

**PUBLIC HEARING**

before

**SENATE LABOR, INDUSTRY AND PROFESSIONS COMMITTEE**

on

**Interstate Banking and Cap Bills**

January 30, 1986  
Room 334  
State House Annex  
Trenton, New Jersey

**New Jersey State Library**

**MEMBERS OF COMMITTEE PRESENT:**

Senator Raymond Lesniak, Chairman  
Senator Christopher J. Jackman, Vice Chairman  
Senator Edward T. O'Connor, Jr.  
Senator Gerald Cardinale  
Senator Donald T. DiFrancesco

**ALSO PRESENT:**

Dale C. Davis, Jr.  
Office of Legislative Services  
Aide, Senate Labor, Industry and  
Professions Committee

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**SENATOR RAYMOND LESNIAK (Chairman):** May I have your attention? We're going to begin the public hearing at this time. When the rest of the Committee members arrive we will go off the public hearing. I have a few housekeeping items, vis-a-vis the Committee itself, and then we'll go back to the public hearing.

I'm going to reserve my statement, vis-a-vis the bill that I'm sponsoring which is the subject of this hearing, until the other Committee members arrive. At this time I would call from the Public Advocate's Office, John Thurber, Division of Public Interest Advocacy. For those of you who don't have the schedules they are available -- of speakers -- up front. Are they not, Dale? (speaking to Committee Aide, who gives negative response) They're not.

**MR. DAVIS:** We have a limited number.

**SENATOR LESNIAK:** Okay, then I will announce the order of people to testify today -- excuse me, John, it'll be just a minute. When the Commissioner arrives, she will testify. We then have: the Public Advocate, who is ready to testify now; then from Midlantic Banks, Robert Van Buren, who is here; then John Collins, Chairman and Chief Executive Officer of Commercial Bancshares, who will be followed by David Hughes, Vice President of Constellation Bancorp; and then Richard Schwab, First Fidelity -- former Banking Commissioner under the Cahill and Byrne Administrations; to be followed by William Johnson, Senior Vice President of United Counties Trust Company; Herman Sunholz, First Jersey Bank; Richard Ober, Senior Vice President of United Jersey Banks; Sam Damiano, President of the New Jersey Council of Savings Institutions; Marlen Doolay, New Jersey Public Interest Research Group; and Al Griffith, New Jersey Bankers' Association.

(Senator Cardinale enters and sits down) Welcome, Senator Cardinale. When the rest of the Committee gets here we will go off the record for a moment to do some housekeeping items for the Committee. At this time we'll start--

**SENATOR CARDINALE:** I'd like you to notice, Senator Lesniak, who is really loyal to this Committee.

**SENATOR LESNIAK:** I know I can always rely on Senator Cardinale. John?

**JOHN P. THURBER:** Thank you. Mr. Chairman, Senator, my name is John Thurber. I am an Assistant Deputy Public Advocate for the Department of the Public Advocate. We have submitted prepared testimony from the Department -- I believe Mr. Davis has copies. I'll just summarize briefly.

**SENATOR LESNIAK:** Excuse me. Excuse me, John. Can I please have some quiet in the room? Mr. Hotis? Thank you.

**MR. THURBER:** Thank you for providing the Department of the Public Advocate with an opportunity to appear before you today. We'd like to address three bills today: S-1467, the Interstate and Regional Bill; and S-1444 and 1466, the two Cap Bills.

In our opinion, interstate and regional banking as permitted by S-1467 poses a substantial risk to the interests of consumers and small businesses in New Jersey. Further, to the extent that there are benefits from interstate and regional banking, and that they are going to be realized by the banking industry, this bill does not share them with the public.

**SENATOR LESNIAK:** Excuse me, again. I really can't hear the person testifying, so can we please have quiet in the room? Thank you.

**MR. THURBER:** We therefore urge that certain additional protections for consumers and small businesses be enacted to minimize these potential adverse consequences, and to more equitably share the benefits of interstate and regional banking with the public.

Finally, in our view, an important purpose is served by maintaining strict limits on the extent to which individual bank holding companies can control the State's banking industry through mergers and acquisitions.

The Public Advocate's prepared testimony outlines a number of potential adverse consequences of interstate and regional banking. First, according to a number of experts at both consumer advocacy groups and others, interstate banking is likely to result in a decrease in competition, and thus of efficiency within the banking industry as more banks fall into the hands of fewer owners and corporate management. These changes, they suggest, may result in changes in lending and depository policies that may adversely affect consumers and small businesses.

Second, interstate and regional banking may also be characterized by distant and centralized decision-making. As a result, banks may be far less sensitive to the local needs of their communities.

Third, interstate and regional banking may also reduce the ability of local banks to respond flexibly to these local needs. This change may particularly affect small and fledgling companies in New Jersey -- a very important growth component in our economy.

Finally, interstate banking could result in a diversion of capital out of New Jersey that would hurt all of us.

We, of course, do not suggest that there would be no benefits from regional and interstate banking. Our concern is that these benefits, which may be substantial, will not necessarily be shared with the public. Indeed, they may even come at the expense of the public.

Given these uncertainties, one solution would be to delay enactment of this bill until we have more information about the effects of interstate banking. If, however, a decision is made to move forward now, then it is critical to the public interest that certain key protections for consumers be enacted, if possible, as a companion to S-1467.

First, effective concentration limits must be preserved for the banking industry. We urge that the current 20% cap be retained. If, however, either S-1444 or 1466 is to be enacted, we urge that it be S-1444. Senator Stockman's bill raises the cap sufficiently to accommodate the express needs of the banking industry, while protecting competition. We are particularly concerned with the provision in S-1466 that would eliminate the cap entirely after three and a half years, absent legislative action to save it.

Second, we urge that standards and procedures be established to ensure that each banking subsidiary of interstate bank holding companies be responsive to the banking needs of its communities. Specifically, we urge that approval by the Department of Banking of a change of control of a bank be contingent upon both that bank's past track-record in meeting local needs, and its clear commitment to continue to do so. It's interesting to note that the Federal

Interstate Banking Bill, voted out of the House Committee -- which I believe is HR-2707 -- included a very similar provision.

Finally, all consumers must be assured of reasonable access to basic banking services. To that end, we propose that a consumer banking bill be enacted that would require no-frills checking and savings accounts, check cashing services for government checks, and certain other provisions. And we would be eager to meet with members of this Committee to help draft such a bill.

In our view, only by addressing these three concerns can the risks of interstate and regional banking be ameliorated and its rewards distributed in a manner that benefits the public interest. Thank you.

SENATOR LESNIAK: Thank you. I just want to welcome Minority Leader Alan Karcher from the Assembly, who sits on the Assembly Banking Committee, to the Committee hearing. Thank you for joining us, Assemblyman Karcher.

Mr. Thurber, I just have one question to ask you. You urge that we delay enactment of interstate banking until we see how it works in other areas. Don't you think that puts New Jersey at risk of falling behind every place else in terms of their banking institution and the development of banking, and its ability to provide economic growth and investment in the State of New Jersey?

MR. THURBER: It may, but that risk or that possibility has to be weighed against the need to address the potential consequences -- the adverse consequences of interstate banking. So, if in fact some of these risks can be met now, then, of course, S-1467 can be enacted very soon.

SENATOR LESNIAK: Okay, so you don't think, per se, that we should delay enactment of interstate banking?

MR. THURBER: Not if these other issues can be addressed.

SENATOR LESNIAK: Senator Cardinale?

SENATOR CARDINALE: This is a very confusing issue that has been hanging around in this Committee since June, or maybe earlier, and we had a great deal of difficulty coming to grips with it ourselves. I was wondering about the methodology that your Department used in coming to grips with it? What is your professional background? Are you--

MR. THURBER: An attorney.

SENATOR CARDINALE: You're an attorney. Have you also an MBA, or some other qualification along that line?

MR. THURBER: Some economics background, but I do not profess to be an expert, by any means, in these issues. We've relied extensively on experts that we've identified from a variety of organizations, ranging from Consumers Union and other consumer advocacy groups to-- (the rest of the members of the Committee arrive at this time)

SENATOR LESNIAK: Just one second. We have some disruption when the late members of the Committee have arrived.

SENATOR JACKMAN: Go outside. I couldn't get up because the elevator's shut down. There's a strike.

SENATOR LESNIAK: Assemblyman Doyle, we will (Assemblyman Doyle, who was invited to sit in on hearing, finds a seat) Let's reorganize just for one moment. Welcome Vice Chairman Jackman. Welcome Senator O'Connor, Chairman -- the powerful Chairman of the Judiciary Committee. And welcome Assistant Minority Leader John Paul Doyle.

I really want to thank the Assembly members of the Banking Committee for coming over. When I invited them to attend this hearing, I actually didn't think anybody would take me up on it. But, seriously though, I welcome your attention, and your participation in this hearing. Go ahead.

MR. THURBER: We've also had an opportunity to consult with a variety of economists and other groups, including a senior economist at the Federal Reserve Board, and others -- staff members and the Comptroller of the Currency -- about this very -- as you say -- very complex and important issue.

SENATOR CARDINALE: You see, the reason I ask this question is because it is my impression that your Department is composed primarily of attorneys who seem to be seeing themselves in an ever expanding role, to become the expert on everything. It would seem to be more appropriate, if we're going to have a piece of legislation that those experts would appear before us, and would testify to us. And as the elected representatives of the people, we would protect the public



interest as a result of hearing that testimony. It almost seems to me, from a totally inexperienced position, your Department is now testifying on almost every piece of legislation with no technical expertise. You're taking the testimony; you're removing it one step from the normal process -- the process that I think has been established by this Legislature. I know that the Joint Appropriations Committee, several years ago, has taken issue with that process by -- and professionally -- by passing resolutions that have indicated you are wasting a lot of public money by doing this. And I'd like to have you bring that message back to the Department that you really aren't a shadow government in the State of New Jersey. That you have a function -- and it's a very real one -- and I think the people would be better served if you limited yourselves to that function, and didn't see yourselves as commenting on every issue.

Now, on the specifics of some of the things that you make determinations on. I'd like to know how you determine which side of the issue you're going to come down on? It is obvious to me--

SENATOR LESNIAK: Senator, Senator, Senator--

SENATOR CARDINALE: Well, if he's coming down on the side of an issue--

SENATOR LESNIAK: Senator, could we restrict the questions to this bill?

SENATOR CARDINALE: Yes.

SENATOR LESNIAK: On the bills before us.

SENATOR CARDINALE: On this bill. On this bill. You have come down on a side of an issue. It's a very complex issue -- we both agree on that. How have you determined which side of the fence you are going to come down on on an issue that divides the industry itself?

MR. THURBER: As I indicated before, we had opportunity to consult with a number of those who we were able to identify as having some expertise in this area, and based on their recommendations -- their expert advice -- we formulated our position.

SENATOR CARDINALE: But you evaluated that advice from what perspective? Obviously, you must have gotten some advice that said it favored these bills, and some advice that said it did not favor these



bills. Is that correct, or did you get only one school of thought presented to you?

MR. THURBER: Actually it never came down quite as neatly as that. There were a variety of people who had specific concerns that they expressed to us. They didn't express it in terms of whether it meant we should support or not support a particular bill. Our concern was that in this Committee's deliberations, that the effect of these bills on consumers and on small businesses be reflected. And some of those voices, we were concerned, might not have reached this Committee if we did not testify it.

SENATOR CARDINALE: Are you telling us that you only heard from the people who were against various features of these bills?

MR. THURBER: As I said, I-- The people we consulted with did not identify themselves as being for or against any of these bills. We were asking--

SENATOR CARDINALE: Features-- You said certain, specific features. With respect to those features, did you only hear from people who objected to some of the features of this bill?

MR. THURBER: Virtually everybody we spoke with had concerns about interstate banking, and with changes to the cap bills, yes.

SENATOR CARDINALE: So you-- Did you seek them out or did they come to you?

MR. THURBER: In almost every instance we sought them out.

SENATOR CARDINALE: So you only sought out the anti?

MR. THURBER: We didn't know before we talked to them which side they would be on, or what positions they would have. We called the Federal Reserve Board; spoke with a number of senior economists there, and the Comptroller of the Currency, and others in university settings who we did not know prior to these contacts.

SENATOR CARDINALE: And then by chance they all happened to be anti one or another feature. Is that what you're saying?

MR. THURBER: That's hard to know. But in any event, their advice to us was what I reflected.

SENATOR CARDINALE: I'd just like to make the observation that the testimony we've heard is almost incredible. That there is an

agency of government that now seeks to set itself up as the judge of everything that we're doing and only seeks out the evidence from one side of an issue. And I think they shouldn't be allowed to testify on bills of this nature. Thank you.

SENATOR LESNIAK: Thank you, Senator. Let me disagree with Senator Cardinale. First of all, let me send a different message back to your Department. I welcome your testimony here. I disagree with your point of view, but I think that there are people that will be affected by this bill that will not be represented here -- the individual consumer and the public. I happen to think that my bill and the interstate banking bills will be beneficial to them, but I welcome the opportunity to have someone who has sought out what may be a difference of opinion on that, and I think you are well within grounds of testifying today, and you're welcome to appear before this Committee. And I did not hear you say that you only sought out one side. As a matter of fact, I think your testimony was to the contrary.

MR. THURBER: Thank you, Mr. Chairman.

SENATOR LESNIAK: Any other questions of the Public Advocate?

SENATOR JACKMAN: Yes, sir. Mr. Chairman, I agree with you. I come in a little late, and reading your statement, I feel the Advocacy is necessary, as far as this State is concerned. And the basic thing that it really boils down to -- and I think Gerry has to agree with this -- we vote on it. We're the final say. So I want to listen to everybody, I don't care if it's a janitor. Sometimes he makes more sense than some of the bankers. So I'm not being --

SENATOR LESNIAK: Sometimes?

SENATOR JACKMAN: -- yeah -- derogatory in any sense. So anybody who wants to come here and is willing to sit in this room should be given an opportunity, I don't care who you are. And when the final say is, we're the ones that vote on it. So if you impressed me enough, and it makes sense in what your saying, I'll make some evaluations, and maybe you'll get my vote. That's the way we do it.

MR. THURBER: Thank you, Senator.

SENATOR LESNIAK: Thank you, Senator. Before we call up-- Thank you, Mr. Thurber.

MR. THURBER: Thank you very much.

SENATOR LESNIAK: Before we call up the Banking Commissioner, I would like to take a few moments to state my position on my bill before this Committee today. Senator Stockman will be testifying vis-a-vis his cap bill, somewhat later in the public hearing.

In lieu of a statement by me, I would like to read into the record something -- a article -- that I absolutely ascribe to 100%. I normally wouldn't do this, except for the fact that I agree with everything that it says. It's by Dr. Nadler, Professor of Finance at Rutgers University's Graduate School of Management.

"In the continuous tug-of-war between bankers and legislators over the ground rules of banking, one of the issues that is heating up is the question of caps, or limits on what percentage of a state's banking assets can be controlled by one organization.

"Like so many other areas of legislative control, caps on bank size -- limiting one bank to 15% or 20% of a state's bank deposits -- seem extremely popular at first. Everyone thinks of the giant organization swallowing up the smaller banks and then having the public at its mercy in terms of lending rates and service charges.

"Thus, nine states presently have caps on bank size, and in one -- New Jersey -- there has been vigorous discussion recently about amending the cap law, because the state's two largest banks are both at or near the size limit under present legislation.

"To be sure, once a bank has reached its cap, it can still grow internally. But in today's world of merger and acquisition, there is an important decision to be made: Should the bank restrict its growth to internal measures, or should it, after reaching a certain size, continue to take the purchase and sale route?

"And what is the real question that must be answered before members of a legislature determine whether caps are good or not? In my opinion," and this is my opinion as sponsor of my cap bill, "it is whether this fear of a monopoly, which caps are intended to avoid, is really justified. In other words, does control of a substantial portion of a state's banking assets by one organization lead to poor banking service, does it actually bring benefits to the public, or is

it really a matter of little significance that should be left to the marketplace to decide?

"Recent developments in banking appear to indicate that size really is of little importance as a factor in determining bank performance. The banking industry in states where a couple of giants are beating each other over the head to generate business has done as well serving the public as have the banks in states where concentration is far less intense.

"The best example is California, where for years a few giant banks have controlled a sizeable percentage of the state's banking assets. Yet it is also California that has witnessed the chartering and growth of a vast number of new small banking organizations that have competed effectively with these giants.

"Service rather than size is what the public wants, and the smaller banks frequently have been flexible enough to offer the service that the growing bigger ones no longer provide as effectively.

"Growth, then, becomes a treadmill. The larger banks continue to fight for expansion but lose much of the opportunity to expand to new entrants that take advantage of their smaller size and lack of overhead to offer flexibility and novelty.

"Another question must be asked. Do cap laws that limit a bank to a certain size make any sense if they eliminate thrifts and nonbank financial institutions from the equation?" I'll skip over that because we are not, in either of our laws before this Committee.

"One can see precious little value in a cap in terms of protecting the public from monopoly. And there are also reasons to wonder if a deposit cap might not even harm efficient banking in some ways.

"The issue of bank morale and investor morale is a primary one that must be considered. Certainly, a bank that holds the maximum permissible percentage of a state's deposits can still grow by efficient operation, even if not by acquisition. But then investors and employees may have a demoralizing feeling that the bank is 'close to the limit' and has no place to go. This becomes more demoralizing as investors and employees see other banks continue to grow by

acquisition, and feel that these others have taken over the momentum that their own bank has been denied by legislative fiat.

"Bank officials who have witnessed this investor/employee reaction know how significant such a force can be in limiting future performance.

"Additionally, the bank that is limited in growth through acquisition by a cap law is effectively taken out of the marketplace for the smaller banks that are for sale." I think that's a very important point to make, I must add. "This in turn means that those small bank stockholders who do want to sell out have fewer options and less chance of gaining an attractive price because there are fewer contenders." And it appears to me that that's what today's issue boils down to.

I will close and just add this article to the record -- the remaining of it -- and not take any more Committee time. But basically, to summarize my position on my bill, I feel that -- and to supplement that statement -- I feel that the State of New Jersey has a tremendously growing economy. There are tremendous economic opportunities here. We are competing with the New York and Philadelphia markets in every phase of life, and we have to be able to compete with them in our banking industry as well. And if we can't do that, we won't be able to compete with them and continue to compete with them in all of the phases of economic development and economic culture and educational development, as well.

And that's why I feel that actually I am in favor of no caps at all; however, I don't believe the climate at the current time would accommodate that. And I think that my bill would be the best method to get to that procedure where -- and to bring New Jersey into the 1990s and 21st Century as a first-class state, and economically vibrant state.

Commissioner Little, Department of Banking? (Chairman corrects himself) Parell -- Little Parell.

**COMMISSIONER MARY LITTLE PARELL:** You were close. (laughter)

**SENATOR LESNIAK:** Mary Little Parell.

COMMISSIONER PARELL: Good morning, Mr. Chairman, Senator Lesniak, and good morning members of the Senate LIP Committee concerned with banking, and good morning Assemblymen. And good morning to the Chairman of the new Assembly Financial Institutions Committee, Assemblyman Kosco.

SENATOR LESNIAK: I just want to recognize the fact that the Chairman of the Banking Committee is in attendance. Are there any other members, besides Assemblyman Doyle? Oh, Pete Genova, from Union County -- I didn't see you all the way back there -- also on the Assembly Banking Committee. Thank you for joining us.

COMMISSIONER PARELL: I have distributed to the members of the Committee a prepared statement which I will, with your permission, read with you now. Preliminarily, however, let me say that this statement primarily focuses on the interstate banking law, which is before you as a bill this season.

The reason that I have emphasized that aspect of the issues before you is that although there appears to be relatively wide consensus in favor of interstate banking, I don't think that it is important that this deliberative body have a good record before it as to just why New Jersey is favorably considering enacting interstate banking legislation at this time. And therefore, I have done a bit of homework -- which I will now share with you -- which is well-known to the bankers in this room, in order to give you and your constituents the background for this very momentous piece of legislation that you are considering.

With that said, let me thank you for the opportunity to appear before you this morning and proceed with my testimony.

Banking, as we know it, is changing radically after a long period of relative calm. Today, its geographic structure is being fundamentally altered for the first time in over 50 years. Geographic restrictions established by passage of the McFadden Act of 1927 -- which prohibited bank branching across state lines, and the Douglas Amendment of the 1956 Federal Bank Holding Company Act -- which reaffirmed the right of the states to restrict bank holding companies from acquiring banks across state lines -- those restrictions are inexorably breaking down.

Today, in spite of the restrictions of a previous era, interstate financial services are flourishing and proliferating. It is important to understand the development and scope of that phenomenon as you consider the interstate banking bill which is now before you.

It has been observed that notwithstanding the legal restrictions on interstate branching and bank acquisitions, commercial banking organizations have long been successful in establishing physical presences outside their home state through legal means. Some of these devices include loan production offices, grandfathered banking subsidiaries, offices of foreign banking organizations, and so-called 4 (c) (8) subsidiaries providing a variety of banking-related services such as consumer finance, industrial banking, mortgage banking, and trust management across state lines.

According to a March 1985 publication of the Federal Reserve Bank of Atlanta, 44 bank holding companies in 1982 had 202 loan production offices spread over 34 states. Foreign banking organizations had 254 banking offices outside their home state; while grandfather banking subsidiaries and 4 (c) (8) subsidiary offices outside the home state numbered in excess of 17,000. (Commissioner's written statement indicates the number is 1796) Those trends have continued, obviously, since 1982.

In addition, technological advances are providing major opportunities for banks to expand across state lines without brick and mortar offices.

Examples are the media advertising campaigns coupled with "800" telephone lines, automatic teller networks, computerized home banking, and high-speed electronic funds transfers.

The 1980s have marked large-scale entry of a variety of new competitors into the banking marketplace. It began in the late 1970s, when the combination of extremely high real interest rates and the legal restrictions which prevented banks from offering correspondingly high rates caused nondepository institutions such as Merrill Lynch to introduce the money market mutual fund -- and consumers went for it in droves. Another Atlanta Federal Reserve Bank study, published in May 1983, points out that, quote:



"The real importance of money market mutual funds is that they have broken down the dependence of previously locally limited customers on local depository institutions for financial services. Once customers are no longer dependent on local sources of supply for deposit services, the geographic market ceases to be local. Under these circumstances, any benefits that might have accrued previously to in-state banks from prohibitions on intra or interstate banking... are completely dissipated." Unquote.

The author continues to point out three other recent financial innovations which have further decreased the efficacy of interstate banking restrictions:

"Symbiotic finance, or the joining together of independent firms to provide services that the participants could not legally or economically provide individually, such as brokers' cash management accounts," which are an amalgam of several firms' efforts.

The next phenomenon is, "the creation by merger in the 1980s of a whole new class of financial service firms called broker-bankers, e.g. American Express-Shearson, Bache-Prudential, and Sears-Dean Witter-Coldwell Banker.

The third phenomenon is, "the recent wave of so-called nonbank banks owned by money market mutual fund organizations such as," in this State, "Dreyfus and Bear Sterns, and others. There is also the anticipated approval of a host of nonbank applications by bank holding companies now pending before the federal regulators." And the Supreme Court last week ruled in the Dimension Case that, at least, the Federal Reserve's effort to restrict the nonbank banks will not be effected.

Even many thrifts are no longer confined to state boundaries, as we have witnessed the growth of several multistate thrifts from origins right here in New Jersey.

All of these factors point to the unassailable conclusion that interstate banking already exists and is on the increase. The main parties adversely affected by the legal restrictions on geographic expansion are the commercial banks, forced to compete with institutions not subject to the same restraints.

Today, ironically, interstate restrictions are harming the very institutions they were designed to protect.

My Department and I believe that it is essential that the New Jersey Legislature enact progressive, purposeful, and sound rules by which New Jersey and its citizens can determine the future of this State's banking structure as well as its participation in the nation's banking framework.

The relaxation of New Jersey's interstate banking restrictions has evolved steadily over the years and is well documented through a series of legislative and departmental initiatives. Past challenges have served as opportunities to modernize and strengthen New Jersey's banking system to better reflect the changing contours of the banking world, protect the State's role in responding to these changes in the interest of the public, and foster growth and competition.

Some examples: In 1973, the geographic constraints on branching by state-chartered banking associations, as imposed by New Jersey's Banking Act of 1948, were virtually eliminated and banks were allowed to expand gradually to the State's boundaries.

In 1975, an out-of-state money center bank sought authority to establish automatic teller machines in supermarkets in northern New Jersey. But, in response, it was determined that such offices were branches, and were subject to existing restrictions against branching across state lines.

State authority came into question again in 1982, when a New Jersey State-chartered bank applied to the Department for permission to share an ATM with a bank located in another state. An Attorney General opinion, requested by my Department, concluded that that ATM agreement would not violate State law, because the ATM would not constitute a branch because it would remain under the control of the State-chartered institution and not accept interstate deposits.

Consistent with our existing laws governing interstate banking, my Department in 1982 protested an encroachment against New Jersey's prohibition on interstate banking when Mellon National Corporation of Pittsburgh sought to merge with Heritage Bancorporation -- a holding company controlling a number of Federally chartered banks

located in New Jersey. Our Department objected to the merger claiming it was not explicitly allowed under state or federal banking laws, and we won.

In 1985 -- last year -- the Department supported the passage of New Jersey's nonbank bank moratorium because we believed that lawmakers needed an opportunity to develop an orderly approach to the nonbank question and the larger issue of interstate banking. We have long taken the view that interstate banking should be entered into by means of a clearly developed legislative process, keeping in mind the best long-range interests of New Jersey and her citizens.

Legislatures in other states, responding as you are to these developments, have been considering a number of interstate measures, and last summer the U.S. Supreme Court issued its decision which affirmed the rights of states to establish regional interstate bank holding company laws.

To date, 25 states have enacted laws permitting interstate bank holding company acquisitions in various forms, and at least 10 other states, including New Jersey, are actively considering such legislation.

In New Jersey, the Bankers' Trade Group, in conjunction with the Department, has devised the regional reciprocal interstate proposal which is before you today. The proposal sets out conditions by which New Jersey would participate in interstate banking on a reciprocal basis within a specific region initially and then on a broader -- nationwide -- basis.

Our principal consideration in the interstate banking question is whether the public welfare will be protected and banking competition will be increased. These are certainly two key questions of public policy that must be addressed in any examination of interstate banking. We know that the expressed concerns of consumers and businesses are that their credit needs be met; that they continue to have a full range of accessible and fairly-priced services; and that their deposits not be siphoned off to serve the demands of other communities. But the track record for geographic expansion within state boundaries has been to improve competition and availability of banking services for the consumer.

Existing empirical studies indicate strongly that interstate banking is likely to:

Produce a notable increase in the number of actual and potential firms capable of entering and competing in the banking marketplace;

Impose more competitive pressure on existing firms, and;

Maintain or even increase the availability of credit and other services in local markets.

Those authorities, by the way, are readily available for the examination of this Committee, should you desire.

We fully expect that similar benefits will result from interstate banking.

It is generally agreed that interstate banking can have a positive effect on public welfare provided that a sufficient number of banking institutions remain, and that banking concentration does not rise to a level that threatens competition. Of course, some reduction in the actual number of banks is likely to occur under interstate banking. I want to add there that reduction may not be exactly the phenomena. You may see more affiliations so that acquisitions do not result in a reduction of banks. Of course, in New Jersey, when we went to State-approved statewide branching, we did see some diminution in actual numbers of banks. However, the data compiled during the five year phase-in of statewide branching, between 1973 and 1978, show that while the actual number of commercial banks dropped from 220 to 282, 13 new banks were established at the onset of the phase-in period, and by 1978, the actual number of commercial banks offices and branches serving local markets had increased from 1471 to 1719 offices in that five-year period. Both of those trends have continued to the present, thus clearly underscoring the expressed wish of the banks to continue to meet community and local financial needs.

Another Federal Reserve publication concludes that under interstate banking, numerous regional and local banks are likely to continue in business and be independent competitive forces. This conclusion is based on the following factors:

First, the vast majority of small and medium sized financial institutions have been able to maintain their profitability under the present regulator framework. That is statewide branching.

Next, small banks and regional organizations should not be any less efficient or competitive in tomorrow's environment. They do not suffer from significant differences in economies of scale.

Next, the United States, as we know, is a large and diverse country with many unique banking markets and customers, requiring a comprehensive knowledge of local conditions and the ability to offer specialized services in order to succeed.

Finally, small and medium size institutions have survived and been important forces both in states such as New Jersey that have relaxed branching and holding company restrictions, and in many foreign companies with nationwide banking.

An exhaustive 1981 Treasury Department study on the subject of geographic banking restrictions endorsed by the Carter Administration, reached the following conclusion, quote:

"On the basis of the empirical and analytical findings of the financial regulatory agencies, and in line with the analysis set forth in this report, the Administration has concluded that the interests of banking consumers and the financial system would be served by significant liberalization of existing geographic restrictions on the provisions of banking services."

Quote, "The Administration has concluded that the McFadden Act, as amended, and Section 3 (d) of the Bank Holding Company Act are increasingly ineffective, inequitable, inefficient, and anachronistic, and that the existing de facto system of interstate banking should be ratified and further liberalized through a phased relaxation of current geographic restraints. Since government shaped the financial world that presently exists, government is obliged to create conditions which will permit an orderly evolution to a new financial environment."

Considering this issue of geographic barriers to banking brings to mind the familiar words of the great American poet Robert Frost, who said:

"Something there is that doesn't love a wall, that sends the frozen groundswell under it and spills the upper boulders in the sun and makes gaps even two can pass abreast.

"No one has seen them made or heard them made, but at Spring mending time we find them there. I let my neighbor know beyond the hill, and on a day we meet to walk a line and set the wall between us once again.

"We keep the wall between us as we go. To each the boulders that have fallen to each. And some are loaves, and some so nearly balls we have to use a spell to make them balance, 'Stay where you are until our backs are turned'."

SENATOR LESNIAK: First time I ever heard a Banking Commissioner recite poetry. (laughter)

COMMISSIONER PARELL: He continues:

"Before I built a wall, I'd ask to know what I was walling in or walling out. Something there is that doesn't love a wall and wants it down."

The regional banking concept before you today is intended to permit the continued orderly growth of our banks, foster competition, and ensure that New Jersey remains economically strong, and a viable financial leader. Our Department strongly supports the concept of interstate banking and its gradual introduction, first on a regional basis and then on a nationwide basis. Therefore, we urge you to act favorably on the interstate banking measure which is before you.

SENATOR LESNIAK: Thank you, Commissioner. Any questions from the Senators?

SENATOR O'CONNOR: I have, yes.

SENATOR LESNIAK: Senator O'Connor?

SENATOR O'CONNOR: Doesn't that poem somewhere say that good fences make good neighbors?

COMMISSIONER PARELL: Uh-huh, but you -- he says that's not so good.

SENATOR O'CONNOR: Okay. I gather from your comments then that you're in favor of interstate banking. And my question is, do you favor tying the concept of interstate banking to either of the

other bills -- either of the cap bills that we're also considering today?

COMMISSIONER PARELL: Let me take them individually, Senator. No, let me do it another way. I believe that whether or not the Senate or this Committee, or even for that matter the Assembly and its Committee, decide to tie or not to tie these bills is a matter which is peculiarly within their discretion. And I would not advise, one way or the other, on the technical legislative issue of whether to tie them or not. However, I would say that the interstate bill, and my Department's oversight bill, have -- as all of you know -- always been linked together, and I would hope that they would continue conceptually to remain linked together.

As far as the cap bills which are now pending, all I can say is that this is an issue which has come to a head; has been hotly contested in the public forum now for an entire year. I think it's important that the Legislature act on that controversy as soon as possible.

SENATOR O'CONNOR: On page eight of your statement you mention the fact that you're hopeful that interstate banking will have a positive effect; and you're confident that it will have that as long as there remain a sufficient number of banking organizations, and that there is no threatening of competition which would result. Do you have any concern about the fact that S-1466 calls for the elimination of the cap after three and a half years?

COMMISSIONER PARELL: I am prepared between now and then to conduct ongoing monitoring of the progress of both intrastate and interstate mergers and acquisitions. And I believe that between the Department's ongoing monitoring function and this Legislature's legislative function -- at that time the issue will get a full review.

SENATOR O'CONNOR: As of now it doesn't cause you any alarm? We've got three and a half years to work on it, is that what you're--

COMMISSIONER PARELL: I think that we must all candidly admit that we are moving into an era which is novel for the nation. Although there are parallels in analogies in the statewide branching experience, we are going to have to see how this works out.



SENATOR O'CONNOR: Am I correct that during the course of the negotiations, which have gone on now for some years, as you mentioned, that your Department played some role in trying to get the parties together?

COMMISSIONER PARELL: We attempted to, yes.

SENATOR O'CONNOR: I have here something known as the Keefe Bank Update, and I'd like to just read something from it and then ask you a question about it to see if you can confirm it or deny it. It says, "At a recent meeting with the securities analysts in New York, the Chairman of First Fidelity Bancorp, the largest bank in New Jersey, sent a shudder down the spines of portfolio managers who had bet on the New Jersey interstate play when he announced that he planned to hold the New Jersey Interstate Banking Bill hostage to legislation changing the State's Deposit Cap Law." Do you have any knowledge as to whether or not such a statement was ever made?

COMMISSIONER PARELL: Oh, that's the first that I have heard of that, Senator, in that form. However, Mr. Ferguson's statement has been reported in the Star-Ledger to the same effect. He has never said it to me, and I would think that the -- again, the legislators would be in a better position to know if that is the case

SENATOR LESNIAK: Maybe, Senator, if I could respond to that as well? We do have a track-record here, and that the Senator voted on all three of the bills -- the oversight bill, the cap bill, and the interstate bank bill. So, regardless of whether -- and it's a little unfair to ask about hearsay at this time to the Commissioner -- but regardless of that, the track-record, certainly, of this Legislature is to act on all of the bills, the interstate bill and the cap bill, as well.

SENATOR O'CONNOR: Well, I understand what we've done, but I just had some natural curiosity as to whether, in fact, a statement like that had been made, and whether that was part of the whole negotiations process.

SENATOR LESNIAK: Certainly; proceed with your natural curiosity.

COMMISSIONER PARELL: Senator, I do see in the room representatives of that organization, and it may be that you'll want to get more information from them.

SENATOR O'CONNOR: Okay. At the appropriate time we can pursue that. This same Keefe Report also concludes that it would make no difference whether the interstate bills are passed now or passed as late as -- I believe it's May of this year. Do you have any position respecting that?

COMMISSIONER PARELL: Yes, I do find that hard to understand, Senator. Ohio already has a regional interstate bill effective which will admit New Jersey. Kentucky will come on-line in July admitting New Jersey. And my latest information, as of yesterday, from Pennsylvania, is that their bill which would admit New Jersey has passed their Senate -- I believe, passed the Senate 42 to 7 last week. It is expected to receive House action February, and a signature at the end of February or the beginning of March. So, we are rapidly approaching the day when, if our interstate law is passed New Jersey will be in an effective region, and, although I am not one of the business people sitting here before you, I do believe we can all acknowledge that the types of merger and acquisition agreements that occasionally come to fruition have to be done on a long time frame. They take a long time to arrange. And so, the sooner this bill -- this interstate bill gets passed, the sooner New Jersey institutions will be able to get out there into the marketplace and dicker, and hopefully take a leadership position in the region.

SENATOR O'CONNOR: Thank you, Commissioner.

SENATOR LESNIAK: Senator Cardinale?

SENATOR CARDINALE: It's curious to me that your testimony, if I understand it correctly, runs directly counter to some of the things we've heard, and particularly some of the things that were testified to by the Public Advocate.

COMMISSIONER PARELL: Yes.

SENATOR CARDINALE: With respect to competition, I glean from your statement that you really believe that competition would be very likely enhanced by interstate banking -- and the record seems to point

to that -- whereas the Public Advocate tells us that it may lead to a stifling of competition -- lessening competition in the industry. Would you comment on that again, a little more directly, as to the conclusions that you've come to and on what you've really based those conclusions?

COMMISSIONER PARELL: Yes, Senator. I have the same concerns -- the same initial concerns that you as a legislator must have, and that the Public Advocate expressed, namely, if we are going to permit out-of-state banking institutions to come and acquire our banks, will that result in a lessening of competition, a lessening of delivery of services to the local market? And therefore, I have undertaken quite a review of what empirical data does exist that would provide us with some analogy here. And that empirical data seems to indicate, or does indicate -- although it is not conclusive, I would not say that; and it is not voluminous; there is a lot of it, but it is not voluminous the way that, you know, major legislative studies are done -- seems to indicate that this country of ours, as well as this State of ours, is a highly unconcentrated banking market, and that economic theory suggests that you would have to get a great, great deal more concentration in this country and in this State before the mere fact of concentration could result in either monopolistic behavior -- that is dominance by one or two firms -- or even what they call oligopoly, which is conscious parallelism to the detriment of the consumer. So we have a long way to go before that kind of concentration could be reached.

The economists project that that kind of concentration is not likely to take place in this country under interstate banking, even nationwide interstate banking, because of some of the factors that I mentioned, primarily, ease of entry of new competitors. Here, in this State, we have had an average of five or six new banks opened up every year. So, new banking competitors-- Competition from the thrift industry; competition from the nondepository institutions -- the banker/brokers, the merchants, the credit card companies-- All of that is competition that impinges on the banking industry and prevents it, really, from being able to become monopolistic in its behavior. If anything, the banks need less restriction so that they can compete more aggressively and serve their customers better.

So, lack of concentration in the country, large diversity of markets, and ease of entry by banks and by nonbanking institutions and by thrifts are three of the main factors that are pointed to by the economists.

SENATOR CARDINALE: The second major objection that has come up, and it happens to also be in the Public Advocate's statement, is that large regional banks would merely gather deposits in New Jersey and use those funds to make loans elsewhere. And they point to the experience in Arkansas -- I am not familiar with that experience. Two questions arise from that statement which I would like you to address. One, do you think that -- I think you've already answered it -- but again, more directly on that point -- the diversion of capital question-- Is that likely to occur in New Jersey, and are we sufficiently different from Arkansas, if that experience actually did occur in Arkansas? Would we not have to worry about that problem?

COMMISSIONER PARELL: I think that that's a question you should also address to the banking leaders that will be here testifying before you today. Again, my research of the empirical data is, that as banking organizations have become larger, or small banks have affiliated into larger banking organizations, they have had to compete even more aggressively in the local marketplace in order to maintain their foothold. Which means, they have got to deliver loans, credit, to the local consumers and business people, or else they simply don't get the deposits. I mean, people are not fools.

So, the larger an institution gets, it has the advantage of being able to beam ever greater resources at the communities which it serves. And I think many of the community-sized bankers recognize that and have consciously sought to affiliate with larger institutions so they can bring more financial muscle to bear in their own communities. Indeed, the little bit of the Federal Reserve study that was done about it seemed to indicate that if there was a transfer of flow of funds -- and there is a flow of funds; I mean, one of the things that a larger and a more geographic diversity permits an institution to do is to move the funds around to meet the needs that are there. But this one particular Federal Reserve study said that far from siphoning funds

from local areas to money center areas, the funds seem to be moving from local area to local area in response to economic development opportunities.

SENATOR CARDINALE: The third major question I think comes about here deals directly with Senator Lesniak's bill. And that is, if we accept the -- what seems to be the trend, the reality that interstate banking is coming -- and I think you did comment on this, that it takes a long time for our institutions to catch up -- the question then becomes, is it necessary for us to have a relief from the cap for our institutions to position themselves in such a way that any potential down-sides would be less likely to occur? Is that a valid kind of premise that if our institutions -- we have some larger institutions in the State of New Jersey -- would somehow be protected from the potential down-sides that are pointed at?

COMMISSIONER PARELL: Mr. Chairman, I -- and Senator Cardinale -- have not completed my testimony. I have only addressed the interstate; not the oversight or the cap issue. But since you ask it in this context, let me say that I think there are a number of natural inhibitors to excessive competition which I have just cited in answer to your questions, the anti-trust laws being another. New Jersey is one of several states which, in addition, has a cap law, and I think as we get into the interstate banking phase, it is well for us to leave a cap of some sort in place, at least until we see what this experiment produces.

SENATOR CARDINALE: Do you think that the cap needs to be changed?

COMMISSIONER PARELL: Yes, I do. But both bills do change the cap.

SENATOR LESNIAK: Senator DiFrancesco?

SENATOR DiFRANCESCO: I know you didn't finish your statement.

SENATOR LESNIAK: Yeah, I apologize for that. I thought you were finished with your statement as well. Would you want to continue?

COMMISSIONER PARELL: May I, just for the benefit of those that don't have it in front of them?

SENATOR LESNIAK: Please.

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COMMISSIONER PARELL: Thank you. On the subject of the banking oversight bill — this bill has been carefully tailored by our Department and by responsible banking leaders in order to protect the public interest in the current era of increased mergers and acquisitions.

The genesis of the Department's proposed oversight bill goes back to the enactment of New Jersey's existing Bank Holding Company Act in 1948. That Act gave the Department limited oversight authority but gave it no effective examination or change of control powers. The need for such provisions has become apparent during the intervening years as acquisitions and formations occurred which produced a New Jersey banking industry, which is today approximately 80% in bank holding companies formations.

Our oversight bill specifically addresses two important regulatory and public concerns. First, the lack of what we conceive to be proper reporting and examination authority over persons and companies which own banks located in New Jersey, and second, the lack of effective oversight of acquisitions resulting in a change of control of surviving state-chartered banks.

Our bill contains three elements: A simple reporting requirement for companies and individuals who control New Jersey-based banks. I found it hard to believe when I first came into office that my Department cannot tell you how many national banks there are located in this State -- or they're hard-pressed to do it. There is no reporting requirement, except for State-chartered banks into our Department. It's a simple reporting requirement — it's not expensive; it's not onerous. The next element is examination authority over companies which control State-chartered banks in New Jersey. Also, I would add regular financial reporting requirements over persons who control State-chartered banks in New Jersey. And, finally, the bill would give us approval authority for transactions by companies or individuals which result in a change of control of New Jersey State-chartered banks, except that companies which already control a State-chartered bank would not have to come to us for approval of their next acquisition of a State-chartered bank.

I believe that the provisions of this bill are necessary for the safety and soundness of our banking industry in an era of increased acquisitions by individuals and companies from New Jersey and from other states. And I would like to say that I have enjoyed the great assistance and support of the banking community in developing this bill to be as least restrictive as possible, while still giving us what I conceive to be necessary increased supervision responsibility.

And now we come to the cap issue. When the current ceiling of 20% of commercial bank deposits was first imposed almost 20 years ago, the demographics of our banking system were substantially different than they are today. At that time the activities of bank holding companies were much more restrictive, mergers and acquisitions were not commonplace, and no one holding company was within close reach of the limit.

As we all know, times have changed. Since then, the New Jersey banking industry has undergone tremendous change as deregulation, competition and technological innovation have revolutionized the whole financial services marketplace.

An Attorney General's opinion, requested by my Department early last year, concluded that the existing limit on the concentration was easily avoidable by bank, if done rather than acquisition. Thus, New Jersey's limitation had little force -- actual force -- because it's not a loophole, gentlemen. In my opinion, it's an express exception contained in the law. Litigation is currently pending which will determine whether that Attorney General's opinion about the 1968 law was correct, but it will not address the issue of what, if any, concentration limit is good public policy in the 80s.

My Department believes that the banks must be allowed to grow in a limited, but well-regulated manner, so that they may remain effective and viable competitors in the advent of interstate banking. The coming of interstate banking only serves to underscore the importance of allowing New Jersey institutions to be large, because they must be strong enough to be leaders in the new regional and then national framework. Limited and careful bank growth by internal expansion and by acquisition will, in my opinion, in no way affect the



safety and soundness of New Jersey's banking structure, but rather will help our banks and our banking structure remain strong.

So, as New Jersey cautiously enters into the interstate banking phase, it makes sense, I believe, to continue to have a limit on the concentration of banking resources, albeit at a higher level. Our banks must be given room to achieve measured but significant growth in the ensuing years, while we monitor the initial effects of the interstate banking process and the Legislature takes another look at the cap issue in a few years. We believe that establishing new, effective, and higher concentration limits, complemented by sufficient steps toward growth in the interstate market, is in the best interest of the people of New Jersey at this time. Now--

SENATOR DiFRANCESCO: The first question I have, Commissioner, is you indicated our oversight bill, meaning the department, basically, prepared that bill?

COMMISSIONER PARELL: Well, I got a lot of help from the bankers, but, yes.

SENATOR DiFRANCESCO: Plus-- Yeah, you indicated that, too. Is that true of the interstate banking bill?

COMMISSIONER PARELL: It's vice-versa in that case. The bankers prepared it, and we were in on the technical process. It's their concept, though.

SENATOR DiFRANCESCO: You obviously support those two measures as they are before us today?

COMMISSIONER PARELL: Yes.

SENATOR DiFRANCESCO: This third bill -- and you do, I guess, kind of endorse that bill in your statement, although you don't specifically say that--

COMMISSIONER PARELL: Which bill -- which bill, Senator?

SENATOR DiFRANCESCO: Senator Lesniak's bill -- the ceiling -- the cap.

COMMISSIONER PARELL: Your question?

SENATOR DiFRANCESCO: You don't endorse a particular bill, but a higher cap?

SENATOR LESNIAK: That's a leading question, isn't it, Senator?

SENATOR DiFRANCESCO: Aren't I entitled to lead her?

SENATOR LESNIAK: Yes.

SENATOR DiFRANCESCO: Is that true? Is that a true statement?

COMMISSIONER PARELL: Do you want to know do I support one of the two bills before you?

SENATOR DiFRANCESCO: Yes.

COMMISSIONER PARELL: Now I will make my speech. Senator Lesniak, and members of this Committee, the dispute between the major banking leaders in this State has been a source of great distress, I think to the bankers themselves, and certainly to myself and my Department. It is an almost unprecedented phenomenon to see that industry so deeply, deeply divided on an issue which is of such paramount public concern, as well. For that reason, it has been my consistent position to try to avoid taking sides in that dispute, and to try, by every means possible, to assist them to hammer out a workable, acceptable accommodation.

There are, however, two rival bills before this Committee, and none other. And I still would seek not to be required to tell this Committee my position on either of those bills, partially for the reason that my Department has no particular expertise in answering questions such as that.

SENATOR DiFRANCESCO: But we do.

COMMISSIONER PARELL: It's a policy issue for the legislators.

SENATOR DiFRANCESCO: It is. My other question is-- And by the way, in your statement you do indicate that there should be a limit, although I think that--

COMMISSIONER PARELL: I believe that, you know, that we're talking about new frontiers. New Jersey is accustomed to a limit. I don't think that it is wrong, in the interest of public policy, to reestablish that limit, take out the exception which vitiates the limit, and then see where it takes us.

SENATOR DiFRANCESCO: So, you have no objections, then-- Let me do it this way. You have no objections to Senator Lesniak's bill, if that were to be the bill that would pass the Legislature.

COMMISSIONER PARELL: No, I do not. That's correct. And I believe that that bill falls within the parameters of what was my original projection -- 30% -- that I proposed to them almost a year ago.

SENATOR DiFRANCESCO: Thirty percent excluding the--

COMMISSIONER PARELL: Well, now the base has been broadened so the percentages have come down.

SENATOR DiFRANCESCO: The other question I had -- and I think that Senator O'Connor touched on -- the bills being tied together-- I mean income tax bills being tied together with homestead tax rebates, and things like that-- That's a logical thing to do. And I don't know if this is logical or not, but it appears to me to be -- they are separate items. Why do we have to have these bills tied together, and am I asking the right person? Should I ask this of Senator Lesniak?

COMMISSIONER PARELL: I would just repeat that these are all issues which are burning issues of the day, and--

SENATOR DiFRANCESCO: Do you care whether your bills are tied together or not?

COMMISSIONER PARELL: I will not advise you, as legislators, on that particular issue.

SENATOR DiFRANCESCO: Then I'll ask the sponsor when I have that opportunity.

SENATOR O'CONNOR: Commissioner, the New Jersey Bankers' Association voted as a trade association to have the interstate bill and the oversight bill not tied to either cap bill. That's a fact, isn't it?

COMMISSIONER PARELL: I understand it is, yes.

SENATOR LESNIAK: Senator, why don't you ask the Banking Association, who will be here to testify?

SENATOR O'CONNOR: Okay.

SENATOR LESNIAK: Commissioner, if one of two banks were removed from competing in the merger or acquisition market, would that lessen or increase competition in the State of New Jersey?

COMMISSIONER PARELL: I think it's axiomatic that it would lessen competition.

SENATOR LESNIAK: And if certain New Jersey banks were prohibited by the current law, or by the Stockman bill, or by the Lesniak bill from growing larger, would outside banks also be so restricted? In other words, the Mellon Bancorp -- or whatever they're called in Philadelphia -- they're bigger than any bank in the State of New Jersey, isn't that correct?

COMMISSIONER PARELL: Yes.

SENATOR LESNIAK: That bank--

COMMISSIONER PARELL: As holding company -- aggregations they are.

SENATOR LESNIAK: As a holding company, right. That bank would not be restricted by our cap laws, is that correct?

COMMISSIONER PARELL: Yes it would be, yeah.

SENATOR LESNIAK: Well it would-- But under current circumstances, they're nowhere near the cap. Is that correct?

COMMISSIONER PARELL: Right. They don't own any New Jersey deposits--

SENATOR LESNIAK: They don't own any. So they would not be restricted until they reach the cap. Is that correct?

COMMISSIONER PARELL: That's correct.

SENATOR LESNIAK: And yet they're extremely large.

COMMISSIONER PARELL: True.

SENATOR LESNIAK: So, therefore we would be, by a restricted cap, inhibiting New Jersey banks from competing against other banks out-of-state. Isn't that correct?

COMMISSIONER PARELL: It appears that way, yes.

SENATOR LESNIAK: Yes or no?

COMMISSIONER PARELL: Yes.

SENATOR LESNIAK: Would--

COMMISSIONER PARELL: As soon as those banks have reached whatever the cap level is that we're imposing.

SENATOR LESNIAK: Okay, but that's very unrealistic.

COMMISSIONER PARELL: As soon as our banks-- You're saying, if we put a cap-- Depending on the size of the cap. If by the cap you cut off further acquisitions by New Jersey banks, then a bank like

Mellon still has a considerable distance to go before it starts to hit up against the ceiling.

SENATOR LESNIAK: Would you say the Stockman bill or the Lesniak bill would better enable New Jersey banks to compete with other State's banks?

COMMISSIONER PARELL: Well, if you're talking about acquisitions--

SENATOR LESNIAK: Yes.

COMMISSIONER PARELL: --it is my understanding from a review of various numerical scenarios that at least the largest bank holding company in our State would be virtually stopped from making further acquisitions because of the engine of its own internal growth, under the Stockman bill. But, please do not take my word for it. I think that is a question that should be asked of the affected institutions, because it's their future.

SENATOR LESNIAK: Well, assuming that, either now or some point in time, some banks in New Jersey will be restricted either by the Stockman bill or the Lesniak bill, to the extent that they are so restricted that would restrict them -- that would eliminate them from competing in the State of New Jersey when other out-of-state banks would not be so.

COMMISSIONER PARELL: For a given acquisition, yes, that's correct -- a given acquisition in New Jersey. They would not be restricted from purchasing out-of-state.

SENATOR LESNIAK: In your opinion, is the-- But it would lessen competition in New Jersey -- acquisitions in New Jersey?

COMMISSIONER PARELL: Well, you'd have lots of competition among the others to purchase, perhaps. But, to the extent that you take out one bidder, I think, still you have to admit--

SENATOR LESNIAK: So, it's possible and probable that a couple New Jersey banks would be eliminated but not some much bigger banks out-of-State who are competing for acquisitions in New Jersey.

COMMISSIONER PARELL: That's true.

SENATOR LESNIAK: Okay. For--

COMMISSIONER PARELL: Now there are relative purchasing powers involved here too. And you could say that, theoretically, almost any bank holding company would be a potential acquirer to bid on a particular other bank. In fact, purchasing powers distort that pure model.

SENATOR LESNIAK: Okay, but that's another issue.

COMMISSIONER PARELL: Yes.

SENATOR LESNIAK: Okay. Do you have an opinion as to whether the Lesniak cap or the Stockman cap is better for the future economic growth of the State of New Jersey?

COMMISSIONER PARELL: I think that the short-term future economic growth of this State, and positioning of this State in what looks to be an increasingly interstate and inter-industry competitive world, dictates in favor of numbers higher than the Stockman bill.

SENATOR LESNIAK: Thank you, Commissioner.

SENATOR O'CONNOR: Mr. Chairman?

SENATOR LESNIAK: Yes, Senator.

SENATOR O'CONNOR: Commissioner, you said you had no objection to the Lesniak bill, and you started out by saying that your Department had attempted, through various means, to bring the parties together, and it was your hope that the parties would be able to resolve this in-house rather than have it come to a point such as this. I would gather by that that you would have no objection, then, to the Stockman bill that this Committee and the Legislature saw fit to pass it, and also that you would have no objection to a compromise somewhere between the Stockman bill and the Lesniak bill. Is that true?

COMMISSIONER PARELL: Let me take those separately. I just stated that as best I can determine, the number limits in the Stockman bill do not admit quite enough growth for New Jersey, in the short run. As far as a compromise between the two, in my opinion, a compromise is just that. It is an agreement between disputing factions. And I would just have to see whether such a compromise, in fact, existed, and what its terms were.

SENATOR O'CONNOR: Okay.

SENATOR DiFRANCESCO: I have another question.

SENATOR LESNIAK: Yes, Senator DiFrancesco?

SENATOR DiFRANCESCO: Senator O'Connor made reference to the Lesniak bill before and asked about the fact that there's -- and correct me if I'm wrong -- there's no ceiling after the first half of the fourth year--

COMMISSIONER PARELL: Three and a half.

SENATOR DiFRANCESCO: Three and a half years later, there's no ceiling at all?

COMMISSIONER PARELL: Sunset--

SENATOR DiFRANCESCO: Okay. Obviously, that doesn't trouble you -- that provision.

COMMISSIONER PARELL: Not sitting here today, Senator, it doesn't. Three and a half years from now, I, or my successor, will be sitting here advising this Committee -- or two and a half years from now, actually, under the terms of the Lesniak bill. It will be my Department's responsibility to come before you and advise as to whether the cap--

SENATOR DiFRANCESCO: Whether we should pass another bill, you mean?

COMMISSIONER PARELL: Whether the continuation of the cap is in the State's interest; whether it should be raised/lowered; whether it should include more entities or not.

SENATOR DiFRANCESCO: If this Lesniak bill passes the Senate and Assembly, will you recommend to the Governor that he sign this bill?

COMMISSIONER PARELL: I will.

SENATOR LESNIAK: Senator Cardinale?

SENATOR CARDINALE: Absent the interstate banking bill, or any practical entry into the interstate market over the next few years, within our present cap bill within the Stockman bill, I think I heard it said that at least one of our major institutions would not be able to do any more acquisitions. Is that -- did I hear that correctly?

COMMISSIONER PARELL: That is my understanding of what the lower numbers would result in, Senator.



SENATOR CARDINALE: So that even without the interstate feature, in order to have maximum competition totally internal to the State of New Jersey, we would need to raise the limits beyond the limits in the Stockman bill.

COMMISSIONER PARELL: In order to have the largest bank holding companies in the State able to bid on potential acquisitions within the State, you would. Because their internal growth is moving them up to such a size that they could reach the cap rather quickly.

SENATOR O'CONNOR: Mr. Chairman, I hate to keep prolonging this, but we're coming up with new matters and-- With respect to the point just raised by Senator Cardinale, isn't it true that during the course of negotiations that First Fidelity, or its representatives, represented at some point that it could achieve the growth that it had desired if it-- Let me phrase this now. Wasn't there indication that the deposit size of \$11.5 billion in 1986 would be sufficient, \$13 billion \$296 million in 1987, and \$13 billion \$767 million in 1988, without inhibiting its growth?

COMMISSIONER PARELL: Senator, I have numbers like that on a piece of paper before me. I did not state them. They were uttered in the course of settlement discussions.

SENATOR O'CONNOR: Right. Now if that is true -- I mean, if the statement was made, and using the numerator and denominator that had been used throughout, isn't it true, then, that that type of growth would be compatible with the percentages that are established in the Stockman bill?

COMMISSIONER PARELL: If we're talking \$11.5 billion, \$13.296 billion, and \$13.67 billion, my calculation indicates that the correlating percentages are 11.74%, 13.57%, and 14.5%, unless my arithmetic is wrong.

SENATOR LESNIAK: Can we fix a time for when that conversation took place?

SENATOR O'CONNOR: I wasn't there, I don't know. I'm merely reporting what has been reported to me and is now confirmed by the Commissioner.

SENATOR LESNIAK: Do we know, approximately, when those negotiations went on? I'm only bringing that up because numbers do change over time.

COMMISSIONER PARELL: I'm just trying to think-- I think it was about October 15th or so.

SENATOR LESNIAK: Nineteen-eighty-five.

COMMISSIONER PARELL: Eighty-five. Before the year end, the internal growth figures were realized. And, again, Senator, your recollection -- or information, rather -- is consistent with what I wrote down at that time. However, again, those were part of the very extensive ongoing settlement discussions that took place over a rolling period for the past year.

SENATOR O'CONNOR: What were the numbers again -- 11.74%? I have no other questions, Senator.

SENATOR LESNIAK: Any other questions? Thank you, Commissioner.

COMMISSIONER PARELL: Thank you very much.

SENATOR LESNIAK: We will now hear from Robert Van Buren, Midlantic Banks. Oh, I'm sorry, Mr. Van Buren, Senator Stockman is here -- I didn't see him. Senator Stockman? The hungry banker will have to wait. It's getting around lunch-time, too. (laughter)

SENATOR GERALD R. STOCKMAN: Mr. Chairman, and members of this distinguished Committee, I will try to be brief and allow any and every banker who is looking forward to lunch to have it early.

I'm impressed at listening to the Commissioner's testimony, and I'm moved. And I must tell you that as she describes this issue as one of paramount public concern, and one that obviously vexes her expertise and her Department enough to enable her not to formally take a position on either the Chairman's bill or my bill in this Committee-- I come to you simply, really, to argue and plead to your fairness to release both of these bills. I'm not -- in the every few minutes that I'm going to take -- going to try to dissuade the mind of any member of this Committee as to the merits of the Lesniak bill or the Stockman bill.

What I will spend just a few minutes on, is asking that, as a matter of fundamental fairness, recognizing the difficulty of this issue, and apparently the burning issue-of-the-day status of it, and paramount public concern that is wrapped-up in it -- I think those points made by the Commissioner of Banking argue to the fact that this Committee, as a Committee, should not block an opportunity for the full Senate to deliberate, and debate, and pass one of these bills.

And so, really, my remarks should be interpreted, not as dissuading anyone, but simply pleading to the Chairman, and I think to the great fairness of the Chairman in posting my bill today, or putting it up along with your own bill, and not bottling it up in committee. And I don't think an issue of this magnitude ought to be bottled up even in a Committee as distinguished as this one.

Let me tell you just a little bit about what I think is at stake here. I think when you try to analyze what the public policy issue is, you ought to look at the facts. And there are a few facts that I think can't escape anybody. And one of the facts is that in 1969, we established caps on banking business. I think that was a sensible idea, and as a matter of fact, as recently as months ago, Paul Volcker, the Chairman of the Board of Governors of the Federal Reserve, during testimony before the House of Representatives, had this to say:

He, "...encourages states to set limits on the proportion of banking assets within their own borders that could be acquired through acquisitions or mergers of institutions of significant size.." S-1444, the bill that I have submitted, is consistent with Chairman Volcker's statement.

Now let's look at the history. Why are we here today? Why are we tampering with a cap that was put on in 1969? In the Fall of 1984, First Fidelity took interest in the National Bank and Trust of Gloucester County, and they had a perfect right to do that. And they began negotiations in an attempt to acquire this bank, and they had an absolute right to do that. Those negotiations were successful, and it's my understanding that that acquisition was in the mill when someone challenged it, with perfect legal right to do so, and went into a court of law to have a judicial determination as to what the law is,

and what, in fairness, could happen there. And thus, you had a dispute between banking interests in a particular form. And that's fine. That's what our system is designed for.

The outcome of that litigation hasn't been resolved. But I submit, frankly, that anyone who's knowledgeable at these hearings recognizes that it was out of that happening, and out of that struggle, that an effort began to raise the caps -- to do legislatively what might not be done judicially.

Now that's all right, but I think we have to understand, as we attempt to shape major public policy, that there is an effort, really, also involving the question of a particular banking interest.

Now, I'm not here to beat up on any particular bank. I said before, I'll say again: There are several banks that aggressively -- aggressively -- are attempting to persuade this Legislature to a particular bill; are outstanding banks, and we're fortunate to have them in the State. And whether or not the president of one of them boasted that he could tie-up the interstate bank bills with this cap bill, I don't know. But that shouldn't move us, particularly, one way or the other, if it happened.

But I say to you, common sense suggests -- as I think Senator DiFrancesco explored -- that there is no need, no reason, to tie these issues together, except for tactical purposes. And the interstate banking bills ought to move, regardless of whether the Lesniak or Stockman bill moves. And any effort to really argue that they are all tied-up, I think, flies in the face of common sense, and I think most of the people behind me know that, even as well as everyone in front of me.

So, I say, move the interstate and the oversight banking bills promptly. They're good legislation, you know it, and I know it. And then, if you want it the same day, deal with this cap question, do it. But, I think it would be prudent and wise, if you are trying to shape major public policy-- And I would hope the Commissioner of Banking would make this argument and join me. But, if you're trying to shape such major public concern for the little fellow out on the street, that you do it maybe on a separate session and put both bills

up and allow the public a little more time to reflect on what's really happening here. Why did this move to undo the cap occur?

To me, it is a little bit extraordinary also that the Commissioner would talk about short-term benefits. You know, I might well accept that representation -- that the other banking bill is a short-term move that might have some apparent benefit. If, by saying that, she was implying that the Stockman bill in the long run is what this State needs, I would be in absolute agreement. But, at any rate, don't move just one of these bills out and--

SENATOR LESNIAK: You're not saying that-- You're not putting those--

SENATOR STOCKMAN: --leave the other one bottled up, Mr. Chairman. I think that would be-- It wouldn't be consistent with your sense of fundamental fairness.

SENATOR LESNIAK: You're not putting those words in the Commissioner's mouth, are you?

SENATOR STOCKMAN: I thought-- Other people were here. I thought the Commissioner suggested that -- to use her own word -- in the short term, I thought she tilted toward your bill. I thought she was going to be neutral, but--

SENATOR LESNIAK: Does that necessarily mean in the long term--

SENATOR STOCKMAN: Well, I don't know. I usually contrast.

SENATOR LESNIAK: --she ventured any opinion?

SENATOR STOCKMAN: When I tell someone in the short term, it's one thing. Long term? It's another. I want to say, you have been very fair to me.

SENATOR LESNIAK: But, couldn't long--

SENATOR STOCKMAN: You've been very fair to me, and I appreciate it.

SENATOR LESNIAK: Senator, Senator--

SENATOR STOCKMAN: Maybe I've been garbled. I'm really not too sophisticated.

SENATOR LESNIAK: Any questions from the Committee? Senator Cardinale?

SENATOR CARDINALE: You know, I'd be inclined to go along with your request, except for one thing, and maybe you can dissuade me. I believe what I heard the Commissioner say is that in the short term, your bill -- and I don't know if that is also true for the long term because I don't think that point was addressed -- would take one bidder out of the acquisition market, regardless of whatever else happened -- that one major bank in New Jersey would not be part of the acquisition in the event we use the limitations in your bill, which are slightly different than the limitations in the other bill.

SENATOR STOCKMAN: True. That's true.

SENATOR CARDINALE: Why should we do that? If we're trying to protect the competitive situation in the entire industry, and we take one major bidder out of that situation, we have to be lessening competition.

SENATOR STOCKMAN: Senator Cardinale, let me make this point to you. And, incidentally, let me emphasize that even on the question of fairness, the record -- the facts -- ought to be clear that the bill that I proposed is a significant compromise bill. We have been trying to compromise this figure. Our position was a little over 9% of the market originally; it's now 12% of the market over three years.

SENATOR LESNIAK: Senator, who was that compromise with?

SENATOR STOCKMAN: I think with the people that were directly involved in this issue, Senator. But, incidentally, I would say, apropos that, I can't also resist the fact that I received a letter from the Commissioner of Banking urging some sort of a resolution of this matter, and the Commissioner of Banking suggests that she hopes the parties would get together. I must be getting too insulated from my constituency because I can say here today, I have had no communication from the Commissioner of Banking. I have had no communication from anyone else about my bill in terms of a compromise on it. Maybe that's because I live in an ivy tower and am hard to get to, but I like to think the constituency can get to me when they want to. So, I don't know who is trying to compromise my bill or reconcile it who has not talked to me about it.

But, Senator Cardinale, make no mistake. Two things: Number one, the Lesniak bill is an uncapping, and if you pass it, the probabilities are overwhelming that two or three years from now, you're going to be locked into a situation which very well could threaten your doing anything further, which means all cap is off. I think that is one of the most troublesome arguments against S— I don't want to get personal because the Chairman is sitting right here. It is S-whatever. But, even his bill, assuming it was—

SENATOR LESNIAK: Now you're getting personal. (laughter)

SENATOR STOCKMAN: Mr. Chairman, even if the Chairman's bill were passed and the cap were, in time, found to be the right one and put in place, then there would come the day when you could say, "Well that bill -- the Chairman's bill -- limits one bank and puts them out," because a bank -- and it will almost certainly be First Fidelity -- will rise in time to that cap, and then will be blocked from further acquisitions. So, the logic of your question leads you then to say, "That's not fair. That's a diminution of competition. Take off the cap." You're leading yourself into a, you know, all hands off, and it's going to move us to major banks -- several major banks -- controlling 60-80%. It's not healthy.

SENATOR DiFRANCESCO: Make a hungry bank hungrier.

SENATOR LESNIAK: Okay. Thank you.

SENATOR STOCKMAN: Yeah, I'm finished, unless--

SENATOR LESNIAK: No, you're not. No, you're not, Senator. Senator, you're not finished.

SENATOR STOCKMAN: You're going to put both bills out. Terrific.

SENATOR LESNIAK: Senator, you're not finished. Since you accused me of lacking common sense and having my bill tied to the interstate banking bill, let me ask you a few questions, if I may.

SENATOR STOCKMAN: That's not fair.

SENATOR LESNIAK: Well, I think you said that linking the two bills doesn't make common sense. I heard the word "common sense." Anyway, in any event, does Pennsylvania have a cap, Senator?

SENATOR STOCKMAN: Does Pennsylvania have a cap?

SENATOR LESNIAK: Yeah.

SENATOR STOCKMAN: I'm not sure.

SENATOR LESNIAK: If I told you that it doesn't-- Is that correct -- that Pennsylvania does not have a cap?

AUDIENCE: Correct.

SENATOR LESNIAK: Okay. Under our interstate banking bill, would we be in competition with Pennsylvania banks? That you can answer, can you not, Senator?

SENATOR STOCKMAN: Well, I think we're always in competition -- in certain competition.

SENATOR LESNIAK: For acquisitions of New Jersey banks.

SENATOR STOCKMAN: Well, I think there would be.

SENATOR LESNIAK: If the interstate banking bill went into effect--

SENATOR STOCKMAN: I'm not sure I understand your question, Mr. Chairman.

SENATOR LESNIAK: Well, do you understand the interstate banking bill?

SENATOR STOCKMAN: I think I do.

SENATOR LESNIAK: Okay. Does the interstate banking bill allow the State of Pennsylvania, when it goes into effect, to acquire New Jersey banks?

SENATOR STOCKMAN: Yes.

SENATOR LESNIAK: Okay. Does Pennsylvania have a cap on the size of its institutions?

SENATOR STOCKMAN: Apparently it does not.

SENATOR LESNIAK: Okay. Do you know the size of Mellon Bank Corp.?

SENATOR STOCKMAN: I know it's larger than any bank in New Jersey at the present time.

SENATOR LESNIAK: Okay. So, under the interstate banking bill, no Pennsylvania banks would be prohibited from acquiring New Jersey banks. Is that correct?

SENATOR STOCKMAN: I don't believe so.

SENATOR LESNIAK: Okay. But, under--



SENATOR STOCKMAN: Those banks would still have to comply with our cap laws, though, in terms of ownership of assets in New Jersey.

SENATOR LESNIAK: That's correct. When they get to the size of a First Fidelity in New Jersey, at that point in time, we all know that that could never occur.

SENATOR STOCKMAN: Well, of course, this same process is going on in reverse. I just read with interest that First Fidelity is taking New Jersey resources, I gather, and buying Arizona banks, so I assume—

SENATOR LESNIAK: There's no question. There's no question, Senator.

SENATOR STOCKMAN: All right. I'm sorry. I'm following you.

SENATOR LESNIAK: Okay. Okay. All right. Therefore, do you understand why I may think that it's good for New Jersey to not restrict New Jersey banks when other banks wouldn't be restricted as well?

SENATOR STOCKMAN: No, not at all, except I'm enlightened because I gather your position is that there should be no cap.

SENATOR LESNIAK: You may disagree with me, Senator, but-- You disagreed with me, but you still think--

SENATOR STOCKMAN: No, I said I don't understand because I don't think it's consistent. But, if you're telling me, Mr. Chairman, that you think there should be no cap in Pennsylvania or New Jersey, we have a fundamental difference. Is that what you're saying?

SENATOR LESNIAK: No, no. What I'm saying is, if we are going to compete -- allow Pennsylvania banks to compete in New Jersey--

SENATOR STOCKMAN: Right.

SENATOR LESNIAK: --would we not allow New Jersey banks to compete in New Jersey, as well?

SENATOR JACKMAN: Pennsylvania.

SENATOR STOCKMAN: Yes. Yes, New Jersey and Pennsylvania. Yes, sure, absolutely.

SENATOR LESNIAK: In New Jersey. Okay. Then I have no further questions.

SENATOR O'CONNOR: Can I just pick up on something that you just brought out?

SENATOR LESNIAK: You know the answer is yes.

SENATOR O'CONNOR: Your concern, as is Senator Cardinale, that the New Jersey banks be able to compete in terms of acquisitions — and I gather that there is some concern that New Jersey banks will be able to be independent when interstate banking finally comes, so that we won't just be picked off by out-of-state banks. Correct?

SENATOR LESNIAK: That's correct.

SENATOR O'CONNOR: I see a nod of the head from Senator Cardinale too, so you both have that same concern. That's a good concern. But, how big are you going to have to allow New Jersey's banks to become in order to assure that they won't be picked off when you have a city bank, for example, that's 14-15 times the size of our largest bank right now?

SENATOR LESNIAK: What I'm-- Senator, what I'm more concerned about is not that they will be picked off, but that they will be prohibited from competing with other institutions in New Jersey and other states for acquisitions. That is not fair to the dozens or hundreds of acquirees, as well as I don't think it's fair to the New Jersey economy, because we've seen in the past New York, for instance, pull out of development promises in New Jersey that could have prohibited and prevented the Meadowlands from ever being constructed. I don't ever want to see that occur again. Unless we allow New Jersey institutions to be of sufficient strength to be able to undertake projects of that magnitude, I don't think we will be able to grow in the nature that we have been over the last decade.

SENATOR O'CONNOR: Well, you're right on the point that I'm trying to home in on, though.

SENATOR LESNIAK: I know. I didn't answer the question. I made a statement.

SENATOR O'CONNOR: Oh, okay. Well, how big must the New Jersey bank get to be so that it is protected from a takeover from a New York State bank, for example, so that there is no longer control by New Jersey interests?

SENATOR LESNIAK: Okay. I understand your point now, Senator. I am not concerned that First Fidelity or Midlantic are going to be taken over by a New York bank. That is not my concern. That's not the reason for my bill.

SENATOR O'CONNOR: Lesniak lacks concern. Okay. (laughter)

SENATOR LESNIAK: They can take care of themselves.

SENATOR STOCKMAN: All I ask is three votes to put these bills together on the floor so the full Senate can—

SENATOR LESNIAK: We heard you, Senator. One other thing I would say: I don't consider exercising the discretion of the chair to form the agenda of this Committee as being bottled up. I'll refer to it as "wisdom of the chair." (laughter)

SENATOR STOCKMAN: Sounds like I'm in trouble. (laughter)

SENATOR LESNIAK: No, don't come to any rash conclusions, Senator. Robert Van Buren, Midlantic Banks?

SENATOR JACKMAN: What are you going to do timewise?

SENATOR LESNIAK: All right. Just to tell everyone here, we will conclude today's public hearing at 10:30. We will begin it again on February—

SENATOR JACKMAN: Not 10:30.

SENATOR LESNIAK: Oh, I'm sorry. Twelve-thirty. We will begin again on February 10th at 10:00 a.m. in this room. Mr. Van Buren?

**ROBERT VAN BUREN:** Chairman Lesniak, distinguished members of the Committee, it is a pleasure to be here today to speak in favor of the proposed revisions to the New Jersey banking law. Midlantic Banks, Incorporated strongly supports Senate 1466, which provides for changes in the so-called cap law and includes a sunset provision. We view this as a positive transition from the present status to a freer market environment necessitated by the rapidly changing events in the financial services industry.

New Jersey needs large and progressive banks to accommodate the requirements of its consumers, municipalities, and businesses in an expanding and vibrant economy, and I say this in all modesty. For example, the State's two largest banks are primarily responsible for

providing the financing for the redevelopment of Atlantic City. If it wasn't for the two largest banks in the State of New Jersey, the redevelopment efforts and activities that have taken place in Atlantic City would not have been achieved.

These same two banks were also the leaders in the original financing of the Meadowlands Sports Complex. More recently, these same banks were the largest participants in the financing enabling the Sports Authority to acquire Monmouth Park. These are just a few of the projects that the two principal banks in the State of New Jersey have financed and, as a result of these projects, they have provided tens of thousands of jobs to New Jersey residents and produced millions of dollars of revenue for the State of New Jersey.

Over the years, we at Midlantic have also introduced an increasing array of loan and deposit products for consumers and small businesses. We have established a network of automated teller machines and increased our branch network to 293 offices, serving all 21 counties in the State of New Jersey.

Today, as an example, our product line includes 15 or more different mortgage alternatives, and we are always searching to add new and better ways to make home ownership a reality for New Jersey citizens.

Midlantic has also long been recognized as one of the principal providers of funds to small and middle-sized businesses in the State of New Jersey, and we anticipate that will continue to be the primary area and focus of our lending activities in the future. At December 31, 1985, our loan portfolio totaled \$6.6 billion, larger than most of the banks in the State of New Jersey. Ninety-eight percent of those funds were loaned to New Jersey industry, business, and consumers.

As I see the discussion today, the issue is not merely a deposit limitation, but the broad issue of protectionism. The history of banking in New Jersey, unfortunately, has been tarnished by protectionism to the detriment of its citizens. For the years prior to 1971, we had county line banking and home office protection, both of which inhibited the growth of banking in our State.

As a price for the modification of the banking law in 1970 permitting statewide bank-holding companies and expanded branching, the cap law was enacted as a protective device for smaller banks. Unfortunately, as the result of our years of protection, we now find that the 24 Fortune 500 companies headquartered in New Jersey -- I'll emphasize again, headquartered in New Jersey -- have been forced to look elsewhere for their banking requirements. Today, not one of those companies has its principal banking relationship with a New Jersey bank.

SENATOR JACKMAN: Can you stop there and tell me why?

MR. VAN BUREN: Yes, because the growth of the banks has been inhibited. We haven't been able to create the size to accommodate the needs of the larger companies of the State of New Jersey who have been free to grow, while the banks have been restricted in their growth. We don't have the credit capability available to them. They need larger lines of credit than are permitted under the law regulating the granting of credit in the banking system, and other facilities that are attendant to larger-sized banks.

We also find that while the State of New Jersey has the eighth highest gross personal income, the eighth largest deposit base of its financial institutions, disappointingly, it does not have a banking organization among the top 30 largest in the entire United States.

The question to me is, just who are we protecting with a restrictive cap law, and who are we benefiting? We certainly are not helping the consumers or the local business. A Data Resources report of lending by banks showed, and I quote: "The banks in states which are protected most from competition make fewer loans to consumers and local businesses than banks in states with less protection." End of quote.

We also are not helping small banks. We know that the smaller banks in New Jersey support a modification of the cap. They rationalize that the free market should govern bank stock prices, and should they ever decide to sell or affiliate, would want all potential bidders possible to participate in that process.

Also, there is no evidence to indicate that small banks cannot compete effectively with larger banks. This conclusion is documented in a recent study of the banking industry by the Department of the Treasury. It is interesting to point out that even in those states with a high degree of concentration, there continues to be a great degree of competition. As examples: In Arizona, one bank controls 45% of the deposits, and the next largest 25% of the deposits; in Oregon, two banks dominate the deposit market; and, in California, as the Chairman has pointed out, five banks control the vast bulk of deposits. Also, the same is true in Florida, New York, Illinois, Texas, and Georgia, to name but a few.

However, in each of these states, there are many second- and third-tier banks growing and prospering in some of the nation's most competitive banking markets. These findings are supported by a current Federal Reserve Board study.

Further, as has already been pointed out before this Committee, there are adequate safeguards in place to prevent excessive concentration. All mergers and acquisition applications are approved by the Federal regulatory agency, as well as reviewed by the Justice Department for antitrust considerations.

As banks in New Jersey have grown and competition has intensified, residents and businesses have been the beneficiaries. New Jersey's consumers have never had more banking alternatives available than they have today. In addition to an enhanced array of products and services, New Jersey banks have doubled the number of banking offices since 1968. My figures may be a little bit more current than the Commissioner's. Today, nearly 2000 branches serve our communities and cities. Why should we stop this process and this progress?

So, again I ask, who are we protecting? Restrictive cap legislation is not in the best interest of consumers, nor the business community, nor the small banks. It seems to me that the only group really being protected by such legislation is a handful of banks looking for an advantage.

New Jersey is one of a few, and the only industrialized State with a cap law. To again quote Dr. Nadler, which the Chairman has done

-- his statement is already a matter of the minutes of this meeting --  
"One can see precious little value in a cap in terms of protecting the public from monopoly. And there are also reasons to wonder if a deposit cap might not even harm efficient banking in some ways."

In addition, a recent editorial in the Star-Ledger states, and I quote: "Any limit or cap on such expansion must be set high enough to allow New Jersey banks the freedom to compete effectively within the region."

Further, again quoting the Star-Ledger, "New Jersey banks must not be handcuffed in the competition to maintain leadership and growth."

In anticipation of interstate banking and the proliferation of non-bank bank competition and other providers of financial services -- such as Sears Roebuck, Merrill Lynch, and General Motors Acceptance Corporation, to name but a few -- it seems to me that it's imperative that New Jersey's large and progressive banks be permitted to attain the asset size and capital resources necessary to compete effectively with these financial giants for the benefit of the consumers and the businesses of the State of New Jersey.

For all of these reasons, Midlantic Banks, Incorporated supports Senate 1466. Thank you very much for permitting me to appear before your Committee today.

SENATOR LESNIAK: Thank you, Mr. Van Buren. Senator O'Connor?

SENATOR O'CONNOR: Yes. Mr. Van Buren, I didn't hear you touch on interstate banking and the oversight bill. Do you have any position with respect to whether or not these two bills should be tied to the cap bill?

MR. VAN BUREN: I have a philosophy about it, Senator. One of the problems-- One of the problems with not looking at these two bills together is that we could-- Let's say we pass an interstate bill. That bill could be encumbered with the baggage that comes out of a cap bill law, so that really we shouldn't burden that interstate bill with baggage they may, say, come out of the cap law amendment. I think the point was made before, if we pass a cap law amendment -- a cap law

provision in the State of New Jersey — other states may do the same thing. That would inhibit us or prohibit us from moving into those states, and it would restrict banks coming into this State, which I don't think would be in the best interest of the State of New Jersey. The two are, in that way, related to each other. Restrictions from one would have an effect on the other.

SENATOR O'CONNOR: Okay. So, you're saying they should be tied together.

MR. VAN BUREN: Philosophically, yes. But, let me suggest to you that I feel very strongly that this State should have an interstate banking bill. The parade is leaving us by, or passing us by, I should say.

As was pointed out earlier by the Commissioner, I guess, 25 states have already done something, and at least 10 others are looking at it. The alternatives for New Jersey banks out of the State of New Jersey are going to be few and far between if we don't get in the process promptly, and by promptly, I mean today. It's imperative that we move ahead with that legislation.

SENATOR LESNIAK: Would you accept 60 days from now?  
(laughter)

MR. VAN BUREN: Well, yes.

SENATOR LESNIAK: Senator DiFrancesco? Senator O'Connor, do you have any others?

SENATOR O'CONNOR: Is that a position that you've advocated throughout -- that they should be tied, or is that something of recent vintage?

MR. VAN BUREN: That they should be tied?

SENATOR O'CONNOR: Yes.

MR. VAN BUREN: I've-- My position -- my personal position -- is that I would prefer to see them tied, but I would sacrifice that tie to move the interstate bill, if it were necessary. I think to tie them together helps us resolve the other problem that we're faced with, but if I had to make a decision today, I would encourage them to pass the interstate bill. I'd prefer it the other way, but I would do that.



SENATOR LESNIAK: In other words, if someone had a gun to your head, and said, "You won't get the interstate bill if you don't untie it," you would say okay.

MR. VAN BUREN: Yes. Yes, I would.

SENATOR LESNIAK: Is that the question you wanted to ask?  
(laughter)

SENATOR O'CONNOR: Well--

MR. VAN BUREN: Senator, I think there is a very definite relationship in correlation to these bills, but we need to move on the interstate bill.

SENATOR O'CONNOR: Isn't there also, Senator, just to give you the other side of that coin that you so definitely threw my way— Isn't there an unfair advantage to those such as yourself who are tied to one cap bill, by tying it to the interstate and oversight bills, which all of us agree are something which is necessary and we should pass?

SENATOR LESNIAK: That's for me to answer, isn't it, Senator, rather than Mr. Van Buren?

SENATOR O'CONNOR: Well, if you'd prefer, if you'd prefer.

SENATOR LESNIAK: I would say no. Senator DiFrancesco? (no questions) Senator Cardinale? (no questions) Thank you, Mr. Van Buren. We're going to try to get one other person in before our time limit. William Johnson, Senior Vice President, United Counties Trust Company?

SENATOR JACKMAN: Do you have a written statement for us?

**WILLIAM C. JOHNSON, JR.:** Yes. Thank you for the opportunity to speak, Mr. Chairman. My name is William C. Johnson, Jr., and I am Senior Vice President of United Counties Bancorp, which is headquartered in Cranford, New Jersey, in Union County.

As you know, Eugene Bauer, President of United Counties Bancorp has discussed with you some of our concerns with the cap legislation. We strongly believe that the 20% cap should be retained. It was the wisdom of the Legislature in 1969 to put the cap in the legislation so that no one bank-holding company could dominate the New Jersey commercial banking business. We think this makes good public

policy. The 20% cap is the rule that we've all been working under in good faith.

I would like to quote to you from a January 6, 1986 editorial in the Bergen Record. This editorial is headed, "Think About the Little Guy." I now quote from this editorial:

"What's wrong with concentration in the banking industry? It's supposed to bring about economies of size. But a recent study by the Federal Reserve Board concluded that concentration does not lead to greater efficiency or even larger profits. It can, instead, work serious hardships on consumers and throttle economic growth.

"Concentration impairs competition. When only two or three large institutions control the industry, there's no longer a need to compete for the depositors' business by offering the widest variety of services. As the Public Advocate said in testimony before the Assembly Banking and Insurance Committee, when banks no longer have to worry about rivals, they could decide to switch large portions of their loan portfolios from consumers to large businesses. Consumers could be hard up for badly needed credit. So could small businesses, the little guys who lubricate the economy and provide the majority of new jobs. Local banks are committed to housing mortgages and business development in their home communities. Regional banks don't have home communities. Their interest is in attracting investors.

"In states where regional banking is in force, some of the larger banks have already begun to freeze out small depositors in favor of high income customers by requiring large minimum deposits.

"This move forces low-income clients into the high-interest non-bank credit market, which they can ill afford. This economic injustice benefits no one except the owners of banks, who really don't need any help.

"Increasing competition could be bad for the State, too."

SENATOR LESNIAK: Concentration.

MR. JOHNSON: Concentration, sorry. "Large regional banks could amass deposits from New Jersey customers and choose to reinvest them elsewhere. It's already happened in Arkansas, in early adopted regional banking laws." End of quote.

So, I would hope this Committee would consider whether or not eliminating the cap completely is the answer to assuring competitive banking in New Jersey. We think not.

The other major question we have is related to, should the cap be raised as to what impact that will have on middle-sized and smaller banking institutions in New Jersey? Frankly, we see coming with the raising of a cap, and especially with the elimination of a cap under S-1466, a series of hostile acquisitions in the banking community. This kind of hostile takeover atmosphere will not be beneficial to the State of New Jersey, nor will it be healthy with regional banking.

Therefore, I would like to propose an amendment to any cap legislation -- and to any interstate legislation -- that clearly states that any bank-holding company with assets equal or greater to the current calculation of the 20% cap, may not interfere with the acquisition of or mergers of the bank-holding companies that have assets that are less than 20% of the current commercial deposit. Also, these banks should not be allowed to engage in any hostile takeover of banking institutions with assets less than the 20% cap that we are currently working under.

The language I am submitting reflects the broadening of the base as proposed in both of the cap bills and is consistent with the desire to expand this base. However, it clearly states that larger banks should not be allowed to perceive the lifting of the cap restrictions in New Jersey as a license to disrupt the State's banking system through hostile takeovers or interference with acquisitions and mergers of smaller banks.

We feel that this amendment offers safeguards for the State of New Jersey and should be seriously considered. We also ask you to seriously review the impact of S-1466 and its clear direction towards eliminating all cap restrictions. We think this is wrong in the fact that interstate banking is going to change the complexion of how banking is done in the State, and that any direction towards eliminating a cap is not wise.

S-1444 addresses this concern by retaining the cap until such time that the State and Legislature feels it should be changed. S-1444 is not offered as a restriction on growth. However, it is offered as a good public policy management proposal that offers growth with the kind of oversight that the Commissioner of Banking is looking for to regulate the phase-in of regional banking.

Thank you, sir.

SENATOR LESNIAK: Any questions from the Committee? (no questions) Senator O'Connor? (no questions) Thank you very much.

We will adjourn today's hearing and reconvene on February 10th at 10:00 a.m.

**(HEARING CONCLUDED)**

## **APPENDIX**

TESTIMONY OF  
THE DEPARTMENT OF THE PUBLIC ADVOCATE  
OF THE STATE OF NEW JERSEY

ON

SENATE BILL NO. 1467  
A BILL TO PERMIT CERTAIN  
BANK HOLDING COMPANIES TO ACQUIRE  
BANKS OR BANK HOLDING COMPANIES

AND

SENATE BILL NOS. 1444 AND 1466  
BILLS TO RAISE THE SHARE OF AGGREGATE  
DEPOSITS ANY BANK HOLDING COMPANY  
MAY CONTROL AS A RESULT OF ACQUISITIONS

BEFORE THE

LABOR, INDUSTRY AND PROFESSIONS COMMITTEE •  
OF THE  
NEW JERSEY SENATE

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January 20, 1986

/x

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

THANK YOU FOR PROVIDING THE DEPARTMENT OF THE PUBLIC  
ADVOCATE WITH THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY  
TO SHARE OUR STRONG CONCERNS REGARDING SENATE BILL NO.  
1467, WHICH PROVIDES FOR RECIPROCAL REGIONAL AND INTERSTATE  
BANKING, AND SENATE BILL NOS. 1444 AND 1466, WHICH WOULD RAISE  
THE CAP ON THE SHARE OF AGGREGATE DEPOSITS THAT ANY  
BANKING HOLDING COMPANY MAY CONTROL AS A RESULT OF AN  
ACQUISITION. IN OUR OPINION, REGIONAL AND INTERSTATE BANKING  
POSES A SUBSTANTIAL RISK TO THE INTERESTS OF CONSUMERS  
AND SMALL BUSINESSES IN NEW JERSEY. WE THEREFORE URGE THAT  
CERTAIN ADDITIONAL PROTECTIONS FOR CONSUMERS AND SMALL  
BUSINESSES BE ENACTED TO MINIMIZE THE POTENTIAL ADVERSE  
CONSEQUENCES OF INTERSTATE AND REGIONAL BANKING AND TO  
SHARE WITH THE PUBLIC ITS BENEFITS. FURTHER, IN OUR VIEW,  
AN IMPORTANT PURPOSE IS SERVED BY MAINTAINING STRICT LIMITS  
ON THE EXTENT TO WHICH INDIVIDUAL BANK HOLDING COMPANIES  
CAN CONTROL THE STATE'S BANKING INDUSTRY THROUGH MERGERS  
AND ACQUISITIONS.

INTERSTATE BANKING IS NOT A NEW CONCEPT. ITS POTENTIAL EFFECTS HAVE BEEN EXTENSIVELY DEBATED BY MANY, INCLUDING THE U.S. CONGRESS. THESE DEBATES HAVE IDENTIFIED TWO POTENTIAL ADVERSE EFFECTS OF INTERSTATE BANKING: FIRST, THE POTENTIAL FOR ECONOMIC CONCENTRATION AND CREDIT DISLOCATION, AND SECOND, ITS POTENTIAL NEGATIVE CONSEQUENCES FOR CONSUMERS AND SMALL BUSINESSES. BOTH OF THESE CONCERNS ARE ACUTELY RELEVANT TODAY IN NEW JERSEY.

RECENT ANALYSES BY CONSUMERS UNION, THE HIGHLY REGARDED NATIONAL RESEARCH AND TESTING ORGANIZATION, AND OTHERS SUGGEST THAT INTERSTATE BANKING IS LIKELY TO RESULT IN LESSENER COMPETITION IN THE BANKING INDUSTRY. IF LARGE-SCALE ACQUISITION OF BANKS IN THIS STATE IS PERMITTED, IT MAY LEAD TO A STIFLING OF COMPETITION. MORE BANKS WILL CERTAINLY BE IN THE HANDS OF FEWER OWNERS AND CORPORATE MANAGEMENT. ONE RESULT OF THIS INCREASED CONCENTRATION IN THE BANKING INDUSTRY IS THAT CONSUMERS AND SMALL BUSINESSES WILL HAVE TO LIVE WITH WHATEVER LENDING POLICIES AND DEPOSITORY SERVICES THE FEW SURVIVING



BANKS CHOOSE TO OFFER. ACCORDING TO CONSUMERS UNION, THESE REMAINING BANKS MIGHT DECIDE TO DECREASE THEIR CONSUMER LOAN PORTFOLIO IN FAVOR OF BUSINESS LOANS. REPORTS FROM THE STATES THAT CURRENTLY PERMIT INTERSTATE BANKING SUGGEST THAT THIS PORTFOLIO SHIFTING HAS ALREADY BEGUN TO HAPPEN. SOME OF THE LARGE REGIONAL BANKS IN THESE STATES HAVE ALSO REPORTEDLY BEGUN TO PURSUE STRATEGIES THAT EFFECTIVELY FREEZE OUT LOW AND MODERATE INCOME DEPOSITORS IN FAVOR OF AN UPSCALE MARKET COMPOSED OF MORE AFFLUENT CUSTOMERS.

REGIONAL BANKING MAY ALSO BE CHARACTERIZED BY DISTANT AND CENTRALIZED DECISION-MAKING. BANKS REACTING TO AN INTERSTATE BANKING POLICY ARE LIKELY TO BE FAR LESS SENSITIVE TO THE LOCAL NEEDS OF THEIR DEPOSITORS OR THE CREDIT NEEDS OF THEIR COMMUNITY THAN THOSE BANKS WHICH PROVIDE THEIR SERVICES ONLY WITHIN A SINGLE STATE. FOR EXAMPLE, A REGIONAL OR INTERSTATE BANKING CONCERN IS LIKELY TO BE FAR LESS CONCERNED WITH PROVIDING MONEY FOR LOCAL MORTGAGES THAN A BANK BASED IN THAT COMMUNITY. NOR ARE REGIONAL BANKING INTERESTS LIKELY TO BE AS CONCERNED

WITH LOCAL AREA DEVELOPMENT AS THE BANKS OF NEW JERSEY HAVE BEEN IN THE PAST. AN INTERSTATE BANK HOLDING COMPANY MAY WELL DECIDE THAT ITS BANKING INTERESTS WOULD BE MAXIMIZED BY INVESTMENT IN SOME OTHER AREA WHICH MIGHT PROVIDE THE POSSIBILITY OF GREATER FINANCIAL REWARD TO ITS STOCKHOLDERS THAN REINVESTMENT IN NEW JERSEY.

CONSUMERS AND SMALL BUSINESSES HAVE ALWAYS DEPENDED ON THEIR BANKS' KNOWLEDGE OF AND RESPONSIVENESS TO LOCAL NEEDS AND CONDITIONS. PRECISELY BECAUSE OF THIS RESPONSIVENESS AND FLEXIBILITY, SMALL AND FLEDGLING COMPANIES -- WHICH PROVIDE A DISPROPORTIONATELY LARGE SHARE OF NEW JOBS AND ECONOMIC GROWTH FOR THE STATE -- TEND TO RELY ON SMALL LOCAL BANKS TO MEET THEIR CREDIT NEEDS. AS THESE SMALL BANKS GET SWALLOWED-UP INTO LARGER REGIONAL BANK HOLDING COMPANIES, THEIR AUTHORITY TO ESTABLISH BANK POLICIES, SUCH AS LOAN QUALIFICATION STANDARDS, WILL DISAPPEAR, AND DIRECTIONS FROM CORPORATE HEADQUARTERS WILL CARRY THE DAY.

INTERSTATE BANKING COULD ALSO RESULT IN A DIVERSION OF CAPITAL OUT OF NEW JERSEY. THE LARGE REGIONAL BANKS WOULD THEN MERELY GATHER DEPOSITS IN NEW JERSEY AND USE THOSE FUNDS TO MAKE LOANS ELSEWHERE. THIS POTENTIAL PROBLEM WAS HIGHLIGHTED BY AN OFFICIAL FROM ARKANSAS, WHICH HAS ALREADY ADOPTED INTERSTATE BANKING, WHO WAS QUOTED IN THE WALL STREET JOURNAL AS STATING THAT "[T]HERE'S A MASSIVE RAID ON THE DEPOSIT BASE OF ARKANSAS BANKS GOING ON."

THE DEPARTMENT DOES NOT, OF COURSE, SUGGEST THAT NO BENEFITS WILL DERIVE FROM AN EASING OF THE PRESENT RESTRICTIONS ON REGIONAL AND INTERSTATE BANKING. AS THE LAW IS PRESENTLY STRUCTURED, HOWEVER, THESE POTENTIAL ADVANTAGES TO THE BANKING INDUSTRY WILL NOT NECESSARILY BE SHARED BY THE PUBLIC. INDEED, NOT ONLY WILL THEY NOT ACCRUE TO THE BENEFIT OF THE PUBLIC, BUT AS PREVIOUSLY NOTED, THESE GAINS MAY EVEN COME AT THE EXPENSE OF THE PUBLIC. GIVEN THESE POTENTIAL PROBLEMS FOR CONSUMERS AND SMALL BUSINESSES, CLEARLY THE BEST SOLUTION WOULD BE TO DELAY ENACTMENT OF THIS BILL

UNTIL MORE IS KNOWN ABOUT THE ACTUAL EFFECTS OF INTERSTATE BANKING. THIS WOULD GIVE US TIME TO CAREFULLY STUDY AND EVALUATE THE EXPERIENCES OF THE STATES THAT HAVE PERMITTED INTERSTATE BANKING UNDER VARIOUS KINDS OF CONTROLS.

IF, HOWEVER, A DECISION IS MADE TO MOVE FORWARD NOW, THEN IN OUR OPINION IT IS CRITICAL TO THE PUBLIC INTEREST THAT CERTAIN KEY PROTECTIONS FOR CONSUMERS AND SMALL BUSINESSES BE ADOPTED SIMULTANEOUSLY. FIRST, EFFECTIVE CONCENTRATION STANDARDS MUST BE RETAINED FOR THE BANKING INDUSTRY. STRICT LIMITS ON MARKET SHARE SHOULD BE PRESERVED TO ENSURE THAT VIGOROUS COMPETITION IN THE INDUSTRY WILL BE MAINTAINED. IN OUR VIEW, THE 20% CAP ON THE SHARE OF TOTAL COMMERCIAL DEPOSITS THAT CAN BE CONTROLLED BY A SINGLE BANK HOLDING COMPANY SHOULD BE RETAINED. IF, HOWEVER, EITHER S-1444 OR S-1466 IS TO BE ENACTED, THEN WE WOULD URGE THAT S-1444 BE REPORTED OUT BY THIS COMMITTEE. THIS BILL INCREASES THE 'CAP' SUFFICIENTLY TO ACCOMMODATE THE NEEDS OF THE BANKING INDUSTRY WHILE PROTECTING CONSUMERS AND THE PUBLIC INTEREST BY ENSURING A HEALTHY

DEGREE OF COMPETITION. FURTHER, WE ARE VERY CONCERNED WITH THE PROVISION IN S-1466 THAT WOULD, ABSENT LEGISLATIVE ACTION TO THE CONTRARY, ELIMINATE THE 'CAP' ENTIRELY AFTER 3½ YEARS. THE COMPELLING NEED TO PROTECT COMPETITION WITHIN THE BANKING INDUSTRY AGAINST MONOPOLISTIC PRESSURES AND TO PROMOTE THE INDUSTRY'S EFFICIENCY IS WELL ESTABLISHED. THEREFORE, TO ENCOURAGE A RESPONSIVE AND VITAL BANKING INDUSTRY, WE URGE THAT AN EFFECTIVE 'CAP' BE PRESERVED.

SECOND, STANDARDS AND PROCEDURES MUST BE ESTABLISHED TO ENSURE THAT EACH BANKING SUBSIDIARY IS RESPONSIVE TO THE NEEDS OF ITS LOCAL COMMUNITY FOR BOTH CREDIT AND DEPOSITORY SERVICES. SPECIFICALLY, WE URGE THAT APPROVAL BY THE DEPARTMENT OF BANKING OF A CHANGE OF CONTROL BE CONTINGENT UPON A SATISFACTORY DEMONSTRATION OF BOTH THE BANK'S PRIOR RECORD OF MEETING ITS COMMUNITIES' BANKING NEEDS AND THE BANK'S EXPLICIT COMMITMENT TO MEET THOSE NEEDS IN THE FUTURE.

FINALLY AND MOST IMPORTANTLY, ALL CONSUMERS MUST BE ASSURED OF REASONABLE ACCESS TO BASIC AND VITAL BANKING

SERVICES. TO THAT END, WE PROPOSE THAT A CONSUMER BANKING BILL BE ENACTED, IF POSSIBLE AS A COMPANION TO THE INTERSTATE BANKING BILL, THAT WOULD REQUIRE ALL DEPOSITORY INSTITUTIONS TO PROVIDE CERTAIN BASIC BANKING SERVICES TO ALL CONSUMERS. THESE SERVICES WOULD INCLUDE NO-FRILLS SAVINGS AND CHECKING ACCOUNTS, AND CHECK CASHING SERVICES FOR BOTH CUSTOMERS AND NON-CUSTOMERS PRESENTING GOVERNMENT CHECKS. WE WOULD BE EAGER TO MEET WITH MEMBERS OF THIS COMMITTEE TO HELP DRAFT SUCH A BILL.

IN OUR VIEW, ONLY BY ADDRESSING THESE THREE CONCERNS CAN THE RISKS OF INTERSTATE BANKING BE AMELIORATED AND ITS REWARDS DISTRIBUTED IN A MANNER THAT BENEFITS THE PUBLIC INTEREST.