

MINNESOTA'S EXCEPTIONAL BANKING STRUCTURE:
RESEARCH AND POLICY PERSPECTIVES

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RESEARCH REPORT

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FEDERAL RESERVE BANK OF MINNEAPOLIS

*The views expressed in this manuscript are those of the author and not necessarily those of the Federal Reserve System.

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Introductory Comment

The Federal Reserve Bank of Minneapolis, like other banks in the Federal Reserve System, makes recommendations to the Federal Reserve Board of Governors concerning certain bank merger applications and applications by bank holding companies to undertake new or expanded activities within its district. It also provides views to other bank regulatory authorities when they receive merger applications. Thus, by law, this Bank is actively interested in questions concerning banking markets, competition, nonbank activities of holding companies, and so on.

During recent years, this interest has been expanded as a result of the accelerated pace of banking structure changes under the impetus of the Bank Holding Company Act Amendments of 1970. At the same time, the technology of electronic funds transfer (automated clearing houses, remote tellers, etc.) has become an equally important force for change in banking services and banking structure. These changes, in turn, have important consequences for the legal framework of banking at the state level. For these reasons, this Bank has been exploring the implications of possible changes in banking laws for the structure of banking in this district. Toward this end, the Bank invited Paul F. Jessup, Professor of Finance at the Graduate School of Business of the University of Minnesota, to prepare the attached Research Report.

Professor Jessup's analysis concludes that the structure of banking in Minnesota is exceptional (1) in terms of the guidelines for banking concentration implied by decisions of the Board of Governors of the Federal Reserve System, and (2) by comparison with eight other states where total bank deposits are of a size similar to that of

from 26 percent to 29 percent of total deposits of banks and thrifts combined, and from 42 percent to 44 percent of IPC* time deposits at such institutions. Given the large size and demonstrated innovativeness of some of Minnesota's thrift institutions, any legislative changes should probably try to take a broader look at competitive relationships than those discussed in the attached report.

2. Professor Jessup points out (pp. 48-49) that demonstrating that Minnesota banking is exceptionally unbalanced does not ipso facto demonstrate that it is too imbalanced, though he believes that this is a reasonable working assumption. In particular, no effort is made in this report to demonstrate that the exceptional degree of concentration that has existed for decades has resulted in adverse effects on consumers of banking services in Minnesota.

3. It is important to keep separate the issues of concentration of the one hand, and size on the other. The two may be related, but not necessarily. Specifically, one could make a case that Minnesota has benefitted from the financial strength that the large size of its banking institutions can provide. This was true during the 1920s and 1930s when the two large holding companies were formed, in the process preserving smaller institutions

*Individuals, partnerships, and corporations.

Minnesota. He examines the share of various banking services accounted for by affiliates of two large bank holding companies (First Bank System and Northwest Bancorporation)--for the state as a whole and for various metropolitan and rural markets--and finds the degree of concentration high by both the above standards. He also details the exceptionally large gap between the size and geographic diversity of the two large bank holding companies and other banking organizations operating in the state.

Based on these findings of an exceptional two-tier structure of banking in Minnesota, Professor Jessup asserts that those contemplating changes in state laws affecting bank markets--such as the regional branch banking bill introduced in 1973 and again in 1975 (or the bill regarding off-premises electronic facilities to be considered this session)--should try to assess the likely impact of such changes on banking concentration within the state (p. 45). He further states that "attention should...focus on examining positive actions likely to increase the number of competing systems operating throughout Minnesota" (p. 49), and outlines four alternate approaches for policy review.

In considering the implications of this careful study of Minnesota's banking structure, a number of points should be kept in mind.

1. Professor Jessup understandably follows the current practice of looking at concentration in financial markets on the basis of banking services, excluding from the analysis possible competition from nonbank financial intermediaries such as thrift institutions (p. 46). The Board of Governors of the Federal Reserve likewise takes

this view, as apparently required by presently standing Supreme Court decisions.

Law and technology are changing rapidly, however, in the direction of blurring the traditional distinctions between banks and other financial intermediaries. The Ford Administration is sponsoring a bill (growing out of the Hunt Commission report) that would consciously reduce legal distinctions between competing forms of financial institutions. There is a Congressionally sanctioned experiment in Massachusetts and New Hampshire permitting thrift institutions to offer NOW accounts--a type of interest-bearing savings account with "check-writing" privileges. In other states, ways are being found by thrift institutions to offer their depositors transfer facilities on interest-bearing accounts through use of telephones, off-premises electronic terminals and other devices. Newly expanded federal insurance permits the thrifts to compete more effectively for state and local government deposits. And thrift institutions are also adding to the range of family financial services that they offer.

This increased competition is desirable. But it casts doubt on how long the courts, or the regulatory authorities, can or should continue to define product markets solely in terms of narrow banking services. In Minnesota, for example, between year-ends 1968 and 1972, thrift institutions increased their share of deposits

that might have failed without their support. Today, as Professor Jessup shows (p. 52), the banking systems represented by each of the large holding companies give Minnesota two of the twenty-five largest banking organizations in the country. These organizations have access to national money and capital markets on terms that small entities could not command, and thus can attract funds from the rest of the country for use in this region. Similarly, they can undertake projects of social benefit that smaller organizations could not afford.

Some might argue that size per se is bad. This is not the thrust of this report. On the contrary, the inference is that emphasis should be on encouraging competing institutions, not diminishing the size of existing ones.

4. Finally, as Professor Jessup states at the outset, his report is designed to provide a structured analysis to which others can respond. At various points throughout the report, he specifically invites additional research or rebuttal. The report, in sum, is not intended to be the final word on Minnesota's banking structure, but a thoughtful study with policy recommendations to aid the deliberations of those who must make decisions concerning desirable changes in Minnesota's banking structure.

As part of its continuing effort to provide thoughtful analyses of financial issues*, the Federal Reserve Bank

*For a list of studies in print, please contact the Public Information Department, Federal Reserve Bank of Minneapolis, 250 Marquette Avenue, Minneapolis 55480.

of Minneapolis is making available Professor Jessup's study of the banking structure of Minnesota. The views expressed by Professor Jessup do not necessarily coincide with those of the Bank, its officers, or directors.

Federal Reserve Bank
of Minneapolis

This report specifies and documents the thesis that Minnesota has an exceptional two-tier banking structure. Building directly on this thesis, the paper concludes with a preliminary examination of policy alternates concerning future directions of Minnesota banking.

The objective of this paper is to provide a structured, documented analysis to which others can respond. They are invited to review and discuss both the assumptions and documentation of the thesis and the policy implications of accepting or rejecting the thesis.

Two recent studies provide insights into Minnesota's current banking structure.^{1/} Each contains deficiencies, and neither has received much public discussion.

Yet recent and proposed developments warrant current review of Minnesota's banking structure.

1. Multibank holding companies are rapidly expanding in other states. In recent decisions about proposed holding company acquisitions, the Board of Governors enunciates implicit guidelines

^{1/} Multioffice Commercial Banking: An Examination of the Issues and Alternatives in Minnesota, prepared for the Minnesota Bankers Association by Carter H. Golembe Associates, Inc., June 2, 1970.

Banking Concentration in Minnesota, prepared for the Minnesota AFL-CIO by Robert Dildine and Dale Crome, undated but distributed in 1973.

concerning current and potential concentration of state banking resources.

How does Minnesota banking compare with such Board guidelines?

2. Although many multibank holding companies are forming and expanding in other states, Minnesota--which long has permitted holding company operations--is conspicuous for its subdued pace of formations and expansion.

Why?

3. On March 26, 1973, a branch banking bill was referred to the Committee on Financial Institutions and Insurance, House of Representatives, State of Minnesota. Basically the bill will permit regional branching within Minnesota and will likely facilitate bank mergers.

If Minnesota banking structure is to be substantially revised, is such a branching bill the "best one" to serve the majority of Minnesota's citizens?

The subsequent analysis, based entirely on public information, provides a framework for answering these and related questions.

Criteria for Identifying an Exceptional Banking Structure

This paper focuses on two principal dimensions of Minnesota banking structure: (1) the aggregate share of various banking services accounted for by the state's two largest multibank holding companies (First Bank System and Northwest Bancorporation); and (2) the relative positions of these two organizations compared to other banking organizations in Minnesota.

Minnesota's current banking structure will be compared to two principal standards. One, is it consistent with guidelines enunciated by the Board of Governors in recent decisions involving multibank holding companies? Two, is it consistent with the banking structures of other similar states?

If Minnesota's structure differs substantially from these two standards, attention should focus on the following questions:

1. Is Minnesota's exceptional structure a justifiable departure from general standards?
2. Is Minnesota's exceptional structure an "optimal" one toward which Board policy and other states should move?

Unless one of these questions can be answered affirmatively, then attention shifts toward whether and how Minnesota's exceptional structure should be moved toward general standards.

Concentration in Minnesota Banking: Reviewing Past Decisions by the Board of Governors

The Board of Governors, in decisions concerning proposed bank acquisitions by First Bank System and Northwest Bancorporation, typically cites the current concentration of Minnesota's banking resources in these two organizations. The Board explicitly focuses on several dimensions of Minnesota's banking structure:

1. Statewide concentration
2. Concentration in metropolitan and rural markets
3. Disparity in size between the two large banking systems and other banking organizations within the state.

Moreover, the Board consistently: (1) considers the holding companies as total systems, while acknowledging the possibility of competition among system affiliates; and (2) rejects arguments that nonbank financial intermediaries should be included in measures of "banking markets."^{2/}

^{2/}See, especially, Federal Reserve Bulletin, May 1960, pp. 492-493, and April 1961, p. 410.

The Board explicitly cites measures of the statewide concentration of bank deposits controlled by the two largest multibank holding companies:

Within Minnesota, Northwest [Bancorporation] controls 48 banks with aggregate deposits of approximately \$2.2 billion, representing 24 per cent of the total commercial bank deposits in that State. [year-end 1970] Applicant [Northwest Bancorporation] is the second largest banking organization and bank holding company in Minnesota. The largest organization, First Bank System, controls 50 banks with close to 29 per cent of total commercial bank deposits in that State.^{3/}

Moreover, the Board, in two separate decisions, affirms some policy guidelines related to current statewide concentration:

Against this background of present concentration, any proposed acquisition by one of the largest organizations warrants careful consideration of the effect which consummation of the proposal would have in further expanding the size and scope of such organization, in addition to consideration of the probable effect of the proposal on competition in markets which presently are served or potentially could be served by the organization's subsidiary banks or by the bank involved.^{4/}

Statewide concentration thus receives explicit Board attention.

Board decisions also cite the concentration of resources in more narrowly defined Minnesota banking markets. In its decision (1960) to deny First Bank System's proposed acquisition of Eastern Heights State Bank of Saint Paul, the Board focuses on "the Greater St. Paul area" and states that "First's banks and those controlled by another bank holding company, Northwest Bancorporation, together held 32 per cent of the offices and 67 per cent of the total deposits of all

^{3/}Federal Reserve Bulletin, March 1973, p. 195.

^{4/}Ibid., also February 1968, p. 223.

commercial banks in the same area."^{5/} In denying (1961) Northwest Bancorporation's proposed acquisition of a rural bank, The First National Bank of Pipestone, the Board observes that "the two holding companies would control not only all of the deposits of banks in the town of Pipestone but also over 38 percent of the aggregate IPC deposits of all banks in Bank's primary and secondary areas."^{6/}

In its unanimous decision (1968) to approve First Bank System's proposed acquisition of First Plymouth National Bank, Minneapolis, the Board of Governors cites First Bank System and Northwest Bancorporation's control of banking resources in: (1) the state of Minnesota; (2) the Minneapolis-St. Paul Standard Metropolitan Statistical Area; (3) the City of Minneapolis; and (4) the estimated primary service area of the proposed First Plymouth National Bank. It then asserts:

The existing concentration of banking resources in the areas concerned is sufficiently high as to be viewed by the Board generally as an adverse consideration in evaluating a proposal that would involve any increase in this degree of concentration. However, with respect to Applicant's Plymouth Bank proposal, the Board has found that certain special considerations override the impact of the adverse nature of the concentration factor.^{7/}

The Board's unanimous decision thus weighs heavily "certain special considerations" and concludes that the proposed acquisition is in the public interest.

The Board approved Northwest Bancorporation's acquisition of two Minnesota banks since 1960. The competitive issue in both decisions

^{5/} Federal Reserve Bulletin, May 1960, p. 490. The decision involves First Bank Stock Corporation, a previous name of First Bank System, Inc.

^{6/} Federal Reserve Bulletin, April 1961, p. 411.

^{7/} Federal Reserve Bulletin, January 1969, p. 63.

turned largely on definitions of the market areas of the acquired banks, The First National Bank of Ely (1968) and Farmers and Merchants State Bank of Stillwater (1973).^{8/}

Some Board decisions go beyond concentration ratios to cite size disparities involving the two large holding companies and other banking organizations in Minnesota. In denying Northwest Bancorporation's proposed acquisition of The First National Bank of Pipestone, the Board observes:

Moreover, as indicative of the strength of the two holding companies in the general area, it may be noted that, while there are 40 Minnesota banks within a radius of 50 miles of Pipestone, only 14 of these have deposits of more than \$3 million. Of these larger banks, the two holding companies now control 9 and, if the proposed acquisition were consummated, they would control 10 of the 14 larger banks in the general area.^{9/}

In denying (1961) Northwest Bancorporation's proposed acquisition of Roseville Northwestern National Bank, the Board again cites the size disparity between the two largest holding companies and their nearest competitors.^{10/}

In summary, the Board views with concern the current concentration of Minnesota banking. This view is a matter of public record, as outlined in the preceding summary interpretation of past Board

^{8/} Federal Reserve Bulletin, February 1968, pp. 222-225, and March 1973, pp. 194-202.

^{9/} Federal Reserve Bulletin, April 1961, p. 411.

^{10/} Federal Reserve Bulletin, November 1961, p. 1292.

decisions.^{11/} Possibly the interpretation and/or the view itself can be refuted as inaccurate. The subsequent analysis, however, builds directly on the issues and procedures publicly expressed by the Board of Governors in its series of decisions concerning multibank holding companies in Minnesota.

Concentration of Deposits Held by Affiliates of Multibank Holding Companies: Recent Decisions by the Board of Governors

What promises to be a landmark decision is the Board's denial of the application by First International Bancshares, Inc., Dallas, to acquire the largest commercial bank in Tyler, Texas. In this decision the Board expresses its concern about concentration trends and size disparities in Texas banking.

In 1970, the five largest banking organizations in Texas,* held aggregate deposits of approximately \$5.8 billion, or 22 per cent of the total commercial bank deposits in the State. Today, the five largest banking organizations in the State (each a multi-bank holding company)* hold aggregate deposits approximating \$10.6 billion, or almost 31 per cent of the total commercial bank deposits in the State.* This increase in the concentration of the State's commercial bank deposits held by the largest banking organizations in Texas represents a trend which, in the Board's view, has proceeded to an extent that is a cause for concern.^{12/}

*Footnotes omitted.

^{11/} Appendix 1 is a summary of Board decisions (as printed in the Federal Reserve Bulletin, 1957-73) concerning applications by First Bank System and Northwest Bancorporation to acquire banks in Minnesota. The Board has approved some acquisitions by these two multibank holding companies.

^{12/} Federal Reserve Bulletin, January 1974, pp. 43-44.

The Board's explicit concern involves a situation where the five largest banking organizations in Texas account for almost 31 percent of the total commercial bank deposits in the state.

Moreover, the Board states its concern about the disparity in a situation in which the five largest banking organizations control almost two-thirds of all deposits controlled by the state's bank holding companies--which in turn control 49 percent of all commercial bank deposits in Texas.^{13/}

Subsequently the Board also denied First International Bancshares' proposed acquisition of The First National Bank of Waco and explicitly related this decision to the preceding Tyler decision.^{14/}

These recent Board decisions thus provide guidelines against which to compare measures of banking structure in other states.

Minnesota's Two-Tier Banking Structure

Two large multibank holding companies control 52 percent of commercial bank deposits in Minnesota (year-end 1972). The remainder is

^{13/}"There are presently some 24 multi-bank holding companies in Texas, which together control \$17 billion in deposits, or 49 per cent of all commercial bank deposits in the State. The five largest of these banking organizations control almost two-thirds of all deposits controlled by the State's bank holding companies. The Board is concerned over the present size disparity among the State's bank holding companies and the likelihood that this disparity may become greater in the future by virtue of the present acquisition policy. The Board is not required to await the development of undue concentration among bank holding companies in Texas before it intervenes."

Federal Reserve Bulletin
January 1974, p. 44

^{14/}Federal Reserve Bulletin, April 1974, pp. 290-293.

diffused among upwards of 600 other banking organizations--no one of which controls as much as three percent of the total.^{15/}

First Bank System and Northwest Bancorporation generally control the largest banks in Minnesota. This pattern is summarized in Exhibit 1.

The twenty-five largest banks in the state have deposits ranging from \$48 million to \$1,168 million. First Bank System controls eight and Northwest Bancorporation controls nine of these 25 banks. The two systems thus control 68 percent of the 25 largest banks. Five of the other eight banks in this category are not affiliated with multibank holding companies; two are affiliated with American Bancorporation; and one is affiliated with Bank Shares Incorporated.

Similar control patterns exist for the next 75 largest banks in Minnesota, having deposits ranging from \$19 million to \$48 million. First Bank System and Northwest Bancorporation each control 22 (29%) of these 75 banks. Control of the other 31 banks is comparatively diffused (Exhibit 1).

In contrast, First Bank System and Northwest Bancorporation control a total of only 7 percent of the 634 banks having deposits of less than \$19 million.

The cumulative distributions of Exhibit 2 provide similar insights into the deposit-size disparities of Minnesota's banking organizations.

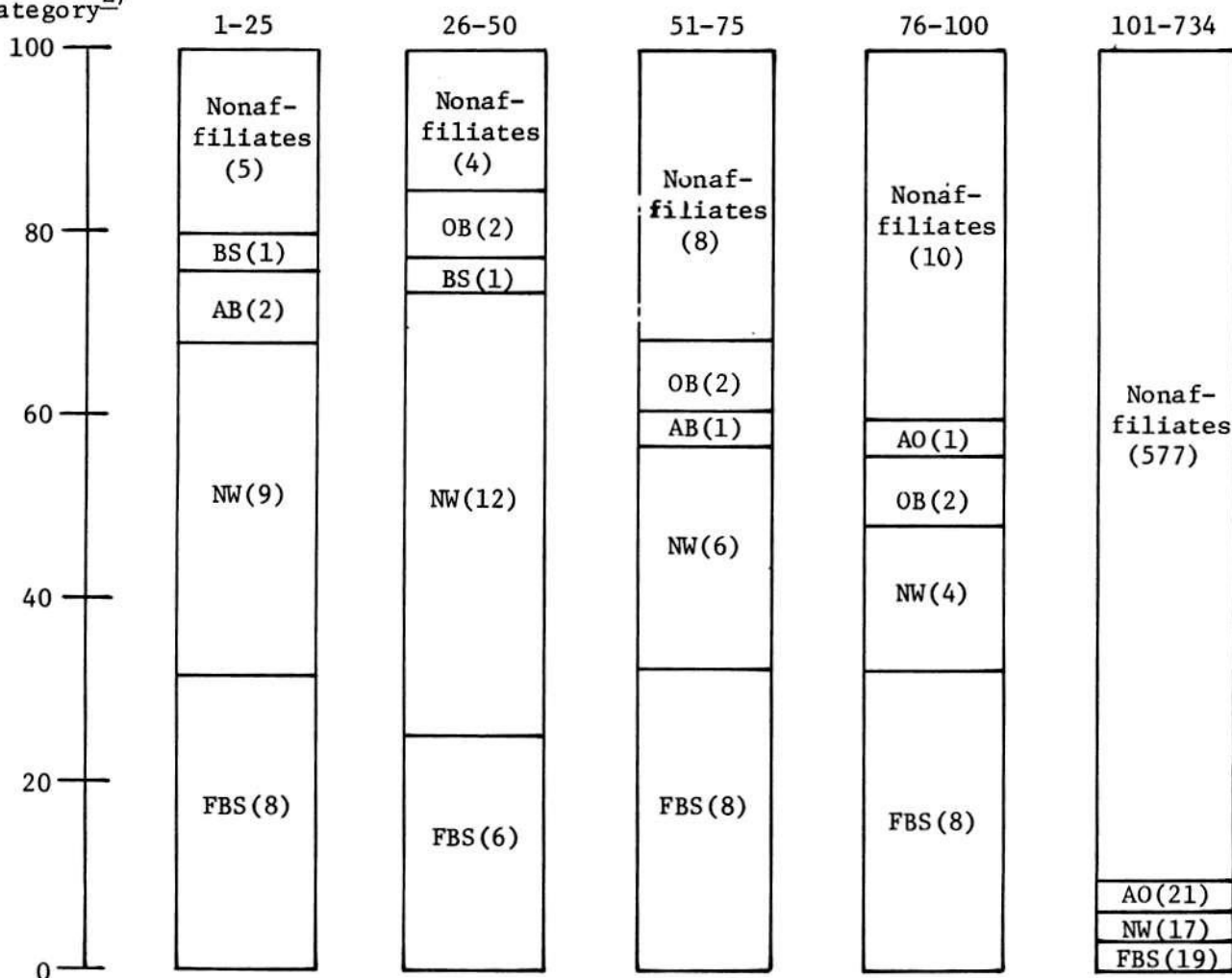
^{15/} Possible noncorporate ("chain") control of sets of banks is recognized but not analyzed in this paper because of lack of public information.

EXHIBIT 1

AFFILIATIONS OF MINNESOTA BANKS CATEGORIZED
BY RANKING OF TOTAL DEPOSITS: YEAR-END 1972

Percent (and
Number) of
Affiliate and
Nonaffiliate
Banks in
Deposit-Size
Category^{2/}

Deposit-Size Category, Highest (1) To Lowest (734)^{1/}



^{1/} Range of the Total Deposits in each of the five categories:

Category	Range (\$ Millions)
1- 25	48-1,168
26- 50	33- 48
51- 75	24- 33
76-100	19- 24
101-734	1- 19

^{2/} Names of multibank holding companies are abbreviated as follows:

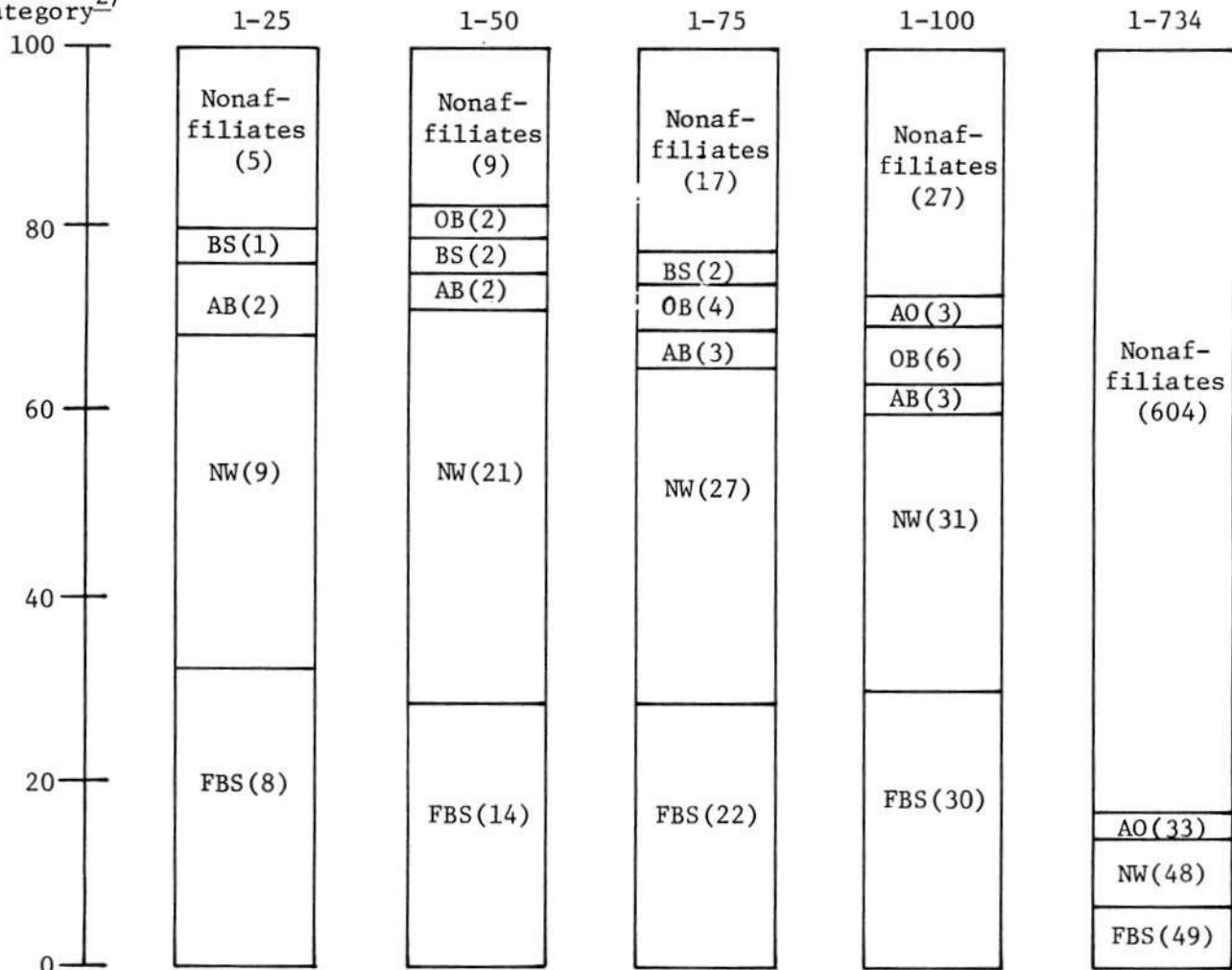
AB	- American Bancorporation
AO	- All other affiliate banks
BS	- Bank Shares Incorporated
FBS	- First Bank System, Inc.
NW	- Northwest Bancorporation
OB	- Otto Bremer Foundation and its controlled affiliate, Otto Bremer Company.

Source: Developed from a listing of 734 insured banks in Minnesota, ranked by total deposits at year-end 1972.

EXHIBIT 2
AFFILIATIONS OF MINNESOTA BANKS CUMULATIVELY
CATEGORIZED BY RANKING OF TOTAL DEPOSITS: YEAR-END 1972

Percent (and
Number) of
Affiliate and
Nonaffiliate
Banks in
Cumulative
Deposit-Size
Category^{2/}

Cumulative Deposit-Size Category Highest (1) To Lowest (734)^{1/}



^{1/} Range of the total deposits within each of the cumulative categories:

Category	Range (\$ Millions)
1- 25	48-1,168
1- 50	33-1,168
1- 75	24-1,168
1-100	19-1,168
1-734	1-1,168

^{2/} Names of multibank holding companies are abbreviated as follows:

AB - American Bancorporation
AO - All other affiliate banks
BS - Banks Shares Incorporated
FBS - First Bank System, Inc.
NW - Northwest Bancorporation
OB - Otto Bremer Foundation and its controlled affiliate, Otto Bremer Company.

Source: Developed from a listing of 734 insured banks in Minnesota, ranked by total deposits at year-end 1972.

Minnesota's two-tier banking structure also has geographical dimensions. Both First Bank System and Northwest Bancorporation have large affiliates in each of the state's metropolitan (SMSA) areas and in most large rural cities of Minnesota. No other banking organization approaches such comprehensive geographical coverage of Minnesota's principal urban and rural cities.

In summary, two banking organizations own many large banks throughout Minnesota. Their affiliates account for 52 percent of commercial bank deposits in the state. No other banking organization in Minnesota approaches the size or geographical dispersion of these two systems.

Minnesota's Two-Tier Structure Is Exceptional

Minnesota's banking structure will be compared to that of a sample of other states, selected on the basis of total deposits in commercial banks (year-end 1972). Closest to Minnesota in total deposits are these eight states:

	Deposits in Commercial Banks December 31, 1972 ^{16/} (\$ Billions)
Missouri	14.0
Indiana	13.5
Massachusetts	12.9
Wisconsin	12.1
<u>Minnesota</u>	11.5
Virginia	10.8
Tennessee	10.3
North Carolina	10.1
Georgia	9.9

^{16/} Annual Report of the Federal Deposit Insurance Corporation, 1972, Table 105, pp. 232-236.

These states are geographically diverse; and they represent various categories of branching and of multibank holding company activities (Exhibit 3).

The 25 largest banking organizations hold 47 percent or more of all deposits of commercial banks in each of the nine states. The distribution, by state, is:

	Of all deposits in commercial banks in state, percent controlled by the 25 largest banking organizations in <u>the state, December 31, 1972^{17/}</u>
North Carolina	93
Massachusetts	84
Virginia	81
Tennessee	70
<u>Minnesota</u>	66
Georgia	62
Missouri	57
Wisconsin	50
Indiana	47

Based on this aggregate measure, Minnesota ranks in the middle of the other eight states.

In contrast, Minnesota is exceptional as measured by the percentage of deposits controlled by several large banking organizations (Exhibit 4). Minnesota's five largest banking organizations account for 59 percent of bank deposits in the state. Minnesota ranks third of the nine states using such a 5-organization concentration ratio. Moreover, Minnesota ranks first of the nine states using 3-organization, 2-organization, and 1-organization concentration ratios. These sequential

^{17/} Calculated from the following sources: Annual Report of the Federal Deposit Insurance Corporation, 1972; listings of banks, ranked by deposit size, in each sample state; "Bank Holding Companies and Subsidiary Banks as of December 31, 1972 (Board of Governors of the Federal Reserve System).

EXHIBIT 3
 NINE SAMPLE STATES, CLASSIFIED BY STATE LEGISLATION AFFECTING
 BRANCHING AND MULTIBANK HOLDING COMPANIES: YEAR-END 1972

<u>State</u>	<u>Branching Classification</u>	<u>Formation and/or Expansion of Multi- bank Holding Companies</u>
Georgia	Limited	Prohibited or Restricted
Indiana	Limited	Prohibited or Restricted
Massachusetts	Limited	Not Prohibited
Minnesota	Unit Banking	Not Prohibited
Missouri	Unit Banking	Not Prohibited
North Carolina	Statewide	Not Prohibited
Tennessee	Limited	Not Prohibited
Virginia	Statewide	Not Prohibited
Wisconsin	Limited	Not Prohibited

Source: Federal Reserve Bulletin, December 1972, p. 1000.

EXHIBIT 4

PERCENTAGE OF TOTAL COMMERCIAL BANK DEPOSITS IN STATE CONTROLLED
BY THE LARGEST BANKING ORGANIZATIONS: NINE SAMPLE STATES, YEAR-END 1972^{1/}

Ranking	Percentage of Total Commercial Bank Deposits in State Controlled by:									
	<u>Five Largest Organizations</u>		<u>Four Largest Organizations</u>		<u>Three Largest Organizations</u>		<u>Two Largest Organizations</u>		<u>Largest Organization</u>	
1	North Carolina	68	North Carolina	60	<u>Minnesota</u>	<u>55</u>	<u>Minnesota</u>	<u>52</u>	<u>Minnesota</u>	<u>28</u>
2	Massachusetts	63	<u>Minnesota</u>	<u>57</u>	North Carolina	52	North Carolina	40	Massachusetts	23
3	<u>Minnesota</u>	<u>59</u>	Massachusetts	56	Massachusetts	47	Massachusetts	36	North Carolina	21
4	Virginia	51	Georgia	45	Georgia	40	Georgia	29	Georgia	19
5	Georgia	47	Virginia	43	Virginia	34	Virginia	25	Wisconsin	16
6	Tennessee	41	Tennessee	35	Wisconsin	29	Wisconsin	23	Virginia	14
7	Missouri	34	Wisconsin	31	Tennessee	28	Tennessee	20	Tennessee	11
8	Wisconsin	33	Missouri	30	Missouri	25	Missouri	17	Missouri	9
9	Indiana	26	Indiana	23	Indiana	21	Indiana	17	Indiana	8

^{1/}Total deposits of a multibank holding company's affiliate banks in a state are used in these tabulations.

Source: Calculated from computer printouts of largest banks in sample states, "Bank Holding Companies and Subsidiary Banks as of December 31, 1972," Board of Governors of the Federal Reserve System; Assets and Liabilities--Commercial and Mutual Savings Banks - December 31, 1972 and 1972 Report of Income, Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency.

relationships reflect a situation wherein two large banking organizations account for 52 percent of deposits in Minnesota while the third, fourth, and fifth largest banking organizations account for a total of 7 percent of such deposits. This aspect of deposit concentration in Minnesota fails to be fully depicted in comparisons that use only one or two selected concentration ratios.^{18/}

The conclusion that Minnesota's two-tier structure is exceptional is subject to possible refutation. Exhibit 4 focuses only on total deposits controlled by the largest banking organizations in each of nine states. Possibly other concentration measures or other sample states will demonstrate that Minnesota's two largest banking organizations do not control an exceptional proportion of bank deposits within the state. Such a demonstration--while possible--seems improbable.

Minnesota's Exceptional Two-Tier Structure Is Not New

Is Minnesota's current two-tier banking structure: (1) an outcome of unusual growth of the two systems' affiliate banks and the communities they serve; and/or (2) an outcome of historic acquisition strategies whereby the two systems acquired major banks in many of Minnesota's largest communities?

Brief review of Minnesota banking structure in 1940 provides insight into these two hypotheses. By then First Bank System (formerly First Bank Stock Corporation) and Northwest Bancorporation had developed statewide systems, each containing about 40 affiliate banks.

^{18/} For example, Table 2.3 in Multioffice Commercial Banking: An Examination of the Issues and Alternatives in Minnesota reports only the percentage of deposits, by state, of all commercial banks accounted for by largest bank (or bank group) and largest 5 banks (or bank groups).

By 1940 First Bank System's 39 affiliates accounted for 35 percent and Northwest Bancorporation's 43 affiliates accounted for 26 percent of total bank deposits in Minnesota.^{19/} The two systems controlled many of the largest banks in the state, while notably avoiding ownership of small banks (Exhibit 5). They controlled all three banks having deposits of more than \$50 million, and almost 40 percent of the 103 banks having deposits between \$1 million and \$50 million.

Also by 1940 the two systems owned affiliate banks located mostly in the large urban and rural communities of Minnesota (Exhibit 6).

In 1940, no other bank holding company approached the two systems' control of large banks throughout the state.

In summary, Minnesota's exceptional two-tier structure is not new. It is basically a continuation of positions achieved by the two large systems through their acquisition policies prior to 1940. This two-tier structure has changed little in over three decades.

Minnesota's Exceptional Two-Tier Structure of Trust Assets

Large banks typically have trust departments competing to serve individual and institutional clients. In Minnesota two multibank holding companies own many of the largest banks and their associated trust departments.

Four banks account for 92 percent of the total assets held by trust departments of Minnesota banks. First Bank System, and Northwest Bancorporation each own two of these four banks:^{20/}

^{19/} Deposits of affiliate banks are as of year-end 1939. Total deposit figure for all commercial banks in Minnesota is as of June 29, 1940, as reported in Annual Report of the Federal Deposit Insurance Corporation, 1940, Table 115, p. 132.

^{20/} Appendix 2.

EXHIBIT 5

DEPOSIT SIZE OF AFFILIATE BANKS OF FIRST BANK
SYSTEM, INC., AND NORTHWEST BANCORPORATION: 1940

Deposit Size Category ^{1/} \$(Thousands)	Total Number of Minnesota Banks ^{1/} (a)	Number of Affiliate Banks in Minnesota		Total of Two Systems (d)=(b)+(c)	Total Number Owned by Two Systems as Percent of Total Number of Minnesota Banks (e)=(d)÷(a)
		First Bank System, Inc. ^{2/} (b)	Northwest Bancorpo- ration ^{2/} (c)		
> 50,000	3	2	1	3	100
10,000-50,000	4	--	2	2	50
5,000-10,000	9	1	3	4	44
2,000- 5,000	24	6	5	11	46
1,000- 2,000	66	10	12	22	33
500- 1,000	170	15	13	28	16
250- 500	213	5	7	12	6
100- 250	173	--	--	--	--
< 100	12	--	--	--	--
Total	674	39	43	82	

^{1/} Deposit-size categories for Minnesota banks are as of June 29, 1940, as reported in Annual Report of the Federal Deposit Insurance Corporation, 1940, Table 110, p. 121. Deposits of affiliate banks are as of year-end 1939.

^{2/} Names of affiliate banks are from Appendixes 8 and 9, Development of Two Bank Groups in the Central Northwest: A Study of Bank Policy and Organization by Charles Sterling Popple (Harvard University Press, Cambridge: 1944). (First Bank Stock Corporation was the name of First Bank System, Inc., until 1968.)

EXHIBIT 6
 POPULATION OF CITIES AND TOWNS WITH AFFILIATE BANKS OF
 FIRST BANK SYSTEM, INC., AND NORTHWEST BANCORPORATION: 1940

Population Categories (Number of Inhabitants) ^{1/}	<u>Urban and/or Incorporated Places in Category</u>		
	<u>Total Number</u> ^{1/}	<u>Number with Affiliate Banks of First Bank System</u> ^{2/}	<u>Number with Affiliate Banks of Northwest Bancorporation</u> ^{2/}
> 25,000	4	3	3
5,000-25,000	40	10	14
2,500- 5,000	34	10	8
1,000- 2,500	119	6	9
< 1,000	NR ^{3/}	2	2
Total		31	36

^{1/}As reported in Sixteenth Census of the United States: 1940, Population, Volume 1, Tables 13-16, pp. 34-58.

^{2/}Names and locations of affiliate banks are from Appendixes 8 and 9, Development of Two Bank Groups in the Central Northwest: A Study of Bank Policy and Organization by Charles Sterling Popple (Harvard University Press, Cambridge: 1944). (First Bank Stock Corporation was the name of First Bank System, Inc., until 1968.)

^{3/}NR = Not Reported.

	<u>\$ Millions</u>	<u>Percent of State Total</u>
Northwestern National Bank of Minneapolis	2,627	
First American National Bank, Duluth	<u>147</u>	
Subtotal (Two Affiliates of Northwest Bancorporation)	2,774	53
First National Bank of Minneapolis	1,884	
Northern City National Bank, Duluth	<u>171</u>	
Subtotal (Two Affiliates of First Bank System, Inc.)	2,055	39
Total	4,829	92

In none of the other eight states do two banking organizations thus control more than 90 percent of trust assets reported by commercial banks:^{21/}

<u>State</u>	<u>Percent of Total Assets in State Held by Largest Bank Trust Depart- ments in State</u>	<u>Number of Separate Banking Systems Represented in Preceding Column</u>
Massachusetts	90	10
Tennessee	92	9
Indiana	65	7
Virginia	76	7
Missouri	88	6
Georgia	89	5
Wisconsin	77	3
North Carolina	89	3
<u>Minnesota</u>	92	2

^{21/}Largest bank trust departments in each state are all those included in the listing of the "300 Largest Bank Trust Departments" in the United States. See Appendix 2.

Only in North Carolina and Wisconsin does the concentration of trust assets in a small number of banking systems approach that of Minnesota.

Minnesota has the smallest number of bank trust departments from which to choose on a statewide basis:^{22/}

Indiana	323
Missouri	117
Virginia	97
Massachusetts	89
Wisconsin	89
Tennessee	79
Georgia	60
North Carolina	36
<u>Minnesota</u>	32

Not only is Minnesota at the bottom of the ranking, most of the other states have more than twice as many bank trust departments as Minnesota.

The number of Minnesota banks reporting trust assets also is exceptionally small from another perspective. Exhibit 7 reports the number of banks reporting trust assets in 15 states similar to Minnesota, as measured by total trust assets of insured commercial banks. Minnesota's number (32) of banks reporting trust assets is notably less than that of any of the sample states in which unit banking or limited branching is prevalent. Compared to some of the statewide-branching states, Minnesota has more banks reporting trust assets. Yet how many of these trust departments in Minnesota are owned by separate banking systems?

^{22/} Table 6, Trust Assets of Insured Commercial Banks - 1972. (Board of Governors of the Federal Reserve System; Federal Deposit Insurance Corporation; Office of the Comptroller of the Currency).

EXHIBIT 7

NUMBER OF BANKS REPORTING TRUST ASSETS IN FIFTEEN STATES SIMILAR TO
MINNESOTA AS MEASURED BY TOTAL TRUST ASSETS OF INSURED COMMERCIAL BANKS: 1972

State	Total Trust Assets (\$ Billions)	Number of Reporting Banks, Classified by Prevalent Branching Structure of State ^{1/}		
		Statewide	Limited	Unit Banking
New Jersey	8.8		104	
Delaware	8.3	11		
Florida	7.9			152
Georgia ^{2/}	6.7		60	
Missouri ^{2/}	6.5			117
Indiana ^{2/}	5.6		323	
Maryland	5.5	25		
<u>Minnesota</u>	<u>5.3</u>			<u>32</u>
North Carolina ^{2/}	5.2	36		
Wisconsin ^{2/}	4.9		89	
Virginia ^{2/}	4.1		97	
(District of Columbia)	3.5	6		
Tennessee ^{2/}	3.4		79	
Washington	3.0	16		
Kentucky	2.9		131	
Colorado	2.9			54
Rhode Island	2.2	7		

^{1/}Branching classification as reported in Federal Reserve Bulletin, December 1972, p. 1000.

^{2/}Also included in sample of eight states similar to Minnesota as measured by total deposits in commercial banks (see text).

Source: Trust Assets of Insured Commercial Banks - 1972; Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency

At least 13 of the 32 bank trust departments in Minnesota are controlled by First Bank System and Northwest Bancorporation.^{23/} These are as follows:

Affiliates of First Bank System--

First National Bank of Austin
 First National Bank of Minneapolis
 First National Bank of Rochester
 Northern City National Bank, Duluth

Affiliates of Northwest Bancorporation--

First American National Bank, Duluth
 First National Bank of Hoyt Lakes
 First National Bank of Winona
 Midland National Bank of Minneapolis
 Northwestern Bank and Trust Co., St. Cloud
 Northwestern National Bank of Minneapolis
 Northwestern National Bank, St. Paul
 Security Bank and Trust Company of Owatonna
 Security National Bank of Faribault

Not only do the four largest of the above bank trust departments account for 92 percent of total assets in trust departments of Minnesota banks, the trust departments of Northwestern National Bank (St. Paul) and Midland National Bank of Minneapolis are the fifth and sixth largest in the state. They rank ahead of the largest trust departments of banks not affiliated with First Bank System or Northwest Bancorporation:^{24/}

^{23/}Derived from Twelfth Annual Directory of Trust Institutions, 1974, pp. 88-90; and "Bank Holding Companies and Subsidiary Banks as of December 31, 1972," pp. 91-92, 94-95.

^{24/}As reported in Twelfth Annual Directory of Trust Institutions, 1974.

	<u>(\$ Millions)</u>
Northwestern National Bank, St. Paul	210 ^{25/}
Midland National Bank of Minneapolis	100
American National Bank and Trust Co., St. Paul	80
Marquette National Bank of Minneapolis	60
National City Bank, Minneapolis	36
First National Bank of Rochester (affiliated with First Bank System)	36

No other bank trust department in Minnesota is reported to control more than \$36 million of total assets. Because First Bank System and Northwest Bancorporation thus control more than the four largest bank trust departments in Minnesota, their control of assets in bank trust departments must exceed the 92 percent accounted for by four of their affiliate banks.

None of the preceding calculations includes First Trust Company (St. Paul), an affiliate of First Bank System. This institution, with \$3.1 billion of trust assets, is not included in the report Trust Assets of Insured Commercial Banks. If its trust assets of \$3.1 billion are added to the state total of trust assets of insured commercial banks (\$5.3 billion), this implies total trust assets of \$8.4 billion held by these Minnesota institutions. Of this total at least 94 percent is controlled by First Bank System and Northwest Bancorporation.^{26/}

In summary, control of trust assets in Minnesota is exceptionally concentrated in two multibank holding companies. Consequently,

^{25/} This figure exceeds that reported in Appendix 2 for the two largest bank trust departments in Duluth. The figures are from different public sources. Such a discrepancy need not detract from the comparison of the relative size of these trust departments to those of banks not affiliated with either First Bank System or Northwest Bancorporation.

^{26/} Trust assets of First Trust Company are from Twelfth Annual Directory of Trust Institutions, 1974, p. 89. State total is from Trust Assets of Insured Commercial Banks - 1972, p. 40.

focus shifts toward: (1) whether Minnesota's exceptional structure is an appropriate norm toward which other states should move; or (2) whether and how Minnesota's exceptional structure should be moved toward the current norm prevalent in other states.^{27/}

Minnesota's Exceptional Two-Tier Pattern of Bank Stock Loans

Large banks typically lend to individuals borrowing to acquire control of small nonaffiliate banks. Borrowers usually pledge their control shares to secure such bank stock loans. Not only do lending banks thus acquire secured creditor relationships with owners of small banks, reportedly they also solicit correspondent balances of the small banks. Bank stock loans thus facilitate transferability of small banks and provide bases for longer-run banking relationships.

Other factors equal, borrowers are best served in markets with many lenders capable of offering competitive terms. Borrowers can "shop around" concerning initial loan terms, and they have greater flexibility subsequently to refinance a loan with another lender.

Focusing on the nine sample states, are there similar patterns of bank stock loans?

Public information about bank stock loans is sparse. One source of such information is a Congressional staff analysis that lists all reported changes in control of insured commercial banks between

^{27/}Future analyses can include more states than the 15 examined in this section. Also, reported numbers of bank trust departments in other states should be adjusted to reflect cases where multibank holding companies own more than one bank with its associated trust department.

September 12, 1964, and December 31, 1966. Almost 50 percent of the reported transactions "involved bank loans secured by 25 percent or more of the stock of the subject bank." ^{28/} This large sample (454) of bank stock loans is the basis for the subsequent comparisons.

Bank stock loans are reported in six of the nine sample states:

	<u>Number of Reported Loans Secured by Control Stock of Banks in State</u>
Georgia	11
Indiana	6
Massachusetts	0
Minnesota	48
Missouri	23
North Carolina	0
Tennessee	2
Virginia	0
Wisconsin	<u>27</u>
Total	117

In four states there are more than 10 bank-stock loans, accounting for the following percentages of banks (year-end 1965) in the states: Georgia (3%); Minnesota (7%); Missouri (4%); Wisconsin (5%).

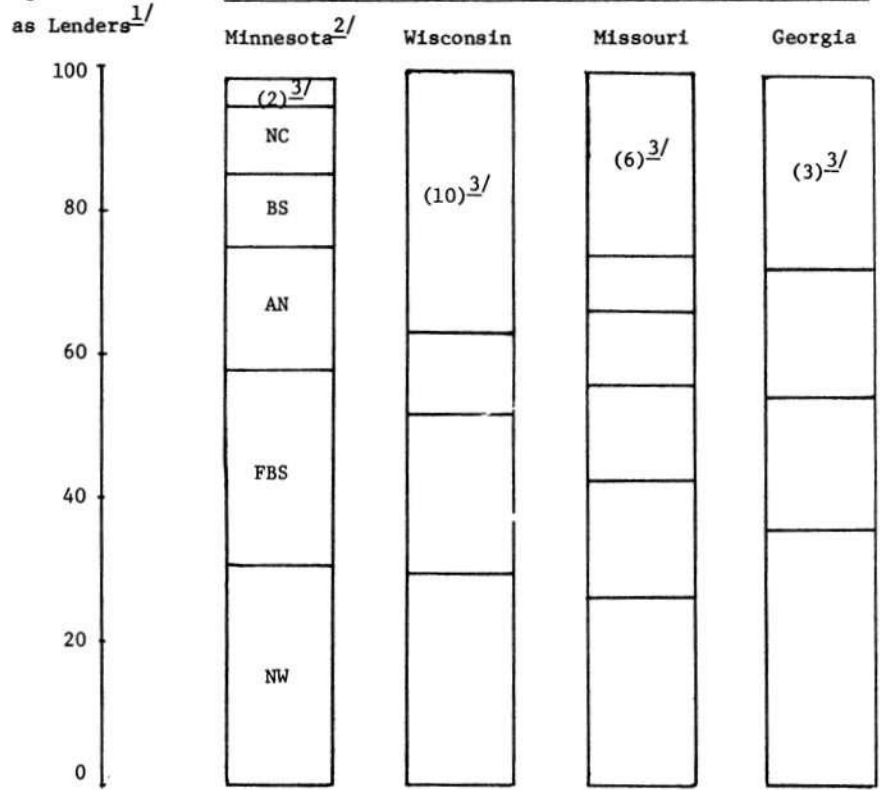
Exhibit 8 summarizes salient features of bank stock loans in the four states. Although Minnesota has the largest number of such loans, only seven separate banking organizations account for all lenders in the 48 transactions. By comparison, Georgia, with substantially fewer (11) transactions than Minnesota, has six separate lenders; and both Missouri and Wisconsin, each with about half Minnesota's transactions, have more separate lenders than Minnesota.

^{28/} Acquisitions, Changes in Control, and Bank Stock Loans of Insured Banks, Staff Analysis for the Subcommittee on Domestic Finance of the Committee on Banking and Currency, House of Representatives, 90th Congress, 1st Session, June 29, 1967, p. 35.

EXHIBIT 8

DISTRIBUTIONS OF BANKING SYSTEMS REPORTED MAKING LOANS
 SECURED BY CONTROL STOCK OF BANKS: FOUR SAMPLE STATES, 1964-1966

Percent of Total
 Number of Reported
 Bank-Stock Loans in
 State Accounted for
 by Different Banking
 Organizations



Total Number of Reported Loans	48	27	23	11
Total Number of Different Banking Organizations as Lenders	7	13	11	6

^{1/} Columns may not add to 100 because of rounding

^{2/} Names of Minnesota banking organizations are abbreviated as follows:

- AN - American National Bank and Trust Co., St. Paul
- BS - Bank Shares Incorporated
- FBS - First Bank System, Inc. (prior name, First Bank Stock Corporation)
- NC - National City Bank, Minneapolis
- NW - Northwest Bancorporation

^{3/} Number of different banking organizations each accounting for one loan

Source: Prepared from Acquisitions, Changes in Control, and Bank Stock Loans of Insured Banks, Staff Analysis for the Subcommittee on Domestic Finance of the Committee on Banking and Currency, House of Representatives, 90th Congress, 1st Session, June 29, 1967, Table IV, pp. 42-105. (Reported loans are those filed between September 12, 1964, and December 31, 1966.)

Affiliates of First Bank System and Northwest Bancorporation account for 58 percent of the lenders in Minnesota's 48 transactions. In none of the other three states do two banking organizations account for as large a percentage of the state's reported bank stock loans.

Large banks--with their larger maximum lending limits to any one borrower--are usual lenders in transactions involving bank stock loans. Minnesota does not have notably fewer banks with deposits exceeding \$100 million than do Georgia, Missouri, and Wisconsin. It does differ notably, however, in having many of its large banks controlled by two multibank holding companies.^{29/}

In summary, a comparatively small number of separate banking organizations make loans secured by controlling shares of Minnesota banks. This conclusion is based on a large sample of reported transactions during 1964-66. Although there is no obvious reason to assume that this sampling period provides atypical results, replication with more recent information is welcome.

Minnesota's Exceptional Lack of "Anchor Banks" for New Banking Systems

No legal barriers preclude formation of new multibank holding companies in Minnesota. Yet only two multibank holding companies have begun operations since 1956, when federal legislation first required registration of multibank holding companies. One of the two new firms, American Bancorporation, controls four banks; and the second, Mid America Bancorporation controls seven comparatively small banks in and

^{29/} These statements are documented in the next section of this paper, especially in Exhibits 9 and 10.

near the Twin Cities.^{30/} The four multibank holding companies operating since at least 1956 have acquired seven new banks for their systems:

	Number of Banks Acquired Since 1956 ^{31/}
Bank Shares Incorporated	1
First Bank System, Inc.	2
Northwest Bancorporation	4
Otto Bremer Foundation, and its controlled affiliate, Otto Bremer Company	<u>0</u>
Total	7

The number of acquisitions is small when compared to: (1) the large number of potentially available nonaffiliate banks in Minnesota; and (2) the number of recent acquisitions in other unit-banking states that permit multibank holding companies.^{32/}

The Board of Governors is reluctant to approve bank acquisitions by First Bank System and Northwest Bancorporation, in view of their large relative share of Minnesota banking. Other multibank holding companies in Minnesota do not face such constraints. Yet the two older systems (Bank Shares Incorporated and Otto Bremer Foundation) have acquired one bank since 1956; and only two new systems, controlling a

^{30/} Deposits of its seven affiliates range from \$2 million to \$21 million (year-end 1972). Source: "Bank Holding Companies and Subsidiary Banks as of December 31, 1972," pp. 90-91.

^{31/} As reported in Federal Reserve Bulletin, 1957-73.

^{32/} Changes in ownership of nonaffiliate Minnesota banks are not infrequent, as evidenced by the 86 such transactions reported between September 12, 1964, and December 31, 1966. (Acquisitions, Changes in Control, and Bank Stock Loans of Insured Banks, Table IV, pp. 69-73).

total of 11 affiliates, have been created. At such a pace, Minnesota's long-standing two-tier banking structure will continue indefinitely.^{33/}

A large bank typically is the anchor (or lead) bank of a multibank holding company. To be the nucleus of a new system, a potential anchor bank usually has: (1) some semblance of a public market for its shares; and (2) a comprehensive correspondent banking division.

By exchanging its shares for that of an anchor bank, a new holding company immediately obtains the stockholder distribution and public market of the bank's shares. With this initial market for its shares, the holding company can negotiate to acquire other, typically smaller, banks through share exchange offers. Also, with its initial size and market recognition, the new holding company can seek additional funds in regional or national capital markets.

A new system having an anchor bank with a comprehensive correspondent banking division can effectively service other, usually smaller, banks added to the system. Moreover the anchor bank can be an important source of management personnel for both the parent holding company and for other affiliate banks of the system.

Minnesota has exceptionally few potential anchor banks for new multibank holding companies. As a first approximation, assume all banks with deposits exceeding \$100 million to be actual or potential lead banks for multibank holding companies. Having 10 such banks, Minnesota ranks low when compared to the eight other states (Exhibit 9). What

^{33/}For perspective, this pace can be contrasted to that of other states in which multibank holding companies recently have been actively acquiring banks. See, for example, Paul F. Jessup, "Analyzing Acquisitions by Bank Holding Companies" (Research Commentary), Journal of Bank Research, Spring 1974, especially Figure 3, p. 60.

EXHIBIT 9

MAXIMUM NUMBER OF BANKING SYSTEMS EACH CONTROLLING AT LEAST ONE BANK WITH DEPOSITS EXCEEDING \$100 MILLION: A SIMULATION FOR NINE SAMPLE STATES, YEAR-END 1972

State	Total (a)	Number Affiliated with Multibank Holding Companies that Control Two or More Such Banks ^{1/} (b)	Number of Actual or Potential Lead Banks in Other Systems (c) = (a)-(b)	Simulated Maximum Number of Banking Systems Each Controlling At Least One Bank with Deposits Exceeding \$100 Million ^{2/}
Georgia	10	2	8	9
Indiana	24	--	24	24
Massachusetts	19	9	10	13
Minnesota	10	7	3	5
Missouri	16	2	14	15
North Carolina	14	2	12	13
Tennessee	11	--	11	11
Virginia	18	8	10	13
Wisconsin	10	2	8	9

^{1/}Names of these multibank holding companies and their numbers of affiliates:

Georgia	Trust Company of Georgia	2
Indiana	--	
Massachusetts	Baystate Corporation	5
	Multibank Financial Corp.	2
	Shawmut Association, Inc.	2
Minnesota	Northwest Bancorporation	4
	First Bank System, Inc.	3
Missouri	Commerce Bancshares, Inc.	2
North Carolina	United Carolina Bancshares Corp.	2
Tennessee	--	
Virginia	United Virginia Bankshares, Inc.	4
	Bank of Virginia Company	2
	First & Merchants Corporation	2
Wisconsin	First Wisconsin Bankshares Corp.	2

^{2/}Numbers in this column are, by state, the sum of: (1) number of multibank holding companies that control two or more banks with deposits exceeding \$100 million [footnote 1]; plus (2) number of other banks with deposits exceeding \$100 million [column (c)]. For example, Georgia has: (1) one such holding company; plus (2) eight other banks in this size category.

Source: Compiled from printout of banks, ranked by total deposits, in each sample state.

is more striking, however, is that 7 of the 10 banks are owned by First Bank System and Northwest Bancorporation--leaving only 3 banks as actual or potential anchor banks for other holding company systems. Minnesota thus has a maximum number of five banking systems each having at least one anchor bank with deposits exceeding \$100 million. In contrast, the maximum number of such systems in the other eight states ranges from 9 to 24.^{34/}

Assume, instead, all banks with deposits exceeding \$50 million are actual or potential anchor banks for multibank holding companies. Minnesota has 21 such banks (Exhibit 10). First Bank System and Northwest Bancorporation own 14 of these 21 banks, leaving only 7 as actual or potential anchor banks for other multibank holding companies. Minnesota thus has a maximum number of nine banking systems each with an anchor bank having deposits exceeding \$50 million. In contrast, the maximum number of such systems in the other states ranges from 17 to 49.

In summary, based on the preceding assumptions, Minnesota has exceptionally few potential anchor banks for new multibank holding companies. Minnesota's two-tier banking structure will change markedly only with the development of new banking systems more similar in size and geographical diversity to First Bank System and Northwest Bancorporation. If one concludes that such change is desirable and that effective new systems require large anchor banks, then attention begins to focus on how to foster additional anchor banks.

^{34/} This simulated maximum number of banking systems is a "first approximation." Not all the states currently permit formation of multibank holding companies. In states where permitted, only a subset of banks with deposits exceeding \$100 million may choose to be lead banks in systems. Even so, the subset of such systems in Minnesota is likely to be smaller than in the other sample states.

EXHIBIT 10

MAXIMUM NUMBER OF BANKING SYSTEMS EACH CONTROLLING AT LEAST ONE BANK WITH DEPOSITS EXCEEDING \$50 MILLION: A SIMULATION FOR NINE SAMPLE STATES, YEAR-END 1972

State	Total (a)	Number Affiliated with Multibank Holding Companies that Control Two or More Such Banks ^{1/} (b)	Number of Actual or Potential Lead Banks in Other Systems (c) = (a)-(b)	Simulated Maximum Number of Banking Systems Each Controlling At Least One Bank with Deposits Exceeding \$50 Million ^{2/}
Georgia	24	9	15	17
Indiana	49	--	49	49
Massachusetts	44	17	27	30
Minnesota	21	14	7	9
Missouri	42	7	35	38
North Carolina	21	2	19	20
Tennessee	25	5	20	22
Virginia	36	20	16	22
Wisconsin	37	14	23	27

^{1/}Names of these multibank holding companies and their numbers of affiliates:

Georgia	Trust Company of Georgia	6
	Citizens and Southern National Bank	3
Massachusetts	Baystate Corporation	9
	Shawmut Association, Inc.	5
	Multibank Financial Corporation	3
Minnesota	Northwest Bancorporation	8
	First Bank System, Inc.	6
Missouri	Mercantile Bancorporation, Inc.	3
	Central Bancompany	2
	Commerce Bancshares, Inc.	2
North Carolina	United Carolina Bancshares Corp.	2
Tennessee	United Tennessee Bancshares Corp.	3
	Hamilton Bancshares, Inc.	2
Virginia	United Virginia Bankshares, Inc.	6
	Bank of Virginia Company	4
	Dominion Bankshares Corporation	3
	First & Merchants Corporation	3
	Fidelity American Bankshares, Inc.	2
	First Virginia Bankshares Corp.	2
Wisconsin	First Wisconsin Bankshares Corp.	5
	The Marine Corporation	4
	Associated Bank Services, Inc.	3
	Marshall & Ilsley Corporation	2

^{2/}Numbers in this column are, by state, the sum of: (1) number of multibank holding companies that control two or more banks with deposits exceeding \$50 million [footnote 1]; plus (2) number of other banks with deposits exceeding \$50 million [column (c)]. For example, Georgia has: (1) two such holding companies; plus (2) fifteen other banks in this size category.

Source: Compiled from printout of banks, ranked by total deposits, in each sample state.

Minnesota's Two-Tier Banking Structure: Metropolitan and Rural Dimensions

Minnesota's two-tier banking structure is not an artifact of using aggregate statewide data. Disaggregation demonstrates the pervasiveness of Minnesota's two-tier banking structure in smaller geographical areas such as counties and multicounty units.

Minnesota contains four standard Metropolitan Statistical Areas (SMSAs). By definition, SMSAs contain the state's principal urban areas.

First Bank System and Northwest Bancorporation own banks in all four SMSAs, and these affiliates typically account for large proportions of total bank deposits in each SMSA (Exhibit 11). No other Minnesota multibank holding company: (1) has affiliates in all four SMSAs; or (2) has affiliates accounting for as large a proportion of total bank deposits within any of the four SMSAs. Moreover nonaffiliate banks account for no more than 45 percent of total bank deposits in any of the four SMSAs.

First Bank System and Northwest Bancorporation own the first and second largest banks in each of the four SMSAs. Moreover the two systems typically own other banks ranking among the five largest and ten largest in each SMSA (Exhibit 12).

Further disaggregation of SMSAs into component counties and principal cities does not invalidate the general pattern of Minnesota's two-tier banking structure in urban areas. Exhibit 11 also reports--by urban counties--the proportions of total bank deposits held by affiliates of First Bank System and Northwest Bancorporation.

EXHIBIT 11

TOTAL BANK DEPOSITS IN URBAN AREAS ACCOUNTED FOR BY
AFFILIATES OF MINNESOTA MULTIBANK HOLDING COMPANIES: YEAR-END 1972

Percentage of Total Deposits in Affiliate Banks

Standard Metropolitan Statistical Areas and Component Counties	Total Deposits in Commercial Banks (\$ Millions)	American Bancorpo- ration	Bank Shares Incorporated	First Bank System, Inc.	Mid America Bancorpo- ration	Northwest Bancorpo- ration	Otto Bremer Foundation	Total ^{1/}
Duluth-Superior								
St. Louis, Minnesota	610	--	--	40	--	34	--	74
(Douglas, Wisconsin)	78 ^{2/}	--	--	--	--	--	--	--
Total	688	--	--	35	--	30	--	65
Fargo-Moorhead								
Clay, Minnesota	104	24	--	--	--	44	--	68
(Cass, North Dakota)	287	--	--	24	--	23	3	50
Total	391	6	--	18	--	29	2	55
Minneapolis-St. Paul								
Anoka	103	--	16	--	11	--	--	27
Dakota	219	--	--	--	10	35	17	62
Hennepin	3,801	--	5	37	--	43	--	85
Ramsey	1,806	13	--	57	2	11	--	84
Washington	114	--	--	--	4	--	--	4
Total	6,043	4	3	40	1	32	1	81
Rochester								
Olmsted	212	--	23	31	--	30	--	83

^{1/} Rows may not add to total because of rounding.

^{2/} One bank in Douglas County, Wisconsin, is an affiliate of a multibank holding company based in Wisconsin

Source: Compiled from printout of banks, ranked by total deposits, in each county.

EXHIBIT 12
 AFFILIATE STATUS OF FIVE AND TEN LARGEST BANKS IN
 EACH URBAN AREA OF MINNESOTA: YEAR-END 1972

Five and Ten Largest Banks Within Standard Metropolitan Statistical Area	Range of Total Deposits in Five and Ten Largest Banks (\$ Millions)	Number of Largest Banks, Classified by Affiliation or Nonaffiliation				
		First Bank System, Inc.	Northwest Bancorporation	Other Multibank Holding Companies	Nonaffiliates	
Duluth-Superior^{1/}						
Five Largest Banks	35 - 140	3	2	--	--	
Ten Largest Banks	16 - 140	4	2	1 ^{3/}	3	
Fargo-Moorhead^{2/}						
Five Largest Banks	41 - 69	1	2	--	2	
Ten Largest Banks	8 - 69	1	2	2	5	
Minneapolis-St. Paul						
Five Largest Banks	163 - 1,168	2	2	1	--	
Ten Largest Banks	64 - 1,168	2	4	2	2	
Rochester						
Five Largest Banks	8 - 65	1	1	1	2	
Total of Eight Banks ^{4/}	3 - 65	1	1	1	5	

^{1/}Includes Douglas County, Wisconsin

^{2/}Includes Cass County, North Dakota

^{3/}Affiliate of a multibank holding company based in Wisconsin

^{4/}Eight is the total number of banks in the Rochester SMSA

Source: Compiled from printout of banks, ranked by total deposits,
in each county.

Not merely an urban phenomenon, Minnesota's two-tier banking structure permeates the state's rural banking structure--but more notably the "wealthier" rural counties, as measured by total bank deposits.

Minnesota has 79 counties not included in SMSAs (1970). For brevity, these nonmetropolitan counties will be called "rural counties."

Nine of the 79 rural counties contain at least one affiliate bank of both First Bank System and Northwest Bancorporation. Seven of these nine counties are among Minnesota's top 20 counties ranked by total bank deposits (Exhibit 13).^{35/}

Moreover 31 of the 79 counties contain at least one affiliate bank of either First Bank System or Northwest Bancorporation. These rural counties also typically rank high in total bank deposits.^{36/}

In contrast to First Bank System and Northwest Bancorporation, no other multibank holding company owns affiliates in as many rural counties. Only one multibank holding company anywhere approaches First Bank System and Northwest Bancorporation in owning as many geographically diverse affiliates in rural Minnesota (Exhibit 13).

^{35/} Affiliates of First Bank System and Northwest Bancorporation jointly account for 50 percent or more of total bank deposits in 7 of the 8 rural counties in which both systems own affiliates (Appendix 3).

^{36/} Affiliates of the two systems account, on average, for 29 percent of total bank deposits in the 31 rural counties containing affiliates of one or the other of the two systems. Twenty-nine percent is the mean of the percentages for each of the 31 counties. The median is 27 percent, and the range is from 9 percent to 75 percent. For more detail, see Appendix 3.

EXHIBIT 13
 LOCATION OF AFFILIATE BANKS IN MINNESOTA'S RURAL COUNTIES
 RANKED BY TOTAL BANK DEPOSITS: YEAR-END 1972^{1/}

Quartiles of Minnesota's 79 Rural Counties Ranked by Total Bank Deposits from Highest (1) to Lowest (79)	Number of Counties Containing Affiliate Banks of Multibank Holding Companies				
	Affiliates of First Bank System, Inc., and of Northwest Bancorporation	Affiliates of First Bank System, Inc., but not of Northwest Bancorporation	Affiliates of Northwest Bancorporation but not of First Bank System, Inc.	Affiliates of Otto Bremer Foundation ^{2/}	Affiliates of other Multi- bank Holding Companies
First Quartile (1-20)	7	7	4	5	1
Second Quartile (21-40)	1	5	5	4	1
Third Quartile (41-60)	1	3	3	3	---
Fourth Quartile (61-79)	---	<u>2</u>	<u>3</u>	<u>1</u>	---
	9	17	15	13	2

^{1/}"Rural counties" are those not in Standard Metropolitan Statistical Areas as of 1970.

^{2/}Includes affiliate banks of Otto Bremer Foundation and of its controlled affiliate, Otto Bremer Company.

Source: Compiled from printout of banks, ranked by total deposits, in each county.

In summary, Minnesota's two-tier banking structure is not merely an artifact of using statewide data; it pervades the state's metropolitan and "wealthier" rural counties. This conclusion provides a useful perspective for subsequent research and policy decisions.

Minnesota's Two-Tier Banking Structure: by Development Regions

Minnesota is divided into 12 Development Regions. Exhibit 14 outlines the Development Regions and their component counties on a map of Minnesota.^{37/}

A lengthy study (1970) prepared for the Minnesota Bankers Association devotes nearly 40 percent of its pages to analyzing banking performance in each of Minnesota's regions.^{38/} This study recommends:

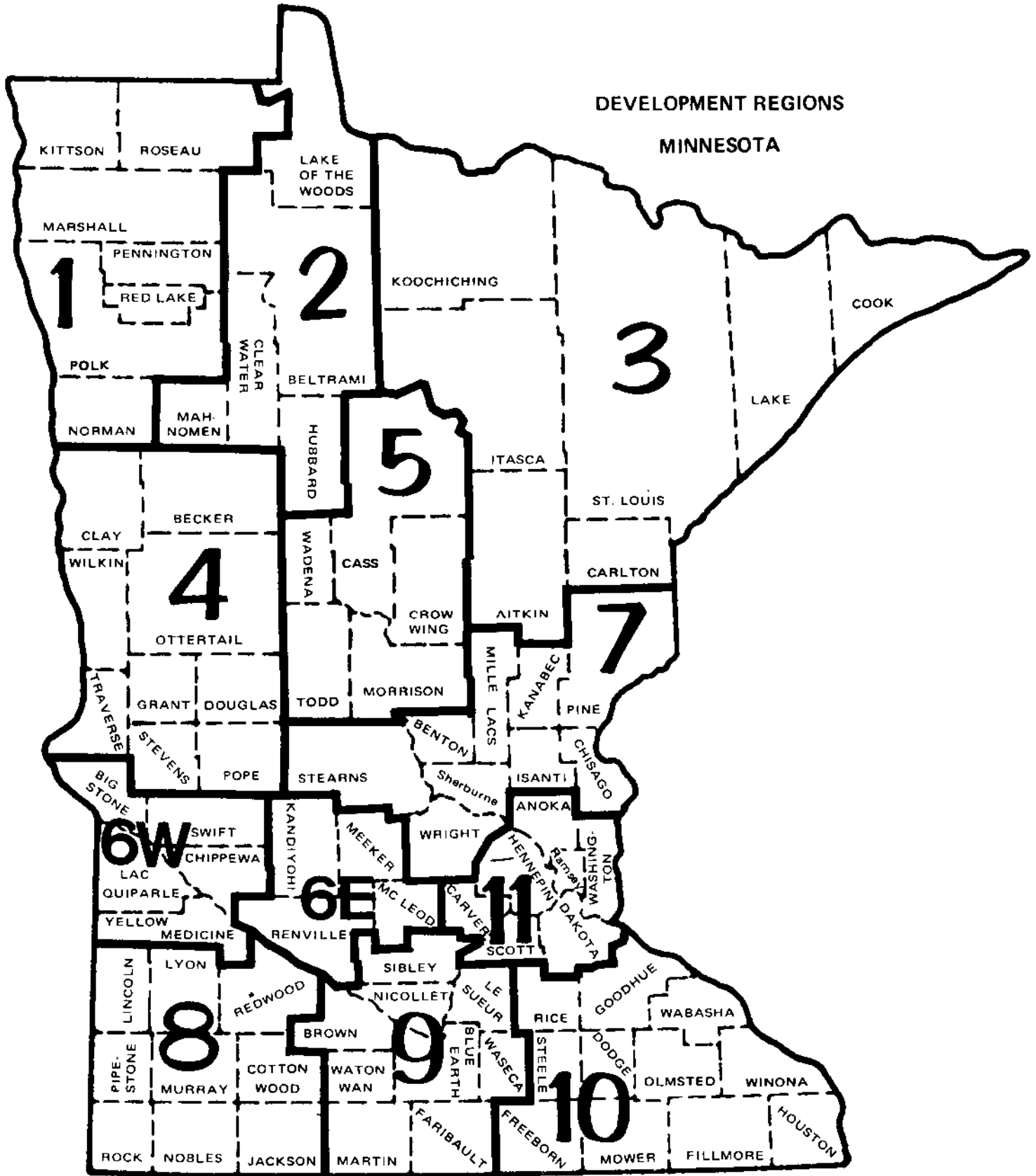
"Thus it would appear that some kind of a regional [branching] system--though not necessarily patterned on the eleven Economic Regions established by the state--would be desirable. Properly established, such a regional system would retain the local orientation of the banks, provide them with an opportunity to grow to a better size from the point of view of the economies of scale, utilize more fully some of the exceptional talent found in many of the small banks of the state, and permit a smoother flow of funds from surplus to deficit areas. Moreover, this could be done with a minimum risk of increasing concentration significantly in the state's larger institutions, for reasons noted earlier." (p. 17)

Subsequently (1973) a branch banking bill was introduced to the Minnesota Legislature. Basically the proposed bill would allow

^{37/} These Development Regions (year-end 1972) were established by a series of Executive Orders dated from 1967 through 1971.

^{38/} Multioffice Commercial Banking: An Examination of the Issues and Alternatives in Minnesota, prepared for the Minnesota Bankers Association by Carter H. Golembe Associates, Inc., June 2, 1970.

MAP OF MINNESOTA DEVELOPMENT REGIONS AND COMPONENT COUNTIES: YEAR-END 1972^{1/}



^{1/} These Development Regions were established by a series of Executive Orders dated from 1967 through 1971.

branch banking within each of the State's Development Regions.^{39/}

Hearings concerning the proposed bill were held in December 1973. The proposed bill was not enacted.

Although a lengthy study and proposed legislation thus consider regional aspects of Minnesota banking, neither focuses on the regional dimensions of Minnesota's two-tier banking structure.

Northwest Bancorporation and First Bank System respectively own affiliate banks in 10 and 11 of Minnesota's 12 Development Regions. With the exception of Otto Bremer Foundation's control of banks in eight regions, no other multibank holding company owns banks in more than three regions.

Viewed in the aggregate, affiliates of First Bank System and Northwest Bancorporation account for less than 25 percent of total bank deposits in 8 of the 12 regions (Exhibit 15).^{40/} Such aggregate relationships fail, however, to portray the size dichotomy, by region, between affiliate and nonaffiliate banks.

First Bank System and Northwest Bancorporation generally own one or more of the largest banks in each Development Region. Excluding Region 11 (the Twin Cities area), there are 30 banks having deposits exceeding \$25 million (Exhibit 16). The two large systems in total own 21 of these 30 banks. Two other multibank holding companies own three. Thus there is a total of six nonaffiliate banks with deposits above

^{39/}"A bill for an act relating to banks and banking; authorizing certain branch banks; permitting consolidation of banks in regions; amending Minnesota Statutes 1971, Sections 48.34 and 49.34," introduced March 26, 1973.

^{40/}The four regions in which they hold more than 25 percent rank near the top as measured by total bank deposits.

EXHIBIT 15

PERCENT OF TOTAL BANK DEPOSITS, BY DEVELOPMENT REGION, HELD BY
 AFFILIATES OF MINNESOTA'S MULTIBANK HOLDING COMPANIES: YEAR-END 1972

Total Deposits Held by Com- mercial Banks in Development Region, Ranked from Highest to Lowest (\$ Millions)	Development Region Number ^{1/}	Percent of Total Regional Bank Deposits Held by Affiliate Banks			
		First Bank System, Inc.	North- west Bancor- poration	Otto Bremer Foundation ^{2/}	Other Multibank Holding Companies
6,169	11	39	31	1	8
1,087	10	16	25	--	6
819	3	33	30	2	--
731	9	13	7	--	--
571	7	3	7	7	--
479	8	20	20	6	--
461	4	7	16	11	5
297	6E	12	5	10	4
263	1	7	9	17	--
258	5	18	--	10	--
204	6W	5	16	--	--
108	2	--	--	--	--

^{1/}For statutory origins and component counties, see Exhibit 14.

^{2/}Includes affiliate banks of Otto Bremer Foundation and of its controlled affiliate, Otto Bremer Company.

Source: Compiled from printout of banks, ranked by deposits, in each county.

EXHIBIT 16

LOCATION, BY DEVELOPMENT REGIONS IN MINNESOTA, OF AFFILIATE AND
NONAFFILIATE BANKS HAVING DEPOSITS GREATER THAN \$25 MILLION: YEAR-END 1972

Banks with Deposits Greater than \$25 Million

Development Region Number ^{1/}	Number of Affiliates				Number of Nonaffiliates	Total
	First Bank System, Inc.	North- west Bancorpo- ration	Otto Bremer Founda- tion ^{2/}	Other		
1	--	--	--	--	--	0
2	--	--	--	--	--	0
3	4	3	--	--	1	8
4	--	2	--	--	--	2
5	1	--	--	--	--	1
6E	--	--	1	--	--	1
6W	--	--	--	--	--	0
7	--	1	1	--	1	3
8	1	1	--	--	--	2
9	1	1	--	--	1	3
10	2	4	--	1	3	10
11	12	14	1	3	9	39
Total	<u>21</u>	<u>26</u>	<u>3</u>	<u>4</u>	<u>15</u>	<u>69</u>

^{1/}For statutory origins and component counties, see Exhibit 14.

^{2/}Includes affiliate banks of Otto Bremer Foundation and of its controlled affiliate, Otto Bremer Company

Source: Compiled from printout of banks, ranked by deposits, in each county.

\$25 million throughout Development Regions 1 through 10. Nonaffiliate banks of such size are assumed most likely candidates for acquisition by multibank holding companies or for nuclei of new regional banking systems.

A similar two-tier pattern is evident among Minnesota banks having deposits of \$10 million or more in Development Regions 1 through 10. First Bank System, and Northwest Bancorporation in total own 52 (34 percent) of the banks in this size category distributed throughout Development Regions 1 through 10 (Appendix 4). Other multibank holding companies in total own 13 such banks, leaving 86 nonaffiliate banks in this size category. Possibly some of these nonaffiliate banks are viable nuclei for new regional banking systems.

In contrast nonaffiliate banks account for 96 percent of all banks with deposits of under \$10 million throughout Development Regions 1 through 10 (Appendix 4). Such small nonaffiliate banks are unlikely to create new regional banking systems. Instead they are likely to be absorbed into larger systems.

Banks within Development Region 11 (containing the Twin Cities area) account for 54 percent of total bank deposits in the state. Affiliates of First Bank System and Northwest Bancorporation in total account for 70 percent of total bank deposits in Region 11. The two systems own 26 (67%) of the banks with deposits exceeding \$25 million in this region. Region 11, however, contains more nonaffiliate banks (9) in this size category than do Regions 1 through 10, which contain a total of six such banks. Region 11 also contains 37 nonaffiliate banks having deposits of \$10-25 million. Thus, compared to each of the other ten regions, Region 11 contains more large banks capable of becoming

nuclei of holding company or branch systems. For perspective, however, if all nonaffiliate banks in Region 11 were to consolidate into one system, this system would account for 21 percent of total bank deposits in the region in contrast to 39 percent and 31 percent, respectively, for First Bank System and Northwest Bancorporation.^{41/}

In summary, two multibank holding companies generally own many of the largest banks in Minnesota's Development Regions. If Minnesota were to permit branching confined to Development Regions, the two large systems would be well positioned to consolidate their intraregional networks of affiliates and to try to expand--most likely de novo--such regional branching systems. It is not evident that other multibank holding companies or banks are as well positioned to develop regional branching systems. Throughout Regions 1 through 10 there are only six nonaffiliate banks with deposits in excess of \$25 million, and 86 nonaffiliate banks with deposits of \$10 million or more. Only some subset of these would affiliate with multibank holding companies and/or become nuclei of regional systems' expanding by acquisition. Region 11 contains potentially more nuclei of new intraregional branching systems. As demonstrated, however, no new system is likely to approach, in the foreseeable future, the consolidated deposit size of either of the two large systems in Region 11. Therefore, before advocating or accepting regional branching, such a proposal should be evaluated in the context of Minnesota's current regional banking structure. Moreover, regional branching is but one of the feasible policy alternates outlined in the subsequent sections.

^{41/}Appendix 3.

Minnesota's Exceptional Two-Tier Banking Structure: Testing the Thesis

This paper's principal thesis--that Minnesota has an exceptionally imbalanced two-tier banking structure--warrants review and further testing.

The thesis rests on two basic assumptions. One, it views multibank holding companies as total systems and therefore focuses on aggregate measures, such as deposits, trust assets, and bank-stock loans of system affiliates. Two, it focuses on measures of traditional "banking" activities and does not develop measures relating to broadly defined "financial intermediaries." Each of these two assumptions can be challenged. Each, however, is consistent with that explicitly used by the Board of Governors in a series of decisions involving multibank holding companies in Minnesota (pp. 3-7).^{42/} Moreover, it is not evident that rejection of the assumptions will invalidate the general thesis.

Empirical results support the thesis that Minnesota banking is exceptionally imbalanced. These initial results, although not definitive, provide useful benchmarks for subsequent testing of the thesis.

Minnesota's banking structure departs markedly from guidelines enunciated in recent decisions by the Board of Governors (pp. 7-8).

The Board expresses explicit concern about a situation in which the five largest banking organizations account for almost 31 per-
cent of total commercial bank deposits in a state. In contrast, the two
largest banking organizations account for 52 percent of total commercial
bank deposits in Minnesota.

^{42/}Such parenthetical references are to previous pages of this paper.

The Board also expresses explicit concern about the disparity in which the five largest banking organizations control almost 67 percent of all deposits controlled by bank holding companies within a state. In contrast, the two largest bank holding companies in Minnesota control almost 87 percent of all deposits controlled by multibank holding companies within Minnesota.

Minnesota's current banking structure thus is exceptional when compared to guidelines specified in recent Board decisions. Such guidelines provide useful benchmarks by which further to examine Minnesota banking.

Minnesota's structure of bank deposits also departs markedly from that of a sample of states having similar amounts of total deposits in commercial banks (pp. 12-16). This conclusion possibly can be refuted by using other deposit measures and/or other samples. Therefore further testing is encouraged.

Minnesota's exceptional two-tier banking structure is evident both statewide and within various geographical subunits.

Statewide, no other multibank holding company owns anywhere nearly as many large banks throughout Minnesota as do First Bank System and Northwest Bancorporation (pp. 8-12). Such statewide perspective is useful because current legislation makes the state a domain in which out-of-state multibank holding companies cannot acquire or establish banks.

The two-tier structure generally pervades Minnesota's geographical subunits, such as SMSA's (pp. 34-36), wealthier rural counties (pp. 37-39), and Development Regions (pp. 39-45). Subunits in such a geographical hierarchy are not independent, in that smaller areas such

as counties comprise SMSA's and Development Regions. Objectors can therefore assert that analyzing such nonindependent subunits involves multiple counting of the same underlying data. Despite such an objection, this paper chooses to examine data for each of the various subunits in order to: (1) demonstrate the consistency of results no matter which geographical areas are used; and (2) enable readers to focus on geographical areas relevant for their objectives.

Prior research pays scant attention to the geographical pervasiveness of Minnesota's two-tier banking structure. Hopefully future research will analyze these dimensions in greater detail and compare them to intrastate banking structures of similar states.

Minnesota's two-tier banking structure also has functional dimensions. Large banks--with their capital resources, depth of personnel, and advanced management and computer systems--are actual or potential competitors in functional areas such as: large corporate accounts, trust departments, and correspondent banking. Two systems own most large banks in Minnesota, which in turn account for exceptional proportions of: (1) trust assets held by insured commercial banks (pp. 17-25); and (2) loans secured by bank stock (pp. 25-28). Future research can: (1) further test these initial results with other data; and (2) test whether the two-tier structure pervades other banking functions.

To demonstrate that Minnesota banking is exceptionally imbalanced is not to demonstrate that it too imbalanced. There are not unambiguous criteria for quantifying--directly or indirectly--how much imbalance is too much.

Because, however, initial results demonstrate the exceptional imbalance of Minnesota's banking structure, there is a persuasive case

for choosing to assume that Minnesota's banking structure is too imbalanced unless convincing tests subsequently support rejection of this working assumption.^{43/} Those who, on the contrary, choose to assume that Minnesota banking is not too imbalanced should explicitly recognize that their position also rests on a choice of assumptions. By explicitly examining their choice of working assumptions, researchers and policy-makers are better able to specify what additional information, if any, they want before accepting and/or advocating proposed changes in Minnesota's banking structure.

Future Directions for Minnesota Banking: Outlining Alternate Policies

Three basic premises underlie a case for acting to modify Minnesota's current banking structure. One, two organizations own many of the largest banks in Minnesota, a situation that has remained virtually unchanged for decades (pp. 16-17). Two, therefore, there are comparatively few potential anchor banks to serve as nuclei of new systems capable of effectively developing, in the foreseeable future, the functional and geographical diversity of First Bank System and Northwest Bancorporation (pp. 28-33). Three, attention should therefore focus on examining positive actions likely to increase the number of competing systems operating throughout Minnesota. These premises provide a consistent perspective for specifying and evaluating alternate policy actions concerning Minnesota's future banking structure.

^{43/} Conceivably others may try to demonstrate, convincingly, that Minnesota's exceptional banking structure should be the accepted norm toward which banking structures in other states should move.

Alternate policy actions can modify Minnesota's exceptional two-tier banking structure. Principal policy alternates include the following:

1. Development of Minnesota-based multi-bank holding companies that can effectively compete with First Bank System and Northwest Bancorporation.
2. Enabling legislation to permit out-of-state multibank holding companies to own banks in Minnesota.
3. Legislation permitting statewide branching.
4. Legislation permitting branching within specified subregions of the state.

These alternates are intended to stimulate policy review. They are not necessarily inclusive, nor are they mutually exclusive.^{44/} Combinations and variants are possible.

The preceding list of policy alternates excludes that of doing nothing. Such a policy decision, while possible, is inconsistent with the premises for acting positively to modify Minnesota's exceptional structure.

Alternate 1 is a policy position that encourages development of Minnesota-based multibank holding companies. However, Minnesota's exceptional lack of nonaffiliate anchor banks indicates that not many new multibank holding companies will develop in the foreseeable future. To date the state's largest nonaffiliate banks have been slow to develop multibank holding companies. This apparent lethargy warrants examination, in view of its contrast with the expansion processes in other

^{44/} Another possible alternate is for the two large organizations to examine the feasibility of voluntarily spinning off one or more of their affiliate banks in Minnesota. A framework for such a management decision process is presented by Paul F. Jessup, "Portfolio Strategies for Bank Holding Companies," The Bankers Magazine, spring 1969, pp. 78-85.

states only recently opened to multibank holding companies. Prime acquisition candidates for new multibank holding companies are the comparatively few large banks in the state. Such affiliation among large banks, however, further reduces the number of nonaffiliate anchor banks for other potential systems.

Alternate 2 is state legislation permitting out-of-state bank holding companies to establish and/or acquire banks in Minnesota. There is precedent for such legislation. Iowa, for example, recently enacted legislation enabling qualifying out-of-state holding companies to expand in Iowa.^{45/} New legislation need not permit uncontrolled entry. In addition to general enabling legislation, state legislation and/or regulation can establish criteria to accept or reject specific entry and/or acquisition proposals. Moreover any such acquisitions of Minnesota banks by out-of-state multibank holding companies also will have to be approved by the Federal Reserve System under provisions of the Bank Holding Company Act.

As a variant of Alternate 2, Minnesota can encourage entry of new trust companies, some of which could be new affiliates of out-of-state multibank holding companies and trust companies.

Alternate 3 is legislation permitting statewide branching. The two large multibank holding companies are likely beneficiaries of such legislation. They can then consolidate all or part of their affiliate networks into branch systems. Although expansion of the

^{45/} Iowa Code Annotated, Iowa Banking Act of 1969, as amended in 1972, Division XVIII, "Bank Holding Companies," Sec. 1805, "Out-of-state holding companies."

parent holding companies remains subject to the Bank Holding Company Act, their affiliate bank(s) in Minnesota will have more flexibility to expand, subject to the Bank Merger Act and applicable state laws concerning branching. Large banks not affiliated with the two large systems also could seek to develop regional or statewide branching networks, and presumably their expansion via acquisitions will be less constrained than that of affiliates of First Bank System and Northwest Bancorporation. It is questionable, however, whether Minnesota should permit statewide branching until there is satisfactory evidence that such legislation will facilitate--in practice--the emergence of a reasonable number of competing systems capable of statewide expansion.

If the Minnesota bank affiliates of First Bank System and Northwest Bancorporation were consolidated into statewide branching systems, these two systems would rank approximately numbers 22 and 23 in the nation based on total deposits at year-end 1972. For perspective, compare these simulated Minnesota rankings to those of the following states containing the nation's 25 largest banks:

	Total Commercial Bank Deposits at Year-End 1972 ^{46/} (\$ Billions)	Number of Banks Among Nation's 25 Largest, Ranked by Deposits at Year- End 1972 ^{47/}
New York	108.8	9
California	64.1	6
Illinois	45.6	2
Pennsylvania	35.8	3
Texas	34.7	1
Ohio	26.7	1
Michigan	25.4	1
Massachusetts	12.9	1
Washington	7.1	1
Total		25
Minnesota (simulation)	11.5	2

^{46/} Annual Report of the Federal Deposit Insurance Corporation, 1972, Table 105, pp. 232-236.

^{47/} Derived from Moody's Bank & Finance Manual: 1973 (Moody's Investors Service, Inc.; New York), p. a48.

Possibly Minnesota would be well served by thus having two banks among the nation's 25 largest. The net benefits of such a simulated outcome, however, should be compared to those of alternate policies, such as a more balanced statewide banking structure, as measured by the relative sizes of the competing systems.

Alternate 4 is legislation, such as that introduced in 1973, that permits branching within specified subregions of Minnesota. Of the 4 Alternates, this seems the least effective procedure for modifying Minnesota's two-tier banking structure. There are not many large non-affiliate banks that are likely anchor banks for major new regional branching systems in Development Regions 1 through 10 (pp. 39-45). These regions contain a total of six nonaffiliate banks with deposits greater than \$25 million. Region 11 (the Twin Cities area) contains more such potential anchor banks than do Regions 1 through 10.

Therefore, a variant of Alternate 4 would be to permit branching only in all or part of Region 11 for a period of years. Several comparatively large branch systems--not affiliated with First Bank System or Northwest Bancorporation--can then develop. In the short run these branch systems could become effective nuclei of new multibank holding companies able to operate statewide. In the longer run, with the emergence of such additional multibank holding companies with large anchor banks, statewide branching could be permitted. A timetable for such a sequential approach to statewide branching could be built into new banking legislation.

In conclusion, there is a set of policy alternates that will contribute to changes in Minnesota's exceptional two-tier banking structure. The preceding summary discussion of such alternates is

intended not to provide final answers but to provide a written framework for further examination of the principal costs and benefits of Minnesota's current--and potential future--banking structure.

APPENDIXES

APPENDIX 1

SUMMARY OF DECISIONS BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
 CONCERNING APPLICATIONS BY FIRST BANK SYSTEM, INC., AND NORTHWEST
 BANCORPORATION TO ACQUIRE BANKS IN MINNESOTA: 1957-73

<u>Multibank Holding Company and Proposed Acquisition</u>	<u>Board Decision</u>	<u>Year of Board Order</u>
<u>First Bank System, Inc.</u> ^{1/}		
First State Bank of Babbitt	Approval	1956
First Eastern Heights State Bank of Saint Paul	Denial ^{2/}	1958
First Plymouth National Bank, Minneapolis	Approval	1968
<u>Northwest Bancorporation</u>		
First National Bank of Hoyt Lakes	Approval	1957
Northwestern State Bank, Rochester	Denial	1957
The First National Bank of Eveleth	Approval	1959
The First National Bank of Pipestone	Denial	1961
Roseville Northwestern National Bank	Denial ^{3/}	1961
The First National Bank of Ely	Approval	1968
Farmers and Merchants State Bank of Stillwater	Approval	1973

^{1/} First Bank Stock Corporation was the name of First Bank System, Inc., until 1968.

^{2/} A subsequent application by First Bank System to acquire Eastern Heights State Bank of Saint Paul was denied in 1960.

^{3/} The Board reaffirmed its denial in response to a petition for reconsideration (1961).

Source: Federal Reserve Bulletin, 1957-73.

APPENDIX 2
 AMOUNT OF TRUST ASSETS REPORTED BY LARGEST TRUST
 DEPARTMENTS OF COMMERCIAL BANKS IN NINE SAMPLE STATES: 1972

<u>Banks, Classified by State</u> ^{1/}	<u>(\$ Millions)</u>	<u>Percent of State Total</u> ^{2/}	<u>Number of Separate Systems</u>
<u>Georgia</u>			
Trust Company of Georgia, Atlanta	2,482	37	
The Citizens and Southern National Bank, Savannah	2,016	30	
The First National Bank of Atlanta	1,141	17	
The Fulton National Bank of Atlanta	189	3	
Columbus Bank and Trust Company	<u>178</u>	<u>3</u>	
Total	6,006	89	5
State Total	6,744		
<u>Indiana</u>			
The Indiana National Bank, Indianapolis	1,012	18	
American Fletcher National Bank and Trust, Indianapolis	961	17	
Merchants National Bank & Trust, Indianapolis	814	15	
Fort Wayne National Bank	260	5	
Lincoln National Bank and Trust, Fort Wayne	259	5	
First Bank and Trust Company of South Bend	203	4	
American National Bank and Trust, Muncie	<u>132</u>	<u>2</u>	
Total	2,641	65	7
State Total	5,567		
<u>Massachusetts</u>			
The First National Bank of Boston	6,842	46	
State Street Bank and Trust Company, Boston	2,222	15	
New England Merchants National Bank, Boston	1,753	12	
[The National Shawmut Bank of Boston	786		
First Bank and Trust Company of Springfield	<u>306</u>		
Total	(1,092)	7	
Third National Bank of Springfield	431	3	
[Valley Bank and Trust Company, Springfield	211		
Harvard Trust Company, Cambridge	<u>172</u>		
Total	(383)	3	
Worcester County National Bank, Worcester	370	2	
First Agricultural National Bank of Pittsfield	168	1	
B.M.C. Durfee Trust Co., Fall River	145	1	
The Mechanics National Bank of Worcester	<u>137</u>	<u>1</u>	
Total	13,543	90	10
State Total	14,969		
<u>Minnesota</u>			
[Northwestern National Bank of Minneapolis	2,627		
First American National Bank, Duluth	<u>147</u>		
Total	(2,774)	53	
[First National Bank of Minneapolis	1,884		
Northern City National Bank of Duluth	<u>171</u>		
Total	(2,055)	39	
Total	4,829	92	2
State Total	5,262		

^{1/} Affiliates of the same multibank holding company are denoted by brackets and by (Total).

^{2/} Columns may not add to state totals because of rounding.

<u>Banks, Classified by State</u> ^{1/}	<u>(\$ Millions)</u>	<u>Percent of State Total</u> ^{2/}	<u>Number of Separate Systems</u>
<u>Missouri</u>			
Mercantile Trust Company, St. Louis	2,275	35	
The Boatmen's National Bank of St. Louis	1,360	21	
The First National Bank of Kansas City	715	11	
United Missouri Bank of Kansas City	682	10	
Commerce Bank of Kansas City	597	9	
St. Louis County National Bank, Clayton	141	2	
Total	5,770	88	6
State Total	6,546		
<u>North Carolina</u>			
Wachovia Bank and Trust, Winston-Salem	3,228	62	
North Carolina National Bank, Charlotte	1,089	21	
First Union National Bank of Charlotte	299	6	
Total	4,616	89	3
State Total	5,184		
<u>Tennessee</u>			
American National Bank and Trust, Chattanooga	531	17	
Third National Bank in Nashville	561	17	
The First National Bank of Memphis	477	14	
Union Planters National Bank of Memphis	404	12	
The Hamilton National Bank of Chattanooga	294	9	
First American National Bank of Nashville	278	8	
Commerce Union Bank, Nashville	218	6	
Valley Fidelity Bank and Trust, Knoxville	137	4	
National Bank of Commerce, Memphis	136	4	
Total	3,086	92	9
State Total	3,363		
<u>Virginia</u>			
First Merchants National Bank, Richmond	924	23	
United Virginia Bank, Richmond	530		
United Virginia Bank/First National, Lynchburg	184		
Total	(714)	17	
Virginia National Bank, Norfolk	461	11	
The Central National Bank of Richmond	443	11	
The First National Exchange Bank of Roanoke	230	6	
Bank of Virginia--Central, Richmond	179	4	
Virginia Trust Company, Richmond	151	4	
Total	3,102	76	7
State Total	4,096		
<u>Wisconsin</u>			
First Wisconsin Trust Company, Milwaukee	1,442		
First Wisconsin National Bank of Milwaukee	592		
First Wisconsin National Bank of Madison	299		
Total	(2,333)	47	
Marine National Exchange Bank of Milwaukee	686		
Marine National Bank of Neenah	127		
Total	(813)	16	
M & I Marshall and Ilsley Bank, Milwaukee	682	14	
Total	3,828	77	3
State Total	4,945		

Source: Names and assets of bank trust departments are from Table 7 ("300 Largest Bank Trust Departments"), Trust Assets of Insured Commercial Banks--1972, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency. State totals are from Table 6 ("Trust Assets by State") of the same publication.

APPENDIX 3

PERCENT OF TOTAL BANK DEPOSITS--BY DEVELOPMENT REGION AND BY COUNTY--
HELD BY AFFILIATES OF MULTIBANK HOLDING COMPANIES IN MINNESOTA: YEAR-END 1972

Development Regions and Component Counties ^{1/}	Total Deposits of Banks in Development Regions and Component Counties ^{2/} (\$ Millions)	Percent of Total Deposits Held by Affiliates of Multibank Holding Companies			
		First Bank System, Inc.	Northwest Bancorporation	Otto Bremer Foundation ^{3/}	Other
Development Region 1					
Kittson	18	--	--	--	--
Marshall	34	--	--	27	--
Norman	33	--	--	13	--
Pennington	41	--	56	--	--
Polk	91	19	--	35	--
Red Lake	14	--	--	--	--
Roseau	31	--	--	--	--
Regional Total	263	7	9	17	--
Development Region 2					
Beltrami	51	--	--	--	--
Clearwater	19	--	--	--	--
Hubbard	19	--	--	--	--
Lake of the Woods	9	--	--	--	--
Mahnomen	9	--	--	--	--
Regional Total	108	--	--	--	--
Development Region 3					
Aitkin	25	--	--	--	--
Carlton	52	46	--	--	--
Cook	6	--	--	--	--
Itasca	71	--	37	--	--
Koochiching	34	--	--	43	--
Lake	21	--	75	--	--
St. Louis (SMSA)	610	40	34	--	--
Regional Total	819	33	30	2	--
Development Region 4					
Becker	48	--	--	37	--
Clay (SMSA)	104	--	44	--	24
Douglas	69	34	--	37	--
Grant	26	--	--	--	--
Otter Tail	109	--	24	--	--
Pope	29	--	--	--	--
Stevens	30	--	--	--	--
Traverse	23	31	--	--	--
Wilkin	24	--	--	40	--
Regional Total	461	7	16	11	5
Development Region 5					
Cass	30	--	--	--	--
Crow Wing	88	29	--	28	--
Morrison	56	36	--	--	--
Todd	50	--	--	--	--
Wadena	34	--	--	--	--
Regional Total	258	18	--	10	--

^{1/}For statutory origins and component counties, see Exhibit 14.
Counties included in a Standard Metropolitan Statistical Area are noted
by (SMSA). See Exhibit 11.

^{2/}Total for counties may not add to regional total because of rounding.

^{3/}Includes affiliate banks of Otto Bremer Foundation and of its controlled
affiliate, Otto Bremer Company.

APPENDIX 3 - Continued

Development Regions and Component Counties ^{1/}	Total Deposits of Banks in Development Regions and Component Counties ^{2/} (\$ Millions)	Percent of Total Deposits Held by Affiliates of Multibank Holding Companies			
		First Bank System, Inc.	Northwest Bancorporation	Otto Bremer Foundation ^{3/}	Other
Development Region 6E					
Kandiyohi	95	21	--	30	--
McLeod	84	--	--	--	16
Meeker	53	28	28	--	--
Renville	65	--	--	--	--
Regional Total	297	12	5	10	4
Development Region 6W					
Big Stone	30	--	35	--	--
Chippewa	57	--	25	--	--
Lac Qui Parle	32	--	27	--	--
Swift	48	20	--	--	--
Yellow Medicine	37	--	--	--	--
Regional Total	204	5	16	--	--
Development Region 7					
Benton	52	--	24	--	--
Chisago	34	--	--	--	--
Isanti	42	--	--	--	--
Kanabec	33	--	--	--	--
Mille Lacs	37	--	--	--	--
Pine	32	--	--	--	--
Sherburne	27	--	--	--	--
Stearns	231	8	11	18	--
Wright	83	--	--	--	--
Regional Total	571	3	7	7	--
Development Region 8					
Cottonwood	46	31	--	--	--
Jackson	46	20	--	--	--
Lincoln	18	29	--	--	--
Lyon	105	12	50	20	--
Murray	32	--	38	--	--
Nobles	82	39	--	--	--
Pipestone	36	25	--	--	--
Redwood	74	--	26	13	--
Rock	41	35	33	--	--
Regional Total	479	20	20	6	--
Development Region 9					
Blue Earth	179	24	28	--	--
Brown	106	--	--	--	--
Faribault	81	15	--	--	--
Le Sueur	61	--	--	--	--
Martin	97	25	--	--	--
Nicollet	61	--	--	--	--
Sibley	47	--	--	--	--
Waseca	53	30	--	--	--
Watsonwan	47	--	--	--	--
Regional Total	731	13	7	--	--

APPENDIX 3 - Concluded

Development Regions and Component Counties ^{1/}	Total Deposits of Banks in Development Regions and Component Counties ^{2/} (\$ Millions)	Percent of Total Deposits Held by Affiliates of Multibank Holding Companies			
		First Bank System, Inc.	Northwest Bancorporation	Otto Bremer Foundation ^{3/}	Other
Development Region 10					
Dodge	30	--	27	--	--
Fillmore	78	10	--	--	--
Freeborn	90	23	27	--	--
Goodhue	111	--	18	--	--
Houston	44	--	--	--	--
Mower	112	41	20	--	--
Olmsted (SMSA)	212	31	30	--	23
Rice	105	9	46	--	--
Steele	88	22	42	--	--
Wabasha	52	--	--	--	26
Winona	167	--	30	--	--
Regional Total	1087	16	25	--	6
Development Region 11					
Anoka (SMSA)	103	--	--	--	27
Carver	67	--	--	8	--
Dakota (SMSA)	219	--	35	17	10
Hennepin (SMSA)	3801	37	43	--	5
Ramsey (SMSA)	1806	57	11	--	16
Scott	58	--	9	--	--
Washington (SMSA)	114	--	--	--	4
Regional Total	6169	39	31	1	8

Source: Compiled from printout of banks, ranked by total deposits,
in each county.

APPENDIX 4

AFFILIATE STATUS OF BANKS CLASSIFIED BY DEPOSIT SIZE AND BY
DEVELOPMENT REGIONS IN MINNESOTA: YEAR-END 1972

	Development Regions											Subtotal 1 through 10	11	Total
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6E</u>	<u>6W</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>			
I. Banks Having Deposits of \$10 Million or More														
Affiliates:														
First Bank System, Inc.	1	-	5	1	2	2	-	1	4	4	4	24	16	40
Northwest Bancorporation	1	-	6	2	-	1	2	2	5	1	8	28	15	43
Otto Bremer Foundation ^{2/}	2	-	1	2	1	1	-	1	1	-	-	9	1	10
Other	-	-	-	1	-	1	-	-	-	-	2	4	10	14
Nonaffiliates	<u>3</u>	<u>3</u>	<u>9</u>	<u>4</u>	<u>7</u>	<u>5</u>	<u>3</u>	<u>17</u>	<u>5</u>	<u>18</u>	<u>12</u>	<u>86</u>	<u>46</u>	<u>132</u>
Total	7	3	21	10	10	10	5	21	15	23	26	151	88	239
II. Banks Having Deposits of Less Than \$10 Million														
Affiliates ^{3/}	2	-	3	3	-	-	2	1	4	-	3	18	5	23
Nonaffiliates	<u>26</u>	<u>11</u>	<u>32</u>	<u>49</u>	<u>21</u>	<u>32</u>	<u>24</u>	<u>48</u>	<u>43</u>	<u>62</u>	<u>77</u>	<u>425</u>	<u>47</u>	<u>472</u>
Total	28	11	35	52	21	32	26	49	47	62	80	443	52	495

^{1/} Development regions are specified in Exhibit 14.

^{2/} Otto Bremer Foundation and its controlled affiliate, Otto Bremer Company.

^{3/} First Bank System, Inc., and Northwest Bancorporation in total account for 14 of the 23 affiliate banks having deposits of less than \$10 million.

Source: Compiled from printout of banks, ranked by total deposits, in each county.