Branch Banking

General Assembly of the Commonwealth of Pennsylvania

JOINT STATE GOVERNMENT COMMISSION

Harrisburg, Pennsylvania

1957

The Joint State Government Commission was created by Act of 1937, July 1, P. L. 2460, as amended 1939, June 26, P. L. 1084; 1943, March 8, P. L. 13; 1956, May 15, P. L. (1955) 1605, as a continuing agency for the development of facts and recommendations on all phases of government for the use of the General Assembly.

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1955-1957

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BRANCH BANKING

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The Executive Committee of the Joint State Government Commission, prompted by recurring proposals for the modification of Pennsylvania law governing branch banking and guided by resolutions introduced during the 1955 Session of the General Assembly calling for studies of the matter by the Commission, directed that a study of branch banking be made and a report presented to the General Assembly of 1957.

A task force on the study of branch banking was duly appointed, and at its direction a survey of branch banking in the Commonwealth was undertaken and a public hearing was held November 29, 1956, at Harrisburg, to which were invited the Commonwealth's Secretary of Banking and representatives of banking associations and banking institutions.

From the nature of the testimony presented at the hearing and the information developed from the survey, it appeared that the origins and implications of the branch banking movement are such as to preclude evaluation of the movement by reference to state boundaries. Accordingly, in this report, comprehensive data relating to the extent and nature of branch banking in the Commonwealth are presented in the light of developments in the general economy and the banking industry at large. It is felt that such a presentation will facilitate a realistic appraisal of the Pennsylvania situation.

The Joint State Government Commission gratefully acknowledges the cooperation of the staff of the Commonwealth's Department of Banking, who furnished statistical data in connection with the study.

BAKER ROYER, *Chairman*

Joint State Government Commission
Capitol Building
Harrisburg, Pennsylvania
June, 1957

Section I

THE LEGAL STATUS OF BRANCH BANKING

The question of permitting or prohibiting the establishment of branch banks in Pennsylvania has been a matter of legislative interest at least since 1808. In that year, the General Assembly enacted legislation providing that no company incorporated under the laws of any other state should be permitted to establish any banking house or office within the Commonwealth.[1] Banking companies incorporated in Pennsylvania were not restricted in the establishment of branches until an 1850 act[2] prohibited the establishment of branches at any place other than that fixed and named in the bank's charter.

Under the dual banking system which has prevailed in the United States since passage of the National Bank Act of 1863, the establishment of branches by national banks has been regulated by federal law and the establishment of branches by state banks by state law. Although the National Bank Act did not expressly forbid branch banking, and an amendment of 1865 provided that state banks with branches could convert into national banks and retain such branches, for some sixty years the Comptroller of the Currency interpreted the law to mean that national banks did not have the authority to establish branches.[3] In states which did not forbid branches, it was possible to circumvent this ruling by organizing a state bank with branches and converting it into a national bank.

In Pennsylvania, throughout the latter half of the nineteenth century and the first several decades of this century, the establishment

[1] 1808, March 28, P. L. 185.

[2] 1850, April 16, P. L. 477 (No. 322).

[3] In 1922, the Comptroller of the Currency reversed his predecessors in office and permitted national banks to establish additional offices within the city of the parent bank, provided state banks were permitted similar action.

and operation of branches by state-chartered banks, trust companies, or savings banks, though not expressly prohibited by statute, was generally governed by rulings of the Attorney General that the law did not provide for branches. It was not until 1927 that the first specific legislation pertaining to branch banking by all state-chartered banking institutions was enacted. The Act of 1927[4] prohibited all branch offices except those established prior to March 1, 1927, or which resulted from consolidations prior to April 1, 1927. Excepted from the act were banking institutions having their principal office in a city, borough, or township in which one or more national banks were operating branches on March 1, 1927.

The first explicit statutory reference to the power of national banks to establish branches was contained in the McFadden-Pepper Act of 1927, which provided that national banks located in a state which permitted state banks to establish and operate branches might establish branches in the city where the main office was located. The number of branches permitted was determined on the basis of population. The authority of national banks to establish branches was further extended by the Banking Act of 1933, under which national banks were permitted to establish branches within a state, subject to the restrictions as to branch location imposed by state law upon state banks.

Also in 1933, Pennsylvania law relating to branch banking was amended to permit Philadelphia banks to establish branches by merger in any contiguous township of the first class, or to open a new branch in such a township if the community was without banking facilities.[5] Legal restrictions against branch banking were further relaxed in 1935 by the provision that branches might be established in the same county as the main office of the bank or in any contiguous county if, in either case, the community was without banking facilities, or, in the case of a branch resulting from a mer-

[4] 1927, April 27, P. L. 400.

[5] 1933 (Spec. Session), December 30, P. L. 125.

ger, if the community was without banking facilities other than the bank which was a party to the merger.[6]

Two significant provisions relating to branches were added to Pennsylvania law in 1937.[7] The requirement that communities within the same or contiguous counties be without banking facilities before a branch could legally be established was changed to the requirement that such communities be without *adequate* banking facilities. Moreover, banks within a county were, in effect, given preemptive rights to establish a branch in a community in which a bank of a contiguous county proposed to establish a branch.

EXISTING LAW AND PROCEDURE

Both federal and state laws pertaining to the power of banks to establish branches are substantially the same today as in the nineteen thirties. Such modifications as have been made are included in the review of existing law which follows. Except as noted, the legal requirements and the procedure to be followed to obtain approval for the operation of a branch office are generally the same, whether the branch is to be established de novo—that is, a new bank office is to be opened—or whether the branch office is to result from a merger, consolidation, purchase, or absorption.[8]

LAW AND PROCEDURE APPLICABLE TO NATIONAL BANKS

National banks must obtain the approval of the Comptroller of the Currency for the establishment of any branch. Branches may be established, subject to the restrictions as to geographic location imposed by state law upon state banks, in any state in which branch banking is specifically authorized for state banks. No other requirements of state law are binding upon national banks or on the Comptroller of the Currency except that, in some cases, national banks

[6] 1935, July 2, P. L. 507.

[7] 1937, April 22, P. L. 349.

[8] Throughout this report, the word "merger" will be used to refer to any combination of banks, regardless of the legal definition of the form of combination.

may be subject to capital requirements mandated by state law for the establishment of branches. In Pennsylvania, additional capital is not required for branches established by national banks within the same city as the head office. For a branch to be established *outside* the main office city, national banks must have the greater of either: (1) the capital and surplus required by state law for state banks, or (2) the capital and surplus required by federal law for establishing a *new* national bank. The amount of capital required to establish a national bank is as follows:

Population	*Capital*
Up to 6,000	$ 50,000
6,000 to 50,000	100,000
50,000 and over	200,000

In addition, no national bank may be authorized to commence business unless it has a paid-in surplus equal to at least 20 percent of its capital.

PENNSYLVANIA LAW AND PROCEDURE APPLICABLE TO STATE BANKS

Existing Pennsylvania law distinguishes between a branch resulting from a merger or consolidation and a newly established branch.

In the case of a merger or consolidation, the surviving or new bank may, with the approval of the Department of Banking, retain and operate as branches any of the principal offices and branches which have been in lawful operation in the same county or in a county contiguous to the county in which the main office of the new or surviving bank is located.

A branch may be established—

1. In the same city, borough, or village in which the main office is located, with the approval of the Department of Banking, where the department finds "upon investigation that there is need for banking services or facilities such as are contemplated by the establishment of such branch."

2. In any other city, borough, village, or township located in the same county or in a contiguous county, by the following procedure: Upon making application, the institution requesting permission to establish a branch is required to notify immediately by registered mail each other state banking institution whose principal place of business is in the county in which the proposed branch is to be located. The Department of Banking, within sixty days of receipt of the application, makes an investigation, and if it finds "that there is a need for banking services or facilities such as are contemplated by the establishment of such branch," approves the application and forwards it to the Banking Board. The Department of Banking may disapprove an application to establish a branch in a contiguous county if an institution with its principal place of business in the county in which the proposed branch is to be located has, in good faith, notified the department of its intention to establish a branch in the same city, borough, or village in which the proposed branch is to be located. The Banking Board conducts an additional investigation or hearing as it deems advisable and approves or disapproves the action of the department. The decision of the Banking Board is binding upon the department. Unless a branch is opened within six months after its establishment is approved, the right to establish the branch is forfeited, but the Banking Department may extend, for an additional period of six months, the time within which the branch must be opened.

The Supreme Court of the Commonwealth, in the case of *Delaware County National Bank* v. *Campbell et al,*[9] decided that the whole record of the action of the Banking Board in approving or disapproving a proposal to establish a branch is subject to judicial review.

The Supreme Court has also ruled that under the 1955 amendments[10] to the section of the Banking Code regulating the establish-

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[9] 378 Pa. 311, 106 A. 2d 416, 1954.

[10] 1955, December 30, P. L. 920.

ment of branch offices, the Department of Banking is not empowered to apply the criterion of "need for banking services or facilities" in determining whether or not to approve a merger which would result in a branch office.[11]

In addition to the approval of Commonwealth agencies, approval of the Board of Governors of the Federal Reserve System is required for branches established by state banks which are members of the system, and approval of the Federal Deposit Insurance Corporation is required for branches of insured state banks which are not members of the Federal Reserve System.

No additional capital or surplus is required for a state bank to open a branch within the city, borough, or village in which the main office is located. For each branch established outside the main office city, the bank must provide the following additional capital and surplus:

Population	*Capital*	*Surplus*
Commercial bank without trust powers		
Less than 5,000	$25,000	$12,500
Less than 6,000	50,000	25,000
6,000 to 50,000	100,000	50,000
Over 50,000	200,000	100,000
Bank and trust company or trust company		
Less than 5,000	$75,000	$37,500
Less than 6,000	150,000	75,000
6,000 to 50,000	200,000	100,000
Over 50,000	300,000	150,000

The above capital requirements apply to state-chartered commercial banks. Savings banks,[12] whose functions are limited to accepting only time deposits and investing only in government bonds and

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[11] *Dauphin Deposit Trust Co., Appellant* v. *Myers*, 388 Pa. 444 (1957).

[12] In Pennsylvania, there are seven mutual savings banks and one stock savings bank.

mortgages, may also establish branches if minimum surplus requirements, set by the Department of Banking, are met.

BRANCH BANKING STATUTES IN OTHER STATES

The statutory provisions governing the establishment of branch banks vary widely among the 48 states. The current status of the various states with respect to geographic limitations on branch banking is indicated in Table 1.

Table 1

LEGAL STATUS OF BRANCH BANKING IN THE 48 STATES

States Permitting State-wide Branch Banking	*States Permitting Branch Banking with Geographic Limitations*	*States Prohibiting Establishment of Branch Banks*
(1)	(2)	(3)
Arizona	Alabama	Colorado
California	Arkansas	Florida
Connecticut	Georgia	Illinois
Delaware	Indiana	Kansas
Idaho	Iowa	Minnesota
Louisiana	Kentucky	Missouri
Maine	Massachusetts	Nebraska
Maryland	Michigan	New Hampshire
Nevada	Mississippi	Oklahoma
North Carolina	Montana	Texas
Oregon	New Jersey	West Virginia
Rhode Island	New Mexico	Wisconsin
South Carolina	New York	Wyoming
South Dakota	North Dakota	
Vermont	Ohio	
Washington	Pennsylvania	
	Tennessee	
	Utah	
	Virginia	

SOURCE: Pennsylvania Department of Banking.

Of the sixteen states which do not impose geographic limitations upon branch banks, seven impose restrictions which protect the interest of existing banks or restrict the banking services which may be provided at branch offices. Of the nineteen states which restrict branch banking on a geographic basis (column 2), most limit branches to the county of the main office or a contiguous county; six limit branches to the county of the main office; and three permit branches only in the same city as the main office. In addition, many states limit branches by reference to mileage or population, or prohibit branches in communities where banks already exist. Also, in several states, branches may be established only by means of merger or consolidation. Generally speaking, in those states which limit branch banking the restrictions imposed are more stringent than those in effect in Pennsylvania.

Section II

THE EXPANSION OF BRANCH BANKING IN PENNSYLVANIA SINCE 1945

As of August, 1956, there were 525 branch-bank offices operating in the Commonwealth. This number does not include banking facilities at military installations or drive-in facilities, both of which are sometimes included as branches in enumerations by federal agencies. The great majority of the 525 branches were established after World War II. In 1940, there were 109 branches operating in Pennsylvania and, in 1945, 128.

Comparative Banking Statistics—United States and Pennsylvania

Coincident with an almost threefold increase in the number of branches in Pennsylvania over the period 1945 to 1955, there was a decrease of almost 20 percent in the number of banks operating in the state, while in the United States as a whole the number of branches increased only about 73 percent and the number of banks decreased but 2.4 percent.

The numbers of banks, branches, and all bank offices in Pennsylvania and in the United States for the years 1946 through 1955 are shown in Table 2.

In 1946, the number of branches as a percentage of the total number of banking offices was greater in the United States than in Pennsylvania: Branches represented 22 percent of the offices in the United States and 12 percent in Pennsylvania. Since 1946, however, the relationship has reversed: There are at present more branches relative to the total number of banking offices in Pennsylvania than in the United States as a whole. In 1955, 7,040, or 33 percent, of the banking offices in the United States were branch

Table 2

NUMBERS OF BANKS AND BRANCH OFFICES IN THE UNITED STATES AND PENNSYLVANIA: 1946-55

[Excludes facilities at military reservations and other government establishments]

	United States			Pennsylvania			Total Bank Offices—
Year	*Banks*	*Branches*	*Total Bank Offices*	*Banks*	*Branches*	*Total Bank Offices*	*Pennsylvania as Percent of United States*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1946	14,585	4,059	18,644	1,023	138	1,161	6.2%
1947	14,714	4,261	18,975	1,002	162	1,164	6.1
1948	14,703	4,461	19,164	991	180	1,171	6.1
1949	14,687	4,684	19,371	985	194	1,179	6.1
1950	14,650	4,934	19,584	978	208	1,186	6.1
1951	14,618	5,224	19,842	967	233	1,200	6.0
1952	14,575	5,520	20,095	947	271	1,218	6.1
1953	14,509	5,897	20,406	911	331	1,242	6.1
1954	14,366	6,416	20,782	866	418	1,284	6.2
1955	14,242	7,040	21,282	825	496	1,321	6.2

SOURCE: *Federal Reserve Bulletin,* various issues. Data for number of branches of Pennsylvania banks do not agree exactly with the data on number of branches presented in other tables in this report. The difference is primarily due to the fact that the Federal Reserve statistics include purely drive-in facilities as branch banks.

offices, while in Pennsylvania 496, or 38 percent, of the banking offices were branch offices.

As may be noted in column 8 of the table, Pennsylvania accounted for 6.2 percent of the bank offices in the United States in 1946 and in 1955. However, in the interim, Pennsylvania's proportion of the total bank offices dropped as low as 6.0 percent.

Over the last decade, population has grown more rapidly in the United States than in Pennsylvania. (For example, from the census year of 1950 to 1955, population increased 8.5 percent in the United States as a whole and 3.7 percent in Pennsylvania). Hence, the fact that Pennsylvania had the same proportion of total United States banking offices in 1955 as it had in 1946 indicates that since 1946 the number of banking offices in proportion to population has increased in Pennsylvania relative to the United States as a whole, even though the number of banks in Pennsylvania decreased almost 20 percent.

The decrease in the number of banks in operation in Pennsylvania since 1945 has been due primarily to the merging of banks, usually resulting in the establishment of a branch office. During the period 1946 through August, 1956, only 6 new banks were chartered, while 231 banks were absorbed in mergers. A bank liquidation without a successor has been a rare occurrence in recent years. In relatively few mergers is the office of the absorbed bank not continued in operation as a branch; from 1946 through August, 1956, a total of 19 banks were not retained as branches at the time of merger. Fourteen of these had been unit banks and five, the principal offices of branch banking systems.

A bank may acquire branches in either of two ways: by opening a new office or by merging with another bank and converting that bank's office or offices into branches. In Pennsylvania, these two methods of obtaining branches have been about equally popular. In the United States as a whole in recent years, de novo branches have predominated in the ratio of between two and three to one. From 1950 through 1955, branch offices resulting from mergers represented about 27 percent of the total number of branches established in the United States.

Comparative Banking Statistics—Pennsylvania and Other States

In analyzing the growth in the number of branches in Pennsylvania it is important to compare the development of the branch banking movement in the Commonwealth and other states. If the expansion of branch banking in Pennsylvania has paralleled the experience in other states, the factors underlying the expansion will be found among the social and economic forces common throughout the economy during the period under review. If, on the other hand, some developments in Pennsylvania have not occurred elsewhere, the explanation must lie with factors peculiar to Pennsylvania.

Because of the wide variety and extent of legal restrictions on branch banking and the diversity of the economies of the various states, aggregate national data are inadequate for such a comparison. It is necessary to analyze the expansion of branch banking in Pennsylvania by reference to the branch banking developments in states with similar economic and population characteristics, taking account of the legal provisions relating to branch banking. The percent of the total population of a state residing in standard metropolitan counties[1] is used here as an indicator of the pertinent economic and population characteristics. This proportion measures directly the relative concentration of population—a primary factor influencing the extent of branch banking—and measures indirectly the relative economic position of the various states.[2] Twelve of the first thirteen states ranked in order of the proportion of population residing in metropolitan counties are also among the first thirteen states ranked in order of per capita income (1955).

Branch banking data are shown in Table 3 for the states in which more than 40 percent of the population resided in metropolitan counties in 1950 and which permit branch banking. Six states (Illinois, Missouri, Colorado, Florida, Texas and Minnesota) in which more than 40 percent of the population resided in metropolitan counties, but which prohibit branch banking, are omitted from the table. Column 3 of the table shows the total number of branch bank offices in operation in each of the states in 1955; column 4, the number of branches per 100,000 population; column 5, the number of branches established 1945-55; and column 6, the number of

[1] Includes all counties which are part of standard metropolitan areas as defined by the U. S. Bureau of the Census. See *U. S. Census of Population: 1950,* Vol. II.

[2] The use of alternative measures of population concentration, such as average density of population or proportion of total state population living in urban areas, would not yield significantly different results.

Table [illegible]

Number of Branch Bank Offices Operating in 1955 and Number Established between 1945 and 1955, Selected States

State	Percent of State Population Residing in Metropolitan Counties: 1950	Branch Bank Offices: 1955		Branches Established between 1945 and 1955	
		Total	per 100,000 Population	Number*	as Percent of Number in 1955
(1)	(2)	(3)	(4)	(5)	(6)
Massachusetts	97.7%	328	6.87	162	49.4%
New Jersey	90.0	271	5.09	142	52.4
Rhode Island	86.1	84	10.28	39	46.4
New York	84.0	1,149	7.17	436	37.9
California	80.2	1,174	9.06	335	28.5
Connecticut	79.2	124	5.64	108	87.1
Pennsylvania	77.5	496	4.54	368	74.2
Maryland	72.4	184	6.71	82	44.6
Delaware	68.8	38	9.74	25	65.8
Ohio	67.8	377	4.21	206	54.6
Michigan	66.3	376	5.13	199	52.9
Washington	55.3	207	7.94	103	49.8
Utah	52.0	40	5.02	27	67.5
Indiana	44.7	163	3.77	87	53.4
Arizona	44.3	91	9.04	61	67.0
Tennessee	41.0	132	3.87	74	56.1
Oregon	40.7	145	8.61	73	50.3

* These numbers were computed by subtracting number of branches in operation in 1945 from number in operation in 1955.

Source: Population data are for total population from various publications of the U. S. Department of Commerce, Bureau of the Census. Number of branch banks from the *Federal Reserve Bulletin,* various issues.

branches established 1945-55 as a percent of the number in operation in 1955. Inspection of the data in columns 3 and 4—number of branches and number of branches per population unit—indicates that the frequency of branch offices in Pennsylvania is not disproportionate. All of the states which rank above Pennsylvania and seven of those which rank below Pennsylvania in the concentration of population have more branches per unit of population than Pennsylvania. Of the thirteen states shown in the table which outrank Pennsylvania in the number of branches per unit of population, five restrict branch banking geographically and eight permit state-wide branch banking, but three states (Connecticut, Oregon and Washington) of the latter group impose other restrictions.

As regards the expansion of branch banking since 1945, however, the experience in Pennsylvania is practically unique. Column 5 of Table 3 shows that Pennsylvania is second only to New York in the number of branches established 1945-55, and column 6 shows that only Connecticut outranks Pennsylvania in the proportion of branches established between 1945 and 1955.

Further inspection of column 6 indicates that, in most of the states, the percentage of branches established 1945-55 clusters around 50 percent. Significant deviations from this percentage appear to be explainable for all states but Pennsylvania in terms of special circumstances. Both New York and California have a long history of widespread branch banking. The rate of growth in recent years, therefore, must be expected to be, and in fact is, somewhat lower than the average for other states. More relevant to the Pennsylvania experience are the states with above-average growth rates. In Arizona and Utah—states large in area but sparsely populated—the expansion of branches appears to be related to the rapid increase in population. Between 1946 and 1955, the population of the United States increased 17 percent, while the population increased 25 percent in Utah and 64 percent in Arizona.

In Delaware and Connecticut, liberalization of the statutes regulating the establishment of branches appears to account for the above-average growth rates. The Delaware law was amended in 1947 to permit state-wide branch banking; prior to that year, branches could be established only in cities with a population greater than 100,000, and a bank was limited to two branches. In Connecticut, the law was amended in 1951 to allow any bank with a combined capital and surplus of at least $500,000 to establish not more than two intra-city branches and any bank with a capital and surplus of at least $250,000 to establish not more than three limited-power branches. Prior to 1951, only banks with a capital and surplus of at least $1,000,000 could establish branches in Connecticut.

None of the reasons advanced to explain the above-average growth rates in other states will suffice for Pennsylvania. Except for Connecticut, among the states listed in Table 3, Pennsylvania exhibited the most rapid increase in number of branches, although population, income, banking assets, and other measures of economic activity have increased less rapidly in the Commonwealth than in the nation as a whole.

As previously mentioned, one of the major dissimilarities between the branch banking experience in Pennsylvania and in the United States over the past decade is the relative number of branches established as a result of mergers. About one out of four branches established in the country as a whole resulted from mergers, while in Pennsylvania the comparable figure is one out of two. To explore this disparity it is necessary to investigate the frequency of bank mergers in Pennsylvania and other states. Since there have been very few mergers of mutual savings banks in the United States and none in Pennsylvania during the period under review, the analysis of mergers is limited to commercial banks.

The Comptroller of the Currency has prepared data on the number of commercial banks merged, consolidated, or purchased in each state during the period from January 1, 1950, to December 31, 1955. These data are presented in column 3 of Table 4.

It may be noted that Pennsylvania, with 164 mergers, far outranks all other states in the frequency of mergers. In only one other

Table 4

NUMBER OF COMMERCIAL BANK MERGERS, JANUARY 1, 1950, TO DECEMBER 31, 1955, AND NUMBER OF MERGERS AS PERCENT OF NUMBER OF COMMERCIAL BANKS IN OPERATION DECEMBER 31, 1949, BY STATE

		Mergers: Jan. 1, 1950, to Dec. 31, 1955	
State	*Number of Commercial Banks as of December 31, 1949* *	*Number*	*as Percent of No. of Banks in 1949*
(1)	(2)	(3)	(4)
Alabama	225	3	1.33%
Arizona	10	3	30.00
Arkansas	232	2	.86
California	206	86	41.75
Colorado	149	..	....
Connecticut	115	23	20.00
Delaware	38	9	23.68
Florida	193	..	....
Georgia	345	5	1.45
Idaho	43	7	16.28
Illinois	890	6	.67
Indiana	481	18	3.74
Iowa	654	5	.76
Kansas	610	12	1.97
Kentucky	386	18	4.66
Louisiana	162	3	1.85
Maine	64	6	9.38
Maryland	164	13	7.93
Massachusetts	184	10	5.43
Michigan	433	29	6.70
Minnesota	682	7	1.03
Mississippi	202	7	3.47
Missouri	598	10	1.67
Montana	111	1	.90
Nebraska	415	5	1.20
Nevada	8	3	37.50
New Hampshire	76	1	1.32

* Includes stock savings banks but excludes private banks.

Table 4—*Continued*

State	Number of Commercial Banks as of December 31, 1949 *	Mergers: Jan. 1, 1950, to Dec. 31, 1955 — Number	Mergers: Jan. 1, 1950, to Dec. 31, 1955 — as Percent of No. of Banks in 1949
(1)	(2)	(3)	(4)
New Jersey	332	41	12.35
New Mexico	51	1	1.96
New York	636	137	21.54
North Carolina	228	10	4.39
North Dakota	150	3	2.00
Ohio	655	47	7.18
Oklahoma	386	8	2.07
Oregon	70	31	44.29
Pennsylvania	966	164	16.98
Rhode Island	19	9	47.37
South Carolina	151	7	4.64
South Dakota	169	2	1.18
Tennessee	296	4	1.35
Texas	887	10	1.13
Utah	55	7	12.73
Vermont	70	8	11.43
Virginia	312	6	1.92
Washington	122	34	27.87
West Virginia	180	2	1.11
Wisconsin	552	2	.36
Wyoming	53	1	1.89
All states	14,016	826	5.89

* Includes stock savings banks but excludes private banks.

SOURCE: Number of banks from *87th Annual Report of the Comptroller of the Currency, 1949.* Number of mergers from Statement of Ray M. Gidney, Comptroller of the Currency, Before the Antitrust Subcommittee of the Senate Committee on the Judiciary, May 23, 1956.

state, New York, did the number of mergers exceed 100 during this period of years. In the country as a whole, 826 mergers occurred; hence, Pennsylvania accounted for one-fifth of all commercial bank mergers during this six-year period. Merger data by states are not readily available for the years prior to 1950. But from 1946 through 1955 the number of banks merged in the United States totaled 1,156, of which 212, or 18.3 percent, involved banks in Pennsylvania.

Since more than 90 percent of these mergers resulted in the establishment of branch offices, the very high frequency of mergers in Pennsylvania explains to a great extent the more rapid growth of branches in this state in comparison with other states.

The number of mergers has a direct bearing upon the development of branch banking, but from the standpoint of the impact of merger activity upon the banking structure in the Commonwealth the proportion of banks involved in mergers is more relevant. The number of commercial (excluding private) banks, by state, as of December 31, 1949, is shown in column 2 of Table 4, and the number of mergers (1950-55) as a percent of the number of banks in existence in 1949 is given in column 4. Inspection of column 4 shows that when the number of mergers is related to the number of banks in operation, Pennsylvania ranks tenth among the 48 states, as compared to a ranking of first in the absolute number of mergers.

To appraise the effect of branch banking restrictions upon the relative number of mergers, column 4 of Table 4 should be viewed in conjunction with the listing of states shown in Table 1. Of the nine states which rank above Pennsylvania in the relative number of mergers, eight permit state-wide branch banking and the ninth, New York, allows branches to be established, under certain conditions, within a banking district which consists of from two to fifteen counties. Most of the states which rank below Pennsylvania in relative number of mergers impose more restrictive geographic limitations upon branch banking. When legal considerations and the number of banks are taken into account, the merger activity in Pennsylvania does not seem extraordinary in comparison with that of most other states.

Legal considerations aside, the number of branches established by merger ultimately depends upon the number of banks. Consequently, the next step in an analysis of the development of branch banking involves a comparison of the number of banks in the various states.

The evidence presented in Table 5 clearly indicates that the number of banks in relation to population in 1946 was significantly larger in Pennsylvania than in any comparable state where branch banking was not severely restricted. In Table 5, as in Table 3, the proportion of population living in metropolitan counties is used to indicate states with broadly comparable economic and population characteristics, but *all* states (including those that prohibit branch banking) in which more than 40 percent of the population resided in metropolitan counties in 1950 are shown. Since savings banks perform some of the functions of commercial banks, but are not a complete substitute for commercial banks, comparison among states should take into account both the relative number of all banks and of commercial banks. Column 3 of the table shows the total number of banks, and column 4 the number of commercial banks, per 100,000 population in 1946.

From an inspection of columns 3 and 4, it may be noted that the total number of banks in Pennsylvania in 1946 (10.36 per 100,000 population), as well as the number of commercial banks (10.29 per 100,000 population), exceeded the relative number of banks in almost every other state in which branch banking was permitted. In both Delaware and Indiana—the only states among the latter group that outranked Pennsylvania in the relative number of banks—branch banking provisions were much more restrictive than in Pennsylvania. Among states closely comparable in population concentration, Pennsylvania, with respect to the relative number of banks in 1946, most nearly resembled Illinois, yet Illinois has always prohibited branch banks.

Table 5

NUMBERS OF BANKS AND COMMERCIAL BANKS PER 100,000 POPULATION, SELECTED STATES: 1946

State	Percent of State Population Residing in Standard Metropolitan Counties: 1950	Number of Banks per 100,000 Population: 1946	
		All Banks	Commercial Banks
(1)	(2)	(3)	(4)
Massachusetts	97.7%	8.48	4.25
New Jersey	90.0	8.24	7.70
Rhode Island	86.1	4.16	2.99
New York	84.0	5.99	5.01
California	80.2	2.10	2.10
Connecticut	79.2	9.81	6.03
Pennsylvania	77.5	10.36	10.29
Maryland	72.4	8.08	7.68
Illinois*	72.1	10.74	10.74
Delaware	68.8	13.71	13.04
Ohio	67.8	9.01	8.97
Michigan	66.3	7.63	7.63
Washington	55.3	5.42	5.33
Missouri*	52.6	15.91	15.91
Utah	52.0	9.25	9.25
Colorado*	49.4	12.55	12.55
Florida*	47.7	7.46	7.46
Texas*	47.3	12.13	12.13
Indiana	44.7	13.32	13.21
Arizona	44.3	1.95	1.95
Minnesota*	44.3	24.80	24.76
Tennessee	41.0	9.69	9.69
Oregon	40.7	5.31	5.23

* States which prohibit branch banking.

SOURCES: Population data are for total population, from United States Bureau of the Census, various publications. Number of banks from *Annual Report of the Federal Deposit Insurance Corporation,* 1946.

The evidence is now at hand on which to base a consistent explanation of the expansion of branch banking in Pennsylvania over the past decade at a pace more rapid than in practically any other state.[3] In brief, what has happened with respect to branch banking since 1945 has been a delayed reaction to the liberalization of the branch banking laws of the Commonwealth in 1935 and in 1937. In states where branch banking was not prohibited, changes in the banking structure in response to changed economic and technological conditions occurred during the 1920's and 1930's. From 1925 to 1945, the number of banks in the United States decreased about 50 percent, while the number of banks in Pennsylvania decreased over the same period but 37 percent. In the United States, from 1921 through 1934, an average of 465 banks were annually absorbed by merger or other type of combination. Relatively few of these mergers occurred in Pennsylvania, due to the prohibition against branch banking in all areas except the eight cities in which branches were operated by national banks. Except for those cases in which the absorbing bank could expect to retain the business of the absorbed bank despite not being able to operate a branch office,[4] the Pennsylvania restriction on branch banking effectively restricted bank mergers.

The general level of economic activity during the late 1930's was not conducive to a rapid adjustment to the more liberal branch banking provisions in Pennsylvania, and shortly thereafter World War II started. Consequently, the adjustment was delayed until the postwar period. While both de novo branches and branches resulting from mergers increased at a greater rate in Pennsylvania than in most other states, the increase in branches established by merger was the more pronounced, reflecting the adjustment to the relatively greater number of banks in Pennsylvania at the outset of the period.

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[3] The experience in Delaware has been very similar to that in Pennsylvania, except that the development there occurred after the law was changed in 1947.

[4] As, for example, where merging banks were located close together or where no competitive bank was located close to the bank being absorbed.

Regional Comparison of Growth of Branch Banking in Pennsylvania

Branch banking activity in Pennsylvania, although not confined to any particular area in the Commonwealth, has been most pronounced in the two largest metropolitan areas. Table 6 shows the branch offices in operation in August, 1956, by year established, for Allegheny County and the five contiguous counties, for Philadelphia and the three contiguous counties, and for the counties in the remainder of the state as a group.

In 1956, the nine counties comprising the two metropolitan regions of Pittsburgh and Philadelphia accounted for 340, or 65 percent, of the 525 branch banks in operation. In both the Pittsburgh and Philadelphia regions, the growth in the number of branches appears to be slackening, while no such trend is evident in the remainder of the state. In both metropolitan areas, 44 percent of the branches in operation in 1956 were established since 1952, while in the remainder of the state, 65 percent were established since 1952. It may be noted from Table 6 that only in the Philadelphia region have savings banks established branch offices. The four savings banks in Philadelphia have established a total of 35 branches throughout Philadelphia and contiguous counties. All of the 21 savings bank branches opened since 1945 have been new offices.

On the basis of a thorough search of available records, it appears that the "failure" rate of branch offices is relatively low: only thirteen branches were found to have been discontinued during the period since 1945. Other than the fact that eleven of the thirteen had been established as a result of mergers, the closed branches cannot be differentiated by reference to any particular characteristics. No more than three were established in any one year; the period of operation ranged from less than a year to more than twenty-five years (although six were operated for less than three years); and nine of the thirteen were located in the two metropolitan regions. But the low frequency of discontinued branches cannot be regarded as conclusive evidence that banks which have established branches in recent years have not overexpanded their facilities. As of August, 1956, of the 525 branches in Pennsylvania, 214, or 41 percent, had been in operation less than three years. This time span is too short to establish a valid "failure" rate for branches now in existence.

Table 6

BRANCH BANK OFFICES IN PENNSYLVANIA, BY REGION AND BY YEAR ESTABLISHED: AUGUST 31, 1956

	Allegheny and Contiguous Counties (Armstrong, Beaver, Butler, Washington, and Westmoreland)	*Philadelphia and Contiguous Counties (Bucks, Delaware, and Montgomery)*			*Remainder of State*	
Year Established	*Commercial Bank Branches*	*Savings Bank Branches*	*Commercial Bank Branches*	*Total Branches*	*Commercial Bank Branches*	*State Total*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Prior to 1946	20	14	59	73	25	118
1946	4	1	4	5	2	11
1947	18	..	2	2	3	23
1948	9	1	4	5	5	19
1949	3	1	3	4	7	14
1950	6	2	3	5	2	13
1951	5	..	8	8	9	22
1952	10	2	12	14	12	36
1953	11	1	18	19	25	55
1954	28	6	24	30	31	89
1955	14	3	25	28	39	81
1956 (to August 31)	5	4	10	14	25	44
Total	133	35	172	207	185	525

Factors Underlying the Expansion of Branch Banking

The trend toward branch banking and the associated merger activity reflect the adjustment of the banking structure to changes in general economic conditions. Although the factors underlying both developments are interrelated, it is convenient to distinguish between those factors which prompted an increase in the number of banking outlets and the initiating forces behind the movement toward larger banks.

Over the past decade, commercial banks have been subject to greatly increased competition from other types of financial institutions. In the competitive struggle to attract liquid funds, these other institutions have outpaced commercial banks. Table 7 shows the growth in assets of the major types of financial institutions in Pennsylvania from 1945 to 1955. In connection with the table, it should be noted that the data for life insurance companies represent not merely assets derived from Pennsylvania business, but total assets of all such companies licensed to operate in Pennsylvania. It is believed, however, that the percentage increase in total assets is sufficiently representative of the increase in assets attributable to Pennsylvania business for purposes of the comparison with other financial institutions. Funds obtained by banks and savings and loan associations from out-of-state sources are considered to be negligible.

It is apparent from an inspection of Table 7 that the relative position of commercial banks in the financial markets has declined since 1945. Commercial bank assets have increased but 24.57 percent, while life insurance company assets have almost doubled and the assets of savings and loan associations have increased almost 300 percent. Savings banks, with a 61 percent increase in assets, outranked commercial banks in growth, but fell behind life insurance companies and far short of savings and loan associations.

The extraordinary growth of savings and loan associations suggests that these institutions have provided the most effective competition to commercial banks. The $1.7 billion increase in assets

Table 7

GROWTH IN ASSETS OF FINANCIAL INSTITUTIONS IN PENNSYLVANIA: 1945-55

Type of Institution	Total Assets—December 31 1945 (thousands)	Total Assets—December 31 1955 (thousands)	Increase Percent
(1)	(2)	(3)	(4)
Commercial banks	$11,230,622	$13,989,608	24.57%
State chartered*	4,721,214	5,977,905	26.62
National banks	6,509,408	8,011,703	23.08
Life insurance companies	43,115,585	85,455,582	98.20
Mutual savings banks	1,008,044	1,622,005	60.91
Savings and loan associations	591,258	2,258,600	282.00
State	349,249	1,012,443	189.89
Federal	242,009	1,246,157	419.92

* Includes one stock savings bank.

SOURCES: Bank data from *Annual Report of the Comptroller of the Currency,* 1945 and 1955.

Life insurance company data represent the total assets of all life and limited life insurance companies authorized to do business in Pennsylvania. Data for 1945 from *Report of the Insurance Commissioner of the Commonwealth of Pennsylvania,* 1946. Data for 1955 directly from the Pennsylvania Insurance Department.

Savings and loan association data for 1945 from Pennsylvania Department of Internal Affairs; for 1955, from Bureau of Building and Loan Associations, Pennsylvania Department of Banking.

of savings and loan associations from 1945 to 1955 amounts to 50 percent of the increase in assets of all banks. Moreover, savings and loan associations have apparently replaced commercial banks as the dominant factor in the real estate loan market. Such data as are available regarding the holdings of mortgage loans on property in Pennsylvania are presented in Table 8.

Table 8

HOLDINGS OF PENNSYLVANIA MORTGAGE LOANS BY MAJOR FINANCIAL INSTITUTIONS: 1954

Type of Institution	*Amount**	*Percent of Total*
(1)	(2)	(3)
Life insurance companies	$ 998,004,000	21.6%
Commercial banks†	1,473,665,000	31.9
Mutual savings banks	482,062,000	10.5
Savings and loan associations‡	1,660,745,000	36.0
Total	$4,614,476,000	100.0%

* For all but insurance companies, the data represent *total* mortgages held; however, mortgages on out-of-state property are not a significant part of the total.

† Data are for insured commercial banks, which represent 99 percent of all commercial banks in Pennsylvania.

‡ Partly estimated.

SOURCES: Life insurance company data from *Life Insurance Fact Book,* 1956 (New York: Institute of Life Insurance, 1956).

Bank data from *Report No. 42, Federal Deposit Insurance Corporation,* December 31, 1954.

Savings and loan association data from Bureau of Building and Loan Associations, Pennsylvania Department of Banking.

Column 3 of Table 8 shows that savings and loan associations hold 36 percent of the total amount of Pennsylvania mortgages held by major financial institutions, as compared to 31.9 percent held by commercial banks and 21.6 percent held by life insurance companies. The seven mutual savings banks held 10.5 percent of the total.

In addition to meeting increased competition from other financial institutions, many banks, particularly those in central-city areas, have found themselves at a locational disadvantage. The pronounced shift in population from the metropolitan centers to outlying areas not only drained deposits from the city banks but removed the loan business of depositors as well. These developments provided a strong incentive to city banks to establish suburban branches.

Added impetus to the location of branch offices closer to the customers stems from the increasing importance of the consumer loan business: Currently about 24 percent of the total loan portfolio of Pennsylvania commercial banks consists of direct consumer loans, and loans on residential properties represent an additional 21 percent. The development of a consumer loan business involves a fundamental change in the character of commercial banking, often termed a shift from wholesale to retail banking. Commercial banks have sought to replace a relatively few large accounts with a much greater number of smaller accounts. In part, this is because business enterprises have become increasingly independent financially; greater reliance is now placed upon retained earnings as a source of capital funds, and temporarily excess funds are often invested in short-term government securities rather than deposited in bank accounts. The rise in levels of income has created a large middle-income group which represents a principal source of deposits for banks and a stable market for loans.

Coincident with the rise in retail banking, broad developments throughout the economy also provided a stimulus for the movement toward larger banks. Between 1945 and 1955 total personal income in Pennsylvania rose 78 percent and per capita income increased 50 percent. Over the same period, commercial bank assets increased from $11.2 billion to $14.0 billion and the number of commercial banks declined from 1,027 to 818; hence the *average* size of commercial banks increased from $10.9 million to $17.1 million—an increase of 57 percent. It should be observed, however, that the difference between the 24.6 percent growth in commercial bank assets and the 57 percent increase in the average size of banks is due solely to the decline in the number of banks. Almost all of the decrease in the number of commercial banks is attributable to mergers. It does not seem unreasonable to conclude that, had it not been for bank mergers, the average size of banks would have increased since

1945 at about one-half the rate of increase of per capita income, and if the latter is accepted as a rough indicator of the increase in the average size of all economic units, the comparison points up a strong motivating force behind the move toward larger banks. Since bank assets grew at a much slower rate than the over-all economy, the average size of banks tended to decline relative to the size of other business enterprises. Mergers provided a means to counteract this tendency.

Substantial variations exist in the increase in average size from 1945 to 1955 of banks in different size groups. In terms of the average bank in 1945 size groups, small banks (those with less than $10,000,000 in assets in 1945) increased in size about 30 percent; medium-sized banks (those with 1945 assets of from $10,000,000 to $100,000,000) increased approximately 70 percent; and large banks (1945 assets greater than $100,000,000) increased about 100 percent. In all three groups, the increased average bank size resulted from both the expansion of assets through new deposits or retained earnings and the acquisition of assets through mergers. It would appear that the latter method was more significant for the group of large banks and less significant for the group of small banks.

As measured by asset size at the time of merger, banks with assets exceeding $100,000,000 absorbed a total of 88 banks between 1945 and August, 1956: 45 banks with assets less than $10,000,000; 38 banks with assets greater than $10,000,000 but less than $100,000,000; and 5 banks with assets exceeding $100,000,000. Over the same time period, banks with assets greater than $10,000,000 but less than $100,000,000 absorbed a total of 104 banks: 89 with assets less than $10,000,000; 13 in the same size group as the absorbing banks; and 2 with assets exceeding $100,000,000. Again, banks with assets less than $10,000,000 absorbed 39 banks, all within the same size group.

Although the average size of the banks in the large size-group approximately doubled since 1945, as compared to a 57 percent increase in the average size of all banks, the average size of large banks declined relative to the average size of large industrial corporations. From 1945 to 1955, the average large manufacturing corporation increased its assets 148 percent, and the average large retail corporation increased 115 percent in asset size.[5]

Growth has increased the volume of credit required by business enterprises. Under existing statutes, the maximum unsecured loan which a bank may grant to one borrower is limited to 10 percent of the total capital and surplus of the bank. To accommodate a large borrower, a bank may enlist the services of one or more correspondent banks, but this arrangement is more cumbersome for the banks and may be considered less desirable by the prospective borrower than a loan from a single bank. While commercial bank capital in Pennsylvania has increased more rapidly than total commercial bank assets, the growth in capital (approximately 36 percent between 1945 and 1955) has not matched the growth in assets of business firms. Under the circumstances, the 10 percent loan limitation has hampered banks in competing for large loan customers with other types of financial institutions. The increased lending limits which accompany increased capitalization provide an ancillary incentive for banks to merge or consolidate.

In addition to the competitive advantages associated with larger banks, tangible benefits in the form of operating economies accrue as bank size increases. Table 9 shows current operating expenses as a percent of total assets for insured commercial banks in the United States, grouped according to amount of deposits.[6] Inspection

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[5] Calculated from Federal Reserve Board data for 202 manufacturing corporations and 39 retail corporations in 1945, and 198 manufacturing and 41 retail corporations in 1955. Coverage "includes most of the largest companies in each industry group having fiscal years that end on or around December 31 and for which data are available in investment manuals and company reports to stockholders. Manufacturing and trade groups include only companies with end of year 1955 [or 1947, in the case of the data for 1945] total assets of $10 million and over." See *Federal Reserve Bulletin,* June, 1948, p. 632, and June, 1956, p. 586.

[6] Insured commercial banks in 1955 represented 97 percent of all commercial banks in the United States and 99 percent of all commercial banks in Pennsylvania.

Table 9

CURRENT OPERATING EXPENSES EXPRESSED AS PERCENT OF TOTAL ASSETS OF INSURED COMMERCIAL BANKS IN THE UNITED STATES: 1953, 1954, AND 1955

Banks with Deposits of:	*1953*	*1954*	*1955*
(1)	(2)	(3)	(4)
Less than $1,000,000	2.30%	2.41%	2.42%
$1,000,000— $2,000,000	2.09	2.21	2.25
2,000,000— 5,000,000	2.01	2.12	2.15
5,000,000— 10,000,000	2.03	2.11	2.16
10,000,000— 25,000,000	2.07	2.14	2.19
25,000,000— 50,000,000	1.94	2.02	2.07
50,000,000—100,000,000	2.01	1.94	2.03
100,000,000—500,000,000	1.71	1.75	1.85
$500,000,000 or more	1.48	1.52	1.59
All banks	1.77%	1.81%	1.88%

SOURCE: *Annual Report of the Federal Deposit Insurance Corporation,* 1953, 1954, and 1955.

of the table indicates that for all three years, with the exception of banks with deposits of from $5,000,000 to $25,000,000 (and of banks with deposits of $50,000,000 to $100,000,000 in 1953), current operating expenses, as a percent of total assets, decline as bank size increases. The behavior of the exceptional banks probably reflects the transition from rural to urban banks and the higher unit costs which obtain in urban areas. Apparently, economies of size are usually sufficient to outweigh higher unit costs for banks in size classes above $25,000,000. The major part of the difference in current operating expenses per dollar of assets for banks of varying size is attributable to salaries, wages, and fees. In 1955, salaries, wages, and fees amounted to 1.36 percent of total assets for banks with deposits of less than $1,000,000 and declined to .78 percent of total assets for banks with deposits of $500,000,000 or more.

From the standpoint of a bank expanding into suburban areas, the acquisition of an existing bank is usually a more attractive choice than the alternative of constructing a new office. In the former case, the bank benefits from the existing bank-customer relationships and acquires existing deposits, and may, in addition, acquire a locally experienced staff. These considerations, coupled with the anticipated economies of a larger scale operation, explain in large measure: (1) the frequency of mergers in Pennsylvania where banks were both numerous and widely distributed geographically, and (2) why banks are often prepared to pay a substantial premium over book, market, or earning value to absorb an existing bank in what appears to be a favorable location.[7]

The fact that substantial premiums have been paid to stockholders of an absorbed bank tends to bear out the hypothesis that the value of an operating bank may be significantly lower than its anticipated value when amalgamated into a larger institution. But the amount of the premium paid is not necessarily indicative of the magnitude of the difference between the two values. In general, the more numerous the potential buyers, the higher will be the premium, and conversely. Other factors affecting the terms of a proposed absorption from the viewpoint of the selling stockholders include tax considerations and the outlook for successful operation as a unit bank. Management problems, usually in the form of an aging management without trained replacements, are sometimes cited as an important factor contributing to mergers.[8] It would appear more appropriate to classify management problems among the elements affecting the terms of the merger rather than as a primary contributing factor.[9]

[7] For a compilation of the terms of mergers and an indication of the magnitude of premiums paid in the Third Federal Reserve District, which includes the eastern two-thirds of Pennsylvania, see Federal Reserve Bank of Philadelphia, *Business Review,* November, 1954.

[8] See Federal Reserve Bank of Philadelphia, *Business Review,* January, 1955, and *Annual Report of the Comptroller of the Currency,* 1954.

[9] For a similar viewpoint discounting the primary importance of management problems, see Charlotte P. Alhadeff and David A. Alhadeff, "Recent Bank Mergers," *The Quarterly Journal of Economics,* November, 1955.

Section III

COUNTY PATTERNS OF BANKING AND SAVINGS AND LOAN OFFICES

As of August 31, 1956, there were in operation in the Commonwealth 807 banks, 525 branch-bank offices, and 897 building and loan or savings and loan association offices. The distribution of these totals by county is presented in Table 10. From columns 2 and 3 of Table 10, it may be noted that the distribution of banking offices between banks and branches varies widely among counties. In Chester County, of 22 banking offices, one is a branch; in Northumberland County, of 21 offices, one is a branch; and 14 counties (Bradford, Cameron, Centre, Clinton, Fulton, Huntingdon, Juniata, Lycoming, Montour, Potter, Sullivan, Tioga, Union, and Wyoming) have no branches, although there is a total of 101 banks in this group of counties. At the other extreme, Delaware County has 2 banks and 36 branches; Allegheny County has almost twice as many branches as banks; of Clarion County's 10 offices, 7 are branches; Forest County has one bank and one branch; Philadelphia has 127 branches and 24 banks; and in Washington county there are 23 offices, of which 4 are banks.

Column 5 of Table 10 shows, for each county, the population per banking office. For the state as a whole, the average population per banking office is 8,271. With the exception of several counties (Clearfield, Fayette and Greene) located in the bituminous coal region, the population per banking office is greater in the more densely populated counties than in the rural counties, regardless of the distribution of offices between banks and branches.

Column 6 of Table 10 shows the county distribution of building and loan or savings and loan association offices. From an inspection of column 6, it may be observed that loan association offices are con-

Table 10

Numbers of Banks and Branches, Population Per Banking Office, and Number of Loan Association Offices in Pennsylvania, by County: August 31, 1956

County	*Banks*	*Branch Offices*	*Total Banking Offices*	*Population per Banking Office**	*Loan Association Offices*
(1)	(2)	(3)	(4)	(5)	(6)
Adams	13	1	14	3,511	2
Allegheny	43	83	126	12,439	160
Armstrong	11	5	16	5,233	1
Beaver	12	7	19	9,845	18
Bedford	9	1	10	4,081	2
Berks	21	13	34	7,658	12
Blair	12	7	19	7,265	13
Bradford	14	0	14	3,894	3
Bucks	14	16	30	6,672	23
Butler	4	9	13	7,977	4
Cambria	22	4	26	8,340	8
Cameron	1	0	1	7,655	0
Carbon	11	4	15	3,876	7
Centre	11	0	11	6,478	4
Chester	21	1	22	7,987	25
Clarion	3	7	10	3,896	0
Clearfield	7	2	9	9,477	4
Clinton	7	0	7	5,208	2
Columbia	10	3	13	4,144	2
Crawford	10	1	11	7,298	4
Cumberland	15	4	19	5,746	3
Dauphin	27	5	32	6,696	6
Delaware	2	36	38	12,634	33
Elk	6	1	7	5,083	5
Erie	14	14	28	8,332	7
Fayette	6	7	13	14,548	1
Forest	1	1	2	2,378	0
Franklin	16	3	19	4,337	3
Fulton	2	0	2	5,270	0
Greene	3	1	4	10,934	0
Huntingdon	11	0	11	3,850	4
Indiana	10	1	11	6,832	1
Jefferson	6	4	10	4,939	3

Table 10—*Continued*

County	*Banks*	*Branch Offices*	*Total Banking Offices*	*Population per Banking Office**	*Loan Association Offices*
(1)	(2)	(3)	(4)	(5)	(6)
Juniata	8	0	8	1,876	1
Lackawanna	21	6	27	9,520	7
Lancaster	34	13	47	5,283	16
Lawrence	7	5	12	9,303	3
Lebanon	12	5	17	5,251	4
Lehigh	15	6	21	9,994	7
Luzerne	35	9	44	8,589	12
Lycoming	16	0	16	6,748	2
McKean	9	1	10	5,682	4
Mercer	13	3	16	7,463	5
Mifflin	5	2	7	6,352	2
Monroe	4	2	6	5,964	3
Montgomery	23	28	51	7,982	50
Montour	3	0	3	5,385	0
Northampton	20	8	28	7,063	16
Northumberland	20	1	21	5,649	12
Perry	9	1	10	2,574	0
Philadelphia	24	127	151	14,134	341
Pike	2	1	3	2,980	1
Potter	6	0	6	2,974	0
Schuylkill	30	5	35	5,667	20
Snyder	4	2	6	3,864	1
Somerset	16	2	18	4,586	0
Sullivan	2	0	2	3,322	0
Susquehanna	5	3	8	4,153	1
Tioga	9	0	9	4,098	0
Union	5	0	5	4,918	0
Venango	7	2	9	7,355	4
Warren	3	5	8	5,584	1
Washington	4	19	23	9,713	6
Wayne	8	1	9	3,014	2
Westmoreland	21	10	31	10,814	13
Wyoming	6	0	6	2,769	0
York	26	17	43	5,081	3
State Total	807	525	1,332	8,271	897

* Population as of April, 1954, estimated by Pennsylvania Department of Commerce.

centrated in the urbanized counties. Allegheny and Philadelphia counties alone account for 501, or 56 percent, of the total number in the state. However, it should be mentioned that many of the loan associations in Philadelphia and Pittsburgh, and some in other cities, are affiliated with religious or fraternal organizations and may operate principally for the convenience of the members of the affiliated organizations.

The total of 897 loan association offices in the state includes 32 branch offices,[1] of which thirteen are located in Allegheny County and seven in Philadelphia. Five of the branch offices of loan associations were established as a result of merger.

The 807 banks in operation in the Commonwealth in August, 1956, consisted of 658 unit banks and 149 parent banks—that is, banks with one or more branch offices. The county distribution of these totals is shown in columns 2 and 3 of Table 11. The total of 658 unit banks includes 654 commercial unit banks and 4 savings banks—one each in Allegheny, Cambria, Chester, and Lycoming Counties. Of the 149 parent banks, 4, all in Philadelphia, are savings banks. From column 2 of Table 11, it may be noted that in only one county, Delaware, are there no unit banks, while column 3 shows that in 18 counties there are no parent banks. Allegheny County contains the largest number of unit banks, 32, followed by Luzerne County with 28, Schuylkill County with 27, and Lancaster County with 26. The largest number of parent banks in any one county is 17, in Philadelphia.

Column 4 of Table 11 shows the number of de novo branches placed in operation since 1945, and column 5 shows the number of branches established by merger since 1945. It may be noted that in the state as a whole, the numbers of branches established by the two methods since 1945 are almost identical—202 de novo branches and 205 branches established by merger. The difference between the

[1] Building and loan or savings and loan associations were first authorized to establish branch offices by the Act of 1953, July 27, P.L. 613.

Table 11

Numbers of Unit Banks, Parent Banks, Branches Established since 1945 by Method of Establishment, and Branches of Out-of-county Banks in Pennsylvania, by County: August 31, 1956

County	*Unit Banks*	*Parent Banks*	*Existing Branches Established since 1945*		*Branches of Out-of-county Banks*
			De Novo	*By Merger*	
(1)	(2)	(3)	(4)	(5)	(6)
Adams	12	1	0	1	0
Allegheny	32	11	29	39	0
Armstrong	10	1	0	4	4
Beaver	10	2	1	6	2
Bedford	8	1	0	1	0
Berks	17	4	5	5	0
Blair	8	4	2	2	0
Bradford	14	0	0	0	0
Bucks	7	7	10	6	0
Butler	3	1	2	4	7
Cambria	19	3	3	0	0
Cameron	1	0	0	0	0
Carbon	10	1	0	1	3
Centre	11	0	0	0	0
Chester	20	1	1	0	0
Clarion	3	0	1	6	7
Clearfield	5	2	0	2	0
Clinton	7	0	0	0	0
Columbia	8	2	0	3	1
Crawford	8	2	1	0	0
Cumberland	12	3	2	2	0
Dauphin	24	3	2	3	0
Delaware	0	2	20	12	22
Elk	5	1	0	0	0
Erie	7	7	10	1	1
Fayette	5	1	1	5	0
Forest	1	0	0	1	1
Franklin	14	2	2	1	0
Fulton	2	0	0	0	0
Greene	3	0	0	1	1
Huntingdon	11	0	0	0	0
Indiana	9	1	1	0	0

Table 11—*Continued*

County	Unit Banks	Parent Banks	Existing Branches Established since 1945 De Novo	Existing Branches Established since 1945 By Merger	Branches of Out-of-county Banks
(1)	(2)	(3)	(4)	(5)	(6)
Jefferson	4	2	0	4	2
Juniata	8	0	0	0	0
Lackawanna	18	3	2	4	0
Lancaster	26	8	8	5	0
Lawrence	4	3	2	3	0
Lebanon	9	3	2	3	0
Lehigh	12	3	4	1	0
Luzerne	28	7	4	5	0
Lycoming	16	0	0	0	0
McKean	8	1	1	0	0
Mercer	11	2	2	1	0
Mifflin	4	1	0	2	0
Monroe	3	1	2	0	1
Montgomery	14	9	15	10	11
Montour	3	0	0	0	0
Northampton	15	5	7	0	0
Northumberland	19	1	0	1	0
Perry	8	1	0	0	0
Philadelphia	7	17	38	23	0
Pike	1	1	1	0	0
Potter	6	0	0	0	0
Schuylkill	27	3	2	3	0
Snyder	3	1	0	2	0
Somerset	15	1	2	0	1
Sullivan	2	0	0	0	0
Susquehanna	4	1	2	0	0
Tioga	9	0	0	0	0
Union	5	0	0	0	0
Venango	5	2	1	1	1
Warren	1	2	2	2	0
Washington	3	1	1	18	18
Wayne	7	1	1	0	0
Westmoreland	21	0	0	9	10
Wyoming	6	0	0	0	0
York	20	6	10	2	0
State Total	658	149	202	205	93

total of these two figures and the 525 branches in operation is represented by the 118 branches established prior to 1946.

A comparison of columns 4 and 5 of Table 11 shows that there is little uniformity among the counties as regards the proportion of branches established by the two methods. In 13 counties, all of the branches established since 1945—a total of 32—have resulted from mergers, while in 11 counties in which no branches were established by merger, a total of 22 de novo branches were opened. In the region consisting of Allegheny and contiguous counties, mergers accounted for 80, or 71 percent, of the 113 branches established since 1945, while in the Philadelphia region (Philadelphia and contiguous counties) only 51, or 38 percent, of the 134 branches established since 1945 were the result of mergers. In the remainder of the state, 74 branches, or 46 percent, of the 160 established since 1945 were the result of mergers.

Of the 525 branch bank offices in Pennsylvania as of August, 1956, 432 were located in the same county as the head office of the bank and 93 were located in a contiguous county. The county distribution of the branches located in contiguous counties is shown in column 6 of Table 11. Of the total of 93 branches of out-of-county banks, the five counties surrounding Allegheny County contain 41, and two counties contiguous to Philadelphia (Delaware and Montgomery) contain a total of 33. The remaining 19 branches of out-of-county banks are located in ten counties.

Concern has frequently been expressed that the differential provisions of federal and state law would promote the establishment of branches by national banks in preference to state banks. While under existing law the legal restrictions upon the establishment of branches by state banks are somewhat more comprehensive than those upon the establishment of branches by national banks, the additional restrictions upon state banks do not appear, by and large, to have impeded the relative growth of state branch banks as compared with national branch banks. As of August, 1956, 87 national banks, or 17.0 percent of all national banks in Pennsylvania, operated one or more branch offices, while 62 state banks, or 21.0 percent of all state banks in Pennsylvania, had one or more branches. National banks with branches averaged 3.3 branches per bank while state banks with branches had an average of 3.9 branches per bank. State commercial banks with branches, with an average of 3.6 branches per bank, represented 20 percent of all state commercial banks.

With respect to the relative number of out-of-county branches, national banks do not differ significantly from state banks. Out-of-county branches of national banks total 54, or an average of .62 out-of-county branches for each of the 87 national banks with branches. State banks with branches average .63 out-of-county branches, for a total of 39 out-of-county branches. Related to the total numbers of national and state banks, out-of-county national bank branches represent an average of .10 out-of-county branches per national bank, and out-of-county state bank branches an average of .13 per state bank. Five of the 39 out-of-county branches of state banks are branches of mutual savings banks.

Section IV

CHARACTERISTICS OF THE BANKING STRUCTURE IN PENNSYLVANIA

The banking system in Pennsylvania consists of 807 banks: 149 banks—sometimes termed parent banks—with 525 branches or a total of 674 bank offices, and 658 banks—often called unit banks—each maintaining but one office. This section presents an analysis of some of the characteristics of these banks, and, particularly, a comparison of the group of parent banks with the group of unit banks. As in previous sections, the data, unless otherwise noted, are derived from a compilation by the Joint State Government Commission.[1] The numbers of banks and branches are as of August 31, 1956, but the financial data are as of December 31, 1955.

One of the more prominent points of difference between the unit banks and the banks with branch offices is the size of the banks in each group. Total assets of the 658 unit banks amount to $3.73 billion, or an average of $5.7 million per bank; total assets of the 149 parent banks are $11.88 billion, or an average of $79.7 million per bank. Table 12 shows the distribution, by asset size, of all banks (column 2), unit banks (column 3), and parent banks (column 4). It is apparent from an inspection of these data that branch banking is directly related to bank size. Only 36 of the 607 banks with assets of less than $10,000,000 operate branches, but 113 of the 200 banks with assets exceeding $10,000,000 and 62 of the 69 banks with assets over $25,000,000 operate branches.

As might be expected, the number of branches per bank also is directly related to bank size. The total number of branches of the

[1] Sources include: *Polk's Bank Directory* and *Rand McNally Bankers Directory*, various editions; Comptroller of the Currency; Pennsylvania Department of Banking; and in some instances, individual banks through the cooperation of the Department of Banking.

Table 12

DISTRIBUTION OF PENNSYLVANIA BANKS BY ASSET SIZE

Assets of:	*Total Banks*	*Unit Banks*	*Parent Banks*	*Branches*	*Average Number of Branches Per Parent Bank*
(1)	(2)	(3)	(4)	(5)	(6)
Less than $2,000,000	138	136	2	2	1.00
$ 2,000,000—$ 6,000,000 ...	334	318	16	17	1.06
$ 6,000,000— 10,000,000 ...	135	117	18	20	1.11
$ 10,000,000— 15,000,000 ...	69	46	23	37	1.61
$ 15,000,000— 20,000,000 ...	41	25	16	30	1.88
$ 20,000,000— 25,000,000 ...	21	9	12	25	2.08
$ 25,000,000— 50,000,000 ...	35	5	30	85	2.83
$ 50,000,000— 100,000,000 ...	14	0	14	56	4.00
$100,000,000 or more	20	2	18	253	14.06
Total	807	658	149	525	3.52

parent banks in each size group is shown in column 5 of Table 12, and the average number of branches per bank in column 6. Of the 36 parent banks with assets of less than $10,000,000, only 3 have more than one branch. The average number of branches per bank does not exceed 2 until asset size reaches $20,000,000. The 18 largest parent banks average 14 branches per bank, and the total number of branches of these 18 banks represents almost one-half of the total number of branches of all banks.

Earlier discussions of the 525 branch bank offices in Pennsylvania have referred to date of *establishment* rather than acquisition. The 205 branches *established* by merger since 1945 include offices which had been parent banks prior to absorption and had had a total of 58 branches (48 established prior to 1946 and 10 after 1945) in operation at the time they were absorbed. Hence, branches *acquired* by merger since 1945 total 263; de novo branches established since 1945 number 192 (excluding the 10 later involved in mergers); and 70 branches established prior to 1946 were not subsequently involved in mergers, bringing the total to 525.

The 18 largest parent banks differ from the remaining banks with branches as regards the proportion of branches acquired by merger. Of the total of 253 branches operated by the 18 largest parent banks, 41 were operated by the present parent prior to 1946, 56 are de novo branches established since 1945, and 156 were acquired by merger since 1945.[2] Hence, 74 percent of the 212 branches established or acquired since 1945 by the largest banks were obtained by mergers. However, for the remaining parent banks (those with assets less than $100,000,000) only 107, or 44 percent, of the 243 branches established or acquired since 1945 were obtained as a result of mergers.[3]

A distribution of the 149 parent banks by the number of de novo branches established since 1945 and by the number of branches acquired by merger since 1945 is presented in Table 13. It may be noted that 74, or almost exactly one-half, of the parent banks have acquired no branches by merger since 1945, while 38 parent banks have not established any de novo branches since 1945. Five parent banks have neither acquired nor established any branches since 1945. It may also be observed that the large branch banking systems have been built up primarily by mergers. No bank has established more than 9 de novo branches since 1945 and only 4 banks have established more than 5. But 12 banks (including 2 of the previous 4) have acquired more than 5 branches by merger since 1945 and 2 banks have acquired more than 20 branches by mergers.

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[2] The 156 branches acquired by merger since 1945 include 46 branches operated prior to 1946 by banks later absorbed and 10 branches established since 1945.

[3] The remaining 29 branches of this group of banks were established or acquired by the present parent bank prior to 1946.

Table 13 does not include the 70 branches established by existing banks prior to 1946, and hence does not reflect the total number of branches of all parent banks. Table 14 shows the distribution of parent banks by the total number of branches per bank and by the number of existing branches operated by the present parent bank

Table 13

Distribution of Parent Banks in Pennsylvania, by Number and Method of Establishment or Acquisition of Branches Obtained since 1945

	Number of De Novo Branches Established										
Number of Branches Acquired by Merger	*0*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*Total*
0	5	46	14	2	3	2	..	1	..	1	74
1	19	14	3	2	..	..	..	..	..	..	38
2	9	5	2	..	..	..	..	..	..	..	16
3	4	3	..	..	..	..	..	..	..	..	7
5	1	..	1	..	..	..	..	..	..	..	2
6	..	2	..	..	..	..	..	..	..	..	2
8	..	1	..	..	..	..	..	..	..	..	1
9	..	3	..	..	..	1	..	..	..	..	4
12	..	1	..	..	..	..	..	..	..	..	1
13	..	..	..	1	..	..	..	..	..	..	1
17	..	..	1	..	..	..	..	..	..	..	1
22	..	..	..	..	..	..	..	..	1	..	1
42	..	..	..	..	..	..	..	..	..	1	1
Total	38	75	21	5	3	3	0	1	1	2	149

Note: In distinction to the classification used in previous sections, branch offices are classified in this table according to the method by which the present parent bank acquired them. Of the 525 branches now in operation, 118 were established prior to 1946 and 202 were established de novo since 1945, but 48 of the former and 10 of the latter were later acquired by the present parent. Hence, while 205 new branches were *established* by merger since 1945, the present parent banks *acquired* 263 branches by mergers since 1945.

Table 14

DISTRIBUTION OF PARENT BANKS IN PENNSYLVANIA, BY NUMBER OF BRANCHES AND BY NUMBER ESTABLISHED PRIOR TO 1946

Total Number of Branches per Bank	*Number of Branches Established by Present Parent Bank Prior to 1946* 0	1	2	3	4	5	6	9	Total
1	60	4	..	..	..	..	..	..	64
2	32	2	..	..	..	..	..	..	34
3	8	3	3	1	..	..	..	..	15
4	7	2	1	..	..	..	..	..	10
5	1	3	3	..	..	..	..	..	7
6	..	..	..	1	1	..	..	..	2
7	1	..	1	..	..	..	..	..	2
8	..	1	..	..	..	..	..	..	1
9	1	..	..	..	..	..	..	..	1
10	2	..	..	1	..	1	..	..	4
11	..	1	1	..	..	..	..	..	2
13	..	..	..	..	..	..	1	..	1
15	..	1	1	..	..	..	..	..	2
16	1	..	..	..	..	..	..	..	1
28	..	..	..	..	..	..	..	1	1
30	1	..	..	..	..	..	..	..	1
51	1	..	..	..	..	..	..	..	1
Total	115	17	10	3	1	1	1	1	149

prior to 1946. From the final row of Table 14 it may be noted that, of the 149 parent banks, 115—or 77 percent—obtained all of their branches since 1945. Moreover, 3 of the 4 banks with the greatest number of branches were not engaged in branch banking prior to 1946, although some of the banks absorbed by these 3 banks had established branches prior to 1946. The last column of the table shows that 64 banks have but one branch each, and 34 have 2 branches per bank; the largest number of branches per bank is 51.

The main offices of all of the banks with more than 10 branches (including one savings bank) are located in either Philadelphia or Pittsburgh; and only 2 banks of those with more than 5 branches per bank are located in counties other than Allegheny, Philadelphia, and contiguous counties.

Between 1945 and 1955, total assets of all banks in Pennsylvania increased 27.5 percent—from $12.24 billion to $15.61 billion. To facilitate meaningful comparison of the growth, since 1945, in assets of the two groups of banks, total bank assets in 1955 and 1945 may be divided by type of banking organization as follows: (1) in 1955, the branch system accounted for $11.88 billion of total assets and the unit system held the remaining $3.73 billion; (2) the currently existing 149 parent banks had assets of $6.13 billion in 1945, banks later acquired by existing parent banks had total assets of $3.26 billion, and the assets of the 658 unit banks totalled $2.85 billion.[4] Therefore, considering both the expansion of assets and the acquisition of assets by absorbing other banks, the assets of the 149 banks that operated branches in 1956 increased 93.8 percent between 1945 and 1955, while the assets of the 658 unit banks increased only 30.9 percent.

The growth in assets of the parent banks was primarily due to acquisitions. The growth attributable solely to asset expansion may be calculated by combining the parent bank and absorbed bank totals for 1945 and dividing the sum into the total parent bank assets for 1955. Asset expansion, then, between 1945 and 1955, of the group of banks which in combination form the existing parent banks amounted to but 26.5 percent. This percentage is directly comparable with the 30.9 percent growth of the group of unit banks,

[4] Data for unit banks were obtained by subtraction from state totals; hence, the unit bank total for 1945 includes assets of nine banks that later merged with unit banks, and for 1955 includes data for five banks which were not operating in 1945.

since the latter percentage is influenced only to a negligible degree by acquisitions.

However, the comparison of the two groups of banks in terms of asset expansion is of limited significance because the totals for the branch systems reflect the preponderant resources of the large metropolitan banks for which no counterparts exist among the group of unit banks. To reduce the effect of size and location upon the pattern of asset expansion, the large parent banks must be removed from the group totals for branch banking systems. The main offices of the 18 parent banks with assets exceeding $100,000,000 are located in large cities, and all but two are located in either Philadelphia or Pittsburgh. The group of parent banks with assets less than $100,000,000, from the standpoint of size and location, has more significant characteristics in common with the unit banks than has the group of all parent banks.[5]

Total assets of the 131 parent banks that individually have assets of less than $100,000,000 were $3.17 billion in 1955. In 1945, the sum of the total assets of these banks and the total assets of banks later absorbed by them was $2.11 billion. Hence, the total assets of this group of banks expanded 50.2 percent between 1945 and 1955, as compared to an expansion of 30.9 percent in the assets of unit banks over the same period.

For the large parent banks, however, the picture is strikingly different: their asset expansion between 1945 and 1955 amounted to but 19.6 percent. Total assets of these 18 banks were $8.71 billion in 1955 and, when combined with the assets of absorbed banks, $7.28 billion in 1945. The inclusion of the four large savings banks with branches (assets of which increased 64 percent between 1945 and 1955) with the 14 large commercial banks with branches tends to distort the comparison of the group with the unit banks and with the

[5] Total assets of the unit banks which individually have assets less than $100,000,000 amount to 93.2 percent of the total assets of all unit banks.

group of smaller parent banks.[6] The total assets of the 14 large commercial banks in 1945 (including the assets of banks later absorbed) were $6.37 billion, increasing to $7.21 billion in 1955—an increase of but 13.2 percent. For the large Philadelphia commercial banks as a group, the comparable figure was 10.3 percent, and for the large parent banks in Pittsburgh, 16.6 percent.

The very low rate of expansion of the component banks of the large metropolitan commercial branch banking systems is clearly consistent with the analysis of the factors behind the branch banking and merger movements presented in Section II. Primarily as a result of the growth of competing financial institutions and the shift of population[7] to suburban areas (both of which had a more pronounced effect upon large city banks than upon other banks), many of the large city banks were faced with virtual stagnation at a time when the rest of the economy was expanding rapidly. These large banks reacted in two ways: by combining with other large banks and absorbing smaller banks to gain whatever benefits accrue with larger size, and by branching out into the areas of population growth. By merging with suburban banks, both objectives could be realized simultaneously. Whether or not the large city banks sought to merge with the most rapidly growing suburban banks cannot be determined on the basis of information readily available. To the extent that the absorbed banks were expanding faster than the parent banks, the over-all expansion rate of 13.2 percent for the large branch

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[6] The group of smaller parent banks contains no savings banks, and the removal of the four unit savings banks would not appreciably change the percentage growth in assets of unit banks.

[7] Between 1940 and 1954, the population of Philadelphia increased 10.5 percent, but the population in the three surrounding counties increased 41 percent, 54 percent, and 86 percent. Population data are not available for cities for other than decennial census years, but it would appear that the population increase in Pittsburgh relative to that in its suburbs was not far different from that in the Philadelphia area, although the Philadelphia metropolitan area grew faster than did the Pittsburgh metropolitan area.

bank systems overstates, perhaps by far, the actual expansion attributable to the central-city components of the systems.

Some indication of the magnitude of the overstatement can be gained by comparing the rates of expansion of the absorbed bank and the absorbing bank from 1945 until the date of merger.[8] This is done in Table 15, which shows all of the mergers which occurred in Pennsylvania between 1945 and August, 1956, distributed by: (1) asset size of the absorbing bank at time of merger; and (2) relative asset expansion or contraction of the absorbed and absorbing banks from 1945 to date of merger.

Relative expansion or contraction was computed as follows: the ratio of the assets of the absorbed bank at date of merger to its assets in 1945 (including the assets of any bank previously merged) was divided by the ratio of the assets of the absorbing bank at date of merger to its assets in 1945 (including the assets of any bank previously merged).[9] Therefore, a relative expansion ratio of less than one indicates that, from 1945 to date of merger, the assets of the absorbed bank expanded less (or contracted more) than the assets of the absorbing bank, and a ratio greater than one indicates that the assets of the absorbed bank expanded more (or contracted less) than the assets of the absorbing bank.[10]

From the table it may be noted that for 91 mergers the relative expansion ratio is between .9 and 1.09, which means that the assets

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[8] In practically no cases can the post-merger growth of the component banks be ascertained.

[9] An example may clarify the computation. Assume that Bank A absorbed Bank B in 1950 and had previously absorbed Bank C in 1947, and that the assets (all in millions) of the banks were: Bank B, $5.0 in 1950 and $4.0 in 1945; Bank A, $27.0 in 1950 and $25.0 in 1945; and Bank C, $5.0 in 1945. Therefore, the ratio of B's assets at the date of merger to its assets in 1945 is $5.0 to $4.0, or 1.25; and the ratio of A's assets at the date of merger to the sum of the assets of the component banks in 1945 is $27.0 to $30.0, or .90. Hence, the asset expansion of B relative to that of A is 1.25 divided by .90, or 1.39.

[10] It should be noted that this procedure avoids negative numbers which would result if the ratio of the percentage changes in assets were used (since the assets of some banks decreased between 1945 and the date of merger).

Table 15

Distribution of Mergers by Size of Absorbing Bank and by Relative Asset Expansion or Contraction of Absorbed and Absorbing Banks from 1945 to Date of Merger

Ratio of: $\dfrac{\textit{Absorbed Bank Assets at Merger}}{\textit{Absorbed Bank Assets in 1945*}}$ *to* $\dfrac{\textit{Absorbing Bank Assets at Merger}}{\textit{Absorbing Bank Assets in 1945*}}$

Assets of Absorbing Bank at Date of Merger	*Less than .60*	*.60-.89*	*.90-1.09*	*1.10-1.49*	*1.50-1.99*	*2.00 and over*	*Total*
Less than $10,000,000	1	12	15	11	..	..	39
$ 10,000,000—$25,000,000 ...	2	12	15	10	1	..	40
25,000,000— 50,000,000 ...	1	6	21	4	2	1	35
50,000,000—100,000,000 ...	1	8	11	8	1	..	29
$100,000,000 or more	..	1	29	51	4	3	88
Total	5	39	91	84	8	4	231

* Includes 1945 assets of any component banks acquired previous to the merger.

of the absorbed bank and of the absorbing bank had expanded at approximately equivalent rates from 1945 to the date of merger. In a total of 44 mergers, the absorbed bank had expanded less than the absorbing bank and, in a total of 96 mergers, the absorbed bank had expanded at a greater rate than had the absorbing bank. However, the proportion of ratios greater than one and less than one is significantly different for mergers involving absorbing banks of different size.

As regards the 143 mergers in which the absorbing bank had assets of less than $100,000,000, in 30.0 percent of the mergers the absorbed bank had expanded less; in 43.4 percent the expansion rate for absorbed and absorbing banks was the same; and in 26.6 percent the absorbed bank had expanded more than the absorbing bank. In other words, for these mergers the average relative expansion ratio is very close to one. Of the 88 mergers in which the absorbing bank had assets exceeding $100,000,000, however, in only 1.1 percent had the absorbed bank expanded less than the absorbing bank and in 33.0 percent the banks had expanded at about the same rate, while in 65.9 percent of the mergers the absorbed bank had expanded more than the absorbing bank.

From these data, it can be inferred that the asset expansion of the large metropolitan banks would have been somewhat less than 13.2 percent over the period 1945 to 1955 had they not absorbed banks expanding more rapidly than themselves. There is no evidence, however, that the suburban banks acquired by the large city banks had significantly greater asset expansion rates than the suburban banks which continue to operate independently. All suburban banks were expanding more rapidly than the large city banks, as, for that matter, were practically all other banks in the state.

Percentagewise, *deposits* of all Pennsylvania banks increased less than assets between 1945 and 1955—a 25.4 percent increase in deposits as compared to a 27.5 percent increase in assets. Most of the difference is accounted for by the component banks of the large commercial branch banking systems, for which assets (as previously noted) expanded 13.2 percent but for which deposits expanded only 10.6 percent between 1945 and 1955. For the other groups of banks —unit banks, the remaining commercial parent banks, and large savings banks—deposits expanded at a rate only slightly below the rate of asset expansion. For example, the deposits of the group of unit banks expanded 29.8 percent, as compared to an expansion of 30.9 percent in unit bank assets.

It should also be noted that the large commercial parent banks (and acquired components) are, in the main, responsible for the more rapid increase in aggregate bank capital than in total assets in Pennsylvania between 1945 and 1955. For the large commercial branch banking systems, the increase in capital from 1945 to 1955 amounted to 26 percent of the increase in deposits. For all other banks—parent or unit—the increase in capital was equivalent to 10.5 percent of the increase in deposits.

Despite a lower asset expansion rate, the *loan* expansion rate of the group of 149 parent banks (and acquired banks) exceeded the comparable rate for the group of unit banks. From 1945 to 1955, loans of the 658 unit banks increased 280 percent, while over the same period the loans of the 149 parent banks and their component banks expanded 345 percent. But the loan expansion rates for different groups of parent banks are significantly different. The four savings banks with branches expanded their loans slightly more than 1,000 percent between 1945 and 1955. The group of parent banks with assets of less than $100,000,000 expanded loans 386 percent, and the loan expansion rate for the large commercial parent banks was 285 percent—slightly above the rate for all unit banks.

As regards loan expansion in relation to asset expansion, however, the large commercial branch systems outrank all other groups. Between 1945 and 1955 the expansion of loans of the large commercial parent banks (and acquired banks) amounted to 283 percent of the expansion in assets. Comparable percentages for the other groups of banks are: unit banks, 107 percent; large savings banks, 102 percent; and parent banks with assets less than $100,000,000, 92 percent.

As of August, 1956, the 1,289 commercial banks or branches of commercial banks in Pennsylvania were distributed among 727 localities. The total population of these 727 localities (cities, boroughs, town, and unincorporated places) as of the 1950 census was approximately 7,150,000. The distribution of the 727 localities by number of commercial banking offices and by population is presented in Table 16. It may be noted from the table that 510 localities are served by but one commercial bank office, and an additional 149 localities by but two commercial bank offices. Of the 510 localities with but one office, 310 had a 1950 population of less than 2,000, in 177 the population ranged from 2,000 to 10,000, and in 23 the population exceeded 10,000.

The 510 commercial bank offices in single-office localities consist of 318 banks, 120 branch banks which resulted from mergers, and 72 de novo branches. About two-thirds of the 149 localities with two commercial banking offices have only banks, and 17, or about 11 percent, are served only by branch bank offices. Of the total of 574 banking offices in localities with a population of less than 5,000, 401 are banks and 173 are branch banks.

Table 16

Distribution of Pennsylvania Localities with Banking Facilities, by Number of Commercial Banking Offices and by Population

Population	Number of Commercial Banking Offices					Total Number of Localities With Commercial Banks
	One	Two	Three	Four	Five or More	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Under 1,000	188	6	..	..	..	194
1,000— 1,999	122	16	..	..	..	138
2,000— 2,999	60	17	1	..	..	78
3,000— 4,999	57	30	2	..	..	89
5,000— 6,999	42	28	6	1	..	77
7,000— 9,999	18	21	5	1	..	45
10,000—14,999	15	16	10	2	..	43
15,000—24,999	6	14	5	5	3	33
25,000—49,999	2	1	3	2	6	14
Over 50,000	..	..	..	..	16	16
Total	510	149	32	11	25	727