

Bank Holding Companies: Development and Regulation

By Thomas G. Watkins and Robert Craig West

The number of bank holding companies has increased very rapidly in the United States over the past 15 years. During this period, holding companies have grown from a position of relative unimportance in the nation's banking industry to one of dominance. A number of factors have contributed to the growth of bank holding companies. One factor is that holding companies can facilitate the expansion of banking organizations, especially where branch banking is prohibited or limited by law. Also, one-bank holding companies enjoy certain tax benefits, since the interest payments on debt created to acquire a bank can be met out of pretax income.

Throughout the 15-year period of rapid growth, bank holding companies have been supervised and regulated at the federal level. Beginning in 1956 for multibank companies and in 1970 for one-bank companies, the formation and expansion of bank holding companies have been subject to prior approval by the Federal Reserve. The objective of Federal

Reserve regulation is to ensure that the growth of bank holding companies does not impair either the financial condition of banking organizations or the competitive condition of the banking industry. Also, the Federal Reserve aims to prevent undue concentration of banking resources.

In view of the growth and dominance of bank holding companies, this article reviews the development and regulation of bank holding companies in the United States. The article first treats their historical development and regulation. It then examines the growth of bank holding companies since 1965 and geographical differences in the importance of holding companies. The article also discusses the growth of bank holding companies in the Tenth Federal Reserve District. The article concludes by offering some comments about the future growth of bank holding companies in the United States.

HISTORICAL DEVELOPMENT AND REGULATION OF BANK HOLDING COMPANIES

A primary reason for the development of the bank holding company form of organization in the United States has been the historical dominance of unit banking. The performance of the banking sector during the first half of the 19th century created a political climate that

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caused most states and the federal government to restrict banks to a single office. Where banks were denied branching by law, the formation of multibank holding companies provided banks with a means to expand beyond their local banking market.

As a legal device, the holding company form of organization dates from the 1890s.¹ The formation of bank holding companies in the United States began during the first decade of the 20th century. In the early part of the century, bank holding companies were concentrated in the Northwest, and some of these earliest companies are still in business. For example, Union Investment Company, now a division of Banco (Northwest Bancorporation) began operation in Minnesota in 1903. As in the case of branch banking, the development of holding companies has been limited by state law and, as a result, the pattern of development has not been uniform across the nation.²

The regulation of bank holding companies at the federal level was initiated in 1914 with the passage of the Clayton Act.³ Section 11 of the Act expressly gave to the Federal Reserve System the power to enforce its banking provisions. But early federal regulation of bank holding companies was not effective, and

although the Federal Reserve favored legislation placing restrictions on bank holding companies, little action was taken. The passage of the McFadden Act in 1927, while it limited the expansion of branch banking, left the holding company open to banks as a means of geographic expansion. In fact, the restrictions on branch banking contained in the McFadden Act probably stimulated the creation of bank holding companies.

Federal regulation of bank holding companies was extended under the Banking Act of 1933. This Act brought under Federal Reserve supervision all holding companies which contained a member bank. In particular, the provisions of the Banking Act of 1933 dealing with bank structure were aimed at separating banks from their security affiliates. This action marked the beginning of attempts by the federal government to determine the range of permissible activities for bank affiliates.

From 1933 through 1956, no significant legislation pertaining to bank holding companies was enacted. During the first part of this period, the growth of bank holding companies was slow, partly due to the political climate and the uncertain future of holding companies.⁴ Beginning in 1948, however, holding companies began to expand in banking, as they did in other sectors. Many bills designed to limit the merger activity of banks were introduced during the early 1950s, and the threat of these limitations no doubt acted to stimulate preemptory acquisitions.

In 1956, Congress passed the first act dealing expressly with bank holding companies—the Bank Holding Company Act of 1956. The purposes of the Act were to define bank holding

¹ Before holding companies were legalized, it was a violation of the common law for one corporation to own another. New Jersey was the first state to pass laws legalizing the holding company form, but other states followed soon after.

² A standard source on bank holding company development before 1960 is Gerald C. Fischer, *Bank Holding Companies*, New York: Columbia University Press, 1961.

³ The concentration of financial power uncovered by the Pujo Committee in 1912 had created wide public concern about concentration in banking. The Pujo Committee was the half of the House Banking and Currency Committee given the task of investigating concentration in the financial sector. The other half of the committee, chaired by Carter Glass, drafted the Federal Reserve Act. The investigations of the Pujo Committee led to the Clayton Act, and the deliberations of the Glass Committee led to the Federal Reserve Act.

⁴ In the late 1930s, President Roosevelt called for the abolition of all holding companies. The government's suit in 1948 against the largest bank holding company, the Trans-America Corporation, also made the future uncertain for bank holding companies.

companies, to control their future expansion, and to require divestiture of their nonbank affiliates. In the Act, a bank holding company was defined as any company that owned 25 percent or more of the stock of two or more banks, or otherwise controlled the election of a majority of the directors of two or more banks. The Act made it unlawful for any bank holding company to acquire 5 percent or more of another bank or for any company to become a multibank holding company without the prior approval of the Board of Governors of the Federal Reserve System. Also, bank holding companies were required to divest themselves of affiliates engaged in nonpermissible activities. In addition, the Act outlined the factors that the Federal Reserve was to consider when processing an application—the convenience, needs, and welfare of the applicant's community, along with limits on bank holding companies organization consistent with adequate and sound banking, the public interest, and the preservation of competition in banking.

One-bank holding companies did not come under the jurisdiction of the 1956 Act.⁵ This exclusion created questions about the effectiveness of holding company regulation because the number of one-bank holding companies grew very rapidly in the 1960s. To bring one-bank holding companies under federal regulation, Congress passed the 1970 amendments to the Bank Holding Company Act of 1956. Under the amended Act, one-bank and multibank holding companies were subjected to the same regulations, and the Federal Reserve was given the responsibility of determining permissible activities for all bank holding companies. An important result of the 1970 amendments was the elimination of much of the uncertainty that had accompanied the creation of

bank holding companies before 1970. With permissible activities explicitly set out, bank holding company formation proceeded without fear of legal obstacles.

THE CURRENT REGULATORY ENVIRONMENT

Under the Banking Act of 1933 and the Bank Holding Company Act of 1956 as amended in 1970, the Board of Governors of the Federal Reserve System has the responsibility for regulating bank holding companies. The regulatory policies of the Federal Reserve System, which influence the internal affairs of a holding company to promote sound banking practices and the structure of the banking industry to promote a competitive market, are imposed in two fundamental ways. First, all proposals to form a bank holding company or to acquire an additional bank or nonbank subsidiary are subject to the prior approval of the Federal Reserve. Therefore, through the application process, the operating policies of the applicant company as well as the proposal's impact upon competition are evaluated. Second, compliance with regulations is secured through ongoing supervision of the activities of the holding company.

When a company formally applies to become a bank holding company, or when a bank holding company proposes to acquire an additional bank or nonbank subsidiary, the Federal Reserve is directed by the Bank Holding Company Act to consider the effect of the proposal on banking, competition, and factors relating to convenience and needs. Where a proposal has an adverse effect upon any of these elements it will be denied if there are no counterbalancing considerations. However, a proposal to acquire a nonbank subsidiary will be approved only where there is a positive public effect.

In the case where the proposed acquisition is a bank, banking factors include an evaluation

⁵ A one-bank holding company contains only a single bank, although it may contain other nonbank affiliates.

of the financial and managerial aspects of the proposal. With regard to the financial aspects of the proposal, the Federal Reserve is interested mainly in the ability of the holding company to retire any debt incurred in the acquisition of the bank and the ability of the holding company to maintain adequate capital in the bank. In short, the Board of Governors wants to ensure that the holding company is a source of financial strength for the bank. Regarding managerial considerations, the Federal Reserve evaluates the managerial expertise of both the holding company and the bank by reviewing examination reports for violations of banking laws or regulations.

The Federal Reserve also assesses the probable competitive impact of a holding company proposal in order to prevent any acquisition that would tend either to create a monopoly or to cause a substantial lessening of competition. To evaluate the competitive impact, the Federal Reserve employs what is commonly known as a structural approach, where the conduct and performance are deduced from the structural aspects of the industry. Generally, the level of concentration in total deposits and the market shares in total deposits of the two firms are estimated in the relevant geographic market. Although the Federal Reserve is not bound by the merger guidelines of the U.S. Department of Justice, the guidelines are used to detect a possible anticompetitive effect.

Finally, the Federal Reserve evaluates the impact of the proposed acquisition on the convenience and needs of the community to be served. Here, the concern is whether or not the proposal will result in improved banking services. Although the application requests information on any proposed changes in banking services, the Federal Reserve also reviews prior examinations of the applicant and the target bank to check for compliance with consumer laws and regulations and with the Community Reinvestment Act. In short, the aim is to ensure that the

applicant and the bank are meeting the credit needs of their communities and doing so in a responsible manner.

With regard to an application to acquire a nonbank subsidiary, the Federal Reserve is empowered to determine the activities in which it is permissible for holding companies to engage. This "laundry list" includes activities closely related to banking or to managing or controlling banks. These include trust operations, investment or financial advising, certain leasing and insurance activities, and several other activities. The purpose of the review procedure is to guarantee that the activities of the nonbank subsidiary do not pose a potential threat to the financial stability of any bank subsidiary. The competitive impact of the acquisition is assessed and, in addition, the Federal Reserve determines whether the acquisition would result in an undue concentration of resources in an activity closely related to banking. Finally, public benefits of the acquisition are reviewed to determine if the proposal will result in greater convenience to the public, gains in efficiency, or lower charges for services.

THE GROWTH OF BANK HOLDING COMPANIES: 1965 TO 1980

Although bank holding companies have existed in the United States since the early part of the 20th century, they were relatively unimportant in the banking industry until the latter part of the 1960s. In 1965, there were only 53 multibank holding companies, and they controlled only about 8 percent of all commercial bank deposits. (See Table 1.) An estimated 550 one-bank holding companies existed in 1965, controlling 4.5 percent of total deposits. Thus, in 1965, holding companies controlled slightly less than 13 percent of commercial bank deposits.

Growth was very rapid, however, in the last half of the 1960s. The number of multibank holding companies more than doubled, increasing from 53 in 1965 to 121 in 1970. The relative importance of multibank holding companies also increased as the percentage of deposits controlled by these organizations rose from about 8 percent in 1965 to about 16 percent in 1970. One-bank holding companies also grew rapidly in the 1965-70 period, increasing in number from 550 in 1965 to 895 in 1970. In terms of relative importance, one-bank holding companies grew even more rapidly than multibank holding companies. Between 1965 and 1970, one-bank holding companies increased their control of total deposits from 4.5 to 33 percent. Together, one-bank and multibank companies controlled just under 50 percent of the nation's commercial bank

deposits in 1970.

Much of the 1965-70 growth in one-bank holding companies occurred in 1968 and 1969. During the last four months of 1968, seven one-bank holding companies were formed, and an additional 76 banking organizations announced plans to form one-bank holding companies. Of these 76 banks, seven were among the 12 largest banks in the United States. This movement to form holding companies was precipitated by the possibility that federal legislation would be enacted regulating the activities of one-bank holding companies. Believing that Congress would "grandfather" some of the activities of existing organizations, many banks acted to establish holding companies before the expected legislation went into effect.

Multibank holding companies continued to grow rapidly in the early 1970s, both in

Table 1
BANK HOLDING COMPANIES
OFFICES, ASSETS, AND DEPOSITS

| As of Dec. 31 | Number of Bank Holding Company Groups | | | Commercial Banks in Holding Companies | | | | Percentage of Total Commercial Bank Deposits in Holding Companies | | |
|------------------|--|-------|-------|--|------|---------|------|---|-------|------|
| | Total | Multi | One | Banks | | Offices | | Total | Multi | One |
| | | | | No. | % | No. | % | | | |
| 1965* | 603 | 53 | 550 | 1,018 | 7.4 | N.A. | N.A. | 12.8 | 8.3 | 4.5 |
| 1968* | 847 | 80 | 767 | 1,396 | 10.2 | N.A. | N.A. | 39.7 | 13.3 | 26.4 |
| 1970* | 1,016 | 121 | 895 | 1,790 | 13.0 | N.A. | N.A. | 49.2 | 16.2 | 33.0 |
| 1973 | 1,533 | 251 | 1,282 | 3,097 | 21.9 | 15,374 | 58.6 | 65.4 | 35.0 | 30.4 |
| 1974 | 1,616 | 276 | 1,340 | 3,462 | 23.9 | 17,131 | 60.5 | 68.1 | 38.4 | 29.7 |
| 1975 | 1,708 | 289 | 1,419 | 3,674 | 25.1 | 18,382 | 61.2 | 67.1 | 37.8 | 29.3 |
| 1976 | 1,802 | 298 | 1,504 | 3,791 | 25.8 | 19,203 | 61.7 | 66.0 | 34.1 | 31.9 |
| 1977 | 1,913 | 306 | 1,607 | 3,903 | 26.5 | 21,223 | 62.7 | 72.0 | 36.3 | 35.7 |
| 1978 | 2,113 | 314 | 1,799 | 4,101 | 27.9 | 22,421 | 62.8 | 72.5 | 33.7 | 38.8 |
| 1979 | 2,357 | 329 | 2,028 | 4,280 | 29.1 | 23,765 | 63.0 | 74.1 | 34.6 | 39.5 |
| 1980 | 2,905 | 361 | 2,544 | 4,954 | 33.9 | 25,948 | 65.5 | 76.7 | 35.4 | 41.3 |

*For 1965, 1968, and 1970, data on the number of one-bank holding company groups are unavailable, and for these years the statistics give the number of holding companies. The basic difference is that a group takes into account tiered ownership of holding companies.

SOURCE: Board of Governors of the Federal Reserve System.

numbers and in relative importance. By 1975, these organizations controlled about 38 percent of total deposits, an increase from just over 16 percent in 1970. In contrast, while the number of one-bank holding companies rose in the early 1970s, their relative importance declined. The percentage of deposits controlled by one-bank organizations fell from 33 percent in 1970 to about 29 percent in 1975. The decline in relative importance of one-bank holding companies in the early 1970s was more than offset by the increase in the importance of multibank organizations. Thus, the percentage of deposits held by all bank holding companies rose from just under 50 percent in 1970 to 67 percent in 1975.

In the latter part of the 1970s, the number of both one-bank and multibank holding companies continued to increase rapidly. However, while the importance of one-bank holding companies declined and that of multibank companies rose in the early 1970s, the reverse occurred in the late 1970s. To some extent, the relatively rapid growth in one-bank holding companies in the late 1970s was due to a change in the state banking laws, particularly in New York. In 1975, that state enacted legislation allowing statewide branching. As a result, a number of multibank holding companies in that state changed to one-bank companies through the merger of bank subsidiaries into the lead bank.

By 1980, 361 multibank holding companies controlled about 35 percent of total deposits, a decrease from just under 38 percent in 1975. There were 2,544 one-bank holding companies in 1980 that accounted for about 41 percent of total deposits, a sharp increase from the 29 percent held in 1975. Together, the percentage of deposits held by holding companies rose from 67 percent in 1975 to just under 77 percent in 1980.

In summary, during the 15-year period from 1965 to 1980, the bank holding company form

of organization grew from a position of modest importance to become the dominant form of banking organization. While only about one-third of the commercial banks in the United States are part of either a one-bank or multibank holding company, almost all of the larger banks are members of such companies. Many of the nation's larger banks are lead banks in multibank organizations. In 1980, there were 2,410 commercial banks in the 361 multibank holding company groups, or about an average of seven banks for each group.

GEOGRAPHIC DIFFERENCES IN HOLDING COMPANY DEVELOPMENT

The relative importance of multibank and one-bank holding companies varies among the different states, depending mainly on state laws concerning branching and holding companies. In 1980, statewide branch banking was permissible in 23 states and the District of Columbia. Limited branch banking was allowed in 16 states. Ten of the states that allowed limited branching also allowed multibank companies, but in six of these states, the multibank form of organization was prohibited or otherwise restricted. The laws of 11 states prohibited branch banking of any kind in 1980. In six of the unit banking states, multibank companies were allowed.

One-bank holding companies are more important in the states that allow statewide branching, while multibank holding companies are more important in those limited branching and unit banking states that allow multibank organizations. Thus, in 1980, one-bank holding companies controlled just under 52 percent of the deposits in statewide branching states, compared with only around 10.5 percent in limited branching and unit banking states that allow multibank companies. (See Table 2.) In contrast, in statewide branching states, multibank holding companies controlled only about 37 percent of total deposits, compared with 57 per-

cent in limited branching-multibank states and 60 percent in unit branching-multibank states. The greater importance of multibank holding companies in unit banking and limited branching states reflects the fact that in these states, banking organizations that want to expand use the multibank method because the branching alternative is limited or not available. On the other hand, in those states that allow branching, expansion can occur without use of the multibank method.

HOLDING COMPANIES IN THE TENTH DISTRICT

Following the national pattern, holding companies grew very rapidly in the late 1960s and early 1970s in Tenth Federal Reserve District states—Colorado, Kansas, Missouri, Nebraska, New Mexico, Oklahoma, and Wyoming. For the District as a whole, both the number and relative importance of bank holding companies more than doubled from 1968 to 1973. The number rose from 229 to 507, while the percentage of deposits controlled by

bank holding companies increased from just under 27 percent to 56 percent. (See Table 3.) District holding companies continued to grow rapidly in the 1970s. By 1980, there were 1,058 holding companies in the District, controlling 72 percent of District deposits. Throughout the 1968-80 period, in terms of percentage of deposits controlled, holding companies were less important in the District than nationwide, although in 1980, 36 percent of all bank holding companies in the United States were located in Tenth District states.

Holding companies are especially important in four Tenth District states. In 1980, holding companies controlled 83 percent of total deposits in Colorado, 78 percent in Wyoming and Missouri, and 75 percent in Nebraska. The importance of holding companies in Colorado, Wyoming, and Missouri reflects the fact that these states allow multibank holding companies but prohibit branch banking. As shown in Table 4, in these three states, and especially in Colorado and Missouri, multibank holding

Table 2
PERCENTAGE OF TOTAL DEPOSITS CONTROLLED BY HOLDING COMPANIES IN STATEWIDE BRANCHING, LIMITED BRANCHING, AND UNIT BANKING STATES*
1980

| | Statewide Branching | | Limited Branching | | | Unit Banking | | |
|-------|-----------------------------|-----------------------------|-----------------------------|-----------------------|------------------------|-----------------------------|-----------------------|------------------------|
| | Number of Holding Companies | Percent of States' Deposits | Number of Holding Companies | Percent of All States | Percent of MBHC States | Number of Holding Companies | Percent of All States | Percent of MBHC States |
| MBHC | 115 | 36.5 | 142 | 36.8 | 57.4 | 139 | 30.8 | 59.8 |
| 1-BHC | 221 | 51.9 | 786 | 22.7 | 10.6 | 1,537 | 38.5 | 10.4 |

*As of 1980, the following states allowed:

1. Statewide branching — Alaska, Arizona, California, Connecticut, Delaware, District of Columbia, Florida, Hawaii, Idaho, Maine, Maryland, Nevada, New Hampshire, New Jersey, New York, North Carolina, Oregon, Rhode Island, South Carolina, South Dakota, Utah, Vermont, Virginia, and Washington.
2. Limited branching — Alabama, Arkansas, Georgia, Indiana, Iowa, Kentucky, Louisiana, Massachusetts, Michigan, Minnesota, Mississippi, New Mexico, Ohio, Pennsylvania, Tennessee, and Wisconsin.
3. Unit banking — Colorado, Illinois, Kansas, Missouri, Montana, Nebraska, North Dakota, Oklahoma, Texas, West Virginia, and Wyoming.

SOURCE: Board of Governors of the Federal Reserve System.

Table 3
HOLDING COMPANY DEVELOPMENT IN TENTH DISTRICT STATES

| Year | Colorado | | Kansas | | Missouri | | Nebraska | |
|-------|----------|---------------------------|--------|---------------------------|----------|---------------------------|----------|---------------------------|
| | Number | Percent of State Deposits | Number | Percent of State Deposits | Number | Percent of State Deposits | Number | Percent of State Deposits |
| 1968* | 46 | 59.6 | 44 | 7.5 | 51 | 18.8 | 51 | 34.9 |
| 1973 | 73 | 78.1 | 124 | 32.6 | 95 | 63.4 | 127 | 54.1 |
| 1974 | 75 | 79.3 | 136 | 34.3 | 98 | 67.7 | 140 | 55.8 |
| 1975 | 72 | 78.1 | 153 | 37.2 | 88 | 68.5 | 146 | 58.2 |
| 1976 | 75 | 78.5 | 174 | 40.4 | 96 | 69.6 | 162 | 59.9 |
| 1977 | 79 | 78.9 | 194 | 42.9 | 103 | 70.3 | 173 | 61.9 |
| 1978 | 85 | 78.8 | 233 | 48.2 | 119 | 73.0 | 196 | 66.8 |
| 1979 | 91 | 80.3 | 250 | 50.9 | 139 | 75.0 | 207 | 67.8 |
| 1980 | 112 | 82.7 | 291 | 56.9 | 161 | 78.0 | 249 | 74.6 |

| Year | New Mexico | | Oklahoma | | Wyoming | | All Tenth District States | |
|-------|------------|---------------------------|----------|---------------------------|---------|---------------------------|---------------------------|---------------------------|
| | Number | Percent of State Deposits | Number | Percent of State Deposits | Number | Percent of State Deposits | Number | Percent of State Deposits |
| 1968* | 7 | 32.9 | 22 | 26.8 | 9 | 32.8 | 229 | 26.7 |
| 1973 | 11 | 69.2 | 55 | 42.8 | 22 | 57.1 | 507 | 56.0 |
| 1974 | 10 | 67.7 | 63 | 47.6 | 22 | 56.7 | 544 | 58.7 |
| 1975 | 10 | 66.2 | 74 | 50.7 | 21 | 60.4 | 596 | 49.9 |
| 1976 | 9 | 55.8 | 84 | 52.0 | 21 | 60.0 | 621 | 60.7 |
| 1977 | 10 | 55.8 | 97 | 54.2 | 24 | 62.8 | 680 | 62.1 |
| 1978 | 10 | 55.1 | 112 | 55.6 | 26 | 65.6 | 781 | 64.6 |
| 1979 | 12 | 55.4 | 140 | 59.7 | 28 | 73.0 | 867 | 66.9 |
| 1980 | 17 | 59.4 | 196 | 67.2 | 32 | 78.2 | 1,058 | 71.6 |

*For 1968 the data include an estimate of the number of one-bank holding companies.
SOURCE: Board of Governors of the Federal Reserve System.

companies account for a very large percentage of total deposits. In New Mexico, in contrast, which is the other Tenth District state that allows multibank holding companies, the relative importance of multibank holding companies is significantly lower. In 1980, the percentage of deposits held by multibank holding companies ranged from 68 percent in Missouri to 47 percent in New Mexico. Also, the relative importance of multibank holding companies declined in New Mexico between

1973 and 1980, but rose in Colorado, Missouri, and Wyoming. The lesser importance and relatively sluggish growth of multibank holding companies in New Mexico may be due in part to the fact that this state allows limited branch banking.⁶

⁶ New Mexico differs from limited branching states in general, where data show that there is little difference in the percentage of deposits controlled by multibank holding companies in limited branching and unit banking states.

In the Tenth District as in the nation, the data show that, in the states where branching is restricted but where multibank holding companies are allowed, these organizations typically account for a large percentage of total bank deposits. This predominance of multibank holding companies might indicate that their development and growth have reduced competition in banking through the concentration and ownership of control. This possibility can be explored by examining four-firm concentration ratios for the standard metropolitan statistical areas (SMSA's) in the

Tenth District. This ratio refers to the share of total bank deposits in an SMSA controlled by the four largest banking organizations. A relatively high concentration ratio indicates a greater potential for noncompetitive behavior.

In 1980, there were 22 SMSA's in Tenth District states, with 12 located primarily in multibank states and 10 located in one-bank states. As Table 5 indicates, in 1980 both average and median concentration ratios in SMSA's in multibank states were higher than the comparable ratios in one-bank states. Thus, it appears that in the Tenth District, the extent

Table 4
ONE-BANK AND MULTIBANK HOLDING COMPANIES IN COLORADO, MISSOURI, NEW MEXICO, AND WYOMING

| Year | Colorado | | Missouri | | New Mexico | | Wyoming | |
|-----------|----------|---------------------------|----------|---------------------------|------------|---------------------------|---------|---------------------------|
| | Number | Percent of State Deposits | Number | Percent of State Deposits | Number | Percent of State Deposits | Number | Percent of State Deposits |
| 1968 MBHC | 5 | 45.5 | 4 | 10.1 | 1 | 14.3 | 2 | 16.8 |
| 1-BHC | 41 | 14.1 | 47 | 8.7 | 6 | 18.6 | 7 | 16.0 |
| 1973 MBHC | 8 | 58.9 | 22 | 53.7 | 4 | 50.0 | 3 | 29.3 |
| 1-BHC | 65 | 19.2 | 73 | 9.7 | 7 | 19.2 | 19 | 27.8 |
| 1974 MBHC | 11 | 67.4 | 22 | 57.8 | 4 | 51.1 | 3 | 37.0 |
| 1-BHC | 60 | 12.2 | 69 | 10.2 | 6 | 17.5 | 19 | 19.8 |
| 1975 MBHC | 10 | 65.5 | 25 | 59.7 | 4 | 49.5 | 5 | 42.0 |
| 1-BHC | 62 | 12.6 | 63 | 8.8 | 6 | 16.7 | 16 | 18.4 |
| 1976 MBHC | 11 | 65.9 | 26 | 60.5 | 4 | 49.8 | 5 | 42.1 |
| 1-BHC | 64 | 12.6 | 70 | 9.1 | 5 | 6.0 | 16 | 17.9 |
| 1977 MBHC | 13 | 65.8 | 26 | 61.3 | 4 | 48.6 | 5 | 41.0 |
| 1-BHC | 66 | 13.1 | 77 | 9.0 | 6 | 7.2 | 19 | 21.8 |
| 1978 MBHC | 13 | 65.9 | 31 | 63.5 | 5 | 48.7 | 6 | 43.7 |
| 1-BHC | 72 | 12.9 | 88 | 9.5 | 5 | 6.4 | 20 | 21.9 |
| 1979 MBHC | 13 | 66.4 | 34 | 64.6 | 5 | 47.5 | 8 | 49.3 |
| 1-BHC | 78 | 13.9 | 105 | 10.5 | 7 | 7.9 | 20 | 23.7 |
| 1980 MBHC | 15 | 66.2 | 37 | 67.5 | 5 | 47.1 | 10 | 54.1 |
| 1-BHC | 97 | 16.3 | 124 | 10.6 | 12 | 12.3 | 22 | 24.1 |

SOURCE: Board of Governors of the Federal Reserve System.

Table 5
FOUR-FIRM CONCENTRATION RATIOS
IN TENTH FEDERAL RESERVE DISTRICT
SMSA'S 1973 AND 1980

| | 1973 | | 1980 | |
|--------|-----------------|-------------|-----------------|-------------|
| | One-Bank States | MBHC States | One-Bank States | MBHC States |
| Mean | 73.0 | 77.3 | 66.6 | 73.4 |
| Median | 71.9 | 85.3 | 63.1 | 80.1 |

of competition is potentially lower in those states which allow multibank holding companies. At the same time, however, the extent of concentration in the District's SMSA's declined in both one-bank states and multibank states from 1973 to 1980, with concentration declining more, on average, in one-bank states. It is likely that the decline in concentration has resulted from a number of factors, such as the redistribution of population from downtown to suburban areas and the granting of new bank charters. However, the existence of a greater decline in one-bank than in multibank states suggests that the factors leading to deconcentration have had a lesser impact in multibank states. It remains true, nevertheless, that in both one-bank and multibank states, concentration ratios in Tenth District SMSA's have declined at the same time that substantial holding company expansion has occurred.

BANK HOLDING COMPANIES IN THE FUTURE

Since the passage of the 1970 amendments to the Bank Holding Company Act of 1956, the environment in which bank holding companies operate has undergone substantial change. In particular, banks have come under increasing competitive pressure from other kinds of financial institutions. In the case of many recent financial innovations, banks and bank holding

company subsidiaries are prohibited from competing directly with these other institutions. As a result, money market mutual funds, mutual savings banks, savings and loans, brokerage firms, and others have become active in areas once reserved for commercial banks. Many of these institutions also operate across state borders, an opportunity largely denied to banks. One response to this changing environment often suggested by industry observers would be to allow bank holding companies to acquire money market mutual funds, thrift institutions, or brokerage firms as subsidiaries.

Several proposals currently before Congress recognize that fundamental change is under way in the financial sector. All of these bills have implications for bank holding companies. One measure, the so-called "regulators bill," introduced by Representative Fernand St. Germain, is aimed at short-term solutions to some pressing problems, mainly in the thrift industry. Insofar as bank holding companies are concerned, the bill is important because it would increase the possibility of interstate and even interindustry mergers by bank holding companies.⁷

Another proposal currently being discussed is a bill proposed by Senator Jake Garn, chairman of the Senate Banking Committee. Also, a bill offered by the U.S. Treasury Department proposes even more deregulation of financial markets than the Garn bill. Both bills are aimed at restructuring the financial system to take into account the changes that have occurred over the last several years. The Garn bill would greatly expand the powers of thrift institutions and

⁷ One such merger has already occurred with the acquisition of a Dayton thrift by an Ohio bank holding company. This acquisition was approved by the Federal Reserve Board under already existing powers. While the Federal Reserve believes that it has authority to approve such acquisitions, it has expressed reluctance to approve interstate or interindustry mergers in the absence of Congressional action.

allow banks and bank holding companies to enter competition with other financial institutions in areas where they have been banned in the recent past. Under the similar Treasury Department proposal, some operations—such as limited security underwriting—could take place only in an affiliate. The merits of requiring a separate securities affiliate is still under debate with the principal issues being how to assure the safety and soundness of the bank and how best to protect depositors.⁸

In the past, banks have used the holding company form as a method of diversification, so it seems likely that the use of this method will continue or even expand if new laws enlarge the areas in which banks can operate. In fact, the Treasury Department bill would require the formation of affiliates, except in the case of small banks, which would be allowed to engage in some of these activities in-house.

SUMMARY

Bank holding company development began early in this century, but holding companies did not become important in the banking sector until the late 1960s. Certain aspects of their development created a demand for regulation, which began with the Clayton Act in 1914. Over the following five decades, regulation of bank holding companies was extended, and by 1970, the Federal Reserve System had been given ex-

tensive powers to regulate the activities and formation of bank holding companies.

Bank holding development has been most rapid in the period since 1965, as the number of bank holding companies expanded from 603 in 1965 to 2,905 in 1980. During the same period, the percentage of total commercial bank deposits controlled by holding companies rose from just under 13 percent to slightly less than 77 percent. The growth rates of one-bank and multibank holding companies have not been equal, with one-bank companies growing more rapidly than multibank companies, except during the early 1970s.

There also have been geographic differences between the growth rates of one-bank and multibank organizations. In states that allow multibank holding company formation, and where branching is limited or prohibited, multibank organizations tend to dominate one-bank holding companies. In statewide branching states, one-bank holding companies hold a larger share of deposits than multibank holding companies. The pattern of holding company development in the Tenth District further illustrates the impact of state law on the relative roles of one-bank and multibank holding companies.

The rapid growth of bank holding companies is relatively recent. Likewise, effective regulation of bank holding companies has occurred only during the past 25 years. One aim of regulation has been to limit the nonbank activities of bank holding companies. However, recent developments in financial markets have spurred Congressional interest in deregulation. Bank holding companies are well placed to take advantage of any deregulation of financial activities.

⁸ This argument is set out very well in testimony by Franklin Edwards before the Senate Banking Committee. See Franklin Edwards, *Testimony Before the Committee on Banking, Housing, and Urban Affairs*, U.S. Senate, 97th Cong., 1st Sess., Part II, May 13, 14, 18, and 19, 1981 (Washington, D.C.: Government Printing Office, 1981), pp. 1771-84.