Bank Expansion in New York State: The 1971 Statewide Branching Law*

Commercial banking in New York State is rapidly becoming statewide in character. Only two decades ago, commercial banking throughout most of the state was marked by a large number of small, independent, locally oriented banks. However, during the fifties and increasingly since the midsixties, community banking has given way to regional and statewide banking—to more widely dispersed branch networks and to bank holding company systems that bridge the entire state. This trend toward wider area commercial bank expansion, larger banking organizations, and fewer banks in New York State will become even more apparent in the years ahead as banks respond to the new state banking law, enacted this past June, that permits statewide commercial bank branching in 1976.[1]

This article traces the evolution of New York State's commercial banking structure during the past two decades and explains how developments in this period led to and ultimately prompted the passage of the state's new banking law. The article then examines the major provisions of the new banking legislation and explores their probable effects on the structure of banking in New York State.[2]

BANK EXPANSION IN THE 1950's

The geographical boundaries that contain commercial bank expansion in New York State today date from 1934 when the state legislature enacted the Stephens Act permitting regional branching within the state.[3] This act partitioned the state into nine banking districts within which commercial banks could branch and merge. Within banking districts, state law prohibits commercial banks from establishing a new (*de novo*) branch in any community (except New York City) which is "home office protected" —that is, in which an independent commercial bank is headquartered.[4] The only way a bank may enter a home office protected community is by acquiring an existing bank through merger.

Most banking districts outside New York City include a major upstate city and its surrounding metropolitan area. The map (Chart I) shows the district boundaries and their relation to the seven Standard Metropolitan Statistical Areas (SMSAs) in New York State, as currently defined.[5] The districts, as originally established, provided much less room for the expansion of New York City banks than banks elsewhere in the state. Banks in cities and towns outside New York City were permitted to branch and

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[1] New York Laws of 1971, Ch. 380.

[2] The 1971 law also authorizes statewide branching for savings banks and savings and loan associations in 1976. However, this article focuses solely on the structural changes in the state's commercial banking industry.

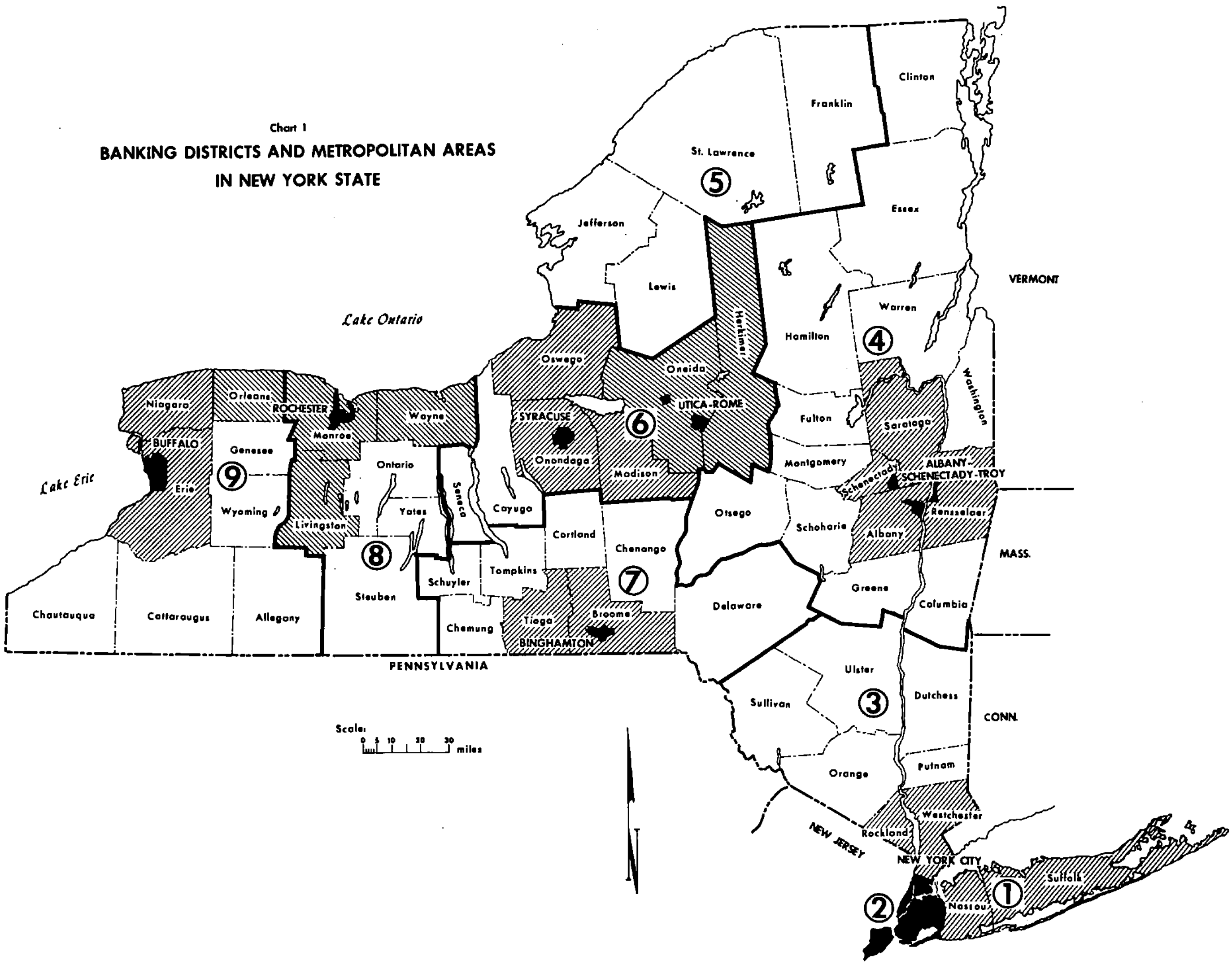
[3] Prior to 1934, expansion powers of commercial banks in the state were extremely limited. State-chartered banks in New York City had been permitted to branch within the city since 1898. A 1919 state law permitted state-chartered banks to establish branches in their home office communities, if the community had a population greater than 50,000. The McFadden-Pepper Act in 1927 authorized national banks to branch in their home communities if state law permitted state-chartered banks to do so.

[4] New York Banking Law §105(1). Home office protection does not apply to communities with a population greater than one million. New York City is the only city in the state with a population over one million and thus is the only home office city in the state that is not protected.

[5] The Bureau of the Census defines a Standard Metropolitan Statistical Area as a county or group of contiguous counties that contains at least one central city of 50,000 inhabitants or more, or "twin cities" with a combined population of at least 50,000. Other contiguous counties are also included in an SMSA if they are essentially metropolitan in character and are socially and economically integrated with the central city. On Chart I, the central cities are represented by blackened areas.

Chart 1

BANKING DISTRICTS AND METROPOLITAN AREAS IN NEW YORK STATE



merge over broad, multicounty areas that at the time stretched far beyond their immediate trading areas. New York City banks, on the other hand, continued to be restricted to in-city branches only.[6] This limitation reflected the then widely held fears that New York City banks would come to dominate the state's entire banking system if not confined to the city proper. In signing the Stephens Act into law, Governor Lehman stated the act "contains solid, strong safeguards" against upstate penetration by expansion-minded Manhattan banks.[7]

OUTSIDE NEW YORK CITY. Banks outside New York City responded slowly to their newly created branching pow-

[6] New York City consists of five counties or boroughs: New York (Manhattan), Bronx, Richmond, Kings (Brooklyn), and Queens. The first three comprise the Second Banking District and the latter two counties along with suburban Nassau and Suffolk counties on Long Island comprise the First District. Therefore, banks headquartered in Brooklyn or Queens may branch into Nassau and Suffolk counties.

[7] Memorandum to the New York State legislature by Governor Herbert Lehman, May 21, 1934.

ers. Until the fifties, branching was largely local and confined generally to areas close to the home office. Intercounty branching was relatively rare. Only 21 banks outside New York City operated branches outside their head office county in 1950, and the number of such out-of-county branches totaled only 31. In fact, in 1950, only about one eighth of all banks in the banking districts outside New York City operated any branches at all. Nevertheless, these branch banks accounted for nearly three fifths of all commercial bank deposits outside New York City (see Table I).

During the fifties, however, commercial bank expansion gathered considerable momentum. Spurred by massive shifts of population and business activity from city to suburb, banks began to forge branch networks over wider geographical areas by expanding first into nearby communities, then across county lines. Eventually, branch systems of major banks in upstate cities embraced entire metropolitan, regional, and banking district areas, as these banks began to extend their branch networks to the fullest geographical extent permitted by state law.

By the end of 1960, about one bank in three outside New York City operated branches and these branch banks held seven eighths of the total bank deposits outside New York City (see Table I). In addition, the number of banks outside New York City operating branches outside their home county rose to 36 in 1960, and the number of such out-of-county branches grew to 175. Mostly because of heavy merger activity, the number of banks outside New York City declined from 567 to 353 between 1950 and 1960. More significantly, the proportion of deposits held by the three largest banks in most upstate metropolitan areas increased appreciably between 1950 and 1960, evidence that large banks in upstate cities were well on their way toward capturing a major share of the available banking business within their metropolitan areas (see Table II). However, despite the decline in the number of banks and the rise in deposit concentration, the total number of banking offices outside New York City actually increased by 37 percent, from 835 to about 1,145 (see Table III). New branch establishments exceeded population growth during the fifties, so that population per banking office outside New York City declined by 5 percent to about 7,900.

IN NEW YORK CITY. A different situation prevailed in the New York City area during the 1950's. New York City banks were legally restricted from branching and merging beyond the city. Throughout the fifties the New York City banks pressed unsuccessfully for a legislative redistricting, so that they could enter the growing and profitable suburban markets. Not surprisingly, suburban bankers opposed their entry.

With the enactment of the Federal Bank Holding Company Act in May 1956, the New York City banks appeared to have won the relief they had been seeking. Although the 1956 legislation was regulatory in nature, the law also served, in effect, to remove the stigma that had been associated with abuses of unregulated holding company systems in the 1920's and 1930's. Indeed, six months after the passage of the legislation, First National City Bank proposed to organize a bank holding company with a large bank outside New York City (County Trust Company, White Plains) and thereby break out of its geographical containment.[8] At this point, the New York State authorities had no control over the formation and expansion of bank holding companies. To provide the state legislature

Table I

BRANCH BANKS AND DEPOSITS HELD BY BRANCH BANKS IN NEW YORK STATE BY BANKING DISTRICT*

In percent

Banking district	Proportion of branch banks			Proportion of deposits held by branch banks		
	1950	1960	1970	1950	1960	1970
Nassau and Suffolk	16	58	92	32	91	99
New York City	53	64	65	91	97	98
3	12	46	77	48	87	97
4	14	42	67	64	89	95
5	8	23	36	22	77	84
6	16	36	67	66	86	94
7	17	27	50	51	82	89
8	10	25	52	80	92	95
9	13	22	50	71	86	95
Total state	18	40	62	85	95	98
State outside New York City	14	36	62	59	87	96

* All data are as of the year-end except 1950 deposit data which are as of June 30.

Sources: Federal Reserve Bank of New York; *Polk's Bankers Encyclopedia* (September 1950).

[8] Interestingly, one major statewide bank holding company—Marine Midland Banks, Inc., Buffalo—has been in existence for over four decades. This organization was established in the late 1920's, a period which witnessed the sudden emergence and spread of holding company banking across the nation. As early as 1930, Marine Midland controlled 16 banks and almost 4 percent of the commercial bank deposits in New York State.

Table II

DEPOSITS HELD BY THE THREE LARGEST BANKS IN THE METROPOLITAN AREAS OF NEW YORK STATE*

In percent

Metropolitan area	1950	1960	1970
New York City	42	46	48
Buffalo	75	92	94
Rochester	70	84	82
Syracuse	68	77	73
Albany-Schenectady-Troy	64	72	73
Binghamton†	53	90	89
Utica-Rome	52	81	93

* Data for 1950 are as of June 30; 1960 and 1970 data are as of the year-end. All metropolitan areas are the Standard Metropolitan Statistical Areas as currently defined by the Bureau of the Census.

† New York State portion only.

Sources: Federal Reserve Bank of New York; *Polk's Bankers Encyclopedia* (September 1950).

with additional time to consider permanent holding company legislation, the legislature passed a series of "freeze" laws beginning in 1957 to prohibit the further creation or expansion of bank holding companies in the state. In 1958, the Board of Governors of the Federal Reserve System denied First National City's proposal primarily on competitive grounds.

Finally, in 1960, the state legislature enacted the so-called Omnibus Banking Act, the first major banking structure legislation in New York State since 1934.[9] This legislation not only terminated the freeze on bank holding company formation and expansion and provided for state regulation of bank holding companies but, in addition, granted New York City banks long sought entry into nearby suburbs. Among other provisions, the 1960 act permitted New York City banks to branch and merge across district boundaries into neighboring Nassau and Westchester counties and also authorized Nassau and Westchester banks to enter New York City.

BANK EXPANSION IN THE 1960's

New York City banks responded with enthusiasm to their newly created suburban branching powers. Between the year-ends 1960 and 1970, over 100 *de novo* branches were established by New York City banks in Nassau and Westchester. These branches accounted for about three fifths of all *de novo* branches established in Nassau and Westchester counties during this period. Taking into account banking offices acquired through merger, New York City banks operated a total of about 135 banking offices in Nassau and Westchester by the end of 1970. In that year, New York City banks held about one quarter of the deposits in these two suburban counties. In addition, two Long Island banks entered New York City during the sixties and a third Long Island institution has recently proposed to enter the city.

While bank expansion in the state during the sixties through *de novo* branching was strongly paced, expansion through merger and acquisition faced increasingly strict legal and regulatory standards. The passage of the Bank Holding Company Act of 1956 and the Bank Merger Act of 1960 evidenced national concern over the competitive implications of bank expansion. These laws required, for the first time, prior approval by the Federal bank regulatory authorities for bank acquisitions by holding companies and for bank mergers. Several years later, in the landmark *Philadelphia National Bank* and *Lexington* cases, the Supreme Court established that bank mergers were subject to the antitrust laws.[10] These events created a new legal and regulatory climate; banks would now have to consider such factors as competition and convenience and needs in formulating their expansion plans. Between 1960 and 1965, three major New York City banks proposed to form multidistrict banking organizations by joining with large banks outside New York City; all three proposals encountered opposition from the bank regulatory authorities on competitive or legal grounds.[11]

As the decade progressed and pressures for wider area expansion powers mounted, banks again sought to test the state and Federal bank holding company laws. In the last half of the 1960's, five important banks in the state—

[9] The Omnibus Banking Act of 1960 was reenacted in 1961 because of certain procedural defects in the original act. For a further discussion of this act, see "New York State's 'Omnibus Banking Law'", *Monthly Review* (Federal Reserve Bank of New York, June 1960), pages 94-99.

[10] *United States* vs. *Philadelphia National Bank*, 374 U.S. 321, 356 (1963); *United States* vs. *First National Bank & Trust Company of Lexington*, 376 U.S. 665 (1964).

[11] In 1960, Bankers Trust Company proposed to form a bank holding company with County Trust Company, White Plains; in 1961, Morgan Guaranty Trust Company proposed a bank holding company with six upstate banks; and in 1965, Chase Manhattan Bank proposed to acquire Liberty National Bank and Trust Company, Buffalo. Interestingly, three of the six upstate banks included in the Morgan proposal have formed (or propose to form) their own bank holding company systems.

Table III

BANKS AND BANKING OFFICES IN NEW YORK STATE BY BANKING DISTRICT*

Banking district	Number of banks			Number of banking offices†		
	1950	1960	1970	1950	1960	1970
Nassau and Suffolk	87	40	24	114	216	436
New York City	68	50	46	555	628	893
3	107	72	44	142	205	365
4	90	55	36	126	154	224
5	40	30	25	48	53	61
6	62	33	24	94	120	167
7	48	37	34	65	80	113
8	48	32	31	70	110	161
9	85	54	32	176	205	277
Total state	635	403	296	1,390	1,771	2,697
State outside New York City	567	353	250	835	1,143	1,804

* Data are as of the year-end.

† The number of banking offices comprises the total of home offices and branches.

three of the smaller New York City money market banks and two upstate banks—proposed bank holding company systems through the acquisition of small- and medium-sized out-of-district banks. The New York State Banking Board and the Board of Governors of the Federal Reserve System approved these proposals and thereby established the bank holding company as an effective vehicle for assembling statewide banking organizations that straddled district lines. Thus, with careful consideration of competitive issues, banks could now accomplish what was otherwise forbidden by banking district boundaries.

The growth and expansion of bank holding companies in New York State since the midsixties have been vigorous. In 1965, there were only three bank holding companies in the state having subsidiaries in more than one district. By the end of 1970 there were eleven such companies, including nine major companies.[12] In the brief span of five years, the number of banks controlled by these organizations increased from 17 to 62, the number of banking offices operated by the subsidiaries grew from less than 250 to almost 1,100, and holding companies' share of commercial bank deposits in the state climbed from 6 percent to 34 percent (see Chart II). Today, multibank holding companies encompass virtually the entire state. Indeed, all banking districts (except District 5) have at least five banks affiliated with holding companies. Moreover, five holding companies have gained representation in a majority of the state's nine banking districts (see Table IV).

At the same time that multibank holding companies expanded across district lines, branching activity within districts continued at a lively pace. This branching activity involved both independent and holding company banks. Outside New York City, the number of banking offices rose to about 1,800 between the year-ends 1960 and 1970; population per banking office declined from about 7,900 to 5,700 during this period. In the state as a whole, the number of banking offices climbed to nearly 2,700, almost twice the number in existence at the end of 1950 (see Table III).

Intradistrict expansion in the 1960's assumed a different character than in the 1950's in two important respects: the geographical extent of branching and the pace of merger activity. In the earlier decade, banks had branched primarily in their own communities and metropolitan areas. In the later decade, however, banks extended their branch networks well beyond their home communities. By the end of 1970, about 60 institutions outside New York City operated a total of about 425 branches outside their head-office county; only 36 banks had operated out-of-county branches at the end of 1960.

Moreover, expansion within districts during the fifties frequently involved the absorption of another bank through merger. As a result, deposits in many markets across the state became concentrated in fewer banks. In the new legal and regulatory environment of the 1960's, there were, in contrast, considerably fewer mergers. To be sure, the number of banks in the state continued to decline during the 1960's, but the absorbed banks were not being acquired by the state's largest organizations as had been the case in the previous decade. As a result of greater out-of-market bank expansion and a decline in merger activity, the increase in the concentration of deposits that occurred in markets during the 1950's was, for the most part, arrested in the 1960's (see Table II).

THE 1970 AMENDMENTS TO THE FEDERAL BANK HOLDING COMPANY ACT

In the last years of the 1960's, a development occurred that ultimately proved to be a significant factor in the enactment of statewide branching legislation in the state:

[12] The 1970 figures include bank holding companies proposed prior to the year-end 1970.

the rise of the one-bank holding company. At that time, many large banks throughout the country began forming one-bank holding companies by reorganizing themselves into a single bank subsidiary of a holding company parent. One-bank holding companies were then exempt from Federal and New York State regulation. By the year-end 1970, some 34 banks in the state, including the state's five largest banking organizations, had formed one-bank holding companies, largely for the purpose of expanding operations into fields other than banks' traditional depository and lending activities. Many of these activities were permitted neither to banks themselves nor to holding companies with more than one bank.

At the end of 1970, amendments to the Bank Holding Company Act of 1956 were enacted that brought one-bank holding companies under Federal regulation for the first time. These amendments made both one-bank and multibank companies subject to the same law. The 1970 legislation also provided greater leeway for bank holding companies to expand into fields closely related to banking.[13]

One of the reasons why the largest New York City banks had not formed multibank holding companies was to avoid further Federal regulation. Once registration of one-bank holding companies was required by law, there was no longer any special deterrent to the formation of statewide multibank holding companies—even if the regulatory authorities would allow only relatively small acquisitions. It seemed quite clear soon after the enactment of the Federal bank holding company legislation that, even without statewide branching, New York State was about to witness extensive statewide banking by bank holding companies. In fact, four New York City one-bank holding companies (First National City Corporation, Chase Manhattan Corporation, Chemical New York Corporation, and Manufacturers Hanover Corporation) have since announced specific proposals to form multibank companies by acquiring existing banks or establishing new ones.

In effect, the factors that spurred the development of multibank holding companies, including the 1970 Federal bank holding company legislation, were transforming the state's district boundaries into paper barriers. Indeed, holding company banking and particularly the 1970 bank holding company legislation played a catalytic role in bringing statewide branching to New York State.

THE 1971 STATEWIDE BRANCHING LAW

The new banking legislation in New York State, signed by Governor Rockefeller in June 1971, establishes a single banking district as of January 1, 1976. The 4½-year transition period before statewide branching becomes possible was designed to allow upstate banks ample time to prepare for the new competitive environment.

The 1971 law, like most other legislation, was a product of intense bargaining and compromise. Statewide branching was staunchly opposed by suburban bankers, notably in Suffolk County. However, in early 1971, the two largest banking organizations in the state—First National City Corporation and Chase Manhattan Corporation—each proposed to organize a new bank on Long Island which would provide a base for branching throughout Suffolk County, one of the fastest growing areas in the state. Long Island bankers were particularly concerned about such *de novo* entry into communities with home office protection. To quiet the opposition and at the same time to enlist the support of suburban banks for the statewide branching bill, three provisions were included in the bill that limit the ability of bank holding companies to form new banks and the ability of such newly formed banks to branch freely.

One provision, effective immediately, prohibits a bank holding company from setting up a new bank or acquiring a bank chartered less than five years in a home office protected community.[14] Indeed, the threat of such *de novo* entry by bank holding companies was probably one of the most potent influences inducing the suburban bankers to seek compromise. The provision immediately foreclosed Chase Manhattan's proposal to establish a *de novo* bank in Garden City, Long Island. A second provision, also effective immediately, limits the number of *de novo* banks a bank holding company may establish to one per banking district. This restriction will terminate in 1976 when banking district lines are swept away. A third compromise provision restricts the branching powers of all newly chartered banks. A bank is prohibited from branching until it has been chartered for one year. Thereafter, it may establish only two branches a year until it has been chartered for five years. This provision expires in 1976.

In addition to these three provisions and the authorizing of statewide branching in 1976, the new banking law

[13] See Alfred Hayes, "The 1970 Amendments to the Bank Holding Company Act: Opportunities to Diversify", *Monthly Review* (Federal Reserve Bank of New York, February 1971), pages 23-27.

[14] Under prior law, such new bank establishments and bank acquisitions by holding companies were not subject to the home office protection rule.

also provides for a two-step reduction in the population limit of home office protected communities. The population ceiling will be lowered from one million to 75,000 beginning in 1972 and then to 50,000 in 1976. As a result, in 1972, five cities—Buffalo, New Rochelle, Rochester, Schenectady, and Utica—will become open to *de novo* branching by banks not having their head office in such a city.[15] Thus, some new competition will likely be introduced into these five cities as "outside" banks, long barred from *de novo* entry, establish new branches there. In fact, several applications to establish *de novo* branches have already been filed with the bank regulatory authorities.

LOOKING AHEAD

Although the statewide branching provisions of the new law do not become effective until 1976, a considerable amount of commercial bank expansion is sure to take place over the next few years. Indeed, by the time statewide branching becomes permissible, the major effects of statewide banking on the state's banking structure may have already been felt. Action by New York City banking institutions and by major upstate holding company organizations is already in progress.

In addition to the New York City one-bank holding companies that have already decided to become multibank institutions, existing multibank holding companies too will likely continue expanding their affiliations to establish themselves as truly statewide organizations. At the same time, upstate banks can be expected to take defensive action to protect their existing markets. Significant branching and merging activity as well as bank holding company acquisition activity may therefore take place upstate in anticipation of the entry by New York City organizations.

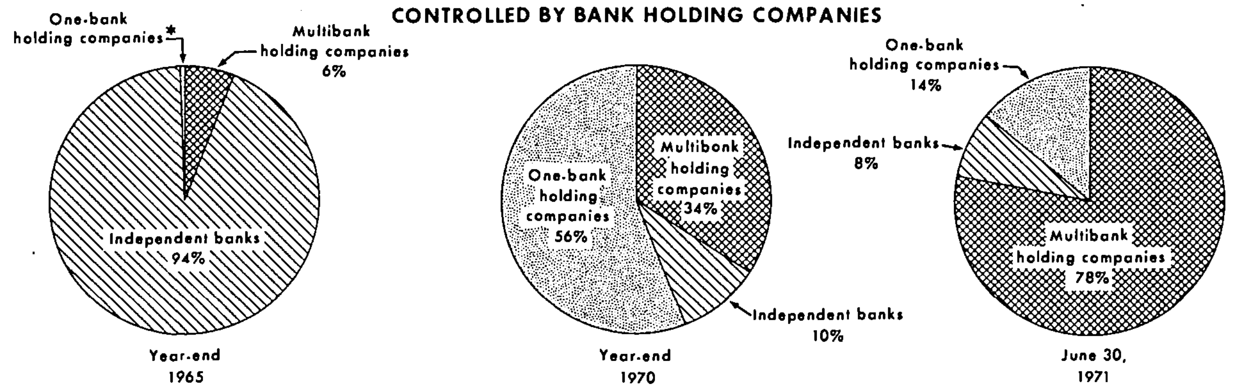
Bank regulatory authorities will have much to say about how the banking structure in the state will develop. Although Federal authorities will play an important role in this regard, their jurisdictional powers are limited.[16] The New York State authorities, on the other hand, have the legal power to rule on mergers in which the surviving

[15] Based on 1970 population data, home office protection would, however, not be removed from any additional cities in 1976 under this new provision.

[16] The Federal Reserve System rules on bank mergers in which the surviving bank is state chartered and a member of the Federal Reserve System and also has jurisdiction over all bank holding company formations and acquisitions; the Comptroller of the Currency rules on bank mergers in which the surviving bank is a national bank; and the Federal Deposit Insurance Corporation rules on bank mergers in which the surviving bank is a state-chartered, insured bank and not a member of the Federal Reserve System.

Chart II

PROPORTION OF COMMERCIAL BANK DEPOSITS IN NEW YORK STATE CONTROLLED BY BANK HOLDING COMPANIES



Note: 1970 and 1971 data include proposed bank holding companies and bank subsidiaries.

* Less than 1 percent.

Table IV

TWENTY LARGEST BANKING ORGANIZATIONS IN NEW YORK STATE*

Banking organization	Headquarter location of principal bank	Deposits (in millions of dollars)†	Operating in banking district
Chase Manhattan Corp.	New York City	15,493	1, 2, 3, 6
First National City Corp.	New York City	13,412	1, 2, 3, 9
Manufacturers Hanover Corp.	New York City	10,229	1, 2, 3
Chemical New York Corp.	New York City	8,238	1, 2, 3
J. P. Morgan & Co., Inc.	New York City	7,640	2
Bankers Trust New York Corp.	New York City	6,650	1, 2, 3, 4, 7, 8, 9
Marine Midland Banks, Inc.	Buffalo	6,416	1, 2, 3, 4, 5, 6, 7, 8, 9
Charter New York Corp.	New York City	4,820	1, 2, 3, 4, 6, 7, 8, 9
Bank of New York Corp.	New York City	2,640	1, 2, 3, 4, 6, 7, 9
Franklin National Corp.	New York City (Brooklyn)	2,358	1, 2
CIT Financial Corp. (National Bank of North America)	New York City (Queens)	1,779	1, 2, 3
Lincoln First Banks, Inc.	Rochester	1,727	3, 5, 6, 7, 8, 9
Security National Bank of Long Island	Huntington	1,334	1, 2
First Commercial Banks, Inc.	Albany	1,286	3, 4, 6
United Bank Corp. of New York	Albany	1,191	4, 9
First Empire State Corp.	Buffalo	964	2, 9
Security New York State Corp.	Rochester	518	6, 7, 8, 9
United States Trust Co. of New York	New York City	404	2
Empire National Group, Inc.	Middletown	370	3
Long Island Trust Co.	Garden City	358	1

* Includes merger proposals and bank holding company formations and acquisitions announced prior to November 5, 1971.
† Deposit data are as of June 30, 1971; figures include deposits in domestic branches only.

bank is state chartered, on holding company formations and acquisitions, as well as on mergers involving a bank subsidiary of a holding company.[17] The state thus has authority over the acquisition activity of all bank holding companies and all holding company banks, both state and national. Since almost every large bank in the state is a member of a bank holding company system, the Superintendent of Banks of the State of New York is therefore in a commanding position to shape the state's banking structure. Indeed, bank subsidiaries of all holding companies currently control about 92 percent of total deposits in the state (see Chart II).

William T. Dentzer, Jr., Superintendent of Banks in New York State, has in fact taken an avid interest in banking structure matters and has demonstrated a keen concern for preserving and fostering viable bank competition. Recent speeches and decisions in actual bank acquisition and merger cases indicate Mr. Dentzer's hard-line stance against proposals that might seriously lessen existing or potential competition, particularly those involving the expansion of upstate affiliates of New York City organizations. He has repeatedly stated that in the immediate future his aim will be to facilitate the establishment and expansion of new bank holding companies that might serve as effective competitors to existing organizations and to help promote the expansion of smaller bank holding companies into new markets. Indeed, it was primarily this interest in developing strong new competitors to existing systems that led Mr. Dentzer to request and support a reasonable transition period before the statewide branching provisions would become effective.

What then will be the result of increased statewide ex-

[17] This latter authority derives from the legal requirement that a bank holding company, with certain minor exceptions, must receive prior approval from the State Banking Board to vote the stock of a bank subsidiary in favor of merging or consolidating with, or acquiring the assets of, any bank. New York Banking Law §142(1).

pansion in the years ahead? It seems fairly certain that the decline in the number of commercial banks (and banking organizations) in the state, which has been evident throughout the postwar period, will continue for years to come. Probably, there will emerge in the next several years some fifteen to twenty major statewide organizations, each having representation in most of the important markets of the state. Currently, thirteen major banking organizations in the state have subsidiaries (or have proposed to acquire or establish subsidiaries) in more than one banking district. After 1976, many of the holding companies may merge their bank subsidiaries into statewide branch systems or perhaps regional branch systems. This may take a number of years. Some bank holding companies may retain their multibank holding company forms.

The large New York City banking systems seeking statewide organizations are likely to be limited to "foothold" acquisitions. Therefore, there appears to be little danger that they will substantially increase their share of out-of-city deposits. Indeed, as of the middle of 1971, upstate subsidiaries of New York City holding companies controlled only about one eighth of total deposits in that area of the state while out-of-city affiliates of upstate holding companies controlled over one half of such deposits. Independent banks accounted for over one third of deposits outside New York City.

Despite the prospect of only fifteen to twenty statewide systems, well-managed independent banks should continue to exist. It is true that their relative importance in terms of total state deposits may decrease, but their significance in their local markets will not necessarily be diminished. It is likely that the small independent bank can also prosper alongside large branch banks and holding company banks.[18] History has shown that small- and medium-sized banks play a significant innovative role and are important in maintaining a healthy competitive environment. Such banks are often more flexible than very large banks in adapting to local banking needs. Moreover, many banking customers prefer dealing with local institutions.

The reduction in the number of commercial banks and banking organizations should not mean a diminution of competition or a lessening of banking alternatives to the public. Quite the contrary, the removal of in-state geographical branching limitations and liberalization of the home office protection rules should actually increase the number of significant competitors in markets across the state that were formerly insulated from "outside" entry. In fact, the number of significant competitors in several important upstate cities has already increased as a result of entry by holding company organizations into new markets. With wise regulatory action, the new banking law should provide an effective vehicle for building a more competitive commercial banking structure in New York State.

[18] Ernest Kohn, *The Future of Small Banks* (New York State Banking Department, 1966). Mr. Kohn found that the profitability of small banks in New York State outside New York City was not adversely affected by the entry of larger banks in their communities. The relative rate of deposit growth of most small banks was dampened somewhat by the entry of large banks, but the absolute level of deposits continued to rise.