256,346

* Includes consolidations effected pursuant to corporate reorganizations. Does not include transactions involving more than a single operating bank. Those transactions are found in Table A–24.
C Consolidation.

Table A–17

State-chartered banks converted into national banks, by states, calendar 1980
(Dollar amounts in thousands)

Charter number	*Title and location of bank*	*Effective date*	*Total assets*
	Total: 6 banks		$15,822,592
	COLORADO		
16919	Yampa Valley National Bank, Hayden, conversion of Yampa Valley State Bank	Dec. 1	9,273
	MICHIGAN		
16920	Michigan National Bank-Midland, Midland, conversion of Michigan Bank-Midland	Dec. 1	11,720
	MINNESOTA		
16871	First National Bank of Askov, Askov, conversion of Security State Bank of Askov	July 1	6,840
	NEW YORK		
16833	Marine Midland Bank, N.A., Buffalo, conversion of Marine Midland Bank	Feb. 1	15,690,937
	TEXAS		
16828	College Station Bank, National Association, College Station, conversion of First State Bank, Hearne	Jan. 16	8,043
16926	First International Bank in San Antonio, National Association, conversion of First International Bank in San Antonio	Dec. 10	95,779

Table A–18

National bank charters issued pursuant to corporate reorganizations, by states, calendar 1980

Charter number	Title and location of bank	Date of issuance
	Total: 52 banks	
	ALABAMA	
15303	Commerce Bank, N.A., Birmingham	Dec. 29
7558	First Alabama Bank of Talladega County, N.A., Talladega	Dec. 31
	ARIZONA	
3728	New First National Bank of Arizona, Phoenix	June 26
	ARKANSAS	
10609	Third National Bank of Fort Smith, Fort Smith	Dec. 15
14000	Commercial National Bank of Little Rock, Little Rock	Oct. 21
	COLORADO	
14146	New First National Bank, Fort Collins	June 26
	FLORIDA	
15991	Florida National Bank of Martin County, Stuart	July 31
	GEORGIA	
2338	New Columbus National Bank, Columbus	Nov. 3
7969	First National Interim Bank of McDonough, McDonough	Dec. 31
13068	C&S Interim National Bank, Savannah	Dec. 31
	IDAHO	
16237	New Bank of Idaho, N.A., Boise	June 26
	ILLINOIS	
14888	O'Hare National Bank, Chicago	Oct. 20
4920	Third National Bank of Decatur, Decatur	Dec. 31
10319	Prairie Lee National Bank, Des Plaines	Dec. 19
14521	Urbana National Bank, Urbana	Mar. 19
14137	FNW National Bank, Woodstock	Sept. 25
	INDIANA	
15455	Indiana Interim National Bank, Gary	Sept. 18
	IOWA	
13538	First National Interim Bank, Sioux City	Mar. 28
	KENTUCKY	
14320	Liberty Bank of Louisville, National Association, Louisville	Oct. 1
	MASSACHUSETTS	
15483	New Harbor National Bank, Boston	Dec. 5
7452	Security Bank, N.A., Lynn	Dec. 10
1260	Old Colony Bank of Berkshire, National Association, Pittsfield	Mar. 14
	MICHIGAN	
2550	SCM National Bank, Quincy	Sept. 25
	MONTANA	
4803	New Conrad National Bank of Kalispell, Kalispell	June 26
	NEBRASKA	
15435	ANB Bank, N.A., Omaha	Sept. 25
	NEW HAMPSHIRE	
1059	New Hampshire Bank, National Association, Manchester	Apr. 29
	NEW JERSEY	
15781	Midlantic National Bank/Atlantic, City	Feb. 29
15570	New Garden State National Bank, Paramus	July 7
3922	Second City National Bank and Trust Company of Salem, Salem	Nov. 17
6278	Horizon Marine National Bank, Wildwood	June 4
	NEW MEXICO	
14543	New Santa Fe National Bank, Santa Fe	June 26
	NEW YORK	
11854	516 Central Avenue National Bank, Cedarhurst	July 30
2657	Key Bank of Northern New York, N.A., Watertown	Nov. 28
4988	Key Bank of Western New York, N.A., Wellsville	Nov. 7
	OHIO	
9675	Bank One of Fairborn, N.A., Fairborn	Sept. 30
3505	The F.B.G. National Bank of Kenton, Kenton	Feb. 5
1980	Bank One of Pomeroy, N.A., Pomeroy	May 30
14586	Toledo National Bank, Toledo	June 27
	OREGON	
3399	The First National Interim Bank of McMinnville, McMinnville	Feb. 1
1553	New First National Bank of Oregon, Portland	June 26

Table A–18—Continued

National bank charters issued pursuant to corporate reorganizations, by states, calendar 1980

Charter number	Title and location of bank	Date of issuance
	TEXAS	
14871	New Gateway National Bank of Beaumont, Beaumont	June 5
15529	National Bank of NorthPark, Dallas	Dec. 11
16422	West Freeway National Bank, Fort Worth	July 8
16440	Allied Bank—West Loop, N.A., Houston	Dec. 31
5001	New Laredo National Bank, Laredo	Dec. 31
6356	New First National Bank, Madisonville	Sept. 30
14884	County Bank, National Association, Orange	Sept. 18
14995	New West Side National Bank of San Angelo, San Angelo	Dec. 31
16209	Wurzbach Road National Bank, San Antonio	Jan. 30
	VIRGINIA	
14180	Colonial American National Bank—Clifton Forge, Clifton Forge	Feb. 25
	WISCONSIN	
457	ist Bank and Trust Company of Racine, N.A., Racine	Nov. 20
	WYOMING	
6850	New First National Bank of Casper, Casper	June 26

Table A–19

National banks reported in voluntary liquidation, by states, calendar 1980

Title and location of bank	Date of liquidation	Total capital accounts of liquidated bank*
Total: 2 national banks		$1,649,000
MISSISSIPPI		
First National Bank of Waynesboro (15600), Waynesboro, absorbed by Bank of Quitman, Quitman	October 3	200,000
WASHINGTON		
Columbia Bank, National Association (15741), Kennewick, absorbed by Peoples National Bank of Washington, Seattle (14394)	August 7	1,449,000

* Includes subordinated notes and debentures, if any.

Table A–20

National banks merged or consolidated with state banks, by states, calendar 1980
(Dollar amounts in thousands)

Title and location of bank	*Effective date*	*Total capital accounts of national banks*
Total: 17 banks		$79,349
CALIFORNIA		
Mexican American National Bank, San Diego (16305), merged into Community Bank of San Jose, San Jose, under title "California Commerce Bank"	June 10	2,049
Mid-Cal National Bank, Lodi (15495), merged into Bank of Stockton, Stockton, under title "Bank of Stockton"	Oct. 1	4,975
FLORIDA		
Fidelity National Bank, Pompano Beach (15949), merged into Pan American Bank of Broward, Lauderhill, under title "Pan American Bank of Broward"	May 1	1,970
Southeast Bank of Indian River, N.A., Vero Beach (16642), merged into Southeast Bank of Sebastian, Sebastian, under title "Southeast Bank of Indian River"	Jan. 12	1,326
Sun First National Bank of Dunedin, Dunedin (14719), merged into Sun Bank and Trust Company of St. Petersburg, St. Petersburg, under title "Sun Bank/Suncoast"	Oct. 16	9,220
NEW JERSEY		
United Jersey Bank/Ocean County, National Association, Lakewood (16026), merged into United Jersey Bank/Mid State, Hazlet, under title "United Jersey Bank/Mid State"	Dec. 1	1,064
NEW YORK		
Empire National Bank, Middletown (13956), merged into The Bank of New York, under title "The Bank of New York"	Sept. 11	25,541
Century National Bank & Trust Company, New York (15273), merged into Bank of Suffolk County, Stony Brook, under title "Extebank"	July 1	9,405
The Homer National Bank, Homer (3186), merged into Key Bank of Central New York, Syracuse, under title "Key Bank of Central New York"	June 27	2,039
NORTH CAROLINA		
Burlington National Bank, Burlington (16568), merged into Central Carolina Bank & Trust Company, Durham, under title "Central Carolina Bank & Trust Company"	Dec. 31	2,868
Peoples National Bank, Smithfield (16361), merged into The Carolina Bank, Sanford, under title "The Carolina Bank"	Oct. 1	1,341
OHIO		
Heritage Bank, N.A.—Flushing (12008), merged into Heritage Bank, Toronto, under title "Heritage Bank"	July 31	2,673
PENNSYLVANIA		
The Farmers National Bank of Conneautville (13942), merged into Marine Bank, Meadville, under title "Marine Bank"	Nov. 1	990
The Solebury National Bank of New Hope (11015), merged into Continental Bank, Norristown, under title "Continental Bank"	Sept. 29	3,162
The Farmers National Bank and Trust Company of Millheim, Millheim, (9511), consolidated with The Community Bank, Port Matilda, under title "Farmers Community Bank	July 31	2,246
The Merchants and Manufacturers National Bank of Sharon (6560), merged into Northwest Pennsylvania Bank & Trust Co., Oil City, under title "Northwest Pennsylvania Bank & Trust Co."	Apr. 1	5,460
The Lewisburg National Bank, Lewisburg (745), merged into Northern Central Bank, Williamsport, under title "Northern Central Bank"	Aug. 15	3,020

Table A–21

National banks converted to state banks, by states, calendar 1980
(Dollar amounts in thousands)

Charter number	Title and location of bank	Effective date	Total assets
	Total: 46 banks		$6,534,297
	ALASKA		
12578	The First National Bank of Ketchikan, Ketchikan, converted into First Bank, Ketchikan	Mar. 3	61,230
	CALIFORNIA		
10120	The First National Bank of Dixon, Dixon, converted into First Northern Bank of Dixon, Dixon	Jan. 2	50,954
14903	Valley National Bank—Sunnymead, Sunnymead, converted into Valley Bank, Sunnymead	Apr. 21	20,392
	FLORIDA		
14966	First National Bank and Trust Company, Belleair Bluffs, converted into First Bank and Trust Company, Belleair Bluffs	Apr. 1	75,086
16293	Southern National Bank of Broward County, unincorporated area of Broward County, converted into Southern Bank of Broward County, unincorporated area of Broward County	Oct. 1	26,459
15826	Eglin National Bank, Fort Walton Beach, converted into Sunshine Bank, Fort Walton Beach	Jan. 2	17,858
16556	City National Bank of Lauderhill, Lauderhill, converted into Union Bank of Florida, Lauderhill	June 2	34,546
15855	Exchange National Bank of Lee County, unincorporated area of Lee County, converted into Exchange Bank of Lee County, unincorporated area of Lee County	Apr. 1	94,354
14338	The Bay National Bank and Trust Company, Panama City, converted into Bay Bank and Trust Company, Panama City	Aug. 7	79,368
	HAWAII		
16104	Bank of Honolulu, National Association, Honolulu, converted into Bank of Honolulu, Honolulu	Apr. 1	36,513
	ILLINOIS		
7598	The Carbondale National Bank, Carbondale, converted into MidAmerica Bank and Trust Company, Carbondale	Feb. 6	20,558
5630	The First National Bank of Cobden, Cobden, converted into First Bank of Cobden, Cobden	Apr. 1	18,412
14127	First National Bank at East St. Louis, East St. Louis, converted into First Illinois Bank, East St. Louis	Feb. 14	58,758
4019	The First National Bank of Murphysboro, Murphysboro, converted into The First Bank and Trust Company, Murphysboro	July 3	28,118
	IOWA		
16197	Second National Bank, Eldora, converted into Hawkeye Bank and Trust, Eldora	Sept. 15	18,193
	KENTUCKY		
3944	The Second National Bank of Ashland, Ashland, converted into First Bank and Trust Company of Ashland, Ashland	Mar. 3	122,963
7254	The First National Bank of Prestonsburg, Prestonsburg, converted into The Commonwealth Bank of Prestonsburg, Inc., Prestonsburg	Apr. 7	98,560
	LOUISIANA		
15952	Century National Bank in New Orleans, New Orleans, converted into Century Bank, New Orleans	Sept. 25	30,825
14669	First National Bank of Rayville, Rayville, converted into First Republic Bank, Rayville	Feb. 1	33,270
	MICHIGAN		
14185	Security National Bank of Battle Creek, Battle Creek, converted into SNB Bank and Trust, Battle Creek	Mar. 14	120,047
13793	The National Bank of Richmond, Richmond, converted into Security Bank of Richmond, Richmond	Jan. 1	57,665
	MINNESOTA		
6631	The First National Bank of Alden, Alden, converted into Americana State Bank, Alden	Nov. 21	8,835
6784	The First National Bank of Emmons, Emmons, converted into First State Bank of Emmons, Emmons	June 2	3,892
13204	First National Bank in Lakefield, Lakefield, converted into First Trust Bank of Lakefield, Lakefield	June 23	19,646
11293	The First National Bank of Lake Wilson, Lake Wilson, converted into First State Bank of Lake Wilson, Lake Wilson	Feb. 1	5,196
	MONTANA		
15907	United National Bank, Libby, converted into Century Bank, Libby	July 1	11,580
	NEBRASKA		
13462	The Citizens National Bank in St. Paul, St. Paul, converted into Citizens Bank and Trust Company, St. Paul	Mar. 1	20,015
	NEVADA		
14406	Security National Bank of Nevada, Reno, converted into Security Bank of Nevada, Reno	Jan. 7	339,011
	NEW JERSEY		
13203	United Jersey Bank/Southwest, N.A., Camden, converted into United Jersey Bank/Southwest, Camden	Mar. 1	99,942
4147	United Jersey Bank/Mid State, National Association, Hazlet Township, converted into United Jersey Bank/Mid State, Hazlet Township	Mar. 1	106,834
	NEW MEXICO		
15256	Farmington National Bank, Farmington, converted into Western Bank, Farmington	Jan. 2	36,289
	NORTH DAKOTA		
15266	First National Bank, West Fargo, converted into First State Bank of West Fargo, West Fargo	Jan. 1	14,282

Table A–21—Continued

National banks converted to state banks, by states, calendar 1980
(Dollar amounts in thousands)

Charter number	Title and location of bank	Effective date	Total assets
	OKLAHOMA		
7127	The First National Bank of Apache, Apache, converted into First Bank of Apache, Apache	June 25	12,859
7386	The Cleveland National Bank, Cleveland, converted into The Cleveland Bank, Cleveland	June 24	14,557
10332	The Farmers National Bank of Cushing, Cushing, converted into Bank of Cushing, Cushing	Aug. 8	31,172
8270	The First National Bank of Dewey, Dewey, converted into The Dewey Bank, Dewey	Jan. 2	31,857
12223	The First National Bank of Britton, Oklahoma City, converted into First Bank of Britton, Oklahoma City	Feb. 20	40,002
10075	Pioneer National Bank, Ponca City, converted into Pioneer Bank and Trust, Ponca City	Jan. 2	30,168
	PENNSYLVANIA		
5019	Deposit National Bank, DuBois, converted into Deposit Bank, DuBois	Jan. 2	153,254
12688	The Hershey National Bank, Hershey, converted into The Hershey Bank, Hershey	Mar. 17	80,100
694	National Central Bank, Lancaster, converted into Hamilton Bank, Lancaster	Feb. 1	1,653,932
2222	Equibank, N.A., Pittsburgh, converted into Equibank, Pittsburgh	Feb. 1	2,606,952
	TENNESSEE		
10028	City and County Bank of Anderson County, National Association, Lake City, converted into City and County Bank of Anderson County, Lake City	Apr. 28	50,634
	TEXAS		
15137	Arlington National Bank, Arlington, converted into Bank of Arlington, Arlington	Sept. 8	41,589
15812	Madison-Southern National Bank, Houston, converted into Madison Bank, Houston	Sept. 30	9,890
16558	South Loop National Bank, Houston, converted into South Loop Bank, Houston	May 20	7,680

Table A–22

Purchases of state banks by national banks, by states, calendar 1980
(Dollar amounts in thousands)

Title and location of bank	Effective date	Total capital accounts of state banks
Total: 9 banks		$3,610,144
MASSACHUSETTS		
Baybank First Easthampton, National Association (428), Easthampton, purchased Mohawk Bank and Trust Company, Greenfield	Feb. 16	20,295
NEW JERSEY		
First National Bank of New Jersey (329), Totowa, purchased Commonwealth Bank of Metuchen, Metuchen	June 23	826,598
Heritage Bank National Association (1209), Cherry Hill, purchased Coastal State Bank, Ocean City	Dec. 31, 1979	4,685
First National Bank of New Jersey (329), Totowa, purchased South Amboy Trust Company, South Amboy	Mar. 21	798,575
SOUTH CAROLINA		
The Citizens and Southern National Bank of South Carolina (14425), Charleston, purchased Colonial State Bank, Inc., Marion	Dec. 8	70,015
SOUTH DAKOTA		
The Pierre National Bank (4104), Pierre, purchased Badlands State Bank, Kadoka, and Vivian State Bank, Vivian	Apr. 1	77,432
WASHINGTON		
Pacific National Bank of Washington (3417), Seattle, purchased American Commercial Bank, Spokane	Mar. 24	1,790,630
WEST VIRGINIA		
Heritage National Bank (11893), Huntington, purchased Metro Bank of Huntington, Inc., Huntington	Sept. 13	21,914

Table A–23

Consolidations of national banks, or national and state banks, by states, calendar 1980

(Dollar amounts in thousands)

Effective date	*Consolidating banks Resulting bank*	*Outstanding capital stock*	*Surplus*	*Undivided profits and reserves*	*Total assets*
	MICHIGAN				
	Branch County Bank, Coldwater	$ 1,005	$ 1,878	$ 1,623	$ 62,793
	Hickory National Bank of Michigan, Fawn River Township (9497)	300	300	1,562	15,805
May 1	Branch County Bank, N.A., Fawn River Township (9497)	1,335	2,178	2,155	78,598
	OHIO				
	First National Bank of Middletown, Monroe (14565)	3,969	4,200	6,120	153,056
	The First National Bank and Trust Company of Hamilton, Hamilton (56)	5,016	6,608	11,523	220,784
June 1	First National Bank of Southwestern Ohio, Hamilton (56)	10,000	10,808	16,641	373,840
	The Union Savings Bank of Bellaire, Bellaire	108	892	540	14,752
	First National Bank in Bellaire, Bellaire (13914)	300	300	1,739	18,269
June 30	First-Union Bank, N.A., Bellaire (13914)	500	501	2,928	32,840

* Excludes consolidations involving a single operating bank, effected pursuant to corporate reorganization. Those transactions may be found on Table A–16.

Table A–24

Mergers of national banks, or national and state banks, by states, calendar 1980

(Dollar amounts in thousands)

Effective date	*Merging banks Resulting bank*	*Outstanding capital stock*	*Surplus*	*Undivided profits and reserves*	*Total assets*
	CALIFORNIA				
	Inyo-Mono National Bank, Bishop (15398)	$ 523	$ 523	$ 936	$ 28,129
	Security Pacific National Bank, Los Angeles (2491)	349,521	350,479	409,246	23,573,033
Mar. 30	Security Pacific National Bank, Los Angeles (2491)	349,521	350,479	406,438	23,600,445
	FLORIDA				
	Gulfstream Bank of Boynton Beach, National Association, Boynton Beach (16224)	400	1,623	870	45,961

Table A-24—Continued

Mergers of national banks, or national and state banks, by states, calendar 1980
(Dollar amounts in thousands)

Effective date	*Merging banks* *Resulting bank*	*Outstanding capital stock*	*Surplus*	*Undivided profits and reserves*	*Total assets*
	Gulfstream American Bank and Trust, N.A., Fort Lauderdale (14741)	1,807	5,969	6,776	183,088
	Gulfstream First Bank and Trust, N.A., Boca Raton (15421)	8,977	7,668	5,572	302,303
Dec. 31	Gulfstream Bank, N.A., Boca Raton (15421)	8,977	17,468	14,547	574,441
	Ellis Bank of Seminole County, Altamonte Springs	600	300	(138)	5,671
	Ellis National Bank of Volusia County, DeBary (15348)	792	414	147	21,578
Dec. 1	Ellis National Bank of Volusia County, DeBary (15348)	1,251	755	110	26,424
	Florida First National Bank at Fernandina Beach, Fernandina Beach (4558)	600	1,650	1,076	28,032
	Florida First National Bank of Jacksonville, Jacksonville (8321)	12,500	20,000	11,941	466,493
Oct. 31	Florida National Bank of Jacksonville, Jacksonville (8321)	12,500	20,000	11,828	503,518
	Florida Bank at Fort Lauderdale, Fort Lauderdale	2,000	2,000	631	36,416
	Florida National Bank of Miami, Miami (13570)	7,200	13,500	17,629	433,332
Oct. 31	Florida National Bank of Miami, Miami (13570)	7,200	13,500	17,629	465,117
	Sun First National Bank of Orlando, Orlando (14003)	2,876	26,374	21,597	943,699
	Sun Bank of Osceola County, St. Cloud	325	2,125	1,051	56,587
	Sun Bank of Seminole, National Association, Fern Park (16108)	1,274	1,743	1,154	89,380
Nov. 14	Sun Bank, N.A., Orlando (16108)	1,274	33,443	23,526	1,064,112
	Barnett Bank of Port Charlotte, N.A., Port Charlotte (15923)	685	1,000	708	39,362
	Barnett Bank of Sarasota, N.A., Sarasota (16206)	500	1,655	65	19,265
July 1	Barnett Bank of Sarasota, N.A., Sarasota (16206)	1,185	2,655	790	60,046
	Ellis Bank of North Tampa, unincorporated area of Hillsborough County	1,000	400	196	4,038
	Ellis National Bank of Davis Islands, unincorporated area of Hillsborough County (16459)	500	150	113	4,820
	Ellis National Bank of West Hillsborough, unincorporated area of Hillsborough County (16438)	500	200	8	4,827
	Ellis National Bank of Tampa, Tampa (14932)	750	1,750	568	30,262
Feb. 1	Ellis National Bank of Tampa, Tampa (14932)	3,154	2,096	885	43,883
	The Broadway National Bank of Tampa, Tampa (14388)	1,500	2,500	1,184	51,348
	The First National Bank in Plant City, Plant City (14793)	1,440	398	1,048	43,073
	First National Bank of Florida, Tampa (3497)	7,680	18,190	11,108	660,624
Jan. 2	First National Bank of Florida, Tampa (3497)	9,713	22,175	13,340	755,045
	Sun Bank of Lauderdale Beach, Lauderdale-by-the-Sea	400	2,700	1,595	65,008
	Sun Bank of Broward County, Tamarac	400	600	318	25,926
	Sun Bank of Wilton Manors, National Association, Wilton Manors (14732)	300	3,000	2,302	99,418
Oct. 24	Sun Bank/Broward, National Association, Wilton Manors (14732)	300	7,100	4,203	192,596
	Stuart National Bank, Stuart (15991)	899	2,013	4,721	109,516
	Port Salerno National Bank, Port Salerno (16160)	600	218	709	22,735
	Florida National Bank of Martin County, Stuart (15991)	5,000	7,500	0	12,500
Aug. 1	Florida National Bank of Martin County, Stuart (15991)	5,000	7,500	(270)	156,986
	GEORGIA				
	Cobb County Bank, Powder Springs	960	700	(110)	29,722
	First National Bank of Atlanta, Atlanta (1559)	14,912	45,586	100,093	2,564,326
Oct. 31	First National Bank of Atlanta, Atlanta (1559)	14,912	38,586	107,274	2,662,272
	The Citizens and Southern National Bank, Savannah (13068)	72,060	83,936	38,971	3,673,476
	The Citizens and Southern Emory Bank, Decatur	4,000	3,908	21,300	264,427
	The Citizens and Southern Bank of Fulton County, East Point	2,250	3,006	9,483	154,085
	The Citizens and Southern DeKalb Bank, Avondale Estates	360	2,840	11,662	95,949
	C & S Interim National Bank, Savannah (13068)	200	40	0	240,000
Dec. 31	The Citizens and Southern National Bank, Savannah (13068)	95,000	66,695	(29,373)	3,964,706
	ILLINOIS				
	Hartford Plaza Bank, Chicago	1,032	1,032	1,080	35,335
	La Salle National Bank, Chicago (13146)	7,360	17,640	34,970	1,051,407
Apr. 21	La Salle National Bank, Chicago (13146)	7,360	17,640	33,153	1,081,781
	Iroquois County Trust Company, Watseka	1	0	0	1
	Watseka First National Bank, Watseka (10522)	102	502	896	17,515
Oct. 31	Watseka First National Bank, Watseka (10522)	102	502	894	17,512
	MASSACHUSETTS				
	The National Bank of Wareham, Wareham (1440)	300	400	1,476	25,316
	First Bristol County National Bank, Taunton (2232)	2,726	2,750	6,529	157,266
Dec. 15	First Bristol County National Bank, Taunton (2232)	2,726	2,750	6,429	182,928
	MINNESOTA				
	First State Bank of Rice, Rice	75	79	0	2,733
	First American National Bank of St. Cloud, St. Cloud (11818)	1,200	3,600	1,544	116,480
Jan. 1	First American National Bank of St. Cloud, St. Cloud (11818)	1,200	3,600	1,544	119,059
	NEW HAMPSHIRE				
	Amherst Bank & Trust Company, Amherst	300	350	315	13,392

Table A–24—Continued

Mergers of national banks, or national and state banks, by states, calendar 1980
(Dollar amounts in thousands)

Effective date	Merging banks / Resulting bank	Outstanding capital stock	Surplus	Undivided profits and reserves	Total assets
	Amoskeag National Bank & Trust Co., Manchester (574)	1,279	6,221	4,792	88,586
Nov. 1	Amoskeag National Bank & Trust Co., Manchester (574)	1,279	6,221	4,792	102,486
	NEW JERSEY				
	Home State Bank, Teaneck	1,500	1,500	(1,019)	26,761
	The First Jersey National Bank, Jersey City (374)	11,886	20,501	17,395	785,046
Aug. 15	The First Jersey National Bank, Jersey City (374)	12,876	21,887	15,691	810,435
	First National Bank of South Jersey, Egg Harbor Township (1326)	10,691	10,691	12,729	633,293
	First National State Bank of Central Jersey, Trenton (13039)	1,825	2,000	3,701	120,888
Dec. 31	First National State Bank of South Jersey, Trenton (13039)	13,000	13,000	15,637	754,181
	NEW YORK				
	The Valley National Bank, Wallkill, N.Y., Walden (6155)	570	930	1,734	40,466
	Key Bank of Southeastern New York, N.A., Chester (1349)	1,015	2,530	1,954	79,028
June 27	Key Bank of Southeastern New York, N.A., Chester (1349)	1,585	3,460	3,688	119,494
	The State Bank of Belmont, Belmont	250	250	189	3,224
	The Citizens National Bank and Trust Company, Wellsville (4988)	1,644	1,644	3,468	112,347
Jan. 31	The Citizens National Bank and Trust Company, Wellsville (4988)	1,870	1,919	3,657	115,570
	OHIO				
	Polk State Bank, Polk	25	225	267	5,097
	The First National Bank of Ashland, Ashland (183)	450	4,050	1,405	71,100
May 30	The First National Bank of Ashland, Ashland (183)	450	4,050	1,405	76,197
	Tiffin Valley National Bank, Archbold (15227)	960	1,032	323	31,511
	First National Bank Northwest Ohio, Bryan (13899)	498	1,302	1,781	48,901
Sept. 8	First National Bank Northwest Ohio, Bryan (13899)	1,458	2,334	2,101	80,746
	First National Bank of Clermont County, Bethel (5627)	700	700	981	29,779
	Society National Bank of Cleveland, Cleveland (14761)	19,000	63,680	26,138	1,644,175
Mar. 21	Society National Bank, Cleveland (14761)	19,400	70,600	21,199	1,673,954
	First National Bank of Harrison, Harrison (8228)	150	200	1,206	28,004
	Society National Bank of Cleveland, Cleveland (14761)	19,400	70,600	12,421	1,963,587
Sept. 19	Society National Bank, Cleveland (14761)	19,400	70,600	10,678	1,961,844
	The Citizens Bank of Shelby, Shelby	500	1,300	1,326	27,019
	BancOhio National Bank, Columbus (5065)	100,000	100,000	70,974	4,730,831
Feb. 29	BancOhio National Bank, Columbus (5065)	100,000	100,000	69,250	4,753,000
	The First National Bank of Burton, Burton (6249)	551	2,500	3,633	79,764
	The Huntington National Bank, Columbus (7745)	40,000	41,064	103,750	2,594,001
Dec. 5	The Huntington National Bank, Columbus (7745)	40,000	41,064	96,452	2,751,981
	Fort Recovery Banking Company, Fort Recovery	100	900	1,024	16,848
	Second National Bank of Greenville, Greenville (2992)	411	2,500	3,223	58,094
Apr. 30	Second National Bank, Greenville (2992)	411	2,500	2,688	76,345
	National Bank of Defiance, Defiance (15512)	766	1,100	1,023	35,306
	National Bank of Paulding, Paulding (14300)	600	800	2,216	28,232
Dec. 26	Maumee Valley National Bank, Paulding (14300)	600	3,757	2,339	68,108
	Buckeye State Bank, Galion	700	800	1,033	24,205
	First National Bank of Mansfield, Plymouth (2577)	6,265	18,235	1,794	238,028
Mar. 12	First Buckeye Bank, N.A. (2577)	7,000	19,035	2,792	262,233
	The Springfield Bank, Springfield	1,665	7,335	3,028	153,063
	The Xenia National Bank, Xenia (2932)	1,000	1,500	4,029	52,627
Dec. 13	Society National Bank of the Miami Valley, Xenia (2932)	6,000	6,000	3,557	202,690
	The Farmers and Merchants Bank, Milford Center	140	760	523	15,342
	The Huntington National Bank, Columbus (7745)	40,000	40,000	87,058	2,463,535
Mar. 29	The Huntington National Bank, Columbus (7745)	40,000	41,064	87,291	2,508,403
	PENNSYLVANIA				
	The First National Bank of Shippensburg, Shippensburg (834)	303	1,225	1,531	48,712
	The Commonwealth National Bank, Harrisburg (580)	6,966	23,034	33,229	1,035,853
Apr. 1	The Commonwealth National Bank, Harrisburg (580)	7,450	24,873	34,606	1,085,206
	North Scranton Bank and Trust Company, Scranton	788	2,500	3,478	70,348
	South Side National Bank, Catawissa (4548)	187	563	1,422	25,454
	First Eastern Bank, National Association, Wilkes-Barre (30)	7,105	9,262	22,104	704,270
Sept. 19	First Eastern Bank, National Association, Wilkes-Barre (30)	9,148	12,325	24,920	789,831
	UTAH				
	First Security Bank of Logan, National Association, Logan (16241)	200	300	65	9,373
	First Security Bank of Utah, National Association, Ogden (2597)	22,150	67,850	21,982	1,672,758
Nov. 21	First Security Bank of Utah, National Association, Ogden (2597)	22,263	68,237	22,047	1,682,131

Table A–24—Continued

Mergers of national banks, or national and state banks, by states, calendar 1980
(Dollar amounts in thousands)

Effective date	*Merging banks Resulting bank*	*Outstanding capital stock*	*Surplus*	*Undivided profits and reserves*	*Total assets*
	VIRGINIA				
	The Bank of Chatham, Chatham	300	600	1,278	20,828
	First & Merchants National Bank, Richmond (1111)	29,482	54,909	58,520	2,130,169
Oct. 31	First & Merchants National Bank, Richmond (1111)	29,482	54,909	58,520	2,144,879
	Eagle Rock Bank, Inc., Eagle Rock	75	175	75	3,851
	The First National Exchange Bank of Virginia, Roanoke (2737)	9,291	15,709	41,174	1,090,470
Jan. 25	The First National Exchange Bank of Virginia, Roanoke (2737)	9,291	15,709	71,174	1,094,350
	WASHINGTON				
	Bank of Everett, Everett	2,500	1,250	2,961	119,124
	Rainier National Bank, Seattle (4375)	70,000	80,000	88,402	4,635,806
July 21	Rainier National Bank, Seattle (4375)	70,000	83,750	91,363	4,752,942

Table A–25

Domestic assets, liabilities and capital accounts of national banks, December 31, 1980

(Dollar amounts in millions)

	Total United States	*Alabama*	*Alaska*	*Arizona*	*Arkansas*	*California*	*Colorado*
Number of banks	4,425	99	5	3	68	48	142
Assets							
Cash and due from depository institutions	$114,831	$ 1,314	$ 199	$1,277	$ 655	$ 14,839	$ 2,026
U.S. Treasury securities	51,237	494	79	480	401	4,039	555
Obligations of other U.S. government agencies and corporations	28,765	642	174	197	345	3,291	210
Obligations of states and political subdivisions	78,455	1,733	207	929	664	4,470	1,066
All other securities	9,368	86	3	16	27	708	46
Total securities	167,825	2,955	463	1,622	1,437	12,508	1,877
Federal funds sold and securities purchased under agreements to resell	39,030	389	125	308	399	2,571	563
Total loans (excluding unearned income)	471,018	5,151	691	5,455	3,042	81,052	6,158
Allowance for possible loan losses	5,850	79	9	70	31	910	68
Net loans	465,168	5,072	682	5,385	3,011	80,142	6,090
Lease financing receivables	7,910	33	7	74	15	3,019	81
Bank premises, furniture and fixtures, and other assets representing bank premises	14,493	216	65	220	123	2,224	214
Real estate owned other than bank premises	1,190	25	7	6	8	83	30
All other assets	59,123	276	28	451	112	9,459	270
Total assets	869,570	10,280	1,575	9,343	5,759	124,846	11,152
Liabilities							
Demand deposits of individuals, partnerships and corporations	185,858	2,481	498	2,355	1,315	24,980	3,149
Time and savings deposits of individuals, partnerships and corporations	369,729	4,760	466	5,032	2,819	60,985	4,205
Deposits of U.S. government	1,794	52	7	28	7	220	25
Deposits of states and political subdivisions	41,945	739	203	264	397	3,297	708
All other deposits	44,453	341	3	74	240	5,291	887
Certified and officers' checks	8,066	59	24	121	30	1,391	115
Total deposits in domestic offices	651,845	8,431	1,201	7,874	4,808	96,163	9,089
Demand deposits	237,652	3,001	574	2,687	1,676	29,308	4,130
Time and savings deposits	414,193	5,431	626	5,187	3,132	66,854	4,959
Federal funds purchased and securities sold under agreements to repurchase	91,230	715	170	590	341	8,818	892
Interest-bearing demand notes issued to U.S. Treasury	5,958	34	9	44	23	810	60
Other liabilities for borrowed money	9,236	52	9	1	34	2,303	57
Mortgage indebtedness and liability for capitalized leases	1,354	6	9	13	11	209	36
All other liabilities	46,648	188	33	259	81	9,126	224
Total liabilities	806,271	9,426	1,431	8,781	5,299	117,430	10,359
Subordinated notes and debentures	3,428	48	—	46	24	125	39
Equity capital							
Preferred stock	34	0	0	0	—	0	0
Common stock	11,939	128	36	44	84	2,071	125
Surplus	18,991	310	44	152	110	2,317	208
Undivided profits and reserve for contingencies and other capital reserves	28,907	368	63	320	241	2,904	421
Total equity capital	59,871	806	144	516	436	7,292	754
Total liabilities, subordinated notes and debentures and equity capital	869,570	10,280	1,575	9,343	5,759	124,846	11,152

See note at end of table.

Table A–25—Continued

Domestic assets, liabilities and capital accounts of national banks, December 31, 1980
(Dollar amounts in millions)

	Connecticut	*Delaware*	*District of Columbia*	*Florida*	*Georgia*	*Hawaii*	*Idaho*
Number of banks	19	6	16	204	63	2	7
Assets							
Cash and due from depository institutions	$ 965	$ 9	$1,071	$ 4,299	$ 2,105	$ 20	$ 563
U.S. Treasury securities	222	10	461	2,337	632	23	296
Obligations of other U.S. government agencies and corporations	109	2	196	1,292	354	7	130
Obligations of states and political subdivisions	432	5	920	3,000	1,061	1	349
All other securities	33	—	29	168	61	—	67
Total securities	796	17	1,606	6,797	2,108	31	842
Federal funds sold and securities purchased under agreements to resell	239	14	171	1,570	597	7	202
Total loans (excluding unearned income)	2,563	54	3,907	11,053	5,479	91	2,218
Allowance for possible loan losses	28	—	45	135	85	1	21
Net loans	2,535	53	3,862	10,918	5,394	90	2,197
Lease financing receivables	10	0	26	55	82	8	51
Bank premises, furniture and fixtures, and other assets representing bank premises	83	2	105	573	238	3	79
Real estate owned other than bank premises	4	—	12	30	43	0	6
All other assets	157	1	358	1,022	540	2	76
Total assets	4,789	96	7,213	25,264	11,106	162	4,017
Liabilities							
Demand deposits of individuals, partnerships and corporations	1,479	20	2,238	7,858	3,382	43	877
Time and savings deposits of individuals, partnerships and corporations	1,911	63	2,618	10,501	3,683	75	2,177
Deposits of U.S. government	30	—	148	48	67	—	4
Deposits of states and political subdivisions	243	1	70	929	709	27	210
All other deposits	302	—	371	943	796	2	6
Certified and officers' checks	49	1	77	275	61	3	35
Total deposits in domestic offices	4,014	85	5,523	20,554	8,699	150	3,310
Demand deposits	1,911	22	2,762	9,450	4,571	49	1,001
Time and savings deposits	2,102	64	2,761	11,104	4,128	101	2,309
Federal funds purchased and securities sold under agreements to repurchase	335	—	684	2,281	1,066	0	293
Interest-bearing demand notes issued to U.S. Treasury	106	—	57	125	17	1	22
Other liabilities for borrowed money	21	—	31	109	95	0	7
Mortgage indebtedness and liability for capitalized leases	10	—	13	27	14	0	4
All other liabilities	33	1	353	358	435	2	105
Total liabilities	4,518	87	6,660	23,454	10,326	152	3,740
Subordinated notes and debentures	13	—	11	31	55	2	23
Equity capital							
Preferred stock	0	0	0	0	0	0	0
Common stock	49	2	70	371	186	3	40
Surplus	118	3	141	633	209	3	179
Undivided profits and reserve for contingencies and other capital reserves	90	4	331	774	330	2	35
Total equity capital	257	9	542	1,778	725	8	255
Total liabilities, subordinated notes and debentures and equity capital	4,789	96	7,213	25,264	11,106	162	4,017

See note at end of table.

Table A–25—Continued

Domestic assets, liabilities and capital accounts of national banks, December 31, 1980

(Dollar amounts in millions)

	Illinois	*Indiana*	*Iowa*	*Kansas*	*Kentucky*	*Louisiana*	*Maine*
Number of banks	407	119	99	148	78	53	14
Assets							
Cash and due from depository institutions	$ 7,651	$ 2,080	$ 934	$ 992	$ 875	$ 1,640	$ 154
U.S. Treasury securities	4,344	1,620	467	621	668	1,604	86
Obligations of other U.S. government agencies and corporations	2,652	887	310	504	267	515	117
Obligations of states and political subdivisions	6,088	2,034	742	857	787	1,218	113
All other securities	614	217	38	48	13	25	3
Total securities	13,698	4,758	1,557	2,030	1,735	3,362	319
Federal funds sold and securities purchased under agreements to resell	2,248	896	897	782	645	876	64
Total loans (excluding unearned income)	42,580	8,812	3,308	3,406	4,073	5,593	657
Allowance for possible loan losses	493	100	33	37	43	69	7
Net loans	42,087	8,712	3,275	3,369	4,030	5,524	650
Lease financing receivables	264	167	10	3	144	33	0
Bank premises, furniture and fixtures, and other assets representing bank premises	930	305	107	138	156	223	28
Real estate owned other than bank premises	150	40	11	10	5	15	2
All other assets	3,694	1,126	151	121	208	226	20
Total assets	70,721	18,084	6,943	7,444	7,799	11,899	1,236
Liabilities							
Demand deposits of individuals, partnerships and corporations	12,283	3,242	1,403	1,700	1,816	3,240	270
Time and savings deposits of individuals, partnerships and corporations	27,271	8,567	3,456	3,169	3,707	4,405	681
Deposits of U.S. government	99	32	12	15	12	41	3
Deposits of states and political subdivisions	2,966	1,674	246	732	370	1,540	62
All other deposits	4,623	585	434	340	406	511	9
Certified and officers' checks	546	165	36	44	40	101	9
Total deposits in domestic offices	47,788	14,265	5,587	6,001	6,350	9,837	1,035
Demand deposits	15,667	4,533	1,869	2,219	2,235	4,130	319
Time and savings deposits	32,122	9,731	3,718	3,782	4,116	5,707	716
Federal funds purchased and securities sold under agreements to repurchase	11,995	1,823	692	636	631	859	72
Interest-bearing demand notes issued to U.S. Treasury	568	121	32	38	36	40	16
Other liabilities for borrowed money	755	75	28	67	50	20	4
Mortgage indebtedness and liability for capitalized leases	32	28	10	3	19	27	4
All other liabilities	4,576	489	103	95	134	186	13
Total liabilities	65,715	16,801	6,451	6,841	7,221	10,969	1,145
Subordinated notes and debentures	105	26	28	24	13	31	3
Equity capital							
Preferred stock	2	—	0	0	0	1	0
Common stock	822	217	72	102	80	145	20
Surplus	1,922	411	108	163	138	275	23
Undivided profits and reserve for contingencies and other capital reserves	2,155	629	283	313	347	479	45
Total equity capital	4,902	1,257	463	579	565	899	88
Total liabilities, subordinated notes and debentures and equity capital	70,721	18,084	6,943	7,444	7,799	11,899	1,236

See note at end of table.

Table A-25—Continued

Domestic assets, liabilities and capital accounts of national banks, December 31, 1980
(Dollar amounts in millions)

	Maryland	*Massachusetts*	*Michigan*	*Minnesota*	*Mississippi*	*Missouri*	*Montana*
Number of banks	31	70	126	204	37	99	55
Assets							
Cash and due from depository institutions	$ 875	$ 2,360	$ 3,045	$ 2,526	$ 651	$ 2,658	$ 319
U.S. Treasury securities	388	1,859	2,107	1,067	375	675	207
Obligations of other U.S. government agencies and corporations	140	329	660	702	198	641	87
Obligations of states and political subdivisions	614	1,339	3,203	2,254	766	1,401	359
All other securities	11	297	253	484	32	228	26
Total securities	1,153	3,824	6,223	4,507	1,371	2,945	679
Federal funds sold and securities purchased under agreements to resell	225	479	636	1,167	327	2,333	172
Total loans (excluding unearned income)	4,249	8,479	15,698	10,458	2,742	6,493	1,589
Allowance for possible loan losses	42	152	154	104	32	78	16
Net loans	4,207	8,328	15,544	10,354	2,710	6,415	1,574
Lease financing receivables	77	259	210	229	5	104	8
Bank premises, furniture and fixtures, and other assets representing bank premises	124	288	474	272	106	204	60
Real estate owned other than bank premises	10	13	34	44	8	14	2
All other assets	600	2,279	1,563	1,152	157	690	46
Total assets	7,272	17,829	27,729	20,250	5,335	15,363	2,861
Liabilities							
Demand deposits of individuals, partnerships and corporations	1,824	4,065	4,884	3,861	1,223	3,263	567
Time and savings deposits of individuals, partnerships and corporations	3,536	6,479	13,678	8,923	2,457	4,782	1,614
Deposits of U.S. government	11	34	44	23	9	68	4
Deposits of states and political subdivisions	228	790	1,837	948	503	636	172
All other deposits	115	810	598	1,154	169	1,576	66
Certified and officers' checks	53	143	587	125	16	62	20
Total deposits in domestic offices	5,768	12,321	21,628	15,034	4,376	10,386	2,443
Demand deposits	2,044	5,181	6,337	4,921	1,509	4,846	687
Time and savings deposits	3,724	7,140	15,291	10,113	2,867	5,540	1,755
Federal funds purchased and securities sold under agreements to repurchase	499	2,887	2,821	2,599	406	3,245	98
Interest-bearing demand notes issued to U.S. Treasury	65	186	270	153	29	121	8
Other liabilities for borrowed money	98	174	141	190	31	159	21
Mortgage indebtedness and liability for capitalized leases	21	30	42	41	18	36	5
All other liabilities	341	1,023	902	827	97	469	61
Total liabilities	6,793	16,621	25,803	18,844	4,957	14,415	2,636
Subordinated notes and debentures	4	35	97	149	14	30	19
Equity capital							
Preferred stock	0	0	1	—	0	4	—
Common stock	63	162	358	316	50	146	70
Surplus	97	422	597	350	303	237	73
Undivided profits and reserve for contingencies and other capital reserves	316	589	872	590	11	530	62
Total equity capital	475	1,173	1,828	1,256	364	917	205
Total liabilities, subordinated notes and debentures and equity capital	7,272	17,829	27,729	20,250	5,335	15,363	2,861

See note at end of table.

Table A–25—Continued

Domestic assets, liabilities and capital accounts of national banks, December 31, 1980
(Dollar amounts in millions)

	Nebraska	*Nevada*	*New Hampshire*	*New Jersey*	*New Mexico*	*New York*	*North Carolina*
Number of banks	117	3	36	90	40	113	24
Assets							
Cash and due from depository institutions	$ 986	$ 356	$ 225	$ 2,904	$ 424	$ 18,558	$ 2,005
U.S. Treasury securities	361	117	152	1,639	275	4,895	783
Obligations of other U.S. government agencies and corporations	316	123	30	1,201	164	1,698	524
Obligations of states and political subdivisions	707	274	190	2,677	436	5,689	1,804
All other securities	38	3	4	302	7	3,722	155
Total securities	1,422	517	376	5,819	882	16,004	3,266
Federal funds sold and securities purchased under agreements to resell	880	8	78	801	391	3,844	676
Total loans (excluding unearned income)	3,333	1,325	1,025	11,761	1,839	59,834	7,835
Allowance for possible loan losses	38	15	11	129	18	1,103	98
Net loans	3,295	1,311	1,014	11,632	1,821	58,730	7,736
Lease financing receivables	58	26	0	143	3	675	172
Bank premises, furniture and fixtures, and other assets representing bank premises	106	56	35	384	93	1,383	290
Real estate owned other than bank premises	5	2	2	40	6	201	8
All other assets	118	36	24	697	59	18,801	1,525
Total assets	6,870	2,313	1,754	22,418	3,679	118,198	15,679
Liabilities							
Demand deposits of individuals, partnerships and corporations	1,500	772	407	5,477	871	19,843	3,772
Time and savings deposits of individuals, partnerships and corporations	3,121	1,047	951	11,518	1,535	35,724	6,520
Deposits of U.S. government	6	5	5	49	14	144	25
Deposits of states and political subdivisions	358	111	116	1,143	602	2,227	711
All other deposits	447	6	17	279	61	13,507	361
Certified and officers' checks	37	28	17	213	35	1,570	85
Total deposits in domestic offices	5,469	1,970	1,513	18,677	3,118	73,015	11,473
Demand deposits	2,008	851	501	6,424	1,055	33,464	4,367
Time and savings deposits	3,461	1,119	1,012	12,253	2,063	39,551	7,106
Federal funds purchased and securities sold under agreements to repurchase	698	76	60	1,419	205	17,174	1,803
Interest-bearing demand notes issued to U.S. Treasury	40	20	15	179	17	723	144
Other liabilities for borrowed money	17	23	7	136	8	2,217	103
Mortgage indebtedness and liability for capitalized leases	12	3	4	6	16	179	70
All other liabilities	107	27	21	477	52	14,270	922
Total liabilities	6,342	2,119	1,619	20,894	3,416	107,578	14,513
Subordinated notes and debentures	28	0	2	53	20	390	145
Equity capital							
Preferred stock	—	0	0	—	2	3	3
Common stock	83	44	15	311	64	2,172	223
Surplus	109	56	47	458	95	3,083	274
Undivided profits and reserve for contingencies and other capital reserves	308	94	71	702	82	4,971	520
Total equity capital	500	194	133	1,471	242	10,229	1,021
Total liabilities, subordinated notes and debentures and equity capital	6,870	2,313	1,754	22,418	3,679	118,198	15,679

See note at end of table.

Table A-25—Continued

Domestic assets, liabilities and capital accounts of national banks, December 31, 1980
(Dollar amounts in millions)

	North Dakota	*Ohio*	*Oklahoma*	*Oregon*	*Pennsylvania*	*Rhode Island*	*South Carolina*
Number of banks	39	170	184	6	210	5	19
Assets							
Cash and due from depository institutions	$ 232	$ 3,951	$ 2,206	$ 919	$ 5,220	$ 507	$ 616
U.S. Treasury securities	176	2,731	1,302	355	3,003	459	324
Obligations of other U.S. government agencies and corporations	76	1,696	117	59	2,747	183	171
Obligations of states and political subdivisions	254	4,758	2,110	1,175	4,981	487	507
All other securities	7	227	139	13	544	35	37
Total securities	513	9,412	3,668	1,602	11,275	1,164	1,039
Federal funds sold and securities purchased under agreements to resell	96	1,571	1,464	281	1,912	62	252
Total loans (excluding unearned income)	1,234	17,097	7,422	5,396	26,160	2,430	2,067
Allowance for possible loan losses	12	197	88	52	337	27	26
Net loans	1,222	16,900	7,334	5,345	25,823	2,403	2,040
Lease financing receivables	3	326	31	32	295	125	12
Bank premises, furniture and fixtures, and other assets representing bank premises	42	642	186	188	606	70	108
Real estate owned other than bank premises	1	20	10	13	47	4	4
All other assets	39	2,032	317	845	3,285	394	100
Total assets	2,147	34,855	15,217	9,225	48,465	4,729	4,174
Liabilities							
Demand deposits of individuals, partnerships and corporations	447	7,109	3,923	1,921	9,140	716	1,540
Time and savings deposits of individuals, partnerships and corporations	1,308	16,886	6,097	4,482	23,204	2,568	1,539
Deposits of U.S. government	3	61	52	15	53	5	9
Deposits of states and political subdivisions	103	1,655	1,536	691	2,074	201	201
All other deposits	15	404	780	137	1,218	21	62
Certified and officers' checks	15	283	145	68	269	28	27
Total deposits in domestic offices	1,891	26,397	12,533	7,315	35,959	3,538	3,379
Demand deposits	499	8,368	4,975	2,250	10,789	818	1,768
Time and savings deposits	1,391	18,029	7,558	5,065	25,169	2,720	1,611
Federal funds purchased and securities sold under agreements to repurchase	27	4,006	1,073	611	4,597	505	317
Interest-bearing demand notes issued to U.S. Treasury	9	298	110	76	420	33	50
Other liabilities for borrowed money	10	249	66	66	851	76	28
Mortgage indebtedness and liability for capitalized leases	3	37	5	12	60	28	6
All other liabilities	33	1,290	332	513	2,648	272	57
Total liabilities	1,972	32,277	14,119	8,594	44,536	4,452	3,837
Subordinated notes and debentures	17	40	60	60	692	17	13
Equity capital							
Preferred stock	0	0	1	1	10	0	0
Common stock	40	515	182	93	486	30	45
Surplus	44	925	251	175	1,182	89	84
Undivided profits and reserve for contingencies and other capital reserves	74	1,098	604	303	1,559	141	195
Total equity capital	158	2,538	1,038	572	3,237	260	324
Total liabilities, subordinated notes and debentures and equity capital	2,147	34,855	15,217	9,225	48,465	4,729	4,174

See note at end of table.

Table A–25—Continued

Domestic assets, liabilities and capital accounts of national banks, December 31, 1980
(Dollar amounts in millions)

	South Dakota	*Tennessee*	*Texas*	*Utah*	*Vermont*	*Virginia*	*Washington*
Number of banks	33	68	642	12	12	72	20
Assets							
Cash and due from depository institutions	$ 299	$ 1,719	$10,992	$ 511	$ 62	$ 1,313	$ 2,843
U.S. Treasury securities	227	899	4,712	159	40	546	466
Obligations of other U.S. government agencies and corporations	135	588	2,036	56	14	551	211
Obligations of states and political subdivisions	329	1,253	8,740	289	59	1,486	1,386
All other securities	8	66	229	47	6	42	76
Total securities	699	2,806	15,717	551	119	2,625	2,139
Federal funds sold and securities purchased under agreements to resell	87	542	4,693	123	26	554	468
Total loans (excluding unearned income)	1,814	5,701	39,469	1,924	368	6,381	11,402
Allowance for possible loan losses	17	72	451	20	3	71	119
Net loans	1,797	5,629	39,019	1,904	365	6,310	11,283
Lease financing receivables	1	56	217	67	0	41	588
Bank premises, furniture and fixtures, and other assets representing bank premises	62	228	1,241	52	11	319	414
Real estate owned other than bank premises	3	22	66	17	1	18	43
All other assets	60	500	3,619	134	8	292	1,002
Total assets	3,008	11,502	75,563	3,359	593	11,473	18,780
Liabilities							
Demand deposits of individuals, partnerships and corporations	529	2,521	19,434	783	95	2,585	4,321
Time and savings deposits of individuals, partnerships and corporations	1,899	5,399	27,885	1,526	387	6,132	8,427
Deposits of U.S. government	6	27	165	3	1	33	38
Deposits of states and political subdivisions	182	656	5,618	363	50	527	1,129
All other deposits	24	611	4,713	54	1	97	508
Certified and officers' checks	22	68	583	30	7	70	140
Total deposits in domestic offices	2,662	9,281	58,399	2,759	542	9,444	14,562
Demand deposits	602	3,292	24,379	917	114	2,920	4,998
Time and savings deposits	2,060	5,989	34,021	1,841	428	6,524	9,563
Federal funds purchased and securities sold under agreements to repurchase	28	1,060	7,673	239	2	708	1,811
Interest-bearing demand notes issued to U.S. Treasury	15	22	387	26	2	94	141
Other liabilities for borrowed money	14	20	336	11	1	146	217
Mortgage indebtedness and liability for capitalized leases	8	17	113	—	—	60	31
All other liabilities	50	287	3,187	78	6	165	788
Total liabilities	2,776	10,686	70,096	3,114	552	10,617	17,550
Subordinated notes and debentures	23	28	510	46	3	64	172
Equity capital							
Preferred stock	0	1	0	0	0	0	6
Common stock	55	152	963	41	7	129	205
Surplus	59	240	1,202	89	10	228	254
Undivided profits and reserve for contingencies and other capital reserves	95	395	2,792	68	21	434	593
Total equity capital	209	788	4,957	199	38	791	1,058
Total liabilities, subordinated notes and debentures and equity capital	3,008	11,502	75,563	3,359	593	11,473	18,780

See note at end of table.

Table A–25—Continued

Domestic assets, liabilities and capital accounts of national banks, December 31, 1980
(Dollar amounts in millions)

	West Virginia	*Wisconsin*	*Wyoming*	*District of Columbia nonnational**
Number of banks	109	132	47	1
Assets				
Cash and due from depository institutions	$ 491	$ 1,126	$ 266	$ 7
U.S. Treasury securities	495	828	178	11
Obligations of other U.S. government agencies and corporations	631	374	104	7
Obligations of states and political subdivisions	784	1,177	288	2
All other securities	21	99	4	2
Total securities	1,931	2,478	574	22
Federal funds sold and securities purchased under agreements to resell	550	556	215	1
Total loans (excluding unearned income)	2,756	6,216	1,178	27
Allowance for possible loan losses	30	63	14	1
Net loans	2,726	6,152	1,164	27
Lease financing receivables	10	49	3	0
Bank premises, furniture and fixtures, and other assets representing bank premises	128	245	43	1
Real estate owned other than bank premises	3	40	3	1
All other assets	76	335	41	1
Total assets	5,915	10,982	2,309	59
Liabilities				
Demand deposits of individuals, partnerships and corporations	1,093	2,163	583	18
Time and savings deposits of individuals, partnerships and corporations	3,340	5,118	1,095	31
Deposits of U.S. government	10	18	4	2
Deposits of states and political subdivisions	228	676	286	1
All other deposits	78	362	38	—
Certified and officers' checks	39	82	19	—
Total deposits in domestic offices	4,788	8,418	2,024	52
Demand deposits	1,275	2,655	724	20
Time and savings deposits	3,513	5,764	1,300	33
Federal funds purchased and securities sold under agreements to repurchase	499	1,152	42	3
Interest-bearing demand notes issued to U.S. Treasury	14	128	4	0
Other liabilities for borrowed money	26	56	17	0
Mortgage indebtedness and liability for capitalized leases	7	5	4	1
All other liabilities	75	446	31	1
Total liabilities	5,408	10,205	2,123	57
Subordinated notes and debentures	5	35	10	0
Equity capital				
Preferred stock	0	0	0	0
Common stock	77	161	11	—
Surplus	170	274	47	1
Undivided profits and reserve for contingencies and other capital reserves	256	307	117	1
Total equity capital	503	743	176	2
Total liabilities, subordinated notes and debentures and equity capital	5,915	10,982	2,309	59

* Nonnational banks in the District of Columbia are supervised by the Comptroller of the Currency.

NOTE: Dashes indicate amounts of less than $500,000. Figures may not add to totals because of rounding.

Table A–26

Domestic office loans of national banks, by states, December 31, 1980
(Dollar amounts in millions)

	Total loans, gross	Loans secured by real estate	Loans to financial institutions	Loans to purchase or carry securities	Loans to farmers	Commercial and industrial loans	Personal loans to individuals	Other loans	Total loans less unearned income
All national banks	$481,113	$147,729	$27,206	$6,296	$14,729	$171,258	$101,352	$12,542	$471,018
Alabama	5,390	1,672	93	29	102	1,656	1,695	143	5,151
Alaska	706	254	—	—	—	257	155	39	691
Arizona	5,733	1,831	156	6	405	1,536	1,665	134	5,455
Arkansas	3,110	1,014	155	63	137	996	665	80	3,042
California	82,364	35,534	3,960	500	2,465	24,345	14,655	905	81,052
Colorado	6,259	1,660	156	105	487	2,124	1,603	124	6,158
Connecticut	2,632	1,004	129	2	9	842	589	56	2,563
Delaware	55	34	0	0	—	6	14	—	54
District of Columbia	3,980	1,549	290	7	—	1,187	815	131	3,907
Florida	11,523	4,335	441	58	53	2,641	3,745	250	11,053
Georgia	5,727	1,352	237	26	49	1,903	2,014	146	5,479
Hawaii	92	42	0	0	1	25	24	—	91
Idaho	2,250	697	36	9	209	694	592	14	2,218
Illinois	43,087	9,399	4,254	1,094	968	20,308	5,599	1,466	42,580
Indiana	9,086	3,755	371	77	256	2,246	2,247	136	8,812
Iowa	3,334	1,026	41	70	697	839	608	54	3,308
Kansas	3,459	689	69	80	721	994	828	77	3,406
Kentucky	4,219	1,448	140	26	183	1,142	1,211	69	4,073
Louisiana	5,792	1,610	143	58	53	2,260	1,509	159	5,593
Maine	660	291	1	—	4	188	172	4	657
Maryland	4,340	1,756	132	55	32	1,176	1,124	65	4,249
Massachusetts	8,659	1,768	815	32	50	4,378	1,466	151	8,479
Michigan	15,889	6,159	1,049	62	122	4,839	3,103	555	15,698
Minnesota	10,604	2,863	417	373	638	4,071	1,745	497	10,458
Mississippi	2,847	1,001	45	46	75	761	843	75	2,742
Missouri	6,575	1,578	497	139	293	2,469	1,355	244	6,493
Montana	1,659	453	9	2	243	458	471	23	1,589
Nebraska	3,384	452	89	79	1,182	713	782	86	3,333
Nevada	1,376	676	10	—	16	293	376	3	1,325
New Hampshire	1,072	399	3	—	2	334	324	11	1,025
New Jersey	12,130	5,407	357	40	6	3,233	2,892	196	11,761
New Mexico	1,909	505	62	2	127	613	583	16	1,839
New York	60,709	11,591	5,649	1,501	364	27,727	11,179	2,698	59,834
North Carolina	8,087	1,618	321	43	114	3,179	2,676	137	7,835
North Dakota	1,250	326	6	1	264	405	231	16	1,234
Ohio	17,754	6,339	413	97	247	4,815	5,578	264	17,097
Oklahoma	7,555	1,874	237	162	640	2,880	1,476	285	7,422
Oregon	5,451	1,927	341	5	226	1,873	1,019	58	5,396
Pennsylvania	26,820	8,598	2,824	357	164	8,871	5,548	456	26,160
Rhode Island	2,477	958	52	26	—	968	413	58	2,430
South Carolina	2,164	448	8	4	38	703	909	54	2,067
South Dakota	1,845	430	7	4	566	481	338	19	1,814
Tennessee	5,910	1,774	233	72	84	1,917	1,639	191	5,701
Texas	40,261	8,622	1,926	810	1,496	18,500	7,182	1,725	39,469
Utah	1,953	846	41	22	40	570	400	34	1,924
Vermont	376	196	—	—	8	84	78	9	368
Virginia	6,671	2,837	87	19	102	1,405	2,066	154	6,381
Washington	11,458	3,022	591	50	474	4,438	2,635	247	11,402
West Virginia	2,946	1,281	22	9	11	570	1,008	44	2,756
Wisconsin	6,320	2,484	286	68	166	1,930	1,222	165	6,216
Wyoming	1,205	345	3	4	136	413	286	18	1,178
District of Columbia—all*	4,008	1,567	292	7	—	1,192	818	131	3,934

* Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.
NOTE: Dashes indicate amounts of less than $500,000.

Table A–27

Outstanding balances, credit cards and related plans of national banks, December 31, 1980
(Dollar amounts in thousands)

	Total number of national banks	Credit cards and other related credit plans	
		Number of national banks	Outstanding volume
All national banks	4,425	1,833	$21,563,768
Alabama	99	22	162,650
Alaska	5	4	40,475
Arizona	3	2	360,748
Arkansas	68	9	48,987
California	48	36	3,867,779
Colorado	142	111	411,547
Connecticut	19	11	153,623
Delaware	6	1	10
District of Columbia	16	13	183,520
Florida	204	88	522,624
Georgia	63	26	458,274
Hawaii	2	1	2,893
Idaho	7	4	66,798
Illinois	407	163	1,648,541
Indiana	119	75	255,015
Iowa	99	44	80,534
Kansas	148	21	100,452
Kentucky	78	38	149,332
Louisiana	53	14	178,568
Maine	14	13	27,763
Maryland	31	13	332,167
Massachusetts	70	56	352,428
Michigan	126	69	669,349
Minnesota	204	125	173,670
Mississippi	37	3	64,990
Missouri	99	45	389,542
Montana	55	27	11,620
Nebraska	117	29	178,256
Nevada	3	2	52,779
New Hampshire	36	24	34,786
New Jersey	90	61	295,080
New Mexico	40	10	63,464
New York	113	59	5,302,805
North Carolina	24	21	434,933
North Dakota	39	15	9,145
Ohio	170	110	768,668
Oklahoma	184	36	148,505
Oregon	6	3	244,416
Pennsylvania	210	52	796,493
Rhode Island	5	4	68,001
South Carolina	19	13	131,158
South Dakota	33	8	5,109
Tennessee	68	11	231,163
Texas	642	154	815,185
Utah	12	4	68,645
Vermont	12	2	5,684
Virginia	72	27	323,664
Washington	20	10	520,143
West Virginia	109	20	51,042
Wisconsin	132	104	295,000
Wyoming	47	20	5,745
District of Columbia—all*	17	14	183,719

* Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.

Table A–28

Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, year ended December 31, 1980
(Dollar amounts in millions)

	Total United States	*Alabama*	*Alaska*	*Arizona*	*Arkansas*	*California*	*Colorado*
Number of banks	4,425	99	5	3	68	48	142
Operating income:							
Interest and fees on loans	$77,492.6	$ 708.8	$ 93.8	$692.2	$340.8	$14,171.3	$ 84.90
Interest on balances with depository institutions	10,634.5	12.1	1.4	35.3	1.3	2,539.5	.4
Income on federal funds sold and securities purchased under agreements to resell	4,818.9	63.3	13.2	30.2	74.2	263.0	66.8
Interest on U.S. Treasury securities and on obligations of other U.S. government agencies and corporations	6,639.2	91.6	23.3	63.3	59.0	644.5	64.7
Interest on obligations of states and political subdivisions in the United States	4,423.3	100.8	10.0	49.4	37.0	223.2	58.8
Income from all other securities (including dividends on stock)	879.6	3.2	.2	.6	1.9	142.8	.8
Income from lease financing	899.2	1.1	.9	7.0	1.7	201.4	6.2
Income from fiduciary activities	1,569.1	19.6	1.6	14.3	5.7	167.4	25.2
Service charges on deposit accounts	1,671.6	30.0	6.4	40.2	18.2	251.7	32.0
Other service charges, commissions and fees	2,976.2	29.3	10.2	14.5	11.4	469.2	36.2
Other operating income	2,813.0	17.9	1.4	11.2	10.5	566.4	21.5
Total operating income	114,817.1	1,077.7	162.5	958.1	561.7	19,640.3	1,161.5
Operating expenses:							
Salaries and employee benefits	14,190.4	167.4	37.8	170.9	89.6	2,457.2	190.1
Interest on time certificates of $100,000 or more (issued by domestic offices)	14,979.1	160.0	22.6	116.5	61.7	3,252.2	204.5
Interest on deposits in foreign offices	24,436.2	1.0	0	7.1	0	5,760.9	1.1
Interest on other deposits	20,360.2	327.1	25.0	309.9	186.6	2,683.4	223.4
Expense of federal funds purchased and securities sold under agreements to repurchase	11,614.9	77.1	15.3	60.3	61.1	1,091.4	115.3
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	2,762.1	11.2	2.2	4.3	3.2	550.6	14.2
Interest on subordinated notes and debentures	296.3	4.4	—	3.2	2.1	10.0	3.3
Occupancy expense of bank premises, net, and furniture and equipment expense	4,218.8	53.9	14.2	46.7	31.7	662.3	56.2
Provision for possible loan losses	2,703.5	58.4	6.6	28.3	13.1	410.2	33.3
Other operating expenses	8,470.5	112.8	17.4	85.6	53.5	1,112.1	148.9
Total operating expenses	104,032.0	973.4	141.1	832.8	502.6	17,990.4	990.3
Income before income taxes and securities gains or losses	10,785.1	104.3	21.4	125.3	59.2	1,649.9	171.2
Applicable income taxes	2,802.8	1.7	6.1	34.2	9.7	611.1	46.2
Income before securities gains or losses	7,982.3	102.7	15.3	91.1	49.5	1,038.9	125.0
Securities gains (losses), gross	−538.7	−.6	—	−3.9	−.4	−14.1	−4.2
Applicable income taxes	−220.0	−.2	—	−1.9	−.3	−7.1	−2.0
Securities gains (losses), net	−318.6	−.4	—	−2.0	−.1	−7.0	−2.3
Income before extraordinary items	7,663.7	102.2	15.3	89.1	49.4	1,031.8	122.7
Extraordinary items, net	2.1	.2	0	0	—	−.5	1.8
Net income	7,665.8	102.4	15.3	89.1	49.4	1,031.3	124.6
Cash dividends declared on common stock	2,948.9	37.6	2.1	24.2	11.2	414.1	41.4
Cash dividends declared on preferred stock	2.5	0	0	0	0	0	0
Total cash dividends declared	2,951.4	37.6	2.1	24.2	11.2	414.1	41.4
Recoveries credited to allowance for possible loan losses	801.0	11.5	1.9	5.0	3.9	139.8	8.5
Losses charged to allowance for possible loan losses	3,004.9	57.6	7.2	24.8	14.2	491.5	35.1
Net loan losses	2,203.9	46.1	5.3	19.8	10.3	351.7	26.6

Percent of total operating income:							
Interest on deposits	52.1	45.3	29.3	45.2	44.2	59.6	36.1
Other interest expense	12.8	8.6	10.8	7.1	11.8	8.4	11.4
Salaries and employee benefits	12.4	15.5	23.3	17.8	16.0	12.5	16.4
Other noninterest expense	13.4	20.9	23.5	16.8	17.5	11.1	20.5
Total operating expenses	90.6	90.3	86.8	86.9	89.5	91.6	85.3
Ratio of net income to total equity capital (end of period)-percent	12.8	12.7	10.6	17.3	11.3	14.1	16.5

See note at end of table.

Table A-28—Continued

Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, year ended December 31, 1980
(Dollar amounts in millions)

	Connecticut	Delaware	District of Columbia	Florida	Georgia	Hawaii	Idaho
Number of banks	19	6	16	204	63	2	7
Operating income:							
Interest and fees on loans	$324.3	$ 5.7	$564.3	$1,306.9	$ 760.2	$10.6	$281.8
Interest on balances with depository institutions	23.7	.2	98.7	123.6	37.0	—	8.7
Income on federal funds sold and securities purchased under agreements to resell	10.7	1.6	16.4	222.1	94.4	.4	24.0
Interest on U.S. Treasury securities and on obligations of other U.S. government agencies and corporations	26.6	1.0	55.0	312.1	94.1	2.7	40.0
Interest on obligations of states and political subdivisions in the United States	22.6	.2	51.5	153.0	57.8	.1	17.5
Income from all other securities (including dividends on stock)	2.5	—	2.0	9.1	2.3	—	2.8
Income from lease financing	1.2	0	.7	5.2	10.2	1.2	.5
Income from fiduciary activities	19.5	0	19.8	54.7	24.9	0	2.9
Service charges on deposit accounts	10.0	.3	17.5	70.7	53.3	.2	12.5
Other service charges, commissions and fees	17.0	.1	9.5	98.9	24.0	1.1	9.1
Other operating income	3.7	.2	6.2	39.1	33.3	.2	3.9
Total operating income	461.9	9.2	841.8	2,395.6	1,191.6	16.6	403.8
Operating expenses:							
Salaries and employee benefits	90.1	1.6	126.4	384.6	218.2	4.0	68.0
Interest on time certificates of $100,000 or more (issued by domestic offices)	37.6	.4	154.6	222.6	106.4	4.0	49.6
Interest on deposits in foreign offices	11.2	0	160.8	26.3	31.9	0	0
Interest on other deposits	119.5	4.1	90.1	642.2	236.3	4.4	142.8
Expense of federal funds purchased and securities sold under agreements to repurchase	59.4	—	83.7	225.2	169.5	—	20.2
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	15.2	—	9.1	23.7	8.3	.1	2.7
Interest on subordinated notes and debentures	.9	—	.6	2.3	4.6	.1	2.1
Occupancy expense of bank premises, net, and furniture and equipment expense	31.2	.5	41.7	122.1	64.4	1.5	15.5
Provision for possible loan losses	8.7	.1	20.4	50.1	43.4	—	8.1
Other operating expenses	44.2	1.0	56.7	353.5	163.1	2.3	38.1
Total operating expenses	418.0	7.9	744.2	2,052.7	1,046.0	16.5	347.0
Income before income taxes and securities gains or losses	43.9	1.3	97.5	342.9	145.5	.1	56.8
Applicable income taxes	9.4	.5	27.0	85.0	39.4	0	18.3
Income before securities gains or losses	34.6	.8	70.5	257.9	106.2	.1	38.6
Securities gains (losses), gross	−.6	—	−2.3	−14.7	−6.4	.2	−3.4
Applicable income taxes	−.2	—	−1.0	−6.6	−2.9	—	−1.7
Securities gains (losses), net	−.3	—	−1.4	−8.1	−3.5	.2	−1.7
Income before extraordinary items	34.2	.8	69.1	249.9	102.7	.3	36.8
Extraordinary items, net	0	0	.2	.9	0	0	0
Net income	34.2	.8	69.3	250.8	102.7	.3	36.8
Cash dividends declared on common stock	15.6	.2	25.1	121.2	46.8	.1	12.0
Cash dividends declared on preferred stock	0	—	0	0	0	0	0
Total cash dividends declared	15.6	.2	25.1	121.2	46.8	.1	12.0
Recoveries credited to allowance for possible loan losses	4.5	—	5.6	22.8	14.4	.5	2.8
Losses charged to allowance for possible loan losses	11.6	.1	22.5	58.8	52.1	.8	10.2
Net loan losses	7.1	.1	16.9	36.0	37.7	.3	7.4

Percent of total operating income:							
Interest on deposits	36.4	48.9	48.2	37.2	31.4	50.6	47.6
Other interest expense	16.3	—	11.1	10.5	15.3	1.2	6.2
Salaries and employee benefits	19.5	17.4	15.0	16.1	18.3	24.1	16.8
Other noninterest expense	18.2	17.4	14.1	21.9	22.7	22.9	15.3
Total operating expenses	90.5	85.9	88.4	85.7	87.8	99.4	85.9
Ratio of net income to total equity capital (end of period)-percent	13.3	9.3	12.8	14.1	14.2	3.8	14.4

See note at end of table.

Table A-28—Continued

Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, year ended December 31, 1980

(Dollar amounts in millions)

	Illinois	Indiana	Iowa	Kansas	Kentucky	Louisiana	Maine
Number of banks	407	119	99	148	78	53	14
Operating income:							
Interest and fees on loans	$7,189.4	$1,082.3	$423.8	$441.6	$516.6	$ 713.7	$ 81.6
Interest on balances with depository institutions	1,437.5	97.0	6.7	1.6	11.9	19.7	2.2
Income on federal funds sold and securities purchased under agreements to resell	323.5	111.7	90.7	101.6	57.0	127.1	7.2
Interest on U.S. Treasury securities and on obligations of other U.S. government agencies and corporations	571.0	212.6	58.7	89.0	73.9	189.1	16.1
Interest on obligations of states and political subdivisions in the United States	376.4	121.5	39.4	44.3	45.0	60.6	7.4
Income from all other securities (including dividends on stock)	75.7	15.8	1.6	2.1	.7	2.0	.2
Income from lease financing	32.6	15.1	.8	.6	13.4	4.7	0
Income from fiduciary activities	144.2	33.2	10.2	10.7	5.4	11.3	3.6
Service charges on deposit accounts	86.8	31.4	11.0	15.1	15.8	29.2	2.6
Other service charges, commissions and fees	203.0	35.4	16.6	14.3	19.1	29.8	4.2
Other operating income	233.4	26.2	5.2	9.9	5.5	9.5	1.1
Total operating income	10,673.5	1,782.1	664.7	730.8	764.4	1,196.8	126.1
Operating expenses:							
Salaries and employee benefits	927.0	247.4	83.1	95.5	111.7	164.9	24.6
Interest on time certificates of $100,000 or more (issued by domestic offices)	1,543.3	209.3	50.2	98.2	102.5	252.5	8.6
Interest on deposits in foreign offices	3,080.2	30.9	2.1	0	5.7	10.4	0
Interest on other deposits	1,400.2	596.8	244.5	229.1	242.6	241.4	44.0
Expense of federal funds purchased and securities sold under agreements to repurchase	1,694.9	223.9	83.8	73.4	71.2	121.9	8.4
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	223.0	25.6	5.8	7.9	12.3	6.3	1.7
Interest on subordinated notes and debentures	10.8	2.3	2.4	2.0	1.1	3.2	.2
Occupancy expense of bank premises, net, and furniture and equipment expense	295.2	84.9	25.5	29.9	38.0	59.7	7.4
Provision for possible loan losses	260.1	40.7	12.6	18.8	24.1	40.9	3.9
Other operating expenses	543.2	152.0	63.2	61.4	66.3	100.3	15.2
Total operating expenses	9,977.8	1,613.6	573.2	616.0	675.4	1,001.5	114.1
Income before income taxes and securities gains or losses	695.7	168.5	91.4	114.7	89.0	195.3	12.0
Applicable income taxes	137.9	15.5	23.7	31.1	14.3	59.0	2.0
Income before securities gains or losses	557.8	153.0	67.7	83.7	74.7	136.3	10.1
Securities gains (losses), gross	−33.3	−3.0	−5.4	−5.9	−2.3	−28.3	−.5
Applicable income taxes	−13.9	−1.1	−2.7	−2.7	−1.1	−13.0	−.2
Securities gains (losses), net	−19.5	−1.9	−2.6	−3.2	−1.2	−15.3	−.3
Income before extraordinary items	538.3	151.1	65.1	80.5	73.5	121.0	9.8
Extraordinary items, net	.8	.4	—	—	.3	.2	.4
Net income	539.1	151.5	65.1	80.5	73.7	121.2	10.3
Cash dividends declared on common stock	176.7	66.1	22.0	23.9	14.1	31.8	4.4
Cash dividends declared on preferred stock	.1	—	0	0	0	.1	0
Total cash dividends declared	176.8	66.1	22.0	23.9	14.1	31.9	4.4
Recoveries credited to allowance for possible loan losses	49.6	11.1	3.1	5.4	6.6	15.9	1.7
Losses charged to allowance for possible loan losses	259.6	47.0	13.7	20.7	27.2	47.6	5.3
Net loan losses	210.0	35.9	10.6	15.3	20.6	31.7	3.6

Percent of total operating income:							
Interest on deposits	56.4	47.0	44.7	44.8	45.9	42.1	41.7
Other interest expense	18.1	14.1	13.8	11.4	11.1	11.0	8.2
Salaries and employee benefits	8.7	13.9	12.5	13.1	14.6	13.8	19.5
Other noninterest expense	10.3	15.6	15.2	15.1	16.8	16.8	21.0
Total operating expenses	93.5	90.5	86.2	84.3	88.4	83.7	90.5
Ratio of net income to total equity capital (end of period)-percent	11.0	12.1	14.1	13.9	13.1	13.5	11.7

See note at end of table.

Table A–28—Continued

Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, year ended December 31, 1980

(Dollar amounts in millions)

	Maryland	*Massachusetts*	*Michigan*	*Minnesota*	*Mississippi*	*Missouri*	*Montana*
Number of banks	31	70	126	204	37	99	55
Operating income:							
Interest and fees on loans	$555.5	$1,931.8	$1,959.0	$1,386.0	$344.0	$ 906.7	$203.4
Interest on balances with depository institutions	50.5	426.4	214.5	104.4	6.1	33.9	1.9
Income on federal funds sold and securities purchased under agreements to resell	32.4	96.7	105.0	88.5	43.4	254.6	17.0
Interest on U.S. Treasury securities and on obligations of other U.S. government agencies and corporations	44.8	227.8	211.2	138.9	47.6	97.9	22.7
Interest on obligations of states and political subdivisions in the United States	37.9	69.7	189.4	131.4	40.3	71.2	19.0
Income from all other securities (including dividends on stock)	.7	97.0	11.3	2.6	1.6	4.0	.8
Income from lease financing	5.5	59.3	11.2	14.6	.2	6.8	1.0
Income from fiduciary activities	8.8	75.9	55.2	37.3	5.1	33.8	.4
Service charges on deposit accounts	19.1	22.3	50.1	28.1	14.7	18.4	6.0
Other service charges, commissions and fees	14.5	98.8	58.8	64.5	14.9	41.9	6.6
Other operating income	8.7	67.5	49.8	64.6	5.7	38.6	2.9
Total operating income	778.4	3,173.1	2,915.5	2,060.9	523.6	1,507.9	281.7
Operating expenses:							
Salaries and employee benefits	136.0	404.4	442.2	244.4	71.7	184.2	39.6
Interest on time certificates of $100,000 or more (issued by domestic offices)	84.3	365.9	359.8	378.5	87.4	223.4	29.2
Interest on deposits in foreign offices	71.0	960.6	210.7	146.7	.5	70.0	0
Interest on other deposits	193.2	223.0	915.9	440.2	157.4	247.1	112.4
Expense of federal funds purchased and securities sold under agreements to repurchase	67.6	512.9	310.3	307.8	54.8	375.7	11.9
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	18.9	94.2	43.2	69.9	4.2	26.8	2.6
Interest on subordinated notes and debentures	.3	2.7	8.4	14.7	1.0	1.6	1.8
Occupancy expense of bank premises, net, and furniture and equipment expense	41.6	110.5	136.6	53.7	25.4	58.5	9.8
Provision for possible loan losses	18.9	65.3	76.6	39.7	17.5	31.7	2.8
Other operating expenses	64.8	216.5	223.8	171.1	47.8	125.3	27.9
Total operating expenses	696.7	2,956.0	2,727.5	1,866.7	467.7	1,344.3	237.9
Income before income taxes and securities gains or losses	81.7	217.1	188.0	194.3	55.9	163.5	43.7
Applicable income taxes	16.7	73.2	−12.8	24.4	5.7	35.7	11.5
Income before securities gains or losses	65.0	143.8	200.8	169.8	50.2	127.9	32.2
Securities gains (losses), gross	−3.7	−5.2	−11.5	−5.7	−2.3	−5.7	−1.0
Applicable income taxes	−1.7	−2.8	−5.3	−2.9	−1.1	−2.6	−.4
Securities gains (losses), net	−2.0	−2.3	−6.1	−2.9	−1.2	−3.1	−.6
Income before extraordinary items	63.0	141.5	194.7	167.0	49.0	124.7	31.7
Extraordinary items, net	—	—	—	.1	.1	.1	—
Net income	63.0	141.6	194.7	167.1	49.1	124.8	31.7
Cash dividends declared on common stock	19.6	60.1	115.7	52.4	13.5	54.0	12.6
Cash dividends declared on preferred stock	0	0	0	—	0	.3	—
Total cash dividends declared	19.6	60.1	115.7	52.4	13.5	54.3	12.6
Recoveries credited to allowance for possible loan losses	5.0	20.6	15.1	6.2	4.2	11.5	1.3
Losses charged to allowance for possible loan losses	20.7	61.2	81.9	41.5	19.7	39.9	3.7
Net loan losses	15.7	40.6	66.8	35.3	15.5	28.4	2.4

Percent of total operating income:							
Interest on deposits	44.8	48.8	51.0	46.8	46.8	35.8	50.3
Other interest expense	11.2	19.2	12.4	19.0	11.5	26.8	5.8
Salaries and employee benefits	17.5	12.7	15.2	11.9	13.7	12.2	14.1
Other noninterest expense	16.1	12.4	15.0	12.8	17.3	14.3	14.4
Total operating expenses	89.5	93.2	93.6	90.6	89.3	89.2	84.5
Ratio of net income to total equity capital (end of period)-percent	13.3	12.1	10.7	13.3	13.5	13.6	15.5

See note at end of table.

Table A-28—Continued

Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, year ended December 31, 1980

(Dollar amounts in millions)

	Nebraska	*Nevada*	*New Hampshire*	*New Jersey*	*New Mexico*	*New York*	*North Carolina*
Number of banks	117	3	36	90	40	113	24
Operating income:							
Interest and fees on loans	$449.0	$161.8	$124.6	$1,319.7	$229.2	$17,907.6	$1,058.3
Interest on balances with depository institutions	.7	1.0	3.1	55.2	5.6	3,374.6	210.7
Income on federal funds sold and securities purchased under agreements to resell	85.7	8.1	8.7	112.9	37.4	460.9	108.8
Interest on U.S. Treasury securities and on obligations of other U.S. government agencies and corporations	55.8	21.6	15.0	227.8	34.4	544.0	124.3
Interest on obligations of states and political subdivisions in the United States	38.7	14.5	12.3	160.0	21.9	379.5	91.2
Income from all other securities (including dividends on stock)	1.7	.2	.3	21.5	.6	384.5	3.9
Income from lease financing	4.6	5.4	—	16.2	.4	270.1	20.9
Income from fiduciary activities	11.7	3.3	3.8	29.3	3.7	219.3	36.0
Service charges on deposit accounts	10.4	11.6	2.9	45.9	9.5	103.7	43.2
Other service charges, commissions and fees	28.2	2.4	4.0	42.4	11.8	875.4	41.2
Other operating income	7.1	7.0	1.4	27.9	2.1	994.0	66.1
Total operating income	693.6	236.8	176.1	2,058.7	356.7	25,513.6	1,804.7
Operating expenses:							
Salaries and employee benefits	92.1	46.0	32.3	353.9	54.0	2,420.0	264.6
Interest on time certificates of $100,000 or more (issued by domestic offices)	65.0	34.7	19.5	193.6	71.7	1,600.5	196.7
Interest on deposits in foreign offices	0	0	0	40.8	0	11,450.4	252.3
Interest on other deposits	214.5	60.3	58.0	715.0	99.6	1,909.1	372.5
Expense of federal funds purchased and securities sold under agreements to repurchase	76.4	7.1	7.5	174.0	20.8	2,045.6	232.0
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	13.9	1.9	2.2	20.7	2.6	1,071.7	28.8
Interest on subordinated notes and debentures	2.2	0	.2	4.1	1.9	58.6	11.4
Occupancy expense of bank premises, net, and furniture and equipment expense	30.1	13.7	11.0	115.5	19.6	731.1	73.0
Provision for possible loan losses	16.4	7.5	3.3	30.4	8.7	563.0	36.4
Other operating expenses	69.0	27.1	25.3	208.6	32.4	1,603.0	146.0
Total operating expenses	579.7	198.3	159.2	1,856.5	311.3	23,452.9	1,613.8
Income before income taxes and securities gains or losses	113.9	38.5	16.9	202.2	45.4	2,060.7	190.9
Applicable income taxes	30.2	10.0	1.3	10.5	10.5	807.5	42.4
Income before securities gains or losses	83.7	28.5	15.5	191.7	34.9	1,253.2	148.5
Securities gains (losses), gross	−2.5	−1.5	−.2	−25.0	.6	−102.2	−14.2
Applicable income taxes	−1.1	−.7	−.1	−6.7	.3	−57.8	−7.0
Securities gains (losses), net	−1.4	−.8	−.1	−18.3	.4	−44.3	−7.3
Income before extraordinary items	82.3	27.7	15.4	173.4	35.3	1,208.9	141.2
Extraordinary items, net	.2	0	0	.4	0	1.2	.1
Net income	82.5	27.7	15.4	173.8	35.3	1,210.1	141.3
Cash dividends declared on common stock	28.8	13.3	5.2	93.4	11.0	478.8	45.6
Cash dividends declared on preferred stock	—	0	0	—	0	.5	.2
Total cash dividends declared	28.8	13.3	5.2	93.4	11.0	479.3	45.8
Recoveries credited to allowance for possible loan losses	6.0	1.3	1.0	12.9	2.8	195.3	10.5
Losses charged to allowance for possible loan losses	21.0	7.4	3.8	38.5	12.1	664.7	33.4
Net loan losses	15.0	6.1	2.8	25.6	9.3	469.4	22.9

Percent of total operating income:							
Interest on deposits	40.3	40.1	44.0	46.1	48.0	58.6	45.5
Other interest expense	13.3	3.8	5.6	9.7	7.1	12.4	15.1
Salaries and employee benefits	13.3	19.4	18.3	17.2	15.1	9.5	14.7
Other noninterest expense	16.7	20.4	22.5	17.2	17.0	11.4	14.2
Total operating expenses	83.6	83.7	90.4	90.2	87.3	91.9	89.4
Ratio of net income to total equity capital (end of period)-percent	16.5	14.3	11.6	11.8	14.6	11.8	13.8

See note at end of table.

Table A-28—Continued

Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, year ended December 31, 1980

(Dollar amounts in millions)

	North Dakota	Ohio	Oklahoma	Oregon	Pennsylvania	Rhode Island	South Carolina
Number of banks	39	170	184	6	210	5	19
Operating income:							
Interest and fees on loans	$156.4	$2,155.0	$ 972.0	$696.5	$3,528.2	$339.4	$262.1
Interest on balances with depository institutions	.7	211.3	10.3	44.4	490.8	25.6	1.7
Income on federal funds sold and securities purchased under agreements to resell	11.5	185.0	133.7	27.2	260.4	12.4	37.3
Interest on U.S. Treasury securities and on obligations of other U.S. government agencies and corporations	17.7	356.7	121.0	34.6	475.8	47.4	40.8
Interest on obligations of states and political subdivisions in the United States	13.7	272.6	109.9	65.9	315.1	30.7	25.7
Income from all other securities (including dividends on stock)	.5	10.6	3.0	.7	33.9	1.3	.3
Income from lease financing	.1	32.6	2.5	3.9	25.4	12.5	1.3
Income from fiduciary activities	1.2	66.9	17.7	16.5	119.8	17.5	7.9
Service charges on deposit accounts	3.3	86.6	31.0	36.5	46.3	5.9	23.4
Other service charges, commissions and fees	4.9	80.1	23.5	17.4	102.9	8.0	12.3
Other operating income	1.4	50.8	34.3	11.1	131.5	25.9	10.6
Total operating income	211.2	3,508.1	1,458.8	954.6	5,530.1	526.5	423.2
Operating expenses:							
Salaries and employee benefits	28.7	522.0	182.8	161.1	693.3	68.3	101.9
Interest on time certificates of $100,000 or more (issued by domestic offices)	16.8	406.4	369.6	166.4	829.6	108.8	23.2
Interest on deposits in foreign offices	0	77.2	13.4	22.0	786.0	44.2	—
Interest on other deposits	95.8	1,024.9	307.1	268.5	1,241.4	110.1	92.1
Expense of federal funds purchased and securities sold under agreements to repurchase	4.4	479.3	133.8	68.7	685.3	78.2	41.3
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	2.1	60.8	15.4	11.5	150.7	8.2	7.5
Interest on subordinated notes and debentures	1.5	2.6	6.3	9.6	28.0	1.4	1.1
Occupancy expense of bank premises, net, and furniture and equipment expense	7.8	165.3	53.8	38.6	210.0	16.8	29.3
Provision for possible loan losses	6.1	87.1	39.3	28.0	158.0	16.5	11.0
Other operating expenses	18.7	326.1	131.8	77.8	345.0	43.0	53.3
Total operating expenses	181.9	3,151.9	1,253.3	852.0	5,127.4	495.4	360.7
Income before income taxes and securities gains or losses	29.3	356.1	205.6	102.5	402.8	31.1	62.5
Applicable income taxes	7.3	34.8	41.4	20.0	48.3	−1.9	14.7
Income before securities gains or losses	22.1	321.4	164.2	82.5	354.5	33.0	47.8
Securities gains (losses), gross	−.6	−29.9	−7.8	−3.3	−101.8	−7.6	−1.5
Applicable income taxes	−.2	−9.5	−3.1	−1.6	−17.5	−3.8	−.7
Securities gains (losses), net	−.4	−20.4	−4.7	−1.6	−84.4	−3.8	−.9
Income before extraordinary items	21.7	300.9	159.5	80.9	270.1	29.2	47.0
Extraordinary items, net	—	—	—	0	—	0	0
Net income	21.7	300.9	159.5	80.9	270.1	29.2	47.0
Cash dividends declared on common stock	6.9	155.7	41.5	34.1	181.6	11.4	13.9
Cash dividends declared on preferred stock	0	0	—	.1	.8	0	0
Total cash dividends declared	6.9	155.7	41.5	34.2	182.4	11.4	13.9
Recoveries credited to allowance for possible loan losses	1.0	34.9	16.2	4.6	30.3	2.8	4.4
Losses charged to allowance for possible loan losses	6.1	115.7	38.6	28.7	169.2	15.2	12.9
Net loan losses	5.1	80.8	22.4	24.1	138.9	12.4	8.5

Percent of total operating income:							
Interest on deposits	53.3	43.0	47.3	47.9	51.7	50.0	27.2
Other interest expense	3.8	15.5	10.7	9.4	15.6	16.7	11.8
Salaries and employee benefits	13.6	14.9	12.5	16.9	12.5	13.0	24.1
Other noninterest expense	15.4	16.5	15.4	15.1	12.9	14.5	22.1
Total operating expenses	86.1	89.8	85.9	89.3	92.7	94.1	85.2
Ratio of net income to total equity capital (end of period)-percent	13.7	11.9	15.4	14.2	8.3	11.2	14.5

See note at end of table.

Table A–28—Continued

Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, year ended December 31, 1980
(Dollar amounts in millions)

	South Dakota	Tennessee	Texas	Utah	Vermont	Virginia	Washington
Number of banks	33	68	642	12	12	72	20
Operating income:							
Interest and fees on loans	$230.1	$ 734.5	$5,351.2	$263.9	$41.7	$ 796.4	$1,619.2
Interest on balances with depository institutions	2.2	26.1	694.5	9.1	.8	25.5	107.0
Income on federal funds sold and securities purchased under agreements to resell	15.2	99.1	560.2	18.0	3.6	71.5	80.2
Interest on U.S. Treasury securities and on obligations of other U.S. government agencies and corporations	25.3	118.4	510.0	18.6	4.4	89.3	61.8
Interest on obligations of states and political subdivisions in the United States	18.1	66.4	446.6	16.8	3.9	88.5	72.8
Income from all other securities (including dividends on stock)	.6	1.8	14.1	1.9	.6	1.9	5.2
Income from lease financing	.3	5.4	14.5	4.1	0	4.1	63.5
Income from fiduciary activities	1.5	20.0	118.1	4.4	.4	22.1	31.1
Service charges on deposit accounts	5.1	35.1	151.6	11.8	1.0	21.9	60.5
Other service charges, commissions and fees	7.2	37.6	162.2	11.1	1.3	36.2	54.1
Other operating income	2.0	32.6	77.5	4.9	.6	13.4	28.7
Total operating income	307.5	1,177.2	8,100.4	364.5	58.2	1,170.8	2,184.1
Operating expenses:							
Salaries and employee benefits	40.2	186.2	855.0	52.0	10.1	207.2	372.0
Interest on time certificates of $100,000 or more (issued by domestic offices)	27.2	157.8	1,766.4	84.2	5.4	102.7	341.6
Interest on deposits in foreign offices	0	4.4	911.1	3.0	0	11.6	169.5
Interest on other deposits	140.3	346.0	1,401.1	82.4	25.4	417.1	467.6
Expense of federal funds purchased and securities sold under agreements to repurchase	5.9	143.3	927.6	31.3	.3	87.0	221.4
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	2.9	5.1	75.7	4.6	.4	15.2	48.9
Interest on subordinated notes and debentures	2.0	1.9	48.3	4.1	.3	5.2	14.0
Occupancy expense of bank premises, net, and furniture and equipment expense	11.2	63.4	235.4	14.0	3.3	68.5	109.5
Provision for possible loan losses	7.4	32.9	205.1	5.4	1.0	25.5	43.5
Other operating expenses	24.7	114.3	612.2	37.6	5.7	126.7	193.0
Total operating expenses	261.7	1,055.3	7,037.8	318.6	52.0	1,066.7	1,981.1
Income before income taxes and securities gains or losses	45.8	121.9	1,062.6	45.9	6.2	104.1	203.1
Applicable income taxes	12.6	21.4	258.1	12.5	.9	2.3	52.8
Income before securities gains or losses	33.2	100.5	804.5	33.5	5.3	101.8	150.2
Securities gains (losses), gross	−1.4	−3.9	−41.5	−4.0	−.3	−14.6	−6.4
Applicable income taxes	−.7	−1.8	−18.6	−1.9	−.1	−6.8	−2.9
Securities gains (losses), net	−.8	−2.1	−22.9	−2.0	−.2	−7.9	−3.5
Income before extraordinary items	32.5	98.4	781.6	31.4	5.1	93.9	146.8
Extraordinary items, net	0	—	2.3	—	—	—	0
Net income	32.5	98.4	783.9	31.4	5.1	93.9	146.8
Cash dividends declared on common stock	11.6	38.8	199.0	12.6	1.6	42.8	44.8
Cash dividends declared on preferred stock	0	0	0	0	0	0	.4
Total cash dividends declared	11.6	38.8	199.0	12.6	1.6	42.8	45.2
Recoveries credited to allowance for possible loan losses	2.8	15.6	41.4	2.0	.3	11.4	14.0
Losses charged to allowance for possible loan losses	9.1	46.6	174.7	6.6	1.3	33.8	49.5
Net loan losses	6.3	31.0	133.3	4.6	1.0	22.4	35.5

Percent of total operating income:							
Interest on deposits	54.5	43.2	50.4	46.5	52.9	45.4	44.8
Other interest expense	3.5	12.8	13.0	11.0	1.7	9.2	13.0
Salaries and employee benefits	13.1	15.8	10.6	14.3	17.4	17.7	17.0
Other noninterest expense	14.1	17.9	13.0	15.6	17.2	18.9	15.8
Total operating expenses	85.1	89.6	86.9	87.4	89.3	91.1	90.7
Ratio of net income to equity capital (end of period)-percent	15.6	12.5	15.8	15.8	13.3	11.9	13.9

See note at end of table.

Table A-28—Continued

Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, year ended December 31, 1980

(Dollar amounts in millions)

	West Virginia	Wisconsin	Wyoming	District of Columbia nonnational*
Number of banks	109	132	47	1
Operating income:				
Interest and fees on loans	$301.3	$ 793.0	$156.3	$ 2.8
Interest on balances with depository institutions	4.7	31.4	1.1	.2
Income on federal funds sold and securities purchased under agreements to resell	76.0	51.4	17.0	.5
Interest on U.S. Treasury securities and on obligations of other U.S. government agencies and corporations	92.6	99.3	23.3	1.6
Interest on obligations of states and political subdivisions in the United States	41.7	66.7	14.8	.2
Income from all other securities (including dividends on stock)	1.4	4.6	.3	.1
Income from lease financing	1.1	7.1	.4	0
Income from fiduciary activities	6.6	18.3	1.6	0
Service charges on deposit accounts	6.2	18.3	6.3	.3
Other service charges, commissions and fees	8.0	48.1	3.2	—
Other operating income	3.7	32.6	1.7	—
Total operating income	543.3	1,170.8	226.0	5.8
Operating expenses:				
Salaries and employee benefits	72.3	159.6	32.4	1.2
Interest on time certificates of $100,000 or more (issued by domestic offices)	44.4	129.1	31.9	.3
Interest on deposits in foreign offices	0	61.4	0	0
Interest on other deposits	224.3	329.1	75.4	1.8
Expense of federal funds purchased and securities sold under agreements to repurchase	57.4	184.2	4.7	.3
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	3.1	18.5	2.2	.1
Interest on subordinated notes and debentures	.5	4.3	.8	—
Occupancy expense of bank premises, net, and furniture and equipment expense	21.8	47.9	9.6	.2
Provision for possible loan losses	13.8	18.0	5.2	.4
Other operating expenses	48.7	112.9	20.0	3.0
Total operating expenses	486.2	1,065.0	182.2	7.4
Income before income taxes and securities gains or losses	57.1	105.8	43.8	−1.6
Applicable income taxes	6.8	19.2	12.7	0
Income before securities gains or losses	50.3	86.6	31.1	−1.6
Securities gains (losses), gross	−3.2	−1.0	−.8	—
Applicable income taxes	−1.4	−.7	−.3	0
Securities gains (losses), net	−1.8	−.3	−.5	—
Income before extraordinary items	48.5	86.3	30.6	−1.6
Extraordinary items, net	—	−7.2	—	0
Net income	48.5	79.0	30.6	−1.6
Cash dividends declared on common stock	15.7	30.5	11.6	.1
Cash dividends declared on preferred stock	0	0	0	0
Total cash dividends declared	15.7	30.5	11.6	.1
Recoveries credited to allowance for possible loan losses	3.7	5.6	1.6	—
Losses charged to allowance for possible loan losses	14.7	20.0	5.1	.3
Net loan losses	11.0	14.4	3.5	.3

Percent of total operating income:				
Interest on deposits	49.5	44.4	47.5	36.2
Other interest expense	11.2	17.7	3.4	6.9
Salaries and employee benefits	13.3	13.6	14.3	20.7
Other noninterest expense	15.5	15.3	15.4	62.1
Total operating expenses	89.5	91.0	80.6	127.6
Ratio of net income to total equity capital (end of period)-percent	9.6	10.6	17.4	−80.0

* Nonnational banks in the District of Columbia are supervised by the Comptroller of the Currency.
NOTE: Dashes indicate amounts of less than $50,000. Data may not add to totals because of rounding.

Table A–29

National banks engaged in lease financing, December 31, 1980
(Dollar amounts in thousands)

	Total number of national banks	Number of banks engaged in lease financing	Amount of lease financing at domestic offices
All national banks	4,425	828	$7,909,857
Alabama	99	13	33,101
Alaska	5	2	6,986
Arizona	3	1	74,376
Arkansas	68	12	14,916
California	48	14	3,019,148
Colorado	142	42	81,268
Connecticut	19	1	10,309
Delaware	6	0	0
District of Columbia	16	3	26,229
Florida	204	33	55,311
Georgia	63	14	81,824
Hawaii	2	1	7,825
Idaho	7	3	51,298
Illinois	407	75	263,714
Indiana	119	26	167,325
Iowa	99	22	9,560
Kansas	148	26	3,070
Kentucky	78	13	144,226
Louisiana	53	11	32,610
Maine	14	0	0
Maryland	31	6	77,180
Massachusetts	70	13	259,275
Michigan	126	22	209,559
Minnesota	204	35	228,825
Mississippi	37	7	4,947
Missouri	99	27	103,790
Montana	55	17	8,477
Nebraska	117	27	57,606
Nevada	3	2	26,075
New Hampshire	36	0	0
New Jersey	90	10	143,080
New Mexico	40	14	3,195
New York	113	17	674,800
North Carolina	24	6	172,331
North Dakota	39	9	3,057
Ohio	170	41	326,153
Oklahoma	184	79	30,966
Oregon	6	2	32,411
Pennsylvania	210	11	295,366
Rhode Island	5	3	124,875
South Carolina	19	2	12,315
South Dakota	33	5	1,148
Tennessee	68	10	55,788
Texas	642	72	217,130
Utah	12	3	66,685
Vermont	12	0	0
Virginia	72	3	41,273
Washington	20	8	587,986
West Virginia	109	17	10,431
Wisconsin	132	30	49,076
Wyoming	47	18	2,961
District of Columbia—all*	17	3	26,229

* Includes the nonnational bank in the District of Columbia, which is also supervised by the Comptroller of the Currency.

Table A–30

Assets and equity capital, net income, and dividends of national banks, 1967-1980

(Dollars in millions)

Year	Number of banks	Total assets* (foreign and domestic)	Capital stock (par value)			Total equity capital*	Net income before dividends	Cash dividends on capital stock	Ratios (percent)			Cash dividends to total equity capital
			Preferred	Common	Total				Net income before dividends to total assets	Net income before dividends to total equity capital	Cash dividends to net income before dividends	
1967	4,758	NA	$55	$ 5,312	$ 5,367	$18,495	$1,757	$ 796	NA	9.50	45.30	4.30
1968	4,716	NA	58	5,694	5,752	20,268	1,932	897	NA	9.53	46.43	4.43
1969	4,669	NA	62	6,166	6,228	22,134	2,534	1,068	NA	11.45	42.15	4.83
1970	4,621	NA	63	6,457	6,520	23,714	2,829	1,278	NA	11.93	45.17	5.39
1971	4,600	NA	43	6,785	6,828	25,624	3,041	1,390	NA	11.87	45.71	5.42
1972	4,614	$489,403	42	7,458	7,500	28,223	3.308	1,310	.68	11.72	39.60	4.64
1973	4,661	569,451	37	7,904	7,941	30,935	3,768	1,449	.66	12.18	38.46	4.68
1974	4,708	629,568	13	8,336	8,349	33,572	4,044	1,671	.64	12.05	41.32	4.98
1975	4,744	658,751	14	8,809	8,823	36,688	4,259	1,821	.65	11.61	42.76	5.00
1976	4,737	704,329	19	9,106	9,125	41,325	4,591	1,821	.65	11.11	39.66	4.41
1977	4,655	796,851	25	9,552	9,577	44,999	5,139	1,994	.64	11.42	38.80	4.41
1978	4,564	892,272	29	9,912	9,941	49,207	6,173	2,196	.69	12.54	35.57	4.46
1979	4,448	996,281	31	11,403	11,434	54,296	7,247	2,650	.73	13.35	36.57	4.88
1980	4,425	1,095,123	34	11,939	11,973	59,871	7,666	2,951	.70	12.80	38.50	4.93

* Data are not exactly comparable because assets through 1975 are net of reserves on loans and securities and since then are net of valuation reserves and unearned discount on loans. Also, equity capital beginning for 1976 is reported including certain portions of the reserves on loans and securities which were not reported separately for the years 1969-1975.

Table A–31

Loan losses and recoveries of national banks, 1970-1980

Year	Total loans at domestic offices, end of year, net	Net loan losses at domestic offices	Ratio of net losses to loans, net (Percent)	Total loans, foreign and domestic, end of year, net*	Total net loan losses†	Ratio of net losses to loans, net (Percent)
1970	$173,456,091	$601,734	0.35			
1971	190,308,412	666,190	0.35			
1972	226,354,896	545,473	0.24			
1973	266,937,532	731,633	0.27			
1974	292,732,965	1,193,730	0.41			
1975	287,362,220	2,047,643	0.71			
1976	299,833,480	1,819,748	0.61	$372,458,078	$2,105,582	0.57
1977	340,605,630	1,380,261	0.41	429,317,723	1,670,903	0.39
1978	390,104,999	1,277,398	0.33	490,142,134	1,438,705	0.29
1979	437,689,952	1,477,753	0.34	547,397,282	1,539,866	0.28
1980	465,167,672	2,049,228	0.44	594,393,705	2,203,955	0.37

* Loans used in *all* years are net of reserves; after 1975, loans are also net of unearned discount.
† Beginning in 1976 national banks report consolidated loan losses and recoveries including those on loans at foreign offices.
NOTE: For earlier data, see *Annual Reports of the Comptroller of the Currency*, 1947, p. 100; 1968, p. 233 and 1975, p. 161.

Table A–32

Assets and liabilities of national banks, date of last report of condition, 1972-1980
(Dollar amounts in millions)

Year	Number of banks	Consolidated foreign and domestic assets					Liabilities		Total equity capital
		Total assets*	Cash and due from banks	Total securities*	Loans, net*	Other assets	Total deposits	Other liabilities†	
1972	4,614	$ 485,181	$ 91,345	$105,195	$253,538	$ 35,103	$412,316	$ 44,499	$28,366
1973	4,661	564,714	108,128	106,833	303,931	45,822	470,143	63,675	30,896
1974	4,708	624,300	112,790	109,376	345,527	56,607	519,536	71,191	33,573
1975	4,744	648,350	117,715	128,163	347,686	54,786	540,492	71,204	36,654
1976	4,737	704,329	126,437	139,472	372,458	65,962	582,246	80,758	41,325
1977	4,655	796,851	150,508	143,219	429,318	73,806	654,057	97,795	44,999
1978	4,564	892,272	170,146	146,155	490,142	85,829	717,057	126,008	49,207
1979	4,448	996,281	188,554	155,395	547,397	104,935	785,272	156,713	54,296
1980	4,425	1,095,123	204,453	175,055	594,394	121,221	857,692	177,560	59,871

* For years 1972-1975, data are net of securities and loan reserves. Since 1975, data are net of valuation reserves and unearned discount on loans.
† Includes subordinated capital notes and debentures.
NOTE: For earlier data on domestic office assets and liabilities, see *Annual Report of the Comptroller of the Currency*, 1977, p. 200.

Table A–33

Consolidated assets and liabilities of national banks with foreign operations, December 31, 1980
(Dollar amounts in millions)

	Foreign* and domestic offices	Domestic offices
Cash and due from depository institutions	$163,624	$74,002
U.S. Treasury securities	23,182	23,047
Obligations of other U.S. government agencies and corporations	11,174	11,165
Obligations of states and poltiical subdivisions in the United States	38,506	37,764
Other bonds, notes and debentures	6,220	994
Federal Reserve stock and corporate stock	914	793
Trading account securities	6,575	5,577
Federal funds sold and securities purchased under agreements to resell	18,389	18,164
Loans, total (excluding unearned income)	425,880	296,482
Less: Allowance for possible loan losses	4,120	3,948
Loans, net	421,760	292,534
Lease financing receivables	8,447	6,781
Bank premises, furniture and fixtures, and other assets representing bank premises	8,837	7,792
Real estate owned other than bank premises	899	775
Investments in unconsolidated subsidiaries and associated companies	1,026	432
Customers' liability on acceptances outstanding	28,779	21,627
Other assets	20,062	31,391
Total assets	758,392	532,839
Demand deposits of individuals, partnerships and corporations	107,188	107,188
Time and savings deposits of individuals, partnerships and corporations	197,676	197,676
Deposits of U.S. government	1,021	1,021
Deposits of states and political subdivisions in the United States	19,041	19,041
Deposits of foreign governments and official institutions	5,518	5,518
Deposits of commercial banks	32,127	32,127
Certified and officers' checks	5,138	5,138
Total deposits in domestic offices	367,710	367,710
Total demand deposits	143,733	143,733
Total time and savings deposits	223,977	223,977
Total deposits in foreign offices*	205,847	NA
Total deposits	573,557	367,710
Federal funds purchased and securities sold under agreements to repurchase	73,455	73,329
Interest-bearing demand notes issued to the U.S. Treasury	4,293	4,293
Other liabilities for borrowed money	18,213	7,842
Mortgage indebtedness and liabilities for capitalized leases	929	917
Banks' liability on acceptances executed and outstanding	28,832	23,179
Other liabilities	21,848	18,568
Total liabilities	721,127	495,837
Subordinated notes and debentures	2,668	2,405
Preferred stock	10	10
Common stock	7,035	7,035
Surplus	11,165	11,165
Undivided profits	15,994	15,994
Reserve for contingencies and other capital reserves	393	393
Total equity capital	34,597	34,597
Total liabilities and equity capital	758,392	532,839
Number of banks	118	

* For reporting purposes, foreign offices include Edge and Agreement subsidiaries in the United States and branches in Puerto Rico, Virgin Islands and Trust Territories.

Table A–34

Foreign branches of national banks, by region and country, December 31, 1980

Region and Country	*Number*
Central America	45
El Salvador	2
Guatemala	3
Honduras	3
Mexico	5
Nicaragua	2
Panama	30
South America	115
Argentina	43
Bolivia	6
Brazil	19
Chile	7
Ecuador	14
Guyana	1
Paraguay	9
Peru	3
Uruguay	9
Venezuela	4
West Indies—Caribbean	159
Bahamas	60
Barbados	3
British Virgin Islands	2
Cayman Islands	62
Dominican Republic	17
French West Indies	2
Haiti	5
Jamaica	2
Netherlands Antilles	3
Trinidad and Tobago	2
West Indies Federation of States	1
Europe	123
Austria	1
Belgium	5
Denmark	3
England	34
France	9
Germany	18
Greece	16
Ireland	4
Italy	8
Luxembourg	4
Monaco	1
Netherlands	6
Northern Ireland	1
Scotland	3
Europe—Continued	
Spain	4
Switzerland	6
Africa	20
Egypt	5
Gabon	1
Ivory Coast	2
Kenya	2
Liberia	4
Mauritius	1
Senegal	1
Seychelles	1
Sudan	1
Tunisia	2
Middle East	24
Bahrain	4
Jordan	3
Lebanon	4
Oman	2
Qatar	1
United Arab Emirates	9
Yemen Arab Republic	1
Asia and Pacific	136
Brunei	3
Hong Kong	39
India	10
Indonesia	5
Japan	23
Korea	8
Malaysia	5
Pakistan	6
Philippines	10
Singapore	16
Sri Lanka	2
Taiwan	7
Thailand	2
U.S. overseas areas and trust territories	50
Guam	4
Puerto Rico	24
Virgin Islands	22
Total	667

Table A–35

Total foreign branch assets of national banks, year-end 1953-1980*

(Dollar amounts in thousands)

Year	*Number of branches*	*Assets*	*Year*	*Number of branches*	*Assets*
1953	NA	$1,682,919	1967	278	11,856,316
1954	NA	1,556,326	1968	355	16,021,617
1955	85	1,116,003	1969	428	28,217,139
1956	NA	1,301,883	1970	497	38,877,627
1957	NA	1,342,616	1971	528	50,550,727
1958	NA	1,405,020	1972	566	54,720,405
1959	NA	1,543,985	1973	621	83,304,441
1960	93	1,628,510	1974	649	99,810,999
1961	102	1,780,926	1975	675	111,514,147
1962	111	2,008,478	1976	635	134,790,497
1963	124	2,678,717	1977	629	161,768,609
1964	138	3,319,879	1978	646	180,712,782
1965	196	7,241,068	1979	667	217,611,974
1966	230	9,364,278	1980	672	242,763,325

* Includes military facilities operated abroad by national banks from 1966 through 1971.

Table A–36

Foreign branch assets and liabilities of national banks, December 31, 1980

(Dollar amounts in thousands)

ASSETS		
Cash and cash items in process of collection		$ 1,128,720
Balances with all banks in the United States and non-U.S. branches of U.S. banks		19,040,671
Balances with non-U.S. banks outside the U.S.		57,908,179
Securities		4,109,889
Loans, discounts and overdrafts		
Secured by real estate	$2,887,409	
To financial institutions	17,022,795	
To commercial and industrial borrowers	69,149,359	
To non-U.S. governments and official institutions	15,383,462	
To all others	5,066,456	
Less: unearned discount	295,189	
Total loans, net		109,214,292
Customers' liability on acceptances outstanding		4,869,445
Premises, furniture and fixtures		666,093
Accruals—interest earned, foreign exchange profits, etc.		4,882,841
Due from other non-U.S. branches of this bank		26,027,241
Due from head office and U.S. branches of this bank		6,262,678
Due from consolidated subsidiaries of this bank		6,954,774
Other assets		1,698,502
Total assets		$242,763,325

LIABILITIES	
Deposits of all banks in the United States and non-U.S. branches of U.S. banks	$ 26,585,186
Deposits of non-U.S. banks outside the United States	60,942,755
Other deposits	92,926,525
Liabilities for borrowed money	5,077,927
Liability on acceptances executed and outstanding	4,161,379
Accrued taxes and other expenses	4,578,070
Due to other non-U.S. branches of this bank	26,205,674
Due to head office and its U.S. branches of this bank	18,200,646
Due to consolidated subsidiaries of this bank	2,991,496
Other liabilities	1,093,667
Total liabilities	$242,763,325
MEMORANDA	
Standby letters of credit	$ 6,538,033
Commercial letters of credit issued and outstanding	5,356,811
Guarantees and letters of indemnity	4,387,777
Contracts to buy foreign exchange and bullion	124,573,282
Contracts to sell foreign exchange and bullion	121,356,454

Table A–37

Average banks' percent of loans past due, by national bank region, calendar 1980

	National bank region														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	United States
Real estate															
Mar.	4.4	4.1	3.7	2.8	3.1	2.9	3.0	3.6	3.0	3.1	2.9	4.2	5.1	3.2	3.3
June	4.2	4.1	4.0	3.1	3.2	2.6	3.5	4.1	2.9	3.1	2.9	4.8	4.3	3.7	3.4
Sept.	3.7	4.4	4.3	3.2	3.7	2.6	3.6	4.1	3.1	3.5	2.9	4.7	4.1	3.8	3.5
Dec.	4.0	4.6	4.6	3.2	4.0	2.7	3.6	4.4	3.2	3.5	3.0	4.2	4.2	3.5	3.6
Commercial and industrial															
Mar.	4.5	4.2	5.0	3.9	4.4	3.5	3.9	4.6	4.3	3.5	3.5	4.8	5.6	6.6	4.1
June	4.9	4.7	6.0	4.3	5.1	3.6	4.7	4.5	4.8	4.0	3.6	5.4	5.7	5.8	4.5
Sept.	4.5	5.0	6.1	4.8	5.6	3.5	5.1	4.6	4.8	4.2	3.7	5.7	6.3	7.1	4.7
Dec.	5.0	4.8	5.8	4.1	5.3	3.9	5.2	4.2	4.8	3.7	3.7	5.0	5.6	4.8	4.5
Personal															
Mar.	3.5	3.5	3.8	3.7	3.5	2.0	3.3	4.0	3.3	3.5	3.3	3.6	3.7	2.5	3.4
June	3.4	3.7	4.0	3.8	3.9	2.3	3.5	4.4	3.8	3.8	3.5	3.7	3.6	2.9	3.6
Sept.	3.6	3.8	4.0	3.8	3.9	2.3	3.7	4.4	3.8	4.0	3.7	3.8	3.9	3.0	3.7
Dec.	3.7	3.7	4.4	3.7	4.0	2.5	3.7	4.8	3.7	3.7	3.9	3.5	4.0	2.8	3.8
All other															
Mar.	6.2	6.0	2.5	3.0	4.5	5.5	3.5	4.6	3.3	2.3	4.8	8.3	4.6	6.9	4.3
June	6.8	4.2	2.4	3.4	6.0	4.6	3.7	4.1	3.1	2.5	4.7	7.1	3.3	6.3	4.2
Sept.	6.1	5.5	3.6	3.5	5.5	4.5	4.1	4.1	3.3	2.5	5.0	5.6	3.7	15.1	4.4
Dec.	6.3	4.8	4.0	3.8	4.2	4.0	3.7	4.8	3.1	3.1	4.4	7.1	5.0	7.5	4.3
Total loans															
Mar.	4.0	3.9	4.0	3.1	3.5	2.5	3.1	3.8	3.1	2.6	2.9	3.9	4.4	3.7	3.2
June	4.1	4.0	4.2	3.4	3.8	2.5	3.6	4.1	3.3	2.9	3.1	4.1	4.2	4.2	3.5
Sept.	3.9	4.3	4.4	3.6	4.0	2.6	3.8	4.0	3.3	3.0	3.1	4.2	4.3	4.3	3.6
Dec.	4.2	4.3	4.7	3.5	4.2	2.8	3.8	4.3	3.5	2.9	3.3	4.1	4.6	3.7	3.6

NOTES: Percentages reported are averages of individual banks' percentages of loans past due with each bank accorded the same weight regardless of size; those individual bank percentages are based on dollar value of loans past due. All figures are as of the last day of the month indicated. "All Other" includes loans to financial institutions, loans for purchasing or carrying securities, loans to farmers and all other loans. See technical notes at end of Table A–40.

Table A–38

Average banks' percent of loans past due, by deposits, calendar 1980

	Deposits in millions of dollars								
	Less than $5	$5 to $10	$10 to $25	$25 to $50	$50 to $100	$100 to $500	$500 to $1,000	$1,000 to more	All national banks
Real estate									
Mar.	2.9	4.1	3.3	3.0	3.1	2.9	4.2	5.0	3.3
June	3.3	3.6	3.5	3.2	3.3	3.1	4.1	5.1	3.4
Sept.	4.1	3.7	3.7	3.5	3.2	3.2	4.2	4.4	3.5
Dec.	3.8	4.1	3.8	3.5	3.2	3.4	3.8	4.4	3.6
Commercial and industrial									
Mar.	3.7	4.6	4.1	4.1	4.0	3.8	3.5	4.1	4.1
June	3.1	4.6	4.5	4.5	4.7	4.4	4.0	4.7	4.5
Sept.	3.6	4.9	4.8	4.7	4.7	4.5	3.9	4.4	4.7
Dec.	2.9	4.6	4.7	4.6	4.5	4.2	3.8	4.1	4.5
Personal									
Mar.	3.3	4.1	3.7	3.4	3.0	2.8	2.9	3.2	3.4
June	3.6	4.2	4.0	3.6	3.3	3.0	3.1	3.4	3.6
Sept.	3.5	4.2	4.2	3.8	3.4	3.0	3.0	3.5	3.7
Dec.	3.1	4.4	4.2	3.9	3.4	3.1	3.1	3.4	3.8
All other									
Mar.	4.7	3.8	4.1	4.3	5.1	4.2	3.2	4.5	4.3
June	4.4	2.9	3.6	5.0	4.7	4.0	2.9	4.3	4.2
Sept.	3.5	4.9	4.2	4.1	5.1	4.4	3.5	4.1	4.4
Dec.	2.1	4.1	4.4	4.5	4.6	3.9	2.8	3.9	4.3
Total loans									
Mar.	2.2	3.5	3.3	3.2	3.2	3.1	3.5	4.0	3.2
June	2.9	3.5	3.5	3.5	3.5	3.3	3.7	4.3	3.5
Sept.	2.9	3.6	3.7	3.6	3.5	3.4	3.6	4.0	3.6
Dec.	2.6	3.9	3.8	3.7	3.5	3.4	3.4	3.9	3.6

NOTES: Percentages reported are averages of individual banks' percentages of loans past due with each bank accorded the same weight regardless of size; those individual bank percentages are based on dollar value of loans past due. All figures are as of the last day of the month indicated. "All Other" includes loans to financial institutions, loans for purchasing or carrying securities, loans to farmers and all other loans. See technical notes at end of Table A–40.

Table A–39

Average banks' percent of loans past due, by assets, calendar 1980

	Assets in millions of dollars									
	Less than $10	$10 to $20	$20 to $25	$25 to $40	$40 to $100	$100 to $300	$300 to $900	$900 to $5,000	$5,000 or more	All national banks
Real estate										
Mar.	3.8	3.3	3.3	3.2	3.0	2.8	3.6	4.8	5.8	3.3
June	3.7	3.4	3.5	3.3	3.2	3.1	3.8	5.0	5.1	3.4
Sept.	4.0	3.7	3.7	3.5	3.3	3.2	3.5	4.5	4.7	3.5
Dec.	4.0	3.6	4.0	3.7	3.3	3.3	3.5	4.2	4.9	3.6
Commercial and industrial										
Mar.	4.4	4.2	3.5	4.4	3.9	3.9	3.7	4.0	3.8	4.1
June	4.2	4.5	4.4	4.7	4.5	4.5	4.1	4.6	4.5	4.5
Sept.	4.6	4.8	4.8	4.7	4.7	4.6	4.1	4.3	4.4	4.7
Dec.	4.3	4.5	4.6	4.7	4.4	4.3	4.1	3.9	4.2	4.5
Personal										
Mar.	3.8	3.7	3.7	3.6	3.1	2.7	2.8	3.2	3.2	3.4
June	4.0	4.1	4.0	3.7	3.4	3.0	3.0	3.4	3.4	3.6
Sept.	4.0	4.1	4.4	4.0	3.6	3.0	2.8	3.5	3.7	3.7
Dec.	4.2	4.3	3.8	4.2	3.6	3.1	2.9	3.4	3.6	3.8
All other										
Mar.	4.0	4.2	4.0	4.3	4.4	4.6	3.9	4.7	4.3	4.3
June	3.4	3.6	3.2	5.1	4.7	3.8	3.8	4.0	4.3	4.2
Sept.	3.9	4.8	3.5	4.2	4.6	4.7	3.6	4.2	4.3	4.4
Dec.	3.8	4.2	3.9	4.8	4.5	4.2	2.9	3.7	4.1	4.3
Total loans										
Mar.	3.3	3.2	3.3	3.4	3.2	3.0	3.3	4.0	3.9	3.2
June	3.4	3.4	3.7	3.6	3.4	3.3	3.5	4.3	4.1	3.5
Sept.	3.5	3.5	3.8	3.7	3.5	3.4	3.4	4.0	4.0	3.6
Dec.	3.6	3.6	3.8	3.9	3.6	3.4	3.4	3.8	3.9	3.6

NOTES: Percentages reported are averages of individual banks' percentages of loans past due with each bank accorded the same weight regardless of size; those individual bank percentages are based on dollar value of loans past due. All figures are as of the last day of the month indicated. "All Other" includes loans to financial institutions, loans for purchasing or carrying securities, loans to farmers and all other loans. See technical notes at end of Table A–40.

Table A–40

Average banks' percent of loans past due at foreign office, calendar 1980

	Assets in millions of dollars			
	$300 to $900	$900 to $5,000	$5,000 or more	All national banks
Foreign office loans				
Mar.	0.1	1.5	1.4	1.3
June	0.7	1.6	1.3	1.4
Sept.	0.7	1.2	1.2	1.1
Dec.	1.1	1.4	0.9	1.3

NOTES: Percentages reported are averages on individual banks' percentages of loans past due with each bank accorded the same weight regardless of size; those individual bank percentages are based on dollar value of loans past due. They represent averages of the total percent of foreign office loans past due for every national bank which had foreign office loans outstanding on the report date. All figures are as of the last day of the month indicated.

TECHNICAL NOTES:

Past Due Loan Data–Beginning November 1974, all national banks were requested to submit bimonthly reports listing their total loans outstanding and amount past due as of the end of the month. Beginning with September 1975, the reports have been collected quarterly to coincide with call report dates. The primary purpose of the data is to assist the Office in monitoring the performance of individual banks. However, the Office periodically provides aggregate or average figures for public use.

Past Due Loan Criteria–Banks are directed to use the same criteria used by national bank examiners as this report is a supplement to the regular examination report. That is, loans past due are (1) beginning with December 1977, single payment notes 15 days or more past maturity—prior to that, six days or more past maturity; (2) single payment notes with interest due at specified intervals and demand notes on which interest is due and unpaid for 15 days or more; and (3) consumer, mortgage or term loans payable in regular installments on which one installment is due and unpaid for 30 days or more.

Loan Categories–The loan categories for this report correspond to those used for the report of condition except for "Other Loans." "Other Loans" includes loans to financial institutions, loans for purchasing or carrying securities, loans to farmers and all other loans not included in the specified categories.

See Table A–3 for national bank region locations and other data.

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