of alternative strategies for liberalizing existing federal regulations limiting geographic expansion by banking organizations. One proposal suggests easing existing restrictions on electronic branching. Among the options discussed is statewide, within-SMSA, contiguous-state, and nationwide branching through ATMs. Several possible alterations in the Douglas Amendment’s prohibition of interstate acquisitions by bank holding companies are also mentioned. Among the options presented are permitting holding company acquisitions or, alternatively, de novo branching within SMSAs and into contiguous states. In this regard, it should be noted that portions of six of Ohio’s SMSAs lie in contiguous states. Additionally, 21 holding companies with deposits exceeding $1 billion operate in states contiguous to Ohio. Of these, 13 have also considered the McFadden Act. One option considered is statewide branching by national banks. This would put pressure on states to adopt similar regulations or face the prospect of charter conversion by state-regulated banks.

Expansion patterns in Ohio might also be altered if the de facto regulatory prohibition of holding company acquisition of thrift institutions were relaxed. The Federal Reserve Board recently asked for comment on this issue, and the Justice Department indicated support for the elimination of this bar. Holding companies in Ohio might choose to expand through such an acquisition, given the wider branching powers of S&Ls. Indeed, this mode of expansion might be encouraged if regulators and the courts continue to treat S&Ls as less-than-full competitors of commercial banks. In this case, a holding company might be permitted to acquire an S&L in a market in which it could not acquire another bank because of antitrust reasons.

Conclusion

Many banking organizations in Ohio have expanded geographically since 1978. Holding companies, typically the largest banking organizations, have expanded more aggressively than independent banks, both de novo and through acquisition/merger. However, interstate expansion in the region would be modest relative to what would occur in the rapidly growing areas of the country.


Ohio's Branching Law
Ohio's current bank branching law, which became effective January 1, 1979, permits de novo branching by a commercial bank within its home office county and into all counties contiguous to its home office county.6 Statewide branching through merger also is permitted, with the holding company retaining all of the branching privileges enjoyed by all institutions involved prior to the merger. Statewide de novo branching is authorized beginning in 1989.7 Prior to 1979, de novo branching was restricted to a bank's home office county. However, multi-bank holding companies could acquire banks in any county of the state before the 1979 changes in Ohio's banking structure.8

State and federal regulators influence branching patterns permitted under the Ohio law, as they are charged with evaluating the financial, competitive, and convenience needs and impacts of the new branching and mergers. Generally, regulators view de novo branching as anti-competitive and approve most requests for this type of expansion. Branching through merger is subject to a more lenient scrutiny because of its potentially anti-competitive impact.

De Novo Branch Banking: 1979-80
De novo branching pattern evidenced since 1979 indicate the impact of branching liberalization on Ohio's banking structure and suggest the direction of future trends. A great deal of branching activity has taken place in Ohio over the two-year period (see table 1). In 1979-80, 180 de novo full-service branches were established, or representing a 39 percent increase over the total number established in the 1977-78 period. Holding company affiliates, responsible for 61 percent of the total branches established, were aggressive in the preceding two-year period, holding company subsidiaries accounted for just 50 percent of the total branches established. Over the 1979-80 interval, 79 different banking organizations (20 holding companies and 59 independent banks) engaged in de novo branching activity; 53 organizations established 1 branch each, 18 organizations established from 2 to 4 branches, and 6 more. The state's largest banking organizations were responsible for much of this de novo branching activity. The largest 3 organizations established 38 branches (21 percent of the total); the 5 largest were responsible for 50 branches (28 percent); and the 10 largest established 82 offices (46 percent). In all, 52 of Ohio's counties experienced some new de novo branches. Twenty-five of these new branches were established in 13 counties. Sixteen de novo branches were established in Franklin County, 15 in Cuyahoga County, and 7 in Lake County, and 9 each in Clermont, Montgomery, and Stark counties. The vast majority of de novo branches (78 percent) were established in the heavily populated, higher-income, urban, SMSA counties (see table 2).

The bulk of de novo branching (75 percent) represented in-country expansion activity. This type of expansion alters the size distribution of banks competing in a given county, while leaving the number of competitors unchanged. The primary impacts of this type of expansion depend on the relative number and location of the branches established by the bank entering within the given county, as well as on the type, quantity, quality, and prices of the services offered. The impact of in-county expansion on competition is thus ambiguous. However, it is likely that this type of expansion benefits the public if the new branch offers additional services and/or are conveniently located.

Forty-five branches (25 percent) were established in contiguous counties. Most of this activity (64 percent) was for holding company affiliates. Contiguous-county branching occurred in 21 different counties. Six branches were established in Stark County by two out-of-county organizations; five were established in Lake County by three out-of-county organizations; four were established in Warren County by three organizations; and three were established in Clermont County by three organizations. Some of this contiguous county branching activity is the result of banking organizations located in multi-county markets.9 However, entry by out-of-county organizations in 14 of these counties represented a new competitor's entrance into a local market, which subsequently should intensify competition in these markets.

It should also be noted that 17 off-premise automatic teller machines (ATMs) were installed in this period—10 by holding company affiliates and 7 by independent banks. Under current law, regulatory authorities make no distinction between off-premise ATMs and full-service branches. merger/ acquisition Activity: 1979-80
Statewide branching through merger also was authorized in the 1979-80 law. Despite the operational limitations on de novo branching described above, it is not surprising that merger/acquisition activity increased sharply in the 1979-80 period compared with the previous two years. This mode of expansion permits the acquisition of a going concern and eliminates a competitor from the market entered. As in de novo expansion, holding companies and their affiliates dominated this activity, accounting for 74 percent of all mergers and acquisitions and 76 percent of all offices acquired (see table 3). Eleven different holding companies made at least one merger/acquisition in the 1979-80 interval. The three largest organizations engaged in seven mergers/acquisitions, totaling 33 bank offices and $8.4 billion in deposits. The numbers for the 10 largest organizations were 13, 60, and $0.9 billion; those for the 10 largest were 27, 108, and $1.3 billion. Forty-seven mergers took place in 39 counties during that period; 21 took place in SMSA counties and 26 in non-SMSA counties. Holding companies entered six counties for the first time through mergers during this interval.

Several multi-bank holding companies also consolidated totally or partially, i.e., transferring all or some of their bank subsidiaries into branch offices through merger. Because such consolidations are essentially reorganizations, they do not alter the number of bank competitors operating in local markets and, therefore, should not appreciably influence the state of competition in affected locations.

It should also be noted that four holding companies were formed through acquisitions in the 1979-80 period. Of the three largest banks in Ohio, the 5th, 19th, and 42nd largest banks in Ohio, with combined deposits totaling approximately $1.6 billion, the 5th largest bank on the list noted above, is probable that these organizations will expand geographically in the future.

Table 3 Mergers/Acquisitions Activitya

| Holding company affiliates or independent banks Total |
|-----------------|-----------------|
| Mergers/ acquisitions | 35 | 12 | 47 |
| Branches | 110 | 16 | 126 |
| Banks (0.09) | 12 | 15 | 27 |
| Total | 35.1 | 1.9 | 37 |
| Deposits acquired | 35 | 12 | 47 |
| Billions of dollars | 1.9 | 0.4 | 2.3 | 1.9 |