PUBLIC HEARING

before

ASSEMBLY BANKING AND INSURANCE SUBCOMMITTEE

on

DEPOSITORY INSTITUTION REGULATIONS

Held:
April 3, 1985
1100 Raymond Boulevard
Newark, New Jersey

MEMBERS OF SUBCOMMITTEE PRESENT:

Assemblyman Nicholas J. LaRocca, Chairman
Assemblyman Louis F. Kosco, Vice Chairman
Assemblyman Ralph A. Loveys

ALSO PRESENT:

William B. Waits
Office of Legislative Services
Aide, Assembly Banking and Insurance Subcommittee

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ASSEMBLYMAN NICHOLAS J. LaROCCA (Chairman): Good morning. n sorry for the delay. The recording staff came from Trenton, and sure they had some problems with traffic, etc. I thank you for : indulgence.

As you know, this is the Subcommittee on Depository :itution Regulations pursuant to a duly adopted Assembly resolution.

I would like to introduce the other members of the Committee: e Vice Chairman is Assemblyman Kosco, and Assemblyman Loveys. The er people at the table are members of staff.

I have been trying to get together some topics I would like discuss, and everyday, when I pick up the paper -- sometimes in the ning before I go to bed -- I always look at the financial page to how my financial fortune is going. Then, a half hour later, I wind cutting out articles. (laughter) I've said this before, but the nt I would like to make is, this is a subject matter that is getting ger and larger and larger. I made a statement -- not facetiously -- it maybe there ought to be a permanent Subcommittee on Banking. .ngs are moving so fast and there are many subjects we could talk out. But, at this hearing this morning, we are going to limit :selves to interstate banking.

The long-range topics are the impact of deregulation, the n-bank product diversification, insurance, brokerage of stocks. derwriting, and of course, interstate banking.

I was talking to Alex Milch from The Star-Ledger a little ile ago, and I said, "Last night I cut out three articles from your per." He said, "Oh you didn't read today's paper yet; there are me more." As of now, I am still not up to date on the latest news at is going on. Yesterday it was, "Feds Approve Merger of MidLantic d Heritage." Bob VanBuren, Chief Executive Officer of MidLantic had mething to say. Another of Alex's headlines was, "Real Estate ivestor Wins His Bid for a Bank." That is the nice "little" bank. ery time I pass it in Totowa on the way to my place in the country, e name is changed. It has changed about a dozen times in the past o years. Some of the little local banks and local people have ecided to buy that bank. It is intriguing; all you need is about $3.5

million. Maybe I could get a couple of people together and form a new bank if we can raise enough capital. Then I could go back into the banking business.

The only reason I mention that is, the lineup today appears to be the big banks and the little banks. I don't think that is any secret. It is the changing times of today -- the traditional fences among banking, insurance, and securities. The fences have broken down; I don't think they are up anymore.

Then, there is a new vocabulary that has come about. You have to go back to school again. When I was in college 50 years ago, I remember learning a certain amount of banking principles, but they don't exist anymore.

I think one of the issues that will come down will be, "Shall we retain the walls of separation, or shall we build a bridge?" That is another way of putting it.

I came across another article that was surprising. It says there is a bank out West somewhere that pays no interest. How do you like that? Maybe the bankers would like to explain that -- not today -- but, it really says that they pay no interest at all. That is something. There is another little article about consumer banks. It seems that the Comptroller of the Currency is grinding out applications and granting preliminary approvals for consumer banks on a case-by-case basis. Of course, this article says that he denied one -- "subject to ordinary supervisory concern." I mention this because you can see that the pot is boiling.

Regarding the non-banks I mentioned, there was another article: "Howard Savings Adds an Insurance Subsidiary." Pru, as you know, has gone into securities. It is now Pru-Bache. Sears bought a bank; they bought Dean Witter, the securities brokerage.

Then you have the failure of the banks in California and Tennessee. You have the problems of the brokerage funds. I see that two New Jersey banks each had $100,000 on deposit; maybe that is the problem. I also see that the Chairman of the Federal Reserve would like to merge the FDIC and the Federal Savings Insurance Corporation.

There is a new word I came across. I think Prudential started it. It is "demutualization." Now I'll have to go back and study that. Of course, it is converting from a mutual company to a stock corporation.

Sears Roebuck wants to create limited family banks with financial services, but not loans.

Then you have the problem of Bradford Trust in Boston, which is a clearing agency for a lot of securities' dealers. American Can has agreed to buy the Mortgage Department of Berg Realty. Well, maybe we'll have mortgage banking in the supermarkets.

These are all new concepts. I just mention them in passing to substantiate my point that this is growing and growing, and there are a lot of problems that should be looked into for the benefit of the public, the consumer, and also the banking industry itself. The banking industry is very important, and we should not shortchange it. It is a very competitive field.

We have our own Banking Commissioner, who has stated that deregulation is facing the banks, and they have to compete for harder business. I'll agree to that, but this could erase some interstate boundaries.

Professor Nadler, who was unable to be here this morning, has taken up the cudgels on a lot of hometown banks. The takeover of small banks, the public, the senior citizens, the holding period for checks, hometown service, the float, and small bank branches are all problems.

You know, that reminds me of all the newspaper advertisements that I think you've all seen. Some of them are very interesting. Tom Stanton started it when he said he didn't want to be mixed up with First Jersey. I think that started with Lee Iacocca when he said, "I might as well be in the ad. Why should I pay an advertising agency?" Of course, the community banks always have a nice picture. For the National Community Bank, Bob Kossick acts as his own agent. Fairleigh Dickinson gets nice pictures in there too. Then, of course, there is our friend, Bob Ferguson. (laughter) He looks good in that tennis outfit. Maybe they are saving money by not employing professionals.

I got upset the other day; in fact, it was Saturday. I thought I was going to have a day off, but I received a call from my local bank, and they said, "We're opening up a new branch." It was only four or five blocks away. I got there. It was only a 25' x 100' storefront. I said, "Maybe I'll get my picture in the paper. After all, if the Fergusons and the Stantons get their pictures in the paper, maybe I'll get my picture in the paper -- at least in the local paper -- cutting the ribbon." Sure enough, with the Chairman of the Board, the President, and a few other legislators there, I cut the ribbon. Guess what picture was in the next day's paper? It was the picture of the President, the Chairman of the Board, and the first depositor. (laughter) So, I couldn't get in the act at all on this banking thing.

I think the big problem which will be concentrated upon today -- I have had to narrow the issues, and I've spoken with the other members of the Subcommittee -- is regional banking. Hopefully, we will have more hearings later on regarding the other issues that were mentioned.

All you hear about is that the ABA wants regional banking. I read articles about the Central Atlantic Interstate Bank region. Touche Ross did a survey; New Jersey Bankers did a survey; and, Ryan Beck did a study. We have the other side -- mergers with other national banks and trust companies -- and then we have the small community banks.

I think that is the lineup of today's activities. As I said, we will be focusing on interstate banking. The Subcommittee will report to the full Assembly Banking and Insurance Committee on its findings. We have no fixed position on interstate banking. That is the purpose of these hearings -- to get all of the viewpoints. We have a number of questions regarding this, and they will be developed as we go along.

I will now go into the formal part of the hearing. I am going to try to accommodate everyone. Some have to leave early; some have testified before; and, some will give statements. I would appreciate it, due to the time, if each person would be as short as possible. Get to the point, and we will have it on the record.

The first speaker will be Dick Schaub. He is going to esent the viewpoints of the New Jersey Bankers Association's iterstate Banking Task Force. Dick has spoken to us before. I hope not going to be duplicative. It is not that I mind listening to it, it we started kind of late today. Dick, the floor is yours.

CHARD F. SCHAUB: Thank you, Chairman LaRocca, members of the bcommittee, and staff. As the Chairman said, I am Richard F. Schaub, airman and Chief Executive Officer of First Fidelity Bank, N.A., West rsey, and Chairman of the New Jersey Bankers Association Task Force Interstate Banking.

It is a pleasure to be able to appear before you today to scuss the progress of the NJBA Task Force on Interstate Banking in re detail than my original presentation to you.

Realizing the increasing pressure for some type of interstate nking, in light of changes in the marketplace, the possible isolation New Jersey as regional arrangements develop in the East, and the ed for banks in New Jersey to be competitive, a task force of bank aders from banks of varying size, location, and charter was formed in gust, 1983 to recommend to the New Jersey Bankers Association's ecutive Committee a course of action to serve New Jersey's best iterest. The Task Force gathers information from various sources, nitors what other states, Congress, and the courts are doing on the bject, and only then recommends appropriate actions.

At this time, 12 states -- nearly one-fourth of the entire untry -- have enacted regional reciprocal banking laws, based on the ghts delegated to them by Congress through the 1956 Douglas Amendment the Federal Bank Holding Company Act. Another 20 states, according the Coalition for Regional Interstate Banking and Economic velopment, are expected to consider similar actions in the near ture. Alaska, Maine, and New York have enacted laws permitting any nk holding company in the country to acquire existing banks in their ates, with New York requiring reciprocity for New York-based holding mpanies.

Interstate banking already exists in various forms in our untry. Banks may enter other states in the following forms:

(1) Grandfathering. As an example, New Jersey's Heritage Bank established an office in the early 1800s in Philadelphia. In that instance, we already have interstate banking;

(2) Loan production offices;

(3) Mortgage and other type bank holding company subsidiaries;

(4) Edge Act Corporations;

(5) Shared Electronic Funds Transfer Systems, such as ATMs -- Automatic Teller Machines;

(6) Emergency interstate takeovers based on the 1982 Garn-St. Germain Depository Institutions Act;

(7) Sale of Certificates of Deposit and other types of instruments through newspaper articles and the mail;

(8) Purchase of 4.9% of the stock of a bank in another state; and,

(9) Non-bank banks that may ultimately be authorized by judicial or legislative action.

These are all examples of interstate banking that is taking place all around us.

Many states have not only prohibited interstate banking, but also intrastate banking, or statewide branching. The absence of statewide branching has made the institutions in those states vulnerable to out-of-state takeover when interstate banking comes since they are too small to be competitive. The last time I appeared before you, we walked through the development of New Jersey's banking structure, which I characterized then as being among the most modern in the entire country.

Our State, of course, decided by statute to permit statewide holding companies and regional branching in 1969, with statewide branching phased in from 1973 to 1977, in order to allow our banks to be more competitive when interstate banking arrives. No one seems to know when it will come, but it may be sooner rather than later considering the flurry of State regional reciprocal interstate activity in the past three years.

Statewide branching in New Jersey has not harmed the State's onomy or credit availability. In fact, the increased size of some nks has made it possible for New Jersey to become more lf-sufficient. It is a contributing reason to why industry wants to me to our State, and why the image of New Jersey among New Jerseyans s improved. We feel better about our State and ourselves because we longer have to cross rivers for banking services.

It is particularly important to our State that our banks ntinue to grow in size since the assets of several individual New :k banks are greater than the total of all New Jersey bank assets. I not saying every bank has to be extremely large to serve New :sey's needs, because community banks, which adequately service their :al markets, will continue to be competitive -- interstate banking :withstanding.

Returning to the regional interstate trend, there are a nber of reasons why the trend, which is generally acknowledged as a ansition period, has taken place. It will provide:

(1) A period during which banks may grow in size so that ey will be better able to compete with very large money center banks;

(2) An opportunity for regions to protect and expand their gional interests; and,

(3) Perhaps most importantly, an opportunity to ensure that r State retains several dominant regional banks headquartered within r borders.

There are a considerable number of regional arrangements isting or in the planning stage. The most notable is the New England gion. States like Connecticut, Massachusetts, and Rhode Island have rmitted cross-state acquisitions on a reciprocal basis with each her, and with Maine. Several Southeastern states, like Florida, uth Carolina, Georgia, and North Carolina are doing the same, and ntucky has adopted a contiguous-state reciprocity plan, with a igger to national reciprocity in two years.

A legal challenge to the New England arrangement exists as e United States Supreme Court decides whether the arrangement among veral New England States is consistent with the Constitution's equal protection, commerce, and compact clauses. To date, the lower courts have upheld States' rights, and a decision by the Supreme Court is expected before the end of the year.

Returning to the NJBA Task Force, after serious study, the Task Force has recommended a regional reciprocal arrangement in the Central Atlantic States, similar to the Bell Atlantic Region. The recommendation follows an earlier survey of all New Jersey banks, which received a very good response. Most of the repliers — 65% in fact -- favored nationwide interstate banking through holding companies. A regional reciprocal approach was recommended by the Task Force as a positive intermediate step, since it appeared unlikely that nationwide interstate banking would be approved by Congress in the near term.

A draft bill, which has been revised several times, and is presently being revised again, has been discussed with the Banking Department. The Association has never recommended legislation of any magnitude without first receiving the Banking Department's approval. The Department is presently considering its response to the New Jersey Bankers Association approach. The Department, like the Legislature, the Governor, and our Association. wants to be sure that the needs of our State and the interests of our citizens are expanded and protected.

At this point, while we do not have a final version of our bill, I might point out several key features of the legislation:

(1) The bill would permit bank holding companies located in Pennsylvania, Delaware, Maryland, Virginia, West Virginia, Ohio, and the District of Columbia to acquire New Jersey banks and holding companies, if the laws of their states permit New Jersey holding companies to do the same there;

(2) If any state in the region sets a limitation, such as size or number of deposits, on an out-of-state company, the same limitation applies to that state's companies when they go out of state, within the region;

(3) It requires stockholder approval for the New Jersey bank to be acquired;

(4) It requires divestiture of a New Jersey bank if the holding company ceases to be eligible to own or control a bank in this State;

(5) It does not prevent a New Jersey holding company from quiring banks in any state or territory -- if its laws permit -- ough other states in the region probably would; and,

(6) It contains two trigger points where national reciprocal terstate banking would be permitted for New Jersey institutions. If ree states in the region, including New Jersey, adopted regional ciprocity, three years after that point, New Jersey would go tional. Or, if one quarter of all states had nationwide laws, New rsey would go national immediately.

Several states have, or are considering, trigger mechanisms, nce they recognize the need for the State's laws to be in line with tional activity. They allow institutions which desire to enter ates other than in the region to move into those areas.

It is uncertain at this time how many of the states commended for inclusion in the Central Atlantic Regional will join. exploratory meeting was held late in 1983 for Delaware, with bankers om most of the aforementioned states, and it was determined that nkers from the states involved evaluate should their present and ture plans. Each state established a Task Force similar to the one have here in New Jersey. We understand to date that:

(1) Pennsylvania bankers are considering a regional ciprocal bill similar to the one I described in New Jersey, and will view it further this month;

(2) Maryland's Legislature is presently considering a bill, ich backed by its Governor, recommending Maryland's participation in regional compact composed of 13 Southeastern states and the District Columbia, with a four-year trigger to allow full national reciprocal iterstate banking, but that bill is having problems in the gislature. There is particular attention to provisions dealing with ighboring D.C.;

(3) Virginia's Legislature recently passed two bills ivolving interstate banking. The Legislature approved Virginia's articipation in the Southeastern region as part of its regional iterstate bill, and passed another bill prohibiting non-bank banks, on permanent basis; and,

(4) Ohio's House Financial Institutions Committee released a bill recently permitting reciprocity with states contiguous to Ohio for two years. After two years, New Jersey, Delaware, Maryland, Virginia, the District of Columbia, and four other states would have reciprocity with Ohio. After four years, nationwide reciprocity would take effect.

We expect additional developments to take place rather quickly and hope that our Legislature and the Governor will support legislation designed to protect and expand New Jersey's economic interests.

Thanks very much for your patience and for listening to me a second time. I appreciate the opportunity to appear before you, Mr. Chairman.

ASSEMBLYMAN LaROCCA: Do we have a copy of your statement, or will you see that staff receives a copy?

MR. SCHAUB: I scribbled on this one, but I'll see that staff gets a copy.

ASSEMBLYMAN LaROCCA: You made a statement about -- I've seen it in the press -- a proposed bill, a bill that the bankers have on regional banking, but no one seems to have a copy of it. Maybe there isn't one in existence, but I have a hunch that there is -- not that we are playing games, but I would really like to have a copy so that staff and I can work on it. Do you have any information along those lines?

MR. SCHAUB: I think you are entitled to one, and you certainly will get one as soon as we have a finished product.

ASSEMBLYMAN LaROCCA: Is that the answer -- that it is not a finished product yet?

MR. SCHAUB: We think it is very close, Mr. Chairman.

ASSEMBLYMAN LaROCCA: The only reason I mention that is, the Legislature doesn't want to be caught in a position like the Governor of Maryland had with Citicorp. There, as you know -- you mentioned it -- the Governor, on his own, had an understanding with Citicorp to participate in all aspects of the state's banking business. In checking on that, I find that the Maryland bankers criticized and opposed it. Of course, you can imagine the reaction of the legislators who woke up in shock and anger. The Governor jumped off the deep end ith a private banking institution. Everything was already cut and ried. That is why I mentioned that. I wouldn't want to be in that osition. I don't think the Commissioner of Banking would want to be n that position either. I have spoken with her many times, and she ith me, publicly and privately -- and we agreed to cooperate along nose lines.

I am hopeful you will submit that soon because our ubcommittee is going to have internal meetings, and we have to come up ith something -- some recommendation. I would like to have that, at east in our files, so we can discuss it and make any recommendation he Subcommittee feels is good for the State, the people, and the anking industry.

Do any other members of the Subcommittee have any questions?

MR. SCHAUB: Mr. Chairman, at all costs, we want to avoid nat happened in Maryland. That is why the New Jersey Bankers ssociation has taken the initiative and has tried to keep you informed nrough your Subcommittee hearings. We have also tried to keep the ommissioner's office informed, and I suspect through the ommissioner's office that the Governor's office has been informed as o what is going on. I don't anticipate anything like that happening n New Jersey.

ASSEMBLYMAN LaROCCA: Do any other members of the ubcommittee have any questions?

ASSEMBLYMAN KOSCO: Yes. Talk to me about this triggering evice. We realize that regional reciprocity and reciprocity not overed with a trigger could cause a legal problem. You mentioned that our recommendation has two triggers. Give me those again.

MR. SCHAUB: The first one is, when three states within the egion I outlined have similar regional reciprocal legislation adopted n their Legislatures and on the books, three years from that date -- ne date that the third state adopts similar legislation -- New Jersey ould go nationwide. Or, when one-fourth of the states in the nation ave nationwide reciprocal banking, on that day, we would go ationwide.

ASSEMBLYMAN KOSCO: Okay.

ASSEMBLYMAN LaROCCA. Mr. Schaub, I have several questions I would like you to answer based on your testimony.

The same questions will be asked of everyone who speaks before the Subcommittee, so I would appreciate it if everyone would keep these questions in mind -- not word for word, but the impact of this so that the Subcommittee may have the benefit of your thinking, your viewpoints, and your ideas on the subject.

Would consumers and business benefit in the way of more efficient services at lower banking costs with your concept of regional?

MR. SCHAUB: Let me answer that question by comparing the banking community in New Jersey now versus the banking community in New Jersey prior to statewide holding company expansion and statewide branching.

I am firmly convinced that with the competitive marketplace that has developed since the 1973 statewide phase-in of branching, the consumer is much better off in New Jersey. We have more convenient outlets; we have competitive loan rates; we have more convenient hours; and, we have every imaginable financial service that can be offered by a bank available to the people in the State of New Jersey. It was not like that prior to the expansion of banks throughout the State.
We have a more competitive banking community now, which has provided better service at more reasonable prices for the people in the State of New Jersey.

ASSEMBLYMAN LaROCCA: Would the State's economy benefit by jobs that would be created by the introduction of new banking institutions with your concept as you have evolved it?

MR. SCHAUB: By new jobs?

ASSEMBLYMAN LaROCCA: Yes.

MR. SCHAUB: Of course. I would suggest that if the scenario develops as I see it, and as I would like it to develop -- that is, through the passage of this legislation -- it will provide that several major banking operations be headquartered here in New Jersey. Headquartered operations require huge numbers of people.

We were standing in the hall just a few minutes ago when Bob Ferguson, Chairman of our holding company, said that in the past four or five years, we have probably added 2,000 to 3,000 new jobs here in Newark because we are headquartered in Newark. As we have grown, we have added jobs.

ASSEMBLYMAN LaROCCA: These questions are general questions that each speaker, after espousing his particular position, will be asked.

Will there be an enlarged reservoir of capital that will spurt the creation of new business, in your opinion?

MR. SCHAUB: Larger institutions have larger capital bases.

ASSEMBLYMAN LaROCCA: Will interstate banking siphon off money from local lending needs and be put into large capital markets? That is the problem of the small community merchant who wants to stock his inventory, and who may only need $40,000 or $50,000. Do you think he will get lost in this big interstate--

MR. SCHAUB: (interrupting) I think quite the contrary. I don't see any credit allocation aspects to this kind of development. I think that in a free-market economy -- a free-market environment -- funds flow to where they are needed. If there is loan demand, it will be fulfilled.

New Jersey is a viable, growing State. We have credit needs that are being met now. One thing has happened in recent years that I think will prevent this kind of allocation from taking place forever: That has been the deregulation of interstate ceilings.

ASSEMBLYMAN LaROCCA: We'll come back to the opposite side of the coin -- another $64,000 question: Would interstate banking lead to the demise of small banks?

MR. SCHAUB: I will go back to the early 1970s again, because that was the cry when we attempted to bring New Jersey into the 20th century by providing for statewide branching. It was said that large banks would come into communities and cut rates on loans, pay higher rates on savings, and drive small banks out of the marketplace. That has not happened.

ASSEMBLYMAN LaROCCA: Finally, will interstate banking make State regulations obsolete? Do you think there will be any need for State regulations, or will everything come out of Washington, or what have you?

MR. SCHAUB: I think I said at our last meeting that if the price for interstate banking is the elimination of the dual banking system, then that price is too high. We must ensure that we retain a dual banking system.

As long as we have freedom of entry and a dual banking system, if the "bigs" foul it up, little units will spring up, take over, and provide the services that the customer needs. You mentioned a perfect example of that in your opening remarks when you said an individual was buying a branch of a bank in your neighborhood and was going to start a community bank. Apparently he feels, as an entrepreneur, that the public's banking needs are not being met, at least in that market.

ASSEMBLYMAN LaROCCA: Thank you. Are there any other questions from any member of the Subcommittee?

ASSEMBLYMAN LOVEYS: Yes. I would like to make a statement and then ask a question. Recently my 15-year-old son asked if I would take him to Madison Square Garden to see what is now becoming one of the most popular sports -- a wrestling match. Quite frankly, my eyes were opened that evening. What I saw I couldn't believe. I think there was a referee in the ring, but I'm really not sure. There were people like Sergeant Slaughter, the fellow from Iran, and Hulk Hogan.

In retrospect, and in evaluating what I saw that evening, it kind of reminded me of the financial battle that is going on in our State. I think there is a referee here, although I'm not sure. Those who are battling are pressuring themselves, they are pressuring others, and they are pushing away the barriers that once separated certain firms.

I believe the war should stop. Do you believe, Dick, that regionalization would have an effect in this area? Do you think it would stop the war?

MR. SCHAUB: Well, Assemblyman Loveys, there are probably-- .her or not you can call it a war, I don't know. If it is a war, commercial bankers are certainly losing the battle because there so many other players in the financial community today who have ı broader powers than we have -- savings and loan associations, savings banks. They have much greater powers than commercial ‹s. If there is any battle on that front, there is a battle in ıng to create -- you've heard the expression many times -- the level ⁄ing field. We are trying to get new powers. But, that should be ırate and aside from the market development which will take place, ;t regionally, and then nationwide.

I think if you look at New Jersey as a microcosm, the same ıg can happen. We have a healthy financial climate. I heard Tom lor yesterday, who is the Regional Administrator for National Banks New York -- representing the comptroller in Washington for this ion -- say that New Jersey has one of the healthiest banking nunities of any state East of the Mississippi River. We only have to two problem banks in the State on his list, and they are not lly serious problems any longer, according to him.

With regard to the other question you asked, yes, that is ng to be a battle. We are going to continue that battle until we the level playing field and until we can get some added powers. h deregulation, our margins have shrunk to a slim level. We have y other people who want to get into our business, and some who are eady in our business -- our traditional line of business -- and we ıt the opportunity to provide an expanded list of financial services the customers we already have.

You can call it a wrestling match if you want, but on that ıue, we will go to the mat on the power issue. You will hear more ıut that from us, but that should issue be divorced from the ·uctural issue.

ASSEMBLYMAN LaROCCA: Thank you very much. For a change of :e, we will now carry on the battle. You know what I mean. It is ; battle of viewpoints. It is becoming a little adversary, but it is ılthy for the industry.

Let's hear from the savings institutions: Sam Damiano, New Jersey Council of Savings Institutions. You appeared once before, Sam, so I hope your testimony will not be repetitive. We would like to hear your viewpoints as a representative of the savings institutions.

SAMUEL J. DAMIANO: Thank you very much, Mr. Chairman and members of the Subcommittee. My name is Sam Damiano, President of the New Jersey Council of Savings Institutions. We are an organization of savings banks -- State and Federally chartered. I'll try not to be repetitive in my comments to you, Mr. Chairman.

Let me say at the outset, however, that I must compliment the Subcommittee on its timing. I think you are all aware of the fact that the House Banking Committee, within a matter of days, will convene a hearing in Washington on this very issue. This is certainly a timely issue, and one that we are all concerned about.

I don't know if it is a wrestling match, Assemblyman Loveys, but I know that in the past two years, I've heard the Chairman of the Senate Banking Committee refer to what is going on in the industry as a revolution. More recently, the Chairman of the Federal Reserve Board referred to it as a circus. I think that somewhere in-between all of this, when you sift out the rhetoric, you and the members of the Legislature indeed have assumed a very important responsibility to make a decision on behalf of the State of New Jersey. I don't have to tell you that; your commitment has already been expressed. On behalf of the people of this State, and in your wisdom, I'm sure you'll make the appropriate decision.

While the concept of interstate banking has long been opposed by the Council, we should at the outset make it known that the savings banks in New Jersey have offered a number of recommendations in connection with this very same piece of proposed legislation. In fairness to all, the Council, at this juncture, reserves its position, purely on the basis of our awaiting a response to our recommendations. We would like to see a specific piece of legislation before we make specific comments.

Specifically to the matter of legislation. we feel a provision should be made for those institutions that are not in holding mpany form. I think that is a very important point. Presently, what understand to be contained in the proposal refers solely to the bank lding company structure. That, by very inference, would exclude any tual or stock savings bank in the State of New Jersey, since there e no savings bank holding companies, as such. A mutual holding mpany concept would certainly be something we would like to see cluded in any bill that ultimately comes forth.

We also believe that the State-sponsored legislation is signed to trigger a national banking environment. I think the term ed was "nationwide," and I think that should be discouraged. We take e position that the issue of national banking or nationwide banking one that should be addressed by Congress.

We also believe that out-of-state institutions involved in a rger or acquisition of a New Jersey institution should be required to erate under the laws of this State. I think the term referred to was level playing field." We would like to see them operate under the ws of this State, while not limited to the merger and acquisition atutes. We should be assured that the same limitations imposed on w Jersey institutions apply, including the restriction on branching.

As I said earlier, we would also recommend that provision for mutual holding company be strongly considered. We recognize that rrent proposals do not involve savings and loan associations or vings and loan companies, so consequently we can't speak on their half.

As I indicated in my February 13 statement to this bcommittee, we believe that all questions should be asked and all estions should be answered before New Jersey embarks on this -called interstate path.

I think the Chairman has already espoused some of the estions, but if you will bear with me, I would like to reenforce them raising them as a matter of concern being expressed by the savings nks in the State of New Jersey.

We, as thrifts, differ somewhat from the commercial banks, though many of these changes in the law are coming about quickly. s, there may be a time when we may see a level playing field, hopefully to the benefit of not only our economic industry, but to the people of the State.

As thrifts we share a concern that since we are weighed down by low-yield, long-term assets -- that is no secret -- how can we compete with other financial entities in order to avoid what we refer to as disintermediation, that is, a heavy or severe loss of deposits? Today we can say with confidence that the vast majority of these deposits are reinvested in our State to meet housing needs, to provide for our children's educations, and to be used towards the capital expansion of New Jersey.

How can we be assured that such deposits attracted by out-of-state institutions will be reinvested in the same fashion? Frankly, we don't have the answer to that.

Those that offer a higher rate for deposits must earn a higher rate of return on investments. If the high return is not available in New Jersey, then it stands to reason that investments will be made elsewhere, not only in other states, but in other countries, as well. Reinvestment in New Jersey will undoubtedly force rates up in order to offset the high cost of these liabilities.

The scarcity of available capital and the high costs attached to it will impact on any economy. We are not in a position to express how this impacts down the road, but we would like to make a respectful recommendation that this may be an issue for the New Jersey Community of Economists to explore.

While it is true that a number of states have considered interstate legislation on a regional basis and some have adopted such laws, others have not. That fact notwithstanding, we in New Jersey are unlike any other state because we are clearly positioned between two very large money centers. Those of us in the North are exposed to the competition from New York, and those in the South from Philadelphia.

While some argue that interstate banking is already here, and they suggest, therefore, that it makes no sense to debate the issue any longer, we hope in the final analysis that this attitude does not prevail and that the New Jersey Legislature, in its wisdom, does not follow, but, in fact, leads, and to that extent, will do whatever is essary to preserve and enhance all of the qualities inherent to our te.

As I said at the last hearing, and I'll say it again, we are your disposal to help in any way we can during your process of iberation. Thank you, Mr. Chairman.

ASSEMBLYMAN LaROCCA: You've heard the five or six questions asked before. In your opinion, following what you have espoused, it will be the effects be on the consumer in the State?

MR. DAMIANO: We don't have an answer to that, Mr. Chairman. think that so long as we are conscious of these concerns, any jislation that is ultimately produced will have safeguards in it to sure that those interests will be protected. I wish I could be more cific, but we don't have a task force exploring the pros and cons of issue. Unfortunately, most of my response to your questions, I say spectfully, will bear the same reaction.

ASSEMBLYMAN LaROCCA: Do you think that some kind of nmunity reinvestment law in New Jersey would help keep capital in the ate, assuming that interstate banking develops and continues the way appears to be going now?

MR. DAMIANO: Well, there are community reinvestment acts now place with State and Federal initiatives, so I think those feguards are in place. Whether or not they are impacted by new jislation would have to be another issue for you to look at.

I don't know if any new legislation along those lines would rve any purpose because the law is very clear on that matter today.

ASSEMBLYMAN LaROCCA: Do any other members of the Committee ve any questions or statements? (negative response)

All right, thank you.

MR. DAMIANO: Thank you.

ASSEMBLYMAN LaROCCA: For another little change in pace, we ll hear from representatives of some of the community banks. Is Mr. uer here? (affirmative response)

ENE BAUER: Mr. Chairman, members of the Subcommittee, and staff nbers, it is a pleasure to appear before you this morning and present at might be viewed as a middle-of-the-road opinion.

I am the President and Chief Executive Officer of United Counties Trust Company and its parent United Counties Bank Corp. headquartered in Elizabeth, New Jersey. We are the 17th largest of the approximately 80 commercial institutions in New Jersey. Worded another way, perhaps we are the 64th smallest commercial bank in New Jersey.

We serve the heavily populated counties of Union, Monmouth, and Somerset. For our part, so you'll know where we come from without a lot of frustration and figuring it out, we feel we have a lot of New Jersey to fill up before we look out of state. We have grown in recent years primarily on an internal basis, although we have consumated three mergers and acquisitions since 1970, namely the Keansburg/Middletown National Bank, the Springfield State Bank, and Kenilworth State Bank.

We were the first bank, to my knowledge, to be challenged on the announcement of a friendly merger with Ocean County National Bank by the intrusion of a third party on unfriendly terms. More challenges have occurred since that time.

For us, interstate banking is not a priority, and it is not a trade-off item for other services at our institution. Banking has moved rapidly in New Jersey and, in our opinion, it will continue to move rapidly. We don't want to be an impediment to it.

We think we share with the vast majority of New Jersey banks, as set forth in our recent discussion meetings at the ABA Headquarters in Washington, DC, that broader product powers and a level playing field in the areas of insurance, securities, and real estate are far higher priorities. I might add that, in my opinion, while the independent insurance agent lobbyists have cautioned against allowing banks to become involved in insurance services, I feel, in the long run, they will become much more closely allied to the commercial banks serving the local communities than they will to their parent underwriters.

We also feel it is important to standardize the rules and regulations governing our oversight and product offerings to customers. We feel that deserves much more immediate attention than interstate banking.

I think you should look at some of the concentrations that 'e occurred in the area and where you are going to go with them, if erstate banking goes ahead. If we look at First Fidelity and lLantic, together with the approved Heritage and United Jersey uation -- those being the three largest in the State -- using ır-end figures, they would control approximately $24 billion of osits, which is larger than the next 24 commercial banks in New sey put together. I don't think we have been disadvantaged by that uation at this point, but there is obviously a great drop between se three -- or at least those two that will be up around the)-billion mark, down to United Jersey at $4 billion, and on down to it will be the fourth largest, which is Horizon at $2.5 billion.

I would be the first to tell you that I think New Jersey has efited by the approval in 1969 of three-district banking, and then ally the consumation of statewide banking in 1973. However, there been a large drop in the number of independent commercial banks ing this time.

In 1964, the largest commercial bank had $536 million in sets, and there were 233 independent banks. This number stayed atively constant until 1969. In 1970, it dropped to 200 lependent banks, and the largest at that time was $1.2 billion. It opped further, until 1974, when the largest bank then had $2.1 llion in assets, and there were 175 independent banks. This number opped gradually until 1982 when the largest bank, in terms of assets, s $4.9 billion, and there were 110 independent institutions. ally, at the close of the year, I would estimate that there were 80 lependent institutions, the largest being $10.6 billion.

If the trend continues or accelerates with interstate nking, 20 to 40 significant banks in New Jersey may remain five to 1 years hence. I do not view this as an uncompetitive situation. e number will decline rather than rise due to the accomplishment of e interstate phenomenon, if approved, through merger and not in large asure by individual branch site development.

Virtually all of the 20 largest banks in New Jersey, or their lding companies, have adopted or are in the process of adopting certain forms of shark repellents -- whether it be green mail-clauses, super-majority voting provisions, staggered director terms, or large quantities of authorized stock. I take it that they wish to control their destinies, but have certain doubts without such provisions.

Let me state some of the reasons that are given for interstate banking. First is the broader capital base to serve larger industrial and commercial firms. In looking at the annual reports what will become First Fidelity and MidLantic, together with Heritage, you have banks that probably can serve individually to the tune of $100 million. I don't know how many credit requests the two largest New Jersey banks have been unable to handle or participate in, but perhaps this would be an area to investigate.

Second would be a larger geographical territory to draw on a bigger group of customers, and I suppose to permit customers to bank throughout a larger area. It would seem to me that our automated teller machine switching networks accomplish a major portion of customer demand if they are traveling throughout a larger geographical area. Our bank hasn't found this to be a great demand, and consequently, we have not seen fit to join a national switching network.

The third reason would be to achieve economies of scale with the proliferation of financial services. I think the economies of scale would come primarily in the product area where you could have expertise of talent, or perhaps a larger grouping of computer runs -- those types of things. Frankly though, I don't see economies of scale occurring if we were to join in a regional interstate pact which would take us to Ohio versus to Manhattan.

Fourth would be to keep pace with industry trends and to accommodate growth in an orderly fashion. This may seem like lip service; however, there is something to viewing progress and keeping up with your neighbors. I think New Jersey, through its sports complex, has taken giant steps forward, and I think we want to be viewed as not just the meat between two ends of the bread, that is, between Philadelphia and New York City.

The fifth reason would be to avoid disadvantaging the banks New Jersey from participating if interstate banking goes ahead. In y respects we already have interstate banking in some form or ther. Maybe we are just formalizing this matter, but it should go ward on an appropriate footing.

As reasons against interstate banking, or at least not going ad with it at this time, I think consideration should be given to following:

(1) There would be a substantial and rapid decline in the ber of New Jersey-based major financial institutions. This has eady occurred, and it would accelerate;

(2) The consequences of a shift in funds out of New Jersey the possible lowering of supply funds for residential and municipal ancing. I think this can be quantified, and I think it is perhaps major reason to take a look at it;

(3) There would be a decline in the emphasis on the dual king system. There is no doubt in my mind that there would become er, and the regulatory burden would be borne by a dwindling supply institutions; and,

(4) By waiting, the growth of the two largest banks in New sey will be slowed, thereby permitting the consolidation of other ks and creating a greater number of clusterings in the $5 billion to billion size category. I feel this would be beneficial.

The Supreme Court has agreed to hear Citicorp's challenge to New England regional interstate pacts. It is my understanding that Supreme Court hears only 2% to 3% of the cases, and in my imation, they may well declare the New England pact discriminatory, ch will precipitate some form of Federal legislation. It not the ure of Congress to role the wheels of progress backward; hence, re is the dilemma then of choosing national interstate banking with York as a neighbor. Yet, in fairness, a substantial number of our izens commute to Manhattan daily.

Just because large New Jersey banks have paid premiums with sser dilution doesn't mean we have to open our borders for them to and further at this time. Again, I would point out the priority of duct expansion versus geographical expansion.

It may now be the time for intermediate-size financial institutions to work out their deals and, hence, get larger institutions with which to compete.

I don't believe we are behind the other states which have opened their borders to national reciprocity. They seem to fall into two categories: The powerful banking states like New York and California, and those looking for enhanced economic gain, such as Alaska and Maine.

If New Jersey decides to go ahead with interstate banking, I would strongly recommend:

(1) Retaining the cap on the percentage of deposits in New Jersey which any one commercial bank may hold. You may wish to consider interstate banking's effective, say on January 1, 1988, without a State institution being permitted to hold cumulatively increasing New Jersey deposits each year thereafter. Let's say 2% in 1988; 4% in 1989; 6% in 1990, etc.;

(2) We have a concern about setting up an appropriate surveillance over deposit, loan, and other promotional programs by institutions in the New Jersey marketplace which are out of phase with economic reality and other offerings by those institutions in other areas of the country.

Thank you. I would be pleased to answer any questions you may have.

There is an interesting article which was written to the Pennsylvania Banking Association Task Force from Mr. McElhinny, which points out some of the fallacies of taking county banking to statewide, and then to national banking. I would be pleased to leave this article with you.

As I see it, there are only two real beneficiaries for moving ahead rapidly without a studied opinion. It would benefit the two largest commercial banks in the State, and perhaps some of the borrowers who have credit requests over $100 million.

ASSEMBLYMAN LaROCCA: I am glad to see that in this "battle" -- it is also called that in the press -- you are in the middle of the road as far as your viewpoint is concerned. That is healthy. It will give the Subcommittee something to chew on.

I'm glad you mentioned that the big question mark that hangs r regional interstate banking is the lawsuit that Citicorp has ed. In fact, Citicorp -- and I quote -- "has vowed to block ional zones." A lawsuit is all we need, but since I was a lawyer 48 years, I can understand how that would upset a lot of lecarts.

Another interesting thing is the terminology, as I said at beginning of the hearing. Citicorp calls it the "Balkanization" of king. That is a new word. Well, I guess World War I started in the kan's, if you will remember your history. The battle lines are wn in that sense.

Are there any questions from any other member of the committee?

ASSEMBLYMAN LOVEYS: Mr. Bauer, I would like to draw a clusion. Correct me if I am wrong. Do you feel, with the advent of erstate banking, that this would lead to a power struggle between a , and maybe because of that, we would see competitive behavior in market?

MR. BAUER: What type of behavior?

ASSEMBLYMAN LOVEYS: Without competition.

MR. BAUER: No, I think you will have competition. I think re are enough players for you to have healthy competition. They l be competing on a price basis, and there will be firms that will l out. There is no doubt about that.

ASSEMBLYMAN LaROCCA: Thank you, Mr. Bauer. In order for ie of the witnesses to be guided accordingly as to their time, I'm ng to announce the next two witnesses; the first person is from st Fidelity, and the second person is from MidLantic. Bob?

ERT R. FERGUSON, JR.: Thank you, sir. I am Robert R. Ferguson, , and I am President of the First National State Bank Corporation, ch is headquartered here in Newark.

We are the parent of five affiliate banks -- wholely subsidiaried banks -- that operate under the name of First Fidelity ik of "something."

The one thing this Subcommittee clearly does not need is other 15 or 20 minutes of redundancy, so I will try to avoid that.

I would like to suggest to you, with all due respect, that since I know you are inundated with things to read and people to listen to regarding this subject, it is my personal opinion that the three best overview pieces of interstate banking you will find have all been published by the Federal Reserve Bank of Atlanta over a period of several years. If you could find the time to brief these three pieces of interstate banking, I think you will have enough background to forget all the rest of the reading.

I would also like to mention that there are several states that have been involved in this identical question, and they have had professional survey and studies done. The best one, I think, is the State of Florida. I do not have a copy of that, but the New Jersey Bankers Association does. If you would be interested in looking at that, I think it would be helpful to you. It addresses the questions that you, Mr. Chairman, have raised at the end of each person's testimony. We can certainly make a copy of that available to you one way or the other.

I apologize for not having written prepared testimony. I would like to make a few comments that don't have much to do with anything, and then address specifically what I think you need to address.

First, if there are financial institutions in this State, or groups of financial institutions, which believe that they are unable to compete, then I do not think they should be given the opportunity to trade off this bill for something they want. This is not a time for trading; it is a time for dealing with a healthy financial institution that wants what is best for the State of New Jersey.

Second, I think we need to define a bank and what we are really talking about. A bank has come to mean a whole variety of things. I don't think we need to deal with the technical definition of "take demand deposits, and make commercial loans." That is not very meaningful anymore.

We all know that the financial services' industry has broadened, and it includes all the things you mentioned, Mr. Chairman, at the outset, plus some others. Whether that is healthy or not is not ne subject of this hearing, and I don't propose to get into it. When ou get right down to what you are addressing, I think the issue is eposit taking -- nothing else. Deposit taking is the key to nterstate banking, what it does to the State of New Jersey, what it oes to the banking consumer in New Jersey, and what it does to the anks in New Jersey. That is all we are talking about.

This State, in which you can go East or West in an hour, and orth or South in -- well, if you stay at 55 mph -- two and one half ours, clearly does not need 100 commercial banks, 150 to 200 thrift nstitutions, 6 non-bank banks, all the brokerage houses in the world, : Prudential in order to service its financial requirements. It does ot need them. I say that because it seems to me, if I were sitting on our side, there would be three questions that should be addressed:

(1) What will interstate banking, or the lack of interstate anking, do to the banking or financial community in the State, which s already here?

(2) What will it do for or against the New Jersey consumer? at, to me, is the thing you have to concentrate on the most.

(3) What about concentration? For some reason -- and I'm ot here to talk against it -- from the beginning of this country, parently financial concentration was a real bugaboo. Everyone was cared to death of it. It permeated legislation and it permeated litical discussions going back to the 1700s.

What happens in this State? Dick Schaub has already alluded the statistics since our Legislature approved holding companies atewide and three-district banking back in 1969. There has been some ncentration, but not enough in any way, in my opinion, to upset yone. With what we are looking at here, and accepting the fact that do not need 300-some financial institutions that call themselves rifts or banks, plus all the others that are in the broad definition the banking business, then is there going to be concentration? ere is no question. Is it going to be anti-competitive? Is it ever ing to reach that point? There is absolutely no question about it; will not.

Even Gene Bauer, who would like to waffle this question for awhile, (laughter) admits that he sees no likelihood of the lack of good, healthy, strong competition.

Is it going to reduce the number of what we today define as commercial banks in New Jersey? I suspect it will. Is it going to reduce it meaningfully? I think not. Is it going to eliminate the community bank? If there is one thing it will not do, it is eliminate the community bank. The community bank will always be there. For anyone who wants to sit on a corner and deal with his particular community, relate so directly to it, meet its needs, carve out its own niche -- not for all the products, but for the things that a community needs -- he is going to be there, and he is going to make money.

There has been a trend of new bank charters that has been developing nationwide in the last six months. For several years in this State and in most of the country, we didn't have any new bank charters taking place. We have them today, and the reason is that people foresee what is happening. They see the consolidation; they see the interstate thing coming; and, they say, "I can make a lot of money, in addition to serving my community, with a community bank or a new charter." That is going on everywhere.

The State of New Jersey has more new bank charter applications this year than it has had in, I think, six or seven years. I do not have the statistics before me.

You are never going to eliminate the community bank, and no one wants to eliminate it.

Where is the concentration going to take place? Probably among, using today's numbers, $1 billion and up. That is where the bulk of the concentration is going to take place, and it doesn't make any difference. It doesn't make a bit of difference. You are going to have better competition with regional interstate banking and ultimately with nationwide interstate banking because the strongest, not the weakest, out-of-state banks are the ones that will come here.
We have to accept the fact that New Jersey is probably, in my opinion, the best State to do commercial banking business in the country today. I include Florida, Texas, California, or any hot state you want to talk

ut. There are a lot of reasons for this. The most obvious are sity of people, and relatively high affluence -- that is, average ome level. New Jersey is a progressive State with industry moving which is highly representative of the major corporations. It is oriented and high tech oriented. It is the kind of thing that is ey-intensive as opposed to plant-intensive.

This is one of the most desirable States in which to do king business in this country. The states that are afraid to do it h us are afraid because we are sitting so close to New York. I gest to you that that is totally idiotic. The best thing that could pen to the State of New Jersey is nationwide interstate banking. t is the best thing that could happen.

You know, when you get interstate banking and consolidation rts, no one has to sell. So, the more buyers there are, the better those who are inclined to sell become. The ones who don't want to l just don't want to sell. There is no hammer there saying, "Mr. munity Bank, you have to sell out because you are going to be troyed by competition." That is not so. He has his own niche, he his own market, he is running his own kind of business, and if he ts to stay there and do business, he has no problem whatsoever, and will be highly profitable.

The smaller banks in this State, if you will look at them, relatively more profitable than the large banks. None of them e a bitch -- excuse me. None of them have a right to complain, and y won't. I think Gene is trying to be totally objective when he es a middle position. He sees some good things, and he sees some things, but that is where they all are. Gene's banks are not tle banks -- don't misunderstand me -- but, he likes to characterize m as little banks. (laughter) Of course, we have some big banks t don't agree with his position either. A couple of them are in the k of the room, and you'll hear from them later on.

Let me go to the consumer issue because I think that is the where the chances are greatest, it seems to me, that the islature will ultimately have to deal with.

In what way does the consumer get hurt with something like interstate banking? In my opinion, he doesn't get hurt. I think the studies that have been done around the country over the past 15 or 20 years dealing with statewide branching, holding company legislation within the states, and more recently, the studies I've referred to, such as the Florida study, deal almost exclusively with what happens to the consumer in the State of Florida, if we let Georgia and North Carolina banks affiliate with our banks. The answer, without exception, is, the consumer comes out better. That is without exception.

Under what circumstances can the consumer in the State of New Jersey get hurt? In my opinion, he gets hurt if we ignore regional interstate banking and wait for the national move to national interstate banking. That is coming; it is coming. I can sit here and make a case that it is here, but forgetting that, it is coming. The deposit-taking function license nationwide is going to get here. As Dick said, it is going to be sooner rather than later.

If New Jersey sits, as it now is, and does not go to regional interstate banking, and then five years down the road, you have, by congressional action, interstate banking -- either regionally or nationwide -- New Jersey will be in trouble because its banks will not be large enough to be the acquirer. Senior management is going to come from some other place in some other state, and if there is one chance that the deposits that are taken in New Jersey will be invested somewhere other than in New Jersey, it will be under those sets of circumstances where the senior management is not in this State.

I happen to be for immediate nationwide interstate, but that is not doable. Every now and then you have to be practical, I guess. So, I back off to, what is the next best thing that can happen? It is regional banking, as an interim period. Let me make the argument that the regional people make: You have to have time to develop, to build, and to grow so that you have the option.

The principal object of growth in today's world in the commercial banking industry, in my opinion, is to get to whatever that critical mass is, but no one knows what it is. You have to get big ɔugh so that you have one of four options available to you as this ıking situation evolves. Ideally, you want to be in a position to ɔide, "I don't want to do anything with anybody; I want to sit here this great State and compete as an independent." You want to be big ɔugh to say, "I want to go somewhere else and buy somebody." You ıt to be big enough to be desirable so that someone else buys you. ı want to be big enough so that you joint venture with ıivalent-sized banking or financial institutions in other states and npete against the biggest banks in the country or in the world. ɔse are the options you want. You try hard to get there, but you ınot get there -- I submit to you, you cannot get there -- or not re than two or three institutions can get there which are ne-officed in New Jersey, which would be big enough to have all of ɔse options. If we sit here with our heads in the sand and wait for ıgress to make the decision, and we don't go regional, one of these ys it is very likely that there will be no major meaningful-sized ıancial institution headquartered in this State. They will al be ədquartered somewhere else.

That is when you run the risk of some decision being made: ət's sop up the deposits in the State of New Jersey, and let's put əm somewhere else where we can make more money."

Mr. Chairman, that is really all I have to say.

ASSEMBLYMAN LaROCCA: Bob, your last statement reminds me of statement I made, I think, at the last hearing. It is possible that l decisions would be made by someone, either in California, Chicago, New York, and then there wouldn't be any more Fergusons or Bauers or Roccas or what have you.

MR. FERGUSON: Well, two out of three ain't bad. (laughter)

MR. FERGUSON: Mr. Chairman, I agree with you, and that is actly my point. You need this regional time frame in order to avoid at you are suggesting.

ASSEMBLYMAN LaROCCA: As the judge says in many cases, "The sues have been drawn." The swords are out, all in a friendly way. are all trying, as I said, to accomplish what is good for the public ı for the industy. You have presented the major industry's position interstate banking.

Are there any comments or questions from other members of the Committee? Assemblyman Kosco?

ASSEMBLYMAN KOSCO: You answered most of the questions I had written down here. Your testimony was very good.

There is so much interstate banking going on right now that it probably should be called "interstate deposit taking," rather than interstate banking. Be that as it may, you addressed the consumer problem as it pertains to the banks being big enough to buy, or being big enough to be bought, but you didn't really tell me about the consumers -- Mr. and Mrs. New Jersey -- who are out there dealing with the bank. How will interstate banking help them or hurt them, and will it? Will it have any effect at all?

MR. FERGUSON: I was really trying to make the case that it would help them, but I guess I came about it from the back door.

ASSEMBLYMAN KOSCO: You came about it from the banking standpoint, but not from the people's standpoint.

MR. FERGUSON: They can get hurt if it happens in a different way. I'm a little reluctant to say this, but I think I have to say it, to be honest with you.

If you look in the paper at what rates are being paid on the money market certificates today, as they are published in The New York Times -- they list basically New York and New Jersey banks, savings and loans, and so forth -- the New York rates are substantially higher. It would be very good for the New Jersey consumer if he were getting an extra 100 to 150 basis points on his savings instruments. That is competition. That is what it is all about, and it is in this industry. It is very strong in this industry.

If you go to the smaller towns in the State of New Jersey -- smaller communities -- with rare exception, the consumers are getting lower interest rates on their deposit instruments than many consumers are getting in a larger town nearby.

There are exceptions to that: There are some community bankers who feel very, very sensitive. They want to pay the max. If they can find a way to operate profitably and pay it, they pay it.

You have some thrift institutions that don't have any ɔices. They have to keep money flowing in and out or they will be : of business. So, they have to pay up to the amount that it takes get the money in the door.

Generally speaking -- and this is the historical study that ; been made over and over -- when there is more competition, outside npetition, higher rates on savings instruments, tougher competition rates on loans, there are basically lower rates and more money ailable. I don't think there is any way in the world that the New :sey consumer can be hurt if we do this on a step-by-step basis. I ink he can be crucified if we sit back and make believe it isn't ing to happen.

ASSEMBLYMAN KOSCO: How about from a standpoint of getting ans -- mortgages, small business loans, personal loans? How will at affect the consumer?

MR. FERGUSON: Let me personalize a little, if I can. We, as result of our activity over the past -- I can't believe it -- 15 ars now-- We have 288 banking offices throughout the State of New rsey. In some of them, demands are for residential mortgages. In ne, demands are for the local drug store and the farmer. In some, ey are the multi-national corportions that are headquartered in this ate.

I don't think anyone would say, "By acquiring a small bank in is State, we have in any way changed the mix of availability of oduct." We have enhanced it, not changed it. I don't think there is y question whether or not residential mortgages, automobile loans, edit card borrowings, or personal loans of any kind would be ailable. There is no question about that. The larger the stitution gets, as a matter of fact, the more diversified it comes. It wants its mix spread across those communities, and it is t going to cut back.

Every major commercial bank in the State of New Jersey today out there with a mortgage package. You can choose variable, fixed, term mortgages. Everyone is trying to originate mortgages. mittedly, they would like to package them and sell them off, but they are originating. The mortgage availability is there, and this isn't going to have any effect whatsoever on the availability. It never has, and, in my opinion, it never will.

ASSEMBLYMAN LOVEYS: Mr. Ferguson, I would just like to make a comment, again about the consumer. I really direct your attention and our attention to the generation who probably went through the Depression. Those, to me, are some of the great savers. They know how to save; at least they were taught the rules and regulations of saving.

I feel that the banking institutions as a whole, not only in the State of New Jersey, but maybe nationwide, have kind of let this group of people down somewhat by lack of education. I speak of these people because when they get passbooks in their hands, to them, that is what they have in the bank. They don't want to hear about money market funds and CDs because they can't open a book and see when the interest rates go up.

I know of a good number of people who hold those passbooks, in some cases with huge amounts of money invested, and they are earning 5-1/4% and 5-1/2%. The banks are not telling these people that they could be earning 10% or 12% interest. A few months ago it was 13%. Why? Don't you feel that the banking industry should educate these people? The accounting is in the bank. Why?

MR. FERGUSON: In one word, the answer is "greed." The banking business used to be a spread business. You know, we were protected on how much interest we paid. All we had to do was have enough sense to go out and get a 200-basis point spread, and we made a lot of money. That is over.

There is a big spread business still there. We don't all just broker money. The most profitable bank is the one that has the best of what I will call "core deposits" -- the demand deposits and passbook savings accounts you are talking about -- where, basically through inertia, the passbook accounts have not been closed.

We look at two things: social conscience and greed. Greed wins pretty often. Now, is that right? Philosophically it is not; there is no question about that. Is Lifeline banking coming? In some foremat, it is coming -- either voluntarily from the industry, or legislatively from you. I think we all know that.

How much education are we responsible for? Probably more an we are doing. I acknowledge what you say, and I do not disagree th you, but in some respects, it is the basis for our profitability. ere are some people who want to leave it there anyway. Some years), when savings rates were controlled, and you could pay -- I think was 5% on a passbook and 5-1/2% on a statement savings account where ere wasn't any passbook -- many of us tried desperately to get people turn in their passbooks and take the extra one-half percent because saved us so much money operationally. We couldn't get them to turn those passbooks. As you said, those passbooks were their worth, and couldn't get them to do it. At that time, we made it very clear -- ou get an extra one-half percent. We're talking about another 10% of terest." They wouldn't take it.

I know what you are saying. I recognize it, and I can't gue with you, but I've explained it as best I could.

ASSEMBLYMAN LaROCCA: If there is one thing that Bob does, he ets the issue. It reminds me of the old days. When there were nks, they were all Renaissance buildings. They were strong. My ther and all my relatives would say, "That is the bank, boy." Of urse, you didn't have too much competition. All of the banks paid out the same rate of interest, so as the industry evolved, the banks re renovated. In fact, they covered up the beautiful domes, and they vered up all the marble. All my relatives and paisanos said, "Gee, l you do is put things over the counter." So, I understand that ychology. Among the oldtimers it is hard. Even my wife said when I nverted some statements, "How do I know what I have in the bank? Why I have to wait three months to get a statement? Don't I have that ttle piece of paper?" I said, "The day is going to come when you n't have anything. You'll just be pressing buttons." This is so lly. I write a check to pay the Public Service bill and the lephone bill, and I make a deposit.

Bob meets it head-on. It is a problem, and he acknowledges . Thank you.

MR. FERGUSON: Thank you very much.

ASSEMBLYMAN LaROCCA: Next is a representative of MidLantic nks.

GEORGE E. STOCK: Mr. Chairman, this is the first time we have been on the same side in years. (laughter)

Mr. Chairman, off the record, we have an office with a big dome in Passaic, and we would be delighted to see you up there. (laughter)

My name is George Stock, and I am President and Director of MidLantic Banks, Inc. I wish to thank you for the opportunity to discuss before your Subcommittee the issue of interstate banking in the State of New Jersey.

The importance of banking is that it is an industry serving all of the people, all of the municipalities, and most of the commerce and industry within the State borders.

MidLantic Banks, Inc. has assets in excess of $7 billion, and its origin is with a bank chartered in 1804, creating an unusual perspective of the changing scene for the past 181 years.

My personal experience includes 39 years in the banking arena with banks and bank holding companies in New York, Florida, and New Jersey.

Allow me to set the stage for my remarks by giving you a brief history of interstate banking as it has been addressed by various congressional committees, by some of our most forward-looking Senators and Congressman, and by the Office of the President of the United States.

Until recently, advocates of change and the legal restrictions on interstate banking, including members of the Association of Bank Holding Companies -- of which we are a member -- were ignored on Capitol Hill. While the subject would surface occasionally, it would quickly disappear.

In 1976 and again in 1978, the issue was addressed. Finally, in 1981, President Carter concluded that the McFadden Act and Section 3(d) of the Bank Holding Company Act, known as the Douglas Amendment, are "increasingly ineffective, inequitable, inefficient, and anachronistic." The President recommended that these statutory restraints to interstate banking should be gradually relaxed.

Between 1980 and 1984, however, a variety of states took the itiative. Due to these state actions, in June, 1984, the sociations's members adopted a refinement of our earlier interstate licy, including a four-year phase-in to nationwide bank holding mpany acquisitions. The Association's call for a phase-in to tionwide banking was subsequently endorsed by the Association of serve City Bankers, the California Clearing House, and the Bankers sociation.

In February, the American Bankers Association Leadership nference adopted a Federal legislative policy statement that calls r nationwide banking.

Bills affecting banking structure finally began to be taken riously in the last Congress. In 1983, two Massachusetts members troduced legislation, affirming the ability of the New England states enact reciprocal banking laws. Subsequently, a title was included the 1984 Garn bill that affirms the right of any state to enact ciprocal legislation on a regional or other basis. Also, Georgia, io, and New York have introduced bills in their Legislatures.

Thus, interstate banking has moved from the periphery of ngressional interest to center stage. The reason is not that banking ganizations are now advocating a political resolution of the ntroversial subject, but rather, the necessity for congressional tion from other sources.

First, there is a growing concern that failure to act will dermine the safety and soundness of our nation's depository stitution's system. Federal Chairman Volcker, a leading proponent of is view, said in testimony before the Senate, "I cannot emphasize rongly enough the urgent need for definitive congressional action. e policies of the Bank Holding Act are now being undermined by a phazard pattern of inter-industry and interstate acquisitions, and by w combinations of banking, securities, insurance, and commercial oducts...." The Chairman of the Fed, echoing the Carter ministration's report, has said that regional banking arrangements ould serve only as a step to nationwide interstate banking.

Second, there is chaos in the states. The Association informally tracks State legislation, and by our count, half of the states already have some kind of interstate statutes on their books. We know of discussions and/or specific proposals for state law changes in another 23 states.

Third, there is a growing awareness among some public interest spokespersons that the failure of Congress to take action hampers consumers in their ability to obtain banking services at the lowest possible cost.

Fourth, and last, there is the obvious fact that the number of corporations positioning themselves for possible entry into the financial services market is growing fast.

In sum, the requests for action emanating from banking sources do not, in themselves, make reform of banking structures by Congress mandatory. Rather, it is the concerns about safety and soundness, growing chaos in the State, heightened consumer awareness, and the existence of a widening variety of alternate purveyors of financial services that make legislative action on interstate banking a political necessity.

MidLantic has consistently supported the idea of nationwide banking within the United States. Our verbal comments and our annual reports have always stressed the desirability of this concept as beneficial to our staff, now numbering upwards of 5,000 people, our customers, who number in the hundreds of thousands, and our 15,000 shareholders who primarily live and work in New Jersey.

Our economic well-being is closely related to the banking structure in New Jersey, and as the banks grow and prosper through retained earnings and capital infusion, they are better able to take care of the growth in commerce and industry that is all around us in the northern, southern, and central parts of our State.

When banking was a young industry in America, artificial boundaries were set and have remained, even though trade has matured and knows no boundaries, such as the Hudson or Delaware Rivers. MidLantic, in order to follow its existing customers or extend its present market, has opened a trust operation in Florida, and has pplied for non-bank banks in Pennsylvania and Florida. We have loan roduction offices in Pennsylvania, Illinois, North Carolina, and lorida.

Our State has already been inundated with New York banks, ith the presence of Citicorp, Bankers Trust, Manufacturers Hanover, ational Westminister, etc., etc. Further, Citicorp's solicitation of illions of credit card customers throughout the country from South akota, if you will, makes it apparent that we already have interstate anking.

Unless we in New Jersey retain flexibility, meet the ompetition of the out-of-state banks, brokerage houses, retail and nsurance giants invading our territory, and allow growth and expansion o take place through possibly a regional and eventually an interstate anking concept, the eight million people of this State will be eprived of a very special ingredient in their lives -- that is, a ibrant and responsive banking environment that serves their needs in undreds of ways every day. Banking is not a passive business; it is live and must be nurtured and fed to keep it healthy. On the subject f health, I would like to point out that our system in New Jersey has uffered no unusual blights that have hit other parts of the country. ut, we must remain alert and sensitive to changes around us in order o stay healthy and useful to our citizens.

I believe it is a myth that if we regionalize or go ationwide with our banking laws, capital will flee the State to big ities or even abroad. If we take the time to measure the rates of eturn produced by our major banking institutions in New Jersey versus hose in New York City and other large money centers, you will note hat our return on assets and investments is better here, by industry tandards, than elsewhere. Why then would an out-of-state acquirer, if hat should happen, change the method of operation of the acquired?

There are also concrete examples of banks investing in rganizations in different locales, where large infusions of capital ere brought into the State to help the acquired bank better meet is ocal obligations. The Midland Bank group, a foreign entity, recently roved that by injecting many millions of dollars into the Crocker Bank n California.

Much testimony has been given and much press has been devoted to the invasion of our territory by Sears, Merrill Lynch, J.C. Penny, etc. Incidentally, Sears now has 150 financial service centers in the United States, including some in the State of New Jersey. If they are permitted to expand within our borders and we are shackled with constricting laws, I firmly believe we will be shortchanging the consumer. My reason for saying this is because people prefer to do business with banks. They have more confidence in their banks, feel safer, have a known commodity, and have established locations where they are comfortable in the hundreds of communities in New Jersey. As a consumer and a professional in this area, I certainly would have more confidence in the atmosphere of banks than department stores when dealing with my private financial affairs.

I believe that the track record of the commercial banking business in the State must be considered when evaluating the ever-changing conditions of deregulation that we exist under. The banks have responded well, and again, the consumer has been the winner. He has more services available to him at competitive rates than ever before -- services encompassing both savings instruments and a menu of loan possibilities covering all of his needs.

The banks in this State have also responded to new concepts. New industries have filled the void quickly when undeveloped geographical areas have been built up. I refer specifically to the Meadowlands that probably would not exist but for the commercial banks in New Jersey; I refer to Atlantic City that now gainfully employs 40,000 people; I refer to the emerging high tech industry; I refer to asset-based financing that has, in some cases, kept jobs in the State; and, I refer to furthering the import/export activities that provide jobs, and lots of them.

I believe the legislators have an obligation to our citizens to work with the banking industry so that we can remain competitive with other industries and other areas in the United States where restrictions do not exist or where laws have already been passed to regionalize banking.

Thank you for the opportunity to share our views with you.

ASSEMBLYMAN LaROCCA: Do you have a copy of your statement that you can leave with the Committee?

MR. STOCK Yes I do

ASSEMBLYMAN LaROCCA Thank you One of the things that bothers me -- you have mentioned it -- is how will interstate banking deal with the safety and soundness of New Jersey banks? I'll put that in context. Everyone has been reading about ESM Lyon Capital, and Continental Illinois. The impression I get is that the larger they get, the more branches they have. and the more states they operate in. That is what your position is -- that somewhere down the line, unfortunately too frequently. they fail. They have problems.

In my 47 years of corporate practice, my wife has always said to me, "When are your clients going to stop expanding? You have a branch here; you have a branch there. You are going to open up another supermarket. Then you are going to expand and go into the software business." I have spent my whole life traveling throughout the United States for big corporations. They are always looking at the dollar sign Their goal is $1 billion.

How do they make it? Well, it is very simple. They have 10 more check-out counters. three more cash registers or open up 10 more locations. They say "Oh that is going too slowly, so we'll acquire another chain." This has been going on for 47 years of my life.

I have presided at the financing of all of these expansions. and some of them are the biggest corporations in the country -- listed companies. Unfortunately, having been at the baptism -- the marriage -- which means the financing to acquire the land, and a lot of it is in the Newark area.

At the culmination and fulfillment of my professional life, I had to preside at the funeral of many of these banks and corporations. It also applies to the banking industry -- this big octopus.

To be specific, in your opinion, what impact will that have on the safety and soundness of our banks?

MR. STOCK: Mr. Chairman unfortunately, we all remember the Continental Illinois and the Franklin Nationals. In actuality, most of the banks that are operating in the big leagues are in a pretty good position. If you want to go to the big city and talk about Morgan, Bankers and Irving Trust -- and, down the line Citicorp and Chase -- you'll find that these fellows run pretty good shows. Now, they get a lot of publicity about things at times, but basically I don't think our industry is in any kind of a shambles. There have been mistakes made, obviously, and there have been some big ones -- Continental, of course, being the daddy.

I don't view our organizations as being in that kind of position. I don't think -- let's pick a name out of the air, Security Pacific -- if they came into New Jersey, they would operate in here any differently than they operate their existing company. They are big earners and they are shareholders, so why would they change their opinion just because they were getting into New Jersey?

ASSEMBLYMAN LaROCCA: It wasn't hard for me to go to the heart of Newark or Philadelphia, and say, "My client is going to have three more locations. I'll get you the leases; I'll get you this or that -- no problem." Well, you have answered, in your opinion, that you don't think it will have any adverse effect on soundness. Let's hope not.

Are there any questions from any other members of the Subcommittee? Assemblyman Kosco?

ASSEMBLYMAN KOSCO: Mr. Stock, you brought up an interesting point that I hadn't even thought of; that is, following your existing customers. I don't think anyone has ever discussed that at any of our hearings or discussions. That is an interesting point.

How do you handle that now? How do you handle the company you represent when they want to move out of state and you want to continue to be in touch with them?

MR. STOCK: Well, we keep in touch with them, and we attempt to retain their business, but I think I was specifically referring to trust customers. That is the most important facet -- where for 30 or 40 years, you wine, dine, and solicit their business, and you have their business. Then Dad sells the company and the house, and he moves to Florida. You have his will on file, and then all of a sudden, you don't hear much from him, he has met some guy on the golf course down ı Florida and he is enticed into doing business with Southeast ıncorp.

We decided that we wanted to follow our trust customers, and ᵻ have many in the State of New Jersey. I might also add that in ıgging in, we found a great many shareholders who had moved their ɘsidences to Florida, so we kind of took both of them and put them ɔgether. As good businessmen, we are attempting to keep their wills ıd do their investing for them.

We have a trust company that we own 100% in Southeast lorida. It has assets of approximately $400 million or $500 million : this time.

ASSEMBLYMAN KOSCO: How would interstate banking assist you ı that?

MR. STOCK: I don't know that interstate banking would ɘcessarily assist us. It might, but it is proof that we are already ı interstate banking. That is the point.

ASSEMBLYMAN KOSCO: Okay. Right now, we have two states, to y knowledge, that have full interstate banking. Those states are laska and Maine. I don't know if any others have joined but as of his report I have here from the State Legislative Report -- this was n June, 1984 -- Alaska and Maine have full interstate banking, and here are nine states that have reciprocal banking laws.

Do you have any information about any of the banks in Alaska r Maine that-- The concerns we have are twofold: One is, how is it oing to affect the industry; and two -- which is probably the most mportant -- how is it going to affect the consumer? Are there any eports from Alaska or Maine that could tell us what is happening in a ositive way in those states to help the industry and the consumer?

MR. STOCK: I'm not sure I can answer that, but I'll tell 'ou, if I were in Alaska or Maine, I would want full interstate banking .oo. (laughter) It is survival. Those are both very unusual places, ıs you well know, and that is the way to get attention from outside.

ASSEMBLYMAN KOSCO: I don't know about New York, but Alaska ınd Maine have sort of taken the lead on this. The nine that went into :eciprocal interstate banking are Connecticut, Florida, Georgia, Kentucky, Massachusetts, New York, South Carolina, Rhode Island and Utah.

MR. STOCK: If I may comment on the southern states having worked in the South for 10 years -- I hope there are no Southerners in the room -- there are still strong feelings in the South about staying in the South. They want reciprocity within their own little conclaves so that they can get big as someone before me mentioned. and protect themselves from New York City, Chicago. and San Francisco. Southerners are Southerners, and they want to remain that way. That is why it has been so active down there. This started a long time ago -- about 10 years ago -- in discussion form in the South.

ASSEMBLYMAN LaROCCA: Thank you. For another change in pace, let's see what some of the small banks have to say. Is there a representative here from the Ramapo Bank? (affirmative response) Mr. Robert Peacock?

ROBERT R. PEACOCK: Mr. Chairman, I appreciate the opportunity of appearing before your Subcommittee. I am Bob Peacock, Chairman of the Board and Chief Executive Officer of the Ramapo Bank. We are part of the Ramapo Financial Corporation, which is the smallest bank holding company -- or, one of the smallest bank holding companies -- in New Jersey. It is composed, from a banking standpoint, of Ramapo Bank in Wayne, New Jersey, and the Pilgrim State Bank in Cedar Grove, New Jersey. Our total assets are about $180 million, so we are nowhere in the same class as the giant bankers such as Ferguson, Semrod, MidLantic, and the rest of them.

I don't have any prepared text, but I come from a background of banking in the State. I am the former Chairman of the New Jersey Bankers Association, and I spent 11 years on the regulatory side in the New Jersey Department of Banking.

My position, I think, is very straightforward. When you are talking about interstate banking, I think we have it here today in the State of New Jersey. Why do I say that? Well, today you have every major New York bank in the State of New Jersey from Citibank, Chemical, Morgan Guarantee, and the rest of them. You have every major Philadelphia bank operating in the State of New Jersey. You have most of the major banks from Massachusetts operating in this State. You have a good number of the Connecticut banks operating in this State. You have Fleet National from Rhode Island operating in this State.

In addition to that, you have Merrill Lynch Bacsche-Prudential, and Sear operating here. I could go on and on and on. You've heard the other testimony.

So, when you talk about regional banking, it is a reality; it is here today. We are kidding ourselves if we don't think it is here.

It is here, I think, only from one viewpoint -- from a location viewpoint. That is what you are discussing today regarding this piece of legislation -- where a bank can locate. I don't think the issue really can be addressed properly unless you take into consideration the product mix that those institutions that are going to locate have there. I think this is what the banking industry is very concerned about.

If you ask me, how will we benefit or how are we going to be harmed with interstate banking, from Ramapo Bank's standpoint. let me be very honest with you: Ramapo Bank is not going to benefit from interstate banking. A bank of our size, in my opinion -- a small- to medium-sized bank -- is not going to benefit from interstate banking. Why? Well, we don't really have the wherewithal -- the capital -- to move into Pennsylvania, Maryland, Virginia, and Ohio. We are lucky enough that we can branch out in our own State. I don't think that is a detriment or a negative point with respect to this legislation. I still feel, as a community institution, as a community bank, that we can operate in the State of New Jersey. I think the proof of that is because we are operating. We are operating in the most competitive banking area in this country. I have to compete. Ramapo Bank competes against Citibank, as well as MidLantic, First Fidelity and the rest of them.

So, when you talk about interstate banking and other banks moving here, from a competitive standpoint, it really doesn't bother me. I really don't believe it bothers the other small- and medium-sized banks in this State.

There is a choice if interstate banking comes. If the management, directors, and shareholders of a particular bank want to sell out, they have that opportunity. If they want to stay in business, they have that opportunity. I firmly believe -- and, I think Bob Ferguson made a very good point -- you are not going to eliminate the community bank in New Jersey or in this country. I think it is for the simple reason that the average person and the middle-market businessman like to deal with the community bankers. They like that personal touch. That is my competitive edge against the big guys That is how I make money

I picked a niche in the banking field, and that is how Ramapo makes it. I can compete better in the middle-market environment than the larger banks because of the personal touch and the closeness to the situation. I think that is good and healthy.

From our viewpoint, I am not opposed to interstate banking. I think some of the smaller banks and the banks our size have objected to some part of this type of legislation because New York was excluded. Some of the banks in the northern part of the State might like the idea that if it does go through, maybe they will want to branch across the river into the New York State area, which is closer to the city. I think that is a legitimate position for those banks to take, and I think it is a legitimate thing that has to be considered.

How is the consumer going to benefit from interstate banking? I think you are the best judges. There has been no hue and cry about interstate banking from the consumer because I really don't think they understand it. I think they could care less about interstate banking. It is an issue within the financial barriers and I think it is a good issue. I don't think the consumer is going to benefit that much from interstate banking when you are talking about where banks can locate. However, I do believe that the consumer is going to benefit substantially when tied to this location are the added powers -- the mix of products that the commercial banks of this country and this State can offer to the people. I am talking about the insurance, real estate, and brokerage businesses.

Yes, I do think there is going to be competition with respect insurance premiums when the banks are allowed to get into this ea. I think the consumer is going to benefit from that. I think he going to benefit from real estate transactions and the rest of it. at is healthy and good.

Is there going to be any real economic development or onomic force coming to New Jersey that we don't have here now? I ally don't think so. I think the commercial banking industry of this ate is in very sound condition, and we constantly, year after year ve met the credit needs of our State. I think we will continue to do .

You might have a little more competition with respect to the pes of loans and the type of mortgage transactions that will take ace, but, by and large, I don't think it is going to help or hinder ie State of New Jersey.

What I am really getting down to is a very simple 'oposition. I don't think you can just loosely look at interstate ınking alone as far as location is concerned. That mix has to be ıere. A traditional thing is happening. Congress never addresses .self to a problem unless the states start to move on it. This is ıat is happening throughout the country. The states are starting to ıve in their state Legislatures towards regionalization of ınking-permitted laws. Congress is now starting to move towards the ıestion. But, I think when Congress moves towards the question of ıterstate banking, coupled with that is going to be the product mix. əlieve me. I state it unequivocably; a bill in Congress will not pass lone unless the product mix is involved in it. That is a question we əve to face.

I think with the proper product mix, the consumer is going to ənefit by it, and I think the State of New Jersey is going to benefit / it. You need both of these things coming together with respect to ıy type of legislation. That is very important.

As far as the safety and soundness of banking, Mr. Chairman, think that is going to be helpful. Let me tell you why. As a former əgulator, I think what is going to happen with the larger banks is, they are going to be able to spread their risks more. In other words, they are not going to be concentrated in one area or one industry. They are going to be able to move and spread their risks into different sections of the country. That creates better safety and soundness in the financial institutions.

By and large, the interstate banking bill has a direct bearing and benefits most of the larger banks in the State of New Jersey. As a small- or medium-sized bank, I am not opposed to that. I think this is one of the few times within the banking fraternity -- I'll put it that way -- that we have sort of a unified position. The majority of the bankers of this State favor nationwide banking but we'll substitute, as a first step, the regional concept. I think it is a sound move, and I think New Jersey should be in the forefront. I want to be very honest and candid with you though. For a bank our size, it is not going to be a great benefit to us whatsoever.

That is my statement, Mr. Chairman.

ASSEMBLYMAN LaROCCA: Thank you. Are there any questions from any member of the Subcommittee?

ASSEMBLYMAN LOVEYS: Yes. Mr. Peacock, at one point in your testimony, you alluded to the non-bank banks. Will you give me some of your concerns or thoughts regarding non-bank banks?

MR. PEACOCK: Well, I've been on record on this many times. I am really opposed to that, and I commend the New Jersey Legislature for passing the bill that has stopped it, at least for a year. I am not interested in selling pajamas as Sears is If they want to get into the banking business, then I think they should comply with the same set of regulations that we comply with. I think that protects the average person in this country. It protects the consumer.

If Prudential wants to get into the banking business, then I think they should also comply. I also think they should let us get into the insurance business then because I think it is a related financial field.

With the incidents that have happened recently in the financial world-- The public is going to demand protection. They want to know what a bank is, and I think we have to stop kidding ourselves bout these Mickey Mouse definitions of what a bank is. The banking ndustry should be defined very clearly, and I think the public is ntitled to know what it is and what it can do. That is going to enefit the consumer and the economy, and we are going to have a better inancial system in this country.

You can't have everything. You can't have National Steel ompany getting into the banking business. You can't have American Can etting into the banking business. You know, we have to start drawing ome lines. If you want to get into the business, then go ahead. Get nto it, but abide by the regulations.

All I am saying is, if these non-bank banks want to get into t, let them live by the same rules, standards, and regulations as the anking industry has to live by. I am more than willing to have the ompetition. I am not sitting here as a small bank saying, "I'm afraid f them as far as competition is concerned." I have stated it very learly: I think we are in the most competitive area in this country, nd I am not afraid. If I can't make it, I can't make it, but so far, think the record of Ramapo Bank and Ramapo Financial Corporation is uite outstanding in this State. We have had 10 straight years of ecord earnings, and I think that is a very good record. We compete, nd we compete very hard but that is America. That is what it is all bout. I'm happy with that situation.

Let's live by the same set of guidelines and the same set of ules.

ASSEMBLYMAN LOVEYS: Thank you.

ASSEMBLYMAN KOSCO: Mr. Chairman, I have one question. hroughout your testimony, Bob, you were referring to the banks and the anking industry. That is confusing. Are you including S&Ls in your omments?

MR. PEACOCK: I defined very clearly-- When I mention a ank, I mean a commercial bank. The savings and loan industry and the avings bank industry already have more powers than we have in the tate of New Jersey.

ASSEMBLYMAN KOSCO: You said specifically that there was no oubt that interstate banking would not have any effect on the small anks. When you say that, are you including savings and loans also?

MR. PEACOCK: That is difficult for me to answer. I don't know. I was referring strictly to commercial banks. If you have interstate across the board, including savings and loans, savings banks, and commercial banks, I think you are going to see a restructuring of the capital requirements of the thrift industry. Perhaps you will see a consolidation of the regulatory power and examining power on a Federal level, probably under the jurisdiction of the FDIC, and the FSLIC will be removed or merged into it. I think Congress will act in this direction.

ASSEMBLYMAN KOSCO: This is one of the problems. We are kind of connected with the industry, and we have an understanding of what the differences are. Yet, we still get confused when we talk to each other and refer to a bank or a savings and loan association. You can imagine what the people in the State of New Jersey think. When you talk about a bank, they think about a savings and loan association. When you say it is not going to have an effect on a bank, but maybe it will have an effect of the savings and loan, these are the types of things that we have to be concerned about. The people and the consumers out there have to understand too.

We have to be concerned that the S&Ls, as well as the banks, don't get hurt. That is our responsibility, and that is why I asked the question.

MR. PEACOCK: That is what I was referring to when I said the "definition of a bank." I think Congress has addressed itself to that because I think the American people -- the public -- are going to demand to know, simply because of the instances we have had just recently. I think that is legitimate, and I think they will address themselves to that question. I really think they are going to finally get down to it because they won't want a recurrence of anything.

ASSEMBLYMAN KOSCO: I hope so.

ASSEMBLYMAN LaROCCA: Are there anymore questions? (negative response) Thank you.

MR. PEACOCK: Thank you, Mr. Chairman.

ASSEMBLYMAN LaROCCA: Mr. Semrod, Chairman of United Jersey Banks?

MR. JOSEPH SEMROD: Thank you, Mr. Chairman. Many positions have been stated, and my slant is a bit of a deviation from those already expressed.

Our position is that we are for nationwide interstate banking if, as a practical matter, that can ever happen at one time. As has been expressed by many of the other speakers, that is impractical, so we are thrown into this sort of regional scenario right now.

Conversely, my position is that we are opposed to the regional compact at the present time for a number of reasons, which I would like to go into.

Because of the fact that we are located, obviously, between two very large money centers, New Jersey is placed in a bit of different persuasion when you look at a regional compact and how it affects consumers, middle-market businesses, and lastly, the banks themselves. We are concerned that if, for example, the only regionalization possible, since the State of Maryland does not have New Jersey in their bill -- the District of Columbia similarly does not have New Jersey in their bill -- we might end up with just Pennsylvania. If you lay the 10 largest banks in those two states side by side, you'll find a very great similarity. The top 10 banks are very similar in size, except that the Pennsylvania banks are about twice the size of the New Jersey banks.

The point expressed by one of the previous speakers about decisions not being made by New Jersey institutions could happen a lot sooner than a lot of people think.

The other aspect that has been considered has been a national trigger, which would be the Island of Manhattan and the State of New York to similarly buy banks in this area. Obviously, I won't even talk about the size of those institutions. If that happened under a regional compact, the real issue you are concerned with, and we are too, is, what is the impact on the consumer, the small- and medium-sized business people, and the banks themselves? Let's take the consumer first.

The opinion expressed by one of the speakers was that money market accounts paid a higher rate in New York than in New Jersey. We would submit to you that the customers of the banks have those options today. The New York Times on Thursday mornings publishes Connecticut, New Jersey, and New York banks, so if John Q. Customer of United Jersey wants to get half of a percent more than Chase or Chemical, he opens his account and does so.

How has the consumer really benefited by being reciprocal with Pennsylvania or New York? Let's take our smallest bank. Our smallest bank is in Cumberland County. It is about a $130-million bank. The C.E.O. of that bank is a fellow named Gary Zimmerman, who is a County freeholder. Gary makes a salary, his bonus, money for the shareholders, and has a relationship with his customers, employees, people at the Lion's Club, wherever he goes, on how he handles Cumberland County. It is obviously in his selfish best interest, if your mother-in-law wants a car loan, to be responsive to her.

The only question I would ask is -- and, it is hard for me to come down on -- whether the major banks in New York or Philadelphia, with a large percentage of their income in international loans, are as concerned about the New Jersey consumer as Gary Zimmerman is in running a $130-million New Jersey bank.

You have heard a lot of testimony from both sides regarding the consumer, so let me just make a point about the consumer. We do not see adding Pennsylvania to the equation, nor simply just New York to the equation, as being in the best interest of the consumer.

Middle-market businesses: Our commercial loans in our institution are about $4 billion in size. They have increased about 30% in the last two years, and they are up 30% this first quarter. This is all in-State, New Jersey business. Yes, there is a lot of competition, but our goal is to deal with middle-market New Jersey businesses.

Would the larger banks be as interested in New Jersey? I read the testimony of your first hearing -- I have only been in the State for four years -- and there was a lot of reference to the Meadowlands and other things. I won't be presumptious by trying to tell you that they are not as interested in this State as the bankers who have testified.

Middle-market business, we submit, would be better off ealing with decisions made in New Jersey, not decisions made in hiladelphia, New York, Baltimore, or Paris.

You asked a question, Mr. LaRocca, about the safety and oundness of the banking system. Mr. Ferguson talked about the market n New Jersey, and I couldn't agree with him more. I think it is the est banking market in the country. You see the unemployment figures; ou see the fact that two of the top 20 per-capita income counties are n this State. You read The Wall Street Journal article that named the op 10 communities in 1985/86, and three of them are in our State. es, it is the best market. So, I submit to you, why change it? Why hange the banking laws? What is the hurry? What is the rush?

That is the end of my statement, Mr. Chairman.

ASSEMBLYMAN LaROCCA: Are there any questions?

ASSEMBLYMAN KOSCO: Yes, do you consider this being ushed? You started by saying that you were in favor of total nterstate banking.

MR. SEMROD: Yes, total interstate banking.

ASSEMBLYMAN KOSCO: Do you think that the Department phasing nto it from regional and then to nationwide with a trigger would enefit?

MR. SEMROD: I think it makes a lot of sense in a lot of tates, Mr. Kosco, but because of the nuance of New Jersey, phasing in ith a large state on the left, phasing in a large state on the right ith a national trigger, and with the question up in the air on the onstitutionality of regional compacts, I don't see that the time is ight for this State to move in that direction.

If it were in my home State of Oklahoma, maybe I would want o phase in to Missouri, Arkansas, New Mexico, or Colorado in nticipation of interstate banking so that the big Houston or Dallas anks would be of comparable size.

My position, Mr. Kosco, is that the unique location of our state may notmake phasing in, in the best interest of the banks, iddle-market businesses, or the consumers.

ASSEMBLYMAN LOVEYS: Mr. Semrod, unless I missed something, it is my understanding -- correct me if I am wrong -- that Connecticut, Georgia, Florida, Kentucky, Massachusetts, New York, Rhode Island, South Carolina, and Utah would allow interstate banking if the states had reciprocal agreements.

MR. SEMROD: Mr. Lovey's, I'll leave it to the experts from the New Jersey Bankers Association to correct me, but in the case of some of those states, they are limiting their reciprocity to a specific region. An example is Connecticut. In other words, yes, they are reciprocal, but only to the New England group. Our passing a reciprocal agreement would not make us reciprocal with Stamford.

It is sort of that nuance as to why I am for total interstate banking. You have 50 states, plenty of opportunity to make a decision, no rush, not just very small people who are interested in acquiring four or five banks--

ASSEMBLYMAN LOVEYS: Go the route, and don't take the intermediate step.

MR. SEMROD: That is my belief because of our situation location-wise.

ASSEMBLYMAN LOVEYS: Thank you.

ASSEMBLYMAN LaROCCA: Thank you. It is refreshing to get another opinion and viewpoint. It may make our work a little harder, but that is what we are here for. Thank you.

MR. SEMROD: Thank you.

ASSEMBLYMAN LaROCCA: For another little change, I see that Mr. Sam Scozzaro is here. He has been in attendance at all of our hearings. He represents the New Jersey Federation of Senior Citizens, and I would like to hear from him now.

As an aside, to get our schedule ready on the witness list, I have one more person to testify -- a representative from the New Jersey National Bank. Is there anyone else who is not on the list besides New Jersey National Bank? (affirmative response) All right, you can speak right after Sam.

SAMUEL SCOZZARO: Thank you, Mr. Chairman, for inviting me here today. I live in Trenton, New Jersey, and I represent the Federation

Senior Citizens. I came with a prepared statement, but after stening to what has been said here, while some of it is appropriate, me of it is not. However, I am going to deviate here and there in der to point out where we, as senior citizens, are affected and how are not affected.

One of the observations I made here today is that the nsumers or depositors have been notoriously absent. They are not esent to represent their viewpoints. Certainly, there are competent d knowledgeable people out there who can speak about the banking dustry and the impact that the banking procedures have had on the nsumers so far. The only people we have heard from are the bankers d their points of view.

Do consumers care about the direction the banks are taking day? They certainly do, and I'll tell you in my prepared statement y they do.

Now, I will talk about what I originally came here to speak bout, and that is where seniors are being hurt. Number one, they are eing hurt by the bank float policy and also by some of the eregulation that has taken place so far. Also, they are going to be urt if and when they allow out-of-state banking to indiscriminately ome in.

The bank float policy is one of the things that is close to ll senior citizens, particularly the needy. That policy can be summed p as "the appropriation by the banks of depositors' money to fund ucrative short-term loan operations at the expense of the depositors." In a most revealing study that was conducted by the New Jersey Public nterest Research Group entitled, "A Study of Check Clearing Delays in lew Jersey," they report that in a statewide survey of check ithholding practices of New Jersey banks, it shows that banks earn normous sums from investing customers' moneys that are on hold.

It so happens that in the past week, I was in touch with a ormer officer of Citibank. He substantiated everything I've said here -- that the bank float is a lucrative source of funds for the banks, lus the service charge. That is another thing he pointed out. This s what they use to increase their cash flow to offset the increased osts that they have to pay for CD's, etc.

Check-withholding practices called bank floats have been reported by senior citizens to extend to Social Security checks, State, municipal, and corporate pension checks, and customer rebate checks. Of course, as I stated before, the affected people that the Federation are concerned with are mostly widows of retired pensioners who have been left with stipends that are insufficient to meet the need for food, shelter, clothing, medicine, and medical care. To withhold payment on a Social Security check or a State pension check is to unnecessarily punish and harass these widows who can ill-afford to have their money held up. Another recurring complaint has been the outright refusal to cash a Social Security check if the person did not have an account with the bank. It is the Federation's position that Federal, State, or municipal government checks should be honored upon presentation, providing the holder can produce satisfactory identification.

The Federation is also interested in the effect that the bank float policy has on our business community and the ripple effect it has on us, the consumers. It denies business the use of their money for periods of one week to 15 days duration, during which time banks are earning a handsome profit on the money after two days which it takes checks to clear with the Federal Reserve of the assigned bank. Of course, that has changed too; it is not two days; it is almost instantaneously with the new methods that are now being used to transfer money and information fro bank to bank. I have had personal contact with small businesses that habe been affected by banks' withholding policies. They are garages, privately owned food stores, dry cleaners, a dentist, an attorney, one of the former officers of Citibank, and also with rate counsel of the Public Advocate at a meeting we held here last week. We had quite a discussion about how they are being impacted with services charges that are thrown at them when they receive their monthly statement. The impact of banks' witholding policies has been to increase the cost of doing business for them, many of whom, in turn, have refused to take checks, and demand cash for their services.

As we all know, people can't do business just out of sympathy. If they have costs, they have to be recovered some way, and these costs are being recovered by increased costs in services.

The excuses most commonly given by the banks for their withholding practices are: "That is how long it takes checks to clear;" or, "It is to protect against stolen or fraudulent checks."

The Public Interest Research Group found these replies to be stereotype responses, and that the risk factor is miniscule. In most cases where losses are incurred, it is due to bank carelessness. Findings are documented in the PIRG survey, pages 21-23. The reality is that banks are reaping enormous profits from the use of the bank float concept, and they do not want it disturbed.

Bank policy is completely changed today from what it was in the past. In the past, banks served people; today, they use people to further their own ends. Every pretext and gimmick is employed by the bankers to charge depositors, consumers, and businesses under the battle cry of "cost justification," -- a claim of questionable validity in most cases.

Is a charge of $20 per item cost-justified for overdrafts and uncollectable items, particularly when banks are holding checks that more than cover the overdraft? Then there is the $5 or $6 fee for checking accounts, fees for checks, fees for checks paid, fees for per-item deposited, $35 for levies and liens, and, of course, there is the minimum balance requirement for which banks assess a fee if the balance falls below the requirement.

Yesterday, I had occasion to talk to one of the largest fruit and produce wholesalers in Mercer County. He told me that he pays as high as $40 for a check that doesn't clear. He was told that the reason is because of the cost of paperwork. I don't know what kind of paperwork is involved, but $40 is quite a large amount of money.

Attached is a brochure from a local bank which details the charges I have described. You have a copy of that brochure.

Quoting from The Congressional Quarterly, Inc., February 2, 1985, page 189: "Banks say the changes, such as higher charges for cashing checks or new fees to write checks, are necessary to offset their expense of paying higher interest. But, the moves also are part of a strategy known within the industry as 'demarketing' -- discouraging less affluent customers and courting those with money to invest." St. Germain said that when Congress considers a comprehensive banking bill, it "would be foolish, indeed, if it did not, up front, demand some quid pro quos for the American consumers." That was said by Representative Ferdinand J. St. Germain, Democrat from Rhode Island.

Seniors have brought to the attention of the Federation the fact that some banks will not accept accounts for less than $500. Some seniors are lucky just to have their Social Security checks, let alone have $500. If they do have $500, they set it aside for their burials.

The Federation recommends that the Committee request a copy of the worksheet or testimony of how banks have arrived at cost-justification for their charges. The State Banking Commission should have such records in their possession.

The lesson of 1929 and the Depression that followed has not been lost on our senior citizens. With that background of experience, senior citizens are wary and are looking for a strong regulatory environment for banks, with emphasis on safety and soundness, not deregulation. We are looking to regulators, our congressmen, and State legislators for protection of our hard-earned life savings which we have set aside in case of illness or other adversity. We are looking for protection from the opportunists who would undermine the banking system.

The Federation does not agree with our State Banking Commissioner that deregulation is the way to go. If we go that route, we will be creating a "dog-eat-dog" situation which can be likened to the condition that prevailed when we were struck with the 1929 collapse that brought banks and the country to their knees, losses to depositors, and much pain and suffering to consumers.

The Federation laments the fact that our four-tier watch-dog regulators -- the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and, the Office of the Comptroller of Currency -- plus the State Banking Commission, have been unable to protect depositors from inefficient, poorly managed banks.

This is witnessed by the 79 bank failures and the 800 teetering nationally in 1984. St. Germain is among the many congressional critics who complain of a "competition in laxity" among regulators today. This is from The Congressional Quarterly, page 224.

In conclusion, since our State Banking Commissioner has shown a reluctance to correct New Jersey banks' withholding policies by adopting a laissez faire policy and ignoring the depositors rights, the Federation has concluded that the only avenue left for a fair deal is by going the legislative route.

The Federation recommends the following:

1) That our New Jersey legislators enact legislation that would reuite New Jersey banks to give access to deposited checks without delay;

2) That the New Jersey Legislature adopt the Model Bank Float Statute provided by PIRG, or a facsimile thereof, which in the opinion of the Federation is a fair approach for the correction of the bank withholding abuse;

3) That the New Jersey Legislature be aware of the New Jersey Federation of Senior Citizens' opposition to the deregulation of banks and our recommendation for a strong regulatory environment for banks for the protection of depositors; and,

4) That the Legislature extend the non-bank moratorium recently passed by the Legislature beyond the one-year period. The Federation opposes the granting of charters to out-of-state bank holding companies to operate new bank entities in New Jersey. We believe that to do so is to create a dog-eat-dog situation that would undermine the very foundation of our New Jersey banks and savings and loan associations.

I think some of you folks know that since 1973, I have been involved in gas and electric utility regulations. I have gone before the administrative law judge, I have argued, and I have been cross-examined, as well. You know that I am pretty well aware of Sam Insull some years ago -- I think some of you were around then -- when President Roosevelt called him Mr. Schlemiel. I think that is what he called him. He called him that when he was arguing about bank holdings and the utilities' monopoly. Well, we have a monopoly in our State when it comes to utilities. This is the direction you will be going if you allow deregulation here. You will be heading towards a monopoly. If you head in that direction, the consumer will lose his rights. He will become a captive consumer because he won't have much to say.

Monopolies will dictate the cost, what you are going to pay for interest rates, and they are going to gobble up all the small banks. Notwithstanding what has been said here today, the big fellow is going to go after the little guy. He is going to eat the little fish.

I am not alone in this. They have been arguing this very thing at the national level. Maybe some of you don't like him, but Ralph Nader is there arguing, along with a whole host of others down there.

We had better look in the direction of protecting the depositors, as well as the banks. Yes, our sympathy goes to the banks; we don't want to lose them; we want them. We want to be able to go to our banker and say, "Look, I'm in trouble. I need a helping hand." Can you go to the big fellow and say the same thing? No.

I've got a son-in-law who just came in from Chicago. He is paying 19% on a mortgage. I told him, "Go back and renegotiate that mortgage." If he doesn't want to do that, I'll give him the money. Okay? This is the kind of problem we will be dealing with. By the way, he is dealing with Citicorp in Chicago.

I am saying that we had better go easy with deregulation. The regional method may be helpful; I really don't know. But, I doubt it because we are so close to New York and Philadelphia, as has been pointed out. Greed usually takes over.

I think I will stop here. Thank you.

ASSEMBLYMAN LaROCCA: Thank you. Are there any questions from the members of the Subcommittee? (negative response) Thank you again. Mr. Walther, New Jersey National Bank?

JOHN H. WALTHER: Thank you, Mr. Chairman. My name is John Walther. I am Chairman and Chief Executive Officer of the New Jersey National Bank, which is headquartered in Mercer County. We have over $1.5

billion in deposits, and we have 83 offices in the 13 central and southern counties of the State. We serve about 50 communities in those counties. Basically, we are just a country bank that lends New Jersey deposits to New Jersey borrowers. We have less than $3 million in foreign loans, and we confine ourselves pretty much to lending and deposit taking in the State of New Jersey. All of this is in the southern part of the State, so we know about competition because we compete with Philadelphia everyday.

About half of our loans are consumer loans, and the other half are what we call commercial loans, which are made mostly to the small- and medium-sized businessmen in the southern part of the State. That includes farmers.

Our first priority is, we are in favor of immediate national interstate banking. When the regional compacts were first discussed, they were being discussed with bankers associations in the States of Maryland, Virginia, District of Columbia, Delaware, Pennsylvania, Ohio, and West Virginia. This had a great of appeal to us.

As legislation has evolved in these other states, we find that New Jersey has not been included as being eligible for their regional pacts. At the moment, it looks as if it has boiled down to inclusion in one, and that has yet to be introduced. That is the State of Pennsylvania. That is a bi-state pact; that is not a regional pact, not in our opinion. Ohio, in addition, has included us as a second-tier delayed state, which can come in at some future time after the passage of a number of years.

We recognize the fact that a bank our size will not survive as an independent institution. We are planning on the fact that we will not survive. One of the things that is very important to us -- again, from the southern part of the State you develop a certain parochial attitude toward your market -- is that the alternatives be large in numbers, so that we can be certain that the three constituents we serve, which are our communities, our employees, and our shareholders, are going to have as many alternatives as possible in order for them to choose which direction the organization can go. We spent a lot of time and a lot of money.

We have branch banks in communities where we are the only bank for 10 or 15 miles in any direction. With that goes opportunity, but with that also goes a lot of responsibility.

As I said before, we are not afraid of competing with the Pennsylvania banks. We do it very successfully everyday. As a matter of fact, in the Business Week listing that just came out, we are listed as the 190th largest bank in the United States, and we were 36th in our five-year growth of earning. I think that indicates that we can compete with the Phildelphia banks.

Our present position is that the legislation should await the Supreme Court on the legality of regional compacts. I think there is serious question as to whether or not they are going to be found a restraintive trade. If they are, you will probably find that Congress will act.

As Mr. Peacock said, we think that part of the congressional action will be the broadening of product mix for the banking system, and probably part of that will be a more real national interstate banking system, which will give us the opportunities we had before to merge with someone who will be more like we are.

As I mentioned, we are the sixth largest bank in the State. If you look at the sixth largest bank in the State of Pennsylvania, they are more than twice our size. For someone to think that they are like we are, they would be wrong. If someone thought, if we had a merger or an acquisition with them that our bank would be run out of New Jersey, that would be wrong also. The bank would probably be run out of Pennsylvania, which would be in the best interest for New Jersey depositors as Pennsylvania has determined.

That basically is my statement, sir.

ASSEMBLYMAN LaROCCA: Are there any questions or comments from the other members of the Subcommittee? (negative response) Thank you. Is there anyone else who would like to be heard? (no response)

I want to thank everyone who appeared and gave testimony. The Subcommittee will meet again, and we will wrestle with this issue.

e hope to issue a report soon and, hopefully, we will have some other earings later on during the year on other phases.

Thank you.

(HEARING CONCLUDED)

APPENDIX

STATEMENT OF THE NEW JERSEY SAVINGS LEAGUE, FOR PRESENTATION AT THE PUBLIC HEARING ON RESOLUTION 89
APRIL 3, 1985 - STATE OFFICE BUILDING
1100 RAYMOND BLVD.
ROOM 1 - 2ND FLOOR - NEWARK, NEW JERSEY - 10 A.M.

The New Jersey Savings League appreciates this opportunity to provide testimony before the sub-committee on Depository Institution Deregulation of the Assembly Banking and Insurance Committee. The New Jersey Savings League represents virtually all of the 167 Savings and Loan Associations and Federal Savings Banks (hereafter referred to as savings institutions) in the State of New Jersey. The New Jersey Savings League strongly opposes any actions to remove restrictions on interstate banking, including so called "regional banking". The League opposes interstate banking because we believe that interstate banking would result in the exportation of capital from New Jersey to other parts of the nation and that interstate banking would result in control of New Jersey financial institutions by companies headquartered outside of New Jersey which do not understand nor care about the needs of the citizens of New Jersey.

A case for interstate banking might be made if financial institutions headquartered in New Jersey were not meeting the needs of the citizens of New Jersey. That is clearly not the case. New Jersey's financial institution industry is large and strong, and serving the needs of the public in an exemplary fashion. Savings institutions, which the New Jersey Savings League represents, set an all-time record for mortgage lending in 1984 of $8.6 billion, and this record pace is continuing into 1985. New Jersey Savings institutions are providing the public with a wide variety of mortgage and consumer lending services and a wide variety of Federally insured investment opportunities at very competitive rates. The location of the State of New Jersey, between the financial centers of New York City and Philadelphia, insures that the financial services offered by New Jersey financial institutions remain competitive.

To reiterate, the New Jersey Savings League sees no benefits to the citizens of New Jersey from interstate banking and believes the public has much to lose, as capital that otherwise be available for lending in New Jersey would be exported to other states.

As we noted in our statement for the hearing on February 13, 1985, the New Jersey Savings League believes issues related to interstate banking must be first resolved by the Congress before state action is warranted.