# Banking Structure in New York State: Progress and Prospects

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The structure of commercial banking in New York State has undergone a quiet revolution in less than a decade. The possibilities for statewide banking through branching and bank holding company acquisitions have brought all the state's banking markets within the range of new competitive influences. These developments, which have contributed to an improved level of financial services to the public, could not have taken place without the substantial liberalization of state restrictions on branching and the granting of authority for bank holding companies to operate in the state. Moreover, the growth of the bank holding company movement has opened new channels of competition through diversification by New York organizations in bank-related activities in New York State, as well as in other states across the nation, and through the entry of out-of-state bank holding companies into financial markets in this state.

New York State has been in the forefront of the swing toward freer competition in local and regional banking markets across the nation. While a strengthening of competition throughout the state could be expected to benefit the public interest, those urging the relaxation of legal barriers to competition in New York State had to contend with the concerns of those who feared the possible domination of banking by the state's largest organizations. Thus far, these fears have not been borne out. It will, of course, take some time to appraise the full impact of statewide branching and the bank holding company movement on banking structure in New York State. Present indications are that the controlled entry of the state's largest banking organizations into regional and local markets, under regulatory standards designed to promote a healthy competitive environment, has served the public interest by contributing to improvements in the quality and quantity of financial services available to the public.

Multibank holding companies have assumed increased importance in the state's banking structure since the passage of the landmark Federal Bank Holding Company Act Amendments of 1970. They have enabled banking organizations both to expand statewide through acquisition of footholds or *de novo* banks and to engage in nonbanking activities. The liberalization of the state's branch banking law, leading to statewide branching in January 1976, now provides the state's banking organizations with added scope to improve their efficiency and services to the public. A few large organizations have already consolidated their affiliates into statewide branch systems. Banking organizations are likely to be digesting and adjusting to these developments for some time to come. This article reviews the major structural changes that have occurred in the past five years and their significance for the further evolution of banking in New York State.

## EXPANSION THROUGH BRANCHING

The provisions of the state's branch banking amendments of 1971 became fully effective on January 1, 1976, following a 4½-year transition period.[1] Beginning this

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[1] For a discussion of the history of banking legislation and regulatory developments in New York State prior to 1971, see Karen Kidder, "Bank Expansion in New York State: The 1971 Statewide Branching Law"; *Monthly Review* (Federal Reserve Bank of New York, November 1971), pages 266-74.

year, the new law eliminated the previous nine banking districts, which had served to limit the extent of branch banking within the state except for the authority granted to New York City banks to branch into neighboring Nassau and Westchester counties and for banks in those counties to enter New York City. The effect of this change is to authorize statewide branching.

A second change was a reduction of the degree of home-office protection afforded independent banks in the state's major cities. Prior to 1971, entry by outside banks through branching was precluded in a community that had a population of one million or less and was the headquarters of an independent bank (*i.e.*, a bank not affiliated with a bank holding company). New York City was the only major city in the state not eligible for home-office protection under the population ceiling, although by the end of 1971 a few other major cities could be entered by outside banks since all banks headquarterd in those cities were affiliated with bank holding companies. The 1971 amendments reduced the population ceiling for home-office-protected communities to 75,000 in January 1972 and then lowered it again to 50,000 as of January 1976. These changes removed home-office protection from several large cities that still were the headquarters of independent banks. In addition, a provision that limited to one the number of *de novo* banks a bank holding company could establish in each district expired, as did a provision that allowed a newly chartered bank to open only two branches a year until it had been chartered for five years, except that none could be opened during its first year of operation. At the same time, the prohibition on the acquisition by a bank holding company of a newly chartered bank in a home-office-protected community remains intact.

The 1971 relaxation of the branching law contributed to further heavy branching activity in most of the state's major banking markets, where branch banking had already taken root firmly in response to opportunities within each of the former nine banking districts. During 1971-75, an average of 149 *de novo* branches per year were established by New York State banks, a substantial increase over the average of 93 branches per year established during the previous five years. At the end of 1975, 73 percent of the banks in the state operated branch banking systems, up from 40 percent in 1960, and about 97 percent of the deposits outside New York City were controlled by banks operating branch systems. Table I indicates the growth of branch offices and related changes in New York's banking structure between 1950 and 1975.

Table I
**SUMMARY OF BANKING STRUCTURE CHANGES IN NEW YORK STATE**

| Category | 1950 | 1960 | 1970 | 1975 |
|---|---|---|---|---|
| Number of commercial banks | 635 | 403 | 296 | 276 |
| *Independent banks* | *625* | *384* | *230* | *157* |
| *Holding company banks* | *10* | *19* | *66* | *119* |
| Number of branch offices* | 755 | 1,368 | 2,407 | 3,253 |
| Number of bank holding companies† | 4 | 8 | 26 | 32 |
| Number of multibank holding companies | 2 | 3 | 8 | 15 |
| Percentage of state deposits held by multibank holding companies | 3 | 5 | 24 | 81 |
| Percentage of state deposits held by one-bank holding companies | ‡ | ‡ | 62 | 13 |
| Number of bank mergers§ | — | 239 | 130 | 46 |
| Number of new banks§ | — | 11 | 27 | 26 |

Note: All data are for the year-end, except 1950 and 1960 deposit data which are for June 30.
* Net figure reflecting *de novo* branches, branch closings, and other changes in bank office status. Excludes foreign branches and military facilities.
† Includes only holding companies with bank subsidiaries operating in New York State.
‡ Less than 1 percent.
§ Refers to number consummated during periods 1951-60, 1961-70, and 1971-75.
Sources: Federal bank-regulatory agencies and *Polk's Bankers Encyclopedia* (September 1950 and 1960).

## BANK HOLDING COMPANY EXPANSION

The bank holding company movement in New York State dates back to 1929, when Marine Midland Banks, Inc. began operating as a multibank holding company. Three large New York City organizations (Charter New York Corporation, The Bank of New York Company, Inc., and Bankers Trust New York Corporation) commenced operations as multibank holding companies in the middle or late 1960's as did two smaller upstate organizations (Lincoln First Banks Inc. and Security New York State Corporation). Most of the large organizations in the state, however, did not form holding companies until the late 1960's, and then chose to operate as one-bank holding companies. This enabled them to engage in nonbank activities without being subject to regulation under the Bank Holding Company Act of 1956, which applied only to multibank organizations. At the end of 1970, eighteen of the twenty-six holding companies operating banks in New York State were one-bank companies.

Passage of the 1970 amendments to the Bank Holding Company Act brought one-bank and multibank holding companies under the same Federal regulation, thereby eliminating the advantages of the one-bank company. It

Table II

TWENTY LARGEST BANKING ORGANIZATIONS IN NEW YORK STATE

| Banking organization | Consolidated total deposits of organization* | Share of New York State deposits held at domestic offices | Number of domestic bank affiliates |
|---|---|---|---|
| | Millions of dollars | Percent | |
| Citicorp, New York City | 45,163 | 15.4 | 7† |
| The Chase Manhattan Corporation, New York City | 33,948 | 15.2 | 9 |
| Manufacturers Hanover Corporation, New York City | 23,428 | 12.3 | 6 |
| Chemical New York Corporation, New York City | 19,516 | 10.1 | 7 |
| Bankers Trust New York Corporation, New York City | 16,956 | 8.2 | 9 |
| J. P. Morgan & Co., Inc., New York City | 19,954 | 7.5 | 1 |
| Marine Midland Banks, Inc., Buffalo | 9,658 | 5.5 | 10† |
| Charter New York Corporation, New York City | 9,856 | 5.5 | 15 |
| The Bank of New York Company, Inc., New York City | 3,710 | 2.4 | 8† |
| C.I.T. Financial Corporation, New York City | 2,462 | 1.7 | 1 |
| Lincoln First Banks Inc., Rochester | 2,147 | 1.7 | 5 |
| European-American Bank & Trust Company, New York City | 2,144 | 1.4 | 1 |
| First Commercial Banks Inc., Albany | 1,376 | 1.1 | 5 |
| United Bank Corporation of New York, Albany | 1,305 | 1.0 | 3 |
| The Bank of Tokyo, Tokyo, Japan‡ | 1,286 | 1.0 | 1 |
| First Empire State Corporation, Buffalo | 1,238 | 1.0 | 3† |
| Republic New York Corporation, New York City | 1,215 | 0.8 | 1 |
| Security New York State Corporation, Rochester | 793 | 0.6 | 9 |
| LITCO Corporation of New York, Garden City | 504 | 0.4 | 1 |
| United States Trust Company, New York City | 468 | 0.4 | 1 |

Note: All data are for December 31, 1975.
* Figures include deposits held at both domestic and foreign offices.
† Bank affiliates of these holding companies were merged into one or two subsidiaries in January 1976.
‡ Includes only deposits of Bank of Tokyo Trust Company, New York City.

is not surprising, therefore, that soon afterward the state's four largest banking organizations, which had been one-bank holding companies, sought to expand by acquiring bank subsidiaries across the state. As indicated in Table II, thirteen of the twenty largest banking organizations in the state had established statewide banking operations through holding company affiliates as of the end of 1975. By that time, the number of holding companies operating in New York State had increased to thirty-two, and fifteen of them were multibank organizations. (Two of these holding companies merged their respective bank subsidiaries into one bank in January 1976.) The share of state deposits held by all bank holding companies rose to about 94 percent from 86 percent over the five-year period.

**CHANGES IN THE NUMBER AND AFFILIATION OF BANKS IN THE STATE.** The slowing of bank merger activity in New York State between 1970 and 1975 reflected a diminishing number of potential proposals that could satisfy regulatory standards. As a result, the total number of commercial banks in the state declined only slightly to 276 between 1970 and 1975. At the same time, the stimulus to multibank organizations by the Bank Holding Company Act Amendments of 1970 resulted in a jump in the number of banks affiliated with bank holding companies in the state. The number of such affiliates increased from 66 in 1970 to 119 in 1975.

### INCREASED COMPETITION

While bank mergers and acquisitions by bank holding companies contributed to a reduction in the number of nonaffiliated banking institutions serving the state as a whole, the move to statewide banking furthered the entry of new competitors into attractive local and regional markets. The large New York City-based organizations, having very substantial resources at their command, were, of course, in a position to respond to the pull of opportunities in upstate banking markets. As a result, the number of banking institutions operating in many of the state's banking markets increased. Many communities that previously were served only by locally oriented institutions now have access to the services of some of the state's largest and most diversified banking organizations.[2]

In 1970, as noted above, only Charter New York Corporation, The Bank of New York Company, Inc., and Bankers Trust New York Corporation had upstate affiliates. By 1975, virtually all the major New York City bank holding companies had gained representation in the major upstate markets of Albany, Buffalo, Rochester and Syracuse.[3] Yet, the deposits accounted for by the large New York City organizations in upstate banking markets are quite modest. For example, as of December 31, 1975, the seven large New York City holding companies with statewide operations accounted for about 22 percent of the deposits held by New York State banks in offices outside New York City. The four largest New York City holding companies alone accounted for only 4 percent of such deposits, holding as little as 1.4 percent of deposits in the Buffalo market and at most 5.5 percent of deposits in the Albany market.[4] The deposits of the upstate affiliates of New York City holding companies acquired since 1971 amount, on average, to about $29 million.

It is indeed no accident that the penetration of upstate banking markets by the large New York City bank holding companies has not gone very far. A significant restraining influence has been Federal and state regulatory policy, which forecloses any acquisition that would pose a threat to the competitive health of the market involved. Moreover, following the relaxation of the state branching law through the 1971 amendments, the New York State Banking Department established regulatory guidelines to provide for an orderly transition of new entry by the New York City holding companies into upstate markets. The Banking Department's policy centered on two criteria for the upstate acquisitions of New York City holding companies. First, these organizations would be permitted to acquire only *de novo* banks or small footholds. Second, the number of branches established annually by foothold acquisitions would be subject to branch limits similar to those applying to newly chartered banks. Besides these regulatory limits on the establishment of foothold positions in new markets, the natural obstacles to the penetration of new markets, such as the difficulty of changing established banking relationships and overcoming customer inertia, have served to limit the possibilities for these organizations to exert much market leverage.

Table III

**MEASURES OF CONCENTRATION IN SELECTED METROPOLITAN BANKING MARKETS IN NEW YORK STATE**

| Relevant area | Number of banks | | Three-bank concentration ratio* (Percent) | | Concentration Index† | |
|---|---|---|---|---|---|---|
| | 1970 | 1974 | 1970 | 1974 | 1970 | 1974 |
| Albany market‡ | 15 | 18 | 56.0 | 50.0 | .140 | .129 |
| Buffalo market | 10 | 15 | 94.3 | 92.2 | .372 | .349 |
| Rochester market | 17 | 15 | 82.0 | 77.8 | .258 | .245 |
| Syracuse market | 10 | 14 | 74.5 | 71.1 | .227 | .210 |
| | 1972 | 1974 | 1972 | 1974 | 1972 | 1974 |
| Metropolitan New York market§ | 113 | 117 | 45.1 | 47.5 | .098 | .100 |
| New York State | 287 | 280 | 40.0 | 43.4 | ‖ | ‖ |

Note: Data are for June 30 and reflect deposits held in domestic offices.
* Sum of the market shares held by the three largest banks in the market.
† Herfindahl Index. Equals the sum of the squared market shares held by all banks in the market. Value of 1 implies perfect monopoly.
‡ Deposit shares of the Albany banks do not include their holdings of state government deposits.
§ Earlier years not readily available.
‖ Not readily available.
Source: Federal Deposit Insurance Corporation.

[2] Seven New York City organizations are now represented in upstate markets: Citicorp, The Chase Manhattan Corporation, Manufacturers Hanover Corporation, Chemical New York Corporation, Bankers Trust New York Corporation, Charter New York Corporation, and The Bank of New York Company, Inc.

[3] A few of the seven large New York City organizations operating in major upstate markets do not have affiliates in every one of these markets. Charter New York Corporation is not represented in the Buffalo market; The Bank of New York Company, Inc. has no affiliate in the Rochester market; and Manufacturers Hanover Corporation and Bankers Trust New York Corporation are not represented in the Syracuse market.

[4] These four organizations are Citicorp, The Chase Manhattan Corporation, Manufacturers Hanover Corporation, and Chemical New York Corporation. Market deposit shares of these organizations in the Buffalo and Albany markets are as of June 30, 1974.

It should be noted that the possibilities for freer competition in New York State have inspired some new incursions by upstate organizations into the downstate markets. For example, First Commercial Banks Inc., Albany, United Bank Corporation of New York, Albany, and First Empire State Corporation, Buffalo, have acquired bank subsidiaries in the metropolitan New York area and other downstate markets. While such new entry could not be expected to have much immediate effect in the large New York market, it does serve to illustrate that competitive influences seldom operate only in one direction.

The entry into local banking markets by banking institutions not previously represented has tended to reduce the concentration of banking resources in a number of the state's largest banking markets. Both the three-bank concentration ratio and a frequently used index of concentration that is sensitive to changes in the market shares of all market participants (the Herfindahl Index) indicate that there has been a slight reduction in concentration in each of the four upstate metropolitan markets where most new entry has occurred (see Table III). At the same time, concentration has risen slightly over the past few years in the metropolitan New York market. However, with over 100 banking organizations, ranging from very small local institutions to some of the largest banks in the country, competition for retail and wholesale banking business remains quite keen in that market.

## PERFORMANCE OF NEW UPSTATE ENTRANTS

Analysis of income and expenses of New York City organizations that have entered upstate markets since 1971 provides significant insight into the nature of the impact that their entry has had to date, the problems that they face in penetrating markets outside New York City, and the efforts they are exerting to enlarge this part of their business. Table IV shows for the years 1974 and 1975 the average operating ratios of eleven member bank affiliates of the major New York City holding companies that entered upstate markets after 1971.[5] The sample covers affiliates operating in the four major upstate banking markets—Albany, Buffalo, Rochester and Syracuse. To determine whether the operating experience of the new entrants differed markedly from banks already established in the relevant markets as well as throughout the state, the average operating ratios of these affiliates were compared with those of twenty-five other member banks headquartered in the same four upstate markets and not affiliated with New York City holding companies, and with the average ratios of all member banks in the Second Federal Reserve District having deposits of $10 million-$50 million. The latter range included the average size of the New York City affiliates under study. The broad sample of Second District banks included about 130 banks.

One of the striking features of these comparisons is that virtually all of the eleven upstate affiliates of the large New York City organizations under study have not achieved profitable operations since their affiliation.[6] The losses incurred, on average, by the eleven member bank affiliates in 1974 and 1975 reflect several factors on the expense side of their income statements. Both salary and wage expenses as well as net occupancy expenses of the New York City affiliates were significantly larger, measured as a percentage of total operating income, than those of other banks in the markets in which they operate. These expenses also were significantly larger than those of other banks of comparable size in the Second Federal Reserve District. Net charge-offs on loans also were relatively high. The increase in provisions for loan losses from 1974 to 1975 contributed heavily to a deterioration of the New York City affiliates' ratios of net income to total assets, though this was only one factor in the overall unprofitability of the banks. The New York City affiliates also showed significantly higher interest expenses on time and savings deposits. The relatively high operating expenses appear to be at the root of the New York City affiliates' unprofitability, since their return on loans either exceeded or approximated those of the banks headquartered upstate and the Second District member bank group.

It should be recognized that the operating experience of the New York City affiliates is generally typical of *de novo* banks attempting to penetrate markets of established competitors. Such penetration is not easily achieved. The relatively high occupancy and salary expense probably indicates the opening of many new offices that have not yet produced sufficient business to become profitable as well

[5] The operating ratios, which are expressed in percentages, are derived from *Reports of Income* and *Reports of Condition* filed regularly by banks with the Federal bank-regulatory agencies. Because of data limitations, the sample excludes a few bank holding company affiliates that are not members of the Federal Reserve System.

[6] Only one of the eleven affiliates achieved profitable operations in 1974, and none were profitable in 1975.

as the expense of attracting experienced personnel. The high interest paid on time deposits suggests not only higher rates offered on such deposits, but also greater reliance on high-cost deposit sources of funds, in part necessitated by the difficulty of penetrating established deposit markets. Since the growth of the New York City affiliates took place after 1971, most of their time deposits have been acquired during a period of relatively high interest rates.

The New York City affiliates also show significant differences in the composition of their loan portfolios in comparison with the upstate-headquartered organizations. Roughly 40 percent of the New York affiliates' gross loans

**Table IV**

**ANALYSIS OF SELECTED OPERATING DATA OF FEDERAL RESERVE MEMBER BANKS LOCATED IN THE ALBANY, BUFFALO, ROCHESTER, AND SYRACUSE BANKING MARKETS**

| Selected averages | 11 upstate affiliates of 4 largest New York City holding companies* | | 25 banks headquartered upstate† | | Second Federal Reserve District member banks with deposits of $10 million-$50 million | |
|---|---|---|---|---|---|---|
| | 1974 | 1975 | 1974 | 1975 | 1974 (130 banks) | 1975 (126 banks) |
| | Millions of dollars | | | | | |
| **Total deposits per bank** | 18.8 | 25.2 | 330.0‡ | 322.7‡ | 25.0‡ | 24.9 |
| | Percent | | | | | |
| **Time and savings deposits to total deposits** | 55.3 | 52.4 | 62.5 | 63.8§ | 63.9‡ | 63.6§ |
| **Total capital accounts and reserves to total assets** | 15.4 | 10.8 | 8.8‡ | 8.9 | 9.0§ | 9.0‡ |
| **Income ratios:** | | | | | | |
| Net income to equity capital including all reserves | —10.5 | —19.3 | 6.2§ | 7.9§ | 6.0§ | 2.4§ |
| Net income to total assets | — 1.6 | — 1.7 | 0.6§ | 0.7§ | 0.6§ | 0.3§ |
| Service charges on deposit accounts to total operating income | 1.5 | 1.9 | 2.9§ | 3.1§ | 3.0§ | 3.2‡ |
| Return on loans (interest and fees to gross loans) | 11.2 | 10.2 | 9.5§ | 8.9‡ | 9.8§ | 9.1 |
| Net losses (—) or recoveries (+) on loans to gross loans | — 0.8 | — 1.8 | — 0.8 | — 0.4§ | — 0.5 | — 0.7 |
| **Expense ratios:** | | | | | | |
| Salaries and wages to total operating income | 35.8 | 41.8 | 17.7§ | 18.6§ | 19.0§ | 21.2§ |
| Net occupancy expense to total operating income | 12.7 | 15.8 | 4.4§ | 5.0§ | 4.2§ | 5.2§ |
| Interest on time and savings deposits to total time deposits | 7.6 | 6.1 | 6.0§ | 5.4§ | 5.9§ | 5.3§ |
| Total operating expenses to total assets | 11.9 | 11.5 | 6.7§ | 6.4§ | 6.8§ | 6.8§ |
| Total operating expenses to total operating income | 147.0 | 157.4 | 90.4§ | 87.6§ | 91.6§ | 97.1§ |
| **Loan ratios:** | | | | | | |
| Gross loans to total assets | 65.6 | 64.9 | 60.1 | 59.4 | 58.9‡ | 57.7‡ |
| Real estate loans to gross loans | 21.4 | 22.3 | 36.2§ | 36.9§ | 37.2§ | 36.8§ |
| Loans to farmers to gross loans | 0.7 | 0.6 | 1.4 | 1.6 | 2.4 | 2.5 |
| Commercial and industrial loans to gross loans | 38.7 | 43.7 | 21.4§ | 21.4§ | 20.8§ | 20.4§ |
| Consumer loans to individuals to gross loans | 17.2 | 20.4 | 31.2§ | 31.9§ | 27.0§ | 27.4 |

Note: Significance of the observed differences between banks is measured here by a statistic reflecting the difference in means for the two groups divided by a measure of the variability within the groups.

* Affiliates of Citicorp, The Chase Manhattan Corporation, Chemical New York Corporation, and Manufacturers Hanover Corporation.

† Includes independent banks and affiliates of holding companies headquartered upstate; excludes banks in first group as well as affiliates of The Bank of New York Company, Inc., Bankers Trust New York Corporation, and Charter New York Corporation.

‡ Difference from 11 affiliates significant at 95 percent level.

§ Difference from 11 affiliates significant at 99 percent level.

were commercial and industrial loans, compared with about 20 percent for the upstate-headquartered banks. In contrast, the percentage of the affiliates' loan portfolios in real estate loans and consumer loans was significantly lower than for the upstate banks. The relatively heavier concentration of the New York affiliates in commercial as opposed to retail lending in part reflects the relatively greater expertise of the New York banking organizations in commercial lending, but probably also reflects the difficulty of new banks in penetrating retail banking markets already served by substantial local banking organizations. Comparison of the New York affiliates with the broader sample of member banks shows very similar results.

Thus far, the operating experience of the affiliates of New York City organizations entering upstate markets after 1971 shows that their entry has been limited in scope and achieved at considerable expense. Although additional expansion can be expected in response to opportunities for growth in New York State, there clearly is a need for these banks to strengthen their existing financial positions at these relatively new points of entry. Several organizations have in fact announced plans to close branches that have not proved profitable.

### STATEWIDE BANKING— VIA AFFILIATES OR BRANCHES?

The recent liberalization of New York's branching law is not expected to lead to a surge in branch activity or many additional statewide banks, since most organizations that seek statewide representation probably have already done so through a holding company system. The ability of banks to branch without geographical restrictions does, however, have a number of implications for New York's banking structure. Independent banks operating on the fringes of the previous banking district boundaries may serve their customers throughout economically integrated areas through branching. Further, bank holding companies now operating statewide through subsidiaries can evaluate the advantages of consolidating their operations into a single banking institution.

One consideration influencing a holding company to continue operating a number of separate banking affiliates centers on the belief that bank customers prefer to patronize an institution with a local identity, which is manifested in part through a local board of directors. Further, increased reserve requirements that usually result from the merging of several affiliates places a cost on consolidation.

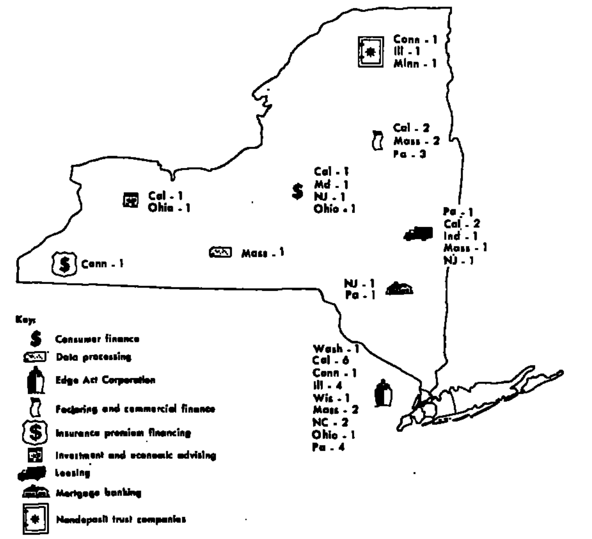
On the other hand, consolidation could enable an organization to implement more uniform policies throughout all of its offices. Significant economies could be achieved by some organizations in such areas as portfolio and liquidity management, compliance with reporting requirements, data services, and check clearing. Also, a smoother and more efficient movement of funds by a holding company system could be facilitated by merging its affiliates. Such movements of funds can be impeded by the limits imposed by Section 23A of the Federal Reserve Act. This section restricts the movement of funds (interest-bearing deposits, loans, and Federal funds) from one member bank or insured affiliate to another affiliate to 10 percent of the former's capital (including reserves), and to all affiliates to a total of 20 percent of that bank's capital. Moreover, such loans must be secured by acceptable collateral, which ranges from 100 percent to 120 percent of the value of the loan depending on the nature of the collateral. While these constraints were designed to protect banks from undue extensions of credit to ailing affiliates, they can under some circumstances impede intra-holding company flows of funds that serve legitimate economic needs, such as those involved in large seasonal shifts in loan demand within a holding company system. Bank holding companies that are constrained by these or other factors may decide to avail themselves of the advantages of a consolidated statewide branch system.

Marine Midland Banks, Inc. and The Bank of New York Company, Inc. merged all of their respective affiliates in January 1976, and The Chase Manhattan Corporation has initiated a program to consolidate all of its affiliates into a single bank through a series of mergers. First Empire State Corporation also has announced plans to merge its two bank affiliates into one bank. Citicorp, on the other hand, has restructured its operations by forming an upstate and a downstate affiliate. Additional consolidations are to be expected, but the course chosen by the state's holding companies undoubtedly will vary, depending on the perception by management of their best opportunities for achieving efficient operations.

### COMPETITION IN BANK-RELATED ACTIVITIES

The growth of the bank holding company movement in New York State has added a new dimension to the provision of financial services in the state and in the nation. The state's large bank holding companies all have subsidiaries that engage in a range of permissible bank-related activities, such as mortgage banking, consumer finance, personal and real property leasing, factoring, and commercial financing to name a few of the more important nonbank activities engaged in by bank holding companies. Entry into these activities has been permitted in

Map I
BANK-RELATED ACTIVITIES PERFORMED IN NEW YORK STATE BY OUTSIDE BANK HOLDING COMPANIES




Note: State of origin and number of bank holding companies involved in an activity (see key) are shown alongside symbols. Placement of symbols on map do not indicate location of activity.

accordance with the provisions of the Bank Holding Company Act of 1956, as amended, which requires that the performance of the activity be in the public interest.[7]

Although most of the New York organizations have substantial operations in New York State, they are not limited by state boundaries, since the Bank Holding Company Act places no geographic restrictions on the performance of approved nonbank activities. Many upstate holding companies also have acquired or formed nonbank subsidiaries that operate in financial markets both in and outside New York State. Moreover, thirty-two out-of-state bank holding companies, representing thirteen states in the nation, own some twenty nonbank subsidiaries and twenty-two Edge Act corporations in New York. Entry into New York State's financial markets by these organizations has added to the flexibility of the state's financial structure and has enhanced its ability to meet the financial needs of individuals and businesses. Map I provides an indication of outside bank holding company representation in the state.

The diversity and far-flung scope of bank holding company activities in permissible nonbank fields make it difficult to appraise their overall impact on competition. Nonetheless, there are grounds for believing that bank holding company expansion in New York State as well as in the nation has added to the quality and quantity of financial services available to the public and, in some instances, may have contributed to the reduced cost of these services. Most of the out-of-state acquisitions by New York bank holding companies have been in areas where they were not previously represented. As shown in Map II, New York State bank holding companies have entered markets in about forty states in the nation, including New York. Moreover, the size of the subsidiaries in terms of assets seems well below levels that might raise concern over undue concentrations of economic power.

## CONCLUDING REMARKS

Banking structure in New York State has adjusted substantially, but smoothly, in response to major changes enacted in Federal and New York State banking laws. These changes have ushered in statewide banking and have given an important forward thrust to the bank holding company movement. As a result, banks have been encouraged to compete more widely and to improve the efficiency of their operations. Such competition, however, seems not to have affected adversely the state's well-managed independent banks. The experience of the New York City affiliates in upstate markets indicates that local banks have remained profitable in the face of entry of the state's largest institutions and should continue serving their local communities on a profitable basis. Banking organizations in New York can expect several additional challenges in the years ahead. Increased competition could come from thrift institutions and from the possible expansion by banks across state lines. Moreover, wider use of electronic funds transfer facilities could bring further changes in banking practices.

Thrift institutions in New York State have actively sought expanded powers, most notably the authority to offer checking accounts, and legislation to permit this activity has been introduced in the state legislature. While the entry of thrift institutions into the area of payments services in principle could be expected to result in improved services to the public, the granting of such powers without ensuring competitive equality in other areas of banking regulation, such as deposit rate ceilings and

[7] For an analysis of the public interest aspects of bank holding company acquisitions under Section 4(c)(8). see Michael A. Jessee and Steven A. Seelig, "An Analysis of the Public Benefits Test of the Bank Holding Company Act", *Monthly Review* (Federal Reserve Bank of New York, June 1974), pages 151-62.

reserve requirements, could create an undesirable imbalance in the competitive position of institutions doing essentially the same type of business. Over the long run, such imbalances contribute to inefficiencies by causing an allocation of financial resources for regulatory rather than economic reasons.

Competitive opportunities also could be enhanced if banks were allowed to enter large out-of-state metropolitan banking markets. A proposal along these lines was announced last month by New York State Superintendent of Banks Heimann, who suggested that banks from other states be allowed, on a reciprocal basis, to make bank acquisitions in New York metropolitan areas having a population of 1.5 million or more. Enactment of Superintendent Heimann's proposal would represent a significant step toward interstate competition in banking via branches or affiliates located across state lines.

The wider introduction of electronic payments systems by the banking industry in transactions with the public promises new flexibility for both small and large banks in meeting the needs of their customers. The investment outlays needed for such facilities are modest, compared with the expense of opening full-service branches, and there may in time be opportunities for banks of all sizes to participate in electronic facilities through pooling arrangements. Such technological improvements could be expected to contribute to greater efficiency in banking and, therefore, to reduced costs of financial services to the public.

Map II

OUT-OF-STATE EXPANSION IN BANK-RELATED ACTIVITIES BY SELECTED NEW YORK BANK HOLDING COMPANIES