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# Final Report of the

# BANK HOLDING COMPANIES STUDY COMMITTEE

to the

SIXTY-FOURTH GENERAL ASSEMBLY

of the

STATE OF IOWA

SECOND SESSION

January, 1972

Final Report

of the

BANK HOLDING COMPANIES STUDY COMMITTEE

December 8, 1971

Senate Concurrent Resolution 28 of the Sixty-fourth Iowa General Assembly, First Session, directed that the Legislative Council establish a study committee to "study and determine whether a need exists for legislation in regulating the operations and acquisitions of bank holding companies and improving the functioning of Iowa's financial institutions." Accordingly, the Bank Holding Companies Study Committee was established. Senator S. J. Brownlee of Emmetsburg and Representative Harold O. Fischer of Wellsburg were elected Chairman and Vice Chairman, respectively, at the Study Committee's organizational meeting. Other legislators named to serve on the Study Committee were: Senators Reinhold O. Carlson of Des Moines, Lee H. Gaudineer, Jr., of Des Moines, and H.L. Ollenburg of Garner; and, Representatives Dennis L. Freeman of Storm Lake, Lillian McElroy of Percival, and Berl E. Priebe of Algona.

At the organizational meeting, no formal action was taken in regard to naming nonlegislative members to serve on the Study Committee. In order to assure that the Study Committee would have the benefit of the views of knowledgeable persons, the Chairman was authorized, prior to each meeting, to invite not more than two such persons to participate with the Study Committee in that meeting. It was not necessary to use this authority in view of the attendance at each of the Study Committee's meetings of a number of interested and knowledgeable persons representing a considerable range of viewpoints.

The Bank Holding Companies Study Committee held a total of six meetings, the most recent on December 1. In the course of these meetings, the Study Committee has heard presentations by and directed questions to thirteen speakers. They are: Mr. John Chrystal, former Superintendent of Banking and the President of the Iowa Savings Bank of Coon Rapids; Mr. Holmes Foster of Des Moines, former Deputy Superintendent of Banking and now an Executive of Banks of Iowa, Inc.; Mr. Donald M. Carlson, President of the Independent Bankers Association of America and President of the Elmhurst (Illinois) National Bank; Mr. Robert D. Dixon, Iowa Director of the Independent Bankers Association of America and President of the Rolfe State Bank; Dr. John W. Bowyer, Professor of Finance at Washington University of St. Louis; Mr. Carleton Van Dyke, President of the Toy National Bank of Sioux City; Mr. Oliver Hansen, Superintendent of Banking; Mr. Arthur E. Lindquist, Jr., Executive Vice President and Secretary of the Iowa Bankers Association; Mr. Collin Fritz, former Superintendent of Banking and President of the Central National Bank of Des Moines; Mr. Robert A. Krane, Vice President for Administration of the

Iowa-Des Moines National Bank; Mr. H. Rand Peterson, President of the Shelby County State Bank of Harlan; Mr. J. Donald Weimer, Vice President of the First National Bank of Marion; and Mr. James R. Morrison, Senior Vice President for Bank Examinations and Bank and Public Relations of the Chicago Federal Reserve Bank. Many of these persons, as well as other interested individuals and representatives of several organizations have been present at nearly every meeting of the Study Committee, and have participated informally on several occasions.

## What Is A Bank Holding Company?

Under the federal Bank Holding Company Act of 1956, as amended in 1970, a bank holding company is defined, essentially, as any company which has 25 percent or greater control of, or controls the election of a majority of the directors of, any bank or any other bank holding company. This definition is not accurate for every circumstance[1], but may generally be presumed to apply to a situation in which shares in a banking corporation are held by another corporation.

Prior to adoption of the 1970 amendments, the federal Bank Holding Company Act applied only to firms controlling, in the manner and to the extent described in the preceding paragraph, two or more banks. The 1970 amendment brought many more corporations within the purview of the federal Bank Holding Company Act than had previously been subject to it.

## Requirements of Federal Law

Some of the more important requirements of the federal Bank Holding Company Act are breifly described and discussed in the following paragraphs.

Registration - Every bank holding company must register with the Federal Reserve Board. Annual reports to the Board by each bank holding company are required, and each such company must submit to examination by the Board. Mr. Morrison told the Study Committee that the Federal Reserve system tries to examine banks owned by bank holding companies annually, although the federal law does not specify any particular frequency of examination. He stressed that the Federal Reserve examinations under the Bank Holding Company Act are intended

[1] On the one hand, the Federal Reserve Board may determine that any firm is in fact a bank holding company if it finds after a hearing that the firm "directly or indirectly exercises a controlling influence over the management or policies" of a bank or a bank holding company; on the other hand, certain situations in which a firm may hold more than 25 percent of the shares of a bank without thereby becoming a bank holding company are spelled out in sec. 2(a)(5) of the amended federal Act.

mostly to insure that the Act is being complied with; primary responsibility for solvency of each affiliate bank rests with that bank's "supervisor", which may be the Federal Deposit Insurance Corporation or the U. S. Comptroller of the Currency, or the Federal Reserve Board, depending on the bank's status. (It is to be noted that, as the Bank Holding Company Act requires every holding company affiliate bank to be a member of the Federal Deposit Insurance Corporation, all banks owned by holding companies are subject to some form of federal examination.)

Acquisitions - No company not already holding the status of a bank holding company may take any action by which it would become one under law, and no existing bank holding company may acquire more than five percent of the shares of any additional bank, without prior approval of the Federal Reserve Board. The procedure by which an application for such approval is submitted and processed is rather involved, and was described both by Mr. Foster from the point of view of an applicant at the Study Committee's October 28 meeting and by Mr. Morrison from the point of view of the Federal Reserve System at the November 10 meeting.

The Bank Holding Company Act requires the Federal Reserve Board to disapprove any proposed acquisition which would "result in a monopoly" or the effect of which would be "substantially to lessen competition". Superintendent Hansen submitted to the Study Committee data indicating that in the period from the effective date of the Bank Holding Company Act of 1956 through September 1, 1971, the Federal Reserve Board approved 400 applications of existing bank holding companies to acquire additional affiliate banks and denied 36 such applications; during the same period the Board approved 125 applications by firms to become bank holding companies and denied 11.

Interstate Acquisitions - The Bank Holding Company Act has, since its original adoption in 1956, prohibited any bank holding company domiciled in one state from acquiring additional banks in any other state unless the latter state should adopt a law specifically authorizing the expansion of out-of-state bank holding companies. At this time, no state has ever passed such a law.

In Iowa, there is one out-of-state bank holding company--the Northwest Bancorporation of Minnesota--which owned four Iowa banks at the time of the passage of the Bank Holding Company Act, and has retained them. The banks are located at Des Moines, Sioux City, Mason City and Denison. The firm may not acquire additional banks in Iowa unless the General Assembly so authorizes.

Other Businesses - The 1956 Bank Holding Company Act basically prohibited a bank holding company from owning shares of any company other than a bank. However, as one-bank holding companies were not affected, many of these have had very diverse kinds of

affiliates in terms of the kinds of endeavors in which they were engaged. The 1970 amendments require many of these firms to divest themselves of nonbanking affiliates and, as one-bank holding companies and their affiliate banks are no longer exempt from the requirements of the Bank Holding Company Act generally, it may be speculated that there will be a tendency for these firms to seek acquisition of additional banks in states where this is permitted by law.

Exceptions to the prohibition against ownership of nonbank affiliates by bank holding companies are found in section 4(c) of the Bank Holding Company Act as amended in 1970. For the most part these are fairly detailed and specific, but 4(c)(8) permits ownership by bank holding companies of any business which the Federal Reserve Boards finds "so closely related to banking . . . as to be a proper incident thereto." It remains to be seen exactly what precedents the Board will establish in this area. Mr. Morrison indicated he expects the Board to be relatively restrictive in this area, however President Carlson of the Independent Bankers Association expressed belief the Board has already shown itself excessively permissive in its interpretations of what are bank-related businesses.

State Bank Holding Company Laws

One of the first efforts of the Legislative Service Bureau when the Bank Holding Companies study was initiated was to provide members of the Study Committee with information on bank holding company legislation in effect in other states. This was done by updating and modifying a table appearing in a book entitled Bank Holding Companies, by Gerald C. Fischer (Columbia University Press, 1961). The updated table appears as Appendix I to this report. The degree of restriction or control placed upon bank holding companies by the several states ranges from none in Iowa and about a third of the other states, to outright prohibition against formation of new bank holding companies or expansion of existing ones (Illinois, Kansas, and Nebraska are among states having such laws).

Development of Multi-Bank Holding Companies Nationally and in Iowa

Although bank holding companies have existed since before the turn of the century, most references consulted in the course of this study agree that they first became a significant factor in the nation's financial structure in the 1920's and 1930's, when many banks were experiencing considerable difficulty. Another period of growth of bank holding companies occurred in the early 1950's as it became apparent that Congress would act to regulate these firms in some manner. Data provided by the Federal Reserve Board

of Governors indicates that the number of registered bank holding companies on December 31, 1956, just after passage of the federal Bank Holding Company Act, was 49 in the entire nation, and this total changed very little in the succeeding nine years.[2] During the past five or six years, there has been renewed growth of bank holding companies.

The statistics on recent growth of bank holding companies are somewhat distorted by the requirement that the previously exempt one-bank holding companies register with the Federal Reserve Board beginning in 1970. The Association of Registered Bank Holding Companies states that the number of one-bank holding companies grew from an estimated 117 in the nation in 1956 to over 1,100 in January, 1971.[3] The Chicago Federal Reserve Bank on September 22, 1971, provided the Legislative Service Bureau with a list of 122 Iowa banks owned by one-bank holding companies.

As of December 31, 1970, the Federal Reserve Bulletin for June, 1971 reported, two multi-bank holding companies were domiciled in Iowa. They were the Brenton Banks, Inc., a firm which has been in existence for many years, and the more recently organized Hawkeye Bancorporation. Appendix II is a list of the banks directly or indirectly owned or controlled by these two firms, and by the Minnesota-based Northwest Bancorporation, as of December 31, 1970, together with data on deposits and assets of these banks. (It will be noted that Appendix II lists the affiliates of Hawkeye Bancorporation in two groups; the first group are the banks of which the firm has completed acquisition and the second group are banks which it will acquire if the Federal Reserve Board ultimately approves the acquisitions.) One other firm, Banks of Iowa, Inc., which is now a one-bank holding company owning The Merchants National Bank of Cedar Rapids, has received approval to acquire Union Bank and Trust Company of Ottumwa and is seeking approval to acquire Valley Bank and Trust Company of Des Moines and the Council Bluffs Savings Bank. Another present one-bank holding company, Central Bancshares, owner of the Central National Bank in Des Moines, has indicated it will seek to establish a new bank in West Des Moines. It is not presently known whether any other Iowa banking firms will seek multi-bank holding company status in the near future.

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[2]Robert J. Lawrence, Operating Policies of Bank Holding Companies; Part I, staff economic study published by Board of Governors of the Federal Reserve System, 1971, p. 3.

[3]Donald L. Rogers, 1970 Amendments to the Bank Holding Company Act of 1956, published by Association of Registered Bank Holding Companies, January, 1971, pp. 1-2.

Related Matters: Branch Banking and Bank Offices

The formation of a bank holding company is a means by which one organization may engage in the business of banking at several locations, thus making it possible to reach more customers and thereby (presumably) acquire more deposits which in turn gives the organization greater overall lending capability. An alternative method of attempting to achieve these ends is branch banking, the opening of additional banking outlets by an existing bank. In a holding company situation, each bank owned by the company is a separately chartered institution with its own board of directors; in branch banking, a single institution under a single board of directors operates a number of banking facilities at separate locations.

Iowa law has for many years stated flatly that "no bank shall open or maintain a branch bank." This prohibition now appears in section 524.1201. However, it is immediately followed by language permitting Iowa banks to establish bank offices and parking lot offices at places other than their main bank locations. These offices are considered branches by the federal government, but are generally regarded in Iowa as something less than true branch banks because they must be under day-to-day control of the banks which operate them. The functions of these offices are limited by present law to a greater extent than those of main banks.

Bank offices presently may be established only in cities or towns, or unincorporated areas, not currently being served by a chartered state or national bank, and the law presently requires that if a new bank is subsequently chartered there the bank office must leave. Bank offices may be located only in the same county as the main bank or in an adjoining county (including one meeting the first county only at the point of a corner). There is no statutory limit on the number of bank offices which a bank may establish. They are to be operated "for the sole and only purpose of receiving deposits and paying checks and performing such other clerical and routine duties not inconsistent with this section" (524.1201). There are differences of opinion over exactly what functions a bank office may legally perform under this law, particularly the extent to which a bank office may be utilized by a customer in obtaining a loan from a bank. It is clear, however, that a bank office is not intended to be a means by which a bank may attempt to move into competition with another chartered bank.

Parking lot offices are restricted in location to the same city or town where the main bank is located, and no bank may have more than two parking lot offices (although a drive-in

facility "in the proximity" of the main bank may be found by the Superintendent of Banking to be an integral part of the main bank, which can then have two additional parking lot offices). The functions of parking lot offices are restricted in somewhat the same manner as those of bank offices, but the list of services parking lot offices are authorized to provide is longer. A parking lot office may in effect permit a bank in an urban area to compete more effectively by making some of its services available to customers at more convenient locations, but this feature is limited by the fact that a bank in a central city may not place a parking lot office across a municipal corporation line in an adjoining suburb, and vice versa.

The basic prohibition against branch banking in Iowa, and the substance of the bank office and parking lot office provisions, were carried over into the Iowa Banking Act of 1969 without change. The final report of the Banking Laws Study Committee in late 1968 noted that in recodifying Iowa bank law into the Banking Act of 1969, the question of legalizing branch banking had been deliberately avoided because it was "sufficiently controversial to pose a threat to enactment of the general recodification of state banking laws."

## The Key Question: Greater Financial Concentration in Iowa Banking?

The preamble to Senate Concurrent Resolution 28, pursuant to which the Bank Holding Companies Study Committee was set up, states that "the structure of the banking system in Iowa is changing rapidly as a result of the acquisition of many banks by bank holding companies" and that "citizens of Iowa have expressed concern about . . . such acquisitions." This is undoubtedly true, yet it became apparent as the Study Committee heard the various presentations at its October 7, October 28, and November 10 meetings, that the concern regarding bank holding companies is only one aspect of a broader disagreement over the degree of concentration of financial resources which is desirable in Iowa's banking structure in the years ahead.

A brief summary of Iowa's present banking structure, and how it differs from that of many other states may be helpful at this point. As of December 31, 1970, Iowa had a total of 666 chartered banks, according to the April, 1971 Federal Reserve Bulletin. Five of Iowa's neighboring states--Illinois, Kansas, Minnesota, Missouri and Wisconsin--also had well in excess of 500 chartered banks on that date. The only other states in the nation with as many as 500 chartered banks on that date were Florida, Ohio, and Texas.

The foregoing figures do not take into account the offices and parking lot offices operated by banks in Iowa. There are a total of 319 such facilities operated by 217 different banks. Thus, at the end of last year, Iowa had very nearly 1,000 separate banking outlets. However, former Banking Superintendent John Chrystal told the Study Committee that among Iowa's neighboring states, only Nebraska (with 441 banks) and South Dakota (with 161 banks) have fewer dollars of deposits per bank, on the average, than Iowa.

In summary, then, Iowa--like most of its neighboring states--has traditionally been a state with a rather large number of comparatively small banks, relative to the state's population and its overall total bank deposits. Historically, Iowa's banking structure has been characterized almost entirely by the unit bank --a bank not owned by a group or corporation which also owns other banks, although of course it has not been uncommon for an individual to own some stock in more than one bank.

The key question before the Study Committee is whether Iowa law should attempt to preserve the state banking structure in basically its present form, or provide some guidance for and limitations upon a trend toward greater concentration in banking in the state. The major arguments which have been presented on each side of this question will be summarized in the following paragraphs.

Pro-Concentration Arguments

The reason most often cited why greater concentration of financial resources in Iowa is needed is the demand for greater availability of credit to industry and agriculture in the state. Mr. Chrystal told the Study Committee that the largest single loan limit of any bank in Iowa is four million dollars. It is contended that large firms having plants in Iowa tend to form their primary banking connections outside the state, to the detriment of Iowa's economy, because Iowa banks are not large enough to meet their credit needs.

In his testimony to the Study Committee, Mr. Foster summarized this contention as follows:

> "Chicago has two banks which are larger than all of the banks located in the State of Iowa. The City of New York has the 2nd, 3rd, 4th, 5th and 6th largest banks in the United States. The Chicago and New York banks represent the principal competition for Iowa banks in doing business with industry and other banks. While Iowa probably never will become a major money

> market center, it would seem that it would be in the best interests of the state and banking if we were to pool our resources instead of remaining fragmented as we are under our present structure."

The growing credit needs of Iowa's agricultural industry have also been pointed out to the Study Committee. Mr. Petersen told Committee members:

> "In our own particular bank our loan limit in the last 15 years has grown from $40,000 per individual customer to $200,000, and if we take advantage of the laws written to provide purchase money for cattle, our lending limit is $400,000. We have been pressed during these years to keep our capital account growing to meet the increased demand from our customers, and even the $400,000 figure is not sufficient to meet the loan demands of several of our cattle feeders. These are the same people who we were taking care of with $40,000 fifteen years ago."

Management - Another reason for the growth of bank holding companies which has been discussed with the Study Committee is the difficulty of securing and retaining competent bank employees, particularly younger management talent. Many of Iowa's smaller unit banks are, or have been, to a considerable extent a family operation, or at any rate have been headed for a number of years by the same individual or group of individuals. In such a situation, holding company proponents contend, if the banker's heirs are not interested in taking over the business, it may be very difficult to interest a younger person in settling in a small city or town to operate the bank if his only opportunity for advancement lies in that particular bank. A holding company, however, can offer an opportunity for advancement to greater challenges elsewhere if the employee displays competence in a smaller bank. This particular matter is closely related to the question of markets for smaller banks, which will be discussed shortly.

It is also asserted that meeting the banking needs of large industrial and business firms may often require various kinds of specialized expertise which few individual banks can afford, but which may be provided by a holding company jointly to all of its banks. In the same manner, it is suggested, opportunities for economies exist in such areas as advertising and data processing services.

Market for Banks and Bank Stock - Another factor which the Study Committee has been told makes sale to a bank holding company attractive to some small banks is the difficulty of finding any other equally favorable market for the bank when a banker is ready to retire or for any other reason wishes to divest himself of a smaller bank. An outright sale of his stock in the bank, if it can be arranged, is likely to have unfavorable income tax consequences for the seller; a contract sale means the seller must depend upon the purchaser's competence and initiative to operate the bank profitably enough to meet the contract payments for an extended period of time. However, if the banker chooses to trade his bank stock for holding company stock he is usually retained at his old job by the holding company until he is ready to retire, he is not faced with income tax on the exchange of stock, and he provides himself or his estate with a more readily marketable asset.

Several persons who appeared before the Study Committee also said that purchase of banks by holding companies, rather than by individuals or groups of individuals, is likely to result increasingly from inflation and the attendant profit squeeze on banks. Mr. Chrystal explained the situation in these terms:

> "Government regulation of banks wisely requires toward ten percent of deposits be retained in capital for depositor protection against insolvency. The rate of inflation has made this capital retention and the payment of high dividends incompatible since banking, a relatively low risk, low net income business, does not earn to a degree to allow both. Thus the sale of banks, unless the ability to pay for them comes from some other source than bank dividends, is impeded. One natural solution to this problem has been to use public money (money raised by selling multi-bank holding company stock to a widely dispersed general public) as the high equity purchaser of banks. High equity means less necessity for debt reducing dividends and allows retention of profits as capital required by deposit growth. This means that shareholders in multi-bank holding companies do not necessarily have to have dividends since they do have a public, broad market to recover profits retained as capital by sale of their stock, if they wish."

Anti-Concentration Arguments

Bankers who have appeared before the Study Committee in opposition to greater concentration of financial resources in

Iowa's banking structure have contended that the present banking structure serves the people of the state well, and that uncontrolled expansion by bank holding companies would be harmful to the public interest. They have generally taken the position that there is no basic difference between concentration by means of holding companies and concentration by means of branch banking, and that both should be avoided.

President Carlson of the Independent Bankers Association suggested in his presentation that the Federal Reserve Board has not carried out the intent of Congress in administering the Bank Holding Company Act. He expressed belief that the Board has been unduly generous in approving applications for formation of new bank holding companies and expansion of existing ones. He therefore urged state as well as federal controls in this area.

Opponents of bank holding companies state that one of the effects of this type of banking organization is to drain deposits away from the smaller communities served by holding company banks to larger cities. Mr. Carlson asserted:

> "The loanable funds which build up in the money center banks are loaned to those borrowers who are likely to produce the most profits for the large banks. Thus, the large corporate borrowers are given priority, because it is usually more profitable for a bank to make one loan for a million dollars than to make 100 loans for $10,000. The servicing of the large loan costs far less and the collection problem is practically nil.
>
> "In contrast, many small loans require considerable clerical work and careful watching and produce many collection problems. This means greater costs--and thus fewer profits--to the bank or banks involved."

It appears there is some agreement that greater concentration in Iowa's banking structure would tend to make more funds available to larger corporate borrowers--the disagreement is as to whether this is desirable. Those opposed to further concentration feel that the large borrower will be served at the cost of the local small businessman and the consumer. Proponents of bank holding companies say these firms have shown that they can and will serve the needs of the communities where they are located.

Management - Mr. Dixon submitted to the Study Committee a statement which, in part, states that Iowa's independent banks offer young men and women an opportunity to take part in decision

making, use their imagination and initiative, and have the satisfaction of seeing their respective unit banks grow with the communities they serve. He does not believe that holding companies offer young people superior employment possibilities in banking.

Dr. Bowyer also questioned the reality of savings effected by shared services among holding company banks. In his presentation, he cited studies he said support his view on this point.

Market for Banks and Bank Stock - Regarding the salability of bank stock, Mr. Dixon's statement included the following comment:

> "Some Iowa banks may have trouble marketing their bank stock, and this problem might be relieved by a limited form of branching. But it has always been my opinion that laws and regulations are not made to create a market for bank stock but are made to serve the public and satisfy public necessity."

Some concern has been expressed at meetings of the Study Committee that in acquisition of banks by bank holding companies, minority shareholders of banks so acquired might suffer through failure of the holding company to offer a fair price for the stock and subsequent operating policies resulting in low dividends being paid the minority shareholders whose stock was not purchased. The Study Committee was told that a recent regulation of the Federal Reserve Board requires any holding company proposing to acquire a bank to make the same offer for purchase of the bank's stock to all shareholders. Nevertheless, there has been some suggestion that such a requirement should also be written into state law.

> NOTE: The foregoing summary of information and statements of position submitted to the Bank Holding Companies Study Committee are based for the most part on the minutes of the Study Committee's meetings, which are on file in the office of the Legislative Service Bureau.

## Conclusions and Recommendations

The Bank Holding Companies Study Committee has agreed upon recommendations in two major areas, control of bank holding company growth in Iowa and revision of the state's bank office law. In addition, two pieces of relatively minor legislation suggested by the Department of Banking have been endorsed by the Study Committee. The recommended legislation is described, and the reasons for these recommendations are briefly explained, in the remainder of this report. The bill embodying the Study Committee's recommendations appears as Appendix III to this report.

1. Recommendations Regarding Bank Holding Companies

Having considered carefully all of the arguments for and against concentration in Iowa's banking structure generally, and for and against bank holding companies in particular, the Bank Holding Companies Study Committee has concluded that the best interests of the state would not be served by any attempt to freeze the Iowa banking structure into its present form. The need to make larger amounts of credit available to borrowers from various segments of the state's economy mitigates against such a move. It should be made clear that in taking this position, the Study Committee does not mean to indicate that it sees no future for unit banks in Iowa; on the contrary, unit banks will almost certainly continue to be the basic elements of the state's banking structure.

The importance of keeping open avenues for smooth transition into larger banking organizations of some small unit banks, located in areas of declining population where demand for banking services has little prospect of growth, must also be recognized. The Study Committee would agree that it is not a basic function of state banking law to provide a market for bank stock, however it must be recognized that where a small bank is operating in marginal circumstances, sale as a unit bank may be very difficult to arrange. If the option of sale of the bank to a holding company which will continue to operate it as a charter bank is foreclosed, the remaining alternatives are merger with another bank which will convert the small bank to a bank office (which is not necessarily undesirable) and outright dissolution.

While the Study Committee believes that bank holding companies have a role to play in Iowa's banking structure, it does not seem desirable that one or a few such companies have the opportunity to dominate banking in the state. In order to preserve a reasonable degree of competition, a limit on the degree of concentration which any one bank holding company may attain seems warranted, and in view of Iowa's traditionally diversified banking structure, it is considered wise that the limit be somewhat lower than is found in some of the other states which permit the formation of bank holding companies.

Therefore, the Study Committee recommends to the Legislative Council and the second session of the Sixty-fourth General Assembly the enactment of legislation restricting any bank holding company in Iowa to control of a maximum of ten percent of all time and demand bank deposits in the state. This restriction is established by section eight of the Study Committee's draft bill. The bill does not limit the number of banks which a single bank holding company may own; a company may acquire a few fairly sizeable

banks or a larger number of relatively small ones, as it chooses, so long as it remains within the ten percent of total state deposits limit. The determination of the pertinent levels of deposits is to be made on the basis of the banks' reports to the Iowa Department of Banking and to the Federal Reserve System, the Federal Deposit Insurance Corporation, or the U. S. Comptroller of the Currency.

Out-of-State Bank Holding Companies - As noted earlier in this report, since passage of the federal Bank Holding Company Act of 1956 no bank holding company has been allowed further expansion in any state, except that in which its principal operations are located, unless such expansion is specifically authorized by the laws of the state in which the out-of-state company proposes further expansion. To date, no state is known to have passed such a law.

One out-of-state bank holding company, Northwest Bancorporation of Minnesota, has owned four banks in Iowa since before 1956. The Study Committee believes the firm has shown itself to be a good citizen of the Iowa business community, and should be allowed the same benefits of state law as the domestic bank holding companies. However, it is not considered desirable to leave the state's banking structure open to entry by outside bank holding companies generally, some of which might be too large and far-flung to be effectively regulated by the Iowa Department of Banking. Therefore, the Study Committee recommends the passage of legislation which prohibits ownership of banks in Iowa by out-of-state bank holding companies, but specifically excludes from this prohibition any company which on January 1, 1971 owned two or more banks in Iowa. This provision is found in section eleven of the Study Committee's draft bill.

State Review of Holding Company Acquisitions

In addition to the imposition of a general limit on the maximum size of bank holding companies in Iowa, the Study Committee considers it desirable to provide for review at the state level of specific bank acquisitions by holding companies in Iowa. It is true that the Federal Reserve System reviews each proposed bank holding company acquisition extensively, with special attention to its effect upon competition in banking, and that it provides the Superintendent of Banking a formal opportunity to object to the acquisition of a state bank (but not a national bank) in Iowa by a holding company. However, it seems prudent to try to make it possible for the Superintendent of Banking to play a more effective role in these matters, particularly as there are indications that some federal officials are more inclined toward concentration in banking than most Iowans appear to be.

Therefore, the Study Committee recommends passage of legislation providing for the Superintendent of Banking to receive a copy of any application to the Federal Reserve Board for approval of acquisition of an Iowa bank by a bank holding company, and empowering him to make whatever investigation of the proposed acquisition he considers appropriate and to submit to the Federal Reserve Board any information so obtained as well as his own comments or recommendations. This provision appears as section ten of the Study Committee's draft bill.

This requirement might to some extent be considered a duplication of existing federal law, since the Superintendent of Banking now receives a copy of any application for acquisition of a state bank in Iowa by a bank holding company and may force a hearing on the matter by presenting an objection within thirty days. However, as noted earlier, this procedure is not followed where a nationally chartered bank in Iowa is involved; moreover the Department of Banking has indicated that thirty days is not really an adequate time for investigation and evaluation of every proposed bank holding company acquisition. The Federal Reserve Board has ninety days after formal filing of an application to act upon it, and applications are frequently returned for revision one or more times before they are accepted and the ninety days begins to run. By requiring filing of a duplicate with the Iowa Superintendent when an application is first filed with the Federal Reserve System, the Iowa Department of Banking will have a considerably longer period of time to study proposed acquisitions of state banks by bank holding companies than it now has, and will also have formal notice of proposals for acquisition of national banks which it does not now receive. Apparently there is no obligation on the part of the Federal Reserve Board to take notice of any objection by the Iowa Superintendent of Banking to acquisition of a national bank in Iowa by a bank holding company, but it seems reasonable to suppose that a written expression of the Superintendent's views would at least be given consideration.

Section nine of the bill requires that when a bank holding company undertakes to acquire a bank in Iowa, it must make the same offer for purchase of shares to all of the bank's shareholders, thereby protecting minority shareholders. This provision is also a duplication of an existing federal requirement, but that is apparently a regulation rather than statutory law and might therefore be changed on short notice in the future.

2. Changes in Bank Office Law

The matter on which there has been greatest agreement among the various persons appearing before the Study Committee is the need for some change in Iowa's bank office law, which

appears as Division XII of the Iowa Banking Act of 1969 (Chapter 524 of the Code). The Study Committee is submitting recommendations in this area although complete agreement has not been reached on the extent of the changes which should be made in the bank office law.

The features of this law were briefly outlined earlier in this report. The bank offices which may be established under subsection 1 of section 524.1201 were originally conceived of as temporary facilities, which would provide limited banking services to communities who were left without any local chartered banks in the wake of the farm economic problems of the 1920's and the depression of the early 1930's. It was apparently assumed that the communities served by these bank offices would eventually recover their ability to support a local chartered bank, and the offices would be closed as new banks were chartered. It is now obvious, however, that in most instances this will not happen, and the communities involved must continue to rely for local banking services upon offices which, under law, are not supposed to be empowered to provide a full range of banking services to customers.

Conversely, in those few areas now served by bank offices which are growing or have prospects of growing to the point that they can support a local chartered bank, the bank offices which have been serving these communities would be abruptly forced to close if a new bank were chartered there. Study Committee members feel that this is not fair to the banks now serving these communities through offices.

A related problem pertains to parking lot offices of banks in Iowa's major urban areas. Under present law, these facilities may be located only in the same municipal corporation as the principal place of business of the bank which operates the parking lot office. Although it might be logical for a central city bank to place a parking lot office in an adjoining suburban city to serve customers who live there, it may not do so under existing law.

The present legal situation relative to the powers of bank offices was discussed on pages six and seven of this report. Section 524.1201 now distinguishes between bank offices and bank parking lot offices, and describes their powers somewhat differently. Discussion at Study Committee meetings indicated that there is some disagreement over exactly what functions a bank office may legally perform under existing law, but most persons present at the meetings ings agreed that significant restrictions on the services which banks may offer through their offices are no longer desirable and are being widely evaded or ignored. The disagreement among Study Committee members themselves, and those who attended the Committee's meetings, regarding the bank office law relates almost entirely to the permissible locations of bank offices rather than to their powers.

The Study Committee agreed at its final meeting to recommend to the Legislative Council and the second session of the Sixty-fourth General Assembly the passage of amendments to present Division XII of chapter 524 of the Code, the bank office law. These amendments are made by sections three through six of the Study Committee's draft bill.

Section three authorizes bank offices--including those now referred to as parking lot offices--to "furnish all banking services ordinarily furnished to customers and depositors at the principal place of business" of the bank operating the office. It does not require them to do so; for example, the decision whether to undertake the expense of installing safety deposit boxes at a bank office would rest with the bank's management. Each Iowa bank is required by the bill to maintain its central executive and primary record-keeping functions only at the main bank location, although duplicate records may be kept at an office if a bank so desires, and the present requirement that transactions of bank offices be immediately transmitted to the main bank is retained.

Section four of the bill, which governs the location and tenure of bank offices, will:

1. Permit existing bank offices to remain in the communities they have been serving if a new bank is chartered there, while maintaining the restriction against establishment of bank offices in communities where a state or national bank is already located.

2. Allow banks in urban areas of 50,000 population and over to place parking lot offices at any point within the urban area where the main bank is located, rather than requiring the parking lot offices to be in the same incorporated city or town as the main bank.

Neither of these provisions received the full support of all Study Committee members present for the final meeting. However, due to a combination of circumstances, only five members--a bare quorum--could be present, and the negative vote of a single member could have blocked the recommendation of all of the amendments to the bank office law.

Assurance that a bank office which has been serving a community will not be forced out if a new bank is chartered there probably will affect primarily smaller suburbs or other towns or cities in areas of growing population. It was also proposed in the course of the Study Committee's deliberations that a bank in one community be authorized to go into any other community in the same or an adjoining county, purchase a chartered bank, surrender the charter, and continue operation of the purchased bank

as a bank office even though there might be one or more other chartered banks in existence in the same community. (At present, and under section four of the draft bill as recommended by the Study Committee, the foregoing actions could be taken only if there was no other chartered bank in the same community as the bank purchased for conversion to an office.) This proposal in effect contemplated permitting a bank office to be used as a means whereby a bank from outside a community may move into competition with previously established banks in that community. The proposal was not acceptable to a majority of the Study Committee members present for the final meeting, but Representative Fischer has filed a minority report in support of it. The minority report appears at the close of this report.

Perhaps the most significant change in the law relating to location of bank offices which has been recommended is that which permits banks in urban complexes of 50,000 or more population to locate what are now known as parking lot offices anywhere within the urban complex, rather than restricting them to the same incorporated city where the main bank office is located. Subsection two of section four of the Study Committee's draft bill defines an urban complex as "two or more municipal corporations each of which is contiguous to or corners upon at least one of the other municipal corporations within the complex." Combined with the applicable minimum population limit of 50,000, it is believed that only eight metropolitan areas in the state are affected.[4] Senator Carlson has expressed reservations about this feature of the bill, but chose not to file a minority report opposing it.

Legislation Requested by
Department of Banking

In addition to the legislation arising directly from the Bank Holding Companies Study Committee's deliberations, two items requested by the Department of Banking have been recommended by the Study Committee. These items form sections one and two of the Study Committee's draft bill.

Section one amends present Code section 524.905, relating to loans by state banks secured by real property. The purpose of this amendment is to specifically authorize banks to grant loans

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[4] Des Moines-West Des Moines-Windsor Heights-Clive-Urbandale-Johnston-Pleasant Hill; Cedar Rapids-Marion-Hiawatha; Davenport-Bettendorf-Riverdale-Panorama Park; Waterloo-Cedar Falls-Evansdale-Elk Run Heights; Sioux City-Sergeant Bluff; Dubuque-Sageville; Council Bluffs-Carter Lake; Iowa City-Coralville.

of not more than fifty percent of the appraised value of real property which secures the loan, payable in one or more payments and maturing in not more than five years. Former Superintendent of Banking Chrystal, who held that office during the period when the Iowa Banking Act of 1969 was being developed, indicated that this authority was omitted from the Act by error.

Section two of the draft bill amends Code section 524.1106, relating to fees paid by state banks for management, financial advice, consultation or services. The purpose of the amendment is to make any contract or arrangement for payment of such fees by a bank to a person or firm who owns shares in that bank subject to prior approval by the superintendent, who may require that the fees be reduced or that the contract or arrangement not be entered into by the bank if he determines that the fees in question are not reasonable in relation to the services performed. Under existing section 524.1106 the Superintendent has authority to review such contracts or arrangements after they have taken effect. This authority would be retained, but it is believed that a requirement of prior approval for such contracts and arrangements is desirable.

## Minority Report

While I concur with the recommendations of the Bank Holding Companies Study Committee as set forth in the foregoing report, I would have preferred to add to subsection one of Code section 524.1202, as proposed to be amended by section four of the Study Committee's draft bill, the following language which was considered but rejected:

> The superintendent may permit a state bank to acquire all of the outstanding shares of any other chartered bank, located within the area in which the acquiring bank may establish offices and outside the boundaries of both the municipal corporation in which the acquiring bank is located and any other municipal corporation contiguous thereto or cornering thereon, and surrender the charter of the acquiring bank and thereafter operate it as a bank office in accordance with the requirements of section five hundred twenty-four point twelve hundred one (524.1201), without regard to whether or not there are other chartered banks in existence in the same municipal corporation as the acquired bank. Any bank so acquired for conversion to a bank office, which previously operated one or more bank offices, shall close the offices before surrendering its charter.

I believe addition of such authority to the state banking law would be desirable and prudent. Even though a community is being served by two or more chartered banks, conversion of one of them to

an office of a bank located elsewhere for the purpose of continued operation in competition with the other local bank or banks is not necessarily undesirable in all cases. It may afford the community heightened competition in banking. Furthermore, with the full lending powers which bank offices will have under the amendment proposed by the Study Committee to Code section 524.1201, the bank office may well be able to offer the community access to the increased capital which is necessary to provide the higher lending limits needed by many businessmen and farmers in this inflationary era.

I find it inconsistent that some of the same persons who urged upon the Study Committee the desirability of permitting concentration in Iowa banking through the medium of holding companies strongly oppose such concentration through the kind of limited branch banking which would be allowed under the language set forth in the first paragraph of this minority report. It does not appear that the end result would be significantly different in terms of obtaining more capital in order to provide higher loan limits, and of generally giving better banking service to smaller communities. It does appear to me, however, that limited branching offers some potential for reduced overhead because it would be unnecessary to have a board of directors and a full set of officers in every local bank office.

I urge the General Assembly to consider adoption of the suggested language as an amendment to the Study Committee's draft bill.

In addition, even though Senate Concurrent Resolution 28, pursuant to which the Study Committee was established, extended to "improving the functioning of Iowa's financial institutions" and was not in that sense limited to banks per se, it is my belief that the Study Committee should be extended and given additional authorization to proceed with a braoder study of the operation of financial institutions in Iowa generally. Specifically, I would like to look into the possible need for legislation relating to the operations of savings and loan associations (including use of bait advertising), small loan and industrial loan company operations, and the tax-free status and operations of credit unions.

Harold O. Fischer
State Representative
Vice Chairman, Bank Holding
Companies Study Committee

Appendix I

# STATE LEGISLATION AFFECTING

# BANK HOLDING COMPANIES

The table here presented is based on a table carrying the same title which appears as an appendix to the book Bank Holding Companies, by Gerald C. Fischer (Columbia University Press, 1961). As this document is intended for use by the Bank Holding Company Study Committee, a portion of the original table indicating whether and to what extent each state permits branch banking (as distinct from control of separate banks by a holding company) has been omitted.

The Iowa Legislative Service Bureau has endeavored to update the remainder of the table to 1971. In so doing, each statute cited in the 1961 table has been reviewed for subsequent revisions, and the laws of the states listed as having no specific bank holding company legislation in 1961 have been checked to see whether these states subsequently adopted such laws. Entries appearing in the original table are repeated verbatim, or with little change, in most cases where this is appropriate; entries changed to reflect developments since 1961 are marked by an asterisk. A few entries are changed from those appearing in the 1961 table, either to provide additional information or to update a citation affected by a code revision, etc., and these entries are marked by the symbol #.

The abbreviated summaries of particular sections of law cited are necessarily incomplete, but serve to give a general indication of the effects and requirements of the laws. It should be noted that in updating the 1961 table, later laws having a limiting effect upon but not actually prohibiting bank holding companies (such as those listed in the table for Arkansas and California) could have been missed if they are indexed in the respective state statutes under headings other than "bank holding companies" or some similar term.

| State | Legislation |
|---|---|
| Alabama | None |
| Alaska | *Multi-bank holding companies apparently unlawful. Ownership of some or all shares of one bank by a holding company which is a domestic corporation is specifically permitted, but corporation must be one designated a "holding company affiliate", rather than a holding company per se, by the Federal Reserve Board of Governors because corporation does not own shares of more than one bank. Alaska Stat., secs. 06.05.235(b), 06.05.540(9) |

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| Arizona | None |
| Arkansas | Owners of a chain or group of three or more banks are completely prohibited from borrowing from these institutions. Ark. Stat. Ann. sec. 67-509 |
| California | Domestic corporations may not make loans to or guarantee obligations of directors or officers of the corporation or its affiliates or against shares of the corporation or its affiliates without written stockholder consent. Calif. Corp. Code Ann. secs. 118, 823(a) |
| Colorado | None |
| Connecticut | *Under recent, fairly lengthy Bank Holding Company and Bank Acquisition Act, any move by a corporation to acquire an existing bank, or by an individual to acquire 10 percent or more of the voting stock of an existing bank, is subject to review and approval by Bank Commissioner. Gen. Stat. of Conn. (Cum. Sup.), secs. 36-418 to 36-430 (enacted 1969) |
| Delaware | None |
| Florida | Permission of the Commissioner of Banking is required before acquiring a majority of the stock of an existing bank or trust company. Fla. Stat. Ann., sec. 659.14 (Supp. 1960) |
| Georgia | Under the Georgia Code the expansion of existing bank holding companies is severely restricted and the establishment of new groups is prohibited. Ga. Code Ann., secs. 13-201.1(e),-207 (Supp. 1960), secs. 13-2058 to -2065 (Supp. 1958) |
| Hawaii | None |
| Idaho | None |
| Illinois | It is unlawful for a company to become a bank holding company, and the expansion of any existing company is severely restricted. Ill. Stat. Ann., ch. 16 1/2, secs. 71-76 (Supp. 1960), ch. 32, sec. 157.5(g) (Supp. 1960) |
| Indiana | The formation of new bank holding companies owning 25 percent of two or more banks is prohibited, and the expansion of existing companies is prevented. Ind. Stat. Ann., secs. 18-1801 to -1813 (1950), secs. 18-1814 to -1817 (Supp. 1960) |

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| Iowa | None |
| Kansas | The law restricts the expansion of existing bank holding companies and forbids the organization of new companies. Kan. Gen. Stat. Ann., sec. 9-1702 (1949), secs. 9-504 to -507 (Supp. 1959) |
| Kentucky | No bank or banking institution incorporated under the laws of another state can transact business in Kentucky except to lend money. No person is permitted to directly or indirectly hold or own more than one-half of the capital stock of a bank or trust company. Ky. Rev. Stat. Ann., sec. 287.030(2), (3) (1955) |
| Louisiana | *The formation of new bank holding companies owning 25 percent of two or more banks is prohibited, the expansion of existing holding companies is prevented, and activities of bank holding companies or their subsidiaries in businesses other than banking is severely restricted. La. Rev. Stat., secs. 6.1002-.1006 (enacted 1962) |
| Maine | None |
| Maryland | None |
| Massachusetts | Organization and expansion of bank holding companies and voting of stock they control in Massachusetts' trust companies requires prior written approval of the Board of Bank Incorporation. Board's approval is to be based on "whether or not competition among banking institutions will be unreasonably affected, and whether or not public convenience and advantage will be promoted." Mass. Laws Ann., C. 167A, secs. 1-7 (1959) |
| Michigan | #No bank may own shares of another bank or of a bank holding company, except for a limited time to protect against loss on a debt previously contracted legally and in good faith. Holding of bank stock by a general corporation is not permissible under the terms of the general corporation act. Mich. Comp. Laws, secs. 450.10(i), 487.451(15), (18) |
| Minnesota | The law prohibits the advertising of the resources or capital accounts of a group as being representative of a single member of a bank holding company system. Minn. Stat. Ann. sec. 47.09 (1945) |

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| Mississippi | Corporations may be formed to purchase, hold, and own bank assets with the consent of the State Comptroller. However, group and chain banking are prohibited. Miss. Code Ann., secs. 5196, 5197, 5235 (1956) |
| Missouri | None |
| Montana | None |
| Nebraska | *The formation of new bank holding companies owning 25 percent of two or more banks is prohibited, and the expansion of existing companies is prevented. Rev. Stat. Nebr., secs. 8-901 to 8-904 (enacted 1963) |
| Nevada | None |
| New Hampshire | *No company controlling 25 percent or more of the voting stock, or able to control election of a majority of the directors, of two or more banks may acquire any voting stock of any bank if the acquisition would give the company more than twelve affiliates, or if after the acquisition the company and its affiliates would in aggregate have more than 20 percent of dollar volume of all time and demand deposits in all banks in the state. N.H. Rev. Stat., secs. 384-B:1, 3 (enacted 1963) |
| New Jersey | *No company which owns more than 25 percent of the stock of any bank shall acquire more than 10 percent of the stock of another bank if at the time of the acquisition the company owns, or as a result of the acquisition it would own, more than 10 percent of the stock of each of two or more banks whose average aggregate deposits exceed 20 percent of the average aggregate deposits of all banks (other than savings banks) in the state. Also, no company which owns more than 25 percent of the stock of any out-of-state bank may own or acquire more than 5 percent of the stock of any New Jersey bank. N.J. Stat. Ann., secs. 17:9A-344, -354 (enacted 1957, amended 1968) |
| New Mexico | None |
| New York | *Formation and expansion of holding companies permitted within each of nine state banking districts, but require three-fifths vote of Banking Board for approval when district lines are crossed (except within City of New York). Law authorizes a holding company to acquire |

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| | all stock of a bank, thereby eliminating necessity of forming "phantom banks". Voting of stock in New York banks by companies which do not meet statutory definition of a bank holding company, and which have not acquired all the stock of a bank pursuant to law mentioned in preceding sentence, requires prior approval of Superintendent of Banking. Cons. Laws of N.Y. Ann., Banking Law, Art. III-A, secs. 141-147 (1961, amended 1969) |
| North Carolina | None |
| North Dakota | None |
| Ohio | None |
| Oklahoma | No trust company, or bank, or banking company shall own, hold, or control, in any manner whatever, the stock of any other trust company, or bank, or banking company. Okla. Const., art. 9, sec. 41, Okla. Stat., tit. 79, sec. 31 (1951) |
| Oregon | Any corporation organized or licensed to do business in Oregon which controls any bank is restricted in borrowing from the bank; the corporation may not sell any stock, securities or other evidence of indebtedness of any other corporation it controls to or through such bank. Ore. Rev. Stat., tit. 53, ch. 715 (1959) |
| Pennsylvania | #It is unlawful for any action to be taken which results in a company becoming a bank holding company and for any bank holding company to merge with another bank holding company. Pa. Stat. Ann., tit. 7, ch. 51, secs. 6001-6005 |
| Rhode Island | None |
| South Carolina | *It is unlawful, except with prior approval of State Board of Bank Control, for a company to become a bank holding company, or for a bank holding company to acquire more than 5 percent of the voting stock of a non-subsidiary bank or to merge with another bank holding company. Bank holding companies must register and may be required to file reports from time to time with the Board. Code of Laws of S.C. (1970 Cum. Sup.), secs. 8-599.101 to 8-599.106 |
| South Dakota | None |
| Tennessee | None |

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| Texas | There is no specific bank holding company legislation, but from time to time the state Attorney General has stated that a certain arbitrary percentage of stock ownership of more than one bank violated the Texas prohibition against branch banking. |
| Utah | *Exchange of bank stock for holding company stock expressly authorized by new amendment to banking law. Holding companies are exempt from certain franchise and privilege taxes. Utah Code Ann., secs. 7-6-3 as amended 1971, 59-13-4(16) |
| Vermont | *Former prohibition against holding companies in general has been modified to apply only to nonprofit corporations. Banks may not own capital shares of other banks. Vt. Stat. Ann., T. 8, sec. 1157, T. 11, sec. 131, both as amended 1971 |
| Virginia | *Bank director may satisfy legal requirement that he own stock of specified par value in bank of which he is a director, by owning capital stock of equal par value in holding company which controls the bank. Code of Va., secs. 6.1-4, 6.1-47 (enacted 1966) |
| Washington | #State banking law has since February 27, 1933 prohibited any corporation from thereafter acquiring more than 25 percent of stock of any bank in the state, however 1961 amendment permitted companies which still retained more than 25 percent interest in any bank to acquire additional stock in that bank. Wash. Rev. Code, sec. 30.04.230 |
| West Virginia | #It is unlawful for a person to purchase and hold stock in any banking institution organized or authorized to do business under West Virginia law for the purpose of perfecting control. W. Va. Code (Cum. Sup.), sec. 31A-8-13 |
| Wisconsin | #No corporation may acquire more than 10 percent of the capital stock of any state bank or trust company unless 75 percent of the shares entitled to vote of each corporation (i.e., acquiring corporation and bank) vote in favor. Any domestic or foreign corporation, investment trust, or other form of trust authorized to do business in Wisconsin which owns, holds, or in any form controls a majority of the stock of a state bank or trust company shall be deemed to be engaged in the business of banking and shall be subject to |

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| | the supervision and examination of the state banking department. Wis. Stat., ch. 180, sec. 180.04(6) (1957), ch. 221, sec. 221.56 |
| Wyoming | *Any corporation owning or acquiring the controlling interest in one or more state banks is subject to periodic examination by state examiner. Act so providing specifically states that it "shall not be interpreted to authorize or restrict the operation of 'bank holding companies' organized pursuant to the laws of the United States of America". Wyoming Stat., secs. 13-195.1, 13-195.8 (enacted 1968) |

Gerald C. Fischer, author of the book Bank Holding Companies which includes the table on which the foregoing revised table is based, footnoted the original table as follows:

> "There are hundreds of statutes in each state which affect any form of business enterprise, including banking; but this discussion is restricted to those laws which directly relate to this form of banking organization rather than the general operations of any financial institution. A number of the statutes cited in this section are not modeled after the Federal Bank Holding Company Act of 1956 and apply only to state banks. In addition there is a serious question as to how far the states can go in regulating the ownership of national bank stock."

On the basis of the review of state statutes carried out in preparing the revised table, it appears that the majority of states which have laws prohibiting or controlling multi-bank holding companies define such companies in the same manner as did the 1956 Federal Bank Holding Company Act. This definition is essentially more than 25 percent control over two or more banks or over a company which is or which becomes a bank holding company, or ability to control the election of a majority of the directors of two or more banks, with certain exceptions and exemptions. Since the adoption of Public Law 91-607, the Bank Holding Company Act Amendments of 1970, federal law defines as a bank holding company any company which has 25 percent or more control over, or controls the election of a majority of the directors of, any one bank or bank holding company.

# Deposits in banks directly or indirectly owned or controlled by multi-bank holding companies in Iowa

| Name | Total Deposits (12-31-70) | Total Assets (6-30-71) |
|---|---|---|
| **Northwest Bancorporation** | | |
| First National Bank, Denison | $ 9,756,000 | |
| Iowa-Des Moines National Bank, Des Moines | 301,838,000 | |
| First National Bank, Mason City | 51,251,000 | |
| Northwestern National Bank, Sioux City | 44,811,000 | |
| | $407,656,000 | |
| **Brenton Banks, Inc.** | | |
| Dallas County State Bank, Adel | $ 16,366,000 | $ 18,964,065.09 |
| Brenton Bank and Trust Co., Cedar Rapids | (new bank) | |
| Wright County State Bank, Clarion | 7,411,000 | 8,106,078.71 |
| Brenton State Bank,Dallas Center | 13,183,000 | 15,156,080.98 |
| First National Bank, Davenport | 14,463,000 | |
| National Bank of Des Moines, Des Moines | 22,062,000 | |
| Northwest Des Moines National Bank, Des Moines | 18,737,000 | |
| South Des Moines National Bank, Des Moines | 12,320,000 | |
| Eagle Grove State Bank, Eagle Grove | 5,104,000 | 6,073,637.48 |
| Palo Alto County State Bank, Emmetsburg | 11,484,000 | 13,412,698.76 |
| Poweshiek County National Bank, Grinnell | 16,101,000 | |
| Warren County Bank and Trust Company, Indianola | 6,139,000 | 7,253,009.33 |
| Jefferson State Bank, Jefferson | 14,696,000 | 17,699,213.67 |
| Fidelity Savings Bank, Marshalltown | 28,454,000 | 31,196,867.96 |
| First National Bank, Perry | 13,920,000 | |
| Benton County Bank and Trust Company | 7,941,000 | 9,372,864.53 |
| Northwest Brenton Bank and Trust Company,Urbandale | (new bank) | |
| | $208,381,000 | |
| **Hawkeye Bancorporation** | | |
| Burlington Bank and Trust Company, Burlington | $ 26,223,000 | $ 33,642,880.53 |
| First National Bank, Clinton | 29,499,000 | |
| Mills County State Bank, Glenwood | 2,432,000 | 3,787,918.54 |
| Pella National Bank, Pella | 15,398,000 | |
| Houghton State Bank, Red Oak | 20,947,000 | 23,936,265.02 |
| Lyon County State Bank, Rock Rapids | 6,038,000 | 6,936,792.50 |
| | $100,537,000 | |
| Camanche State Bank, Camanche | $ 1,874,000 | $ 2,792,372.16 |
| State Bank & Trust, Council Bluffs | 27,889,000 | 33,575,845.40 |
| First Federal State Bank, Des Moines | 21,271,000 | 26,618,757.97 |
| Kellogg Savings Bank, Kellogg | 8,519,000 | 9,116,595.94 |
| Modale Savings Bank, Modale | 2,148,000 | 2,547,596.49 |
| Jasper County Savings Bank, Newton | 32,366,000 | 35,461,634.95 |
| Clay County National Bank, Spencer | 14,245,000 | |
| | $208,849,000 | |

Bank Holding Companies Study Committee

Passed Senate, Date_____ Passed House, Date_____

Vote: Ayes_____ Nays_____ Vote: Ayes_____ Nays_____

Approved_____

# A BILL FOR

An Act relating to bank holding companies, bank offices, certain real estate loans by state banks, and fees paid by state banks for management, financial advice, consultation or services.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

Section 1. Section five hundred twenty-four point nine hundred five (524.905), Code 1971, is amended as follows:

1. By inserting after existing subsection three (3) a new subsection to read as follows:

"A state bank may make loans secured by liens on real property repayable in one or more payments provided that the entire principal of any such loan shall mature in not more than five years from the date of the loan, but no such loan shall exceed fifty percent of the appraised value of the real property offered as security."

2. By amending subsection four (4), paragraph "a", to read as follows:

a. The terms of any such loan, except ~~a loan~~ loans made pursuant to subsection 3 of this section, or section one (1), subsection one (1), of this Act, shall require substantially equal payments of principal or principal and interest at successive intervals of not more than one year. In the case of any such loan which shall constitute a combined construction and permanent loan to finance farm buildings or single family and two family residences, the initial payment on the loan may be deferred for a period not to exceed one year from the date of the loan and, in the case of a combined construction and permanent loan to finance buildings or other improvements on industrial, manufacturing or commercial properties or residential properties housing more than two families, the initial payment on the loan may be deferred for a period not to exceed two years from the date of the loan.

3. By renumbering the succeeding subsections accordingly.

Sec. 2. Section five hundred twenty-four point eleven hundred six (524.1106), Code 1971, is amended to read as follows:

524.1106 FEES PAID TO AN AFFILIATE. ~~In any case where an affiliate has a~~ Any contract or arrangement for management, financial advice, consultation, or other services which involves payment for these services by a state bank to ~~an~~

a person who owns shares in that bank, or to any other affiliate, the must be approved by the superintendent prior to such contract or arrangement becoming binding upon the state bank, and may also be reviewed at any time after original approval. The superintendent shall have authority to determine whether or not such fees are reasonable in relation to the services to be performed and, if he determines they are unreasonable, to require that they be reduced to a reasonable amount or eliminated, or that such contract or arrangement not be entered into by the state bank.

Sec. 3. Section five hundred twenty-four point twelve hundred one (524.1201), Code 1971, is amended by striking the section and inserting in lieu thereof the following:

524.1201 POWERS OF OFFICES. No bank shall open or maintain a branch bank. A state bank may establish and operate bank offices subject to approval and regulation of the superintendent and to the restrictions upon location and number imposed by section 524.1202. A bank office may furnish all banking services ordinarily furnished to customers and depositors at the principal place of business of the state bank which operates the office. The central executive and official business and principal record-keeping functions of a state bank shall be exercised only at its principal place of business, except that data processing services referred to in section 524.804 may be performed for the state bank at some other point. All transactions of a bank office shall be immediately transmitted to the principal place of business of the state bank which operates the office, and no current record-keeping functions shall be maintained at a bank office except to the extent the state bank which operates the office deems it desirable to keep there duplicates of the records kept at the principal place of business of the state bank.

Sec. 4. Section five hundred twenty-four point twelve hundred two (524.1202), Code 1971, is amended by striking the section and inserting in lieu thereof the following:

524.1202 LOCATION OF OFFICES. The location of any new bank office, or any change of location of a previously established bank office, shall be subject to the approval of the superintendent. No state bank shall establish a bank office outside the boundaries of the counties contiguous to or cornering upon the county in which the principal place of business of the state bank is located.

1. Except as otherwise provided in subsection two (2) of this section, no state bank shall establish a bank office in a municipal corporation or unincorporated area in which there is already an established state or national bank, however the subsequent chartering and establishment of any state or national bank, through the opening of its principal place of business within the municipal corporation where the bank office is located, shall not affect the right of the bank office to continue in operation in that municipal corporation.

2. A state bank located in a municipal corporation may establish not more than two bank offices each of which shall have adequate off-street parking as determined by the superintendent, and may also have facilities to serve pedestrian customers, within the boundaries of that municipal corporation. A state bank located in a municipal corporation, or in an urban complex composed of two or more municipal corporations each of which is contiguous to or corners upon at least one of the other municipal corporations within the complex, having a population of over 50,000 according to the most recent federal census may establish two such offices within the boundaries of the municipal corporation or urban complex; if the municipal corporation or urban complex has a population of over 100,000 but not over 200,000, the state bank may establish three such offices within the boundaries of the municipal corporation or urban complex; if the municipal corporation or urban complex has a population of over 200,000, the state bank may establish four such offices within the boundaries of the municipal complex. Such a facility located

in the proximity of a state bank's principal place of business may be found by the superintendent to be an integral part of the principal place of business, and not a bank office within the meaning of this section.

Sec. 5. Section five hundred twenty-four point twelve hundred three (524.1203), Code 1971, is amended to read as follows:

524.1203 CANCELLATION OF APPROVAL OF OFFICES. Whenever an examination by the superintendent or other supervisory agencies discloses that the operation of a bank office ~~or parking-lot-office~~ is being conducted in violation of section 524.1201, the superintendent may forthwith revoke the approval of the bank office ~~or parking-lot-office~~.

Sec. 6. Chapter five hundred twenty-four (524), Code 1971, is amended by adding to Division twelve (XII) the following new section:

"The privileges extended to state banks by sections five hundred twenty-four point twelve hundred one (524.1201) and five hundred twenty-four point twelve hundred two (524.1202) shall be available on the same conditions to national banks to the extent they are so authorized by federal law."

Sec. 7. As used in sections seven (7) through twelve (12) of this Act, "Bank Holding Company" means any corporation, business trust, voting trust, association, parternship, joint venture, or similar organization, other than an individual, which directly or indirectly owns or controls twenty-five percent or more of the voting shares of each of two or more banks or of a company which is a bank holding company by virtue of this section, or which controls in any manner the election of a majority of the directors of each of two or more banks, or for the benefit of whose shareholders or members twenty-five percent or more of the voting shares of each of two or more banks or of a company which is a bank holding company by virtue of this section is held by trustees. However, no company shall be a bank holding company solely

by virtue of its ownership or control of shares:

1. In a fiduciary capacity arising in the ordinary course of business.

2. Acquired by it in connection with its underwriting of bank shares and held only for such period of time as will permit sale of the shares upon a reasonable basis.

3. Acquired and held in the ordinary course of securing or collecting a debt previously contracted in good faith.

Sec. 8. No bank holding company shall directly or indirectly acquire ownership or control of more than twenty-five percent of the voting shares of any bank, or the power to control in any manner the election of a majority of the directors of any bank, if upon such acquisition the banks so owned or controlled by the bank holding company would have, in the aggregate, more than ten percent of the total deposits, both time and demand, of all banks in this state, as determined by the superintendent on the basis of the most recent reports of the banks in the state to their supervisory authorities which are available at the time of the acquisition.

Sec. 9. No bank holding company shall make any offer to purchase or acquire, directly or indirectly, the voting shares of any state or national bank without extending the same offer to the owners of all outstanding shares of the bank not owned or controlled by the holding company. The refusal of any shareholder to accept the offer shall not be a bar to purchase or acquisition of the shares of any other shareholder if all other pertinent requirements of this Act have been met by the bank holding company.

Sec. 10. Any bank holding company, or firm which would thereby become a bank holding company, which proposes to directly or indirectly acquire ownership or control of the voting shares of any bank, and which upon such acquisition would own or control more than twenty-five percent of the voting shares of the bank, shall provide to the superintendent a copy of any original application to the board of gov-

ernors of the federal reserve system for permission to take such action, and a copy of any subsequent amendment thereto, at the same time the application or amendment is transmitted to the federal reserve system. The superintendent may conduct such investigation into and evaluation of the proposed action as he deems necessary and appropriate, and may submit to the federal reserve board any information so obtained together with his own comments or recommendations regarding the proposed acquisition.

Sec. 11. Nothing in this Act shall be construed to authorize a bank holding company which is with respect to the state of Iowa an "out-of-state bank holding company", as defined or referred to in 12 U.S.C. 1842(d), as amended to January 1, 1971, to acquire any of the voting shares of, any interest in, all or substantially all of the assets of, or power to control in any manner the election of any of the directors of any bank in this state, unless such bank holding company on January 1, 1971, owned at least two banks in this state.

Sec. 12. Any bank holding company which willfully violates any provision of sections seven (7) through eleven (11) of this Act shall, upon conviction, be fined not less than one hundred dollars nor more than one thousand dollars for each day during which the violation continues. Any individual who willfully participates in a violation of any provisions of sections seven (7) through eleven (11) of this Act shall be guilty of a misdemeanor and, upon conviction thereof, shall be subject to imprisonment in the county jail for a period not exceeding one year or a fine not exceeding one thousand dollars, or both.

Sec. 13. Sections seven (7) through twelve (12) of this Act shall constitute a new division of chapter five hundred twenty-four (524) of the Code, which division shall be entitled "bank holding companies".

EXPLANATION

This bill embodies the legislation recommended by the Bank

Holding Companies Study Committee which functioned during the interim between the first and second sessions of the Sixty-fourth General Assembly.

Section one permits banks to make loans for up to fifty percent of the appraised value of real estate which secures the loan, for periods of up to five years, and without the requirement that the loan be repaid in annual installments. This authority was omitted from the Iowa Banking Act of 1969 by oversight.

Section two requires prior approval of the Superintendent of Banking for certain types of service contracts or similar arrangements between a bank and any individual or firm which has an interest in the bank. At present, such contracts or arrangements are reviewed after they take effect.

Sections three through six are a revision of the present bank office law. These sections permit a bank office to offer all services offered at the main bank which operates the office, and permit a bank office previously established in a community to remain there even if new banks are later chartered there. In most situations, bank offices are not permitted to be newly established in competition with existing banks in a city other than that in which the main bank is located, however in multi-city metropolitan areas of 50,000 population or more banks could locate what are now known as parking lot offices across corporate boundary lines within the same metropolitan area. A larger number of such offices than now allowed would be permitted in areas of 100,000 population or more.

Sections seven through thirteen relate directly to bank holding companies. They restrict any one bank holding company to control of ten percent of total state bank deposits, require any bank holding company proposing to acquire a bank to make an equal stock purchase offer to all shareholders of the bank and to notify the Superintendent of Banking when the company applies to the Federal Reserve Board for permis-

sion to complete the acquisition, and prohibit any out-of-state bank holding company from purchasing banks in Iowa unless it owned two or more banks in Iowa on January 1, 1971.

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