



1976 ANNUAL REPORT

Comptroller of the Currency
Administrator of National Banks



Annual Report 1976

Comptroller of the Currency



The Administrator of National Banks

John G. Heimann

Comptroller of the Currency

Letter of Transmittal

Treasury Department,
Office of the Comptroller of the Currency,
Washington, D.C., October 17, 1977

Sirs: Pursuant to the provisions of Section 333 of the United States Revised Statutes, I am pleased to submit the 1975 *Annual Report of the Comptroller of the Currency*.

Respectfully,

John G. Heimann,
Comptroller of the Currency.

The President of the Senate
The Speaker of the House of Representatives

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I. Condition of the National Banking System

The operations of national banks reflected the steady recovery the U.S. economy experienced during 1976. Loans were well over \$300 billion. This figure is not directly comparable to 1975's because of changes in the balance sheet reporting. Deposit growth reflected the recovery; total deposits grew by 4.8 percent, 1 percent more than the 1975 rate of 3.8 percent. IPC demand deposits grew 2.5 percent while IPC time and savings deposits increased 9.1 percent, reflecting the somewhat improved state of the economy. Total time and savings deposits relative to total deposits continued to increase, to reach 59.9 percent in 1976. The 1972 figure was 52.0 percent.

Total book assets grew more than 5.4 percent in 1976. The actual growth was closer to 7.3 percent if provision is made for the new exclusion of loan reserves and unearned income in 1976. That is significant because it shows a reversal of the previous trend of declining asset growth. The four previous increases were 3.6 (1975), 9.2 (1974), 12.6 (1973) and 15.5 (1972) percent.

National banks' securities holdings (including those

held in trading accounts) increased by \$10,527 million. Holdings of U.S. Treasury securities for investment purposes increased more than 17 percent over year-end 1975. State and local government holdings also increased slightly. The total increase in securities holdings was 8.4 percent, about half the 17.2 percent increase from 1974 to 1975.

Reserves for possible loan losses reached over \$3,589 million. That figure is equivalent to 1.2 percent of total loans. Total loans represented 52 percent of total assets.

Total equity capital of national banks was \$41,325 million. Capital notes and debentures increased \$436 million, showing the continued weak position of bank stock in the open market. Total equity capital to assets was 7.1 percent, while equity capital to risk assets, that is total assets less cash, U.S. Treasuries, and securities of other U.S. government agencies, was 9.4 percent. Those ratios are not exactly comparable to those for earlier years because of the reporting changes.

Table 1

Assets, liabilities and capital accounts, domestic offices of national banks, December 31, 1976
(Dollar amounts in thousands)

	Amount	Percent distribution
4,737 national banks		
Assets		
Cash and due from banks	\$ 76,078,031	13.04
Total, investment securities	129,990,494	22.28
U.S. Treasury securities	52,612,836	9.02
Obligations of other U.S. government agencies and corporations	17,005,880	2.91
Obligations of states and political subdivisions	57,384,363	9.84
Other bonds, notes and debentures	2,987,415	.51
Federal Reserve stock and corporate stock	967,304	.17
Trading account securities	4,973,779	.85
<i>Total securities</i>	135,931,577	23.30
Federal funds sold and securities purchased under agreements to resell	30,140,010	5.17
Total loans (excluding unearned income)	303,436,774	52.02
Reserve for possible loan losses	3,589,367	.62
Loans, net of reserve	299,847,407	51.40
Direct lease financing	3,808,381	.65
Bank premises, furniture and fixtures and other assets representing bank premises	9,879,953	1.69
Real estate owned other than bank premises	1,722,984	.30
Investments in unconsolidated subsidiaries and associated companies	1,777,388	.31
Customers' liability to this bank on acceptances outstanding	5,086,708	.87
Other assets	19,076,586	3.27
<i>Total assets</i>	583,349,025	100.00
Liabilities		
Demand deposits of individuals, partnerships and corporations	147,018,169	25.20
Time and savings deposits of individuals, partnerships and corporations	242,873,535	41.63
Deposits of U.S. government	2,126,653	.37
Deposits of states and political subdivisions	38,088,306	6.53
Deposits of foreign governments and official institutions	5,917,740	1.01
Deposits of commercial banks	27,332,987	4.69
Certified and officers' checks	6,051,345	1.04
<i>Total deposits</i>	469,408,735	80.47
Demand deposits	188,175,050	32.26
Time and savings deposits	281,233,685	48.21
Federal funds purchased and securities sold under agreements to repurchase	51,678,941	8.86
Liabilities for borrowed money	2,741,434	.47
Mortgage indebtedness	406,112	.07
Acceptances executed by or for account of this bank and outstanding	5,140,675	.88
Other liabilities	9,921,683	1.70
<i>Total liabilities</i>	539,297,580	92.45
Subordinated notes and debentures	2,726,628	.47
Equity Capital		
Preferred stock	18,754	—
Common stock	9,106,275	1.56
Surplus	15,853,738	2.72
Undivided profits	15,271,833	2.62
Reserve for contingencies and other capital reserves	1,074,217	.18
<i>Total equity capital</i>	41,324,817	7.08
<i>Total liabilities, subordinated notes and debentures and equity capital</i>	583,349,025	100.00

NOTE: Data may not add to totals because of rounding. Dashes indicate amounts less than 0.005 percent.

II. Income and Expenses of National Banks

Total income and expenses of the National Banking System reflected the steady recovery in the U.S. economy during 1976. Total income rose 23.4 percent, a reversal of the previous year's decline. Total expenses also increased, by 25.2 percent. National banks' net income increased \$332.1 million, or 7.8 percent. That rate was 2.5 percent more than the 5.3 percent increase achieved 1974 to 1975. Applicable income taxes on operating income rose to \$1,436.8 million, 34.5 percent more than the previous year. The rate of return on assets was 0.79, slightly more than 1975's 0.77.

Interest and fees on loans increased \$5,555.4 million to \$31,031.0 million, showing an increase of 21.8 percent. Income from federal funds sold or securities purchased under agreements to resell decreased to \$1,383.6 million. Loan-related income fell to 64.6 percent of total operating income, continuing the pattern of previous years. Total revenue from securities holdings (including stock) as a proportion of total revenue declined slightly to 16.2 percent from 1975's 17.0 percent figure.

Holdings of U.S. Treasury securities for investment purposes increased \$7,802 million. That produced an increase in interest earned on such securities of \$786.5

million, or 32.7 percent. The interest earned on U.S. Treasuries was \$1,964.1 million more than the earnings on Federal funds sold and securities purchased to resell. That reinforces the reversal of the previous trend. Prior to 1975, interest earned on U.S. Treasuries had been less than the earnings from Federal funds sold and securities purchased under agreements to resell. Revenues from obligations of states and political subdivisions totalled \$2,801.1 million, a small increase over the 1975 figure.

The expense items involving interest payments increased by 37.5 percent. Interest on deposits, the largest expense item, increased to \$20,885.8 million, an increase for the year of 37 percent. Salaries and employee benefits increased 18.6 percent, more than double the previous year's increase. Provisions for loan losses increased by \$26.1 million, or 1.2 percent. That small increase in the provision for loan losses was important in making 1976 a profit year.

Cash dividends paid totalled \$1,821.1 million, almost the same amount paid in 1976. In 1975, the dividend pay-out ratio declined to 39.7 percent. The previous two years' dividend pay-out ratios were 42.8 (1975) and 41.3 (1974) percent.

Table 2
Income and expenses of National banks, December 31, 1976
(Dollar amounts in thousands)

	<i>Amount</i>	<i>Percent distribution</i>
4,737 national banks		
Operating income:		
Interest and fees on loans	\$31,031,046	64.61
Interest on balances with banks	2,946,656	6.14
Income on Federal funds sold and securities purchased under agreements to resell in domestic offices	1,229,182	2.56
Income on securities:	7,696,571	16.03
U.S. Treasury securities	3,193,274	6.65
Obligations of other U.S. government agencies and corporations	1,210,149	2.52
Obligations of states and political subdivisions	2,801,076	5.83
Other bonds, notes and debentures	492,072	1.03
Dividends on stock	62,149	.13
Income from direct lease financing	408,438	.85
Income from fiduciary activities	1,029,203	2.14
Service charges on deposit accounts in domestic offices	911,467	1.90
Other service charges, commissions, and fees	1,441,484	3.00
Other income	1,265,214	2.64
<i>Total operating income</i>	48,021,410	100.00
Operating expenses:		
Salaries and employee benefits	8,575,522	20.37
Interest on time certificates of deposit of \$100,000 or more issued by domestic offices	4,327,891	10.28
Interest on deposits in foreign offices	5,962,140	14.16
Interest on other deposits	10,595,809	25.17
Expense of Federal funds purchased and securities sold under agreements to repurchase in domestic offices	2,268,120	5.39
Interest on borrowed money	454,745	1.08
Interest on subordinated notes and debentures	179,190	.42
Occupancy expense of bank premises, net	1,548,312	3.68
Furniture and equipment expense	1,015,489	2.41
Provision for possible loan losses (or actual net loan losses)	2,250,427	5.34
Other expenses	4,925,748	11.70
<i>Total operating expenses</i>	42,103,393	100.00
Income before income taxes and securities gains or losses	5,918,017	
Applicable income taxes (domestic and foreign)	1,436,755	
Income before securities gains or losses	4,481,262	
Securities gains (losses), gross	168,493	
Applicable income taxes (domestic and foreign)	-72,596	
Securities gains (losses), net	95,897	
Income before extraordinary items	4,577,159	
Extraordinary items, net of tax effect	13,891	
Net income	4,591,050	
Cash dividends declared:		
On common stock	1,820,000	
On preferred stock	1,088	
<i>Total cash dividends declared</i>	1,821,088	
Ratio to income before income taxes and securities gains or losses:		
Applicable income taxes		24.28
Net securities gains		1.62
Extraordinary charges or credits .....		.24
Ratio to total operating income:		
Salaries and wages		17.86
Interest on deposits*		43.49
All other operating expenses		26.33
Total operating expenses		87.68
Net income		9.56

* Includes expenses on all deposits.

NOTE: Data may not add to totals because of rounding. Includes all banks operating as national banks at year-end and full year data for those state banks converting during the year.

III. Structural Changes in the National Banking System

The National Banking System consisted of 4,737 banks as of year-end 1976. Of that number, 2,643 were unit banks and 2,094 operated 16,640 domestic branches. The total number of banking offices of national banks in the U.S. was 21,377, an increase of 364 for the year. During the year the number of branches increased 2.3 percent and the number of banking offices increased 1.7 percent. Both of those rates are less than the previous year's growth rates. The three large unit banking states, Texas, Illinois and Florida, continued to lead in total number of banks; at year-end 1976, there were 596, 425 and 306 banks in those states, respectively. California remained the state with the largest number of banking offices, with 2,766, up from 2,704 at year-end 1975. New York and Pennsylvania continue to rank second and third with 1,643 and 1,606 offices, respectively. New York experienced a decrease of 138 offices, 117 of which were branch offices. That shows the effect of the change in that state's branching law which became effective in 1976.

During 1976, 536 *de novo* branches entered the National Banking System. Mergers and conversions added

235 branches, while subtracting 394. The vast majority of the new branches (*de novo*) were in cities with populations of less than 100,000 persons. The percentage of new branches in cities of that size was 69 percent in 1975, and increased to 75 percent in 1976. Banks with total resources of less than \$100 million established 238, or 44 percent of the *de novo* branches. The large banks, those with over \$1 billion in total resources, opened 142 branches, or about 26 percent of all new branches. California led all states with 77 new branches, followed by Michigan and Pennsylvania with 42 and 38, respectively.

Again, in 1976, the number of charters issued was below the previous year's. There were 65 national banks chartered in 1976 compared to 76 in 1975 and 92 in 1974. Only 34 applications were approved in 1976, compared to 72 the previous year. Texas led the states in charters issued with 19, followed by Florida with 8. Additionally, 14 banks were chartered for the purpose of effecting corporate reorganizations and 9 state-chartered banks converted to national bank status.

Table 3

National banks and banking offices, by states, December 31, 1976

	National banks			Number of branches	Number of offices
	Total	Unit	With branches		
All national banks	4,737	2,643	2,094	16,640	21,377
50 states	4,735	2,641	2,094	16,640	21,375
Alabama	97	35	62	300	397
Alaska	6	1	5	73	79
Arizona	3	1	2	307	310
Arkansas	73	16	57	172	245
California	58	13	45	2,708	2,766
Colorado	132	107	25	25	157
Connecticut	23	3	20	262	285
Delaware	5	2	3	4	9
District of Columbia	15	3	12	128	143
Florida	306	239	67	66	372
Georgia	64	17	47	318	382
Hawaii	2	0	2	11	13
Idaho	6	1	5	167	173
Illinois	425	315	110	110	535
Indiana	120	33	87	483	603
Iowa	100	52	48	85	185
Kansas	169	121	48	70	239
Kentucky	82	25	57	228	310
Louisiana	54	11	43	254	308
Maine	17	1	16	117	134
Maryland	41	8	33	365	406
Massachusetts	75	9	66	506	581
Michigan	122	19	103	792	914
Minnesota	203	181	22	28	231
Mississippi	38	5	33	220	258
Missouri	115	61	54	69	184
Montana	56	49	7	7	63
Nebraska	120	84	36	52	172
Nevada	4	1	3	78	82
New Hampshire	43	10	33	89	132
New Jersey	104	9	95	1,012	1,116
New Mexico	38	8	30	115	153
New York	129	34	95	1,514	1,643
North Carolina	28	7	21	788	816
North Dakota	43	21	22	23	66
Ohio	219	50	169	1,018	1,237
Oklahoma	195	141	54	54	249
Oregon	7	1	6	310	317
Pennsylvania	237	83	154	1,369	1,606
Rhode Island	5	0	5	115	120
South Carolina	19	6	13	299	318
South Dakota	32	18	14	80	112
Tennessee	74	10	64	353	427
Texas	596	591	5	5	601
Utah	13	8	5	99	112
Vermont	14	4	10	47	61
Virginia	108	14	94	679	787
Washington	21	3	18	556	577
West Virginia	103	77	26	26	129
Wisconsin	130	87	43	84	214
Wyoming	46	46	0	0	46
Puerto Rico	1	1	0	0	1
FDIC National Bank	1	1	0	0	1
District of Columbia - all*	16	3	13	129	145

* Includes national and non-national banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.

Table 4

Applications for national bank charters* and charters issued, by states, calendar 1976

	Received†	Approved	Disapproved	Withdrawn	Pending December 31, 1976	Chartered
Total	145	34	36	6	69	65
Alabama	3	0	2	0	1	3
Alaska	0	0	0	0	0	0
Arizona	0	0	0	0	0	0
Arkansas	3	1	0	0	2	0
California	6	0	3	0	3	2
Colorado	5	2	0	0	3	0
Connecticut	1	0	0	0	1	0
Delaware	1	0	0	0	1	0
District of Columbia	1	0	0	0	1	0
Florida	28	3	12	2	11	8
Georgia	2	0	0	0	2	0
Hawaii	1	0	0	0	1	0
Idaho	0	0	0	0	0	0
Illinois	9	3	4	1	1	6
Indiana	5	3	1	0	1	1
Iowa	0	0	0	0	0	0
Kansas	0	0	0	0	0	0
Kentucky	1	0	1	0	0	2
Louisiana	3	0	1	1	1	1
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	2
Minnesota	1	1	0	0	0	3
Mississippi	2	0	0	0	2	0
Missouri	0	0	0	0	1	4
Montana	0	0	0	0	0	1
Nebraska	0	0	0	0	0	0
Nevada	0	0	0	0	0	0
New Hampshire	0	0	0	0	0	0
New Jersey	2	1	0	1	0	0
New Mexico	3	0	0	0	3	2
New York	6	2	2	0	2	1
North Carolina	0	0	0	0	0	1
North Dakota	1	1	0	0	0	0
Ohio	3	2	0	0	1	3
Oklahoma	4	2	1	0	1	1
Oregon	0	0	0	0	0	0
Pennsylvania	1	0	1	0	0	0
Rhode Island	0	0	0	0	0	0
South Carolina	3	0	0	1	2	0
South Dakota	0	0	0	0	0	0
Tennessee	1	1	0	0	0	1
Texas	26	5	2	0	19	19
Utah	2	1	1	0	0	1
Vermont	0	0	0	0	0	0
Virginia	0	0	0	0	0	1
Washington	1	1	0	0	0	0
West Virginia	7	2	3	0	2	0
Wisconsin	5	2	1	0	2	2
Wyoming	2	0	1	0	1	0
Virgin Islands	0	0	0	0	0	0
Puerto Rico	1	0	0	0	1	0

* Excludes conversions and corporate reorganizations.

† Includes 73 applications pending as of December 31, 1975.

Table 5

Applications for national bank charters pursuant to corporate reorganizations and charters issued, by states, calendar 1976

	Received*	Approved	Disapproved	Withdrawn	Pending December 31, 1976	Chartered
Total	24	22	0	1	1	14
Alabama	0	0	0	0	0	0
Alaska	0	0	0	0	0	0
Arizona	0	0	0	0	0	0
Arkansas	0	0	0	0	0	0
California	0	0	0	0	0	1
Colorado	0	0	0	0	0	0
Connecticut	0	0	0	0	0	0
Delaware	0	0	0	0	0	0
District of Columbia	0	0	0	0	0	1
Florida	0	0	0	0	0	0
Georgia	3	3	0	0	0	0
Hawaii	0	0	0	0	0	0
Idaho	0	0	0	0	0	0
Illinois	3	3	0	0	0	2
Indiana	1	0	0	1	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	1	1	0	0	0	0
Massachusetts	3	3	0	0	0	1
Michigan	5	5	0	0	0	2
Minnesota	0	0	0	0	0	0
Mississippi	0	0	0	0	0	0
Missouri	0	0	0	0	0	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	0	0	0	0	0	0
New Mexico	0	0	0	0	0	0
New York	1	1	0	0	0	1
North Carolina	0	0	0	0	0	0
North Dakota	0	0	0	0	0	0
Ohio	1	1	0	0	0	2
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	1	0	0	0	1	0
Texas	4	4	0	0	0	3
Utah	0	0	0	0	0	0
Vermont	0	0	0	0	0	0
Virginia	1	1	0	0	0	1
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
Virgin Islands	0	0	0	0	0	0
Puerto Rico	0	0	0	0	0	0

* Includes 2 applications pending as of December 31, 1975.

Table 6

Applications for conversion to national bank charter and charters issued, by states, calendar 1976

	Received*	Approved	Rejected	Withdrawn	Pending December 31, 1976	Chartered
Total	15	11	0	0	4	9
Alabama	0	0	0	0	0	0
Alaska	0	0	0	0	0	0
Arizona	0	0	0	0	0	0
Arkansas	0	0	0	0	0	0
California	0	0	0	0	0	0
Colorado	0	0	0	0	0	0
Connecticut	0	0	0	0	0	0
Delaware	0	0	0	0	0	0
District of Columbia	0	0	0	0	0	0
Florida	5	4	0	0	1	4
Georgia	1	1	0	0	0	1
Hawaii	0	0	0	0	0	0
Idaho	1	0	0	0	1	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	1	1	0	0	0	1
Minnesota	0	0	0	0	0	0
Mississippi	0	0	0	0	0	0
Missouri	0	0	0	0	0	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	0	0	0	0	0	0
New Mexico	1	1	0	0	0	0
New York	0	0	0	0	0	0
North Carolina	1	1	0	0	0	1
North Dakota	0	0	0	0	0	0
Ohio	0	0	0	0	0	1
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	1	1	0	0	0	0
Utah	0	0	0	0	0	0
Vermont	0	0	0	0	0	0
Virginia	1	1	0	0	0	1
Washington	0	0	0	0	0	0
West Virginia	3	1	0	0	2	0
Wisconsin	0	0	0	0	0	0
Wyoming	0	0	0	0	0	0

* Includes those pending from prior years.

Table 7

Branches* of national banks, by states, calendar 1976

	Branches in operation December 31, 1975	De novo branches opened for business Jan. 1 to Dec. 31, 1976	Branches acquired through merger or conversion Jan. 1 to Dec. 31, 1976	Existing branches discontinued or consolidated Jan. 1 to Dec. 31, 1976	Branches in operation December 31, 1976
All national banks	16,269	536	235	394	16,640
50 states	16,262	536	235	393	16,640
Alabama	290	12	1	3	300
Alaska	66	7	0	0	73
Arizona	300	12	0	5	307
Arkansas	160	11	1	0	172
California	2,647	77	1	17	2,708
Colorado	25	1	0	1	25
Connecticut	258	1	4	1	262
Delaware	4	0	0	0	4
District of Columbia	98	3	30	3	128
Florida	53	12	1	0	66
Georgia	318	5	5	10	318
Hawaii	11	0	0	0	11
Idaho	161	6	0	0	167
Illinois	103	9	0	2	110
Indiana	469	16	1	3	483
Iowa	83	2	0	0	85
Kansas	63	9	0	2	70
Kentucky	204	23	1	0	228
Louisiana	242	12	0	0	254
Maine	128	1	1	13	117
Maryland	357	10	2	4	365
Massachusetts	504	15	2	15	506
Michigan	749	42	16	15	792
Minnesota	25	4	0	1	28
Mississippi	210	11	1	2	220
Missouri	65	4	0	0	69
Montana	5	2	0	0	7
Nebraska	50	3	0	1	52
Nevada	77	1	0	0	78
New Hampshire	85	6	0	2	89
New Jersey	963	27	34	12	1,012
New Mexico	111	4	0	0	115
New York	1,631	27	18	162	1,514
North Carolina	767	11	14	4	788
North Dakota	21	2	0	0	23
Ohio	972	32	17	3	1,018
Oklahoma	51	3	0	0	54
Oregon	299	11	0	0	310
Pennsylvania	1,354	38	10	33	1,369
Rhode Island	114	2	0	1	115
South Carolina	298	5	0	4	299
South Dakota	75	2	3	0	80
Tennessee	368	10	24	49	353
Texas	1	4	0	0	5
Utah	98	1	0	0	99
Vermont	48	0	1	2	47
Virginia	661	15	14	11	679
Washington	519	14	33	10	556
West Virginia	18	8	0	0	26
Wisconsin	83	3	0	2	84
Wyoming	0	0	0	0	0
Virgin Islands	7	0	0	7†	0
District of Columbia - all†	128	4	0	3	129

* Does not include foreign branches. For those branches, see table B-35.

† Includes national and non-national banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.

‡ Includes 6 branches of Virgin Islands National Bank, merged into First Pennsylvania Bank, N.A., December 31, 1975. Those branches are now operated as "foreign branches" of the resulting bank.

Table 8

De novo branch applications of national banks, by states, calendar 1976

	<i>Received*</i>	<i>Approved</i>	<i>Rejected</i>	<i>Abandoned</i>	<i>Pending December 31, 1976</i>
Total	965	600	77	32	256
Alabama	21	11	1	0	9
Alaska	9	6	0	0	3
Arizona	18	7	0	0	11
Arkansas	9	5	0	0	4
California	87	63	6	0	18
Colorado	6	4	0	0	2
Connecticut	5	4	0	0	1
Delaware	0	0	0	0	0
District of Columbia	6	2	2	0	2
Florida	170	119	21	10	20
Georgia	9	9	0	0	0
Hawaii	0	0	0	0	0
Idaho	10	9	0	0	1
Illinois	50	23	0	2	25
Indiana	33	17	4	2	10
Iowa	3	2	0	1	0
Kansas	7	5	1	0	1
Kentucky	30	26	0	0	4
Louisiana	20	12	1	2	5
Maine	3	3	0	0	0
Maryland	15	12	2	0	1
Massachusetts	21	16	1	4	0
Michigan	111	35	18	4	54
Minnesota	7	4	1	1	1
Mississippi	15	9	0	1	5
Missouri	12	4	0	1	7
Montana	3	3	0	0	0
Nebraska	3	1	0	0	2
Nevada	4	2	0	0	2
New Hampshire	5	4	0	0	1
New Jersey	40	29	1	1	9
New Mexico	5	4	0	0	1
New York	26	18	5	1	2
North Carolina	16	12	0	0	4
North Dakota	2	2	0	0	0
Ohio	53	30	6	0	17
Oklahoma	6	4	1	0	1
Oregon	18	14	1	0	3
Pennsylvania	33	21	2	0	10
Rhode Island	0	0	0	0	0
South Carolina	2	2	0	0	0
South Dakota	0	0	0	0	0
Tennessee	16	7	1	0	8
Texas	3	3	0	0	0
Utah	7	3	0	0	4
Vermont	1	1	0	0	0
Virginia	17	13	0	1	3
Washington	20	17	1	0	2
West Virginia	3	2	0	1	0
Wisconsin	5	1	1	0	3
Wyoming	0	0	0	0	0

* Includes 171 applications pending as of December 31, 1975.

Table 9

De novo branches of National banks opened for business, by community size and by size of bank, calendar 1976

<i>Population of cities</i>	<i>Branches</i>	<i>Total resources of banks (millions of dollars)</i>	<i>Branches</i>
Less than 5,000	100	Less than 10.0	25
5,000 to 24,999	170	10.0 to 24.9	70
25,000 to 49,999	76	25.0 to 49.9	83
50,000 to 99,999	57	50.0 to 99.9	60
100,000 to 249,999	52	100.0 to 999.9	156
250,000 to 499,999	31	1,000.0 and over	142
500,000 to 1,000,000	30	Total	536
Over 1,000,000	20		
Total	536		

Table 10

Mergers, calendar 1976*

	<i>Transactions involving two or more operating banks</i>	<i>Others pursuant to corporate reorganization</i>	<i>Total</i>
Applications received, 1976:			
Mergers	46	13	59
Consolidations	2	3	5
Purchases and Assumptions	29	0	29
Total received	77	16	93
Approvals issued, 1976:			
Mergers	39	12	51
Consolidations	1	2	3
Purchases and Assumptions	27	0	27
Total approvals	67	14	81
Abandoned, 1976:			
Mergers	5	7	12
Consolidations	1	0	1
Purchases and Assumptions	0	0	0
Total abandoned	6	7	13
Consummated, 1976:			
Mergers	36	13	49
Consolidations	1	2	3
Purchases and Assumptions	25	0	25
Total consummated	62	15	77

* Includes mergers, consolidations and purchases and assumptions where the resulting bank is a national bank.

IV. Bank Examinations and Related Activities

By statute, all National banks are required to be examined twice in each calendar year. However, the Comptroller of the Currency, in the exercise of his discretion, may waive one such examination in each 2-year period, or may cause such examinations to be made more frequently, if considered necessary. The Code of the District of Columbia authorizes the Comptroller to examine each non-national bank and trust company located in the District.

For the year ended December 31, 1976, the Office examined 5,426 banks, 11,357 branches and facilities, 1,453 trust departments and 261 affiliates and subsidiaries and conducted 314 special examinations and visitations. The Office received 54 applications to establish new banks and processed 794 applications for *de novo* branches and 9 applications to convert state banks to national banking associations.

National bank examinations are designed to determine the condition and performance of banks, the quality of their operations and the capacity of management and to enforce compliance with federal laws. The Office is presently implementing new examination policies and procedures incorporating the recommendations of the Haskins & Sells study, the informal acceptable practices of many examiners and current industry innovations. The

examination process has been modified to place greater emphasis on analysis and interpretation of financial data and less on detailed verification. Also, more reliance is being placed on systems for internal control and the work performed by internal and external auditors. It is anticipated that all examiners will be using the new procedures by mid-1977.

As of December 31, 1976, the Office employed 2,336 examiners, 2,195 commercial and 141 trust examiners.

The Office continues to use a select group of EDP examiners in each of the 14 regions to examine bank EDP operations. Those examiners have been specially trained in EDP and receive continuous update training, as needed. A major achievement in EDP during the year was the promulgation of *Minimum Standards of Information for Automated Systems*. That document will contribute to the improvement of information used for evaluations performed by this Office and by bank management.

Ninety-nine national banks with 635 foreign branches are examined by examiners specially trained in international procedures and policies. Those examiners attend periodic seminars conducted by staff personnel and outside international experts to update their knowledge on international financial affairs.

V. Law Department

The Law Department advises the Comptroller of the Currency and his staff on legal matters pertaining to the administration and interpretation of laws and regulations governing the National Banking System. Attorneys in the Law Department deal directly with the management of national banks, with bank attorneys and accountants and with the staffs of other government agencies and Congressional committees. The Department also responds to litigation in which the Office may become interested and exercises certain direct responsibility in enforcement and securities disclosure. Some of the Department's major activities are described below.

Legislation

During 1976, the Law Department was responsible for the preparation of testimony and related materials for the Comptroller of the Currency and other agency officials in connection with Congressional hearings. Topics included practices and procedures of the Office, the House Banking, Currency and Housing Committee's study of Financial Institutions and the Nation's Economy (FINE), proposed legislation to consolidate the federal bank regulatory agencies into a single agency, and fair lending practices. Representatives of the Office also spoke on the need to strengthen the enforcement powers provided in the federal banking laws, the regulatory processes of the Office particularly in connection with the failure of Franklin National Bank, and federal enforcement of the Truth-in-Lending Act. (See Appendix C, Addresses and Selected Congressional Testimony, pp. 187-262, in this report.) Agency comments also were offered on a wide array of proposed legislation affecting bank regulation, ranging from freedom of information and privacy to federal regulation of foreign banks, competition in banking, and anti-trust laws.

Litigation

On January 1, 1976, there were 39 cases pending in which the Comptroller was a defendant. During the year, 17 of those cases were concluded, 11 in the Comptroller's favor, five unfavorably and one by stipulation resulting in a compromise acceptable to all parties.

The most significant cases were those involving the Comptroller's Interpretive Ruling 7.7491 on customer-bank communication terminals. Despite varying rulings by the district courts, four courts of appeals considered

the cases and all ruled against the Comptroller's position that CBCT's are not branches. In October, the Supreme Court denied *certiorari* in two of the cases and the Comptroller's ruling subsequently was rescinded.

Other issues litigated during the year included the validity of the Comptroller's assessment proceedings, whether an office engaged in providing trust services constitutes a "branch" of a national bank, and the government's liability for alleged negligence in supervising United States National Bank of San Diego and Franklin National Bank. The Law Department also participated in litigation brought by the Department of Justice alleging that a transaction approved by the Comptroller leading to the acquisition of four banks by Michigan National Corporation violated Section 7 of the Clayton Act. That litigation was eventually settled out of court.

Securities Disclosure

Major revisions in the consolidated reports of condition and income ("call reports") required by the federal banking regulatory agencies were made during 1976. In addition, Securities and Exchange Commission Guides 61 and 3 were adopted as a result of the joint efforts of the SEC - Federal Banking Agencies Task Force on statistical disclosure by bank holding companies. Those actions precipitated substantial modifications of the Comptroller's various regulations relating to the form and content of financial disclosure by national banks.

The Law Department assisted in revising 12 CFR 18, "Form and Content of Annual Reports to Shareholders," to make the regulation substantially consistent with the instructions for the new consolidated reports of condition and income. As revised, the regulation provides specific exemptions, as well as a short form for complying with it.

The Department also made a comprehensive revision of 12 CFR 16, Securities Offering Disclosure Rules. That regulation concerns the use of an offering circular by a national bank when it offers and sells its equity securities. The revision was adopted to require that prospective investors be provided with all material facts and information relating to the business operations and financial condition of national banks seeking to obtain funds through the public offering and sale of their securities. The disclosure guideline standards in the revised regulation were designed to facilitate compliance by smaller banks and by organizing banks. For the first time, a

number of transactions were specifically exempted from the offering circular requirements.

The Law Department also implemented amendments to 12 CFR 11, Securities Exchange Act Disclosure Rules, designed to make the regulation substantially similar to SEC rules, as mandated by law. Other changes were made in the regulation in order to effect consistency with the other reporting guidelines.

In connection with the Office's expanded responsibilities with respect to the regulation of bank municipal securities dealers under the Securities Acts Amendments of 1975, the Department coordinated with the SEC, the Municipal Securities Rulemaking Board and other interested parties in carrying out the requirements of the Securities Exchange Act of 1934. Accountants assigned to the Law Department also issued numerous interpretations to bankers, public accountants and regional and Washington Office personnel regarding various accounting matters, including sale-and-lease back transactions, accounting for dividends, accounting relating to the establishment of charitable trusts and accounting for accretion of discount on investment securities.

Interpretations and Regulations

During 1976, the Law Department responded to nearly 4,000 requests for information, advice and interpretations of statutes and regulations from members of the Comptroller's staff, banks, attorneys, bank customers and others. In addition, many formal rulings involving new policies and procedures or modifications of existing policies and procedures were either proposed or issued. Some are described below.

Banking Circular No. 79. The Commodity Futures Trading Commission has authorized the establishment of two financial instrument futures markets: the Chicago Board of Trade's GNMA Mortgage Futures contract which commenced trading in October 1975, and the Chicago Mercantile Exchange's Treasury bill (T-bill) futures contract which commenced trading in January 1976. Many national banks sought to purchase and sell GNMA or T-bill futures contracts through those exchanges in order to minimize their risk of loss resulting from interest rate fluctuations in corresponding cash markets, e.g., conventional mortgages, U.S. Treasury bills and certificates of deposit. Because the Comptroller believes such activity is incidental to the business of banking and permissible under 12 USC 24(7), he issued Banking Circular No. 79 on November 2, 1976, advising all national banks that their participation in those markets will be approved if, among other things, they develop adequate internal audit and control procedures and only engage in those activities to substantially reduce the risk of loss resulting from interest rate fluctuations in appropriate cash markets.

Trust Banking Circular No. 4 (Revised). In the initial issue of Trust Banking Circular No. 4, December 23, 1975, the Office advised that investment of national bank trust assets in shares of mutual funds constituted an improper delegation of the trust investment authority "under the common law" and that the Office would, therefore, permit such investment only if there existed specific authority in state statutes or decisions or in the governing

instrument, or if there existed binding mutual consent from all beneficiaries. That instruction was generally interpreted by national bank trust officers to preclude investment in mutual fund shares unless specific state legislation expressly permitted investment by fiduciaries in mutual funds. General "prudent man" language in many state statutes was thought insufficient to provide the necessary statutory authorization. Because the Comptroller concluded that the Office should not attempt to state the common law of trusts on this question in every state, he revised Trust Banking Circular No. 4 on September 29, 1976, to permit national bank trust officers, on advice of local counsel, to invest trust assets in shares of mutual funds if that investment is expressly or implicitly authorized by state law.

Charitable Trusts. Legal arrangements and institutional mechanisms were developed to permit national banks seeking to fulfill their charitable commitments and maximize their tax benefits to establish 10-year charitable trusts under 12 USC 24(8) and 12 CFR 7.7445. Typically, a national bank would transfer U.S. government securities to the trust as corpus for a 10-year and one-month period. The bank's trust department would serve as trustee and distribute all income generated by the corpus to philanthropic organizations approved by Internal Revenue Service. Following the expiration of the trust term, the trust would terminate and the assets would automatically revert to the settlor bank. Because the trust assets would revert to the settlor bank after a fixed term, the Comptroller considered such a temporary transfer of assets to be a contribution for the use of a foundation, not a contribution to a foundation under 12 CFR 7.7445(c); otherwise, the contribution limitations of paragraph (c) would effectively preclude the establishment of a trust that could generate enough income to satisfy the needs of the respective charitable organizations.

12 CFR Parts 4 and 5. Parts 4 and 5 were amended on November 1, 1976, to clarify and consolidate the application procedures relating to the various activities subject to supervision of the Comptroller and to expand the scope of the regulations to include additional activities within the hearing procedures. Specifically, the amendments establish revised Office procedures for charters, branches, conversions, mergers, fiduciary powers, operating subsidiaries, title changes, relocations and changes in capital structure.

Interpretive Ruling 7.6125. Section 56 of Title 12 of the United States Code requires that bad debts, *i.e.*, "statutory bad debts," must be deducted from "net profits then on hand" in order to compute funds available for the payment of dividends. Confusion regarding the precise meaning of "bad debt" became evident when certain overdue real estate loans were so classified although long-term workout schedules had been arranged that minimized the risk of loss to the respective banks. That action created the possibility that some financially sound institutions would be precluded from declaring and paying regular dividends. Accordingly, on December 14, 1976, the Comptroller proposed that Interpretive Ruling 7.6125 be amended to allow for greater flexibility in the treatment of such problem credits. In that regard, the

proposed revision clarifies the meaning of "bad debts" without changing the substantive provisions of the present interpretive ruling.

Interpretive Ruling 7.7479. On December 14, 1976, the Comptroller proposed to amend this interpretive ruling in order to permit a national bank to make charitable contributions based upon its income before taxes during the preceding calendar half-year. The present ruling limits the amount contributed by a national bank to that "which is allowed by the Internal Revenue Service as a deduction from income." That proviso effectively limits charitable contributions to 5 percent of a national bank's taxable income computed without regard to such items as carrybacks for net operating losses or capital losses and certain deductions. The limitation was originally designed to prevent management of closely held banks from contributing excessive sums to charities in which the bank's controlling stockholders have a personal interest.

The Comptroller continues to believe that a limitation of some kind is necessary, but he does not think that the "taxable income" standard is the best method. For example, the present limitation unreasonably restricts banks that have low taxable income due to heavy investment in tax exempt securities from making contributions. That problem can be resolved by tying the 5 percent limitation to income before taxes, rather than taxable income.

Another problem created by the present ruling relates to the difficulty of forecasting the permissible amount that can be given to charity. Although contributions are made throughout the calendar year, the net taxable income may not be known until long after the year has ended. Therefore, the Comptroller has proposed authorizing national banks to contribute up to 5 percent of "income before income taxes and securities gains or losses" registered during the immediately preceding calendar half-year.

Mortgage Backed Securities. In June 1976, the Comptroller's Office approved a proposal by a commercial bank to sell conventional, single-family real estate loans to a trust which finances the purchase by selling mortgage-backed bonds in denominations of \$100,000 or more to institutional investors. With the Comptroller's approval, the plan was subsequently modified to eliminate the trust and convert the security from a bond to a passthrough instrument backed by a pool of mortgages. The securities will be sold through an underwriting syndicate, and the proceeds will be used to make more mortgage loans.

Credit Life Insurance. During 1976, the Law Department participated in several efforts to curb the payment of credit life insurance income to officers, directors and

controlling stockholders of national banks. The most significant effort was the publication of a proposed regulation declaring the practice an unsafe and unsound banking practice. Earlier in the year, the Law Department filed an *amicus* brief in litigation brought by a minority shareholder against a bank's directors who had diverted all the income from credit life insurance sales to a corporation owned exclusively by them.

Enforcement

In 1976, the Comptroller's enforcement activities were more intense than in any past year. Two administrative hearings were convened, testing the validity of Notices of Charges and seeking final Orders to Cease and Desist pursuant to the Financial Institutions Supervisory Act, 12 USC 1818(b) *et seq.* These hearings were the first involving the Comptroller since passage of the Act in 1966. Both hearings resulted in judgments by an administrative law judge sustaining the charges.

The first hearing involved a Notice of Charges alleging substantial self-dealing and other "insider" abuses. A final Order was issued which largely circumscribed the ability of insider personnel to favor their own interests. The second hearing involved excessive salaries and bonuses to officers and directors alleged to constitute an unsafe and unsound banking practice. In a judgment sustaining the charges the administrative law judge recommended a final Order limiting salaries and bonuses to amounts representing more normal industry levels within the bank's peer group.

The Law Department initiated 33 formal actions against national banks in 1976. Although those actions covered all areas of bank operations from capital adequacy to violations of consumer laws, certain subjects were dealt with more frequently than others. Of the 33 formal actions, 17 related to abusive self-dealing and self-serving transactions by senior officers, directors and principal shareholders. Provisions for increased capital were made in 16 actions and the hiring of a new executive officer was required in 13. The implementation of new lending policies in writing was ordered in 12 actions.

Directives were also issued to national banks requiring, among other things, that they comply with consumer protection regulations and properly book credit life insurance proceeds. Several national banks were required to make reimbursement to borrowers who had received inaccurate or incomplete disclosures required by the Truth-in-Lending Act, 15 USC 1601 *et seq.*, and Federal Reserve Regulation Z.

Civil money penalties were twice assessed against national banks for failure to submit timely reports of condition pursuant to 12 USC 161. Directors were required to reimburse the bank in the amount of the assessment.

VI. Fiduciary Activities of National Banks

During 1976, 46 national banks applied for permission to exercise fiduciary powers. Of them, 33 were approved. At year-end, 2,008 national banks had the authority to exercise trust powers.

Much of the activity of the Trust Operations Division during the year had to do with the implementation of the recommendations of the Haskin & Sells study. By year-end nearly all of those revisions had been completed. New trust examination procedures were devised by a task force of examiners early in the year. The procedures were tested in a number of banks across the country during March and April by examiners who had not participated in the drafting process and who were from regions other than those from which the members of the task force had been drawn. In June, 70 trust examiners and assistant trust examiners attended a workshop held in Washington at which the use of the new procedures was explained. Examiners that attended the workshop returned to their regions to train other trust personnel in the revised procedures.

In October the new examination system was put into effect. In each region the first examination was of a large bank in which all task force members could participate to finalize their training. A revised *Handbook for National Trust Examiners* was issued at that time. The handbook contains all instructions necessary for trust examiners properly to carry out their responsibilities. It also includes copies of all of the Office's rulings relating to trust ac-

tivities and copies of the revised questionnaires and checklists utilized under the new procedures. Thus far, experience with the new examination procedures has been favorable.

During the year the registration of national bank transfer agents with this Office was completed, currently 947 national banks are registered. Discussions were held with the other banking agencies and the SEC with reference to the formulation of proposed regulations relating to turn-around time and safe handling of securities. In a related activity the Office, together with the other banking agencies and the SEC, proposed regulations pertaining to the supervision of clearing agents. That proposal was still pending at year-end.

Another regulatory proposal published for comment during the year related to the question of the separation of trust department investment decision makers from other sources of non-public information regarding publicly-traded securities which may exist in the bank. Many comments were received about that proposal. It is hoped that final regulations on this subject can be made early next year.

This Office also proposed an amendment to Regulation 9 which would limit the amount which a corporation can borrow from a national bank trust department by means of a variable amount note to the bank's lending limit. Many comments were received with reference to this proposal, most of which were significantly adverse.

VII. International Banking and Finance

The effects of economic resurgence in the United States, beginning in late 1975, extending into mid-1976, pausing slightly, and then ascending through year-end, stimulated similar direct and indirect positive economic progress throughout the greater part of the industrialized world. The developed nations continued to experience varying degrees of inflation, unemployment and underutilization of industrial capacity. However, the degree of their revival from the seemingly insurmountable problems of the preceding 3 years, especially those which were oil-related, justifies characterizing 1976 as a year of recovery. The stronger industrialized nations were able to compensate satisfactorily for both the increasing consumption and price of oil; however, their weaker counterparts were forced to continue borrowing to finance oil-originated payments deficits. The non-oil producing developing nations again fared poorly, tormented by uninterrupted domestic recession, depressed commodity prices and persistent oil-generated trade deficits. Those deficits, collectively amounting to an estimated \$32 billion during 1976, although reduced from \$40 billion in 1975, still presented tremendous financing problems to world money markets. The stronger, semi-developed nations generally were able to finance their needs through private bank sources, sometimes with the assistance of public authorities. However, the lesser developed countries were forced to rely more heavily on direct credit from international institutions, grants-in-aid and private credit guaranteed by official agencies. Nevertheless, re-schedulings and technical defaults did occur in a few isolated instances. Total non-oil producing, lesser developed nations' outstanding external debt grew to an estimated \$180 billion by the end of the year. The year ended on a note of uncertainty, as internal division within OPEC surfaced in the form of a split among the members over oil price increases. While the relatively small increase by the two major producers was expected to have little impact on the industrial nations, the fact that there was another increase could have substantial effect on the developing nations.

The world financial community, prompted by the payments imbalances caused by the continued OPEC surpluses/non-oil developing countries deficits and concerned by the prospects of such imbalances disturbing the financial markets, continued to voice the need for establishing coordinated international payments mech-

anisms to cooperate in handling the recycling of OPEC reserves. However, the world commercial banking system was again able to cope effectively with the problem. The foreign exchange markets endured periods of both rational and irrational rate fluctuations, with several major currencies suffering either deep depreciation or substantial devaluation. Within the semi-floating exchange rate system, stronger currency nations came to the aid of several weaker currency nations, helping to support their currencies during these crises.

During 1976, United States banks increased their foreign lending by approximately \$20 billion, with total overseas exposure now estimated at \$80 billion. However, the 1976 increase took the form of shorter-term credits, a change from the medium and longer term loans of past years. Bankers reassessed their own rapid growth in lending overseas and, conversely, the rapid growth of borrowing by many countries. Several major private bank credits were linked to adoption of economic stabilization programs by the borrowing countries, in cooperation with official lenders. The international assets of national banks were estimated to total over \$150 billion at the end of 1976. Those assets were divided primarily among the national banks that operate foreign branches. Those banks are located in all 14 national bank regions. Foreign branches are now operated by about 100 national banks. During 1976, the number of foreign branches of national banks showed an overall net decrease of 40, primarily because of the consolidation of several branch systems into subsidiary banks that resulted from changes in host country laws. At year-end, total assets of the 635 foreign branches of national banks aggregated \$135 billion, a 20 percent increase over the \$112 billion at the end of 1975. National banks also continued to hold investments in foreign financial institutions, either directly or through their Edge Act subsidiaries.

Supervisory responsibility for the international activities of all national banks is delegated to the International Operations Division of the Office of the Comptroller of the Currency. Through a 6-man team of examiners based in London and experienced examiners selected from the 14 regions, the International Operations Division conducts examinations of the international divisions, foreign branches and foreign affiliates of national banks. The examinations are especially tailored to

the organizational, geographical and reporting structure of the bank under examination and include evaluation of the quality of international loan and investment portfolios, analysis of foreign exchange activities and reporting procedures, accounting and bookkeeping systems and adequacy of internal controls and audit programs. The examinations are coordinated by the International Operations Division and are conducted by examiners selected from each region. At present there are approximately 150 national bank examiners who regularly conduct examinations of international banking divisions within their home regions. During 1976, continuing the established OCC policy of performing direct on-site examinations of major foreign offices of national banks, 215 national bank examiners travelled to 37 countries to conduct examinations of 145 foreign branches with assets totalling \$66 billion. The assets of the remaining branches, including \$22 billion in shell branches in the Caribbean, were examined using records maintained at the bank's head offices. Thirteen foreign electronic data processing centers were also examined.

In conjunction with the OCC's program for development of comprehensive procedures for all phases of bank examination, the International Operations Division produced a series of policies and procedures specifically designed for examination of the international banking activities of national banks. Field testing of those new procedures began in December. Training of international examiners continued to receive major em-

phasis, as a total of 93 examiners participated in quarterly seminars on all phases of international banking which were conducted by the International Operations Division. Five national bank examiners attended the School for International Banking which is sponsored by the American Bankers Association. In addition, a bi-monthly newsletter comprised of relevant media articles was mailed to approximately 300 examiners, as well as to the staffs of the Board of Governors, the Department of the Treasury and members of Congress.

The uncertain and sensitive area of direct and indirect lending by national banks to foreign governments, especially those in the developing world, continued to present a supervisory issue for the OCC. The accurate and uniform assessment of the quality of such credits held in the loan portfolios of national banks remained the task of the OCC Foreign Public Sector Credit Review Committee, working in conjunction with the International Operations Division.

During 1976, the International Operations Division continued to work closely with the staffs of Congress, the FDIC, the Board of Governors, the Bankers Association for Foreign Trade and foreign officials and bankers in order to improve the quality and supervision of the National Banking System throughout the world by strengthening both supervisory techniques and communications between the regulatory agencies, bankers and foreign governments.

Table 11

Examinations of overseas branches, subsidiaries, and EDP centers of national banks, 1972-1976

Year	Examinations		Banks	Countries	Examiners
	Branches and subsidiaries	EDP centers			
1972	184	4	16	24	58
1973	92	3	22	28	59
1974	137	4	23	26	96
1975	80	15	23	25	153
1976	145	13	25	37	215

VIII. Administration

The Administration Department facilitates the work of the Comptroller's Office by providing supporting administrative services. Established in 1975 as Washington Operations, it was reorganized in 1976 with the transfer of the Research and Analysis and Systems and Data Processing Divisions to the Deputy Comptroller for Economics. It is directed by the Deputy Comptroller for Administration and is comprised of three operating divisions — Bank Organization and Structure, Finance and Administration and Personnel Management. Although a Financial Accounting and Reporting unit is organizationally a division of Administration, it is not yet operational. Its responsibilities are presently performed by other units.

Bank Organization and Structure Division

The responsibility of processing applications for charters, branches, conversions, operating subsidiaries, title changes and relocations was transferred to the regional offices in 1976. Concomitant with that transfer is an expansion of the role of the regional offices in the decisional process, particularly for branch applications. In 1975, each regional office appointed a regional director for corporate activities to assist the regional administrator in meeting that expanded responsibility.

During 1976, policy statements intended to provide the public and the banking industry with a better understanding of the basis for corporate decisions were issued (See pp. 274-282 in this report). Additionally, all forms, instructions and internal processing procedures were revised and will be continually scrutinized with a view toward further improvement.

Although much responsibility for processing applications has been transferred to the regional offices, the Bank Organization and Structure Division in Washington will continue to have primary responsibility for processing merger proposals and preparing substantive recommendations on mergers, new bank charters and debt capital proposals.

Finance and Administration Division

This division includes two branches, Fiscal Management and Administrative Operations, and is responsible for ensuring the bureau's sound financial position, for performing its fiscal operations and for providing administrative services, including procurement and property management.

During 1976, a budget program based on responsibility accounting principles was developed and im-

plemented. Each unit prepared an expense budget for calendar year 1977, then submitted it to a Budget Review Committee assembled to make recommendations to the Comptroller. On approving the committee's proposed budget, the Comptroller reaffirmed the premise of responsibility accounting, that managers be responsible for expenditures under their jurisdiction.

A computer-produced monthly budget evaluation report designed in 1976 will be operational in 1977. It will compare actual versus budgeted expenditures by function. The system will identify areas where cost savings may be effected and should increase managers' awareness of the need to control expenses.

Development of the computer-based fiscal information system in 1976 was a major step toward providing more knowledge of bureau spending and promoting optimum utilization of financial and physical resources in the future. A subsystem for property accounting will maintain inventory on all capital expenditures, identifying them by acquisition date, cost, location and depreciated value.

The Fiscal Management Branch carried out a variety of other activities in addition to assisting in development of the budget program and the fiscal information system. They are covered in "Financial Operations of the Office of the Comptroller of the Currency" elsewhere in this report.

As a result of the recommendations in the Haskins & Sells study, the Administrative Operations Branch has been very involved with facilities management and space reorganization both at the Washington headquarters and at the 14 regional offices. Regional offices in Atlanta, Chicago, Minneapolis and San Francisco were relocated in 1976. The Boston and Portland offices also enlarged their headquarters. Two additional subregional offices were established.

During 1976, a Bicentennial exhibit produced by Administrative Operations on the history of banking and the role of the OCC in bank regulation was displayed in banks throughout the country. That branch also continued to provide procurement and to supply reference assistance, printing and reproduction services to the bureau.

Personnel Management Division

During 1976, the main objective of the Personnel Management Division was to simultaneously operate ongoing programs and entirely new Human Resources programs recommended by Haskins & Sells. The responsi-

bility for collecting information for new programs, studying their potential impact on operating branches and personnel and preparing specific program details was given to several task forces made up of national bank examiners. The Employee Relations Branch participated in the development of new programs and in the upgrading of existing ones. Manuals were prepared and distributed to managers describing each of the proposed programs. By year-end, a formal request for approval of the new Human Resources Division was forwarded to the Secretary of the Treasury.

Employee performance was highlighted in 1976 with the presentation of achievement awards and seven cash awards for employee suggestions which were adopted. Twelve OCC employees were honored at this year's Treasury ceremony. Guidelines were formulated for special achievement awards to be presented in 1977 to examiners who served as regional discussion leaders in the implementation of new bank examination procedures.

In Manpower Planning, efforts were concentrated on identifying information essential in operating a long-range planning and budgeting system. Once identified, that information will be used to design a computer-based data system for manpower planning to coordinate the planning and human resources functions. The program relies upon maintenance of a comprehensive human resources information system (HRIS) and has as its goal the assurance that the OCC will have the proper number of people and skills available at all times.

A national recruitment program has been designed to help the OCC compete effectively with the financial community for talented people. The program calls for a national director in Washington, D.C. and coordinators in the regional offices. It includes professional recruitment training for all OCC recruiters, and requires an aggressive college-university relations program to maintain contacts with campus officials. An inter-regional referral system will provide qualified candidates with an oppor-

tunity to express geographical preferences, while ensuring that OCC geographic needs are satisfied. Finally, in conjunction with the manpower planning function, all recruitment activity will be monitored to determine the best sources of potential employees and full compliance with EEO guidelines.

In order to carry out its mission effectively and to ensure that all professional and technical employees develop to their maximum potential, the OCC has created a modern, comprehensive personnel development program which recognizes that development occurs through an accumulation of work experience. The program emphasizes, however, that such development can be enhanced and accelerated through formal programs of continuing education and career development. The program encompasses a systematic, planned approach to provide well balanced education throughout each employee's career. Seven education levels will be coordinated with individual experience levels to be responsive to the mutual needs of the individual and the Office. A personnel development task force of national bank examiners completed its extensive study of continuing education needs and designed a program which encompasses many different courses to meet the long range needs of our employees.

Technical education for examiners focuses on various aspects of bank examination, and is tailored to the new bank supervisory procedures the OCC is implementing. Technical concepts will be presented early and more complex practices and policies will be approached in later career stages. Elective courses will provide specialization in such areas as international banking or examination of computer systems. Management education will provide personnel with a thorough knowledge of the skills needed to meet the increasing demands facing professional managers. The total technical and management curriculum will provide our primary staff, approximately 2,500 bank examiners, with 17.4 weeks of formal education during their first 10 years with the OCC.

IX. Consumer Affairs

The Consumer Affairs Division of the Comptroller of the Currency was created in March 1974, before it was legislatively mandated, and became operational in September 1974. From that time, the division has been responsible for the enforcement of all consumer protection laws applicable to national banks. The division has equal status with other, long established divisions of the Comptroller's Office and participates similarly in overall policy planning. The Consumer Affairs Division conducts specialized examinations of each national bank, on a continuing basis, to enforce compliance with consumer laws and regulations.

The Consumer Affairs Division performs several basic functions:

- Counselling the Comptroller of the Currency on all matters which affect consumers.
- Receiving consumer complaints and resolving them.
- Coordinating, supervising and reviewing consumer examinations.
- Following up on and supervising corrective action in cases of noncompliance discovered during the consumer examination.
- Monitoring, updating, and improving consumer examination procedures.
- Compiling of new and revised laws and regulations and disseminating them to banks and the public.
- Monitoring the development of electronic funds transfer systems.

In performing those functions, the division ensures compliance with consumer laws. The division's first concern is the consumer, and that commitment is best served by guaranteeing that national banks comply with consumer laws and by informing consumers of their rights and remedies.

During 1976, the National Commission on Electronic Fund Transfers (NCEFT) became active. Mr. Thomas W. Taylor, Associate Deputy Comptroller and director of this division, represents this Office on the Commission. The Office has played a major role in supporting its activities. Many of the critical areas of concern in EFT have been reviewed and several recommendations have been made to Congress.

On April 16, 1976, the Office of the Comptroller of the Currency issued guidelines containing policy statements on the development of electronic fund transfers

(EFT). Those guidelines on non-legal issues address consumer concerns as well as security considerations and are based on an extensive study of existing EFT networks. The guidelines will be incorporated into examination procedures and have been well received, as evidenced by distribution of more than 16,000 copies to banks, state supervisors, data processors, consumer groups and other interested parties. Guidelines were deemed more appropriate than regulations because they do not restrict innovative developments in EFT; however, they are meant to convey our regulatory concern about EFT.

Compliance

The Consumer Affairs Division's statutory obligation is administered through the bank examination process and by the review and resolution of consumer complaints. The Comptroller has assigned a specially trained corps of national bank examiners to conduct consumer compliance investigations. Over 6 percent of the field staff has been allocated to the consumer area. Those examiners are supported by regional consumer specialists in each national bank region. During 1976, the division conducted three 2-week schools that trained more than 140 examiners in the new consumer examination procedures. A second series of three schools is scheduled for March and April 1977, and a third series will take place in the fall.

The schools stress examination techniques and rely heavily on case studies to give experience in examining for compliance. The procedures are tailored to spot those problems that are most likely to harm consumers. Particular emphasis is placed on evaluating policies and practices to detect unlawful discrimination. Bank lending policies are examined as are policies implementing consumer protection laws. Consumer examinations also involve extensive interviews with bank lending officers to assure that the bank adheres to its policy standards.

In 1976, the Consumer Affairs Division developed the *Comptroller's Handbook for Consumer Examinations*. The handbook is divided into thirteen sections each of which relates to a specific law, regulation or banking activity. Each section, where applicable, is divided into four areas of interest.

- Introduction — which details the major provisions of the law, regulation, or activity being discussed. This section is meant to apply the language of the regulation to various banking operations.

- Examination Objectives — which contains a description of the goals that should be of primary interest to the examiner.
- Examination Procedures — which represents the “what to do” of the examination process. These procedures explain the order in which the work programs should be executed.
- Verification Procedures — which represent the “how to do it” of the examination process.

The handbook has been shared with numerous other regulatory agencies and copies have been distributed to all examiners and all national banks.

The consumer report of examination has been developed and the division prepares comprehensive checklists and work papers to examine for bank compliance with consumer protection laws. The results of the examinations indicate that the specialized examination is both justified and effective.

The consumer report of examination consists of five sections:

- Compliance — details the area of non-compliance giving the appropriate citation;
- Internal control — summarizes deficiencies in the bank’s program and recommends that certain programs be implemented;
- Corrective action — outlines the action taken or to be taken by the bank to correct past non-compliance and assure future compliance;
- Discriminatory policies/practices — details questionable activities which may be discriminatory; and
- Impact of noncompliance — estimates monetary harm suffered by consumers because of non-compliance.

The consumer examination now covers the Equal Credit Opportunity Act, Regulation B, the Home Mortgage Disclosure Act, Regulation C; the Real Estate Settlement Procedures Act, Regulation X; the Truth-in-Lending Act, Fair Credit Billing Act and Consumer Leasing Act, Regulation Z; the Fair Credit Reporting Act; the Fair Housing Act; Regulation Q; and applicable state laws.

When noncompliance is found during an examination, corrective action begins during the examination and the problem may be resolved immediately. If the issue cannot be resolved during the examination, it is referred to the regional office. In a few instances, final resolution is accomplished by the Washington Office.

There are two primary ways of correcting non-compliance. When noncompliance has not resulted in monetary harm to the consumer, the bank is directed to immediately correct its procedures and forms. When customers have suffered monetary harm, such as through a miscalculation of annual percentage rate, the bank may be directed to reimburse affected customers for the excess amounts charged. Banks are encouraged to voluntarily reimburse the affected customers. When a bank fails to adequately do so, the Office of the Comptroller of the Currency is empowered to commence formal enforcement proceedings against the bank. The Office has used cease and desist authority and has made refer-

als to the United States Department of Justice. During 1976, in connection with noncompliance with consumer laws and regulations, six such administrative actions were taken and several referrals were made to the United States Department of Justice.

During 1976, the division began to develop a system to tabulate perceived violations of law. The purpose is to give the Office the ability to analyze trends in order to pinpoint problem areas that need attention and to facilitate corrective action.

Noncompliance may also be noted through the consumer complaint process. Complaints against national banks cover the full spectrum of consumer banking activities. Upon receipt of complaint, the OCC contact the bank concerned by letter or, if necessary, by an examiner’s visit. Depending on what is discovered, either the bank is asked to remedy its error or the complainant is informed that no basis has been found for the complaint.

A Consumer Complaint Information System (CCIS) became operational at the 14 regional offices in January 1976. The CCIS enables the division to catalog complaints on a nationwide basis and to determine which banks have a disproportionate number of complaints filed against them. The information available from this system allows the Office to identify common consumer problems. The information is also valuable in conducting consumer examinations.

Legislation

During 1976, Congress enacted the Consumer Leasing Act (15 USC 1667) and amended the Equal Credit Opportunity Act (15 USC 1691) and the Real Estate Settlement Procedures Act (12 USC 2601). The Federal Reserve Board was entrusted with the responsibility for promulgating regulations to implement the Consumer Leasing Act (Regulation Z) and the Equal Credit Opportunity Act (Regulation B). The Department of Housing and Urban Development (HUD) was entrusted with the responsibility of promulgating regulations to implement the Real Estate Settlement Procedures Act (Regulation X). This division participated in the regulation making process by offering comments to the Board and to HUD. We also incorporated those acts and regulations into our handbook of consumer examination and verification procedures.

Also, the Home Mortgage Disclosure Act (12 USC 2801), enacted in 1975, became effective June 28, 1976, and is implemented by the Board’s Regulation C. We have also included that regulation in our handbook of consumer examination and verification procedures.

In addition, the division has the continuing responsibility for enforcing compliance with previously enacted state and federal consumer protection laws as they apply to national banks.

The Consumer Affairs Division maintains a legislative log for each session of Congress. That log keeps the division and other departments of the Comptroller’s Office updated on all pending consumer legislation and, also, on all proposed and promulgated rules of the various regulatory agencies.

Liaison

The division maintains continuing liaison with federal regulatory agencies, state banking departments, consumer interest groups and industry associations to ensure mutual assistance and an interchange of ideas about consumer protection in banking. The Federal Reserve has the responsibility for promulgating several consumer protection regulations and this Office has benefited from their invitations to comment on proposed regulations and from their formal and informal interpretations issued after the regulations have become effective.

Members of the Division of Consumer Affairs of the Board of Governors of the Federal Reserve System, the Office of Bank Customer Affairs of the Federal Deposit Insurance Corporation, and the Comptroller's Consumer Affairs Division meet frequently to discuss mutual problems and concerns. Information is exchanged concerning consumer complaints and examination procedures.

The assistance of the Division of Consumer Affairs of the Board of Governors of the Federal Reserve System was valuable in the compilation of the *Comptroller's Handbook for Consumer Examination* and this division has provided them with similar assistance in developing their new examination program.

Consultations are held with the Federal Trade Commission, the Federal Home Loan Bank Board, the Department of Housing and Urban Development and the Civil Rights Division of the Department of Justice. In December 1976, this Office signed an agreement with the Civil Rights Division of the Department of Justice which will permit members of the Civil Rights Division, as observers, to accompany national bank examiners to several national banks during an examination for compliance with the Fair Housing Act. The purpose of that cooperation is so that examiners may be instructed in techniques of detecting discriminatory practices.

X. Other Activities

Operations Review

Prior to 1976 OCC had no formal operation's review program and no individual or group had overall responsibility for the review, evaluation and monitoring of the quality of the OCC's performance of its bank supervision and regulation functions. In 1976, the importance of such a program was realized and a Deputy Comptroller for Operations Review was named. It is his responsibility to develop and maintain the program; he reports directly to the Comptroller of the Currency.

The first review of operating procedures was conducted in 1976 and covered the commercial examination process. A review team of 56 members, four from each of the 14 regions, was selected and members were assigned to regions other than their own. A questionnaire was utilized and each team filed a report following the review of selected examination working papers, reports and correspondence files. The Washington staff prepared a consolidated report to the Comptroller.

Operations Planning

Operations planning is a continuous management process involving all executives, managers and supervisors of all units of the Comptroller's Office. In 18-month overlapping cycles starting each July 1, they plan, coordinate, manage and control policy and operating decisions to meet current and future demands on national bank supervision and regulation. As each cycle begins, the senior management group sets policy objectives and functional operating goals. The objectives and goals, together with assumptions pertaining to the ever-changing economic, political, social and technological environments in which the Office and the banking industry operate, form the bases for result-oriented performance targets and action programs set out in operational plans adopted by each functional, staff and operating unit. Those unit plans cover the upcoming year and 5 years beyond. They are consolidated, under the direction of the Deputy Comptroller for Operations Planning, into an operating plan covering the same time span. The Deputy Comptroller is responsible for the development and effective functioning of the planning process.

Throughout 1976, the Operations Planning Department conducted orientation programs for key executives and managers in Washington and in the regions. Early in the year, it conducted workshops for unit heads and planning associates, during which the first broad out-

lines of the planning process evolved. By May, the department had developed an operations planning guide, which was used by all units in an abridged planning cycle, primarily to learn the process. From experience gained from that abridged cycle, the process and guide were refined and modified. A full length cycle was begun in July 1976. Policy objectives and operating goals were set and furnished to each unit and, by year-end, the planning process was fully operational, with unit plans expected early in 1977.

Economic Research and Operational Analysis

In October 1976, the Research and Analysis Division, Statistical Division and Systems and Data Processing Division were reorganized as the Department of Economic Research and Operational Analysis, under the administrative direction of the Deputy Comptroller for Economics and the Associate Deputy Comptroller for Economic Research and Operational Analysis. Although that change necessitated a few revisions in division titles, the staffs and operations of the divisions remained largely unchanged.

Economic Research and Analysis. By year-end, the authorized staff of the Division was eight senior economists including the director and deputy director, five financial analysts/research assistants, an editor, and three secretaries. In addition, the Division included regional economists in each of the 14 national bank regions. During the first full year that it was fully staffed, the division produced substantial work for the agency and for the advancement of knowledge in the field of economics.

Major research projects by the Washington staff included the Fair Housing Lending Pilot Project, which is being used to implement fair housing regulations and also to determine the effects, if any, of "redlining." Other projects related to market location and chartering practices, loan rates and risk, liquidity, minority banks, statutory lending limits and loan size, examiner manpower planning and a detailed examination of the effect of financial institution reform in the state of Maine. Regional economists also contributed to Office research as well as performing their regional duties. Research by regional economists included studies of classified assets, potential competition, international bank examination, common trust funds and bank executive compensation. In accordance with recommendations of Haskins & Sells, the regional duties of the regional economists were

expanded to include economic planning and related items.

Financial Reports and Statistics. This division has primary responsibility for collecting, editing and inputting accurate and timely bank financial data for use by the Office of the Comptroller of the Currency and other banking regulatory agencies in support of their regulatory function. The data bases thus established have important strategic uses in administering early-warning and economic forecasting systems. Additionally, the division functions as the official custodian for financial and statistical reports required from national banks including those required under certain provisions of Title 12 of the United States Code and the Code of Federal Regulations.

During 1976, the division reviewed and edited approximately 88,000 financial reports received in response to the Comptroller's quarterly calls on over 4,700 national banks. The division also responded to numerous calls from banks seeking assistance in the preparation of the various call report forms and special supplements. Over 1,800 Trust Department Annual Reports were received and edited and over 800 Common Trust Fund Surveys from banks and trust companies administering common trust funds were processed.

The division is responsible for preparing various statistical tables and schedules for use in the Comptroller's Annual Report and other interagency publications and reports.

The disclosure unit of the Division of Financial Reports and Statistics is the focal point for the release of quarterly financial statements, reports on trust department security transactions and holdings, and various annual report and proxy materials from national banks subject to the disclosure rules of the Securities Act of 1934. That unit responded to approximately 1,300 requests for copies of bank reports from interested parties in both the public and private sectors in 1976. Those requests resulted in the production of over 196,000 pages of material.

Systems and Data Processing. During 1976, the major activities of the Systems and Data Processing Division were conducted toward fulfilling the requirements of the bureau's three major information systems:

- The Regulatory Information System;
- The Fiscal Information System; and
- The Administrative Information System

The National Bank Surveillance System (NBSS), a major component of the Regulatory Information System, became fully operational during the year. Effort in that area has resulted in the development of an error free national bank data base for each quarterly call within 45 calendar days of the report due date. On-going activities involve expanding and refining the data base and providing system output to bureau users and national banks.

Also in the regulatory area, an automated public disclosure system was developed and became operational. Basically, the system produces those reports on national banks that are available to the public, on request. The Financial Reports and Statistics Division's public disclosure unit receives a large number of requests from the public for copies of call report documents. The new automated system greatly reduces the manual burden of responding to such requests by computer-generating needed data in report format. Systems and Data Processing also designed a new, automated trust annual report processing system during 1976.

The Fiscal Information System, a computerized accounting system software package, was thoroughly tested and selected to prepare for an early 1977 conversion from the current system to a new and advanced processing system. The system will identify the operating cost of each organizational unit and compare budgeted figures with actual expenditures through periodic, computer-generated financial reports. Also in that area, the bureau's semiannual assessment return was redesigned as a computer-generated self mailer.

The automated Human Resources Information System (HRIS) is being developed to meet the Office's need for accurate and up-to-date information concerning the employee work force. That system is a major component of the Administrative Information System. The elements of this data base focus on formal education, job experience, skills inventory and continuing education. Such statistics will provide a valuable management tool for manpower planning purposes, budgeting considerations and for monitoring progress in employee career development. The HRIS task force, with members from the human resources user area and from the division staff, has developed the general system design and has identified preliminary system requirements and management reporting needs.

XI. Financial Operations of the Office of the Comptroller of the Currency

Total revenue of the Office of the Comptroller of the Currency for 1976 was \$82.8 million, an increase of 40.6 percent over 1975, compared to a 3.7 percent increase in the previous year. Assessment receipts, which account for 92 percent of total revenue, amounted to \$76.1 million, an increase of \$24.4 million due principally to an increase in rates. Revenue from trust examinations totaled \$2,527,000, a decrease of \$186,000. Revenue from applications for new branches and mergers and consolidations increased by \$152,000 and \$83,000, respectively. New bank charter fees declined \$9,000. Interest on investments decreased \$450,000, a decline of 15 percent, to a total of \$2,547,000. The other revenue categories remained at substantially the same levels as in 1975.

Total expenses amounted to \$80.4 million, compared to \$68.6 million for 1975, an increase of \$11.8 million. That represents a 17.1 percent increase in 1976, compared to the 23.6 percent increase for 1974 to 1975.

Salaries, personnel benefits and travel expenses amounted to \$66.3 million, or 82.5 percent of total expenses for the year. Those three expenses amounted to \$59.2 million in 1975. Salary increases were caused by a full year under the government-wide general pay increase of 5 percent, effective October 1975, and another general pay increase of 4.8 percent effective October 1976, and an increase in our examining staff and support personnel. Travel expenses totaled \$12.1 million, a rise of \$1.6 million over 1975. That increase was

caused by higher *per diem* and mileage allowances, as well as by the increase in the examining staff. The higher *per diem* and mileage allowances were in line with increases authorized for employees of all federal agencies.

The remaining expenses totaled \$14.0 million, an increase of \$4.2 million over the previous year. The most significant increases occurred in data processing, consultants and education. The greater data processing and consulting costs result from implementation of the procedures study recommendations and the continuation of programs implemented in 1975. The increase in education results from the greater emphasis on that area and from training examiners in the new examination techniques adopted as a result of the procedures study. Although the costs related to the procedures study have been substantial, for the most part they represent non-recurring costs and the results achieved have been well worth the cost in terms of more effective bank supervision by the Comptroller of the Currency.

The equity account is in reality a reserve for contingencies. The financial operations of 1976 have increased that reserve by the \$2.5 million excess of revenue over expenses to \$26.5 million at year-end. That represents a 3.7-month reserve for operating expenses, based on the level of expenses over the last three months of 1976. The equity account has been administratively restricted in the amount of \$2,330,000, as explained in Note 3 to the financial statements.

Table 12
COMPTROLLER OF THE CURRENCY
BALANCE SHEETS

	<u>December 31</u>	
	<u>1976</u>	<u>1975</u>
<u>ASSETS</u>		
Current assets:		
Cash	\$ 167,876	\$ 603,266
Obligations of U.S. government, at amortized cost (approximates market value) (Note 1)	15,619,372	6,001,948
Accrued interest on investments	410,908	470,838
Accounts receivable	506,308	341,737
Travel advances	589,041	580,857
Prepaid expenses and other assets	317,227	225,378
Total current assets	<u>17,610,732</u>	<u>8,224,024</u>
Long-term obligations of U.S. government, at amortized cost (approximates market value) (Note 1)	<u>13,426,442</u>	<u>19,091,952</u>
Fixed assets and leasehold improvements, at cost (Note 1):		
Furniture and fixtures	2,719,323	2,446,058
Office machinery and equipment	934,731	803,942
Leasehold improvements	4,394,285	3,913,197
	<u>8,048,339</u>	<u>7,163,197</u>
Less accumulated depreciation and amortization	1,517,084	1,063,666
	<u>6,531,255</u>	<u>6,099,531</u>
Total assets	<u>\$37,568,429</u>	<u>\$33,415,507</u>
<u>LIABILITIES AND COMPTROLLER'S EQUITY</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,065,099	\$ 1,062,306
Taxes and other payroll deductions	193,881	211,744
Accrued travel and salaries	2,759,575	2,118,915
Total current liabilities	<u>5,018,555</u>	<u>3,392,965</u>
Long-term liabilities:		
Accumulated annual leave	3,377,354	3,301,420
Closed Receivership Funds (Note 2)	2,705,297	2,704,743
Total liabilities	<u>11,101,206</u>	<u>9,399,128</u>
Comptroller's equity:		
Administratively restricted (Note 2)	2,330,000	2,160,000
Unrestricted	24,137,223	21,856,379
	<u>26,467,223</u>	<u>24,016,379</u>
Total liabilities and Comptroller's equity	<u>\$37,568,429</u>	<u>\$33,415,507</u>

See notes at end of tables.

Table 13

COMPTROLLER OF THE CURRENCY
STATEMENTS OF REVENUE, EXPENSES AND COMPTROLLER'S EQUITY

	<u>Year ended December 31</u>	
	<u>1976</u>	<u>1975</u>
Revenue (Note 1):		
Semiannual assessments	\$76,128,296	\$51,753,849
Examinations and investigations	3,828,929	3,860,808
Investment income	2,546,640	2,997,207
Examination reports sold	219,977	223,945
Other	85,682	62,117
	<u>82,809,524</u>	<u>58,897,926</u>
Expenses:		
Salaries	49,305,710	44,073,615
Retirement and other employee benefits (Note 3)	4,898,077	4,204,230
Per diem	7,972,002	7,220,781
Travel	4,152,614	3,289,408
Rent and maintenance (Note 3)	2,977,690	2,613,596
Communications	1,219,463	859,509
Moving and shipping	1,095,522	640,901
Employee education and training	1,700,485	1,152,363
Data processing	1,690,655	378,940
Printing, reproduction and subscriptions	993,668	707,601
Office machine repairs and rentals	425,457	321,684
Depreciation and amortization	498,720	386,128
Supplies	431,249	310,715
Consulting services	2,525,685	1,926,987
Conferences	162,144	190,586
Remodeling	49,407	117,389
Other	260,132	187,645
	<u>80,358,680</u>	<u>68,582,078</u>
Excess (deficiency) of revenue over expenses	2,450,844	(9,684,152)
Comptroller's equity at beginning of year	24,016,379	33,700,531
Comptroller's equity at end of year	<u>\$26,467,223</u>	<u>\$24,016,379</u>

See notes at end of tables.

Table 14

COMPTROLLER OF THE CURRENCY
STATEMENTS OF CHANGES IN FINANCIAL POSITION

	<u>Year Ended December 31</u>	
	<u>1976</u>	<u>1975</u>
Financial resources were provided by:		
Excess (deficiency) of revenue over expenses	\$2,450,844	\$(9,684,152)
Charges and (credits) not affecting working capital in the period:		
Additions to accumulated annual leave	391,114	629,131
Depreciation and amortization	498,720	386,128
Amortization of premium and accretion of discount on long-term U.S. government obligations, net	(16,872)	(21,010)
Net loss on sale of fixed assets	207	2,338
Working capital provided by (used for) operations for the period	3,324,013	(8,687,565)
Long-term U.S. government obligations transferred to current assets	5,682,382	7,998,719
Proceeds from sale of fixed assets	8,448	2,525
Net closed receivership fund receipts (disbursements)	554	(2,189)
Total	<u>9,015,397</u>	<u>(688,510)</u>
Financial resources were used for:		
Purchase of leasehold improvements	481,088	1,257,949
Purchase of fixed assets	458,011	1,017,895
Payment of accrued leave	315,180	244,871
Total	<u>1,254,279</u>	<u>2,520,715</u>
Increase (decrease) in working capital	<u>\$7,761,118</u>	<u>\$(3,209,225)</u>
Analysis of Changes in Working Capital		
Increase (decrease) in current assets:		
Cash	\$ (435,390)	\$ 482,029
Obligations of U.S. government	9,617,424	(2,968,698)
Accrued interest	(59,930)	(228,521)
Accounts receivable	164,571	89,494
Travel advances	8,184	43,972
Prepaid expenses and other assets	91,849	26,826
	<u>9,386,708</u>	<u>(2,554,898)</u>
(Increase) decrease in current liabilities:		
Accounts payable and other accruals	(1,002,793)	(138,448)
Taxes and other payroll deductions	17,863	(33,094)
Accrued travel and salaries	(640,660)	(482,785)
	<u>(1,625,590)</u>	<u>(654,327)</u>
Increase (decrease) in working capital	<u>\$7,761,118</u>	<u>\$(3,209,225)</u>

See notes on next page.

Notes to Financial Statements December 31, 1976 and 1975

Note 1—Organization and Accounting Policies

The Comptroller of the Currency (Comptroller's Office) was created by an Act of Congress for the purpose of establishing and regulating a National Banking System. The National Currency Act of 1863, rewritten and re-enacted as The National Banking Act of 1864, created the Comptroller's Office, provided for its supervisory functions and the chartering of banks. The revenue of the Comptroller's Office is derived principally from assessments and fees paid by the national banks and interest on investments in U.S. government obligations. Assessments paid by national banks are not construed to be government funds. No funds derived from taxes or federal appropriations are allocated to or used by the Comptroller's Office in any of its operations. The Comptroller's Office is exempt from federal income taxes.

The accounts of the Comptroller's Office are maintained on the accrual basis. Furniture, fixtures, office machinery and equipment are depreciated on the straight-line basis principally over estimated useful lives of 10 years. Leasehold improvements are amortized over the terms of the related leases (including renewal options) or the estimated useful lives, whichever is shorter. Premiums and discounts on investments in U.S. government obligations are amortized or accreted ratably over the terms of the obligations. U.S. government obligations having a maturity date more than 12 months from the date of the financial statements are classified as long-term investments.

Note 2—Closed Receivership Funds

Prior to the assumption of closed national bank receivership functions by the Federal Deposit Insurance Corporation in 1936, the Comptroller of the Currency appointed individual receivers for all closed national banks. After settling the affairs of the closed banks and issuing final distributions to the creditors of the banks (principally depositors), the receivers transferred to the custody of the Comptroller's Office all remaining funds which represented distributions which were undeliverable or had not been presented for payment. Closed Receivership Funds in the accompanying balance sheets represent the potential claims for such funds by the original creditors of the receiverships. Since inception of the receivership function, unclaimed funds have been invested in U.S. government securities. The income from investments has been applied as an offset to expenses incurred by the Comptroller's Office in performing this function and accordingly has been recorded as revenue in the statements of revenue, expenses and Comptroller's equity. Through December 31, 1976, income has exceeded direct expenses by approximately \$2,330,000 (including \$170,000 and \$160,000 in 1976 and 1975, respectively), which excess amount is included in the Comptroller's equity. An analysis of allocable indirect expenses has not been made.

In its reexamination of the legal status of Closed Receivership Funds and related excess income earned thereon, the Comptroller's

legal staff has been unable to locate any definitive statutory or case law which specifies the ultimate disposition of such funds. In the absence of legal precedent, the legal staff is unable to currently give a definitive opinion as to the appropriate disposition of either the unclaimed receivership funds or the excess income from investment of such funds. The Comptroller is in the process of seeking legislative resolution of these matters.

Pending a resolution of the legal uncertainties and legislative action surrounding these funds, the Comptroller's Office has included a liability for Closed Receivership Funds in its balance sheets and recognized income from investment of such funds as revenue in its statements of revenue, expenses and Comptroller's equity. In recognition of these uncertainties, the Comptroller has administratively restricted a portion of the Comptroller's equity in an amount that approximates the excess income earned from investment of Closed Receivership Funds since custody of the funds commenced.

Note 3—Commitment and Contingencies

Regional and sub-regional offices lease office space under agreements which expire at varying dates through 1990. Minimum rental commitments under 100 leases in effect at December 31, 1976 aggregate approximately \$1,365,000 for 1977 and varying lesser amounts each year thereafter, to approximately \$938,000 for 1981, \$3,005,000 for the period 1982-1986, and \$499,000 for the period 1987-1990. In addition, the Comptroller's Office occupies office space in Washington, D.C., under a lease agreement which provided for an initial 5-year term with five consecutive 5-year renewal options. The Comptroller's Office has exercised two of its options through 1989. Rent is at an annual rate of \$1,660,000. Certain of the leases provide that annual rentals may be adjusted to provide for increases in taxes and other related expenses.

The Comptroller's Office contributes to the Civil Service retirement plan for the benefit of all its eligible employees. Contributions aggregated \$3,381,600 and \$3,000,900 in 1976 and 1975, respectively. The plan is participatory, with 7 percent of salary being contributed by each party.

The accompanying balance sheets include a liability for annual leave, accumulated within specified limits, which if not taken by employees prior to retirement is paid at that date.

Various banks in the District of Columbia have deposited securities with the Comptroller's Office as collateral for those banks entering into and administering trust activities. These securities, having a par or stated value of \$12,593,000 are not assets of the Comptroller's Office and accordingly are not included in the accompanying financial statements.

The Comptroller's Office is a defendant, together with other bank supervisory agencies and other persons, in litigation generally related to the closing of certain national banks. In the opinion of the Comptroller's legal staff, the Comptroller's Office will be able to defend successfully against these complaints and no liability is expected to result therefrom.

OPINION OF INDEPENDENT ACCOUNTANT

To the Comptroller of the Currency

In our opinion, the accompanying balance sheets, the related statements of revenue, expenses and Comptroller's equity and of changes in financial position present fairly the financial position of the Comptroller of the Currency at December 31, 1976 and 1975, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, including confirmation of securities owned at December 31, 1976 and 1975, by correspondence with the custodians.

Price Waterhouse & Co.

Washington, D.C.

April 29, 1977.

APPENDIX A

Merger Decisions, 1976

Merger* Decisions, 1976

I. Mergers consummated, involving two or more operating banks

	Page		Page
Jan. 2, 1976:		Mar. 5, 1976:	
Citibank (Western), National Association, Buffalo, N.Y.		The Farmers National Bank of Annapolis, Annapolis, Md.	
Citibank (Eastern), National Association, Castleton-on-Hudson, N.Y.		The Millington Bank of Maryland, Millington, Md.	
Citibank (Central), National Association, Oriskany Falls, N.Y.		Merger	54
Citibank (Mid-Western), National Association, Honeoye Falls, N.Y.		Mar. 9, 1976:	
Merger	43	The First National Bank of Huntsville, Huntsville, Ark.	
Jan. 2, 1976:		The Valley Bank, Hindsville, Ark.	
First National City Bank, New York City, N.Y.		Purchase	55
Citibank (Suffolk), National Association, Islip, N.Y.		Mar. 15, 1976:	
Citibank (Mid-Hudson), National Association, Woodbury, N.Y.		United National Bank, Castlewood, S. Dak.	
Merger	43	First State Bank, Lake Norden, S. Dak.	
Jan. 2, 1976:		Merger	56
National City Bank, Cleveland, Ohio		Mar. 15, 1976:	
The Bank of Cleveland, Cleveland, Ohio		Virginia National Bank, Norfolk, Va.	
Merger	44	North American Bank and Trust, Leesburg, Va.	
Jan. 10, 1976:		Merger	57
First National State Bank of New Jersey, Newark, N.J.		Mar. 17, 1976:	
The Bank of Bloomfield, Bloomfield, N.J.		Peoples Bank of Mississippi, National Association, Union, Miss.	
Purchase	45	Clinton National Bank, Clinton, Miss.	
Jan. 15, 1976:		Merger	58
Southeast First National Bank of Sarasota, Sarasota, Fla.		Mar. 20, 1976:	
Palmer First National Bank and Trust Company of Sarasota, Sarasota, Fla.		Puget Sound National Bank, Tacoma, Wash.	
Purchase	46	Continental Bank, Burien, Wash.	
Jan. 31, 1976:		Purchase	59
Bank of Virginia N.A., Vinton, Va.		Mar. 26, 1976:	
Bank of Virginia—Danville, Danville, Va.		The Edison Bank, National Association, South Plainfield, N.J.	
Merger	48	First National State Bank of the Jersey Coast, Spring Lake, N.J.	
Jan. 31, 1976:		Merger	60
Bank of Virginia N.A., Vinton, Va.		Mar. 31, 1976:	
Bank of Virginia—Lynchburg, Lynchburg, Va.		Euclid National Bank, Euclid, Ohio	
Merger	48	The Continental Bank, Cleveland, Ohio	
Feb. 3, 1976:		Purchase	61
Old Colony Bank of Hampden County, N.A., Holyoke, Mass.		Mar. 31, 1976:	
Heritage Bank and Trust Company, Westfield, Mass.		The First National Bank of Allentown, Allentown, Pa.	
Merger	49	The Kutztown National Bank, Kutztown, Pa.	
Feb. 6, 1976:		Merger	62
First National State Bank/Mechanics, Burlington Township, N.J.		Apr. 1, 1976:	
Somerset Hills & County National Bank, Basking Ridge, N.J.		The New Farmers National Bank of Glasgow, Glasgow, Ky.	
Merger	50	Hiseville Deposit Bank, Hiseville, Ky.	
Feb. 16, 1976:		Merger	63
First Tennessee National Bank, Chattanooga, Tenn.		Apr. 10, 1976:	
The Hamilton National Bank of Chattanooga, Chattanooga, Tenn.		Greenville National Bank, Greenville, Ohio	
Purchase	50	The Citizens Bank Company, Ansonia, Ohio	
Feb. 17, 1976:		Purchase	64
United National Bank, Rapid City, S. Dak.		Apr. 19, 1976:	
Union Bank & Trust, Sioux Falls, S. Dak.		Landmark Bank of Pompano Beach, N.A., Pompano Beach, Fla.	
Consolidation	51	The Security State Bank of Pompano Beach, Pompano Beach, Fla.	
Mar. 1, 1976:		Purchase	65
South Loop National Bank, Houston, Tex.		Apr. 30, 1976:	
South Texas Bank, Houston, Tex.		The First National Bank of Greenville, Greenville, Ala.	
Purchase	52	The Citizens Bank of Georgiana, Georgiana, Ala.	
Mar. 5, 1976:		Merger	66
Old National Bank of Washington, Spokane, Wash.		May 1, 1976:	
Bank of the West, Bellevue, Wash.		The Huntington National Bank of Columbus, Columbus, Ohio	
Purchase	53	The Pickerington Bank, Pickerington, Ohio	
		Merger	67
		May 3, 1976:	
		The First National Bank of Stone Harbor, Stone Harbor, N.J.	
		Independent National Bank, Willingboro, N.J.	
		Merger	68
			39

May 21, 1976:	Page	Aug. 24, 1976:	Page
The Chase Manhattan Bank (National Association), New York, N.Y.		Seattle—First National Bank, Seattle, Wash.	
Chase Manhattan Bank of Long Island (National Association), Melville, N.Y.		First National Bank in Port Angeles, Port Angeles, Wash.	
Chase Manhattan Bank of the Mid-Hudson (National Association), Saugerties, N.Y.		The First American National Bank of Port Townsend, Port Townsend, Wash.	
Chase Manhattan Bank of Central New York (National Association), Syracuse, N.Y.		Bank of Sequim, Sequim, Wash.	
Chase Manhattan Bank of Eastern New York (National Association), Albany, N.Y.		Forks State Bank, Forks, Wash.	
Chase Manhattan Bank of the Southern Tier (National Association), Binghamton, N.Y.		Purchase	82
Chase Manhattan Bank of Greater Rochester (National Association), Caledonia, N.Y.		Aug. 31, 1976:	
Chase Manhattan Bank of Western New York (National Association), Buffalo, N.Y.		The First New Haven National Bank, New Haven, Conn.	
Chase Manhattan Bank of Northern New York (National Association), Canton, N.Y.		The North Haven National Bank, North Haven, Conn.	
Merger	70	Merger	86
June 1, 1976:		Sept. 15, 1976:	
The Citizens National Bank in Gastonia, Gastonia, N.C.		United States National Bank in Johnstown, Johnstown, Pa.	
Union Trust Company of Shelby, Shelby, N.C.		The First National Bank of Coalport, Coalport, Pa.	
Merger	71	Merger	88
June 8, 1976:		Sept. 20, 1976:	
First City Bank—Northeast, N.A., Houston, Tex.		First National Bank, Carbondale, Pennsylvania, Carbondale, Pa.	
Northeast Bank of Houston, Houston, Tex.		The First National Bank of Dickson City, Dickson City, Pa.	
Purchase	72	Merger	89
June 11, 1976:		Sept. 30, 1976:	
Valley National Bank, Passaic, N.J.		FI National Bank, Ironton, Ohio	
Bank of Wayne, National Association, Wayne, N.J.		The First National Bank of Ironton, Ironton, Ohio	
Merger	73	Purchase	90
June 15, 1976:		Sept. 30, 1976:	
New Jersey Bank (National Association), Clifton, N.J.		FT National Bank, Troy, Ohio	
First State Bank of Hudson County, Jersey City, N.J.		The First National Bank & Trust Company, Troy, Ohio	
Purchase	74	Purchase	91
June 18, 1976:		Oct. 1, 1976:	
First Bank National Association, Cleveland, Ohio		Canal National Bank, Portland, Me.	
Community National Bank of Warrensville Heights, Warrensville Heights, Ohio		Central National Bank, Waterville, Me.	
Purchase	75	Merger	91
June 28, 1976:		Oct. 1, 1976:	
Wells Fargo Bank, National Association, San Francisco, Calif.		The Citizens National Bank of Evansville, Evansville, Ind.	
The Topanga Plaza Branch of City National Bank, Beverly Hills, Calif.		The Lamasco Bank, Evansville, Ind.	
Purchase	76	Merger	92
June 30, 1976:		Oct. 8, 1976:	
First National Bank of Springfield, Springfield, Vt.		The National Bank of Georgia, Atlanta, Ga.	
The Merchants National Bank of St. Johnsbury, St. Johnsbury, Vt.		The Hamilton Bank and Trust, Atlanta, Ga.	
Merger	77	Purchase	94
June 30, 1976:		Oct. 18, 1976:	
Beach Haven National Bank and Trust Company, Beach Haven, N.J.		New Jersey Bank (National Association), Clifton, N.J.	
The Bank of New Jersey, N.A., Moorestown, N.J.		Plaza National Bank, Secaucus, N.J.	
Merger	78	Merger	95
July 1, 1976:		Nov. 1, 1976:	
The National Bank of Georgia, Atlanta, Ga.		The Cumberland National Bank of Bridgeton, Bridgeton, N.J.	
Mercantile National Bank, Atlanta, Ga.		United Jersey Bank/City National, Vineland, N.J.	
Purchase	79	Merger	95
July 12, 1976:		Nov. 12, 1976:	
The Planters National Bank and Trust Company, Rocky Mount, N.C.		Virginia National Bank, Norfolk, Va.	
Hanover Bank, Wilmington, N.C.		Fairfax County National Bank, Seven Corners, Va.	
Merger	80	Merger	96
July 20, 1976:		Nov. 19, 1976:	
The Oneida National and Trust Company of Central New York, Utica, N.Y.		The Oneida National Bank and Trust Company of Central New York, Utica, N.Y.	
The Red Creek National Bank, Red Creek, N.Y.		Ogdensburg Trust Company, Ogdensburg, N.Y.	
Purchase	81	Merger	98
		Nov. 29, 1976:	
		First National Bank of Rio Grande City, Rio Grande City, Tex.	
		First State Bank & Trust Company, Rio Grande City, Tex.	
		Purchase	99
		Dec. 1, 1976:	
		American National Bank, Hamden, Conn.	
		Laurel Bank and Trust Company, Meriden, Conn.	
		Merger	100
		Dec. 1, 1976:	
		The First National Bank and Trust Company of Western Maryland, Cumberland, Md.	
		The First National Bank of Mount Savage, Mount Savage, Md.	
		Merger	101

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Dec. 17, 1976:		Dec. 31, 1976:	
New Jersey National Bank, Trenton, N.J.		First Peoples National Bank of New Jersey, Haddon Township (P.O. Westmont), N.J.	
First State Bank, Toms River, N.J.		The Provident Bank of New Jersey, Willingboro, N.J.	
Purchase	102	Purchase	105
Dec. 28, 1976:		Dec. 31, 1976:	
Citizens First National Bank of New Jersey, Ridgewood, N.J.		Midlantic National Bank, Newark, N.J.	
The State Bank of North Jersey, Pine Brook, N.J.		Midlantic National Bank/West, Morristown, N.J.	
Purchase	103	Merger	107
Dec. 31, 1976:		Dec. 31, 1976:	
First National Bank of Jackson, Jackson, Miss.		Union Chelsea National Bank, New York, N.Y.	
Columbia Bank, Columbia, Miss.		Chelsea National Bank, New York, N.Y.	
Merger	104	Purchase	108

II. Mergers consummated, involving a single operating bank

	<i>Page</i>		<i>Page</i>
Jan. 5, 1976:		Aug. 16, 1976:	
Gateway National Bank of Fort Worth, Fort Worth, Tex.		The First National Bank of Elyria, Elyria, Ohio	
Circle National Bank of Fort Worth, Fort Worth, Tex.		FNB National Bank, Elyria, Ohio	
Merger	109	Consolidation	114
Mar. 11, 1976:		Oct. 1, 1976:	
Commercial National Bank, Cassopolis, Mich.		The First National Bank of Henderson, Henderson, Tex.	
C National Bank, Cassopolis, Mich.		South Main & Richardson National Bank, Henderson, Tex.	
Merger	110	Merger	115
Mar. 31, 1976:		Dec. 3, 1976:	
American Security and Trust Company, National Association, Washington, D.C.		The National Bank of Ludington, Ludington, Mich.	
American Security and Trust Company, Washington, D.C.		NBL National Bank, Ludington, Mich.	
Merger	111	Consolidation	115
Apr. 16, 1976:		Dec. 31, 1976:	
The First National Bank of New Braunfels, New Braunfels, Tex.		Alamo Heights National Bank, Alamo Heights, Tex.	
New Braunfels Commerce Bank National Association, New Braunfels, Tex.		Heights Bank, National Association, Alamo Heights, Tex.	
Merger	111	Merger	116
Apr. 29, 1976:		Dec. 31, 1976:	
The Geuga County National Bank of Chardon, Chardon, Ohio		First National Bank of Freeport, Freeport, Ill.	
The G.C. National Bank, Chardon, Ohio		First Freeport Bank, National Association, Freeport, Ill.	
Merger	112	Merger	117
June 16, 1976:		Dec. 31, 1976:	
The First National Bank of San Jose, San Jose, Calif.		The Chester National Bank, Chester, N.Y.	
F.N. National Bank, San Jose, Calif.		Chester Bank, N.A., Chester, N.Y.	
Merger	113	Merger	117
July 1, 1976:		Dec. 31, 1976:	
The First National Bank of Troutville, Troutville, Va.		The Illinois National Bank of Springfield, Springfield, Ill.	
Troutville Bank, N.A., Troutville, Va.		INB National Bank, Springfield, Ill.	
Merger	113	Merger	118
		Dec. 31, 1976:	
		Williamstown National Bank, Williamstown, Mass.	
		Williamstown Bank (National Association), Williamstown, Mass.	
		Merger	118

III. Mergers approved but abandoned, no litigation

	<i>Page</i>		<i>Page</i>
Jan. 14, 1976:		July 20, 1976:	
Southeast First National Bank of Sarasota, Sarasota, Fla.		The First National Bank of Maryland, Baltimore, Md.	
Palmer First National Bank and Trust Company of Sarasota, Sarasota, Fla.		The Citizens National Bank of Havre de Grace, Havre de Grace, Md.	
Merger	119	Merger	119

I. Mergers consummated, involving two or more operating banks.

CITIBANK (WESTERN), NATIONAL ASSOCIATION,

Buffalo, N.Y., and Citibank (Eastern), National Association, Castleton-on-Hudson, N.Y., and Citibank (Central), National Association, Oriskany Falls, N.Y., and Citibank (Mid-Western), National Association, Honeoye Falls, N.Y.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Citibank (Eastern), National Association, Castleton-on-Hudson, N.Y. (5816), with	\$ 36,362,000	9	_____
and Citibank (Central), National Association, Oriskany Falls, N.Y. (16089), with	34,903,000	5	_____
and Citibank (Mid-Western), National Association, Honeoye Falls, N.Y. (15976), with	41,321,000	10	_____
and Citibank (Western), National Association, Buffalo, N.Y. (10258), which had	46,650,000	12	_____
merged Jan. 2, 1976, under charter of the latter bank (10258), and title "Citibank (New York State), National Association." The merged bank at date of merger had	159,236,000	_____	36

COMPTROLLER'S DECISION

On October 21, 1975, Citibank (Eastern), National Association, Castleton-on-Hudson, N.Y.; Citibank (Central), National Association, Oriskany Falls, N.Y.; Citibank (Mid-Western), National Association, Honeoye Falls, N.Y.; and Citibank (Western), National Association, Buffalo, N.Y., applied to the Comptroller of the Currency for permission to merge under the charter of the latter and with the title "Citibank (New York State), National Association."

The proposed merger represents a corporate reorganization which would merely combine four existing

subsidiary banks of Citicorp into a single institution that will continue under the ownership of Citicorp. The resulting bank will continue to operate all existing offices of the charter and merging banks.

Applying the statutory criteria, it is concluded that the proposed merger is merely part of an internal corporate reorganization which will not adversely affect competition in New York State. This application is, therefore, approved.

December 1, 1975.

Note: No Attorney General's report was received.

* * *

FIRST NATIONAL CITY BANK,

New York City, N.Y., and Citibank (Suffolk), National Association, Islip, N.Y., and Citibank (Mid-Hudson), National Association, Woodbury, N.Y.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Citibank (Suffolk), National Association, Islip, N.Y. (15917), with	\$ 47,012,000	5	_____
and Citibank (Mid-Hudson), National Association, Woodbury, N.Y. (P. O. Central Valley) (9990), with	33,101,000	10	_____
and First National City Bank, New York, N.Y. (1461), which had	26,732,196,000	251	_____
merged Jan. 2, 1976, under charter and title of the latter bank (1461). The merged bank at date of merger had	28,812,309,000	_____	266

COMPTROLLER'S DECISION

On October 21, 1975, Citibank (Suffolk), National Association, Islip, N.Y.; Citibank (Mid-Hudson), National Association, Woodbury, N.Y.; and First National City Bank, New York, N.Y., applied to the Comptroller of the Currency for permission to merge under the charter and title of the latter.

The proposed merger represents a corporate reorganization which would merely combine three existing subsidiary banks of Citicorp into a single institution that

will continue under the ownership of Citicorp. The resulting bank will continue to operate all existing offices of the charter and merging banks.

Applying the statutory criteria, it is concluded that the proposed transaction is merely part of a corporate reorganization which will not adversely affect competition. This application is, therefore, approved.

December 1, 1975.

Note: No Attorney General's report was received.

* * *

**NATIONAL CITY BANK,
Cleveland, Ohio, and The Bank of Cleveland, Cleveland, Ohio**

<i>Name of bank and type of transaction</i>	<i>Total assets</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
The Bank of Cleveland, Cleveland, Ohio, with	\$ 30,546,000	2	_____
and National City Bank, Cleveland, Ohio (786), which had	2,569,103,000	47	_____
merged Jan. 2, 1976, under charter and title of the latter bank (786). The merged bank at			
date of merger had	2,592,844,000	_____	49

COMPTROLLER'S DECISION

On September 2, 1975, The Bank of Cleveland, Cleveland, Ohio, and National City Bank, Cleveland, Ohio, applied to the Comptroller of the Currency for permission to merge under the charter and with the title of National City Bank.

National City Bank, the charter bank, was established in 1845 and currently has assets of \$2.7 billion and IPC deposits of \$1.3 billion. National City Bank is the lead bank for the state's third largest multi-bank holding company, National City Corporation. Although the charter bank is headquartered in Cleveland, its service area includes all of Cuyahoga County where it operates 45 branches. Cuyahoga County, with an estimated population of 1.7 million persons, is highly industrialized and is an important commercial, transportation and service center.

National City Bank is the second largest bank in its service area where direct competition is provided by numerous banks located in Cleveland, including The Cleveland Trust Company, with deposits of \$2.9 billion, a member of CleveTrust Corporation; The Capital National Bank, with deposits of \$117.4 million, a member of BancOhio Corporation; Central National Bank of Cleveland, with deposits of \$1.4 billion, a member of Centran Corporation; Society National Bank of Cleveland, with deposits of \$1 billion, a member of Society Corporation; and Union Commerce Bank, with deposits of \$1.2 billion, a member of Union Commerce Corporation.

The Bank of Cleveland, the merging bank, was established in 1913 and now has assets of \$28.8 million and IPC deposits of \$24.5 million. The merging bank has one branch office in addition to its main office and is the 12th largest of the 13 banks in Cuyahoga County. The service area of the merging bank consists of several ethnic neighborhoods located in central Cuyahoga County. The Bank of Cleveland is a retail-oriented bank whose operations are entirely local in nature. The merging bank, which has few business customers, relies primarily upon small personal check-

ing and savings accounts for its deposits, and thus competes with nearby savings and loan associations and credit unions. There is minimal competition between the charter bank and The Bank of Cleveland because of the different nature of their banking operations. The charter bank has one small branch office within the service area of the merging bank. However, there are numerous banking alternatives in the merging bank's service area because each of the large banks which compete with the charter bank has a branch office within the area.

Consummation of the proposed transaction will not significantly increase National City Bank's position relative to other banks in its service area. The resulting bank will remain the second largest in the county. The proposed transaction should benefit the customers of the merging bank because the resulting bank will offer over 40 banking services not presently available at the merging bank. The charter bank plans to reduce fees for many of the services now offered by merging bank. The charter bank will benefit from the proposed transaction by gaining an office in Garfield Heights, a suburb with considerable commercial market potential.

Applying the statutory criteria, it is concluded that the proposed merger will only slightly lessen competition in the relevant market and this application is, therefore, approved.

November 26, 1975.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Bank's main office in Cleveland is located about six blocks from Applicant's nearest branch. All 46 of Applicant's offices and both of Bank's offices are located in Cuyahoga County. Applicant is the second largest of 13 banks with offices in Cuyahoga County, while Bank ranks 11th.

We conclude that the proposed transaction would eliminate some existing competition between the parties and slightly increase concentration in commercial banking in Cuyahoga County.

FIRST NATIONAL STATE BANK OF NEW JERSEY,
Newark, N.J., and The Bank of Bloomfield, Bloomfield, N.J.

Name of bank and type of transaction	Total assets*	Banking offices	
		In operation	To be operated
The Bank of Bloomfield, Bloomfield, N.J., with was purchased Jan. 10, 1976, by First National State Bank of New Jersey, Newark, N.J.	\$32,501,959	3	—
(1452), which had	1,358,706,000	32	—
After the purchase was effected, the receiving bank had	1,173,201,000	—	35

COMPTROLLER'S DECISION

On January 10, 1976, application was made to the Comptroller of the Currency for prior written approval for First National State Bank of New Jersey, Newark, N.J. ("Assuming Bank") to purchase certain of the assets and assume certain of the liabilities of The Bank of Bloomfield, Bloomfield, N.J. ("Bloomfield").

As of the close of business on January 10, 1976, Bloomfield was a state bank with three offices and one approved but unopened office, all located in Bloomfield, N.J. As of January 7, 1976, Bloomfield had deposits of \$26 million. On January 10, 1976, the Federal Deposit Insurance Corporation ("FDIC") was appointed as receiver of Bloomfield. The present application is based upon an agreement, which is incorporated herein by reference, by which the FDIC as receiver has agreed to sell certain Bloomfield assets and liabilities to 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.

Bloomfield was organized in 1963 and, as of January 7, 1976, had total assets of approximately \$31.5 million.

Under the Bank Merger Act, 12 USC 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless he finds those anticompetitive effects 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. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institution and the convenience and needs of the community to be served. When necessary, however, to prevent the disruptions attendant upon the failure of a

bank, the Comptroller can dispense with the uniform 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 the other banking agencies. He is authorized in such circumstances to act immediately in his sole discretion, to approve an acquisition and to authorize the immediate consummation of the transaction.

This proposed acquisition will prevent a disruption to the community and potential losses to depositors. The Assuming Bank has financial and managerial resources sufficient to purchase Bloomfield. Thus, the approval of this transaction will help to avert a loss of public confidence in the banking system, and may actually improve the services offered to the banking public.

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, the Assuming Bank's application to assume certain liabilities and purchase certain assets of Bloomfield as set forth in the agreement executed with the FDIC as receiver, is approved. The Comptroller further finds that the failure of Bloomfield 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.

January 10, 1976.

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

* Asset figures are as of call dates immediately before and after transaction.

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**SOUTHEAST FIRST NATIONAL BANK OF SARASOTA,
Sarasota, Fla., and Palmer First National Bank and Trust Company of Sarasota, Sarasota, Fla.**

Name of bank and type of transaction	Total assets*	Banking offices	
		In operation	To be operated
Palmer First National Bank and Trust Company of Sarasota, Sarasota, Fla. (13352), with	\$135,870,600	1	_____
was purchased Jan. 15, 1976, by Southeast First National Bank of Sarasota, Sarasota, Fla., (16531), which had	5,000,000	0	_____
After the purchase was effected, the receiving bank had	117,320,100	_____	1

COMPTROLLER'S DECISION

On January 13, 1976, application was made to the Comptroller of the Currency to grant prior written approval for Southeast First National Bank of Sarasota, Sarasota, Fla. ("Assuming Bank"), to purchase assets, and to assume certain of the liabilities, of Palmer First National Bank and Trust Company of Sarasota, Sarasota, Fla. ("PFNB"). The instant application rests upon an agreement, incorporated herein by reference the same as if fully set forth, and, for the reasons set forth below, the application is hereby approved, and the Assuming Bank is hereby authorized immediately to consummate the purchase and assumption transaction.

PFNB was initially organized as a national bank in 1929, when it was granted charter number 13352. As of October 6, 1975, PFNB ranked as the second largest bank in Sarasota County, Fla., with total assets of \$144 million and total deposits of \$122 million. In addition, PFNB managed trust assets as of October 1975, of approximately \$356 million. The commercial banking service area of PFNB consisted of the northern third of Sarasota County which contains the major portions of the city of Sarasota, its business district and the surrounding residential, commercial and shopping areas.

On November 30, 1971, PFNB became a subsidiary of Palmer Bank Corporation, a newly organized bank holding company which simultaneously acquired two additional Florida banks. Since 1971 the holding company has acquired several additional banks, four of which were opened during the first quarter of 1974, as well as non-bank subsidiaries. As of June 1975, the holding company owned eight commercial banks and three non-bank subsidiaries. On June 30, 1975, Palmer Bank Corporation ranked 22nd in size of the 31 bank holding companies in Florida. The holding company had consolidated assets of \$262 million, 55 percent of which was represented by the assets of PFNB.

As of June 1969, PFNB had 49.1 percent of total assets invested in securities and 37.6 percent invested in loans. Real estate loans and personal loans represented 30.4 percent and 31.2 percent, respectively, of the loan portfolio. Classified assets as of January 30, 1973, represented only 19 percent of the bank's gross capital funds and, of that figure, a mere 0.5 percent represented a classification of doubtful or loss. Depreciation in the bond account was nominal.

Beginning in 1974, the asset quality of PFNB began

* Asset figures are as of call dates immediately before and after transactions.

to deteriorate and the bank experienced an increase in classified assets, overdue loans and nonaccruing loans, many of which involved real estate construction projects that had been originated by Coastal Mortgage Company, a wholly-owned subsidiary of Palmer Bank Corporation. Many of the real estate borrowers experienced financial setbacks due to inflation, cost overruns, increased interest rates, the effects of the energy crisis and the general decline in the economy. Because of those and other factors, losses were incurred as the real estate borrowers were unable to meet their obligations to the bank. Thus, in 1973, net loan charge-offs were only \$139,000. At year-end 1974, the charge-offs had increased to \$1,550,000. Subsequent examinations during the early months of 1975 revealed that management had been unable to reverse that trend and the bank continued to sustain heavy loan losses. As of October 6, 1975, classified assets were 345 percent of capital; loss and doubtful assets alone aggregated \$6,668,000, representing 74 percent of capital; overdue loans represented 33.2 percent of total loans; and nonaccruing loans aggregated 22 percent of total loans and 209 percent of capital.

With respect to the liability structure of PFNB, time and savings deposits of individuals, partnerships, corporations and other private sector sources decreased from 54 percent of total deposits in 1970 to 44 percent in 1974. Demand deposits from the same sources decreased from 40 percent of total deposits, in 1970, to 32 percent, in 1974. However, public funds deposits increased from 6 percent of total deposits, in 1970, to 24 percent in 1974. That shift in the deposit base to funds which could be easily removed from the bank in large amounts placed added pressure on the bank's liquidity and increased the difficulty of accurately projecting the bank's money flow. From February 18, 1975, to the examination date of October 6, 1975, the bank experienced a deposit run-off of approximately \$22 million. That was coupled with a diminishing ability to attract funds in the money market. A reliance by PFNB on the purchase of Federal funds and other money market borrowings to maintain liquidity and a corresponding loss of credibility with the sellers of those funds, caused in large part by the publication of the bank's annual report for 1974 and other adverse publicity, forced PFNB to borrow funds from the Federal Reserve Bank of Atlanta, the lender of last resort.

Prior to the end of 1973, borrowings by the bank from all sources were an insignificant portion of its liabilities, aggregating only 4.4 percent of total liabilities. On December 31, 1974, Federal funds

purchased and securities sold subject to repurchase agreements comprised 7.8 percent of total liabilities. By the last week of December 1975, however, borrowings at the Federal Reserve Bank of Atlanta had increased to a high of \$11.5 million in order to maintain liquidity in the face of heavy deposit withdrawals. The continued inability of the bank to attract deposits or raise funds in the money market further strained its liquidity position and reflected diminished public confidence in its viability as a financial institution.

The severity and multiplicity of problems facing PFNB by early 1975, required the earliest feasible addition of equity capital and management expertise. The unsuccessful attempts of Palmer Banking Corporation and PFNB independently to raise additional equity capital resulted in an effort to seek out a merger partner. An agreement by Southeast Banking Corporation, the largest bank holding company in Florida, to acquire Palmer Bank Corporation and its subsidiaries with the assistance of a \$10 million loan from the FDIC was subsequently reached. As part of that transaction the Comptroller was first asked to approve the merger of PFNB into a newly organized subsidiary bank of Southeast Acquisition Corporation. However, as a result of litigation commenced or threatened against certain directors of PFNB and Palmer Bank Corporation within the past few weeks, the parties postponed the consummation of the transaction originally scheduled for December 31, 1975, modified certain details of the transaction with the permission of the Federal Reserve Board, FDIC and the Comptroller and have now asked the Comptroller to approve, in lieu of the proposed merger of PFNB into a new bank, the purchase and assumption agreement negotiated between PFNB and Southeast First National Bank of Sarasota by which the latter would purchase assets and assume certain liabilities, including all deposit liabilities, of the former.

Under the Bank Merger Act, 12 USC 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless he finds those anticompetitive effects 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. Additionally, the Comptroller is directed

to consider the financial and managerial resources and future prospects of the existing and proposed institution and the convenience and needs of the community to be served. When necessary, however, to prevent the evils attendant upon the failure of a bank, the Comptroller can dispense with the uniform 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. He is authorized in such circumstances to act immediately, in his sole discretion, to approve an acquisition and to authorize the immediate consummation of the transaction.

The proposed acquisition will be in accord with all pertinent provisions of the National Bank Act and will prevent an enormous disruption to the community and potential losses to a number of uninsured depositors. The Assuming Bank will have strong financial and managerial resources and this acquisition will enable it—as a direct Southeast subsidiary—to enhance the banking services offered in the Sarasota community. Thus, the approval of this transaction will help to avert a loss of public confidence in the banking system and will improve the services offered to the banking public.

The Comptroller 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 assume certain liabilities and purchase assets of PFNB as set forth in the agreement is approved. The Comptroller further finds that the possible failure of PFNB requires him to act immediately, as contemplated by the Bank Merger Act, to prevent disruption of banking services to the community; and 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.

January 14, 1976.

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

* * *

**BANK OF VIRGINIA N.A.,
Vinton, Va., and Bank of Virginia - Danville, Danville, Va.**

<i>Name of bank and type of transaction</i>	<i>Total assets</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
Bank of Virginia - Danville, Danville, Va., with	\$ 43,413,094	4	_____
and Bank of Virginia N.A., Vinton, Va. (16485), which had	90,436,221	10	_____
merged Jan. 31, 1976, under charter and title of the latter bank (16485). The merged bank at date of merger had	145,631,146*	_____	14

COMPTROLLER'S DECISION

On December 3, 1975, Bank of Virginia - Danville, Danville, Va., and Bank of Virginia N.A., Vinton, Va., applied to the Comptroller of the Currency for permission to merge under the charter and title of the latter.

The proposed merger represents a corporate reorganization which would merely combine two existing subsidiary banks of Bank of Virginia Company into a single institution that would continue under the ownership of the holding company. The resulting bank will continue to operate all existing offices of the charter and merging banks.

Applying the statutory criteria, it is concluded that

* Reflects the result of this merger and that with Bank of Virginia - Lynchburg, which occurred on the same date.

* * *

**BANK OF VIRGINIA N.A.,
Vinton, Va., and Bank of Virginia - Lynchburg, Lynchburg, Va.**

<i>Name of bank and type of transaction</i>	<i>Total assets</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
Bank of Virginia - Lynchburg, Lynchburg, Va., with	\$ 11,781,831	4	_____
and Bank of Virginia N.A., Vinton, Va. (16485), which had	90,436,221	14	_____
merged Jan. 31, 1976, under the charter and title of the latter bank (16485). The merged bank at date of merger had	145,631,146*	_____	18

COMPTROLLER'S DECISION

On December 3, 1975, Bank of Virginia - Lynchburg, Lynchburg, Va., and Bank of Virginia N.A., Vinton, Va., applied to the Comptroller of the Currency for permission to merge under the charter and title of the latter.

The proposed merger represents a corporate reorganization which would merely combine two existing subsidiary banks of Bank of Virginia Company into a single institution that would continue under the ownership of the holding company. The resulting bank will continue to operate all existing offices of the charter and merging banks.

Applying the statutory criteria, it is concluded that

* Reflects the result of this merger and that with Bank of Virginia - Danville, which occurred on the same date.

* * *

the proposed merger is merely part of an internal corporate reorganization which will have no effect on competition.

Approval of this application is conditioned upon this Office's receipt of notice of publication by Bank of Virginia - Danville, a state bank, of a shareholders' meeting to ratify the subject merger and, receipt of notice of the ratification by the shareholders.

December 30, 1975.

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 proposed merger is merely part of an internal corporate reorganization which will have no effect on competition.

Approval of this application is conditioned upon this Office's receipt of notice of publication by Bank of Virginia - Lynchburg, a state bank, of a shareholders meeting to ratify the subject merger and receipt of notice of the ratification by the shareholders.

December 30, 1975.

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.

**OLD COLONY BANK OF HAMPDEN COUNTY, N.A.,
Holyoke, Mass., and Heritage Bank and Trust Company, Westfield, Mass.**

<i>Name of bank and type of transaction</i>	<i>Total assets</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
Heritage Bank and Trust Company, Westfield, Mass., with	\$11,810,178	2	_____
and Old Colony Bank of Hampden County, N.A., Holyoke, Mass. (1939), which had	36,273,385	8	_____
merged Feb. 3, 1976, under charter and title of the latter bank (1939). The merged bank at date of merger had	47,161,535	_____	10

COMPTROLLER'S DECISION

On January 21, 1976, Old Colony Bank of Hampden County, N.A., Holyoke, Mass., applied to the Comptroller of the Currency for permission to merge with Heritage Bank and Trust Company, Westfield, Mass., under the charter and with the title of Old Colony Bank of Hampden County, N.A. This application has been processed pursuant to the emergency provisions of the Bank Merger Act of 1966, contained in 12 USC 1828(c).

Old Colony Bank of Hampden County, N.A., the charter bank, was founded in 1872 and currently has assets of \$35 million and IPC deposits of \$25.3 million. The charter bank is currently the fourth largest bank in Hampden County and operates seven branch offices in that county, with three branches in Holyoke, three branches in Chicopee and one branch in Springfield. The primary service area of the bank consists of the Springfield-Chicopee-Holyoke Standard Metropolitan Statistical Area (SMSA). In November 1973, the charter bank was acquired as a wholly-owned subsidiary of First National Boston Corporation, a multi-bank holding company headquartered in Boston.

Heritage Bank and Trust Company, the merging bank, was organized in 1967 and now has assets of \$12.3 million and IPC deposits of \$9.6 million. The merging bank operates its main office and one branch in the city of Westfield which is the fourth largest city in Hampden County, and geographically, lies in the center of that county, on the western edge of the Springfield-Chicopee-Holyoke SMSA. The primary service area of the bank consists of the city of Westfield. In May 1974, Heritage Bank and Trust Company was acquired, as a wholly-owned subsidiary, by Heritage Bancorp, Inc.

Both the charter and merging banks compete with the three largest banks headquartered in Springfield, which aggregately control 85 percent of the commercial bank deposits and operate 62 of the 82 commercial banking offices in Hampden County. Those three banks are Third National Bank of Hampden County, Springfield, with deposits of \$256 million; Valley Bank and Trust Company, Springfield, with deposits of \$242 million, a subsidiary of Baystate Corporation; and Shawmut First Bank and Trust Company, Springfield, with deposits of \$122 million, a member of Shawmut Corporation.

There is little, if any, competition between the charter and merging banks because each operates in a primary service area which is separate and distinct from that from which the other derives a majority of its business. A survey of the deposits and loans taken in the

fall of 1975 by Old Colony Bank of Hampden County reveals that more than 80 percent of the number and dollar amounts of the personal demand deposits, commercial demand deposits and savings deposits originated from the three cities in which the charter bank maintains branch offices — Chicopee, Holyoke and Springfield. The same survey shows that the majority of installment, commercial and real estate loans of the charter bank came from those same cities. Similarly, the business generated by Heritage Bank and Trust Company in the primary service area of the charter bank is minimal.

An important aspect of this transaction, prompting the Comptroller to invoke the emergency provisions of the Bank Merger Act, is the present financial position of the merging bank. The deposits of Heritage Bank and Trust Company have significantly declined in the past 6 months. From a level of \$12.5 million on June 30, 1975, its deposits fell to \$10.6 million (unaudited) on November 30, 1975. The bank's loan portfolio has shown serious deterioration over the past 3 years. Charge-offs for 1975 have virtually eliminated the previously established reserve for loan losses. Loans classified substandard and doubtful during 1975 far exceed the amount available at the bank to cover exposure for possible losses. The merging bank is also carrying a substantial loss in its bond portfolio.

The instant merger will have beneficial effects on both the banking community and the public served by the two banks. The competitive environment of Hampden County will be strengthened because a relatively small, healthy bank will enter the Westfield market and will present a competitive challenge to three dominant banks which are already entrenched in that area. The resulting bank will offer new services and will expand existing services in the area now served by the merging bank. Management of Old Colony Bank of Hampden County has the capacity to assume this added responsibility and become a vigorous competitor in this part of Hampden County. Of vital importance, consummation of this merger will insure the continued, uninterrupted performance of banking services to the present customers of Heritage Bank and Trust Company, thereby maintaining the confidence of the public in the American banking system.

Applying the statutory criteria contained in 12 USC 1828(c), the Comptroller of the Currency finds that an emergency exists because of the present condition of Heritage Bank and Trust Company which requires expeditious action in order to prevent the failure of that bank at some future date. Consistent with this finding, it is concluded that the subject merger will not ad-

versely affect competition in Hampden County. This application is, therefore, approved.

January 29, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Applicant and Bank currently operate in each other's market. Although it appears that the proposed merger would eliminate some existing competition, the effect should be slight.

Commercial banking in Hampden County is highly concentrated with the three largest commercial banks collectively accounting for an 85.6 percent share of total deposits in the county. It appears that the proposed acquisition will contribute slightly to the trend to-

ward increased concentration in the county, although the linking of Bank to FNBC may enhance its ability to compete with greater vigor with the three largest banks.

Although branching is permitted in Massachusetts, it appears that prospective branching or *de novo* entry by Applicant in Westfield is highly problematic given the fact that its population of 31,000 is already served by seven institutions.

In sum, it appears that the proposed merger will eliminate some existing competition and will slightly increase the concentration in commercial banking and have a slight impact on potential competition. Overall, the proposed merger would have slightly adverse competitive consequences.

* * *

FIRST NATIONAL STATE BANK/MECHANICS, Burlington Township, N.J., and Somerset Hills & County National Bank, Basking Ridge, N.J.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Somerset Hills & County National Bank, Basking Ridge, N.J. (6960), with	\$ 83,022,242	8	_____
and First National State Bank/Mechanics, Burlington Township, N.J. (1222), which had	124,172,444	15	_____
merged Feb. 6, 1976, under charter of the latter bank (1222) and title "First National State Bank of West Jersey." The merged bank at date of merger had	207,194,686	_____	23

COMPTROLLER'S DECISION

On November 6, 1975, Somerset Hills & County National Bank, Basking Ridge, N.J., and First National State Bank/Mechanics, Burlington Township, N.J., applied to the Comptroller of the Currency for permission to merge under the charter of the latter and with the title "First National State Bank of West Jersey."

The proposed merger represents a corporate reorganization which would merely combine two existing subsidiary banks of First National State Bancorporation, Newark, N.J., into a single institution that will continue under the ownership of the holding company.

The resulting bank will continue to operate the existing offices of the charter and merging banks.

Applying the statutory criteria, it is concluded that the proposed merger is merely part of an internal corporate reorganization which will not adversely affect competition. This application is, therefore, approved.

December 31, 1975.

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.

* * *

FIRST TENNESSEE NATIONAL BANK, Chattanooga, Tenn., and The Hamilton National Bank of Chattanooga, Chattanooga, Tenn.

Name of bank and type of transaction	Total assets*	Banking offices	
		In operation	To be operated
The Hamilton National Bank of Chattanooga, Chattanooga, Tenn. (7848), with	\$476,673,000	25	_____
was purchased Feb. 16, 1976, by First Tennessee National Bank, Chattanooga, Tenn. (16552),	16,000,000	0	_____
which had	353,904,000	_____	25
After the purchase was effected, the receiving bank had			

Due to the emergency nature of the situation, no "Comptroller's Decision" or Attorney General's report was prepared.

* Asset figures are as of call dates immediately before and after transaction.

* * *

**UNITED NATIONAL BANK,
Rapid City, S. Dak., and Union Bank & Trust, Sioux Falls, S. Dak.**

<i>Name of bank and type of transaction</i>	<i>Total assets*</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
Union Bank & Trust, Sioux Falls, S. Dak., with and United National Bank, Rapid City, S. Dak. (15639), which had consolidated Feb. 17, 1976, under charter and title of the latter bank (15639). The consolidated bank at date of consolidation had	\$33,313,000 98,733,000 123,544,000	2 16 —————	————— ————— 18

COMPTROLLER'S DECISION

On May 15, 1975, Union Bank & Trust, Sioux Falls, S. Dak., and United National Bank, Rapid City, S. Dak., applied to the Comptroller of the Currency for permission to consolidate under the charter and with the title of the latter and with its headquarters in Sioux Falls, S. Dak.

United National Bank, the charter bank, was organized in 1914 and currently operates 15 branch offices with assets of \$80.3 million and IPC deposits of \$56.2 million. An additional branch has been approved but is not yet in operation. The charter bank is owned by United National Corporation, a one-bank holding company. The service area of the charter bank can be broadly defined as that part of South Dakota which lies either adjacent to or south of Interstate Highway 90 which connects Rapid City and Sioux Falls, the two largest cities in the state. The economy of that region is dependent on agricultural pursuits, tourism and related service businesses.

The charter bank operates the majority of its branches without competition in sparsely populated, agricultural communities. In Vermillion it competes directly with a branch of National Bank of South Dakota, Sioux Falls, the largest bank in the state, which has deposits of \$318.1 million and is a member of First Bank System, Inc. Direct competition in Rapid City is provided by additional branches of National Bank of South Dakota and by First National Bank of the Black Hills, Rapid City, which has deposits of \$174.2 million and is a member of Northwest Bancorporation. In Sioux Falls, where the charter bank has operated a branch for less than 1 year, it again competes with National Bank of South Dakota which is headquartered in that city, as well as with Northwestern National Bank of Sioux Falls, which has deposits of \$226.4 million and is a member of Northwest Bancorporation; The First National Bank in Sioux Falls, which has deposits of \$81.9 million; and two other, moderately-sized, independently owned banks.

Union Bank & Trust, the consolidating bank, was organized in 1929 and operates its main office and one branch in Sioux Falls. It has assets of \$31.1 million and IPC deposits of \$24.7 million. The area served by the bank includes downtown Sioux Falls and the southwest quadrant of the city. The economy of that region is dominated by the city of Sioux Falls which is the agricultural and industrial center of South Dakota. Direct competition for the consolidating bank is provided by the large commercial banks headquartered in the city.

Although the charter bank operates a branch in Sioux Falls, there is only minimal competition between that branch and the consolidating bank. The Sioux River divides the city roughly in half and the main office and branch of the consolidating bank are located east of the river while the branch of the charter bank branch is west of the river. Practically and historically those sections have been recognized as separate and distinct service areas. The fact that the same individual owns a controlling interest in both the consolidating bank and the holding company that owns the charter bank further minimizes competition between the two banks.

Consummation of the proposed transaction will stimulate competition in Sioux Falls because the resulting bank will be in a better position to compete with the large holding company affiliated banks that are already established in the city. The consolidation will have little effect outside the Sioux Falls area and the principal benefit to the other communities served by the charter bank will be the availability of the resulting bank's larger lending limit. The charter bank already maintains its executive offices in the Union Bank & Trust building in Sioux Falls and the consolidation will enable the resulting bank to establish more firmly its identity in the banking center of South Dakota.

Applying the statutory criteria, it is concluded that the proposed transaction is in the public interest and this application is, therefore, approved.

August 15, 1975.

SUMMARY OF REPORT BY ATTORNEY GENERAL

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

* Asset figures are as of call dates immediately before and after transaction.

* * *

**SOUTH LOOP NATIONAL BANK,
Houston, Tex., and South Texas Bank, Houston, Tex.**

<i>Name of bank and type of transaction</i>	<i>Total assets*</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
South Texas Bank, Houston, Tex., with was purchased Mar. 1, 1976, by South Loop National Bank, Houston, Tex. (16558), which had	\$8,173,336	1	—
After the purchase was effected, the receiving bank had	1,120,000	0	—
	5,426,000	—	1

COMPTROLLER'S DECISION

On March 1, 1976, application was made to the Comptroller of the Currency by the South Loop National Bank, Houston, Tex., for permission to purchase some of the assets and assume the liabilities of the South Texas Bank, Houston, Tex. Instant application rests upon an agreement incorporated herein by referencing the same as if fully set forth, and, for the reasons set forth below, the application is hereby approved and the assuming bank is hereby authorized immediately to consummate purchase and assumption transaction.

Under the Bank Merger Act, 12 USC 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless he finds these anticompetitive effects 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. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institution and the convenience and needs of the community to be served. When necessary, however, to prevent the evils attendant upon the failure of a bank, the Comptroller can dispense with the uniform 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. He is authorized in such circumstances to act im-

mediately, in his sole discretion, to approve an acquisition, and to authorize the immediate consummation of the transaction.

The proposed acquisition will be in accord with all pertinent provisions of the National Bank Act and will prevent disruption to the community and potential losses to a number of uninsured depositors. The assuming bank will have strong financial and managerial resources, and this acquisition will enable it to enhance the banking services offered in the Houston community. Thus, the approval of this transaction will help to avert a loss of public confidence in the banking system, and will improve the services offered to the banking public.

The Comptroller 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 those reasons, the assuming bank's application to assume certain liabilities and purchase assets of South Texas Bank as set forth in the agreement is approved. The Comptroller further finds that the failure of South Texas Bank requires him to act immediately, as contemplated by the Bank Merger Act, to prevent disruption of banking services to the community; and 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.

March 1, 1976.

* Asset figures are as of call dates immediately before and after transaction.

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

* * *

**OLD NATIONAL BANK OF WASHINGTON,
Spokane, Wash., and Bank of the West, Bellevue, Wash.**

Name of bank and type of transaction	Total assets*	Banking offices	
		In operation	To be operated
Bank of the West, Bellevue, Wash., with	\$126,226,969	16	—
was purchased Mar. 5, 1976, by Old National Bank of Washington, Spokane, Wash. (4668), which had	633,358,000	60	—
After the purchase was effected, the receiving bank had	745,866,000	—	76

COMPTROLLER'S DECISION

On September 30, 1975, Old National Bank of Washington, Spokane, Wash., applied to the Comptroller of the Currency for permission to purchase the assets and assume the liabilities of Bank of the West, Bellevue, Wash.

Old National Bank of Washington, the purchasing bank, was organized in 1891 and, with assets of approximately \$564 million and IPC deposits of approximately \$445 million, ranks as the state's fifth largest bank in deposit size. The purchasing bank currently operates 60 offices. Forty-nine of the bank's offices are located on the eastern side of the Cascade Mountains which bisect the state. The economy of the area is predominantly agricultural and Spokane is the principal urban center.

Old National Bank is a member of Washington Bancshares, Inc., a bank holding company whose only other affiliate bank is First National Bank in Spokane, with deposits of \$45.5 million. First National Bank in Spokane operates no branches outside Spokane County in eastern Washington.

In the past several years Old National Bank has expanded to the western and more densely populated area of the state in and around Seattle. Old National Bank's expansion has been primarily by acquisition because of the state's restrictive branching laws which only permit *de novo* branching within the county in which the bank is headquartered or in any city or town which has no bank or branch.

Bank of the West, the selling bank, is a state-chartered bank organized in 1965 which presently operates 16 offices in western Washington. Bank of the West has total assets of \$117 million and IPC deposits of \$85 million and ranks as the state's 11th largest bank in deposit size. The selling bank is headquartered in Bellevue, King County, Wash. Bellevue, a city which is separated from Seattle by Lake Washington, is a major port and manufacturing center.

Bank of the West has seven offices, acquired by merger, in Cowlitz County which is in the southwestern portion of the state approximately 100 miles from Seattle. The purchasing bank has no offices in Cowlitz County and, because of the state's restrictive branching laws, the purchasing bank is unable to branch *de novo* into Cowlitz County. As a result the present transaction will have little competitive impact in Cowlitz County.

Bank of the West has nine offices located in King

County. The city of Seattle dominates King County but the selling bank has no offices in the city itself. Old National Bank has five offices in King County, two of which are located in Seattle. Four of the purchasing bank's offices are separated from the offices of the selling bank by Lake Washington. The purchasing bank's fifth branch in King County is more than 4 miles from any branch of the selling bank. Additionally, because of the state branching laws, Bank of the West cannot branch into Seattle proper and Old National Bank is restricted from freely branching in King County. Both banks are severely limited in their ability to expand in this area of the state. Neither bank controls a significant portion of the total deposits in King County which is dominated by the large Seattle-based banks. As a result, only a minimal amount of competition between the two banks will be eliminated by the proposed transaction and the effect on competition in the King County area will not be significant.

Competition for both banks is provided by Seattle-First National Bank, with deposits of \$3.4 billion; Rainier National Bank, with deposits of \$2 billion; Pacific National Bank of Washington, with deposits of \$800 million; and Peoples National Bank of Washington, with deposits of \$615 million.

Consummation of the proposed transaction will result in some loss of competition but the great number of alternative banking offices throughout King County reduces the impact of that slight loss. The transaction will not change Old National Bank's position relative to other banks in the state and the resultant bank will be able to compete more effectively with the large Seattle-based banks. The resulting bank will have a larger lending limit and will be able to provide increased services to present customers of the selling bank, such as expanded trust services.

Applying the statutory criteria, it is concluded that the proposed transaction will not significantly affect competition and, therefore, it is approved.

February 2, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Ten of Applicant's offices, five in King County and five in Snohomish County, are within 11 miles of four of Bank's King County offices; the closest offices are about 4.4 road miles apart. Thus, the merger would eliminate some existing competition between the banks. Neither bank, however, controls a significant portion of the total deposits in this area, which is dominated by two Seattle-based banks. Thus, the effect of the merger on competition would not be significantly adverse.

* Asset figures are as of call dates immediately before and after transaction.

**THE FARMERS NATIONAL BANK OF ANNAPOLIS,
Annapolis, Md., and The Millington Bank of Maryland, Millington, Md.**

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The Millington Bank of Maryland, Millington, Md., with	\$ 5,398,792	1	—
and The Farmers National Bank of Annapolis, Annapolis, Md. (1244) which had merged Mar. 5, 1976, under charter of the latter bank (1244) and title "Farmers National Bank of Maryland." The merged bank at date of merger had	76,251,752	9	—
	81,650,543	—	10

COMPTROLLER'S DECISION

On January 16, 1976, the Farmers National Bank of Annapolis, Annapolis, Md., applied to the Comptroller of the Currency for permission to merge the Millington Bank of Maryland under the charter of the Farmers National Bank of Annapolis and with the title of "Farmers National Bank of Maryland." This application has been processed pursuant to the emergency provisions of the Bank Merger Act of 1966, contained in 12 USC 1828(c).

The Farmers National Bank of Annapolis, the charter bank, was established in 1805 and currently has assets of \$76 million and IPC deposits of \$60 million. The charter bank operates four offices in Annapolis and five offices in surrounding Anne Arundel County.

The charter bank's service area encompasses almost all of Anne Arundel County which is located on the Chesapeake Bay in eastern Maryland. The population of the service area, which is currently about 175,000, has grown rapidly because people who work in Baltimore and Washington, D.C., are establishing homes in the area.

The charter bank is the ninth largest of 16 banks, represented in Anne Arundel County. The five largest banks in the state have offices in the county. However, in spite of the highly competitive nature of banking in the service area, the charter bank has realized excellent growth over the last 10 years and ranks second in its share of total deposits in the county. Major competitors in the service area include Equitable Trust Bank, Baltimore, with deposits of \$992 million, a member of the Equitable Bancorporation; Maryland National Bank, Baltimore, with deposits of \$1.9 billion; and First National Bank of Maryland, Baltimore, with deposits of \$902 million.

The Millington Bank of Maryland, the merging bank, was established in 1908 and operates as a unit bank with assets of \$5.6 million and IPC deposits of \$5 million. Millington is an agricultural community with a population of about 450 located in Kent County on the eastern side of the Chesapeake Bay. The service area of the merging bank includes much of Kent County and part of Queen Anne County to the south, and extends east into Delaware. The economy of the service area is dominated by agriculture. The merging bank is the smallest of five banks serving Kent County. Two of the largest banking organizations in the state have offices in the service area, including Maryland National Bank and an affiliate of Mercantile Bankshares Corporation, the \$25 million deposit Chestertown Bank of Maryland, Chestertown.

There is little, if any, competition between the charter and merging banks because of the distance which separates the closest offices of each bank, approximately 50 miles, and they are separated by the Chesapeake Bay. The charter bank is interested in expanding into the Eastern Shore counties in order to take advantage of the banking opportunities presented by the increasingly successful agriculture industry.

An important aspect of this transaction prompting the Comptroller to expedite this merger under emergency provisions of the Bank Merger Act is the present financial position of the merging bank. The merging bank has not progressed significantly since its organization in 1908 and, because of its size and location, the merging bank has not been able to attract and hold qualified management. More importantly, the bank's condition decreased substantially during the past few weeks when it experienced a \$170,000 overdraft loss charged against the capital accounts of \$250,000. Also the merging bank has experienced an additional \$23,000 loan loss. Those substantial losses in conjunction with the inability of stockholders to raise additional capital have left the bank in a precarious position militating against its future survivability as a viable institution.

The instant merger will benefit the Millington community, now served by the merging bank, by providing a more aggressive and viable competitor. Additionally, the merger will only slightly increase the charter bank's relative position in Anne Arundel County. The resulting bank will offer new services and expand existing services in the area now served by the merging bank. Farmers National Bank has both the capital and management capacity to absorb the merger without any detriment to its own financial position, and to become a vigorous competitor in Kent County. Of vital importance, consummation of this merger will insure the continued, uninterrupted, provision of banking services to the present customers of The Millington Bank of Maryland, thereby maintaining the confidence of the public in the banking system.

Applying the statutory criteria contained in 12 USC 1828(c), the Comptroller of the Currency finds that an emergency exists because of the present condition of the Millington Bank of Maryland which requires expeditious action in order to prevent the failure of that bank at some future date. Consistent with that finding, it is concluded that the subject merger will not adversely affect competition in Maryland. Accordingly, this application is in the public interest and should be, and is, approved.

February 23, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Applicant operates solely in Anne Arundel County (population 298,000) and Bank operates solely in Kent County (population 16,000). The office of Applicant closest to the sole office of Bank is 51 miles away, and there are both competitive banking alternatives and the Chesapeake Bay located in the area which separates Applicant and Bank. Thus, there currently exists at best a negligible amount of competition between Applicant and Bank.

There are currently 16 commercial banks serving Anne Arundel County and they collectively operate 63 offices. Applicant operates nine of the offices and currently ranks second with 16 percent share of the deposits in the county. The five largest banks in the state all have offices in Anne Arundel County. Bank is the smallest of the five banks which currently operate a total of nine offices in Kent County. Bank holds 7.5 percent of total county deposits. Two of the largest

banks in the state operate in Kent County. In any event, since Applicant does not operate in Kent County and Bank does not operate in Anne Arundel County, the proposed acquisition will not increase the level of concentration in either market.

Statewide branching is permitted in Maryland, so both Applicant and the Bank are free to open branches in the counties served by each other. The financial condition of Bank makes it obvious that it cannot entertain serious notions about expansion any time soon, and the small population of Kent County and the presence of many other banks in the county render Kent County a less than likely target for expansion by Applicant.

In sum, the proposed acquisition will not eliminate any significant amount of existing competition, nor will it appreciably increase concentration. It will remove the theoretical possibility of *de novo* entry by each bank into the area served by the other, a possibility which appears to be rather remote.

* * *

THE FIRST NATIONAL BANK OF HUNTSVILLE, Huntsville, Ark., and The Valley Bank, Hindsville, Ark.

Name of bank and type of transaction	Total assets*	Banking offices	
		In operation	To be operated
The Valley Bank, Hindsville, Ark., with was purchased Mar. 9, 1976, by The First National Bank of Huntsville, Huntsville, Ark. (8952), which had	\$1,936,637	1	_____
After the purchase was effected, the receiving bank had	18,457,000	2	_____
	20,077,000	_____	3

COMPTROLLER'S DECISION

On March 8, 1976, application was made to the Comptroller of the Currency by the First National Bank of Huntsville, Huntsville, Ark. ("Assuming Bank") for permission to purchase the assets and assume the liabilities of The Valley Bank, Hindsville, Ark. The application rests upon an agreement incorporated herein by referencing the same as if fully set forth, and, for the reasons set forth below the application is hereby approved and the Assuming Bank is hereby authorized immediately to consummate the purchase and assumption transaction, and to operate the office of The Valley Bank as a branch office of the Assuming Bank.

During the course of an examination of The Valley Bank, commencing February 10, 1976, a shortage presently estimated at approximately \$645,000 was discovered. That shortage resulted from loans either forged or in the names of non-existent persons. Capital and reserves of The Valley Bank as of February 9, 1976, totalled approximately \$152,600. In addition, the bank carries a \$75,000 Fidelity Coverage Bankers Blanket Bond, however, the bank carries no excess Employee Dishonesty Bond. Applicant is one of only two banks eligible to establish a branch in Hindsville. The other eligible bank, Bank of Kingston, Kingston, Ark., is

a small institution located in a remote area of Madison County, approximately 30 miles from Hindsville. The Bank of Kingston has total deposits of approximately \$1.1 million and does not have the financial capacity to absorb the Hindsville bank.

Under the Bank Merger Act, 12 USC, 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless he finds these anticompetitive effects 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. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institution and the convenience and needs of the community to be served. When necessary, however, to prevent the disruptions attendant upon the failure of a bank, the Comptroller can dispense with the uniform 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 the other banking agencies. He is authorized in such circumstances to act immediately in his sole discretion, to approve an acquisition and to authorize the immediate consummation of the transaction.

The proposed acquisition will be in accord with all

* Asset figures are as of call dates immediately before and after transaction.

pertinent provisions of the National Bank Act and will prevent disruption to the Hindsville community and potential losses to several uninsured depositors. The Assuming Bank has sufficient financial and managerial resources to absorb The Valley Bank. Thus, the approval of this transaction will help to avert a loss of public confidence in the banking system and prevent disruption of banking services to the community.

The Comptroller 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 those reasons, the Assuming Bank's application to assume

the liabilities and purchase the assets of The Valley Bank, as set forth in the purchase agreement, is hereby approved. The Comptroller further finds that the failure of The Valley Bank requires him to act immediately, as contemplated by the Bank Merger Act, to prevent disruption of banking services to the community; and 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.

March 9, 1976.

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

* * *

**UNITED NATIONAL BANK,
Castlewood, S. Dak., and First State Bank, Lake Norden, S. Dak.**

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
First State Bank, Lake Norden, S. Dak., with	\$4,664,736	1	_____
and United National Bank, Castlewood, S. Dak. (16470), which had	5,190,046	1	_____
merged Mar. 15, 1976, under charter and title of the latter bank (16470). The merged bank			
at date of merger had	9,854,782	_____	2

COMPTROLLER'S DECISION

On October 22, 1975, First State Bank, Lake Norden, S. Dak., and United National Bank, Castlewood, S. Dak., applied to the Comptroller of the Currency for permission to merge under the charter and with the title of the United National Bank.

United National Bank, the charter bank, was organized as a state bank in 1902, converted to a national bank in 1975, and now has assets of \$5.2 million and IPC deposits of \$3.3 million. The bank operates no branch offices. The service area of the charter bank includes the town of Castlewood, S. Dak., population 523, and its immediate environs which include the surrounding area within an 8- to 10-mile radius.

The charter bank is the only bank domiciled in Castlewood and competes primarily with two banks located in Watertown, about 15 miles north of Castlewood. The larger of the two competitors in Watertown, the largest city in the immediate area, is the First National Bank of Watertown with deposits of \$39.5 million, a subsidiary of Northwest Bancorporation, Minneapolis. The other competitor, Farmers and Merchants Bank & Trust, is an independent bank with total deposits of \$45.0 million. Those two banks, because of their size, are able to offer services, such as greater lending limits, which the United National Bank at Castlewood, because of its present small capital base, is unable to extend. Competition between the charter bank and these competitors is, therefore, substantial.

First State Bank, the merging bank, was organized as a national bank in 1928, has operated as a state banking institution since 1965 and now has assets of \$4.5 million and IPC deposits of \$3.6 million. The bank

operates no branch offices. The town of Lake Norden, in which the bank is located, has a population of approximately 400 inhabitants. The bank's service area includes Lake Norden and extends approximately 10 miles in all directions from Lake Norden. The economy of the service area, like that of Castlewood, is almost exclusively agricultural and there is no major industrial operation in the Lake Norden area. Competition for the merging bank is provided by the two banks in Watertown which compete with the charter bank.

There is no significant competition between the charter and merging banks because of the distance separating the two banks and the existence of natural barriers. The 19-mile distance between the two banks and the presence of several intervening lakes establish two different service areas. Moreover, the banks involved in the proposed transaction are controlled by the same individual. The transaction is therefore effectively a corporate reorganization of that individual's holdings into a single entity which will not result in any changes of policy or management. Finally, there is no potential competition between the charter and merging banks due to South Dakota's restrictive branch banking statutes which provide for home office protection. Additionally, neither bank is of the size to undertake *de novo* branching.

Consummation of the proposed merger may result in some operational cost efficiencies, and the resulting bank will have a larger lending limit thereby enabling it to better serve the banking needs of the populace. The resulting bank, with assets of \$9.7 million and IPC deposits of \$6.9 million, will remain considerably smaller in size than the banks with which it will compete.

Applying the statutory criteria, it is concluded that

the proposed merger would have no adverse competitive effects and is not adverse to the public interest. Accordingly, this application should be, and therefore is, approved.

February 13, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The main (and only) office of Applicant in Castlewood (population 523) is 19 miles from the main (and only) office of the Bank in Lake Norden (population 393) and there are competitive banking alternatives located in the intervening area between the two towns. As of June 30, 1974, five banks operated six offices in Hamlin County, with the Applicant holding about 11 percent and the Bank holding about 10 percent of total Hamlin County deposits. If the merger is approved, the result-

ing bank will be the largest in Hamlin County, holding about 21 percent of county deposits.

The majority control of both the Applicant and the Bank is held by the same individual, with the result that the two banks have had numerous loan participations during the past year. This factor somewhat mitigates the anticompetitive effects of the merger.

It appears that the merger would eliminate some existing competition as well as the potential for increased competition in the future, and would also substantially increase concentration among commercial banks in Hamlin County. It thus appears that the proposed merger would have an adverse effect on competition, although we note that the two banks are quite small and Hamlin County is a sparsely populated area which probably will not experience significant economic growth anytime soon.

* * *

**VIRGINIA NATIONAL BANK,
Norfolk, Va., and North American Bank and Trust, Leesburg, Va.**

<i>Name of bank and type of transaction</i>	<i>Total assets</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
North American Bank and Trust, Leesburg, Va., with	\$ 8,783,472	1	_____
and Virginia National Bank, Norfolk, Va. (9885), which had	1,745,416,361	118	_____
merged Mar. 15, 1976, under charter and title of the latter bank (9885). The merged bank			
at date of merger had	1,753,137,292	_____	119

COMPTROLLER'S DECISION

On December 23, 1975, North American Bank and Trust, Leesburg, Va., and Virginia National Bank, Norfolk, Va., applied to the Comptroller of the Currency for permission to merge under the charter and title of "Virginia National Bank."

Virginia National Bank, Norfolk, Va., the charter bank, is the lead bank for Virginia National Bankshares, Inc., a multi-bank holding company that is the second largest banking organization in the state. The charter bank, with assets of \$1.7 billion and IPC deposits of \$1.2 billion, operates 116 offices throughout the state of Virginia.

North American Bank and Trust, Leesburg, Va., the merging bank, was established in 1972 under a state charter and now has assets of \$9.6 million and IPC deposits of \$5.4 million. The merging bank primarily serves the town of Leesburg and the surrounding area in Loudoun County. Loudoun County is located on the fringe of the Washington, D. C. Standard Metropolitan Statistical Area (SMSA) and is predominantly rural in nature. Approximately one-third of the work force in Loudoun County commutes to Washington, D. C., for employment.

North American Bank and Trust is the smallest of nine banks serving Loudoun County. The two dominant competitors in its service area are First Virginia Bank/First National, Purcellville, with deposits of \$18 million,

which is a member of First Virginia Bankshares Corporation, and The Peoples National Bank of Leesburg, with deposits of \$28 million, which is a member of Financial General Bankshares, Inc.

The charter bank has no offices in Loudoun County or within 25 miles of the merging bank. As a result, the proposed transaction will not lessen any competition within Loudoun County. In addition, consummation of the merger will not significantly increase Virginia National Bank's relative position statewide.

Since its establishment in 1972, the merging bank has been unable to achieve a profitable level of earnings. The bank has been experiencing increasing loan losses, low liquidity and a deteriorating capital position. The future prospects for the merging bank are not encouraging. The subject transaction presents a desirable alternative to possible liquidation of the bank or financial support from regulatory agencies. The charter bank has sufficient capital, financial resources and management depth to absorb North American Bank and Trust without damage to the charter bank's present financial condition.

Consummation of the proposed transaction will strengthen competition in Loudoun County. The resulting bank will offer additional banking services to the community not presently offered by the merging bank, such as more sophisticated real estate financing and trust services. Virginia National Bank will not enter this

service area in a dominant position and a financially weak competitor will have been replaced by a more viable institution.

Applying the statutory criteria, it is concluded that the proposed merger is in the public interest and this application is therefore approved.

February 12, 1976.

* * *

**PEOPLES BANK OF MISSISSIPPI, NATIONAL ASSOCIATION,
Union, Miss., and Clinton National Bank, Clinton, Miss.**

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Clinton National Bank, Clinton, Miss. (16253), with and Peoples Bank of Mississippi, National Association, Union, Miss. (16194), which had merged Mar. 17, 1976, under charter and title of the latter bank (16194). The merged bank at date of merger had	\$ 5,545,665 68,219,855 73,765,520	1 14 _____	_____ _____ 15

COMPTROLLER'S DECISION

On October 11, 1975, Clinton National Bank, Clinton, Miss., and Peoples Bank of Mississippi, National Association, Union, Miss., applied to the Comptroller of the Currency for permission to merge under the charter and with the title of Peoples Bank of Mississippi, National Association.

Peoples Bank of Mississippi, National Association, the charter bank, was organized in 1919 and, with IPC deposits of \$52.3 million and assets of \$65.9 million, operates 11 branches in seven counties east and northeast of Jackson, Miss. The bank also had pending an application for another branch office in Winston County. The charter bank's service area is considered to be the seven counties in which it presently conducts business: Attala, Grenada, Lauderdale, Neshoba, Newton, Oktibbeha and Scott.

Competition is provided the charter bank by offices of 16 different banking institutions, including Grenada Bank, Grenada, with deposits of \$175.8 million; Citizens National Bank of Meridian, with deposits of \$58.4 million; Merchants and Farmers Bank, Kosciusko, with deposits of \$43.8 million; and Citizens Bank of Philadelphia, with deposits of \$24.6 million, among other competitors.

Clinton National Bank, the merging bank, opened for business on January 2, 1974, and, with IPC deposits of \$3.6 million and assets of \$6.4 million, does not operate any branches. The service area of Clinton National Bank consists of Clinton and its immediate environs with a population estimated to be in excess of 13,500 persons. The merging bank is the fourth smallest of 11 commercial banks headquartered in Hinds County and competes with offices of Mississippi's two largest banks, First National Bank of Jackson, with deposits of \$586.5 million, and Deposit Guaranty National Bank, Jackson, with deposits of \$673.5 million. The merging bank also competes with Mississippi Bank, Jackson, with deposits of \$76.3 million; First Mississippi National Bank, Hattiesburg, with deposits of \$181.8 million; and

SUMMARY OF REPORT BY ATTORNEY GENERAL

In sum, the proposed merger would not eliminate any significant amount of existing competition. It would abort the theoretical possibility that Applicant would enter the market through the chartering of a new bank. On balance, the proposed merger would have only a slightly adverse effect on competition.

Fidelity Bank, Utica, with deposits of \$17.6 million, among other competitors.

There is minimal competition between Peoples Bank of Mississippi, N.A., and Clinton National Bank because their closest two offices are separated by a distance of approximately 41 miles. Moreover, the merging bank's small size and its lack of experienced bank management prevents the bank from being a significant competitor of Peoples Bank of Mississippi. The possible entry by the charter bank into Hinds County is not so easily discounted. The charter bank has sufficient resources to enter the Hinds County service area *de novo* if the proposed merger is denied; nevertheless, consummation of the merger would not have an adverse competitive effect. The merging bank would, at best, provide weak competition for a *de novo* Hinds County office of the charter bank if the latter chose that alternative to enter Hinds County; the merging bank is without experienced management and, given that bank's portfolio problems and size, it will be quite some time (should the merger not be consummated) before Clinton National is a substantial competitive factor in the Hinds County service area. Further, entry into Hinds county by Peoples Bank of Mississippi, with resources only a tenth as great as the major banks in the Jackson area, will not have a dramatic impact on the various markets for banking services. The state's largest banks, Frist National Bank of Jackson and Deposit Guaranty Bank, dominate banking in Hinds County and each operates a branch in Clinton where the merging bank is located.

Consummation of the proposed merger should stimulate competition in the service area of the merging bank. The transaction will resolve Clinton National's management problems. Further, the resulting bank is likely to retain the charter bank's aggressive competitive traits. In addition to replacing a relatively new, inexperienced commercial bank with a more established and expansion-minded financial institution, consummation of this transaction will provide Clinton area

residents and businesses with the availability of a substantially increased lending limit, lower service charges, extended banking loans and "personal banking service."

Applying the statutory criteria it is concluded that the proposed merger is in the public interest and this application is therefore, approved.

February 11, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The closest offices of Applicant and Bank are approximately 61 miles apart and there are numerous other banks plus the Metropolitan Jackson Area in the intervening area. It appears, therefore, that the proposed acquisition will not eliminate existing competition to any appreciable extent. As of June 30, 1975, Applicant held approximately 1.03 percent of total state de-

posits and Bank held .10 percent. Thus, the merger of the two banks will not appreciably increase concentration in commercial banking in the state or in any local markets therein.

Both of the largest banks in the state have branches in Clinton, a fast-growing town to approximately 10,000 people. A third bank was established in 1973. The proposed acquisition can be characterized as a toe-hold acquisition by Applicant. It appears that Applicant could have established (assuming state approval) a *de novo* branch in Clinton, and the growth rate in the Clinton area suggests that a *de novo* branch might well be possible, at least in the near term if not immediately. Thus, the proposed merger may eliminate some potential competition.

In sum, the proposed merger may have slightly adverse anticompetitive consequences.

* * *

**PUGET SOUND NATIONAL BANK,
Tacoma, Wash., and Continental Bank, Burien, Wash.**

Name of bank and type of transaction	Total assets*	Banking offices	
		In operation	To be operated
Continental Bank, Burien, Wash., with was purchased Mar. 20, 1976, by Puget Sound National Bank, Tacoma, Wash. (12292), which	\$20,514,344	4	—
had	395,792,000	35	—
After the purchase was effected, the receiving bank had	481,871,000	—	39

COMPTROLLER'S DECISION

On March 10, 1976, application was made to the Comptroller of the Currency by Puget Sound National Bank, Tacoma, Washington ("Assuming Bank") to purchase the assets and assume the liabilities of Continental Bank, Burien, Wash. ("Selling Bank").

Assuming Bank, with approximately \$346 million in deposits, is the sixth largest bank in the state of Washington. The Assuming Bank operates through a 34-branch network; all except five of the branches are located in Pierce County. Two of the branches are located in King County, home of the Selling Bank, and one of those branches is located approximately 5 miles from a branch office of the Selling Bank. However, because of the restrictions in the branching laws of the state of Washington, Assuming Bank's further expansion into King County and the trade area of Selling Bank, as a practical matter, can come only through acquisition of an existing bank.

Selling Bank was chartered in 1969, and presently has approximately \$18 million in deposits. The trade area of Selling Bank is presently serviced by 37 offices of other commercial banks with total deposits of approximately \$343 million.

An examination of Continental Bank on January 30, 1976, disclosed that the Selling Bank had been the vic-

tim of certain forged notes creating a substantial and debilitating effect upon its capital accounts. Current known losses aggregate approximately \$1.47 million, reducing the capital accounts of the Selling Bank to approximately \$70,000.

Pursuant to the provision of the Bank Merger Act, 12 USC 1828(c), the Comptroller of the Currency cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless the Office concludes that those anticompetitive effects are clearly outweighed in the public interest by the probable effect of the proposed transaction in adequately meeting the convenience and needs of the community to be served. Furthermore, the Office of the Comptroller is directed to also fully consider the financial and managerial resources and future prospects of the existing and proposed institution. When necessary, however, to prevent the disruption attendant upon the probable failure of a bank, the Comptroller can dispense with the uniform standards applicable to usual acquisition transactions and need not consider reports relating to the competitive consequences of the transaction ordinarily solicited from the United States Department of Justice and other banking agencies. The Comptroller is specifically authorized in such exigent circumstances to act immediately, in his sole discretion, to approve an acquisition and to authorize the immediate consummation of the proposed transaction.

The subject proposed transaction is deemed to be in accord with all pertinent provisions of the National

* Asset figures are as of call dates immediately before and after transaction.

Bank Act and will serve to prevent disruption of banking services to the Burien banking community and potential losses to uninsured depositors. The Assuming Bank has sufficient financial and marginal resources to absorb Continental Bank and be a strong competitive force in Selling Bank's trade area. Approval of the instant transaction will avert a potential loss of public confidence in the banking system, and prevent disruption of any banking services to the relevant community.

Although this requisition will eliminate some direct competition, the Comptroller finds that any anticompetitive effects of the proposal are clearly outweighed by the probable effect of the resultant bank's ability to meet the convenience and needs of the community to be served. For the reasons herein stated, the Assum-

ing Bank's application to purchase the assets and assume the liabilities of Continental Bank is deemed to be in the public interest and is approved. The Comptroller also finds that the probable failure of Continental Bank requires this Office to act immediately, as contemplated by The Bank Merger Act, to prevent disruption of banking services to the community, and the Comptroller hereby waives publication of notice, dispenses with the solicitation of competitive factor reports from other agencies, and authorizes the immediate consummation of the proposed transaction.

March 20, 1976.

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

* * *

**THE EDISON BANK, NATIONAL ASSOCIATION,
South Plainfield, N.J., and First National State Bank of the Jersey Coast, Spring Lake, N.J.**

<i>Name of bank and type of transaction</i>	<i>Total assets</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
First National State Bank of the Jersey Coast, Spring Lake, N.J. (13898), with	\$ 93,182,054	11	_____
and The Edison Bank, National Association, South Plainfield, N.J. (15845), which had	93,500,271	10	_____
merged Mar. 26, 1976, under charter of the latter bank (15845) and titled "Edison/First National State Bank." The merged bank at date of merger had	186,682,325	_____	21

COMPTROLLER'S DECISION

On December 12, 1975, First National State Bank of the Jersey Coast, Spring Lake, N.J., and The Edison Bank, National Association, South Plainfield, N.J., applied to the Comptroller of the Currency for permission to merge under the charter of the latter and with the title of "Edison/First National State Bank."

The Edison Bank, National Association, the charter bank, was originated in 1956 as a state bank and now operates 10 branches with assets of \$98.8 million and IPC deposits of \$74.1 million. The service area of the bank consists of Middlesex County, which has a population of approximately 607,000.

First National State Bank of the Jersey Coast, the merging bank, is the survivor of a 1974 merger with First National State Bank of Ocean County. The merging bank, with 11 offices, has assets of \$94.2 million and IPC deposits of \$80.8 million. The bank's service area includes Monmouth County, where it has four offices, and Ocean County where the bank maintains seven offices. The combined population of the two

counties that comprise its service is estimated at 738,000.

Edison Bank, National Association and First National State Bank of the Jersey Coast are both wholly-owned subsidiaries of the same multi bank holding company, First National State Bancorporation, Newark, N.J., which controls six other banks and has aggregate deposits of \$1.9 billion. As such, their proposed merger is a corporate reorganization and would have no effect on competition.

Applying the statutory criteria, it is concluded that the proposed merger is not adverse to the public interest and this application is, therefore, approved.

February 24, 1976.

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.

* * *

**EUCLID NATIONAL BANK,
Euclid, Ohio, and The Continental Bank, Cleveland, Ohio**

Name of bank and type of transaction	Total assets*	Banking offices	
		In operation	To be operated
The Continental Bank, Cleveland, Ohio, with	\$100,204,382	10	_____
was purchased Mar. 31, 1976, by Euclid National Bank, Euclid, Ohio (15573), which had	134,748,000	8	_____
After the purchase was effected, the receiving bank had	225,689,000	_____	18

COMPTROLLER'S DECISION

On January 19, 1976, Euclid National Bank, Euclid, Ohio, applied to the Comptroller of the Currency to purchase certain assets and assume certain liabilities of The Continental Bank, Cleveland, Ohio.

Euclid National Bank, the purchasing bank, was organized in 1952 as a state savings and loan association, has operated as a national bank since February 1966, and now has total deposits of approximately \$111 million. The bank operates seven branch offices throughout Cuyahoga County and one branch office in neighboring Lake County in addition to its head office in Euclid, a suburban community which lies in both Cuyahoga and Lake counties.

The Continental Bank, the selling bank, commenced commercial banking operations in 1927 as a state banking institution and now operates 10 offices in Cuyahoga County. As of September 30, 1975, The Continental Bank controlled total deposits of \$77.1 million and ranked immediately behind the purchasing bank as eighth largest of the 12 banks in the county.

Although both banks involved in the proposed merger presently compete in the same relevant banking market, approximated by the Cleveland SMSA, in only one instance do the subject banks' branches directly compete in the same service area. That competitive situation is, however, greatly mitigated by the restricted capabilities of the selling bank, which severely limit its competitive posture, and further by the additional benefits accruing to the public through conditions of convenience and needs.

On a *pro forma* basis, approval of the instant application would have the effect of combining into one institution the seventh and eighth largest banks in Cuyahoga County which control approximately 1.4 percent and 1.0 percent of the total deposits in the county, respectively. The resultant bank would become the sixth largest bank, surpassing The Capital National Bank, a subsidiary of BancOhio Corporation, by 0.1 percent. Additionally, it is noted that Euclid National Bank is a subsidiary of Winters National Corporation, Dayton, and the merger of the two subject banks would not alter the present bank holding company's

rank as 11th largest multi-bank holding company in Ohio, controlling approximately 2.4 percent of total state commercial banking deposits.

Winters National Corporation has committed itself to add an additional \$5 million in capital to the resulting bank upon consummation of this merger. Also, the parent bank holding company assures that assistance will be provided management if the need arises. Consummation of the proposal should therefore resolve the severe capital and managerial problems of the selling bank. The combination of the two banks will improve the ability of the surviving bank to better service the needs and enhance the convenience of the banking public by increasing the legal lending limit of the bank, providing greater access to capital markets, increasing capabilities in international banking and providing leasing and trust expertise; thereby resulting in a more viable banking alternative better able to compete with its five substantially larger competitors in the area, all five of which are also affiliated with large, multi-bank holding companies.

In conclusion, while consummation of the instant proposal would result in the foreclosure of some slight degree of present competition and preclude probable future competition between the two banks, the slightly adverse competitive effects are clearly outweighed by overriding considerations with respect to convenience and needs of the community to be served.

Applying the statutory criteria, it is concluded that the proposed acquisition would have no significant competitive effects and is not adverse to the public interest. Accordingly, this application should be, and therefore is, approved.

March 1, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Applicant and Bank both principally operate in Cuyahoga County, Ohio, and it is apparent from an examination of the map contained in the application that the two banks compete directly with each other. It is thus clear that the proposed acquisition will eliminate direct competition between the parties.

The Cuyahoga County market is dominated by five large banking institutions — Cleveland Trust Company, National City Bank, Central National Bank, Union Commercial Bank and Society National Bank — which collectively control 94.9 percent of deposits and 95.1 percent of loans and operate 85.7 percent of the bank-

* Asset figures are as of call dates immediately before and after transaction.

ing offices in Cuyahoga County. Applicant ranks sixth and Bank ranks seventh in size in Cuyahoga County. However, Applicant and Bank combined would have only a 2.9 percent share of deposits and 2.5 percent share of loans in the market. Thus, the proposed ac-

quisition will not contribute significantly to the already existing unhealthy degree of concentration in commercial banking in the area.

In short, the proposed acquisition will have some adverse competitive effects.

* * *

**THE FIRST NATIONAL BANK OF ALLENTOWN,
Allentown, Pa., and The Kutztown National Bank, Kutztown, Pa.**

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The Kutztown National Bank, Kutztown, Pa. (5102), with	\$ 28,317,000	1	_____
and The First National Bank of Allentown, Allentown, Pa. (373), which had	512,774,000	18	_____
merged Mar. 31, 1976, under charter and title of the latter bank (373). The merged bank			
at date of merger had	541,091,000	_____	19

COMPTROLLER'S DECISION

On September 15, 1975, The Kutztown National Bank, Kutztown, Pa., and The First National Bank of Allentown, Allentown, Pa., applied to the Comptroller of the Currency for permission to merge under the charter and title of The First National Bank of Allentown.

The First National Bank of Allentown, the charter bank, was established in 1855 and is the largest of two banks headquartered in Allentown with IPC deposits of \$420 million and assets of \$479 million. The bank operates 16 offices with four additional approved but unopened new branch sites. Allentown is located approximately 55 miles northwest of Philadelphia in the Lehigh Valley which encompasses the three contiguous cities of Allentown, Bethlehem and Easton which have a combined population of about 494,000 persons. The area is economically progressive with an abundance of both light and heavy industry. The charter bank primarily serves that three-city area and the surrounding area in Lehigh and Northampton counties.

Although the only two banks headquartered in Allentown are the charter bank and The Merchant's National Bank of Allentown, with deposits of \$308 million, competition is provided by branches of banks headquartered in other areas, such as Girard Bank, Philadelphia, with deposits of \$2.8 billion; Industrial Valley Bank and Trust Company, Jenkintown, with deposits of \$783 million; Union Bank and Trust Company of Eastern Pennsylvania, Bethlehem, with deposits of \$142 million, and First Valley Bank, Bethlehem, with deposits of \$448 million. Other banks which have recently expanded into Allentown include First Pennsylvania Bank, N. A., Philadelphia, with deposits of \$4.2 billion; American Bank and Trust Co. of Pennsylvania, Reading, with deposits of \$951 million; and Bank of Pennsylvania, Reading, with deposits of \$283 million.

The Kutztown National Bank, the merging bank, was established in 1897 and operates as a unit bank with IPC deposits of \$23.6 million and assets of \$27 million. Kutztown, in Berks County, is located approximately 16

miles southwest of Allentown and is largely residential and agricultural with an estimated population of 4,100 persons. The service area of the merging bank includes Kutztown and the immediately surrounding area. Competition for the merging bank is provided by Farmers Bank of Kutztown with deposits of \$20.5 million and a recently opened branch of American Bank and Trust Company, Reading.

Because some Kutztown residents work in Allentown and Lehigh County, the charter and merging banks do have some mutual customers. However, because of the intervening distance and because of the merging bank's local orientation, there is minimal competition between them. First National Bank of Allentown draws few substantial depositors and loan customers from the Kutztown vicinity.

The resulting bank will be able to offer a much wider range of services to the Kutztown residents than is now provided by Kutztown National Bank, such as liberalized and more complete personal and commercial loan programs, compound interest from day of deposit to day of withdrawal, higher interest rates on savings, increased lending capacity for commercial and industrial loans and expanded trust and estate planning services.

Applying the statutory criteria, it is concluded that although there will be a slight lessening of competition the proposed merger is in the public interest and this application is, therefore, approved.

February 2, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Although the main offices of the parties are about 17 miles apart, three of Applicant's branches in southwestern Lehigh County are within 10 to 12 miles of Bank. However, there are several competitive alternatives in the intervening areas. Thus, on balance it appears that the proposed merger would eliminate some existing competition between the parties.

Applicant is permitted by state law to enter *de novo*

the market served by Bank and it has the resources to do so. Commercial banking in Berks County is highly concentrated, with four banks controlling 88 percent of deposits as of 1974. Bank ranked seventh of the 16 banks which serve Berks County, holding 2 percent of

total deposits held in the county. However, in view of the existence of other significant potential entrants and the modest market position of Bank, it appears that the proposed merger would not eliminate substantial potential competition.

* * *

**THE NEW FARMERS NATIONAL BANK OF GLASGOW,
Glasgow, Ky., and Hiseville Deposit Bank, Hiseville, Ky.**

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Hiseville Deposit Bank, Hiseville, Ky., with	\$ 4,939,160	1	—
and The New Farmers National Bank of Glasgow, Glasgow, Ky. (13651), which had	40,689,444	3	—
merged Apr. 1, 1976, under charter and title of the latter bank (13651). The merged bank at date of merger had	47,103,621	—	4

COMPTROLLER'S DECISION

On December 22, 1975, Hiseville Deposit Bank, Hiseville, Ky., and The New Farmers National Bank of Glasgow, Glasgow, Ky., applied to the Comptroller of the Currency for permission to merge under the charter and title of "The New Farmers National Bank of Glasgow."

The New Farmers National Bank of Glasgow, the charter bank, was established in 1932 and, with assets of \$36 million and IPC deposits of \$27.7 million, now operates three offices in Glasgow. Glasgow is located in Barren County approximately 100 miles south of Louisville, Ky., and has an estimated population of 11,000. The economy of Barren County is supported primarily by farming, however industrial employment opportunities are increasing in the county, particularly in Glasgow. The charter bank's service area includes all of Barren County; it is the second largest of five banks headquartered in the county.

Hiseville Deposit Bank, the merging bank, was established in 1903 and now operates as a unit bank with assets of \$4.3 million and IPC deposits of \$3.6 million. Hiseville is a small farming community with a population of about 200, located 9 miles northeast of Glasgow. The merging bank's service area is limited to Hiseville and the immediately surrounding agricultural area.

Competition for both banks is provided by the other three banks located in Barren County including Citizens Bank & Trust Company, Glasgow, with deposits of \$37.5 million; The Peoples Bank, Cave City, with deposits of \$5.9 million; and Park City State Bank, Park City, with deposits of \$2.4 million. Competition is also provided by the banks located just outside Barren County such as Horse Cave State Bank, Horse Cave, with deposits of \$14.9 million; Edmonton State Bank, Edmonton, with deposits of \$9.9 million; Bank of Summer Shade, Summer Shade, with deposits of \$5.2 million; the Smith Grove branch of The American National Bank and Trust Company of Bowling Green, with total deposits of \$69.6 million; and the Fountain Run

agency branch of Gamaliel Bank, Gamaliel, with total deposits of \$9.5 million.

The service areas of the charter and merging banks do overlap, and consummation of the proposed transaction will result in a slight lessening of competition. However, the extent of any loss of competition in Barren County is minimized by the fact that Hiseville Deposit Bank has had little competitive impact outside of its own service area. In addition, the merger will not place the resulting bank in a dominant position and there are sufficient banking alternatives in the county.

Consummation of the proposed transaction will result in new and expanded banking services for the Hiseville community. The resulting bank will offer agricultural and installment lending programs, bank credit card services and trust services, none of which are presently provided by the merging bank.

Recently, the chief executive officer of Hiseville Deposit Bank died suddenly, leaving a void in the bank's leadership. Because of the size and location of the merging bank, it will have difficulty attracting qualified successor management. The subject proposal will solve that problem.

Applying the statutory criteria, it is concluded that although the proposed merger will result in a slight lessening of competition, the Hiseville community will receive increased and more convenient banking services; therefore, this application is approved.

February 24, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

In sum, this proposed merger will eliminate some existing competition and will slightly increase concentration in commercial banking, and will eliminate one of the five banks currently serving the area. Be that as it may, in view of the small size of Bank and the community it serves, the low population density of the market and the managerial difficulties suffered by Bank, we conclude that the overall competitive effect of the proposed merged would be slightly adverse.

* * *

**GREENVILLE NATIONAL BANK,
Greenville, Ohio, and The Citizens Bank Company, Ansonia, Ohio**

<i>Name of bank and type of transaction</i>	<i>Total assets*</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
The Citizens Bank Company, Ansonia, Ohio, with was purchased Apr. 10, 1976, by Greenville National Bank, Greenville, Ohio (13944), which had	\$8,473,000	1	—
After the purchase was effected, the receiving bank had	35,096,000	4	—
	43,797,000	—	5

COMPTROLLER'S DECISION

On October 29, 1975, Greenville National Bank, Greenville, Ohio, applied to the Comptroller of the Currency for permission to purchase the assets and assume the liabilities of the Citizens Bank Company, Ansonia, Ohio.

Greenville National Bank, the purchasing bank, was chartered in 1934 and is presently the second largest of nine banks located in Darke County, Ohio. The bank operates three banking offices—two in Greenville, and one in Gettysburg, 7 miles to the east. The purchasing bank has received approval to open an additional office in Darke County. The bank has assets of approximately \$34.9 million and total IPC deposits of approximately \$26.9 million.

The Citizens Bank Company, the selling bank, was organized in 1904 and operates one banking office. With assets of \$8.2 million and total IPC deposits of \$6.4 million, it is the smallest commercial bank in Darke County.

Both banks are located in Darke County, in southwestern Ohio, population about 50,000. The service area of the purchasing bank is the Greenville - Gettysburg area which has a population of approximately 40,000 persons and, despite the presence of some manufacturers, is primarily an agricultural area. The selling bank is located in Ansonia, 8 miles north of Greenville and has a population of 1,100. With the exception of a few small stores, the service area of the selling bank is entirely reliant upon agriculture for its economic base.

Both the selling and purchasing bank compete with seven banks located in Darke County. They are: Second National Bank of Greenville, Greenville, Ohio, with total deposits of \$33.1 million; The Farmers State Bank, Union City, Ohio, with total deposits of \$17.8 million; Peoples National Bank, Versailles, Ohio, with total deposits of \$16.1 million; Arcanum National Bank, Arcanum, Ohio, with total deposits of \$14.8 million; The Farmers State Bank and Trust Company, New Madison, Ohio, with total deposits of \$10.2 million; The Citizens State Bank, Greenville, Ohio, with total deposits of \$9.3 million; and The Osgood State Bank, Osgood, Ohio, with total deposits of \$7.1 million. Competition is also provided by three savings and loan institutions: Greenville Federal Savings and Loan Association,

Greenville, Ohio, with total deposits of \$41.6 million; Arcanum Federal Savings and Loan Association, Arcanum, Ohio, with total deposits of \$17.7 million; and Versailles Savings and Loan Company, Versailles, Ohio, with total deposits of \$5.9 million.

Because the purchasing and selling banks' head offices are located approximately 8 miles apart there is some competitive overlap in trade areas and there is some direct competition between them. Should the proposed transaction take place, the resulting bank would become the largest bank in Darke County giving the applicant approximately 26 percent of the county's total deposits. The next largest bank in Darke County, Second National Bank of Greenville, has approximately 24 percent of the total deposits in the county. A total of six banks will remain in Darke County to provide alternative banking services in addition to the resulting bank. Furthermore, inasmuch as the selling bank is the smallest bank in Darke County, its elimination will not greatly alter the competitive structure of the banking market within the county.

Any slightly adverse competitive effects experienced as a result of this transaction will be outweighed by the benefits to the community which will accrue in terms of its convenience and needs. The lending limit of the resulting bank will be much larger than the current limit of the selling bank, which is considered inadequate to meet the requirements of the larger agricultural farms located in the trade area. Other benefits that will result from the consummation of the proposed transaction will be an increased capacity for consumer lending, introduction of a bank credit card plan and automated bookkeeping.

It is noted that the selling bank's chief executive officer is 23 years old with only 1 year of banking experience, four of its six directors are at least 75 years old, and there is no provision for successor management. Management of the purchasing bank is considered good and, if the proposed acquisition occurs, the resulting bank will provide the Ansonia area with those qualities now found lacking in the selling bank's management.

The statutory criteria having been met, it is concluded that the proposed transaction is in the public interest. The application is, therefore, approved.

March 2, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

There are presently nine banks in Darke County, of which Second National Bank of Greenville is the

* Asset figures are as of call dates immediately before and after transaction.

largest (total deposits - \$30 million; IPC demand deposits \$11.2 million, as of June 30, 1975) with about 22 percent of total county deposits. Applicant is the second largest with about 21 percent of total county deposits. Bank ranks eighth, with about 5 percent of total county deposits. The remaining six banks in the county are relatively small, single-office banks. The proposed acquisition, accordingly, would give Applicant about 26 percent of total county deposits, would make Appli-

cant the largest bank in the county and would give the two largest banks in the county control over almost 50 percent of total county deposits.

Accordingly, although Bank is rather small, it appears that the proposed acquisition will have an adverse effect on competition inasmuch as it will eliminate some direct competition and will also contribute to increased concentration of commercial banking in Darke County.

* * *

**LANDMARK BANK OF POMPANO BEACH, N.A.,
Pompano Beach, Fla., and The Security State Bank of Pompano Beach, Pompano Beach, Fla.**

Name of bank and type of transaction	Total assets*	Banking offices	
		In operation	To be operated
The Security State Bank of Pompano Beach, Pompano Beach, Fla., with was purchased Apr. 19, 1976, by Landmark Bank of Pompano Beach, N. A., Pompano Beach, Fla.	\$5,007,000	1	_____
(16574), which had	945,000	0	_____
After the purchase was effected, the receiving bank had	5,242,000	_____	1

COMPTROLLER'S DECISION

Landmark Bank of Pompano Beach, N.A. (a proposed *de novo* bank), Pompano Beach, Fla. ("Assuming Bank") has applied to the Comptroller of the Currency for permission to purchase substantially all of the assets and assume substantially all of the liabilities of The Security State Bank of Pompano Beach, Pompano Beach, Fla., ("Selling Bank") under the charter and with the title of the former. This application has been processed pursuant to the emergency provisions of the Bank Merger Act of 1966, contained within 12 USC 1828(c).

Inasmuch as the Assuming Bank is a proposed new bank, it has no operating history. Selling Bank was organized in 1973 and currently has total deposits of \$4.4 million. On a *pro forma* basis, the surviving banking institution will become a wholly-owned subsidiary of Landmark Banking Corporation, Fort Lauderdale, Fla. ("Landmark"). Landmark is presently the eighth largest bank holding company in the state of Florida, with 16 banking subsidiaries controlling total deposits of \$744.3 million, representing approximately 3 percent of total commercial bank deposits in Florida.

In the relatively short operating history of the Selling Bank, it has experienced an unusually rapid turnover of management personnel, and has suffered substantial loan losses that have had a seriously adverse effect upon the bank's capital structure. Additionally, Selling Bank has not been able to augment its eroded capital position due to a trend of net operating losses. In view of these and other relevant factors of record, it is the conclusion of this Office that, absent the subject proposal, the failure of Selling Bank is probable.

Pursuant to the provisions of the Bank Merger Act of 1966, 12 USC 1828(c), the Comptroller of the Currency cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless the Office concludes that the anticompetitive effects are clearly outweighed in the public interest by the probable effect of the proposed transaction in adequately meeting the convenience and needs of the community to be served. Furthermore, the Office of the Comptroller is also directed to fully consider the financial and managerial resources and future prospects of the existing and proposed institution. Whenever necessary, however, to successfully prevent the disruption attendant upon the probable failure of a bank, the Comptroller can dispense with the uniform standards applicable to usual acquisition transactions and need not consider the reports relating to the competitive consequences of the transaction ordinarily solicited from the United States Department of Justice and other banking agencies. The Comptroller is specifically authorized in such exigent circumstances to act immediately, in his sole discretion, to approve an acquisition and to authorize the immediate consummation of the proposed transaction.

The subject proposal is deemed to be in accord with all pertinent provisions of the National Bank Act and will serve to prevent disruption of banking services to the Pompano Beach banking community and any potential losses to uninsured depositors.

Because of the proposed affiliation with Landmark, the surviving institution's financial and managerial resources and future prospects are enhanced and appear favorable. Of vital importance, consummation of this proposal will insure the continued, uninterrupted provision of banking services to the present customers of The Security State Bank of Pompano Beach, thereby maintaining the confidence of the public in the banking system.

* Asset figures are as of call dates immediately before and after transaction.

Applying the statutory criteria contained within 12 USC 1828(c), the Comptroller of the Currency concludes that an emergency situation exists that requires expeditious action in order to prevent the probable failure of the Selling Bank. For the reasons herein stated, the Assuming Bank's application to purchase the assets and assume the liabilities of The Security

State Bank of Pompano Beach is judged to be in the public interest and should be, and hereby is, approved.

April 15, 1976.

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

* * *

**THE FIRST NATIONAL BANK OF GREENVILLE,
Greenville, Ala., and The Citizens Bank of Georgiana, Georgiana, Ala.**

<i>Name of bank and type of transaction</i>	<i>Total assets</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
The Citizens Bank of Georgiana, Georgiana, Ala., with	\$ 7,858,133	1	_____
and The First National Bank of Greenville, Greenville, Ala. (5572), which had	35,702,450	2	_____
merged Apr. 30, 1976, under charter and title of the latter bank (5572). The merged bank at date of merger had	43,217,737	_____	3

COMPTROLLER'S DECISION

On November 18, 1975, The Citizens Bank of Georgiana, Georgiana, Ala., and The First National Bank of Greenville, Greenville, Ala., applied to the Comptroller of the Currency for permission to merge under the charter and with the title of the latter.

The First National Bank of Greenville, the charter bank, was established September 10, 1900, and now has total commercial deposits of approximately \$31 million, which represent approximately 57 percent of total deposits in Butler County. The bank is domiciled in the city of Greenville and currently operates as a unit bank.

In 1930, the city of Georgiana, Ala., had two banking institutions; however, both failed and the town was left without local banking service. Consequently, the management and shareholders of the charter bank sought permission to establish an office in Georgiana, but Alabama's restrictive state branching statutes in effect at the time forbade the establishment of a branch office. Utilizing a portion of the capital funds of the charter bank, principals of the charter bank became organizers of The Citizens Bank of Georgiana, the merging bank, which opened as a state-chartered banking institution in 1931. The two banks are affiliates as defined by 12 USC 221a. From that beginning, the two banks have continued to operate as affiliates with considerable directorate and shareholder interlocks. To cite but one case-in-point, the same person serves as president of both the charter and merging banks.

On March 10, 1975, the Alabama State Legislature made provision for:

Any bank, either incorporated or unincorporated, whose principal place of business is located in Butler County shall have the power to establish, to maintain, and to operate within the limits or bound-

aries of such county one or more branches or branch banks. . . .

The purpose of the instant proposal is to provide the means whereby The Citizens Bank of Georgiana may become a more integral part of the charter bank, as opposed to the merging bank continuing its present status as an affiliate. Consummation of the subject proposal will provide for certain economies of scale, permit consolidation of some banking services and, generally, improve and expand banking services available to the populace of Butler County.

It is recognized that approval of this proposal would have the effect of eliminating one of three banking alternatives domiciled in Butler County, Ala. However, the charter bank competes with 13 banking offices, excluding the merging bank, in its service area which includes portions of seven neighboring counties. Moreover, due to the aforementioned long-standing affiliation between the charter and merging banks, and the approximately 20 miles which separate the two banks, neither bank actively solicits business from the primary service area of the other.

Applying the statutory criteria, it is concluded that the proposed merger would have no significantly adverse competitive effects and is not adverse to the public interest. Accordingly, this application should be, and therefore is, approved.

March 8, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Both parties to this proposed merger operate under the same majority stockholder and director control, one branch having been initially created and capitalized by the other. In short, the merger proposal is essentially a corporate reorganization. Accordingly, it appears that the proposal will have no effect upon competition.

* * *

THE HUNTINGTON NATIONAL BANK OF COLUMBUS,
Columbus, Ohio, and The Pickerington Bank, Pickerington, Ohio

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The Pickerington Bank, Pickerington, Ohio, with and The Huntington National Bank of Columbus, Columbus, Ohio (7745), which had merged May 1, 1976, under charter and title of the latter bank (7745). The merged bank at date of merger had	\$ 8,999,000 872,964,000 881,175,000	2 32 _____	_____ _____ 34

COMPTROLLER'S DECISION

On January 5, 1976, The Pickerington Bank, Pickerington, Ohio, and The Huntington National Bank of Columbus, Columbus, Ohio, applied to the Comptroller of the Currency for permission to merge under the charter and title of "The Huntington National Bank of Columbus."

The Huntington National Bank of Columbus, the charter bank, was organized in 1866 and presently operates 33 offices with assets of \$822 million and IPC deposits of \$531 million. The charter bank is the lead bank for Huntington Bancshares, Inc., Columbus, which has 11 other affiliated banks, and is the state's eighth largest bank holding company.

The primary service area for the charter bank is Franklin County, Ohio. Columbus, the principal city in Franklin County, is the state capital and second largest city in Ohio with a population of approximately 540,000. The economy of Franklin County is highly diversified and is supported by a mix of manufacturing, service and transportation industries.

The charter bank is the second largest of eight banks in Franklin County and competes primarily with other commercial banks located in the Columbus Metropolitan Area, including Ohio National Bank, Columbus, with deposits of \$974 million, a member of BancOhio Corporation; The City National Bank and Trust Company of Columbus, with deposits of \$544 million, a member of First Bank Group of Ohio, Inc.; and The Ohio State Bank, Columbus, with deposits of \$103 million, a member of BancOhio Corporation.

The Pickerington Bank, the merging bank, was established in 1910 and currently has assets of \$9.5 million and IPC deposits of approximately \$7.5 million. The merging bank operates only one branch in Pickerington in addition to its main office. Pickerington is a small rural community with a population of about 700 persons, located approximately 18 miles southeast of downtown Columbus. The service area of the merging bank is confined to Pickerington and the immediately surrounding area in northwest Fairfield County. Historically, the service area has been almost entirely residential and agricultural, with very little industry.

Fairfield County is adjacent to Franklin County but, because of Ohio's branching laws, the charter bank had been unable to expand into the merging bank's service area through branching. However, portions of the northwest area of Fairfield County were recently annexed into the Columbus Standard Metropolitan Statistical Area (SMSA). As a result, the proposed

merger is now permissible under Ohio's branching laws.

The merging bank is the only bank headquartered in Pickerington, and is the fifth largest of eight banks in Fairfield County. Within the last 2 years, several Columbus-based financial institutions have opened offices in the merging bank's service area, including Ohio National Bank, noted above, and three savings and loan associations. Other competition for the merging bank is provided by The Millersport Bank Company, Millersport, with deposits of \$6 million; The Hocking Valley National Bank, Lancaster, with deposits of \$36 million, a member of BancOhio Corporation; The Farmers & Citizens Bank of Lancaster, with deposits of \$45 million; and The Fairfield National Bank, Lancaster, with deposits of \$36 million.

Consummation of the proposed transaction will result in eliminating one independent bank serving Fairfield County. However, the impact of any loss of competition is greatly minimized by the fact that the merging bank, because of its limited resources, has not been a strong competitor in the county. Additionally, it is unlikely that the merging bank will be able to offer the level of services needed to compete effectively with the substantially larger Columbus-based institutions which have recently branched into its service area. Also, the number of financial institutions now in the area militates against the charter bank's successful *de novo* branching into the immediate Pickerington area; but, by consummation of the subject transaction, a new vigorous competitor will enter the community.

Furthermore, the resulting bank will offer the following services not presently available to the customers of the Pickerington Bank, a full line of checking accounts, such as overdraft checking; computerized savings accounts with higher effective interest rates; 24-hour automatic teller machines; lower minimum amounts on certificates of deposit; a bank credit card program; and real estate mortgages with lower down payments and longer terms.

The subject merger will not change the charter bank's deposit ranking in Franklin County and the parent holding company, Huntington Bancshares, Inc., will retain the same relative competitive position.

Applying the statutory criteria, it is concluded that the proposed merger will result in some slight degree of loss of competition, but the community of Pickerington will benefit by increased banking services. It is the opinion of this Office that any slightly anticompetitive effects of the subject proposal are clearly out-

weighed by considerations of convenience and needs and considerations relating to financial and managerial resources. Accordingly, the proposal is deemed to be in the public interest and should be, and hereby is, approved.

March 29, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Fairfield County (population 80,000) is in central Ohio and borders Franklin County in which Columbus is situated. The Columbus SMSA embraces Franklin, Fairfield and three other counties. Fairfield County is now part of the Columbus SMSA. Pickerington, the situs of Bank, is in the northeastern portion of Fairfield County and is located approximately midway (about 18 miles from each) between Lancaster, the county seat, and downtown Columbus. The Pickerington area has been growing more rapidly than the remainder of Fairfield County; its population increased by over 50 percent between 1960 and 1970, to about 4,800, and is expected to almost double to about 8,800 by 1980. Much of that growth is due to the area becoming a residential suburb of Columbus.

Applicant has two offices located 6 and 7 miles, respectively, from the head office of Bank; one of these offices appears to be only 2.5 miles from Bank's branch office. It appears that Applicant derives 0.5 percent of its total deposits and loans from the principal service area of Bank and, conversely, that Bank derives 17 percent of the total deposits and 15 percent of its total loans from the principal service area of Applicant. Thus, although the dollar amounts involved are relatively small, it is nonetheless obvious that the proposed acquisition will eliminate existing competition between the merger parties.

The Columbus banking market is highly concentrated with three of the 13 banking organizations (which operate 15 banks) serving the area accounting for 95 percent of the total deposits. It appears that Applicant ranks second with 25.6 percent of total deposits, with the largest bank holding 45.7 percent of total deposits, and that Bank ranks 14th among the 15 banks, with a market share of 0.4 percent. Thus, the proposed acquisition will increase Applicant's market share to 26 percent and thus will worsen an already badly concentrated situation. It should be noted that the 10 banks which collectively share with Bank the 5 percent of total deposits left over from the three dominant banks are each large enough to be potential candidates for merger with Bank, and that a merger between any of the 10 banks and Bank would be far preferable to the proposed merger between Applicant and Bank.

Applicant currently has no branches in Fairfield County. However, the extension of the corporate limits of Columbus in 1974 means that Applicant is now free to branch into Pickerington, Bank's headquarters. Indeed, Ohio National, the largest bank in the Columbus banking market, recently received approval to open a branch in Pickerington and is in the process of constructing it. The rapid growth in Pickerington, and its projected continuation, suggest that Applicant might well decide to enter the area *de novo* absent this proposed acquisition.

In sum, the proposed acquisition, although it involves the acquisition of a relatively small bank, will nonetheless have an adverse effect upon both existing and potential competition and will contribute to the unhealthy degree of concentration which characterizes the Columbus banking market.

* * *

**THE FIRST NATIONAL BANK OF STONE HARBOR,
Stone Harbor, N.J., and Independent National Bank, Willingboro, N.J.**

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Independent National Bank, Willingboro, N.J. (16092), with	\$15,752,751	1	_____
and The First National Bank of Stone Harbor, Stone Harbor, N.J. (12978), which had	37,263,361	3	_____
merged May 3, 1976, under charter of the latter bank (12978) and title "Independent National Bank." The merged bank at date of merger had	53,016,112	_____	4

COMPTROLLER'S DECISION

On July 15, 1975, Independent National Bank, Willingboro, N.J., and The First National Bank of Stone Harbor, Stone Harbor, N.J., applied to the Comptroller of the Currency for permission to merge under the charter of First National Bank of Stone Harbor and with the title "Independent National Bank."

The First National Bank of Stone Harbor, the charter bank, was established in 1926 and now operates three offices in Cape May County with IPC deposits of approximately \$16.3 million and total assets of approximately \$3.1 million. The primary service area of the

bank is located in the mideastern portion of Cape May County which is a summer resort and retirement area with an estimated population of 8,784 persons. The entire county of Cape May has an estimated population of 59,000 persons.

Competition for the charter bank is provided by an office of First National Bank of South Jersey, Pleasantville, with deposits of \$387 million, which recently acquired The Cape May County National Bank, Ocean City. Coastal State Bank, Ocean City, with deposits of \$28.9 million, has an application pending for a branch in the primary service area of the charter bank. Additional competition in Cape May County is

provided by First National Bank of Cape May Court House, with deposits of \$46.8 million; Marine National Bank, Wildwood, with deposits of \$54.5 million; Union Trust Company of Wildwood, with deposits of \$32.3 million; and Citizens United Bank, N. A., Vineland, with deposits of \$106 million, which is a member of Citizens Bankcorp.

Independent National Bank, the merging bank, was organized in 1973 and has IPC deposits of \$6.5 million and assets of \$10.2 million. The merging bank's service area is located in the northwestern portion of Burlington County which is an economically diversified area with considerable growth potential and has an estimated population of 323,123 persons.

Competition for the merging bank is provided by offices of New Jersey National Bank, Trenton, with deposits of \$625 million, which is a member of New Jersey National Corporation; First National State Bank/Mechanics, Burlington Township, with deposits of \$121 million, which is a member of First National State Bancorporation; Fidelity Bank and Trust Company of New Jersey, Pennsauken, with deposits of \$62.8 million; Bank of West Jersey, Delran, with deposits of \$34.5 million, which is a member of Fidelity Union Bancorporation; Friendly National Bank of New Jersey, Cinnaminson, with deposits of \$22.2 million; and First Na-

tional Bank and Trust Company of Beverly, Edgewater Park, with deposits of \$21.4 million. Competition in the service area is also provided by offices of the Howard Savings Bank, Newark, with deposits of \$1.3 billion.

There is negligible competition between the merging banks because of the large distance between them. The closest offices of these two banks are 63 miles apart.

Consummation of the proposed merger will stimulate competition in the service area of the merging bank because the resulting branch in Willingboro will have a larger lending limit and be an overall stronger competitor to the other banks in that market. The proposed merger will also help to alleviate a management succession problem at Independent National Bank.

Applying the statutory criteria, it is concluded that the proposed merger is in the public interest and the application is, therefore, approved.

February 10, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

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

* * *

THE CHASE MANHATTAN BANK (NATIONAL ASSOCIATION), New York, N.Y., and Chase Manhattan Bank of Long Island (National Association), Melville, N.Y., and Chase Manhattan Bank of the Mid-Hudson (National Association), Saugerties, N.Y., and Chase Manhattan Bank of Central New York (National Association), Syracuse, N.Y., and Chase Manhattan Bank of Eastern New York (National Association), Albany, N.Y., and Chase Manhattan Bank of the Southern Tier (National Association), Binghamton, N.Y., and Chase Manhattan Bank of Greater Rochester (National Association), Caledonia, N.Y., and Chase Manhattan Bank of Western New York (National Association), Buffalo, N.Y., and Chase Manhattan Bank of Northern New York (National Association), Canton, N.Y.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Chase Manhattan Bank of Long Island (National Association), Melville, N.Y. (15922), which merged Mar. 22, 1976, with	\$ 27,867,484	6	—
and Chase Manhattan Bank of the Mid-Hudson (National Association), Saugerties, N.Y. (1040), which merged Apr. 2, 1976, with	28,546,044	9	—
and Chase Manhattan Bank of Central New York (National Association), Syracuse, N.Y. (16047), which merged Apr. 9, 1976, with	18,019,231	6	—
and Chase Manhattan Bank of Eastern New York (National Association), Albany, N.Y. (16203), which merged Apr. 16, 1976, with	12,063,811	4	—
and Chase Manhattan Bank of the Southern Tier (National Association), Binghamton, N.Y. (16379), which merged Apr. 23, 1976, with	6,843,472	2	—
and Chase Manhattan Bank of Greater Rochester (National Association), Caledonia, N.Y. (16050), which merged May 3, 1976, with	25,631,563	7	—
and Chase Manhattan Bank of Western New York (National Association), Buffalo, N.Y. (13952), which merged May 7, 1976, with	30,910,986	9	—
and Chase Manhattan Bank of Northern New York (National Association), Canton, N.Y. (3696), which merged May 21, 1976, with	20,445,027	1	—
and The Chase Manhattan Bank (National Association), New York, N.Y. (2370), which had merged under charter and title of the latter bank (2370). The merged bank at date of merger had	25,409,953,855	227	—
	25,489,462,000	—	270

COMPTROLLER'S DECISION

On January 9, 1976, the following banks applied to the Comptroller of the Currency for permission to merge with The Chase Manhattan Bank (National Association), New York, N.Y., under its charter and title: Chase Manhattan Bank of Long Island (National Association), Melville, N.Y.; Chase Manhattan Bank of the Mid-Hudson (National Association), Saugerties, N.Y.; Chase Manhattan Bank of Eastern New York (National Association), Albany, N.Y.; Chase Manhattan Bank of Central New York (National Association), Syracuse, N.Y.; Chase Manhattan Bank of the Southern Tier (National Association), Binghamton, N.Y.; Chase Manhattan Bank of Greater Rochester (National Association), Caledonia, N.Y.; Chase Manhattan Bank of Western New York (National Association), Buffalo, N.Y.; and Chase Manhattan Bank of Northern New York (National Association), Canton, N.Y.

The proposed merger represents a corporate reor-

ganization which would merely combine nine existing subsidiary banks of Chase Manhattan Corporation into a single institution that would continue under the ownership of the holding company. The resulting bank will continue to operate all existing offices of the charter and merging banks.

Applying the statutory criteria, it is concluded that the proposed merger is merely part of an internal corporate reorganization which will have no effect upon competition in New York State. This application is, therefore, approved.

February 20, 1976.

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.

* * *

**THE CITIZENS NATIONAL BANK IN GASTONIA,
Gastonia, N.C., and Union Trust Company of Shelby, Shelby, N.C.**

<i>Name of bank and type of transaction</i>	<i>Total assets</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
Union Trust Company of Shelby, Shelby, N.C., with	\$ 69,482,000	13	_____
and The Citizens National Bank in Gastonia, Gastonia, N.C. (13779), which had	125,452,000	13	_____
merged June 1, 1976, under charter of the latter bank (13779) and title "Independence National Bank." The merged bank at date of merger had	195,456,000	_____	26

COMPTROLLER'S DECISION

On November 26, 1975, The Citizens National Bank in Gastonia, Gastonia, N.C., applied to the Comptroller of the Currency for permission to merge with Union Trust Company of Shelby, Shelby, N.C., under the charter of the Citizens National Bank in Gastonia and with the title "Independence National Bank."

The Citizens National Bank in Gastonia, the charter bank, was chartered in 1933, and at present operates 12 offices: six branches in Gastonia and five branches in Gaston County. Citizens National Bank has assets of \$115 million and IPC deposits of approximately \$95 million which make it the 16th largest bank in North Carolina.

The charter bank serves Gaston County, a relatively well developed area, which is coextensive with the Gastonia SMSA. The principal manufacturing activity, textile and textile related production, generated 59 percent of the county's 1973 payroll. The Gaston County textile industry has recently rebounded from a recessionary period during which there was high unemployment.

Citizens National Bank competes directly with nine commercial banks, three of which are among the four largest banks in North Carolina. Competitors include Wachovia Bank and Trust Co., N.A., with deposits of \$2.64 billion; First Union National Bank, with deposits of \$1.45 billion; and First-Citizens Bank and Trust Co., with deposits of \$1.05 billion. Forty-two percent of the banking offices in Gaston County are maintained by those three banks. Competition is also provided by seven savings and loan associations and 18 loan and finance companies.

Union Trust Co. of Shelby, the merging bank, was chartered in 1922 and consolidated with Cleveland Bank and Trust Co. around 1930. It presently operates 11 branches in the Cleveland - Rutherford County area and has received approval to open a 12th branch. The economy in Cleveland and Rutherford counties is predominantly agricultural and is less dependent on the textile industry than is Gaston County's.

At present, Union Trust Co. has total assets of \$71.4 million and total IPC deposits of \$50.6 million, making it the second smallest bank in the Cleveland - Rutherford County area. Union Trust Co. competes directly with First Union National Bank, with deposits of \$1.45 billion; First Citizens Bank and Trust Co., with deposits of \$1.05 billion; and Northwest Bank, with deposits of \$936 million. Those are three of the state's five largest

banks and they operate 56 percent of the offices in the two-county area.

The two banks submitting this application operate in different geographic areas. Their nearest offices are 20 miles apart and there is little, if any, direct competition between them.

Consummation of the proposed merger will leave the relative position of competitor banks in the Gaston - Rutherford - Cleveland County market areas virtually unchanged. Since four of the five largest North Carolina banks operate in the market area of the resulting bank, consummation of the proposed transaction will not adversely affect competition. On the contrary, competition in the three-county area should be further stimulated by the addition of a new, larger competitor, able to offer a wider range of services that either bank is capable of offering as an independent competitor.

Applying the statutory criteria, it is concluded that the proposed merger is in the public interest and will not adversely affect competition. This application is, therefore, approved.

March 12, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger would not produce a significant increase in concentration in commercial banking. Commercial banking in North Carolina is dominated by five major banks who collectively hold in excess of two-thirds of total statewide deposits. Consummation of the proposed merger will not exacerbate the current structure of commercial banking in the state and, indeed, it may produce a new bank of sufficiently enhanced competitive vigor so as to offset the power of the dominant banks. In terms of the tri-county area in which the parties operate, the proposed merger will produce a modest degree of increased concentration. Applicant is the fifth largest of nine commercial banks operating in Gaston County and Bank is the smallest bank operating in Cleveland County, although it is the fourth largest of five commercial banks operating in the combined Cleveland and Rutherford counties.

North Carolina law permits statewide branch banking. Hence, in theory, the participants are free to branch into the areas currently served by each other. However, there appears to be little likelihood that either Applicant or Bank would be apt to make further entry into each other's service area. The towns in the tri-county area served by Applicant and Bank are all

presently served by more banks on the average than are towns of similar population size nationwide. In addition, there are 40 banking offices in the area involved, and the population per banking office is 12 to

18 percent below the United States average.

In conclusion, it is our view that the proposed acquisition will have an insignificant effect upon competition.

* * *

**FIRST CITY BANK - NORTHEAST, N.A.,
Houston, Tex., and Northeast Bank of Houston, Houston, Tex.**

<i>Name of bank and type of transaction</i>	<i>Total assets*</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
Northeast Bank of Houston, Houston, Tex., with	\$19,872,000	1	_____
was purchased June 8, 1976, by First City Bank - Northeast, N. A., Houston, Tex. (16585), which had	1,250,000	0	_____
After the purchase was effected, the receiving bank had	16,724,000	_____	1

COMPTROLLER'S DECISION

On June 6, 1976, application was made to the Comptroller of the Currency by the First City Bank - Northeast, N.A., Houston, Tex., for permission to purchase certain of the assets and assume certain of the liabilities of the Northeast Bank of Houston, Houston, Tex. Instant application rests upon an agreement incorporated herein by referencing the same as if fully set forth, and, for the reasons set forth below the application is hereby approved and the assuming bank is hereby authorized immediately to consummate purchase and assumption transaction.

Under the Bank Merger Act, 12 USC 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless he finds these anticompetitive effects 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. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institution, and the convenience and needs of the community to be served. When necessary, however, to prevent the evils attendant upon the failure of a bank, the Comptroller can dispense with the uniform 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. He

is authorized in such circumstances to act immediately, in his sole discretion, to approve an acquisition, and to authorize the immediate consummation of the transaction.

The proposed acquisition will be in accord with all pertinent provisions of the National Bank Act and will prevent disruption to the community and potential losses to a number of uninsured depositors. The assuming bank will have strong financial and managerial resources, and this acquisition will enable it to enhance the banking services offered in the Houston community. Thus, the approval of this transaction will help to avert a loss of public confidence in the banking system, and will improve the services offered to the banking public.

The Comptroller 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 those reasons, the assuming bank's application to assume certain liabilities and purchase certain assets of Northeast Bank of Houston as set forth in the agreement is approved. The Comptroller further finds that the failure of Northeast Bank of Houston requires him to act immediately, as contemplated by the Bank Merger Act, to prevent disruption of banking services to the community; and the Comptroller waives publication of notice, dispenses with the solicitation of competitive reports from other agencies and authorizes the transaction to be consummated immediately.

June 8, 1976.

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

* * *

VALLEY NATIONAL BANK,
Passaic, N.J., and Bank of Wayne, National Association, Wayne, N.J.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Bank of Wayne, National Association, Wayne, N.J. (15934), with	\$ 10,079,000	1	_____
and Valley National Bank, Passaic, N.J. (15790), which had	242,671,000	9	_____
merged June 11, 1976, under charter and title of the latter bank (15790). The merged bank at date of merger had	252,535,000	_____	10

COMPTROLLER'S DECISION

On January 16, 1976, Bank of Wayne, National Association, Wayne, N.J., and Bank of Passaic and Clifton, National Association, Passaic, N.J., applied to the Comptroller of the Currency for permission to merge under the charter of the latter and with title "Valley National Bank."

Bank of Passaic and Clifton, National Association ("BOPAC"), the charter bank, was organized in 1927, and converted to a national banking charter in 1970. As of December 31, 1975, BOPAC was the 27th largest bank domiciled in New Jersey, and controlled total commercial deposits of \$217.1 million. BOPAC presently operates seven branches within the counties of Passaic and Morris in the municipalities of Passaic, Clifton, Little Falls, and Pequannock.

Bank of Wayne, National Association ("BOW"), the merging bank, is headquartered in the township of Wayne, N.J., and opened for business in 1972. As of December 31, 1975, BOW was the 161st largest commercial bank in the state and had total deposits of \$9.3 million. The merging bank presently has no operating branches, but does have one approved, but unopened, branch approximately 4 miles southeast of its main office.

The charter and merging banks have always been affiliated by virtue of their common stock ownership. BOW was opened in 1972 in order to enable BOPAC to better serve the banking needs of customers in the immediate Wayne area. The merging bank was forced

to enter as a *de novo* institution inasmuch as New Jersey restrictive branching statutes in effect at that time, did not permit BOPAC to branch into Wayne.

As aforementioned, both banks are owned by common stockholders. Additionally, seven of 10 directors of BOW are directors of BOPAC, and seven of 12 directors of BOPAC are also directors of BOW. Because of that close affiliation, there has never been, and is not presently, any active competition between the two banks. Consummation of the instant proposal would, therefore, not adversely effect either present or future competition in the area. The proposed merger should bring into being greater economies of operation for the two banks and the resulting institution should be better able to more adequately and more actively compete with numerous other financial institutions in the area by utilizing its resources to the fullest.

Applying the statutory criteria, it is concluded that the proposed merger will result in a more viable competitor in the relevant market and increase the banking services offered to the community. It is the opinion of this Office that the proposal is in the public interest, and should be, and hereby is, approved.

April 9, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

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

* * *

NEW JERSEY BANK (NATIONAL ASSOCIATION),
Clifton, N.J., and First State Bank of Hudson County, Jersey City, N.J.

Name of bank and type of transaction	Total assets *	Banking offices	
		In operation	To be operated
First State Bank of Hudson County, Jersey City, N.J., with was purchased June 15, 1976, by New Jersey Bank (National Association), Clifton, N.J.	\$13,646,000	3	—
(15709), which had	749,973,000	37	—
After the purchase was effected, the receiving bank had	775,979,000	—	40

COMPTROLLER'S DECISION

On June 15, 1976, application was made to the Comptroller of the Currency by the New Jersey Bank, National Association, Clifton, N.J. ("Assuming Bank"), for permission to purchase certain of the assets and assume certain of the liabilities of the First State Bank of Hudson County, Jersey City, N.J. This application rests upon an agreement incorporated herein by referencing the same as if fully set forth and, for the reasons set forth below the application is hereby approved and the Assuming Bank is hereby authorized immediately to consummate the transaction.

Under the Bank Merger Act, 12 USC 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless he finds these anticompetitive effects 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. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institution, and the convenience and needs of the community to be served. When necessary, however, to prevent the evils attendant upon the failure of a bank, the Comptroller can dispense with the uniform 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. He

is authorized in such circumstances to act immediately, in his sole discretion, to approve an acquisition and to authorize the immediate consummation of the transaction.

The proposed acquisition will be in accord with all pertinent provisions of the National Bank Act and will prevent disruption to the community. The Assuming Bank has adequate financial and managerial resources, and this acquisition will enable it to enhance the banking services offered in the Clifton community. Thus, the approval of this transaction will help to avert a loss of public confidence in the banking system and will improve the services offered to the banking public.

The Comptroller 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 those reasons, the Assuming Bank's application to assume certain liabilities and purchase assets of First State Bank of Hudson County as set forth in the aforementioned agreement is approved. The Comptroller further finds that the failure of First State Bank of Hudson County requires him to act immediately, as contemplated by the Bank Merger Act, to prevent disruption of banking services to the community; and 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.

June 15, 1976.

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

* Asset figures are as of call dates immediately before and after transaction.

* * *

FIRST BANK NATIONAL ASSOCIATION,
Cleveland, Ohio, and Community National Bank of Warrensville Heights, Warrensville Heights, Ohio

Name of bank and type of transaction	Total assets *	Banking offices	
		In operation	To be operated
Community National Bank of Warrensville Heights, Warrensville Heights, Ohio (15561), with was purchased June 18, 1976, by First Bank National Association, Cleveland, Ohio (16545), which had	\$15,927,000	2	—
After the purchase was effected, the receiving bank had	12,760,000	1	—
	29,734,000	—	3

COMPTROLLER'S DECISION

On June 17, 1976, application was made to the Comptroller of the Currency for prior approval for First Bank National Association, Cleveland, Ohio, ("Assuming Bank"), to purchase the assets and to assume the liabilities of Community National Bank of Warrensville Heights, Warrensville Heights, Ohio ("CNB"). The instant application rests upon an agreement, incorporated herein by reference the same as if fully set forth, and, for the reasons set forth below, the application is hereby approved, and the Assuming Bank is hereby authorized to immediately consummate the purchase and assumption transaction.

CNB was organized as a national bank on November 30, 1965, when it was granted charter number 15561. As of March 31, 1976, CNB was the only bank headquartered in Warrensville Heights, Ohio, and had total assets of approximately \$16 million. It has operated one branch office. During an examination of CNB commenced on July 15, 1974, a large number of poor quality loans purchased from, or originated through, Northern Ohio Bank, Cleveland, Ohio, were discovered. The Comptroller of the Currency entered into an agreement with the board of directors of the CNB on November 22, 1974, calling for the removal of approximately \$6,553,000 in loans acquired from, or originated by, the Northern Ohio Bank. All such loans were to be disposed of by January 31, 1975. Many of the loans were resold to the originating bank during the 3-month period from November 1974 through January 1975. However, upon the closing of Northern Ohio Bank in February 1975, approximately \$1,978,000 in loans purchased or otherwise acquired through that bank remained on the books of CNB. Subsequent loan losses and operating losses resulting from high interest cost, heavy occupancy expenses, declining loan revenues and a large employee staff eliminated all equity capital in the bank and encroached upon the \$540,000 in outstanding subordinated debentures. Equity capital was a deficit of \$142,000 as of the March 31, 1976 report of condition.

The severity and multiplicity of problems facing CNB by early 1976 required the earliest feasible addition of

equity capital and management expertise. An agreement has been negotiated between CNB and the Assuming Bank whereby the latter would purchase the assets and assume the liabilities, including all deposit liabilities, of the former. It is this agreement that the Comptroller is now asked to approve.

Pursuant to the Bank Merger Act of 1966, 12 USC 1828(c), the Comptroller of the Currency cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless he finds those anticompetitive effects 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. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institution and the convenience and needs of the community to be served. When necessary, however, to prevent the evils attendant upon the failure of a bank, the Comptroller can dispense with the uniform 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. He is authorized in such circumstances to act immediately, in his sole discretion, to approve an acquisition, and to authorize the immediate consummation of the transaction.

The proposed acquisition will be in accord with all pertinent provisions of the National Banking Act and will prevent a disruption of banking services to the community and potential losses to a number of uninsured depositors. The Assuming Bank will have strong financial and managerial resources and this acquisition will enable it to enhance the banking services offered in the Warrensville Heights community. Thus, the approval of this transaction will help to avert a loss of public confidence in the banking system and will improve the services offered to the banking public.

The Comptroller 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 those reasons, the Assuming Bank's application to purchase the assets and to assume the liabilities of CNB as set forth in their agreement is approved. The Comptroller

* Asset figures are as of call dates immediately before and after transaction.

further finds that the possible failure of CNB 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 the solicitation of com-

petitive reports from other agencies and authorizes the transaction to be consummated immediately.

June 18, 1976.

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

* * *

**WELLS FARGO BANK, NATIONAL ASSOCIATION,
San Francisco, Calif., and the Topanga Plaza Branch of City National Bank, Beverly Hills, Calif.**

Name of bank and type of transaction	Total assets *	Banking offices	
		In operation	To be operated
Topanga Plaza Branch of City National Bank, Beverly Hills, Calif. (14695), with	\$2,393,000	1	_____
was purchased June 28, 1976, by Wells Fargo Bank, National Association, San Francisco, Calif. (15660), which had	10,766,126,000	336	_____
After the purchase was effected, the receiving bank had	11,153,293,000	_____	337

COMPTROLLER'S DECISION

Wells Fargo Bank, National Association, San Francisco ("Wells"), has made application to the Comptroller of the Currency to purchase the assets and assume the liabilities of the Topanga Plaza Branch of City National Bank, Beverly Hills ("Topanga Plaza Branch").

Wells is the successor to Mercantile Trust Company which was incorporated under the laws of the state of California in 1920. Wells became a national banking association on January 30, 1962, and is the wholly-owned subsidiary of Wells Fargo Company, San Francisco. The third largest commercial bank domiciled in California, Wells controls total domestic deposits of \$9.8 billion.

City National Bank, the wholly-owned subsidiary of City National Corporation, Beverly Hills, was established in 1953, and currently holds total commercial bank deposits of \$560 million. The Topanga Plaza Branch of City National Bank was opened for business in March 1960, and has total deposits of approximately \$2.4 million.

The service area of Topanga Plaza Branch encompasses the communities of Woodland Hills, Warner Ranch and Canoga Park in the southwestern portion of the San Fernando Valley in the city of Los Angeles. The closest banking office of Wells is the Warner Ranch Office, less than 1 mile south of Topanga Plaza Branch. Wells and City National Bank are, therefore, considered to be in direct competition. However, the Los Angeles-Orange County banking market, the relevant banking market, is served by over 70 banks, including the 10 largest commercial banks in California. In a market as large as that of Los Angeles-Orange County,

the transfer of less than \$3 million in deposits between two banks whose market share of deposits is relatively small, will have no significant impact upon banking competition within the relevant area.

In conclusion, it is the opinion of this Office that this proposal will not adversely affect competition among banks in the relevant banking market, and inasmuch as the Topanga Plaza Branch of City National Bank has not been able to generate a satisfactory profit or volume of business sufficient to justify its continued existence, (as of October 1975, Topanga Plaza Branch controlled total deposits approximately \$725 thousand less than it did in December 1971) its *pro forma* operation as an adjunct to the Warner Ranch Office of Wells would insure the uninterrupted provision of banking services to the banking public. Accordingly, this application should be, and hereby is, approved.

May 25, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Applicant operates a branch office approximately 0.75 mile away from the Topanga Plaza Branch office in the Los Angeles area. Accordingly, there exists some degree of direct competition between Applicant and the Topanga Plaza Branch of Bank, minimized somewhat by the fact that the branches are on opposite sides of a heavily travelled boulevard which acts as a barrier. Applicant's branch holds about 3.4 percent of commercial banking deposits in the area and the Topanga Plaza Branch of Bank holds 1.1 percent of deposits. Hence, the proposed acquisition will have only a minimal effect upon concentration. Finally, although California permits statewide branch banking, it appears very improbable that the area could support *de novo* entry by Applicant.

In sum, the proposed acquisition will have only a minimal adverse effect upon competition.

* * *

FIRST NATIONAL BANK OF SPRINGFIELD,
Springfield, Vt., and The Merchants National Bank of St. Johnsbury, St. Johnsbury, Vt.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The Merchants National Bank of St. Johnsbury, St. Johnsbury, Vt. (2295), with	\$ 9,374,000	2	_____
and First National Bank of Springfield, Springfield, Vt. (122), which had	40,856,000	6	_____
merged June 30, 1976, under charter and title of the latter bank (122). The merged bank at date of merger had	48,691,000	_____	8

COMPTROLLER'S DECISION

The Merchants National Bank of St. Johnsbury, St. Johnsbury ("Merchants"), and First National Bank of Springfield, Springfield ("FNB"), have applied to the Comptroller of the Currency for permission to merge under the charter and with the title of the latter.

Merchants, the merging bank, was organized in 1875 and operates its head office in St. Johnsbury and branches in Lyndonville and Newport. As of December 31, 1975, Merchants controlled total commercial bank deposits of \$8.1 million.

FNB, the charter bank, was chartered as a national banking association in 1863 and, with total deposits of approximately \$36 million, is now the ninth largest of 30 commercial banks domiciled in Vermont. FNB currently operates a total of six banking offices in the state.

The closest operating branch offices of FNB and Merchants are more than 50 miles from each other, and the head offices of the two subject banks are separated by approximately 100 miles. Each of the two banks serves a separate and distinct market, and neither bank actively competes with the other. Consummation of the instant merger, therefore, would not eliminate any meaningful degree of existing competition.

Pursuant to applicable Vermont state statutes, statewide branching is permitted. Thus, either FNB or Merchants could legally establish a *de novo* branch office within the service area of the other subject bank. However, due to the relatively small size of both banks herein involved and the economic infeasibility of such a venture, it does not appear likely that these two banks would choose this mode of expansion. It is con-

cluded, therefore, that this merger would not adversely affect potential competition between these two institutions.

The resulting institution should be recognized as a more viable competitor and a more meaningful banking alternative that is better able to meet the banking needs of the communities to be served.

Accordingly, it is the opinion of this Office that the proposed transaction is in the public interest, and should be, and hereby is, approved.

May 26, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The head offices of the merging banks are located 100 miles apart and their closest branch offices are 50 miles apart. Thus, it would appear that no significant amount of direct competition would be eliminated by the proposed merger.

Under Vermont law, statewide branching is permitted. Applicant could, therefore, branch *de novo* into Bank's service area. Opportunities for further branching into the sparsely settled St. Johnsbury area are limited, however, due to the present concentration of four banking organizations in St. Johnsbury. Also, Applicant's resources are apparently not sufficient to justify branching into a distant area dominated by banks substantially larger than Bank, which is the smallest banking organization operating in St. Johnsbury.

The proposed transaction would not eliminate any significant amount of direct competition, although it would eliminate the potential for increased competition which would result if Applicant established a branch office in St. Johnsbury. Overall, the proposed merger has no significant competitive effect.

* * *

**BEACH HAVEN NATIONAL BANK AND TRUST COMPANY,
Beach Haven, N.J., and The Bank of New Jersey, N.A., Moorestown, N.J.**

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Beach Haven National Bank and Trust Company, Beach Haven, N.J. (11658), with	\$68,562,000	1	_____
and The Bank of New Jersey, N.A., Moorestown, N.J. (16397), which had	6,728,000	9	_____
merged June 30, 1976, under charter and title of the latter bank (16397). The merged bank at date of merger had	75,290,000	_____	10

COMPTROLLER'S DECISION

Beach Haven National Bank and Trust Company, Beach Haven ("Beach Haven Bank"), and The Bank of New Jersey, N.A., Moorestown ("BNJ"), have applied to the Comptroller of the Currency for permission to merge under the charter and with the title of the latter. The head office of the resulting bank will be at Moorestown.

Beach Haven Bank was chartered as a national banking association in 1920, and, as of December 31, 1975, controlled total commercial bank deposits of approximately \$58 million. With the one exception of a branch office located in Medford Lakes in Burlington County, the remaining seven branches and Beach Haven Bank's main office, are all located in the southeastern portion of Ocean County.

BNJ commenced business November 8, 1974, as a *de novo* banking subsidiary of the ninth largest banking organization in the state, Bancshares of New Jersey, Moorestown ("Bancshares"), a registered multi-bank holding company. At year-end 1975, Bancshares' three subsidiary banks held commercial bank deposits aggregating approximately \$644 million, \$2.6 million of which was controlled by BNJ. BNJ currently operates only from its head office. The bank has however, filed an application for permission to establish a branch office in Moorestown. To date, this Office has not acted upon the separate branch application of BNJ.

The closest office of Beach Haven Bank is approximately 12 miles distant from BNJ, although another subsidiary of Bancshares, The Bank of New Jersey, Camden, maintains a branch approximately 11 miles from the Medford Lakes branch of Beach Haven Bank. All other branches of Beach Haven Bank are at least 45 miles from BNJ's location in Moorestown. Due to the geographical distance involved and the presence of numerous intervening banks, consummation of the instant proposal would not eliminate any meaningful degree of present competition between the two subject banks.

Applicable New Jersey state banking statutes do make provision for statewide branch banking except for towns with a population of less than 20,000 persons (10,000 after January 1, 1977) where home office protection is in effect. Therefore, this merger would have the effect of foreclosing the potential for increased competition between subsidiaries of Bancshares and Beach Haven Bank.

By statute, 12 USC 1828(c)(5)(b), the Comptroller of the Currency must also consider the public interest by being mindful of the probable effect of the transaction in meeting the convenience and needs of the community to be served, and the Comptroller cannot approve a merger transaction which would have certain proscribed anticompetitive effects unless the Office concludes that these anticompetitive effects are clearly outweighed in the public interest by the probable effect of the proposed transaction in more adequately meeting the convenience and needs of the community to be served.

Consummation of this merger would enhance competition within Ocean County, and Beach Haven, N.J., would become open to *de novo* branching, and the services of the resulting institution would be extended beyond the resort-oriented trade area presently served by Beach Haven Bank. Additionally, affiliation with Bancshares will enhance the future prospects of the surviving bank by increasing the legal lending limit of the bank, providing greater access to capital markets, and providing for management depth and management succession. Thus, the new bank should be a more viable banking alternative that will be better able to compete with larger competitors and, thereby, better serve the needs of its banking community.

Accordingly, applying the statutory criteria, it is the opinion of this Office that the foreclosure of any slight degree of probable future competition which might arise between Beach Haven Bank and BNJ is clearly outweighed by considerations relating to convenience and needs and future prospects of the bank. Therefore, it is the opinion of this Office that this transaction is in the public interest, and should be, and hereby is, approved. This approval is conditioned upon amendments to the merger agreement and articles of association which will reflect the head office of BNJ as Moorestown. The amendments must be approved by shareholders of both banks and evidence of such approval must be received by the Comptroller's Office prior to consummation of the transaction.

May 28, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Bank's Medford Lakes Branch office is located about 12 miles northeast of Applicant's office and about 10 miles northeast of the two Gibbsboro offices of Bancshares. Bank's remaining branch offices are at least 45 miles southeast of Applicant's office. Thus, it

appears that the proposed acquisition will eliminate direct competition to an insignificant degree.

New Jersey law permits statewide branch banking except for home office protection in towns of under 10,000. Accordingly, the only offices of Bank which are protected are in Beach Haven (population 1,640), and Applicant and Bancshares could branch *de novo* elsewhere in Ocean County where Bank maintains its other offices. Hence, the proposed acquisition would eliminate potential competition to some extent.

The proposed acquisition will not contribute significantly to increased concentration. Applicant and its parent collectively control about 7 percent of total deposits. Bank operates one branch in Burlington County and the proposed acquisition would therefor increase the combined market share of Applicant and Bancshares to 7.5 percent.

In sum, the proposed acquisition would have only a slightly adverse effect upon competition.

* * *

**THE NATIONAL BANK OF GEORGIA,
Atlanta, Ga., and Mercantile National Bank, Atlanta, Ga.**

Name of bank and type of transaction	Total assets *	Banking offices	
		In operation	To be operated
Mercantile National Bank, Atlanta, Ga. (15789), with was purchased July 1, 1976, by The National Bank of Georgia, Atlanta, Ga. (15541), which had	\$ 9,001,000	3	—
.....	346,997,000	26	—
After the purchase was effected, the receiving bank had	380,969,000	—	29

COMPTROLLER'S DECISION

The National Bank of Georgia, Atlanta, Ga. ("NBG"), has applied to the Comptroller of the Currency for permission to purchase substantially all of the assets and to assume the liabilities of Mercantile National Bank, Atlanta, Ga. ("Mercantile"). This application has been processed under the emergency provisions of the Bank Merger Act of 1966, as set forth in 12 USC 1828(c).

NBG, the assuming bank, was founded in 1911 as the second Morris Plan Bank in the United States. NBG became a national banking organization in 1965, and currently has total commercial bank deposits of approximately \$290 million. NBG presently ranks as the fifth largest bank in the Atlanta banking market (approximated by the whole of Fulton and DeKalb counties), controlling 4.2 percent of total deposits within the relevant market.

Mercantile, the selling bank, was chartered as a national banking organization in 1970 after operating for 10 years as a state banking institution. Mercantile as of March 31, 1976, held total commercial bank deposits of \$9.6 million, representing 0.2 percent of total market deposits.

As may be seen by its deposit size, Mercantile is among the smallest commercial banks operating within the Atlanta market. During the years 1971 through 1975, inclusive, Mercantile's total assets decreased approximately 18 percent, demand deposits decreased more than 30 percent and time deposits decreased about 10 percent. Decline in size and market share has made the bank a relatively ineffective com-

petitor within the relevant market. Furthermore, during the same 5-year period, Mercantile only had a net operating profit in 1972 and 1973, with an average net operating loss per year of approximately \$63,000 for the 5-year period. For the first quarter of 1976, Mercantile has reflected an average monthly net operating loss of approximately \$37,000. Operating losses in addition to substantial loan losses have seriously eroded the bank's capital structure. To further strain a difficult situation, in its relatively short operating history, Mercantile has experienced a rapid turnover of management personnel. The selling bank has not been able to successfully augment its diminished capital base through a retention of earnings due to the aforementioned net operating losses and, at the request of the directors of Mercantile, the Comptroller of the Currency, on May 13, 1976, pursuant to Sections 12(i) and 12(k) of the Securities Exchange Act of 1934, temporarily suspended over-the-counter trading of Mercantile's securities.

In view of the record in this matter, it is the conclusion of this Office that an emergency situation exists which requires an expeditious solution by the Comptroller's Office. Consistent with the applicable provisions of 12 USC 181, the Comptroller of the Currency hereby specifically waives the requirement for shareholder approval by owners of Mercantile's stock. Also, the decision of the Comptroller is rendered pursuant to an agreement between the proponent banks upon which the instant application rests, and is incorporated herein by reference the same as if fully set forth.

Pursuant to the provisions of the Bank Merger Act of 1966, 12 USC 1828(c), the Comptroller of the Currency cannot approve a purchase and assumption transaction which would have certain proscribed anticompeti-

* Asset figures are as of call dates immediately before and after transaction.

tive effects unless the Office concludes that those anticompetitive effects are clearly outweighed in the public interest by the probable effect of the proposed transaction in adequately meeting the convenience and needs of the community to be served. Furthermore, the Office of the Comptroller is also directed to fully consider the financial and managerial resources and future prospects of the existing and proposed institution. However, when an emergency situation exists, the Comptroller may dispense with the normal time requirements applicable to usual acquisition transactions. In such situations the 30-day comment period in which the Department of Justice and other banking agencies submit reports relating to the competitive consequences of the transaction is reduced to a 10-day comment period. Consummation of the transaction must await an additional 5-day period.

Applying the statutory criteria contained with 12 USC 1828(c), the Comptroller of the Currency concludes that an emergency situation exists, due to the general condition of Mercantile, that requires expeditious action. For the reasons herein stated, NBG's application to purchase the assets and assume the liabilities of Mercantile National Bank is judged to be in the public interest and is, hereby, approved.

June 24, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The application has conflicting testimony about the distances between offices of Applicant and Bank, but apparently they are within a mile or two of each other in certain areas. Accordingly, the proposed acquisition will doubtless eliminate some existing competition.

The application lists 26 banks in the market area served by the Applicant and Bank. Applicant ranks fifth among these with 4.2 percent of combined deposits of \$6.1 billion and Bank is one of five banks with 0.1 percent (there are five with 0.1 percent each). The three largest banks have deposits, respectively, of \$1.9 billion (equal to 31 percent), \$1.5 billion (equal to 24 percent), and \$1.2 billion (equal to 20 percent) and the fourth in size has \$561 million (equal to 9 percent). These four large banks operate 51 offices, 53 offices, 38 offices and 30 offices, respectively. The proposed acquisition will increase concentration only to a slight extent.

In sum, the proposed acquisition will eliminate direct competition and will contribute slightly to increased concentration. However, in view of the deterioration of Bank's position in the market and the increasingly large operating losses it has had to absorb in recent years, the overall effect of the acquisition would not be substantially adverse.

* * *

THE PLANTERS NATIONAL BANK AND TRUST COMPANY, and Hanover Bank, Wilmington, N.C.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Hanover Bank, Wilmington, N.C., with	\$ 11,512,000	1	_____
and The Planters National Bank and Trust Company, Rocky Mount, N.C. (10608), which had	240,995,000	33	_____
merged July 12, 1976, under charter and title of the latter bank (10608). The merged bank			
at date of merger had	252,507,000	_____	34

COMPTROLLER'S DECISION

Pursuant to the provisions of the Bank Merger Act of 1966 [12 USC 1828(c)], Hanover Bank, Wilmington, N.C. ("Hanover"), and The Planters National Bank and Trust Company, Rocky Mount, N.C. ("Planters"), have applied to the Comptroller of the Currency for prior permission to merge under the charter and with the title of the latter.

Hanover, the merging bank, was organized November 29, 1973, and commenced commercial bank operations November 1, 1974. Hanover, the smallest of 7 commercial banks serving the Wilmington, N.C. area, operates only from its main office, but has sought and received permission for the establishment of a branch office in Wilmington. As of December 31, 1975, Hanover held total deposits of approximately \$9 million.

Planters, the charter bank, was originally chartered as a state banking institution in 1899, and converted to a national banking association charter in 1914. Presently the 10th largest commercial bank domiciled in

North Carolina, Planters maintains 31 banking offices in 14 counties throughout the State. As of year-end 1975, Planters total deposits aggregated \$226.4 million, representing 1.8 percent of total deposits held by all commercial banking offices within the state.

The closest operating offices of the proponents are in excess of 100 miles apart and there is no competition between these two banks. Inasmuch as applicable state statutes do make provision for statewide branching, and bank holding companies are permitted to establish *de novo* subsidiaries, there exists the potential for the subject banks to become competitors at some date in the future. The likelihood of this event coming to fruition, however, is considered remote and highly unlikely given the merging bank's deposit size and the economic factors in the Wilmington area. Consummation of this proposal, therefore, is considered to have no seriously adverse effect upon competition within the relevant area.

Accordingly, applying the statutory criteria, it is the conclusion of this Office that the transaction would

have the effect of improving the competitive position of the merging bank through operating economies and efficiencies, and provide an additional source of full-service banking for the banking community. The resulting institution should be a well managed bank that is a more meaningful banking alternative better able to serve the needs of the public. This application is thus deemed to be in the public interest and should be, and hereby is, approved.

June 10, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The office of Applicant closest to an office of Bank is about 100 miles away, which indicates that the proposed acquisition will not eliminate any existing competition.

* * *

THE ONEIDA NATIONAL BANK AND TRUST COMPANY OF CENTRAL NEW YORK, Utica, N.Y., and The Red Creek National Bank, Red Creek, N.Y.

Name of bank and type of transaction	Total assets *	Banking offices	
		In operation	To be operated
The Red Creek National Bank, Red Creek, N.Y. (10781), with was purchased July 20, 1976, by The Oneida National Bank and Trust Company of Central New York, Utica, N.Y. (1392), which had	\$ 12,073,000	2	_____
After the purchase was effected, the receiving bank had	480,748,000	29	_____
	512,527,000	_____	31

COMPTROLLER'S DECISION

On July 12, 1976, application was made to the Comptroller of the Currency by The Oneida National Bank and Trust Company of Central New York, Utica, N.Y. ("Assuming Bank") for permission to purchase the assets and assume certain of the liabilities of The Red Creek National Bank, Red Creek, N.Y. The application rests upon an agreement dated July 9, 1976 and a letter amending said agreement dated July 14, 1976. Said agreement and letter are incorporated herein by referencing the same as if fully set forth, and, for the reasons set forth below, the application is hereby approved and the Assuming Bank is hereby authorized immediately to consummate the purchase and assumption transaction and to operate the head office and branch office of The Red Creek National Bank as branch offices of the Assuming Bank.

An examination of The Red Creek National Bank, which commenced on June 28, 1976, indicates that the bank is in critical condition. Estimated losses as of this examination total approximately \$835,000 leaving a deficit capital position of approximately \$181,000. Classified assets total 437 percent of gross capital funds. Past-due loans are 19.5 percent of total loans. Loans lacking current and satisfactory credit information represent 23.1 percent of the loan portfolio. Pres-

Bank is currently the smallest of the seven banks that serve the Wilmington area. The three largest banks collectively hold almost 76 percent of the deposits in the area. The two largest banking organizations in the state share 61 percent of total deposits in the area. Bank currently has only a 3.5 percent share of total deposits. Hence, the proposed acquisition should enhance competition in the area through the strengthening of the smallest bank. North Carolina does permit statewide branching and holding companies are permitted to establish *de novo* subsidiaries. Accordingly, there is no impediment to the entry by Applicant into the Wilmington area through means other than acquisition. In this respect the proposed acquisition does have some anticompetitive effect.

In sum, the proposed acquisition will have some anticompetitive effect because of its elimination of potential competition.

ent management is not considered capable of handling the affairs of the bank. During the course of the examination, the president resigned. Supervision by the board of directors has been lacking, and the directors have failed to institute sufficient measures to correct the deteriorating condition of the bank.

In view of the record in this matter, it is the conclusion of this Office that an emergency situation exists which requires an expeditious solution by the Comptroller's Office. Consistent with applicable provisions of 12 USC 181, the Comptroller of the Currency hereby specifically waives the requirement for shareholder approval by owners of The Red Creek National Bank's stock.

Under the Bank Merger Act, 12 USC 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless he finds those anticompetitive effects 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. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institution, and the convenience and needs of the community to be served. When necessary, however, to prevent the disruption attendant upon the failure of a bank, the Comptroller can dispense with the uniform standards applicable to usual acquisition transactions,

* Asset figures are as of call dates immediately before and after transaction.

and need not consider reports on the competitive consequences of the transactions ordinarily solicited from the Department of Justice and the other banking agencies. He is authorized in such circumstances to act immediately, in his sole discretion, to approve an acquisition and to authorize the immediate consummation of the transaction. The proposed acquisition will be in accord with all pertinent provisions of law and will prevent disruption of banking services to the Red Creek and the North Rose communities and avert a loss of public confidence in the banking system. The Assuming Bank has sufficient financial and managerial resources to absorb The Red Creek National Bank.

The Comptroller finds that any possible anticompetitive effects of the proposed transaction, are clearly outweighed in the public interest by the probable effect of the proposed transaction in meeting the con-

venience and needs of the communities to be served. For those reasons, the Assuming Bank's application to assume the liabilities and purchase the assets of The Red Creek National Bank as set forth in the purchase agreement and subsequent letter, dated July 14, 1976, is hereby approved. The Comptroller further finds that the probable failure of The Red Creek National Bank requires him to act immediately, as contemplated by the Bank Merger Act, to prevent disruption of banking services and 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.

July 20, 1976.

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

* * *

SEATTLE - FIRST NATIONAL BANK,

Seattle, Wash., and First National Bank in Port Angeles, Port Angeles, Wash., and The First American National Bank of Port Townsend, Port Townsend, Wash., and Bank of Sequim, Sequim, Wash., and Forks State Bank, Forks, Wash.

Name of bank and type of transaction	Total assets*	Banking offices	
		In operation	To be operated
First National Bank in Port Angeles, Port Angeles, Wash. (6074), with	\$ 56,687,000	6	_____
The First American National Bank of Port Townsend, Port Townsend, Wash. (13351), with	26,675,000	3	_____
Bank of Sequim, Sequim, Wash., with	23,870,000	3	_____
and Forks State Bank, Forks, Wash., with	14,211,000	1	_____
which had	4,576,802,000	146	_____
After the purchase was effected, the receiving bank had	4,899,325,000	_____	159

COMPTROLLER'S DECISION

Seattle - First National Bank, Seattle, ("Seattle - First"), has applied to the Comptroller of the Currency for permission to purchase the assets and assume the liabilities of First National Bank in Port Angeles, Port Angeles ("Port Angeles Bank"), The First American National Bank of Port Townsend, Port Townsend ("First American"), Bank of Sequim, Sequim ("Sequim Bank"), Forks State Bank, Forks ("Forks Bank"), collectively, "Union Bond Banks" or "Merging Banks". The decision of the Office of the Comptroller of the Currency is rendered pursuant to an agreement executed between the proponent banks upon which the instant application rests, and is incorporated herein by reference, the same as if fully set forth.

Seattle - First, the charter bank, is the largest commercial bank domiciled in the state of Washington, and is the wholly-owned subsidiary of SeaFirst Corporation, Seattle, a registered one-bank holding company organized in 1974. Seattle - First has total deposits of \$3.3 billion,¹ representing approximately 35 percent of the total commercial bank deposits in the state of

Washington. Seattle - First operates 150 branch offices and is represented in 30 of the 39 counties in the state; with 77 of those offices located in and around the city of Seattle in King County.

The merging banks are controlled, and have been operated as a group banking system since their establishment, by Union Bond and Mortgage Company, a family-controlled multi-bank holding company, and the Phillips family. Port Angeles Bank was organized as a unit bank in 1901 and merged in 1919 with The Port Angeles Trust and Savings Bank, the latter having been established in 1914 by the late Ben Phillips, father of James E. Phillips, president and chairman of the Board of Port Angeles Bank. Port Angeles Bank currently has total deposits of approximately \$46 million and operates its main office and four branches in Port Angeles and one branch in Clallam Bay, an unincorporated community approximately 50 miles to the west of Port Angeles near the northwestern tip of the Olympic Peninsula.

First American was organized in 1929 by Ben Phillips, currently has total deposits of \$22.6 million and operates its head office and one of its two branches in Port Townsend, the county seat and only incorporated city in Jefferson County. First American's second branch is located in Hadlock, 9 miles south of Port Townsend.

* Asset figures are as of call dates immediately before and after transaction.

¹ All deposit data are as of December 31, 1975, unless otherwise noted.

Sequim Bank was established in 1936 and operates its main office and a drive-in branch in Sequim. Sequim Bank has an application recently approved by the state of Washington for the establishment of a new branch. As of year-end 1975, Sequim Bank had total deposits of \$20.2 million.

Forks Bank was opened for business in 1944, and operates no branches. The bank has total deposits of \$12.4 million. In the aggregate, Union Bond Banks control total deposits of \$101.2 million, representing approximately 1 percent of total commercial bank deposits in the state of Washington.

The relevant banking markets are approximated by the various municipalities, and their respective immediate environs, wherein the Union Bond Banks' principal offices are domiciled. All of those local markets are located within Clallam and Jefferson counties which form the northwestern tip of the Olympic Peninsula. The relevant area is remote and is surrounded on three sides by bodies of water: the Pacific Ocean to the west, the Strait of Juan de Fuca to the north, and Puget Sound and the Hood Canal to the east. The rugged Olympic Mountain chain provides a natural barrier along the southern border of the two-county area. The Olympic National Park and Olympic National Forest occupy more than half of the land mass of the two counties and most of the population is located along the northern coastal region of the peninsula.

There is virtually no existing competition among the Union Bond Banks, a fact which is attributable to their common ownership and control. In Port Angeles, population 17,286, the major city and banking market on the northern Olympic Peninsula, Port Angeles Bank experiences competition from two branch offices of Peoples National Bank of Washington, Seattle, the fourth largest commercial bank in the State, and from a relatively new unit bank, Northwestern National Bank, Port Angeles, chartered in 1972, which operates a single banking office. First American Bank's primary local competitor in Port Townsend, population 5,075, is a newly opened bank (chartered in 1975), Jefferson National Bank, with a single banking office. Jefferson National Bank has recently received approval for the establishment of a branch office in Quilcene.

The community of Sequim, population 2,035, receives local banking services from the two offices of Sequim Bank and the Sequim branch of Peoples National Bank of Washington. Forks, Wash., population 1,956, is served by only the single office of Forks Bank.

The closest office of Seattle - First to any office of the merging banks is the Bremerton Office of Seattle - First, more than 50 miles from the Hadlock branch of First American. Seattle - First does not operate any offices in either Clallam or Jefferson County and, due to the presence of intervening banks and the geographic distance between the closest office of Seattle - First and any office of the merging banks, consummation of the instant transaction would not have the effect of

eliminating any meaningful degree of direct competition between Seattle - First and the merging banks.

Inasmuch as Union Bond and Mortgage Company is one of only two multi-bank holding companies with headquarters in Washington state (The second multi-bank holding company is Washington Bancshares, Inc., Spokane), and the only multi-bank holding company represented on the northern Olympic Peninsula, the Union Bond Banks have, through the passage of time and use of the applicable provisions of state branch banking law, evolved into a position of dominance in their respective market areas. Under state statutes as presently constituted, no other banking organization in Washington can realistically hope to achieve a parity of competitive status with the Union Bond Banks within either Clallam or Jefferson County.

The Bank Merger Act mandates that the convenience and needs of the communities to be served must be considered in every proposed acquisition of a commercial bank by another commercial bank. By permitting acquisition of all offices of the Union Bond Banks by the state's largest financial institution, this agency would be foreclosing a significant and meaningful avenue for entry into the most attractive markets on Puget Sound by other Washington commercial banks. The opportunity, through this application, to open the Port Angeles - Sequim markets to additional entry and competition is of such consequence in considering the convenience and needs of the public in these markets as to preclude Seattle - First from acquiring all of the offices in these markets. Such an unbalanced banking structure where one institution controls, in the aggregate, approximately 80 percent of the total commercial bank deposits within Clallam and Jefferson counties, is of major concern in reaching a determination in this matter; and this control situation is not considered by this Office to be conducive to effective competition, regardless of who controls such a large share of commercial bank deposits. Unconditional approval of this application would thus perpetuate the concentration existent within both Clallam and Jefferson counties by adding the sanction of the Office of the Comptroller of the Currency. Therefore, such a course of action is totally unacceptable to this Office when an alternative is available that would increase the number of alternative suppliers of banking services.

Pursuant to the provisions of Washington state statutes concerning the establishment of *de novo* branches by commercial banks, such branches are essentially limited to the county in which the head office is located and unbanked cities and towns throughout the state. Section 30.40.020 of the Washington Revised Code (Supp. 1973) provides in relevant part²:

No bank or trust company shall establish or operate any branch, . . . in any city or town outside the city or town in which its principal place of business is located in which any bank, trust company or national banking association regularly transacts a banking or trust business, except by taking over or acquiring an existing bank, trust company or national banking association, or the branch of any

² The question of whether a national bank may establish a branch pursuant to the authorization provided by the case of *Washington Mutual Savings Bank v. FDIC* (482 F. 2d 459 (9th Cir. 1973)), is now pending before the U.S. Appeals for the Ninth Circuit.

bank, trust company or national banking association operating in such city or town.³

Furthermore, as additional evidence of Washington state's stringent restrictions placed upon branch banking, applicable state statute forbids any bank holding company from owning or controlling 25 percent or more of the outstanding voting shares of more than one bank, a restriction which effectively prevents and precludes the development of any multi-bank holding company within the state⁴.

Since there are no viable, unbanked communities in either Clallam or Jefferson County, Seattle - First is effectively precluded from the establishment of any new branch operations in these areas. The Union Bond Banks could, however, within the provisions of applicable state statutes, expand by *de novo* branching outside their traditional operating territory, but have shown no interest or desire in so doing. It is therefore concluded that there is little probability that Seattle - First and the merging banks would become direct competitors through *de novo* branching and consummation of this proposal would not, from an antitrust reference, have an adverse effect upon potential competition within the relevant markets.

All of the Union Bond Banks are considered as viable competitors within their respective markets, and all represent attractive potential acquisitions for banking organizations not represented in the extreme northern Puget Sound area. It seems highly unlikely, however, that Seattle - First could be perceived as a potential entrant into those banking markets through any means except via the acquisition of an existing bank. (See *United States v. Marine Bancorporation, Inc.*, 418 U.S. 602 (1974).) As previously noted, applicable Washington state law does make provision for bank merger acquisitions; but the same state statute effectively restricts the branching activities of a bank whenever acquired by an out-of-county bank. Inasmuch as Seattle - First's home county is King County, consummation of this merger would, under current applicable state statute, eliminate the possibility of Seattle - First establishing any new branch office at any location within either Clallam or Jefferson County.

The conclusion that a transaction does not violate judicially accepted antitrust standards, does not relieve the Comptroller of the Currency from considering

³As this Office indicated a decade and a half earlier upon the merger application to merge National Bank of Westchester, Westchester, N.Y., and The First National City Bank of New York, N.Y. (1961):

As our society changes so must every business desiring to maintain its position and achieve its growth potential change also. One of the serious problems in banking today arises from legal restrictions, many of which were designed for an earlier age, which have hampered the proper accommodation by banks to the changing nature of our society, and have inhibited not only their growth, but their ability to serve efficiently our growing economy.

⁴The Union Bond and Mortgage Company, a registered multi-bank holding company, is "grandfathered" under Washington state's law prohibiting multi-bank holding companies.

⁵H.R. Rep. No. 1221, 89th Cong., 2d Sess., 4(1966).

other factors not associated with Section 7 of the Clayton Act, which may have implications relating to banking structure and competition. The Comptroller clearly has always had discretion through his general supervisory responsibility to help create a viable banking system through decisions upon individual applications, such as this one, based upon the consideration of all factors which are deemed relevant.⁵ It is the Comptroller's view that although antitrust law may provide the basic framework for safeguarding competition, the expertise of the banking agencies, including this Office, permits a more intensive evaluation of particular mergers.

By statute, 12 USC 1828 (c)(5)(B), the Office of the Comptroller cannot approve:

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

The Bank Merger Act of 1966, makes it clear that bank mergers violative of the Clayton Act cannot be approved unless the anticompetitive effect of the proposed transaction is clearly outweighed by the probable convenience and needs benefits which would result from the merger. In addition, the Comptroller believes that Congress intended for the National Banking System to be structured by the statutes pertaining specifically to national banks and the Comptroller's responsibility for, and authority over, all national banks. Indeed, the Office of the Comptroller of the Currency has not only a right, but a resibility and an obligation, to promote and insure a sound National Banking System which best serves the needs of the banking public.

With respect to the instant transaction, SeaFirst Corporation and its subsidiary Seattle - First, propose to augment existing services provided by Union Bond Banks and further to introduce new banking services in the relevant market areas. Seattle - First has a legal lending limit in excess of \$22 million, while the combined legal lending limit of the four Union Bond Banks is approximately \$800,000. With its substantially larger size and more diversified economic base, Seattle - First will be able to respond more adequately to the increasing credit needs of the market area.

Through both Seattle - First and FirstBank Mortgage Corporation, a wholly-owned subsidiary of the bank, Seattle - First will be able to serve the local residential and real estate mortgage markets and also service the commercial real estate mortgage markets of the relevant areas.

At the present time, Port Angeles Bank is the only one of the Union Bond Banks with trust powers, and the bank has only one trust officer who serves the customers of all four affiliated banks. Subsequent to the merger, Seattle - First will offer a more comprehensive package of trust services to the residents and business organizations in the areas.

Customers of Union Bond Banks will enjoy the benefit of being able to transact business throughout the state through the use of Seattle - First's extensive branch network.

None of the merging banks presently offers international banking services to its customers. Seattle - First will introduce these services which should benefit, among others, the larger lumber products firms in the area which have established an extensive trade with such foreign nations as Japan and Canada.

Present customers of Union Bond Banks will also benefit from the additional proposed services of customer investment service and counseling; business advisory services; automated banking services; electronic data processing services such as remittance banking, account reconciliation and payroll processing; and specialized checking services, including no service fee checking with the maintenance of a minimum balance.

In addition to the competitive and antitrust factors and the convenience and needs of the community to be served, the Office of the Comptroller is charged with the responsibility of considering the financial and managerial resources and future prospects of the banks involved in the proposed merger. A review of the financial factors of the banks reveals that all are in generally satisfactory overall condition with sound management.

We believe the facts and circumstances of the instant application are distinguishable from those involved in *Washington Mutual Savings Bank v. FDIC*, 482 F. 2d 459 (9th Cir. 1973). Furthermore, nothing in the language of the Bank Merger Act of 1966⁶ compels, nor even suggests, that mergers which do not violate any of the antitrust standards of the Act, must be approved; nor does the law limit agency inquiry exclusively to the competitive impact of a proposed bank merger.

Unquestionably some of what is stated herein under the convenience and needs factor could also be applicable to the competitive factor. However, the primary consideration is with the balance of the banking system on Puget Sound and, in particular, the Port Angeles - Sequim markets, the future structure of those markets, how the banking needs of the communities will best be served, what sizes and types of banks there should be in these markets and the number of banks present in the markets. In the Comptroller's view those matters are clearly relevant to the banking factors and for determination by the Comptroller in the exercise of his supervisory authority over the National Banking System, rather than exclusively to the competitive factors under the Bank Merger Act where the primary concern is directed toward lessening of competition and monopoly. It is the Comptroller's responsibility, acting within the statutory policies prescribed by Congress, to preserve and foster the National Banking System to insure that it has the capacity to, and does, perform efficiently and in the public interest and, specifically, whether proposed acquisitions are in the public interest.

⁶ 12 USC 1828(c).

Having considered all relevant statutory criteria, it is concluded that should the Union Bond Banks be acquired individually, or in combination by more than one banking organization, the effect would be the deconcentration of already highly concentrated markets and the relevant markets would be provided with additional banking alternatives and competition, thereby better serving the banking community and fostering a more responsive banking atmosphere. It is further the opinion of this Office that the relevant banking factors herein require that Seattle - First not be allowed the acquisition of all of the offices of the Union Bond Banks; such an across-the-board approval does not appear either desirable or warranted.

Therefore, the Comptroller of the Currency hereby grants approval of the application for Seattle - First to purchase the assets and assume the liabilities of the Union Bond Banks subject to the following stipulations and conditions:

1. Within 12 months from the date of consummation of the instant transaction, Seattle - First will divest itself of any and all interests in the following branch offices of Port Angeles Bank and Sequim Bank:

Port Angeles Bank

- (a) "Eighth Street Branch"
134 West Eighth Street
Port Angeles, Wash.
- (b) "Penn Street Branch"
1633 East First Street
Port Angeles, Wash.
- (c) "Clallam Bay Branch"
Corner of Bogachiel and Pioneer Streets
Clallam Bay, Wash.

Sequim Bank

- (a) "Valley Branch"
Highway 101 and Loft Mountain Road
Carlsborg, Wash.

2. Such divestiture of the branch offices herein stated is further conditioned that Seattle - First must not sell the subject branch offices, in whole or in part, to any banking organization(s) now represented in either Clallam or Jefferson counties, nor may these branch offices be sold to any individual(s), group(s) or organization(s), whose offices and/or directors are affiliated with any banking organization(s) now represented in either Clallam or Jefferson counties.
3. The branch offices must not be sold to any individual(s), group(s)-or organization(s), who are officers and/or directors, of Seafirst or Seattle - First, or any of their respective subsidiaries or affiliates.
4. The Comptroller must give his express prior approval of the proposed branch purchaser(s) to Seattle - First, for the purpose of assuring compliance with this decision, prior to consummation of the sale of the branch offices.

Subject to the foregoing conditions this transaction is approved.

July 23, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The service area of the four Union Bond banks is the whole of Clallam and Jefferson counties which embraces roughly the northern half of the Olympic Peninsula, a remote area which has a population of 48,100. Applicant has no offices in Clallam and Jefferson counties. The closest offices of the Applicant and the Union Bond banks are approximately 56 miles apart, including a toll bridge which costs \$3 for a round trip. Applicant has total deposits from the Union Bond service area of \$706,536, which amounts to 0.74 percent of the total deposits held by the Union Bond banks and 0.53 percent of all deposits held in the two counties. Thus, it is apparent that the proposed acquisition will have only a negligible effect upon existing competition between the merger parties.

As of December 31, 1974, Applicant ranked first among the commercial banks in Washington with 34 percent of total statewide deposits. The second largest bank had a 19.2 percent share of the market. The third, fourth and fifth largest had market shares of 8.8, 6.6 and 5.5 percent, respectively. It can thus be fairly said that commercial banking in Washington, with the two largest banks controlling more than 53 percent of total deposits, already suffers from an unhealthy degree of concentration. The Union Bond banks collectively rank 10th among commercial banks in Washington with 1 percent of total deposits. The proposed acquisition would increase Applicant's market share to 35 percent and thus contribute importantly to the trend toward increased concentration in banking in Washington.

As of December 31, 1974, there were seven commercial banks (counting the Union Bond banks as four) and one mutual savings bank in Clallam and Jef-

erson counties. In terms of total deposits, the Union Bond banks are the largest banks operating in the area with a 74.4 percent market share. Of the remaining three commercial banks, only People's National Bank of Washington, which ranks fourth statewide with 6.6 percent of total deposits, holds substantial deposits in the amount of \$26,711,000 (20 percent of the market). The Union Bond banks and People's National Bank of Washington control 94.4 percent of the total deposits in Clallam and Jefferson counties. Thus, the proposed acquisition raises the spectre of the largest banking system in the state moving into a new market by purchasing a banking system which has a 74.4 percent share of the local market.

Washington banking law prevents Applicant from entering the Jefferson - Clallam market *de novo* through establishment of a branch. The state law permits *de novo* branching by a commercial bank outside of its home county only in incorporated but unbanked communities, *i.e.*, an out-of-county bank cannot open a branch in an unincorporated area or in an incorporated community which already has a bank. Since Applicant's home county is King County and since the area it is desirous of servicing is outside of its home county, is incorporated, but is already banked, Applicant appears to be precluded from opening branches in the Jefferson - Clallam County communities on a *de novo* basis. Furthermore, it appears that Applicant cannot enter the market through the normal bank holding company device due to statutory prohibition of multi-bank holding companies.

Consummation of the proposed acquisition will instantaneously render Applicant the dominant commercial bank in the two-county area. In sum, the proposed acquisition will contribute importantly to the seemingly inexorable movement toward a decidedly unhealthy degree of concentration in commercial banking in Washington, and for that reason must be viewed unsympathetically as having an adverse effect upon competition.

* * *

**THE FIRST NEW HAVEN NATIONAL BANK,
New Haven, Conn., and The North Haven National Bank, North Haven, Conn.**

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The North Haven National Bank, North Haven, Conn. (15439), with	\$ 14,434,000	3	_____
and The First New Haven National Bank, New Haven, Conn. (2), which had	344,161,000	24	_____
merged Aug. 31, 1976, under charter and title of the latter bank (2). The merged bank at date of merger had	356,693,000	_____	27

COMPTROLLER'S DECISION

The North Haven National Bank, North Haven, Conn. ("North Haven Bank"), and The First New Haven National Bank, New Haven, Conn. ("New Haven National"), have applied to the Comptroller of the Currency for prior permission to merge under the charter and with the title of The First New Haven National Bank. The decision of the Comptroller is rendered pur-

suant to an agreement executed between the proponent banks upon which the instant application rests, and is incorporated herein by reference the same as if fully set forth.

New Haven National, the charter bank, was chartered pursuant to applicable laws of the state of Connecticut in 1792, and became a national banking association in 1863. New Haven National's charter,

number 2, is the oldest national bank charter in continuous use in the United States. As of December 31, 1975, New Haven National held commercial bank deposits aggregating \$285.4 million, and is the eighth largest banking organization domiciled within the state of Connecticut. The subject bank operates a total of 23 branch offices in the greater New Haven area and 1 branch in the Cayman Islands.

North Haven Bank, the merging bank, was chartered in 1964, and is the only commercial bank headquartered within the community of North Haven. North Haven Bank operates 2 branches in addition to its main office, all of which are located in North Haven. At year-end 1975, the bank controlled total deposits of \$13.3 million.

The head offices of the proponent banks are approximately 9 miles apart, and the two closest branches of New Haven National and North Haven Bank are about 3 miles distant from each other.

New Haven National is the largest of 17 banking organizations operating in the New Haven banking market (an area encompassing portions of New Haven and Middlesex counties) and North Haven Bank is the eighth largest commercial bank in the area, and confines its services primarily to its home office town of North Haven, and the contiguous towns of New Haven, East Haven, Hamden, North Branford and Wallingford. North Haven Bank's service area is completely encompassed by that of New Haven National. Inasmuch as the subject banks are direct competitors, approval of the instant proposal would have the effect of eliminating existing competition between the two banking institutions.

Pursuant to the provisions of the Bank Merger Act of 1966, 12 USC 1828(c), the Comptroller of the Currency cannot approve a merger transaction which would have certain proscribed anticompetitive effects unless the Office concludes that those anticompetitive effects are clearly outweighed in the public interest by the probable effect of the proposed transaction in adequately meeting the convenience and needs of the community to be served. Furthermore, the Comptroller is also directed to fully consider the financial and managerial resources and future prospects of the existing and proposed institution.

Connecticut law does make provision for *de novo* branch banking, subject to home office protection. Approval of this proposal would remove home office protection from North Haven and open the community to other banking organizations that have been precluded from entering the town since 1964. Further, since December 31, 1975, mutual savings banks and state-chartered savings and loan associations in Connecticut have been authorized to accept demand deposits and to offer personal checking accounts to their customers. The effects of the proposed merger should be positive within the relevant area inasmuch as the resulting bank would have an increased lending limit, and be able to provide a more sophisticated array of credit services, including international banking and trust services. Also, New Haven National possesses the capital resources needed to make improvements in North Haven Bank's physical facilities, an undertaking

which North Haven Bank has not been able to make due to poor earnings and difficulties experienced in making capital augmentations.

North Haven Bank has, since 1972, conducted a search for a new president for the bank. To date, that search has not proven successful and, at the present time, North Haven Bank's chairman and president are inactive directors and the bank is without a cashier and installment loan manager. Since its organization, North Haven Bank has had five cashiers, and the bank does not presently have in its employ any person who is fully qualified to discharge the duties of this position in the management staff. To further complicate the situation, North Haven Bank does not have a formalized training program. New Haven National is currently providing, on an interim basis, an operating officer who is acting as a full-time chief operating officer for North Haven Bank. New Haven National does have a well developed management training program and New Haven National is considered to presently possess the managerial talent and expertise necessary to rectify the problems currently confronting North Haven Bank. Accordingly, it is the conclusion of this Office that the future prospects of the combined institution are greatly enhanced via means of consummation of this application, and the banking public will be better served by the replacement of a restricted competitor with a vibrant competitor that is a more meaningful banking alternative.

It is therefore, the opinion of this Office that any anticompetitive effects of this proposal are clearly outweighed by the probable effects of the transaction in adequately meeting the convenience and needs of the community to be served, and by enhancing the future prospects of the resulting institution through the provision of needed financial and managerial resources. The application is thus deemed to be in the public interest, and should be, and hereby is, approved.

July 27, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

It appears that the primary market served by Applicant is an area encompassing portions of New Haven and Middlesex counties and in which there are 22 towns. Applicant has offices in 11 of the towns. Bank operates all three of its offices in North Haven, one of the 22 towns in the Applicant's primary market, and Bank confines itself primarily to serving the local North Haven market. The nearest offices of Applicant and Bank are about 3 miles apart, and the next nearest pair of offices are 4 miles apart although there are offices of other banks in the intervening area. As might be expected, Applicant draws a significant amount of business from the primary market of Bank and is directly competitive with Bank. For example, 1,349 demand deposit accounts in Applicant, totalling \$87 million, originate in the area served by Bank. Bank obtained 669 demand deposit accounts, worth \$297,400, from persons located in New Haven. In addition, Applicant appears to get many of the large loans in the area served by Bank. Applicant had made 625 installment loans to persons living in the area served by Bank (as

of September 30, 1975). It thus seems clear that the proposed acquisition will eliminate existing competition to a significant extent.

Applicant currently ranks as the eighth largest commercial bank in the state with 4.3 percent of total IPC deposits. The proposed acquisition will enhance Applicant's statewide position very slightly — an increase of 0.2 percent of total IPC deposits and no change in ranking. However, Applicant is the largest banking institution in its primary market area with a 26.5 percent share of total deposits, and the proposed acquisition would increase Applicant's share of the market to 27.7 percent and would also give Applicant a dominant position in the submarket served by Bank. Hence,

* * *

UNITED STATES NATIONAL BANK IN JOHNSTOWN, Johnstown, Pa., and The First National Bank of Coalport, Coalport, Pa.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The First National Bank of Coalport, Coalport, Pa. (6887), with	\$ 7,476,000	1	_____
and United States National Bank in Johnstown, Johnstown, Pa. (13781), which had	274,767,000	15	_____
merged Sept. 15, 1976, under charter and title of the latter bank (13781). The merged bank at date of merger had	282,244,000	_____	16

COMPTROLLER'S DECISION

The First National Bank of Coalport, Coalport, Pa. ("Coalport Bank"), and United States National Bank in Johnstown, Johnstown, Pa. ("USNB"), have applied to the Comptroller of the Currency for prior permission to merge under the charter and with the title of The United States National Bank in Johnstown. The decision of the Office of the Comptroller is issued pursuant to an agreement executed between the proponent banks upon which the instant application rests, and is incorporated herein by reference the same as if fully set forth.

USNB, the charter bank, was chartered as a national banking association on September 22, 1933 and, as of March 31, 1976, held commercial bank deposits aggregating \$240 million. USNB operates its head office in Johnstown and an additional 13 branch offices in Cambria County. In addition, USNB also operates 3 offices in neighboring Somerset County, and has approval for the establishment of offices in University Heights and Seward.

Coalport Bank, organized in 1903, operates its sole office in the community of Coalport, and has total commercial bank deposits of approximately \$5.9 million. Due in large measure to the mountainous topography of the area, the mobility of the populace is limited, and Coalport Bank derives most of its business from the area within a 15-mile radius of Coalport.

The Carrolltown office of USNB is the closest office of the charter bank to Coalport Bank's location, approximately 16 miles distant, and there is an office of another bank located in the intervening area. Neither of the proponent banks derives a significant amount of its deposits or loan accounts from the primary service

the proposed acquisition will increase concentration in the relevant banking markets.

Connecticut law, which permits *de novo* branching subject to home office protection, precludes Applicant from branching into North Haven, but Applicant does operate 12 branch offices in the adjacent towns which fall within Bank's primary market. Bank has not branched outside North Haven and appears unlikely to do so owing to lack of resources.

In sum, the proposed acquisition will eliminate a substantial volume of direct competition and will materially increase concentration in the relevant markets, with the consequence that it would have an adverse effect upon competition.

area of the other and no appreciable degree of existing competition between two banking institutions would be eliminated via means of the proposed transaction. Applicable Pennsylvania state branching statutes do make provision for the establishment of branch offices within the home office county of a commercial banking institution and in counties contiguous thereto. Therefore, USNB could legally establish a *de novo* office in Coalport Bank's home office county of Clearfield. However, given the small population of Coalport (approximately 800 persons) and the general decrease in population within the county, it does not appear that USNB would consider such a venture to be economically feasible; especially since a state bank has recently received permission to establish a branch in Coalport.

Accordingly, applying the statutory criteria, it is the conclusion of this Office that consummation of the instant proposal will provide the Coalport area with a more meaningful banking alternative that is a more vigorous competitor with a sound financial base and capable management. Therefore, this application is deemed to be in the public interest and should be, and hereby is, approved.

July 28, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Applicant operates principally in Cambria County, Pa., and also operates to a lesser extent in Somerset County and Westmoreland County. Bank operates only in Clearfield County, which abuts Cambria County. The banking office of Applicant closest to Bank is about 16 miles distant and the remainder of the offices are considerably further apart. Thus, it appears that the pro-

posed acquisition would eliminate only a small amount of existing competition.

Since neither bank operates in markets served by the other, the proposed acquisition will not produce any increase in concentration in either market. Pennsylvania permits the establishment of branch offices only in the same county in which a bank maintains its principal office and in contiguous counties. Thus, since Cambria County is contiguous to Clearfield County, Applicant is free to branch into Clearfield

County in lieu of entering the market through acquisition. Indeed, entry via branching seems preferable to entry via acquisition as a general proposition. However, given the population of Coalport (800) and the recent decrease in population of Clearfield County, it perhaps would not be economically feasible for Applicant to establish a branch in the county.

In sum, the proposed acquisition would cause some anticompetitive effects, particularly in regard to the elimination of potential competition.

* * *

**FIRST NATIONAL BANK, CARBONDALE, PENNSYLVANIA,
Carbondale, Pa., and The First National Bank of Dickson City, Dickson City, Pa.**

<i>Name of bank and type of transaction</i>	<i>Total assets</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
The First National Bank of Dickson City, Dickson City, Pa. (13937), with	\$21,614,000	1	—
and First National Bank, Carbondale, Pennsylvania, Carbondale, Pa. (664), which had	59,518,000	7	—
merged Sept. 20, 1976, under charter and title of the latter bank (664). The merged bank			
at date of merger had	81,244,000	—	8

COMPTROLLER'S DECISION

The First National Bank of Dickson City, Dickson City, Pa. ("Merging Bank"), and First National Bank, Carbondale, Pennsylvania, Carbondale, Pa. ("Charter Bank"), have applied to the Comptroller of the Currency for permission to merge under the charter and with the title of the latter.

Merging Bank, a unit national banking organization, was chartered in 1934, and currently has total commercial deposits of \$18.6 million.

Charter Bank became a national banking organization in 1864. Located approximately 15 miles northeast of Scranton, Pa., Charter Bank operates its main office and six of its seven branches in Lackawanna County (the seventh branch office is domiciled in Wayne County). Charter Bank currently has total deposits of \$47.5 million.

Both Merging Bank and Charter Bank conduct commercial banking operations within the Scranton, Pa. banking market. The Scranton, Pa. banking market is approximated by the whole of Lackawanna County, the northeastern half of Wyoming County, the southern half of Susquehanna County, and small contiguous portions of Luzerne, Pike and Wayne counties. The closest office of Charter Bank, the Archbald branch, is located approximately 5 miles from Merging Bank, and all offices of Charter Bank are located within a 13 miles radius of Dickson City. Within the relevant banking market, 24 banks operate 55 offices. Charter Bank is currently the seventh largest commercial bank operating within the market, controlling 4.1 percent of market deposits. Merging Bank is the second smallest bank within the market, and controls approximately 1.5 percent of market deposits. Consummation of the proposed transaction would result in the surviving institution becoming the fourth largest commercial bank within the market. The instant proposal would have the effect of eliminating a small degree of direct competition between

the two merging institutions; however, there are several conveniently located banking alternatives, three of which are located between the closest offices of Charter Bank and Merging Bank, as to mitigate any adverse effect upon competition.

The statute, 12 USC 1828(c)(5)(b), the Comptroller of the Currency must also consider the public interest by being mindful of the probable effect of the transaction in meeting the convenience and needs of the community to be served. Consummation of the subject proposal would eliminate the current problem of management succession at Merging Bank. The lending capacity of the resulting institution would be increased and the resulting bank should be better able to serve the needs of the banking community and result in a more meaningful banking alternative which is better able to compete with the larger financial institutions in the market. Additionally, the resulting bank will provide such new services as BankAmericard and additional operating hours. On balance, it is the conclusion of this Office that any slightly adverse competitive effects inherent within this transaction are clearly outweighed by the aspects of convenience and needs of the banking community to be served.

Accordingly, it is the opinion of this Office that the proposed transaction is in the public interest and should be, and hereby is, approved.

August 12, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The closest office of Applicant to that of Bank is located at Archbald which is 4.7 miles distant from Dickson City. There are 3 intervening banks between these offices. Applicant has another office at Mayfield which is 8.6 miles distant from Bank and another at Elmhurst which is 10.5 miles distant therefrom. All of Applicant's banks are within a 12.5 mile radius of Dickson City. A survey of accounts discloses that Ap-

plicant's banks have 67 customers in the Dickson City banking market which represents a total of \$41,000 in deposits and \$235,000 in loans. Bank has no accounts in the Carbondale banking market. Thus, the proposed merger would eliminate some existing competition between the participants.

In Lackawanna County, 16 county-based banks operated 39 banking offices on June 30, 1975. Bank is the next to smallest bank based in this county, with 1.5 percent of total county deposits. Applicant is the seventh ranked bank with 4.1 percent of county deposits. If the proposal is approved, Applicant will have 5.5 percent of such deposits and will rank fifth among

county-headquartered banks. The largest county bank has 41.2 percent of these deposits, the second ranked bank has 11.2 percent and the third ranked 8.1 percent. Therefore, the proposed merger would increase concentration among commercial banking resources in Lackawanna County to a small extent.

We conclude that the instant proposal would eliminate some direct competition between the merging banks and would somewhat increase concentration among the commercial banks based in Lackawanna County. Its overall effect, however, would only be slightly adverse.

* * *

**FI NATIONAL BANK,
Ironton, Ohio, and The First National Bank of Ironton, Ironton, Ohio**

<i>Name of bank and type of transaction</i>	<i>Total assets *</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
The First National Bank of Ironton, Ironton, Ohio (98), with	\$64,442,000	1	_____
was purchased Sept. 30, 1976, by FI National Bank, Ironton, Ohio (16607), which had	1,200,000	0	_____
After the purchase was effected, the receiving bank had	66,670,000	_____	1

COMPTROLLER'S DECISION

FI National Bank (organizing), Ironton, Ohio, has applied to the Comptroller of the Currency for prior permission to acquire all of the assets and assume all of the liabilities of The First National Bank of Ironton, Ironton, Ohio.

The First National Bank of Ironton, Ironton, Ohio, the merging bank, was chartered as a national banking association on June 6, 1890. As of March 31, 1976, the merging bank held total deposits of \$59.2 million.

The proposed purchase and assumption transaction is the facility whereby the acquisition of The First National Bank of Ironton by First National Cincinnati Corporation, Cincinnati, Ohio, a registered multi-bank holding company, will be accomplished. The instant transaction would merely combine an existing commercial bank with a non-operating institution; and as

such, without regard to the proposed acquisition of the surviving bank by First National Cincinnati Corporation, would have no effect upon competition within the relevant banking market (approximated by the whole of Lawrence County, Ohio).

Consequently, applying the statutory criteria, it is the conclusion of this Office that the subject proposal is not adverse to the public interest. Accordingly, this application should be, and hereby is, approved.

August 30, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed transactions are parts of plans through which First National Bank of Ironton and First National Bank & Trust Company would become subsidiaries of First National Cincinnati Corporation, a bank holding company. The instant transactions, however, would merely combine existing banks with non-operating institutions; as such, and without regard to the acquisition of the surviving banks by First National Cincinnati Corporation, it would have no effect on competition.

* Asset figures are as of call dates immediately before and after transaction.

* * *

**FT NATIONAL BANK,
Troy, Ohio, and The First National Bank & Trust Company, Troy, Ohio**

<i>Name of bank and type of transaction</i>	<i>Total assets *</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
The First National Bank & Trust Company, Troy, Ohio (3825), with	\$76,998,000	5	—
was purchased Sept. 30, 1976, by FT National Bank, Troy, Ohio (16608), which had	2,400,000	0	—
After the purchase was effected, the receiving bank had	81,467,000	—	5

COMPTROLLER'S DECISION

FT National Bank (organizing), Troy, Ohio, has applied to the Comptroller of the Currency for prior permission to acquire all of the assets and assume all of the liabilities of The First National Bank & Trust Company, Troy, Ohio.

The First National Bank & Trust Company, Troy, Ohio, the merging bank, was chartered as a national banking association on December 16, 1887 and, as of March 31, 1976, held commercial bank deposits aggregating \$65.5 million.

The proposed transaction is the facility whereby First National Cincinnati Corporation, Cincinnati, Ohio, a registered multi-bank holding company, will acquire the successor by purchase and assumption to The First National Bank & Trust Company. This transaction would have the effect of merely combining an existing entity

with a non-operating institution; and as such, without regard to the proposed acquisition of the surviving bank by First National Cincinnati Corporation, would have no effect upon competition within the relevant banking market (approximated by the Dayton, Ohio banking market).

Accordingly, applying the statutory criteria, it is the conclusion of this Office that the subject proposal is not adverse to the public interest and should be, and hereby is, approved.

August 30, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed transactions are part of plans through which First National Bank of Ironton and First National Bank & Trust Company would become subsidiaries of First National Cincinnati Corporation, a bank holding company. The instant transactions, however, would merely combine existing banks with non-operating institutions; as such, and without regard to the acquisition of the surviving banks by First National Cincinnati Corporation, it would have no effect on competition.

* Asset figures are as of call date immediately before and after transaction.

* * *

**CANAL NATIONAL BANK,
Portland, Me., and Central National Bank, Waterville, Me.**

<i>Name of bank and type of transaction</i>	<i>Total assets</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
Central National Bank, Waterville, Me. (15954), with	\$ 10,100,000	2	—
and Canal National Bank, Portland, Me. (941), which had	180,348,000	28	—
merged Oct. 1, 1976, under charter and title of the latter bank (941). The merged bank at date of merger had	193,263,000	—	30

COMPTROLLER'S DECISION

Central National Bank, Waterville, Me. ("Central N/B"), the merging bank, and Canal National Bank, Portland, Me. ("CNB"), the charter bank, have applied to the Comptroller of the Currency for prior permission to effectuate a merger under the charter and with the title of Canal National Bank. The instant application rests upon an agreement executed between the proponent banks, and is incorporated herein the same as if fully set forth.

Central N/B was chartered as a national banking association on March 30, 1972 and, as of May 28, 1976, held total commercial bank deposits of \$9.5 million. Central N/B maintains its head office in the town of Waterville and operates one branch office in Augusta, the state capital.

CNB became a national banking association on May

29, 1969, is the fifth largest bank in the state, and controls deposits aggregating approximately \$147.5 million. CNB operates a system of 28 branches, concentrated in southern and south-central Maine.

Both Central N/B and CNB are wholly-owned banking subsidiaries of the sixth largest commercial banking organization domiciled within the state of Maine, Canal Corporation, Portland, Me. Canal Corporation controls 4 banks with total deposits of \$183.4 million, 9.3 percent of total commercial bank deposits in Maine.

The closest offices of the charter bank and merging bank are approximately 25 miles distant, and given the geographic distance that separates those two banks in conjunction with their common ownership and control, there is no meaningful degree of competition between the two institutions.

Essentially the subject application represents a corporate reorganization whereby Canal Corporation is consolidating its banking interests. Accordingly, the application is not adverse to the public interest, and should be, and hereby is, approved.

August 30, 1976.

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 CITIZENS NATIONAL BANK OF EVANSVILLE, Evansville, Ind., and The Lamasco Bank, Evansville, Ind.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The Lamasco Bank, Evansville, Ind., with	\$ 21,295,000	1	_____
and The Citizens National Bank of Evansville, Evansville, Ind. (2188), which had	231,241,000	7	_____
merged Oct. 1, 1976, under charter and title of the latter bank (2188). The merged bank at date of merger had	252,081,000	_____	8

COMPTROLLER'S DECISION

The Citizens National Bank of Evansville, Evansville, Ind., the charter bank ("Citizens N/B"), and the Lamasco Bank, Evansville, Ind., the merging bank ("Lamasco Bank"), have applied to the Comptroller of the Currency for prior permission to merge into The Citizens National Bank of Evansville. The subject application rests upon an agreement executed between the proponent banks and is incorporated herein by reference, the same as if fully set forth.

Citizens N/B was chartered in 1875 and, as of December 31, 1975, held total deposits of \$191.6 million. It currently operates six branch offices in Vanderburgh County and has approval for the establishment of three additional offices. Currently the second largest commercial bank in the county, Citizens N/B controls approximately 30 percent of the county deposits.

Lamasco Bank, organized in 1914, is the smallest of five commercial banks domiciled in Vanderburgh County, and has commercial bank deposits aggregating \$17.6 million, which represent 3 percent of deposits within the county.

Lamasco Bank's sole office is located approximately 1 mile from the main office of Citizens N/B. There are, however, six banking offices, including the main office of each of the remaining three commercial banks domiciled in Evansville, within two blocks of the head office of the charter bank. Citizens N/B also operates a branch office about 1 mile west of Lamasco Bank's site, but there is an intervening office of another bank between those two offices of the proponent banks. Lamasco Bank's entire service area is enveloped by that of Citizens N/B, and approval of the subject transaction would have the effect of eliminating some degree of existing competition between the charter and merging banks and foreclose the possibility of any future competition developing between these two banks. Although applicable Indiana state statutes do make provision for county-wide *de novo* branching, Lamasco Bank, in its half century of existence, has not established any branches and, given its small size and other

pertinent factors outlined within this decision, the likelihood of Lamasco Bank utilizing this mode of expansion, appears remote.

Pursuant to the provisions of the Bank Merger Act of 1966, 12 USC 1828(c), the Comptroller of the Currency cannot approve a merger transaction which would have certain proscribed anticompetitive effects unless the Office concludes that those anticompetitive effects are clearly outweighed in the public interest by the probable effects of the proposed transaction in adequately meeting the convenience and needs of the community to be served. Furthermore, the Office of the Comptroller is also directed to fully consider the financial and managerial resources and future prospects of the existing and proposed institutions.

Lamasco Bank is located on the west side of the city of Evansville, approximately 1 mile from the city's downtown business district, in an area formerly referred to as Lamasco City. Formerly a residential neighborhood composed of citizens of German extraction, the area has experienced a period of major transition, and is presently developed into an industrial and commercial complex with the few remaining residential dwellings in a general state of decline. The majority of Lamasco Bank's customers are former neighborhood residents who have moved away from the immediate area, (only approximately 30 percent of the bank's customers live within a 1-mile radius of Lamasco Bank's site) but have maintained their accounts with Lamasco Bank due to ethnic bonds and personal loyalty to senior management of the bank. With the major transition within Lamasco Bank's primary service area, the merging bank's conservative operational policies and resultant lack of growth, have placed the bank in a position which in effect precludes it from successfully competing for the banking business of the commercial and industrial concerns that have recently entered the area around Lamasco Bank. Consequently, those businesses have sought the services of the larger, more aggressive, commercial banks located in Evansville.

In passing upon this application, it is noted that in

addition to the significantly larger commercial banks located within Vanderburgh County, Lamasco Bank must also compete with seven savings and loan associations, six of which have larger share accounts (deposits) than does Lamasco Bank; two industrial banks; and 10 credit unions. A review of Lamasco Bank's loan portfolio reveals that approximately 50 percent of the loan portfolio is in real estate loans, 18 percent is in direct auto financing extensions and only 25 percent is in the area of commercial and industrial loans. It is evident from that review that Lamasco Bank has operated in a fashion more like a mortgage banking institution or savings and loan institution, than a commercial bank.

As aforementioned, many of Lamasco Bank's customers have maintained a business affiliation with the bank because of personal loyalties to the merging bank's senior management. The majority of the children of the long-time customers do not, however, share that feeling of personal loyalties and ethnic identity with the bank. Consequently, they conduct their banking business elsewhere. The former president of the Lamasco Bank, Mr. E. J. Schroeder, passed away in July 1975, and the current bank president, Mr. Lawrence Goebel, who is 67 years of age, has said he is most anxious to retire; there is no member of the bank's present management who appears to be fully capable of assuming the duties of that position. Additionally, members of the board of directors of Lamasco Bank have made it known that they wish to become less involved in the affairs of the bank and, further, that they have no desire to, or intention of, serving on the board of the resulting bank.

Inasmuch as the majority of Lamasco Bank's stock is held by the bank's directors, all of whom have expressed a desire to get out of the banking business, and given the extremely conservative manner in which this bank has historically operated, this Office must consider the questions: How effectively is Lamasco Bank competing with other institutions in the area? How well is this bank serving the banking needs of the public? Would denial of this application serve to preserve an independent banking alternative in the Evansville area? The Office concludes that Lamasco Bank is far from being considered an aggressive competitor and, although a superficial analysis of the facts of record shows that the merging bank controls approximately 3 percent of commercial bank deposits in Vanderburgh County, and that approval of this application would result in the charter bank holding approximately one-third of the total deposits within the county, further analysis indicates that Lamasco Bank's deposits size is only half that of the fourth largest commercial bank in the county, and the ranking of Citizens N/B as the second largest bank in the county would be unchanged on a *pro forma* basis. Due to its small size, and its extremely conservative trend of operations (approximately 22 percent of Lamasco Bank's investment portfolio is in U. S. Treasury securities and over 40 percent of its total deposits are invested in U. S. government obligations), the merging bank is simply unable, and essentially lacks the desire, to provide a full range of banking services to all segments of the

Evansville banking public. Lamasco Bank has only a nominal 2 percent of total commercial and industrial loans originating from within Vanderburgh County.

The record reflects that the charter bank is not the only bank in the Evansville area that has expressed the desire to become a merger partner with Lamasco Bank. Given the sum of these factors, this Office must conclude that it is simply a matter of time until Lamasco Bank ceases to be an independent entity and that the public is not well served by this present situation. Approval of this application would have the effect of replacing a lethargic institution with a competitor which provides more banking alternatives, and one which is better able to serve the full banking needs of the public.

A review of both banks indicates that both are in satisfactory financial condition and, with the exception noted concerning Lamasco Bank's lack of management depth, both banks are capably managed institutions.

Accordingly, applying the statutory criteria, it is the conclusion of this Office that any anticompetitive effects attendant to the proposed merger are clearly outweighed by considerations relating to the convenience and needs of the area to be served, and that the public will be served by a more aggressive and meaningful banking alternative. Also, Citizens N/B is considered to possess both the financial and managerial resources necessary to enhance the future prospects of the surviving institution. Therefore, this application is deemed to be in the public interest, and should be, and hereby is, approved.

August 12, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The only office of Bank is located about 1 mile from the headquarters office of Applicant. However, there are six banking offices, including the main offices of the remaining three commercial banks in Evansville, within two blocks of Applicant's headquarters. Applicant also operates a branch office about a mile west of Bank, but another bank operates a branch in the intervening area. Thus, it appears that there is direct competition between Applicant and Bank.

Indiana is a limited branching state, where commercial banks can only branch in the county in which a bank is headquartered. Thus, Applicant and Bank are limited in their branching to Vanderburgh County. In that county, there are five commercial banks with 29 offices, all but two of which are located in Evansville. As of June 30, 1975, Applicant held the second largest share, approximately 30 percent, of total deposits in the county. Bank held the fifth largest share, about 3 percent. As a consequence of the proposed acquisition, Applicant's share of the market would increase to 33 percent and the top three banks would control over 90 percent of total deposits.

In sum, the proposed acquisition would both eliminate some direct competition and produce an increase in concentration. Accordingly, it would have an adverse competitive effect.

* * *

THE NATIONAL BANK OF GEORGIA,
 Atlanta, Ga., and The Hamilton Bank and Trust Company, Atlanta, Ga.

Name of bank and type of transaction	Total assets *	Banking offices	
		In operation	To be operated
The Hamilton Bank and Trust Company, Atlanta, Ga., with was purchased Oct. 8, 1976, by The National Bank of Georgia, Atlanta, Ga. (15541), which had	\$39,622,000	2	—
After the purchase was effected, the receiving bank had	380,969,000	27	—
	404,122,000	—	29

COMPTROLLER'S DECISION

On October 8, 1976, application was made to the Comptroller of the Currency for prior written approval for The National Bank of Georgia, Atlanta, Ga., ("Assuming Bank") to purchase certain of the assets and assume certain of the liabilities of the Hamilton Bank and Trust Company, Atlanta, Ga., ("Hamilton").

On October 8, 1976, Hamilton was a state-chartered bank operating through its main office and one branch office with deposits of approximately \$30 million. In the afternoon of October 8, 1976, Hamilton was declared insolvent and the Federal Deposit Insurance Corporation ("FDIC") was appointed as receiver. The present application is based upon an agreement, which is incorporated herein by reference, by which the FDIC as receiver has agreed to sell certain Hamilton assets and liabilities to 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 proscribed anticompetitive effects unless he finds those anticompetitive effects 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. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institution and the convenience and needs of the community to be served. When necessary, however, to prevent the evils attendant upon the failure of a bank, the Comptroller can dispense with the uniform 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. He is authorized in such circumstances to act immediately, in his sole discretion, to approve an acquisition and to authorize the immediate consummation of the transaction.

The proposed acquisition 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 Hamilton and enhance the banking services it offers in the Atlanta 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 those reasons, the Assuming Bank's application to acquire certain liabilities and purchase certain assets of Hamilton as set forth in the agreement executed with the IC as receiver, is approved. This approval also includes specifically approval to operate all offices of Hamilton as branches of the Assuming Bank and approval of the transfer to the Assuming Bank of Hamilton's trust business as provided in the agreement. The Comptroller further finds that the failure of Hamilton 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 the solicitation of competitive reports from other agencies and authorizes the transaction to be consummated immediately.

October 8, 1976.

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

* * *

**NEW JERSEY BANK (NATIONAL ASSOCIATION),
Clifton, N.J., and Plaza National Bank, Secaucus, N.J.**

<i>Name of bank and type of transaction</i>	<i>Total assets</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
Plaza National Bank, Secaucus, N.J. (15228), with	\$ 28,432,000	3	_____
and New Jersey Bank (National Association), Clifton, N.J. (15709), which had	825,071,000	39	_____
merged Oct. 18, 1976, under charter and title of the latter bank (15709). The merged bank at date of merger had	853,503,000	_____	42

COMPTROLLER'S DECISION

Plaza National Bank, Secaucus, N.J. ("Plaza N/B"), the merging bank, and New Jersey Bank (National Association), Clifton, N.J. ("NJB"), the charter bank, have applied to the Comptroller of the Currency for prior permission to merge under the charter and with the title of New Jersey Bank (National Association).

Plaza N/B was chartered as a national banking association on December 23, 1963, and as of March 31, 1976, held total commercial bank deposits of \$25.2 million. Plaza N/B maintains its head office and one branch in Secaucus and one branch in West New York, all in Hudson County, N.J.

NJB, with deposits of approximately \$675 million, operates a total of 40 banking offices in seven counties of northern and northeastern New Jersey.

Both Plaza N/B and NJB are wholly-owned banking subsidiaries of Greater Jersey Bancorp., West Paterson, N.J., the sixth largest commercial banking organization domiciled within the state of New Jersey. Greater Jersey Bancorp. has one other banking subsidiary, Provident Bank of New Jersey, Willingboro.

* * *

Given the common ownership and control of both the merging bank and the charter bank, there is no significant degree of competition existing between these two institutions, nor is there a potential for such competition to develop in the future. The subject transaction essentially effects a corporate reorganization and, of itself, will have no adverse impact upon competition.

Additionally, the merger of these two banks will result in certain economies of operation, streamline the bank holding company operation, increase efficiency and simplify the management structure.

In conclusion, it is the opinion of this Office that the subject proposal is not adverse to the public interest and should be, and hereby is, approved.

September 7, 1976.

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 CUMBERLAND NATIONAL BANK OF BRIDGETON,
Bridgeton, N.J., and United Jersey Bank/City National, Vineland, N.J.**

<i>Name of bank and type of transaction</i>	<i>Total assets</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
United Jersey Bank/City National, Vineland, N.J. (14673), with	\$29,098,000	4	_____
and The Cumberland National Bank of Bridgeton, Bridgeton, N.J. (1346), which had	54,820,000	4	_____
merged Nov. 1, 1976, under charter of the latter bank (1346) and title "United Jersey Bank/Cumberland National." The merged bank at date of merger had	83,918,000	_____	8

COMPTROLLER'S DECISION

United Jersey Bank/City National, Vineland, N.J. ("City National"), the merging bank, and Cumberland National Bank of Bridgeton, Bridgeton, N.J. ("CNB"), the charter bank, have applied to the Comptroller of the Currency for prior permission to effectuate a merger under the charter of Cumberland National Bank of Bridgeton, and with the title of United Jersey Bank/Cumberland National. The instant application rests upon an agreement executed between the proponent banks, and is herein incorporated by reference the same as if fully set forth.

City National became a national banking association on April 26, 1972. As of March 31, 1976, City National

held total commercial bank deposits of approximately \$27 million at its main office and three branches, all domiciled in Millville. The merging bank also has an approved, but unopened, branch office in the city of Vineland.

CNB was chartered as a national banking association on September 28, 1970, and has deposits aggregating \$43.9 million. CNB operates its main office and two branches in the community of Bridgeton and one branch in Hopewell Township.

The proponent banks are both wholly-owned subsidiaries of United Jersey Banks, Princeton, N.J., a registered bank holding company. United Jersey Banks is the second largest banking organization in the state of

New Jersey, with 14 subsidiary banks controlling 7.1 percent of all commercial bank deposits in the state.

All offices of the charter bank and the merging bank are located within Cumberland County, and the closest offices of the two banks are approximately 11 miles apart. However, given the common ownership and control of City National and CNB by United Jersey Banks, approval of this application would not have the effect of eliminating any meaningful degree of existing competition between the two banks, nor would the proposed merger affect the potential for increased competition, nor alter the share of deposits held in any relevant area by the parent bank holding company.

Inasmuch as the instant application essentially represents a corporate reorganization whereby United Jersey Banks is realigning and consolidating its banking interests, there is no basic change in the competi-

tive environment within which the proponent banks must operate and the convenience and needs of the banking community will be unaltered. The greatest degree of change will relate to the financial and managerial resources and future prospects of the combined institution.

Accordingly, applying the statutory criteria, it is the conclusion of this Office that the instant application is not adverse to the public interest, and is hereby approved.

October 1, 1976.

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.

* * *

**VIRGINIA NATIONAL BANK,
Norfolk, Va., and Fairfax County National Bank, Seven Corners, Va.**

<i>Name of bank and type of transaction</i>	<i>Total assets</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
Fairfax County National Bank, Seven Corners, Va. (14824), with	\$ 62,491,000	11	_____
and Virginia National Bank, Norfolk, Va. (9885), which had	1,804,327,000	119	_____
merged Nov. 12, 1976, under charter and title of the latter bank (9885). The merged bank			
at date of merger had	1,862,225,000	_____	130

COMPTROLLER'S DECISION

Virginia National Bank, Norfolk, Va. ("VNB"), the charter bank, and Fairfax County National Bank, Seven Corners, Va. ("FCNB"), the merging bank, have applied to the Comptroller of the Currency for prior permission to effectuate a merger under the charter and with the title of Virginia National Bank. The instant application rests upon an agreement executed between the proponent banks, and is incorporated herein by reference the same as if fully set forth.

VNB was chartered as a national banking association on November 5, 1910, and as of June 20, 1976, had commercial bank deposits aggregating approximately \$1.5 billion. A wholly-owned banking subsidiary of Virginia National Bankshares, Inc., Norfolk, Va., a registered bank holding company with five subsidiary banks, VNB serves as the lead bank of Virginia National Bankshares, Inc., and operates 123 offices in 24 counties and 18 independent cities throughout the Commonwealth of Virginia.

FCNB became a national banking association on December 30, 1957, and has total deposits of \$55.9 million at its main office and 10 branches in Fairfax County and one branch in the independent city of Falls Church.

FCNB has, since 1963, been a subsidiary of American Security Corporation, Washington, D. C., which controls 96.5 percent of the outstanding voting shares of FCNB. The Board of Governors of the Federal Reserve System has determined that the relationship existent between American Security Corporation and

FCNB is in violation of the Bank Holding Company Act of 1956, as amended and, on November 12, 1974, the Board ordered American Security Corporation to reduce its ownership of FCNB to less than 25 percent by November 12, 1976. The instant application is evidence of American Security Corporation's attempt to comply with the Board's order.

As aforementioned, all of the offices of FCNB are domiciled within the Washington, D. C. Metropolitan Area. The relevant banking market to be considered in this application is approximated by the Washington, D. C. SMSA which includes the District of Columbia; the Maryland counties of Charles, Montgomery and Prince Georges; and the Virginia counties of Arlington, Fairfax, Loudoun and Prince William; in addition to the independent cities of Alexandria, Fairfax and Falls Church, Va. VNB has two offices in Falls Church where FCNB has one office. Another subsidiary of Virginia National Bankshares, Inc., Virginia National Bank/Fairfax, has two offices in Fairfax County where the remaining 11 FCNB offices are located. The closest offices of VNB and FCNB appear to be in the city of Falls Church, approximately 0.75 mile east of and 0.5 mile south of FCNB's Falls Church branch. Additionally, Virginia National Bank/Fairfax recently opened a branch in Springfield, 0.5 mile north of FCNB. Therefore, approval of this proposal would have the effect of eliminating a degree of existing competition between charter bank and merging bank. However, given the large number of banking alternatives available within the relevant market and the relatively small share of

market deposits to be controlled (the combined bank would rank as sixth largest of 17 commercial banks in Fairfax County, with 2.4 percent of the total deposits in the market), this proposal would have only a *de minimus* effect upon competition.

Pursuant to applicable Virginia state branching statutes, a commercial bank may branch within the city or county limits of its principal office and in contiguous cities and towns. Thus, the proposed acquisition would foreclose the potential for future competition between VNB and FCNB. That is mitigated, however, by the fact that Virginia National Bankshares, Inc., is the second smallest of the seven bank holding companies operating in the Northern Virginia area and, further, by the fact that there does not appear to be any independent bank in the relevant area that is able to absorb an institution the size of FCNB.

The Comptroller of the Currency, pursuant to the provisions of the Bank Merger Act of 1966, 12 USC 1828(c), cannot approve any transaction which would have certain proscribed anticompetitive effects unless the Office concludes that those anticompetitive effects are clearly outweighed in the public interest by the probable effects of the proposed transaction in adequately meeting the convenience and needs of the community to be served. Furthermore, the Office of the Comptroller is also directed to fully consider the financial and managerial resources and future prospects of the existing and proposed institution.

The Federal Reserve Board, in ordering the severing of the affiliation between American Security Corporation and FCNB, was of the opinion that the public would be better served if that affiliation were broken. Approval of this proposal would better serve the public because the resulting bank would have an increased lending limit, provide sophisticated trust services, offer international services, have greater access to capital markets and operational efficiencies and provide for management depth and management succession, to better serve the public and insure the successful future prospects of the combined institution through the establishment of a financially sound, well-managed bank.

Accordingly, applying the statutory criteria, it is the opinion of this Office that the elimination of any slight degree of competition between the proponent banks is clearly outweighed by considerations relating to convenience and needs and future prospects of the combined bank. Therefore, it is the conclusion of the Office of the Comptroller of the Currency that this transaction is in the public interest and should be, and hereby is, approved. This approval is conditioned upon the ratification of at least two-thirds of the outstanding voting shares of both VNB and FCNB, as required by 12 USC 215(a).

October 12, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Applicant operates one office in Fairfax County from which it derived \$5.4 of its total deposits, and it ranks 17th out of 20 commercial banks in the county. Bank, with 11 county offices from which it derived \$41.9 million in total deposits, ranks sixth in the county. The closest offices of Applicant and Bank are 1 mile apart. Thus, Applicant's deposits emanating from the county constitute 11.0 percent of Bank's total deposits, a small but not significant amount of competition. The proposed acquisition will, therefore, eliminate some existing competition.

Fairfax County has 20 banks with 102 offices. As of June 30, 1975, the four largest banks in the market held 60.4 percent of total deposits, and 57.2 percent demand IPC deposits. Applicant's share of the market of total deposits is 0.7 percent (0.8 percent demand IPC), whereas Bank's share of the market of total deposits is 5.6 percent (6.2 percent demand IPC). Combining both shares results in 6.2 percent share of total deposits (7.1 percent demand IPC). The proposed acquisition represents the joinder of the sixth and the 17th largest commercial banks in the county (in terms of total deposits), and the resulting bank will continue to rank sixth. Within the Washington, D. C. SMSA, Applicant has a market share of total deposits of 1.8 percent. Bank's share of that market is 0.6 percent, or a combined share of 2.4 percent. Regardless of whether one views the proposed acquisition in the context of Fairfax County or the Washington, D.C. SMSA, it appears that consummation of the transaction will not contribute importantly to an increase in concentration.

Under Virginia law a bank may branch within the town, city, or county limits of its principal office and in contiguous cities and counties, unless offices are acquired by merger. Since Applicant has one branch already in the market, *de novo* branching would be a practical means of expansion within Fairfax County. Hence, the proposed acquisition would eliminate potential competition. This fact is mitigated somewhat because of the divestiture order. The Bank must be sold, and Applicant ranks sixth out of seven among the bank holding companies in the Northern Virginia area that possess the requisite financial wherewithal to make an acquisition of this size. It does not appear that any independent bank in the area is able to absorb an institution the size of Bank. Thus, given the necessity to sell Bank, a sale to Applicant is much less undesirable than would be a sale to other potential purchasers.

In sum, the proposed acquisition will eliminate some direct competition, will slightly increase concentration and will eliminate potential competition, the cumulative effect of which is that it will have some adverse effect upon competition.

* * *

**THE ONEIDA NATIONAL BANK AND TRUST COMPANY OF CENTRAL NEW YORK,
Utica, N.Y., and Ogdensburg Trust Company, Ogdensburg, N.Y.**

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Ogdensburg Trust Company, Ogdensburg, N.Y., with	\$ 35,471,000	3	—
and The Oneida National Bank and Trust Company of Central New York, Utica, N.Y. (1392), which had	524,974,000	30	—
merged Nov. 19, 1976, under charter and title of the latter bank (1392). The merged bank at date of merger had	552,015,000	—	33

COMPTROLLER'S DECISION

Ogdensburg Trust Company, Ogdensburg, N.Y. ("Merging Bank"), and The Oneida National Bank and Trust Company of Central New York ("Charter Bank"), Utica, N.Y., have applied to the Comptroller of the Currency for prior permission to effectuate a merger under the charter and with the title of The Oneida National Bank and Trust Company of Central New York. The instant application rests upon an agreement executed between the proponent banks, and is incorporated herein by reference the same as if fully set forth.

Merging Bank was chartered as a state banking organization in 1829 and, as of December 31, 1975, controlled commercial bank deposits aggregating \$27.6 million. In addition to its main office and one branch domiciled within the community of Ogdensburg, Merging Bank operates one branch office in St. Regis Falls.

Charter Bank was organized in 1836, and became a national banking association on July 5, 1865. With its present network of 29 branch offices which cover segments of nine counties within the northcentral section of the state, Charter Bank, as of year-end 1975, held total deposits of approximately \$412 million.

The main offices of Merging Bank and Charter Bank are approximately 130 miles apart, and the closest offices of the two proponent banks are separated by nearly 100 road miles. Due to the geographic distance involved, the presence of intervening banks and other banking alternatives available to the banking public, approval of this application would not have the effect of eliminating any meaningful degree of existing competition between Merging Bank and Charter Bank. Although applicable state banking statutes would legally permit Merging Bank and Charter Bank to expand *de novo* into each other's primary service area, Merging

Bank does not appear to possess either the willingness or resources necessary to do so. Likewise, due to the declining population and economic status of the Ogdensburg area, it appears highly unlikely that Charter Bank would choose this means to enter the service area of Merging Bank. It is, therefore, the conclusion of this Office that the foreclosure of any potential competition between these two banks is not significant.

Approval of this application would provide for management succession at Merging Bank and the future prospects of the combined institution appear favorable. Also, the banking public in the Ogdensburg area would be provided with a financially sound institution that is a more meaningful banking alternative that will serve as a source of full-service banking for the community.

The Office of the Comptroller of the Currency, therefore, concludes that consummation of this proposal is in the public interest and should be, and hereby is, approved.

October 14, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Applicant, the largest independent bank in Upstate New York, proposes to acquire a three office bank, the closest office of which is 100 miles away. No direct competition is involved.

Several major competitors operate in Applicant's area but they, too, are considerable distances from Bank. It thus appears that, if the area in which Bank operates should be suitable for *de novo* entry, Applicant would be among the smaller potential entrants. Accordingly, we conclude that the probable effect of the proposed merger on competition is not adverse.

* * *

FIRST NATIONAL BANK OF RIO GRANDE CITY,
Rio Grande City, Tex., and First State Bank & Trust Company, Rio Grande City, Tex.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
First State Bank & Trust Company, Rio Grande City, Tex., with was purchased Nov. 29, 1976, by First National Bank of Rio Grande City, Rio Grande City, Tex. (16618), which had	\$15,480,000	1	—
After the purchase was effected, the receiving bank had	1,500,000	0	—
	14,874,000	—	1

COMPTROLLER'S DECISION

On November 26, 1976, application was made to the Comptroller of the Currency by the First National Bank of Rio Grande City, Rio Grande City, Tex. ("Assuming Bank"), for permission to purchase certain of the assets and assume the liabilities of the First State Bank & Trust Company, Rio Grande City, Tex. First State Bank & Trust Company was placed in receivership and taken over by the Federal Deposit Insurance Corporation on November 24, 1976.

Assuming Bank's application rests upon an agreement incorporated herein by reference, the same as if fully set forth, between the Assuming Bank and the Federal Deposit Insurance Corporation, as receiver. For the reasons set forth below, this application is hereby approved and the Assuming Bank is hereby authorized immediately to consummate the purchase and assumption transaction.

Under the Bank Merger Act, 12 USC 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless he finds those anticompetitive effects 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. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institution and the convenience and needs of the community to be served. When necessary, however, to prevent the evils attendant upon the failure of a bank, the Comptroller can dispense with the uniform 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. He

is authorized in such circumstances to act immediately, in his sole discretion, to approve an acquisition and to authorize the immediate consummation of the transaction.

The proposed acquisition will be in accord with all pertinent provisions of the National Bank Act and will prevent disruption to the community. The Assuming Bank will have sufficient financial and managerial resources to enable it to continue banking services in Rio Grande City and environs. Thus, the approval of this transaction will help to avert a loss of public confidence in the banking system, and a loss of banking services to the community. The Comptroller finds that there are no anticompetitive effects of the proposed transaction. First State Bank & Trust Company was the only operating bank within Starr County, Tex., and the only bank within approximately 40 miles of Rio Grande City. For the reasons indicated, the Assuming Bank's application to purchase certain of the assets and assume the liabilities of First State Bank & Trust Company, as set forth in the agreement between the Federal Deposit Insurance Corporation, as receiver, and the organizers of First National Bank of Rio Grande City, is approved.

The Comptroller further finds that the failure of First State Bank & Trust Company requires immediate action as contemplated by the Bank Merger Act, to prevent continued 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.

November 29, 1976.

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

* * *

**AMERICAN NATIONAL BANK,
Hamden, Conn., and Laurel Bank and Trust Company, Meriden, Conn.**

<i>Name of bank and type of transaction</i>	<i>Total assets</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
Laurel Bank and Trust Company, Meriden, Conn., with	\$24,869,000	3	_____
and American National Bank, Hamden, Conn. (15496), which had	54,779,000	4	_____
merged Dec. 1, 1976, under charter and title of the latter bank (15496). The merged bank at date of merger had	79,907,000	_____	7

COMPTROLLER'S DECISION

Laurel Bank and Trust Company, Meriden, Conn. ("Merging Bank"), and American National Bank, Hamden, Conn. ("Charter Bank"), have applied to the Comptroller of the Currency for prior permission to effectuate a merger under the charter and with the title of American National Bank. The instant application rests upon an agreement executed between the proponent banks, and is incorporated herein by reference the same as if fully set forth.

Merging Bank was organized in 1968, and operates its main office in Meriden, New Haven County, and two branch offices in adjoining Middlesex County, approximately 7 and 10 miles, respectively, from the head office. As of March 31, 1976, Merging Bank had total deposits of \$22.7 million, was the fourth largest of six commercial banks serving Meriden and ranked fifth among 12 commercial banks serving Middlesex County.

Charter Bank became a national banking association on March 30, 1965, now has deposits of \$38.8 million and operates four offices, three in Hamden and one in West Haven.

The closest offices of the proponent banks are Merging Bank's head office in Meriden and Charter Bank's offices in Hamden, approximately 14 miles apart. There are however, several offices of other banks within the intervening area; existing competition between Charter Bank and Merging Bank is minimal and there does not appear to be the possibility of a substantial increase in competition between these two banks in the foreseeable future. Merging Bank has experienced little growth over the past 3 operating years, and the bank's generated earnings have shown a significant decline during the same period. Additionally, Merging Bank has sustained substantial loan losses which have begun to erode the subject bank's capital accounts. Consequently, the internal operating difficulties experienced recently by Merging Bank have affected the bank's ability to act as viable competitor. The combination of the financial and managerial resources of Merging Bank and Charter Bank should

better enhance the favorable future prospects of the surviving bank, and the banking public will be better served by a stronger, more meaningful banking alternative.

Accordingly, applying the statutory criteria, it is the conclusion of the Office of the Comptroller of the Currency that this proposal is in the public interest and should be, and hereby is, approved.

November 1, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Bank concentrates its business activity in upper New Haven County and the adjoining area of Middlesex County. Its two branches in Middlesex County are 7 and 10 miles, respectively, from its head office in Meriden. Applicant's offices in Hamden are about 14 miles from Bank's closest office and its West Haven office is 29 miles from Bank's nearest office. Thus, the two banks are oriented toward different geographic areas and it appears that the proposed acquisition would not eliminate existing competition to any appreciable extent. Moreover, because of Connecticut banking laws, neither bank can branch into the two where the other's head office is located.

Both banks are rather small. In Hamden, although Applicant ranks first in local deposits among the six commercial banks serving the town, the other banks are five of the nine largest commercial banks in the state. Bank ranks fourth among the six commercial banks serving Meriden, among which are four of the largest commercial banks in the state. In Middlesex County, Bank ranks fifth among the 12 commercial banks serving the county, which includes five of the state's largest. It thus appears that the proposed acquisition may produce a commercial bank which is better able to compete against the large banks currently serving the affected towns. Furthermore, given the highly concentrated structure of Connecticut banking, where the top 10 among the state's 70 banks hold 82 percent of deposits, the proposed merger of two of the smaller banks in the state may prove to be pro-competitive.

* * *

**THE FIRST NATIONAL BANK AND TRUST COMPANY OF WESTERN MARYLAND,
Cumberland, Md., and The First National Bank of Mount Savage, Mount Savage, Md.**

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The First National Bank of Mount Savage, Mount Savage, Md. (6144), with	\$ 2,528,000	1	_____
and The First National Bank and Trust Company of Western Maryland, Cumberland, Md. (381), which had	90,032,000	6	_____
merged Dec. 1, 1976, under charter and title of the latter bank (381). The merged bank at date of merger had	92,539,000	_____	7

COMPTROLLER'S DECISION

The First National Bank of Mount Savage, Mount Savage ("Mount Savage Bank"), and The First National Bank and Trust Company of Western Maryland, Cumberland ("FNBTC"), have applied to the Comptroller of the Currency for prior consent to merge under the charter and with the title of the latter.

Mount Savage Bank, the merging bank, was organized as a national banking association in 1902 and, with total commercial bank deposits of \$2 million, now is the smallest of eight commercial banks operating in Allegany County.

FNBTC, the charter bank, opened for business in 1812, and converted to a national bank charter in 1864. Currently the largest bank domiciled in Allegany County, FNBTC, as of March 31, 1976, held total deposits of \$68.3 million. FNBTC operates its head office and three branches in Cumberland and one branch each in Cresdeptown and La Vale.

The head offices of the merging banks are approximately 10 miles apart, and the closest office of FNBTC to Mount Savage Bank is the La Vale office, approximately 7 miles away. The proposed merger would therefore have the effect of eliminating a *de minimis* degree of present competition existent between the two subject banks and eliminate one independent banking alternative.

By statute, 12 USC 1828 (c), the Comptroller of the Currency, must also consider the public interest by being mindful of the probable effect of the transaction in adequately meeting the convenience and needs of the community to be served. As is indicated by its age and small deposit size, Mount Savage Bank has not been a viable competitor in its market. To the contrary, it is considered to be the least aggressive and least competitive bank in the area. Its small size forces loan and savings customers requiring more sophisticated services to look beyond the Mount Savage area in order to meet their needs.

Additionally, the future prospects of the combined institution appear far more favorable. The increased lending limit and higher interest rate on savings would allow customers in the Mount Savage area to enjoy the benefit of a full-service bank. The proposed merger would also provide the assurance of management

depth and provide for management succession at the Mount Savage Bank. That takes on additional significance because Mount Savage Bank's present senior management is well beyond the normal retirement age and has expressed a desire to become less involved in the daily operations of the bank.

Accordingly, applying the statutory criteria, it is the conclusion of this Office that any slightly anticompetitive effects of this proposal are clearly outweighed by factors relating to convenience and needs, managerial and financial resources and future prospects of the resulting bank. This application is thus deemed to be in the public interest, and should be, and hereby is, approved.

September 30, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The head offices of the merging banks are 9 miles apart and their closest offices (Applicant's branch at La Vale) are 7 miles apart. Thus, the proposed merger would eliminate some existing competition between the participants.

There are 24 commercial banks in the area served by Applicant and Bank. The primary service area for Applicant and Bank is principally located in Allegany County, Md., with Cumberland the county seat, while parts of West Virginia and Pennsylvania can properly be included within the surrounding area from which both banks draw many of their customers. In this ill-defined area, which clearly overstates the market, Applicant, the largest bank of the 24 commercial banks serving the area, has 12.59 percent of the total deposits and Bank has 0.36 percent. The second-ranked bank has 11.34 percent of such deposits and the third-ranked has 10.93 percent. Consummation of the proposed transaction would increase Applicant's lead share of the total deposits in this market to 12.95 percent.

The instant proposal would eliminate some existing competition between Applicant and Bank and would increase Applicant's share of the deposits in the tri-state service area in which both operate by less than 0.5 percent of such deposits. Thus, the proposed acquisition would have some anticompetitive effect.

* * *

**NEW JERSEY NATIONAL BANK,
Trenton, N.J., and First State Bank, Toms River, N.J.**

Name of bank and type of transaction	Total assets *	Banking offices	
		In operation	To be operated
First State Bank, Toms River, N.J., with was purchased Dec. 17, 1976, by New Jersey National Bank, Trenton, N.J. (1327), which had	\$161,224,000	12	_____
After the purchase was effected, the receiving bank had	823,889,000	35	_____
	1,038,241,000	_____	47

COMPTROLLER'S DECISION

New Jersey National Bank, Trenton, N.J. ("Purchasing Bank"), has made application to the Comptroller of the Currency for prior permission to purchase substantially all of the assets and assume all of the liabilities of First State Bank, Toms River, N.J. ("Selling Bank"). The subject application rests upon an agreement executed between the proponent banks, and is incorporated herein by reference the same as if fully set forth.

Purchasing Bank, the second oldest banking institution within the state of New Jersey, was organized as a state-chartered bank in 1804, and was chartered as a national banking association on June 22, 1865. As of June 30, 1976, Purchasing Bank had total commercial bank deposits of \$730.4 million, and operated 31 banking offices that primarily serve central New Jersey. The wholly-owned banking subsidiary of New Jersey National Corporation, Trenton, N.J., a registered one-bank holding company, Purchasing Bank ranks as the seventh largest banking organization in the state.

Selling Bank, with total deposits of \$142 million, was organized in 1964 as a state-chartered institution and, in 1972, became the wholly-owned subsidiary of American Bancorp, Toms River, N.J., also a registered one-bank holding company. Selling Bank presently operates 12 banking offices, all of which are domiciled within Ocean County.

The proponent banks' closest offices, Selling Bank's Jackson branch, in Ocean County, and Purchasing Bank's Howell Township branch, in adjacent Monmouth County, are approximately 4 miles apart; but all other offices are at least 15 miles apart, and there are numerous intervening offices of competing banks. Approval of this application would therefore have the effect of eliminating only a minimal degree of existing competition between Purchasing Bank and Selling Bank.

Applicable New Jersey state branching statutes provide for *de novo* branching by commercial banks in any municipality within the state except where another banking institution maintains its principal office, and in municipalities whose population is less than 20,000. As of January 1, 1977, the population requirement becomes 10,000. Thus, Purchasing Bank could be perceived as a possible entrant into Ocean County via *de novo* expansion. Militating against Purchasing Bank's *de novo* entry is the concentration of banks presently located within Ocean County, the declining growth rate

of central New Jersey and the low banking office to population ratio of Ocean County. Therefore, absent the proposed acquisition, it appears highly unlikely that Purchasing Bank would choose to enter Ocean County to any significant degree in the near future, and the proposed acquisition will have no significantly adverse effect upon potential competition.

During the recent past, Selling Bank has experienced certain operational difficulties that have adversely affected the bank. The preponderance of Selling Bank's loan portfolio is real estate-related, much of which has been subject to criticism by bank regulatory authority, which has had a severe impact upon this bank's earnings performance. Also, neither Selling Bank nor its bank holding company parent appear to have the necessary financial and managerial resources to solve the myriad problems currently confronting Selling Bank. Purchasing Bank appears to possess the financial resources and qualified management with sufficient experience and expertise to greatly aid Selling Bank in coping with its problems. Furthermore, Purchasing Bank has committed to augment its total capital accounts by \$20 million. With the additional capital, the favorable future prospects of the combined institution are greatly enhanced.

Accordingly, applying the statutory criteria, it is the conclusion of the Office of the Comptroller of the Currency that any slightly adverse competitive aspects of this proposal are clearly outweighed by factors relating to the convenience and needs of the banking public and further by the favorable future prospects of the combined bank which are primarily dependent upon the financial and managerial resources of Purchasing Bank. This application is therefore deemed to be in the public interest and should be, and hereby is, approved. Approval of this proposal by the Comptroller of the Currency is conditioned upon Purchasing Bank's commitment to augment the capital accounts of New Jersey National Bank by \$20 million, and this augmentation must be accomplished within 1 year from the date of this statement.

November 15, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Applicant operates no banking offices in Ocean County and only 0.9 percent of Applicant's deposits and 4.6 percent of its loans are derived from Ocean County residents. Although the parties have two branches that are only 4 miles apart on opposite sides of the Ocean County - Monmouth County boundary,

* Asset figures are as of call dates immediately before and after transaction

the next closest offices are 16 road miles apart, with some 22 offices of competing banks intervening. In addition, approximately 0.6 percent of Bank's deposits and 8 percent of its loans are derived from customers with addresses in service areas of Applicant. Therefore, it appears that the proposed acquisition will not eliminate any significant amount of existing competition between the parties.

New Jersey law permits *de novo* branching by commercial banks in any municipality in the state except for municipalities in which another banking institution maintains its principal office and whose population is less than 20,000. As of January 1, 1977 the population requirement becomes 10,000. Applicant, the fifth largest bank by total deposits in New Jersey, is the fourth largest bank in Monmouth County, which adjoins Ocean County, and the largest bank in the Mercer County market. Thus, with the liberalization in New Jersey branching laws, Applicant should be deemed a possible entrant into Ocean County market. However, militating against Applicant's *de novo* entry is the concentration of banks in Ocean County and the declining growth trend in the central New Jersey area. The banking office to population ratio in Ocean County is 1 to

2,313 (112 offices per 259,120 persons), compared to a statewide average of 3,179 persons per office. Thus, absent the proposed acquisition, it appears unlikely that Applicant would enter the market to any significant extent in the near future and, therefore, the proposed acquisition will have only a slightly adverse effect on potential competition.

Sixteen commercial banks with 75 offices presently serve Ocean County. Bank, which holds approximately 17 percent of the total deposits of commercial banking offices within the county, ranks second among all institutions competing in Ocean County. Thus, the proposed acquisition involves the fifth largest commercial bank in the state entering Ocean County through the acquisition of the second largest commercial bank in the county. It obviously would have been preferable had Applicant chosen a smaller bank as its vehicle for entry into the Ocean County market, assuming, without knowing, that a smaller institution was available for acquisition.

In sum, the proposed acquisition would not eliminate either actual or potential competition to any significant degree. Overall, the proposed acquisition will have a slightly adverse competitive effect.

* * *

CITIZENS FIRST NATIONAL BANK OF NEW JERSEY, Ridgewood, N.J., and The State Bank of North Jersey, Pine Brook, N.J.

Name of bank and type of transaction	Total assets*	Banking offices	
		In operation	To be operated
The State Bank of North Jersey, Pine Brook, N.J., with	\$52,454,000	7	_____
was purchased Dec. 28, 1976, by Citizens First National Bank of New Jersey, Ridgewood, N.J. (11759), which had	342,790,000	21	_____
After the purchase was effected, the receiving bank had	402,114,000	_____	28

COMPTROLLER'S DECISION

Citizens First National Bank of New Jersey, Ridgewood, N.J. ("Purchasing Bank"), has applied to the Comptroller of the Currency for prior permission to purchase all of the assets and assume all of the liabilities of The State Bank of North Jersey, Pine Brook, N.J. ("Selling Bank"). The instant application rests upon an agreement executed between the proponent banks, and is incorporated herein by reference, the same as if fully set forth.

Purchasing Bank, with total commercial bank deposits of \$246.9 million as of December 31, 1975, operates 18 branches in addition to its main office, and has received approval for the establishment of three new offices. Chartered as a national banking association on June 18, 1920, Purchasing Bank's branch network serves the northern, western and central portions of Bergen County, and has one branch domiciled within an adjacent area of Passaic County.

Selling Bank, with year-end 1975 total deposits of approximately \$44 million, operates its head office and

six branches in eastern Morris County. Morris County is located southwest of Bergen and Passaic counties in north-central New Jersey and is a rapidly growing area with a diversified economy.

The head offices of the proponent banks are 18 miles apart, and the closest offices of these two banks are Purchasing Bank's office in Hawthorne and Selling Bank's Pine Brook office, approximately 15 miles apart. There are intervening offices of other commercial banks situated between the closest offices of Purchasing Bank and Selling Bank, and it does not appear that the proposed acquisition would eliminate any meaningful degree of existing competition.

Pursuant to applicable state banking statutes, Purchasing Bank could legally establish a *de novo* branch in the area served by Selling Bank; however, there are other banking organizations of comparable size to Purchasing Bank that could also enter the area via *de novo* expansion. Furthermore, because Selling Bank controls a relatively small percentage of total commercial bank deposits within Morris County (4.8 percent), it is highly unlikely that consummation of the proposal would have a significantly adverse effect upon potential competition.

* Asset figures are as of call dates immediately before and after transaction.

Accordingly, applying the statutory criteria, it is the conclusion of the Office of the Comptroller of the Currency that approval of the subject proposal will provide new and expanded banking services in the Selling Bank's service area, thereby better serving the needs of the banking public through a financially sound, well-managed institution. The application is hereby approved.

November 11, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Morris County is located southwest of Bergen and Passaic counties in north-central New Jersey. It is a rapidly growing county with a diversified economy. Between 1960 and 1970 its population increased from 262,000 to 383,000, and it is predicted that its population will increase to 452,000 by 1985; increases which exceed the average population increases for the state as a whole. Business and industry have also expanded substantially in Morris County; county employment climbed from 70,000 to 120,000 between 1960 and 1970 and it is predicted that by 1985 it will climb to 190,000.

* * *

FIRST NATIONAL BANK OF JACKSON, Jackson, Miss., and Columbia Bank, Columbia, Miss.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Columbia Bank, Columbia, Miss., with	\$ 27,839,000	2	—
and First National Bank of Jackson, Jackson, Miss. (10523), which had	810,858,000	31	—
merged Dec. 31, 1976, under charter and title of the latter bank (10523). The merged bank at date of merger had	838,697,000	—	33

COMPTROLLER'S DECISION

Columbia Bank, Columbia, Miss. ("Columbia Bank"), the merging bank, and First National Bank of Jackson, Jackson, Miss. ("FNB"), the charter bank, have applied to the Comptroller of the Currency for prior permission to effectuate a merger under the charter and with the title of First National Bank of Jackson. The subject merger rests upon an agreement executed between the proponent banks and is incorporated herein by reference, the same as if fully set forth.

Columbia Bank was established in 1899 and, with deposits of approximately \$21 million as of March 31, 1976, is the second largest of three commercial banks domiciled within Marion County, Miss., the approximate relevant banking market. Columbia Bank operates both its main office and one branch in the city of Columbia.

FNB was chartered as a national banking association on April 27, 1914, and holds commercial bank deposits of \$597.7 million. FNB operates a total of 30 banking offices in seven counties of the state; the closest to Columbia Bank is FNB's Tylertown Bank Branch in adjacent Walthall County, approximately 22

As of December 31, 1975, 20 banking organizations operated in Morris County, and held a total of \$895.4 million in county deposits. Banking is concentrated in Morris County, with the top four banks controlling 65.5 percent of total county deposits. Bank holds 4.8 percent of total county deposits and is the seventh largest banking organization in Morris County in terms of total county deposits.

The head offices of Applicant and Bank are 18 miles apart. Their closest offices (Applicant's Hawthorne office and Bank's Pine Brook office) are approximately 14 miles apart and there are approximately six banks in the intervening area. It appears that the proposed acquisition would not eliminate any substantial existing competition.

Under New Jersey law, Applicant could be permitted to branch *de novo* into the area served by Bank. There are, however, other banking organizations as large as Applicant which also could be permitted to enter that area *de novo*. Moreover, Bank controls a relatively small percentage of Morris County deposits. Therefore, it is unlikely that the proposed acquisition would have a significantly adverse effect on potential competition.

miles distant. Inasmuch as the main offices of two proponent banks are approximately 80 air miles apart and the competition now existing between the two banks is minimal, approval of this application would not have the effect of eliminating a meaningful degree of present competition.

Applicable Mississippi state statutes would permit the establishment of a *de novo* branch in Marion County by FNB. However, given the fact that three commercial banks now serve the area, which has a population of slightly less than 8,000, it does not appear likely that FNB would consider that means of expansion into the area.

Approval of the instant proposal would provide Columbia Bank with a means for management succession. That factor has additional significance because Columbia Bank's president is at normal retirement age and has expressed the desire to become less involved in the daily affairs of the bank. Also, the introduction of FNB into the Columbia area would provide the banking public with expanded and additional banking services.

In conclusion, it is the opinion of this Office that approval of this application would provide the banking

public with convenient full-service banking in the Columbia area by a financially strong and well-managed institution. Accordingly, this application should be, and hereby is, approved.

November 19, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Three banks with five offices currently operate within Marion County, which is the appropriate geographic market in which to evaluate the competitive effects of the proposed merger. Of these, Citizens Bank, with one office in Columbia, is the largest. It had total deposits of \$24,488,000 as of March 31, 1976, or a 45.78 percent share of the commercial banking market in Marion County. Bank is second largest with \$21,100,000 in total deposits on the same date, or 39.45 percent of the market. The Foxworth Bank, with its main office in a settlement about 3 miles east of Columbia and one branch in Columbia, is third largest with total deposits of \$7,903,000, or 14.77 percent of the market. Although Bank's total deposits have gradually increased during the past 5 years, its share of the Marion County market has declined. In 1971, Bank was the largest bank in the county, with a 47 percent market share. Since that time, Citizens Bank's share has increased from 40 percent to 46 percent; Foxworth Bank's share has increased from 8 percent to 15 percent; and Bank's share has declined to 39 percent.

Applicant is not a significant competitor in the Marion County banking market. Its main office in Jackson is 79 air miles from Columbia, and its closest branch bank, in Tylertown, Walthall County, is 22 miles therefrom. Only 0.4 percent of Bank's demand deposits originate in the service area of Applicant's Tylertown branch. Only 3.6 percent of the Tylertown branch

bank's deposits originate in Marion County, although this figure is somewhat overstated in that many Walthall County residents have a Marion County rural delivery mailing address. Thus, the proposed merger should eliminate a minimal amount of existing competition between Bank and Applicant's closest subsidiary.

While Mississippi law permits Applicant to open a *de novo* branch in Marion County, such a development is unlikely to occur. The banking needs of Marion County residents appear to be adequately served by the existing banks. The city of Columbia would be the most logical location for a new bank, yet three banks with four offices now serve its population of 8,000. Furthermore, given the county's generally declining population, the prospects for an expanding banking market in the future are not bright. Therefore, it is unlikely that the proposed merger would eliminate any potential competition between Applicant and Bank.

The proposed merger would not have any significant effect on concentration in commercial banking in Marion County, although it may strengthen Bank's competitive position to the detriment of Foxworth Bank, the county's smallest bank. Viewed on a statewide basis, the proposed acquisition would increase Applicant's share of total deposits from 11.0 percent to 11.4 percent, but Applicant would remain the second largest bank behind the Deposit Guaranty National Bank, which currently has a 12.9 percent share of all Mississippi bank deposits. The third and fourth largest banks in the state have market shares, respectively, of 4.1 percent and 3.6 percent, so the proposed merger would increase the four-firm concentration index for the state as a whole from 31.6 percent to 32.0 percent.

For the reasons stated above, we conclude that the proposed merger would have a slightly adverse effect on competition in Marion County and Mississippi as a whole.

* * *

FIRST PEOPLES NATIONAL BANK OF NEW JERSEY, Haddon Township (P. O. Westmont), N.J., and The Provident Bank of New Jersey, Willingboro, N.J.

Name of bank and type of transaction	Total assets *	Banking offices	
		In operation	To be operated
The Provident Bank of New Jersey, Willingboro, N.J., with	\$35,642,000	4	_____
was purchased Dec. 31, 1976, by First Peoples National Bank of New Jersey, Haddon Township, (P.O. Westmont), N.J. (399), which had	555,861,000	36	_____
After the purchase was effected, the receiving bank had	606,575,000	_____	40

COMPTROLLER'S DECISION

First Peoples National Bank of New Jersey, Haddon Township, N.J. ("Purchasing Bank"), has made application to the Comptroller of the Currency for prior permission to purchase the assets and assume the liabilities of The Provident Bank of New Jersey, Willingboro, N.J. ("Selling Bank"). The subject application rests upon an agreement executed between the pro-

ponent banks and is incorporated herein by reference the same as if fully set forth.

Purchasing Bank, the 15th largest commercial banking organization with headquarters domiciled within the state of New Jersey, was chartered as a national banking association on April 25, 1864. As of June 30, 1976, Purchasing Bank held total deposits of \$477.4 million and operated 34 banking offices throughout seven southern New Jersey counties.

Selling Bank, which had total deposits of \$32.3 million as of mid-year 1976, was established in 1959 as

* Asset figures are as of call dates immediately before and after transaction.

an independent state-chartered, non-member commercial banking institution. In 1973, Selling Bank became a wholly-owned subsidiary of a registered multi-bank holding company, Greater Jersey Bancorp, West Paterson, N.J., the sixth largest commercial banking organization in the state. Selling Bank currently operates four banking offices in Willingboro and has an application pending for the establishment of a branch office in Berlin, N.J.

The main office of Purchasing Bank is located approximately 15 miles southwest of the head office of Selling Bank. The closest offices of the proponent banks are Purchasing Bank's three offices in Cherry Hill, and Selling Bank's main office in Willingboro, approximately 14 road miles apart. There are however, offices of other banks in the intervening area; and the area is largely undeveloped, with road traffic limited by certain geographic barriers. It, therefore, appears that only a negligible degree of existing competition exists between the proponent banks, and approval of this proposal would not have the effect of eliminating any meaningful competition between the two banks.

Applicable state branching statutes permit *de novo* branching by commercial banks into all municipalities except those in which another banking institution maintains its head office and those municipalities with populations less than 20,000 persons. As of January 1, 1977, the population requirement becomes 10,000 inhabitants. Inasmuch as this Office denied an application in early 1975 sponsored by Purchasing Bank to establish a *de novo* branch in Willingboro, it appears highly unlikely that Purchasing Bank could be perceived as a potential entrant into the Willingboro area via *de novo* expansion in the near future.

As aforementioned herein, Selling Bank has been affiliated with Greater Jersey Bancorp since 1973. Greater Jersey Bancorp's primary banking operations have been concentrated, with the exception of Selling Bank, in northern New Jersey. Selling Bank was acquired apparently to afford the holding company a foothold representation in southern New Jersey from which to expand throughout the southern portion of the state. To date, that expansion has not materialized, and it appears that Selling Bank has been largely neglected by its parent bank holding company. In an effort to improve its earnings and loss of customers deposits, Selling Bank has curtailed certain banking services to its customers, thereby resulting in an increasingly severe competitive disadvantage and further in a disservice to the banking public.

First Peoples National Bank of New Jersey has managers who are considered by this Office to be competent and capable bankers; the bank also has the financial capacity to aid Selling Bank's representation to be that of a more aggressive and effectual competitor in the Willingboro area. Purchasing Bank is regarded as a retail-oriented institution and the banking public will be well served by the introduction of new and expanded banking services.

Therefore, applying the statutory criteria, it is the conclusion of the Office of the Comptroller of the Currency that any slightly adverse competitive consequences of this proposal are clearly outweighed by the

convenience and needs of the banking public and the more favorable future prospects of the combined institution because of the financial and managerial resources of Purchasing Bank. This application is thus deemed to be in the public interest and should be, and hereby is, approved.

December 1, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Applicant's sole Burlington County office is located approximately 55 miles from the Willingboro trade area. However, Applicant's main office in Haddon Township is approximately 15 miles southwest of Willingboro, and it operates three offices in Cherry Hill, N.J., the nearest of which is 8.9 air miles (13.6 road miles) from Willingboro. Although the area between the service areas of Bank and Applicant is largely undeveloped and road traffic is limited by certain geographic obstructions, it appears likely that some competition presently exists between the parties. In particular, it should be noted that, according to a New Jersey Department of Labor Survey in 1973, approximately 56 percent of Willingboro's workers commuted to places outside of Burlington County for their employment — of these, approximately 49 percent traveled to Philadelphia County and 18 percent to Camden County for their employment. Given these commutation patterns and the proximity of the trade areas, it appears likely that a moderate degree of competition currently exists between Applicant and Bank. As a result, the proposed acquisition will eliminate existing direct competition to some extent.

Applicant, the 12th largest commercial banking institution in New Jersey, ranks third in total deposits among banks competing in Camden County. Given Applicant's size, its considerable growth in recent years and the similarity between the Camden County and Willingboro markets, Applicant would appear to be a likely potential entrant into the growing western Burlington County market. New Jersey law permits *de novo* branching by commercial banks in any municipality in the state except for municipalities in which another banking institution maintains its principal office and whose population is less than 20,000. As of January 1, 1977, the population requirement becomes 10,000. Applicant, in fact, recently filed an application to establish a *de novo* branch in Willingboro. However, this application was denied in early 1975 on the grounds, *inter alia*, that Applicant lacked sufficient existing customers in the trade area to justify granting a branch application in Willingboro. Applicant acknowledges that should this acquisition be denied it would "no doubt refile at some remote future point" to establish a branch in the Willingboro area. It thus appears that the Applicant is a likely entrant into the market at some future time. However, given Applicant's recent unsuccessful attempt to establish a *de novo* branch in Willingboro, it appears that entry by Applicant is unlikely in the near term.

Bank, although it has less than 5 percent of the total deposits among commercial banks in Burlington County, is nevertheless the largest competitor in the Willingboro market. Thus, the proposed merger would

combine a potential entrant into the Willingboro market with the dominant competitor there. Moreover, even if *de novo* entry by Applicant were not possible, the proposed acquisition would foreclose the possibility of entry by Applicant by means of a merger with one of

the small banks in the area. Accordingly, the proposed acquisition would have an adverse effect on potential competition.

In sum, the proposed acquisition, overall, would have an adverse competitive effect.

* * *

**MIDLANTIC NATIONAL BANK,
Newark, N.J., and Midlantic National Bank/West, Morristown, N.J.**

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Midlantic National Bank/West, Morristown, N.J. (15360), with	\$ 40,219,000	8	_____
and Midlantic National Bank, Newark, N.J. (1316), which had	1,000,472,000	39	_____
merged Dec. 31, 1976, under charter and title of the latter bank (1316). The merged bank			
at date of merger had	1,040,691,000	_____	47

COMPTROLLER'S DECISION

Midlantic National Bank/West, Morristown, N.J. ("Merging Bank"), and Midlantic National Bank, Newark, N.J. ("Charter Bank"), have applied to the Comptroller of the Currency for prior permission to effectuate a merger under the charter, and with the title of, Midlantic National Bank. The subject application rests upon an agreement executed between the proponent banks and is incorporated herein by reference, the same as if fully set forth.

Both Merging Bank and Charter Bank are wholly-owned, except for directors' qualifying shares, by the third largest multi-bank holding company headquartered in New Jersey, Midlantic Banks, Inc., Newark, N.J. Merging Bank was chartered as a national banking association on July 24, 1964, and, as of June 30, 1976, had commercial bank deposits aggregating approximately \$34 million. Charter Bank is headquartered in Newark, 34 of its 38 banking offices are located in Essex County, and serves as a head bank for its parent bank holding company. As of mid-year 1976, Charter Bank had total deposits of \$829.5 million. Because of the common ownership and control existing between Merging Bank and Charter Bank, there is no

present competition between these two banks nor is there any potential for increased competition in the future.

This application is considered essentially as a corporate reorganization of Midlantic Banks, Inc. The surviving institution should realize certain operating efficiencies and increased profitability. Furthermore, the banking public will continue to be served by a source of full-service commercial banking.

Accordingly, applying the statutory criteria, it is the conclusion of the Office of the Comptroller of the Currency that this proposal is not adverse to the public interest and should be, and hereby is, approved. This proposal may not be consummated prior to the statutory waiting period, nor prior to receipt by this Office of evidence of publication requirements pursuant to Sections 215(a) and 1828(c) of the United States Code.

November 29, 1976.

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.

* * *

UNION CHELSEA NATIONAL BANK,
New York, N.Y., and Chelsea National Bank, New York, N.Y.

Name of bank and type of transaction	Total assets*	Banking offices	
		In operation	To be operated
Chelsea National Bank, New York, N.Y. (15428), with was purchased Dec. 31, 1976, by Union Chelsea National Bank, New York, N.Y. (16629), which had	\$31,724,000	3	—
After the purchase was effected, the receiving bank had	1,006,005 31,174,000	0	3

COMPTROLLER'S DECISION

Union Chelsea National Bank, New York, N.Y. ("UCNB"), has made application to the Comptroller of the Currency for prior permission to purchase the assets and assume the liabilities of Chelsea National Bank, New York, N.Y. ("Chelsea"). This application has been processed pursuant to the emergency provisions of the National Bank Act, as set forth in 12 USC 181 and the Bank Merger Act of 1966, as set forth in 12 USC 1828(c). Also, the decision of the Comptroller is rendered pursuant to an agreement executed between the proponent banks upon which the instant application rests and is incorporated herein by reference, the same as if fully set forth.

UCNB, the assuming bank, was, on December 20, 1976, granted preliminary approval to organize by the Office of the Comptroller of the Currency and, to date, has no operating history.

Chelsea was chartered as a national banking association on November 13, 1964 and, as of September 30, 1976, held total commercial bank deposits aggregating \$28.7 million. In addition to its main office located in the Chelsea district of Manhattan, Chelsea operates one branch office in the financial district (111 John Street), and one branch in the theatrical district (7th Avenue and 53rd Street).

Chelsea was visited by representatives of the Office of the Comptroller of the Currency on October 26, 1976, for the purpose of examining the bank's operations and determining its overall condition. Examiners indicated that there had been further deterioration in Chelsea's loan portfolio since the previous examination; loan losses classified by examiners at the October 1976 examination aggregated approximately \$763,000. Subsequent to those loan charge-offs, Chelsea's gross capital funds were \$528,000, an amount woefully inadequate to support the bank's scope of operation. Additionally, operating losses for Chelsea had continued to mount and, as of examination date, were averaging \$60,000 per month.

On December 8, 1976, examiners for the Comptroller again visited Chelsea; at that time, it was determined that additional loan losses amounting to \$429,000 existed. The bank's equity capital was only \$400,000 at the time. Efforts by the bank's directors

and shareholders to raise new capital funds have been without success.

In view of the record in this matter, it is the conclusion of this Office that an emergency situation exists which requires expeditious action by the Comptroller's Office. Consistent with the applicable provisions of 12 USC 181, the Comptroller of the Currency hereby specifically waives the requirement for shareholder approval by owners of Chelsea's stock.

Pursuant to the Bank Merger Act of 1966, 12 USC 1828(c), the Comptroller of the Currency cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless he finds those anticompetitive effects 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. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institution and the convenience and needs of the community to be served. When necessary, however, to prevent the evils attendant upon the failure of a bank, the Comptroller can dispense with the uniform 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. He is authorized in such circumstances to act immediately, in his sole discretion, to approve an acquisition and to authorize the immediate consummation of the transaction.

The proposed acquisition will be in accord with all pertinent provisions of the National Banking Act and will prevent a disruption of banking services to the community and potential losses to a number of uninsured depositors. The assuming bank will have strong financial and managerial resources and the acquisition will enable it to enhance the banking services offered in the New York City area. Thus, the approval of this transaction will help to avert a loss of public confidence in the banking system and should improve the services offered to the banking public.

The Comptroller finds that there are no anticompetitive effects of the proposed transaction. For those reasons, the assuming bank's application to purchase the assets and to assume the liabilities of Chelsea as set forth in their agreement is approved. The Comptroller further finds that the possible failure of Chelsea requires him to act immediately, as contemplated by the

* Asset figures are as of call dates immediately before and after transaction.

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, authorizes UCNB to operate all former offices of Chelsea as

branches of UCNB and, further, authorizes the transaction to be consummated immediately.

December 31, 1976.

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

* * *

II. Mergers consummated, involving a single operating bank.

GATEWAY NATIONAL BANK OF FORT WORTH, Fort Worth, Tex., and Circle National Bank of Fort Worth, Fort Worth, Tex.

Name of bank and type of transaction	Total assets*	Banking offices	
		In operation	To be operated
Gateway National Bank of Fort Worth, Fort Worth, Tex. (14962), with	\$24,695,000	1	_____
and Circle National Bank of Fort Worth, Fort Worth, Tex. (14962), which had	120,000	0	_____
merged Jan. 5, 1976, under the charter of the latter bank (14962) and title "Gateway National Bank of Fort Worth." The merged bank at date of merger had	25,456,000	_____	1

COMPTROLLER'S DECISION

On March 8, 1974, Gateway National Bank of Fort Worth, Fort Worth, Tex., and Circle National Bank of Fort Worth (organizing), Fort Worth, Tex., applied to the Comptroller of the Currency for permission to merge under the charter of the latter and the title of the former.

Gateway National Bank of Fort Worth, the merging bank, was chartered in 1962 and has assets of \$18.9 million and IPC deposits of \$15.7 million. The merging bank is the 25th largest of the 46 banks in the Fort Worth area.

Circle National Bank of Fort Worth (organizing), the charter bank, is being organized to provide a vehicle by which to transfer ownership of the merging bank to First United Bancorporation, Inc., Fort Worth, a multi-bank holding company with aggregate deposits of \$760.3 million. The charter bank will not be operating as a commercial bank prior to the merger.

Consummation of the proposed transaction will result in no adverse competitive effects. The merging bank has had a long-standing relationship with the holding company, including legal affiliation with the

* Asset figures are as of call dates immediately before and after transaction.

holding company's largest subsidiary, The First National Bank of Fort Worth, since 1972. The closest subsidiary of the holding company, Security State Bank, is located 5 miles from the merging bank, with several alternative banking facilities situated in the intervening area.

Applying the statutory criteria, it is concluded that the proposed transaction is in the public interest and this application is, therefore, approved.

December 5, 1975.

SUMMARY OF REPORT BY ATTORNEY GENERAL

This is in reply to your letter of March 13, 1974, requesting a report pursuant to Section 18(c) of the Federal Deposit Insurance Act on the competitive factors involved in the proposed merger of Gateway National Bank of Fort Worth, Fort Worth, Tex., and Circle National Bank of Fort Worth (org.), Fort Worth, Tex.

The proposed merger is part of a plan through which Gateway National Bank of Fort Worth would become a subsidiary of First United Bancorporation, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a non-operating institution; as such, and without regard to the acquisition of the surviving bank by First United Bancorporation, Inc., it would have no effect on competition.

* * *

**COMMERCIAL NATIONAL BANK,
Cassopolis, Mich., and C National Bank, Cassopolis, Mich.**

<i>Name of bank and type of transaction</i>	<i>Total assets*</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
Commercial National Bank, Cassopolis, Mich. (16371), with	\$60,585,000	8	—
and C National Bank, Cassopolis, Mich. (16371), which had	120,000	0	—
merged Mar. 11, 1976, under charter of the latter bank (16371) and title "Commercial National Bank." The merged bank at date of merger had	67,622,000	—	8

COMPTROLLER'S DECISION

On November 19, 1974, C National Bank, (organizing), Cassopolis, Mich., and Commercial National Bank, Cassopolis, Mich., applied to the Comptroller of the Currency for permission to merge under the charter of the former and with the title of the latter.

Commercial National Bank, the existing bank, was organized in 1864 and presently operates six branches. It has total assets of \$54.5 million and IPC deposits of \$38.9 million. The primary service area of this bank encompasses central and southern Cass County, southwestern St. Joseph County and the city of Niles, all of which are located in Michigan; and northern Elkart County, Ind.

Direct competition for Commercial National Bank is provided by First National Bank of Southwestern Michigan, Niles, with deposits of \$109 million; First National Bank and Trust Company, Sturgis, with deposits of \$29.1 million; Community State Bank of Dowagiac, with deposits of \$13.5 million; and First National Bank of Cassopolis, with deposits of \$13.2 million.

C National Bank is being organized to provide a vehicle by which to transfer ownership of Commercial National Bank to Michigan National Corporation. Bloomfield Hills, Mich. The new bank will not be operating as a commercial bank prior to this merger.

Michigan National Corporation, the bank holding company which will acquire the resulting bank was organized in 1972 and presently is the third largest bank holding company in Michigan. It controls nine banks with aggregate deposits of \$2.5 billion. The two largest subsidiaries are Michigan National Bank, Lansing, with deposits of \$1.3 billion, and Michigan National Bank of Detroit, with deposits of \$881 million. Michigan Na-

tional Corporation also controls two bank-related subsidiaries which specialize in leasing and auditing.

There is no competition between Michigan National Corporation or its subsidiaries and Commercial National Bank because their nearest offices are separated by a distance of 35 miles and an adequate number of alternative banking facilities operate in the intervening area.

Consummation of the proposed merger will stimulate competition in the service area of the resulting subsidiary because it will be able to offer new and improved services, such as commercial and mortgage lending, investment banking, trust services and international banking. The acquisition of the existing bank by Michigan National Corporation will result in an economy of operation which will be reflected in increased profits for that bank.

Applying the statutory criteria, it is concluded that the proposed merger is in the public interest and this application is, therefore, approved.

February 9, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

This is in reply to your letter of November 20, 1974, requesting a report pursuant to Section 18(c) of the Federal Deposit Insurance Act on the competitive factors involved in the proposed merger of Commercial National Bank, Cassopolis, Mich., and C National Bank (org.), Cassopolis, Mich.

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

* Asset figures are as of call dates immediately before and after transaction.

* * *

**AMERICAN SECURITY AND TRUST COMPANY, NATIONAL ASSOCIATION,
Washington, D.C., and American Security and Trust Company, Washington, D.C.**

<i>Name of bank and type of transaction</i>	<i>Total assets*</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
American Security and Trust Company, Washington, D.C., with and American Security and Trust Company, National Association, Washington, D.C. (16565), which had	\$1,122,122,000	31	_____
merged Mar. 31, 1976, under charter and title of the latter bank (16565). The merged bank at date of merger had	240,000	0	_____
	1,052,219,000	_____	31

COMPTROLLER'S DECISION

On July 31, 1975, the American Security and Trust Company, Washington, D.C., and the American Security and Trust Company, National Association (organizing), Washington, D.C., applied to the Comptroller of the Currency for permission to merge under the charter and with the title of American Security and Trust Company, National Association.

American Security and Trust Company, the merging bank, is headquartered in Washington, D.C., and has 30 banking offices in the District of Columbia and one foreign branch in Nassau, Bahamas. The bank, with total assets of 1.2 billion and IPC deposits of \$725.7 million was originally chartered in 1889.

American Security and Trust Company, National Association, the charter bank, is being organized to provide a vehicle by which to transfer ownership of the merging bank to the American Security Corporation which will become a one-bank holding company upon its acquisition of the resulting bank. The charter bank will not be operating as a commercial bank prior to the merger.

Because the merging bank is the only operating bank involved in the proposed transaction, there can

* Asset figures are as of call dates immediately before and after transaction.

* * *

**THE FIRST NATIONAL BANK OF NEW BRAUNFELS,
New Braunfels, Tex., and New Braunfels Commerce Bank National Association, New Braunfels, Tex.**

<i>Name of bank and type of transaction</i>	<i>Total assets*</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
The First National Bank of New Braunfels, New Braunfels, Tex. (4295), with and New Braunfels Commerce Bank National Association, New Braunfels, Tex. (4295), which had	\$31,452,000	1	_____
merged Apr. 16, 1976, under charter of the latter bank (4295) and title "First National Bank of New Braunfels." The merged bank at date of merger had	120,000	0	_____
	33,272,000	_____	1

COMPTROLLER'S DECISION

On August 6, 1975, New Braunfels Commerce Bank, National Association (organizing), New Braunfels, Tex., and First National Bank of New Braunfels, New Braunfels, Tex., applied to the Comptroller of the Currency for permission to merge under the charter of New

* Asset figures are as of call dates immediately before and after transaction.

be no adverse effect on competition resulting from consummation of the proposed merger. The resulting bank will conduct the same banking business at the same locations and with almost the same name as presently used by the merging bank.

Applying the statutory criteria, it is concluded that the proposed merger is in the public interest and this application is, therefore, approved.

February 25, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

This is in reply to your letter of July 31, 1975, requesting a report pursuant to Section 18(c) of the Federal Deposit Insurance Act on the competitive factors involved in the proposed merger of American Security and Trust Company, Washington, D.C. and American Security and Trust Company, N.A. (org.), Washington, D.C.

The proposed merger is part of a plan through which American Security and Trust Company would become a subsidiary of American Security Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a non-operating institution; as such, and without regard to the acquisition of the surviving bank by American Security Corporation, it would have no effect on competition.

Braunfels Commerce Bank, National Association, and with the title "First National Bank of New Braunfels."

The proposed merger is part of a plan through which First National Bank of New Braunfels will become a wholly-owned subsidiary of Texas Commerce Bancshares, Inc., Houston, Tex., a registered bank holding company.

Applying the statutory criteria, it is concluded that the merger will merely combine an existing bank with a non-operating institution; as such, and without regard

to the acquisition of the surviving bank by Texas Commerce Bancshares, Inc., there will be no effect on competition.

This application, therefore, should be, and hereby is, approved.

March 17, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

This is in reply to your letter of August 6, 1975, requesting a report pursuant to Section 18(c) of the Federal Deposit Insurance Act on the competitive factors involved in the proposed merger of The First National

Bank of New Braunfels, New Braunfels, Tex., and New Braunfels Commerce Bank National Association (org.), New Braunfels, Tex.

The proposed merger is part of a plan through which The First National Bank of New Braunfels would become a wholly-owned subsidiary of Texas Commerce Bancshares, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a non-operating institution; as such, and without regard to the acquisition of the surviving bank by Texas Commerce Bancshares, Inc., it would have no effect on competition.

* * *

THE GEAUGA COUNTY NATIONAL BANK OF CHARDON, Chardon, Ohio, and The G. C. National Bank, Chardon, Ohio

Name of bank and type of transaction	Total assets*	Banking offices	
		In operation	To be operated
The Geauga County National Bank of Chardon, Chardon, Ohio (14879), with	\$16,918,000	3	_____
and The G. C. National Bank, Chardon, Ohio (14879), which had	125,000	0	_____
merged Apr. 29, 1976, under charter of the latter bank (14879) and title "The Geauga County National Bank of Chardon." The merged bank at date of merger had	21,200,000	_____	3

COMPTROLLER'S DECISION

On January 14, 1976, The Geauga County National Bank of Chardon, Chardon, Ohio, and The G. C. National Bank (organizing), Chardon, Ohio, applied to the Comptroller of the Currency for permission to merge under the charter of G. C. National Bank and with the title, The Geauga County National Bank of Chardon.

The proposed merger is part of a plan through which The Geauga County National Bank of Chardon will become a wholly-owned subsidiary of BancOhio Corporation, Columbus, Ohio, a bank holding company.

Applying the statutory criteria, it is concluded that the instant merger will merely combine an existing bank with a non-operating institution; as such, and without regard to the acquisition of the surviving bank

by BancOhio Corporation, it will have no effect on competition. This application is, therefore, approved.

March 11, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

This is in reply to your letter of January 14, 1976, requesting a report pursuant to Section 18(c) of the Federal Deposit Insurance Act on the competitive factors involved in the proposed merger of Geauga County National Bank of Chardon, Chardon, Ohio, and G. C. National Bank (org.), Chardon, Ohio.

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

* * *

* Asset figures are as of call dates immediately before and after transaction.

**THE FIRST NATIONAL BANK OF SAN JOSE,
San Jose, Calif., and F. N. National Bank, San Jose, Calif.**

<i>Name of bank and type of transaction</i>	<i>Total assets*</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
The First National Bank of San Jose, San Jose, Calif. (2158), with	\$360,007,000	34	_____
and F. N. National Bank, San Jose, Calif. (2158), which had	256,250	0	_____
merged June 16, 1976, under charter of the latter bank (2158) and title "The First National Bank of San Jose." The merged bank at date of merger had	381,161,000	_____	34

COMPTROLLER'S DECISION

The First National Bank of San Jose, San Jose, Calif., and F. N. National Bank (organizing), San Jose, Calif., have applied to the Comptroller of the Currency for permission to merge under the charter of the latter and with the title of the former.

The First National Bank of San Jose, the merging bank, is the 17th largest commercial bank in the state of California, and is the fifth largest banking organization in the market area (approximated by Santa Clara, Alameda and San Mateo counties). The bank has total deposits of approximately \$299 million.

The proposed merger is the facility whereby the acquisition of The First National Bank of San Jose by First National Bancshares Inc., San Jose, a proposed bank holding company, will be accomplished. The instant merger would have the effect of merely combining an existing commercial bank with a non-operating institution, and as such, without regard to the proposed acquisition of the surviving bank by First National

* Asset figures are as of call dates immediately before and after transaction.

* * *

**THE FIRST NATIONAL BANK OF TROUTVILLE,
Troutville, Va., and Troutville Bank, N. A., Troutville, Va.**

<i>Name of bank and type of transaction</i>	<i>Total assets*</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
The First National Bank of Troutville, Troutville, Va. (9764), with	\$12,486,000	2	_____
and Troutville Bank, N. A., Troutville, Va. (9764), which had	60,000	0	_____
merged July 1, 1976, under charter of the latter bank (9764) and title "The First National Bank of Troutville." The merged bank at date of merger had	13,249,000	_____	2

COMPTROLLER'S DECISION

The First National Bank of Troutville, Troutville, Va., and Troutville Bank, N. A. (organizing), Troutville, Va., have applied to the Comptroller of the Currency for permission to merge under the charter of the latter and with the title of the former.

The First National Bank of Troutville, the merging bank, was chartered in 1910, and currently has deposits of approximately \$11 million. In addition to its main office in Troutville, The First National Bank of

* Asset figures are as of call dates immediately before and after transaction.

Bancshares Inc., would have no adverse effect upon competition in the relevant banking market.

Consequently, applying the statutory criteria, it is concluded that the proposed merger is not adverse to the public interest. Accordingly, this application should be, and hereby is, approved.

April 30, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

This is in reply to your letter of January 8, 1976, requesting a report pursuant to Section 18(c) of the Federal Deposit Insurance Act on the competitive factors involved in the proposed merger of First National Bank of San Jose, San Jose, Calif. and F. N. National Bank (org.), San Jose, Calif.

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

Troutville operates one branch office in Daleville, Va., approximately 5 miles east of Troutville.

The proposed merger is the facility whereby the acquisition of The First National Bank of Troutville by Valley of Virginia Bankshares, Inc., Harrisonburg, a multi-bank holding company, will be accomplished. The instant merger would have the effect of merely combining an existing commercial bank with a non-operating institution, and as such, without regard to the proposed acquisition of the surviving bank by Valley of Virginia Bankshares, Inc., would have no adverse effect upon competition in the relevant banking market.

Consequently, applying the statutory criteria, it is concluded that the proposed merger is not adverse to

the public interest. Accordingly, this application should be, and hereby is, approved.

May 19, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

This is in reply to your letter of February 27, 1976, requesting a report pursuant to Section 18(c) of the Federal Deposit Insurance Act on the competitive factors involved in the proposed merger of Troutville Bank,

N.A. (org.), Troutville, Va., and First National Bank of Troutville, Troutville, Va.

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

* * *

**THE FIRST NATIONAL BANK OF ELYRIA,
Elyria, Ohio, and FNB National Bank, Elyria, Ohio**

Name of bank and type of transaction	Total assets*	Banking offices	
		In operation	To be operated
First National Bank of Elyria, Elyria, Ohio (14968), with	\$34,988,000	5	—
and FNB National Bank, Elyria, Ohio (14968), which had	240,000	0	—
consolidated Aug. 16, 1976, under charter and title of "The First National Bank of Elyria" (14968). The consolidated bank at date of consolidation had	36,192,000	—	5

COMPTROLLER'S DECISION

The First National Bank of Elyria, Elyria, Ohio, the Charter Bank ("Elyria Bank"), and FNB National Bank (organizing), Elyria, Ohio ("FNB"), have applied to the Comptroller of the Currency for prior permission to effectuate a consolidation of the proponent banks under the charter and with the title of The First National Bank of Elyria. The decision of the Office of the Comptroller of the Currency is rendered pursuant to an agreement executed between Elyria Bank and FNB, upon which the instant application rests, and such agreement is herein incorporated by reference, the same as if fully set forth.

Elyria Bank was chartered as a national banking association on April 13, 1962 and, as of March 31, 1976, controlled total commercial bank deposits of \$30.8 million, representing approximately 0.1 percent of commercial bank deposits in the state of Ohio.

The proposed consolidation is the facility whereby the acquisition of The First National Bank of Elyria by National City Corporation, Cleveland, Ohio, will be accomplished. The instant consolidation would merely combine an existing commercial bank with a non-

operating institution, and as such, without regard to the proposed acquisition of the surviving bank by National City Corporation, would have no adverse effect upon competition within the relevant banking market.

Consequently, applying the statutory criteria, it is the conclusion of this Office that the instant proposed transaction is not adverse to the public interest. Accordingly, this application should be, and hereby is, approved.

July 16, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

This is in reply to your letter of June 16, 1976, requesting a report pursuant to Section 18(c) of the Federal Deposit Insurance Act on the competitive factors involved in the proposed consolidation of FNB National Bank, Elyria, Ohio (org.) and First National Bank of Elyria, Elyria, Ohio.

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

* * *

* Asset figures are as of call dates immediately before and after transaction.

**THE FIRST NATIONAL BANK OF HENDERSON,
Henderson, Tex., and South Main & Richardson National Bank, Henderson, Tex.**

<i>Name of bank and type of transaction</i>	<i>Total assets*</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
The First National Bank of Henderson, Henderson, Tex. (6176), with and South Main & Richardson National Bank, Henderson, Tex. (6176), which had merged Oct. 1, 1976, under charter of the latter bank (6176) and title "The First National Bank of Henderson." The merged bank at date of merger had	\$31,062,000 130,000 33,574,000	1 0 —	— — 1

COMPTROLLER'S DECISION

The First National Bank of Henderson, Henderson, Tex., and South Main & Richardson National Bank (organizing), Henderson, Tex., have applied to the Comptroller of the Currency for prior permission to merge under the charter of South Main & Richardson National Bank, and with the title of The First National Bank of Henderson.

The First National Bank of Henderson, Henderson, Tex., the merging bank, was chartered as a national banking association on March 27, 1902, and as of December 31, 1975, held total commercial bank deposits of \$26.6 million, representing approximately 5.6 percent of the Longview banking market, approximated by the whole of Gregg, Harrison and Rusk counties.

The proposed merger is the facility whereby the acquisition of the merging bank by Republic of Texas Corporation, Dallas, Tex., the fourth largest banking organization domiciled in Texas, will be accomplished. The subject merger would merely combine an existing commercial bank with a non-operating entity, and as

* Asset figures are as of call dates immediately before and after transaction.

* * *

**THE NATIONAL BANK OF LUDINGTON,
Ludington, Mich., and NBL National Bank, Ludington, Mich.**

<i>Name of bank and type of transaction</i>	<i>Total assets*</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
The National Bank of Ludington, Ludington, Mich. (14016), with and NBL National Bank, Ludington, Mich. (14016), which had consolidated Dec. 3, 1976, under the charter of the former (14016) and with the title "National Bank of Ludington." The consolidated bank, at date of consolidation had	\$30,919,000 120,000 31,690,000	3 0 —	— — 3

COMPTROLLER'S DECISION

The National Bank of Ludington, Ludington, Mich., the charter bank, and NBL National Bank (organizing), Ludington, Mich., the merging bank, have applied to the Comptroller of the Currency for prior permission to effectuate a consolidation under the charter, and with the title of The National Bank of Ludington. The instant application rests upon an agreement executed be-

* Asset figures are as of call dates immediately before and after transaction.

such, without regard to the proposed acquisition of the surviving institution by Republic of Texas Corporation, would have no adverse effect upon competition within the relevant market.

Accordingly, applying the statutory criteria, it is the conclusion of this Office that the proposed merger is not adverse to the public interest, and should be, and hereby is, approved.

August 26, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

This is in reply to your letter of June 25, 1976, requesting a report pursuant to Section 18(c) of the Federal Deposit Insurance Act on the competitive factors involved in the proposed merger of First National Bank of Henderson, Henderson, Tex., and South Main & Richardson National Bank (org.), Henderson, Tex.

The proposed merger is part of a plan through which First National Bank of Henderson 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 non-operating 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.

tween the proponent banks, and is incorporated herein by reference, the same as if fully set forth.

The charter bank became a national banking association on February 19, 1934 and, as of March 31, 1976, had total commercial bank deposits of \$29.4 million.

The proposed consolidation is the facility whereby the acquisition of The National Bank of Ludington by First National Financial Corporation, Kalamazoo, Mich., a registered multi-bank holding company, will be accomplished. The instant transaction would merely combine an existing commercial bank with a non-

operating institution, and as such, without regard to the proposed acquisition of the surviving bank by First National Financial Corporation, would have no effect upon competition within the Ludington banking market.

Accordingly, applying the statutory criteria, it is the conclusion of the Office of the Comptroller of the Currency that the subject proposal is not adverse to the public interest and should be, and hereby is, approved.

October 22, 1976.

* * *

**ALAMO HEIGHTS NATIONAL BANK,
Alamo Heights, Tex., and Heights Bank, National Association, Alamo Heights, Tex.**

<i>Name of bank and type of transaction</i>	<i>Total assets*</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
Alamo Heights National Bank, Alamo Heights, Tex. (15514), with	\$33,635,000	1	—
and Heights Bank, National Association, Alamo Heights, Tex. (15514), which had	125,000	0	—
merged Dec. 31, 1976, under charter of the latter bank (15514) and title "Alamo Heights National Bank." The merged bank at date of merger had	35,756,000	—	1

COMPTROLLER'S DECISION

Alamo Heights National Bank, Alamo Heights, Tex. ("Merging Bank"), and Heights Banks, National Association (organizing), Alamo Heights, Tex. ("Charter Bank"), have applied to the Comptroller of the Currency for prior permission to effectuate a merger under the charter of Heights Bank, National Association, and with the title of Alamo Heights National Bank. The subject application rests upon an agreement executed between the proponent banks, and is incorporated herein by reference, the same as if fully set forth.

Merging Bank was chartered as a national banking association on May 10, 1965, and as of June 30, 1976, held total deposits of \$30.8 million. Charter Bank is a newly created institution, and has no operating history.

The proposed merger is the facility whereby Merging Bank will become a wholly-owned, less directors' qualifying shares, subsidiary of the largest banking organization headquartered in the state of Texas, First International Bancshares, Inc., Dallas, Tex. As of December 31, 1975, First International Bancshares, Inc.

* Asset figures are as of call dates immediately before and after transaction.

* * *

SUMMARY OF REPORT BY ATTORNEY GENERAL

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

controlled 23 commercial banking subsidiaries with aggregate deposits of approximately \$3.6 billion, 7.6 percent of the state deposits. This merger would have the effect of merely combining an existing commercial bank with a non-operating entity, and as such, disregarding the proposed acquisition of the surviving institution by First International Bancshares, Inc., would have no adverse competitive effect within the San Antonio SMSA, the approximate relevant banking market.

Accordingly, applying the statutory criteria, it is the conclusion of the Office of the Comptroller of the Currency that the proposed transaction is in the public interest, and should be, and hereby is, approved.

December 1, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

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

**FIRST NATIONAL BANK OF FREEPORT,
Freeport, Ill., and First Freeport Bank, National Association, Freeport, Ill.**

<i>Name of bank and type of transaction</i>	<i>Total assets*</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
First National Bank of Freeport, Freeport, Ill. (13695), with	\$79,640,000	2	_____
and First Freeport Bank, National Association, Freeport, Ill. (13695), which had	130,000	0	_____
merged Dec. 31, 1976, under charter of the latter bank (13695) and title "First National Bank of Freeport." The merged bank at date of merger had	83,601,000	_____	2

COMPTROLLER'S DECISION

First National Bank of Freeport, Freeport, Ill. ("Merging Bank"), and First Freeport Bank, National Association (organizing), Freeport, Ill. ("Charter Bank"), have applied to the Comptroller of the Currency for prior permission to effectuate a merger under the charter of First Freeport Bank, National Association, and with the title of First National Bank of Freeport. The instant application rests upon an agreement executed between the proponent banks, and is incorporated herein by reference, the same as if fully set forth.

Merging Bank was chartered as a national banking association on May 29, 1933 and, as of June 30, 1976, held total commercial bank deposits of \$69.6 million.

The proposed merger is the facility whereby the acquisition of Merging Bank by First Freeport Corporation, Freeport, Ill., a proposed one-bank holding company, will be accomplished. The instant merger would merely have the effect of combining an existing com-

* Asset figures are as of call dates immediately before and after transaction.

* * *

**THE CHESTER NATIONAL BANK,
Chester, N.Y., and Chester Bank, N.A., Chester, N.Y.**

<i>Name of bank and type of transaction</i>	<i>Total assets*</i>	<i>Banking offices</i>	
		<i>In operation</i>	<i>To be operated</i>
The Chester National Bank, Chester, N.Y. (1349), with	\$53,286,000	10	_____
and Chester Bank, N.A., Chester, N.Y. (1349), which had	60,000	0	_____
merged Dec. 31, 1976, under charter of the latter bank (1349) and title "The Chester National Bank." The merged bank at date of merger had	51,606,000	_____	10

COMPTROLLER'S DECISION

The Chester National Bank, Chester, N.Y. ("Merging Bank"), and Chester Bank, N.A., (organizing), Chester, N.Y. ("Charter Bank"), have applied to the Comptroller of the Currency for prior permission to effectuate a merger under the charter of Chester Bank, N.A. and with the title of The Chester National Bank. The instant application rests upon an agreement executed between the proponent banks, and is incorporated herein by reference, the same as if fully set forth.

The proposed merger is the facility whereby First Commercial Banks Inc., Albany, N.Y., a registered

* Asset figures are as of call dates immediately before and after transaction.

mercial bank with a non-operating institution; and as such, without regard to the proposed acquisition of the surviving bank by First Freeport Corporation, would have no adverse effect upon competition within the relevant banking market, approximated by the whole of Stephenson County.

Accordingly, applying the statutory criteria, it is the conclusion of the Office of the Comptroller of the Currency that the proposed merger is not adverse to the public interest and should be, and hereby is, approved.

November 5, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

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

multi-bank holding company with five commercial banking subsidiaries that have total deposits of \$1.4 billion, will be accomplished. The instant merger would merely combine an existing commercial bank with a non-operating institution, and as such, without regard to the proposed acquisition of the surviving bank by First Commercial Banks Inc., would have no adverse effect upon competition within the relevant banking market, approximated by Orange and Sullivan counties.

Accordingly, applying the statutory criteria, it is the conclusion of the Office of the Comptroller of the Currency that the proposed transaction is not adverse to the public interest and should be, and hereby is approved.

November 26, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger is part of a plan through which Chester National Bank would become a subsidiary of First Commercial Banks Inc., a bank holding company.

The instant merger, however, would merely combine an existing bank with a non-operating institution; as such, and without regard to the acquisition of the surviving bank by First Commercial Banks Inc., it would have no effect on competition.

* * *

THE ILLINOIS NATIONAL BANK OF SPRINGFIELD, Springfield, Ill., and INB National Bank, Springfield, Ill.

Name of bank and type of transaction	Total assets*	Banking offices	
		In operation	To be operated
The Illinois National Bank of Springfield, Springfield, Ill. (3548), with	\$187,084,000	2	—
and INB National Bank, Springfield, Ill. (3548), which had	250,000	0	—
merged Dec. 31, 1976, under charter of the latter bank (3548) and title "The Illinois National Bank of Springfield." The merged bank at date of merger had	205,959,000	—	2

COMPTROLLER'S DECISION

On January 20, 1976, The Illinois National Bank of Springfield, Springfield, Ill., and INB National Bank (organizing), Springfield, Ill., applied to the Comptroller of the Currency for permission to merge under the charter of the latter and with the title of the former.

The proposed merger is part of a corporate reorganization through which The Illinois National Bank of Springfield will become a wholly-owned subsidiary of Illinois National Bancorp, Inc., Springfield, Ill., a bank holding company.

Applying the statutory criteria, it is concluded that the instant merger will merely combine an existing

bank with a non-operating institution, as such, and without regard to the acquisition of the surviving bank by Illinois National Bancorp, Inc., it will have no effect on competition. This application is, therefore, approved.

May 5, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

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

* Asset figures are as of call dates immediately before and after transaction.

* * *

WILLIAMSTOWN NATIONAL BANK, Williamstown, Mass., and Williamstown Bank (National Association), Williamstown, Mass.

Name of bank and type of transaction	Total assets*	Banking offices	
		In operation	To be operated
Williamstown National Bank, Williamstown, Mass. (3092), with	\$10,877,000	2	—
and Williamstown Bank (National Association), Williamstown, Mass. (3092), which had	120,000	0	—
merged Dec. 31, 1976, under charter of the latter bank (3092) and title "Williamstown National Bank." The merged bank at date of merger had	11,111,000	—	2

COMPTROLLER'S DECISION

Williamstown National Bank, Williamstown, Mass. ("Merging Bank") and Williamstown Bank (National Association) (organizing), Williamstown, Mass. ("Charter Bank") have made application to the Comptroller of the Currency for prior permission to effectuate a merger under the charter of Williamstown Bank (National Association) and with the title of Williamstown National Bank. The instant application rests upon an

agreement executed between the proponent banks and is incorporated herein by reference, the same as if fully set forth.

Merging Bank was chartered as a national banking association on December 17, 1883 and, as of June 30, 1976, held total commercial bank deposits of \$9.1 million.

The proposed merger is the facility whereby the acquisition of Merging Bank by T.N.B. Financial Corp., Springfield, Mass., a registered one-bank holding company, will be accomplished. The subject merger would merely have the effect of combining an existing

* Asset figures are as of call dates immediately before and after transaction.

commercial bank with a non-operating institution, and as such, without regard to the proposed acquisition of the surviving bank by T.N.B. Financial Corp., would have no effect upon competition.

Accordingly, applying the statutory criteria, it is the conclusion of the Office of the Comptroller of the Currency that the proposed merger is not adverse to the public interest and should be, and hereby is, approved.

November 29, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

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

* * *

III. Mergers approved but abandoned, no litigation.

SOUTHEAST FIRST NATIONAL BANK OF SARASOTA, Sarasota, Fla., and Palmer First National Bank and Trust Company of Sarasota, Sarasota, Fla.

Name of bank and type of transaction

Palmer First National Bank and Trust Company of Sarasota, Sarasota, Fla. (13352) and Southeast First National Bank of Sarasota, Sarasota, Fla. (16531) applied for permission to merge Dec. 3, 1975, under charter and title of the latter bank (16531). The application was approved Dec. 23, 1975, but was abandoned by the banks Jan. 14, 1976.

COMPTROLLER'S DECISION

On December 3, 1975, Southeast First National Bank of Sarasota (organizing), Sarasota, Fla., and Palmer First National Bank and Trust Company of Sarasota, Sarasota, Fla., applied to the Comptroller of the Currency for permission to merge under the charter and with the title of Southeast First National Bank of Sarasota.

The proposed merger is between two banks wholly-owned, except for directors qualifying shares, by Southeast Acquisition Corporation, a registered bank holding company.

Applying the statutory criteria, it is concluded that the instant merger will merely combine an existing bank with a non-operating institution; as such, it will

have no effect on competition. This application is, therefore, approved.

December 23, 1975.

SUMMARY OF REPORT BY ATTORNEY GENERAL

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

* * *

THE FIRST NATIONAL BANK OF MARYLAND, Baltimore, Md., and The Citizens National Bank of Havre de Grace, Havre de Grace, Md.

Name of bank and type of transaction

The Citizens National Bank of Havre de Grace, Havre de Grace, Md. (5445) and The First National Bank of Maryland, Baltimore, Md. (1413) applied for permission to merge Mar. 8, 1976, under the charter and title of the latter bank (1413). The application was approved May 28, 1976, but was abandoned by the banks July 20, 1976.

COMPTROLLER'S DECISION

The Citizens National Bank of Havre de Grace, Havre de Grace ("Citizens") and The First National Bank of Maryland, Baltimore ("FNB") have applied to the Comptroller of the Currency for permission to merge under the charter and with the title of the latter.

FNB, is the wholly-owned banking subsidiary of First Maryland Bancorp, Baltimore, Md. Currently the third largest commercial banking organization domiciled within the state of Maryland, FNB, as of March 31, 1976, held total domestic deposits of approximately \$933 million, representing approximately 11 percent of total commercial bank deposits in Maryland. Operating

a total of 70 banking offices throughout the state, FNB's principal market area is the city of Baltimore and adjacent Baltimore County.

Citizens was chartered in 1900 and currently holds deposits aggregating approximately \$9 million at its main office and one drive-in facility in Havre de Grace. Located in the extreme northeastern section of Harford County, Citizens primarily serves the immediate Havre de Grace area, and the municipalities of Perryville and Port Deposit in adjacent Cecil County.

Citizens' two banking offices experience the greatest degree of competition from two offices of Maryland National Bank, the state's largest bank. Additionally, there are 39 offices of 10 commercial banks operating within Citizens' relevant market area, including five offices of Maryland National Bank, 10 offices of The Equitable Trust Company and eight offices of FNB; the three largest commercial banks in Maryland. The closest office of FNB to a Citizens location is FNB's Aberdeen office, slightly less than 5 miles south of Havre de Grace. All other offices of FNB are more than 15 miles from Havre de Grace. Accordingly, consummation of the proposed merger would have the effect of eliminating a degree of existing competition between FNB's branch office in Aberdeen and Citizens. Furthermore, the Office of the Comptroller of the Currency, on December 29, 1975, gave approval to FNB's application to establish a *de novo* banking office within the city of Havre de Grace. To date, that new FNB office has not opened for business, but it will be opened as an additional banking site of FNB in Havre de Grace if this application is approved. Therefore, if the subject merger is approved, the potential for increased competition between FNB and Citizens is eliminated.

Pursuant to the provisions of the Bank Merger Act of 1966, 12 USC 1828(c), the Comptroller of the Currency cannot approve any transaction which would have certain proscribed anticompetitive effects unless the Office concludes that those anticompetitive effects are clearly outweighed in the public interest by the probable effects of the proposed transaction in adequately meeting the convenience and needs of the community to be served. Furthermore, the Office of the Comptroller is also directed to fully consider the financial and managerial resources and future prospects of the existing and proposed institution.

As noted, Citizens primary competition is from two branches of the largest bank in Maryland. In light of Citizens' small deposit size relative to Maryland National Bank, it must be concluded that Citizens has not been an effective competitor in its relevant market. Also, Citizens' small size precludes it from adequately meeting any large commercial customer loan requests. This merger would have the effect of providing a viable, full-service banking competitor to Maryland National Bank in Havre de Grace, and a second meaningful banking alternative would be available to fully serve the needs of the Havre de Grace banking community.

Furthermore, the senior management of Citizens is beyond normal retirement age. Affiliation with FNB would ensure both management depth and provide for management succession at Citizens.

In conclusion, it is the opinion of this Office that any anticompetitive effects of the subject merger are clearly outweighed by the aspects of convenience and needs of the banking community to be served and, further, by considerations with respect to the financial and managerial resources and future prospects of the surviving banking institution.

It is therefore, the opinion of this Office that the proposed merger is in the public interest and should be, and hereby is, approved.

May 28, 1976.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Applicant operates a branch office in Aberdeen which is 4.6 miles south of Havre de Grace. It also operates additional nearby offices at Bel Air and Edgewood. A survey of accounts disclosed that 2.4 percent of Applicant's deposits in Harford County, wherein Havre de Grace is located, originate in Havre de Grace and that 6.6 percent of Bank's deposits originate within the Bel Air, Aberdeen and Edgewood areas. Thus, it would appear that the proposed merger would eliminate some existing competition between the participants.

A total of 10 banks, including the parties to this transaction, operate 26 offices within the southeastern part of Harford County which includes Bel Air, Aberdeen and Edgewood and the southwestern part of Cecil County which includes Perryville and Port Deposit, where the major impact of this merger will be felt and which appears to be the appropriate geographic market within which to gauge the effects of the proposed acquisition. As of June 30, 1975, Applicant held the largest share of total deposits in this area, approximately 35 percent, while Bank held the fifth largest share, some 4 percent. The Equitable Trust Company held the second largest share (about 23 percent), the Commercial and Savings Bank of Bel Air held the third largest share (16 percent) and Maryland National Bank, the largest bank in the state, held the fourth largest share (approximately 11 percent). Thus, consummation of the proposed merger would result in Applicant holding about 39 percent of total area deposits.

We conclude that the proposed merger would eliminate some existing competition between the merging parties and would increase concentration among commercial banking institutions in the southeastern part of Harford County which includes Bel Air, Aberdeen and Edgewood and the southwestern part of Cecil County, which includes Perryville and Port Deposit. Its overall effect on competition would be adverse.

* * *

APPENDIX B

Statistical Tables

Statistical Tables

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Significant Changes in the Financial Reports of National Banks

Beginning with the first call report of 1976, for March 31, a number of significant changes, were incorporated in the quarterly financial reports submitted by national banks. Those changes affected the domestic report of condition, the foreign and domestic report of condition and the report of income and are reflected in the statistical tables presented throughout this *Annual Report*. Direct comparison of certain 1976 data with those of earlier years is often impossible because of the changes. To facilitate the use of this report, major changes affecting individual tables have been footnoted where appropriate. The following general explanation of the reporting changes instituted in 1976 should prove helpful in analyzing current and prior years' data.

Reports of income for 1976 were prepared on a fully consolidated foreign and domestic basis, instead of a domestic-only basis. Banks which have foreign offices, *i.e.*, foreign branches, foreign subsidiaries or Edge Act or Agreement subsidiaries, began reporting income and expenses from those offices, along with that of domestic offices, on the appropriate lines of the income and expense statement. For example, a bank with foreign offices reports the combined income earned on loans booked in the bank's domestic and in its foreign offices as "Interest and fees on loans." For 1975 and prior years, banks with foreign offices reported *net* earnings from foreign branches and *net* earnings from foreign subsidiaries as single entries under "Other operating income." Beginning in 1976, gross income and expenses of a bank's foreign offices are consolidated with those of the domestic offices on a line-by-line basis.

Readers should be mindful of that change when comparing income and expense items with corresponding asset items. For 1976, an income item such as "Interest and fees on loans," relates to the consolidated foreign and domestic loans of a bank with foreign operations. Similarly, total income and expenses for all national banks corresponds to the total assets and liabilities of domestic offices and subsidiaries and the additional assets and liabilities held in foreign offices. For 1975 and prior years, however, "Interest and fees on loans" relates only to the domestic loans of a bank or of the National Banking System. To facilitate proper analysis of the aggregate income data presented in the report, the consolidated foreign and domestic balance sheet of national banks with foreign assets is presented for the first time (Table B-32). The difference between the domestic and the consolidated foreign and domestic items for those banks may be added to the domestic-only balance sheet for all national banks to arrive at a fully consolidated balance sheet for the National Banking System.

The fully consolidated foreign and domestic balance sheet differs, in two important ways, from that produced by adding the domestic-only balance sheet to the total foreign branch assets found in earlier *Annual Reports*. First, the aggregate foreign branch data, which are the summations of reports by individual foreign branches, contain significant intra-bank items which should be netted out before calculating total foreign and domestic assets. Intra-bank items are normally excluded from the consolidated foreign and domestic report of condition.

Second, the assets and liabilities of foreign subsidiaries, including, by definition, Edge Act and Agreement subsidiaries located in the U.S., do not appear on the foreign branch reports, but were reported only as *net* investments in unconsolidated subsidiaries on the domestic balance sheet. Those items are included on a line-by-line basis in the fully consolidated foreign and domestic report of condition.

Major changes in 1976 reports of condition, both domestic and foreign and domestic, included the recasting of reserves on loans and securities and the reporting of assets and loans *net* of unearned discount and valuation reserves on loans. Those changes required new definitions of both "Total assets" and "Total equity capital" that preclude direct comparison with the same items for 1975 and earlier years.

Beginning in 1976, loans and, therefore, "Total assets" are reported net of unearned discount. Before 1976, unearned income, which relates primarily to installment loans, was reported under "Other liabilities" by all national banks on an accrual accounting basis. That included all banks with more than \$25 million in assets, those that had been recently chartered and those small banks that had chosen to use accrual accounting. At the end of 1975, banks on the accrual basis reported approximately \$6 billion in unearned income on loans. Prior to 1976, national banks on a cash basis of accounting, only certain smaller banks, were permitted to include their interest collected but not earned on installment loans in undivided profits. That amounted to only something over \$100 million. Beginning in 1976, *all* banks had to deduct unearned income from total loans. That resulted in a downward adjustment of "Total assets" by more than \$6 billion and a slight reduction in total equity capital.

In addition, the valuation portion of the reserve for bad debt losses, consisting of amounts added to the reserve by charges to operating expense and reduced by net charge-offs, is now deducted from total loans net of unearned discount. The valuation portion constituted the majority of the reserve for bad debt losses on loans as reported in the years 1969 through 1975; as of December 31, 1975, it equalled approximately \$3.5 billion. Therefore, at the beginning of 1976, "Total assets" had to be adjusted downward an additional \$3.5 billion, for a total downward adjustment of that item of more than \$9.5 billion.

The remainder of the old item "Reserves on Loans and Securities" consisted of contingency and deferred tax portions. The contingency portion consisted of amounts transferred to the loss reserve from "Undivided profits" and, thus, represents the cumulative difference between the expense item "Provision for loan losses" reported in the report of income, and the total provision for loan losses allowed for income tax purposes. The deferred tax portion of the reserve consists of the total tax effect of amounts transferred to the reserve from undivided profits, when amounts provided for in the income statement are less than the amounts deducted for income tax purposes. Beginning in 1976, the contingency portion is reported as part of total equity capital and is generally

carried in the item "Reserve for contingencies and other capital reserves." That reporting change, breaking up the old "Reserves on Loans and Securities," caused an upward adjustment in total equity capital in 1976 of approximately \$1 billion. The deferred tax portion, which amounted to more than \$600 million at the end of 1975, is now reported under "Other liabilities."

Other changes involved separating Federal Reserve stock out of "Other bonds, notes and debentures" on the report of condition. Minority interest in consolidated sub-

sidaries is now reported as part of "Other liabilities" rather than as a separate entry below total liabilities.

In addition to being fully consolidated, the report of income now provides detail on interest earned on balances with banks, interest expense of large time certificates of deposit, interest expense of deposits in foreign offices and income from direct lease financing.

Because of the major reporting changes outlined above, care should be taken when calculating asset growth rates, changes in capital and earnings ratios and when making historical comparisons in general.

Table B-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	Hulburt, 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	.....	New York.

Table B-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	California.
21	Diggs, Marshall R.	Jan. 16, 1938	Sept. 30, 1938	Texas.
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	.....	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	.....	Georgia.
46	Mullin, Robert A.	July 5, 1973	.....	Kansas.
47	Ream, Joseph M.	Feb. 2, 1975	.....	Pennsylvania.
48	Bloom, Robert	Aug. 31, 1975	.....	New York.
49	Chotard, Richard D.	Aug. 31, 1975	.....	Missouri.
50	Hall, Charles B.	Aug. 31, 1975	.....	Pennsylvania.
51	Jones, David H.	Aug. 31, 1975	Sept. 20, 1976	Texas.
52	Murphy, C. Westbrook	Aug. 31, 1975	.....	Maryland.
53	Selby, H. Joe	Aug. 31, 1975	.....	Texas.

Table B-3

Regional Administrators of National banks

Region	Name	Headquarters	States
1	Charles H. Paterson	Boston, Mass.	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont.
2	Charles M. Van Horn	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	Clifton A. Poole	Richmond, Va.	District of Columbia, Maryland, North Carolina, Virginia, West Virginia.
6	Donald L. Tarleton	Atlanta, Ga.	Florida, Georgia, South Carolina.
7	Billy C. Wood	Chicago, Ill.	Illinois, Michigan.
8	John W. Schaffer, Jr.	Memphis, Tenn.	Alabama, Arkansas, Louisiana, Mississippi, Tennessee.
9	Kenneth W. Leaf	Minneapolis, Minn.	Minnesota, North Dakota, South Dakota, Wisconsin.
10	John R. Burt	Kansas City, Mo.	Iowa, Kansas, Missouri, Nebraska.
11	Michael Doman	Dallas, Tex.	Oklahoma, Texas.
12	Kent D. Glover	Denver, Colo.	Arizona, Colorado, New Mexico, Utah, Wyoming.
13	M. B. Adams	Portland, Oreg.	Alaska, Idaho, Montana, Oregon, Washington.
14	John G. Hensel	San Francisco, Calif.	California, Guam, Hawaii, Nevada.

Table B-4

Changes in the structure of the National Banking System, by States, 1863-1976

	Organized and opened for business 1863-1976	Consolidated and merged under 12 USC 215		Insol- vencies	Liqui- dated	12 USC 214		In operation Dec. 31, 1976
		Consoli- dated	Merged			Converted to state banks	Merged or consolidated with state banks	
All national banks	16,634	729	895	2,835	6,779	278	381	4,737
Alabama	237	4	26	45	64	1	0	97
Alaska	9	0	0	0	2	0	1	6
Arizona	33	1	0	6	21	1	1	3
Arkansas	173	1	3	39	55	2	0	73
California	625	21	56	68	397	5	20	58
Colorado	289	5	4	59	86	3	0	132
Connecticut	141	11	10	7	69	5	16	23
Delaware	32	0	0	1	18	0	8	5
District of Columbia	44	8	1	7	13	0	0	15
Florida	396	2	2	43	43	0	0	306
Georgia	217	8	4	43	89	9	0	64
Hawaii	8	1	0	0	4	1	0	2
Idaho	113	0	2	35	65	2	3	6
Illinois	1,012	20	18	227	299	21	2	425
Indiana	456	14	8	98	205	7	4	120
Iowa	569	4	2	206	243	12	2	100
Kansas	465	6	4	77	198	11	0	169
Kentucky	253	11	3	37	110	8	2	82
Louisiana	130	4	3	16	53	0	0	54
Maine	131	8	11	13	79	1	2	17
Maryland	161	3	19	17	69	1	11	41
Massachusetts	401	45	28	28	208	1	16	75
Michigan	408	11	33	77	157	3	5	122
Minnesota	526	8	0	116	193	6	0	203
Mississippi	107	6	6	16	36	4	1	38
Missouri	354	13	12	59	149	5	1	115
Montana	213	4	1	76	76	0	0	56
Nebraska	416	2	3	83	199	9	0	120
Nevada	18	1	0	4	8	0	1	4
New Hampshire	91	4	13	5	23	3	0	43
New Jersey	503	57	95	61	156	1	29	104
New Mexico	102	1	1	25	37	0	0	38
New York	1,064	127	130	132	443	14	89	129
North Carolina	170	8	23	44	58	0	9	28
North Dakota	264	3	0	100	118	0	0	43
Ohio	756	33	44	113	339	2	6	219
Oklahoma	793	12	11	85	454	36	0	195
Oregon	154	2	4	31	103	0	7	7
Pennsylvania	1,304	112	122	211	496	17	109	237
Rhode Island	70	3	2	2	58	0	0	5
South Carolina	140	8	14	44	49	2	4	19
South Dakota	225	14	3	93	81	2	0	32
Tennessee	239	9	14	36	95	9	2	74
Texas	1,496	45	72	142	574	62	5	596
Utah	53	4	2	6	23	3	2	13
Vermont	85	3	9	18	29	3	9	14
Virginia	313	23	63	28	74	4	13	108
Washington	251	19	10	52	148	0	1	21
West Virginia	222	11	2	38	68	0	0	103
Wisconsin	313	9	1	54	117	2	0	130
Wyoming	85	0	1	12	26	0	0	46
Virgin Islands	2	0	0	0	1	0	0	1
Puerto Rico	2	0	0	0	1	0	0	1

Does not include one non-national bank in the District of Columbia supervised by the Comptroller of the Currency.

Table B-5

Charters, liquidations and changes in issued capital stock of national banks, calendar 1976

	Number of banks	Capital stock		Subordinated notes and debentures
		Common	Preferred	
Increases:				
Banks newly chartered:				
Primary organization	79*	\$50,090,670		
Conversion of state banks	9	8,974,000	\$100,000	\$2,000,000
Capital stock:				
Preferred: 3 cases by new issue			8,659,236	
Common:				
439 cases by statutory sale		125,198,150		
503 cases by statutory stock dividends		184,473,526		
1 case by statutory consolidation		800,000		1,628,000
21 cases by statutory merger		8,408,000		
19 cases by conversion of preferred stock		608,777		
50 cases by conversion of capital notes		494,588		
Subordinated notes and debentures: 160 cases by new issue				470,209,900
Total increases	88	379,047,711	8,759,236	473,837,900
Decreases:				
Banks ceasing operations:				
Voluntary liquidations:				
Succeeded by national banks	10	15,331,000		1,040,000
Succeeded by state banks	4	400,000		
Statutory mergers	43†			
Converted into state banks	23	26,121,030		7,550,000
Merged or consolidated into state banks	13	22,827,000		752,000
Insolvent	1	200,000		
Capital stock:				
Preferred: 19 Retired			2,953,114	
Common:				
12 cases by statutory reduction		12,411,577		
12 cases by statutory merger		17,454,000		
Subordinated notes and debentures:				
80 retirements				44,378,593
50 converted to common stock				1,125,760
Total decreases	94	94,744,607	2,953,114	54,846,353
Net change	-6	284,303,104	5,806,122	418,991,547
Charters in force Dec. 31, 1975, and issued capital	4,747‡	8,785,389,103	14,333,810	2,584,836,844
Charters in force Dec. 31, 1976, and issued capital	4,741‡	9,069,692,207	20,139,932	3,003,828,391

* Includes 13 reorganized banks with capital stock of \$1,655,000.

† Includes 13 reorganized banks.

‡ Represents charters issued, not banks in operation.

NOTE: Premium on sale of common stock \$169,045,095 (457 cases)
Premium on sale of convertible notes 631,173 (50 cases)
Total **\$169,676,268 (507 cases)**

Table B-6

Applications for national bank charters*, approved and rejected, by states, calendar 1976

	Approved	Rejected		Approved	Rejected
ALABAMA			NEW JERSEY		
Alexander City	_____	Feb. 19	City Trust Services, National Association, Elizabeth	June 14	_____
Dothan	_____	Dec. 16			
ARKANSAS			NEW YORK		
First National Bank of Sheridan, Sheridan	July 2	_____	Greenburgh	_____	Jan. 6
CALIFORNIA			Golden Pacific National Bank, Borough of Manhattan	Apr. 27	_____
Fallbrook	_____	July 8	Union Chelsea National Bank, New York	Dec. 17	_____
Los Angeles	_____	July 8	Niskayuna	_____	Mar. 19
Los Angeles	_____	July 8			
COLORADO			NORTH DAKOTA		
Citizens National Bank, Colorado Springs	Jan. 27	_____	First National Bank of Crosby, Crosby	Jan. 6	_____
Western National Bank South, Longmont	June 7	_____			
FLORIDA			OHIO		
Clearwater	_____	Jan. 9	FI National Bank, Ironton	June 22	_____
Clermont	_____	Jan. 8	FT National Bank, Troy	June 22	_____
Royal Trust Bank of South Dade, N.A., unin- corporated area of Dade County	Dec. 14	_____			
Unincorporated area of Dade County	_____	Jan. 8	OKLAHOMA		
Delray Beach	_____	Jan. 6	Miami National Bank, Miami	Mar. 19	_____
Delray Beach	_____	May 20	Lakeshore Bank, N.A., Oklahoma City	Mar. 24	_____
Unincorporated area of Orange County	_____	Jan. 27	Tulsa	_____	Aug. 9
Unincorporated area of Orange County	_____	May 6			
Florida Coast Bank of South Palm Beach County, N.A., unincorporated area of Palm Beach County	Dec. 29	_____	PENNSYLVANIA		
Unincorporated area of Palm Beach County	_____	Jan. 6	Erie	_____	July 28
Unincorporated area of Pasco County	_____	May 24			
Landmark Bank of Pompano Beach, N.A., Pompano Beach	Mar. 12	_____	TENNESSEE		
Unincorporated area of St. Lucie County	_____	Jan. 27	First Tennessee National Bank, Chattanooga ...	Feb. 16	_____
Tallahassee	_____	Aug. 20			
Temple Terrace	_____	Oct. 21	TEXAS		
ILLINOIS			First City Bank - Northeast, N.A., Houston	June 7	_____
Market Place National Bank, Champaign	June 7	_____	South Loop National Bank, Houston	Mar. 1	_____
Midland National Bank, Chicago	July 8	_____	Houston	_____	Feb. 9
Chicago	_____	July 8	Houston	_____	July 8
Chicago	_____	July 8	South Texas National Bank of Laredo, La- redo	Sept. 30	_____
The Guarantee National Bank of Rockford, Rockford	Oct. 26	_____	Western National Bank, Odessa	Nov. 21	_____
St. Charles	_____	Jan. 27	First National Bank of Rio Grande City, Rio Grande City	Nov. 27	_____
Spring Valley	_____	Mar. 19			
INDIANA			UTAH		
Industrial National Bank of East Chicago, East Chicago	Feb. 19	_____	First Security Bank of Orem, National Asso- ciation, Orem	Feb. 18	_____
East Chicago	_____	Feb. 19	Richfield	_____	Mar. 19
South Lake National Bank, Lowell	June 7	_____			
Liberty National Bank, Selma	Apr. 16	_____	WASHINGTON		
KENTUCKY			Pioneer National Bank, Yakima	June 30	_____
Hopkinsville	_____	Dec. 14			
LOUISIANA			WEST VIRGINIA		
New Orleans	_____	Sept. 29	Unincorporated area of Glen Daniel	_____	Apr. 16
MICHIGAN			Central National Bank, Morgantown	Aug. 20	_____
Manufacturers Bank of Southfield, N.A., Southfield	Apr. 26	_____	Mountaineer National Bank, Morgantown	Aug. 20	_____
MINNESOTA			Salem	_____	Jan. 6
Granite City National Bank of St. Cloud, St. Cloud	June 7	_____	Wheeling	_____	Dec. 9
			WISCONSIN		
			The First National Bank of Boscobel, Boscobel .	Feb. 18	_____
			First National Bank of Minocqua and Woodruff, Minocqua	Dec. 16	_____
			Minocqua	_____	Jan. 6
			WYOMING		
			Miles	_____	Jan. 6

* Does not include applications for conversion or pursuant to corporate reorganizations.

Table B-7

*Applications for national bank charters pursuant to corporate reorganizations,
by states, calendar 1976*

	<i>Approved</i>	<i>Rejected</i>		<i>Approved</i>	<i>Rejected</i>
GEORGIA			MICHIGAN		
First National Interim Bank of Albany, Albany	Dec. 29	_____	The First Iron River National Bank, Iron River	Oct. 12	_____
Georgia National Bank, Atlanta	Dec. 9	_____	Kentwood Bank, N.A., Kentwood	Oct. 19	_____
First National Interim Bank of Brunswick, Georgia, Brunswick	Dec. 29	_____	Lapeer Bank, N.A., Lapeer	Nov. 5	_____
ILLINOIS			Cassopolis National Bank, Niles	Feb. 10	_____
O'Hare National Bank, Chicago	Jan. 19	_____	P. Bank National Association, Trenton	Feb. 2	_____
First Freeport Bank, National Association, Freeport	Mar. 31	_____	NEW YORK		
Maywood National Bank, village of Maywood	Oct. 22	_____	Chester Bank, N.A., Chester	June 5	_____
INDIANA			OHIO		
East Chicago	Withdrawn	Feb. 19	FNB National Bank, Elyria	May 21	_____
MARYLAND			TEXAS		
New University National Bank, Rockville	June 7	_____	Heights Bank, National Association, Alamo Heights	July 15	_____
MASSACHUSETTS			New Citizens National Bank of Baytown, Texas, Baytown	Dec. 2	_____
First Bank of Athol (National Association), Athol	Sept. 13	_____	3300 Commerce National Bank, Dallas	Nov. 16	_____
Williamstown Bank (National Association), Williamstown	Sept. 13	_____	Bexar County Commerce Bank National Association, San Antonio	May 21	_____
The Yarmouth Bank, National Association, Yarmouth	Nov. 18	_____	VIRGINIA		
			Troutville Bank, N.A., Troutville	June 25	_____

Table B-8

Newly organized national banks, by states, calendar 1976

<i>Charter No.</i>	<i>Title and location of bank</i>	<i>Total capital accounts</i>
	Total, United States: 65 banks	\$101,066,005
ALABAMA		
16579	First National Bank of Hamilton, Hamilton	1,000,000
16553	Commonwealth National Bank, Mobile	750,000
16547	First Shelby National Bank, Pelham	1,500,000
	Total: 3 banks	3,250,000
CALIFORNIA		
16595	Anaheim National Bank, Anaheim	2,000,000
16605	Vista National Bank, Vista	1,250,000
	Total: 2 banks	3,250,000
FLORIDA		
16589	Barnett Bank of Gainesville, National Association, Gainesville	1,000,000
16616	Century National Bank, Jacksonville	845,000
16583	First Commercial National Bank, Lakeland	1,200,000
16561	Second National Bank of Lakeland, Lakeland	1,000,000
16590	Barnett Bank of Orange Park, National Association, Orange Park	1,250,000
16574	Landmark Bank of Pompano Beach, N.A., Pompano Beach	945,000
16549	Singer Island National Bank, Riviera Beach	1,200,000
16531	Southeast First National Bank of Sarasota, Sarasota	5,000,000
	Total: 8 banks	12,440,000
ILLINOIS		
16569	Airport National Bank, Bethalto	1,000,000
16593	Columbia National Bank, Columbia	1,000,000
16594	First National Bank of Lake Zurich, Lake Zurich	1,500,000
16601	First National Bank of Marengo, Marengo	750,000
16588	Madison National Bank of Niles, Niles	1,000,000
16584	Butterfield National Bank, Wheaton	1,500,000
	Total: 6 banks	6,750,000
INDIANA		
16582	First National Bank of Paoli, Paoli	1,000,000
KENTUCKY		
16581	Continental National Bank of Kentucky, Louisville	1,000,000
16611	First National Bank of Lewis County, Vanceburg	1,000,000
	Total: 2 banks	2,000,000
LOUISIANA		
16551	First National Bank of Eunice, Eunice	1,000,000

Table B-8—Continued

Newly organized national banks, by states, calendar 1976

Charter No.	Title and location of bank	Total capital accounts
MICHIGAN		
16612	National Bank of Port Huron, Port Huron	\$2,000,000
16554	National Bank of Troy, Troy	3,000,000
	Total: 2 banks	5,000,000
MINNESOTA		
16599	American National Bank of Brainerd, Brainerd	1,000,000
16559	Suburban National Bank, Eden Prairie	2,000,000
16548	National City Bank of Ridgedale, Village of Minnetonka	2,000,000
	Total: 3 banks	5,000,000
MISSOURI		
16592	Commerce Bank of Grandview, National Association, Grandview	1,000,000
16570	Mark Twain National Bank, Ladue	1,000,000
16546	Christian County National Bank, Ozark	1,000,000
16603	Mehilville National Bank, unincorporated Area of St. Louis County	1,200,000
	Total: 4 banks	4,200,000
MONTANA		
16580	Glacier National Bank, Columbia Falls	700,000
NEW MEXICO		
16566	San Juan National Bank, Farmington	1,000,000
16596	Bank of Las Cruces, National Association, Las Cruces	1,000,000
	Total: 2 banks	2,000,000
NEW YORK		
16629	Union Chelsea National Bank, New York	\$1,006,005
NORTH CAROLINA		
16560	United National Bank, Fayetteville	750,000
OHIO		
16607	FI National Bank, Ironton	1,200,000
16563	National City Bank of Lake County, Mentor	2,500,000
16608	FT National Bank, Troy	2,400,000
	Total: 3 banks	6,100,000
OKLAHOMA		
16606	Miami National Bank, Miami	1,200,000
TENNESSEE		
16552	First Tennessee National Bank, Chattanooga	16,000,000
TEXAS		
16557	Prestonwood National Bank, Addison	2,000,000
16625	Anahuac National Bank, Anahuac	1,000,000
16544	National Bank of Commerce, Austin	2,000,000
16575	Western National Bank, Austin	1,000,000
16598	Chemical National Bank, Clute	600,000
16572	National Bank of Commerce, Edinburg	1,000,000
16624	Chamizal National Bank, El Paso	1,000,000
16602	Braes Bayou National Bank, Houston	1,000,000
16585	First City Bank - Northeast, N.A., Houston	1,250,000
16564	Parkway National Bank, Houston	2,500,000
16558	South Loop National Bank, Houston	1,120,000
16600	First National Bank of Pearland, Pearland	1,000,000
16555	Canyon Creek National Bank, Richardson	1,000,000
16618	First National Bank of Rio Grande City, Rio Grande City	1,500,000
16578	Plaza National Bank, San Antonio	1,250,000
16614	Hays County National Bank, San Marcos	1,000,000
16626	Central National Bank of Woodway-Hewitt, Waco	1,200,000
16550	First National Bank of West University Place, West University Place	1,000,000
16617	American National Bank, Wichita Falls	1,000,000
	Total: 19 banks	23,420,000
UTAH		
16615	First Security Bank of Orem, National Association, Orem	1,000,000
VIRGINIA		
16613	Patrick Henry National Bank, Bassett	2,000,000
WISCONSIN		
16620	Regency National Exchange Bank, Brookfield	2,000,000
16604	Community National Bank, Oregon	1,000,000
	Total: 2 banks	3,000,000

Table B-9

National bank charters issued and mergers consummated pursuant to corporate reorganizations,
by states, calendar 1976*

<i>Effective date of merger</i>	<i>Operating bank New bank Resulting bank</i>	<i>Total capital accounts†</i>	<i>Total assets</i>
	CALIFORNIA		
June 16	The First National Bank of San Jose, San Jose F.N. National Bank, San Jose Charter issued June 14, 1976 The First National Bank of San Jose, San Jose	\$22,445	\$391,867
	DISTRICT OF COLUMBIA		
Mar. 31	American Security and Trust Company, Washington American Security and Trust Company, National Association, Washington Charter issued March 26, 1976 American Security and Trust Company, National Association, Washington	95,918	1,069,068
	ILLINOIS		
Dec. 31	First National Bank of Freeport, Freeport First Freeport Bank, National Association, Freeport Charter issued December 27, 1976 First National Bank of Freeport, Freeport	5,905	83,601
	MASSACHUSETTS		
Dec. 31	Williamstown National Bank, Williamstown Williamstown Bank (National Association), Williamstown Charter issued December 28, 1976 Williamstown National Bank, Williamstown	941	11,111
	MICHIGAN		
Mar. 11	Commercial National Bank, Cassopolis C. National Bank, Cassopolis Charter issued March 9, 1976 Commercial National Bank, Cassopolis	3,866	61,587
Dec. 3	The National Bank of Ludington, Ludington NBL National Bank, Ludington Charter issued December 1, 1976 The National Bank of Ludington, Ludington	2,036	32,612
	NEW YORK		
Dec. 31	The Chester National Bank, Chester Chester Bank, N.A., Chester Charter issued December 22, 1976 Chester National Bank, Chester	3,174	51,607
	OHIO		
Apr. 29	The Geauga County National Bank of Chardon, Chardon G. C. National Bank, Chardon Charter issued April 28, 1976 The Geauga County National Bank of Chardon, Chardon	1,307	17,898
Aug. 16	First National Bank of Elyria, Elyria FNB National Bank, Elyria Charter issued August 9, 1976 First National Bank of Elyria, Elyria	3,442	39,200
	TEXAS		
Dec. 31	Alamo Heights National Bank, Alamo Heights Heights Bank, National Association, Alamo Heights Charter issued December 15, 1976 Alamo Heights National Bank, Alamo Heights	2,294	35,756
Oct. 1	The First National Bank of Henderson, Henderson South Main & Richardson National Bank, Henderson Charter issued September 30, 1976 The First National Bank of Henderson, Henderson	2,426	31,371
Apr. 16	The First National Bank of New Braunfels, New Braunfels New Braunfels Commerce Bank National Association, New Braunfels Charter issued April 15, 1976 First National Bank of New Braunfels, New Braunfels	3,527	34,591
	VIRGINIA		
July 1	The First National Bank of Troutville, Troutville Troutville Bank, N.A., Troutville Charter issued June 25, 1976 The First National Bank of Troutville, Troutville	1,073	12,486

* Includes only charter issuances related to mergers consummated during 1975. For a full listing of charters issued pursuant to corporate reorganizations during the year see Table B-11.

† Includes subordinated notes and debentures, if any.

Table B-10

State-chartered banks converted to national banks*, by states, calendar 1976

Charter no.	Title and location of bank	Effective date of charter	Outstanding capital stock	Surplus, undivided profits and reserves	Total assets
	Total: 9 banks		\$11,574,000	\$15,682,922	\$285,586,959
	FLORIDA				
16556	City National Bank of Lauderhill, Lauderhill Conversion of City Bank of Lauderhill	Feb. 23	990,000	1,451,471	34,844,352
16576	The National Bank of Collier County, Marco Island Conversion of First Bank of Marco Island	Apr. 28	490,000	737,524	17,073,681
16586	Century National Bank of Palm Beach County, West Palm Beach Conversion of Northwood Bank of West Palm Beach	June 14	1,260,000	398,000	9,854,779
16630	The Exchange National Bank of Lake County, Clermont Conversion of The Exchange Bank of Clermont	Dec. 30	400,000	1,288,495	23,644,560
	GEORGIA				
16567	The First National Bank of Haralson County, Buchanan Conversion Haralson County Bank	Mar. 26	100,000	517,937	7,449,615
	MICHIGAN				
16571	Peoples Bank and Trust, N.A., Trenton Conversion of Peoples Bank	Apr. 1	2,422,000	3,115,426	147,580,834
	NORTH CAROLINA				
16568	Burlington National Bank, Burlington Conversion of Burlington Bank and Trust Company	Mar. 29	2,611,000	1,239,673	11,455,000
	OHIO				
16545	First Bank National Association, Cleveland Conversion of First Bank and Trust of Cleveland	Jan. 21	2,101,000	1,452,477	13,163,138
	VIRGINIA				
16610	Virginia National Bank/Richmond, Richmond Conversion of Virginia Trust Company	Oct. 20	1,200,000	5,481,919	20,521,000

* Does not include one bank that converted to national status through a merger pursuant to corporate reorganization. That bank was American Security and Trust Company, Washington, D.C., which merged with American Security and Trust Company, National Association, Washington, D.C., charter number 16565, formed for the purpose of effecting a corporate reorganization. For complete information see Table B-9.

Table B-11

National bank charters issued pursuant to corporate reorganizations, by states, calendar 1976

Charter no.	Title and location of bank	Date of issuance
	Total: 14 banks	
	CALIFORNIA	
2158	F. N. National Bank, San Jose	June 14
	DISTRICT OF COLUMBIA	
16565	American Security and Trust Company, National Association, Washington	Mar. 26
	ILLINOIS	
13695	First Freeport Bank, National Association, Freeport	Dec. 27
3548	I N B National Bank, Springfield	Dec. 27
	Total: 2 banks	
	MASSACHUSETTS	
3092	Williamstown Bank (National Association), Williamstown	Dec. 28
	MICHIGAN	
16371	C. National Bank, Cassopolis	Mar. 9
14016	N B L National Bank, Ludington	Dec. 1
	Total: 2 banks	
	NEW YORK	
1349	Chester Bank, N.A., Chester	Dec. 22
	OHIO	
14879	The G. C. National Bank, Chardon	Apr. 28
14968	F N B National Bank, Elyria	Aug. 9
	Total: 2 banks	

Table B-11—Continued

National bank charters issued pursuant to corporate reorganizations, by states, calendar 1976

Charter no.	Title and location of bank	Date of issuance
TEXAS		
15514	Heights Bank, National Association, Alamo Heights	Dec. 15
6176	South Main & Richardson National Bank, Henderson	Sept. 30
4295	New Braunfels Commerce Bank National Association, New Braunfels	Apr. 15
	Total: 3 banks	
VIRGINIA		
9764	Troutville Bank, N.A., Troutville	June 25

Table B-12

National banks reported in voluntary liquidation, by states, calendar 1976
(Dollar amount in thousands)

Title and location of bank	Dates of liquidations	Total capital accounts of liquidated banks*
Total: 14 National banks		\$53,068
FLORIDA		
Palmer First National Bank and Trust Company of Sarasota (13352), Sarasota, absorbed by Southeast First National Bank of Sarasota (16531), Sarasota	Jan. 15	1,000
GEORGIA		
Mercantile National Bank (15789), Atlanta, absorbed by The National Bank of Georgia (15541), Atlanta	July 1	851
MISSOURI		
Deposit Insurance National Bank of Kansas City (99001), Kansas City, absorbed by Laurel Bank of Kansas City, Kansas City	Dec. 18	0
NEW YORK		
Chelsea National Bank (15428), New York, absorbed by Union Chelsea National Bank (16629), New York	Dec. 31	272
The Red Creek National Bank (10781), Red Creek, absorbed by The Oneida National Bank and Trust Company of Central New York (1392), Utica	July 20	938
OHIO		
The First National Bank of Amesville (7235), Amesville, absorbed by The Glouster Community Bank, Glouster ..	June 30	400
The First National Bank of Ironton (98), Ironton, absorbed by F I National Bank (16607), Ironton	Sept. 30	4,389
The First National Bank & Trust Company (3825), Troy, absorbed by F T National Bank (16608), Troy	Sept. 30	7,386
Community National Bank of Warrensville Heights (15561), Warrensville Heights, absorbed by First Bank National Association (16545), Cleveland	June 18	3,084
TENNESSEE		
The Hamilton National Bank of Chattanooga, (7848), Chattanooga, absorbed by First Tennessee National Bank (16522), Chattanooga	Feb. 16	26,273
VERMONT		
The Enosburg Falls National Bank (13986), Enosburg Falls, absorbed by Sterling Trust Company, Johnson	Jan. 30	551
WASHINGTON		
The First National Bank of Redmond (12121), Redmond, absorbed by Seattle Trust and Savings Bank, Seattle ..	Sept. 17	1,448
First National Bank in Port Angeles (6074), Port Angeles, absorbed by Seattle - First National Bank (11280), Seattle ..	Aug. 24	4,341
The First American National Bank of Port Townsend (13351), Port Townsend, absorbed by Seattle - First National Bank, (11280), Seattle	Aug. 24	2,135

* Includes subordinated notes and debentures, if any.

Table B-13

National banks merged or consolidated with state banks, by states, calendar 1976
(Dollar amount in thousands)

<i>Title and location of bank</i>	<i>Effective date</i>		<i>Total capital accounts of national banks*</i>
Total: 13 banks			\$101,453
MAINE			
Casco Northern National Bank (16382), Augusta, merged into Casco Bank & Trust Company, Portland, under title "Casco Bank & Trust Company"	June	25	1,088
MASSACHUSETTS			
The Park National Bank of Holyoke (4703), Holyoke, merged into Western Bank and Trust Company, West Springfield, under title "Park West Bank and Trust Company"	July	16	1,794
The Union Market National Bank of Watertown (2108), Watertown, merged into BayBank Newton-Waltham Trust Company, Waltham, under title "BayBank Newton-Waltham Trust Company"	July	6	4,990
NEW JERSEY			
Suburban National/A United Jersey Bank (16129), South Plainfield, merged into United Jersey Bank/Central, Elizabeth, under the title "United Jersey Bank/Central"	Oct.	29	978
NEW YORK			
Manufacturers Hanover Trust Company/Suffolk, National Association (10029), Bay Shore, merged into Manufacturers Hanover Trust Company, New York, under title "Manufacturers Hanover Trust Company"	July	30	10,081
Marine Midland Bank-Chautauqua, National Association (8453), Jamestown, merged into Marine Midland Bank, Buffalo, under title "Marine Midland Bank"	Jan.	1	12,952
Marine Midland Tinker National Bank (11511), Melville, merged into Marine Midland Bank, Buffalo, under title "Marine Midland Bank"	Jan.	1	14,106
Bankers Trust of Suffolk, National Association (12788), Patchogue, merged into Bankers Trust Company, New York, under title "Bankers Trust Company"	Oct.	29	9,928
Marine Midland Bank of Southeastern New York, N.A. (465), Poughkeepsie, merged into Marine Midland Bank, Buffalo, under title "Marine Midland Bank"	Jan.	1	21,139
Marine Midland Bank-Eastern, National Association (721), Troy, merged into Marine Midland Bank, Buffalo, under title "Marine Midland Bank"	Jan.	1	16,278
PENNSYLVANIA			
The First National Bank of Lewistown (1579), Lewistown, merged into Central Counties Bank, State College, under title "Central Counties Bank"	Sept.	30	3,503
The First National Bank of Shoemakersville (11841), Shoemakersville, merged into American Bank and Trust Co. of Pa., Reading, under title "American Bank and Trust Co. of Pa."	Apr.	23	1,161
VIRGINIA			
Richmond National Bank (15027), Richmond, merged into First Virginia Bank of Colonial Heights, Colonial Heights, under title "First Virginia - Colonial"	Nov.	1	3,455

* Includes subordinated notes and debentures, if any.

Table B-14

National banks converted into state banks, by states, calendar 1976
(Dollar amounts in thousands)

<i>Charter no.</i>	<i>Title and location of bank</i>	<i>Effective date</i>	<i>Total capital accounts of national banks*</i>
	Total: 24 banks		\$109,018
	ALABAMA		
11635	Opelika National Bank, Opelika, converted into The Bank of East Alabama	Sept. 8	2,765
	ARKANSAS		
14973	First National Bank of Dermott, Dermott, converted into First State Bank of Dermott	Oct. 15	805
14606	First National Bank of Jonesboro, Jonesboro, converted into First Bank & Trust of Jonesboro	Dec. 22	1,883
	CALIFORNIA		
15958	Gavilian National Bank, Gilroy, converted into Gavilan Bank	Apr. 1	3,327
	ILLINOIS		
10582	The First National Bank of Marine, Marine, converted into First Bank of Marine	Nov. 30	396
14595	Wheaton National Bank, Wheaton, converted into Bank of Wheaton	June 30	4,496
	INDIANA		
111	The First National Bank of Madison, Madison, converted into First Bank of Madison	Apr. 14	2,093
	KANSAS		
3066	The First National Bank of Concordia, Concordia, converted into First Bank and Trust	July 31	1,101
14978	East Side Bank and Trust, National Association, Wichita, converted into East Side Bank and Trust	Sept. 2	2,033
	MAINE		
2260	Northeast Bank, N.A. of Lewiston and Auburn, Lewiston, converted Northeast Bank of Lewiston and Auburn	Mar. 16	8,967
	MICHIGAN		
8496	Northern Michigan Bank, N.A., Escanaba, converted into Northern Michigan Bank	July 30	2,527
14582	First National Bank & Trust Company of Midland, Midland, converted into First Midland Bank & Trust Company	Apr. 29	5,402
	MINNESOTA		
10740	First National Bank of Lakeville, Lakeville, converted into First Lakeville State Bank	Oct. 29	874
	MISSOURI		
8011	Plaza First National Bank of West Port, St. Louis County, converted into Plaza Bank of West Port	Sept. 16	3,673
	NEW HAMPSHIRE		
1242	Monadnock National Bank, Jaffrey, converted into Monadnock Bank	Aug. 30	863
	NEW YORK		
10087	Long Island National Bank, Hicksville, converted into Long Island Bank	Sept. 7	13,086
	PENNSYLVANIA		
870	Marine National Bank, Meadville, converted into Marine Bank	Dec. 22	14,982
4984	The First National Bank of Troy, Troy, converted into First Bank of Troy	Mar. 5	2,273
	TENNESSEE		
13539	United American Bank, N.A., Knoxville, converted into United American Bank in Knoxville	Oct. 29	30,359
	TEXAS		
15082	Western National Bank of Denton, Denton, converted into Western State Bank	June 9	1,302
16213	Heritage National Bank, Houston, converted into Heritage Bank	Nov. 12	929
14811	Sabine National Bank of Port Arthur, Port Arthur, converted into Sabine Bank	Feb. 2	3,147
15827	First National Bank of Tomball, Tomball, converted into First Bank & Trust	Sept. 29	1,323
12691	Fannin National Bank in Windom, Windom, converted into The Fannin Bank	Jan. 20	412

* Includes subordinated notes and debentures, if any.

Table B-15

Purchases of state banks by national banks, by states, calendar 1976
(Dollar amounts in thousands)

<i>Title and location of bank</i>	<i>Effective date</i>	<i>Total capital accounts of state banks*</i>
Total: 17 banks		\$44,422
ARKANSAS		
The First National Bank of Huntsville (8952), Huntsville, purchased The Valley Bank, Hindsville	Mar. 9	143
FLORIDA		
Landmark Bank of Pompano Beach, N.A. (16574), Pompano Beach, purchased The Security State Bank of Pompano Beach, Pompano Beach	Apr. 19	388
GEORGIA		
The National Bank of Georgia (15541), Atlanta, purchased The Hamilton Bank and Trust Company, Atlanta	Oct. 8	4,471
NEW JERSEY		
New Jersey Bank, National Association (15709), Clifton, purchased First State Bank of Hudson County, Jersey City	June 15	0
First Peoples National Bank of New Jersey (399), Haddon Township, purchased The Provident Bank of New Jersey, Willingboro	Dec. 31	1,849
First National State Bank of New Jersey (1452), Newark, purchased The Bank of Bloomfield, Bloomfield	Jan. 10	2,490
Citizens First National Bank of New Jersey (11759), Ridgewood, purchased The State Bank of North Jersey, Pine Brook (Montville Township)	Dec. 28	4,142
New Jersey National Bank (1327), Trenton, purchased First State Bank, Toms River (Dover Township)	Dec. 17	9,799
OHIO		
Euclid National Bank (15573), Euclid, purchased The Continental Bank, Cleveland	Mar. 31	5,126
Greenville National Bank (13944), Greenville, purchased The Citizens Bank Company, Ansonia	Apr. 10	651
TEXAS		
First City Bank - Northeast, N.A. (16585), Houston, purchased Northeast Bank of Houston, Houston	June 8	558
South Loop National Bank (16558), Houston, purchased South Texas Bank, Houston	Mar. 1	666
First National Bank of Rio Grande City (16618), Rio Grande City, purchased First State Bank & Trust Company, Rio Grande City	Nov. 29	1,103
WASHINGTON		
Puget Sound National Bank (12292), Tacoma, purchased Continental Bank, Burien	Mar. 20	1,455
Seattle - First National Bank (11280), Seattle, purchased Bank of Sequim, Sequim	Aug. 24	1,314
and Forks State Bank, Forks	Aug. 24	1,749
Old National Bank of Washington (4668), Spokane, purchased Bank of the West, Bellevue	Mar. 4	8,518

Table B-16

Consolidations of national banks, or national and state banks, by states, calendar 1976*
(Dollar amounts in thousands)

<i>Effective date</i>	<i>Consolidating banks Resulting bank</i>	<i>Outstanding capital stock</i>	<i>Surplus</i>	<i>Undivided profits and reserves</i>	<i>Total assets</i>
	Total: 1 consolidation				
	SOUTH DAKOTA				
	United National Bank (15639), Rapid City	\$1,500	\$1,500	\$2,490	\$95,559
	United Bank & Trust, Sioux Falls	500	1,000	628	32,888
Feb. 17	United National Bank (15639), Rapid City	2,300	2,500	2,819	128,446

Table B-17

Mergers* of national banks, or national and state banks, by states, calendar 1976
(Dollar amounts in thousands)

Effective date	Merging banks Resulting banks	Outstanding capital stock	Surplus	Undivided profits and reserves	Total assets
	Total: 36 merger actions				
	ALABAMA				
	The Citizens Bank of Georgiana, Georgiana	\$75	\$150	\$349	\$7,858
	The First National Bank of Greenville, Greenville (5572)	250	500	1,723	35,702
Apr. 30	The First National Bank of Greenville, Greenville (5572)	300	675	2,072	43,218
	CONNECTICUT				
	The North Haven National Bank, North Haven (15439)	256	256	295	14,434
	The First New Haven National Bank, New Haven (2)	5,083	15,000	9,129	344,161
Aug. 31	The First New Haven National Bank, New Haven (2)	5,083	15,000	9,129	356,693
	Laurel Bank and Trust Company, Meriden	1,209	983	0	24,869
	American National Bank, Hamden (15496)	1,644	1,801	566	54,779
Dec. 1	American National Bank, Hamden (15496)	2,076	3,561	0	79,907
	INDIANA				
	The Lamasco Bank, Evansville	400	600	1,433	21,295
	The Citizens National Bank of Evansville, Evansville (2188)	4,800	7,200	6,286	231,241
Oct. 1	The Citizens National Bank of Evansville, Evansville (2188)	5,900	7,800	7,019	252,081
	KENTUCKY				
	Hiseville Deposit Bank, Hiseville	60	250	119	4,939
	The New Farmers National Bank of Glasgow, Glasgow (13651)	600	1,400	881	40,689
Apr. 1	The New Farmers National Bank of Glasgow, Glasgow (13651)	720	1,650	951	47,104
	MAINE				
	Central National Bank, Waterville (15954)	400	300	18	10,100
	Canal National Bank, Portland (941)	5,400	4,500	1,619	180,348
Oct. 1	Canal National Bank, Portland (941)	5,750	4,850	1,549	193,263
	MARYLAND				
	The Millington Bank of Maryland, Millington	50	0	74	5,399
	The Farmers National Bank of Annapolis, Annapolis (1244)	1,500	2,500	1,781	76,252
Mar. 5	Farmers National Bank of Maryland, Annapolis (1244)	1,560	2,500	1,845	81,651
	The First National Bank of Mount Savage, Mount Savage (6144)	25	325	140	2,528
	The First National Bank and Trust Company of Western Maryland, Cumberland (381)	1,477	3,023	2,714	90,032
Dec. 1	The First National Bank and Trust Company of Western Maryland, Cumberland (381)	1,530	3,320	2,854	92,539
	MASSACHUSETTS				
	Heritage Bank and Trust Company, Westfield	330	330	262	11,810
	Old Colony Bank of Hampden County, N.A., Holyoke (1939)	700	2,740	465	36,273
Feb. 3	Old Colony Bank of Hampden County, N.A., Holyoke (1939)	700	2,740	465	47,162
	MISSISSIPPI				
	Clinton National Bank, Clinton (16257)	400	625	0	5,546
	Peoples Bank of Mississippi, National Association, Union (16194)	1,012	2,800	580	68,220
Mar. 17	Peoples Bank of Mississippi, National Association, Union (16194)	1,213	3,625	562	73,766
	Columbia Bank, Columbia	375	1,725	664	27,839
	First National Bank of Jackson, Jackson (10523)	8,594	43,511	1,384	810,858
Dec. 31	First National Bank of Jackson, Jackson (10523)	8,594	45,806	1,384	838,697
	NEW JERSEY				
	Somerset Hills & County National Bank, Basking Ridge (6960)	1,718	2,300	1,950	83,022
	First National State Bank/Mechanics, Burlington Township (1222)	3,650	3,650	1,479	124,172
Feb. 6	First National State Bank of West Jersey, Burlington Township (1222)	5,368	5,950	3,429	207,195
	First National State Bank of the Jersey Coast, Spring Lake (13898)	2,500	2,050	1,201	93,182
	The Edison Bank, National Association, South Plainfield (15845)	2,165	2,500	3,947	93,500
Mar. 26	Edison/First National State Bank, South Plainfield (15845)	5,000	5,000	4,362	186,682
	Independent National Bank, Willingboro (16092)	800	800	483	15,753
	The First National Bank of Stone Harbor, Stone Harbor (12978)	622	2,063	1,014	37,263
May 3	Independent National Bank, Stone Harbor (12978)	1,022	3,263	1,497	53,016
	Bank of Wayne, National Association, Wayne (15934)	600	600	391	10,079
	Valley National Bank†, Passaic (15790)	4,250	4,250	13,878	242,671
June 11	Valley National Bank, Passaic (15790)	4,625	4,625	14,720	252,535

See footnotes at end of table.

Table B-17—Continued

Mergers* of national banks, or national and state banks, by states, calendar 1976

(Dollar amounts in thousands)

Effective date	Merging banks Resulting banks	Outstanding capital stock	Surplus	Undivided profits and reserves	Total assets
JEW JERSEY—Continued					
	Beach Haven National Bank and Trust Company, Beach Haven (11658)	\$1,594	\$1,606	\$1,881	\$ 68,562
	The Bank of New Jersey, N.A., Moorestown (16397)	400	400	154	6,728
June 30	The Bank of New Jersey, N.A., Moorestown (16397)	1,994	2,006	2,035	75,290
	Plaza National Bank, Secaucus (15228)	532	1,278	233	28,432
	New Jersey Bank (National Association), Clifton (15709) ..	9,693	19,444	11,960	825,071
Oct. 18	New Jersey Bank (National Association), Clifton (15709) ..	9,693	21,254	12,193	853,503
	United Jersey Bank/City National, Vineland (14673)	700	820	0	29,098
	The Cumberland National Bank of Bridgeton, Bridgeton (1346)	500	2,500	1,421	54,820
Nov. 1	United Jersey/Cumberland National, Bridgeton (1346)	1,200	3,320	1,319	83,918
	Midlantic National Bank/West, Morristown (15360)	1,200	1,065	0	40,219
	Midlantic National Bank, Newark (1316)	16,726	39,277	32,501	1,000,472
Dec. 31	Midlantic National Bank, Newark (1316)	16,726	41,542	32,333	1,040,691
NEW YORK					
	Citibank (Eastern), National Association, Castleton-on-Hudson (5816)	1,400	1,100	283	36,362
	Citibank (Central), National Association, Oriskany Falls (16089)	1,400	3,600	1,160	34,903
	Citibank (Mid-Western), National Association, Honeoye Falls (15976)	1,400	3,600	658	41,321
	Citibank (Western), National Association, Buffalo (10258) ..	1,400	1,100	85	46,650
Jan. 2	Citibank (New York State), National Association, Buffalo (10258)	1,400	1,100	85	159,236
	Citibank (Suffolk), National Association, Islip (15917)	1,400	1,100	854	47,012
	Citibank (Mid-Hudson), National Association, Woodbury (9990)	1,400	1,100	296	33,101
	First National City Bank, New York (1461)	750,691	880,754	1,085,643	26,732,196
Jan. 2	First National City Bank, New York (1461)	750,691	880,754	1,085,139	26,812,309
	Chase Manhattan Bank of Long Island, N.A., Melville (15922)	800	800	0	27,867
	Chase Manhattan Bank of the Mid-Hudson, N.A., Saugerties (1040)	857	526	0	28,546
	Chase Manhattan Bank of Central New York, Syracuse (16047)	800	800	0	17,993
	Chase Manhattan Bank of Eastern New York, Albany (16203)	800	800	0	12,647
	Chase Manhattan Bank of the Southern Tier, Binghamton (16379)	800	800	161	7,317
	Chase Manhattan Bank of Greater Rochester, N.A., Rochester (16050)	950	210	2	25,641
	Chase Manhattan Bank of Western New York, N.A., Buffalo (13952)	1,400	611	0	29,458
	Chase Manhattan Bank of Northern New York, N.A., Canton (3696)	250	1,010	873	17,974
	Chase Manhattan Bank, National Association, New York (2370)	536,270	708,995	582,701	25,409,954
May 21	Chase Manhattan Bank, N.A., New York (2370)	536,976	709,626	582,701	25,489,462
	Ogdensburg Trust Company, Ogdensburg	6,000	1,500	1,828	35,471
	Oneida National Bank and Trust Company of Central New York, Utica (1392)	6,342	10,500	19,387	524,974
Nov. 19	Oneida National Bank and Trust Company of Central New York, Utica (1392)	6,342	10,500	19,490	552,015
NORTH CAROLINA					
	Union Trust Company of Shelby, Shelby	896	2,354	3,247	69,482
	The Citizens National Bank in Gastonia, Gastonia (13779) ..	1,305	3,299	5,942	125,452
June 1	Independence National Bank, Gastonia (13779)	2,089	5,765	9,198	195,456
	Hanover Bank, Wilmington	1,100	1,107	109	11,512
	The Planters National Bank and Trust Company, Rocky Mount (10608)	4,227	5,053	5,225	240,995
July 12	The Planters National Bank and Trust Company, Rocky Mount (10608)	4,887	6,600	5,334	252,507
OHIO					
	The Bank of Cleveland, Cleveland	575	1,325	1,012	30,546
	National City Bank, Cleveland (786)	29,245	95,235	63,647	2,569,103
Jan. 2	National City Bank, Cleveland (786)	29,245	95,235	63,126	2,592,844
	The Pickerington Bank, Pickerington	250	250	288	8,999
	The Huntington National Bank of Columbus, Columbus (7745)	12,837	23,163	23,137	872,964
May 1	The Huntington National Bank of Columbus, Columbus (7745)	12,837	23,163	23,137	881,175

See footnotes at end of table.

Table B-17—Continued

Mergers of national banks, or national and state banks, by states, calendar 1976*
(Dollar amounts in thousands)

Effective date	Merging banks Resulting banks	Outstanding capital stock	Surplus	Undivided profits and reserves	Total assets
PENNSYLVANIA					
	The Kutztown National Bank, Kutztown (5102)	\$ 420	\$830	\$895	\$28,317
	The First National Bank of Allentown, Allentown (373)	3,871	20,000	11,345	512,774
Mar. 31	The First National Bank of Allentown, Allentown (373)	4,396	20,830	12,135	541,091
	The First National Bank of Coalport, Coalport (6887)	75	325	420	7,476
	United States National Bank in Johnstown, Johnstown (13781)	2,188	16,000	5,394	274,767
Sept. 15	United States National Bank in Johnstown, Johnstown (13781)	2,282	16,500	5,621	282,244
	The First National Bank of Dickson City, Dickson City (13937)	100	1,000	683	21,614
	First National Bank, Carbondale (664)	1,380	1,700	2,862	59,518
Sept. 20	First National Bank, Carbondale (664)	1,840	3,770	1,321	81,244
SOUTH DAKOTA					
	First State Bank, Lake Norden	100	125	76	4,665
	United National Bank, Castlewood (16470)	150	200	118	5,190
Mar. 15	United National Bank, Castlewood (16470)	400	125	144	9,855
VERMONT					
	The Merchants National Bank of St. Johnsbury, St. Johnsbury (2295)	150	150	350	9,374
	First National Bank of Springfield, Springfield (122)	800	800	1,340	40,856
June 30	First National Bank of Springfield, Springfield (122)	800	800	1,340	48,691
VIRGINIA					
	Bank of Virginia - Lynchburg, Lynchburg	294	457	19	11,782
	Bank of Virginia, N.A., Vinton (16485)	2,700	1,770	1,750	90,436
Jan. 31	Bank of Virginia, N.A., Vinton (16485)	6,000‡	2,000‡	2,170‡	145,631‡
	Bank of Virginia - Danville, Danville	1,600	500	1,081	43,413
	Bank of Virginia, N.A., Vinton (16485)	2,700	1,770	1,750	90,436
Jan. 31	Bank of Virginia, N.A., Vinton (16485)	6,000‡	2,000‡	2,170‡	145,631‡
	North American Bank and Trust, Leesburg	779	451	0	8,783
	Virginia National Bank, Norfolk (9885)	20,552	31,803	46,616	1,745,416
Mar. 15	Virginia National Bank, Norfolk (9885)	20,552	31,803	46,616	1,753,137
	Fairfax County National Bank, Seven Corners (14824)	1,485	1,400	1,258	62,491
	Virginia National Bank, Norfolk (9885)	20,552	31,803	49,251	1,804,327
Nov. 12	Virginia National Bank, Norfolk (9885)	20,552	31,803	53,346	1,862,225

* Excludes mergers involving only one operating bank, effected pursuant to corporate reorganizations.

† Formerly Bank of Passaic and Clifton, National Association.

‡ Information for the resulting bank is after the two actions involving Bank of Virginia, N.A., that day.

Table B-18

*Mergers resulting in National banks, by assets of acquiring and acquired banks, 1960-1976**

Assets of acquiring bank†	Acquired banks 1960-1976	Assets of acquired bank				
		Under \$10 million	\$10 to 24.9 million	\$25 to 49.9 million	\$50 to 99.9 million	\$100 million and over
Under \$10 million	99	99	0	0	0	0
\$10 to 24.9 million	153	135	18	0	0	0
\$25 to 49.9 million	176	114	47	15	0	0
\$50 to 99.9 million	199	117	49	29	4	0
\$100 million and over	633	242	221	93	34	43
Total	1,260‡	707	335	137	38	43

* Includes all forms of acquisitions involving two or more banks from May 13, 1960 through December 31, 1975.

† In each transaction, the bank with the larger total assets was considered to be the acquiring bank.

‡ Comprises 1,202 transactions, 27 involving three banks, nine involving four banks, two involving five banks and one involving nine banks.

Table B-19

Total assets, liabilities and equity capital of domestic offices and subsidiaries of national banks, United States and other areas, June 30, 1976

(Dollar amounts in thousands)

	Total, U.S. and other areas	Total, United States	Alabama	Alaska	Arizona	Arkansas	California
Number of banks	4,749	4,747	98	6	3	75	56
Assets							
Cash and due from banks	\$75,491,155	\$75,488,250	\$787,485	\$166,615	\$574,690	\$543,701	\$11,161,032
U.S. Treasury securities	47,410,419	47,409,324	510,480	47,627	502,096	280,940	6,392,580
Obligations of other U.S. government agencies and corporations	16,506,342	16,504,630	361,120	51,083	137,984	169,333	2,343,890
Obligations of states and political subdivisions	56,893,632	56,888,987	1,052,790	197,241	462,516	510,934	4,209,926
Other bonds, notes and debentures	2,779,940	2,779,940	22,531	961	9,410	15,015	274,486
Federal Reserve stock and corporate stock	923,562	923,512	9,323	2,755	6,590	4,577	94,980
Trading account securities	3,824,936	3,824,936	27,146	0	6,820	21,456	344,115
Federal funds sold and securities purchased under agreements to resell	21,701,787	21,700,362	213,330	63,250	210,010	225,972	3,530,808
Loans, total (excluding unearned income)	287,151,419	287,136,830	3,657,623	578,557	3,136,584	2,005,487	42,323,437
Reserve for possible loan losses	3,562,559	3,561,395	44,847	6,477	23,973	18,913	471,584
Loans, net of reserve	283,588,860	283,575,435	3,612,776	572,080	3,112,611	1,986,574	41,851,853
Direct lease financing	3,480,114	3,480,114	23,294	4,124	3,031	4,382	1,403,185
Bank premises, furniture and fixtures and other assets representing bank premises	9,577,520	9,577,338	141,572	39,391	146,325	87,648	1,392,527
Real estate owned other than bank premises	1,354,891	1,353,993	4,480	2,078	5,838	4,474	71,180
Investments in unconsolidated subsidiaries and associated companies	1,609,514	1,609,514	221	0	0	20	484,281
Customers' liabilities to this bank on acceptances outstanding	6,215,868	6,215,868	20,421	100	8,497	1,536	1,275,593
Other assets	17,367,303	17,366,738	87,234	15,908	68,908	55,422	3,497,422
Total assets	548,725,843	548,698,941	6,874,203	1,163,213	5,255,326	3,911,984	78,327,858
Liabilities							
Demand deposits of individuals, partnerships and corporations	136,751,059	136,747,862	1,889,723	491,382	1,463,800	1,133,287	18,271,281
Time and savings deposits of individuals, partnerships and corporations	231,704,992	231,688,090	3,113,678	331,242	2,850,197	1,662,893	36,760,213
Deposits of U.S. government	3,308,326	3,308,305	28,531	20,926	23,472	14,426	441,042
Deposits of states and political subdivisions	36,011,521	36,007,454	622,693	152,139	166,577	311,359	4,289,934
Deposits of foreign governments and official institutions	5,610,618	5,610,618	0	0	79	0	1,499,059
Deposits of commercial banks	25,176,432	25,175,688	203,170	3,503	31,052	202,021	2,128,012
Certified and officers' checks	5,714,568	5,712,987	40,525	22,688	64,714	20,298	837,332
Total deposits	444,277,516	444,251,004	5,898,320	1,021,880	4,599,891	3,344,284	64,226,873
Total demand deposits	175,576,220	175,570,607	2,337,128	594,842	1,647,089	1,464,063	21,426,566
Total time and savings deposits	268,701,296	268,680,397	3,561,192	427,038	2,952,802	1,880,221	42,800,307
Federal funds purchased and securities sold under agreements to repurchase	42,719,423	42,719,423	299,178	50,002	258,468	210,194	5,970,291
Liabilities for borrowed money	2,464,780	2,464,780	7,484	1,145	599	3,544	297,904
Mortgage indebtedness	446,214	446,214	2,375	213	721	87	88,703
Acceptances executed by or for account of this bank and outstanding	6,257,308	6,257,308	20,421	100	8,497	1,535	1,276,735
Other liabilities	10,446,027	10,445,509	95,705	9,814	41,619	47,310	1,713,535
Total liabilities	506,611,268	506,584,238	6,323,483	1,083,154	4,909,795	3,606,954	73,574,041
Subordinated notes and debentures	2,610,607	2,610,607	23,996	740	77,668	24,105	405,178
Equity Capital							
Preferred stock	19,437	19,437	0	0	0	0	0
Common stock	8,960,644	8,959,764	114,069	23,259	40,910	66,430	844,955
Surplus	15,222,322	15,221,522	211,732	34,373	99,776	84,885	1,840,585
Undivided profits	14,231,837	14,233,645	192,509	19,520	119,517	116,133	1,613,043
Reserve for contingencies and other capital reserves	1,069,728	1,069,728	8,414	2,167	7,660	13,477	50,056
Total equity capital	39,503,968	39,504,096	526,724	79,319	267,863	280,925	4,348,639
Total liabilities, subordinated notes and debentures and equity capital	548,725,843	548,698,941	6,874,203	1,163,213	5,255,326	3,911,984	78,327,858

Table B-19—Continued
Total assets, liabilities and equity capital of domestic offices and subsidiaries of national
banks, United States and other areas, June 30, 1976

(Dollar amounts in thousands)

	Colorado	Connecticut	Delaware	District of Columbia	Florida	Georgia	Hawaii
Number of banks	132	24	5	15	303	65	2
Assets							
Cash and due from banks	\$1,015,970	\$721,183	\$6,433	\$603,118	\$2,351,537	\$1,331,744	\$19,862
U.S. Treasury securities	444,465	209,221	8,340	541,281	2,276,844	399,626	20,654
Obligations of other U.S. government agencies and corporations	151,753	99,942	2,966	95,652	834,033	131,947	8,781
Obligations of states and political subdivisions	670,998	385,032	3,193	474,203	2,105,756	616,786	2,757
Other bonds, notes and debentures	7,382	92,284	384	18,724	92,797	16,851	0
Federal Reserve stock and corporate stock	9,318	8,666	92	8,722	29,713	52,393	214
Trading account securities	17,306	13,781	0	0	40,064	12,560	0
Federal funds sold and securities purchased under agreements to resell	244,736	46,230	2,200	211,590	561,070	242,228	2,700
Loans, total (excluding unearned income)	3,509,173	2,045,190	38,580	2,184,061	7,352,172	4,146,204	94,767
Reserve for possible loan losses	34,586	20,054	175	28,887	93,415	56,495	480
Loans, net of reserve	3,474,587	2,025,136	38,405	2,155,174	7,258,757	4,089,709	94,287
Direct lease financing	27,149	26,771	0	25,432	33,165	36,574	0
Bank premises, furniture and fixtures and other assets representing bank premises	132,126	95,281	1,083	57,528	370,759	238,098	2,094
Real estate owned other than bank premises	22,285	3,319	69	1,239	95,781	118,195	5
Investments in unconsolidated subsidiaries and associated companies	2,904	9	0	0	3,642	77,522	0
Customers' liabilities to this bank on acceptances outstanding	15,025	9,917	0	5,255	12,222	55,700	162
Other assets	90,965	171,233	432	76,274	271,542	142,340	1,647
<i>Total assets</i>	6,326,969	3,908,005	63,597	4,274,192	16,337,682	7,562,273	153,163
Liabilities							
Demand deposits of individuals, partnerships and corporations	1,866,471	1,238,053	17,111	1,679,792	4,697,842	2,275,851	42,420
Time and savings deposits of individuals, partnerships and corporations	2,437,052	1,563,983	38,078	1,528,144	7,303,278	2,290,397	64,098
Deposits of U.S. government	41,986	31,635	939	80,345	56,486	45,545	548
Deposits of states and political subdivisions	529,206	254,996	1,395	2,382	1,293,716	569,568	28,138
Deposits of foreign governments and official institutions	0	228	0	169,553	4,534	15,026	0
Deposits of commercial banks	373,905	272,582	0	66,789	574,085	556,505	2,555
Certified and officers' checks	60,085	31,992	342	72,080	174,344	41,693	2,298
<i>Total deposits</i>	5,308,705	3,393,469	57,865	3,599,085	14,104,285	5,794,585	140,057
Total demand deposits	2,411,027	1,636,505	18,544	2,036,271	5,780,430	3,002,684	48,316
Total time and savings deposits	2,897,678	1,756,964	39,321	1,562,814	8,323,855	2,791,901	91,741
Federal funds purchased and securities sold under agreements to repurchase	403,210	194,079	0	210,390	663,811	655,546	0
Liabilities for borrowed money	52,029	4,575	200	29,965	12,559	197,484	1,200
Mortgage indebtedness	15,054	546	0	335	6,281	23,602	0
Acceptances executed by or for account of this bank and outstanding	15,025	9,917	0	5,255	12,227	56,074	162
Other liabilities	67,087	32,337	351	40,318	149,660	198,320	2,257
<i>Total liabilities</i>	5,861,110	3,634,923	58,416	3,885,348	14,948,823	6,925,611	143,676
Subordinated notes and debentures	30,479	11,388	200	13,532	37,347	58,838	1,500
Equity Capital							
Preferred stock	0	0	0	430	1,001	0	0
Common stock	95,984	62,681	1,550	62,851	355,324	143,058	3,797
Surplus	155,008	130,689	1,486	134,690	539,485	209,408	2,806
Undivided profits	174,850	64,448	1,917	171,773	423,670	157,600	1,184
Reserve for contingencies and other capital reserves	9,538	3,876	28	5,568	32,032	67,758	200
<i>Total equity capital</i>	435,380	261,694	4,981	375,312	1,351,512	577,824	7,987
<i>Total liabilities, subordinated notes and debentures and equity capital</i>	6,326,969	3,908,005	63,597	4,274,192	16,337,682	7,562,273	153,163

Table B-19—Continued
Total assets, liabilities and equity capital of domestic offices and subsidiaries of national
banks, United States and other areas, June 30, 1976

(Dollar amounts in thousands)

	Idaho	Illinois	Indiana	Iowa	Kansas	Kentucky	Louisiana
Number of banks	6	424	120	100	171	81	54
Assets							
Cash and due from banks	\$256,310	\$5,394,575	\$1,272,062	\$625,678	\$632,318	\$486,282	\$915,620
U.S. Treasury securities	178,093	4,608,368	1,512,700	366,525	482,494	476,673	1,107,855
Obligations of other U.S. government agencies and corporations	61,806	1,811,815	586,006	210,481	254,708	137,157	205,369
Obligations of states and political subdivisions	283,997	5,114,004	1,472,559	561,678	647,842	580,471	917,031
Other bonds, notes and debentures	2,305	452,664	110,069	21,625	10,278	6,285	10,777
Federal Reserve stock and corporate stock	3,795	79,120	16,255	4,513	7,764	6,132	12,877
Trading account securities	0	391,708	57,316	6,042	30,930	6,148	3,111
Federal funds sold and securities purchased under agreements to resell	50,747	1,352,456	742,879	144,284	352,210	287,035	501,850
Loans, total (excluding unearned income)	1,473,058	26,959,698	6,020,963	2,314,767	2,356,541	2,422,006	3,354,334
Reserve for possible loan losses	12,831	390,898	74,936	20,955	25,192	24,740	41,412
Loans, net of reserve	1,460,227	26,568,800	5,946,027	2,293,812	2,331,349	2,397,266	3,312,922
Direct lease financing	12,146	69,913	136,688	1,405	3,650	54,979	26,939
Bank premises, furniture and fixtures and other assets representing bank premises	40,112	591,388	206,604	65,768	116,301	87,405	148,397
Real estate owned other than bank premises	1,777	141,665	27,100	4,101	2,943	7,626	11,138
Investments in unconsolidated subsidiaries and associated companies	109	156,163	7,547	1,543	1,353	69	1,943
Customers' liabilities to this bank on acceptances outstanding	0	453,529	43,384	293	0	4,097	4,476
Other assets	32,254	1,446,863	421,732	68,551	48,720	102,642	122,091
<i>Total assets</i>	2,383,678	48,633,031	12,558,928	4,376,299	4,922,860	4,640,267	7,302,396
Liabilities							
Demand deposits of individuals, partnerships and corporations	639,905	10,187,711	2,715,183	1,026,906	1,266,239	1,336,071	2,068,351
Time and savings deposits of individuals, partnerships and corporations	1,219,892	20,294,029	5,610,498	2,163,852	2,002,492	2,126,395	2,677,761
Deposits of U.S. government	15,140	227,509	58,009	19,543	20,024	39,658	27,182
Deposits of states and political subdivisions	215,214	2,201,629	1,371,539	242,135	664,960	297,175	897,989
Deposits of foreign governments and official institutions	0	1,278,890	1,446	0	0	0	7,816
Deposits of commercial banks	4,308	2,574,326	313,729	306,050	216,798	199,746	332,004
Certified and officers' checks	19,576	396,045	96,098	27,608	26,650	28,528	59,442
<i>Total deposits</i>	2,114,035	37,160,139	10,166,502	3,786,094	4,197,163	4,027,573	6,070,545
Total demand deposits	732,035	12,793,044	3,712,232	1,404,382	1,724,791	1,680,315	2,624,700
Total time and savings deposits	1,382,000	24,367,095	6,454,270	2,381,712	2,472,372	2,347,258	3,445,845
Federal funds purchased and securities sold under agreements to repurchase	76,356	6,610,035	1,145,304	221,925	249,281	183,496	530,010
Liabilities for borrowed money	4,295	55,476	94,162	4,404	14,509	17,450	13,240
Mortgage indebtedness	190	18,158	9,703	742	356	2,294	22,382
Acceptances executed by or for account of this bank and outstanding	0	461,235	43,384	293	0	4,097	4,476
Other liabilities	27,824	898,551	209,235	51,348	38,181	51,228	77,110
<i>Total liabilities</i>	2,222,700	45,203,594	11,668,290	4,064,806	4,499,490	4,286,138	6,717,763
Subordinated notes and debentures	9,340	84,037	5,679	20,949	19,640	5,965	18,139
Equity Capital							
Preferred stock	0	1,665	0	0	0	0	1,800
Common stock	35,943	754,731	186,442	59,904	92,599	72,284	101,598
Surplus	88,869	1,472,397	348,137	81,845	150,757	120,683	220,851
Undivided profits	22,735	1,039,185	334,040	133,429	152,906	142,255	219,739
Reserve for contingencies and other capital reserves	4,091	77,422	16,340	15,366	7,468	12,942	22,506
<i>Total equity capital</i>	151,638	3,345,400	884,959	290,544	403,730	348,164	566,494
<i>Total liabilities, subordinated notes and debentures and equity capital</i>	2,383,678	48,633,031	12,558,928	4,376,299	4,922,860	4,640,267	7,302,396

Table B-19—Continued

Total assets, liabilities and equity capital of domestic offices and subsidiaries of national banks, United States and other areas, June 30, 1976

(Dollar amounts in thousands)

	Maine	Maryland	Massachusetts	Michigan	Minnesota	Mississippi	Missouri
Number of banks	18	42	77	122	203	38	115
Assets							
Cash and due from banks	\$129,542	\$585,586	\$1,744,618	\$3,046,898	\$1,399,960	\$473,747	\$1,454,236
U.S. Treasury securities	69,726	299,503	1,087,142	1,727,253	943,221	267,003	694,095
Obligations of other U.S. government agencies and corporations	28,857	103,516	188,668	483,325	397,191	78,303	319,608
Obligations of states and political subdivisions	129,439	595,451	897,143	2,275,757	1,295,910	425,172	1,131,791
Other bonds, notes and debentures	1,281	7,121	42,692	127,229	17,197	8,853	18,122
Federal Reserve stock and corporate stock	1,260	7,720	30,547	32,561	17,589	6,257	14,825
Trading account securities	0	53,232	110,236	11,126	301,740	25,163	48,498
Federal funds sold and securities purchased under agreements to resell	30,506	261,372	314,595	831,268	361,011	168,523	912,647
Loans, total (excluding unearned income)	578,292	2,916,663	5,987,149	10,465,001	6,205,650	1,603,722	4,562,634
Reserve for possible loan losses	5,555	32,917	69,478	112,397	65,584	18,280	53,563
Loans, net of reserve	572,737	2,883,746	5,917,671	10,352,604	6,140,066	1,585,442	4,509,071
Direct lease financing	0	33,089	60,988	43,865	60,093	190	47,420
Bank premises, furniture and fixtures and other assets representing bank premises	22,010	85,343	241,701	312,428	144,257	69,303	107,449
Real estate owned other than bank premises	2,397	16,031	21,304	29,389	57,638	4,991	18,435
Investments in unconsolidated subsidiaries and associated companies	3	536	66,327	48,585	3,596	79	10,095
Customers' liabilities to this bank on acceptances outstanding	0	11,089	138,240	86,957	58,742	905	35,933
Other assets	10,950	279,428	928,747	382,397	192,890	41,332	153,810
<i>Total assets</i>	998,708	5,222,763	11,790,619	19,791,642	11,391,101	3,155,263	9,476,035
Liabilities							
Demand deposits of individuals, partnerships and corporations	287,586	1,445,019	3,356,399	4,344,224	2,441,644	845,467	2,521,874
Time and savings deposits of individuals, partnerships and corporations	510,384	2,540,433	4,094,201	9,784,314	4,902,176	1,195,572	3,176,331
Deposits of U.S. government	6,473	47,235	123,802	156,139	53,989	10,377	74,671
Deposits of states and political subdivisions	66,940	202,288	829,205	1,659,258	734,105	513,570	509,014
Deposits of foreign governments and official institutions	0	364	182,867	4,547	548	6,309	26
Deposits of commercial banks	3,589	91,394	487,339	379,244	574,693	160,373	803,722
Certified and officers' checks	7,578	44,715	105,464	478,519	76,126	9,441	56,915
<i>Total deposits</i>	882,550	4,371,448	9,179,277	16,806,245	8,783,281	2,741,109	7,142,553
<i>Total demand deposits</i>	329,599	1,684,509	4,476,987	5,636,104	3,263,416	1,183,533	3,445,394
<i>Total time and savings deposits</i>	552,951	2,686,939	4,702,290	11,170,141	5,519,865	1,557,576	3,697,159
Federal funds purchased and securities sold under agreements to repurchase	32,845	401,621	1,206,878	1,100,056	1,219,979	148,768	1,404,227
Liabilities for borrowed money	886	14,925	74,288	13,978	143,747	655	24,358
Mortgage indebtedness	331	315	2,444	7,293	17,175	845	5,767
Acceptances executed by or for account of this bank and outstanding	0	11,089	141,276	86,957	59,466	905	35,940
Other liabilities	8,181	65,916	201,703	259,666	238,797	28,003	117,200
<i>Total liabilities</i>	924,793	4,865,314	10,805,866	18,274,195	10,462,445	2,920,285	8,730,045
Subordinated notes and debentures	1,550	6,157	45,198	83,543	118,576	9,540	29,122
Equity Capital							
Preferred stock	0	0	0	100	0	0	4,809
Common stock	20,066	64,652	172,383	294,204	256,715	44,436	152,879
Surplus	21,797	119,485	414,212	603,057	262,110	165,063	230,432
Undivided profits	29,544	152,779	322,694	503,396	263,184	13,504	313,451
Reserve for contingencies and other capital reserves	958	14,376	30,266	33,147	28,071	2,435	15,297
<i>Total equity capital</i>	72,365	351,292	939,555	1,433,904	810,080	225,438	716,868
<i>Total liabilities, subordinated notes and debentures and equity capital</i>	998,708	5,222,763	11,790,619	19,791,642	11,391,101	3,155,263	9,476,035

Table B-19—Continued

Total assets, liabilities and equity capital of domestic offices and subsidiaries of national banks, United States and other areas, June 30, 1976

(Dollar amounts in thousands)

	Montana	Nebraska	Nevada	New Hampshire	New Jersey	New Mexico	New York
Number of banks	56	120	4	44	108	37	133
Assets							
Cash and due from banks	\$199,060	\$623,371	\$148,394	\$149,645	\$1,896,963	\$264,024	\$11,613,350
U.S. Treasury securities	147,400	300,465	148,339	131,016	1,585,087	158,700	3,641,777
Obligations of other U.S. government agencies and corporations	57,908	184,925	85,259	18,979	756,391	123,037	744,050
Obligations of states and political subdivisions	281,875	521,768	159,862	146,875	2,432,328	295,641	4,340,431
Other bonds, notes and debentures	2,821	10,859	21,228	1,471	385,959	1,658	312,480
Federal Reserve stock and corporate stock	3,381	5,199	1,657	1,953	22,979	3,563	144,540
Trading account securities	0	28,236	0	0	8,493	0	1,343,460
Federal funds sold and securities purchased under agreements to resell	45,611	144,341	72,200	14,245	344,977	124,895	1,069,112
Loans, total (excluding unearned income)	1,115,707	2,416,671	722,128	673,249	8,608,002	1,124,172	34,288,900
Reserve for possible loan losses	11,070	26,356	7,466	7,003	110,818	14,094	602,105
Loans, net of reserve	1,104,637	2,390,315	714,662	666,246	8,497,184	1,110,078	33,686,795
Direct lease financing	2,686	39,627	11,114	28	71,889	1,373	470,922
Bank premises, furniture and fixtures and other assets representing bank premises	31,905	72,007	34,949	27,738	329,749	53,124	704,371
Real estate owned other than bank premises	2,141	6,327	4,782	625	27,949	7,708	162,774
Investments in unconsolidated subsidiaries and associated companies	0	29	0	0	261	455	586,776
Customers' liabilities to this bank on acceptances outstanding	1,943	1,822	0	489	22,474	122	2,675,957
Other assets	26,195	57,768	12,930	9,076	301,519	28,094	4,405,747
<i>Total assets</i>	1,907,563	4,387,059	1,415,376	1,168,386	16,684,202	2,172,472	65,902,542
Liabilities							
Demand deposits of individuals, partnerships and corporations	439,849	1,161,814	444,608	328,525	4,266,701	603,962	15,238,153
Time and savings deposits of individuals, partnerships and corporations	1,049,389	1,986,152	627,699	538,308	8,226,511	863,291	20,966,791
Deposits of U.S. government	6,358	18,537	7,951	10,861	121,917	29,359	359,936
Deposits of states and political subdivisions	151,001	257,356	165,469	105,335	1,199,696	366,362	1,597,437
Deposits of foreign governments and official institutions	0	0	0	0	0	0	2,123,037
Deposits of commercial banks	33,587	296,148	2,402	2,350	158,719	40,624	7,518,140
Certified and officers' checks	15,098	23,300	24,593	10,371	167,687	20,437	1,382,548
<i>Total deposits</i>	1,695,282	3,743,307	1,272,722	995,750	14,741,231	1,924,035	49,186,042
<i>Total demand deposits</i>	538,628	1,569,979	525,900	408,093	5,256,163	730,724	24,105,968
<i>Total time and savings deposits</i>	1,156,654	2,173,328	746,822	587,657	9,485,068	1,193,311	25,080,074
Federal funds purchased and securities sold under agreements to repurchase	41,452	255,258	6,895	51,802	443,502	62,338	4,196,806
Liabilities for borrowed money	32	1,549	14,182	1,485	46,417	3,543	700,006
Mortgage indebtedness	402	793	765	1,500	9,711	420	19,484
Acceptances executed by or for account of this bank and outstanding	1,943	1,822	0	489	22,970	122	2,703,574
Other liabilities	26,130	42,396	10,859	13,508	170,705	22,946	2,749,557
<i>Total liabilities</i>	1,765,241	4,045,125	1,305,423	1,064,534	15,434,536	2,013,404	59,555,469
Subordinated notes and debentures	12,725	21,920	0	1,125	61,620	12,960	372,138
Equity Capital							
Preferred stock	0	101	0	0	25	0	1,506
Common stock	51,635	70,018	27,518	15,554	296,335	44,387	1,544,583
Surplus	51,730	88,842	27,717	46,697	458,364	55,429	2,036,796
Undivided profits	23,048	150,563	52,203	38,448	406,114	43,154	2,268,985
Reserve for contingencies and other capital reserves	3,184	10,490	2,515	2,028	27,208	3,138	123,065
<i>Total equity capital</i>	129,597	320,014	109,953	102,727	1,188,046	146,108	5,974,935
<i>Total liabilities, subordinated notes and debentures and equity capital</i>	1,907,563	4,387,059	1,415,376	1,168,386	16,684,202	2,172,472	65,902,542

Table B-19—Continued

*Total assets, liabilities and equity capital of domestic offices and subsidiaries of national
banks, United States and other areas, June 30, 1976*

(Dollar amounts in thousands)

	North Carolina	North Dakota	Ohio	Oklahoma	Oregon	Pennsylvania	Rhode Island
Number of banks	28	43	220	194	7	241	5
Assets							
Cash and due from banks	\$1,246,849	\$145,049	\$2,470,685	\$1,121,249	\$1,309,951	\$4,002,022	\$260,200
U.S. Treasury securities	513,264	128,196	2,794,244	921,867	365,138	3,426,717	176,397
Obligations of other U.S. government agencies and corporations	355,141	57,761	433,171	96,538	188,210	1,191,187	58,563
Obligations of states and political subdivisions	1,177,124	208,810	3,432,131	1,330,068	732,592	3,521,130	246,184
Other bonds, notes and debentures	8,079	2,636	115,063	23,775	5,967	253,505	23,522
Federal Reserve stock and corporate stock	12,734	1,863	39,420	12,695	9,204	62,480	4,703
Trading account securities	96,871	200	119,491	48,494	4,204	402,239	56,943
Federal funds sold and securities purchased under agreements to resell	258,347	13,395	952,290	544,686	236,010	1,475,121	67,000
Loans, total (excluding unearned income)	4,975,839	883,852	10,397,454	3,924,477	3,191,078	20,310,958	1,650,162
Reserve for possible loan losses	63,099	9,257	133,833	38,837	28,291	236,486	15,866
Loans, net of reserve	4,912,740	874,595	10,263,621	3,885,640	3,162,787	20,074,472	1,634,296
Direct lease financing	48,023	0	90,447	27,865	22,521	208,704	25,497
Bank premises, furniture and fixtures and other assets representing bank premises	170,134	28,672	378,287	154,242	150,622	497,494	41,707
Real estate owned other than bank premises	30,288	122	12,226	11,724	12,457	83,916	7,598
Investments in unconsolidated subsidiaries and associated companies	7,217	155	12,011	800	7,012	77,460	820
Customers' liabilities to this bank on acceptances outstanding	113,529	814	59,108	901	88,231	581,493	53,740
Other assets	324,541	18,818	754,769	97,403	69,123	982,021	58,453
<i>Total assets</i>	9,274,881	1,481,086	21,926,964	8,277,947	6,364,929	36,839,961	2,715,623
Liabilities							
Demand deposits of individuals, partnerships and corporations	2,723,687	378,871	5,352,364	2,290,446	1,610,142	8,071,597	502,229
Time and savings deposits of individuals, partnerships and corporations	3,645,719	833,527	10,601,126	3,337,176	2,554,210	16,809,165	1,481,794
Deposits of U.S. government	60,803	4,876	127,065	63,750	26,252	191,864	12,368
Deposits of states and political subdivisions	633,826	78,603	1,406,567	961,678	378,897	1,786,005	186,788
Deposits of foreign governments and official institutions	15,204	0	1,007	0	0	202,346	0
Deposits of commercial banks	302,140	13,850	326,906	427,469	94,856	1,250,756	12,299
Certified and officers' checks	50,870	11,667	173,784	61,293	57,011	226,025	20,436
<i>Total deposits</i>	7,432,249	1,321,394	17,988,819	7,141,812	4,721,368	28,537,758	2,215,914
Total demand deposits	3,290,637	434,834	6,421,890	2,915,499	1,930,261	9,749,424	630,092
Total time and savings deposits	4,141,612	886,560	11,566,929	4,226,313	2,791,107	18,788,334	1,585,822
Federal funds purchased and securities sold under agreements to repurchase	777,340	25,782	1,576,907	376,383	999,712	3,639,522	150,094
Liabilities for borrowed money	17,275	1,376	14,937	2,749	9,831	356,425	1,769
Mortgage indebtedness	4,060	477	1,854	1,943	370	15,703	0
Acceptances executed by or for account of this bank and outstanding	113,529	814	59,108	901	88,231	581,607	53,740
Other liabilities	149,309	17,058	447,497	73,920	85,409	842,719	96,299
<i>Total liabilities</i>	8,493,762	1,366,901	20,089,122	7,597,708	5,904,921	33,973,734	2,517,816
Subordinated notes and debentures	135,695	9,954	42,135	57,158	100,750	234,290	5,000
Equity Capital							
Preferred stock	0	0	0	500	0	1,335	0
Common stock	164,655	29,163	371,710	134,511	92,530	495,684	30,390
Surplus	246,233	33,450	809,359	176,561	124,633	1,156,632	83,348
Undivided profits	226,168	36,372	577,874	300,327	141,032	886,509	73,326
Reserve for contingencies and other capital reserves	8,368	5,246	36,764	11,182	163	91,777	5,743
<i>Total equity capital</i>	645,424	104,231	1,795,707	623,081	358,358	2,631,937	192,807
<i>Total liabilities, subordinated notes and debentures and equity capital</i>	9,274,881	1,481,086	21,926,964	8,277,947	6,364,029	36,839,961	2,715,623

Table B-19—Continued

Total assets, liabilities and equity capital of domestic offices and subsidiaries of national banks, United States and other areas, June 30, 1976

(Dollar amounts in thousands)

	South Carolina	South Dakota	Tennessee	Texas	Utah	Vermont	Virginia
Number of banks	19	32	75	591	12	14	108
Assets							
Cash and due from banks	\$357,693	\$190,556	\$1,263,702	\$6,158,868	\$252,591	\$31,385	\$1,105,246
U.S. Treasury securities	180,261	146,311	812,581	3,420,484	156,046	35,132	739,471
Obligations of other U.S. government agencies and corporations	94,752	67,011	341,125	1,274,692	50,955	8,962	302,363
Obligations of states and political subdivisions	353,177	292,457	814,680	5,536,591	164,332	45,310	1,223,300
Other bonds, notes and debentures	118	7,737	32,101	103,109	253	4,913	10,716
Federal Reserve stock and corporate stock	3,496	2,537	15,347	53,496	2,612	484	17,145
Trading account securities	26,339	24	13,820	70,430	8,558	0	6,514
Federal funds sold and securities purchased under agreements to resell	132,975	31,033	479,450	2,165,497	80,698	8,480	285,927
Loans, total (excluding unearned income)	1,351,817	1,184,075	4,346,248	18,503,308	1,091,252	268,584	5,313,256
Reserve for possible loan losses	14,599	13,714	53,746	215,994	9,526	2,558	55,938
Loans, net of reserve	1,337,218	1,170,361	4,292,502	18,287,314	1,081,726	266,026	5,257,318
Direct lease financing	4,216	1,402	26,493	91,263	15,885	225	12,078
Bank premises, furniture and fixtures and other assets representing bank premises	71,894	36,765	191,745	799,205	34,725	7,954	260,415
Real estate owned other than bank premises	7,065	720	75,594	89,389	2,354	685	35,527
Investments in unconsolidated subsidiaries and associated companies	0	0	34	27,952	0	0	16
Customers' liabilities to this bank on acceptances outstanding	1,215	798	6,219	142,193	82	0	2,182
Other assets	30,845	27,632	265,508	728,553	29,794	3,489	112,142
<i>Total assets</i>	2,601,264	1,975,344	8,630,901	38,949,036	1,880,611	413,045	9,370,360
Liabilities							
Demand deposits of individuals, partnerships and corporations	1,133,877	442,547	2,129,799	11,296,874	493,468	88,059	2,520,395
Time and savings deposits of individuals, partnerships and corporations	841,844	1,118,617	3,731,406	13,085,470	817,855	266,448	4,783,649
Deposits of U.S. government	20,935	8,543	57,683	265,814	14,192	1,433	74,729
Deposits of states and political subdivisions	156,777	179,002	801,583	4,375,130	225,501	12,510	612,218
Deposits of foreign governments and official institutions	0	0	1,040	22,278	0	0	112
Deposits of commercial banks	31,638	25,412	569,053	2,505,002	27,565	1,118	112,479
Certified and officers' checks	20,994	10,258	50,676	294,721	33,734	3,824	59,755
<i>Total deposits</i>	2,206,065	1,784,379	7,341,240	31,845,289	1,612,315	373,392	8,163,337
Total demand deposits	1,301,079	519,149	2,851,909	14,762,923	604,969	100,125	2,926,243
Total time and savings deposits	904,986	1,265,230	4,489,331	17,082,366	1,007,346	273,267	5,237,094
Federal funds purchased and securities sold under agreements to repurchase	144,059	15,760	558,004	3,333,312	109,185	1,472	287,745
Liabilities for borrowed money	7,304	29	9,968	85,174	2,814	4,615	23,604
Mortgage indebtedness	71	2,041	5,844	97,560	119	0	45,781
Acceptances executed by or for account of this bank and outstanding	1,215	798	6,219	142,412	82	0	2,182
Other liabilities	25,212	23,267	98,358	483,186	19,538	2,371	117,316
<i>Total liabilities</i>	2,383,926	1,826,274	8,019,633	35,986,933	1,744,053	381,850	8,639,965
Subordinated notes and debentures	7,600	16,821	36,660	137,235	19,456	1,757	37,437
Equity Capital							
Preferred stock	0	0	0	140	0	0	0
Common stock	39,205	37,998	145,613	698,187	30,734	6,768	165,376
Surplus	74,741	42,190	211,788	855,143	49,558	9,010	263,355
Undivided profits	91,390	48,455	202,787	1,107,155	35,519	12,436	249,324
Reserve for contingencies and other capital reserves	4,402	3,606	14,420	164,243	1,291	1,224	14,903
<i>Total equity capital</i>	209,738	132,249	574,608	2,824,868	117,102	29,438	692,958
<i>Total liabilities, subordinated notes and debentures and equity capital</i>	2,601,264	1,975,344	8,630,901	38,949,036	1,880,611	413,045	9,370,360

Table B-19—Continued

Total assets, liabilities and equity capital of domestic offices and subsidiaries of national banks, United States and other areas, June 30, 1976

(Dollar amounts in thousands)

	Washington	West Virginia	Wisconsin	Wyoming	Other areas		District of Columbia non-national*
					Puerto Rico	Virgin Islands	
Number of banks	24	103	128	46	1	1	1
Assets							
Cash and due from banks	\$1,518,978	\$440,397	\$879,187	\$138,033	\$2,488	\$417	\$3,059
U.S. Treasury securities	486,683	469,813	950,463	118,667	0	1,095	7,356
Obligations of other U.S. government agencies and corporations	133,896	306,964	255,493	62,003	0	1,712	4,088
Obligations of states and political subdivisions	970,974	661,918	772,998	206,054	4,645	0	8,573
Other bonds, notes and debentures	5,656	14,968	42,120	1,903	0	0	3,342
Federal Reserve stock and corporate stock	11,191	5,727	14,748	1,800	50	0	1
Trading account securities	36,920	4,880	20,322	0	0	0	0
Federal funds sold and securities purchased under agreements to resell	718,002	233,010	307,748	29,805	700	725	1,800
Loans, total (excluding unearned income)	5,848,264	1,781,445	4,143,067	730,552	14,581	8	12,173
Reserve for possible loan losses	65,854	21,778	46,716	7,767	1,164	0	318
Loans, net of reserve	5,782,410	1,759,667	4,096,351	722,785	13,417	8	11,855
Direct lease financing	134,702	6,728	25,155	2,799	0	0	0
Bank premises, furniture and fixtures and other assets representing bank premises	245,872	95,702	193,341	21,821	182	0	424
Real estate owned other than bank premises	13,033	1,967	80,560	984	898	0	47
Investments in unconsolidated subsidiaries and associated companies	21,636	0	275	58	0	0	0
Customers' liabilities to this bank on acceptances outstanding	197,996	189	22,298	0	0	0	0
Other assets	164,797	34,315	92,664	18,808	513	52	408
<i>Total assets</i>	10,442,746	4,036,245	7,753,723	1,325,520	22,893	4,009	40,953
Liabilities							
Demand deposits of individuals, partnerships and corporations	2,743,424	933,619	1,669,960	333,300	2,281	916	14,462
Time and savings deposits of individuals, partnerships and corporations	4,265,082	2,091,668	3,720,995	602,615	14,277	2,625	22,517
Deposits of U.S. government	53,540	18,564	48,211	37,132	12	9	413
Deposits of states and political subdivisions	772,996	209,120	601,325	159,148	4,067	0	2
Deposits of foreign governments and official institutions	30,381	99	43,822	0	0	0	0
Deposits of commercial banks	249,582	60,210	228,557	23,332	729	15	0
Certified and officers' checks	93,153	30,788	57,130	11,738	1,354	227	535
<i>Total deposits</i>	8,208,158	3,344,068	6,370,000	1,167,265	22,720	3,792	37,929
<i>Total demand deposits</i>	3,279,370	1,128,854	2,075,997	417,391	4,446	1,167	15,412
<i>Total time and savings deposits</i>	4,928,788	2,215,214	4,294,003	749,874	18,274	2,625	22,517
Federal funds purchased and securities sold under agreements to repurchase	1,189,194	308,857	690,337	31,755	0	0	0
Liabilities for borrowed money	34,953	7,200	19,618	12,864	0	0	0
Mortgage indebtedness	2,459	7,452	1,442	51	0	0	0
Acceptances executed by or for account of this bank and outstanding	197,997	189	22,298	0	0	0	0
Other liabilities	128,544	28,932	88,637	10,580	194	324	8
<i>Total liabilities</i>	9,761,305	3,696,698	7,192,332	1,222,515	22,914	4,116	37,937
Subordinated notes and debentures	77,625	7,186	52,669	6,285	0	0	190
Equity Capital							
Preferred stock	6,025	0	0	0	0	0	0
Common stock	143,923	60,773	129,909	8,901	880	0	278
Surplus	204,023	127,218	210,304	33,783	800	0	1,000
Undivided profits	224,819	133,212	154,807	50,613	1,701	107	923
Reserve for contingencies and other capital reserves	25,026	11,158	13,702	3,423	0	0	625
<i>Total equity capital</i>	603,816	332,361	508,722	96,720	21	107	2,826
<i>Total liabilities, subordinated notes and debentures and equity capital</i>	10,442,746	4,036,245	7,753,723	1,325,520	22,893	4,009	40,953

* Non-national banks in the District of Columbia are supervised by the Comptroller of the Currency.

Table B-20

Total assets, liabilities and equity capital of domestic offices and subsidiaries of national banks, United States and other areas, December 31, 1976

(Dollar amounts in thousands)

	<i>Total, U.S. and other areas</i>	<i>Total, United States</i>	<i>Alabama</i>	<i>Alaska</i>	<i>Arizona</i>	<i>Arkansas</i>	<i>California</i>
Number of banks	4,737	4,735	97	6	3	73	58
Assets							
Cash and due from banks	\$76,078,031	\$76,074,001	\$852,828	\$166,937	\$562,349	\$587,185	\$10,587,196
U.S. Treasury securities	52,612,836	52,610,736	523,198	82,680	586,599	271,330	7,736,680
Obligations of other U.S. government agencies and corporations	17,005,880	17,004,197	284,199	- 50,314	118,927	159,559	2,078,611
Obligations of states and political subdivisions	57,384,363	57,379,718	1,149,817	175,303	419,178	531,077	5,120,513
Other bonds, notes and debentures	2,987,415	2,987,415	29,843	3,158	8,659	10,445	198,749
Federal Reserve stock and corporate stock	967,304	967,159	9,828	2,416	6,996	4,737	109,887
Trading account securities	4,973,779	4,973,779	35,106	0	8,178	22,257	313,924
Federal funds sold and securities purchased under agreements to resell	30,140,010	30,135,213	381,465	35,000	214,600	347,379	4,197,897
Loans, total (excluding unearned income)	303,436,774	303,422,203	4,007,413	625,034	3,236,168	2,140,981	44,163,743
Reserve for possible loan losses	3,589,367	3,588,723	46,889	6,443	23,914	19,343	493,900
Loans, net of reserve	299,847,407	299,833,480	3,960,524	618,591	3,212,254	2,121,638	43,669,843
Direct lease financing	3,808,381	- 3,808,381	23,271	6,761	3,445	5,167	1,483,465
Bank premises, furniture and fixtures and other assets representing bank premises	9,879,953	9,879,738	144,322	42,086	147,594	89,469	1,463,898
Real estate owned other than bank premises	1,722,984	1,721,536	5,219	1,280	8,296	3,921	74,746
Investments in unconsolidated subsidiaries and associated companies	1,777,388	1,777,388	180	585	0	117	480,343
Customers' liabilities to this bank on acceptances outstanding	5,086,708	5,086,708	16,288	0	7,335	901	1,763,843
Other assets	19,076,586	19,076,206	91,169	18,194	91,029	57,123	3,973,410
<i>Total assets</i>	<i>583,349,025</i>	<i>583,315,655</i>	<i>7,507,257</i>	<i>1,203,305</i>	<i>5,395,439</i>	<i>4,212,305</i>	<i>83,253,005</i>
Liabilities							
Demand deposits of individuals, partnerships and corporations	147,018,169	147,014,675	2,059,997	468,691	1,548,398	1,188,968	19,470,724
Time and savings deposits of individuals, partnerships and corporations	242,873,535	242,853,964	3,326,242	389,666	3,018,899	1,765,090	37,635,748
Deposits of U.S. government	2,126,653	2,126,647	40,147	12,774	17,236	13,842	214,726
Deposits of states and political subdivisions	38,088,306	38,085,623	647,704	135,738	156,338	315,865	5,305,814
Deposits of foreign governments and official institutions	5,917,740	5,917,740	0	0	5,240	0	1,705,432
Deposits of commercial banks	27,332,987	27,328,648	263,822	2,196	29,381	255,495	2,022,614
Certified and officers' checks	6,051,345	6,050,839	38,174	20,448	67,448	24,957	1,079,533
<i>Total deposits</i>	<i>469,408,735</i>	<i>469,378,136</i>	<i>6,376,086</i>	<i>1,029,513</i>	<i>4,842,940</i>	<i>3,564,217</i>	<i>67,434,591</i>
<i>Total demand deposits</i>	<i>188,175,050</i>	<i>188,170,057</i>	<i>2,561,502</i>	<i>546,677</i>	<i>1,714,832</i>	<i>1,556,889</i>	<i>23,065,670</i>
<i>Total time and savings deposits</i>	<i>281,233,685</i>	<i>281,208,079</i>	<i>3,814,584</i>	<i>482,836</i>	<i>3,128,108</i>	<i>2,007,328</i>	<i>44,368,921</i>
Federal funds purchased and securities sold under agreements to repurchase	51,678,941	51,678,941	386,897	56,270	145,083	280,579	6,736,818
Liabilities for borrowed money	2,741,434	2,741,434	39,634	12,684	280	2,280	561,465
Mortgage indebtedness	406,112	406,112	2,311	61	485	92	61,023
Acceptances executed by or for account of this bank and outstanding	5,140,675	5,140,675	16,288	0	7,335	901	1,769,745
Other liabilities	9,921,683	9,920,706	116,350	12,749	44,636	45,697	1,506,292
<i>Total liabilities</i>	<i>539,297,580</i>	<i>539,266,004</i>	<i>6,937,566</i>	<i>1,111,277</i>	<i>5,040,759</i>	<i>3,893,766</i>	<i>78,069,934</i>
Subordinated notes and debentures	2,726,628	2,726,628	23,996	990	77,666	25,863	404,747
Equity Capital							
Preferred stock	18,754	18,754	0	0	0	0	0
Common stock	9,106,275	9,103,635	113,855	23,624	40,910	67,268	915,465
Surplus	15,853,738	15,851,530	211,967	38,718	99,847	87,429	2,070,988
Undivided profits	15,271,833	15,274,887	212,607	26,651	128,843	124,220	1,748,723
Reserve for contingencies and other capital reserves	1,074,217	1,074,217	7,266	2,045	7,414	13,759	43,148
<i>Total equity capital</i>	<i>41,324,817</i>	<i>41,323,023</i>	<i>545,695</i>	<i>91,038</i>	<i>277,014</i>	<i>292,676</i>	<i>4,778,324</i>
<i>Total liabilities, subordinated notes and debentures and equity capital</i>	<i>583,349,025</i>	<i>583,315,655</i>	<i>7,507,257</i>	<i>1,203,305</i>	<i>5,395,439</i>	<i>4,212,305</i>	<i>83,253,005</i>

Table B-20—Continued

Total assets, liabilities and equity capital of domestic offices and subsidiaries of national banks, United States and other areas, December 31, 1976

(Dollar amounts in thousands)

	Colorado	Connecticut	Delaware	District of Columbia	Florida	Georgia	Hawaii
Number of banks	132	23	5	15	306	64	2
Assets							
Cash and due from banks	\$1,035,822	\$676,022	\$4,905	\$572,783	\$2,540,605	\$1,214,147	\$21,360
U.S. Treasury securities	468,939	296,611	8,688	480,449	2,472,746	449,883	24,151
Obligations of other U.S. government agencies and corporations	153,504	129,804	2,696	109,583	1,002,499	148,357	9,059
Obligations of states and political subdivisions	675,014	372,088	3,325	578,637	1,979,596	561,899	1,327
Other bonds, notes and debentures	6,115	94,926	383	16,784	122,626	13,146	0
Federal Reserve stock and corporate stock	9,336	8,720	97	8,810	28,528	53,063	200
Trading account securities	4,999	27,719	0	13,769	25,938	26,708	0
Federal funds sold and securities purchased under agreements to resell	413,385	127,505	4,100	345,420	1,270,482	439,377	5,270
Loans, total (excluding unearned income)	3,773,086	2,091,424	40,436	2,281,027	7,655,460	4,225,161	91,610
Reserve for possible loan losses	36,389	23,431	153	29,330	88,003	55,694	981
Loans, net of reserve	3,736,697	2,067,993	40,283	2,251,697	7,567,457	4,169,467	90,629
Direct lease financing	28,949	25,544	0	27,677	38,440	33,733	0
Bank premises, furniture and fixtures and other assets representing bank premises	137,226	94,676	1,031	49,637	373,032	238,937	2,370
Real estate owned other than bank premises	27,552	6,473	70	1,633	108,043	145,446	5
Investments in unconsolidated subsidiaries and associated companies	2,421	8	0	0	3,198	80,382	0
Customers' liabilities to this bank on acceptances outstanding	17,857	6,376	0	581	14,620	74,513	115
Other assets	95,184	161,626	406	52,906	291,831	124,462	1,459
<i>Total assets</i>	6,813,000	4,096,091	65,984	4,510,366	17,839,641	7,773,520	155,945
Liabilities							
Demand deposits of individuals, partnerships and corporations	2,019,564	1,333,227	17,449	1,760,743	5,169,360	2,365,343	47,736
Time and savings deposits of individuals, partnerships and corporations	2,734,692	1,611,012	39,900	1,746,749	7,715,255	2,397,711	66,773
Deposits of U.S. government	35,981	23,360	686	28,332	69,951	35,363	607
Deposits of states and political subdivisions	522,842	313,757	1,325	7,200	1,472,267	532,910	23,094
Deposits of foreign governments and official institutions	0	0	0	184,668	2,994	21,725	0
Deposits of commercial banks	405,063	248,665	0	57,219	733,926	551,329	2,909
Certified and officers' checks	59,005	28,149	597	62,519	167,473	66,437	1,933
<i>Total deposits</i>	5,777,147	3,558,170	59,957	3,847,430	15,331,226	5,970,818	143,052
Total demand deposits	2,587,507	1,707,937	18,857	2,043,407	6,497,402	3,117,761	53,616
Total time and savings deposits	3,189,640	1,850,233	41,100	1,804,023	8,833,824	2,853,057	89,436
Federal funds purchased and securities sold under agreements to repurchase	391,995	212,081	0	196,689	908,652	839,697	0
Liabilities for borrowed money	46,152	6,661	98	9,275	6,315	49,808	2,306
Mortgage indebtedness	11,489	527	0	0	7,579	25,609	0
Acceptances executed by or for account of this bank and outstanding	17,857	6,376	0	580	14,621	77,039	115
Other liabilities	79,464	36,796	354	53,957	160,048	150,944	1,306
<i>Total liabilities</i>	6,324,104	3,820,611	60,409	4,107,931	16,428,441	7,113,915	146,779
Subordinated notes and debentures	29,952	12,473	200	13,128	36,486	66,340	1,500
Equity Capital							
Preferred stock	0	0	0	400	1,001	0	0
Common stock	98,686	62,866	1,580	63,185	357,979	144,960	3,797
Surplus	160,213	136,564	1,676	134,756	546,952	216,573	2,506
Undivided profits	193,527	59,594	2,050	186,801	441,974	164,035	1,363
Reserve for contingencies and other capital reserves	6,518	3,983	69	4,165	26,808	67,697	0
<i>Total equity capital</i>	458,944	263,007	5,375	389,307	1,374,714	593,265	7,666
<i>Total liabilities, subordinated notes and debentures and equity capital</i>	6,813,000	4,096,091	65,984	4,510,366	17,839,641	7,773,520	155,945

Table B-20—Continued

Total assets, liabilities and equity capital of domestic offices and subsidiaries of national banks, United States and other areas, December 31, 1976

(Dollar amounts in thousands)

	Idaho	Illinois	Indiana	Iowa	Kansas	Kentucky	Louisiana
Number of banks	6	425	120	100	169	82	54
Assets							
Cash and due from banks	\$298,784	\$4,760,876	\$1,392,670	\$671,828	\$720,794	\$562,411	\$1,099,206
U.S. Treasury securities	192,854	4,910,987	1,535,529	380,866	489,521	500,445	1,102,507
Obligations of other U.S. government agencies and corporations	56,646	1,939,864	675,793	197,627	233,865	127,776	164,198
Obligations of states and political subdivisions	330,732	5,194,676	1,485,802	562,395	634,931	584,857	908,516
Other bonds, notes and debentures	1,283	433,630	177,091	14,808	9,943	2,797	9,637
Federal Reserve stock and corporate stock	3,819	84,561	16,384	4,553	7,662	6,306	12,305
Trading account securities	1,997	543,068	45,924	12,773	14,342	8,969	399
Federal funds sold and securities purchased under agreements to resell	47,467	1,616,440	782,445	225,781	433,630	406,400	837,227
Loans, total (excluding unearned income)	1,553,686	28,331,740	6,328,163	2,494,894	2,521,162	2,632,696	3,552,320
Reserve for possible loan losses	13,610	364,854	80,319	20,661	25,130	25,669	41,128
Loans, net of reserve	1,540,076	27,966,886	6,247,844	2,474,233	2,496,032	2,607,027	3,511,192
Direct lease financing	9,559	71,152	131,876	1,921	4,076	64,024	25,989
Bank premises, furniture and fixtures and other assets representing bank premises	42,063	606,458	217,589	66,907	119,065	91,675	149,709
Real estate owned other than bank premises	1,058	199,707	36,072	4,290	2,894	6,596	16,890
Investments in unconsolidated subsidiaries and associated companies	0	202,897	7,712	1,212	1,484	74	1,877
Customers' liabilities to this bank on acceptances outstanding	6	137,430	46,800	730	105	545	10,711
Other assets	34,139	1,447,365	546,624	79,606	53,115	76,293	128,478
<i>Total assets</i>	2,560,483	50,115,997	13,346,155	4,699,530	5,221,459	5,046,195	7,978,841
Liabilities							
Demand deposits of individuals, partnerships and corporations	693,078	10,599,134	3,019,656	1,145,880	1,365,928	1,493,200	2,309,500
Time and savings deposits of individuals, partnerships and corporations	1,328,076	20,054,426	5,968,533	2,322,194	2,184,611	2,245,443	2,881,421
Deposits of U.S. government	11,910	161,588	45,542	20,397	17,924	16,043	24,699
Deposits of states and political subdivisions	219,718	2,031,059	1,324,445	260,862	566,423	313,252	890,668
Deposits of foreign governments and official institutions	0	1,380,222	1,470	0	0	0	7,429
Deposits of commercial banks	8,234	2,693,400	340,831	335,438	294,111	217,241	420,534
Certified and officers' checks	18,685	399,507	100,629	27,026	30,908	30,551	62,095
<i>Total deposits</i>	2,279,701	37,319,336	10,801,106	4,111,797	4,459,905	4,315,730	6,596,346
Total demand deposits	804,337	13,287,637	3,977,236	1,548,703	1,903,079	1,817,817	2,952,983
Total time and savings deposits	1,475,364	24,031,699	6,823,870	2,563,094	2,556,826	2,497,913	3,643,363
Federal funds purchased and securities sold under agreements to repurchase	79,728	8,135,127	1,336,477	185,617	266,282	286,763	635,441
Liabilities for borrowed money	2,533	36,829	32,676	3,436	13,746	4,919	13,578
Mortgage indebtedness	228	17,479	9,829	617	282	2,197	18,762
Acceptances executed by or for account of this bank and outstanding	6	138,170	46,814	730	105	545	10,712
Other liabilities	30,217	829,339	187,651	64,227	42,972	55,087	92,524
<i>Total liabilities</i>	2,392,413	46,476,280	12,414,553	4,366,424	4,783,292	4,665,241	7,367,363
Subordinated notes and debentures	7,964	87,431	12,538	26,884	21,065	11,596	18,121
Equity Capital							
Preferred stock	0	2,365	0	0	0	0	1,800
Common stock	35,943	760,952	189,103	60,750	92,459	72,978	101,647
Surplus	96,969	1,548,983	354,744	83,510	151,554	123,789	223,007
Undivided profits	22,927	1,142,087	359,660	148,226	165,542	162,316	241,603
Reserve for contingencies and other capital reserves	4,267	97,899	15,557	13,736	7,547	10,275	25,300
<i>Total equity capital</i>	160,106	3,552,286	919,064	306,222	417,102	369,358	593,357
<i>Total liabilities, subordinated notes and debentures and equity capital</i>	2,560,483	50,115,997	13,346,155	4,699,530	5,221,459	5,046,195	7,978,841

Table B-20—Continued

Total assets, liabilities and equity capital of domestic offices and subsidiaries of national banks, United States and other areas, December 31, 1976

(Dollar amounts in thousands)

	Maine	Maryland	Massachusetts	Michigan	Minnesota	Mississippi	Missouri
Number of banks	17	41	75	122	203	38	115
Assets							
Cash and due from banks	\$101,960	\$627,268	\$1,707,901	\$2,494,345	\$1,605,744	\$501,106	\$1,951,675
U.S. Treasury securities	66,575	267,477	1,525,350	2,007,525	1,083,208	300,888	668,673
Obligations of other U.S. government agencies and corporations	29,233	110,296	166,445	396,754	395,904	77,806	364,479
Obligations of states and political subdivisions	139,721	556,213	829,490	2,367,093	1,314,147	442,990	1,163,727
Other bonds, notes and debentures	787	8,522	58,093	137,024	66,073	7,412	24,126
Federal Reserve stock and corporate stock	1,287	7,852	37,120	32,879	18,996	6,483	15,312
Trading account securities	0	6,295	184,464	28,046	486,408	68,736	119,904
Federal funds sold and securities purchased under agreements to resell	68,655	370,228	298,732	944,967	653,137	174,015	1,534,763
Loans, total (excluding unearned income)	603,395	3,197,141	5,949,125	11,203,366	6,558,395	1,728,317	4,823,901
Reserve for possible loan losses	5,763	27,802	76,996	112,678	61,708	17,930	57,531
Loans, net of reserve	597,632	3,169,339	5,872,129	11,090,688	6,496,687	1,710,387	4,766,370
Direct lease financing	0	34,552	54,538	45,536	68,500	207	49,919
Bank premises, furniture and fixtures and other assets representing bank premises	21,755	86,680	238,738	318,988	148,705	71,163	118,583
Real estate owned other than bank premises	2,116	10,411	24,234	38,285	54,854	4,595	19,229
Investments in unconsolidated subsidiaries and associated companies	3	838	70,045	48,347	4,522	79	11,180
Customers' liabilities to this bank on acceptances outstanding	0	5,994	97,344	50,240	64,111	556	25,361
Other assets	10,957	302,147	1,021,460	449,025	205,850	45,740	168,844
<i>Total assets</i>	<i>1,040,681</i>	<i>5,564,112</i>	<i>12,186,083</i>	<i>20,449,742</i>	<i>12,666,846</i>	<i>3,412,163</i>	<i>11,002,145</i>
Liabilities							
Demand deposits of individuals, partnerships and corporations	289,804	1,495,397	3,582,622	4,353,082	2,821,327	891,750	2,918,185
Time and savings deposits of individuals, partnerships and corporations	543,127	2,581,430	3,960,011	10,132,242	5,383,103	1,394,094	3,546,707
Deposits of U.S. government	5,639	23,814	42,077	74,703	40,003	13,414	34,603
Deposits of states and political subdivisions	65,874	263,239	758,417	1,778,592	791,887	441,303	547,577
Deposits of foreign governments and official institutions	0	293	135,195	4,861	331	6,413	0
Deposits of commercial banks	9,841	86,397	643,377	359,790	716,240	180,116	1,069,489
Certified and officers' checks	6,844	31,976	126,636	434,664	93,066	16,456	60,629
<i>Total deposits</i>	<i>921,129</i>	<i>4,482,546</i>	<i>9,248,335</i>	<i>17,137,934</i>	<i>9,845,957</i>	<i>2,943,546</i>	<i>8,177,190</i>
Total demand deposits	341,182	1,718,405	4,764,139	5,534,746	3,801,663	1,224,977	4,201,447
Total time and savings deposits	579,947	2,764,141	4,484,196	11,603,188	6,044,294	1,718,569	3,975,743
Federal funds purchased and securities sold under agreements to repurchase	33,465	622,175	1,554,529	1,391,179	1,336,051	191,288	1,888,635
Liabilities for borrowed money	375	11,442	63,155	6,321	208,953	356	18,540
Mortgage indebtedness	328	361	2,787	6,562	8,343	1,483	5,510
Acceptances executed by or for account of this bank and outstanding	0	5,994	100,013	50,240	64,281	556	25,361
Other liabilities	8,304	70,650	218,824	300,285	232,260	29,949	121,755
<i>Total liabilities</i>	<i>963,601</i>	<i>5,193,168</i>	<i>11,187,643</i>	<i>18,892,521</i>	<i>11,695,845</i>	<i>3,167,178</i>	<i>10,236,991</i>
Subordinated notes and debentures	1,550	6,157	45,344	84,358	131,686	9,460	29,119
Equity Capital							
Preferred stock	0	0	0	100	0	0	2,129
Common stock	20,140	66,068	170,962	297,691	257,879	45,162	154,758
Surplus	22,642	121,021	411,992	605,024	268,634	183,358	243,422
Undivided profits	31,856	163,055	343,527	536,330	282,170	3,406	322,979
Reserve for contingencies and other capital reserves	892	14,643	26,615	33,718	30,632	3,599	12,747
<i>Total equity capital</i>	<i>75,530</i>	<i>364,787</i>	<i>953,096</i>	<i>1,472,863</i>	<i>839,315</i>	<i>235,525</i>	<i>736,035</i>
<i>Total liabilities, subordinated notes and debentures and equity capital</i>	<i>1,040,681</i>	<i>5,564,112</i>	<i>12,186,083</i>	<i>20,449,742</i>	<i>12,666,846</i>	<i>3,412,163</i>	<i>11,002,145</i>

Table B-20—Continued

Total assets, liabilities and equity capital of domestic offices and subsidiaries of national banks, United States and other areas, December 31, 1976

(Dollar amounts in thousands)

	Montana	Nebraska	Nevada	New Hampshire	New Jersey	New Mexico	New York
Number of banks	56	120	4	43	104	38	129
Assets							
Cash and due from banks	\$215,972	\$689,163	\$162,060	\$149,632	\$1,896,943	\$274,519	\$11,025,945
U.S. Treasury securities	146,130	283,169	253,177	130,665	1,738,311	181,011	3,974,445
Obligations of other U.S. government agencies and corporations	62,696	170,621	101,412	14,745	982,925	122,219	661,085
Obligations of states and political subdivisions	273,600	534,955	150,250	134,886	2,504,592	301,489	3,715,840
Other bonds, notes and debentures	3,276	10,857	24,147	1,583	433,983	1,809	297,925
Federal Reserve stock and corporate stock	3,278	5,272	1,807	1,935	23,376	3,669	149,539
Trading account securities	0	35,154	0	0	6,662	0	1,324,250
Federal funds sold and securities purchased under agreements to resell	87,178	215,209	21,800	45,205	636,187	134,400	912,809
Loans, total (excluding unearned income)	1,185,065	2,576,997	755,154	726,724	8,989,324	1,198,543	37,978,846
Reserve for possible loan losses	11,016	26,374	8,291	6,961	107,913	13,401	589,443
Loans, net of reserve	1,174,049	2,550,623	746,863	719,763	8,881,411	1,185,142	37,389,403
Direct lease financing	2,624	41,296	17,740	74	74,587	1,518	475,319
Bank premises, furniture and fixtures and other assets representing bank premises	34,992	74,007	34,789	29,789	348,819	53,996	759,263
Real estate owned other than bank premises	2,332	5,623	288	946	64,530	5,588	334,886
Investments in unconsolidated subsidiaries and associated companies	0	576	0	0	988	496	698,550
Customers' liabilities to this bank on acceptances outstanding	264	551	0	1,053	28,771	394	1,362,938
Other assets	25,814	61,209	16,237	9,347	341,666	30,634	4,559,342
<i>Total assets</i>	2,032,205	4,678,285	1,530,570	1,239,623	17,963,751	2,296,884	67,641,539
Liabilities							
Demand deposits of individuals, partnerships and corporations	492,728	1,237,708	493,703	356,312	4,544,002	633,823	15,437,980
Time and savings deposits of individuals, partnerships and corporations	1,099,922	2,093,275	649,181	597,654	9,348,950	920,458	22,207,206
Deposits of U.S. government	8,152	12,156	5,341	9,356	90,053	25,969	172,593
Deposits of states and political subdivisions	157,339	259,334	210,256	114,736	1,409,905	399,326	1,565,885
Deposits of foreign governments and official institutions	0	0	0	0	2,104	0	2,014,658
Deposits of commercial banks	36,579	370,324	2,895	1,461	199,539	50,371	7,510,193
Certified and officers' checks	14,922	25,113	22,822	11,810	192,259	21,931	1,195,514
<i>Total deposits</i>	1,809,642	3,997,910	1,384,198	1,091,329	15,786,812	2,051,878	50,104,029
<i>Total demand deposits</i>	591,888	1,703,067	570,149	445,290	5,552,445	762,188	24,221,904
<i>Total time and savings deposits</i>	1,217,754	2,294,843	814,049	646,039	10,234,367	1,289,690	25,882,125
Federal funds purchased and securities sold under agreements to repurchase	46,033	267,038	11,885	26,821	625,695	55,209	6,486,825
Liabilities for borrowed money	19	4,520	1,522	45	47,400	0	734,303
Mortgage indebtedness	412	1,192	1,123	1,417	9,326	402	18,626
Acceptances executed by or for account of this bank and outstanding	264	551	0	1,053	28,893	394	1,404,611
Other liabilities	25,996	50,647	14,001	12,918	186,689	23,043	2,292,124
<i>Total liabilities</i>	1,882,366	4,321,858	1,412,729	1,133,583	16,684,815	2,130,926	61,040,518
Subordinated notes and debentures	15,303	23,910	0	1,125	62,781	12,925	370,014
Equity Capital							
Preferred stock	0	101	0	0	25	1,500	1,421
Common stock	56,169	72,894	27,518	15,328	296,557	45,938	1,542,867
Surplus	56,275	93,840	28,718	46,553	464,338	57,239	2,136,836
Undivided profits	18,633	155,041	59,295	40,659	427,094	45,339	2,448,803
Reserve for contingencies and other capital reserves	3,459	10,641	2,310	2,375	28,141	3,017	101,080
<i>Total equity capital</i>	134,536	332,517	117,841	104,915	1,216,155	153,033	6,231,007
<i>Total liabilities, subordinated notes and debentures and equity capital</i>	2,032,205	4,678,285	1,530,570	1,239,623	17,963,751	2,296,884	67,641,539

Table B-20—Continued

Total assets, liabilities and equity capital of domestic offices and subsidiaries of national banks, United States and other areas, December 31, 1976

(Dollar amounts in thousands)

	North Carolina	North Dakota	Ohio	Oklahoma	Oregon	Pennsylvania	Rhode Island
Number of banks	28	43	219	195	7	237	5
Assets							
Cash and due from banks	\$1,338,632	\$169,343	\$2,915,287	\$1,420,867	\$865,933	\$3,973,896	\$281,677
U.S. Treasury securities	611,222	120,802	2,800,474	1,003,100	387,729	4,184,832	330,270
Obligations of other U.S. government agencies and corporations	433,614	58,784	588,244	113,918	156,671	1,412,977	43,554
Obligations of states and political subdivisions	1,107,691	219,946	3,519,569	1,303,258	747,773	3,709,905	202,445
Other bonds, notes and debentures	51,470	1,979	118,579	26,563	5,528	276,586	25,219
Federal Reserve stock and corporate stock	12,855	1,969	41,743	13,105	9,376	64,014	5,005
Trading account securities	212,238	0	152,322	90,628	6,795	569,683	51,280
Federal funds sold and securities purchased under agreements to resell	557,269	38,091	1,361,465	703,600	262,051	1,879,990	118,090
Loans, total (excluding unearned income)	5,230,004	940,039	11,028,029	4,293,221	3,331,323	20,585,750	1,673,063
Reserve for possible loan losses	61,392	8,988	137,551	41,807	28,562	246,981	15,099
Loans, net of reserve	5,168,612	931,051	10,890,478	4,251,414	3,302,761	20,338,769	1,657,964
Direct lease financing	50,593	364	102,176	29,578	24,627	300,523	72,928
Bank premises, furniture and fixtures and other assets representing bank premises	170,287	29,801	392,601	168,829	149,893	502,704	45,873
Real estate owned other than bank premises	28,243	1,555	15,710	8,654	11,559	89,547	15,653
Investments in unconsolidated subsidiaries and associated companies	4,965	5	14,786	826	8,121	75,507	843
Customers' liabilities to this bank on acceptances outstanding	114,267	268	53,754	1,173	107,859	559,600	57,816
Other assets	450,381	18,871	890,024	104,487	429,572	983,071	72,469
Total assets	10,312,339	1,592,829	23,857,212	9,240,000	6,476,248	38,921,604	2,981,086
Liabilities							
Demand deposits of individuals, partnerships and corporations	3,035,322	423,270	6,133,438	2,495,683	1,750,771	8,555,415	536,857
Time and savings deposits of individuals, partnerships and corporations	3,937,029	883,646	11,110,048	3,653,904	2,734,779	17,356,767	1,533,669
Deposits of U.S. government	39,579	6,435	83,692	47,729	14,551	86,642	7,210
Deposits of states and political subdivisions	733,610	85,779	1,458,445	963,075	452,076	2,120,214	242,474
Deposits of foreign governments and official institutions	10,212	0	1,007	0	0	351,062	0
Deposits of commercial banks	344,099	20,389	558,441	634,236	94,855	1,183,543	12,857
Certified and officers' checks	59,669	14,014	192,876	80,849	91,405	268,081	20,843
Total deposits	8,159,520	1,433,533	19,537,947	7,875,476	5,138,437	29,921,724	2,353,910
Total demand deposits	3,633,480	492,928	7,490,782	3,317,982	2,062,674	10,207,591	661,333
Total time and savings deposits	4,526,040	940,605	12,047,165	4,557,494	3,075,763	19,714,133	1,692,577
Federal funds purchased and securities sold under agreements to repurchase	1,019,986	13,821	1,923,789	519,532	659,778	4,282,452	225,695
Liabilities for borrowed money	22,762	1,346	14,297	45,365	10,599	435,529	48,807
Mortgage indebtedness	4,217	440	3,669	2,087	347	16,188	0
Acceptances executed by or for account of this bank and outstanding	114,267	268	53,754	1,173	107,859	559,681	57,816
Other liabilities	177,037	20,297	404,659	85,629	85,555	763,964	87,662
Total liabilities	9,497,789	1,469,705	21,938,115	8,529,262	6,002,575	35,979,538	2,773,890
Subordinated notes and debentures	136,920	13,041	47,078	58,797	100,750	232,281	5,000
Equity Capital							
Preferred stock	0	0	0	500	0	1,254	0
Common stock	166,399	30,263	375,237	135,999	92,531	492,816	30,390
Surplus	249,235	35,973	842,735	179,440	124,632	1,174,943	88,663
Undivided profits	251,922	38,310	622,188	325,109	145,041	949,925	76,065
Reserve for contingencies and other capital reserves	10,074	5,537	31,859	10,893	10,719	90,847	7,078
Total equity capital	677,630	110,083	1,872,019	651,941	372,923	2,709,785	202,196
Total liabilities, subordinated notes and debentures and equity capital	10,312,339	1,592,829	23,857,212	9,240,000	6,476,248	38,921,604	2,981,086

Table B-20—Continued

Total assets, liabilities and equity capital of domestic offices and subsidiaries of national banks, United States and other areas, December 31, 1976

(Dollar amounts in thousands)

	South Carolina	South Dakota	Tennessee	Texas	Utah	Vermont	Virginia
Number of banks	19	32	74	596	13	14	108
Assets							
Cash and due from banks	\$391,853	\$219,596	\$1,220,824	\$6,958,824	\$301,005	\$34,927	\$1,160,748
U.S. Treasury securities	187,470	148,109	789,696	3,961,884	156,751	35,580	844,260
Obligations of other U.S. government agencies and corporations	98,404	80,409	285,434	1,273,052	49,000	8,029	299,439
Obligations of states and political subdivisions	366,123	284,145	746,626	5,327,750	149,120	53,030	1,304,017
Other bonds, notes and debentures	818	11,994	26,500	119,984	1,194	3,115	11,887
Federal Reserve stock and corporate stock	3,515	2,586	14,978	56,225	2,724	496	17,506
Trading account securities	11,129	31	15,860	323,242	23,327	0	13,835
Federal funds sold and securities purchased under agreements to resell	127,290	53,915	635,682	3,994,614	74,297	16,050	395,626
Loans, total (excluding unearned income)	1,425,766	1,251,569	4,320,781	19,794,806	1,240,397	285,620	5,546,200
Reserve for possible loan losses	16,005	12,948	52,072	229,214	10,075	2,529	57,518
Loans, net of reserve	1,409,761	1,238,621	4,268,709	19,565,592	1,230,322	283,091	5,488,682
Direct lease financing	4,705	1,922	37,385	100,556	16,880	170	11,380
Bank premises, furniture and fixtures and other assets representing bank premises	73,063	39,443	182,058	821,273	36,888	8,318	264,667
Real estate owned other than bank premises	7,238	1,059	74,465	91,658	1,505	481	30,905
Investments in unconsolidated subsidiaries and associated companies	0	0	36	31,313	0	33	42
Customers' liabilities to this bank on acceptances outstanding	3,309	204	9,347	199,566	90	0	9,662
Other assets	31,167	29,044	276,492	709,037	24,674	3,517	130,591
Total assets	2,715,845	2,111,078	8,584,092	43,534,570	2,067,777	446,837	9,983,163
Liabilities							
Demand deposits of individuals, partnerships and corporations	1,176,270	493,038	2,207,966	12,845,600	556,325	88,772	2,731,039
Time and savings deposits of individuals, partnerships and corporations	884,873	1,197,683	3,705,126	14,303,187	938,724	282,545	5,017,371
Deposits of U.S. government	15,837	9,928	31,730	225,818	2,204	1,572	68,253
Deposits of states and political subdivisions	188,505	159,709	665,263	4,475,752	261,981	28,580	673,874
Deposits of foreign governments and official institutions	0	0	1,087	19,775	0	0	128
Deposits of commercial banks	34,595	30,987	584,980	2,889,645	44,245	1,563	128,635
Certified and officers' checks	20,056	14,088	53,964	404,508	19,612	4,646	73,213
Total deposits	2,320,136	1,905,433	7,250,116	35,164,285	1,823,091	407,678	8,692,513
Total demand deposits	1,371,466	567,414	2,916,986	16,689,985	667,783	106,211	3,155,403
Total time and savings deposits	948,670	1,338,019	4,333,130	18,474,300	1,155,308	301,467	5,537,110
Federal funds purchased and securities sold under agreements to repurchase	131,525	14,763	591,481	4,237,744	79,218	1,200	327,225
Liabilities for borrowed money	5,117	500	1,324	112,835	1,762	1,657	20,735
Mortgage indebtedness	268	2,033	5,715	98,329	113	0	45,528
Acceptances executed by or for account of this bank and outstanding	3,309	204	9,347	199,577	90	0	9,662
Other liabilities	29,380	28,284	128,791	570,802	22,690	2,748	124,670
Total liabilities	2,489,735	1,951,217	7,986,774	40,383,572	1,926,964	413,283	9,220,333
Subordinated notes and debentures	7,600	21,321	33,020	181,940	16,526	3,249	46,196
Equity Capital							
Preferred stock	0	0	0	133	0	0	0
Common stock	39,326	38,499	142,017	727,607	35,103	7,269	166,144
Surplus	74,973	42,863	211,027	886,613	51,517	9,213	265,984
Undivided profits	100,446	53,041	193,364	1,173,637	35,950	12,696	271,140
Reserve for contingencies and other capital reserves	3,765	4,137	17,890	181,068	1,717	1,127	13,366
Total equity capital	218,510	138,540	564,298	2,969,058	124,287	30,305	716,634
Total liabilities, subordinated notes and debentures and equity capital	2,715,845	2,111,078	8,584,092	43,534,570	2,067,777	446,837	9,983,163

Table B-20—Continued

Total assets, liabilities and equity capital of domestic offices and subsidiaries of national banks, United States and other areas, December 31, 1976

(Dollar amounts in thousands)

	Washington	West Virginia	Wisconsin	Wyoming	Other areas		District of Columbia non-national*
					Puerto Rico	Virgin Islands	
Number of banks	21	103	130	46	1	1	1
Assets							
Cash and due from banks	\$1,544,863	\$397,058	\$963,106	\$182,619	\$3,691	\$339	\$2,230
U.S. Treasury securities	567,675	469,907	748,245	121,463	997	1,103	5,795
Obligations of other U.S. government agencies and corporations	163,446	303,618	268,487	67,616	0	1,683	6,468
Obligations of states and political subdivisions	984,340	689,709	759,571	206,024	4,645	0	7,096
Other bonds, notes and debentures	5,674	14,041	54,137	2,507	0	0	2,665
Federal Reserve stock and corporate stock	11,921	5,872	14,455	1,801	145	0	1
Trading account securities	102,067	1,397	33,956	0	0	0	1,900
Federal funds sold and securities purchased under agreements to resell	758,756	392,385	510,002	27,485	4,600	197	14,105
Loans, total (excluding unearned income)	6,167,453	1,886,890	4,387,494	813,301	14,567	4	166
Reserve for possible loan losses	68,511	21,146	50,580	8,097	644	0	13,939
Loans, net of reserve	6,098,942	1,865,744	4,336,914	805,204	13,923	4	0
Direct lease financing	165,198	9,717	25,202	3,018	0	0	437
Bank premises, furniture and fixtures and other assets representing bank premises	257,737	99,513	195,579	23,200	207	8	0
Real estate owned other than bank premises	11,825	1,838	110,732	801	1,448	0	0
Investments in unconsolidated subsidiaries and associated companies	22,535	0	296	50	0	0	0
Customers' liabilities to this bank on acceptances outstanding	217,481	189	15,790	0	0	0	579
Other assets	188,435	38,134	103,572	19,977	318	62	41,110
Total assets	11,100,895	4,289,122	8,140,046	1,461,765	29,974	3,396	14,130
Liabilities							
Demand deposits of individuals, partnerships and corporations	3,086,562	982,225	1,922,659	368,464	2,501	993	23,277
Time and savings deposits of individuals, partnerships and corporations	4,659,941	2,215,818	3,898,369	650,684	17,397	2,174	119
Deposits of U.S. government	32,875	18,908	35,869	48,834	0	6	3
Deposits of states and political subdivisions	771,643	235,257	574,752	189,683	2,683	0	0
Deposits of foreign governments and official institutions	19,995	0	41,439	0	0	0	0
Deposits of commercial banks	261,177	75,354	275,017	35,010	4,339	0	0
Certified and officers' checks	96,955	25,520	60,924	8,900	325	181	327
Total deposits	8,929,148	3,553,082	6,809,029	1,301,575	27,245	3,354	37,856
Total demand deposits	3,599,398	1,170,872	2,398,090	462,340	3,813	1,180	14,559
Total time and savings deposits	5,329,750	2,382,210	4,410,939	839,235	23,432	2,174	23,297
Federal funds purchased and securities sold under agreements to repurchase	1,044,850	329,703	631,920	27,235	0	0	0
Liabilities for borrowed money	41,638	9,280	16,152	10,103	0	0	0
Mortgage indebtedness	2,650	7,149	653	284	0	0	0
Acceptances executed by or for account of this bank and outstanding	217,482	189	15,847	0	0	0	0
Other liabilities	151,120	36,144	90,331	12,888	662	315	1
Total liabilities	10,386,888	3,935,547	7,563,932	1,352,085	27,907	3,669	37,857
Subordinated notes and debentures	84,332	7,156	52,524	6,225	0	0	170
Equity Capital							
Preferred stock	6,025	0	0	0	0	0	0
Common stock	142,626	61,933	132,428	9,110	2,640	0	278
Surplus	202,616	130,233	215,960	34,273	2,208	0	1,000
Undivided profits	254,676	143,027	161,354	56,060	2,781	273	1,180
Reserve for contingencies and other capital reserves	23,732	11,226	13,848	4,012	0	0	625
Total equity capital	629,675	346,419	523,590	103,455	2,067	273	3,083
Total liabilities, subordinated notes and debentures and equity capital	11,100,895	4,289,122	8,140,046	1,461,765	29,974	3,396	41,110

Table B-21

Loans of national banks, by states, December 31, 1976

(Dollar amounts in millions)

	Total loans	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 un-earned income†
All national banks	\$310,559	\$82,922	\$22,694	\$8,637	\$11,324	\$109,489	\$66,747	\$8,747	\$303,437
Alabama	4,163	972	174	53	97	1,320	1,420	127	4,007
Alaska	646	247	2	—	—	220	171	6	625
Arizona	3,382	1,003	169	20	249	971	929	40	3,236
Arkansas	2,203	648	31	63	114	646	653	48	2,141
California	45,248	14,101	3,934	843	1,688	14,572	8,628	1,481	44,164
Colorado	3,854	881	149	62	440	1,195	1,039	88	3,773
Connecticut	2,137	726	59	11	7	689	588	55	2,091
Delaware	42	23	0	0	1	6	12	—	40
District of Columbia	2,309	784	348	17	1	519	487	154	2,281
Florida	7,884	2,665	300	81	65	2,166	2,456	152	7,655
Georgia	4,406	1,149	207	44	39	1,431	1,402	133	4,225
Hawaii	93	59	1	0	1	22	10	1	92
Idaho	1,606	484	19	2	266	388	435	12	1,554
Illinois	28,670	5,012	4,007	1,467	792	12,506	3,975	911	28,332
Indiana	6,554	2,609	171	57	180	1,581	1,818	137	6,328
Iowa	2,524	706	38	59	536	600	541	43	2,495
Kansas	2,574	424	52	96	620	690	659	33	2,521
Kentucky	2,721	889	83	25	125	672	878	48	2,633
Louisiana	3,654	932	177	55	54	1,436	915	84	3,552
Maine	616	233	1	—	10	182	176	14	603
Maryland	3,301	1,199	162	49	25	817	943	104	3,197
Massachusetts	6,040	1,124	606	76	5	2,976	1,159	94	5,949
Michigan	11,479	4,500	695	151	112	3,013	2,447	561	11,203
Minnesota	6,702	1,944	380	269	409	2,282	1,227	190	6,558
Mississippi	1,788	478	69	23	61	517	580	61	1,728
Missouri	4,883	1,051	340	206	267	1,839	1,071	110	4,824
Montana	1,237	333	3	2	224	305	354	15	1,185
Nebraska	2,628	347	34	97	921	580	609	40	2,577
Nevada	782	364	5	1	14	174	212	12	755
New Hampshire	754	253	2	1	2	239	250	7	727
New Jersey	9,247	4,034	372	43	8	2,354	2,242	194	8,989
New Mexico	1,246	279	23	7	111	411	398	17	1,199
New York	38,468	6,376	4,567	2,948	205	19,334	3,921	1,117	37,979
North Carolina	5,456	971	341	58	94	2,082	1,784	126	5,230
North Dakota	967	261	1	3	203	281	211	8	940
Ohio	11,446	3,744	359	87	176	3,085	3,773	222	11,028
Oklahoma	4,378	912	182	248	506	1,471	968	91	4,293
Oregon	3,394	930	404	39	175	1,121	670	55	3,331
Pennsylvania	21,081	6,236	2,097	377	169	7,136	4,393	674	20,586
Rhode Island	1,705	685	95	3	—	569	304	48	1,673
South Carolina	1,480	287	21	8	24	484	610	46	1,426
South Dakota	1,287	327	4	4	374	300	268	11	1,252
Tennessee	4,485	1,166	226	51	76	1,468	1,413	86	4,321
Texas	20,168	3,342	1,056	737	1,105	8,733	4,365	829	19,795
Utah	1,266	477	22	13	43	423	270	18	1,240
Vermont	293	155	—	—	6	62	65	5	286
Virginia	5,758	2,286	130	29	89	1,325	1,764	134	5,546
Washington	6,229	1,559	340	64	361	2,349	1,424	132	6,167
West Virginia	2,005	802	12	5	11	368	777	31	1,887
Wisconsin	4,463	1,732	224	77	117	1,310	882	122	4,387
Wyoming	841	218	2	3	146	256	199	18	813
Virgin Islands	4	0	0	0	0	0	0	4	0
Puerto Rico	15	2	—	0	0	12	1	—	15
District of Columbia-all*	2,324	793	349	17	1	521	489	154	2,295

* Includes national and non-national banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.

† Equals total loans from the balance sheet before the removal of the reserve for possible loan losses.

NOTE: Data may not add to totals because of rounding. Dashes indicate amounts of less than \$500,000.

Table B-22

Outstanding balances, credit cards and related plans of national banks, December 31, 1976

	Credit cards		Other related credit plans	
	Number of banks	Outstanding volume (dollars in thousands)	Number of banks	Outstanding volume (dollars in thousands)
All national banks	958	\$8,215,846	1,216	\$1,645,947
Alabama	16	99,832	9	2,775
Alaska	2	20,512	1	164
Arizona	2	123,921	3	26,189
Arkansas	5	26,142	5	821
California	26	1,716,337	36	292,787
Colorado	61	185,073	70	23,469
Connecticut	5	104,265	11	26,248
Delaware	0	0	0	0
District of Columbia	1	78,441	10	40,651
Florida	83	266,506	58	31,567
Georgia	24	219,384	10	25,778
Hawaii	1	363	1	617
Idaho	3	32,552	2	10,426
Illinois	41	609,934	117	55,946
Indiana	59	142,080	21	16,159
Iowa	8	48,715	22	2,532
Kansas	5	59,919	15	2,500
Kentucky	33	76,509	9	4,525
Louisiana	6	63,053	5	13,418
Maine	12	15,474	9	6,041
Maryland	4	157,266	17	30,240
Massachusetts	37	148,865	49	104,757
Michigan	34	366,128	44	52,516
Minnesota	32	24,527	115	64,970
Mississippi	3	36,563	1	801
Missouri	16	228,323	35	18,735
Montana	9	3,867	19	2,582
Nebraska	5	141,228	25	4,052
Nevada	3	23,279	1	4,969
New Hampshire	19	17,239	15	3,975
New Jersey	15	105,569	56	93,266
New Mexico	4	24,844	4	1,114
New York	25	648,682	43	277,558
North Carolina	9	151,773	24	63,905
North Dakota	6	1,084	13	2,708
Ohio	111	420,178	63	45,358
Oklahoma	7	106,110	24	4,097
Oregon	3	119,878	0	0
Pennsylvania	17	341,618	45	174,537
Rhode Island	4	36,640	2	14,941
South Carolina	4	51,666	8	5,909
South Dakota	0	0	5	1,098
Tennessee	12	144,076	10	10,974
Texas	56	370,745	67	31,153
Utah	5	44,285	0	0
Vermont	4	3,426	2	8
Virginia	32	225,766	22	10,243
Washington	6	223,088	4	15,589
West Virginia	11	19,734	11	6,485
Wisconsin	64	137,408	63	14,531
Wyoming	8	2,979	15	2,263
Virgin Islands	0	0	0	0
Puerto Rico	0	0	0	0

Table B-23

National banks engaged in direct lease financing, December 31, 1976

	Total number of banks	Number of banks engaged in direct lease financing	Amount of direct lease financing (dollars in thousands)
All national banks	4,737	769	\$3,808,381
Alabama	97	9	23,271
Alaska	6	2	6,761
Arizona	3	1	3,445
Arkansas	73	10	5,167
California	58	21	1,483,465
Colorado	132	30	28,949
Connecticut	23	4	25,544
Delaware	5	0	0
District of Columbia	15	4	27,677
Florida	306	48	38,440
Georgia	64	8	33,733
Hawaii	2	0	0
Idaho	6	2	9,559
Illinois	425	64	71,152
Indiana	120	30	131,876
Iowa	100	16	1,921
Kansas	169	24	4,076
Kentucky	82	15	64,024
Louisiana	54	9	25,989
Maine	17	0	0
Maryland	41	4	34,552
Massachusetts	75	9	54,538
Michigan	122	22	45,536
Minnesota	203	16	68,500
Mississippi	38	6	207
Missouri	115	27	49,919
Montana	56	13	2,624
Nebraska	120	21	41,296
Nevada	4	2	17,740
New Hampshire	43	3	74
New Jersey	104	9	74,587
New Mexico	38	9	1,518
New York	129	14	475,319
North Carolina	28	8	50,593
North Dakota	43	1	364
Ohio	219	54	102,176
Oklahoma	195	82	29,578
Oregon	7	2	24,627
Pennsylvania	237	15	300,523
Rhode Island	5	2	72,928
South Carolina	19	2	4,705
South Dakota	32	3	1,922
Tennessee	74	11	37,385
Texas	596	58	100,556
Utah	13	4	16,880
Vermont	14	2	170
Virginia	108	6	11,380
Washington	21	11	165,198
West Virginia	103	17	9,717
Wisconsin	130	23	25,202
Wyoming	46	16	3,018
Virgin Islands	1	0	0
Puerto Rico	1	0	0
District of Columbia — all*	16	4	27,677

* Includes national banks and non-national banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.

Table B-24
Principal assets, liabilities and capital accounts of national banks, by asset size, year-end 1976
(Dollars in thousands)

	All national banks	Banks with assets of—						
		Less than \$5 million	\$5 to \$10 million	\$10 to \$25 million	\$25 to \$100 million	\$100 to \$300 million	\$300 to \$1,000 million	\$1,000 million and more
Number of banks	4,737	223	563	1,558	1,750	396	162	85
Assets								
Cash and due from banks	\$76,078,031	\$103,075	\$491,638	\$2,831,754	\$8,804,087	\$7,701,621	\$11,919,059	\$44,226,797
U.S. Treasury securities	52,612,836	134,700	624,717	3,230,577	8,986,849	6,678,604	7,575,081	25,382,308
Obligations of other U.S. government agencies and corporations ..	17,005,880	56,617	316,301	1,651,834	4,338,578	3,118,921	2,475,102	5,048,527
Obligations of states and political subdivisions	57,384,363	36,937	345,226	3,201,894	11,619,868	8,651,075	9,779,727	23,749,636
Other bonds, notes and debentures	2,987,415	5,067	17,745	154,377	556,750	527,758	600,424	1,125,294
Federal Reserve stock and corporate stock	967,304	2,736	7,462	36,609	114,979	88,921	120,096	596,501
Trading account securities	4,973,779	0	0	41	7,504	49,264	387,519	4,529,451
Federal funds sold and securities purchased under agreements to re- sell	30,140,010	73,819	276,625	1,332,846	3,442,304	3,014,426	5,945,879	16,054,111
Loans, total (excluding unearned income)	303,436,774	355,018	2,104,929	13,237,595	42,822,954	31,992,539	43,404,249	169,519,490
Reserve for possible loan losses	3,589,367	2,618	16,855	120,895	424,067	358,668	502,003	2,164,261
Loans, net of reserve	299,847,407	352,400	2,088,074	13,116,700	42,398,887	31,633,871	42,902,246	167,355,229
Direct lease financing	3,808,381	232	1,722	19,914	94,673	144,610	482,244	3,064,986
Bank premises, furniture and fixtures and other assets rep- resenting bank premises	9,879,953	25,890	88,042	465,026	1,598,651	1,216,330	1,657,713	4,828,301
Real estate owned other than bank premises	1,722,984	477	2,801	22,146	112,209	121,074	233,289	1,230,988
Investments in unconsolidated subsidiaries and associated com- panies	1,777,388	0	7	1,096	7,959	9,452	19,543	1,739,331
Customers' liabilities to this bank on acceptances outstanding	5,086,708	43	407	1,227	16,124	17,590	110,854	4,940,463
Other assets	19,076,586	6,119	29,032	205,119	979,248	806,094	1,247,512	15,803,462
Total assets	583,349,025	798,112	4,289,799	26,271,160	83,078,670	63,779,611	85,456,288	319,675,385
Liabilities								
Demand deposits of individuals, partnerships and corporations	147,018,169	252,912	1,290,839	7,319,960	22,084,943	16,569,441	23,769,286	75,730,788
Time and savings deposits of individuals, partnerships and cor- porations	242,873,535	317,757	2,105,613	13,772,201	43,904,360	31,130,407	35,149,960	116,493,237
Deposits of U.S. government	2,126,653	4,047	26,406	145,618	446,040	300,960	362,262	841,320
Deposits of states and political subdivisions	38,088,306	76,214	353,634	2,188,424	6,865,447	5,509,045	7,110,794	15,984,748
Deposits of foreign governments and official institutions	5,917,740	0	543	811	82	6,666	34,308	5,875,330
Deposits of commercial banks	27,332,987	7,826	11,662	82,196	571,752	1,912,689	4,520,686	20,226,176
Certified and officers' checks	6,051,345	9,400	36,597	237,966	711,763	531,313	756,619	3,767,687
Total deposits	469,408,735	668,156	3,825,294	23,747,176	74,584,387	55,960,521	71,703,915	238,919,286
Total demand deposits	188,175,050	295,636	1,493,105	8,551,793	25,694,665	20,584,209	30,651,765	100,903,877
Total time and savings deposits	281,233,685	372,520	2,332,189	15,195,383	48,889,722	35,376,312	41,052,150	138,015,409
Federal funds purchased and securities sold under agreements to repurchase	51,678,941	1,605	19,594	167,961	1,064,042	2,217,867	6,316,953	41,890,919
Liabilities for borrowed money	2,741,434	640	3,265	18,529	73,772	55,896	197,893	2,391,439
Mortgage indebtedness	406,112	286	812	3,857	39,563	26,631	84,686	250,277
Acceptances executed by or for account of this bank and outstand- ing	5,140,675	43	407	1,227	16,147	17,601	110,890	4,994,360
Other liabilities	9,921,683	4,075	20,352	171,512	802,453	660,562	990,830	7,271,899
Total liabilities	539,297,580	674,805	3,869,724	24,110,262	76,580,364	58,939,078	79,405,167	295,718,180
Subordinated notes and debentures	2,726,628	235	2,875	42,426	247,448	264,211	429,074	1,740,359
Equity Capital								
Preferred stock	18,754	0	0	1,101	6,450	1,979	8,824	400
Common stock	9,106,275	45,894	117,823	451,098	1,376,487	1,063,638	1,332,372	4,718,963
Surplus	15,853,738	43,105	124,823	652,932	2,172,495	1,722,220	2,214,243	8,923,920
Undivided profits	15,271,833	32,298	160,832	918,036	2,447,187	1,659,594	1,951,726	8,102,160
Reserve for contingencies and other capital reserves	1,074,217	1,775	13,722	95,305	248,239	128,891	114,882	471,403
Total equity capital	41,324,817	123,072	417,200	2,118,472	6,250,858	4,576,322	5,622,047	22,216,846
Total liabilities and equity capital	583,349,025	798,112	4,289,799	26,271,160	83,078,670	63,779,611	85,456,288	319,675,385
Standby Letters of Credit (outstanding as of report date	7,416,516	356	1,965	22,117	136,542	194,577	495,292	6,565,667
A. Time certificates of deposit in denominations of \$100,000 or more	68,226,974	38,941	173,345	1,315,516	5,707,670	5,842,115	9,851,985	45,297,402
B. Other time deposits in amounts of \$100,000 or more	14,551,317	9,440	39,822	221,557	1,177,577	1,177,577	1,177,577	1,177,577

Table B-25

Ratios of classified assets to total loans for National banks, deposit size category, under \$100 million

Classified assets as a percent of total loans	Latest examination in—															
	1969		1970		1971		1972		1973		1974		1975		1976	
	Number of banks	Per-cent	Number of banks	Per-cent	Number of banks	Per-cent	Number of banks	Per-cent	Number of banks	Per-cent	Number of banks	Per-cent	Number of banks	Per-cent	Number of banks	Per-cent
0-.9	2,099	47.9	1,779	41.3	1,717	40.5	1,840	43.5	2,004	47.5	1,741	41.0	1,357	32.0	1,214	29.3
1-1.9	953	21.8	971	22.5	945	22.3	1,005	23.8	958	22.7	960	22.6	907	21.4	878	21.2
2-2.9	488	11.1	561	13.0	599	14.1	608	14.4	579	13.7	606	14.3	649	15.3	666	16.1
3-3.9	321	7.3	354	8.2	363	8.6	313	7.4	288	6.8	372	8.8	382	9.0	415	10.0
4-4.9	180	4.1	219	5.1	235	5.5	183	4.3	161	3.8	196	4.6	306	7.2	318	7.7
5-5.9	108	2.5	135	3.1	118	2.8	97	2.3	80	1.9	127	3.0	196	4.6	203	4.9
6-6.9	65	1.5	89	2.1	77	1.8	59	1.4	48	1.1	70	1.7	120	2.8	139	3.4
7-7.9	48	1.1	62	1.4	50	1.2	45	1.1	28	0.7	48	1.1	80	1.9	64	1.6
8 and over	118	2.7	142	3.3	137	3.2	80	1.9	73	1.7	125	2.9	238	5.6	242	5.9
Total	4,380	100.0	4,312	100.0	4,241	100.0	4,230	100.0	4,219	100.0	4,245	100.0	4,235	100.0	4,139	100.0

NOTE: Previous years have been revised.

Table B-26

Ratios of classified assets to total loans for National banks, deposit size category, \$100 million and over

Classified assets as a percent of total loans	Latest examination in—															
	1969		1970		1971		1972		1973		1974		1975		1976	
	Number of banks	Per-cent	Number of banks	Per-cent	Number of banks	Per-cent	Number of banks	Per-cent	Number of banks	Per-cent	Number of banks	Per-cent	Number of banks	Per-cent	Number of banks	Per-cent
0-.9	159	51.1	99	30.9	119	32.5	152	39.1	164	37.6	116	25.0	67	13.5	66	12.7
1-1.9	76	24.4	84	26.3	92	25.1	89	22.9	129	29.6	108	23.3	88	17.7	98	18.9
2-2.9	49	15.8	64	20.0	67	18.3	80	20.6	77	17.7	88	19.0	88	17.7	85	16.4
3-3.9	9	2.9	26	8.1	37	10.1	29	7.5	30	6.9	53	11.4	56	11.3	54	10.4
4-4.9	7	2.3	16	5.0	21	5.7	12	3.1	16	3.7	33	7.1	37	7.4	53	10.2
5-5.9	5	1.6	14	4.4	10	2.7	13	3.3	8	1.8	26	5.6	35	7.0	32	6.2
6-6.9	2	0.6	8	2.5	6	1.6	5	1.3	4	0.9	8	1.7	22	4.4	20	3.6
7-7.9	1	0.3	1	0.3	4	1.1	3	0.8	2	0.5	8	1.7	21	4.2	13	2.5
8 and over	3	1.0	8	2.5	10	2.7	6	1.5	6	1.4	24	5.2	83	16.7	99	19.0
Total	311	100.0	320	100.0	366	100.0	389	100.0	436	100.0	464	100.0	497	100.0	520	100.0

NOTE: Previous years have been revised.

Table B-27

Total income and expenses of foreign and domestic offices and subsidiaries of national banks, United States and other areas, year ended December 31, 1976*

(Dollar amounts in thousands)

	<i>Total, U.S. and other areas</i>	<i>Total, United States</i>	<i>Alabama</i>	<i>Alaska</i>	<i>Arizona</i>	<i>Arkansas</i>	<i>California</i>
Number of banks	4,737	4,735	97	6	3	73	58
Operating income:							
Interest and fees on loans	\$31,031,046	\$31,030,070	\$345,862	\$64,635	\$276,529	\$179,267	\$5,255,006
Interest on balances with banks	2,946,656	2,946,577	4,428	1,189	1,895	1,611	921,743
Income on Federal funds sold and securities purchased under agreements to resell in domestic offices	1,229,182	1,228,953	11,914	2,030	11,672	11,925	161,019
U.S. Treasury securities	3,193,274	3,192,927	34,546	3,505	33,979	19,494	399,103
Obligations of other U.S. government agencies and corporations	1,210,149	1,210,032	23,564	3,916	10,257	11,860	164,915
Obligations of states and political subdivisions	2,801,076	2,800,801	53,931	9,552	21,593	26,823	188,879
Other bonds, notes and debentures	492,072	492,072	1,674	242	657	961	82,285
Dividends on stock	62,149	62,147	582	156	297	290	12,529
Income from direct lease financing	408,438	408,438	1,117	484	286	731	151,911
Income from fiduciary activities	1,029,203	1,029,203	11,776	1,037	9,716	3,209	114,575
Service charges on deposit accounts in domestic offices	911,467	911,403	17,815	5,016	17,337	9,240	163,538
Other service charges, commissions and fees	1,441,484	1,441,406	18,689	4,960	5,817	7,032	284,257
Other income	1,265,214	1,265,211	8,662	1,386	7,850	8,850	162,171
<i>Total operating income</i>	48,021,410	48,019,240	534,560	98,108	397,885	281,293	8,061,931
Operating expenses:							
Salaries and employee benefits	8,575,522	8,574,895	110,035	30,889	102,728	57,365	1,412,190
Interest on time certificates of deposit of \$100,000 or more, issued by domestic offices	4,327,891	4,326,857	50,830	7,618	27,511	25,017	623,900
Interest on deposits in foreign offices	5,962,140	5,962,140	20	0	994	0	1,734,528
Interest on other deposits	10,595,809	10,595,325	148,429	15,282	136,427	83,568	1,713,474
Expense of Federal funds purchased and securities sold under agreements to repurchase in domestic offices	2,268,120	2,268,120	16,286	2,040	8,808	9,664	249,429
Interest on borrowed money	454,745	454,745	4,337	30	7	251	38,927
Interest on subordinated notes and debentures	179,190	179,190	2,022	48	4,982	1,723	27,586
Occupancy expense of bank premises, net	1,548,312	1,548,139	16,265	4,849	20,494	12,069	246,215
Furniture and equipment expense	1,015,489	1,015,444	15,044	4,108	10,461	10,375	128,266
Provision for possible loan losses (or actual net loan losses)	2,250,427	2,249,457	19,996	1,102	9,396	5,811	314,248
Other expenses	4,925,748	4,925,197	72,048	11,912	43,320	36,470	613,420
<i>Total operating expenses</i>	42,103,393	42,099,509	455,312	77,878	365,128	242,313	7,102,183
Income before income taxes and securities gains or losses	5,918,017	5,919,731	79,248	20,230	32,757	38,980	959,748
Applicable income taxes (domestic and foreign)	1,436,755	1,436,755	11,548	5,175	3,422	4,866	399,004
Income before securities gains or losses	4,481,262	4,482,976	67,700	15,055	29,335	34,114	560,744
Securities gains (losses), gross	168,493	168,470	1,256	258	144	1,664	5,338
Applicable income taxes (domestic and foreign)	72,596	72,596	455	112	74	596	2,492
Securities gains (losses), net	95,897	95,874	801	146	70	1,068	2,846
Income before extraordinary items	4,577,159	4,578,850	68,501	15,201	29,405	35,182	563,590
Extraordinary items, net of tax effect	13,891	13,891	650	0	0	6	1,270
<i>Net income</i>	4,591,050	4,592,741	69,151	15,201	29,405	35,188	564,860

Equity capital, beginning of period	36,493,171	36,491,765	487,535	70,799	249,769	256,824	3,798,945
Net income (loss)	4,591,050	4,592,741	69,151	15,201	29,405	35,188	564,860
Sale, conversion, acquisition or retirement of capital	352,001	348,833	4,804	4,607	78	1,038	65,410
Changes incident to mergers and absorptions	206,930	206,930	648	0	0	0	305
Cash dividends declared on common stock	-1,820,000	-1,820,000	-23,786	-1,306	-12,359	-7,647	-230,143
Cash dividends declared on preferred stock	-1,088	-1,088	0	0	0	0	0
Stock dividends issued	-73	-73	1	0	0	0	0
Other increases (decreases)	1,502,734	1,503,824	7,341	1,737	10,121	7,271	578,944
Equity capital, end of period	41,324,725	41,322,932	545,694	91,038	277,014	292,674	4,778,321
Reserve for possible loan losses, beginning of period	3,541,243	3,540,243	42,201	6,222	23,333	18,265	482,011
Recoveries credited to reserve	439,352	439,262	6,070	1,012	2,570	2,852	51,471
Changes incident to mergers and absorptions	20,557	20,557	97	0	0	0	1,215
Provision for possible loan losses	2,250,427	2,249,457	19,996	1,102	9,396	5,811	314,248
Losses charged to reserve	-2,544,934	-2,543,518	-21,484	-1,893	-11,385	-7,584	-315,237
Reserve for possible loan losses, end of period	3,706,645	3,706,001	46,880	6,443	23,914	19,344	533,708
Ratios:							
Net income before dividends to average equity capital† (percent)	11.50	11.64	13.24	18.87	11.05	12.59	13.16
Total operating expense to total operating income (percent)	87.68	87.67	85.18	79.38	91.77	86.14	88.10

See footnotes at end of table.

Table B-27—Continued

Total income and expenses of foreign and domestic offices and subsidiaries of national banks, United States and other areas, year ended December 31, 1976*

(Dollar amounts in thousands)

	Colorado	Connecticut	Delaware	District of Columbia	Florida	Georgia	Hawaii
Number of banks	132	23	5	15	306	64	2
Operating income:							
Interest and fees on loans	\$340,233	\$198,525	\$3,515	\$189,938	\$673,119	\$425,326	\$8,586
Interest on balances with banks	860	10,890	0	20,396	16,023	14,716	9
Income on Federal funds sold and securities purchased under agreements to resell in domestic offices	14,263	4,341	196	14,173	48,835	16,645	179
U.S. Treasury securities	29,914	14,653	545	34,339	152,942	27,070	1,213
Obligations of other U.S. government agencies and corporations	10,855	7,602	191	6,691	60,707	8,746	703
Obligations of states and political subdivisions	35,078	18,675	159	21,421	105,974	30,658	144
Other bonds, notes and debentures	584	6,105	28	1,275	7,630	2,330	0
Dividends on stock	507	448	4	354	1,668	2,165	13
Income from direct lease financing	3,171	2,657	0	2,092	5,005	3,605	0
Income from fiduciary activities	18,751	17,151	0	14,048	38,831	19,310	0
Service charges on deposit accounts in domestic offices	17,415	5,558	105	9,217	35,485	26,958	1
Other service charges, commissions and fees	17,633	8,944	77	5,827	32,930	18,611	1,286
Other income	11,968	8,917	52	4,199	24,486	35,058	22
<i>Total operating income</i>	501,232	304,466	4,872	323,970	1,203,635	631,198	12,156
Operating expenses:							
Salaries and employee benefits	110,796	79,395	1,003	75,404	232,292	149,639	3,354
Interest on time certificates of deposit of \$100,000 or more, issued by domestic offices	44,810	22,065	85	19,786	99,448	56,903	2,097
Interest on deposits in foreign offices	288	3,813	0	23,372	1,003	11,920	0
Interest on other deposits	118,379	70,886	1,983	62,647	362,381	100,604	2,952
Expense of Federal funds purchased and securities sold under agreements to repurchase in domestic offices	17,332	16,149	0	11,393	40,157	47,223	60
Interest on borrowed money	1,886	891	9	667	989	13,058	0
Interest on subordinated notes and debentures	2,312	638	14	724	2,438	4,495	75
Occupancy expense of bank premises, net	19,880	16,748	185	13,542	40,531	24,016	824
Furniture and equipment expense	14,700	11,612	128	8,988	32,816	20,088	345
Provision for possible loan losses (or actual net loan losses)	19,272	26,033	59	12,339	71,642	54,302	948
Other expenses	84,494	40,777	731	38,408	239,413	95,939	2,151
<i>Total operating expenses</i>	434,149	289,007	4,197	267,270	1,123,110	578,187	12,806
Income before income taxes and securities gains or losses	67,083	15,459	675	56,700	80,525	53,011	-650
Applicable income taxes (domestic and foreign)	14,019	-549	213	17,466	-2,467	5,776	14
Income before securities gains or losses	53,064	16,008	462	39,234	82,992	47,235	-664
Securities gains (losses), gross	1,727	1,199	13	2,660	12,706	2,049	261
Applicable income taxes (domestic and foreign)	808	580	3	1,322	5,008	630	0
Securities gains (losses), net	919	619	10	1,338	7,698	1,419	261
Income before extraordinary items	53,983	16,627	472	40,572	90,690	48,654	-403
Extraordinary items, net of tax effect	122	31	0	171	105	-47	0
<i>Net income</i>	54,105	16,658	472	40,743	90,795	48,607	-403

Equity capital, beginning of period	410,985	253,816	4,773	359,760	1,294,404	561,096	7,869
Net income (loss)	54,105	16,658	472	40,743	90,795	48,607	-403
Sale, conversion, acquisition or retirement of capital	3,887	636	195	1,456	1,482	7,366	0
Changes incident to mergers and absorptions	0	114	0	0	16,250	0	0
Cash dividends declared on common stock	-20,245	-12,070	-153	-17,054	-50,121	-28,978	0
Cash dividends declared on preferred stock	0	0	0	-169	-60	0	0
Stock dividends issued	0	0	0	0	0	0	0
Other increases (decreases)	10,213	3,852	88	4,569	21,957	5,172	200
Equity capital, end of period	458,945	263,006	5,375	389,305	1,374,707	593,263	7,666
Reserve for possible loan losses, beginning of period	33,479	22,951	140	29,040	90,582	59,717	652
Recoveries credited to reserve	4,469	3,339	3	2,158	15,937	9,587	73
Changes incident to mergers and absorptions	222	736	0	0	6,878	0	0
Provision for possible loan losses	19,272	26,033	59	12,339	71,642	54,302	948
Losses charged to reserve	-21,054	-29,628	-48	-14,208	-97,033	-67,550	-692
Reserve for possible loan losses, end of period	36,388	23,431	154	29,329	88,006	56,056	981
Ratios:							
Net income before dividends to average equity capital† (percent)	12.43	6.41	9.33	11.39	6.75	8.46	-5.08
Total operating expense to total operating income (percent)	86.62	94.92	86.15	82.50	93.31	91.60	105.35

See footnotes at end of table.

Table B-27—Continued

Total income and expenses of foreign and domestic offices and subsidiaries of national banks, United States and other areas, year ended December 31, 1976*

(Dollar amounts in thousands)

	Idaho	Illinois	Indiana	Iowa	Kansas	Kentucky	Louisiana
Number of banks	6	425	120	100	169	82	54
Operating income:							
Interest and fees on loans	\$143,887	\$2,697,593	\$552,363	\$203,613	\$212,295	\$228,173	\$307,316
Interest on balances with banks	618	342,558	17,839	1,541	298	4,077	7,039
Income on Federal funds sold and securities purchased under agreements to resell in domestic offices	2,030	79,211	33,718	13,094	15,731	15,413	22,992
U.S. Treasury securities	13,319	330,106	100,717	24,756	33,611	33,753	72,743
Obligations of other U.S. government agencies and corporations	4,531	138,143	41,578	15,312	18,442	10,167	14,186
Obligations of states and political subdivisions	13,355	254,829	74,656	26,879	31,747	31,263	44,509
Other bonds, notes and debentures	184	48,670	9,354	1,577	745	228	785
Dividends on stock	238	7,086	949	263	412	350	746
Income from direct lease financing	964	11,177	10,557	211	1,165	4,920	2,954
Income from fiduciary activities	1,414	99,628	20,653	6,763	5,878	3,843	5,771
Service charges on deposit accounts in domestic offices	6,547	42,762	20,715	5,575	7,854	6,285	14,933
Other service charges, commissions and fees	4,150	95,216	23,610	10,298	10,613	11,242	17,684
Other income	1,448	132,295	12,143	3,408	4,446	4,212	4,827
<i>Total operating income</i>	192,685	4,279,274	918,852	313,290	343,237	353,926	516,485
Operating expenses:							
Salaries and employee benefits	39,390	576,183	164,766	54,696	64,347	67,179	93,924
Interest on time certificates of deposit of \$100,000 or more, issued by domestic offices	15,602	526,972	84,723	14,459	30,052	28,097	82,313
Interest on deposits in foreign offices	0	657,724	8,711	0	0	2,871	2,452
Interest on other deposits	64,664	817,424	284,127	122,826	109,253	106,558	110,973
Expense of Federal funds purchased and securities sold under agreements to repurchase in domestic offices	3,001	375,724	61,217	11,789	10,494	12,175	25,460
Interest on borrowed money	7	29,210	1,914	207	1,242	526	646
Interest on subordinated notes and debentures	628	6,050	595	1,616	1,519	479	1,395
Occupancy expense of bank premises, net	5,345	102,654	31,835	9,479	10,486	11,912	18,328
Furniture and equipment expense	4,940	74,359	25,581	7,148	10,384	10,746	19,627
Provision for possible loan losses (or actual net loan losses)	3,984	252,476	39,835	3,510	8,211	9,497	19,620
Other expenses	22,432	328,959	101,700	39,170	39,712	43,227	63,560
<i>Total operating expenses</i>	159,993	3,747,735	805,004	264,900	285,700	293,267	438,298
Income before income taxes and securities gains or losses	32,692	531,539	113,848	48,390	57,537	60,659	78,187
Applicable income taxes (domestic and foreign)	9,330	133,163	16,329	9,793	12,514	11,935	16,236
Income before securities gains or losses	23,362	398,376	97,519	38,597	45,023	48,724	61,951
Securities gains (losses), gross	-185	34,170	7,536	1,218	1,916	684	5,993
Applicable income taxes (domestic and foreign)	-94	15,255	3,442	553	633	83	1,150
Securities gains (losses), net	-91	18,915	4,094	665	1,283	601	4,843
Income before extraordinary items	23,271	417,291	101,613	39,262	46,306	49,325	66,794
Extraordinary items, net of tax effect	3	2,878	-26	275	163	53	2,139
<i>Net income</i>	23,274	420,169	101,587	39,537	46,469	49,378	68,933

Equity capital, beginning of period	140,080	3,074,759	838,249	266,175	376,816	314,912	520,914
Net income (loss)	23,274	420,169	101,587	39,537	46,469	49,378	68,933
Sale, conversion, acquisition or retirement of capital	0	19,061	3,636	1,662	1,245	2,330	3,863
Changes incident to mergers and absorptions	0	1,083	2,672	0	24	445	0
Cash dividends declared on common stock	-7,401	-141,663	-38,982	-11,315	-13,483	-11,162	-17,384
Cash dividends declared on preferred stock	0	-95	0	0	0	0	-89
Stock dividends issued	0	0	0	0	0	0	0
Other increases (decreases)	4,153	178,960	11,903	10,162	6,028	13,453	17,117
Equity capital, end of period	160,106	3,552,274	919,065	306,221	417,099	369,356	593,354
Reserve for possible loan losses, beginning of period	11,572	393,384	69,285	20,974	23,254	24,336	42,899
Recoveries credited to reserve	2,191	28,071	9,770	1,874	4,113	3,045	6,680
Changes incident to mergers and absorptions	0	1,335	1,051	11	70	40	0
Provision for possible loan losses	3,984	252,476	39,835	3,510	8,211	9,497	19,620
Losses charged to reserve	-4,137	-289,773	-39,621	-5,709	-10,511	-11,248	-28,072
Reserve for possible loan losses, end of period	13,610	385,493	80,320	20,660	25,137	25,670	41,127
Ratios:							
Net income before dividends to average equity capital (percent)	15.36	12.60	11.50	13.71	11.57	14.27	12.25
Total operating expense to total operating income (percent)	83.03	87.58	87.61	84.55	83.24	82.86	84.86

See footnotes at end of table.

Table B-27—Continued

Total income and expenses of foreign and domestic offices and subsidiaries of national banks, United States and other areas, year ended December 31, 1976*

(Dollar amounts in thousands)

	Maine	Maryland	Massachusetts	Michigan	Minnesota	Mississippi	Missouri
Number of banks	17	41	75	122	203	38	115
Operating income:							
Interest and fees on loans	\$55,431	\$275,900	\$681,748	\$985,639	\$522,835	\$151,876	\$394,637
Interest on balances with banks	120	1,709	138,470	61,599	13,340	2,544	15,854
Income on Federal funds sold and securities purchased under agreements to resell in domestic offices	3,668	13,938	19,223	43,717	21,483	7,034	52,671
U.S. Treasury securities	4,886	21,064	80,210	119,641	56,414	18,441	45,641
Obligations of other U.S. government agencies and corporations	2,037	7,816	13,415	33,228	29,802	5,967	23,411
Obligations of states and political subdivisions	5,970	26,219	44,388	113,091	63,639	20,822	54,894
Other bonds, notes and debentures	84	561	35,064	11,095	2,059	516	1,112
Dividends on stock	75	329	1,407	1,729	918	353	783
Income from direct lease financing	0	3,782	22,888	3,230	5,859	81	5,575
Income from fiduciary activities	2,320	5,429	52,299	35,703	23,973	2,404	23,913
Service charges on deposit accounts in domestic offices	2,014	11,688	16,150	30,398	13,219	8,787	8,203
Other service charges, commissions and fees	2,321	7,831	55,447	25,373	28,900	8,559	23,654
Other income	1,000	14,061	28,986	19,145	47,629	7,746	23,664
<i>Total operating income</i>	79,926	390,327	1,189,695	1,483,588	830,070	235,130	674,012
Operating expenses:							
Salaries and employee benefits	19,102	87,023	244,767	283,791	138,815	45,711	123,137
Interest on time certificates of deposit of \$100,000 or more, issued by domestic offices	4,066	32,946	115,687	101,492	69,648	30,722	68,761
Interest on deposits in foreign offices	0	6,754	204,688	77,600	11,192	0	6,622
Interest on other deposits	25,629	109,697	139,890	512,811	245,180	58,141	140,814
Expense of Federal funds purchased and securities sold under agreements to repurchase in domestic offices	1,444	19,011	70,982	47,646	60,429	9,247	80,315
Interest on borrowed money	3	579	32,683	608	10,501	39	1,419
Interest on subordinated notes and debentures	134	472	3,292	8,635	8,302	545	1,436
Occupancy expense of bank premises, net	3,694	16,528	50,093	51,049	20,195	8,470	18,864
Furniture and equipment expense	2,533	11,287	26,485	34,987	15,018	8,081	18,347
Provision for possible loan losses (or actual net loan losses)	2,635	15,644	77,601	41,763	26,275	10,195	23,929
Other expenses	10,604	46,777	126,113	140,067	99,968	29,841	84,017
<i>Total operating expenses</i>	69,844	346,718	1,092,281	1,300,449	705,523	200,992	567,661
Income before income taxes and securities gains or losses	10,082	43,609	97,414	183,139	124,547	34,138	106,351
Applicable income taxes (domestic and foreign)	1,858	6,200	30,002	28,633	31,502	5,603	23,861
Income before securities gains or losses	8,224	37,409	67,412	154,506	93,045	28,535	82,490
Securities gains (losses), gross	477	845	8,074	-714	1,132	748	2,495
Applicable income taxes (domestic and foreign)	238	209	4,129	-503	323	124	1,092
Securities gains (losses), net	239	636	3,945	-211	809	624	1,403
Income before extraordinary items	8,463	38,045	71,357	154,295	93,854	29,159	83,893
Extraordinary items, net of tax effect	-53	-15	-40	237	161	609	33
<i>Net income</i>	8,410	38,030	71,317	154,532	94,015	29,768	83,926

Equity capital, beginning of period	68,834	330,039	887,809	1,325,990	744,917	207,593	676,709
Net income (loss)	8,410	38,030	71,317	154,532	94,015	29,768	83,926
Sale, conversion, acquisition or retirement of capital	832	578	245	9,605	16,113	158	5,026
Changes incident to mergers and absorptions	718	566	0	420	0	3,125	0
Cash dividends declared on common stock	-4,561	-11,588	-37,712	-67,137	-34,682	-9,670	-44,180
Cash dividends declared on preferred stock	0	0	0	-6	0	0	-248
Stock dividends issued	0	0	0	0	0	0	0
Other increases (decreases)	1,297	7,158	31,435	49,459	18,953	4,551	14,792
Equity capital, end of period	75,530	364,783	953,094	1,472,863	839,316	235,525	736,025
Reserve for possible loan losses, beginning of period	6,640	27,108	76,004	110,627	58,627	17,450	51,640
Recoveries credited to reserve	1,205	3,610	16,272	11,045	3,559	3,596	6,540
Changes incident to mergers and absorptions	105	55	-272	112	85	206	506
Provision for possible loan losses	2,635	15,644	77,601	41,763	26,275	10,195	23,929
Losses charged to reserve	-4,822	-18,617	-89,949	-49,526	-26,832	-13,521	-25,084
Reserve for possible loan losses, end of period	5,763	27,800	79,656	114,021	61,714	17,926	57,531
Ratios:							
Net income before dividends to average equity capital† (percent)	11.24	10.85	7.65	10.92	9.53	13.28	11.77
Total operating expense to total operating income (percent)	87.39	88.83	91.81	87.66	85.00	85.48	84.22

See footnotes at end of table.

Table B-27—Continued

Total income and expenses of foreign and domestic offices and subsidiaries of national banks, United States and other areas, year ended December 31, 1975*

(Dollar amounts in thousands)

	Montana	Nebraska	Nevada	New Hampshire	New Jersey	New Mexico	New York
Number of banks	56	120	4	43	104	38	129
Operating income:							
Interest and fees on loans	\$105,562	\$220,157	\$68,895	\$65,607	\$728,902	\$108,456	\$5,974,143
Interest on balances with banks	420	649	233	953	20,981	1,861	815,701
Income on Federal funds sold and securities purchased under agreements to resell in domestic offices	3,218	9,381	2,539	1,556	25,029	6,190	45,552
U.S. Treasury securities	10,087	21,906	11,732	8,485	110,690	10,835	237,642
Obligations of other U.S. government agencies and corporations	4,271	13,568	6,265	1,317	58,568	8,453	58,245
Obligations of states and political subdivisions	13,563	27,607	7,639	7,093	122,056	14,141	228,326
Other bonds, notes and debentures	235	744	1,354	102	30,666	164	187,367
Dividends on stock	181	308	99	110	1,466	197	7,687
Income from direct lease financing	380	4,095	1,437	15	6,568	167	75,280
Income from fiduciary activities	764	8,679	1,949	2,247	19,900	2,313	136,858
Service charges on deposit accounts in domestic offices	3,438	5,872	5,811	2,745	28,143	5,537	60,419
Other service charges, commissions and fees	4,895	15,120	1,774	1,886	24,741	6,151	327,782
Other income	1,133	5,714	1,536	843	16,429	1,403	338,719
<i>Total operating income</i>	148,147	333,800	111,263	92,959	1,194,139	165,868	8,493,721
Operating expenses:							
Salaries and employee benefits	24,695	63,175	25,984	21,865	260,464	33,708	1,328,444
Interest on time certificates of deposit of \$100,000 or more, issued by domestic offices	8,492	18,921	13,252	8,246	65,035	25,131	689,649
Interest on deposits in foreign offices	0	0	0	0	7,139	0	2,610,087
Interest on other deposits	59,085	107,783	24,804	24,372	432,908	44,964	692,199
Expense of Federal funds purchased and securities sold under agreements to repurchase in domestic offices	2,022	10,349	283	1,666	23,885	2,885	270,746
Interest on borrowed money	103	3,312	70	23	3,068	62	255,431
Interest on subordinated notes and debentures	951	1,617	0	82	3,951	1,114	19,150
Occupancy expense of bank premises, net	3,627	12,085	5,064	4,863	57,224	6,741	264,051
Furniture and equipment expense	3,162	10,789	2,204	2,740	35,307	5,547	103,540
Provision for possible loan losses (or actual net loan losses)	5,042	11,551	2,106	3,811	38,490	8,516	590,930
Other expenses	19,219	40,862	14,055	16,220	144,504	20,781	690,809
<i>Total operating expenses</i>	126,398	280,444	87,822	83,888	1,071,975	149,449	7,515,036
Income before income taxes and securities gains or losses	21,749	53,356	23,441	9,071	122,164	16,419	978,685
Applicable income taxes (domestic and foreign)	3,642	9,387	7,363	742	-467	2,078	333,405
Income before securities gains or losses	18,107	43,969	16,078	8,329	122,631	14,341	645,280
Securities gains (losses), gross	257	619	-70	1,208	4,130	1,180	25,886
Applicable income taxes (domestic and foreign)	8	211	-33	465	1,498	415	16,017
Securities gains (losses), net	249	408	-37	743	2,632	765	9,869
Income before extraordinary items	18,356	44,377	16,041	9,072	125,263	15,106	655,149
Extraordinary items, net of tax effect	17	176	0	219	346	-393	527
<i>Net income</i>	18,373	44,553	16,041	9,291	125,609	14,713	655,676

Equity capital, beginning of period	117,423	295,673	103,125	98,122	1,107,050	136,820	5,552,322
Net income (loss)	18,373	44,553	16,041	9,291	125,609	14,713	655,676
Sale, conversion, acquisition or retirement of capital	913	564	0	19	369	5,698	44,343
Changes incident to mergers and absorptions	0	0	0	0	23,342	0	124,913
Cash dividends declared on common stock	-6,199	-16,169	-4,567	-3,913	-63,316	-6,216	-270,137
Cash dividends declared on preferred stock	0	-6	0	0	-2	-23	-5
Stock dividends issued	0	-75	0	0	0	0	0
Other increases (decreases)	4,031	7,976	3,242	1,395	23,103	2,040	123,896
Equity capital, end of period	134,541	332,516	117,841	104,914	1,216,155	153,032	6,231,008
Reserve for possible loan losses, beginning of period	10,524	29,716	7,350	6,785	105,075	12,927	594,833
Recoveries credited to reserve	1,796	3,111	1,021	692	11,126	2,435	87,543
Changes incident to mergers and absorptions	0	0	0	8	2,160	0	1,967
Provision for possible loan losses	5,042	11,551	2,106	3,811	38,490	8,516	590,930
Losses charged to reserve	-6,344	-17,998	-2,186	-4,337	-48,944	-10,477	-643,131
Reserve for possible loan losses, end of period	11,018	26,380	8,291	6,959	107,907	13,401	632,142
Ratios:							
Net income before dividends to average equity capital† (percent)	14.33	14.02	14.54	9.08	10.61	10.08	11.01
Total operating expense to total operating income (percent)	85.32	84.02	78.93	90.24	89.77	90.10	88.48

See footnotes at end of table.

Table B-27—Continued
Total income and expenses of foreign and domestic offices and subsidiaries of national banks, United States and other areas, year ended December 31, 1976*

(Dollar amounts in thousands)

	North Carolina	North Dakota	Ohio	Oklahoma	Oregon	Pennsylvania	Rhode Island
Number of banks	28	43	219	195	7	237	5
Operating income:							
Interest and fees on loans	\$475,696	\$79,624	\$976,826	\$362,875	\$295,020	\$1,833,243	\$148,771
Interest on balances with banks	37,920	137	44,096	2,651	19,116	139,894	1,949
Income on Federal funds sold and securities purchased under agreements to resell in domestic offices	25,862	1,767	52,345	27,236	12,779	96,535	3,148
U.S. Treasury securities	36,603	8,874	193,747	61,508	23,828	229,719	14,278
Obligations of other U.S. government agencies and corporations	27,480	4,346	34,232	7,392	13,515	93,453	3,485
Obligations of states and political subdivisions	57,234	10,610	167,644	65,198	36,675	175,976	10,333
Other bonds, notes and debentures	2,045	97	8,541	1,942	474	21,343	1,555
Dividends on stock	724	107	2,363	810	393	5,597	287
Income from direct lease financing	6,929	0	10,157	2,170	2,828	17,148	2,793
Income from fiduciary activities	23,233	1,893	43,182	10,181	10,853	80,099	10,094
Service charges on deposit accounts in domestic offices	21,809	2,226	44,794	14,508	19,683	25,234	3,402
Other service charges, commissions and fees	20,143	3,418	41,988	12,513	19,960	49,908	4,248
Other income	30,997	1,220	30,604	16,111	6,051	100,589	10,149
<i>Total operating income</i>	766,675	114,319	1,650,519	585,095	461,175	2,868,738	214,492
Operating expenses:							
Salaries and employee benefits	165,315	19,055	314,208	103,531	103,808	495,614	40,279
Interest on time certificates of deposit of \$100,000 or more, issued by domestic offices	60,087	3,375	101,652	94,636	28,809	293,557	22,375
Interest on deposits in foreign offices	41,038	0	11,859	359	10,579	206,993	8,558
Interest on other deposits	175,408	50,051	520,351	145,109	123,022	738,905	61,579
Expense of Federal funds purchased and securities sold under agreements to repurchase in domestic offices	47,869	590	85,969	21,985	30,118	213,586	7,249
Interest on borrowed money	725	213	964	1,041	489	28,993	329
Interest on subordinated notes and debentures	10,186	698	2,451	4,083	7,482	16,719	314
Occupancy expense of bank premises, net	32,608	2,831	54,706	13,594	16,297	94,382	7,439
Furniture and equipment expense	19,297	2,178	41,803	15,356	11,085	61,220	3,334
Provision for possible loan losses (or actual net loan losses)	24,584	1,014	54,297	35,813	7,895	134,244	10,062
Other expenses	90,298	12,153	196,248	73,822	50,807	262,079	26,022
<i>Total operating expenses</i>	667,415	92,158	1,384,508	509,329	390,391	2,546,292	187,540
Income before income taxes and securities gains or losses	99,260	22,161	266,011	75,766	70,784	322,446	26,952
Applicable income taxes (domestic and foreign)	18,771	5,517	43,206	1,938	18,195	33,814	7,947
Income before securities gains or losses	80,489	16,644	222,805	73,828	52,589	288,632	19,005
Securities gains (losses), gross	138	70	3,012	4,313	-1,289	10,335	432
Applicable income taxes (domestic and foreign)	-33	28	1,148	1,317	-658	4,477	164
Securities gains (losses), net	171	42	1,864	2,996	-631	5,858	268
Income before extraordinary items	80,660	16,686	224,669	76,824	51,958	294,490	19,273
Extraordinary items, net of tax effect	601	46	186	939	0	221	0
<i>Net income</i>	81,261	16,732	224,855	77,763	51,958	294,711	19,273

Equity capital, beginning of period	598,423	94,800	1,676,246	588,123	332,192	2,483,277	182,000
Net income (loss)	81,261	16,732	224,855	77,763	51,958	294,711	19,273
Sale, conversion, acquisition or retirement of capital	709	200	17,682	3,253	10	12,157	0
Changes incident to mergers and absorptions	8,362	0	16,812	0	0	4,019	0
Cash dividends declared on common stock	-26,609	-5,357	-98,906	-24,951	-21,823	-136,048	-10,947
Cash dividends declared on preferred stock	0	0	0	-45	0	-69	0
Stock dividends issued	0	0	0	0	0	0	0
Other increases (decreases)	15,484	3,704	35,322	7,802	10,587	51,734	11,867
Equity capital, end of period	677,630	110,079	1,872,011	651,945	372,924	2,709,781	202,193
Reserve for possible loan losses, beginning of period	58,124	9,194	123,834	37,464	27,070	255,379	15,648
Recoveries credited to reserve	6,209	338	18,725	9,830	2,318	16,044	1,690
Changes incident to mergers and absorptions	963	0	1,021	15	0	444	0
Provision for possible loan losses	24,584	1,014	54,297	35,813	7,895	134,244	10,062
Losses charged to reserve	-27,122	-1,559	-60,237	-41,312	-8,721	-156,122	-12,301
Reserve for possible loan losses, end of period	62,758	8,987	137,640	41,810	28,562	249,989	15,099
Ratios:							
Net income before dividends to average equity capital† (percent)	12.68	16.18	12.56	12.47	14.58	11.22	10.01
Total operating expense to total operating income (percent)	87.05	80.61	83.88	87.05	84.65	88.76	87.43

See footnotes at end of table.

Table B-27—Continued

Total income and expenses of foreign and domestic offices and subsidiaries of national banks, United States and other areas, year ended December 31, 1976*

(Dollar amounts in thousands)

	South Carolina	South Dakota	Tennessee	Texas	Utah	Vermont	Virginia
Number of banks	19	32	74	596	13	14	108
Operating income:							
Interest and fees on loans	\$129,004	\$110,047	\$386,943	\$1,764,099	\$109,404	\$24,282	\$511,969
Interest on balances with banks	698	669	11,924	186,115	1,042	62	8,640
Income on Federal funds sold and securities purchased under agreements to resell in domestic offices	5,742	2,210	24,062	144,654	3,726	756	18,004
U.S. Treasury securities	12,653	10,080	50,940	238,584	11,110	2,370	50,586
Obligations of other U.S. government agencies and corporations	7,139	5,542	22,609	91,977	3,688	752	21,780
Obligations of states and political subdivisions	16,786	14,863	39,424	264,033	8,850	2,349	62,942
Other bonds, notes and debentures	66	520	2,288	10,055	37	311	913
Dividends on stock	201	168	761	3,022	173	28	934
Income from direct lease financing	170	453	2,190	7,436	1,702	19	648
Income from fiduciary activities	4,948	1,709	12,522	65,376	2,705	260	16,773
Service charges on deposit accounts in domestic offices	11,780	3,438	18,208	63,510	5,106	950	14,110
Other service charges, commissions and fees	6,660	4,703	26,643	58,566	5,223	338	19,845
Other income	4,580	1,242	14,025	43,427	2,717	545	12,980
<i>Total operating income</i>	200,427	155,644	612,539	2,940,854	155,483	33,022	740,124
Operating expenses:							
Salaries and employee benefits	60,395	24,832	121,937	452,922	27,805	7,167	144,610
Interest on time certificates of deposit of \$100,000 or more, issued by domestic offices	3,472	8,386	71,980	418,265	22,076	528	49,613
Interest on deposits in foreign offices	0	0	5,037	239,246	0	0	1,490
Interest on other deposits	45,882	67,813	167,489	604,661	38,501	14,304	244,297
Expense of Federal funds purchased and securities sold under agreements to repurchase in domestic offices	6,509	737	27,210	185,977	4,900	111	17,178
Interest on borrowed money	231	61	750	10,720	688	6	336
Interest on subordinated notes and debentures	607	1,266	1,764	9,900	1,411	145	3,379
Occupancy expense of bank premises, net	8,362	4,138	22,861	70,327	4,588	1,297	26,710
Furniture and equipment expense	8,724	2,959	20,164	62,706	5,916	929	20,465
Provision for possible loan losses (or actual net loan losses)	8,689	1,476	56,646	98,253	3,834	752	25,582
Other expenses	29,589	15,597	78,994	329,002	18,799	3,825	129,884
<i>Total operating expenses</i>	172,460	127,265	574,832	2,481,979	128,518	29,064	663,544
Income before income taxes and securities gains or losses	27,967	28,379	37,707	458,875	26,965	3,958	76,580
Applicable income taxes (domestic and foreign)	4,110	6,602	- 103	90,605	8,594	581	3,054
Income before securities gains or losses	23,857	21,777	37,810	368,270	18,371	3,377	73,526
Securities gains (losses), gross	186	287	8,972	5,608	- 262	8	1,975
Applicable income taxes (domestic and foreign)	9	144	4,419	346	- 135	- 36	682
Securities gains (losses), net	177	143	4,553	5,262	- 127	44	1,293
Income before extraordinary items	24,034	21,920	42,363	373,532	18,244	3,421	74,819
Extraordinary items, net of tax effect	0	103	- 75	1,572	35	99	121
<i>Net income</i>	24,034	22,023	42,288	375,104	18,279	3,520	74,940

Equity capital, beginning of period	198,834	118,432	516,587	2,557,076	108,463	27,405	652,620
Net income (loss)	24,034	22,023	42,288	375,104	18,279	3,520	74,940
Sale, conversion, acquisition or retirement of capital	5	300	17,591	78,630	1,000	15	2,293
Changes incident to mergers and absorptions	0	2,553	0	475	0	0	3,905
Cash dividends declared on common stock	-8,678	-7,041	-16,933	-139,596	-6,717	-1,441	-32,396
Cash dividends declared on preferred stock	0	0	0	0	0	0	0
Stock dividends issued	0	0	0	0	0	0	0
Other increases (decreases)	4,314	2,271	4,767	97,348	3,260	804	15,273
Equity capital, end of period	218,509	138,538	564,300	2,969,037	124,285	30,303	716,635
Reserve for possible loan losses, beginning of period	13,941	13,485	54,814	218,066	9,022	2,460	53,698
Recoveries credited to reserve	2,005	1,507	15,248	33,044	945	187	8,726
Changes incident to mergers and absorptions	0	330	0	331	0	0	855
Provision for possible loan losses	8,689	1,476	56,646	98,253	3,834	752	25,582
Losses charged to reserve	-8,629	-3,850	-74,634	-118,604	-3,726	-870	-31,341
Reserve for possible loan losses, end of period	16,006	12,948	52,074	231,090	10,075	2,529	57,520
Ratios:							
Net income before dividends to average equity capital† (percent)	11.47	16.85	7.39	13.37	15.56	11.89	10.85
Total operating expense to total operating income (percent)	86.05	81.77	93.84	84.40	82.66	88.01	89.65

See footnotes at end of table.

Table B-27—Continued

Total income and expenses of foreign and domestic offices and subsidiaries of national banks, United States and other areas, year ended December 31, 1976*

(Dollar amounts in thousands)

	Washington	West Virginia	Wisconsin	Wyoming	Other areas		District of Columbia non-national †
					Puerto Rico	Virgin Islands	
Number of banks	21	103	130	46	1	1	1
Operating income:							
Interest and fees on loans	\$578,976	\$158,059	\$366,085	\$73,578	\$976	0	\$1,060
Interest on balances with banks	18,825	2,210	28,196	269	79	0	0
Income on Federal funds sold and securities purchased under agreements to resell in domestic offices	38,821	16,249	18,623	1,854	152	\$77	111
U.S. Treasury securities	34,360	30,933	56,378	8,394	301	46	325
Obligations of other U.S. government agencies and corporations	9,287	22,514	17,580	4,532	0	117	448
Obligations of states and political subdivisions	46,891	32,210	39,259	9,951	275	0	527
Other bonds, notes and debentures	921	1,109	3,193	225	0	0	250
Dividends on stock	687	331	760	102	2	0	0
Income from direct lease financing	16,315	1,255	3,554	307	0	0	0
Income from fiduciary activities	18,107	3,980	11,307	876	0	0	0
Service charges on deposit accounts in domestic offices	33,483	2,997	8,346	3,039	64	0	173
Other service charges, commissions and fees	27,629	4,982	19,455	1,874	55	23	40
Other income	21,084	2,853	20,331	1,298	3	0	8
<i>Total operating income</i>	845,386	279,682	593,067	106,299	1,907	263	2,942
Operating expenses:							
Salaries and employee benefits	201,276	44,839	102,438	18,608	409	218	856
Interest on time certificates of deposit of \$100,000 or more, issued by domestic offices	63,712	15,278	46,592	8,128	1,034	0	239
Interest on deposits in foreign offices	38,240	0	26,963	0	0	0	0
Interest on other deposits	205,496	108,851	195,666	36,826	363	121	777
Expense of Federal funds purchased and securities sold under agreements to repurchase in domestic offices	46,597	14,496	36,168	1,560	0	0	1
Interest on borrowed money	4,143	525	1,046	780	0	0	0
Interest on subordinated notes and debentures	4,813	581	3,863	508	0	0	13
Occupancy expense of bank premises, net	31,185	6,688	19,167	2,754	82	91	97
Furniture and equipment expense	23,337	7,460	16,257	2,511	15	30	36
Provision for possible loan losses (or actual net loan losses)	22,749	4,779	25,642	2,377	970	0	0
Other expenses	96,729	31,678	65,975	12,016	502	49	453
<i>Total operating expenses</i>	738,277	235,175	539,777	86,068	3,375	509	2,472
Income before income taxes and securities gains or losses	107,109	44,507	53,290	20,231	-1,468	-246	470
Applicable income taxes (domestic and foreign)	24,870	4,492	8,425	4,541	0	0	30
Income before securities gains or losses	82,239	40,015	44,865	15,690	-1,468	-246	440
Securities gains (losses), gross	242	1,366	5,687	516	23	0	-14
Applicable income taxes (domestic and foreign)	42	502	2,696	189	0	0	0
Securities gains (losses), net	200	864	2,991	327	23	0	0
Income before extraordinary items	82,439	40,879	47,856	16,017	-1,445	-246	426
Extraordinary items, net of tax effect	21	220	279	-94	0	0	0
<i>Net income</i>	82,460	41,099	48,135	15,923	-1,445	-246	426

Equity capital, beginning of period	540,893	307,747	479,780	87,961	1,518	-112	2,623
Net income (loss)	82,460	41,099	48,135	15,923	-1,445	-246	426
Sale, conversion, acquisition or retirement of capital	456	1,344	4,819	1,150	3,168	0	0
Changes incident to mergers and absorptions	-3,821	0	0	0	0	0	0
Cash dividends declared on common stock	-21,014	-10,131	-22,078	-4,035	0	0	-70
Cash dividends declared on preferred stock	271	0	0	0	0	0	0
Stock dividends issued	0	1	0	0	0	0	0
Other increases (decreases)	30,972	6,356	12,932	2,458	-1,175	85	104
Equity capital, end of period	629,675	346,416	523,588	103,457	2,066	-273	3,083
Reserve for possible loan losses, beginning of period	63,837	21,697	45,597	7,310	1,000	0	13,403
Recoveries credited to reserve	8,614	1,588	2,577	831	90	0	686
Changes incident to mergers and absorptions	-10	0	20	1	0	0	0
Provision for possible loan losses	22,749	4,779	25,642	2,377	970	0	3,812
Losses charged to reserve	-23,259	-6,919	-23,255	-2,422	-1,416	0	-4,832
Reserve for possible loan losses, end of period	71,931	21,145	50,581	8,097	644	0	13,069
Ratios:							
Net income before dividends to average equity capital† (percent)	13.82	12.42	9.51	16.54	-110.31	-13.62	15.10
Total operating expense to total operating income (percent)	87.33	84.09	91.01	80.97	176.98	193.54	84.02

*Includes all banks operating as national banks at year-end, with full-year data for state chartered banks that converted to national banks during the year.

† This is an average of five periods beginning with December 31, 1975. The 1975 figure is not identical in definition with the four figures from 1976 because of major reporting changes instituted in 1976.

‡ Non-national banks in the District of Columbia are supervised by the Comptroller of the Currency.

Table B-28

Income and expenses of national banks, by asset size, December 31, 1976

(Dollars in thousands)

Report of income accounts	All national banks	Banks with assets of—						
		Less than \$5 million	\$5 to \$10 million	\$10 to \$25 million	\$25 to \$100 million	\$100 to \$300 million	\$300 to \$1,000 million	\$1,000 million and more
Number of banks	4,737	223	563	1,558	1,750	396	162	85
Interest and fees on loans	\$31,031,046	\$27,303	\$174,905	\$1,140,798	\$3,725,346	\$2,752,510	\$3,744,946	\$19,465,238
Interest on balances with banks	2,946,656	617	1,754	13,123	48,379	43,988	54,098	2,784,697
Income on federal funds sold and securities purchased under agreements to resell in domestic offices	1,229,182	3,423	13,502	65,403	164,241	127,694	211,002	643,917
Interest on U.S. Treasury securities	3,193,274	8,368	42,291	212,906	598,033	421,438	483,718	1,426,520
Interest on obligations of other U.S. government agencies and corporations	1,210,149	3,798	23,442	120,954	305,426	214,333	175,314	366,882
Interest on obligations of states and political subdivisions of the U.S.	2,801,076	1,942	17,827	162,385	572,568	419,165	476,928	1,150,261
Interest on other bonds notes, and debentures	492,072	294	1,243	11,242	41,585	37,091	42,854	357,763
Dividends on stock	62,149	87	341	1,989	6,606	5,240	6,835	41,051
Income from direct lease financing	408,438	13	164	2,624	12,405	16,491	48,125	328,616
Income from fiduciary activities	1,029,203	2,349	5,904	8,363	47,118	98,047	183,887	683,535
Service charges on deposit accounts in domestic offices	911,467	1,921	10,817	61,257	168,500	105,602	149,739	413,631
Other service charges, commissions and fees	1,441,484	4,261	6,024	35,249	107,941	103,290	189,209	995,510
Other income	1,265,214	562	2,943	18,319	56,373	69,786	111,863	1,005,368
<i>Total operating income</i>	<i>48,021,410</i>	<i>54,938</i>	<i>301,157</i>	<i>1,854,612</i>	<i>5,854,521</i>	<i>4,414,675</i>	<i>5,878,518</i>	<i>29,662,989</i>
Salaries and employee benefits	8,575,522	18,486	71,290	371,576	1,099,862	869,238	1,256,160	4,888,910
Interest on time certificates of deposit of \$100,000 or more issued by domestic offices	4,327,891	1,449	8,917	75,477	348,052	365,608	600,998	2,927,390
Interest on deposits in foreign offices	5,962,140	0	0	0	0	1,302	19,650	5,941,188
Interest on other deposits	10,595,809	15,478	109,270	724,040	2,256,882	1,497,633	1,527,885	4,464,621
Expense of federal funds purchased and securities sold under agreements to repurchase in domestic offices	2,268,120	139	653	7,206	50,881	107,922	292,815	1,808,504
Interest on borrowed money	454,745	147	265	1,291	5,847	4,651	17,300	425,244
Interest on subordinated notes and debentures	179,190	20	206	3,088	16,949	17,602	29,462	111,863
Occupancy expense of bank premises, gross	1,879,653	3,439	12,384	63,127	219,631	199,176	308,171	1,073,725
Less: rental income	331,341	95	466	3,322	21,308	35,509	66,657	203,984
Occupancy expense of bank premises, net	1,548,312	3,344	11,918	59,805	198,323	163,667	241,514	869,741
Furniture and equipment expense	1,015,489	2,446	8,868	46,843	145,821	118,853	187,917	504,741
Provision for possible loan losses (or actual net loan losses)	2,250,427	1,714	9,626	53,904	174,754	146,784	262,857	1,600,788
Other expenses	4,925,748	11,164	45,196	242,065	727,387	570,117	792,248	2,537,571
<i>Total operating expenses</i>	<i>42,103,393</i>	<i>54,387</i>	<i>266,209</i>	<i>1,585,295</i>	<i>5,024,758</i>	<i>3,863,377</i>	<i>5,228,806</i>	<i>26,080,561</i>
Income before income taxes and securities gains or losses	5,918,017	551	34,948	269,317	829,763	551,298	649,712	3,582,428
Applicable income taxes (domestic and foreign)	1,436,755	527	6,174	45,092	126,818	62,729	76,576	1,118,839
Income before securities gains or losses	4,481,262	24	28,774	224,225	702,945	488,569	573,136	2,463,589
Securities gains (losses), gross	168,493	579	3,031	15,607	35,154	30,185	21,602	62,335
Applicable income taxes	72,596	95	674	3,940	11,104	13,111	10,086	33,586
Securities gains (losses), net	95,897	484	2,357	11,667	24,050	17,074	11,516	28,749
Income before extraordinary items	4,577,159	508	31,131	235,892	726,995	505,643	584,652	2,492,338
Extraordinary items, net of tax effect	13,891	-86	-58	2,597	4,661	2,643	3,131	1,003
Net income	4,591,050	422	31,073	238,489	731,656	508,286	587,783	2,493,341

Table B-29

Average assets and equity capital, net income, and dividends of National banks, 1961-1976

(Dollar amounts in millions)

Year	Number of banks	Average total assets*	Average capital stock (par value)*			Average total equity capital*	Net income before dividends	Cash dividends on capital stock	Ratios (percent)			
			Preferred	Common	Total				Net income before dividends to average total assets	Net income before dividends to average total equity capital	Cash dividends to net income before dividends	Cash dividends to total equity capital
1961	4,513	\$142,456	\$2	\$3,464	\$3,466	\$11,471	\$1,042	\$486	0.73	9.08	46.64	4.24
1962	4,503	153,675	10	3,663	3,673	12,289	1,069	518	.70	8.70	48.46	4.22
1963	4,615	164,546	24	3,862	3,886	13,087	1,206	548	.73	9.22	45.44	4.19
1964	4,773	178,483	27	4,136	4,163	14,023	1,213	593	.68	8.65	48.89	4.23
1965	4,815	200,938	29	4,600	4,629	15,304	1,387	683	.69	9.06	49.24	4.46
1966	4,799	226,847	29	5,036	5,065	16,817	1,583	738	.70	9.41	46.62	4.39
1967	4,758	247,136	38	5,224	5,262	17,887	1,757	796	.71	9.82	45.30	4.45
1968	4,716	275,155	58	5,504	5,562	19,291	1,932	897	.70	10.02	46.43	4.65
1969	4,669	303,127	60	5,983	6,043	21,298	2,534	1,068	.84	11.90	42.15	5.01
1970	4,621	318,718	63	6,327	6,390	22,942	2,829	1,278	.89	12.33	45.17	5.57
1971	4,600	352,924	57	6,641	6,698	24,679	3,041	1,390	.86	12.32	45.71	5.63
1972	4,614	397,169	43	7,132	7,175	26,888	3,308	1,310	.83	12.30	39.60	4.87
1973	4,661	453,761	39	7,676	7,715	29,647	3,768	1,449	.83	12.71	38.46	4.89
1974	4,708	508,688	27	8,178	8,205	32,391	4,044	1,671	.79	12.48	41.32	5.16
1975	4,744	536,370	13	8,550	8,563	35,163	4,259	1,821	.79	12.11	42.76	5.18
1976	4,737	554,666	18	9,060	9,078	39,915	4,591	1,821	.83	11.50	39.66	4.56

* Prior to 1976 these are averages of data from the reports of condition for the previous December and June and December of the respective years. Beginning with 1976, these are averages of data from the reports of condition for the previous December and the four calls in the year. 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 for 1976 was reported including certain components of the reserve on loans and securities which were not reported separately for the years 1969-1975.

NOTE: For earlier data, see *Annual Reports of the Comptroller of the Currency*, 1938, p. 115, 1963, p. 306 and 1975, p. 160. In the table above, "Average total equity capital" does not include subordinated capital notes or debentures.

Table B-30

Loan losses and recoveries of national banks, domestic offices only, 1961-1976

Year	Total loans, end of year, net*	Net losses or recoveries†	Ratio of net losses or net recoveries† to loans
			Percent
1961	\$ 67,308,734	\$ 112,412	0.17
1962	75,548,316	97,617	0.13
1963	83,388,446	121,724	0.15
1964	95,577,392	125,684	0.13
1965	116,833,479	189,826	0.16
1966	126,881,261	240,880	0.19
1967	136,752,887	279,257	0.20
1968	154,862,018	257,280	0.17
1969	168,004,686	303,357	0.18
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 ^r	0.71 ^r
1976	299,833,480	1,819,748	0.61

* Loans used in *all* years are net of reserves; and 1976 loans are also net of unearned discount.

† Ratios are based on end-of-year-loans.

^r Restated.

NOTE: For earlier data, see *Annual Reports of the Comptroller of the Currency*, 1947, p. 100; 1968, p. 233 and 1975, p. 161.

Table B-31

Assets and liabilities of domestic operations of national banks, date of last report of condition, 1961-1976

(Dollar amounts in millions)

Year	Number of banks	Assets					Liabilities		Total equity capital
		Total assets*	Cash and due from banks	Total securities	Loans, net*	Other assets	Total deposits	Other liabilities†	
1961	4,513	\$150,809	\$31,078	\$49,094	\$67,309	\$3,328	\$135,511	\$3,424	\$11,875
1962	4,503	160,657	29,684	51,706	75,548	3,270	142,825	5,083	12,750
1963	4,615	170,233	28,635	52,602	83,388	5,608	150,823	5,907	13,503
1964	4,773	190,113	34,066	54,367	95,577	6,103	169,617	5,922	14,573
1965	4,815	219,103	36,880	57,310	116,833	8,079	193,860	8,943	16,300
1966	4,799	235,996	41,690	57,667	127,454	9,185	206,456	12,243	17,298
1967	4,758	263,375	46,634	69,656	136,753	10,332	231,374	13,506	18,495
1968	4,716	296,594	50,953	76,872	154,862	13,907	257,884	18,442	20,268
1969	4,669	310,263	54,728	70,030	168,005	17,500	256,427	31,703	22,134
1970	4,621	337,070	56,040	84,157	173,456	23,416	283,784	29,571	23,714
1971	4,600	372,538	59,201	95,949	190,308	27,080	314,212	32,702	25,623
1972	4,614	430,768	67,401	103,659	226,355	33,354	359,427	43,117	28,223
1973	4,661	484,887	70,724	104,607	266,938	42,619	395,881	58,072	30,935
1974	4,708	529,232	76,557	106,931	292,733	53,012	431,225	64,435	33,572
1975	4,744	548,170	78,050	125,332	287,362	57,426	447,712	63,769	36,688
1976	4,737	583,349	76,078	135,932	299,847	71,492	469,409	72,615	41,325

* For years 1961-1975, data are net of securities and loan reserves. 1976 data are net of valuation reserves and unearned discount on loans.

† Includes subordinated capital notes and debentures.

Table B-32

Consolidated assets and liabilities of national banks with foreign operations, December 31, 1976

(Dollar amounts in thousands)

	Foreign and domestic assets and liabilities	Domestic assets and liabilities	Foreign assets and liabilities (Column 1 minus column 2)
Assets			
Cash and due from banks	\$95,419,459	\$45,060,605	\$50,358,854
Investment securities	58,482,635	55,393,861	3,088,774
U.S. Treasury securities	25,206,811	25,197,762	9,049
Obligations of other U.S. government agencies and corporations	5,149,924	5,149,742	182
Obligations of states and political subdivisions	23,984,794	23,866,357	118,437
Other bonds, notes, and debentures	4,141,106	1,180,000	2,961,106
Federal Reserve stock and corporate stock	706,452	598,458	107,994
Trading account securities	4,958,619	4,614,635	343,984
Total securities	64,147,706	60,606,954	3,540,752
Federal funds sold and securities purchased under agreements to resell	16,558,193	16,556,595	1,598
Total loans (excluding unearned income)	244,299,335	171,571,382	72,727,953
Reserve for possible loan losses	2,314,971	2,197,688	117,283
Loans, net of reserve	241,984,364	169,373,693	72,610,671
Direct lease financing	3,703,415	3,109,212	594,203
Bank premises, furniture and fixtures, and other assets representing bank premises	5,370,781	4,879,762	491,019
Real estate owned other than bank premises	1,325,549	1,273,265	52,284
Investments in unconsolidated subsidiaries and associated companies	805,796	1,735,035	-929,239
Customers' liability to this bank on acceptances outstanding	6,615,834	4,980,317	1,635,517
Other assets	8,614,285	15,989,759	-7,375,474
Total assets	444,545,381	323,565,198	120,980,183
Liabilities			
Deposits:			
Total demand deposits, domestic	103,280,791	103,280,791	N.A.
Total time and savings deposits, domestic	138,885,643	138,885,643	N.A.
Total deposits in foreign offices	112,836,769	N.A.	112,836,769
Total deposits in domestic and foreign offices	355,003,203	242,166,434	112,836,769
Federal funds purchased and securities sold under agreements to repurchase	42,210,653	42,106,374	104,279
Liabilities for borrowed money	5,568,103	2,440,982	3,127,121
Mortgage indebtedness	280,095	272,143	7,952
Acceptances executed by or for account of this bank and outstanding	6,739,123	5,034,215	1,704,908
Other liabilities	10,512,485	7,316,312	3,196,173
Total liabilities	420,313,660	299,336,460	120,977,200
Subordinated notes and debentures	1,797,342	1,794,362	2,980
Total equity capital	22,434,377	22,434,377	0
Total liabilities subordinated notes and debentures and equity capital	444,545,381	323,565,198	120,980,183

N.A. — Not applicable.

NOTE: Data may not add to totals because of rounding.

Table B-33

Foreign branches of national banks, by region and country, December 31, 1976

<i>Region and country</i>	<i>Number</i>	<i>Region and country</i>	<i>Number</i>
Central America	49	Europe—Continued	
El Salvador	2	Northern Ireland	1
Guatemala	3	Scotland	2
Honduras	3	Switzerland	6
Mexico	5		
Nicaragua	5	Africa	10
Panama	31	Egypt	2
		Gabon	1
South America	93	Ivory Coast	1
Argentina	32	Kenya	2
Bolivia	4	Liberia	2
Brazil	18	Mauritius	1
Chile	1	Senegal	1
Columbia	7		
Ecuador	13	Middle East	25
Guyana	1	Bahrain	3
Paraguay	5	Jordan	3
Peru	3	Lebanon	3
Uruguay	5	Oman	2
Venezuela	4	Qatar	1
		Saudi Arabia	2
West Indies — Caribbean	160	United Arab Emirates	10
Antigua	1	Yemen Arab Republic	1
Bahamas	62		
Barbados	6	Asia and Pacific	112
British Virgin Islands	2	Brunei	2
Cayman Islands	41	Fiji Islands	4
Dominican Republic	19	Hong Kong	27
French West Indies	2	India	11
Haiti	4	Indonesia	6
Jamaica	8	Japan	24
Montserrat	1	Korea	4
Netherlands Antilles	4	Malaysia	5
St. Lucia	1	Pakistan	4
Trinidad and Tobago	6	Philippines	4
West Indies Federation of States	3	Republic of China	4
		Singapore	15
Europe	130	Thailand	2
Austria	1		
Belgium	6	U.S. overseas areas and trust territories	56
Denmark	3	American Samoa	1
England	34	Canal Zone (Panama)	2
France	14	Caroline Islands	1
Germany	20	Guam	4
Greece	18	Marianas Islands	1
Ireland	4	Marshall Islands	1
Italy	9	Puerto Rico	23
Luxembourg	5	Virgin Islands	23
Monaco	1		
Netherlands	6	Total	635

Table B-34

Total foreign branch assets of national banks, year-end 1953-1976*

(Dollar amounts in thousands)

1953	\$1,682,919	1965	\$7,241,068
1954	1,556,326	1966	9,364,278
1955	1,116,003	1967	11,856,316
1956	1,301,883	1968	16,021,617
1957	1,342,616	1969	28,217,139
1958	1,405,020	1970	38,877,627
1959	1,543,985	1971	50,550,727
1960	1,628,510	1972	54,720,405
1961	1,780,926	1973	83,304,441
1962	2,008,478	1974	99,810,999
1963	2,678,717	1975 [†]	111,514,147
1964	3,319,879	1976	134,790,497

* Includes military facilities operated abroad by National banks from 1966 through 1971

† Revised.

Table B-35

Foreign branches of national banks, 1960-1976

End of year	Number of branches operated by national banks	National bank branches as a percentage of total foreign branches of U.S. banks	End of year	Number of branches operated by national banks	National bank branches as a percentage of total foreign branches
1960	93	75.0	1968	355	95.0
1961	102	75.6	1969	428	93.0
1962	111	76.6	1970	497	92.7
1963	124	77.5	1971	528	91.5
1964	138	76.7	1972	566	90.2
1965	196	93.5	1973	621	89.5
1966	230	94.3	1974	649	89.4
1967	278	95.5	1975 [†]	675	88.6
			1976	635	87.2

† Revised.

Table B-36

Foreign branch assets and liabilities of national banks, December 31, 1976

(Dollar amounts in thousands)

ASSETS		LIABILITIES	
Cash and cash items in process of collection	\$ 480,698	Demand deposits	\$ 7,736,672
Demand balances with other banks	4,216,388	Time deposits	92,984,563
Time balances with other banks	44,561,722	Liabilities for borrowed money	2,349,811
Securities	2,054,193	Acceptances executed	2,464,017
Loans, discounts and overdrafts, etc.	61,150,749	Deferred payment letters of credit outstanding	84,622
Customers' liability on acceptances outstanding	2,503,491	Reserve for interest, taxes and other accrued expenses	1,857,729
Customers' liability on deferred payment letters of credit	84,597	Other liabilities	682,670
Premises, furniture and fixtures	262,763	Due to other foreign branches of this bank	14,646,134
Accruals — interest earned, foreign exchange profits, etc.	1,807,025	Due to head office and its domestic branches	11,984,279
Due from other foreign branches of this bank	14,443,383	Total liabilities	<u>\$134,790,497</u>
Due from head office and its domestic branches	2,506,916	MEMORANDA	
Other assets	718,572	Letters of credit outstanding	\$ 2,546,549
Total assets	<u>\$134,790,497</u>	Future contracts to buy foreign exchange and bullion	\$52,658,624
		Future contracts to sell foreign exchange and bullion	\$50,782,092

Table B-37

Trust assets* and income of national banks, by states, calendar 1976

(Dollar amounts in millions)

	Number of banks	Employee benefit accounts†	Other trust accounts‡	Total trust accounts	agency accounts§	Total trust and agency accounts	Trust department income (Dollar amounts in thousands)
All national banks	1,982	\$96,658	\$111,687	\$208,345	\$64,498	\$272,843	\$1,025,942
Alabama	42	806	1,503	2,309	357	2,665	11,776
Alaska	4	37	59	97	243	340	1,037
Arizona	2	437	1,157	1,594	189	1,783	9,716
Arkansas	43	117	295	412	56	468	3,208
California	12	13,760	10,756	24,516	2,991	27,508	114,575
Colorado	42	1,112	1,610	2,723	363	3,085	18,751
Connecticut	11	840	2,357	3,197	1,280	4,477	17,151
Delaware	2	0	0	0	0	0	0
District of Columbia || . . . . .	5	778	1,641	2,418	1,811	4,230	14,048
Florida	102	506	5,153	5,659	911	6,570	38,827
Georgia	32	1,183	1,504	2,687	3,123	5,810	19,310
Hawaii	0	0	0	0	0	0	0
Idaho	4	148	184	332	32	364	1,414
Illinois	202	10,531	7,901	18,431	5,997	24,428	99,576
Indiana	99	1,128	3,010	4,138	1,905	6,043	20,653
Iowa	65	235	863	1,098	592	1,690	6,763
Kansas	60	239	812	1,051	445	1,496	5,878
Kentucky	57	131	515	646	178	825	3,843
Louisiana	24	447	467	914	233	1,147	5,768
Maine	15	64	273	337	155	492	2,320
Maryland	15	258	837	1,095	218	1,313	5,429
Massachusetts	63	4,574	4,504	9,077	2,059	11,137	52,299
Michigan	48	11,115	3,689	14,805	2,780	17,585	35,703
Minnesota	29	2,092	2,375	4,467	869	5,336	23,973
Mississippi	23	113	331	444	28	472	2,404
Missouri	54	1,663	3,559	5,222	2,284	7,506	23,913
Montana	16	14	86	100	15	115	764
Nebraska	36	476	894	1,371	592	1,962	8,679
Nevada	4	44	426	471	57	527	1,949
New Hampshire	32	30	313	344	179	523	2,247
New Jersey	60	600	2,253	2,853	1,245	4,098	19,833
New Mexico	20	58	338	396	61	457	2,313
New York	68	18,854	10,782	29,636	12,779	42,415	134,511
North Carolina	16	2,717	2,315	5,032	1,051	6,083	23,233
North Dakota	15	95	203	298	77	375	1,887
Ohio	68	3,540	6,316	9,855	2,511	12,366	43,151
Oklahoma	47	885	1,354	2,240	993	3,232	10,181
Oregon	2	493	894	1,388	239	1,627	10,853
Pennsylvania	113	8,284	11,368	19,651	9,007	28,658	80,099
Rhode Island	4	465	1,403	1,868	437	2,305	10,094
South Carolina	9	251	561	812	170	982	4,914
South Dakota	11	57	189	246	91	337	1,709
Tennessee	39	579	1,875	2,455	586	3,040	12,522
Texas	179	4,905	7,117	12,022	3,075	15,097	65,373
Utah	3	183	344	527	64	591	2,704
Vermont	7	2	38	40	6	46	260
Virginia	55	536	1,822	2,358	949	3,307	16,061
Washington	11	663	2,139	2,802	630	3,432	18,107
West Virginia	44	96	769	865	182	1,047	3,980
Wisconsin	48	503	2,391	2,894	373	3,267	11,307
Wyoming	20	14	140	154	32	186	876
Puerto Rico	0	0	0	0	0	0	0
Virgin Islands	0	0	0	0	0	0	0

* As of December 31, 1976.

† Employee benefit accounts include all accounts for which the bank acts as trustee, regardless of whether investments are partially, or wholly, directed by others. Insured plans or portions of plans funded by insurance are omitted, as are employee benefit accounts held as agent.

‡ Includes all accounts, except employee benefit accounts and corporate accounts, for which the bank acts in the following, or similar capacities trustee (regardless of whether investments are directed by others), executor, administrator, guardian; omits all agency accounts and accounts for which the bank acts as registrar of stock and bonds, assignee, receiver, safekeeping agent, custodian, escrow agent or similar capacities.

§ Includes both managing agency and advisory agency accounts.

|| Includes national and non-national banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.

NOTE: Data may not add to totals because of rounding.

APPENDIX C

Addresses and Selected Congressional Testimony

Addresses and Selected Congressional Testimony

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Statement of Robert Bloom, First Deputy Comptroller of the Currency for Policy, before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Government Operations Committee, Washington, D.C., January 20, 1976

I have been asked by the Subcommittee to discuss the examination practices and procedures of the Office of the Comptroller of the Currency. In view of recent newspaper articles on the subject of so-called "problem banks," it is important to shed light on this topic as the publicity has tended to confuse rather than enlighten the public.

The term "problem bank" is a vague term which has become banking agency jargon without precise definition. If what is meant is a bank, the liquidity and solvency of which is in serious question, let me hasten to assure you that very few national banks, and none of the money center national banks, are considered by our Office to be "problem banks."

On the other hand, many national banks receive extra analysis and attention for a variety of reasons. The degree of supervision is determined through objective and subjective judgments made by field examiners, regional administrators and Washington staff. The Comptroller's Office maintains no list of such banks that could be characterized as a "problem bank list." Each bank is handled on a case-by-case basis.

There is no magic formula or ratio which is capable of identifying banks for special supervision with any degree of accuracy. As a practical matter, however, we have used in the past a quantitative formula based on examination report data which identify those banks to be given further analysis at all staff levels. All banks with criticized assets (100 percent of substandard, 50 percent of "other loans especially mentioned," 50 percent of doubtful) aggregating 65 percent or more of adjusted capital funds (equity accounts, reserves for loan losses and capital notes, less losses and 50 percent of doubtful) are given special analysis and attention by this Office.

It was apparently a list of banks with classified assets equal to more than 65 percent of capital which was referred to in the *Washington Post* story as the Comptroller's "problem bank" list. As the Comptroller stated in his press release following the *Post* story, the labeling of every bank with a ratio of criticized assets to capital of 65 percent or more as a "problem bank" is a misstatement and over-simplification. The volume of criticized loans in a particular bank, taken alone without further information as to the strength of management, earnings, liquidity, ability to raise additional capital, access to the money markets and other factors, is not significant. In addition, a great deal depends on the state of the economy during the period in question. The significance of classified asset ratios as a supervisory tool is greater during prosperous times than it is during periods of recession, such as 1974 and 1975. A

ratio of 65 percent or more of classified assets in a prosperous economy could be reflective of poor management. A ratio of 65 percent or more during 1975 and at present does not necessarily reflect adversely on management. It is common knowledge in financial circles that many banks, both large and small, well managed and poorly managed, today have ratios in excess of 65 percent. Indeed, any bank whose volume of criticized loans did not increase during 1975 probably was not performing the normal risk-taking functions through which a commercial bank serves its community.

There are two principal aspects in singling out banks for special supervisory attention. First, there are the procedures and criteria to be used in identifying such banks, and second, there are the procedures and methods for correcting whatever deficiencies exist in such banks. This Office is now engaged in a major revision and improvement of its operations in both of these areas, based largely on the recommendations of Haskins & Sells, an outside consulting firm retained by the Office in May 1974. The Haskins & Sells recommendations have been made public, and copies of the report have been sent to each member of Congress.

Existing Grading Systems

Under the traditional system for pinpointing banks for special attention, a great deal of emphasis was placed on the ratio of classified assets to gross capital. Classified assets are those assets which are singled out by the examiner as having credit weaknesses of varying degrees of intensity. The classifications, in ascending order of severity, are "other loans especially mentioned" (OLEM), substandard, doubtful and loss. Banks are graded in four groupings according to the ratio of assets classified as loss, doubtful or substandard to gross capital funds. The four groupings are:

- A — less than 20 percent
- B — 20 to 40 percent
- C — 40 to 80 percent
- D — 80 percent or more.

In addition, examiners rate capital adequacy on a one through four scale, taking into account the quality of management, the liquidity of assets, the history of earnings, the quality and character of ownership, the burden of meeting occupancy expenses, the potential volatility of the deposit structure, the efficiency of operations and certain competitive factors. Bank management is rated in three categories, strong, fair or poor. After the capital position, the quality of assets and management are scored, the examiners assign a composite or group rat-

ing to the bank. Group 1 banks are those considered to have good capital, competent management, good operations, good liquidity and classified assets to gross capital of less than 20 percent. At the other end of the spectrum, Group 4 banks are those which *could* be approaching insolvency, thus requiring an immediate injection of capital, new management or both.

In the past, this Office has maintained lists of banks falling within composite groups 3 and 4 as described above. A schedule included with this statement reflects the number of banks on these lists from July 5, 1972 to July 1, 1974. Such lists, because of the primary emphasis placed on the volume of classified loans, under present economic conditions, are not considered particularly meaningful. This Office still reviews each examination report on a case-by-case basis and, after discussions with our regional administrators and the national bank examiners, determines whether or not additional supervision is necessary. In those cases where it is decided that such supervision is required, personnel from Washington work closely, in some cases on a daily basis, with personnel in the region and with personnel from the bank.

The New System

As I have noted, our Office is presently actively engaged in modernizing its system for identifying and dealing with banks requiring special attention. A computerized "early warning system" called the National Bank Surveillance System (NBSS) will consist of four basic elements:

1. A data collection system.
2. A computer-based monitoring system that would detect unusual or significantly changed circumstances within a bank and within the National Banking System.
3. An evaluation by experienced personnel of the impact of such changes on bank soundness.
4. A review procedure that would provide administrative controls over all proposed Office of the Comptroller of the Currency remedial actions, including those of Washington personnel.

A Deputy Comptroller of the Currency and a project manager from Haskins & Sells initiated the NBSS in September 1975. Their efforts have been directed toward steps 1 and 2, a data collection system and a computer-based monitoring system. They also have begun work on step 3 by selecting experienced examiners who will analyze the importance of the computerized data.

The data which have been reported to the three federal regulatory agencies by their respective banks have traditionally been used for historical statistical purposes. Major portions of those data have, by joint agreement of the three agencies, been stored in the FDIC's computer. When this Office decided to use those data for supervisory purposes, one of the first steps in creating the NBSS required the transfer of portions of the data in the FDIC's computer to a data base in a separate computer which could be used by our Office for supervisory purposes.

The data base has been transferred and essentially covers the condition and income reports of national banks during the past 5 years.

Three additional steps are being taken to improve and expand the data base. First, we are conducting frequent, almost daily, discussions with representatives of the Federal Reserve and the FDIC to amend the condition and income reports so that the facts in these reports will be more meaningful for supervisory purposes. When information desired by this Office is not deemed necessary by the other two regulators, we will acquire that data through special reports submitted by the bank separately from the customary call and earnings reports. Second, certain portions of the non-public reports of examination will be included in our data base. Third, if all of the data is to be analyzed on a timely basis, it must be processed rapidly. To accomplish this objective, the Management Services Division of the Comptroller's Office has made two trial runs on the direct processing of NBSS data from reports of condition and has concluded that those data can be processed within 45 days of the date of the call, in lieu of the 5-month period normally required for the combined production by the three federal bank regulators.

The NBSS will work with banks that are segregated into peer groups in our data base. The statistical trends of each peer group and of each bank within the peer group will alert this Office to exceptional banks or groups of banks on no less than a quarterly basis. In view of today's rapidly changing economy, that system will be more timely than the traditional system of supervision through the receipt of reports of examination which are required only three times in each 2-year cycle.

The fourth element of the system is an administrative review procedure, or monitoring system, which would stem from the quarterly analysis of data. The review and monitoring system will enable a staff of experienced examiners to make recommendations, on a bank-by-bank basis, to each of 14 regional administrators, about the type and scope of examination which may be required promptly for individual banks. The monitoring system will also be computer-assisted to the extent that the recommendations and the reactions, both positive and negative, by both examiners and bankers will prompt successive steps of recommended corrective action as needed.

What we are developing is an NBSS which will serve the regulator and the banker in maintaining a sound financial system, to serve the public needs. The NBSS will help in the detection and the correction of impending problems before they become serious cases. This system will neither eliminate the human element from bank regulation nor will it eliminate the human element from the management of individual banks. It should, however, substantially aid in the prevention of future bank failures.

Enforcement Follow-up

Once significant problems of a national bank have been identified through the examination process, the examiner commences the supervisory action process by commenting in the report of examination on important matters requiring attention of the Comptroller, the bank's

board of directors and active executive management. The examiner's comments are supplemented by a letter from the regional administrator which highlights the bank's problems and requests the board of directors and executive management to institute appropriate corrective measures. Depending on the circumstances and severity of problems, the bank's executive management may be requested to submit monthly reports regarding progress it has made toward improving unsatisfactory areas of the bank. In addition, frequent visitations and examinations may be conducted.

When an examination or special visitation of a national bank discloses a condition so unsatisfactory as to warrant that the board of directors should be promptly and personally informed, a special meeting with the board is called by the examiner or his regional administrator. Special representatives of the Comptroller's Office may attend the meeting depending on the circumstances and severity of the problem. The objectives of meeting with a board of directors are to discuss the conditions and affairs of the bank that were observed during the most recent examination, to reach an agreement on any significant problems in the bank, to obtain a definitive commitment from the board, to institute the proper corrective actions, and to obtain information concerning future plans and proposed changes in bank policy that may have a significant impact on the future condition of the bank.

Bank supervision provided at the regional level is coordinated with the Washington staff which provides additional legal assistance, coordination with other regulatory agencies, attendance at board meetings, analytical support, and follow-up review. Where the facts indicate a serious problem, a possible violation of law, or unsafe and unsound practices, we may call upon the Enforcement and Compliance Division of our Law Department. This assistance may consist of the attendance of an attorney from the Enforcement and Compliance Division at a board of directors meeting to discuss with the bank the problems and the suggested corrective action. In other cases it may require the investigation by the Enforcement and Compliance Division to determine whether sufficient facts justify the commencement of a cease and desist proceeding or the certification to the Federal Reserve Board for removal of an official or the making of a criminal referral to the Department of Justice. In the latter two situations, the investigation must disclose that the particular activities of an individual constitute evidence of personal dishonesty.

In addition, the bank must come to the Comptroller for approvals of various corporate changes, such as the opening of a new branch, dividend restrictions, investments in premises and other approvals. The Comptroller may withhold his approval on such applications until he is satisfied concerning the responsiveness of a bank to his recommendations.

In determining the appropriate remedy for a particular bank, the Comptroller, together with the Deputy Comptrollers, regional administrators, examiners and the Law Department, must determine which type of action will be the best rehabilitative type of remedy to assist the bank.

Where the facts indicate that there are serious problems or that there are repeated violations of law or unsafe and unsound practices, this Office has a wide range of administrative remedies to deal with the situation. These remedies, however, are not punitive but are of a rehabilitative nature. One of the principal remedies available to the Comptroller is the power given under the Financial Institutions Supervisory Act of 1966 to commence cease and desist proceedings. Cease and desist proceedings are rehabilitative, intermediate tools which allow the Comptroller to force a bank to work out its problems without resorting to the more drastic measures of receivership, conservatorship, termination of insurance, forfeiture of charter, or forced merger. Our experience has indicated that the threat of a cease and desist proceeding enables this Office to handle the majority of bank problems through the less formal techniques of persuasion, frequent examinations and meetings with directors.

Of course, the success of all these efforts will depend on the quality of information we receive. While our examiners independently search for information in examining banks, much information is derived from a candid exchange of views with bank directors and officers and other members of the public, conducted on a strictly confidential basis. If the rules are changed to require public disclosure of what is in the examination report, there is no doubt that we will be hampered considerably in obtaining a complete picture of national banks. Likewise, the disclosure of which banks are subject to special supervision will make correction of problems incomparably more difficult, if not impossible, in some cases.

The confidentiality of government examinations, however, does not impair the public's right to obtain necessary financial information about banks. Banks are subject to the disclosure provisions of the Securities Exchange Act of 1934 to the same extent as are other publicly held companies. In addition to what non-bank corporations must disclose, banks must publish, quarterly, a report of condition, which includes both balance sheet and income and expense information. The three federal banking agencies have recently increased substantially these disclosure requirements. Beginning with the March 31, 1976 report of condition, banks will be disclosing publicly more financial information than any other major category of publicly owned companies.

We thus respectfully must decline to comment specifically on the affairs of any particular bank, including Chase Manhattan Bank and First National City Bank. To violate confidences which we have elicited in order to investigate more thoroughly these and other banks would run counter to the venerable Congressional policy of protecting the confidentiality of bank records and examination reports. (See 5 USC 552 (b) (8), 12 USC 1817 (a) (2), 12 USC 1442, 12 USC 481, 12 USC 484, 18 USC 1905, 18 USC 1906.)

Thank you for this opportunity to discuss the examination and supervisory activities of the Comptroller's Office.

Schedule of Banks with Composite Ratings of 3 or 4

<i>Date of list</i>	<i>Total number of national banks</i>	<i>Number of banks on list</i>	<i>Banks listed (Percent of national banks)</i>	<i>Date of call report</i>	<i>Total assets (In millions of dollars)</i>	<i>Total deposits (In millions of dollars)</i>	<i>Total assets of banks on list (Percent of national bank assets)</i>	<i>Total deposits of banks on list (Percent of national bank deposits)</i>
July 5, '72	4607	122	2.6	June 30, '72	18,661	15,222	4.8	4.7
Jan. 10, '73	4614	110	2.4	Dec. 31, '72	21,796	18,282	5.0	5.1
July 3, '73	4629	94	2.0	June 30, '73	21,095	16,723	4.7	4.6
Jan. 11, '74	4661	109	2.3	Dec. 31, '73	22,924	18,146	4.7	4.6
July 1, '74	4695	133	2.8	June 30, '74	42,086	31,292	8.1	7.7

Statement of James E. Smith, Comptroller of the Currency, before the Subcommittee on Financial Institutions, Supervision, Regulation and Insurance of the House Banking, Currency and Housing Committee, Washington, D.C., January 29, 1976

I am pleased to respond to your invitation to testify before the Committee in connection with its study of Financial Institutions and the Nation's Economy (FINE). My staff and I are familiar with the FINE study "Discussion Principles." In connection with your study, we already have submitted our complete responses to your comprehensive questionnaire. We will be glad to continue to provide any information or assistance requested by the Committee.

Because the "Discussion Principles" are so extensive and time is limited, I will confine my comments today to several areas in which we can be particularly helpful to your study.

Regulatory Agencies

There seems to be considerable discussion of proposals to reorganize the federal bank regulatory structure. The FINE "Discussion Principles", for example, recommend the consolidation of all federal regulatory authority over depository institutions into a single, new agency.

Unfortunately, those who advocate complete regulatory structural change appear to have lost sight of many of the advantages of the present system of bank regulation. I suggest that that oversight is attributable in large measure to the common misbelief that the federal bank regulatory structure is an accident of history or a reflection of Congressional refusal over the past century to deal with long-run regulatory problems.

If there has been a single, identifiable public objective with respect to government's involvement with banking in this nation over almost two centuries, it has been hostility toward the concentration of financial power, whether in public or private hands. The record is so clear as to require only a few illustrations. We can note, for example, President Jackson's destruction of the Bank of the United States in 1832, bringing to an end the federal government's first attempt to centralize banking power. We can point to the fact that when the federal government

again entered the banking arena, it did so in 1863 by adopting the free banking principles of the states and providing for the establishment of locally owned national banks. So strong was the fear of centralization of financial power that all during the 19th century and until well into the 20th, the United States, alone among industrialized nations, had no central bank. When the Federal Reserve finally was organized in 1913, Congress rejected the idea of a single institution and opted instead for 12 regional Federal Reserve banks. Moreover, the record is clear that the Congress explicitly considered and rejected, in 1913 and again in 1933, the inclusion of a federal deposit insurance system, and, in 1919 and again in 1921, the inclusion of the functions of the Comptroller's Office within the Federal Reserve System.

The federal bank regulatory system which now exists is a testament to American abhorrence of concentration of financial control, whether accomplished through the political process or the economic process. Certainly, it is appropriate continually to examine the suitability of this system to the evolving world of banking and to seek to make improvements where needed. But the question of suitability should be debated on its own merits, without resort to a distortion of the historical record.

In this connection, I think it is instructive to note just what studies other than FINE have recommended in recent times. In 1937, the Brookings Institution called for consolidation of all bank regulatory authority in the FDIC. Twelve years later the Hoover Commission recommended transferring the FDIC to the Treasury Department. The second Hoover Commission, in 1955, made no recommendation for change at all. The 1961 Commission on Money and Credit concluded that the Federal Reserve should have sole responsibility for bank regulation. In contrast, the Hunt Commission, in 1971, recommended that the Federal Reserve and FDIC be stripped of bank regulatory powers, leaving them to a new federal administrator of state banks. Not one of these studies

recommended consolidating all federal bank regulatory authority in a new agency, let alone federal authority over all depository institutions, as the FINE "Discussion Principles" urge.

There is no question that we have a complex federal bank regulatory structure. This complexity stems basically from the fact that all national banks must be members of the Federal Reserve System and that all members of the Federal Reserve System must be members of the deposit insurance system. State-chartered banks have elected overwhelmingly to avail themselves of deposit insurance but, for the most part, to remain outside of the Federal Reserve System. Finally, the Federal Reserve Board regulates and supervises all bank holding companies.

The resulting structure, three federal bank regulatory agencies with responsibilities which in some respects are quite similar and in other respects are quite different, is neither simple nor tidy. To be sure, it is an affront to the sensitivities of those who would prefer to see abstract orderliness in governmental structures or who are wedded to the beguiling symmetry of organization charts. It is said to be an inefficient structure, though the record is free of hard evidence that substantial efficiencies can be achieved by any change.

I believe, as have most of my predecessors, that an effective and adaptive banking system must embrace both soundness of operation and freedom of competition. I am compelled, as well, to recognize that nothing could be more difficult than to devise a system which can accommodate two such opposite objectives. A thoroughly safe banking system also cannot be vigorously competitive; an intensively competitive system never can be completely safe. Yet, I suggest that our federal bank regulatory structure has come as close to achieving these twin objectives as is possible.

What, in fact, is the record of the modern American bank regulatory system? The existing structure was put into place in 1933, following the collapse of the economy and the banking system. In the years since World War II, we have had 121 bank closings requiring FDIC disbursements, an average of approximately 4 per year. That is hardly a frightening number when measured against a banking system which is comprised of more than 14,000 corporate entities. It becomes an impressive record when we recall that some 9,000 banks closed their doors during the Great Depression.

Depositor losses have been miniscule. Since 1933, of the \$4.5 billion of deposits in all of the insured banks requiring disbursements, depositors actually lost only \$21.8 million, or 0.5 percent. I would remind you that even in the cases of large bank closings, which have attracted so much attention in recent years, depositors did not lose a dime.

In this last regard, some observers, apparently unfamiliar with the facts, have suggested that the present regulatory structure must bear substantial responsibility for the financial difficulties experienced by these large institutions. The problems of each of those banks have been detailed before this Committee and in the financial press, and require no elaboration here. It is clear that they were in no way related to the organization of federal supervisory authority.

Quite properly, in each of those cases, questions might be raised now as to whether the federal agency involved should have acted more or less expeditiously or should have taken some course of action other than that it did. However, there is no reason to believe that a consolidated agency would have dealt differently with any of those situations, not to mention the possibility that it might not have acted as well, or as promptly. Under the present arrangement, no banking problem encountered by one of the federal agencies can fail to touch the regulatory responsibilities of at least one and often both of the other agencies. That trichotomy of checks and balances offers a significant advantage unavailable to a consolidated regulatory body.

Having demonstrated the overall safety of the banking system, I now turn to the question of its ability to meet the challenges of a competitive financial world. Federal bank regulators have contributed notably to industry innovation and responsiveness to public needs. Since the early 1960's, the Comptroller's Office has been a leader in overcoming tradition-bound restrictions on free competition and improved services. Other bank regulatory agencies have acted in the same spirit, but frequently in different particulars, with regard to the institutions which they supervise.

There are those who have characterized the attempt to identify and discard archaic and outmoded laws which unnecessarily shackle the banking industry as a "competition in laxity." I give little credence to this phrase. Blind adherence to the past is not prudence. Repeal of the obsolete is not laxity.

Statistics on bank conversions do not support the image, painted by critics, of a continual ferment of banks switching from one federal regulator to another in an effort to find friendly or lenient supervisors. The record suggests quite the opposite. In 1974, a typical year in that respect, and the latest for which we have complete data, a total of 72 banks, or about 0.5 percent of all banks, changed federal supervisors and their reasons for doing so seem fairly routine.

Of those 72, 48 left the Federal Reserve System but retained deposit insurance. Twenty of those had had national charters and 28 had had state charters. Understandably, their changes were occasioned by the attractiveness of lower state reserve requirements.

Of the remaining 24 banks, 15 converted from state to national charters, and nine joined the Federal Reserve System while retaining their state charters. Again, the motivation for change is easily understood. Federal Reserve membership, under either national or state charter, becomes more attractive as a bank grows larger. Often, an increasing volume of correspondent business prompts the move. In many instances, the advantages of having a single regulator convince a bank to seek a national charter. Also, as a bank grows and diversifies, it may find the National Bank Act to be a more sophisticated code under which to operate. That last reason, traditionally, has been important and has led to the modernization of many state codes. For the Committee's information, a chart is attached showing net changes in regulatory status system-wide over the past three years.

My remarks thus far have not been intended to lay the foundation for a defense of the *status quo*; I discern a real

need for improvement in bank supervision and regulation. I do mean to suggest, however, that improvement can be achieved without consolidating the federal agencies and thereby abandoning a framework of proven effectiveness.

As a basic first step, the banking agencies must recognize their responsibility to modernize their procedures. This has been a primary goal at the Office of the Comptroller of the Currency during recent years, and it is evident that similar programs are under way at the Federal Deposit Insurance Corporation and at the Federal Reserve Board. While I cannot comment on the specific programs in those agencies, I can say that my Office now is engaged in implementing the recommendations made by the consulting firm of Haskins & Sells following a comprehensive year-long review of our operations.

Haskins & Sells (H&S) reported that our Office had kept up with some changes in the banking industry, but not with others. They strongly recommended that the Comptroller establish a systematic way of identifying which of the many rapid changes in the banking industry might require a regulatory response, and fashioning that response in time to shape developments, not merely to react to them. We now are implementing that recommendation. We also are implementing, as a result of the H&S report, a new statistical monitoring system which will permit the Office, much more rapidly than before, to discern trends in the national banking industry as a whole and in individual banks. The information required by the new call report requirements adopted by all three federal banking agencies to be effective with the March 31, 1976, report of condition are an integral part of this statistical system.

Consistent with another H&S recommendation, substantial improvements in national bank examination procedures now are being adopted. The new procedures will gear examination efforts more precisely to the needs of the Comptroller's Office and the particular bank being examined and will stress review of bank internal controls, such as audits and prudent credit and investment rules. Thus, examiners will devote more time to evaluation of a bank's policies, its decision-making process, and its management information systems.

We also are revamping completely our personnel policies, our training programs, our examination manual, and the organization of most of our executive and administrative functions.

In addition to internal operational adjustments, I recommend a limited redistribution of federal bank regulatory authority designed to streamline the system and improve the quality of bank supervision. As the central part of this plan, I propose an end to the present division of supervisory responsibilities over banks and bank holding companies. Specifically, I recommend that a bank holding company be supervised by the same federal agency which supervises the institution or institutions which hold a preponderance of the bank assets in that company. I would leave with the Federal Reserve, however, its present rulemaking authority over the nature and scope of bank holding company activities, so that the dispersed responsibility for examination and supervision proceeds from a uniform body of law and regulation. That arrangement, which would not require any change

in the existing division of bank regulatory and supervisory authority among the Federal Reserve, FDIC and Comptroller of the Currency, has worked successfully, particularly for recent consumer legislation.

At the present time there are 1,616 bank holding companies registered with the Federal Reserve. Of those, 1,340 are one-bank companies which, under my proposal, would be distributed for supervisory purposes among the banking agencies as follows:

- Comptroller of the Currency — 427 companies with \$204 billion in assets.
- Federal Reserve — 85 companies with \$42 billion in assets.
- FDIC — 828 companies with \$36 billion in assets.

Of the 276 multi-bank companies, the Comptroller's Office would supervise 156 companies for which the preponderance of assets is in national banks; those companies have total assets of \$214 billion. The supervision of the other multi-bank companies would be divided between the Federal Reserve, 44 companies with \$122 billion in assets, and the FDIC, 76 companies with \$22 billion in assets.

Not only does the artificial separation of supervisory authority between banks and bank holding companies create unnecessary bureaucratic delay, but, even more important, it deprives the bank supervisor of the power essential to deal with activities which may imperil the safety or soundness of a bank. For example, it has been our experience that often the board of directors of a bank which is wholly-owned by a holding company will consist of mere nominees of the holding company board. Action which a supervisor may take against a bank director in that case may prove ineffective in curbing the misdeeds of the actual decision-maker at the holding company level.

Those kinds of problems were foreseen in 1970 before the Bank Holding Company Act Amendments were adopted. A high Treasury official at the time strongly urged both this Committee and its counterpart in the Senate not to disrupt the basic supervisory pattern by centralizing bank holding company supervision in a single agency. As he told the Senate Banking Committee: "We are . . . concerned by the layers of federal bank supervision . . . we think that it is the examining authority that knows more about the bank which would be the central unit in the particular holding company."

Most recently, my colleague at the FDIC, Chairman Frank Wille, suggested that the Comptroller of the Currency be given authority to approve or deny non-bank acquisitions by one-bank holding companies where the only bank subsidiary of the holding company is a national bank, and that full examination and supervisory authority over each such one-bank holding company also be placed in this Office. I, of course, endorse that view and simply urge that it be extended to multi-bank companies where the preponderance of bank assets is in national banks. A similar redistribution of authority would take place among the other federal agencies where the single subsidiary is a state bank, or where the preponderance of assets is in state-chartered banks.

Second, I suggest that all supervisory functions relating to overseas operations of national banks be vested in the Comptroller of the Currency. As now structured, authority to supervise and regulate Edge Act Corporations and their banking subsidiaries and foreign banking subsidiaries of national banks rests with the Federal Reserve Board. Also, while my Office supervises and regulates foreign branches of national banks, the Federal Reserve is responsible for approving their establishment. That confused pattern only serves to hamper the efficiency and effectiveness of regulatory action.

As a third recommendation to redistribute authority, I suggest that Congress require the Federal Reserve Board to designate one Governor to exercise exclusive responsibility for bank supervision. That Governor also would be appointed to sit as the third member of the board of directors of the FDIC. Placing a representative of each bank supervisor on one board is a simple and ready means of facilitating coordination and communication among the agencies without disrupting the existing regulatory structure.

Fourth, I wish to endorse a recommendation, recently made to this Committee, for the establishment of a Federal Bank Examination Council. Governor Holland of the Federal Reserve Board already has outlined this proposal, which apparently has strong support within the Board of Governors, and I need not dwell on it at length. The Council would be authorized to establish standards and procedures for bank surveillance, examination, and follow-up, applicable to all the federal banking agencies, and to review significant problem cases when and as they develop. All three federal agencies would be represented, with a member of the Board of Governors serving both as Federal Reserve representative and as chairman of the Council.

The proposal seems to me to have considerable merit, although one might question assigning the chairmanship to a particular agency rather than to the individual most experienced in bank examination procedures. Apart from that, however, I suggest, as one additional improvement, that one representative from the state banking authorities should sit on the Council. Examinations conducted by the FDIC and the Federal Reserve Banks are concerned to a considerable degree with the application of state law, and those agencies regularly combine forces with state regulators. Accordingly, it would seem appropriate to receive input from the state supervisory system in the deliberations of the proposed Council. Selection of the state representative is a matter easily resolved; my objective is, simply, to assure that we do not ignore that half of the dual banking system.

Finally, efforts must continue to assure that, wherever possible, savings are accomplished and potential conflicts eliminated under the present system. I would point out, however, that it is recognized generally, so far as the great bulk of bank supervisory activity is concerned, that the work has been parcelled out among the three federal agencies in such manner as to leave little to be saved by any consolidation. Some would suggest that savings can be realized by cutting the costs of research or personnel training conducted separately in each of the three agencies. Frankly, I have not noticed that we are suffering

from an over-abundance of research or training, but certainly, if there is wasteful duplication, it can be eliminated without the drastic surgery of consolidation.

Sweeping, fundamental reform of the federal bank regulatory system is not a matter to be undertaken lightly. A passion for tidiness and symmetry must not be allowed to obscure the true goal of increased bank safety, flexibility, and innovation. Consolidation is not the answer. We, instead, should preserve with care and improve the unique American banking system which has served us so well for so long.

Structure of Depository Institutions

On numerous occasions, I have stated that improvement should take the form of increased asset and liability powers for thrift institutions, and a removal of the strictures of governmentally imposed interest rate ceilings for all financial institutions. I am pleased that the "Discussion Principles" endorse these concepts.

Electronic Funds Transfer Systems

I would like now to turn to the electronic funds transfer debate, the resolution of which I consider vital to the success of the quest for improved operational effectiveness of the nation's banking system. As the Committee knows, the electronic delivery of financial services, commonly referred to as EFTS, is a fairly recent development within the financial service industry and offers the American consumer convenience of location and time.

At present, federally chartered savings and loan associations and federal credit unions enjoy a great deal of latitude in the deployment of computer terminals through which customer transactions can be accommodated. Commercial banks are presently constrained by the possibility that these devices may be classified as "branches." Notwithstanding the determinations of the Comptroller of the Currency, and a number of state statutes, that EFTS terminals are not "branches," litigation and other legal uncertainties are serving to retard both innovative development and service delivery system deployment by commercial banks. At the same time, savings and loan associations, credit unions, and mutual savings banks are expanding their EFTS capabilities and are moving into the marketplace with increasing frequency and determination.

Most damaging to the National Banking System in this regard is the recent decision, now on appeal, of the U.S. District Court for the District of Columbia ordering suspension of our interpretive ruling on customer-bank communication terminals. A Missouri federal court also has ruled that CBCT's constitute branches. In contrast, federal courts in Colorado and Illinois have permitted installation of terminal devices, while limiting the functions which may be performed; and in Oklahoma deployment has been upheld without restriction. Cases are pending in Michigan, Ohio, and West Virginia.

The diversity of judicial and legislative treatment is a compelling argument for the imposition of a national standard in that field. I continue to believe that during the initial experimental phase in the development of EFTS, it is desirable to provide competing institutions with the

greatest degree of flexibility in both service offerings and delivery systems. Enhanced competition in the marketplace can only result in a broader range of financial options for the consumer, offered at lower prices and at higher quality than would be the case in a monopolistic or oligopolistic market or one in which the principal competitors were constrained by statutes or regulators from participating.

By creating the National Commission on Electronic Fund Transfers, Congress, too, has recognized the importance of studying the issues and formulating a national EFTS policy. Like you, I am hopeful for expeditious action by the Commission so that we all can receive clarification and guidance, either through research by the Commission or through actual industry experience, before the debate is rendered academic by disjointed developments in the marketplace and the courts.

Branching

Essentially related to the electronic fund transfers question is the broader issue of branch banking. I believe this issue must be addressed, even though any attempt to alter the present, state-oriented branching structure will meet vigorous resistance.

Branching has been a topic of intense debate throughout the modern history of the Comptroller's Office. As the law now stands, appropriate changes can be accomplished by amendments to state laws, but uniformity of state action appears to be unlikely. Thus, amendment of federal law is likely to be necessary to provide banks uniform authority to establish branches to serve the needs of the modern community.

To that end, I endorse the recommendation in the FINE "Discussion Principles" to permit all federally insured depository institutions to branch interstate where state law does not conflict. Power for federally-chartered institutions to establish branches within their own SMSA's regardless of state law also would be a welcome improvement.

We all can recognize that many cities are situated near state borders so that their metropolitan areas extend into two or more states. For many commercial purposes a metropolitan area is a single entity, not a collection of units. To permit branching within a metropolitan area would enable banks to locate branches wherever they would be most useful for customers.

My Office recently completed a study of the nation's 50 largest SMSA's. Of the 11 million people in the commuting work force of those cities, approximately half are denied access at work to the same financial institutions at which they bank at home. The Washington, D.C., metropolitan area is a prime example. There, 360,000 people, or close to one-third of the total area work force, commute across a district or state line and, therefore, cannot bank at the same institution at work and at home.

Returning to the "Discussion Principles", I do not favor an absolute prohibition against entry into metropolitan areas by merger. I believe that existing anti-trust standards are sufficient to guard against anticompetitive mergers.

Securities Underwriting

I note with approval the recommendation that banks be permitted to underwrite state and municipal securities, including revenue bonds. The Comptroller's Office repeatedly has recommended that the present authority of national banks to underwrite general obligations of state and municipal governments be extended to permit also the underwriting of revenue issues — most recently, on December 9, 1975, in my testimony before the Subcommittee on Securities of the Senate Committee on Banking, Housing, and Urban Affairs.*

Banks have underwritten general obligation bonds for years, subject to the supervision of federal bank regulators. This supervision has been strengthened recently by the enactment of the provisions of the Securities Acts Amendments of 1975 relating to municipal bond dealers. For those reasons, I am confident that the performance of that underwriting function will be afforded all necessary protection. I would recommend only one additional safeguard, that is, that a bank be required to obtain approval from the appropriate bank regulatory agency before engaging in the business of underwriting.

Municipalities, particularly small ones, will reap numerous benefits from this new bank underwriting authority. They will be able to tap a significantly broader market which, according to studies in this field, should facilitate the sale of their securities and decrease their interest costs, as well.

On the general subject of securities underwriting, I offer one additional recommendation that the appropriate provisions of the Banking Act of 1933 be amended to permit national banks to operate commingled investment accounts. For years bank trust departments have offered investment services as part of their role as trustee of personal and employee benefit trusts, as executor, administrator or guardian of estates, and as agent for various purposes. In the process they have acquired extensive research and investment capabilities. Through the pooling which commingled investment accounts involve, these capabilities can and should be made available to the general public.

I realize that in offering this type of service a bank may face situations in which a conflict of interest arises between the needs of one customer and those of another customer or the bank's commercial department. This is not new to banks. Similar conflicts of interest arise with respect to investment management services regularly provided through bank trust departments. Neither will authority to offer commingled investment accounts significantly increase the amount of assets affected by such conflicts. Supervision of bank trust departments is designed to detect those situations and to monitor the effectiveness of controls which banks themselves impose. I do not mean to say that additional safeguards would be inappropriate were that service to be permitted. I see merit in requir-

* For full testimony, see pages 209-212 of the *Annual Report of the Comptroller of the Currency, 1975*.

ing banks to obtain permission from the appropriate bank regulatory agency before establishing commingled agency accounts, and I would not oppose a decision to subject these accounts to the protections of the Investment Company Act of 1940.

Foreign Banks in the United States

I wish briefly to comment upon the constraints which the "Discussion Principles" would have Congress impose upon the U.S. operations of foreign banks. I have just returned from meeting with European leaders and I am more convinced than ever that legislation in that area should be drafted very carefully and after much deliberation.

While there is, of course, no objection to even-handed treatment of our own banks and foreign banks, I would caution that it is a very delicate and complex matter involving reciprocal treatment of American banks abroad and our whole foreign trade policy. Thus, any legislation must be written painstakingly to assure that without doubt there is even-handed treatment.

In addition, it is possible that the deliberations of the EFT Commission, which Congress has instituted, will produce recommendations for change in the geographical location restrictions for U.S. banks. It would seem more appropriate to await those recommendations before applying domestic geographic limitations to foreign banks operating in the United States.

In regard to the "Discussion Principles" recommendation that certain types of underwriting activities and corporate equity powers be forbidden to foreign banks, I think that legislation should await the studies of secu-

rities activities restrictions on national banks imposed by the Glass-Steagall Act. The Congress currently is engaged in a study on the subject, and we are cooperating with them.

Finally, my impression is that foreign banks, like our own, are taking a hard look at balance sheet considerations. I do not think that much expansion by foreign banks in the U.S. is likely in the year ahead. There is no need for haste in drafting legislation in this extremely sensitive area.

Enforcement Powers of the Comptroller's Office

The "Discussion Principles" do not include anything relating to the enforcement powers of the banking agencies. Because that subject has been much in the news in recent weeks, however, I would like to conclude by commenting upon it.

In September 1975 Chairman Burns of the Federal Reserve Board, on behalf of the Board, the Comptroller, and the FDIC, sent this Committee recommended legislation for strengthening the enforcement powers of all three agencies. We heartily endorse the substance of this proposed legislation — although the Comptroller's Office has some ideas on how a few of the details might be improved. If the Committee would like to consider such legislation, we would be happy to work with the Committee and its staff in that endeavor.

Again, I would like to thank you for this opportunity to participate in your deliberations on the FINE study, and to assure you of the desire of my Office to render any help that you require of us as the study progresses.

Statement of James E. Smith, Comptroller of the Currency, before the Senate Committee on Banking, Housing and Urban Affairs, Washington, D.C., February 5, 1976

I appreciate this opportunity to discuss examination practices and procedures of the Office of the Comptroller of the Currency and to review with the Committee some of the questions raised by the recent series of newspaper articles on the subject of so-called "problem banks." I hope my statement today will help correct some of the misunderstanding caused by the articles.

My testimony will touch upon three areas. First is an overview of the condition of the national banking system. Second is a discussion of the subject of so-called "problem banks." Third is a review of the modernizing procedures by which the Comptroller's Office examines banks and follows up on any corrective action which may be required. I am attaching to my statement a detailed response to the specific questions raised in the Chairman's letters to me of January 14 and 20, 1976.

The Condition of the National Banking System

The United States is now emerging from the severest

economic recession since the Great Depression of the 1930's. Not surprisingly, the serious economic condition weakened many of the businesses upon which our economy depends. In view of that, it would be unrealistic to expect that those major economic problems would not affect the nation's banks, especially those larger institutions which are the principal credit sources for regional and national businesses.

Despite the economic problems, the National Banking System, which is supervised by the Office of the Comptroller of the Currency, is sound and prosperous. Indicative of that strength is the remarkably resilient performance of the 10 largest national banks in 1975.

The Committee might wish briefly to review that record. Those 10 national banks hold about 40 percent of the assets and deposits of all national banks. Each of them is the principal subsidiary of a bank holding company whose year-end 1975 data are available for analysis.

Outstanding loans for those 10 banking companies totaled \$152 billion at year-end 1975. Their total net loan

losses for all of 1975 equalled \$1.1 billion, or 0.7 percent of outstanding loans. Although those losses were above the historic annual figures since World War II, let us ask:

- Did they severely impair the banks' capital?
No. In fact, capital accounts of these 10 banking companies grew \$1.4 billion in 1975.
- Did they exhaust loan loss reserves?
No. Their loan loss reserves were strengthened in 1975 by some \$206 million.
- How were the loan losses absorbed?
Entirely out of current earnings.

Recognizing the severity of the recession and the impact it was having on their loan portfolios, those 10 money market banking companies during 1975 set aside \$1.3 billion from current revenues to cover possible loan losses. Actual net loan losses totaled \$1.1 billion, however. Thus, the \$200 million difference between the provision for possible losses and actual losses was added to their reserve for loan losses, which brought those loan loss reserves to 0.95 percent of outstanding loans at year-end 1975. A year earlier, the reserve for loan losses amounted to 0.81 percent of outstanding loans. To place that ratio in perspective, net loan losses of those 10 banking companies averaged only 0.34 percent of their total loans over the past 5 years.

In other words, those 10 money market banking companies individually, as well as in the aggregate, covered their entire 1975 loan losses from current earnings. Even after charging off some \$1.1 billion in bad loans, the companies earned before-tax income of \$2.2 billion. Adding their before-tax earnings of \$2.2 billion to the \$1.3 billion they provided to cover losses, one can see that those banking companies could have charged off 1975 losses two or three times over, without reducing their reserves for loan losses or impairing capital.

The Committee should study the origin of the classified loans found today in banks. To the extent that these loans reflect banking mistakes, they are not the result of bad decisions made in the past months or even during the past year. On the contrary, 1975 was a year of marked retrenchment for the banking industry. The dollar amount of total loans of the 10 banking companies at year-end 1975 showed an absolute decline from that outstanding at the beginning of 1975.

The loan losses which were absorbed last year came from loans made in the prosperous environment of 1971, 1972 and 1973. Thus, we are not dealing with an expanding problem, but with one whose limits seem to be known. In simple terms, most of today's classified loans are loans that were placed on the books during an earlier period.

As will be evident later in my testimony, earnings, and their relationship to loan losses or capital, are not the only factors which can or should be used in analyzing a bank's performance and soundness. Those 10 banking companies' capital and liquidity positions, which improved measurably in 1975, are also important considerations in judging their soundness. In the case of those money center companies, however, the earnings-based analysis employed does give an accurate picture of their condition.

In summary, I believe that public confidence in the banking system of the United States is fully justified, both on the basis of present condition and recent performance. Indeed for that system to have had the fundamental strength and resiliency to carry through this enormously difficult economic period with only limited resort to foreclosure and other liquidating practices has doubtless contributed materially to the avoidance of an even deeper and more severe recessionary experience for this nation and its people.

I do not suggest that the system is faultless. Certainly some of the problems in the loan pouch are the result of poor decisions made by individual banks. But, in the main, the asset problems are economy related, and the capacity of our banking system to shoulder those problem loans is a matter deserving of commendation rather than condemnation. The banking industry and the other financial facilities of the private and public sectors are now being looked to for active involvement in financing our national economic recovery. Strident criticism could well drive the directorates and management of banks in the direction of credit policies so inordinately conservative as to thwart or severely retard economic recovery. I earnestly hope that our critical examination of present and past banking practices will be ever mindful of the potential for that unwanted psychological fallout.

Problem Banks

There recently has been discussion in the press about so-called "problem banks", which has led to much confusion. I would like to attempt to put that matter in perspective.

The Comptroller's Office for many years has been identifying certain banks for special attention. Until 1974, the term "problem bank" as used by the Comptroller's Office meant no more than a bank whose classified assets, that is loans judged by the examiner to be substandard, of doubtful collectability or a loss, aggregated 40 percent or more of the bank's gross capital funds (equity accounts, subordinated capital notes and debentures and reserves for loan losses). Thus the term "problem bank" never had been used in the sense of identifying the very few banks which, at any time, the Comptroller's Office believed to be in serious danger of failing, although those very few banks normally would be included within the group netted by the 40 percent classified asset to capital ratio.

This formula for identifying banks which should be more closely analyzed or tracked by the Comptroller's Office may have been appropriate when it first was conceived in the economic conditions of the 1950's. We concluded that it would not be, in the economic and banking climate of the 1970's, a useful way to designate banks which require our special attention. We thus have been determined to develop more discerning methods of singling out the banks which require our special attention; and the Office has made considerable improvement in that regard. For example, we no longer use the 40 percent ratio to define a bank which should be reviewed for possible special attention.

Our present method of identifying banks that require extra attention cannot be understood without also reviewing the changes in our procedures for monitoring those banks once they are identified. In January 1974, I began a weekly meeting with my senior examining and legal staffs to discuss bank-by-bank the problems which the staff had identified as requiring extra attention. In the case of large banks with problems of unusual severity, the regional administrator and the examiner were flown to Washington to participate in those meetings. If the corrective actions already underway were deemed insufficient, other possible corrective actions were decided upon and responsibilities were delegated to make sure that those actions were accomplished. That series of meetings permitted me to assess, firsthand, the methods then existing for dealing with problem banks. They also had the positive effect of bringing our Washington staff more deeply into enforcement activity.

These meetings, however, revealed some of the weaknesses in our methods of identifying and tracking so-called "problem banks." Particularly disturbing was the observation that time and resources were being devoted to banks which did not really have severe problems. As a result, the Office established, experimentally, the "Victor" program.

On November 15, 1974, a memo was sent to all national bank examiners outlining the Victor program, and describing it as:

a better means of coordinating the various skills and resources that we have in the problem identification and correction area and of applying them more expeditiously and precisely than previous procedures have allowed.

The program was under the supervision of a Deputy Comptroller of the Currency with over 25 years of examining experience. He reported directly to me.

The Victor program was largely one of communication. It established procedures through which examiners at the time of examination, regional administrators, and program personnel in Washington were required to communicate swiftly and regularly to make sure that problems identified either by the examiner or by those analyzing the report were called to the attention of the bank in an appropriate fashion and corrective measures sought and monitored.

In order to understand the methodology of the program, I should explain that every bank examination contains a rating by the regional administrator on several factors, and a composite rating for the bank of 1 through 4, with 1 being best. That composite rating system, like the 40 percent classified asset to capital ratio, is overly simplistic, although it is still found on our examination report. As of November 1974, it was the best tool we had — so we used it.

The Victor program originally included all banks with a composite rating of 3 or 4 and any other bank which the examiner, the regional administrator or Washington personnel believed merited the special kind of attention the program was designed to provide. A total of 186 banks with total assets of \$228 billion and total deposits of \$183 billion were originally included in the program.

The Victor program from its inception was intended to be evolutionary. It soon became apparent that the composite rating system included banks which did not need the intensive supervision that the Victor program involved. We thus looked for a new way to identify such banks.

On December 31, 1974, a memorandum was sent to all regional administrators and all examining personnel requiring the examiner to write a special memorandum summarizing a bank's condition when, in the examiner's judgment, any condition existed which could lead to the bank's insolvency; or when criticized assets, that is, 100 percent of loans classified substandard plus 50 percent of doubtful loans and other loans especially mentioned, equalled 65 percent or more of adjusted capital funds (equity accounts, capital notes, debentures and reserves for loan losses less losses and 50 percent of assets classified as doubtful). Thus, in lieu of using a ratio relating gross classified assets to gross capital at the start of an examination, we began to use a ratio of the remaining criticized assets to the remaining capital at the end of an examination. Those memos were sent for further evaluation and followup action to the appropriate regional office and thence to Washington. The examiners were told:

While some statistics and ratios are necessary, please understand that I am depending primarily upon your professional ability and judgment, not ratios, to disclose those serious banking matters requiring our attention.

We are developing a program with quantitative ratios which will be more discriminating. Meanwhile, however, we must work with the tools we have.

In short, we are still using the 65 percent ratio, but only as a fine mesh screening device. Every bank with criticized assets equal to 65 percent or more of its adjusted capital funds is reviewed in the Washington Office to determine whether or not the bank warrants special and unusual surveillance. The 65 percent ratio thus automatically identifies only those banks which will be reviewed. That ratio does not identify those banks which are defined as "problems".

On September 2, 1975, the Comptroller's Washington Office underwent a major reorganization. As a small part of this reorganization, the name Victor was dropped, and the personnel supervising the program changed. There are now two organizational units within the Washington Office, each staffed by experienced examiners, whose sole responsibility is to identify such banks, analyze their problems, see that corrective measures are agreed upon, and follow up on the implementation of such corrective measures.

As of today, there are 28 banks which the Comptroller's Office would describe as "problem banks", for want of a better term. Of those 28, seven banks, with total assets of \$1,669 million and deposits of \$1,359 million, exhibit a combination of weaknesses and adverse financial trends which pose an immediate threat to liquidity or solvency of the institution. The remaining 21 banks, with total assets of \$9,856 million and deposits of \$6,242 million, are considered by the Office to be in "serious" con-

dition. The weaknesses in those 21 banks could lead to insolvency if not corrected, but they are in no immediate danger.

Additionally we are giving some extra attention to 57 national banks. Those banks include those selected from our routine review of all banks meeting the 65 percent ratio and those we believe deserve special attention, even though their classified asset to capital ratio is under 65 percent. While we believe these banks exhibit certain performance characteristics warranting special surveillance, we do not regard these as "problem banks".

I think our Office has made important strides over the past 2 years in both the identification and supervision of "problem banks". This has been an evolutionary process, and it continues. I hope the next 2 years will witness as much progress in improving these procedures as has occurred in the last 2 years.

I should add one caveat: I don't think that the Comptroller's Office or any other bank regulatory agency can prevent bank failures in our present competitively oriented banking system. We can identify potential problems and we can attempt to assure the best efforts both of the regulatory agency and of the bank to correct these problems. It would be wrong to believe, however, that every bank problem, whatever its size or complexity, can be remedied solely because the problem has been identified and all reasonable solutions have been attempted.

Modernizing Changes in Examination and Supervision

As is evident from this discussion of the "problem bank" situation, I became firmly persuaded, soon after becoming Comptroller, that major improvements were needed in the examination and follow-up procedures used by the Comptroller's Office in its supervision of national banks. In the past, the Comptroller's Office used the review of the loan portfolio as a focal point of examinations. It was obvious, however, that the tremendous growth of bank assets during the 1960's and early 1970's had outstripped the ability of the Comptroller's Office to check all loans. Indeed, our Office would need several times the number of employees we presently have to evaluate all loans on an individual basis.

In the spring of 1974, the Office commissioned the nationally recognized accounting and management firm of Haskins & Sells (H&S) to conduct a major study of the Comptroller's Office and, where indicated, to recommend improvements. The H&S report was released in August 1975. It is available to the public and a copy was sent by my Office to each member of Congress. We are now busily engaged in implementing the major changes recommended in that study.

Endorsement of those new procedures is not meant to criticize either the personnel in the Comptroller's Office or those who preceded me as Comptroller. Indeed, most of the recommendations are synthesized from criticism that came from within the Comptroller's Office. The banking industry in the last 15 years has changed dramatically in terms of size, functions and the velocity of activity, and our procedures simply had not kept up with the

accelerated pace of change in the industry we supervise.

H&S recommended that the Comptroller establish a systematic way of identifying which of the many rapid changes in the banking industry might require a regulatory response, and fashioning that response in time to shape developments, not merely react to them. Central to that response is the recognition that a sound banking system must be soundly managed by bankers themselves — and we must be able promptly and accurately to evaluate bank management. We now are implementing those recommendations.

We also are implementing, as a result of the H&S report, a new statistical monitoring system which will permit the Office, much more rapidly than before, to discern trends in the national banking industry as a whole and in individual banks. The information required by the new call report requirements adopted by all three federal banking agencies, to be effective with the March 31, 1976 report of condition, is an integral part of that statistical system.

Consistent with another H&S recommendation, substantial improvements in national bank examination procedures now are being adopted. The new procedures will gear examination efforts more precisely to the needs of the Comptroller's Office and the particular bank being examined and will stress review of bank internal controls, such as prudent credit and investment rules and internal audit procedures. By devoting more time to evaluation of a bank's own policies and procedures, its decision-making process, and its management information system and less time to independent duplication of what the bank already has done, we expect greatly to increase the efficiency of our examiners.

Although there will be more emphasis on systems checks and less on individual loan verifications, our examination process will employ more efficient procedures in the areas of national credits and country credits. If a debtor has an aggregate line of credit in excess of \$20 million shared by two or more national banks in this country, three experienced examiners will review the credit. A majority vote will determine a uniform classification to be used by all examiners in every national bank in the United States. As regards country credits, since July 1974, three senior international examiners, from New York, Chicago and San Francisco, and two international officials from our Washington Office have analyzed, semiannually, facts on loans from banks into foreign countries and, by a majority vote, have determined uniform classifications for each such loan. That procedure should establish consistency, focus the attention of our most talented examiners on the classification, and be an immense saving of time.

We also are reviewing and improving our personnel policies, our training programs, our examination manual, and the organization of most of our executive and administrative functions. I am aware that any bank regulatory organization, no matter how structured, is only as effective as the quality of its personnel.

All these steps are being taken to improve the bank supervisory and regulatory functions under existing laws. In the follow-up procedures to bank examination, however, we need new legal authority to strengthen our

ability to deal with particularly difficult problems. The Committee already has before it S. 2304, which contains some amendments recommended jointly by the Comptroller, the Federal Reserve Board, and the FDIC to enable us better to deal with problem banks. I urge prompt Committee consideration and passage of that legislation.

The legislation has several provisions. The first empowers the banking agencies to assess civil penalties for violations of various banking statutes and cease and desist orders. I endorse wholeheartedly the idea of giving the agencies that authority. My staff and I believe that some improvement can be made in the procedures now found in S. 2304 through which those penalties would be assessed and collected. We would be happy to consult with the Committee staff on this matter.

Another provision of the bill which I heartily support would give the banking agencies power to remove an officer, director, or other person participating in the affairs of the bank from his position upon being able to show gross negligence in the operation or management of the bank or a willful disregard for the bank's safety and soundness. Under the present statute, bank officials can be removed only if the agency can establish "personal dishonesty". The judicial review provisions already con-

tained in the statutes are ample to protect against arbitrary or capricious use of that power.

The procedures by which an officer or a director of a national bank can be removed also need amendment. Under existing law, the Comptroller lacks power to remove a bank official unless that official has been indicted. If he has not been indicted, the Comptroller can do no more than certify facts to the Federal Reserve Board. The Federal Reserve is given the responsibility for issuing a notice of proposed removal, prosecuting the case, hearing the evidence and making the final decision. The Comptroller cannot even institute the proceeding.

That procedure is so cumbersome to use that neither the Federal Reserve Board nor my Office believes that it has been very effective. We thus have recommended a provision in S. 2304 which would empower the Comptroller to institute and prosecute proceedings. The Comptroller also would have the power to suspend a bank official pending completion of the proceedings. The Federal Reserve Board, however, would retain its present authority to hear the case and make final decisions. I am in complete agreement with that recommendation.

In conclusion, I refer the Committee to the responses from my Office to specific questions contained in Chairman Proxmire's letter of invitation to me.

Appendix to February 5 Statement by James E. Smith

Responses to the Committee's Questions

The Committee has asked in Chairman Proxmire's letter of invitation for responses to specific questions. Some of the questions have been answered by information presented in the earlier portions of this statement. The remaining responses are below.

Question 1: The Standards for Assets, Capital, Liquidity and Management

Classification of Loans

The evaluation of loans and discounts is one of the most important phases of a national bank examination. The examiner bases many of his conclusions regarding the condition of a bank, the strength of its management, and its service to the community on his appraisal of the loan account.

In each bank under examination, the examiner determines the volume of loans to be appraised. Generally, examination coverage of the loan portfolio exceeds 70 percent of total dollar amount outstanding and always includes overdue loans, non-accrual loans, previously classified loans and other paper which the examiner has definite reasons for investigating and appraising.

Once it is determined which loans will be reviewed, the examiner systematically appraises each loan by analyzing available financial information, including financial statements and other statistical support, as well as evaluating pledged collateral if the loan was granted on

a secured basis. Financial data and other essential information such as the purpose of the borrowing and the intended sources of repayment, progress reports, inspections, and memoranda of outside information and loan conferences, are normally maintained in the bank's credit files.

Open and candid discussion with bank officers and directors, who are familiar with borrowing customers, is an equally important step in the process of appraising the varying degrees of risk in a given loan. Factors relating to the character of the borrower in the case of an individual, or the competency of management if the loan is to a corporation, usually may be determined from discussion with the appropriate bank officers. Analysis of financial data alone may not reveal credit factors of this nature, which could have a significant bearing on the ultimate collectability of a loan. Frank communication between the examiner and the banker is a crucial element in the loan review process.

When the examiner has identified individual credits that require criticism, the loans are assigned a "classification" based on the degree of risk. Each such loan is supported in the report of examination by informative and factual comments which justify the classification. A loan to a given borrower may be categorized as "other loans especially mentioned" (OLEM), substandard, doubtful or loss. Portions of the loan may, depending on the circumstances, be assigned different classifications. For example, the following hypothetical \$100,000 to a

self-employed individual, based on varying elements of risk, might be classified as follows:

Not				
Criticized	OLEM	Substandard	Doubtful	Loss
(1) \$10,000	(2) \$5,000	(3) \$40,000	(4) \$30,000	(5) \$15,000

(1) The collateral for this portion of the debt is a pledge of U.S. Government securities with a current market value of \$10,000. Aside from a potential decline in the market value of the securities, this part of the loan is virtually without risk.

(2) This is the unsecured portion of the loan on which the bank holds the guaranty of a financially responsible individual. Bank management feels confident that the guarantor has the capacity and willingness to honor this obligation; however, financial information supporting the guaranty is outdated and the bank has not yet attempted to collect from the guarantor. Until the guarantor performs, this portion of the loan warrants more than the normal degree of supervision.

(3) The collateral for this portion of the debt is a real estate mortgage on borrower's personal residence, appraised at \$40,000. Three monthly payments are past due. This portion of the debt fits the substandard definition; the bank appears protected from loss because of the underlying value of the real estate. However, the loan is a non-earning asset, as evidenced by the past due status, and the bank may be forced to foreclose on the property in order to effect collection. Foreclosure action would not necessarily assure disposal of the property for the appraised value.

(4) The collateral for this portion of the debt is a lien on equipment formerly used in borrower's now defunct machine shop business. Bank has taken possession of the equipment and is attempting to arrange a sale; however, the age and specialized nature of the equipment mitigates against sale at a price sufficient to liquidate the doubtful portion. The probability of loss is high, although a favorable sale could still materialize.

(5) This portion of the loan is unsecured and past due for an extended period. The borrower has no apparent source of repayment at this time and continuance as an active asset is not warranted. Some recovery at a future date might be effected if the borrower is able to find gainful employment.

To clarify exactly what we mean by the different categories, we provide the following definitions:

- Other Loans/Assets Especially Mentioned (OLEM) — Currently protected but potentially weak credits or other assets.
- Substandard — Assets with a positive and well-defined weakness or weaknesses which jeopardize the liquidation of the debt. Defined in a general way, a substandard asset is a bank asset inadequately protected by the current sound worth and paying capacity of the obligor, or pledged collateral, if any.
- Doubtful — Assets with all the weaknesses inherent in assets classified substandard with the added proviso that the weaknesses are pro-

nounced to a point where collection or liquidation in full, on the basis of currently existing facts, conditions and values, is highly questionable and improbable. The probability of total or substantial loss is high but extraneous factors might make possible the strengthening or liquidating of the asset.

- Loss — Assets considered uncollectable and of such little value that their continuance as active assets of the bank is not warranted. Assignment of this classification does not mean that an asset has absolutely no recovery or salvage value, but simply that it is not practical or desirable to defer writing off a basically worthless asset even though partial recovery may be effected in the future.
- Classified Assets — The sum of substandard, doubtful and loss classifications.
- Criticized Assets — Classified assets plus OLEM.
- Gross Capital Funds — The sum of capital stock, surplus, undivided profits, reserves against loan and security losses and long-term subordinated notes and debentures.
- Adjusted Capital Funds — Gross capital funds less estimated losses and 50 percent of doubtful classifications.
- Equity Capital — The sum of capital stock, surplus and undivided profits.

Evaluation of Bank Capital & Ratio Analysis

Bank capital has myriad uses and purposes. It allows a bank to gain competitive entry by acquiring the necessary infra-structure to operate. It provides a cushion to withstand abnormal losses not covered by current earnings, enabling the bank to regain equilibrium and re-establish a normal earnings pattern. It serves the important psychological role of maintaining the confidence of public lenders and investors in the bank's ability to meet maturing demands in most market conditions, to sustain present and contemplated growth patterns and to conform to industry standards. In liquidation it provides protection to both depositors and other creditors.

Although the purposes and uses of capital are easily defined, capital adequacy is not. Attempts to construct objective criteria to measure what is substantially a subjective concept have been mired in controversy for years and have resulted in no firm answers to this complex subject.

As we see it, there are five major issues relating to the capital adequacy of banks. They are:

1. The relevance of total economic collapse.
2. The weight to be given the quality of management.
3. The role of capital notes and debentures.
4. The role of bank capital in bank holding companies.
5. The usefulness of capital ratios as measures of capital adequacy.

Each of these topics will be discussed in turn.

The first problem that must be faced in any discussion of capital adequacy is composing a list of contingencies threatening bank capital. At the forefront of that problem is the question of whether the list should include total economic collapse.

Perhaps the principal element that may distinguish the answer to that question today from the answer that may have been appropriate 40 years ago is the changing role of national economic policies. Most economic authorities are in agreement that our knowledge of appropriate counter-cyclical fiscal and monetary policies is vastly superior to that available to our policymakers in the early 1930's. From that, one reasonably may assume that an economic debacle of the magnitude of the Great Depression of the early 1930's is avoidable.

What does that mean for the banker and the bank regulator in connection with capital adequacy? We think it is defensible for both bank regulators and bankers to assume that fiscal and monetary policies will allow the prevention of large-scale economic crises. We are well aware, however, that cyclical movements have not been abolished, and that periodic recessions of more limited amplitude are to be expected. Those swings can bring significant pressures to bear upon banks, as has been evident in the last 2 years.

The second issue to be considered is whether the quality of management should influence determinations of capital adequacy. Some views from outside and inside banking suggest that management quality has not been given its due.

For example, a major study completed a few years ago by Professors Robinson and Pettway suggested that bank examiners "... should take their eyes off bank capital and focus on the quality of bank management." The authors continue:

An analogy will help at this point: examiners do not try to specify the elements of a liquidity policy to a bank but they rightly criticize a bank if it does not have a clearly articulated liquidity policy. By the same token, why should examiners try to establish capital standards (which by their nature can't be specified)? Shouldn't their efforts and energy be directed to the problem of making sure that bank managements have clearly articulated capital policies and that they are implemented by managers of as high skill and training as possible?

Mr. George Vojta, in a recent monograph, after examining the body of research dealing with the relationship between bank capital and bank failures, concludes that "... the important causal factors relating to solvency are competence and integrity of management."

The *Comptroller's Manual* contained a section dealing with capital adequacy until the 1971 revision, when the section was deleted. It opened with the statement that

the Comptroller of the Currency will not hereafter rely on the ratios of capital to risk assets and to total deposits in assessing the adequacy of capital of national banking associations.

The section also included the well-known set of eight

factors to "... be considered by the Comptroller in assessing the adequacy of capital." The very first factor listed was "the quality of management." The other seven were:

- The liquidity of assets.
- The history of earnings and of the retention thereof.
- The quality and character of ownership.
- The burden of meeting occupancy expenses.
- The potential volatility of deposit structure.
- The quality of operating procedures.
- The bank's capacity to meet present and future financial needs of its trade area, considering the competition it faces.

Although that list is not contained in the current edition of the *Manual*, the factors have not been disowned by this Office. Indeed, to some degree that set of factors has come to epitomize the non-ratio approach with which the Comptroller has been identified during the past decade.

Subjective factors and good judgment with respect thereto, thus, play a far more important role in our assessment of capital adequacy than the use of objective capital ratios, which have never proven reliable. This Office has placed a great deal of emphasis on two key factors, the quality of management and the quality of earnings, in assessing the capital adequacy of individual banks. Banks cannot survive without either for very long and the two factors are usually inseparable.

While a premium has been placed on management capability and earnings capacity in assessing capital adequacy, asset quality and liquidity/liability management are given near equal emphasis, depending on individual bank circumstances. The point is that capital adequacy can only be determined by a subjective analysis of all factors affecting a bank's condition. Emphasis must be given to those factors affecting the bank's performance and those will vary from bank to bank and will also vary with prevailing market and economic conditions, either locally, nationally or internationally.

The role of capital notes and debentures is a third controversial subject. The Office of the Comptroller of the Currency in the early 1960's issued a ruling that encouraged national banks to resort, on appropriate occasions, to the sale of debentures to supplement their capital position. Until that ruling, senior capital, in the view of many banks, was associated only with near-emergency situations at financially weak institutions. Our Office has applied a rule of thumb that limits the proportion of a national bank's total capital that can be in debentures to one-third.

Some of the capital formulae applied by bank regulators discriminate against the use of debentures. For example, one such ratio involves total equity capital plus reserves on loans and securities, divided by the sum of total liabilities plus total debentures less cash and cash items. It is obvious that a bank with outstanding debentures is penalized in the application of that ratio as compared with a bank that has issued none.

In our Office, we believe there is a place for debt instruments in the capital structure of national banks. The basic regulatory function of bank capital is to serve as protection for depositors and those who assume their risks. Subordinated notes and debentures extend substantial additional protection to bank depositors. Further, some market situations would penalize bank stockholders greatly, were the regulatory authorities to insist upon the sale of equity securities. Having the option of selling subordinated notes yields valuable flexibility.

A subsidiary question, in connection with bank debt capital, relates to the sale by one bank, usually a smaller one, of its debentures to a larger bank. There are, we believe, reasons for holding such transactions to a minimum. From the standpoint of the entire banking system, such transactions do not provide any net inflow of capital. Were such transactions to proceed on a round-robin basis throughout the system, it is evident that a substantial watering down of capital requirements for the system would have occurred. If the regulatory authorities desire to reduce capital requirements for the system, it may be preferable to take such action directly. We do not, however, advocate abolition of this type of transaction. On occasion, in a particular situation, this course of action can be beneficial to both banks involved.

There is also the fourth question of bank capital for holding company banks. There appears to be fairly general agreement that a bank and its capital position must be protected, whether or not it is a holding company subsidiary. Certainly, from the standpoint of a primary bank regulator, the relationship of a regulated bank with a parent bank holding company and its associated non-bank affiliates, should be a source of positive strength for the bank. Our Office will oppose any affiliation for a national bank when that affiliation would tend to threaten the soundness of the bank.

The fifth and final issue mentioned above relates to the usefulness of capital ratios as measurements of capital adequacy. In fact, somewhat more broadly, the question really is: How may the adequacy of capital be measured?

A variety of capital ratios are used by all bank examiners as initial screening devices in their attempt to determine whether an institution under examination is adequately capitalized. The loans-to-capital ratio, the capital-to-total assets ratio, the capital-to-total deposits ratio, those and others are among the more popular measures.

As to the norms or "acceptable" levels for those ratios, it is undoubtedly true that the current average figures tend to become a sort of standard. There has been a decline in capital ratios over the past 60 years, and that drop illustrates that we tend to look at the concept of capital adequacy in relative rather than absolute terms.

In using ratios, one is often tempted to adopt "minimum" values for regulatory purposes. When that is done, there is a natural tendency on the part of bankers, hard pressed as they are to maintain a favorable rate of return on capital, to allow their institutions to slide gradually to the minimum acceptable levels. The choice of any minimum which lies below the ratios of a significant number of banks would tend, in and of it-

self, to exert downward pressure on the aggregate capital ratios of the system.

We believe that no strict formulation can substitute for the factor of human judgment in determining capital adequacy. Obviously, were that not so, the world would be an easier place for bank regulators. Were mechanistic judgments to be finally determinative, one perhaps could appoint the latest generation computer as regulator.

Evaluation of Bank Asset Liquidity

The liquidity of a bank refers to the volume of cash and other assets, readily convertible into cash, which provide its capacity promptly to meet demands for payment of its obligations. Banks tend to hold their cash and balances with other banks at a minimum since those are nonearning assets. Accordingly, most banks rely upon a special liquidity account consisting of short-term, readily marketable high grade assets which can be quickly converted into cash at any time to meet loan and deposit fluctuations. Banks are not restricted to the asset side of the balance sheet in meeting their liquidity needs, for they can also borrow money, purchase federal funds, and attract time certificates of deposit in order to gain needed liquidity.

This Office computes liquidity for each bank on a separate form attached as part of each examination report. Simply stated, on that form liquidity is measured by determining the percentage of a bank's liabilities held in the form of cash or assets readily convertible into cash. In general we prefer to see liquidity ratios in the range of 15 to 20 percent or more. A secondary liquidity position also is computed by giving consideration to the liquidity inherent in other assets listed as memoranda accounts. Those memoranda accounts include loans to U.S. government securities dealers, eligible bankers' acceptances, other loans eligible for discount at the Federal Reserve, commercial paper, and other securities with maturities of over 2 years.

After those computations, the examiner evaluates the adequacy of the bank's liquidity position in relation to the bank's demand for liquid assets to meet loan commitments and other contractual obligations, and the composition and volatility of its deposit structure. Consideration is also given to the quality of the bank's loan portfolio and the cash throw-off it provides as loans are reduced and paid.

For larger banks which are heavily engaged in money market operations, a more sophisticated approach is used in determining the adequacy of liquidity/liability management. One has to approach such banks with an overview of their market positions and the diversification, quality and stability of their funds sources. In addition an analysis must be made of the bank's liability management. Money market purchased funds (negotiable CD's, Eurodollars, federal funds, etc.) are extremely interest sensitive and must be properly matched as to maturity and rate with interest sensitive assets to provide the bank with a profitable interest spread and a means to meet current demands placed upon it.

Those funds are also extremely "confidence" sensi-

tive and are subject to the vagaries and whims of the financial money markets. Individual banks with a marginal access to money market funds or an uncertain status in the markets due to adverse financial trends can be extremely vulnerable to a liquidity crisis when the confidence of large individual or institutional depositors or lenders diminishes with respect to the bank.

The psychology of the market place is especially important to banks during adverse economic times. For example, the combinations of steadily rising interest rates, tight money conditions, a prolonged economic recession and a few bank failures, both here and abroad, in 1974 created problems for some regional and money market banks which were highly dependent on purchased funds. Some tiering developed in the money market and the very largest banks with excellent national and international reputations and several well-managed regional banks were the direct beneficiaries. Other regional and smaller money center banks were often denied some funds or were forced to pay a high premium for their funds.

Thus, a bank's position in the money market, its staying power, its liability management techniques and its reputation are key factors which must be objectively and subjectively analyzed to determine the adequacy of liquidity in money center banks.

Question 2: Ratio Analysis

As stated in the second part of this testimony, banks to be selected for special attention are of two types: Banks which, in the examiner's judgment show any condition which could lead to insolvency and banks selected from those whose criticized assets equal 65 percent or more of adjusted capital funds. Further analysis of those banks, based upon the factors listed in response to Question 1, is made to determine which banks truly are deserving of special attention.

Question 3: Categories of Banks

The evolution of bank examinations and supervision as practiced by my Office has been extensively described in the first part of this statement. That should be considered my answer to this question.

Question 4: Procedures for Abating Unsound Conditions

Once significant problems of a national bank have been identified through the examination process, the examiner begins the supervisory action process by commenting in the report of examination on important matters requiring attention of the Comptroller, the board of directors and the active executive management. The examiner's comments are supplemented by a letter from the regional administrator which highlights the bank's problems and requests the board of directors and executive management to institute appropriate corrective measures. Depending on the circumstances and severity of problems, the bank's executive management may be requested to submit monthly reports regarding progress it has made toward improving unsatisfactory

areas of the bank. In addition, frequent visitations and examinations may be conducted.

When an examination or special visitation of a national bank discloses a condition so unsatisfactory as to warrant that the board of directors should be promptly and personally informed, a special meeting with the board is called by the examiner or his regional administrator. Special representatives of the Comptroller's Office may attend the meeting depending on the circumstances and severity of the problem. The objectives of meeting with a board of directors are to discuss the conditions and affairs of the bank that were observed during the most recent examination, to reach an agreement on any significant problems in the bank, to obtain a definitive commitment from the board, to institute the proper corrective actions, and to obtain information concerning future plans and proposed changes in bank policy that may have a significant impact on the future condition of the bank.

Bank supervision provided at the regional level is coordinated with the Washington staff which provides additional legal assistance, coordination with other regulatory agencies, attendance at board meetings, analytical support, and follow-up review. Where the facts indicate a serious problem, a possible violation of law, or unsafe and unsound practices, we may call upon the Enforcement and Compliance Division of our Law Department. That assistance may consist of the attendance of an attorney from the Enforcement and Compliance Division at a board of directors' meeting to discuss with the bank the problems and the suggested corrective action. In other cases it may require the investigation by the Enforcement and Compliance Division of a cease and desist proceeding or the certification to the Federal Reserve Board for removal of an official or the making of a criminal referral to the Department of Justice. In the latter two situations, the investigation must disclose that the particular activities of an individual constitute evidence of personal dishonesty.

In addition, the bank must obtain the approval of this Office for various corporate changes, such as the opening of a new branch, dividend restrictions, investments in premises and other approvals. That approval may be withheld until this Office is satisfied that the bank will adopt the recommendations.

In the abnormal case where it is determined by this Office that stronger enforcement action should be taken to ensure that a bank is functioning in a safe and sound manner and within the law, the Comptroller has a range of administrative remedies to deal with the situation. In determining the appropriate remedy for a particular bank, the Comptroller, together with the Deputy Comptrollers, regional administrators, examiners and the Law Department, must determine which type of action will be the best rehabilitative remedy to assist the bank.

Where the facts indicate that there are serious problems or that there are repeated violations of law or unsafe and unsound practices, this Office may use the power given under the Financial Institutions Supervisory Act of 1966 to begin cease and desist proceedings. Cease and desist proceedings are rehabilitative, intermediate tools which allow this Office to force a bank to work out its problems without resorting to the more drastic

measures of receivership, conservatorship, termination of insurance, forfeiture of charter, or forced merger. Our experience has indicated that the threat of a cease and desist proceeding enables this Office to handle the majority of bank problems through the less formal techniques of persuasion, frequent examinations and meetings with directors.

Question 5: Updating of Previously Furnished Information

The Chairman's letters of January 14 and January 20, 1976, included a request for information on banks in composite categories 3 and 4, including a statement of their assets and deposits from call reports for the years 1971 through 1975. That information is included in Table A.

Question 6: Cease and Desist Proceedings

Over the past several years this Office has resorted to the use of formal cease and desist proceedings under the Financial Institutions Supervisory Act of 1966, 12 USC 1818 as set forth below:

Year	Number of Cease and Desist Proceedings
1971	3
1972	6 (one involving several banks)
1973	10
1974	19
1975	23

Because none of the cases matured into litigation, no summary of court action is available. Summaries of the individual orders appear [at the end of] this statement.

While the Financial Institutions Supervisory Act has become increasingly useful as a regulatory tool, we hasten to point out that it has several serious deficiencies.

As noted in the earlier portions of this statement, we endorse a proposal, S. 2304, which would correct some of the problems with the FISA and grant the regulatory agencies the powers they originally requested when the FISA was conceived in 1966. Among the amendments we seek is a change from a standard for removal of an officer or director of "personal dishonesty" to a standard of gross negligence or willful misconduct. That change alone would be helpful in preventing the development of many new problem bank situations for it will allow for the removal of bad management at an earlier stage. Other provisions included in S. 2304 will simplify the administrative procedures in a removal case and end the unnecessary administrative delays now present in the system.

Question 7: Exchange of Examination Reports and Other Data

This Office routinely provides a copy to the FDIC of all reports of examination of national banks which carry an OCC composite rating of 3 or 4. In addition, the Washington Office of the FDIC has checkout privileges with our Central Records Section and may request a copy of the examination report or other data on any national bank. The Board of Governors of the Federal Reserve System, in Washington, is granted the same access to examination reports and other data relating to national banks.

Each of our 14 regional offices has an arrangement with the Federal Reserve District Bank of jurisdiction to provide to that bank, a copy of every report of examination of national banks. Moreover, the regional offices of the OCC freely exchange information on banks and bank holding companies with the Federal Reserve District Banks where there is a mutual interest to be served in the regulation and supervision of the nation's banking system.

Table A
National Banks Rated 3 and 4*
(Dollars in millions)

Date of list	Total			Group 3						Group 4					
	number of national banks	assets of national banks	deposits of national banks	Number of banks	Assets	Deposits	Percent of all national banks			Number of banks	Assets	Deposits	Percent of all national banks		
							Number	Assets	Deposits				Number	Assets	Deposits
12/70	4,348	\$323,359	\$269,690	104	\$3,058	\$2,685	2.4	.9	1.0	8	\$211	\$193	.2	.1	.1
6/71	4,366	354,327	299,254	112	5,002	4,311	2.6	1.4	1.4	8	328	294	.2	.1	.1
12/71	4,385	373,870	315,212	101	13,084	10,990	2.3	3.5	3.5	8	121	109	.2	—	—
6/72	4,417	398,278	333,843	105	13,558	11,399	2.4	3.4	3.4	5	93	83	.1	—	—
12/72	4,449	425,550	354,442	61	10,693	9,107	1.4	2.5	2.6	6	81	73	.1	—	—
6/73	4,495	466,265	388,516	56	11,601	9,472	1.2	2.5	2.4	8	131	116	.2	—	—
12/73	4,546	497,583	410,471	71	13,742	10,735	1.6	2.8	2.6	8	144	131	.2	—	—
6/74	4,612	545,290	444,084	110	119,603	97,397	2.4	21.9	21.9	11	225	202	.2	—	—
12/74	4,659	579,715	469,181	169	225,164	180,916	3.6	38.8	38.6	17	2,376	1,779	.4	.4	.4
6/75	4,703	599,803	489,624	251	249,725	201,919	5.3	41.6	41.2	25	3,527	2,901	.5	.6	.6
12/75	4,709	600,860	490,594	251	249,747	201,917	5.3	41.6	41.2	24	3,487	2,866	.5	.6	.6

NOTE: Dashes indicate amounts less than .05 percent.

*A reconstruction based on examination reports of banks still in existence.

This Office and the Federal Reserve System have an established communications procedure, both between the respective Washington offices and the regional offices of each agency, whereby we provide prompt notification to the Federal Reserve System whenever our examination of a subsidiary bank of a bank holding company reveals that the condition of that bank is deteriorating significantly or that it is in a generally unsatisfactory condition. Similarly we give the Federal Reserve System periodic progress reports, either verbal or written, during an examination, and subsequent to it, for such banks.

The Federal Reserve System, in turn, provides this Office with reports of examination of bank holding companies which have national banks as subsidiaries. The Federal Reserve also promptly informs the OCC whenever it has information that a holding company's condition or actions could have an adverse effect upon a subsidiary national bank.

Similar formal and informal communications procedures exist between the OCC and the regional and Washington offices of the FDIC. That communication network is further augmented by my direct participation as one of the three directors of the FDIC and through the liaison staff of this Office at the FDIC.

All three federal banking agencies work in close concert, especially when it becomes apparent that the nature and volume of weaknesses and the trends of a particular bank are such that correction is urgently needed. For example, at the early stages of a problem involving a bank holding company, the agencies have often con-

ducted a simultaneous examination of the holding company and its affiliates. The follow-up procedure has been to monitor the entire system under the control of the affected holding company and to impose and enforce a coordinated corrective program on the particular problem affiliates within the holding company system.

In addition to the above-described arrangements and practices existing between the bank regulatory agencies, all three agencies participate in regular meetings of the Interagency Coordinating Committee; in meetings designed to coordinate and standardize examination procedures; and in frequent meetings to develop common reporting requirements, including call report and income and expense items to be disclosed by all commercial banks.

Question 8: Aggregate Data and Ratios for Three Classes of Banks

The Committee has requested certain statistical information for banks over \$5 billion in assets, banks having \$1 billion to \$5 billion in assets and banks with less than \$1 billion in assets. The data appear in the tabular material that follows.

Table I compares aggregate classified loans to gross capital funds and total assets for 1972 - 1975 for national banks with assets exceeding \$5 billion dollars; Table II compares the same information for national banks with assets of \$1 to \$5 billion. For the largest national banks (Table I) classified assets have risen as a percentage of

Table I
Aggregate Classified Assets, National Banks with Assets over \$5 Billion, 1972 - 1975
(Dollars in millions)

Year	Number of banks	Total assets	Gross capital funds (GCF)	Substandard assets	Substandard as a percent of total classified assets	Doubtful assets	Doubtful as a percent of total classified assets	Loss assets	Loss as a percent of total classified assets	Total classified assets	Total classified assets /GCF (Percent)	Total classified assets / Total assets (Percent)
1972	11	\$151,597	\$10,170	\$2,459	76	\$ 602	19	\$159	5	\$ 3,220	31.7	2.1
1973	11	186,510	11,026	2,611	74	753	21	193	5	3,557	32.3	1.9
1974	12	233,394	12,351	5,479	77	1,317	19	314	4	7,110	57.6	3.0
1975	12	248,173	13,245	9,840	73	3,224	24	439	3	13,503	101.9	5.5

Source: U.S. Comptroller of the Currency examination reports for years indicated.

Table II
Aggregate Classified Assets, National Banks with Assets of \$1 to 5 Billion, 1972 - 1975
(Dollars in millions)

Year	Number of banks	Total assets	Gross capital funds (GCF)	Substandard assets	Substandard as a percent of total classified assets	Doubtful assets	Doubtful as a percent of total classified assets	Loss assets	Loss as a percent of total classified assets	Total classified assets	Total classified assets /GCF (Percent)	Total classified assets / Total assets (Percent)
1972	48	\$81,887	\$6,227	\$1,009	75	\$257	19	\$ 74	6	\$1,340	21.5	1.6
1973	49	94,312	6,800	1,010	79	186	15	78	6	1,274	18.7	1.4
1974	60	117,649	8,313	2,321	82	344	12	163	6	2,828	34.0	2.4
1975	58	115,398	8,675	3,577	82	624	14	167	4	4,368	50.4	3.8

Source: U.S. Comptroller of the Currency examination reports for the years indicated.

gross capital funds in each of the last 4 years. Most of that increase occurred in 1974 and 1975 and reflects, to a great degree, the adverse economic conditions existing in those years.

Table III

**Aggregate and Average Classified Assets,
National Banks with Assets Under \$1 Billion,
1970 - 1975**

(Dollars in millions)

Year	Aggregate classified assets	Average classified assets	Classified assets / Gross capital funds (percent)
1970	\$1,495	\$.333	12.17
1971	1,625	.351	12.09
1972	1,673	.361	11.16
1973	1,918	.414	11.29
1974	2,695	.581	15.78
1975*	4,112	.887	20.87

Source: U.S. Comptroller of the Currency examination reports for years indicated.

NOTE: The EDP data base does not carry individual totals for substandard, doubtful and loss. Therefore, such information could not be furnished. Based on 4,635 national banks.

* Through September.

To put classified assets into perspective, it is important to look at their composition.

For the 12 largest national banks, in 1975, substandard classifications accounted for 73 percent of total classified assets, doubtful classifications for 24 percent and loss for only 3 percent. Substandard assets are considered by examiners to have only a minimal or, in most cases, no potential for loss. Historically, for analytical purposes, we have assumed that approximately 50 percent of the doubtful classifications will translate into loss. Today, one cannot generalize on this translation; analysis on a case-by-case basis is necessary. A significant volume of loans classified doubtful in the banking industry today have underlying collateral of considerable value. With even nominal improvement in economic conditions, that value will be realized, resulting in little if any loss to the banks. For example, of the \$3,224 million in assets classified doubtful in 1975 for the 12 largest national banks, \$1,526 million or 47 percent was centered in loans to real estate investment trusts (REIT's). Another \$2,030 million, 21 percent of all substandard, in REIT loans was classified substandard. The examiners for the most part classified those REIT loans in their full amount, despite the underlying value of the properties held by the REIT's. No one, especially a bank examiner anticipates that those 12 banks will incur losses on their REIT loans at anywhere near the booked amount. In fact, a recent study by Drexel Burnham & Company indicated that the potential loss on loans to the most troubled REIT's is likely to be about

Table IV

**Equity Capital to Total Assets, National Banks,
1970 - 1975, by Size of Bank**

(Percent)

Year	Banks with Assets of—		
	\$5 billion and over	\$1 to 5 billion	Under \$1 billion
1970	5.44	6.53	7.15
1971	5.23	6.18	6.91
1972	4.84	5.67	6.67
1973	4.24	5.26	6.68
1974	3.87	5.37	6.90
1975	4.29	N.A.	N.A.
Number of banks	12	63	4,636

Source: U.S. Comptroller of the Currency year-end call reports of national banks.

N.A. - Information not available.

25 percent over time. Some industry experts expect an even smaller percentage to translate to loss.

Even more perspective is gained on classified assets if the aggregates are compared to total assets. For the 12 largest national banks in 1975, substandard classifications accounted for 4 percent of their total assets, doubtful classifications for only 1.3 percent of total assets, and estimated losses for a mere 0.2 percent of total assets.

To understand fully the trends in banking during the last few years, particularly with respect to the rise in classified assets, one has to reflect on the state of the economy and the condition of the capital markets during the same period. Banks, after all, mirror the economic conditions affecting the industries to which they lend and the banking system in any country is only as good as the economy in which it functions.

Table V

**Equity Capital to Deposits, National Banks,
1970 - 1975, by Size of Bank**

(Percent)

Year	Banks with Assets of—		
	\$5 billion and over	\$1 to 5 billion	Under \$1 billion
1970	6.44	7.92	8.17
1971	6.21	7.59	7.92
1972	5.85	7.01	7.63
1973	5.18	6.78	7.77
1974	4.69	6.94	8.08
1975	5.21	N.A.	N.A.
Number of banks	12	63	4,636

Source: U.S. Comptroller of the Currency year-end call reports of national banks.

N.A. - Information not available.

Table VI

**Debt Capital to Total Capital, National Banks,
1970 - 1975, by Size of Bank
(Percent)**

Year	Banks with Assets of—		
	\$5 billion and over	\$1 to 5 billion	Under \$1 billion
1970	5.04	8.01	2.58
1971	5.33	8.69	3.35
1972	6.73	11.24	4.67
1973	5.25	11.15	5.18
1974	5.50	10.62	5.02
1975	5.15	N.A.	N.A.
Number of banks	12	63	4,636

Source: U.S. Comptroller of the Currency year-end call reports of national banks.

N.A. - Information not available.

Despite the adverse economic conditions of the past few months, the commercial banking system has continued to meet its responsibilities in assisting the functioning of our economy. Banks have carried individuals, businesses and local and state governments through what has been described as the worst recession since the 1930's. This was done at no small cost to the banking system and a hangover of substandard assets still remains. Yet, the banking system has come through the unstable economic conditions of the last few years and has emerged strong and well-positioned for the recovery ahead. (Tables III through VI appear in somewhat different format than that in which they were presented to Congress. That was done to facilitate printing.)

Question 9: Examination and Regulation of Holding Companies

Although this Office is authorized to examine bank holding companies and their nonbanking subsidiaries which are affiliated with national banks, this Office does not regulate them. Since the regulatory and enforcement actions against holding companies under present law are within the jurisdiction of the Federal Reserve Board, a more detailed response to this question more properly is left to that agency.

The separate corporate existence of nonbank affiliates provides, within limits, a separation between the bank and these affiliates. However, cases in recent years, such as that of Beverly Hills National Bank, appear to demonstrate that difficulties of nonbank subsidiaries within a holding company can redound to the detriment of a bank.

Recognizing this principle of nonseverability, this Office has undertaken full examination of bank holding companies and their nonbanking subsidiaries in conjunction with the examination of subsidiary national banks when there has been a need for information on the bank holding companies and their inter-company transactions. Such examinations are usually con-

ducted to determine whether such relationships are detrimental to the safety and soundness of the bank.

In recent years this Office has promoted the idea that bank regulators should look beyond the bank to include the entire corporate family as an entity. Such an expanded view is consistent with the plans of this Office to broaden surveillance of all affiliates of national banks.

As of December 2, 1974, I have requested that every national bank which is a subsidiary of a bank holding company which files annual reports or Form 10-K with the Securities and Exchange Commission maintain one copy of the most recent such annual report at the main office of the bank for review by national bank examiners. In most cases, the reporting requirements just described, together with information derived from affiliate examination reports of this Office and those of the Federal Reserve System, provide a sufficient data base to keep the Office fully apprised of the possible problems of bank holding company affiliates which would have a detrimental effect on the holding company and its banks.

While improved reporting requirements and the authority under 12 USC 481 to examine entities affiliated with any national bank have kept this Office reasonably abreast of the activities and financial conditions of most affiliates of national banks, some gaps remain in our ability to properly supervise and regulate holding company national banks. We believe our Office should have the authority to examine any affiliate of a national bank.

An additional change which we recommend is to unify supervisory and examination authority over holding companies and their affiliates according to the preponderance of banking assets within the holding company. Under our proposal, national one-bank holding companies and multi-bank holding companies with a preponderance of their assets held in national banks would be examined and supervised by the Comptroller of the Currency. State one-bank holding companies and multi-bank holding companies with a preponderance of state bank assets would be examined and supervised by the Federal Reserve. Regulations, as opposed to supervision, would still be the prerogative of the Federal Reserve. In this way, the pattern of enforcement and supervision according to the type of charter under uniform regulations prescribed by the Federal Reserve will be preserved and strengthened.

Question 10: Foreign Branch Examinations

During every examination of a national bank, the activities of all of its foreign branches are also examined. Multi-national banks place loans or portions of loans in their various foreign and domestic offices for funding, customer convenience, and other reasons. When the principal domestic office of a national bank is examined, the loans of that bank's foreign offices are normally examined as of the same date. When an examiner determines, for example, that he can review 70 to 80 percent of a bank's loans by reviewing the credit files of all loans of \$50 million or more, he applies the same criteria to loans carried in foreign branches.

It is obviously impossible to place bank examiners in a large number of foreign or domestic offices on the same date. Therefore, the policies and practices of this Office have required national banks to maintain duplicate

credit files and other information necessary to conduct an examination of the activities of foreign branches in the bank's principal domestic office or in readily accessible foreign offices. To assure the continuance of that policy during the period when the number of national banks with foreign branches was increasing, this Office issued an examining circular on March 18, 1970. That circular stated:

Each national bank will be expected to maintain or to readily obtain from its foreign branches and affiliates such information as shall be necessary to disclose their condition to National Bank Examiners and to the bank's directors.

The information which will normally be expected will pertain to a substantial majority of the branches' or affiliates' assets. Generally, the names, amounts, and credit data pertaining to all investments and to 70 percent or 80 percent of all extensions of credit will be required. It will be incumbent on the bank to obtain such customers' waivers as it may deem necessary to comply with these requirements.

On June 28, 1971, that examining circular was supplemented to permit national banks to maintain the necessary data in foreign regional offices providing:

the foreign regional office is located in a country where all conditions readily permit examinations by national bank examiners.

On June 7, 1973, the Board of Governors of the Federal Reserve System published an interpretation on Part 213 of Title 12 which requires all member banks to follow essentially the same procedures as stated above.

During the years of the Voluntary Foreign Credit Restraint Program, London, England, developed as the world's leading international financing center. It also became a center for foreign branches and affiliates of national banks engaged in lending, money market and foreign exchange activities. Located at the top of the time zones covering all of Europe, the Middle East, and Africa, it was a favored location for the administrative offices of national banks covering their branches and affiliates in that geographic area. Those activities required the placement of examiners in London on a permanent basis to supervise the foreign exchange and money market activities of the London branches of national banks and to examine the regional office records of other branches and affiliates located throughout Europe, the Middle East and Africa. Permission to establish a national bank examiners's office in the American Embassy in London was requested in 1971 and permission was granted and the office was established in 1972. The six national bank examiners headquartered in London primarily review the foreign exchange and operational activities of the London branches of 23 national banks. The examiner hour requirements necessary for the review and evaluation of loans and other assets carried on the books of London branches is still carried by examiners located in the United States. However, the review of such assets at the London regional offices of a few national banks is covered by the London examiners with the assistance of examiners from the United States for temporary intervals.

While an asset evaluation of a worldwide network of branches of a single national bank can most efficiently be conducted from a few regional centers as of a single common date, the operational aspects can best be examined on site. These on-site operational examinations are conducted not on a bank-by-bank basis, but on a country-by-country basis. During these personal visits to foreign branches by national bank examiners, all of the branches of all national banks in selected foreign cities are examined during a single visit to the particular country. In cases where national bank examiners, as U.S. government employees, are prevented from entering a foreign country for reasons of legal safety or cost, the examiners will review the adequacy of operational audits made by independent auditors or by the bank's own internal auditors.

The following chart shows the number of overseas foreign branch examinations conducted during each of the past 5 years. The numbers do not include on-site overseas examinations of affiliates and regional centers.

Year	Total branches	Branches examined on site	Percentage examined on site
1975	660	80	12.1
1974	649	137	21.1
1973	621	92	14.8
1972	566	72	12.7
1971	528	59	11.2

The decline in number of on-site examinations from 1974 to 1975 is primarily attributable to an increased emphasis on examination through regional credit centers of Bank of America and Chase Manhattan. The regional credit centers of those two banks were responsible for 111 branches in 1975.

Question 11: Foreign Loans

The [following] chart shows the information on the foreign loan activities of the 20 largest national banks for the past 5 years. The chart includes information for each year on the volume of international loans, the volume of classified international loans and the volume of classified loans to foreign governments.

This Office does not currently maintain records which show the name of each foreign government receiving a loan from a national bank or the purpose of each loan to a foreign government. A foreign government loan is identified to this Office by name and purpose only when an examiner determines that it should be classified.

Five-Year Foreign Loan Experience of the 20 Largest National Banks

(Dollar amounts in millions)

Year	Total International Loans	International Classified Loans	Classified Loans to Foreign Governments
1975	\$52,438	\$2,322	\$206
1974	45,665	1,360	54
1973	31,263	608	32
1972	22,198	401	121
1971	19,529	458	23

Information on classified loans is not available for all banks in this group for 1971-1973. Information on classified loans to foreign governments includes information from 15 banks in 1971, 15 banks in 1972 and 13 banks in 1973. Information on all international classified loans reflects information from 19 banks for 1971, 16 banks for 1972 and 19 banks for 1973. In addition, for the year 1971, 19 banks' figures are reported

in computing total international loans, as one bank now in the top 20 was not a national bank in that year. The figures for 1974 and 1975 represent totals for all international loans by these banks. For 1971-1973, figures are for only those international loans booked at foreign branches.

The basis for all years is the 20 largest national banks as of December 31, 1974.

**Proceedings Brought by the Comptroller Pursuant to the
Cease and Desist Provisions of the Financial Institutions
Supervisory Act of 1966, 12 USC 1818 (b),
1971-1975**

1971

1. An Agreement to eliminate self-dealing and self-serving transactions by directors, officers or shareholders of more than 2 percent of the outstanding shares of the bank. Limitations on the trade area and management contracts to be made by the bank.
2. An Agreement to eliminate unreasonable employment contracts of insiders and eliminate insider dealings. The bank also was to improve the credit quality of its loan portfolio and take steps to eliminate general criticized problems, unsafe and unsound practices and violations of law.
3. An Agreement to eliminate extensions of credit to unqualified borrowers, self-dealing by insiders and self-serving management contracts. Also provisions to improve the credit quality of the loan portfolio and to take steps to eliminate general criticized problems, unsafe and unsound practices and violations of law.

collection efforts of the bank. Termination of employment of the bank's president because of self-dealing and illegal practices.

8. A Notice of Charges and Permanent Order to Cease and Desist to strengthen management through eliminating the problems of an unsafe and unsound nature such as excessive classified assets, overdrafts, collateral imperfections, and the elimination of concentrations of credit. Provisions to direct the strengthening of the bank's liquidity and capital. Provisions to cause an outside audit and an effective loan policy. Provisions to eliminate a number of unsafe and unsound practices, as well as violations of law, including 12 USC 84.
9. An Agreement to prohibit the extensions of credit to insiders and to eliminate self-dealing by major shareholders. Provisions eliminating the extensions of credit to these insiders and a reduction in excessive compensation of the insiders.

1972

4. A Notice of Charges and Permanent Order to Cease and Desist to eliminate extensions of credit to insiders and self-dealing transactions. Provisions to eliminate overdrafts and increase the documentation for loans. Elimination of further extensions of credit on classified loans and the elimination of an unsafe and unsound correspondent account relationship. Also elimination of violations of 12 USC 84, 375a and various unsafe and unsound practices.
5. An Agreement to eliminate loans in violation of 12 USC 84 and the indemnification of the bank for losses.
6. An Agreement with several banks rectifying problems in employee benefit trusts and eliminating self-serving employment and management contracts which were entered into on behalf of the bank for a controlling owner of the banks. Elimination of a number of unsafe practices.
7. An Agreement to eliminate loans made in excess of the lending limit and to update the loan portfolio with credit information and strengthening in the

1973

10. An Agreement to eliminate insider and self-dealing and the illegal practice of nominee loans. The elimination of excessive extensions of credit to affiliates and affiliated persons. Provisions to eliminate unsafe practices including the handling of criticized loans and the modification of a self-dealing management contract.
11. A Notice of Charges and an Agreement to eliminate excessive directors' compensation and self-dealing by principal owners and directors of a bank.
12. A Notice of Charges and an Order to Cease and Desist to eliminate extensions of credit to affiliates and substantial self-dealing transactions by a principal officer and shareholder of the bank. The appointment of a committee to eliminate the various violations of law and unsafe and unsound banking practices including the collection of classified assets and elimination of contingent liabilities, as well as provisions to help restore the liquidity and establishing a loan and investment policy. The removal of the principal officer and

controlling person from positions of authority in the bank. Indemnification for losses on the self-dealing transactions.

13. An Agreement to eliminate various violations of law, including 12 USC 84, and to prohibit general unsafe and unsound banking practices. Procedures to effect collection of substantial criticized assets and the obtaining of current and satisfactory credit information. Provisions to help restore the capital position of the bank.
14. A Notice of Charges and a Permanent Order to eliminate loans of a self-dealing nature to companies closely related to the controlling owner of the bank and the elimination of any nominee loans. The establishment of a committee and provisions to correct unsafe and unsound banking practices as well as violations of 12 USC 84, 371, 371c, 375a, 473 and the Truth-in-Lending statute (Regulation Z). Provisions requiring the indemnification for loss on certain violations of law. Provisions to help restore the capital and limitations on dividends.
15. An Agreement to eliminate insider and self-dealing and illegal nominee loans. The elimination of excessive extensions of credits for the benefit of affiliates and affiliated persons. Provisions to eliminate unsafe practices including the handling of criticized loans, executive salaries and modifications of a self-dealing management contract.
16. A Notice of Charges and a Permanent Order to enforce an agreement previously entered for various violations of law including 12 USC 84 and to prohibit general unsafe and unsound practices. Procedures to effect collection of substantial criticized assets. Provisions to improve the capital and liquidity positions of the bank.
17. An Agreement to eliminate self-dealing and self-serving loans made for the benefit of the controlling owner of the bank and to eliminate self-dealing loans to affiliates. Indemnification for losses on the self-dealing loans.
18. An Agreement to eliminate abuses by the president and controlling shareholders. Provisions to effect collection of criticized assets and for the elimination of violations of law, including 12 USC 375a.
19. A Notice of Charges and a Temporary Order to Cease and Desist from unsafe and unsound practices. Provisions to eliminate loans or extensions of credit to related companies or individuals and to preclude the issuance of letters of credit, guarantees or endorsements to related companies or individuals. The elimination of breaches of fiduciary relationships.

1974

20. An Agreement to establish internal controls and eliminate management problems as well as to rectify violations of law, including 12 USC 1829b, 31 CFR 103, 12 CRF 217 and Regulations J and Q.

21. An Agreement to eliminate self-dealings by an official of the bank and to obtain his resignation. A limitation on loans to certain individuals. Provisions to improve the credit quality of the loan portfolio and to take steps to eliminate general criticized problems, unsafe and unsound practices and violations of law, including 12 USC 84.
22. An Agreement to establish internal controls and eliminate management problems. Provisions to improve the credit quality of the investment and loan portfolio and to take steps to eliminate a number of criticized problems, unsafe and unsound practices and violations of law, including 12 USC 84. Provisions for indemnification for losses.
23. An Agreement to eliminate management and internal control problems. Provisions to upgrade the credit quality and procedures for handling loans. Provisions to eliminate unsafe and unsound practices, criticized problems and violations of law, including 12 USC 84 and 375a.
24. An Agreement to eliminate extensions of credit to affiliates and to eliminate several problems in the loan portfolio. Provisions to eliminate unsafe and unsound practices and criticized problems.
25. An Agreement to improve the credit quality of the loan portfolio and to take steps to eliminate various criticized problems, unsafe and unsound banking practices and violations of law, including 12 USC 84.
26. An Agreement eliminating various self-dealing transactions and excessive concentrations of credit. Provisions to eliminate specific management problems, unsafe and unsound banking practices and violations of law, including 12 USC 84.
27. An Agreement to correct a number of unsafe and unsound banking practices including violations of 12 USC 84, 375a and 24(7). Provisions to eliminate abuses by the controlling owner and a requirement to obtain a new active and capable chief executive officer.
28. An Agreement to eliminate insider and self-dealing extensions of credit to affiliates and controlling persons. Provisions to eliminate unsafe practices including the handling of criticized loans.
29. An Agreement to improve the credit quality of the loan portfolio and to take steps to eliminate a number of criticized problems, unsafe and unsound practices, and violations of law.
30. An Agreement to establish internal controls and eliminate management problems. Provisions to improve the credit quality of the investment and loan portfolio and to take steps to eliminate a number of criticized problems, unsafe and unsound practices and violations of law, including 12 USC 84, 82, 371c and 375a. Provisions for indemnification for losses.
31. A Notice of Charges and a Cease and Desist Order requiring the bank to comply with a previously issued formal written agreement and particu-

larly requiring the bank to eliminate violations of 12 USC 84, 375a and 24(7). The Order also required the obtaining of a new and active chief executive officer.

32. An Agreement to eliminate various violations of law, including 12 USC 84 and to prohibit unsafe and unsound banking practices. Procedures to effect collection of substantial criticized assets and the obtaining of current and satisfactory credit information. Provisions to help restore the capital position of the bank.
33. A Letter Agreement dealing with restrictions on the loan portfolio and a concomitant reduction of the dependency on volatile money. Limitations on expansion and implementation of management changes.
34. A Notice of Charges and an Order to Cease and Desist from advertising and paying excessive interest rates in violation of 12 CFR 217.
35. An Agreement to establish a management committee to direct corrective actions to improve the credit quality of the loan and investment portfolio and to take steps to eliminate criticized problems including violations of law and unsafe and unsound practices.
36. An Agreement to eliminate violations of various statutes including 12 USC 84 and establishment of procedures of a safe and sound nature to eliminate excessive criticized assets and unjustified loan participations from affiliate banks.
37. An Agreement to eliminate violations of various statutes including 12 USC 84 and 375a, as well as an indemnification agreement for certain loans made in violation of law. The establishment of policies for eliminating problem credits and establishing guidelines for the bank's operations. Provisions to insure that no nominee loans are made for the benefit of companies or individuals not primarily obligated on the loans. Provisions for obtaining and employing the services of a new president and chief executive officer as well as a review of executive salaries, dividends, and loans to directors.
38. An Agreement to eliminate transactions between affiliated corporations and individuals.

1975

39. An Agreement to eliminate various unsafe and unsound banking practices including excessive amounts of criticized assets and the establishment of policies to eliminate unsafe practices. Elimination of violations of various statutes including 12 USC 84. Establishment of procedures to closely evaluate transactions between the directors, employees and their related interests.
40. An Agreement to take corrective action relating to criticized assets. Establishment of procedures to strengthen capital. Removal of bank personnel responsible for the problems in the bank.
41. An Agreement to eliminate various unsafe and un-

sound banking practices including concentrations of credit as well as the elimination of violations of law. The adoption of a new loan policy as well as the hiring of additional lending officers.

42. An Agreement to eliminate self-dealing, insider extensions of credit to affiliates and closely related individuals. Various provisions to eliminate unsafe and unsound practices and violations of law.
43. An Agreement to eliminate participation of loans with affiliates and violations of various laws, rules and regulations including 12 USC 84, 161 and 371c, and to eliminate unsafe and unsound banking practices.
44. A Notice of Charges and a Permanent Cease and Desist Order for a failure to conform to an agreement which required compliance with various laws including 12 USC 84, and inadequate and unsafe practices requiring an independent audit, additional capital and a new chief executive officer.
45. An Agreement to eliminate various violations of law including 12 USC 84 and to eliminate statutorily proscribed tying agreements in violation of 12 USC 1972. The agreement likewise required compliance with the Truth-in-Lending Act of 1968 (15 USC 1601; 12 CFR 226) and required disclosure by the bank. Various violations of law also required corrective action including 12 USC 371, 222 and 371c, as well as other unsafe and unsound banking practices.
46. An Agreement to eliminate self-dealing and insider transactions and for the termination of certain officials of the bank responsible for extraordinary extensions of credit to closely related individuals and companies. Corrections of various violations of law including 12 USC 84. Restrictions placed on active officers of the bank.
47. An Agreement eliminating various violations of the law including 12 USC 84 and procedures to eliminate various unsafe and unsound banking practices concerning the elimination of criticized assets and overdue loans. A policy to hire additional lending officers and to insure that internal operations and control were instituted.
48. An Agreement between several banks and this Office eliminating loans and participations with affiliates and the elimination of unsafe and unsound banking practices.
49. An Agreement to eliminate unsafe and unsound banking practices and provisions to improve the credit quality of the loan portfolio and to take steps to eliminate criticized problems, unsafe and unsound banking practices and violations of law including 12 USC 84 and the Truth-in-Lending statute (Regulation Z).
50. A Notice of Charges, a Temporary Cease and Desist Order and a Permanent Order eliminating the extensions of loans of a self-dealing nature and a prohibition to preclude the purchase of loans for the benefit of controlling persons or officials of the bank. A provision to eliminate a potential misuse of

a correspondent account by the officials of the bank for their own personal benefit.

51. An Agreement to eliminate internal controls and management problems and a provision requiring the hiring of a new executive officer. Provisions to improve the credit quality of the loan portfolio and to take steps to eliminate criticized problems, unsafe and unsound banking practices and violations of law including 12 USC 375a and 463.
52. An Agreement amending a previous agreement dealing with loans to affiliates and subsidiaries in violation of 12 USC 371c.
53. An Agreement to eliminate internal controls and management problems. Provisions to improve the credit quality of the investment and loan portfolio and to take steps to eliminate criticized problems, unsafe and unsound banking practices and violations of law including 12 USC 84, 371c and 1829b. Provisions to improve the capital position of the bank and the loan policies of the bank.
Provisions to preclude the assumptions of obligations incurred by affiliated companies or individuals and the elimination of concentrations of credit to individuals or to industries.
54. A Notice of Charges and a Permanent Order to establish internal controls and eliminate management problems with provisions to improve the credit quality of the investment and loan portfolio and to take steps to eliminate criticized problems, unsafe and unsound banking practices and violations of law including 12 USC 371c, 72 and 375a and 12 CFR 23. Procedures to eliminate self-dealing by officials of the bank.
55. Resolution Agreement to eliminate unsafe and unsound and self-dealing practices and relationships with controlling owner. Limitations of loans to specified insiders. Removal of officers and directors for unsafe and self-dealing practices.
56. Resolution Agreement to eliminate unsafe and unsound and self-dealing practices and relationships with controlling owner. Limitations of loans to specified insiders.
57. Resolution Agreements to eliminate unsafe and unsound and self-dealing practices and relationships with controlling owner. Limitations of loans to specified insiders.
58. An Agreement to establish internal controls and eliminate management problems with provisions to improve the credit quality of the investment and loan portfolio and to take steps to eliminate criticized problems, unsafe and unsound banking practices and violations of law including 12 USC 84. Provisions to eliminate concentrations of credit to single or closely-related borrowers.
59. An Agreement to establish internal controls and eliminate management problems together with provisions to improve the credit quality of the investment and loan portfolio and to take steps to eliminate criticized problems, unsafe and unsound banking practices and provisions to strengthen the capital position of the bank. Provisions to eliminate self-dealing transactions by officials of the bank and to obtain new capable lending officers.
60. A Notice of Charges, Temporary Cease and Desist Order and Permanent Order to eliminate management and internal control problems including provisions to upgrade the credit quality and procedures for handling loans. Provisions to eliminate unsafe and unsound banking practices, criticized problems and violations of various statutes including 12 USC 84, 24(7) and 371a, 12 CFR 217 and 226 and 15 USC 1601. Limitations placed on the trust department and a procedure to assist the bank in obtaining additional capital. Also a provision for the bank to obtain a new capable executive officer. Provisions to eliminate self-dealing by officials of the bank.
61. A Notice of Charges and a Permanent Order for a breach of an Agreement entered into to eliminate violations of 12 USC 84, Regulation Z (12 CFR 226) and the Truth-in-Lending Act (15 United States Code 1601) as well as violations of provisions of the agreement and substantial management and internal control problems.

Statement of James E. Smith, Comptroller of the Currency, before the Senate Committee on Banking, Housing and Urban Affairs, Washington, D.C., March 1, 1976

I appreciate this opportunity to give my views on S. 2298. This bill would restructure the federal bank regulatory system. Under the bill the bank regulatory functions of the Comptroller of the Currency, the Federal Reserve Board, and the Federal Deposit Insurance Corporation would be consolidated into a new Federal Bank Commission.

Restructuring of the banking agencies should not be undertaken now for at least three important reasons:

1. Substantive, not organizational, restructuring is the first priority for improving bank supervision. The disruption resulting from restructuring would impede the necessary substantive improvements. Within our Office, we are particularly distressed at the inevitable disruption which would occur in the implementation of the extensive recommendations of the Haskins & Sells report of 1975. At best, these implementation efforts would certainly be delayed. At worst, the progress already made and that planned for the next few months would be lost.
2. This Committee and the Senate have overwhelmingly passed the Financial Institutions Act. That Act calls for far-reaching changes in the powers and the operations of depository institutions. Such major changes should, in my view, be digested and absorbed within the framework of a reasonably stable regulatory system. The Hunt Commission called for changes in both depository institutions' powers and regulatory structure. The Administration, in drafting the FIA, weighed the merits of the Hunt Commission recommendation, and came to a carefully considered decision that any proposals for regulatory structural change should not be implemented until experience had been gained under the new ground rules for operations of depository institutions. We believe that that decision is still appropriate.
3. Temporary deferral would not harm the public interest because, by any fair and impartial standard, the present system has worked reasonably well. No objective observer could state that the present system has functioned in a manner so inconsistent with the public interest that it must be eradicated and replaced *immediately*. This Committee thus has time to undertake an in-depth management study of the performance of the three agencies.

Restructuring would disrupt needed reforms in examination procedures

The urgent need for change in bank supervision is in the substance of the examination process, not in the structure of the agencies. To this end we commend the Committee's action in scheduling early consideration of the

legislation requested by the three agencies to augment their present enforcement powers. The magnitude, functional diversity, and transactional velocity of modern banking cannot be effectively supervised by any agency, existing or newly created, with antiquated techniques and procedures.

The Comptroller's Office is on the verge of the first real breakthrough in applying modern technology, information systems, and management techniques to the process of bank examination. Our efforts center around the recommendations of Haskins & Sells, the nationally known firm of auditing and management experts.

The other agencies also are actively engaged in improving their procedures and technology. The examination procedures used by the other agencies for the last four decades have been basically the same as those used by the Comptroller's Office. There is now a vital competition among the agencies: a competition in creativity to devise the best and most effective mode of examination and follow-up procedures. To consolidate the agencies now into one commission would destroy that healthy competition.

Let me describe specifically just a few of the improvements now under way in the Comptroller's Office.

One of the key elements of the new examination process is the National Bank Surveillance System. NBSS is a program of computer-based data and ratio analysis which now is being tested in the field. When a national bank is to be examined, the examiner-in-charge will be provided with the most recent statistical analysis of that bank. That analysis will already have been reviewed by a specialist in the Comptroller's Office. He will provide the examiner with a list of specific matters which should be inquired into during the examination. The NBSS system also will warn of potentially dangerous positions in particular banks or in the National Banking System as a whole. Through NBSS we are supplementing evaluation of bank assets with modern financial analysis.

The Comptroller's Office now is able to process call report data and make it ready for analysis three times faster than in 1975. This prompt processing is necessary for the NBSS system. Additionally, much more complete data will be available because of an expanded call report form effective March 31, 1976.

Testing has just begun on another key operating system: an entirely new manual of examination work programs. That manual details each examination procedure and contains extensive instructions, statistical sampling techniques, checklists, and detailed work programs. The conceptual thrust of those modern examination procedures is to devote more of our inspection time to testing and evaluating the adequacy of a bank's own controls, operating procedures and policies, and less time to the independent valuation of the bank's loan assets.

The efficiencies of the new methods will permit us to examine a bank both more comprehensively and more quickly. The shorter time for completing an examination is critical so that the examiner's analysis is current when

forwarded to bank management and the Comptroller. Furthermore, we believe that the new procedures will give us, for the first time, objective standards for judging the quality of a bank's management and management systems. Management is the key factor on which the soundness of any bank ultimately turns.

Individual examination programs are now being field tested. The first complete bank examination incorporating all the new procedures will be conducted next month. When the new manual is issued, copies will be furnished to the Committee.

The report of examination form is being completely revised. The evaluation of bank management and future prospects now reported only to the Comptroller will routinely be given to the bank's board of directors. In addition, examiners now are required to meet with each national bank's board of directors at least once a year. Such meetings formerly occurred only if the regional administrator wished to discuss a particular problem with the board.

A Division of Strategic Studies has been established to monitor financial and technological developments in banks, and identify those which ought to be of regulatory concern. A formal planning system will augment our capacity to keep abreast of the change and dynamism of the banking system.

Another important development is a new performance audit group to appraise systematically the Comptroller of deficiencies in current performance of the Office and of the need to modify existing practices and procedures.

The principal asset of our Office is the professional examiner. We are well on the way to establishing a Human Resources Division to improve vastly on the way we recruit, train, and reward this valuable professional.

I have taken the Committee's time to describe the new developments in the Comptroller's Office because that modernization of the examination and regulatory process seems to us to be far more important than restructuring the regulatory agencies. At the very least, it would seem that this Committee should not approve restructuring without carefully studying the ongoing changes within each agency to determine whether or not the agencies themselves have perceived the problems which exist in the regulatory process and are taking appropriate steps to remedy those problems.

Changes in the industry

Vast changes are occurring in the banking industry because of economic forces and new legislation. Now is an inauspicious time to create a new and, therefore, uncertain regulatory structure. Only after determining the probable future nature of the financial industry can the question of restructuring the regulatory agencies be rationally addressed.

The Senate's action in passing the Financial Institutions Act, S. 1267, if supported by the House, promises important changes in the services available to the public through a variety of financial institutions. There is a possibility that, as a result of the work of a subcommittee of this Committee, the Glass-Steagall Act

will be amended to change the restrictions applying to banks' securities activities. The amendment of the McFadden Act is also a possibility. The National Commission on Electronic Funds Transfers is to report to Congress what legislation is needed in this vital area.

All of those changes will affect enormously the structure and operations of financial institutions. The regulatory structure should not be destabilized while such vast changes are occurring in the regulated industries.

Immediate restructuring is not necessary

The issue raised by S. 2298 is whether the existing system of decentralized bank regulation should be consolidated immediately into one monolithic agency.

Congress has, during the entire history of this country, adhered to the conscious policy of dispersing financial power — both privately and governmentally. We only need to be reminded of the destruction of the Bank of the United States by Andrew Jackson in 1832; the adoption of the dual banking system in 1863; the rejection of a central bank until 1913; and the creation in 1933 of a deposit insurance organization as a separate entity.

The present federal system of bank supervision was established in 1933. Since then, actual depositor loss stemming from the closing of insured banks has totalled less than \$22 million. For purposes of comparison, total estimated deposits of all banks as of December 31, 1975, were \$780 billion. There have been absolutely no depositor losses in the few large bank closings which have occurred in recent years.

This country has a decentralized banking system that is unique among industrialized nations. Over 14,000 separate banking associations exist. In the past 30 years, there have been only 121 bank closings requiring FDIC disbursements, or an average of about four per year. When those figures are contrasted with the experience of the United States during the late 1920's and 1930's, when thousands of banks were forced to close their doors, the regulatory record hardly seems to require a defense, much less a call for an immediate and drastic change.

In addition to the historical record, the performance of the United States commercial banking system during the past 3 years shows that a deferral of plans to restructure the regulatory system would not endanger the public interest. In the 1973-75 period, the United States suffered its most severe economic recession since the 1930's. Largely as a result of this recession, and not at all unexpectedly, bank loan losses rose sharply. Further, banks have prudently increased loan loss reserves in anticipation of possible additional recession-related losses.

The banking industry has shown remarkable resiliency in withstanding the effects of the severe recession. As I pointed out to this Committee on February 5, the record of the 10 largest national banks in 1975 shows that, despite net loan losses in 1975 of \$1.1 billion, or 0.7 percent of outstanding loans, those banks actually provided \$200 million more for their loan loss reserves than the actual loss figure and still earned before-tax income of \$2.2 billion. Thus we can see that those institutions could have

charged off their 1975 losses two or three times over, without reducing their reserves for loan losses or impairing their capital.

To support further the idea that there is no urgent necessity for immediate regulatory restructuring, the recession bottomed out in the spring of 1975. The liquidity position and the risk exposure of the commercial banking industry are improving. Total investment securities held by commercial banks increased an estimated \$34 billion in 1975, while total commercial bank loans outstanding actually decreased by approximately \$5 billion due to diminished loan demand.

The United States commercial banking system is significantly stronger in 1976 than it was 2 years ago. Thus there is no immediate need for change in the regulatory structure and ample time for the Committee to consider more pragmatically the question of restructuring.

Statement of John E. Shockey, Deputy Chief Counsel to the Comptroller of the Currency, before the Senate Committee on Banking, Housing and Urban Affairs, Washington, D.C., March 11, 1976

Thank you for this opportunity to present the views and describe the efforts of the Comptroller's Office in the area of fair lending practices. I would like to concentrate my remarks today on our responsibilities under the fair lending provisions of Title 8 of the Civil Rights Act of 1968.

Title 8 prohibits national banks, as well as all other lending institutions, from denying a mortgage or home improvement loan to anyone for reasons of race, color, religion, sex or national origin. Enforcement of this directive is a statutory duty of the Comptroller's Office. To that end, the present Comptroller, from the time he assumed office, has been committed to devising and implementing an effective enforcement mechanism.

Recognizing the peculiar complexities of detecting and correcting violation of the fair lending laws, the Comptroller has sponsored research in this area in recent years. At present, a Special Assistant to the Comptroller, two attorneys and one examiner in our Washington headquarters have been assigned primary responsibility for studying various means of enforcing the anti-discrimination statutes. Those personnel are supported by agency economists, lawyers and consumer specialists in preparing analyses and drafting new procedures.

The Committee is aware of our research effort in the Fair Housing Lending Practices Pilot Project, conducted jointly by the federal banking agencies during the latter half of 1974. Unfortunately, the mechanics of data collection did not yield results that could be considered reliable for valid statistical inference. Rather than pursue a program which could not accomplish the goals fixed by Congress, we have preferred to study new and potentially more beneficial approaches to the problem of fair lending enforcement.

This is not to say, however, that we did not learn some valuable lessons from the pilot project. Most important is a better awareness of the constraints imposed by sample size and prevailing economic conditions upon any

In summary, the disruption that is certain to occur from agency consolidation or major restructuring surely will delay the final implementation of important new examination procedures. It is even possible that they may be entirely lost in the unsettling course of consolidation.

Also, the agencies should not be radically changed at the very time when they are expected to supervise rapidly evolving new developments in the regulated industries. Instead, agency changes should not be made until the structural impact of those new developments can be more clearly defined. There is time for the Committee fully to inform itself as to all of the factors contained in my testimony.

Agency restructuring now, in our opinion, would be entirely contrary to the public interest, and would not fulfill the public need for a modern and efficient bank supervisory system.

statistical analysis we might wish to conduct. The results also have helped us refine the types and formats of the questions which must be asked in order to adduce useful information, and we are investigating methods other than that used in the pilot project for pinpointing the exact location of each mortgaged property.

Our principal concern is the quantification of normally subjective criteria which signal discriminatory lending practices at individual institutions. Except for the pilot project, this Office never has attempted to construct a data base for loan denials or for personal characteristics of loan applicants at national banks. The necessary information is not available from the traditional bank-by-bank, loan-by-loan examination process. This process must be supplemented in this area with new techniques which reveal patterns of lending behavior having possible discriminatory effect. Designing an appropriate system for data collection analysis is complicated by present estimates that national banks handle 200,000 to 300,000 mortgage applications annually.

We have, however, made progress toward instituting an appropriate system for data collection and analysis which is designed to avoid the problems encountered in the pilot project. We contemplate requesting loan applicants at national banks to complete a new data collection form designed to provide relevant personal and economic information. Completed forms will be kept on file at the banks. Each form will include a detachable section, to be mailed by the applicant and addressed to the Comptroller of the Currency with postage prepaid, which has space for the applicant's name and social security number, as well as a bank identification code number. That section will serve as a double-check against the possibility of a bank concealing specific applications. By requiring a bank to keep all forms on file for a specified period of time, examiners can conduct a review and verification of the bank's practices during regularly

scheduled examinations. Because of the large number of loan applications that some banks receive, it would be impractical to review every form. However, we think that a sampling technique will be effective. In such instances the examiner will be instructed to make copies of the appropriate number of forms and forward them to our Washington Office for computer processing. That method will enable us to construct models of the lending patterns of various banks and compare banks with others of comparable size in their communities and throughout the country. In that regard we are developing a computer base for determining demographic characteristics of every community in the country in which national banks operate. Portions of the new procedures are expected to be ready for selective field testing this spring.

If we find that our efforts would be aided materially, we will incorporate into this program additional special recordkeeping requirements. In attempting to contain the proliferation of unnecessary forms and reports in keeping with the Federal Paperwork Commission Act, the President's recent directive and similar Congressional concern in the Home Mortgage Disclosure Act of 1975, we also are taking into consideration, throughout our planning, the burdens of increased paperwork which would be imposed upon consumers and banks.

In a separate but related endeavor, our Office now is engaged in drafting extensive instructions for examiners dealing with the various consumer laws which affect national banks. That material, which includes all fair lending laws, will comprise a totally new supplement to the *Comptroller's Handbook of Examination Procedure* which will give deserved emphasis to an area of Congressional priority. That will be used as a foundation for a new, specialized examination. We presently anticipate that those procedures may involve appointment of a consumer affairs officer in each region to coordinate implementation of the new examination and other procedures calculated to obtain maximum compliance.

With respect to the problem of lending discrimination on the basis of property location, otherwise referred to as "redlining," the Comptroller has urged publicly that national bankers take an active role in combating urban decay in their respective communities and in assuring equal access to lendable funds for all creditworthy applicants. Indeed, the Comptroller's Office long has given consideration, in acting upon branch and similar applications, to an institution's willingness to serve unmet credit needs of a community which it proposes to enter. We expect that the proposed procedures for monitoring compliance with Title 8 may provide examiners with a more effective means of discovering and investigating lending practices having an unlawfully discriminatory effect.

However, where loan denials are found not to be premised upon racial or other unlawful criteria, we would oppose any plan which would prevent a mortgage officer from exercising his own judgment regarding the physical condition of collateral security or the creditworthiness of the prospective borrower. Such constraints could force bankers to take inordinate risks with depositors' money and thereby jeopardize bank soundness.

As part of our fair lending research and regulatory efforts in recent months, we have approached the Civil Rights Division of the Justice Department to avail ourselves of the expertise of their staff in developing special examining and recordkeeping techniques. In addition, we have arranged to facilitate the flow of information between the two agencies on a case-by-case basis regarding fair lending matters at individual national banks. Justice now may gain access to relevant bank records for the purpose of investigating alleged violations of Title 8 and patterns of discrimination.

In closing, we would be pleased to provide the Committee with any information or assistance it deems useful. In turn, we are certain that we will benefit from the Committee's findings in our continuing development of a meaningful and effective fair lending regulatory program.

Remarks of H. Joe Selby, First Deputy Comptroller of the Currency for Operations, before the Texas Six Flags Chapter of the Bank Administration Institute, Victoria, Tex., March 16, 1976

"What a Bank Director Should Know about Bank Examinations"

I would like to impart to each of you a broad view of what a director should know about examiners and examinations and conversely what the examiner will need to know about each of you.

Of extreme concern to the Office of the Comptroller of the Currency has been the reliance by the directors on examination reports of the regulatory authorities. We appear to have become the proverbial "crutch."

In reviewing director action, we find many directors correcting deficiencies in examination reports, where possible, then relaxing and waiting for the next examination to see if any new deficiencies have arisen. With the

rapid changes occurring in the banking industry and increased competitive pressures, serious deficiencies or problems can arise in a very short period of time, indeed between examinations, which can cause severe harm to a bank. Directors must initiate necessary mechanisms to identify and deal with those changes and competitive pressures without jeopardizing the bank's soundness.

I personally believe that our changes in examination procedures and philosophies will go a long way in placing the responsibility for bank direction squarely on the shoulders of each bank's directors.

Over the past 20 years, the national bank examiner has devoted less and less time to detailed audit or verifi-

cation procedures. Also, there has been an increase in both the volume of activity and the variety of services offered by banks. During that period, there has been a general increase in the quality of internal control, including the problem of internal audit of many banks. Also, an ever increasing number of banks are employing the services of outside accounting firms to provide either limited or complete financial audits. Proper internal control, however, is a day-to-day proposition and cannot be satisfactorily accomplished by an outside examination or audit. The assumption of responsibility for internal controls by the board should promote in the directors a better understanding and knowledge of the institution and will give them a greater involvement in the protection of a bank's depositors and shareholders. That approach is grounded in the assumption that it is in a bank's own best interest for its directors and management to assume their roles of responsibility as dictated by both law and tradition.

Over the past several years, bank examiners have fulfilled a role which has been weighted toward verification and audit procedures. The new philosophy of the Office of the Comptroller of the Currency will move the examiner away from his traditional role. The new philosophy will encompass managerial appraisal as well as director appraisal; in other words, the examiner will be interested in how good you and your management are doing your jobs. We feel that in determining the scope of an examination, the examiner should evaluate the system of internal control including the program of internal audit, and the scope and adequacy of the external audit.

We are in the process of designating, for each area of examination interest, those procedures considered supervisory in nature; that is, the minimum procedures that must be performed by the examiner in each area. We also are developing verification procedures which, if not performed by others, must be performed on a test basis by examiners.

Our initial concentration will be in obtaining a description of and evaluating the program of internal audit as it relates to those verification procedures. In the absence of internal auditing which accomplishes those procedures, the examiner will be instructed to review the scope of any audit performed by independent accountants to determine if that audit scope will satisfy the respective verification procedures.

This concept of reliance on the verification of data by others has considerable merit and will actually result in a more thorough examination. By concentrating our efforts in areas where we have the expertise and/or statutory responsibility, we will be able to provide better service to the banking community.

It is interesting to note that the FDIC is following our lead in this respect. A recent press release stated that the agency "has begun giving greater weight to outside audits by accounting firms in assessing the balance sheets and income statements of state banks." It also stated that the audit mechanism would permit examiners to dispense with extensive proof and verification requests which can burden banks being examined.

Regardless of the amount of auditing performed by others, our examiners will perform minimum tests to de-

termine a bank's compliance with its system of internal controls. If, after reviewing and testing the internal controls in effect and reviewing the scope of external audit activities, the examiner concludes that there are shortcomings in the bank's program, he must expand the scope of his examination to include the performance of verification or audit procedures for the area considered appropriate in light of the deficiencies. Under those circumstances, the shortcomings must be of the magnitude to indicate to the examiner that he cannot rely on the system of internal control and the external audit to provide reliable financial records.

Under ideal circumstances, however, it is the examiner's job to perform only examining procedures. These are the procedures that are considered supervisory in nature and logically should be performed by a national bank examiner. They allow the examiner to accomplish target objectives for each area of examination interest which, in turn, will accomplish the essential objectives previously set forth. Although it is the examiner's goal to assume his supervisory role and leave the performance of verification procedures to others, it should be noted that there is a difference between the examiner's ideal role and his responsibility. Where the examiner judges that a bank's internal control procedures are inadequate, it is his responsibility to broaden the scope of his examination to gain assurance of the existence of assets and the reliability of the financial records he is using to correct shortcomings in the bank's programs of internal control and audit. The examiner can assume a normal supervisory posture in future examinations after needed corrections have been made by the bank.

The national bank examiner must also consider the soundness of the banking policies and practices of the bank being examined before he begins to apply other examination procedures appropriate to each area of examination interest. For example, the examiner must determine the extent to which the bank's practices regarding information compiled on borrowers and the maintenance of credit files on borrowers conform with acceptable bank practices. If the examiner finds that the bank's policy requires that prospective borrowers submit financial statements at least annually, that all loans be approved by two officers before being made, and that loan files be reviewed on a regular basis by a senior officer of the bank, he *might* then be justified in reducing the extent to which he reviews credit files in detail. Conversely, if the examiner determines that effective procedures do not exist, because of weaknesses in the procedures, lack of adequate personnel or other reasons, he should extend his review of credit files accordingly.

Presently, loan classifications are largely developed by examiners, independent of any evaluations that may have been made by management. We believe there is considerable merit in utilizing management's evaluation of loans, particularly in banks where procedures provide for credit reviews by officers independent of those responsible for making loans. In banks which have internal loan review systems requiring regular evaluations of collateral and ratings of loans by quality and performance, the system will be checked, on a sampling basis, but not

duplicated, by an evaluation of 80 percent of the bank's loan portfolio, as is currently done.

The use of management's evaluation may provide the examiner with information on other loans that should be selected for detailed review. We will allocate sufficient time to evaluating the loan review process and determining the scope of the review, credit lines selected, qualifications of the reviewers, etc. We will investigate problem credits surfaced during the examination which should have been uncovered during the loan review process. Material amounts of such credits will, of course, immediately prompt the examiner to increase the scope of the examination. Subsequently, we will report to the directorate any deficiencies in the loan review area and hopefully effect corrective action.

We are currently developing a new report of examination. The report will be divided into three major sections. The first section of the report will be directed to the board of directors, its examining committee and senior management. That section will summarize the examiner's critical comments and the recommended remedial action. Comments will be supported by schedules and analyses, where appropriate, to fortify the examiner's conclusions. We would hope the information would be presented in such a manner that it will aid the directorate and senior management in pursuing avenues for corrective action. Examples of comments that may appear in this section of the report include major deficiencies in policies and procedures directly relating to management, internal controls, the quality of the assets and capital deficiency.

The second section of the report will include deficiencies of a less serious nature than those included in the first section. I would best describe these as isolated exceptions to policy, minor deficiencies in internal control, collateral exception, etc.

The important difference between the sections is that those comments in the first section will require the bank, through the chairman of the board of directors, to respond within a predetermined period of time, indicating whether they agree or disagree with the examiner's comments. If the bank generally agrees with the comments made, we would request a report on the corrective action which will be taken. We would hope that the directors and/or senior management would follow-up on the deficiencies in the second section. However, they would not be required to notify the Office of such actions. We, of course, would follow-up during our next regular examination.

The third or confidential section, which we have in the existing report of examination, will be modified. A major change is that much of the information which now appears in the confidential section will appear in one of the two previously mentioned sections. For example, our evaluation of management, earnings analysis, and future prospects will be addressed in the open sections, where appropriate. The confidential section will be limited to:

- Suspected violations of law found during the examination and reported to the appropriate regulatory and enforcement agencies.

- Critical comments relating to senior bank officers that require remedial action by the Office, such as the threat of cease and desist orders or officer removal.
- Other critical comments regarding major problems that require remedial actions but about which the bank has failed or refused to initiate any corrective measures.

The great abyss between the examiner, his report and the board of directors will hopefully narrow as a result of our new procedures on directors' meetings. The Comptroller of the Currency has inaugurated a program which should initiate a continuing dialogue between boards of directors and examiners. The Office has instituted a program requiring that an examiner visit each board of directors at least annually. Those meetings will normally be convened in conjunction with a regular examination of the bank. In some cases, meetings might be held with the examining, executive, or discount committee, provided outside directors are represented on those committees.

The objectives of meeting with members of the board of directors are to discuss the conditions and affairs of the bank that were observed during the most recent examination, to reach agreement on any significant problems, to obtain a definitive commitment from the board of directors to institute the proper corrective action and to obtain information concerning future plans and proposed changes in bank policy that may have significant impact on the future condition of the bank. Those meetings will initially provide the forum where future examination criteria can be discussed. The meetings will serve to keep the directors informed while providing them the opportunity to discuss, with an examiner, situations germane to the bank or general banking community. The interaction between the board and the examiners can be a meaningful exchange of ideas and opinions if properly utilized.

In reviewing what a bank director should know about bank examinations, the question also arises as to what a bank's directors should know about their own responsibilities. Directors are placed in positions of trust by the shareholders of the bank. Both statutory and common law have placed responsibility for the management of a bank, whether it involves the lending or investing function, protection against internal fraud, or any other banking activity, firmly and squarely on its board of directors. The directors of a national bank may delegate the day-to-day routine of conducting the bank's business, but they cannot delegate to their officers and employees the responsibility for the consequences resulting from unsound or imprudent policies and practices. The directorate is responsible to its depositors and shareholders for safeguarding their interests through the lawful, informed, efficient, and able administration of the institution. Quite frankly, in this business, the buck stops on the board room table.

Unless bank directors realize the importance of their position and act accordingly, they are failing to dis-

charge their obligations to the shareholders and depositors and are failing to take advantage of their opportunity to exercise a sound and beneficial influence on the economy of their community. The following are the major, specific responsibilities of bank directors:

- To select competent executive officers.
- To effectively supervise the bank's affairs.
- To adopt and follow sound policies and objectives.
- To avoid self-serving practices.
- To be informed of the bank's condition and management policies.
- To maintain reasonable capitalization.
- To observe banking laws, rulings, and regulations.
- To ensure that the bank has a beneficial influence on the economy of its community.

I can assure you that directors' participation in banking or the lack thereof is significantly involved in many of the problems that I deal with on a day-to-day basis. But to give major emphasis to the director's part in day-to-day operations is to seriously limit and distort the director's total role. An approach from the opposite point of view, that is, emphasizing the director's participation in and impact upon long-range trends and developments provides a far more accurate initial characterization. Directors are not day-to-day practitioners of banking. They are the philosophers of the profession. They have a primary responsibility to see the business of banking at its broadest, most vital, most essential terms. Banking's primary task is to meet an almost universal need for temporary financial help to initiate, maintain, and/or expand economically sound projects. Consumers, business firms, and agencies of government are all subject to that need. The power to meet such needs, to supply funds that create jobs and produce goods, is really an awesome power when you see it as directors ought to see it. To misuse such power for personal gain, or to permit such a misuse when means are at hand to prevent it, is a serious breach of moral standards which, sooner or later, is bound to have very serious consequences. There seems to be a great deal of cynicism in people these days. It's an infectious kind of cynicism that goes deeper than the definitional concept of assuming hidden motives behind every good deed. Today's cynicism can become an exercise in self-justification, and the cynic not only disbelieves the apparent kindness and generosity of other people's motives, but also draws encouragement from his disbelief for his own self-serving plans and activities. Modern cynicism fre-

quently remains hidden until some unexpected turn of events reveals its corrosive presence. Think of how many news stories lately reveal the extent of that cynicism and the carelessness, confusion and dishonesty that its presence encourages, and even justifies, in some mixed-up minds. Sometimes, even in a reasonable mind, desirable ends may seem to justify unethical means.

Leaders, such as bank directors, cannot ignore unethical, questionable or dishonest events; they must respond to them, verbally and actively. Many people are deeply influenced by events which they themselves are not really capable of evaluating. They require leadership. The original cynics, you recall, were philosophers of ancient Greece whose basic belief was that truth and happiness are achieved in the pursuit of goodness and virtue rather than in the pursuit of pleasure. The cynics in their day represented a reaction against the hedonistic practices and philosophies of the times. Their criticisms of society at large, however, became more and more bitter and less and less rational until they established a reputation for being unable to see or believe anything good about anyone. They lost both their objectivity and their effectiveness.

Modern society produces many ambivalent people who are capable of moving in many directions depending on what pressures they feel and what motives capture their attention and enlist their loyalties. Such a situation calls for strong leadership based on sound principles effectively stated and clearly demonstrated in practice and policy. Directors' responsibilities reach from the top down through the organization, and outward to the stockholders and the public. Directors must not only select competent and effective administrators, but they themselves must keep informed about current problems, both internal and external. They must participate actively in finding workable solutions. Directors must resist any tendency to recognize any one influence on their thinking as dominant. They have been elected by the shareholders for the purpose of overseeing the operations of a bank, which automatically requires sensitivity to the public interest. In behalf of the stockholders and for the purpose of serving the public profitably, directors select top administrative officers to whom decision-making powers are delegated. Directors must be certain that their relations with management remain fluid and well-balanced so that each respects the authority and seeks the counsel of the other. Directors are expected to provide banks with their special areas of expertise. But their fundamental ability to establish a general atmosphere of trust, confidence, enthusiasm, and understanding — an atmosphere in which the bank's work can be and must be effectively carried forward — is their most important responsibility.

Statement of C. Westbrook Murphy, Deputy Comptroller for Law and Chief Counsel to the Comptroller of the Currency, before the Senate Committee on Banking, Housing and Urban Affairs, Washington, D.C., March 26, 1976

I appreciate the opportunity to appear in support of S. 2304. This bill is based upon a joint request of the three federal bank regulatory agencies for legislation to improve the enforcement powers provided in the federal banking laws.

I am accompanied today by the director of our Enforcement and Compliance Division. He joined the staff of the Comptroller of the Currency in November of 1971 and, since then, has participated personally in more than half of all the cease and desist activities initiated by the three banking agencies. Those activities are summarized, in accordance with the Chairman's request of March 15, 1976, in [the appendix] to this testimony.

S. 2304 in its present form would bring significant improvement to the regulatory agencies' supervisory functions. In order to expedite Congressional consideration, our Office joined with the Federal Reserve and the FDIC in the transmittal of the bill. However, we advised the primary drafter, the Federal Reserve, that we would suggest some changes to the Committees. Accordingly, our testimony will suggest some minor changes which, in our opinion, would strengthen the bill.

Officer and Director Removal

Section 6 of the bill would simplify both the substance and the procedure of the officer removal provisions of the Financial Institutions Supervisory Act.

Under existing law a bank official who has not been indicted may be removed from his position only if the agency can establish, *inter alia*, "personal dishonesty." That standard is vague and difficult to establish. It also provides no remedy against a bank official whose actions, although honest, are so incompetent as to jeopardize the soundness of the bank. S. 2304 adds another ground to justify removal of a bank official: "gross negligence in the operation or management of the bank or a willful disregard for the safety or soundness of the bank."

The new procedures for officer removal affect primarily the Comptroller's Office. Under existing law the Comptroller may not initiate officer removal proceedings. The Comptroller only may certify facts to the Federal Reserve Board, which then is given full responsibility for all proceedings, from the issuance of the notice of charges which begins the proceedings through final decision.

Both the Comptroller's Office and the Federal Reserve Board have found this procedure to be ineffective. We thus endorse the provisions of S. 2304 which would empower the Comptroller to:

- Issue a notice of intention to remove.
- Establish the hearing date and arrange for the appointment of an Administrative Law Judge.

- Decide procedural questions arising in the course of the proceedings.
- Prosecute the case before the Administrative Law Judge.
- Issue, in an appropriate case, a temporary removal order pending completion of the proceedings.

The Administrative Law Judge, under the bill, would certify his findings and conclusions to the Federal Reserve Board for final determination of whether an official should be removed. The bill thus provides effective and efficient administrative procedures, while still leaving the final decision with a seven-man board instead of just one individual.

We expect that the combination of the new grounds for officer removal and the streamlining of procedures will, for the first time, make the officer removal statute an effective tool for the Comptroller's Office.

A brief word is in order concerning the philosophy of the officer removal provisions of the Financial Institutions Supervisory Act. The removal provision which has been most used by the banking agencies permits summary removal of a bank officer who has been indicted for a felony involving personal dishonesty or breach of trust. Two courts of appeals have expressed some doubt about the constitutionality of those provisions. See *Manges v. Camp*, 474 F.2d 97 (5th Cir. 1973); and *Fineberg v. FDIC*, 522 F.2d 1335 (D. C. Cir. 1975). Those courts seemed troubled by the abrupt manner in which a bank officer may be removed.

I suggest to the Committee that those courts have given insufficient weight to the legitimate Congressional concern with maintaining a safe and sound banking system. All banks covered by the removal statute have federal deposit insurance. Many of them belong to the Congressionally established Federal Reserve System. Many of them are chartered by the federal government and governed in their most important activities by federal law. Additionally, the banking system is the principal means of effecting payment for goods and services and of funding commerce in the United States. Congress, thus, has a far greater concern for the health and safety of the banks than it does for other privately owned corporations. The removal provisions, in my opinion, are an appropriate expression of this Congressional concern.

Naming Persons in Cease and Desist Proceedings

Under existing law, only a bank may be named as a party to a cease and desist proceeding and only a bank may be served with a temporary cease and desist order. A final order, however, may be directed not only to the

bank, but also to its directors, officers, employees, and agents.

Section 6 of S. 2304 would permit the agency to name as full parties to a cease and desist proceeding any director, officer, employee, agent, or other person participating in the conduct of the affairs of the bank. We have occasionally encountered situations in which the culpable party was not the bank, but an individual or corporation directing the bank's affairs. That new provision of the bill should permit us to deal more effectively with that situation.

Civil Money Penalties

The provision for civil money penalties for violation of the banking laws is one of the most important provisions in S. 2304. Civil money penalties are now applicable to national banks only for failure to file reports or to make information available to a national bank examiner. See 12 USC 161 and 481. Under sections 1, 2, 5, 6 and 7 of the bill, civil money penalties could be imposed to cover violations of various provisions of the Federal Reserve Act, the Federal Deposit Insurance Act, and the Bank Holding Company Act; and of orders issued under the Financial Institutions Supervisory Act of 1966. That authority to assess civil penalties will give the bank regulators an important tool in seeking compliance with these various legal mandates.

The civil money penalty provisions of section 6 would allow the "appropriate Federal banking agency" to assess civil money penalties for violation of a final order issued under the provisions of 12 USC 1818(b) and (c), as amended by the bill. Under present law the only enforcement procedure available to the banking agency for violation of a cease and desist order is an injunctive action in the Federal district court. Civil money penalties may in some instances be a more effective enforcement tool, particularly since such penalties may be assessed under the bill against individuals as well as against the bank involved. We, therefore, strongly endorse the concept of permitting the appropriate federal banking agency to assess civil money penalties for violation of a cease and desist order.

In contrast, the civil penalty provision of section 1 of the bill, dealing with violations of sections 22 and 23A of the Federal Reserve Act (insider lending restrictions) would vest the power to assess a civil penalty exclusively in the Federal Reserve. Because the detection and correction of insider lending abuses is the responsibility of the primary supervisor of a bank, we think it logical to give the civil penalty authority to such supervisor. Thus the Comptroller should be given civil penalty authority to deal with insider lending violations in national banks. We have no objection, however, to the Federal Reserve Board also having authority to assess penalties against national banks, if they so desire.

Giving the Federal Reserve Board exclusive authority to assess penalties against national banks would be similar to the unsuccessful officer removal provisions of the existing law. The agencies' experience under that procedure has been less than satisfactory to all concerned and, as already noted, S. 2304 includes provi-

sions to correct the situation. It would be anomalous in the same bill to correct a discredited procedure for removing officers in one section and in a different section install a similar procedure for assessing civil penalties. I hope the Committee will amend the bill to give the Comptroller authority to assess penalties against national banks or officials of national banks who engage in insider lending practices which violate sections 22 and 23A.

Additionally, the bill does not spell out sufficiently the procedure for collecting a civil penalty and disposition of the amounts received. Civil penalties imposed under S. 2304 would be collected "by suit or otherwise." The word "otherwise" may include administrative processes, but that is not apparent from the bill. The bill should clearly state that civil penalties can be collected through administrative processes. That change would clarify the intent of the bill and assure that the civil penalty is perceived by bankers and regulators as an easily available enforcement tool.

One possible means of administrative enforcement of civil penalties is suggested by section 5213 of the Revised Statutes, 12 USC 164. That section allows the Comptroller to assess a penalty against a national bank for failure to make a proper report by requesting the Treasurer of the United States to retain the interest on U.S. bonds held by the Treasurer for the bank. That section has been obsolete since national banks stopped issuing currency, but it does provide a precedent for administrative collection of civil penalties which would be imposed under S. 2304. The Comptroller thus recommends the addition to S. 2304 of a provision to allow the assessment of civil penalties from funds of the offending bank held at its Federal Reserve Bank. The payments would be made out of those funds on order of the Federal Reserve Board or of the Comptroller, as appropriate, after 10 days notice to the bank.

Combining of Insider Loans

Sections 3 and 7 of the bill would add new restrictions on loans by a bank to its officers and directors or to individuals controlling more than 5 percent of any class of voting securities of the bank. The bill would require loans to each of those individuals to be aggregated with any loans made by the bank to any company controlled by him or in which he owns 25 percent or more of any class of voting securities. That provision thus would apply more stringent rules of aggregation to officers and directors than are applied to borrowers generally.

The Comptroller's Office is fully mindful of the potential for abuse in insider lending. In the spring of 1975 we published a regulation enabling both our examiners and a national bank's own board of directors better to identify and scrutinize loans by a bank to outside business enterprises of its own officers or directors. The FDIC has recently issued an extensive regulation on the same subject. We are now reviewing the FDIC regulation to see what improvements might be suggested for our own regulations or procedures.

The Comptroller's Office fears that the effect of the proposed new statutory aggregation rule might be to

Appendix to March 26 Statement of C. Westbrook Murphy

Cease and Desist Proceedings Brought by The Comptroller of the Currency, Pursuant to 12 USC 1818(b), 1971-1975

Deposits (Thousands of dollars)	Number	12 USC 84	Loans Within Trade Area	Dividends	Overdrafts	Corrections of Law Violations	Management Qualification	Classified Assets	Correspondent Balances	Executive and Director Compensation	Indemnification	Increase Capital	Liquidity	Collateral Exceptions	Bonuses	Limit New Loans or Extensions of Credit	Limit Credit Extension on Existing Loans	Management Fees	Loan Collections and Loan Policy	Audit (Internal Controls)	Truth-in-Lending	Satisfactory Credit Information	New Management and Director	12 USC 375	12 USC 375a	Individual Exclusion and Prohibition	12 USC 371	Other	
32,000	1		X				X		X										X									X	
30,000	2								X			X		X		X			X									X	
7,000	3							X	X																			X	
7,000	4	X			X				X			X				X			X			X			X	X		X	
4,000	5	X									X																		
53,000	6									X					X	X	X									X		X	
6,000	7	X	X					X								X	X		X			X			X				
22,000	8	X			X							X	X	X		X	X		X	X		X	X						
98,000	9									X															X	X			
95,000	10									X						X	X			X					X	X		X	
11,000	11									X																		X	
934,000	12			X							X		X	X			X		X	X	X	X	X			X	X	X	
11,000	13	X	X	X				X		X	X	X	X	X		X	X	X	X	X	X	X	X			X	X	X	
31,000	14	X		X						X	X	X	X	X		X	X	X	X	X	X	X	X		X	X	X	X	
51,000	15									X					X	X	X			X	X					X			
12,000	16	X	X					X			X	X		X		X			X	X		X	X				X	X	
55,000	17	X									X						X											X	
7,000	18																			X									
105,000	19																X									X			
17,000	20					X		X												X	X		X					X	
24,000	21	X				X		X			X			X					X	X	X	X	X			X		X	
11,000	22	X				X		X			X			X					X	X	X	X						X	
15,000	23	X	X	X			X	X						X					X	X	X	X			X			X	
14,000	24					X		X						X			X		X	X	X	X			X		X	X	
11,000	25	X				X		X				X		X					X	X	X	X						X	
31,000	26	X				X		X				X	X	X			X		X	X		X	X					X	
19,000	27	X	X					X						X		X	X		X	X		X	X		X			X	
29,000	28	X	X	X				X			X			X		X	X	X	X	X	X	X	X			X	X	X	
8,000	29				X	X		X				X		X					X	X	X	X						X	
28,000	30	X	X					X				X	X	X					X	X		X	X				X	X	
19,000	31	X	X			X		X						X					X	X		X	X					X	
345,000	32	X		X		X		X		X		X	X	X			X		X	X	X	X				X	X	X	
1,420,000	33						X	X					X						X									X	
30,000	34																			X								X	
859,000	35							X				X	X			X			X			X						X	
32,000	36	X						X				X	X	X		X	X		X			X						X	
10,000	37	X	X	X				X		X	X	X	X	X	X	X	X		X	X	X	X	X	X		X			
438,000	38																										X		
32,000	39	X				X	X	X		X		X	X				X		X	X	X	X						X	
4,000	40			X								X							X										
237,000	41	X	X			X		X				X	X	X			X		X			X	X						
11,000	42		X					X				X	X	X			X		X							X			
21,000	43	X				X		X									X		X	X			X			X		X	
7,000	44	X						X				X		X					X	X	X	X						X	
25,000	45	X		X				X											X	X	X	X					X	X	
40,000	46	X	X			X		X				X	X	X		X	X		X	X	X	X	X	X		X		X	
34,000	47	X				X		X									X		X	X	X	X						X	
144,000	48	X		X				X				X	X	X			X		X	X	X	X				X	X	X	
16,000	49	X												X						X	X	X						X	
124,000	50			X		X		X									X									X	X		
28,000	51	X			X								X	X		X	X		X	X	X	X			X			X	
395,000	52																X												
78,000	53	X		X		X		X				X				X	X		X		X	X				X	X	X	
37,000	54		X					X				X				X	X	X	X	X					X	X	X	X	
21,000	55	X	X		X											X	X		X			X				X	X	X	
14,000	56	X	X		X											X	X		X		X	X				X	X	X	
34,000	57																X									X		X	
971,000	58	X						X				X				X	X		X	X	X	X				X			
48,000	59				X			X	X			X	X		X	X	X	X	X	X	X	X				X		X	
77,000	60	X		X	X			X				X	X							X	X		X			X	X	X	
17,000	61	X								X				X	X					X	X	X	X					X	
Totals		36	16	13	8	17	4	34	3	12	10	24	21	27	5	21	39	5	42	30	5	36	25	2	12	25	15	42	

NOTE: A detailed description of each of these was also included with this testimony. It may be found in the Appendix to the February 5 Statement by James E. Smith, pp. 211-214, in this report.

force bank directors and officers to leave a bank in order to preserve lines of credit for firms with which they are associated. Thus, in many communities, the most active, intelligent and able business people couldn't serve on the boards of directors, and banks would be deprived of their guidance. The Committee might wish to consider both this possible adverse effect and the experience of the Comptroller and the FDIC under their new regulations before changing the statutes regulating insider lending.

Conclusion

Change in the supervisory laws is necessary. As noted above, the Comptroller's Office supports S. 2304 and we are pleased that the Committee is holding hearings on the legislation. Our few recommendations for change in the bill are intended to suggest to the Committee ways to strengthen the bill and to eliminate some foreseeable problems. We hope the Committee will report favorably on S. 2304.

Statement of James E. Smith, Comptroller of the Currency, before the Committee to Investigate a Balanced Federal Budget of The Democratic Research Organization, Washington, D.C., May 5, 1976

I welcome the opportunity to appear before the Committee to Investigate a Balanced Federal Budget of the Democratic Research Organization. You have asked me to address the following question: What impact have inflation and high interest rates had on the lending capability of financial intermediaries since 1965?

Your question correctly ties together inflation and high interest rates. To be induced to forego current consumption, savers will not settle for a "normal" rate of return in periods of inflation; because inflation reduces the purchasing power of principal, savers demand an inflation premium. That premium has represented a major portion of market interest rates in recent years when we have seen double-digit inflation and are only now returning to an inflation rate of 5 to 6 percent.

I would like to divide my discussion concerning the impact of inflation on financial intermediaries into three parts:

1. Inflation as a generator of higher interest rates, and, in turn, disintermediation;
2. Inflation as a major contributing factor to recession; and
3. The effect of inflation on capital markets.

As already noted, inflationary pressures have been a major contributor to the relatively high rates of interest this economy has experienced in recent years. In and of themselves, those higher rates would not necessarily impair the lending capacity of financial institutions. That is, if lending institutions were able to maintain an appropriate margin between rates received on loans and rates that must be paid for funds, they could continue their intermediary function. However, as we all recognize, that is such an oversimplification that it has little practical relevance. Financial intermediaries, in varying degrees, are locked into portfolios bearing fixed rates of return over stated maturities. That is especially true of specialized financial institutions such as savings and loan associations and mutual savings banks. As a result, sharp upward movements in interest rates can place such specialized institutions in a difficult position, especially during a period of transition.

Thus, even in the absence of interest rate ceilings for

deposit institutions, it is likely that some disintermediation would occur in periods of sharply rising interest rates because of the locked-in position of financial institutions. The presence of interest rate ceilings has the effect of virtually forcing disintermediation when market rates on competing financial instruments move above the legal ceilings on the rates financial institutions can pay on their deposits. A major factor in the credit crunches of 1966 and 1969, was Regulation Q, for member banks, and comparable regulations for other financial institutions.

A severe liquidity squeeze occurred in the banking industry in 1970, associated with the collapse of Penn Central. For a time, that squeeze made it impossible for commercial banks to meet the credit demands of worthy customers of long standing. The severity of the pressures was reduced for larger banks by the action of the Federal Reserve Board in removing ceiling rates on short-term certificates of deposit (CD's). That action allowed large commercial banks to tap the short-term money market funds on a competitive basis. In 1973, all ceiling rates on deposits of \$100,000 and over were removed. As a result, large banks in money market centers and the larger of the regional banks have been able to secure short-term money market funds at going rates. However, ceiling rates continue for smaller denomination time deposits of financial intermediaries. Thus, institutions that rely on such deposits are still subject to the vicissitudes created by sharp movements in short-term rates on instruments that are not subject to controls.

To summarize my first point, interest rate controls have worsened the impact of inflation on the lending capabilities of financial intermediaries. However, even in the absence of such controls, the phenomenon of disintermediation, with some resultant reduction in lending capabilities, would probably occur, because of the nature of the asset portfolios of the institutions.

My second major point relates to the causal relationship between sharp inflation and the occurrence of recession. We are all painfully aware of the fact that we have just come through the worst recession in the U.S. economy since the 1930's. Many knowledgeable observers have pointed out that inflation was itself a key factor in creating the conditions that led to that recession. With double-digit inflation, the confidence of consum-

ers and, to a very considerable extent, the confidence of businesses, was shaken. With inflation outpacing the growth in personal disposable income, the real disposable income of many individuals actually fell. That decline in real income was coupled with the negative expectation that continuing inflation might lead to even a sharper decline. As a result, the effective demand for goods and services fell off. In this uncertain atmosphere, businesses were hesitant to carry out their plans for expansion of plant and equipment.

The 1973-75 recession had, not surprisingly, a quite adverse effect on the banking industry. Predictably, loan losses moved upward sharply, cutting into net earnings. Fortunately, even in that recessionary period, earnings before loan losses were sufficient to allow the banking industry to emerge in a relatively strong position. Because the recession bottomed out in the spring of 1975, and because loan demand had been soft due to the recession, the quality of loan portfolios has strengthened during the past year. We will still see relatively high loan losses in 1976, but they will come primarily from known weaknesses in certain loans made some time ago. The worst of the impact of the recession is over for the banking industry. However, to the extent inflation was a major contributing factor to the recession, it is simply another way inflation impaired the lending capabilities of financial institutions.

My third major point, and perhaps the most important one in terms of where our economy goes from here, relates to the effect of inflation on the functioning of our capital markets. We are all aware that our capital markets have performed less than adequately in recent years. In my view, a major reason has been the sharp inflation that we have experienced. In fact, I think it is unlikely that our capital markets will be able to carry out their crucial role in an acceptable way until the rate of inflation is substantially reduced.

The relative deterioration of the capital markets has had a two-pronged effect upon the banking industry. First, it has made it nearly impossible during much of the recent past for banks or banking organizations to issue equity capital. The market for debt has also been relatively unfavorable for banking organizations during that period. Consequently, banks have not been able to add to their capital base at a rate comparable to their rate of asset growth, although that has become a goal for many banks in recent years. Retained earn-

ings have been the principal source of additions to bank capital, but have been insufficient to stabilize the ratio of capital to total assets.

Thus banks and banking organizations have become considerably more leveraged in recent years. As a result, bank lending capability has been reduced relative to what it would have been, if capital markets could have been tapped.

The second prong of the relationship between inflation and the functioning of capital markets has also presented problems for the banking industry. Bank's prime corporate customers have experienced the same sort of difficulties in capital markets as have banks. Consequently, there has been some increase in pressure on banks to become suppliers of quasi-capital for corporate customers through the medium of term lending. Within reasonable limits, such action by the banking industry has been in the public interest. In other words, for limited periods, banks can serve as a "bridge," pending an improvement in the performance of capital markets. It is obvious, however, that there must be limits on such lending activity by the industry, if it is to remain sound and capable of meeting other public demands for funds. Fortunately, we see some evidence that, with the current reduction in the rate of inflation, access to capital both for banks and for other corporations has improved somewhat.

In overall summary, I am pleased to report that the banking industry has withstood the perils of a difficult period and is strong and healthy today. However, we have noted three different paths through which inflation has had a deleterious effect on the capacity of financial intermediaries to serve the financial needs of the public. It is evident that we must strive to develop policies that will hold the rate of inflation to acceptable levels.

Government has a major role to play in that attempt. In the final analysis, we must have a climate which induces savers to supply sufficient funds to support a level of investment that is consistent with economic health and appropriate economic growth. Somehow, we must find a way to tilt the consumption-savings mix in favor of additional saving. Others of your expert witnesses have provided some prescriptions which are aimed at achieving that purpose; it is beyond the province of my testimony to discuss specific remedies.

Statement of James E. Smith, Comptroller of the Currency, before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Government Operations Committee, Washington, D.C., June 1, 1976

I appreciate this opportunity to appear before the Committee in connection with its inquiry into the Comptroller's regulatory processes. In this hearing the Committee is attempting to evaluate those processes through a study of the Franklin National Bank, which was placed in receivership on October 8, 1974.

I believe that we can learn from our past experiences, both good and bad. Thus, as the Committee staff tes-

tified last week, even before the failure of Franklin National Bank, I initiated a special study of the events leading to the bank's difficulties.

This Committee's record on Franklin National Bank would be incomplete, however, without including information on the behavior of the financial market place during the critical years 1970-1974 and the changes that have occurred in the Comptroller's Office.

The Financial Market Place and Its Effect on Franklin

National banks are privately owned corporations. The most important decisions made in each bank are those of the bank's own board of directors and management, responding to competitive pressures and opportunities. Thus no inquiry into the failure of Franklin National Bank can be complete without an examination of the decisions made by the Franklin management in the context of the then existing market place environment.

Inflation during the 1970-1974 period was rampant; because of the effects of the Vietnam war, an expansionary monetary policy and other such factors, consumer prices increased by 31.9 percent from 1970 to 1974. At the same time, the steepest recession since the Great Depression of the 1930's had set in.

From the banker's point of view, the greatest problem was the enormous increase in interest rates; the Federal funds rates during the summer of 1974 rose to an unprecedented 12.9 percent and the prime rate was at a staggering 12.1 percent. The basic cost of money to banks aggressively using liability management during the 1970-1974 period had increased an incredible 105.3 percent. Franklin was particularly ill-suited to survive those economic pressures.

Franklin was a marginal operation throughout the 1960's, yet the bank managed to operate and grow to a \$3 billion institution by the end of 1969 without arousing any significant concerns by this Office or the financial industry. Despite its apparent progress, however, particularly in 1968 and 1969, the bank had neither the management depth and acumen nor the operational systems and controls to cope with its ambitious expansion program and the financial perils of the 1970's. Had the bank curtailed its activities after 1969 and solidified its position in the marketplace, the results might have been different.

By December 31, 1973, Franklin's resources exceeded \$5 billion. The bank's management proved incapable of developing and handling the sophisticated asset and liability management techniques necessary for a bank that size.

During the 1960's and early 1970's, the money market banks, faced with declining rates of growth in deposits, sought new ways to meet the heavy credit demands of their customers. In consequence, Franklin and other banks placed less and less reliance on the generation of liquidity through asset composition and cash flow. Instead, increasing emphasis was given to acquisition of deposits and the purchase of a wide array of borrowed money, including Federal funds, Eurodollars, negotiable certificates of deposit and long-term debt.

Franklin thus was able to buy its liquidity in the marketplace to support its rapid asset growth. In retrospect, Franklin's liability structure and asset structure made the bank exceptionally vulnerable to the confidence of the money markets.

Confidence in financial institutions declined significantly in 1973 and 1974 as a result of bank failures both here and abroad, significant foreign exchange losses in several major banks and evidence of deterioration in bank loans to struggling real estate firms, airlines, public utilities and the like. That decline in confidence, coupled

with steadily rising interest rates, tight money conditions, high inflation and the beginnings of a recession led to a rush to safe havens for funds. The very largest banks with unquestioned national and international reputations were the direct beneficiaries, because money market participants seemed to think that biggest also meant safest. Marginally operated and smaller money center banks like Franklin were often denied funds altogether or were forced to pay high premiums for a limited amount of funds. The tiered markets which developed forced many banks to scramble to avoid negative margins and to assure liquidity adequate to meet the claims against them. Franklin had long-term, low yield assets in both its loan and its investment portfolios, and thus was locked into a negative margin between the cost of the funds it borrowed and the uses it made of those funds.

Under these turbulent market conditions, Franklin struggled. The money market's continuing concern about Franklin was greatly aggravated in the spring of 1974 when significant problems were disclosed and market rumors about substantial losses became generally known. A loss of confidence occurred and a massive outflow of funds resulted, from which Franklin never recovered. The specific actions taken by the Comptroller's Office during the November 1973 through October 8, 1974 Franklin difficulties are detailed in the appendix to this statement.

That all banks could not always be assured of equal access to the money markets was a rude awakening for many banks practicing liability management and an important lesson for us. We believe we now have the sophisticated analytical techniques and a far better understanding of money market banks to enable us to take remedial action early and effectively.

However, because our powers, by design, fall far short of actually running a bank, there will always be a limit on our capacity to insure a fail-safe National Banking System.

Changes in the Comptroller's Office

The Committee staff's testimony last week mentioned several times the year-long study and report on the Comptroller's Office by the nationally known management consulting firm of Haskins & Sells. There was apparently no direction to the Committee staff, however, to evaluate the many changes which have resulted from implementation of the recommendations in that report.

As the Committee knows, the General Accounting Office is now undertaking a full scale review of the operations of the Comptroller's Office. The GAO's report is expected to deal with the changes in our regulatory and supervisory procedures.

Meanwhile, however, I should review for the Committee some of those changes in order to dispel the erroneous impression that might be left in the record from the limited scope of the testimony already presented to this Committee.

Domestic Examination Procedures

Substantial improvements in national bank examination procedures now are being adopted.

The new procedures will gear examination efforts

more precisely to the needs of the Comptroller's Office and the particular bank being examined and will stress review of bank internal controls, such as credit and investment rules, and internal audit procedures. Examiners will devote more time to the review and evaluation of the bank's own policies and procedures, its decision-making process, and its management information system. Had the new examination procedures and processes been in place earlier, they might have enabled the examiners of the Franklin National Bank to perceive much earlier the inherent weaknesses in the bank's philosophy, policies and procedures which eventually created the problems leading to its demise.

In addition to the new examination processes, major revisions are being made in the examination report itself. The primary purpose of the revised report of examination is to communicate meaningful information effectively to both the Office of the Comptroller of the Currency and to bank directors and management. The report must clearly identify the problems of special concern to the examiner, the factors that have caused the problems and the remedial action suggested.

To promote effective communication of these matters to the intended recipients, the new report of examination is divided into three sections designed to explain the relative importance of the examiner's findings of problems and causes and to indicate recommended corrective action to the applicable recipient.

The first section of the report is designed specifically for the immediate benefit of the board of directors and its examining committee, as well as senior management. It is to be in letter form and will set forth the scope of the examination plus a summary of all critical comments, in narrative form, backed by appendices and schedules that will support the conclusions in sufficient detail to enable the board, or its representatives, to take specific corrective action. The examiner's comments are to include probable causes of problems and recommended actions to assist the directorate with this aspect of remedial responsibility.

The second section of the report consists of various schedules, technical irregularities and deficiencies and comments by the examiner relative to the conclusions and evaluation of specific areas. That section will be a checklist against which a bank's auditor, cashier or other designated officer can effect correction and against which the bank's board of directors and/or senior management can measure the progress of the corrective action.

The third section of the report is designed specifically for the Comptroller's Office, although we will receive copies of all three report sections. The third section will include confidential information and a certain amount of additional informative data necessary to the operation of our Office. The confidential section will set forth matters requiring the prompt attention of our senior staff, such as:

- Suspected violations of law uncovered during the course of the examination reported, or to be reported, to the appropriate Comptroller officials or other regulatory and enforcement agencies.
- Critical comments relating to senior bank officers which may require official remedial action by the

Comptroller's Office such as the threat of cease and desist orders or officer removal.

- Subjective comments regarding management or other matters which have not been factually proven by the examiner but which, nevertheless, constitute areas of concern.

As is evident, the report of examination and related procedures have undergone substantial change. Perhaps the most important change is that most of the information previously "hidden" in the confidential section of the report of examination is now presented in the open section. Directors and management of the bank will have no excuse for doubt concerning our Office's evaluation of the condition of the bank.

National Bank Surveillance System

We are also implementing a bank evaluation and monitoring system called the National Bank Surveillance System (NBSS). Had that system been in operation at the time when Franklin's earnings problems were developing, the system, in coordination with the new examination procedures, would have assisted in detecting the detailed causes of those problems and, more importantly, could have helped management correct those problems in a timely manner.

The NBSS consists of four elements: a data collection system; a computerized analysis system which detects unusual or changing conditions in any national bank; an analysis of those changes by trained NBSS specialists; and, of primary importance, an Action Control System.

Rapidly processed reports of condition and income from each national bank are entered into the system at quarterly intervals. The computer calculates 15 pages of meaningful ratios and percentages for each bank. A second computer program summarizes those performance reports and ranks each bank in an "Anomaly Severity Ranking Report." That report simply designates those banks in the National Banking System which deserve a priority review. At that point the human element re-enters the process. The trained NBSS specialists review each of the 15-page reports and all other relevant data on each bank which the Anomaly Severity Ranking Report has designated for priority review.

The Anomaly Severity Ranking System covers three basic aspects of a bank's condition in relation to that of other banks in its peer group. It considers the bank's current position in each ratio, its short-term trend in the most recent quarter and its long-term trend over the past 5 years. Had the NBSS been in use earlier, it would have designated Franklin for priority review. The NBSS specialists would have noted a number of conditions in the Franklin report, including its low and declining earnings; its sources of those earnings; its inadequate provisions for its reserve for possible loan losses; and its inability to utilize fully its municipal tax exempt income. In view of all of those factors, the hazards involved in its large, volatile liabilities would have been flagged.

When the Anomaly Severity Ranking System designated Franklin for priority review, an NBSS specialist would have reviewed the performance report, noted conditions of concern, and then turned to the Action Control System.

All banks designated for priority review are placed in the Action Control System quarterly. The bank cannot be removed from the Action Control System until the conditions of concern have been corrected. While the bank remains in the Action Control System, reports must be made every 2 weeks showing the progress or the lack of progress in correcting conditions of concern.

The conditions of concern must be acknowledged by the regional administrator, who has the responsibility for the initiation of corrective action. He must respond to the conditions cited in the Action Control System. He can achieve correction at his discretion, but correction and/or his response must be made within 30 days.

The Action Control reports will also be utilized by various functional units of the Washington Office. If those reports show a bank or a region as delinquent or unsuccessful in its corrective efforts, they can be assisted by other appropriate units such as our Special Projects staff or the staff of our Enforcement and Compliance Division.

The NBSS does exist now to this extent. Fast and accurate data is flowing into the system. The 15-page performance reports are being produced and they are being utilized in most of our geographic regions. Seven trained NBSS specialists are now in regional offices and all 14 regional offices will have trained specialists before the end of June 1976. The Anomaly Severity Ranking reports have been utilized repeatedly and they have proven reliable. We have used the results of the reports and the specialists' work in banks to cause the correction of serious problems which would otherwise not have been detected at an early date.

The Action Control System is a crucial part of the system. Its programming is nearly complete. Its action, condition and response codes have been tested and, with the input of the next quarter's data, the Action Control System is to be implemented.

We will then be using a new system of bank supervision. We know that system must remain flexible to cope with the rapid changes in the banking system. It must also maintain the proper balance between its machine-operated segments and those involving good human judgment.

Foreign Exchange Procedures

We are in the process of finalizing a new examination procedures manual which covers every aspect of foreign exchange trading and requires written policy goals and guidelines, segregation of specific duties by trading and bookkeeping personnel, specific confirmation requirements, internal controls and audit programs.

Recognizing that with relatively minor changes in our old techniques we might well have found reason to suspect some less than prudent action on the part of Franklin's personnel, we now require that the examiner review, not just the most recent, but all monthly revaluation worksheets since the last examination to insure that proper market rates were used. The new procedures, under appropriate circumstances, require the examiner to intercept all mail to insure that all incoming confirmations can be identified with contracts on the bank's books. These new examination procedures are the most comprehensive guidelines written to date.

We have made other modifications in personnel, train-

ing and examining procedures and policies. These are designed to help prevent the occurrence of similar situations in other banks.

We insist that the board, through senior management, set up strict segregation of duties and responsibilities for every function of this and every other area. Traders should trade and nothing else. Accounting personnel should be responsible for all accounting, confirmation, revaluation and other recordkeeping functions and completely independent of all trading functions. Their duties would include sending and receiving trade confirmations, checking discrepancies directly with the counterparties and reporting those activities to the audit department and obtaining forward rates for revaluations independently and performing revaluations without interference from the traders. Auditors must be truly independent from the influence of senior management or the personnel they are auditing. They must feel free to report their findings to proper board-level committees. The position clerk should only keep records for the trader and not prepare reports for management. Such reports should be prepared by the accounting department.

Examiners are to evaluate the organization and effectiveness of that separation of duties and to comment upon deficiencies or overlapping of responsibilities. Critical comments are made directly to senior management and the board. Examiners include in their examination procedures an inspection of internal bank reports from periods between examinations to insure their accuracy and the correctness of their content.

In addition, as part of the "ongoing examination" concept, while examiners are in the bank they review reports, daily activities, and similar matters, at least on a test basis, to ascertain if required procedures are followed as a regular practice and also to determine any major changes in positions and policies.

The International Banking Group continues its efforts to upgrade the quality, knowledge and experience of personnel engaged in examining international activities. Examiners-in-charge of international divisions are now recommended by the regional administrators and final selections are made by the International Banking Group, based on experience, ability and availability. Additional personnel are participating in quarterly training sessions on international banking. This training, both in general international banking and in foreign exchange, is conducted by Washington staff personnel, as well as by other authorities from government agencies such as the Ex-Im Bank and the Federal Reserve, and by experienced bankers. An advanced seminar on foreign exchange trading is also given at least twice annually to help disseminate knowledge of this subject to as many of our examiners as possible. In addition, international examiners travel to other areas of the country in order to help where experienced support personnel are needed, and to gain experience from the increased exposure.

Branch and Other Approvals

Procedures for actions on corporate activities, such as new branches, mergers and other applications in the corporate area, are being developed to examine more closely the expansion policies of a national bank in light of its historical and current condition.

The Comptroller's Office will soon announce policy statements which will be published for comment by the public prior to adoption. Those policies will set forth guidelines under which the Comptroller's Office will either grant or deny branches, mergers and other applications of a corporate nature. Those guidelines will specify that, if a regional administrator wants to approve a branch or merger which falls outside the guidelines, the application will get close scrutiny in Washington. If a particular bank is subject to special surveillance, its application will undergo special analysis by the Bank Organization and Structure Division in consultation with the special surveillance units in Washington.

In short, our new policies in regard to corporate expansion will permit closer monitoring, in conjunction with our new examination and analysis techniques, both at the regional and Washington levels.

Operations Review

Prior to 1976 the Comptroller's Office had no formal process for reviewing in a systematic way the manner in which national bank examiners perform their examinations to assure that performance is consistent with established instructions and procedures. Such a formal operations review process is now in place. It is headed by a Deputy Comptroller with 27 years examining experience who reports directly to me. He is our own internal inspector general.

Under his supervision, examiners in each of our 14 regions have been specially trained to review the procedures by which banks in other regions are examined and supervised. Any exceptions to established procedures and instructions are noted and reported to the Washington Office.

Additionally, our Deputy Comptroller for Operations Review is the person to whom a banker who is fundamentally aggrieved by any of our regulatory activities can bring his complaint.

Operations review procedures should lessen the possibility of examinations being conducted improperly or not in accordance with the new procedures being established by our Office.

Recommended Enforcement Legislation

Although the already mentioned changes should make our Office more effective, there are still more tools we

need that only the Congress can provide. The Congress is currently considering enforcement legislation recommended jointly by the Comptroller, the Federal Reserve Board and the FDIC to enable us better to deal with problem banks. I urge prompt consideration and passage of that legislation.

The legislation has several provisions. The first empowers the banking agencies to assess civil penalties for violations of various banking statutes and cease and desist orders. I endorse the idea of giving the agencies that authority.

Another provision of the bill which I heartily support would give the banking agencies power to remove an officer, director or other person participating in the affairs of the bank from his position for gross negligence in the operation or management of the bank or a willful disregard for the bank's safety and soundness. Under the present statute, bank officials can be removed only if the agency can establish "personal dishonesty." The judicial review provisions already contained in the statutes are ample to protect against arbitrary or capricious use of such power.

The procedures by which an officer or a director of a national bank can be removed also need amendment. Under existing law, the Comptroller lacks power to remove a bank official unless that official has been indicted. If he has not been indicted, the Comptroller can do no more than certify facts to the Federal Reserve Board. The Federal Reserve is given the responsibility for issuing a notice of proposed removal, prosecuting the case, hearing the evidence and making the final decision. The Comptroller cannot even institute the proceeding.

That procedure is so cumbersome to use that neither the Federal Reserve Board nor my Office believes that it has been very effective. We thus have recommended a provision which would empower the Comptroller to institute and prosecute proceedings. The Comptroller also would have the power to suspend a bank official pending completion of the proceedings. The Federal Reserve Board, however, would retain its authority to hear the case and make final decisions. I am in complete agreement with that recommendation.

In addition to this general statement on Franklin and the operations of our Office, responses to specific questions in your letter of invitation of May 4, 1976 are addressed in the Appendix to the statement.

Appendix to June 1 Statement by James E. Smith

Franklin National Bank — November 1973 - October 8, 1974

On November 14, 1973, our Office began a regular examination of Franklin. That examination, which was not to conclude until March 8, 1974, disclosed that Franklin had serious financial problems. Those problems included a low-yielding loan portfolio, depreciation in the municipal and investment portfolios, heavy reliance by the bank on short-term borrowed funds (so-called hot

money) and the bank's poor management. Uncollectable loans totalled \$10 million. The operating income of the bank was poor, and, because that was public information, public confidence in the bank was affected.

Total resources of the bank had grown to \$4,852,999,972, which was 29 percent higher than the previous December 8, 1972 examination. The capital, however, had increased by less than 0.5 percent; demand and savings deposits actually had declined 5.5 percent. The bank's recent growth had been financed

almost entirely by using short-term borrowed funds, including time deposits of other banks and money market certificates of deposit. Those types of funds totaled \$2.3 billion, or 50 percent of the bank's liabilities. They had increased dramatically by \$984 million, or 76 percent, since the last examination. Such borrowed funds are volatile and likely to disappear quickly if creditors have reason to question a bank's stability or soundness.

I instructed Regional Administrator Van Horn by letter on February 22, 1974, to meet with the senior management of Franklin in order to formulate a plan with the bank for remedial action such as reducing all forms of borrowings, setting standards for new loan extensions and adjusting the imbalance between the bank's capital and the size of its operations. Mr. Van Horn met with the senior officers of Franklin on February 28, 1974, and with the board of directors on March 28, 1974. The bank agreed to reduce its borrowings by \$500 million by liquidating \$260 million carried in its bond trading account, selling another bank \$100 million in loans, reducing new loan commitments and increasing borrowers' compensating deposits maintained at the bank.

On April 18, 1974, Franklin New York Corporation (FNYC) announced net operating income for the first quarter of 2 cents per share, or \$79,000, down from the previous year's 68 cents per share, or \$3.123 million. The holding company release stated that income was "adversely affected by the sharp rise in the cost of short-term borrowings needed to carry assets during the 1974 quarter."

On May 1, 1974, the Federal Reserve Board announced its denial of the holding company's application to acquire Talcott National Corporation, a business financing and factoring firm. FNYC had applied for that acquisition on August 13, 1973. The Board decided that "this proposal may constitute an undue drain on Applicant's managerial and financial resources."

On May 10, 1974, the Comptroller's office and the Federal Reserve Board learned from Franklin that heavy losses in an undetermined amount had occurred in the bank's foreign exchange department. Bank management decided to announce those losses. It was clear that an announcement of this kind would dry up the bank's sources of borrowed funds, thereby creating a severe liquidity crisis. In anticipation, the bank sought a huge loan from the Federal Reserve Bank of New York to cover the expected run-off.

On May 10, 1974, management announced that, in light of the small profit for the first quarter of 1974 and management's estimate for the second quarter, it would recommend that Franklin's board of directors not declare the regular dividend on Franklin's common stock and convertible preferred stock.

We advised the FDIC of those events.

Taken together, the bank's April 18 release, the May 1 Talcott turndown and the May 10 release caused large scale institutional withdrawals and forced the bank to the Federal Reserve discount window to obtain the liquidity funds it needed.

At that time, management of the bank and representatives of this Office began exploring merger possibilities. The only possible, immediate merger partner showing serious interest was Manufacturers-Hanover Trust Com-

pany of New York. Manufacturers-Hanover, in April 1974, had loaned FNYC \$30 million on a long-term basis. After intensive discussions with the officers of Franklin, the management of Manufacturers-Hanover determined on May 12 that an immediate merger was not feasible.

On Friday and Saturday, May 10 and May 11, 1974, an internal review of the foreign exchange department was taking place and by Saturday evening, May 11, 1974, a relatively large loss was estimated. On Sunday, May 12, 1974, Franklin issued a press release, which stated in part:

The bank also reported that its foreign currency exchange department has realized losses since March 31, 1974, of approximately \$2 million. In addition, it has recently been discovered that because of a trader in that department operating beyond his authority and without the bank's knowledge, it will have sustained losses, as of May 13, 1974, of \$12 million, and has potential losses of \$25 million at May 10, 1974 rates.

The bank also noted that earlier in the day on May 12, 1974, Vice-Chairman Mitchell of the Federal Reserve Board, after having been assured by our Office that Franklin was solvent, advised in a press release that "as with all member banks, the Federal Reserve System stands prepared to advance funds to this bank as needed." FNYC asked the Securities and Exchange Commission to suspend trading in its securities. The SEC did suspend trading and conducted an investigation into the accuracy of FNYC financial statements. Ultimately a lawsuit was instituted by the SEC.

On May 13, 1974, at a special meeting of the bank's board of directors, the president of the bank and the head of its foreign exchange department were fired. Those events further eroded confidence in the bank so that, by close of business on Wednesday, May 15, 1974, the bank's loan at the Federal Reserve discount window reached \$780 million.

Much of the public attention at that time was focused on Michele Sindona, an Italian lawyer and resident of Switzerland, who, in July 1972, had purchased 1,000,000 shares of FNYC through his holding company, Fasco. That stock constituted 21.6 percent of the outstanding shares of the common stock of FNYC. Mr. Sindona became a director of FNYC in August 1972.

In view of the public concern over Mr. Sindona's association with the holding company, Mr. Sindona agreed that, for one year, he would relinquish his rights to vote the FNYC stock held by Fasco and would give the sole voting rights to former Treasury Secretary David Kennedy. That was completely agreeable to me and an announcement to that effect was made by Franklin in a press release dated May 12, 1974. Franklin also announced plans to raise additional capital of \$50 million and several major management changes which were to be put into effect at the bank's board meeting the next day. On Monday, May 13, the bank accepted the resignations of Paul Luftig, the president and chief executive officer of the bank and Peter Shaddick, vice chairman in charge of Franklin's international department.

On Tuesday, May 14, 1974, a new examination of the bank was commenced in order to update the value of its

loans, its securities and foreign exchange position. The May 14 examinations showed large foreign exchange losses, accelerated depreciation in securities and a general lack of improvement in the bank's condition since November 1973.

On May 13, 1974, I requested the member banks of the New York Clearing House Association to explore Franklin's affairs. The purpose of this review was threefold:

1. To advise me and my staff as to how other bankers would view the condition of Franklin National Bank;
2. To establish a foundation upon which the Clearing House Association members might act to help with Franklin's liquidity problems; and
3. To provide information to members of the Clearing House who might be interested in acquiring Franklin National Bank. In this regard, it was agreed that any information received through this processing by members of the Clearing House also would be made available to any non-Clearing House member interested in acquiring Franklin National Bank.

On June 11, 1974, with the encouragement of the Federal Reserve System, an arrangement was reached whereby members of the Clearing House individually would loan Federal funds to Franklin in an amount which aggregated \$225 million.

Meanwhile, efforts had been made to attract stronger management. With my assistance, Mr. Edwin Reichers was brought into Franklin on May 17, 1974, as an executive vice president in charge of Franklin's foreign exchange operations. He had for 40 years been with First National City Bank of New York, and headed that bank's foreign exchange operations.

A long search for a new head of Franklin culminated on June 21, when Joseph W. Barr was brought into Franklin as its chief executive officer.

Mr. Barr, who is well known to many members of this Committee as a former colleague in the House, had a distinguished background in the fields of government and finance, having served as Chairman of the FDIC, Under Secretary and Secretary of the Treasury Department, and as the Chairman and Chief Executive Officer of American Security and Trust Company of Washington, D.C. He was well and favorably known by foreign financial institutions, and was a man with whom I was confident we could work effectively under most demanding conditions. My confidence in him was fully justified by his performance. Without him and the qualities of integrity, courage, and decisiveness which he brought to bear on the myriad problems, I frankly doubt that the successful result on behalf of Franklin's depositors could have been achieved.

On July 2, I wrote the FDIC requesting that it contact other banking organizations which were potential purchasers of some or all of the business assets of Franklin National Bank. The FDIC developed a plan to assist a prospective purchaser to assume liabilities and purchase assets of Franklin and began negotiations with

interested bankers to draft a set of acquisition papers upon which banks could bid competitively in the event the FDIC became the receiver.

In an effort to alleviate further liquidity problems, I requested a meeting of representatives of 17 large U.S. banks to discuss selling Franklin's portfolio of Euro-currency loans. The meeting took place in Chicago on July 22. Some \$300 million of loans were offered for sale. That proved unsuccessful, however, because of the interest rates on the credits in comparison with the then prevailing high interest rates, and because of the liquidity problems of all large banks at that time.

In September, Mr. Barr presented the regulatory agencies a plan by which, with substantial assistance from the FDIC, Franklin would retrench, give up most of its national and international business, and become a Long Island bank. I requested the investment banking firm of Blyth Eastman Dillon & Co. to advise us concerning Mr. Barr's proposal. On October 3, the firm advised that the prospects of Franklin's achieving financial viability as an independent banking institution were bleak.

Mr. Barr also suggested that in the event a takeover of Franklin became necessary, it would be beneficial to the interests of the shareholders and to the competitive situation to widen, as much as possible, the list of potential purchasers. The greatest obstacle to that was the legal situation which limited the list of potential U.S. buyers to New York State-chartered institutions and national banks located in New York. Mr. Barr requested that, not only for this case, but also for the future, Congress should act quickly on legislation which would permit the purchase and operation of banks across state lines where necessary to prevent the probable failure of a large institution. Time did not permit the adoption of such legislation before the end came for Franklin, but I hope that the Congress will soon provide for such a situation.

As a result of continuing negative publicity, continuing deposit decline and management's continued inability to reduce the loan portfolio, on September 30, Franklin's total borrowings from the Federal Reserve Bank of New York exceeded \$1.7 billion. By the end of September, total deposits were rapidly declining to the \$1 billion mark and total other liabilities, principally borrowings, were rising to nearly \$2 billion. The bank was unable to retain large maturing certificates of deposits or other maturing money market liabilities.

Based on all facts available, including Mr. Barr's proposal which conceded that the bank could not survive without massive government assistance, the Blyth Eastman Dillon report, and the negative reports by the New York Clearing House banks, I concluded that Franklin did not appear to be a viable institution.

On October 4, I wrote to the Federal Reserve bank, briefly reviewing the situation, and asking for the Federal Reserve Bank's views with respect to its continued willingness to lend funds to Franklin. On October 7, the Federal Reserve Bank replied, stating that its emergency credit assistance to Franklin was based on public policy considerations arising from the responsibility of the Federal Reserve System as a lender of last

resort and was designed to give Franklin and the concerned Federal bank regulatory agencies a sufficient period to work out a permanent solution to the bank's difficulties. The Federal Reserve Bank also had concluded that the Franklin proposal of September 16, to the FDIC did not offer a feasible means of achieving the continuation of Franklin as an independent, viable bank. The Federal Reserve Bank advised that it would not be in the public interest for that bank to continue its program of credit assistance to Franklin.

It was no longer in the best interest either of Franklin's depositors and other creditors or of its shareholders to wait for further deterioration in the bank's condition, especially when the alternative of the FDIC-assisted purchase of the bank at a price including a substantial premium for a going concern, became available. By October 8, Franklin was no longer the 20th largest bank in the country but had become about the 46th largest bank. Of the 65 banks in its size category, those with \$1 to 5 billion in deposits, Franklin had ranked 65th in earning power. That lack of ability to generate earnings, combined with heavy reliance on purchased money, finally created a set of circumstances which the bank could not bear. On October 8, having become satisfied that Franklin National Bank was insolvent, and acting pursuant to 12 USC 191, I declared the bank insolvent and appointed the FDIC as receiver.

In order to protect all of the depositors of Franklin, the FDIC moved immediately to accept bids from several major New York banks upon a pre-negotiated contract which provided full projection for all Franklin depositors and other normal banking creditors. All bids were opened simultaneously in the presence of the entire FDIC Board of Directors. The high bidder was the European-American Bank and Trust Company, a federally insured, New York State-chartered institution owned by six large European banks. The following day every banking office of Franklin was opened at the regular banking hour by the European-American Bank. All depositors in Franklin, including holders of certificates of deposit, savings accounts, time accounts, and checking accounts, automatically became depositors of the European-American Bank. The European-American Bank also assumed all existing liabilities to trade creditors of Franklin. The approval of the purchase and assumption transaction avoided any disruption in service for depositors and increased the chances of subordinate creditors for full repayment of their claims.

In summary, our number one goal was to protect the

depositors and the banking system of this country, and that goal was achieved.

Responses to the Subcommittee's Questions

The Subcommittee has asked, in Chairman Rosenthal's letter of May 4, 1976, for responses to a series of specific questions. Most of the questions have been answered in the earlier portions of the statement or by making available documents to the Committee staff. The remaining questions are answered below.

Question: For the years 1971 to date, provide the number of parties to, terms of, and degree of compliance with each (i) agreement between the Office of the Comptroller of the Currency and a national bank, and (ii) statement of intent or assurance by the board of directors and/or officers of a national bank, which was given as a condition for obtaining approval for a merger, acquisition, new domestic or foreign branch, expansion of office facilities, an issuance of equity shares or debentures, or other act requiring the consent of the Comptroller of the Currency.

Answer: Exhibit A is a summary of the administrative actions brought pursuant to the Financial Institutions Supervisory Act of 1966 from 1971 to present. [With it is] a copy of a chart prepared reflecting the number of times specific violations were addressed in the proceedings.

We have found that the administrative actions taken have proven successful in the majority of instances. In that regard, we note that in 29 instances since 1971, this Office has requested banks to obtain additional capital or to initiate plans to increase capital. In all but four instances, the banks have complied with those requirements. In two of the four instances where there was inadequate compliance with formal written agreements between the bank and this Office, we resorted to the issuance of a Notice of Charges and a commencement of a formal Cease and Desist proceeding. In both of those instances the bank added additional capital as a direct result of the proceedings.

Four of the proceedings brought have been formally concluded as there has been complete compliance with the provisions. Nine proceedings have been terminated due to the sale, merger or failure of the banks while under administrative actions. We believe that in at least 37 instances, proceedings, although still in effect, may be concluded as the banks have fully complied or are taking adequate steps to gain compliance.

The remainder of the banks have not yet fully complied and may require additional administrative action.

Exhibit A

**Proceedings Brought by the Comptroller Pursuant to the
Cease and Desist Provisions of the Financial Institutions
Supervisory Act of 1966, 12 USC 1818(b),
1971 - Present**

[For 1971 through 1975, see pp. 211-214 of this report. For printing, those years were not repeated here.]

1976

- | | |
|--|---|
| <p>62. An Agreement to eliminate excessive extensions of credit, in violation of 12 USC 84, and to eliminate various unsafe and unsound banking practices concerning criticized assets. Provisions to upgrade the credit quality and procedures for handling loans and to improve the capital position of the bank.</p> <p>63. A Notice of Charges, a Temporary Cease and Desist Order and a Permanent Order to eliminate unsafe and unsound banking practices, criticized assets and violations of law, including 12 USC 84, 31 CFR 103.33, and 12 CFR 221 and 226. Provisions to improve the capital position of the bank and the loan policies of the bank and the elimination of excessive concentrations of credit. Provisions to cause the collection of all debts previously charged off and to hire an executive officer and operations officer.</p> <p>64. An Agreement to improve the capital position, the liquidity position and the loan policies of the bank. Provisions for the elimination of unsafe and unsound banking practices, criticized assets and violations of law, including 12 USC 84 and the Truth-in-Lending statute (Regulation Z). A provision to hire a new executive officer.</p> <p>65. An Agreement to eliminate various unsafe and unsound banking practices and to take steps to eliminate criticized problems, including excessive hold-</p> | <p>ings in real estate. Provisions requiring the improvement of the capital position of the bank and the hiring of an executive officer.</p> <p>66. An Agreement to eliminate excessive extensions of credit, in violation of 12 USC 84, and to eliminate various unsafe and unsound banking practices concerning criticized assets. Provisions to improve the capital and earnings position of the bank and to upgrade the credit quality and procedures for handling loans. Provisions to hire an executive officer and a full-time auditor.</p> <p>67. A Notice of Charges and a Temporary Cease and Desist Order to eliminate extensions of credit of a self-dealing and self-serving nature for the benefit of the controlling shareholder of the bank and related companies or individuals. A provision to eliminate overdrafts.</p> <p>68. An Agreement to improve the liquidity position of the Bank and to upgrade the credit quality and procedures for handling loans. Provisions for the elimination of unsafe and unsound banking practices, criticized problems, excessive concentrations of credit, and violations of law, including 12 USC 371c, 12 CFR 23, 11 and 18. Provisions for the hiring of an operations officer to ensure adequate internal controls.</p> |
|--|---|

Chart

**Cease and Desist Proceedings Brought by the Comptroller of the Currency, Pursuant to 12 USC 1818(b),
1971 to Present**

[For 1971 through 1975, see page 224 of this report. For printing, those years were not repeated here.]

Deposits (Thousands of dollars)	Number	12 USC 84	Loans Within Trade Area	Dividends	Overdrafts	Corrections of Law Violations	Management Qualification	Classified Assets	Correspondent Balances	Executive and Director Compensation	Indemnification	Increase Capital	Liquidity	Collateral Exceptions	Bonuses	Limit New Loans or Extensions of Credit	Limit Credit Extension on Existing Loans	Management Fees	Loan Collections and Loan Policy	Audit (Internal Controls)	Truth-in-Lending	Satisfactory Credit Information	New Management and Director	12 USC 375	12 USC 375a	Individual Exclusion and Prohibition	12 USC 371	Other
1,003,100	62	X						X				X				X	X											X
9,653	63	X		X		X		X				X		X		X	X		X	X	X	X						X
11,550	64	X						X				X	X				X		X	X	X	X						X
83,827	65	X				X		X			X	X				X	X		X	X	X	X						X
65,123	66	X		X				X				X					X	X	X	X	X	X						X
46,044	67				X											X						X						X
10,200	68		X				X	X					X				X	X	X	X	X	X					X	X
Total for 1976 to date		5	1	2	1	2	1	6	0	0	1	5	2	1	0	2	6	1	5	3	2	6	5	0	0	2	1	7

This Office has on several occasions attached conditions to the approval of branches, mergers, acquisitions and other actions by banks. The typical situation involves a request for a branch, the approval of which is conditioned on the bank's increasing its capital by a specific amount. Neither the files on mergers and branches nor the files on capital increase are established to reflect after the event that the raising of new capital was a condition for approval of a new branch. The information can be developed only by a separate review of documents associated with each branch, merger, acquisition, capital issue or expansion.

Question: All approvals and consents given and made by personnel of the Comptroller of the Currency permitting mergers, the opening of new domestic or foreign branches, and /or expansion of office facilities regarding FNB for each year from 1965 through 1974.

Answer:

Foreign Branches

The only merger during the period was with Federation Bank and Trust, referred to above. The New York regional office issued two approvals during 1972 permitting expansion of office space pursuant to 12 USC 371d. This Office has no authority to approve or disapprove foreign branches. Documents in OCC files pertaining to Franklin foreign branches have been provided to the Committee staff.

**Branches, Mergers and Expansion
of Facilities of Franklin**

Domestic Branches

Year	Final		
	Approvals Permitting Openings	Rejected	Withdrawn
1965	4	1	2
1966	4	4	0
1967	15*	3	0
1968	1	0	0
1969	3	2	2
1970	3	4	2
1971	7	1	0
1972	5	0	0
1973	1	0	0
1974	0	0	0

* The approvals of 1967 include the main office (retained as a branch) and 13 operating branches of the Federation Bank and Trust Co. acquired by merger June 30, 1967.

Question: Set forth the number of national banks which were given composite or group ratings of 3 or 4 continuously from 1971 through 1975, and for each bank the annual number of (i) new domestic branches, (ii) new foreign branches and (iii) expansions of office space the Comptroller of the Currency has approved for each year since 1972.

Answer: There were five national banks which were given composite or group ratings of 3 or 4 continuously from 12/31/71 through 12/31/75. For those five banks,

the following new domestic branch applications were approved or denied during the 1971 through 1975 period:

	1972		1973		1974		1975	
	Approved	Denied	Approved	Denied	Approved	Denied	Approved	Denied
Bank #1			1			2		
Bank #2						2		
Bank #3								
Bank #4								
Bank #5								

Total for the period: Applications - 5; Approved - 1; and Denied - 4.

For the same five national banks, the Office received no applications for new foreign branches.

Pursuant to 12 USC 371d, a national bank may invest in bank premises up to 100 percent of its capital stock without the approval of the Comptroller of the Currency. Bank #2 applied to the Office for permission to exceed its limitation in 1974. Permission was granted for the bank to invest in banking premises in an amount not to exceed its capital accounts plus \$150,000. None of the other four banks requested permission to exceed the limitation during the 1972-1975 period.

Question: The management, operations and conditions of, and supervisory recommendations made and actions taken by personnel of the Comptroller of the Currency with respect to First National Bank of East Islip (FNBEI) for the years 1971 through 1975, to the extent the same previously has been made a matter of public record through court records, proxy statements, press releases and other means.

Answer: Copies of the public documents of which we are aware that relate to the management, operations and conditions of the FNBEI and the Comptroller's supervisory actions related to that bank are annexed hereto: [For the purposes of this publication, we are including only a list of those documents. They are, however, available as public information.]

**Documents Available as Public Information on First
National Bank of East Islip**

- Notice of annual meeting and proxy statement for the annual meeting of shareholders of January 19, 1971.
- Notice of annual meeting and proxy statement for the annual meeting of shareholders of March 7, 1972.
- Notice of special meeting and proxy statement for special shareholders' meeting of August 29, 1972.
- Notice of annual meeting and proxy statement for the annual meeting of shareholders of March 6, 1973.
- Shareholders' Derivative Suit of Charles H. Wolpert and Martha Wolpert as stockholders of the First National Bank of East Islip against the First National Bank of East Islip, *et al.*, commenced on or about February 3, 1974.
- Shareholders' Derivative Suit of Charles Housler, *et al.* versus the First National Bank of East Islip, *et al.*, commenced on or about January 21, 1974.

- Complaint of Joel E. Kastein, John W. McGraine and Crest Affiliates Inc. against the First National Bank of East Islip, *et al.*, commenced on or about October 22, 1973.
- The notice of annual meeting and proxy statement for the annual meeting of shareholders held March 5, 1974.
- The notice of special meeting of shareholders to be held November 12, 1974.
- Notice of annual meeting of shareholders and proxy statement of the annual shareholders' meeting held March 4, 1975.
- The notice of annual meeting of shareholders and proxy statement of annual shareholders' meeting held March 2, 1976.
- Article, *Newsday*, dated March 2, 1974.
- Article, *Long Island Press*, dated March 2, 1974.

Additional Material on Special Projects/Bank Review Program

Memo to all regional administrators and national bank examiners, January 27, 1976

The reorganization of the OCC contemplates primary authority and responsibility for the supervision of banks at the regional level through our examiners and regional administrators. This Office must, however, retain some overview responsibility of banks, especially in the capacity of lending technical and specialized assistance to the regions. A revised procedure has been devised which allows the Comptroller to be informed and to track movements within the National Banking System at all levels.

The details of the new program are attached. The program is essentially designed to provide improved communication and coordination between the national bank

examiners, the regional offices and the Washington Office and, by so doing, to enhance the ability of the OCC as a whole to effectively discharge its supervisory responsibilities.

The program provides for timely notification when a bank is being assigned to the program or when significant subsequent events change the status of a bank previously assigned. The program also provides the Washington staff with the opportunity to directly assist the regions in bank supervision, when required.

The procedures involved in the program are designed to give this Office a standardization to insure an informed posture, but are not intended to be inflexible. It is recognized that circumstances will on occasion dictate that exceptions be made to the policies and procedures set forth in the attached material. However, when such circumstances warrant a departure from established procedure, we should be promptly advised.

A revised examiner's memo, which is to be prepared at each examination, is also [attached]. The analysis sheet, which is an integral part of the memo, should be completed in full at each future examination of a bank assigned to the program. It is recognized, however, that certain statistical data called for by the analysis sheet will not be readily available from prior examination reports. Therefore, examiners may omit the historical information on certain items if it is not easily obtainable.

The task of properly controlling the problems faced by the National Banking System is obviously one of the most important we have. We are hopeful that this program can be successfully integrated into and complement other planned changes under our reorganization effort. Success in this regard will of course continue to depend on your full cooperation, support and advice.

H. Joe Selby

First Deputy Comptroller for Operations

Attachments

Special Projects/Bank Review Program

Participants

Regional participations will include the examiners who conducted the last examination of banks subject to the program as well as the regional administrator, his deputies, or other designees.

In Washington, responsibility for banks in the program will be divided into two groups, each with a director and a professional staff of national bank examiners.

One group will be known as *Special Projects* and will have responsibility for all banks in the program with total resources in excess of \$100 million. Overall supervisory responsibility for the Special Projects group will be vested in H. Joe Selby, First Deputy Comptroller for Operations, with primary administration delegated to Paul M. Homan, Associate Deputy Comptroller.

Bank Review, the other group, will handle those banks assigned to the program which have total resources of less than \$100 million. Charles B. Hall, Deputy Comptroller for Banking Operations, will have overall supervisory responsibility for this group, with primary administration delegated to Royal B. Dunham, Jr., Director.

Other Washington Office staff participating in the program on a full- or part-time basis include:

- The Enforcement and Compliance Division.
- All groups of Bank Operations.
- National Bank Surveillance System.
- Securities Disclosure Division.

Criteria

- A. Banks designated by the regional administrator in the exercise of his best judgement as to quality of assets, adequacy of earnings, ability and depth of management, capital adequacy, and other factors which militate for inclusion on the program. All banks having criticized assets, that is, 100 percent substandard plus 50 percent of OLEM and doubtful, aggregating 65 percent of adjusted capital funds will be reviewed by the regional administrator for possible inclusion, as well as those with separate and distinct deficiencies relating to other than asset quality.
- B. All banks with assets of more than \$100 million that have criticized assets, as defined above, aggregating 65 percent of adjusted capital funds which were not designated by the regions under A, will be reviewed by Special Projects for possible inclusion in the program.
- C. Using the same criteria or additional criteria that may be developed, Banking Operations, Special Projects, and/or the NBSS group, at their discretion, may designate banks for the program.
- D. All banks operating under a formal written agreement or a Cease and Desist order.

Removal of a Bank from the Program

When a bank no longer meets the criteria described above, and/or in the opinion of the regional administrator

no longer requires close supervision under the program, the regional administrator should submit a memorandum to the appropriate group recommending removal of the bank from the program. The decision on such recommendations will be made by the appropriate group subject to a review by the First Deputy Comptroller for Operations and/or the Deputy Comptroller for Banking Operations.

Communications

Written

All reports of examination of banks in this program will be marked with the word "priority" (rubber stamps should be ordered by the regional offices). In addition, letters, memoranda or other data pertaining to *problems* or the *correction of problems* will also be so marked. Such reports and correspondence should receive speedy processing and be forwarded to the attention of Paul M. Homan, Associate Deputy Comptroller, Special Projects, or Royal B. Dunham, Jr., Director, Bank Review, as appropriate.

Other correspondence about banks in the program should be directed to the appropriate individual, division or group in the Washington Office through use of the attention line.

Telephone

Each regional office should be equipped with speaker telephone equipment. Similar equipment will be available to the Washington groups. Conferences will be arranged on a case-by-case basis at the initiation of either regional administrators, their designees or Washington Office staff participating in the program.

Procedures

National Bank Examiners

The examiner-in-charge of each examination will communicate with the regional or Washington Office under the following circumstances and in the following manner:

- By telephone to the regional office, during an examination as soon as it becomes apparent that there are significant adverse changes in a bank in the program or there is evidence that a bank should be placed in the program.
- In writing, to be forwarded to his regional administrator as in Exhibit A, no later than at the time of concluding the examination. The written communication will include basic statistical information; a concise narrative of the bank's significant problems, to include causes and a summary of pertinent subsequent events; and specific recommendations for appropriate corrective action. The regional administrator will mark the examiner's memorandum with the "Priority" stamp and add his opinions to those of the examiner. The examiner's memo should be forwarded within 2 business days of receipt in the regional office. Completion of the report of examination will not delay the forwarding of the examiner's memorandum.

- When required by the regional administrator, the examiner will participate in group telephone conferences between the regional offices and the Washington Office concerning banks in the program.

Regional Administrators

1. New banks added to the program are to be reported to the Washington Office by the regional administrator as soon as possible.
2. The regional office will continue to review reports of examination and rate the banks. If, by the review and rating, they determine that a bank should have been placed in the program by the examiner but was not, they will provide the necessary telephone and written communication as in Exhibit A.
3. The regional administrator, or his designee, and the examiner-in-charge must meet with the board of directors, or a committee thereof, in conjunction with each examination of a bank in the program.
4. For banks in the program with assets exceeding \$50 million, a copy of the report of examination will be sent to the bank and the appropriate Washington group at least 10 days prior to the board meeting.
5. A letter written by the regional administrator should be forwarded to the bank's board of directors, together with the transmittal of the report. At a minimum, that letter should include:
 - a. A request that each board member review the report;
 - b. A summary of the major deficiencies disclosed in the report in an objective method;
 - c. A request that the board prepare a specific plan of corrective action designed to deal with and correct the deficiencies of the bank as reflected in the examination report. The board should be prepared to discuss this plan at the meeting;
 - d. A paragraph that indicates:

This letter is supplemental to and part of the examination report. Its purpose is to highlight matters in the examination report requiring the attention of the board of directors. The letter and its contents should be treated with the same degree of confidentiality as the examination report.

As an alternative, the regional administrator may wish to fully incorporate into the examination report his communication to the board by commenting on page 2 under the heading, "Regional Administrator's Comments." If that alternative is used, the transmittal letter should instruct the board to refer to page 2 of the report of examination for the regional administrator's comments.

6. Prior to meetings with the board of directors, the

regional administrator will inform the appropriate Washington group of the date and objectives of the board meetings. When appropriate, a staff member of the group and a representative of the Enforcement and Compliance Division will attend such meetings. Participation in the actual board meeting by the Washington staff is desirable to an extent that is mutually agreeable to the regional administrator and the Washington Office.

7. The board, or a committee thereof so authorized, should present their plans for corrective action at the meeting. If those plans are not considered adequate by the regional administrator, his views should be so stated to the board or committee members and satisfactory amendments adopted by resolution. If satisfactory plans are not adopted, the regional administrator should advise the group that further administrative action by the Comptroller's Office may be required.
8. The regional administrator should convey in writing the results of the board meetings.
9. The regional administrator should require frequent reports by the board as to the progress concerning any agreed corrective action. Each bank required to send a progress report should be asked to forward the original to the regional administrator with a copy to the Comptroller of the Currency, Attention: Royal B. Dunham, Jr. or Paul M. Homan, as appropriate.
10. Regional offices should forward copies of internal analyses of progress reports to the appropriate Washington group.
11. Regional administrators will continue to schedule frequent examinations and visitations of banks assigned to the program as they deem necessary. However, an examination projection of such banks will be completed by each region on a monthly basis. The form (Exhibit B) will be reproduced in the region as needed and forwarded to the attention of the appropriate Washington group in sufficient time to arrive no later than 5 working days prior to the beginning of the month projected. Any amendments to the projection after it has been submitted, will be conveyed to the group via telephone communication.

For your information, the names of the Washington staff members assigned to the program are:

Bank Review — banks with assets of less than \$100 million, Director, Royal B. Dunham, Jr.

Professional Staff, [3 national bank examiners]

Special Projects — banks with assets of \$100 million or more, Director, Paul M. Homan

Professional Staff, [5 national bank examiners]

Exhibit A

Examiner's Memo

Summary of Problems

Summarize your views of the bank's problems, taking into account all significant factors. Specific problems should be identified. Your recommendation as to possible solutions to the significant problems should be included in the narrative.

Subsequent Events

Summarize any pertinent changes since the date of your examination. This would include the resignation of key officers or directors, declines in deposits, increases in loans or commitments to lend, proposed mergers, etc.

Recommended Corrective Actions

Your positive, open views are needed in this section. You can be the most knowledgeable as to the *causes* of the bank's problems. Please state your views without reservation.

Signature of national bank examiner

Regional Administrator's Opinion

Statements concurring or differing with those of the examiner should be made in this section.

Signature of regional administrator

Exhibit B

(month)

Priority Banks Examination Projection

(Include all such banks under examination)

Name of Bank & Location	Projected Starting Date (if under examination indicate starting date.)	Projected Completion Date	Examiner-in-Charge	Type Examination Regular Examination Visitation Bobtail Examination

Regional Administrator

Exhibit C

**SPECIAL PROJECTS/BANK REVIEW PROGRAM
ANALYSIS SHEET**

NAME OF BANK _____ REGION _____ CHARTER # _____
 CITY _____ STATE _____
 HOLDING COMPANY AFFILIATION _____

(Show prior three and current examinations)
(Omit 000's)

1. Rating				
2. Date of Examination				
3. Examiner-in-Charge				
4. Total Resources				
5. Total Deposits				
6. Percent of Time Deposits to Total Deposits				
7. Gross Capital Funds (GCF)				
8. Adjusted Capital Funds (ACF)				
9. Deposits x GCF				
10. Total Assets x GCF				
11. Loans x GCF				
12. Percent of Loans to Deposits				
13. Substandard				
14. Doubtful				
15. Loss				
16. Total Classified Assets				
17. Percent of Classified Assets to GCF				
18. OLEM				
19. Percent of OLEM to GCF				
20. *SP Ratio				
21. Valuation Portion (Reserve for Loan Losses)—Amount				
Percent of Total Loans				
22. Loans not supported for current Credit Information—Amount				
Percent of Total Loans				
23. Overdue Loans—Amount				
Percent of Total Loans				
24. Non-Accrual Loans—Amount				
Percent of Total Loans				
25. Bond Depreciation—Amount				
Percent of ACF				
26. Percent of Direct or Indirect Investment in F/A to ACF				
27. Percent of Net Liquid Assets to Net Deposits				
28. Loans and Overdrafts				
29. Direct Lease Financing				
30. Acceptances				
31. Stand-by Letters of Credit				
32. Irrevocable commitments to lend				
33. Advances to Affiliates				
34. TOTAL (Lines 28 through 33)				
35. Line 34 x GCF				
36. Large (\$100M or more) Time CDs				
37. Due to Banks—Time				
38. Borrowings—Short Term**				
39. TOTAL (Lines 36 through 38)				
40. Cash and Due from Banks (Demand and Time)				
41. Money Market Assets***				
42. Market Value Unpledged Bonds				
43. TOTAL (Lines 40 through 42)				
44. Net Volatile Liabilities (Line 39 minus Line 43)				
Percent of Total Resources				
	****	197__	197__	197__
45. Operating Income				
46. Operating Expense				
47. Income before Income Taxes & Securities Gains/Losses				
48. Net Income				
49. Add Provision for Loan Losses				
50. Add Recoveries credited to Reserves				
51. Less: Losses charged to Reserves				
52. Adjusted Net Income				
53. Less: Dividends				
54. Retained Profits				

* SP Ratio: The adjusted sum of substandard, 50% of Doubtful and 50% of OLEM as a percentage of Adjusted Capital Funds.
 ** Borrowings—Short Term: Include all forms of money market obligations, except for mortgage debt and capital notes and debentures.
 *** Money Market Assets: Include Federal Funds sold and securities purchased under Resale Agreements.
 **** Show last three full calendar years plus interim figures through the month-end prior to the examination date.

Statement of Thomas W. Taylor, Associate Deputy Comptroller of the Currency for Consumer Affairs, before the Senate Committee on Banking, Housing and Urban Affairs, Washington, D.C., July 29, 1976

I appreciate this opportunity to represent the Office of the Comptroller of the Currency in my capacity as Director of the Consumer Affairs Division. Our Office has a deep commitment to consumer protection as it relates to national banks. In addition to being good public policy, attention to good relations with consumers should result in sound banking.

The Comptroller perceived early on the need to establish a special division in our Office devoted to consumer affairs which would coordinate the various activities the Office was undertaking to assist the consumer and enforce consumer protection laws. That was before the Magnuson-Moss Warranty — Federal Trade Commission Improvement Act of 1974 mandated that each bank regulatory agency have such a division. Our Consumer Affairs Division was operating fully by September 1974.

Our experience since that time, has shown that our examination efforts in enforcing consumer protection laws need to be strengthened or given a new direction. During 1975 and 1976, one of our regional offices conducted specialized examinations as a test project. The results of that project convinced us that there was substantially greater non-compliance with consumer credit protection laws than we had previously thought, and, accordingly, we have decided to implement a crash program aimed at examining, for consumer protection purposes, each national bank in the 12-month period between 1976 and 1977.

Beginning this fall, a select group of 250 examiners will undergo 2 weeks of intensive training in newly designed procedures for examination of national bank compliance with consumer protection laws. The special consumer examination will cover Truth-in-Lending, Equal Credit Opportunity, Fair Credit Reporting, Fair Credit Billing,

Fair Housing, Home Mortgage Disclosure, Real Estate Settlement Procedures, advertising, usury and applicable state laws. We have isolated a number of the provisions of the laws affecting those areas which we think merit more emphasis than others. Therefore, the new examination procedures will focus on those problems which will result in a significantly adverse impact on consumers.

Examiners will be prepared to review note forms used by the banks and to take a statistical sample of their loans to review for conformity with various statutory and regulatory requirements. A bank's lending policies also will be examined as will its policies for implementing consumer protection laws. Extensive interviews of lending officers will be conducted to assist in determining a bank's adherence to its policy standards.

Where violations are detected during the examination, we will use the full authority of our Office to see that they are corrected. Where bank customers have been aggrieved, we will use our authority to the fullest to correct the situation.

Our Office is devoting extensive resources to the consumer protection area in the processing of consumer complaints and conducting of examinations. We have found that both consumers and banks have benefitted from the changes brought about by the new consumer protection laws. Despite the necessary complexity of many of the regulations, increased disclosure and more rigorous, non-discriminatory credit guidelines have served to educate the public and to improve relations between banks and their customers. The answers to the questions that you submitted, are included in the appendix to my statement.

Appendix to July 29 Statement by Thomas W. Taylor

Responses to the Committee's Questions

Question: Please describe the organization, staffing and resources allocated to your consumer affairs division. To what extent does it operate through regional offices? How are its existence and its complaint-handling function publicized?

Answer: The Consumer Affairs Division of the Office of the Comptroller of the Currency was created in March 1974, and was organized in September 1974. It is staffed by an Associate Deputy Comptroller who serves as director, two consumer affairs specialists and two secretaries. The division receives substantial support from other departments within the Office, particularly the Law Department. Because the division cuts across several policy and operating areas, the director reports directly to the Comptroller. That close alliance also makes it clear that consumer protection efforts are of fundamental importance to the Comptroller.

All consumer complaints are monitored by the Washington Office. Depending upon where they are received, complaints are handled by one of our 14 regional offices, as well as by the Consumer Affairs Division. The functions of the division have been publicized in newspaper columns throughout the United States, in banking-oriented newsletters and periodicals, by appearances before both public and banking groups and by mention in public television programs prepared by other government agencies. At least one regional office has been listed in the Yellow Pages under a consumer protection heading. As a result of a requirement of Regulation B of the Board of Governors of the Federal Reserve System (Board), loan applicants are given notice that this agency has the responsibility for enforcing the statutory provisions of the Equal Credit Opportunity Act. As a direct result, we are receiving an increasing amount

of consumer correspondence. Also, Regulation C of the Board, which implements the Home Mortgage Disclosure Act, requires that national banks subject to the Act designate this Office as the agency responsible for enforcing the regulation.

A new factor in allocating staff and resources to the Consumer Affairs Division will materialize in September 1976. At that time, approximately 10 percent of our field examination force will begin to devote their efforts exclusively to special consumer examinations, with the support of a specialist in each regional office.

Question: Please indicate the numbers and — to the extent possible — the types of consumer complaints received. How many were found meritorious? What disposition was made of these complaints?

Answer: [At the end of this Appendix] is a summary of complaints received by the Washington Office from 1973 through 1975 and by the Washington and regional offices in the first half of 1976. Those data were derived from our Consumer Complaint Information System (CCIS). That computer system was established at our Washington Office in August 1975, and became operational for our regional offices on January 1, 1976. Previously, the master file on citizen complaints, started in 1970, consisted of nine filing trays containing approximately 14,000 three-by-five cards. The 14 regional offices did not start sending those cards into the Washington Office until 1973. The data base for the CCIS was initially derived from the Washington Office routing slips. The CCIS is designed to identify volume, type and concentration of complaints by region and by bank. It serves as a useful tool in handling the increasing volume of complaint letters we are receiving and in monitoring the problem areas that might be indicated by consumer complaints.

During the years 1973 through 1975, we received 2,609 complaints at the Washington Office. During the first half of 1976, we received 2,850 complaints, including those processed by our regional offices. The [appended] charts indicate the types and nature of the complaints and how they were resolved.

We record all complaints which we receive and we process all of them except those which are referred to other enforcement agencies. We respond to all complaints we process, except the few which are received from persons who are obviously unstable or not capable of understanding that a problem does not exist.

Question: What procedures are used to handle consumer complaints? Are *all* complaints processed? How promptly are they handled? Are there maximum time limits for dealing with them?

Answer: When a complaint is received, a letter of acknowledgement is sent to the complainant. At the same time, a letter is sent to the bank involved, describing the complaint and asking for the bank's explanation. If the complaint is very complex or contains an extremely serious allegation against the bank, an examiner may be sent to the bank to investigate the facts. After receiving information from the bank or the examiner, the situation is analyzed by our Washington or regional staff and the

complainant is informed of our findings and determination. If the bank has erred or violated a law, it is directed to seek the proper remedy with the customer.

Generally, we have found banks to be responsive to our inquiries concerning consumer complaints. If they have made an error, they usually will issue an apology to the complainant and an explanation of the corrective action they have taken. If the bank's defense is that its action was legally proper or that the consumer should be seeking redress from a third party, and if we agree, we apprise the complainant and suggest he seek legal counsel. In instances where there is a factual dispute between the parties, we advise the complainant that we do not have authority to adjudicate such matters and that he should seek legal advice concerning possible redress in the courts.

All complaints received by this Office are processed, and all are answered with the few exceptions noted above. Generally, we attempt to give a final response to the complainant within 4 weeks of receiving the complaint. Of necessity that schedule varies according to the amount of time required to receive a response from the bank or examiner. In more complex matters, there are occasions when a complaint may not be resolved for several months.

Question: Do the staff members assigned to consumer complaints also have other enforcement duties?

Answer: Two members of the Law Department, who operate outside the Consumer Affairs Division, devote full time to processing consumer complaints. Other members of the Consumer Affairs Division, the Law Department, and regional office staffs who have responsibility for consumer complaints have other enforcement responsibilities. We have not found that those other duties interfere with complaint processing. The staff of the Consumer Affairs Division devotes full time to consumer enforcement responsibilities, except that the director is also the Comptroller's delegate to the National Commission on Electronic Fund Transfers. That responsibility is considered consumer-related.

Question: Through what devices does your agency exercise its responsibility to enforce the consumer protection law? Through regular examination? Special examinations? Education? Other methods?

Answer: At the present time, the principal means of enforcing consumer protection laws is through the regular bank examination. Although all examiners are advised of the principal components of those laws, we have concluded that the only effective means to enforce consumer laws is by specialized examinations conducted by specially trained examiners. We now are preparing texts, procedures and questionnaires to implement that new examination process. Various task forces have been created to assist in that task, and we are preparing a curriculum of training procedures to equip approximately 250 examiners in the next year to conduct those examinations. We will begin September 13, 1976, to train 135 examiners in three schools of 2 weeks each, and we plan to have examiners in the field by late September and early October. Twelve months later all national

banks will have been subjected to a consumer examination. The examination will cover Truth-in-Lending, Equal Credit Opportunity, Fair Credit Reporting, Fair Credit Billing, Fair Housing, Home Mortgage Disclosure, Real Estate Settlement Procedures, advertising, interest on deposits, usury, and applicable state laws. As the result of a test project, we have isolated certain areas in these laws which we think merit more emphasis than others and therefore we will focus our attention on those targets. The purpose the examination procedures will be to focus on those problems which result in a significantly adverse impact on consumers.

One other method we use for enforcing compliance with consumer protection laws is through the review of consumer complaints, as previously noted.

Question: How are your bank examiners trained, with respect to examining for violations of state and federal consumer protection laws? Would you supply the Committee copies of the training materials used, handbooks or other instructional materials for examiners on the job, and examination report forms used for assessing compliance in this area?

Answer: New examiners have been educated in consumer protection law when they are assigned to training crews for 6 months. During that period they are indoctrinated into the entire regular examination process, including consumer protection compliance. Until recently, newly commissioned national bank examiners have attended a 2-week training session which included a nominal amount of consumer law instruction. At the present time, that course is being addressed to seasoned assistant examiners. Although those sessions will continue to include instruction on consumer laws, the training emphasis will be on a separate school devoted exclusively to consumer protection enforcement, as noted in our earlier response.

We are including a copy of page 6-1 of our present examination report [may be found at the end of this appendix after the summary of complaints], which we use for examining for compliance with the Truth-in-Lending Act. Because the Office is adopting new examination procedures, that page will not be used in the future. Rather, as noted above, Truth-in-Lending will be included in the special consumer protection examination. The report itself will be in memorandum form culled from certain working materials. We expect to have those materials completed in the next few weeks.

Question: How are examiners supervised, with respect to examining for violations of state and federal consumer protection laws? To what extent do supervision and training include reviewing state laws applicable to the banks?

Answer: National bank examiners are directly supervised by their regional administrator and enforcement action concerning violations of state and federal consumer protection laws is taken by the regional office. When matters concerning violations cannot be satisfactorily resolved in the region, they are referred to the Washington Office for formal enforcement proceedings.

At the present time, supervision and training concerning state laws vary considerably from state to state. That

is due to a number of factors, *i.e.*, disparities in effect of the different state statutes, the variety of enforcement approaches and the degree of involvement of state banking officials. In some states most consumer protection is contained within the procedural rules of local courts, in which there is little room for federal participation. In a few states our examiners have been using consumer protection examination manuals prepared by the state for the use of its examiners. That has been the case where a fairly broad body of state consumer protection law exists. In some states, we have conferred with state regulatory authorities concerning the enforcement of state laws, and in others there has not been much interaction between the regional office and the state authorities. As part of our specialized consumer examination, we are contacting each state banking department and asking them to provide us with an analysis of state usury laws. At the outset, we believe that that is the most important area of state law affecting consumers. However, we intend to broaden our scope to include other pertinent state laws as our programs develop.

Question: How are bank examinations conducted, with respect to consumer protection laws? Are they comprehensive reviews of the bank's consumer transactions, or spot checks or random reviews? What systematic records of violations are maintained? How are the examiners' reports analyzed, and how are judgments made about appropriate corrective measures?

Answer: In examining with respect to consumer protection laws, our examiners review a bank's loan application and note forms to determine that they comply procedurally with the law. Selected loans are also reviewed. Other than the listing of any violations in the report of examination, no record of violations is maintained in the Washington Office. The regional offices maintain lists of violations in each bank's file. Examination reports are analyzed in the regional office by a review examiner and a letter is written to the bank's board of directors asking for appropriate corrective action in accordance with Office policy.

The special consumer examination process will include a review of a bank's stated and actual lending policies and its forms and a statistical sampling of loans. Internal controls used by the bank will be monitored, because a complete audit of consumer loans is not feasible. Violations of laws will be reported to the regional office and a consumer affairs specialist will review the reports and prepare appropriate follow up data with each bank. The Consumer Affairs Division will provide additional technical support to the regional offices. Policy guidelines will be established to determine appropriate corrective measures for various violations.

Question: Where violations are detected through bank examinations, what corrective measures are sought? *E.g.*, formal sanctions against the bank or its officers? Compensation for the aggrieved consumers? Changes in bank practices for the future? Publicity of the violations?

Answer: When violations of law are discovered during bank examinations, we seek to impose a remedy which

is appropriate to the violation. If, for instance, there is a technical violation in the bank's forms, we bring it to the attention of the board of directors and require that the forms be changed. We follow a similar procedure if there are violations in advertising or promotions. If the customer has suffered a monetary loss because of a bank's violation of law, we ask for an equitable remedy, such as restitution. That may occur through a lump sum payment or, if the monetary burden would be unduly damaging to the bank, we suggest that the bank might prorate the overcharge over the life of the loan, as in the case of a long-term mortgage loan. If the bank resists complying with our request for restitution, we are prepared to use our cease and desist powers, although we have not yet been forced to do so.

In the relatively few instances where there have been repeated and continuing violations of consumer protection laws, particularly of Truth-in-Lending, we have entered into formal agreements with the banks to gain compliance. When a bank has violated the terms of such an agreement, we have filed formal cease and desist orders.

To date, we have not followed a policy of making public announcements of violations found in individual banks. From time to time we have carefully considered doing so, and have concluded that it was the intention and expectation of Congress that the banking agencies would use the same private approach to consumer law enforcement as they do for other banking laws. That conclusion is reinforced by the cross-references to the Financial Institutions Supervisory Act (cease and desist power) found in the CCPA and other recently enacted consumer protection laws. The Financial Institutions Supervisory Act provides that the normal rule is that enforcement proceedings under it are to be private, although the agency may go public if it determines that it is "necessary to protect the public interest."

To date we have been able to achieve correction of abuses without public proceedings. In view of the peculiar sensitivity of depository institutions to loss of public confidence, we feel that it is important to continue that policy. However, we certainly do not foreclose the possibility of public enforcement proceedings in appropriate circumstances.

Question: To what extent, and how, are enforcement policies and criteria coordinated among the various federal supervisory agencies? What coordination is done with state agencies having parallel responsibilities?

Answer: The federal financial institution supervisory agencies share enforcement responsibility for many consumer protection laws, and there is obvious interest in interagency communication. The Federal Reserve System has been given the responsibility for promulgating several consumer protection regulations. Our Office has benefited from invitations to comment on proposed regulations and from formal and informal interpretations issued after the regulations have become effective. Members of the Office of Saver and Consumer Affairs of the Board of Governors of the Federal Reserve System, the Office of Bank Customer Affairs of the Federal Deposit Insurance Corporation, and the Comptroller's Con-

sumer Affairs Division meet frequently to discuss mutual problems and concerns. Information is exchanged concerning consumer complaints and examination procedures. Meetings also are held with the Federal Home Loan Bank Board, the Department of Housing and Urban Development, and the Civil Rights Division of the Department of Justice, particularly on the topic of fair housing. All of those agencies are contributing substantially to the development of our consumer protection examination. In addition, we consult with the Federal Trade Commission on matters concerning unfair and deceptive acts and practices by banks.

Most contact with state agencies originates from referrals of consumer complaints to and from our Office. We contemplate that there will be more coordination with state agencies as we incorporate state consumer protection laws into our new examination process. Meetings also have been held with state agencies on problems of mutual concern.

Question: What degree of importance or priority does the enforcement of consumer protection laws have in your agency's overall operation? What degree of importance does it have in individual bank examinations?

Answer: The enforcement of consumer protection laws is considered to be of fundamental importance by the Comptroller's Office. Extensive development, technical and training resources have been made available for handling consumer complaints and for establishing effective examination procedures. As noted above, a substantial amount of examiner resources also will be made available this coming September. Our objective is for every national bank to have undergone a special consumer examination by October 1977.

Question: What degree of importance or priority does the enforcement of state consumer protection laws have in your agency's overall consumer protection effort? Are state enforcement personnel involved in your efforts? Are they notified? Do they have access to information developed by your examiners?

Answer: Because this agency is responsible for examining national banks, we have accorded a higher priority to federal consumer protection laws than to state laws. Not all state consumer protection laws are applicable to national banks, particularly in light of recent federal legislation which has preempted state laws in many areas. At the present time our regional offices have been instructed to compile a more comprehensive record of usury laws from the respective state agencies. That information will be incorporated into the consumer examination. Thereafter, additional state laws which are applicable to national banks will be compiled in a similar manner. Normally, state agencies do not have access to information developed by our examiners because of our exclusive visitorial powers over national banks under federal law.

Question: Where a state has been exempted from federal law, e.g., Truth-in-Lending, on condition that there is adequate state enforcement of substantially similar state

laws, who exercises enforcement responsibility with respect to banks under your jurisdiction?

Answer: The Comptroller's Office exercises sole enforcement authority for all banking laws applicable to national banks because of the exclusivity of our visitorial rights. Some states have received an exemption from the Truth-in-Lending Act where the state law is substantially similar, but the Federal Reserve System, which has authority to grant such exemptions, has explicitly provided that such exemptions do not apply to national banks in those states.

Question: Is there any discernible incompatibility or conflict of interest in your agency's dual responsibilities to see to the bank's soundness and to consumer protection?

Answer: We do not perceive any incompatibility or conflict of interest in our agency's dual responsibilities to insure the sound operation of national banks and to protect the consumer in accordance with law. We believe that a bank's safety and soundness depends in part on its compliance with consumer protection laws. There is a possibility that a bank subject to a large restitution remedy or to a class action for damages might be impaired. However, in the first instance, we would attempt to arrange for restitution to be made over a period of time to ease the burden and yet make the customer whole; in the second instance, we do not believe that a court of law would impose an inequitable damage burden on a bank. Even if a separate agency were responsible for enforcing consumer protection laws, that agency would face the same dilemma as to whether the public interest would be served by jeopardizing a bank's ability to continue to function in the community as a financial intermediary.

Banks are competitive institutions, and it is in their self-interest to lend in a fair and non-discriminatory manner. Banks that treat customers fairly will acquire more customers than banks that do not.

Question: Regulations promulgated under the Consumer Credit Protection Act are lengthy, complex and technical. Why? Is this complexity necessary? Does this complexity serve the consumer's interests?

Answer: The main reason for the complexity of any regulation, and especially Regulation Z, is the multitude of fact patterns which must be covered by the regulatory language. There is always a trade-off in regulation writing between simplicity and coverage. If an agency writes a general brief rule such as "All elements of cost to the borrower must be included in the finance charge," then it merely has postponed answering hundreds of requests for individual rulings of what is meant by "cost to the borrower." The resulting collection of individual rulings makes for even greater complexity and confusion than a more precisely drafted regulation.

Another reason that the regulations promulgated under the Consumer Credit Protection Act are lengthy, complex and technical is because Congress has not given sufficient consideration to costs, social and economic, relative to the benefits to be derived from some provisions of such legislation. For example, disclosure of

the method of rebating unearned finance charges on prepayment of loans involving precomputed finance charges is of dubious value to the consumer in shopping for credit because of the difficulty of comparing dollar charges to percentages. The concept and computation is difficult and not readily understood, even by competent bankers. That is not the type of information a consumer is likely to consider in applying for a loan.

In general, the federal government is attempting to achieve truth, equality and fairness in the granting of credit. Those are ideals based on moral principles and any attempt to achieve such ideals through legislation requires that they be defined; that necessitates complex, lengthy and technical procedures.

Drafting a regulation to govern essentially subjective processes is an extremely difficult task. For example, discrimination in the granting of credit on the basis of marital status is prohibited. It would seem logical to forbid the creditor from inquiring about the applicant's marital status on the assumption that if the creditor does not have that information, he cannot discriminate on the basis of it. However, because of state property laws, if the loan is to be secured, it is necessary to know the applicant's marital status in order to establish a valid lien. Therefore, to draft a law or regulation to achieve that goal, it is necessary to reach a compromise between the bank's need to know certain information and the applicant's right to withhold such information. The conclusion which must be drawn is that some degree of complexity is inherent in attempting to prohibit unlawful discrimination and deceptive practices.

That is not to advocate the abolition of laws dealing with discrimination and broader disclosure. Despite the complexity of most such laws, generally they are accomplishing their intended purpose. Those parts of the law which are not really beneficial to consumers should be repealed selectively. Frustrations and costs will continue to pose problems in efforts to comply, but ultimately consumers and creditors both benefit from the changes brought about by these laws.

Question: What adverse effects do you perceive from the complexity of Regulations Z and B? What beneficial effects?

Answer: The consumer has derived benefit from the provisions of Truth-in-Lending that require disclosure of finance charges and the annual percentage rate because the cost of credit is disclosed accurately which enables him to shop for credit on a cost comparative basis. Similarly, the Equal Credit Opportunity Act has had a favorable impact on the granting of credit to women. On the basis of the consumer complaints we have received, it is apparent that many creditors are changing their attitudes and policies in regard to granting credit to women.

Unfortunately, Truth-in-Lending, Fair Credit Billing and Equal Credit Opportunity have caused creditors to incur substantial costs in reviewing and printing forms, educating personnel and revising loan policies to conform with the regulations implementing those statutes. Those costs have been passed along to consumers in the form of higher interest rates. Also, marginal loan ap-

plicants who previously might have qualified for credit no longer qualify because of attempts by lenders to hold collection costs down.

It also has been costly for this Office and other enforcement agencies to monitor compliance as more resources of our Washington Law Department, regional counsels, and bank examiners have been devoted to that task. A substantial amount of the Consumer Affairs Division's efforts is involved in enforcing consumer protection regulations. A significant amount of the time of the senior staff, as well, has been expended in that effort.

There are also indications that some consumers have abused the laws. Some loan applicants believe that the law confers on them the automatic right to have credit. In

certain areas of the country, attorneys for debtors who are filing for bankruptcy almost automatically file a legal suit for a Truth-in-Lending violation in the hope that a creditor will settle on the loan whether the case has merit or not.

Question: How can this regulatory complexity be avoided?

Answer: As noted above in our answers to the last two questions, it is unlikely that regulatory complexity can be avoided completely. The amount of complexity might be decreased by a judicious review of consumer protection laws to determine which provisions do not bestow a truly necessary or significant consumer benefit.

Supplementary Material

Consumer Complaint Resolutions

Jan. 1, 1975 through Dec. 31, 1975 Received At Washington Office		Jan. 1, 1976 through July 19, 1976 Received by Washington and Regional Offices	
Number	Disposition	Number	Disposition
494	Closed; no resolution code	9	Closed; no resolution code
73	Open complaints	801	Open complaints
10	No reply necessary — To Files	43	No reply necessary — To Files
68	Bank errors	100	Bank error
229	Bank legally correct	825	Bank legally correct
22	Consumer reimbursed — Bank legally correct	106	Consumer reimbursed — Bank legally correct
38	Consumer reimbursed — Bank error	158	Consumer reimbursed — Bank error
55	Factual dispute — contestable	323	Factual dispute — contestable
114	Referral to other agency	196	Referral to another agency
124	Information	598	Information
16	Consumer reimbursed — Communication problem	80	Consumer reimbursed — Communication problem
13	Settled by mutual agreement	39	Settled by mutual agreement
1,256	Total	3,278	Total

Consumer Complaints - Deposit Function - Washington and Regional Offices Jan. 1, 1976 to June 30, 1976

Nature of Complaint	Time	Demand	Vacation /				Total
			Xmas Club	Escrow	Savings	Other	
Advertising	5	6	—	—	4	1	16
Attachment and Claims Freezing	1	15	—	—	5	—	21
Deposit Not Credited	1	87	—	—	13	3	104
Deposit Not Credited on Day Made	—	10	—	—	4	1	15
Disclosure of Account Service Charges & Terms	5	5	—	1	5	1	17
Discrepancy in Account	4	131	—	5	58	7	205
Forged Signature or Endorsement	4	58	—	—	13	3	78
Offset or Set-Off	4	26	—	—	5	1	36
Payment of Interest	28	3	1	2	36	5	75
Processing Without Benefit of Endorsement	—	20	1	—	—	—	21
Refusal to Cash or Pay Customer's Check	2	35	—	1	2	—	40
Refusal to Cash Non-Customer's Check	—	9	—	—	—	5	14
Release of Funds	3	22	3	2	27	7	64
Renewal Automatic	—	—	—	—	1	—	1
Service Charges	2	64	—	—	17	2	85
Stop Payment Check Being Paid	3	45	—	1	—	2	51
Untimely Dishonor of Instrument	—	27	—	1	—	1	29
Possible Escheat or Inactive Account	—	4	—	—	33	4	41
Account Regulations - Procedures	18	76	—	4	21	4	123
Other	8	49	—	10	20	10	97
Total	88	692	5	27	264	57	1,133

Consumer Complaints - Loan Function - Washington and Regional Offices

Jan. 1, 1976 to June 30, 1976

<i>Nature of Complaint</i>	<i>Credit / Bank Card</i>	<i>Check Credit / Overdraft</i>	<i>Commercial / Agricultural</i>	<i>Instal- ment</i>	<i>Real Estate Mortgage</i>	<i>Single Payment Demand</i>	<i>Other</i>	<i>Total</i>
Acceleration Clauses	2	1	1	1	—	1	1	7
Amount of Interest Charges - Usury	68	4	7	28	13	2	10	132
Amount of Rebate Upon Prepayments 78's	—	—	2	29	—	—	3	34
Collateral	1	—	6	9	2	2	3	23
Collection Tactics	23	5	1	36	2	3	5	75
Collection Service and Attorneys ..	2	—	1	17	1	1	5	27
Credit and Disability Insurance - TIL	1	—	1	12	2	—	2	18
Discrimination by Age	1	—	—	—	1	—	—	2
Discrimination by Sex, Marital Status	45	4	—	7	2	—	3	61
Discrimination by Race, National Origin	3	—	3	3	1	—	1	11
Discrimination by Religion	—	—	—	—	—	—	1	1
Equal Lending Poster	—	—	—	—	—	—	—	—
Escalator Clauses	—	—	—	1	—	—	—	1
Fair Credit Reporting Act	26	3	4	15	2	—	9	59
Flood Disaster Act	—	—	—	—	—	—	—	—
Individual Credit Decision	58	7	5	26	6	—	11	113
Institutional Loan Policy	10	3	16	24	23	—	3	79
Late Payment Penalty Charges	6	1	—	28	5	—	2	42
Leasing	—	—	—	2	—	—	2	4
Real Estate Settlement Procedures (RESPA) Act	—	—	—	—	1	—	2	3
Redlining	—	—	1	—	2	—	2	5
Refusal to Renew	5	—	1	—	3	1	—	10
Repossession or Foreclosure	2	—	9	42	14	—	3	70
Restrictions on Security Interests ..	1	—	—	5	2	—	1	9
Regulation Z - Advertising	—	—	—	2	1	—	—	3
Regulation Z - Fair Credit Billing Act	113	3	—	8	1	—	1	126
Regulation Z - Disclosure	2	2	—	13	2	—	4	23
Regulation Z - Oral Disclosure	—	—	—	1	—	—	—	1
Regulation Z - Right of Rescission ..	—	—	—	—	—	—	—	—
Regulation Z - Unauthorized Mailing of Issuance	14	—	—	—	—	—	—	14
Regulation Z - General	1	—	—	3	1	—	—	5
Forgery	5	—	1	2	—	1	—	9
Credit Account	15	1	1	7	7	—	—	31
Other	58	7	8	56	46	1	33	209
Total	462	41	68	377	140	12	107	1,207

Consumer Complaints — Other Functions — Washington and Regional Offices
Jan. 1, 1976 to June 30, 1976

<u>Function</u>	<u>Number</u>	<u>Function</u>	<u>Number</u>
Electronic Funds Transfer System:	2	Safety Deposit Box/Safekeeping:	11
Automatic Bill Payment	1	Disappearance of Items	11
Automatic Payroll Deposit	1	Illegal Entry	4
CBCT Equipment	1	Service Charges	5
CBCT Location	—	Securities Redemption Transfer/Collection	
Confidentiality	—	Items	<u>34</u>
Customer Identity Technique or Methods	1	Total for function	65
Error Correction Procedures	4	General Complaints:	89
Liability	1	Advertising	12
Monthly Statement	1	Cashing U.S. Government Checks	9
Transaction Errors	1	Information Available to Stockholders	4
Transaction Receipt or Record of Reconciliation	—	Lost or Stop Payment of Official	
Wrongful or Fraudulent Use of Card	<u>2</u>	Checks/Money Orders	48
Total for function	15	Promotions	4
Trust Services:	31	Service Charges	9
Excessive Charges	6	Stock Manipulation by Bank Officials	4
Improper Disbursement	14	U.S. Savings Bond Redemption	9
Investments	13	Wire Transfer	9
Prudent Handling of Estates/Trusts	30	Incompetent or Rude Personnel	43
Too Long to Close and Disburse Estates	12	Bank Supervision	8
Refusal to Respond for Information	<u>24</u>	Secrecy	5
Total for function	130	Travel Business	—
Foreign Operations:	1	Employee Hiring, Benefit, Firing	7
Letters of Credit/Travelers' Checks	8	Data Processing Services	3
Foreign Currency Transactions	19	Conflict of Interest	—
Foreign Draft Presentment	9	Total for function	<u>263</u>
Total for function	37	Total complaints during period	2,850

Consumer Complaints - Deposit Function - Washington Office
Jan. 1, 1975 to Dec. 31, 1975

<u>Nature of Complaint</u>	<u>Time</u>	<u>Demand</u>	<u>Vacation /</u>			<u>Savings</u>	<u>Other</u>	<u>Total</u>
			<u>Xmas Club</u>	<u>Escrow</u>	<u>—</u>			
Advertising	4	1	—	—	6	6	17	
Attachment and Claims Freezing	2	4	—	—	1	3	10	
Deposit Not Credited	1	17	2	—	1	4	25	
Deposit Not Credited on Day Made	—	2	—	—	1	2	5	
Disclosure of Account Service Charges								
& Terms	1	2	—	—	1	—	4	
Discrepancy in Account	6	22	—	—	6	6	40	
Forged Signature or Endorsement	—	14	—	—	—	—	14	
Offset or Set-Off	2	7	—	—	1	—	10	
Payment of Interest	9	—	3	—	13	5	30	
Processing Without Benefit of Endorsement ..	—	2	—	—	2	3	7	
Refusal to Cash or Pay Customer's Check ..	—	6	—	—	—	2	8	
Refusal to Cash Non-Customer's Check	—	4	—	—	—	2	6	
Release of Funds	6	8	—	—	2	6	22	
Renewal Automatic	1	—	—	—	—	—	1	
Service Charges	6	18	—	—	2	2	28	
Stop Payment Check Being Paid	—	13	—	—	—	1	14	
Untimely Dishonor of Instrument	—	—	—	—	—	2	2	
Possible Escheat or Inactive Account	1	3	—	—	5	10	19	
Account Regulations - Procedures	1	11	1	—	6	1	20	
Other	<u>16</u>	<u>46</u>	<u>—</u>	<u>5</u>	<u>29</u>	<u>25</u>	<u>121</u>	
Total	56	180	6	5	76	80	403	

Consumer Complaints - Loan Function - Washington Office

Jan. 1, 1975 to Dec. 31, 1975

<i>Nature of Complaint</i>	<i>Credit / Bank Card</i>	<i>Check Credit / Overdraft</i>	<i>Commercial / Agricultural</i>	<i>Instal- ment</i>	<i>Real Estate Mortgage</i>	<i>Single Payment Demand</i>	<i>Other</i>	<i>Total</i>
Acceleration Clauses	—	—	—	1	—	—	—	1
Amount of Interest Charges - Usury	12	4	—	4	3	1	9	33
Amount of Rebate Upon Prepayments 78's	—	—	—	6	3	—	3	12
Collateral	—	2	1	4	—	2	3	12
Collection Tactics	—	2	—	3	—	—	2	7
Collection Service and Attorneys ..	1	1	—	—	—	—	2	4
Credit and Disability Insurancy - TIL	—	—	—	3	—	—	1	4
Discrimination by Age	—	1	—	—	—	—	—	1
Discrimination by Sex, Marital Status	7	5	—	—	1	1	2	16
Discrimination by Race, National Origin	—	—	2	—	1	1	2	6
Discrimination by Religion	—	1	—	—	—	1	4	6
Equal Lending Poster	—	—	—	—	—	—	13	13
Escalator Clauses	—	—	—	—	1	—	—	1
Fair Credit Reporting Act	2	3	—	4	—	—	6	15
Flood Disaster Act	—	—	—	—	1	—	2	3
Individual Credit Decision	7	1	2	4	1	1	4	20
Institutional Loan Policy	5	2	1	2	1	1	5	17
Late Payment Penalty Charges	2	—	—	1	1	—	2	6
Leasing	—	—	—	—	—	—	—	—
Real Estate Settlement Procedures (RESPA) Act	—	—	—	—	1	—	—	1
Redlining	—	—	—	—	4	—	1	5
Refusal to Renew	1	1	—	—	—	—	2	4
Repossession or Foreclosure	1	2	—	6	4	—	2	15
Restrictions on Security Interests ..	1	2	—	—	2	—	—	5
Regulation Z - Advertising	—	—	1	1	—	—	1	3
Regulation Z - Fair Credit Billing Act	31	6	—	—	—	—	2	39
Regulation Z - Disclosure	1	2	—	2	1	—	—	6
Regulation Z - Oral Disclosure	—	—	—	—	—	—	30	30
Regulation Z - Right of Rescission ..	—	—	—	1	—	—	—	1
Regulation Z - Unauthorized Mailing of Issuance	7	—	—	—	—	—	—	7
Regulation Z - General	1	—	—	1	2	—	21	25
Forgery	—	—	—	1	—	—	1	2
Credit Account	3	1	—	2	3	—	2	11
Other	37	2	3	21	17	3	20	103
Total	119	38	10	67	47	11	142	434

Consumer Complaints — Other Functions — Washington Office
Jan. 1, 1975 to Dec. 31, 1975

<u>Function</u>	<u>Number</u>	<u>Function</u>	<u>Number</u>
Electronic Funds Transfer System:	2	Safety Deposit Box/Safekeeping:	8
Automatic Bill Payment	—	Disappearance of Items	1
Automatic Payroll Deposit	3	Illegal Entry	1
CBCT Equipment	2	Service Charges	1
CBCT Location	1	Securities Redemption Transfer/Collection	
Confidentiality	—	Items	20
Customer Identity Technique or Methods	1	Total for function	31
Error Correction Procedures	2		
Liability	—	General Complaints:	144
Monthly Statement	2	Advertising	12
Transaction Errors	1	Cashing U.S. Government Checks	8
Transaction Receipt or Record of Reconciliation	—	Information Available to Stockholders	8
Wrongful or Fraudulent Use of card	1	Lost or Stop Payment of Official	
Total for function	15	Checks/Money Orders	11
		Promotions	8
Trust Services:	28	Service Charges	1
Excessive Charges	2	Stock Manipulation by Bank Officials	1
Improper Disbursement	7	U.S. Savings Bond Redemption	7
Investments	1	Wire Transfer	7
Prudent Handling of Estates/Trusts	22	Incompetent or Rude Personnel	8
Too Long to Close and Disburse Estates	4	Bank Supervision	22
Refusal to Respond for Information	3	Secrecy	8
Total for function	67	Travel Business	6
		Employee Hiring, Benefit, Firing	3
Foreign Operations:	1	Data Processing Services	3
Letters of Credit/Travelers' Checks	12	Conflict of Interest	2
Foreign Currency Transactions	4	Total for function	259
Foreign Draft Presentment	6		
Total for function	23	Total complaints received by	
		Washington Office, 1975	1,232

Consumer Complaints - Deposit Function - Washington Office
Jan. 1, 1974 to Dec. 31, 1974

<u>Nature of Complaint</u>	<u>Time</u>	<u>Demand</u>	<u>Vacation / Xmas Club</u>	<u>Escrow</u>	<u>Savings</u>	<u>Other</u>	<u>Total</u>
Advertising	2	1	—	—	2	1	6
Attachment and Claims Freezing	—	—	—	—	—	1	1
Deposit Not Credited	—	1	—	—	—	2	3
Deposit Not Credited on Day Made	—	—	—	—	—	1	1
Disclosure of Account Service Charges & Terms	1	—	—	—	—	—	1
Discrepancy in Account	—	1	—	—	3	5	9
Forged Signature or Endorsement	—	5	—	—	—	2	7
Offset or Set-Off	—	2	—	—	1	—	3
Payment of Interest	2	—	—	—	6	1	9
Processing Without Benefit of Endorsement	—	—	—	—	1	—	1
Refusal to Cash or Pay Customer's Check	—	2	—	—	—	3	5
Refusal to Cash Non-Customer's Check	—	1	—	—	—	1	2
Release of Funds	—	3	—	—	1	5	9
Renewal Automatic	—	—	—	—	—	—	—
Service Charges	—	3	—	—	—	1	4
Stop Payment Check Being Paid	—	2	—	—	—	1	3
Untimely Dishonor of Instrument	—	—	—	—	—	1	1
Possible Escheat or Inactive Account	—	—	—	—	1	1	2
Account Regulations - Procedures	—	—	—	—	—	—	—
Other	8	17	—	1	12	14	52
Total	13	38	—	1	27	40	119

Consumer Complaints - Loan Function - Washington Office

Jan. 1, 1974 to Dec. 31, 1974

<i>Nature of Complaint</i>	<i>Credit / Bank Card</i>	<i>Check Credit / Overdraft</i>	<i>Commercial / Agricultural</i>	<i>Instal- ment</i>	<i>Real Estate Mortgage</i>	<i>Single Payment Demand</i>	<i>*Other</i>	<i>Total</i>
Acceleration Clauses	—	—	—	—	—	—	—	—
Amount of Interest Charges - Usury	—	—	—	2	—	—	12	14
Amount of Rebate Upon Prepayments 78's	—	—	—	—	—	—	5	5
Collateral	—	—	—	2	—	—	2	4
Collection Tactics	—	—	—	1	—	—	1	2
Collection Service and Attorneys ..	—	—	—	—	—	—	1	1
Credit and Disability Insurancy- TIL	—	—	—	—	—	—	4	4
Discrimination by Age	—	—	—	—	—	—	3	3
Discrimination by Sex, Marital Status	—	—	—	4	—	—	—	4
Discrimination by Race, National Origin	—	—	—	—	—	—	4	4
Discrimination by Religion	—	—	—	—	—	—	1	1
Equal Lending Poster	—	—	—	—	1	—	3	4
Escalator Clauses	—	—	—	—	—	—	—	—
Fair Credit Reporting Act	—	—	—	—	—	—	3	3
Flood Disaster Act	—	—	—	—	—	—	1	1
Individual Credit Decision	1	1	—	1	3	—	4	10
Institutional Loan Policy	1	—	—	2	2	—	6	11
Late Payment Penalty Charges	2	—	—	—	1	—	—	3
Leasing	—	—	—	—	—	—	1	1
Real Estate Settlement Procedures (RESPA) Act	—	—	—	—	—	—	—	—
Redlining	—	—	—	—	—	—	4	4
Refusal to Renew	—	—	—	—	—	—	—	—
Repossession or Foreclosure	—	—	—	—	1	—	1	2
Restrictions on Security Interests ..	—	—	—	—	1	—	2	3
Regulation Z - Advertising	1	—	—	1	1	—	—	3
Regulation Z - Fair Credit Billing Act	5	—	—	—	—	—	2	7
Regulation Z - Disclosure	—	—	—	1	—	1	—	2
Regulation Z - Oral Disclosure	—	—	—	3	—	—	33	36
Regulation Z - Rights of Rescission	—	—	—	—	—	—	—	—
Regulation Z - Unauthorized Mailing of Issuance	4	1	—	—	—	—	—	5
Regulation Z - General	2	—	—	2	1	—	26	31
Forgery	2	—	—	—	—	—	1	3
Credit Account	1	1	—	—	—	—	—	2
Other	42	—	1	17	9	2	8	79
Total	61	3	1	36	20	3	128	252

Consumer Complaints — Other Functions — Washington Office
Jan. 1, 1974 to Dec. 31, 1974

<u>Function</u>	<u>Number</u>	<u>Function</u>	<u>Number</u>
Electronic Funds Transfer System:		General Complaints:	274
[None]		Advertising	21
Trust Services:	34	Cashing U.S. Government Checks	7
Excessive Charges	—	Information Available to Stockholders	4
Improper Disbursement	—	Lost or Stop Payment of Official Checks/Money Order	5
Investments	1	Promotions	3
Prudent Handling of Estates/Trusts	6	Service Charges	7
Too Long to Close and Disburse Estates	—	Stock Manipulation by Bank Officials	1
Refusal to Respond for Information	—	U.S. Savings Bond Redemption	4
Total for function	<u>41</u>	Wire Transfer	3
Foreign Operations:	2	Incompetent or Rude Personnel	—
Letters of Credit/Travelers' Checks	—	Bank Supervision	24
Foreign Currency Transactions	—	Secrecy	2
Foreign Draft Presentment	<u>2</u>	Travel Business	1
Total for function	4	Employee Hiring, Benefit, Firing	—
Safety Deposit Box/Safekeeping:	5	Data Processing Services	—
Disappearance of Items	1	Conflict of Interest	—
Illegal Entry	2	Total for function	<u>356</u>
Service Charges	1	Total complaints received by Washington Office, 1974	790
Securities Redemption Transfer/Collection Items	<u>9</u>		
Total for function	18		

Consumer Complaints - Deposit Function - Washington Office
Jan. 1, 1973 to Dec. 31, 1973

<u>Nature of Complaint</u>	<u>Time</u>	<u>Demand</u>	<u>Vacation / Xmas Club</u>	<u>Escrow</u>	<u>Savings</u>	<u>Other</u>	<u>Total</u>
Advertising	1	—	—	—	8	11	20
Attachment and Claims Freezing	—	1	—	—	—	—	1
Deposit Not Credited	—	2	—	—	—	1	3
Deposit Not Credited on Day Made	—	—	—	—	—	—	—
Disclosure of Account Service Charges & Terms	—	1	—	—	—	—	1
Discrepancy in Account	—	4	—	—	—	3	7
Forged Signature or Endorsement	—	1	—	—	—	2	3
Offset or Set-Off	—	—	—	—	—	—	—
Payment of Interest	5	—	—	—	5	5	15
Processing Without Benefit of Endorsement ..	—	—	—	—	1	—	1
Refusal to Cash or Pay Customer's Check ..	—	—	—	—	—	—	—
Refusal to Cash Non-Customer's Check	—	2	—	—	—	1	3
Release of Funds	—	3	—	—	1	2	6
Renewal Automatic	1	—	—	—	—	—	1
Service Charges	—	2	—	1	1	—	4
Stop Payment Check Being Paid	—	—	—	—	—	—	—
Untimely Dishonor of Instrument	—	—	—	—	—	—	—
Possible Escheat or Inactive Account	—	—	—	—	2	3	5
Account Regulations - Procedures	—	—	—	—	—	—	—
Other	<u>4</u>	<u>10</u>	<u>1</u>	<u>1</u>	<u>10</u>	<u>11</u>	<u>37</u>
Total	11	26	1	2	28	39	107

Consumer Complaints - Loan Function - Washington Office

Jan. 1, 1973 to Dec. 31, 1973

<i>Nature of Complaint</i>	<i>Credit/ Bank Card</i>	<i>Check Credit/ Overdraft</i>	<i>Commercial/ Agricultural</i>	<i>Instal- ment</i>	<i>Real Estate Mortgage</i>	<i>Single Payment Demand</i>	<i>Other</i>	<i>Total</i>
Acceleration Clauses	—	—	—	—	—	—	—	—
Amount of Interest Charges - Usury	1	—	—	—	—	—	6	7
Amount of Rebate Upon Prepayments 78's	—	—	—	1	2	—	—	3
Collateral	—	—	—	1	—	—	1	2
Collection Tactics	—	—	—	—	—	—	1	1
Collection Service and Attorneys ..	—	—	—	—	1	—	—	1
Credit and Disability Insurancy - TIL	—	—	—	—	—	—	1	1
Discrimination by Age	—	—	—	—	—	—	—	—
Discrimination by Sex, Marital Status	—	—	—	—	—	—	1	1
Discrimination by Race, National Origin	—	—	—	—	—	—	2	2
Discrimination by Religion	—	—	—	—	—	—	—	—
Equal Lending Poster	—	—	—	—	—	—	—	—
Escalator Clauses	—	—	—	—	—	—	—	—
Fair Credit Reporting Act	1	—	—	—	—	—	2	3
Flood Disaster Act	—	—	—	—	—	—	—	—
Individual Credit Decision	1	—	—	—	—	—	3	4
Institutional Loan Policy	—	—	—	—	—	—	3	3
Late Payment Penalty Charges	—	—	—	1	—	—	—	1
Leasing	—	—	—	—	—	—	2	2
Real Estate Settlement Procedures (RESPA) Act	—	—	—	—	—	—	—	—
Redlining	—	—	—	—	1	—	—	1
Refusal to Renew	1	—	—	—	—	—	—	1
Repossession or Foreclosure	—	—	—	1	1	—	—	2
Restrictions on Security Interests ..	—	—	—	1	—	—	—	1
Regulation Z - Advertising	—	—	—	—	—	—	5	5
Regulation Z - Fair Credit Billing Act	3	—	—	—	—	—	—	3
Regulation Z - Disclosure	—	—	—	—	—	—	—	—
Regulation Z - Oral Disclosure	—	—	—	—	—	—	3	3
Regulation Z - Right of Rescission .	—	—	—	—	—	—	—	—
Regulation Z - Unauthorized Mailing of Issuance	7	1	—	—	—	—	1	9
Regulation Z - General	2	—	—	—	—	—	24	26
Forgery	—	—	—	—	—	—	1	1
Credit Account	—	—	—	1	1	—	—	2
Other	36	4	—	3	5	1	4	53
Total	52	5	—	9	11	1	60	138

Consumer Complaints — Other Functions — Washington Office
Jan. 1, 1973 to Dec. 31, 1973

Function	Number	Function	Number
Electronic Funds Transfer System:	1	General Complaints:	250
Trust Services:	13	Advertising	30
Excessive Charges	—	Cashing U.S. Government Checks	1
Improper Disbursement	1	Information Available to Stockholders	2
Investments	—	Lost or Stop Payment of Official	
Prudent Handling of Estates/Trusts	2	Checks/Money Orders	8
Too long to Close and Disburse Estates	—	Promotions	2
Refusal to Respond for Information	—	Service Charges	—
Total for function	16	Stock Manipulation by Bank Officials	1
Foreign Operations:	—	U.S. Savings Bond Redemption	4
Letters of Credit/Travelers' Checks	4	Wire Transfer	1
Foreign Currency Transactions	2	Incompetent or Rude Personnel	3
Foreign Draft Presentment	2	Bank Supervision	5
Total for function	8	Secrecy	3
Safety Deposit Box/Safekeeping:	3	Travel Business	—
Disappearance of Items	—	Employee Hiring, Benefit, Firing	—
Illegal Entry	—	Data Processing Services	—
Service Charges	2	Conflict of Interest	—
Securities Redemption Transfer/Collection		Total for function	310
Items	2	Total complaints received by	
Total for function	7	Washington Office, 1973	587

Sample Examination Report Page

Form CC-1425-OX Page 6-1
June 1971
UNITED STATES TREASURY
COMPTROLLER OF THE CURRENCY

Charter No. _____

REGULATION Z - TRUTH IN LENDING

1. Were test checks made of the bank's forms and procedures for disclosure? If any irregularities were disclosed, discuss in detail and indicate management's plan for correction.
2. Has bank established effective procedures to detect defects in disclosures on dealer paper which it proposes to acquire? If not, or if there are defects, discuss in detail and indicate management's plan to correct existing procedures or establish new ones.
3. Were test checks made to determine accuracy of interest computations and rebates? If any irregularities were disclosed, discuss in detail and indicate corrective measures proposed to prevent future occurrences.
4. Were test checks made of the bank's advertising? If any irregularities were disclosed, discuss in detail and indicate proposed plans to prevent future occurrences.
5. If it appears that rescission rights are not being properly observed on both direct and indirect paper, discuss in detail.

[This represents the page, it is not a reproduction of it]

Statement of Thomas W. Taylor, Associate Deputy Comptroller of the Currency for Consumer Affairs, before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Government Operations Committee, Washington, D.C., September 16, 1976

I appreciate this opportunity to participate on behalf of the Office of the Comptroller of the Currency in the Committee oversight hearings on Federal enforcement of the Truth-in-Lending Act. Our Office has a strong commitment to consumer protection as it relates to national banks. As our efforts in that field seem to be misunderstood by some commentators, I welcome the opportunity to set the record straight. Thus, I would like to give the Committee a brief background of our performance in enforcing consumer protection laws before answering directly the specific questions posed in your letter of invitation.

The former Comptroller, James E. Smith, established a special division in our Office devoted to consumer affairs before the Magnuson-Moss Warranty — Federal Trade Commission Improvement Act of 1974 mandated that each bank regulatory agency have such a division. Our Consumer Affairs Division, which was designed to coordinate the various activities the Office was undertaking toward assisting the consumer and enforcing consumer protection laws, was operating fully by September 1974.

Our experience since that time has shown that our examination efforts in enforcing consumer protection laws need to be given a new direction and strengthened. Our regional office in Boston began special consumer examinations as a test project in November 1974. The results of that project convinced us that there was substantially greater non-compliance with consumer credit protection laws than we had previously thought and, accordingly, we implemented a crash program with the target of examining, for consumer protection purposes, each national bank in the 12-month period between 1976 and 1977.

As part of that program, a select group of 250 examiners are taking 2 weeks of intensive training and newly designed procedures for examination of national bank compliance with consumer protection laws. The special consumer examination covers Truth-in-Lending, Equal Credit Opportunity, Fair Credit Reporting, Fair Credit Billing, Fair Housing, Home Mortgage Disclosure, Real Estate Settlement Procedures, advertising, usury and applicable state laws. We have isolated a number of the provisions of the laws affecting those areas which we think merit more emphasis than others. Therefore, the new examination procedures will focus on those problems which result in a significantly adverse impact on consumers.

Examiners will be prepared to review note forms used by the banks and to take a statistical sample of their loans to review for conformity with various statutory and regulatory requirements. A bank's lending policies also will be examined as will its policies for implementing consumer protection laws. Extensive interviews of lending officers will be conducted to assist in determining a bank's adherence to its policy standards.

Where violations are detected during the examination, we will use the full authority of our Office to see that they

are corrected. Where bank customers have been aggrieved, we will use our authority to the fullest to correct the situation. We recently sent a banking circular, a copy of which is attached, to all national banks informing them of our expanded consumer examinations, follow-up procedures and formal enforcement actions.

Our Office is devoting extensive resources to the consumer protection area in the processing of consumer complaints and conducting of examinations. We have found that both consumers and banks have benefited from the changes brought about by the new consumer protection laws. Despite the complexity of many of the regulations, increased disclosure and more rigorous, non-discriminatory credit guidelines have served to educate the public and to improve relations between banks and their customers.

I would now like to turn to your specific inquiries. You requested information on the special consumer protection examinations we conducted in New England. Since November 1974, we have examined 27 national banks in that region specifically to determine the level of their compliance with state and federal consumer protection laws. Among the laws given particular attention were Truth-in-Lending, Fair Credit Billing, Fair Credit Reporting, Equal Credit Opportunity, usury and various applicable state laws.

Those special consumer examinations are designed to investigate compliance with specific consumer protection laws. Each section of the examination report contains textual material which includes a summary description of the respective topics, a statement of the examination objectives, an explanation of the examination procedures, the verification procedures to be used, and an internal control questionnaire. Through the use of target areas and statistical sampling techniques, examiners will be able to confirm the degree of compliance with consumer protection laws. Our objective is for all 4,700 national banks to have received a special consumer examination by November 1977.

You have requested the number and nature of Truth-in-Lending violations found in the banks which were examined in our New England pilot project. We have attached a chart as an appendix to this statement which explains the types of violations of sections of Regulation Z in each examined bank. We have previously submitted to the Committee copies of the examination reports.

Those violations have been corrected in two ways. Where the violation is purely technical and has not resulted in monetary harm to the customer, the bank has been directed to correct immediately its procedures and forms. If the customer has suffered a significant loss, such as with a miscalculated annual percentage rate, the bank has been directed to reimburse the customer for the excess amount charged.

You have also asked our position on the merits of non-compliance disclosure. Disclosure of possible violations discovered during examinations would be both im-

practical and unfair. Examiners are trained to be severe with national banks and, not being lawyers, they occasionally err in interpretation of law. It would thus be misleading to the public and harassing to the banks to impose a disclosure requirement on what is an investigatory finding of a violation of law. Such investigatory findings are not publicized by other federal agencies prior to institution of court action.

In the matter of disclosure, we are also concerned that our traditional and effective methods of examination not be weakened. Our Office is now able to examine national banks with the cooperation of bankers who know that information in the examination reports will remain confidential. We do not believe that Congress intends that our ability to examine national banks for the purpose of financial soundness and compliance with law be compromised by publicizing information obtained through such cooperation. The fomenting of widespread private litigation by such public disclosure would shut our examiners off from open communication with bankers by making bank examination an adversary proceeding, a development which would render the examination process much more burdensome to the private sector, much less effective to the regulatory agencies and injurious to the public welfare.

To date, this Office has been able to achieve correction of abuses in virtually all instances without public proceedings. In view of the peculiar sensitivity of depository institutions to loss of public confidence, we feel that it is important to continue that policy. However, as we have previously stated, we do not foreclose the possibility of public enforcement proceedings in appropriate circumstances.

Finally, your letter requested our position on preemption of federal consumer protection laws by state laws and access by state examiners to files of national banks.

Congress has given the Federal Reserve Board broad authority to prescribe regulations in order to carry out the purposes of the Truth-in-Lending Act. Pursuant to that authority, the Board has said that all transactions in which a federally chartered institution is a creditor constitute a separate class of transactions not subject to exemption from the federal Truth-in-Lending Act unless the Board is satisfied that appropriate arrangements have been made with relevant federal authorities to assure effective enforcement of the requirements of state laws. We think the Board has exercised discretion and prudence in declining to include national banks in the exemptions from federal consumer protection laws before our Office, which has the primary supervisory and regulatory responsibility for national banks, is assured that enforcement capabilities of the states are suitable.

As for compliance with state laws, our examiners do insist on such compliance when state laws are applicable to national banks. In light of the improved methodology and examiner training in our Office in the consumer protection area, we do not think there is a need for state officials to examine national banks for violations of state laws or to take enforcement action against national banks. In fact, such actions would be a virtually unprecedented breach of the principles underlying the dual banking system and would subject national banks to more kinds of governmental intrusion.

Thank you for permitting me to explain our activities and views in this important area. I shall be happy to answer any questions you might have.

Appendix to September 16 Statement by Thomas W. Taylor

July 9, 1976

Banking Circular No. 73

To: Presidents of All National Banks

Subject: Compliance with Consumer Laws — Expanded Examination Procedures

Within the past few weeks the Comptroller's Office has begun to implement new examination procedures designed to better determine compliance by national banks with a number of statutes enacted to protect consumer interests. Key elements of the new examination effort include:

- Completely revised and greatly expanded examination questionnaires which will enable the examiner to probe the policies, procedures and practices of national banks for the purpose of assuring full compliance with the requirements of consumer protection statutes and regulations.
- Expanded training programs which will require a mastery by assistant examiners of the new consumer-oriented examination procedures as a prerequisite to obtaining a commission.
- Coordinated follow-up procedures which will require our regional offices to secure early bank correction of deficient practices.
- Involvement by the Comptroller's Enforcement and Compliance Division in assisting the regional offices in obtaining correction of deficiencies by recalcitrant institutions — through formal procedures under the Financial Institutions Supervisory Act when necessary.

The new examination procedures initially will concentrate upon those problem areas in which noncompliance may have a significantly adverse impact upon consumers. When it is discovered that customers have been harmed by noncompliance, we are confident that national banks will act in a manner consistent with the public's faith and trust in them. It is expected that such actions will include taking whatever steps are deemed appropriate to remedy conditions resulting from violations of law, including restitution.

The experience of our examination force suggests that many deficient practices could be avoided simply by banks scrutinizing their own compliance more carefully. Indeed, inadvertent violations are frequently caused by a failure of bank officers and counsel to match an understanding of the law with an awareness of the details of the bank's procedures and practices. Because even highly technical violations of a number of these statutes can re-

sult in substantial punitive damages and protracted litigation, bank counsel, in particular, must be alert to deviations from statutory and regulatory requirements. A list of the statutes which should be reviewed by bank counsel is attached to this circular.

In sum, the Comptroller's Office intends to assure whatever degree of examiner scrutiny may be necessary to obtain conscientious bank compliance with the requirements of these statutes. I encourage each of you to anticipate this heightened examiner inquiry by conducting your own thorough in-house reviews of practices and procedures in this complex, rapidly changing area.

Very truly yours,

James E. Smith
Comptroller of the Currency

Attachment

Attachment to Banking Circular No. 73 List of Statutes

<u>Title</u>	<u>Citation</u>
Consumer Credit Protection Act:	
Truth-in-Lending Act	15 USC 1601 Regulation Z (12 CFR 226)
Fair Credit Billing Act	15 USC 1666 Regulation Z (12 CFR 226)
Consumer Leasing Act of 1976*	15 USC 1667 Regulation Z (12 CFR 226)
Fair Credit Reporting Act	15 USC 1681
Equal Credit Opportunity Act	15 USC 1691 Regulation B (12 CFR 202)
Equal Credit Opportunity Act Amendments of 1976* ..	15 USC 1691 Regulation B (12 CFR 202)
Home Mortgage Disclosure Act	12 USC 2801 Regulation C (12 CFR 203)
Real Estate Settlement Procedures Act	12 USC 2601 Regulation X (24 CFR 3500)
Fair Housing Act	42 USC 3605
Advertising - Deposits	12 USC 371 b Regulation Q (12 CFR 217.6)
Interest - Usury	12 USC 85 and 86
Applicable State Laws	

*Effective March 23, 1977

Remarks of H. Joe Selby, First Deputy Comptroller of the Currency for Operations, before the American Institute of Certified Public Accountants, Washington, D.C., December 14, 1976

My purpose today will be to briefly familiarize you with the new approach that the Office of the Comptroller of the Currency has taken in its supervision and examination of national banks. We are in the final segment of a process of radical change in which you, as chief financial officers of banks and as auditors of banks, will be principally interested. My comments will be restricted to an overview of our new National Bank Surveillance System and highlights of our revised procedures for examining bank activities.

As a prelude to those important areas of change, I believe a brief sketch of the background fostering them would be appropriate.

During the past 3 years, the Comptroller's Office has committed a substantial portion of its resources to a major reorganization. Our goal was to make the Office more responsive to challenges facing the banking industry in the 1970's, as well as to those challenges which will certainly face us in the 1980's. As part of that effort, the first comprehensive study of the Office in its 113-year history was conducted. One of the major recommendations ensuing called for revision of supervisory procedures.

Without going into all areas of the revised practices and procedures, I thought your needs would best be served by concentrating on NBSS and the new commercial examination procedures. But first, I would like to outline our objectives as national bank regulators.

The Comptroller of the Currency has responsibility for promoting and assuring the soundness of our Nation's system of national banks. Examinations are the fact-finding arm which we use in discharging that responsibility. Central objectives of an examination are: (1) to provide an evaluation of a bank's soundness; (2) to permit our Office to appraise the quality of management and directors; and, (3) to identify those areas where corrective action is required to strengthen a bank, to improve the quality of its performance, or to enable it to comply with applicable laws, rules and regulations. To accomplish those objectives, evaluations are made of policies and practices, adherence to laws and regulations, adequacy of liquidity and capital, quality of assets and earnings, nature of operations, and the adequacy of internal control and audit. Although everything that either weakens or has the potential to weaken the condition of a national bank must receive the attention of the Office and its staff, our primary concern is the soundness of the National Banking System. Under ideal circumstances, an examiner's role is to make a qualitative analysis of the condition of a bank. Accordingly, the scope of an examination may embrace every phase of banking activity or it may concentrate on specific areas which deserve greater emphasis because of their potential impact on a bank's soundness.

To be able to ascertain the scope of the examination and to assure the direction of the emphasis of the examination to areas requiring attention, this Office developed the National Bank Surveillance System. NBSS is primar-

ily an information gathering process in conjunction with an early warning system that provides information on either the entire National Banking System, or on specific national banks. The system is comprised of:

- A data collection system.
- A computer-based monitoring system.
- An evaluation by specially trained personnel of the impact of financial and operating changes on a bank or the National Banking System.
- An initiation of special surveillance activities.
- A review of procedures to control remedial action.

The basis for the entire National Bank Surveillance System is a data collection process which has been developed from the condition and earnings reports. A basic requirement of the Office was that already existing systems be utilized so that changes and new developments would be readily understandable and easy to implement in a relatively short time. The utilization of the condition and earnings reports met that criterion.

The computer-based monitoring system is a relatively simple data system which utilizes the data collected to compile basic comparative ratios for each national bank. The ratios being generated by the computer system are nothing more than those ratios which each of you as accountants, bankers or auditors have been monitoring for years. We are looking at return on assets, changes in net interest earnings to average assets, changes in non-interest expense to average assets, average loans to capital funds and several others. Those ratios and the comparative data derived by this Office from the condition and earnings reports are produced in the form of a quarterly, 14-page performance report on each national bank. Those reports will be furnished to the national banks following year-end 1976 for the first time. The data derived from the performance report is thoroughly evaluated on a priority basis by specially trained NBSS analysts. The analysis performed by the specialist focuses on operating and financial changes in a specific bank which may result in the need for specialized surveillance techniques to prevent further deterioration.

After having evaluated the bank to determine the severity of the changes reflected in the performance report, a decision can be made concerning the need for specialized surveillance activities. Those activities could be of the magnitude to warrant on-site inspection or simply review at the next regular examination. In either case, the bank may warrant notation on our Action Control Program. In its simplest terms, that system tracks the supervisory action being taken by the Office to assure that our responsibility for promoting the soundness of the National Banking System is being met.

The National Bank Surveillance System as a data system gives direction to the emphasis and scope of our examination procedures. A major portion of our time dur-

ing the last 2 years has been directed to the development of new examination procedures. The new format has been developed principally by career personnel who have long recognized the need for more sophisticated, formal and uniform procedures. We have now developed, tested and are in the process of implementing the new bank examination procedures. We currently anticipate full implementation by the end of the first quarter of 1977.

Those new procedures include four basic conceptual changes. First, we will examine banks from the top down, beginning with an evaluation of policies, practices, procedures and systems to gain an overall view of the bank before determining the scope of an examination. In the past we tended to look at banks as of the examination date, rather than analyzing what might occur in the future. Our field tests indicate that although banks have made attempts to formulate corporate objectives and strategy, they may lack policies and procedures to achieve their goals. In retrospect, we find that such banks are having trouble not because policies are violated, but because there are *no* policies.

We have no intention of formulating policy for the 4,700 banks which we supervise. We will, however, point out such deficiencies to the directors and management and provide general guidelines to assist them in developing policies adequate for their situations.

As a second basic change, our personnel will not repeat functions adequately performed by others. Historically, national bank examiners have been looked upon as both auditors and examiners and, in many banks, we have performed that dual role. New procedures define the supervisory role of an examiner, and audit procedures, which ideally should be completed by others, are clearly defined. A careful evaluation will be made of work performed by internal or external auditors and credit examiners. If those groups are adequately staffed by competent and independent professionals, and if the scope of their work is found to be adequate, we will accept their findings, thus avoiding needless duplication and freeing our personnel to devote their efforts to other areas.

In a third basic conceptual change, the examination process will be tailored to fit each bank, rather than attempting to make all banks fit one procedure. The program has sufficient flexibility to deal with the varying structures, sizes and conditions found throughout the vast National Banking System. The importance of sound management policies and procedures will be constantly stressed, but we have no intention of attempting to make all banks fit one mold. Instead, we intend to mold our examination procedures to the bank being examined.

The fourth basic change has already been alluded to. Each examiner's overriding concern will be the future of an institution, rather than its present or its past. Sudden deteriorations in loan portfolios or liquidity have formerly triggered the application of remedial action, but within the past 5 to 10 years, the speed at which a bank's condition can deteriorate has increased significantly. Among other factors, greater reliance on volatile deposits, increases in leverage, and rapid growth have contributed to that fundamental change. Those circumstances require that our Office be alert as early as possible to

deteriorating conditions in individual banks or in the National Banking System. Based on that conclusion, the Comptroller's Office has developed examination and supervision capabilities which we believe will enable us to meet the challenges of a period of continuing change. That system integrates financial reporting, continuing surveillance and field examinations.

A new *Comptroller's Handbook of Examination Procedure* is a derivative of the recent study. The handbook is being printed at this time. The book will be in a loose leaf form so that changes can continue to be made as our Washington staff receives recommendations from field examiners. The new handbook is not a comprehensive training guide. It is instead designed to provide guidelines and tools, with the overall objective of ensuring consistent application of examination procedures and quality results. Examiners will also rely upon prior experience and knowledge gained through the Office's continuing education programs. The handbook contains 45 sections covering individual examination procedures, including 10 sections on lending. Perhaps a quick overview of the handbook will illustrate the general concepts which we have already discussed.

Each section consists of six parts. The first is an introduction which provides a summary description of the topic, giving insight to the section's contents. The second part contains a description of items of primary importance, including target objectives which form the basis for techniques used in determining the scope of examination for a specific area of interest.

Other target objectives are determination of compliance with laws, rules and regulations, and initiation of corrective action when needed. It should be recognized that this second section deals only with the broadest of examination objectives. Other appropriate objectives have been considered in development of the procedures set forth in the remaining areas of each section.

The third part outlines examination procedures which are considered supervisory in nature and logically should be performed by national bank examiners. They will allow examiners to accomplish target objectives.

The fourth part of each section provides a description of internal controls in appropriate areas of examination interest that ideally should be in effect to provide proper day-to-day protection. We characterize internal controls, in the broadest sense, as either accounting or administrative. The AICPA's Statement on Auditing Standards No. 1 defines accounting controls as those which comprise the plan of organization and all methods and procedures which are concerned mainly with and relate directly to the safeguarding of assets and the reliability of financial records.

Administrative controls comprise the plan of organization and all methods and procedures which are concerned mainly with operational efficiency and adherence to managerial policies. Those usually relate only indirectly to financial records. Usually, an examiner will be primarily interested in accounting controls and those administrative controls which involve adherence to managerial policies.

The fifth part of most sections contains verification procedures which ideally are accomplished by a bank's internal or external auditors and examiners, or a combi-

nation thereof. Although it is our goal to assume a supervisory role and leave the performance of verification procedures to others, it should be noted that there is a difference between that ideal role and an examiner's responsibility. When we conclude that a bank's internal control procedures or its program of internal/external audits are inadequate, we must not only broaden the scope of examination so as to gain assurance as to the existence of assets and the reliability of financial records, but we must also make every effort to provide for correction of such deficiencies. Only then can we resume our normal supervisory posture.

The final part of each section sets forth specific laws, rules and regulations pertaining to the area of examination interest. This part functions as a cross-reference between the handbook and *The Comptroller's Manual for National Banks* which contains significant national banking statutes.

The handbook of examination procedure is also intended to serve as a guide to examiners in their efforts to seek the establishment of written objectives and related procedures in all areas where there are none, and the correction of situations where deficiencies or lack of compliance exist.

To aid examiners, the handbook covers topics such as loan portfolio management, investment portfolio management, asset and liability management, earnings analysis, capital analysis and service area analysis. A section on appraisal of bank management guides examiners in the assembly and evaluation of information from all other sections and aids in uncovering inconsistencies in the application of policies among various management groups. Examiners should be able to increase their level of professionalism and soundness of the banking system by encouraging all banks to follow what we perceive to be the best practices currently existent in the industry.

The new procedures should lead to the conduct of consistent and objective examinations of varying scopes. The extent to which specific procedures are employed in an individual examination will be dictated by a bank's condition as disclosed by NBSS and by pre-examination analysis. In pre-examination analysis, we are now able to determine the scope of our examination before we start the full examination. The scope is primarily predicated on the evaluation of:

- Internal control.
- Internal and external audit activity.
- Policies, practices and procedures.

As I previously indicated, internal controls include both accounting and administrative controls. The examiner will be interested in accounting disciplines and those administrative controls relating to adherence to managerial policies.

We will review the work performed by the internal and/or external auditors to ensure that those procedures which we have identified are, in fact, being performed.

The third area of evaluation is the review of the bank's policies, practices and procedures. As I said, we will examine the bank from the top down. We will determine

the existence of policies and procedures in all bank areas.

Until now, we had the tendency to look at a bank only as of the examination date. We set forth the weaknesses and recommended corrective action. However, we did not make an effort to assure similar problems would not reoccur in the future. It is now our position not only to identify the problems, but also their causes. By giving more attention to a bank's policies and practices, the examiner increases his ability to detect situations which may cause problems in the future. By giving more attention to a bank's audit activities, we can assure the directors that they are fulfilling their responsibilities as dictated by law and tradition. By giving more attention to internal controls, we can ensure ourselves that where controls are adequate, little change should occur in the condition of a bank, barring external factors, between examinations.

Once our examiners undertake the actual examination, they will utilize the most comprehensive procedures available to any bank regulator. In some cases, we have shifted emphasis from cursory review to in-depth evaluation. We have restructured the management functions in the examination as well as some of the control points.

Bank management, directors and the Comptroller's Office all have individual and unique responsibilities to the National Banking System. Our new procedures are consistent with an overall program which encourages each party to meet these responsibilities.

Our Office in the past adhered to a strict interpretation of the statutory requirements for examinations of national banks. The statute requires that each national bank be examined four times in a 2-year period, with the comptroller given the right to waive one of the four. The statute does not define what parameters encompass an examination. In each case, the three exams were complete, comprehensive on-site examinations. We have now taken a different view of our statutory requirements and have developed three types of examinations which we believe will assist us in directing our resources to better utilization. It was apparent to us that examinations would be thorough, and they would require more time than before. We, therefore, took the statutory requirement and enlarged upon it by specifically defining three types of examination. A comprehensive examination will be conducted once during each 2-year cycle, and will consist of all examination programs and procedures. A specialized examination will be performed at least twice during the same 2-year cycle, limited in scope to specific procedures deemed appropriate for a bank's particular situation. Such an examination might include a review of specific problems found during the previous examination or suspected problems identified by our National Bank Surveillance System. During the specialized examination, certain basic procedures will be followed in all banks, such as the review of board minutes as well as a review of management reports and policies.

It is estimated that such specialized examinations will take one-fourth the time of former procedures, offsetting the additional time required for the comprehensive examination.

We will also employ a third format known as special

supervisory examinations. As the name implies, those examinations will be used in banks which require more than the usual amount of supervision. They will be over and above the statutory requirements and a bank will be charged for the service in accordance with statutory provisions.

While the initial time required for completion of examinations may increase substantially, we expect it to diminish as our examiners become more familiar with the program.

An obvious outgrowth of the revision of examination procedures of this Office is a completely new and, hopefully, more responsive report of examination. The old report, as you are aware, contained numerous pages of data which had been gathered by the examiner during his on-site examination. Much of that information was readily available to both bank management and the board of directors in their own management reports. The one important facet of the old report was the critical comments contained on page 2. Other important data which would have been of assistance to the bank management and the board of directors was contained in the confidential section of the old report and not furnished to the board.

The new revised examination report is directed more to the areas of concern which should be of principal interest to the board of directors and senior management. This new report is divided into four principal sections. The first section is a letter to the board of directors which sets forth the scope of examination and a summary of all critical comments warranting management's attention. This section capsulizes major points outlined throughout the comment section of the exam report. The commentary will include not only problems, but also probable causes and recommended actions to assist the directorate with remedial action in fulfilling their responsibility.

The second section will include broader comments in narrative form covering major areas of the bank. Emphasis in that section will be placed on the adequacy of

policies, procedures and compliance with the same. Comments on management's capabilities will be interspersed under the various captions such as loan portfolio management. Each management appraisal will be predicated on objective criteria and not on subjective judgment by the examiner.

The third section is the appendix, which will contain such items as classified loan write-ups, credit and collateral exceptions, internal control deficiencies and other supporting schedules deemed necessary to underscore the comment section. In utilizing the appendix, we are able to develop a free-flowing narrative section in the report without involving the reader in numerous pages containing specific detail. We believe the report will be considerably easier to read and hopefully a better tool for both management and the board of directors.

The final section of the report of examination will continue to be confidential and not a portion of the bank's report. We have moved the bulk of the information contained in the confidential section out into the previously described three open sections of the report of examination. The confidential section will only contain information important to the regional and Washington offices, such as suspected violations of law.

In conclusion, we are convinced that the new direction which we have given our national bank examiners will greatly improve the effectiveness and efficiency of the Office of the Comptroller of the Currency. Our early warning system, the NBSS, is the first of its kind in bank regulation and, together with the new examination procedures, will allow for an optimum use of our human resources and permit us to discharge our responsibilities through the examination process. However, of greater importance, is the fact that our more sophisticated examination process will also enhance the ability of bank directors and senior management to fulfill their responsibilities to shareholders and depositors.

This, I think, justifies our efforts in making the Office of the Comptroller of the Currency a premier bank regulator.

APPENDIX D

Selected Rulings of the Comptroller of the Currency

Selected Rulings, Proposed Rulings and Policy Statements of the Comptroller of the Currency

<i>Date and Subject</i>	<i>Page</i>
January 19, 1976, Revised Assessment Schedule	265
July 15, 1976, Proposed Rulemaking on Disposition of Credit Life Insurance Income	268
October 15, 1976, Suspension of Customer-Bank Communication Terminal Ruling	273
October 20, 1976, Proposed Standards for Issuance of Letters of Credit by National Banks	273
October 26, 1976, Policy Statements on Corporate Acitvities	274
October 28, 1976, Amendments to 12 CFR Subsequent to Suspension of Customer-Bank Communication Terminal Ruling	283
December 10, 1976, Amendements to 12 CFR Concerning the Form and Content of Annual Report to Shareholders	286

Revised Assessment Schedule

Title 12 — Banks and Banking

Chapter 1 — Comptroller of the Currency, Department of the Treasury

Part 8 — Assessment of Fees; National Banks; District of Columbia Banks

Revised Assessment Schedule

On December 24, 1975, the Comptroller of the Currency published a proposed revision of 12 CFR 8.2 in the *Federal Register*, 40 FR 59446 (1975), concerning the assessment schedule to be applicable to all national banks. The authority for the Comptroller to assess such fees may be found in R.S. 5240, as amended, 12 USC 482, and in section 3, 47 Stat. 1566, 26 D.C. Code 102.

As cited in the proposal, the principal reason for the proposed increase is that expenses of the Office are rising faster than revenues. This disparity will cause an increasingly larger operating deficit unless timely corrected. The proposed assessment schedule also would serve to correct the disproportionate manner in which large and small banks pay for the maintenance and operation of the Office of the Comptroller of the Currency.

Concurrent with the publication of notice of the proposed change of 12 CFR 8.2 in the *Federal Register*, the Comptroller sent a letter containing the proposal to the chief executive officer of each national bank. The purpose of this letter, dated December 22, 1975, was to ensure that each national bank received timely notice of the proposed change and to explain the reasons for the change in detail.

Comments on the proposal were solicited both by the notice published in the *Federal Register* and by the Comptroller's letter to each national bank. It was requested that such comments be submitted by January 10, 1976. In response to this invitation, 61 banks submitted their views on the proposal.

Based on the explanation which follows, the revision in the assessment schedule as proposed is adopted without substantive change, to be effective thirty days from the date of this publication.

For the past several years, the expenses of the Office of the Comptroller of the Currency have been rising faster than its revenues. Under the present assessment schedule, this Office will incur a \$9 million deficit in 1975 and will incur a \$22 million deficit during 1976.

The largest proportion of the increase in the expenses of this Office has been caused by general federal government pay increases mandated by Congress. The salary expense for the Comptroller's Office increased 109 percent between 1969 and 1975. During this same period, the total number of employees increased 24 percent. Salary and personnel benefits account for approximately 72 percent of the total expenses of the Office.

A second major factor contributing to the size of the deficit was the loss of rent-free space in government office buildings. This change resulted from a 1974 interpretation of a statute administered by the General Services Administration, which for the first time required the Office to pay rent to the United States for space occupied in government buildings. Several of the Comptroller's offices have been relocated in the last two years to private office buildings because adequate space was available more cheaply.

A third major factor is the general pressure of inflation, which has affected the cost of the operation of this Office as well as the operating cost of the banks we regulate and other businesses throughout the nation. The Office travel expenses, for example, increased by 260 percent between 1969 and 1975. Until 1973, the growth of national bank assets was sufficient to offset, under the existing assessment schedule, the increasing expenses. Since then, however, the growth of bank assets has slowed, while the Office expenses have continued to increase.

Concern was expressed by many bankers on the significant increase in the cost of operating the Comptroller's Office, the size of the projected deficit, and the expansion of the federal regulation of banking which in part serves to increase the operating costs of banks. One banker suggested that "the Comptroller's Office should cut their expenses and the scope of their operations," while another observed that "there is a point where the cost of regulation becomes unduly burdensome," but did not take the position that this point had been reached by the proposed assessment figures. Concerning the subject of increased regulation, it was suggested by several bankers that "the constant flow of printed material materializing out of your office should be diminished, or stopped completely," and the scope of operations pursued by this Office reduced, in order to minimize expenses.

The Office of the Comptroller of the Currency has been created by federal legislation for the purpose of regulating the National Banking System. Under the

National Bank Act, 12 USC 1 *et seq.*, this Office has a responsibility to take every necessary and appropriate step to ensure that all national banks are thoroughly examined and are in compliance with the varied laws enacted by Congress and the states. It would be patently inconsistent with this objective and the duty of the this Office as a federal agency to reduce the scope of our operation and cease to implement our statutory responsibilities solely because of increased cost. The Comptroller, however, should take all appropriate steps to diminish, reduce and eliminate unnecessary expenditures. One major step in this direction is the implementation of the reforms suggested by the Haskins & Sells management study of the operation of this Office. If successful, these changes should make the examinations more efficient, and perhaps reduce the operating costs of this Office which could be reflected in future changes in the assessment schedule.

Under the present assessment schedule, the figure on which the assessment on national banks is calculated is the total asset figure reported on the report of condition (consolidating domestic subsidiaries), with a minimum assessment of \$200. Assets on the books of foreign branches and foreign subsidiaries of national banks are not now included in this figure. In addition, an assessment of \$50 has been collected for each branch office.

In order to obtain a more equitable distribution of assessments, the Comptroller of the Currency proposed an assessment schedule, hereinafter adopted, which applies a declining percentage rate to the total assets reported on the consolidated report of condition (including domestic and foreign subsidiaries). By the terms of the revised assessment schedule, both the basic flat fee and the separate branch fee are eliminated. However, the basic flat fee is to some extent replaced by the relatively high percentage rate applied to the first \$1 million of total assets of each national bank.

The change in the assessment base to include foreign assets was made for two reasons. First, from the supervisory standpoint, the Comptroller views national banks as integrated entities, including domestic and foreign operations. This supervisory concern extends to the quality of all assets, wherever booked; to the income generated, whatever its source; and to the maturity structure of assets and liabilities, wherever domiciled. Second, as the foreign assets controlled by national banks have grown, this Office has necessarily devoted more of its resources to the examination of foreign related operations at the head office of each bank, at foreign branches and at offices of foreign subsidiaries. This is reflected in the establishment, by the Comptroller of the Currency, of an office in London, England, at which six national bank examiners are permanently stationed. In addition to the personnel at the London office, 154 examiners were sent abroad to examine the foreign activities of national banks during 1975. Thus, the inclusion of foreign assets in the assessment base is appropriate.

The elimination of the separate branch fee reflects the increasing centralization of bank records and recent modifications in examination techniques neces-

sary to meet this change. The elimination of the separate branch fee is also more consistent with the provisions of 12 USC 482, which governs the assessment of national banks.

The proposed method of revising the structure by which national banks are assessed will correct a historical inequity which has benefited small banks for many years. Based on the existing assessment schedule, small banks pay for only a small portion of the cost of their regulation, while large banks pay several times the cost of their regulation. This imbalance is evident by using even the most rudimentary cost accounting techniques. For example, an average bank with assets of \$3.1 million would have paid an annual assessment of \$716, or \$477 for each of three examinations over a 2-year period. The cost to this Office of providing each examination for that bank, including the overhead expenses of maintaining this Office is \$2,490. The *per diem* expense alone of one examiner and two assistants to examine that bank is approximately \$450. Under the proposed assessment schedule, this hypothetical bank will pay \$1,745 for each examination, which is still significantly less than the actual cost of regulation to this Office.

The most frequently expressed opposition to the revised assessment schedule was that the increase applicable to small banks is too large and will place a burden on the ability of such banks to continue to operate successfully. This criticism is often coupled with the view that the proposed assessment schedule discriminates against small banks. These bankers stated that large banks should bear the major burden of the cost of regulation because it is the large banks which pose the most complex problems of regulation requiring the attention of the most skilled and highly paid personnel of the Comptroller's Office. As stated by one banker:

It appears that an attempt to provide some relief to the large banks will create an undue burden on the small banks. In our opinion, the amount of time, expense, and concern created by numerous large banks moving into [diversified areas] should be paid for by the banks which create the excess time, expense, and concern to the Comptroller's Office. A small, conservative bank trying to follow prudent banking practices should not be required to absorb these excessive costs.

In this connection, some bankers suggest a gradual increase or a surtax based on the present assessment structure in order to provide for a period of adjustment and assimilation by small banks, while providing some increased revenues for the Comptroller's Office.

The proposed increase, while perhaps large in percentage terms for some small banks, represents a small portion of the total operating budget of each national bank. The increased assessment will not, in the opinion of the Comptroller of the Currency, disrupt or endanger the continued profitable operation of any national bank. Furthermore, it is noted that some of the largest banks in the United States will experience substantial increases in their assessments as a result of the revised assessment schedule because of their ex-

tensive foreign operations. Adoption of the suggestions to postpone the adjustment by implementing a more gradual increase or by the imposition of a surtax based on the present assessment structure will only perpetuate the current imbalance in assessments. Such a proposal would also result in the inevitable widening of the deficit of this Office which would necessitate higher assessment rates at some future point in time.

Several bankers have questioned the advisability of an assessment schedule based solely on the asset size of each bank. These writers note that it takes much longer to examine a bank with "serious problems and involvements which inevitably require elaborate follow-up" by the Comptroller's staff than it does to examine a bank of similar size which has been conservatively managed and maintains a trouble-free asset portfolio. This system, they argue, provides a subsidy for the "marginal operator" at the expense of the well-run bank. These bankers suggest that the Comptroller should adopt a system of assessment more closely related to the actual cost of examination of each particular bank. Such a system would be analogous to the method now employed for the examination of the fiduciary activities of national banks. (See 12 CFR 8.6). Another suggestion was to provide a credit against the assessment for banks of excellent asset quality. An additional alternative suggested by many of these same bankers is to provide for a reduction in the assessment of banks which employ independent auditors.

Reductions in the assessment schedule for independent auditors, high asset quality, or other criteria are inconsistent with the provisions of 12 USC 482 which governs the assessment of national banks by the Comptroller of the Currency. Section 482 states, in pertinent part:

The expense of the examinations . . . shall be assessed by the Comptroller of the Currency upon national banks in proportion to their assets or resources. The assessments may be made more frequently than annually at the discretion of the Comptroller of the Currency. The annual rate of such assessment shall be the same for all national banks, except that banks examined more frequently than twice in one calendar year shall, in addition, be assessed the expense of these additional examinations.

The origin of this section was section 54 of the National Bank Act of 1864, 13 Stat. 116, which established a system of assessment based on the length of time necessary to examine a particular bank. This was subsequently amended by Congress in 1875, 18 Stat. 329, by establishing a schedule of assessment based upon the capital of the bank examined. The present system of assessment, based on asset size, was specifically adopted by Congress in Section 21 of the Federal Reserve Act of 1913, 38 Stat. 271. Thus, with respect to the regular assessment of the commercial activities of national banks, Congress has rejected a system of assessment related to the actual cost of

examination of each national bank and in its place has chosen a system based on the asset size of the bank. Any inequity which results because of differences in the time necessary to complete a regular examination of different or equal size banks has been created by Congress, rather than by a decision of this Office. Banks requiring examinations more frequently than twice in one year are additionally charged, consistent with the schedule which appears in 12 CFR 8.5. Therefore, the bank with "serious problems and involvements which inevitably require elaborate follow-up" by the Comptroller's staff is not dependent on a subsidy by the well-run banks to the extent suggested by some bankers.

Some bankers commented that, in their opinion, an inadequate amount of time was provided in which to submit comments relative to the proposal to revise the assessment schedule. A related issue mentioned by some writers was that the proposal was made at year-end, which coincides with the busiest time of the year for most retail banks. In publishing this proposal for notice and comment, the Comptroller has followed the provisions of the Administrative Procedures Act providing for the promulgation of administrative regulations. Furthermore, the action by the Comptroller of sending personal letters to the chief executive officers of all national banks was designed to ensure that all banks were actually informed of the proposal, an act beyond the minimal requirements of the Administrative Procedures Act. The Comptroller regrets any unnecessary inconvenience which may have been experienced because of the time of year at which this proposal was published. However, the fact that this Office received 61 letters from bankers concerning this proposal is evidence that sufficient time was provided for comment by interested persons.

Several inquiries were received about whether the proposed new semiannual assessment fee affected the filing fees for charters or branches, the trust examination fee, or the other fees found in 12 CFR 8.3-8.8. The amendment being adopted affects only the semiannual assessment found in 12 CFR 8.2. All other fees found in 12 CFR 8 remain unchanged.

The effective date of this amendment to 12 CFR 8.2, containing the revised assessment schedule, will be February 20, 1976. Concurrent with publication in the *Federal Register* of this amendment, a bill for the semiannual assessment for the period January 1, 1976, through June 30, 1976, is being mailed to each national and district bank. The assessment for this period is to be computed upon each bank's total assets as shown on the consolidated report of condition (including domestic and foreign subsidiaries) for December 31, 1975. Payment of this semiannual assessment is due on or before the effective date of 12 CFR 8.2, *i.e.*, February 20, 1976. Thereafter, the expense of examinations of all national banks will be assessed semiannually as of the dates of the second and fourth reports of condition. Each bank subject to the jurisdiction of the Comptroller of the Currency on such dates is subject to the full assessment without proration for any reason.

12 CFR 8.2 is revised to read as follows:

8.2 Semiannual assessment.

Each national bank and each district bank shall pay to the Comptroller of the Currency on or before January 31 and July 31 of each year a semiannual assessment fee for the 6 month period beginning 30 days before each payment date: The amount of the semiannual assessment paid by each bank is computed as follows:

If the bank's total assets (consolidated domestic and foreign subsidiaries) are — (millions of dollars)		The assessment is—		
Over—	But not over—	This amount— (dollars)	Plus—	Of excess over— (millions of dollars)
0	\$1	0	0.001000	0
\$1	10	\$1,000	.000125	\$1
10	50	2,125	.000095	10
50	100	5,925	.000060	50
100	500	8,925	.000050	100
500	1,000	28,925	.000045	500
1,000	3,000	51,425	.000040	1,000
3,000	10,000	131,425	.000034	3,000
10,000	20,000	369,425	.000032	10,000
20,000		680,425	.000021	20,000

Each semiannual assessment is based upon the total assets shown in the bank's consolidated report of condition (including domestic and foreign subsidiaries) most recently preceding the payment date. The assessment shall be computed in the manner and on the form provided by the Comptroller of the Currency. For the period January 1, 1976, through June 30, 1976, only, the assessment shall be paid to the Comptroller of the Currency on or before February 20, 1976. Each bank subject to the jurisdiction of the Comptroller of the Currency on the date of the second or fourth condition reports is subject to the full assessment for the next 6 month period without proration for any reason.

Effective date: This section becomes effective February 20, 1976.

Dated: January 19, 1976.

Proposed Rulemaking on Disposition of Credit Life Insurance Income

Department of Treasury
Comptroller of the Currency
[12 CFR Part 2]

Disposition of Credit Life Insurance Income

Notice of Proposed Rulemaking

Notice is hereby given that the Comptroller of the Currency, pursuant to the authority contained in 12 USC 1 *et seq.*, 12 USC 24(7), 60, 73, 92 and 1818(b), is considering the adoption of a new regulation, 12 CFR 2, governing the disposition of income earned from the sale of credit life, health and accident insurance (hereinafter credit life insurance) by national banks or their officers, directors or principal shareholders.

Purpose of the regulation

The primary purposes of the regulation are to restate the policy of the Comptroller's Office with respect to the treatment of credit life insurance income and to summarize certain principles applicable to such income.

In the past, the Comptroller's views on this subject have been communicated in oral discussions between national bank examiners and officers and boards of directors of national banks; in letters signed by officials of the Comptroller's 14 regional offices; in circulars distributed by the regional offices to all national banks in a particular region; in letters to individual national banks and other federal regulatory agencies signed by

officials of the Washington Office, including the Comptroller of the Currency; in administrative actions pursuant to the Financial Institutions Supervisory Act of 1966, 12 USC 1818(b) *et seq.*; and in litigation. The proposed regulation is intended to consolidate and clarify these prior statements of law and policy, with the objective of providing both examiners and bankers with a convenient and definitive reference to the Comptroller's views.

The regulation is addressed to a practice, engaged in by some banks, by which income from the sale of credit life insurance is diverted to individual officers, directors and principal shareholders, or to corporations or partnerships owned by them, instead of being credited to the bank's income accounts. Despite previous admonitions by the Comptroller's Office, the practice still prevails in some national banks. The Comptroller believes that a formal regulation may now be desirable to halt this diversion of income, which may constitute an unsafe and unsound banking practice, an unlawful distribution of the bank's income other than by the payment of dividends under the provisions of 12 USC 60, a breach of the fiduciary obligation of officers and directors under both the common law and 12 USC 73, a misapplication of bank funds punishable under 18 USC 656 and other criminal statutes and, in

some circumstances, a possible violation of the anti-trust laws.

Description of the practice

The practice of diverting credit life insurance income takes several forms. In its simplest form, the bank loan officer is paid a portion of the commission as a substitute for salary. Since the loan officer in some instances receives the commission directly from the insurance underwriter, the bank's income account is never credited. Alternatively, commissions earned by all loan officers are pooled in a demand deposit account and divided among those officers and senior management at year-end. The Comptroller's Office has been informed that this practice is designed to encourage loan officers to seek out and make installment loans. It would appear, however, that the practice serves at least as much to encourage loan officers, through subtle forms of coercion or otherwise, to have the borrower purchase credit life insurance as part of the loan package. That raises the question of whether such incentive arrangements result, or could result, in the tying of loans to the purchase of insurance, a possible violation of the anti-trust laws, including the anti-tying provisions of the Bank Holding Company Act & Amendments of 1970 (12 USC 1971 *et seq.*).

Moreover, the practice of allowing bank officers to receive income directly from credit life insurance sales involves an inherent conflict of interest: the lending officer's judgment is influenced by his direct financial reward from making the loan. Consequently, the officer may be induced to make a loan he would not otherwise have considered sound. While the maintenance of a detailed and rigidly adhered to loan policy might tend to reduce the number of cases where marginal or unsound loans are made primarily to reap the credit life commission, banks where this incentive arrangement is common do not always have written loan policies that must be followed by all officers. Thus, there is a significant possibility that salaries structured on this basis can produce loans of a lower quality than a well-managed bank normally would make.

The more complex diversions of insurance income are an outgrowth of the incentive practice just discussed, the principal difference being that the sums diverted are much larger than the amounts involved in payments to loan officers. In these situations, the bank's executive officers, who frequently are the principal shareholders as well, pay themselves sums in the form of credit life commissions equal to or exceeding their established salaries. In a number of cases, the bank's directors were completely unaware of the practice. In other cases, the directors as a group form their own corporation or partnership to which the insurance income is diverted. Not uncommonly, the recipients use that income to service personal debts incurred in the purchase of the bank's stock, with the result that individuals and small groups of investors have been able to finance the acquisition of a bank or a chain of banks partially on the expectation of receiving the income from credit life insurance sales. Regardless of the arrangement, in most cases where large sums are

diverted to officers, directors or principal shareholders the bank receives little or no income from this corporate opportunity associated with its business.

The amount of income diverted to persons or entities other than the bank can be substantial, both in absolute dollar amount and in relation to other bank income. At one national bank with total assets at year-end 1975 of \$17 million and pre-tax income of \$280,000, credit life insurance income of \$83,000, or 30 percent of income, was diverted to individual officers. Of that amount, \$78,000 was paid to the bank's president, supplementing his salary and bonus of \$24,660. A vice president in the same bank received \$400 in addition to his salary and bonus of \$20,550. Two assistant vice presidents received approximately \$2,600 each in addition to their individual salary and bonus of \$15,070. At another bank with total assets of \$20 million and 1975 pre-tax income of \$181,000, the credit life income totalled \$91,000, of which the bank retained \$14,000. The remaining \$77,000 was credited to an on-premises insurance agency owned by five of the bank's nine directors. Even in larger banks, where installment loans comprise a smaller percentage of the bank's loan portfolio, credit life insurance income can contribute significantly to earnings. At one \$900 million bank, credit life income included in total pre-tax earnings of \$8.2 million amounted to \$630,000, or 7.7 percent.

The diversion problem also exists in holding company arrangements. In a sizeable number of cases where the holding company owns less than all of the bank's stock, the credit life income is taken out of the bank and paid directly to the holding company instead of being credited on the bank's books and upstreamed in the form of a duly declared dividend. The payment of these sums directly to the holding company constitutes a disguised dividend not recognized by 12 USC 60, and is clearly detrimental to the condition of the bank and the interests of minority shareholders. The Comptroller recently addressed these problems when he advised the Federal Reserve Board not to permit a national bank in Illinois to form a holding company by acquiring only 60 percent of the bank's stock and using the credit life income to finance the holding company debt.

Legal issues

The Comptroller of the Currency has held the view for many years that national banks may sell credit life, health and accident insurance, either by having the bank or one of its employees act as agent or by securing a group policy yielding experience refunds on the basis of the underwriter's loss experience. For example, in the 1960 edition of the Comptroller's *Digest of Opinions*, the Comptroller stated, in Paragraph 9420, that national banks "wherever located" may provide individual or group credit life coverage and charge their loan customers accordingly. Additionally, the Comptroller's Office has stated that since credit life insurance is now widely used by lenders as a form of security in lieu of requiring guarantors or co-makers on the note, acting as agent for its sale is within that cer-

tain power granted national banks in 12 USC 24(7) "To exercise . . . all such incidental powers as shall be necessary to carry on the business of banking . . . by loaning money on personal security." (Emphasis added.) The Comptroller's conclusion in this regard was also influenced by the widespread availability of credit life, health and accident insurance at commercial banks throughout the United States,¹ and by the fact that credit life insurance is not generally obtainable elsewhere.

Several methods of selling credit life insurance are used in the commercial banking industry. Under one procedure, the bank or its employee obtains an insurance agent's license, which permits the sale of individual policies of credit life insurance. Under the proposed regulation, all commissions derived from this arrangement must be turned over to the bank and credited to the bank's income account for the benefit of all stockholders. If the commissions are initially received by the employee holding the agent's license, they must be transferred to the bank directly or pursuant to a contract between the employee and the bank by which the employee agrees to reimburse the bank to the extent of his commissions for the use of bank premises, employees and good will.

Another arrangement calls for the bank to secure a group policy. Under this method, loan customers are sold certificates of participation in a group credit life insurance policy, and the underwriter periodically remits to the policyholder (the bank) a dividend (sometimes called an experience refund or retrospective rate credit) based on the underwriter's loss experience. This procedure has been approved by the Comptroller of the Currency for many years for all national banks, and is widely used in the banking industry for the sale of credit life, health and accident insurance.

Under still other arrangements, a national bank can sell credit life insurance at no profit pursuant to an arrangement with the underwriter calling for the bank to be reimbursed for its administrative expenses in collecting and disbursing the premiums, furnishing the underwriter a monthly statement, etc. Alternatively, a national bank may provide group credit life insurance coverage at its own expense. Finally, a national bank may refund to its borrowers any commissions or experience refunds it receives.

The choice of the arrangement by which credit life insurance is sold is the responsibility of the bank's board of directors. In the Comptroller's opinion, all arrangements described in section 2.6 of the regulation are permissible for all national banks. The proposed regulation expresses the Comptroller's further opinion that under no circumstances may the board select a

method of selling credit life insurance that confers a personal benefit upon an officer, director or principal stockholder.

Unsafe and unsound practices

For several reasons, the Comptroller believes that any arrangement allowing parties or entities other than the bank to receive and retain income earned from the sale of insurance in connection with bank loans, is an unsafe and unsound banking practice.

First, analysis of the purposes of 12 USC 73 and 12 USC 93 as well as common law fiduciary principles suggests that directors may be held personally liable for allowing insurance income to be retained by parties other than the bank. Historically, the courts have never tolerated practices that allow management or controlling stockholders to profit personally from corporate activities in a manner detrimental to the interests of other shareholders. The courts will have even less sympathy when such practices are carried on in a bank, whose management and directors owe not only the usual fiduciary duties to the bank and all its shareholders, but also a duty to depositors to conduct the bank's operations in a safe and sound manner.

There are substantial risks of suits against directors of national banks for diverting insurance income to their own interests. At last count, approximately 36 suits against directors of savings and loan associations were pending in Cook County (Chicago) alone. In the two litigated cases on record,² directors were held fully or partially liable. In the only case involving a national bank, the court found the directors personally liable for all credit life insurance income diverted in the preceding 3 years.³ Regardless of the outcome in a particular case, stockholder suits on this issue generate unfavorable publicity that tends to erode public confidence in financial institutions.

Second, the payment of income earned on bank premises to some shareholders constitutes an unauthorized preferential dividend. Such payments may be made only after the income has been credited on the bank's books and included in the fund from which dividends to all stockholders are paid under the provisions of 12 USC 60. Distribution of that income by any other means reduces the sum available for dividends to all shareholders and accords an unwarranted preference to a few.

Third, failure to credit insurance income on the bank's books deprives the bank of earnings and, therefore, makes the bank less profitable.

Fourth, the acquisition of a bank or a chain of banks by investors who rely on the credit life insurance income to service their bank stock loans is inherently unsafe and unsound because it decreases the investor's concern for and interest in running a profitable bank. If investors are allowed to depend on an uninterrupted flow of credit life insurance income transmitted in the form of something other than a dividend, their incentive to assure a profitable, dividend-paying operation is reduced. On the other hand, where investors must rely solely on dividends rather than on extraneous sources of income to service their bank

¹ Preliminary results of a recently completed survey by national bank examiners of 2,900 of the nation's 4,700 national banks indicate that less than 20 do not provide this service.

² *Kerrigan v. Unity Savings Ass'n*, 58 Ill. 2d 20, 317 N.E. 2d 39 (1974); *Goodman v. Perpetual Bldg. Ass'n*, 320 F. Supp. 20 (D.D.C. 1970); see also *City Federal Savings & Loan Ass'n v. Crowley*, 393 F. Supp. 644 at 658 (E.D. Wis. 1975); *Rettig v. Arlington Heights Federal Savings & Loan Ass'n*, 405 F. Supp. 819 (N.D. Ill. 1975).

³ *Kotobzadeh v. First National Bank of Attalla*, C.A. No. 29289-M, Etowah County Circuit Court, Ala.

stock loans, their interest in the bank's overall profitability is likely to increase.

Finally, arrangements that permit an officer, director or controlling stockholder to engage in business for his own profit while using the premises, personnel, good will and customers of a national bank, are inimical to the trust and confidence placed by depositors in financial institutions. Because banks survive primarily on public trust, conduct that may be permissible by similarly situated persons in a non-banking corporation cannot be condoned in a bank.

Conclusion

As indicated earlier, the proposed regulation is intended to reaffirm and clarify the Comptroller's long-standing policy against the diversion of credit life insurance income to parties other than the bank or its operating subsidiary. Adoption of this regulation will consolidate previous communications on this subject, thereby providing bankers and examiners with a convenient means of reference to applicable principles.

The proposed regulation in large measure merely restates the Comptroller's existing policy; nevertheless, it is recognized that portions of the regulation could, depending on the circumstances, affect the operations of a national bank in a substantive way. For this reason, the Comptroller deems it in the public interest to solicit public comment. Accordingly, comments should be submitted within 45 days of publication in the *Federal Register* and be addressed to C. Westbrook Murphy, Deputy Comptroller for Law and Chief Counsel, Comptroller of the Currency, Washington, D.C. 20219. All comments received will be made available for inspection by any interested party.

The text of the proposed regulation follows.

Part 2 — Disposition of Credit Life Insurance Income

2.1 Authority

This part is issued by the Comptroller of the Currency under the general authority of the national banking laws, 12 USC 1 *et seq.*, and under the specific authority of 12 USC 24(7), 60, 73, 92 and 1818(b).

2.2 Scope and application

This part applies to sales of credit life, health and accident insurance by employees, officers, directors or principal shareholders of a national or district bank.

2.3 Definitions

(a) "Bank" means a national banking association or a bank located in the District of Columbia and subject to the supervision of the Comptroller of the Currency.

(b) "Beneficial ownership" shall include:

- (i) Ownership through a spouse, child or spouse of a child;
- (ii) Ownership through a broker, nominee or agent;

(iii) Ownership through a corporation, partnership, association, joint venture or proprietorship controlled by a director, officer, employee or principal shareholder of the bank.

(c) "Principal shareholder" means any shareholder who directly or indirectly possesses beneficial ownership of more than 5 percent of the bank's outstanding shares.

(d) The terms "officer," "director," "employee" and "principal shareholder" shall include the spouse, child or spouse of a child of such officer, director, employee or principal shareholder.

2.4 Distribution of Income from Insurance Activities

(a) Except as provided in subsection (d), no bank or employee, officer, director or principal shareholder thereof, may act as an insurance agent for the purpose of selling or otherwise making available credit life, health and accident insurance to bank customers unless all income from this activity is credited to the bank or its wholly-owned subsidiary.

(b) Except as provided in subsection (d), income from the sale of credit life, health and accident insurance by employees, officers, directors or principal shareholders to bank customers may not be distributed or credited to any corporation, partnership, association or individual other than the bank, a wholly-owned subsidiary of the bank, or the borrower.

(c) Except as provided in subsection (d), a bank which distributes to or allows retention by a corporation, partnership, association or individual other than the bank, its wholly-owned subsidiary, or the borrower, of income from the sale of credit life insurance by its employees, officers, directors or principal shareholders, is engaged in an unsafe and unsound banking practice.

(d) A bank may transfer income earned from the sale of credit life, health and accident insurance to an affiliate whose beneficial ownership is identical to that of the bank. For example:

(i) A bank wholly-owned (except directors' qualifying shares) by a holding company may transfer income from the sale of credit life, health and accident insurance to an affiliate which is also wholly-owned by the holding company.

(ii) Where there is no holding company but the bank's stockholders are identical to those of the transferee, income from the sale of credit life, health and accident insurance may be credited to the transferee.

(iii) Income from the sale of credit life, health and accident insurance may be transferred to a trust for the benefit of all shareholders.

(e) Nothing in this section shall be construed to prohibit a bank employee, officer, director or principal shareholder who holds an insurance agent's license from agreeing to compensate the bank for the use of its premises, employees and good will,

provided that all income received by said employee, officer, director or principal shareholder from this activity is turned over to the bank as compensation.

2.5 Responsibility of Directors

(a) The selection of an insurance underwriter, the agreements between the underwriter and the bank or its employees, officers, directors or principal shareholders, and the manner in which income from the sale of insurance is distributed shall be approved by an appropriate resolution of the bank's board of directors. Such resolution shall set forth the name of the underwriter(s), a description of the agreement with the underwriter as to the collection of premiums and the disbursement thereof, and a discussion of the manner in which income from the sale of insurance is to be allocated.

(b) When carrying out its responsibilities under subsection (a) of this section, the board of directors shall observe the rules in section 2.4 of this part, and shall be mindful of their duty under both the common law and 12 USC 73 to promote and advance the interests of the bank over their own personal interests.

2.6 Methods of selling insurance

(a) Pursuant to 12 USC 24(7), a bank may sell credit life, health and accident insurance to its loan customers by any of the methods listed below. This list is not intended to be exclusive.

(i) A bank may act as agent for the sale of credit life, health and accident insurance and receive income in the form of commissions.

(ii) An employee, officer, director or principal shareholder of the bank may be licensed as an insurance agent, provided the rules set forth in section 2.4 are observed.

(iii) A bank may acquire a group credit life, health and accident insurance policy and provide coverage thereunder to loan customers. A bank which makes coverage available by means of a group policy may receive experience refunds or retrospective rate credits as provided in the policy.

(a) A bank may not arrange to obtain a group credit life, health and accident insurance policy from an employee, officer, director or principal shareholder, or from any insurance agency, corporation or partnership of which said employee, officer, director or principal shareholder has beneficial ownership, as defined in section 2.3, of 25 percent

or more, unless the arrangement is at least as favorable to the bank as similar arrangements which could have been made with unrelated parties.

(iv) As compensation for the use of its premises, personnel and good will, a bank may contract with an employee, director, officer or principal shareholder to receive income payable to said individual from the sale of insurance, provided that said individual is obligated in said contract to pay over to the bank all of the income received.

(v) A bank may accept reimbursement from an insurance company for services rendered by the bank in selling credit life insurance, maintaining an account to receive premiums, disbursing premiums to the underwriter and issuing a statement of account on a periodic basis.

(vi) A bank may sell credit life, health and accident insurance to its loan customers at no profit, or it may provide group credit life, health and accident insurance at its own expense.

(vii) A bank may refund to its loan customers who purchase credit life, health and accident insurance all commissions or experience refunds received from the underwriter.

(b) The Comptroller reserves the right to give written approval to the request of a national bank to modify the applicability of this part to that bank because of that bank's particular circumstances.

Dated: July 15, 1976.

Extension of Comment Period

This notice extends the period for comments to the notice published July 20, 1976 (41 FR 29846), proposing a regulation on the disposition of income earned from the sale of credit life, health and accident insurance by national banks or their officers, directors or principal shareholders. Comments were requested by September 3, 1976.

In response to requests for additional time, the Comptroller has extended the comment period until October 1, 1976. Comments should be addressed to C. Westbrook Murphy, Deputy Comptroller for Law and Chief Counsel, Comptroller of the Currency, Washington, D.C. 20219.

Dated: September 2, 1976.

Suspension of Customer-Bank Communication Terminals Ruling

Title 12 — Banks and Banking Chapter I — Comptroller of the Currency, Department of the Treasury Part 7 — Interpretive Rulings

Customer-Bank Communication Terminals; Suspension of Ruling

On October 10, 1975, the Comptroller of the Currency published the following statement in connection with his suspension of 12 CFR 7.7491.

The Comptroller's Office has received many inquiries concerning the status of Interpretive Ruling 7.7491, Customer-Bank Communication Terminals (CBCT's), 40 FR 21700 (May 9, 1975), in view of recent litigation relating to this ruling. This statement is being issued in response to those inquiries.

Eight different lawsuits have been filed challenging IR 7.7491. The Comptroller is a party to five of these lawsuits. In two of these lawsuits federal district courts have entered final decisions and orders. *State of Colorado v. First National Bank of Fort Collins and Smith*, D. Colo., Civil No. 75 M 397 (May 28, 1975), *appeal pending*; and *IBAA, et al. v. Smith*, D. D.C., Civil No. 75-0089 (July 31, 1975), *appeal pending*.

The *Colorado* opinion upheld the Comptroller's ruling except to the extent that the CBCT in that case was permitted to receive cash or other items for subsequent deposit. In the *IBAA* case, the District Court found the Comptroller's entire ruling to be "without merit." The court entered an order reading in part as follows:

FURTHER ORDERED that Defendant and all persons acting under his direction and authority or in active concert or participation with him be and hereby are, permanently enjoined from further implementation of the ruling, and any authority heretofore given to national banks by the ruling is hereby rescinded.

No national bank was a party to the *IBAA* case. A stay of the District Court's order pending appeal was sought by the Comptroller and denied. The court of appeals, however, has granted an expedited hearing on the merits of the appeal.

Inasmuch as the Comptroller's implementation of the interpretive ruling has been enjoined, the Comptroller has suspended it pending further appellate proceedings. Accordingly, the 30-day notice requirement and all other provisions contained in the ruling are no longer in effect. National banks seeking to establish CBCT's must rely upon the advice of their own legal counsel.

The Comptroller intends both to pursue the appeal of the *IBAA* case and to defend the other lawsuits involving CBCT's to which he is a party. Consistent with the Comptroller's position before the courts, the Comptroller will not accept or process branch applications for the installation of CBCT's. However, national banks are cautioned that the Comptroller will not hesitate to use his supervisory powers to eliminate any unsafe, unsound, or anti-competitive practices among national banks which might come to the Comptroller's attention.

Accordingly, 12 CFR 7.7491 has been suspended.

Dated: October 15, 1975.

Proposed Standards for Issuance of Letters of Credit by National Banks

Department of Treasury Comptroller of the Currency [12 CFR Part 7] Letters of Credit

Proposed Standards for Issuance by National Banks

Notice is hereby given that the Comptroller of the Currency is considering an amendment to 12 CFR 7.7016 an interpretive ruling relating to letters of credit.

The existing interpretive ruling establishes five standards for the issuance of letters of credit by national banks. The purpose of the amendment is to make clear that these standards are intended as guidelines for the safe and sound issuance of letters of credit. The standards should not be interpreted as creating a federal common law on what constitutes a valid and enforceable letter of credit.

In recent years, several cases have arisen where a national bank issuer of a letter of credit has refused to pay drafts drawn thereunder on the grounds that the docu-

ment in question did not meet the Comptroller's five standards and was therefore an *ultra vires* guarantee. This argument, which has been made in pleadings filed in cases involving stand-by letters of credit, is usually predicated on certain language in the existing ruling stating that the five standards "must" be met in order to constitute a "true letter-of-credit transaction" as contrasted to a "mere guaranty."

While the Comptroller expects national banks to adhere to the standards enumerated in the ruling, it was not his intention to suggest that a letter of credit lacking one or more of the five specified characteristics would thereby be rendered unenforceable. His sole intention was to set standards for the safe and sound issuance of letters of credit, which can be complicated transactions, particularly for banks not experienced in the area. The principles governing the validity and construction of letters of credit, on the other hand, are found in Article 5 of the Uniform Commercial Code as adopted in each jurisdiction, and in the Uniform Customs and Practice for Documentary Credits where applicable. It is on the basis of these principles that the enforceability of letters of credit should be determined.

Other changes in the existing ruling include the deletion of the first enumerated standard ("the bank must receive a fee or other valid business consideration for the issuance of its undertaking") on the grounds that Uniform Commercial Code 5-105 provides to the contrary. This standard has been replaced with a provision stating that letters of credit should be conspicuously labeled as such, a measure derived from UCC 5-102(1) (c). Under this provision, national banks financing the shipment of goods or extending credit through their domestic offices to assure the performance of their customers' obligations in the manner described in 12 CFR 7.1160(a), are expected to label their commitments as "letters of credit." The new standard would not prevent a national bank from characterizing its letter of credit as revocable or irrevocable in the manner prescribed in Article 1 of the Uniform Customs and Practice for Documentary Credits.

Comments on the proposed amendment will be received until November 29, 1976, and should be addressed to John E. Shockey, Acting Chief Counsel, Comptroller of the Currency, Washington, D.C. 20219. All comments received will be made available for inspection by any interested party.

The Comptroller of the Currency proposes to revise 12 CFR 7.7016 to read as follows:

7.7016 Letters of credit

A national bank may issue letters of credit permissible under the Uniform Commercial Code and the Uniform Customs and Practice for Documentary Credits to or on behalf of its customers. Letters of credit should be issued in conformity with the following: (a) Each letter of credit should conspicuously state that it is a letter of credit or be conspicuously entitled as such; (b) the bank's undertaking should contain a specified expiration date or be for a definite term; (c) the bank's undertaking should be limited in amount; (d) the bank's obligation to pay should arise only upon the presentation of a draft or other documents as specified in the letter of credit, and the bank must not be called upon to determine questions of fact or law at issue between the account party and the beneficiary; (e) the bank's customer should have an unqualified obligation to reimburse the bank for payments made under the letter of credit.

Dated: October 20, 1976.

Policy Statements on Corporate Activities

Department of Treasury Comptroller of the Currency Policy Statements on Corporate Activities

Bank Charters, Branches, Conversions, etc.

On June 4, 1976, the Comptroller of the Currency published in the *Federal Register* (41 FR 22602) proposed policy statements relating to his responsibilities for:

- Charters,
- Branches,
- Conversions,
- Mergers,
- Fiduciary powers,
- Operating subsidiaries,
- Title changes,
- Relocations, and
- Changes in capital structure.

During the comment period, which ended July 6, 1976, approximately 30 comments were received. The following represent the major changes which have been incorporated in the final policy statements.

The comments indicated confusion concerning the permissible stock distribution for new banks. The final policy statements clarify this by indicating that bank holding company affiliations are not subject to the ownership limitations.

The language relating to priority of filing applications has been modified to indicate that priority of filing will

be a factor, but will not be a controlling factor.

The time allowed to open for business has been extended from one year to *18 months* from date of approval.

Protection of a newly chartered bank from competition contemplates a new *independent* bank.

Merger policy now includes a comment on potentially *beneficial* aspects of a merger on competition within a relevant market.

Changes in capital structure policy has been revised to incorporate provisions relative to debt issues as recently adopted by the Office of the Comptroller of the Currency (OCC) and the Federal Reserve Board.

The policy statements are intended to be applicable in the large majority of the decisions. However, the Comptroller may depart from these policies when he deems it appropriate to do so. Normally, the reasons for any such departure will be explained. The policies may be revised from time to time as warranted by changing circumstances.

References to laws, regulations and interpretive rulings are not incorporated in the proposed policy statements. Such references have been incorporated in the *Comptroller's Manual for National Banks* and compliance remains unaffected.

The final policy statements, as revised, are as follows.

I. New Bank Charters

It is the policy of the Office of the Comptroller of the Currency (OCC) to maintain a sound National Banking System without placing undue restraint upon entry into that system. The vital relationship of banking to the

monetary system precludes complete free market operation with unlimited entry and its corollary, unlimited exit. A healthy competitive banking environment providing optimum choice and convenience to the public and stimulating economic growth and efficiency is an important objective of the chartering process. Although each new entrant to the market increases the competitive alternatives, it is not in the public interest to charter so many banks that none can grow to a size sufficient to offer a full range of needed services. In chartering banks the OCC will admit only those qualified applicants that can be economically supported and profitably operated. A new banking office will not be approved if its establishment would threaten the viability of a newly chartered independent bank. Such protection of a newly chartered bank will typically not exceed one year. In evaluating a new bank application, the following factors will be considered.

Banking Factors

Income and Expenses Projections of income and expenses of the proposed bank should be based on realistic, supportable estimates of deposit and loan volume.

Management Organizers, proposed directors and officers should have reputations evidencing honesty and integrity. They should have employment and business histories demonstrating success and should be responsible in financial affairs. A majority of the organizers and directors of a proposed independent bank should be from the local community and should represent a diversification of occupational and business interests. Officers should have demonstrated abilities and experience commensurate with the position for which proposed. Members of the initial management group, which includes directors and officers, and changes within the management group during the first 2 years of operation require prior approval of the OCC. Although it is not necessary that the names of proposed officers be submitted with an application to organize a national bank, the chief executive officer must be approved prior to the solicitation of capital and the cashier must be approved prior to the commencement of operations.

Stock Distribution To encourage community support, wide distribution of stock ownership is desirable. Maximum ownership, direct or indirect, by any one individual, partnership or corporation will generally be limited to 10 percent of the total capital stock to be issued. A majority of the stock to be issued should be to local residents of the community, persons with substantial business interests in the community or others who may reasonably be expected to utilize the services of the bank. The foregoing restrictions will not apply where the new bank is to be legally affiliated with an existing bank or bank holding company. Subscribers to 5 percent or more of the stock may not finance more than 50 percent of the purchase price, if the extension of credit is predicated in any manner on the stock of the new bank, whether or not such stock is pledged.

Capital The minimum initial capital required for a new national bank must satisfy all of the following factors.

- Capital should be sufficient to support the anticipated volume and character of operations for a minimum of 3 years; initial capital should be at least equal to 10 percent of estimated deposits and 15 percent of estimated loans at the end of the third year.
- Capital should be adequate to enable the new bank to provide the necessary banking services, including loans of sufficient size, to meet the needs of prospective customers.
- Capital should be sufficient to purchase, build or lease a suitable permanent banking facility and equipment. Total fixed asset investment should not exceed 40 percent of initial capital.
- Capital normally will not be less than \$1 million.

Market Factors

Economic Condition and Growth Potential The current economic condition or growth potential of the market in which the new bank proposes to locate is an important consideration in determining the bank's probable success. Essential to the concept of banking opportunity is that there does or will exist a volume of business for which the new bank can realistically compete. Also important is a determination of the portion of that business the new bank could acquire and whether that portion is sufficient to generate a profit. Evidence of banking opportunity may be indicated in a number of ways, including by trends in population, employment, residential and commercial construction, sales, company payrolls and businesses established. Geographic and environmental restrictions to further development should be fully explored.

Primary Service Area Within the broader concept of a market, the applicant should delineate a primary service area (PSA). The dimensions of the PSA will necessarily vary with the type of market to be served. A rural bank may serve a relatively large area if banking alternatives are limited; conversely, the PSA of an urban bank may be limited to several city blocks. The PSA is defined as the smallest area from which the bank expects to draw approximately 75 percent of its deposits and should be drawn around a natural customer base. It should not be unrealistically delineated to exclude competing banks or to include areas of concentrated population. Barriers to access such as major highways, rivers, mountains or other impediments should be considered.

Location The importance of the specific site depends upon the type of market to be served. The precise location of a bank in a sparsely populated area with limited competition may be less significant than that of an urban or suburban bank whose success may be more dependent upon the convenience of its location.

Population Composition of the population, including daily or seasonal inflows, within the PSA is an important indicator of the potential support for a bank. Population characteristics such as income, age distribution, educational level, occupation and stability should be considered. Ratios of population per banking office are not conclusive evidence of support for a new bank.

Financial Institutions The growth rate and size of banks and other financial institutions in the market are also important indicators of economic condition and potential business for a new bank. Location and services offered are indicative of the competitive climate of the market. Other financial institutions such as savings and loan associations, credit unions, finance companies, mortgage companies and insurance companies may be considered competing institutions to the extent their services parallel those of the new bank.

Other Factors

Although the order in which charter applications are filed will be a factor in the decision making process, it will not be a controlling factor.

All expenses incurred in connection with the organization of a bank are to be assumed by the organizers. If a charter is issued, expenses determined to be reasonable by the OCC may be reimbursed by the bank after the commencement of business. In no event shall the amount of or payment of any fee be solely contingent upon any action, decision or forbearance on the part of the OCC. A contingent expense or fee will ordinarily result in disapproval of the application or withdrawal of preliminary approval.

Any financial arrangement or transaction involving the proposed bank and its organizers, directors, officers, major shareholders or their associates or interests ordinarily should be avoided. If there are transactions of this nature they must be fair, fully disclosed, reasonable and comparable to similar arrangements which could have been made with unrelated parties.

The name of the new bank will be considered in accordance with the policy statement for title changes.

The foregoing policy generally will not be applicable to a corporate reorganization or to proposals to organize a national bank to facilitate the acquisition of an existing bank.

Procedures

Persons desiring to organize a national bank should obtain forms and instructions from the regional administrator of national banks. Charter applications should be filed with the regional administrator.

Requests for reconsideration of disapproved applications will not be accepted. A new application may be filed at any time by submitting substantive new or additional information to the regional administrator. To the extent relevant, the OCC will consider and incorporate the prior administrative record. The normal filing fee will be required.

When a charter application is disapproved, a written

statement of the reasons for the disapproval will be furnished the applicant. Opinions will be published when the OCC determines that the decision represents a new or changed policy or presents issues of general importance to the public or the banking industry.

The time allowed to open for business normally will be 18 months from the date of preliminary approval. Preliminary approval ordinarily will be rescinded if the bank is not open for business within that 18-month period.

II. Domestic Branches

The Office of the Comptroller of the Currency (OCC) encourages a banking structure capable of fulfilling local, regional and national needs for banking services. In the interest of increased competition, service to the public and efficiency, the OCC considers branching a desirable means of bank expansion.

In considering a branch application, the applicant's capacity to support such expansion is of major importance. The closing of a branch does not present the same risk of loss to the public as does the failure of a bank. Therefore, the judgment of the applicant as to the viability of a proposed branch will ordinarily be respected, provided that, in the opinion of the OCC, the applicant's capacity is sufficient or will be enhanced by the new activity and the prospective effects on competition are positive.

In evaluating an application, the following factors will be considered.

Banking Factors

Condition The applicant's general condition should be satisfactory; significant or serious problems will normally preclude approval. A bank should not have an undue amount of criticized assets, particularly in relation to gross capital; serious or frequent violations of law; inadequate liquidity; adverse operating trends; poor internal controls or other significant problems.

Capital and Earnings Capital, earnings and retention of earnings should be sufficient to support the current level of operations as well as the proposed expansion. In determining the applicant's capacity to support the proposed branch, the estimated cost of establishing and operating the branch and the volume and scope of anticipated business will be considered.

Management Management should have demonstrated the ability to supervise a sound banking operation. This determination will generally relate to the overall condition of the bank and management's ability to recognize and correct deficiencies. Depth and continuity of management are also relevant factors in considering the bank's capacity to expand through branching.

Market Factors

Economic Condition and Growth Potential When a bank desires to establish a branch in an area not presently served by the bank, it is expected that, at a minimum, management will have considered the cur-

rent economic condition or growth potential of the market in determining the probable success of the branch. Essential to the concept of banking opportunity is that there does or will exist a sufficient volume of business for which the branch can realistically compete. Also important is a determination of the portion of that business the branch will acquire. Evidence of banking opportunity may be demonstrated in a number of ways including trends in population, employment, residential and commercial construction, retail sales, company payrolls and businesses established. Geographic and environmental restrictions to further development should be fully explored.

When an applicant desires to establish a branch primarily to retain existing customers or to serve them more efficiently or conveniently, greater emphasis will be given to the expense to be incurred in establishing and operating the branch, the anticipated loss of existing business if the branch is not established and the overall effect on bank profitability.

Primary Service Area Within the broader concept of a market, the applicant should delineate a primary service area (PSA). The dimensions of the PSA will necessarily vary with the type of market to be served. A rural banking office may serve a relatively large area if banking alternatives are limited; conversely, the PSA of an urban banking office may be limited to a city block. The PSA is defined as the smallest area from which the branch expects to draw approximately 75 percent of its deposits and should be drawn around a natural customer base. It should not be unrealistically delineated to exclude competing banks or to include areas of concentrated population. Barriers to access such as major highways, rivers, mountains or other impediments should be considered.

Location The importance of the specific site depends upon the type of market to be served. The precise location of a branch in a sparsely populated area with limited competition may be less significant than that of an urban or suburban branch whose success may be more dependent upon the convenience of its location.

Population Composition of the population, including daily or seasonal inflows, within the PSA is an important indicator of the potential support for a branch. Population characteristics such as income, age distribution, educational level, occupation and stability should be considered. Ratios of population per banking office are not conclusive evidence of support for a new branch.

Financial Institutions The growth rate and size of banking offices and other financial institutions in the market are also important indicators of economic condition and potential business for a new branch. The location and services offered are indicative of the competitive climate of the market. Other financial institutions such as savings and loan associations, credit unions, finance companies, mortgage companies and insurance companies may be considered

competing institutions to the extent their services parallel those of the new branch.

Other Factors

A branch will not be approved if its establishment would threaten the viability of a newly chartered independent bank. Such protection of a newly chartered independent bank typically will not exceed one year.

Although the order in which branch applications are filed will be a factor in the decision making process, it will not be a controlling factor.

Any financial arrangement or transaction involving the branch and directors of the bank, officers, major shareholders or their associates or interests should ordinarily be avoided. If there are transactions of this nature they must be fair, fully disclosed, reasonable and comparable to similar arrangements which could have been made with unrelated parties.

Procedures

Banks desiring to establish a branch should obtain forms and instructions from the regional administrator of national banks. Applications for branch offices should be filed with the regional administrator.

Requests for reconsideration of denied applications will not be accepted. A new application may be filed at any time by submitting substantive new or additional information to the regional administrator. To the extent relevant, the OCC will consider and incorporate the prior administrative record. The normal filing fee will be required.

Applicants will be advised of the reasons for any disapproval. Opinions will be published when the OCC determines that the decision represents a new or changed policy or presents issues of general importance to the public or the industry. Where the OCC deems it to be in the public interest the name of the bank will not be disclosed.

The time allowed to open the branch will normally be 18 months from the date of approval. Approval will ordinarily be rescinded if business has not commenced within that 18-month period.

III. Conversions

The Office of the Comptroller of the Currency (OCC) ordinarily will approve an application by a state bank or other financial institution for conversion to a national bank when such approval is consistent with the basic objective of maintaining a sound National Banking System. An application to convert should not be motivated by supervisory pressures from other regulatory authorities. In determining the qualifications of an applicant for conversion, the following factors will be considered.

Banking Factors

Condition The applicant's general condition should be satisfactory; significant or serious problems will normally preclude approval. The applicant should not have an undue amount of criticized assets, particularly in relation to gross capital; serious or frequent viola-

tions of the law; inadequate liquidity; adverse operating trends; poor internal controls or other significant problems. Capital, earnings and retention of earnings should be sufficient to support the current level of operations.

Management Management should have demonstrated the ability to supervise a sound banking operation. This determination will generally relate to the overall condition of the institution and management's ability to recognize and correct deficiencies.

Other Factors

The proposed name of the converting institution will be considered in accordance with the policy statement for title changes.

Procedures

Institutions desiring to convert to a national bank should obtain forms and instructions from the regional administrator of national banks. Applications to convert should be filed with the regional administrator.

The OCC will conduct an examination into the condition of the applicant to the extent considered necessary. The cost of such examination shall be paid by the applicant.

Requests for reconsideration of disapproved applications will not be accepted. A new application may be filed at any time by submitting substantive new or additional information to the regional administrator. To the extent relevant, the OCC will consider and incorporate the prior administrative record. The normal filing fee will be required.

Applicants will be advised of the reasons for any disapproval. Opinions will be published when the OCC determines that the decision represents a new or changed policy or presents issues of general importance to the public or the banking industry. In such instances, identification of the applicant will not be disclosed.

IV. Mergers

It is the policy of the Office of the Comptroller of the Currency (OCC) to preserve the soundness of the National Banking System and promote market structures conducive to competition. A proposed merger, consolidation or purchase of assets and assumption of liabilities are all hereinafter referred to as mergers. A merger which would not have a substantially adverse effect on competition and which would be beneficial to the merging banks and to the public normally will be approved. In evaluating a merger application the following factors will be considered:

- The effect of the transaction upon competition;
- The convenience and needs of the community to be served;
- The financial history of the merging banks;
- The condition of the merging banks, including capital, management and earnings prospects;
- The existence of insider transactions; and,

- The adequacy of disclosure of the terms of the merger.

In order to determine the effect of a proposed merger upon competition, it is necessary to identify the relevant geographic market. The delineation of such market can seldom be precise, but realistic limits should be established so the effect of the merger upon competition can be properly analyzed. The market should be delineated to encompass an area where the effect upon competition will be direct and immediate. The OCC recognizes that different banking services may have different relevant geographic markets. Although the largest borrowers and depositors may find it convenient and practical to conduct part of their banking business outside the relevant geographic market, the market should not be drawn so expansively as to cause the competitive effect of the merger to seem insignificant because only the largest customers are considered. Conversely, the market should not be drawn so narrowly as to place competitors in different markets because only the smallest customers are considered. A fair delineation of the relevant geographic market should take into account demands of most customers for the bank's services.

After the relevant geographic market has been identified, the competitive effects of the proposed merger can be analyzed. Both the structure of the market and intensity of competition within the market will be considered. In measuring intensity of competition, consideration will be given to the number of competitors in the market, services offered, pricing of services, advertising, office hours and banking innovations.

The following terms will be used to describe the competitive effects of a proposed merger.

- **Beneficial Effect** This term will be used when a merger will improve or enhance the competitive or banking environment in the relevant market.
- **No Adverse Effect** This term will be used when no change in competitive conditions would result from the merger. Mergers involving corporate reorganizations, in which the number of alternative sources of banking services are unchanged and where no resulting substantive change in ownership occurs, are included in this category.
- **Not Substantially Adverse** This term will be used when some anti-competitive effects are present but such effects are not deemed sufficiently substantive to cause an undesirable competitive condition.
- **Substantially Adverse** This term will be used when an anticompetitive condition would result from a merger. A merger involving a dominant bank in a market and any other bank in the same market could be included in this category.

When substantially adverse competitive effects exist, they must be clearly outweighed in the public interest

by the probable effects of the merger on improved convenience and needs. If not clearly outweighed, the merger will be disapproved. Convenience and needs factors which may outweigh the anticompetitive effects of a merger include:

- The elimination of a failing, weak or stagnating bank, thereby strengthening the banking system.
- The achievement of economies of scale, including a better matching of source and need of funds, thereby providing the basis for improved customer service and bank earnings.
- The extension of services not available from the merging bank and for which there is a clearly definable need. Such services might include a larger lending limit, specialized forms of credit, data processing, international banking, financial counseling or fiduciary services.

The OCC must consider the convenience and needs of the community to be served in every merger, regardless of competitive effects. A merger not having a substantially adverse competitive effect may be disapproved if there are adverse effects on convenience and needs.

In addition, the OCC considers banking factors and will normally not approve a merger if it will result in a bank which has inadequate capital, unsatisfactory management or poor earnings prospects. Further, it is required that all shareholders be adequately informed of all aspects of the transaction.

If the title of the resulting bank is not the same as any of the banks involved in the merger, the proposed new title will be considered in accordance with the policy statement for title changes.

Procedures

Banks desiring to merge where the resulting bank will be a national bank should obtain forms and instructions from the regional administrator of national banks. Applications should be filed with the Comptroller of the Currency, Washington, D.C.

When a merger involves a state bank, the OCC may conduct an examination into the condition of the state bank to the extent deemed necessary. The cost of such examination shall be charged to the applicants in addition to the normal merger fee.

Opinions are published by the OCC in all merger decisions.

V. Fiduciary Powers

The Office of the Comptroller of the Currency (OCC) encourages a banking structure capable of fulfilling local, regional and national needs for banking services. The establishment of fiduciary powers affords banks the opportunity to better serve the public by offering greater services, choice and convenience.

In evaluating an application for fiduciary powers, consideration will be given to the capacity of the applicant to support the proposed activity, the availability of

competent trust personnel and the existence of sufficient business to achieve profitability.

Banking Factors

Condition The applicant's general condition should be satisfactory; significant or serious problems will normally preclude approval. A bank should not have an undue amount of criticized assets, particularly in relation to gross capital; serious or frequent violations of law; inadequate liquidity; adverse operating trends; poor internal controls or other significant problems.

Capital and Earnings Capital, earnings and retention of earnings should be sufficient to support the current level of operations as well as the proposed expansion. In determining the applicant's capacity to support the proposed trust department, the estimated cost of establishing and operating the department and the volume and scope of anticipated business will be considered.

Management Management should have demonstrated the ability to supervise a sound banking operation. That determination will generally relate to the condition and profitability of the bank and management's ability to recognize and correct deficiencies.

Trust Personnel The proposed head of the trust department should have demonstrated abilities and experience commensurate with the proposed position. Directors and officers who will serve on trust committees should possess experience and knowledge in the trust or investment fields. The bank should have available the services of competent investment and legal counsel to advise on matters affecting the trust department.

Market Factors

The applicant should demonstrate that the population and general economy of the market possess characteristics requiring fiduciary services. Composition of the population within the market is an important indicator of the potential support for a trust department. Population characteristics such as income, wealth, age, educational level, occupation and stability will be considered.

In determining need, consideration should be given to the present fiduciary services available in the market. If fiduciary services are being offered, consideration will be given to the volume and character of the present trust business together with the demand for additional services. Further, consideration will be given to any fiduciary services performed outside the market for customers in the applicant's service area which, because of convenience, might be brought to the applicant.

Procedures

Banks desiring to exercise fiduciary powers should obtain forms and instructions from the regional administrator of national banks. Applications should be filed with the regional administrator.

Requests for reconsideration of disapproved applications will not be accepted. A new application may be filed at any time by submitting substantive new or additional information to the regional administrator. To the extent relevant, the OCC will consider and incorporate the prior administrative record. The normal filing fee will be required.

The applicant will be advised of the reasons for any disapproval. Opinions will be published when the OCC determines that the decision represents a new or changed policy or presents issues of general importance to the public or the banking industry. Where the OCC deems it to be in the public interest the name of the bank will not be disclosed.

The time allowed to establish a trust department normally will be one year from the date of preliminary approval. Approval ordinarily will be rescinded if business has not commenced within that one-year period.

VI. Domestic Operating Subsidiaries

The Office of the Comptroller of the Currency (OCC) considers an application for the establishment of a *de novo* domestic operating subsidiary to be primarily a business decision of the applicant. An applicant's ownership of 80 percent or more of a company will be approved if the proposed activity is a part of the business of banking or incidental thereto and if the applicant has the capacity to support such expansion. However, if a bank or any of its subsidiaries proposes to acquire an existing business, the OCC will also consider competitive factors similar to those set forth in the policy statement for mergers.

In evaluating an application, the following factors will be considered.

Banking Factors

Condition The applicant's general condition should be satisfactory; significant or serious problems will normally preclude approval of an application to expand the bank's activities. A bank should not have an undue amount of criticized assets, particularly in relation to gross capital; serious or frequent violations of law; inadequate liquidity; adverse operating trends; poor internal controls or other significant problems.

Capital and Earnings Capital, earnings and retention of earnings should be sufficient to support the current level of operations as well as the proposed expansion. In determining the applicant's capacity to support the proposed subsidiary, the estimated cost of establishing or acquiring the subsidiary as well as the volume and scope of anticipated business will be considered.

Management Management should have demonstrated the capacity to supervise a sound banking operation. This determination will generally relate to the condition of the bank and management's ability to recognize and correct deficiencies. Management should demonstrate that provision has been made for personnel with sufficient expertise to supervise the proposed activities.

Other Factors

The condition of the business to be acquired will be considered. The acquiring bank should have the capacity to correct any difficulties of the acquired business without undue strain on management or financial resources of the bank.

Any financial arrangement or transaction involving the operating subsidiary and directors of the bank, officers, major shareholders, or their associates or interests ordinarily should be avoided. If there are transactions of this nature they must be fair, fully disclosed, reasonable and comparable to similar arrangements that could have been made with unrelated parties.

Procedures

Banks desiring to organize or acquire an operating subsidiary should obtain forms and instructions from the regional administrator of national banks. Applications for operating subsidiaries should be filed with the regional administrator.

The OCC will conduct an examination into the condition of a proposed operating subsidiary to be acquired to the extent considered necessary. The cost of such examination shall be paid by the applicant.

Requests for reconsideration of disapproved applications will not be accepted. A new application may be filed at any time by submitting substantive new or additional information to the regional administrator. To the extent relevant, the OCC will consider and incorporate the prior administrative record. The normal filing fee will be required.

Applicants will be advised of the reasons for any disapproval. Opinions will be published when the OCC determines that the decision represents a new or changed policy or presents issues of general importance to the public or the banking industry. Where the OCC deems it to be in the public interest the name of the bank will not be disclosed.

VII. Title Changes

The Office of the Comptroller of the Currency (OCC) considers an application for change in corporate title to be primarily a business decision of the applicant. Such applications will be approved subject to the following limitation. The proposed title must be sufficiently dissimilar from any other existing or proposed unaffiliated bank or depository financial institution, so as not to substantially confuse or mislead the public in a relevant market.

Procedures

Banks desiring a change in title should obtain forms and instructions from the regional administrator of national banks. An application for a title change should be filed with the regional administrator.

VIII. Location Changes

The Office of the Comptroller of the Currency (OCC) considers an application for a change in location of a head office or domestic branch to be primarily a busi-

ness decision of the applicant. Such applications will be approved subject to the following limitations.

An application for a relocation of a banking office within the primary service area will normally be approved if the applicant has capital and earnings sufficient to support any increased costs incident to the relocation. In determining the sufficiency of capital and earnings, the estimated cost of establishing and operating the proposed office will be considered.

A head office relocation from one primary service area to another service area will require the filing of an application for a new head office. In such instances, market factors similar to those set forth in the policy statement for new bank charters will be considered. A branch relocation from one primary service area to another service area will require the filing of a branch application and will be subject to the same considerations as those set forth in the policy statement for domestic branches. In relocations to another service area, the OCC also will consider the needs of the primary service area being abandoned.

Any financial arrangement or transaction involving the bank and its directors, officers, major shareholders or their associates or interests ordinarily should be avoided. If there are transactions of this nature they must be fair, fully disclosed, reasonable and comparable to similar arrangements which could have been made with unrelated parties.

Procedures

Banks desiring to relocate an office should obtain forms and instructions from the regional administrator of national banks. Applications for relocation of bank offices should be filed with the regional administrator.

Requests for reconsideration of disapproved applications will not be accepted. A new application may be filed at any time by submitting substantive new or additional information to the regional administrator. To the extent relevant, the OCC will consider and incorporate the prior administrative record. The normal filing fee will be required.

Applicants will be advised of the reasons for any disapproval. Opinions will be published when the OCC determines that the decision represents a new or changed policy or presents issues of general importance to the public or the banking industry. Where the OCC deems it to be in the public interest the name of the bank will not be disclosed.

The time allowed to effect the relocation normally will be 18 months from the date of approval. Approval ordinarily will be rescinded if the new office is not opened for business within this 18-month period.

IX. Changes in Capital Structures

The Office of the Comptroller of the Currency (OCC) has responsibility for the maintenance of a safe and sound National Banking System operated in the public interest. An integral part of this responsibility is the review of proposed capital changes by national banks.

Disclosure

The OCC requires that prospective investors be pro-

vided with all material facts to permit informed investment decisions in connection with all offerings. Offering circulars are required for public offerings of debt or equity securities by a national bank.¹

Stock Dividends

Recurring stock dividends generally will not be approved where the higher of the market or book value of the dividend exceeds 100 percent of the bank's retained earnings since the declaration of the last stock dividend. A stock distribution which represents more than 25 percent of the shares outstanding will generally be viewed as a realignment of the bank's capital accounts and not subject to the retained earnings limitations.

Pricing

Offerings of common stock should be at a fair price. When the stock is actively traded, the market value should be used as the primary indicator of a fair offering price. When the stock has a thin or controlled market, earnings and book value per share should be given greater consideration than market value in determining a fair offering price. In considering earnings and book value, a comparison to similar banks should be made. Material differences between book value and current value of assets and liabilities should be given appropriate recognition in making such comparisons.

In determining the conversion price in connection with issuance of convertible securities, consideration should be given to the current fair value of the common stock, the dividend or interest rate, current market conditions and the anticipated increase in fair value of the common stock during the conversion period.

Debt Issues

In evaluating a bank's capacity to issue debt under the following criteria, the OCC will take into account the full range of financial and other information available to the OCC regarding the applicant. Such indicators and considerations include the recent trend and stability of earnings, impact of unusual income and expense developments on recent earnings, recent acquisition or mergers through purchase of assets, prospective growth of the bank, quality of management, quality of assets, earnings coverage of loan losses, sensitivity of interest income and expenses to changes in market rates, degree of reliance on potentially volatile sources of funds and the relative strength of earnings of non-bank affiliates or subsidiaries. The bank's need for additional capital and the accessibility of additional equity also will be taken into account.

¹ At the present time, 12 CFR 16 requires offering circulars to be used only when a new bank issues debt or equity securities and when an existing bank issues debt securities. Recently, the Comptroller proposed amendments to 12 CFR 16 to require existing banks to use offering circulars when issuing any securities, subject to certain exemptions (41 FR 32864). The proposed amendments have not yet been adopted.

Maximum ratio of debt to equity The total amount of subordinated notes and debentures outstanding, including the debt proposed to be issued but excluding any debt to be retired out of the proceeds of the new issue, should not exceed 50 percent of a bank's equity capital base at time of issuance of the new debt.² However, banks with significant asset or management problems generally would not be presumed to be entitled to issue debt capital up to the 50 percent ceiling.

Earnings coverage of fixed charges A national bank proposing to issue subordinated debt should demonstrate that its recent income record is sufficient to provide abundant assurance of that bank's continuing ability to pay the additional fixed charges out of current earnings.³

Retained net income A national bank proposing to issue subordinated debt should demonstrate that its recent level of retained net income, viewed in conjunction with intended dividend policy, would exceed annual *pro forma* amortization on all subordinated notes and debentures by a sufficient margin to assure that bank's ability to replace each debt issue with equity by maturity.⁴

Avoidance of debt repayment concentrations A national bank proposing to issue subordinated debt should avoid excessive concentration of debt repayment in any one year.

Approval of interbank debt transactions In general, the OCC does not intend to approve as an addition to the issuing bank's capital structure a subordinated note or debenture issued by a national bank directly or indirectly (through a holding company or otherwise) to a banking organization other than its parent bank holding company where that issue, together with other subordinated debt outstanding at that bank and held by such banking organizations, would exceed \$2 million unless specifically authorized as such an addition by the OCC upon a presentation and finding of compelling circumstances.⁵

Covenants in conflict with safe and sound banking practices No indenture or other contract covering the issuance of a subordinated note or debenture by a national bank shall include any covenants, restrictions, or other terms that are determined by the OCC to be inconsistent with safe and sound banking practices. Examples of such terms are those regarded as impairing the ability of the bank to comply with statutory or regulatory requirements regarding disposition of assets or incurrence of additional debt, limiting the ability of the OCC to take any necessary action to resolve a problem bank situation or unduly interfering with the ability of the bank to conduct normal banking operations.

Stock Options and Stock Purchase Plans

Generally, plans qualified under the Internal Revenue

Code will be approved. Non-qualified plans may be approved if the terms are fair and reasonable. Shares allocated to a plan should not exceed 10 percent of total shares outstanding.

Other Factors

The method of disposal of fractional shares and unexercised preemptive rights should be fair. Fees and expenses paid to underwriters and others should be reasonable.

Procedures

Banks desiring to effect changes in capitalization should obtain forms and instructions from the regional administrator of national banks. Applications for capital changes should be filed with the regional administrator.

Dated: October 26, 1976.

² A bank's equity capital base, for purposes of this test, is considered to include capital stock, surplus, undivided profits, capital reserves and all reserves for losses on loans, including any related deferred tax liability.

³ Definitions:

- "Income" is defined as income before taxes and before fixed charges, including securities gains and losses, excluding extraordinary charges and credits, and adjusted where necessary to reflect actual net loan loss experience (charge-offs less recoveries) rather than other "provision for loan losses," plus an adjustment for earnings on the proceeds of the proposed issue equal to annual interest charges before taxes on the proposed issue.

- "Fixed charges" is defined as annual interest charges before taxes on all existing debt, net of debt to be retired out of the proceeds of the new issue, plus those on the debt proposed to be issued. Fixed charges on existing debt would include annual interest on all outstanding mortgage debt and subordinated notes and debentures, plus the annual interest component in any payments, net of sublease income, under lease contracts having an original maturity of one year or more (or if the interest component is not readily ascertainable, one-third of annual payments net of sublease income under such contracts may be substituted).

⁴ Definitions:

- "Retained net income" is defined as net income after taxes minus dividends declared on common and preferred stock. In most circumstances, banks that issue additional shares of equity capital would receive credit for those new issues as if they had been part of retained net income.

- "*Pro forma* amortization" is calculated for each issue of subordinated debt, including the proposed new issue but excluding debt to be retired out of the proceeds of the new issue, by dividing the original amount of the issue by the number of years from date of issue to maturity. Total *pro forma* amortization would be the sum of annual *pro forma* amortization for all such subordinated debt issues.

⁵ "Banking organization," for purposes of this criterion, is defined as any commercial bank, mutual savings bank, bank holding company or nonbank affiliate of a bank holding company.

Amendments to 12 CFR Subsequent to Suspension of Customer-Bank Communication Terminals Ruling

Title 12 — Banks and Banking

Chapter 1 — Comptroller of the Currency, Department of the Treasury

Part 4 — Description of Office, Procedures, Public Information

Part 5 — Supplemental Application Procedures for Charters, Domestic Branches, Mergers, Relocations, Conversions, Domestic Operating Subsidiaries, Fiduciary Powers and Title Changes

Part 8 — Assessment of Fees, National Banks, District of Columbia Banks

Introduction

On December 12, 1974, the Comptroller of the Currency issued an interpretive ruling, 12 CFR 7.7491, stating the Comptroller's view that customer-bank communication terminals (CBCT's) were not branch banks and consequently could be established by national banks without reference to federal and state banking statutes (39 FR 44416). On May 9, 1975, the interpretive ruling was amended (40 FR 21700). Pursuant to an order of the U.S. District Court for the District of Columbia, the interpretive ruling was rescinded August 23, 1976 (41 FR 36198).¹

Subsequent to issuance of the interpretive ruling in December 1974, more than a dozen lawsuits were filed in U.S. district courts challenging the validity of the Comptroller's ruling and, in all but one lawsuit, the legality of a particular national bank(s) operating a CBCT(s) free from branch restrictions. Eight of these lawsuits have been decided by federal district courts resulting in a variety of holdings both agreeing and disagreeing with the Comptroller's view as expressed in the interpretive ruling. The one district court, to proceed with a trial on the merits held that CBCT's are not branches for national banks.² Four U.S. courts of appeals have rendered decisions in five CBCT lawsuits. Each of the court of appeals has held, contrary to the Comptroller's view, that, generally, CBCT's are branches for national banks. On October 4, 1976, the U.S. Supreme Court denied petitions for writs of *certiorari* in two of these cases, *IBAA v. Smith and State of Illinois v. Continental Illinois National Bank & Trust Co.*³

¹ Order dated July 29, 1976, *IBAA v. Smith*, 402 F. Supp. 207 (D.D.C. 1975), *aff'd*, 534 F.2d 921 (D.C. Cir.) *cert. denied*, 45 U.S.L.W. 3239 (1976).

² *State of Oklahoma v. Bank of Oklahoma*, 409 F. Supp. 71 (N.D. Okla. 1975), *appeal dismissed per stipulation*.

³ *Independent Bankers Ass'n. of America v. Smith*, *supra*; *State of Illinois v. Continental Illinois National Bank & Trust Co.*, 409 F. Supp. 1167 (N.D. Ill. 1975), *aff'd in part and rev'd in part*, 536 F.2d 176 (7th Cir. 1976), *cert. denied*, 45 U.S.L.W. 3238; *State of Colorado v. First National Bank of Ft. Collins*, 394 F. Supp. 979 (D. Colo. 1975), *aff'd in part and rev'd in part*, _____ F.2d _____ (10th Cir. 1976); *State of Missouri v. First National Bank in St. Louis*, 405 F. Supp. 733 (E.D. Mo. 1975), *aff'd*, 538 F.2d 219 (8th Cir. 1976); *State of Oklahoma v. Bank of Oklahoma*, *supra*; *State of Ohio v. Smith*, _____ F. Supp. _____ (S.D. Ohio 1976).

The Comptroller of the Currency does not share the view of the four U.S. courts of appeals that CBCT's are branches for national banks. On the contrary, the Comptroller believes that the best rationale for determining the status of CBCT's for national banks was expressed by the Comptroller of the Currency in the initial interpretive ruling of December 1974 and by the decision of the U.S. District Court for the Northern District of Oklahoma (see footnote 3, *supra*). Nevertheless, because of the Court of Appeals decisions (see footnote 3, *supra*) and until Congress can provide appropriate legislation regarding CBCT's, the Comptroller has determined that it is in the best interest of the National Banking System and the public to provide regulations for national banks to be able to apply for permission to establish CBCT's as branches.

In order to assist national banks in filing CBCT applications, the Comptroller also has made several preliminary determinations based upon the holding of the U.S. Court of Appeals for the District of Columbia in *IBAA v. Smith*, *supra*.

According to the view of the Comptroller, initially expressed in Interpretive Ruling 7.7491, only those electronic terminals which disburse or receive funds are CBCT's. According to the opinion of the Court of Appeals for the District of Columbia, *IBAA v. Smith*, *supra*, only those CBCT's which perform "functions of receiving or disbursing funds" are branches for national banks. Thus, all electronic terminals which do not disburse or receive funds (including, but not limited to credit verification devices) are not CBCT's and not branches for national banks.

The Court of Appeals for the District of Columbia also ruled in *IBAA* that a CBCT is a branch only when it is "established (*i.e.*, owned or rented) by the national bank." Consequently, and in accordance with the opinion of the Court of Appeals, any CBCT which is not established by a national bank (*i.e.*, owned or rented by the bank) is not a branch of a national bank and not subject to the provisions of 12 USC 36.

A number of states do not require any application to be filed by a state bank establishing a CBCT. In many other states, the application procedure for such terminals is abbreviated and by no means as extensive as that provided for traditional branches which require a building, personnel, etc. Accordingly, the Comptroller has determined that the public interest will be best served by providing special application procedures for national bank CBCT's, which procedures will provide relevant data to the Comptroller without imposing unnecessary administrative burdens and other costs upon the applicants. Appropriate amendments to the applicable regulations (12 CFR Parts 4, 5, and 8), accordingly, have been issued on this date. The Comptroller of the Currency will consider applications filed in accordance with these procedures by any national bank seeking to establish a CBCT branch in states where state banks are permitted by statute to establish traditional branches and/or CBCT branches.

State statutory provisions as to number, location, and capital, as incorporated by 12 USC 36, will apply to national bank CBCT branches. Capitalization of CBCT's which are branches of national banks will be required pursuant to the provisions of 12 USC 36(d) and 51. The Office of the Comptroller of the Currency will permit allocation of capital for CBCT branches established within a single "city, town, or village" as it has for traditional branches, *i.e.*, only one capital requirement will be imposed for all installations established within the same city, town or village. In addition, capitalization required for the establishment of a CBCT which is a branch of a national bank may be shared among all national banks participating in the establishment of the CBCT branch. When two or more national banks establish a CBCT branch a single application may be filed by one national bank acting as agent for the others.

The Comptroller continues to believe that one of the most significant criteria distinguishing a traditional branch from a CBCT branch is the presence or absence of bank personnel. Consequently, the Comptroller's Office will continue to process applications to establish banking installations which contemplate the employment of banking personnel under the existing branch application procedures and fee structure.

Any national bank which already has an operating CBCT branch must file an application with the Comptroller of the Currency within 30 days of the date of publication of this notice to seek the Comptroller's permission to continue such establishment and operation pursuant to applicable statutory provisions.

Procedures for CBCT Branch Applications

These amendments are issued under authority of the National Bank Act and related statutes, 12 USC 1, *et seq.*, pursuant to the requirement of 5 USC 552 that each agency publish in the *Federal Register*, for the guidance of the public, both a description of the methods employed by its central and field organization so that the public may make submissions or requests or obtain decisions, and a description of the formal procedures used by the agency.

The amendments describe Office procedures regarding applications by national banks to establish customer-bank communication terminal (CBCT) branches. The purpose of these amendments is to provide a special application procedure in Part 4 for the establishment and operation of CBCT branches, to exempt CBCT branch applications generally from most supplemental application procedures of Part 5, and to establish in Part 8 a filing fee for CBCT branch applications.

The Administrative Procedure Act does not require public procedures and delayed effectiveness in connection with rules of agency organization, procedure or practice or relieved restrictions such as reduced fees for certain branch applications. The amendments will, therefore, become effective upon publication in the *Federal Register*.

The following is a brief description of the changes to Part 4 of 12 CFR. A new Section 4.5a has been added to provide a special application procedure for CBCT branches.

12 CFR 4 is amended by revising the table of contents and adding a new Section 4.5a to read as follows:

Table of Contents

Sec.	
4.1	Scope and application
4.1a	Central and field organization; delegations
4.2	Organization of national bank
4.3	Conversion of state bank into national bank
4.4	Merger, consolidation, purchase, and assumption
4.5	Establishment of branch banks and seasonal agencies
4.5a	Establishment of customer-bank communication terminal (CBCT) branches
4.6	Change of location of main or branch office
4.7	Change of bank name
4.8	Conversion of national bank into state bank
4.9	Voluntary liquidation
4.10	Receivership and conservatorship
4.11	Supervision of bank operations
4.12	Rules of general application
4.13	Forms and instructions
4.14	Publications available to public
4.15	Orders, opinion, etc. available to public
4.16	Other documents available to public; exceptions
4.17	Location of public reading rooms, requests for identifiable records; and service of process
4.17a	Request procedures
4.18	Other rules of disclosure
4.19	Testimony and production of documents in court

4.5a Establishment of customer-bank communication terminal (CBCT) branches

(a) Application A national bank desiring to establish and operate a CBCT branch should submit to the regional administrator an "Application to Establish a CBCT Branch." This application, instructions, and supporting documents are furnished by the regional administrator upon request.

(b) Investigation An investigation may be conducted to the extent necessary.

(c) Approval The Comptroller of the Currency determines whether or not approval of the application should be granted.

(d) Certification If the determination of the Comptroller of the Currency is favorable, a certificate will be issued evidencing approval for the establishment and operation of the CBCT branch at the designated location.

* * *

The following is a brief description of changes to Part 5 of 12 CFR.

- Section 5.1 has been revised to note that CBCT branch applications are not subject to the provisions of Part 5, except for the notice provisions, unless the Comptroller shall specifically so direct.
- Section 5.2a has been added to provide a special notice procedure for CBCT branch applications.
- Section 5.4a has been added to provide for written comments on CBCT branch applications.

12 CFR 5 is amended by revising the table of contents and Section 5.1 and by adding sections 5.2a and 5.4a to read as follows:

Table of Contents

Sec.	
5.1	Scope of part
5.2	Notice of filing of application
5.2a	Notice of filing of CBCT branch application
5.3	Public file
5.4	Written comments and requests for an opportunity to be heard
5.4a	Written comments on CBCT branch applications
5.5	Place of hearing
5.6	Date of hearing
5.7	Notice of hearing
5.8	Attendance at hearing
5.9	Presiding officer
5.10	Hearing rules
5.11	Closing of the public file
5.12	Retained authority
5.13	Comptroller's decision
5.14	Computation of time

5.1 Scope of Part

This part contains procedures by which the Comptroller of the Currency may reach informed decisions with respect to applications to charter national banks, to establish domestic branches of national banks, to merge or consolidate with or purchase the assets of another bank where the resulting bank is a national bank, to relocate offices of national banks, to establish or acquire domestic operating subsidiaries, to exercise fiduciary powers, to change corporate titles and in other such cases as the Comptroller in his sole discretion shall deem appropriate. These procedures provide a method by which all persons interested in the subject matter of such applications may present their views. Nothing contained herein shall be construed to prevent interested persons from presenting their views in a more informal manner when deemed appropriate by the Comptroller, his deputy, or by the regional administrator of national banks, or to prevent the Comptroller or the regional administrator from conducting such other investigation as may be deemed

appropriate. The procedures established by this Part, other than the notice provision of Section 5.2a and written comment provision of Section 5.4a, do not apply to applications for permission to establish a CBCT branch, unless the Comptroller shall specifically so direct.

* * *

5.2a Notice of filing of CBCT branch applications

(a) Applications to establish CBCT branches shall be filed as provided in 12 CFR 4.

(b) By publication Applicant shall, within 5 days after filing an application to establish a CBCT branch with the regional administrator, publish one time in a newspaper of general circulation in a community in which the applicant's head office is located and in a newspaper of general circulation in the community in which the applicant proposes to establish a CBCT branch, a notice containing the name of the applicant or applicants, the subject matter of the application and the date on which the application was filed. Immediately thereafter, the applicant shall furnish the regional administrator with an affidavit evidencing such publication. For the purposes of this section, the filing date of the application shall be the date upon which the application was placed in the United States mail, postage prepaid, addressed to the regional administrator.

* * *

5.4a Written comments on CBCT branch applications

Within 10 days after the notice by publication described in 5.2a of this part, any interested person may submit to the regional administrator written comments concerning the application.

* * *

The following is a brief description of the change to Part 8 of 12 CFR. Section 8.3 has been revised to add a provision specifying a filing fee for CBCT branch applications. 12 CFR 8 is amended by revising 8.3 as follows:

8.3 Filing fee for applications for branches

(a) A filing fee of \$500 is assessed for investigating and processing each application for a branch, other than a CBCT branch.

(b) A filing fee of \$200 is assessed for processing each application for a CBCT branch.

* * *

Effective date: These amendments are effective November 3, 1976.

Dated: October 28, 1976.

Amendments to 12 CFR Concerning the Form and Content of Annual Report to Shareholders

Title 12 — Banks and Banking

Chapter I — Comptroller of the Currency, Department of the Treasury

Part 18 — Form and Content of Annual Report to Shareholders

National Banks

On October 19, 1976, the Comptroller of the Currency published for comment (41 FR 46144) proposed revisions to Part 18 of Title 12 of the Code of Federal Regulations. Part 18 contains rules governing the preparation and issuance of annual reports to shareholders by national banks which do not furnish an annual report pursuant to 12 CFR 11.5(c) and those which are not wholly-owned subsidiaries of a bank holding company.

The proposed revisions have been adopted, with minor modifications, and will be effective on January 1, 1977. All annual reports to shareholders issued after December 31, 1976, must be presented in the format specified in Part 18 as revised, except as to certain requirements noted below which the Comptroller has waived for reports distributed in 1977.

Part 18 has been revised in order to make its provisions relating to the preparation of annual reports to shareholders consistent with the recently revised "Instructions for Preparation of Consolidated Reports of Condition and Income by National Banking Associations." The regulation in no way restricts banks from including other information that has traditionally appeared in annual reports to shareholders.

A majority of the comments on the proposal were directed at the requirement under Section 18.1(b) that each national bank mail an annual report to its shareholders at least 14 days in advance of its annual meeting, but in no event later than 60 days after the close of the bank's fiscal year. The commentators pointed out that some banks which hold their annual meetings in the early part of the calendar year may not be able to comply with the requirement, as proposed, since the financial information for the report will not be available until after December 31.

Section 18.1(b) has been modified to require that a national bank mail an annual report to each of its shareholders at least 10 days prior to the annual meeting, but in no event later than 60 days after the close of the latest fiscal year. The 10 day requirement corresponds to the Comptroller's Interpretive Ruling 7.4000 as to the mailing of notice of all shareholder meetings.

The Comptroller believes that the availability of financial information to shareholders is essential to their meaningful participation in the annual meeting, and the 10 day requirement will assure adequate opportunity for shareholders to evaluate that information. However, in response to the comments and in order to avoid any undue burdens in connection with preparations for 1977 annual meetings, the Comptroller hereby waives the 10 day requirement as to any annual report to shareholders

distributed in 1977. This will afford an affected bank adequate opportunity to make appropriate changes in its scheduled annual meeting date.

The Comptroller similarly recognizes that the new Part 18 requirement for comparative financial information will necessitate the restatement of 1975 data, some of which may not be readily available. Also, the new requirement for footnote disclosure may introduce a new financial reporting technique to some banks. Thus, as to annual reports to shareholders distributed in 1977, the Comptroller hereby waives the requirements of Section 18.2 so as to permit the omission of all financial information for fiscal 1975, and the requirements of Section 18.3(b) so as to permit the omission of all footnote disclosure for fiscal 1975 and 1976. Of course, such information may be included voluntarily if presented in the required format. All requirements of Part 18 will be applicable to annual reports to shareholders distributed in subsequent years.

One commentator suggested that the proposed balance sheet format be modified to exclude amounts relating to bad debt contingency reserves from the capital accounts section. The suggestion has not been adopted. Contingency reserves are appropriations of undivided profits and may be reversed at the discretion of the bank's board of directors. Thus, such reserves are properly considered part of capital. In addition, it is desirable that consistency be maintained between a bank's annual report to shareholders and its published call reports.

The Comptroller of the Currency finds that the changes made in the proposal of October 19, 1976, respond to public comments and consist of corrections and clarifications which do not impose an additional burden on affected persons. Accordingly, further public participation in this rulemaking process is not required by the provisions of 5 USC 553 relating to notice and opportunity for additional public comment.

In addition, the Comptroller hereby finds that the effective date of this amendment, although less than 30 days after the date of publication for adoption, is appropriate in order that the format of financial information furnished by national banks in their annual reports to shareholders during 1977 be consistent with that presented in the banks' published call reports.

The Comptroller of the Currency, pursuant to the general authority of national banking laws, R.S. 324 *et seq.*, as amended; 12 USC 1 *et seq.*, hereby amends Part 18, as set forth below.

Effective Date: The effective date of these amendments is January 1, 1977.

Dated: December 10, 1976.

Table of Contents

Sec.	
18.1	Scope and application.
18.2	Financial statements

18.3 General rules

Appendix A—Balance sheet

Appendix B—Statement of earnings

Appendix C—Reconciliation of equity capital accounts

Appendix D—Reconciliation of reserve for possible loan losses (valuation reserve)

Authority: R.S. 324 *et seq.*, as amended; (12 USC 1 *et seq.*).

18.1 Scope and application

This part is issued by the Comptroller of the Currency under the general authority of the National Banking Laws, R.S. 324 *et seq.* as amended, 12 USC 1 *et seq.*, and contains rules applicable to the issuance of annual reports by national banks.

(a) Every national bank shall mail an annual report to each of its shareholders, to the Comptroller of the Currency and the appropriate regional administrator, containing, as a minimum, the information required by this part. This part shall not apply to the following:

(1) Banks which are furnishing annual reports to shareholders in accordance with Section 11.5(c) of Part 11 of the Comptroller's Regulations; or

(2) Banks which, except for directors' qualifying shares, are wholly-owned subsidiaries of bank holding companies.

(b) Every bank subject to this part shall mail an annual report to each of its shareholders at least 10 days prior to its annual meeting but in no event later than 60 days after the close of the bank's fiscal year.

18.2 Financial statements

The following financial statements must be included in the annual report to shareholders:

(a) Comparative balance sheets as of the end of the two most recent fiscal years (See Appendix A);

(b) Comparative statements of earnings for the two latest fiscal years (See Appendix B);

(c) Comparative reconciliation of equity capital accounts for the two latest fiscal years (See Appendix C);

(d) Comparative reconciliation of reserve for possible loan losses (valuation reserve) for the two latest fiscal years (See Appendix D).

18.3 General rules

(a) The financial statements called for by this part should be prepared in accordance with the applicable instructions and definitions set forth by the Office of the Comptroller of the Currency in the publication entitled,

"Instructions for Preparation of Consolidated Reports of Condition and Reports of Income by National Banking Associations" and in any other releases amending or interpreting this publication.

(b) The following information should be disclosed, when applicable, in footnotes to the financial statements:

(1) A summary of significant accounting policies, such as whether the bank is on the cash or accrual basis of accounting;

(2) Any changes in accounting principles or practices or in the method of applying any accounting principles or practices made during any period for which financial statements are filed which affect comparability of such financial statements with those of prior or future annual periods, and the effect thereof upon the net income for each period for which financial statements are filed;

(3) Retroactive adjustment made during any period for which financial statements are filed, and the effect thereof upon net income of prior periods;

(4) A brief description of any restrictions, other than statutory, on the payment of dividends;

(5) The components of income tax expense, including taxes currently payable and deferred income taxes;

(6) A breakdown of the loan portfolio similar to the major loan categories of Schedule A of the consolidated report of condition; and

(7) The amount of outstanding stand-by letters of credit.

(c) The statements and footnotes called for by this part are minimum requirements. Additional information as may be necessary to make the financial statements not misleading shall be included.

(d) The requirements of this part may be met by providing each shareholder with a copy of the balance sheet of the consolidated report of condition and section A of the consolidated report of income, and the following information, for both the current and immediately preceding year:

(1) Income before securities gains (losses) per common share;

(2) Net income per common share;

(3) Appendix C of this part;

(4) Appendix D of this part;

(5) Footnotes pursuant to Section 18.3(b); and

(6) Such additional information as may be necessary to meet the requirements of Section 18.3(c).

Appendix A—Balance Sheet (consolidated)

[In thousands of dollars]

	19__	19__
Resources:		
1. Cash and due from banks		
2. U.S. Treasury securities		
3. Obligations of other U.S. government agencies and corps		
4. Obligations of states and political subdivisions		
5. Other bonds, notes, and debentures		
6. Federal Reserve stock and corporate stock		
7. Trading account securities		
8. Federal funds sold and securities purchased under agreements to resell		
9. (a) Loans, total (excluding unearned income)		
(b) Less: reserve for possible loan losses		
(c) Loans, net		
10. Direct lease financing		
11. Bank premises, furniture and fixtures, and other assets representing bank premises		
12. Real estate owned other than bank premises		
13. Investments in unconsolidated subsidiaries and associated companies		
14. Customers' liability to this bank on acceptances outstanding		
15. Other assets		
16. Total assets		
Liabilities:		
17. Demand deposits of individuals, partnerships, and corps		
18. Time and savings deposits of individuals, partnerships and corps		
19. Deposits of U.S. government		
20. Deposits of states and political subdivisions		
21. Deposits of foreign governments and official institutions		
22. Deposits of commercial banks		
23. Certified and officers' checks		
24. Total domestic deposits		
(a) Total demand deposits		
(b) Total time and savings deposits		
(c) Deposits in foreign offices		
(d) Total domestic and foreign deposits		
25. Federal funds purchased and securities sold under agreements to repurchase		
26. Liabilities for borrowed money		
27. Mortgage indebtedness		
28. Acceptances executed by or for account of this bank and outstanding		
29. Minority interest in consolidated subsidiaries		
30. Other liabilities		
31. Total liabilities		
32. Subordinated notes and debentures		
Equity Capital Accounts:		
33. Preferred stock:		
(a) No. shares outstanding . . . (par value)		
34. Common stock:		
(a) No shares authorized		
(b) No. shares outstanding . . . (par value)		
35. Surplus		
36. Undivided profits		
37. Reserve for contingencies and other capital reserves		
38. Total equity capital		
39. Total liabilities and equity capital		

NOTE: Banks may combine various lines as follows if the particular line figure is less than 3 percent of total assets. Line 14 into line 15; Line 7 into lines 2, 3, 4, and 5, as appropriate; line 28 into line 30. Lines for which banks have no entry may be omitted.

Appendix B—Statement of Earnings (consolidated)
[In thousands of dollars]

	19__	19__
1. Operating income:		
(a) Interest and fees on loans		
(b) Interest on balances with banks		
(c) Income on federal funds sold and securities purchased under agreements to resell in domestic offices		
(d) Interest on U.S. Treasury securities		
(e) Interest on obligations of other U.S. government agencies and corporations		
(f) Interest on obligations of states and political subdivisions of the U.S.		
(g) Interest on other bonds, notes and debentures		
(h) Dividends on stock		
(i) Income from direct lease financing		
(j) Income from fiduciary activities		
(k) Service charges on deposit accounts in domestic offices		
(l) Other service charges, commissions, and fees		
(m) Other income		
(n) Total operating income (sum of items 1-a through 1-m)		
2. Operating expenses:		
(a) Salaries and employee benefits		
(b) Interest on time certificates of deposit of \$100,000 or more issued by domestic offices		
(c) Interest on deposits in foreign offices		
(d) Interest on other deposits		
(e) Expense of federal funds purchased and securities sold under agreement to repurchase in domestic offices		
(f) Interest on borrowed money		
(g) Interest on subordinated notes and debentures		
(h) 1. Occupancy expense of bank premises, gross		
2. Less: rental income		
3. Occupancy expense of bank premises, net		
(i) Furniture and equipment expense		
(j) Provision for possible loan losses (or actual net loan losses)		
(k) Minority interest in consolidated subsidiaries		
(l) Other expenses		
(m) Total operating expenses (sum of items 2-a through 2-l)		
3. Income before income taxes and securities gains or losses (Item 1-n minus 2-m)		
4. Applicable income taxes (domestic and foreign)		
5. Income before securities gains or losses (item 3 minus 4)		
6. (a) Securities gains (losses), gross		
(b) Applicable income taxes (domestic and foreign)		
(c) Securities gains (losses), net		
7. Income before extraordinary items		
8. Extraordinary items, net of tax effect		
9. Net income		
Earnings per common share:		
Income before securities gains (losses)		
Net income		

NOTE: Banks may combine any line item 1-a through 1-l into line 1-m, and any line item 2-a through 2-i into line 2-l, provided the particular line figure to be combined is less than 3 percent of total operating income. Lines for which banks have no entry may be omitted.

Appendix C—Reconciliation of Equity Capital Accounts, 19__
[In thousands of dollars]

	Preferred stock (par value)	Common stock (par value)	Surplus	Undivided profits and capital reserves	Total equity capital
1. Balance beginning of period					
2. Net income (loss)					
3. Sale, conversion, acquisition or retirement of capital					
4. Changes incident to mergers and absorp- tions					
5. Cash dividends declared on common stock ...					
6. Cash dividends declared on preferred stock ...					
7. Stock dividends issued					
8. Other increases (decreases) (itemize)					
9. Balance end of period					

NOTE: This schedule is identical to Section B of the consolidated report of income, and should be prepared for each of the latest 2 years.

Appendix D — Reconciliation of Reserve for Possible Loan Losses (Valuation Reserve)
[In thousands of dollars]

	19__	19__
1. Balance beginning of period		
2. Recoveries credited to reserve		
3. Changes incident to mergers and absorption		
4. Provision for possible loan losses (must equal Item 2] on statement of earnings)		
5. Losses charged to reserve		
6. Balance end of period		

NOTE: Every bank subject to this part must provide this schedule as part of its report to shareholders. Banks with total resources of less than \$25,000,000 as of the end of the previous year which have no reserve for possible loan losses (valuation reserve) must, nevertheless, provide this schedule as part of their report to shareholders. These banks will show a beginning balance of zero, gross recoveries on line 2, gross losses on line 5, and net losses or recoveries on line 4, which will result in an ending balance of zero.

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