

## Statement No. 63 National Branching

December 10, 1990

The United States has perhaps one of the most inefficient banking structures among developed countries. In particular, we do not permit our banking institutions to branch nationwide. Our atomistic banking system is prone to excessive failures when local economies deteriorate. Because of inadequate geographical diversification, bank failures were unnecessarily high in Texas when oil and real estate prices declined and in the Midwest when agricultural incomes went down. Similar problems threaten banks in the Northeast because of the collapse in the real estate market. This condition is hardly new. In the 1920s over 600 small banks a year failed, and in the 1930s over 9,000 small banks failed. Almost all of these failures were independent unit banks. The effect of such local problems could have been mitigated had banks been permitted to branch nationally.

Some geographical diversification has developed as states have permitted entry by out-of-state bank holding companies. This move, while desirable, has generally been limited regionally. Furthermore, the holding company structure restricts the free flow of resources within a banking organization and makes the costs of diversification high. Nationwide branching would allow banks to capture the full benefits of diversification and increase operational efficiencies. It also would permit mergers that would help the banking system return to financial health.

The Committee urges that legislation to reform the deposit insurance and banking system include provisions permitting banks to branch nationwide without restriction.