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The Washington Post and Times Herald (1954-1959); Jan 19, 1959;
ProQuest Historical Newspapers The Washington Post (1877 - 1993)
pg. A15

Our Changing Economy

Reasons Are Given For Bank Mergers

By Philip Stoddard Brown

In the past 15 years, there have been 12 bank mergers in the Washington area. Partly as a result of these mergers, 80 per cent of the assets of all District banks are held by four banks. Riggs, with assets of $525 million, accounts for nearly one-third of the total . . . In the suburbs, too, the concentration has been increased.


Brown

In 1922, there were 50 commercial banks in the District. Today there are 13. In the 1920's and 1930's, mergers were often arranged to rescue weak banks. Some banks were simply liquidated. In 1932-34, 17 banks "failed" and in 1936, another became insolvent. But, in recent years, no merger has been dictated by distress.

What is the explanation of recent mergers? First, why have the owners of Munsey, Lincoln, Liberty, Hamilton, Washington Loan, National Metropolitan and other banks sold out, or exchanged their stock for that of other banks?

The simple answer is that they were offered a good price —higher, in most cases, than their present and prospective earnings justified. To be sure, other reasons were given out, and still other reasons were advanced in private. Among the latter, "lack of depth of management" is often mentioned. This phrase has become a favorite and is bandied in all merger talk, these days.

Need of New Officers

The need for good and younger officers was an important consideration in several cases. To sell out or merge with another bank isn't the only solution for this and other problems. But, the price offered in each case made it an easy solution.

The harder question is why have the National Bank of Washington, The American Security and Trust Co., The Riggs National Bank and the Union Trust Co., been willing to make such attractive offers. Stockholders of Hamilton were offered twice the market value of their stock before there was any talk of merger. Stockholders of Liberty National Bank, who had been receiving a dividend of $6 a share, were offered in exchange 11 shares of National Bank of Washington, paying $13.30 a year.

I asked one local banker if "wanting to be a bigger" wasn't sometimes a motive that let a bank to offer a price higher than perhaps was justified by prospective earnings. His reply was "No." "Big stockholders are hard-boiled about their investment," he said. "They want dividends, not glory." . . . Maybe, I wouldn't have gotten so positive an answer if I had used the words of the Comptroller of the Currency, "the normal urge to excel in expansion," as a reason for mergers.

Other Reasons Given

Again, other reasons are cited: "to acquire branches," "to gain deposits" and "to increase a bank's individual loan limit." But, these are not ends in themselves, or are they? When queried directly, bankers say these are but the means to higher earnings per dollar of equity.

How then are per-share earnings increased, if indeed they are? Right after a merger, expenses increase. No one is fired. Often the employes of the absorbed bank get pay raises, at least in the form of higher "fringe benefits." Some new jobs are created. Expenses go up as new stationery and scores of new forms are printed and old inventory thrown away. The name on the front of the acquired bank has to be changed.

What happens over a period of years isn't easy to measure. Expenses increase as the bank grows. Savings are achieved by automatic bookkeeping and other new ways of doing business—savings that each bank might have realized separately, to some extent.

One benefit claimed in every merger is that the new bank can make bigger loans since the limit for individual loans (10 per cent of capital and surplus) will be higher. This may be a factor, but it is easily exaggerated. A lot of small banks do all right by getting their correspondents to take part of a big loan; in fact, the small bank profits by getting more than its proportionate share of the interest charge on construction and other loans that have to be serviced.

Economies Are Cited

Many bank officials stoutly affirm that the bigger the bank the higher the rate of return, because of all the economies that are possible. The Deputy Comptroller, on the other hand, told me that his studies convinced him that small banks on the average, earn as much as large ones, barring those of giant size.

Some banks that are absorbed may be below-average in the rate of return they have been earning. In such cases, if the continuing bank has good management, the acquired funds may be invested more profitably and unit costs eventually reduced. Then too, inflation may increase the value of land and buildings acquired. So maybe, a lot of mergers do pay off.

But is the public better served? Have mergers of Washington banks made for more or less competition? Is competition the only criterion?

Convenience dictates initial selection of one's bank in most cases, just as it does the post office one patronizes. One doesn't go across town to patronize a particular bank. The Anacostia Bank doesn't compete with the Bank of Bethesda. Therefore, the number of banks can't be taken as a measure of competition.

What's important is that there be other banks conveniently located to which a person who is dissatisfied can transfer his business. This is the privilege one has in the case of grocery stores, restaurants and gas stations. It's a privilege one does not have in the case of post offices.

By this criterion, Washington is well served by its banks. Most residents have a choice of banks. Moreover, mergers have led to the sprucing up of some branch offices. New services have been added, in some cases. Also, despite the high degree of concentration, there is as much competition as ever — perhaps more — for the business of big corporate customers.

Also, in another respect, Washington is well served by its commercial banks. There is one head or branch office in the District for every 12,000 people. Most of these offices offer a wide variety of services, including vault facilities and personal loans at reasonable rates. This is not the case in Chicago, for example, where branch offices are not allowed and where currency exchanges, small-loan companies and other special-purpose firms serve the public less well.

It may be that more mergers will occur in Washington. Maybe the public will be better served, as a consequence. One should not be doctrinaire. After all, some of the best-run banks are owned by holding companies. The Bank of America, the biggest bank in the country, is one of the most progressive and many Californians who aren't biased by any love of big business swear by it. Some big banks are even more friendly, as well as more efficient, than many small ones. . . . But, pardon me, for hoping that a few small banks will stay independent.