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## BANKING IN VIRGINIA: THE 1962 LEGISLATION

HARMON H. HAYMES\*

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American banking is in a state of ferment unequalled since the events which surrounded the bank holiday of 1933. The present whirlwind of activity, however, is the result of pressures entirely different from those which precipitated the changes thirty years ago. The changes of the 1930's climaxed a period of banking chaos and took place in an atmosphere of failure, retrenchment, and retreat. Today's changes are the outcome of prosperity, expansion, and progress.

As the economy has grown in the post-World War II period, the problems of growth have received increased attention from those concerned with the structure and operation of the banking system. Bankers and regulatory authorities alike are aware of the public fear and distrust of large concentrations of money power, but as one observer commented early in 1955: "If industrial agglomerations of capital get bigger, the banks serving them must do the same."<sup>2</sup> Many of the changes which have occurred in recent years have been the result of attempts to facilitate bank expansion or to influence the direction and rate of expansion.

Banks, unlike most of the customers they serve, operate under a network of laws limiting the scope of their activities and imposing strict regulations. The traditional basis for regulation lies in the fact

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<sup>2</sup>J. Stewart Baker, quoted in *Business Week*, February 12, 1955, p. 126. The American Banking Association has argued that "Deterioration in the relative position of commercial banks can have adverse effects on the economy as a whole. It may already have had this effect in some measure.... It has become increasingly difficult for banks to perform their economic functions...." American Banking Association, *The Commercial Banking Industry* 14 (1962).

that banks are entrusted with the care of their customers' money, but today's controls stem primarily from the banking system's role as a creator and supplier of money and credit. The public demands more specific regulation of banking than of manufacturing or retailing.<sup>3</sup> Most of the restrictions imposed upon banks have little bearing on their growth and development, but the laws dealing with mergers and the operation of branches may play an important role in determining the rate of bank expansion.

Branch banking laws are prescribed by the individual states. Thus, although banks may engage in interstate commerce, they may not open branches or offices outside of the area prescribed by state law. This area, under existing laws, is always within the boundaries of a single state. National banks, i.e., those chartered by the Federal Government, were not permitted to open branches until the passage of the McFadden Act in 1927, but this Act, together with later amendments to the Federal Reserve Act, allowed them to open branches on the same basis as state chartered banks in the same state.<sup>4</sup> Banks may do business in states other than those in which they are located, but interstate banking is usually conducted by very large banks whose customers operate on a national or international scale. As a result, most banks are small or medium-sized businesses operating within a relatively small area. In some states, they are limited to a single location in a single town or city, but in recent years many states have liberalized their banking laws to permit more rapid expansion.

Virginia is one of the states in which the statutes have been recently revised to permit greater latitude in bank expansion. New legislation was enacted in 1962 which already has had far-reaching effects. In this article, the background of this legislation and the reasons for its passage will be reviewed. Further, the changes which have occurred in the months since its passage will be described and analyzed, and some tentative conclusions made concerning the impact of these changes upon the State's banking structure. A comparison also will be drawn between the steps which have been taken and the possible alternatives.

## I. STATE-FEDERAL RELATIONSHIPS

The laws governing branch banking vary widely from state to state. Some states permit state-wide branch banking with few restrictions on the methods of acquiring branches. Other states prohibit branches

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<sup>3</sup>Unrestricted competition is not thought to be in the public interest, since it might result in the failure of many banks.

<sup>4</sup>Section 5155, Rev. Stats.; § 36, Tit. 12, U.S.C., Supp. IV; § 321, Tit. 12, U.S.C., Supp. IV; § 221, Tit. 12, U.S.C.; § 264(v)(5), Tit. 12, U.S.C. Supp. IV.

entirely. Between these two extremes there are states which permit only branch offices physically connected with the head office, branch offices within a limited area, or state-wide branch banking with various limitations. Table 1 summarizes the status of branch banking laws as of 1962.

State banking laws are "permissive" in that they set the outer boundaries within which branch banking is permitted. Yet, the expansion or limitation of branch banking is under the jurisdiction of both state and federal agencies. Branches may be established in two ways: through *de novo* expansion<sup>5</sup> or through merger, with one of the parties to the merger becoming a branch of the other. Even in states permitting state-wide branching, any bank wishing to establish a new branch must obtain approval from one of the three federal banking authorities:<sup>6</sup> the Federal Reserve Board, the Comptroller of the Currency, or the Federal Deposit Insurance Corporation.

National banks may establish *de novo* branches, where permitted by state law, with the approval of the Comptroller of the Currency. State banks that are members of the Federal Reserve System must have the approval of the state banking authority and of the Board of Governors of the Federal Reserve System. Banks which are not members of the Federal Reserve System, but which are insured by the Federal Deposit Insurance Corporation, need the approval of the state banking authority and of the FDIC.<sup>7</sup> When the merger route is being used to establish branches, the merger itself must be approved by the relevant banking agency. The federal Bank Merger Act of 1960 provides, in part:

No insured bank shall merge or consolidate with any other insured bank or, either directly or indirectly, acquire the assets of, or assume liability to pay any deposits made in, any other insured bank without the prior written consent (i) of the Comptroller of the Currency if the acquiring, assuming, or resulting bank is to be a national bank or a District bank, or (ii) of the Board of Governors of the Federal Reserve System if the acquiring, assuming, or resulting bank is to be a State member bank (except a district bank), or (iii) of the Corporation if the

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<sup>5</sup>De novo expansion refers to the opening of new branches.

<sup>6</sup>One exception: a state chartered bank whose deposits are not insured by the Federal Deposit Insurance Corporation needs only the approval of the state banking authority.

<sup>7</sup>All national banks and some state banks are members of the Federal Reserve System. All Federal Reserve member banks and most non-member banks are insured by the Federal Deposit Insurance Corporation.

acquiring, assuming, or resulting bank is to be a nonmember insured bank (except a District bank).<sup>8</sup>

In addition, when the continuing bank is to be a state-chartered bank, the state banking authority as well as a federal agency must approve the acquisition.<sup>9</sup>

Given these legal requirements concerning branch banking, state-federal relationships are crucial. There are some who feel that "the standards which should govern the branching powers of national banks are not . . . the varied standards which are appropriate to the local needs of the 50 individual states. Criteria for national banks should be set . . . in terms of the broad national interest."<sup>10</sup>

Many authorities, particularly those connected with state banking, disagree with these views. They argue that each state should have the right to determine its own banking structure. What might be an appropriate structure in California, for instance, might not be suitable for Virginia, and vice versa. Moreover, they continue, there are important advantages in having state-chartered banks regulated locally, particularly with respect to adapting regulation to local situations.<sup>11</sup> Finally, many small banks, largely out of fear that federal control would lead to their absorption by larger banks, tend to favor a continuation of the dual banking system.

It is not the purpose of this article to deal at length with the problems of state-federal relations. The significant point is that state

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<sup>8</sup>12 U.S.C. 1828(c).

<sup>9</sup>The establishment of a new branch, of course, is not the only purpose of a merger. State laws concerning branch banking play no role in a proposed merger when the two merging banks wish to combine their assets and operate from a single location. The purpose of a majority of all bank mergers in recent years, however, has been to establish a new branch or branches. Consequently, bank mergers largely occur in states permitting state-wide or limited branch banking. See 49 Fed. Reserve Bull. 1192-93 (September, 1963).

<sup>10</sup>Comptroller of the Currency, J. Saxon, quoted in *Business Week* at 48 (February 23, 1963).

James L. Robertson, one of the seven members of the Board of Governors of the Federal Reserve System, suggests that the present Federal banking structure has grown like "Topsy . . . with resulting overlapping, inefficiencies, inconsistencies, and conflicting policies" and urges the creation of a single Federal Banking Commission to regulate all national banks. See "Statements on Bill to Establish a Federal Banking Commission," 49 Fed. Reserve Bull. 604 (May, 1963).

<sup>11</sup>There are a few advantages in some states which accrue to a state chartered bank. For instance, states may have lower capital requirements than do national banks; many states have lower reserve requirements or requirements that can be met in different ways from those imposed on national banks; many state chartered banks carry a heavy proportion of mortgage loans, whereas national banks are restricted in the proportion of such loans they may carry; and some states permit state chartered banks to exceed the national bank lending limit.

banking laws concerning branch banking set the ground rules, but the implementation of these rules is a function of both state and federal agencies.

## II. CHANGING ATTITUDES

Originally, most banks were unit banks, even though there were no laws concerning branch banking. As more banks opened branches, state legislatures responded by passing laws to limit this development, and the trend continued until most states either prohibited branch banking entirely or restricted it. In recent years, the pendulum has begun to swing the other way, as one state after another has revised its banking code to liberalize branch banking.

The changing attitudes are reflected in the emphasis accorded various arguments concerning branch banking versus unit banking. The laws prohibiting or limiting branching were passed in deference to the arguments of its opponents. Supporters of unit banking cite three major disadvantages of branch banking: (1) The danger of monopoly. It is argued that the growth and expansion resulting from branching might force unit banks out of existence, leaving only a few large monopolistic branch banks. (2) The danger of failure. Branch banks are relatively large with widespread financial influence. The failure of a branch bank, therefore, would be much more serious than the failure of a unit bank. (3) The impersonal attitude. It is argued that an independent unit bank can serve a community much better than the branch of a large bank because home town ownership and management results in the rendering of more personal service.

In contrast, supporters of branch banking cite five major advantages. (1) Branching makes it possible for a single bank to make larger loans. With certain exceptions, no national bank may lend an amount greater than 10 per cent of its capital and surplus to a single borrower.<sup>12</sup> As industrial firms have grown, their capital needs have also expanded; banks must grow to adequately serve their demands. (2) Branch banking provides greater mobility of funds. A bank with branches in two or more areas can make the surplus funds of one area available in some other area where there is a shortage. (3) Branching facilitates diversification. The diversification of loans and investments means safety and stability in banking, and branch banks, doing business over a wide area, can engage in more diversification than can most unit banks. (4) Branching raises banking standards. Banking standards depend primarily on the quality and competency of manage-

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<sup>12</sup>The lending limits for state chartered banks vary.

ment. A large bank can afford to hire better management than can a small bank. Moreover, since branch banks are on the average larger than unit banks, presenting a wider range of activities and challenges, their management tends to be better. (5) Branching makes complete banking services available to even the smallest communities. A small unit bank can offer some banking services only by acting as an intermediary between the customer and a large bank. The small town office of a large branch bank can offer all banking services without involving a third party.

There are other arguments in favor of and in opposition to branch banking, but these are the ones around which the controversy has raged over the years. The monopoly argument has been the most potent weapon of those favoring unit banking, while the safety of diversification and higher banking standards have been used most successfully by branching supporters. In retrospect, it was perhaps inevitable that branch banking should gain strong support. Americans are strong believers in efficiency and, while efficiency of the individual business firm may not always be a matter for public concern, the examples of the highly successful grocery and drug chains, bringing customers an ever increasing variety of products at lower prices, have not been wasted on the American public.

### III. BRANCHES FOR GROWTH

The assumption that branch banks tend to be larger than unit banks is apparently a sound one. Since banks deal with their customers, both depositors and borrowers, on a personal basis, a bank's location is an important factor in the type and volume of business it can acquire. Except in rare instances, substantial growth is possible only when a bank can come in contact with more customers. The bank in a metropolitan area, particularly a major financial center, may grow as the city expands and the only limit on the bank's size may be its success in competing with other banks in the same area. But banks in smaller cities and towns generally find their opportunities for growth somewhat more restricted. The growth of an area may be limited to a particular type of industry, or there may be insufficient deposits to provide the reserves necessary for the rapid expansion of loans.

Outside of metropolitan areas, and sometimes even within them, banks have found that the most appropriate means of growth usually lies in the opening of branch offices. Initially, these may be suburban or resort area offices, but when the opportunities afforded by these

have been exhausted, the next step is to expand into other cities and towns. Such expansion can be accomplished by opening new branches or through mergers or acquisitions. Whatever the form, branching is the answer to the question of how to achieve adequate growth for most banks.<sup>13</sup>

The bank merger rate throughout the country began to accelerate in the early 1950's.<sup>14</sup> During the period 1953-1962, there were 1,669 mergers and absorptions.<sup>15</sup> During the same period, 1,113 new banks were organized and 91 banks were voluntarily liquidated, so that there was a net decrease of 647 banks.<sup>16</sup> However, the number of branch offices more than doubled, from 5,328 to 12,066, in this ten-year period.<sup>17</sup> These data indicate that branching has been occurring at a rapid pace throughout the country.

#### IV. THE BANKING CODE OF VIRGINIA

The history of branch banking in Virginia can be divided into three broad periods and each will be considered in turn.

1. *Virginia Law before 1948.* Prior to 1948, Virginia law permitted branch banking, either through the opening of *de novo* branches or through mergers or acquisitions. Subsection 4149 (14) of the Code provided that the State Corporation Commission might "authorize banks having a paid-up and unimpaired capital and surplus of fifty thousand dollars or over to establish branches within the limits of the city, town, or village in which the parent bank is located," and that the Commission might also "authorize banks located in any city to establish branches within other cities having a population of not less than fifty thousand inhabitants."<sup>18</sup> The statutes also provided for

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<sup>13</sup>"Adequate growth" is difficult to define, but it would appear to be that growth which allows banks to maintain some accepted relationship to industry and commerce in their service areas. Banks expect to provide a certain amount of the financing needed by other businesses in their service areas, and in order to do this, they must grow at a rate consistent with the growth of other firms.

<sup>14</sup>C. P. and D. A. Alhadeff, "Recent Bank Mergers," 69 *Quarterly Journal of Economics* 503 (November, 1955).

<sup>15</sup>49 *Fed. Reserve Bull.* 1192 (September, 1963).

<sup>16</sup>*Ibid.*

<sup>17</sup>Data supplied by the Division of Research and Statistics, Board of Governors, Federal Reserve System.

<sup>18</sup>Statutes of Virginia (Relating to Banks, Trust Companies, Banking, Building and Loan and Kindred Businesses) 20-21 (1936).

In the 1912 Session of the General Assembly, the previously broad branching privileges were curtailed. Section 3 of Chapter 173, approved March 13, 1912, read in part:

"No Bank or trust company heretofore or hereafter incorporated under



the merger or consolidation of "banks in the same or adjoining counties or of banks located within a distance of twenty-five miles of a parent bank" and the operation of the merged or acquired banks as branches without regard to capitalization or population, subject only to the approval of the Commission.<sup>19</sup>

These provisions allowed a bank with a capitalization of \$50,000 or more to open branches in widely separated parts of the State, but branching was limited to cities of not less than 50,000 population except in the area immediately surrounding the parent bank. Only one bank, the Bank of Virginia, took full advantage of the opportunity to expand into other cities.<sup>20</sup> It opened branches not only in Richmond and the nearby city of Petersburg, but also in Norfolk, Newport News, Portsmouth, and Roanoke. Many smaller banks, concerned about the expansion of the Bank of Virginia, began to bring pressure to bear in the late 1940's for a revision of the law. The larger banks, other than the Bank of Virginia, appeared to be somewhat apathetic. The Bank of Virginia posed no threat to their existence. Nor were they taking advantage of the opportunity to expand into other cities. Nevertheless, the pressure continued until in 1948 the law was amended to prohibit branching outside of the immediate area in which a bank was located.

2. *Virginia Law: 1948-1962.* The 1948 amendment, as further amended in 1952, continued the minimum capital requirement of \$50,000 for a bank opening a branch but restricted *de novo* branches to "the limits of the city, town, or country in which the parent bank is located."<sup>21</sup> Branching through merger or absorption of an existing bank in the same or adjoining county or within 25 miles of the parent bank was permitted provided each of the banks had been in operation

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the laws of this State, shall be authorized to engage in business in more than in one place, except that, in its discretion, the State Corporation Commission may authorize banks having a paid-up and unimpaired capital of twenty-five thousand dollars or over to establish branches."

Branching privileges were further restricted at the 1928 Session of the General Assembly when the following words were added to the end of the section quoted above:

"within the limits of the city, town, or village in which the parent bank is located or in other cities having a population of not less than 50,000 inhabitants."

At the 1933 Session of the General Assembly, the requirement concerning paid-up and unimpaired capital was increased from twenty-five to fifty thousand.

<sup>19</sup>Statutes of Virginia 21.

<sup>20</sup>Several of the branches opened by the The Bank of Virginia were authorized by the State Corporation Commission prior to the 1928 restriction.

<sup>21</sup>Va. Code Ann. § 6-26 (Supp. 1962).

five years or more.<sup>22</sup> This amendment, therefore, limited each bank to a single area.

The 1948 revision halted the expansion of the Bank of Virginia, but in so doing made it impossible for any other bank to expand by opening branches or merging with other banks in distant cities. Thus, expansion in the number of offices of all Virginia banks was limited by the opportunities available in the immediate area of the home office. This limitation protected weak banks from severe competition with banks in other areas of the State, but critics of the amendment soon pointed out shortcomings.

The law effectively prevented all Virginia banks from competing for large loans with banks in the District of Columbia, Maryland, and North Carolina. Virginia had no cities of sufficient size to foster the development of banks as large as some of those in Washington and Baltimore, and the law prohibited the development of branch banking organizations as large as some of those in North Carolina. As a newspaper reporter stated the problem in 1961:

Beyond doubt, Virginia bankers say, this state is losing banking business to North Carolina. A recent example was the H. K. Porter Co., whose \$2,650,000 electrical transformer plant at Lynchburg was financed by a North Carolina bank and whose Disston Saw Division in Danville, which cost \$1,500,000 to \$2,000,000, was also financed in North Carolina . . . . No single Virginia bank could have made these loans, but either of two banks in North Carolina could.<sup>23</sup>

Under federal legislation, which limits loans by a national bank to a single borrower, the largest loan any Virginia bank could make was approximately \$1,500,000. The North Carolina National Bank could lend almost twice that amount; the Wachovia Bank and Trust Company, also in North Carolina, could lend three times as much. These two banks had been allowed to develop large branch organizations under a law which permitted state-wide branching, and their position was further strengthened by Virginia law prohibiting Virginia banks from growing in a similar manner.<sup>24</sup>

Opponents of branch banking argued that Virginia banks could

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<sup>22</sup>Va. Code Ann. § 6-27 (1959).

<sup>23</sup>Weekly, "Curbs on Bank of Virginia Boomerang," *Richmond Times Dispatch* C-9 (July 2, 1961).

<sup>24</sup>It is not being implied that larger banks in Virginia would have stimulated business in the state. As our remarks about competition indicate, large loans have been available from numerous out-of-state sources. However, it is probably in the interest of most Virginians, bankers and non-bankers alike, to finance as much of the state's business as possible from financial sources within the state.

compete effectively for large loans through participation arrangements in which the bank initiating the loan shares it with another bank or banks. The rebuttal to this argument contains three points. First, borrowers prefer to deal with a single bank rather than with two or more banks. The fewer loan officers and loan committees to keep happy, the better the borrowers like it. Second, participation loans may reduce a bank's liquidity. In the event rediscounting should become necessary, special arrangements would have to be made. Third, the opportunities for participation loans are limited because borrowers are unlikely to approach a bank for a loan if they know the bank is too small to make the loan. The third point is probably the most important and is an effective answer to the argument that larger banks are unnecessary because "our bank has never had to refuse a loan on account of its size."

In spite of these restrictions on branching, Virginia's banking structure underwent changes during the 1953-1962 period. There were 17 new banks organized in the State and 40 mergers and absorptions, resulting in a net decrease of 23 banks.<sup>25</sup> Yet, the number of branch offices in the State increased nearly threefold—from 112 in December of 1952 to 346 in December of 1962.<sup>26</sup> Virginia's banking structure, however, remained far less concentrated<sup>27</sup> than the structures of many other states. In fact, the Comptroller of the Currency has referred to Virginia's structure as being "fragmented and decentralized."<sup>28</sup> As of December 28, 1962, the three largest banks or bank groups held 21 per cent of the deposits in the State's commercial banks.<sup>29</sup> In only six states were comparable concentration ratios lower.<sup>30</sup> Mergers and the opening of branches were occurring, therefore, prior to the 1962 legislation.

3. *Virginia Law: The 1962 Amendment.* The supporters of branch banking continued their pressure upon the legislature for a liberaliza-

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<sup>25</sup>Data supplied by the Division of Research and Statistics, Board of Governors, Federal Reserve System. In December, 1952, there were 315 banks in Virginia; in December, 1962, there were 292 banks.

<sup>26</sup>*Ibid.*

<sup>27</sup>Concentration is measured by the relationship of a bank's absolute size to the size of all banks in a state, usually expressed in terms of deposits.

<sup>28</sup>"Decision of the Comptroller of the Currency, James J. Saxon, on the application to merge the First and Merchants National Bank of Richmond, Virginia, with the First National Bank of Newport News, Newport News, Virginia," October 19, 1962.

<sup>29</sup>Annual Report of the Federal Deposit Insurance Corporation 55 (1963).

<sup>30</sup>*Ibid.* Concentration in banking is a function of the status of branch banking. The highest concentration ratios are found in states permitting state-wide branching; the lowest ratios in unit banking states.

tion of the State's banking law. If the financial markets of Virginia were not to be completely overshadowed by those in neighboring states, they argued, larger banks must be permitted. In 1962, in recognition of the disadvantages of severe limitations on branching, the legislature amended the Virginia Code to provide that the State Corporation Commission "may authorize banks having paid-up and unimpaired capital and surplus of \$50,000 or over to establish branches within the limits of the city, town, or county in which the parent bank is located or to establish branches elsewhere by merger with banks located in any other county, city, or town."<sup>31</sup> The amendment permits state-wide branch banking, but limits the method by which branches may be established. *De novo* branches continue to be restricted to the area of the parent bank; branches outside of the immediate area of the bank can be established only through merger.

#### V. EFFECTS ON THE BANKING STRUCTURE OF VIRGINIA

Although the 1962 legislation is too recent to permit other than tentative conclusions, it appears certain that the banking structure of the State will be altered radically in the next few years. In the period June 30, 1962, through December 15, 1963, there were 27 mergers involving Virginia banks. In these cases, 16 acquirings banks absorbed 28 banks (Table 2). All of the absorbed banks are being operated as branches of the continuing bank, indicating that the desire for new branches was the dominant motive for the mergers. Further, a majority of the acquired banks were relatively small (under \$10 million in deposits). Recent studies suggest that banks of this size are too small to achieve maximum efficiency and to consistently attract top management personnel.<sup>32</sup>

Multiple acquisitions are of particular significance. Before 1962, the two largest banks in the state were First and Merchants National Bank and State-Planters Bank of Commerce and Trusts, both of Richmond. Now, while the participation of State-Planters in banking activity continues to increase through its membership in a holding company, as an individual bank it is growing less rapidly than those banks acquiring branches through mergers. As a result of multiple acquisitions, the Virginia National Bank, First and Merchants National Bank, and First National Exchange Bank of Virginia have emerged as the three largest banks in the state. Virginia National, with headquarters

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<sup>31</sup>Va. Code Ann. § 6-26 (Supp. 1962).

<sup>32</sup>See, for example, Gramley, *A Study of Scale Economics in Banking* (1962).

in Norfolk, has total deposits of approximately \$388 million. The bank resulted from a merger between Peoples National Bank of Central Virginia and National Bank of Commerce. Since the original merger, acquisitions of banks in Abingdon, Franklin, Staunton, and Suffolk have added four more branches. First and Merchants National Bank, with headquarters in Richmond, has total deposits of nearly \$420 million. Under the 1962 legislation, it has acquired three new branches by merging with banks in Staunton, Newport News, and Lynchburg. First National Exchange Bank of Virginia, with headquarters in Roanoke, resulted from a merger between First National Exchange Bank of Roanoke and Farmers & Merchants National Bank (Blacksburg) and has total deposits of approximately \$171 million. Two subsequent mergers have added branches in Wytheville and Marion. All of these mergers are a direct result of Virginia's 1962 banking legislation.

*Bank Holding Companies.* Even prior to the 1962 amendment, banking interests in Virginia were not limited to a single area because of the possibility of engaging in state-wide operations through the holding company device. Under the Bank Holding Company Act of 1956, all bank holding companies are required to register with the Board of Governors of the Federal Reserve System and must obtain approval from the Board before engaging in a merger.<sup>33</sup> While individual states are free to exercise direct control over holding companies, Virginia does not do so, although the 1962 amendment did define a bank holding company.<sup>34</sup>

As of September 15, 1963, there were four bank holding companies operating within the State, with a combined total of 144 banking offices and approximately \$946 million in deposits (Table 3). While Virginia does not exercise direct control over such companies, its attitude to-

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<sup>33</sup>12 U.S.C. § 1841. There were certain exceptions. Thus, the Financial General Corporation is not required to register with the Federal Reserve since it was formed several years ago under the Investment Act of 1940, rather than the Bank Holding Company Act of 1956.

<sup>34</sup>"'Bank holding company' means any company (1) which directly or indirectly owns, controls or holds with power to vote, twenty-five per centum or more of the voting shares of each of two or more banks or of a company which is or becomes a bank holding company by virtue of this section, or (2) which controls in any manner the election of a majority of the directors of each of two or more banks or, (3) for the benefit of whose shareholders or members twenty-five per centum or more of the voting shares of each of two or more banks or a bank holding company as held by trustees; and for the purpose of this section, any successor to any such company shall be deemed to be a bank holding company from the date as of which such successor company becomes a bank holding company." Va. Code Ann. § 6-27.1(a) (Supp. 1962).

wards branching affects holding companies. Prior to 1962, a holding company could expand its operations into other parts of the State only by adding new banks to its holdings. Under the new legislation, this goal can be accomplished by having one of the existing banks within the holding company structure acquire another bank through merger. To illustrate: the Bank of Virginia, a subsidiary of the Virginia Commonwealth Corporation, has acquired two new branches through merger under the 1962 legislation, in Dinwiddie and Sandston. State-Planters Bank of Commerce and Trusts, a subsidiary of the United Virginia Bankshares Incorporation, has added one branch through merger, in Henrico County.

## VI. CONCLUSIONS

The 1962 legislation has already altered the structure of Virginia banking. Where there were two sizeable banks in the State prior to 1962 (First and Merchants National Bank, State-Planters Bank of Commerce and Trusts), there are now three (First and Merchants, Virginia National Bank, State-Planters) and each of them is larger than any which had existed previously. Moreover, only one of the three is connected with a holding company (State-Planters). Thus, one of the advantages of branch banking—greater lending capacity for individual banks—has quickly been achieved. Mergers between banks in widely-separated areas have achieved other advantages—mobility of funds and diversification. Presumably, the remaining two advantages of branch banking—more highly skilled management and a wider variety of banking services to small communities—are concurrently forthcoming, but they are more difficult to measure.

None of the disadvantages of state-wide branch banking has as yet become discernible. There is apparently no danger of failure by any of the expanded banks and it is doubtful if their increased size can be considered hazardous. The other two disadvantages—the danger of forcing small unit banks out of existence and presenting small-town customers with an impersonal attitude—have been minimized by the restrictions on *de novo* branching. Since banks can open branches outside of their home territories only through mergers, no small unit bank need fear that its territory will be invaded by a new banking office. A large bank can establish a branch in a new territory only by acquiring an existing bank in that area; a bank, presumably, that was already providing some competition.<sup>35</sup> For this reason, also, services

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<sup>35</sup>Once a branch has been established in an area, competition between that branch and other banks in the area may increase.

are not likely to become cold and impersonal, at least in the immediate future. The management of acquired banks is likely to be retained, whenever possible, and there is no reason why contacts with local businessmen should suffer. Unfortunately, good management for small banks, whether they are independent or branches, is difficult to secure. Therefore, when the present managers of newly-acquired branches retire, they may very possibly be replaced with the sort of impersonal branch managers deplored by the advocates of unit banking.

The provision in the 1962 legislation which protects the home territories of unit banks from state-wide *de novo* branching has both advantages and disadvantages. On the one hand, home office protection can result in inefficiency in that small banks are maintained. On the other hand, unrestricted *de novo* expansion can result in the elimination of all small banks regardless of their relative efficiency and, perhaps, to over-expansion. For these reasons, the 1962 legislation represents a compromise. At the same time, home office protection has had at least one interesting and significant side effect: the development of holding companies has been encouraged.

If a bank undertakes state-wide expansion through branching, it can move into a new territory only by merging with an existing bank in that area. Further, since a branch office cannot open branches of its own, the branch operations of the parent bank in that area are limited to the offices already operated by the bank which it acquires. No new branch offices may be opened in that territory. However, if a bank undertakes state-wide expansion by forming a holding company, it faces no such limitations. The holding company may acquire new banks anywhere in the State and those banks, in turn, may open additional *de novo* branches within their home territories. Of course, the holding company has other limitations, chief of which is the fact that ownership of other banks through a holding company does not increase the lending capacity of the parent bank.

It will be several years before the full effects of the 1962 legislation become apparent. However, the rapidity with which many Virginia banks have taken advantage of the opportunities afforded them under the new law suggests that the nature of banking in Virginia may be altered substantially by that law. There will be fewer banks, some of them much larger than any Virginia bank of the past, and there will be more branch offices. The changes in the banking structure may appear to represent progress or regression, depending on one's point of view.

## APPENDIX

TABLE 1

*Policy of the States on Branching*

<i>State</i>	<i>Branching Policy (1)</i>	<i>Protective Rules (1, 2)</i>
1. Alabama	Prohibited, with many exceptions.	Yes
2. Alaska	No legislation. 100 mile radius limitation repeated in 1959.	
3. Arizona	Statewide.	
4. Arkansas	Prohibited with exceptions.	
5. California	Statewide.	
6. Colorado	Prohibited.	Yes
7. Connecticut	Statewide.	
8. Delaware	Statewide.	
9. Florida	Prohibited.	
10. Georgia	New branches prohibited since 1960.	
11. Hawaii	Statewide.	Yes
12. Idaho	Statewide.	
13. Illinois	Prohibited.	
14. Indiana	Confined to counties.	
15. Iowa	Prohibited.	
16. Kansas	Prohibited.	Yes
17. Kentucky	Confined to county of the main office and contiguous counties.	
18. Louisiana	Statewide with limitations.	
19. Maine	Statewide.	
20. Maryland	Statewide.	
21. Massachusetts	Confined to counties.	Yes
22. Michigan	Confined to counties or areas of contiguous counties within 25 miles of main office.	
23. Minnesota	Prohibited.	
24. Mississippi	Confined to radius of 100 miles from main office, maximum number of branches: 15.	
25. Missouri	Prohibited.	
26. Montana	Prohibited except as resulting from consolidation.	Yes
27. Nebraska	Prohibited.	
28. Nevada	Statewide.	
29. New Hampshire	Confined to town of main office, contiguous towns and other towns within 15 miles of main office.	
30. New Jersey	Confined to counties.	



<i>State</i>	<i>Branching Policy (1)</i>	<i>Protective Rules (1, 2)</i>
31. New Mexico	Confined to county of main office and contiguous counties and others areas within 100 miles of main office.	Yes
32. New York	Confined to banking districts.	Yes
33. North Carolina	Statewide.	
34. North Dakota	Prohibited.	
35. Ohio	Confined to county of main office and contiguous counties.	Yes (3)
36. Oklahoma	Prohibited.	
37. Oregon	Statewide.	Yes
38. Pennsylvania	Confined to county of main office and contiguous counties.	
39. Rhode Island	Statewide.	
40. South Carolina	Statewide.	
41. South Dakota	Statewide.	Yes
42. Tennessee	Confined to counties.	
43. Texas	Prohibited.	
44. Utah	Statewide.	Yes
45. Vermont	Statewide.	
46. Virginia	Statewide thru merger, otherwise limited to county of main office and contiguous counties.	
47. Washington	Statewide.	Yes
48. West Virginia	Prohibited.	
49. Wisconsin	Prohibited.	
50. Wyoming	No legislation, unit banking prevails.	
51. District of Columbia	District-wide.	

(1) Source: *Paton's Digest Supplement*, 1961.

(2) "Protective rules" include any regulations which prevent or tend to prevent the establishment of branches or offices of other banks in some or all of the area in which an existing bank does business. An example is Section 105 of the New York State Banking law which closes a community, in which the home office of an existing bank is located, to de novo branching by outside banks.

(3) Although Iowa and North Dakota prohibit branch banks, both states permit the establishment of branch offices at which some, but not all, banking functions may be performed. These states have protective rules pertaining to the establishment of such offices. Many states distinguish "branch bank" from "banking office" or other "banking facility." Generally only banks and branch banks can make loans.

Source: *Bank Stock Quarterly* 9 (Sept., 1963).

TABLE 2  
CONSOLIDATIONS AND ABSORPTIONS OF VIRGINIA BANKS  
June 30, 1962-December 15, 1963

<i>Date of Change</i>	<i>Banks</i>	<i>Location</i>	<i>Class of Bank</i>	<i>Approximate Volume of Total Deposits</i>
6/30/62	Peoples National Bank of Charlottesville Buckingham County Bank Merged under charter of— Peoples National Bank of Charlottesville and title of—	Charlottesville Dillwyn	National Ins. non.	\$ 93,028,800 3,136,490
8/1/62	Peoples National Bank of Central Virginia Rockingham National Bank Augusta-Rockingham Bank Merged under charter and title of— Rockingham National Bank	Charlottesville Harrisonburg Weyers Cave	National National Ins. non.	12, 109,300 2,736,828
9/4/62	Farmers & Merchants Bank Bank of Alberta Merged under charter and title of— Farmers & Merchants Bank	Harrisonburg Lawrenceville Alberta	National Member Member	8,822,700 1,453,400
9/4/62	State-Planters Bank of Commerce & Trusts The Suburban Bank Merged under charter and title of— State-Planters Bank of Commerce & Trusts	Lawrenceville Richmond Henrico	Member Member Ins. non.	217,543,800 4,108,779
9/17/62	Peoples National Bank of Central Virginia First National Bank Merged under charter and title of— Peoples National Bank of Central Virginia	Richmond Charlottesville Shenandoah	Member National National	97,022,500 2,769,600
10/1/62	First & Merchants National Bank Augusta National Bank Merged under charter and title of— First & Merchants National Bank	Charlottesville Richmond Staunton Richmond	National National National National	283,900,900 11,819,300

<i>Date of Change</i>	<i>Banks</i>	<i>Location</i>	<i>Class of Bank</i>	<i>Approximate Volume of Total Deposits</i>
11/1/62	First & Merchants National Bank First National Bank Merged under charter and title of— First & Merchants National Bank	Richmond Newport News	National National	\$295,720,200 43,259,600
12/3/62	First National Exchange Bank of Roanoke Farmers & Merchants National Bank Merged under charter of— First National Exchange Bank of Roanoke and title of—	Richmond Roanoke Blacksburg	National National National	130,146,700 5,504,000
1/2/63	First National Exchange Bank of Virginia Citizens National Bank First National Bank Merged under charter and title of— Citizens National Bank	Roanoke Front Royal Flint Hill	National National National	6,790,500 612,600
1/2/63	Bank of Virginia Beach Bank of Princess Anne Merged under charter and title of— Bank of Virginia Beach	Front Royal Virginia Beach Princess Anne County	National Ins. non. Ins. non.	11,273,868 1,996,586
2/1/63	First & Merchants National Bank Peoples National Bank & Trust Co. Merged under charter and title of— First & Merchants National Bank	Virginia Beach Richmond Lynchburg	Ins. non. National National	386,674,400 33,086,000
3/1/63	First National Exchange Bank of Virginia Dominion National Bank Merged under charter and title of— First National Exchange Bank of Virginia	Richmond Roanoke Bristol	National National National	158,978,200 23,514,500
3/11/63	First National Bank First National Bank Merged under charter and title of— First National Bank	Roanoke Appalachia Big Stone Gap Appalachia	National National National National	1,455,300 3,531,400

<i>Date of Change</i>	<i>Banks</i>	<i>Location</i>	<i>Class of Bank</i>	<i>Approximate Volume of Total Deposits</i>
4/ 2 /63	First National Exchange Bank of Virginia First National Farmers Bank Merged under charter and title of— First National Exchange Bank of Virginia	Roanoke Wytheville	National National	\$161,049,300 8,676,400
4/29/63	National Bank of Commerce Peoples National Bank of Central Virginia Consolidated under charter of— National Bank of Commerce and title of— Virginia National Bank	Roanoke Norfolk Charlottesville	National National National	180,922,700 109,191,400
6/29/63	Bank of Virginia Farmers Bank of Dinwiddie Bank of Henrico Merged under charter and title of— Bank of Virginia	Norfolk Richmond Dinwiddie Sandston	National Member Member Ins. non.	156,596,300 2,683,000 4,220,438
6/29/63	National Bank and Trust Co. State Bank of Madison, Incorporated Merged under charter and title of — National Bank and Trust Co.	Richmond Charlottesville Madison	Member National Member	37,745,400 4,654,400
7/ 7 /63	First National Exchange Bank of Virginia Marion National Bank Merged under charter and title of— First National Exchange Bank of Virginia	Charlottesville Roanoke Marion	National National National	162,693,800 9,921,200
7/31/63	National Bank of Crewe Bank of Crewe Merged under charter and title of— National Bank of Crewe	Roanoke Crewe Crewe	National National Ins. non.	1,635,600 5,786,106
8/23/63	Virginia National Bank National Bank of Suffolk Merged under charter and title of— Virginia National Bank	Crewe Norfolk Suffolk Norfolk	National National National National	304,085,100 10,605,300

<i>Date of Change</i>	<i>Banks</i>	<i>Location</i>	<i>Class of Bank</i>	<i>Approximate Volume of Total Deposits</i>
8/29/63	Farmers & Merchants National Bank First National Bank of Berryville Merged under charter and title of— Farmers & Merchants National Bank	Winchester Berryville	National National	\$23,304,700 2,864,100
9/13/63	Virginia National Bank Farmers Exchange Bank Merged under charter and title of— Virginia National Bank	Winchester Norfolk Abingdon	National National Member	304,085,100 10,106,500
9/30/63	Lynchburg National Bank & Trust Co. Campbell County Bank Merged under charter of — Lynchburg National Bank and Trust Co. and title of—	Norfolk Lynchburg Rustburg	National National Ins. non.	47,390,981 13,977,402
10/18/63	Fidelity National Bank Seaboard Citizens National Bank Farmers Bank of Nansemond Merged under charter of— Seaboard Citizens National Bank of Norfolk and title of—	Lynchburg Norfolk Suffolk	National National Member	79,606,509 11,145,583
11/30/63	Seaboard Citizens National Bank Wythe County National Bank Peoples Bank of Rural Retreat Merged under charter and title of— Wythe County National Bank	Norfolk Wytheville Rural Retreat	National National Member	8,890,600 2,157,500
12/13/63	Virginia National Bank Tidewater Bank & Trust Co. Merged under charter and title of— Virginia National Bank	Wytheville Norfolk Franklin Norfolk	National National Ins. non. National	304,085,100 15,153,027

<i>Date of Change</i>	<i>Banks</i>	<i>Location</i>	<i>Class of Bank</i>	<i>Approximate Volume of Total Deposits</i>
12/13/63	Virginia National Bank Farmers & Merchants Bank Merged under charter and title of— Virginia National Bank	Norfolk Staunton  Norfolk	National Ins. non.  National	\$304,085,100 5,016,824

The classes of banks are as follows: A "national" bank is a federally chartered bank and is necessarily also a member of the Federal Reserve System. A "member" bank is a state-chartered bank that is a member of the Federal Reserve System. An insured nonmember (ins. non.) bank is a state-chartered bank which is not a member of the Federal Reserve System, but is insured by the Federal Deposit Insurance Corporation.

Source: Federal Reserve Bank of Richmond.

TABLE 3

BANK HOLDING COMPANIES OPERATING IN VIRGINIA, December 15, 1963

<i>Holding Company Subsidiaries</i>	<i>Number of Banking Offices</i>	<i>Total Deposits (June 29, 1963)</i>
The First Virginia Corporation.....	40	\$173,856,000
Mount Vernon National Bank and Trust		
Company of Fairfax County, Annandale..	9	\$ 38,848,000
Old Dominion Bank, Arlington.....	9	60,922,000
Falls Church Bank, Falls Church.....	3	24,454,000
The National Bank of Manassas, Manassas....	3	6,900,000
Purcellville National Bank, Purcellville.....	2	4,295,000
Richmond National Bank and Trust		
Company, Richmond.....	3	4,879,000
Southern Bank of Norfolk, Norfolk.....	9	26,324,000
Shenandoah County Bank and Trust		
Company, Woodstock.....	1	3,944,000
Peoples' Bank, Mount Jackson.....	1	3,290,000
Virginia Commonwealth Corporation.....	37	\$212,139,000
The Bank of Occoquan, Occoquan.....	4	\$ 8,652,000
The Bank of Salem, Salem.....	2	11,564,000
The Bank of Virginia, Richmond.....	27	174,804,000*
Bank of Warwick, Newport News.....	4	17,119,000
Washington Trust and Savings Bank, Bristol..	2	8,353,000
The Peoples National Bank, Pulaski.....	1	5,339,000
United Virginia Bankshares Incorporated.....	43	\$397,708,000
Citizens Marine Jefferson Bank, Newport		
News .....	3	\$ 21,982,000
First Citizens National Bank of Alexandria,		
Alexandria .....	10	73,129,000
First National Trust and Savings Bank of		
Lynchburg, Lynchburg.....	5	37,130,000
Merchants and Farmers Bank of Franklin,		
Franklin .....	1	4,943,000
State-Planters Bank of Commerce and Trusts,		
Richmond .....	19	241,092,000
The Vienna Trust Company, Vienna.....	5	19,432,000
Financial General Corporation.....	24	\$161,987,000
Clarendon Trust Company, Arlington.....	5	\$ 29,439,000
Shenandoah Valley National Bank,		
Winchester .....	3	13,538,000
Alexandria National Bank, Alexandria .....	7	37,400,000
Arlington Trust Company, Inc., Arlington....	5	60,604,000
The National Bank of Harrisonburg,		
Harrisonburg .....	2	8,469,000
The Peoples National Bank of Leesburg,		
Leesburg .....	1	10,043,000
Peoples Bank of Buena Vista, Inc., Buena		
Vista .....	1	2,494,000
The First National Bank, Lexington.....	1	3,026,000

\*Includes deposits of the Hallwood National Bank, Hallwood, which proposes to merge with The Bank of Virginia.

Source: Federal Reserve Bank of Richmond.