PROBABLE ADVANTAGES AND DISADVANTAGES OF BRANCH BANKING
FOR THE STATE OF KANSAS

by

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CHAPTER I

INTRODUCTION

The Changing Nature of Kansas and Possible Need For Changes in Kansas Banking Laws

Kansas is changing from the traditionally rural state it has been in the past into an agricultural state containing growing areas of urban population (see Table 1) such as Wichita, Topeka, and Kansas City. It appears probable that this trend will continue into the future and may require the enactment of new laws designed to cope with this.

TABLE 1*

URBAN VERSUS RURAL POPULATION IN KANSAS FOR THE YEARS 1940, 1950, AND 1960

Year	% of Kansas Population Urban	% of Kansas Population Rural
1940	41.9%	58.1%
1950	52.1%	47.9%
1960	61.0%	39.0%

*From statistics given on page 18-12 of the Census of Population: 1960. Vol. I, Part 18, Kansas. Washington, D. C.: United States Bureau of the Census.

Present Kansas Law prohibits branch banking to any extent in Kansas greater than one drive-in branch ("auxiliary teller office to be used as a motor vehicle, off-street banking facility") located within 2,600 feet of the bank which operates it.[1] Some of the city bankers in Kansas feel that this law is too restrictive on them and places them in a "squeeze." They suggest that, although this law may be adequate for the rural areas in Kansas, it does not give the banks in the major urban areas of Kansas sufficient leeway to deal with their problems. As the major cities in Kansas are growing (see Table 2), and more and more people are moving to the suburbs, "these banks feel that they must move along with their customers or lose valuable accounts."[2]

TABLE 2*

POPULATION GROWTH IN WICHITA AND TOPEKA--SELECTED YEARS

City	Year 1940	1950	1960	1965
Wichita	114,966	168,279	254,698	approx. 275,000
Topeka	67,833	78,791	119,484	approx. 127,500

*From statistics given on page 18-28 of the Census of Population: 1960. Vol. I, Part 18, Kansas. Washington, D. C.: United States Bureau of the Census; and from statistics given in the Rand McNally International Bankers Directory, The Bankers Blue Book (Chicago, Illinois: Rand McNally & Company, Final 1965 Edition).

Wichita is the outstanding example of this phenomenon in Kansas. In 1950, there were 6 banks in Wichita; in 1965, there were 14 banks in

[1]Section 1, Chapter 72 of Senate Bill No. 105 (from the Laws of Kansas--1957)--Banks and Banking. Approved April 5, 1957.

[2]United States House of Representatives, Banking Concentration and Small Business (A Staff Report to the Select Committee on Small Business. 86th Congress, 2nd Session, December 23, 1960), p. 48.

Wichita--an increase of 8 banks (133 1/3 per cent).[1] Seven of the eight new banks since 1950 were suburban banks,[2] and it seems reasonable to assume that the existing downtown banks could have efficiently handled a portion of this growing suburgan business, if they had been permitted to do so under a more liberal banking law in Kansas. Some of the city banks feel that the present banking law is tending to "stifle" the growth of the downtown banks in the three main metropolitan areas of Kansas; and yet, they are afraid to "speak out" for fear of antagonizing the small banks in Kansas and losing correspondent business from them.

Small banks usually fear--and perhaps with some basis--that large "monopolistic banking empires" would be built as a result of banking laws which would be liberal enough to permit city banks to buy up large numbers of small, rural banks in areas of the state far distant, both economically and geographically, from the buying city banks. The rational answer to this problem would seem to be a more liberal banking law for the three major metropolitan areas in Kansas and yet a retention of the present banking law for the rest, or more rural part, of Kansas. Later, as cities such as Salina, Hutchinson, and Lawrence grow and develop, perhaps a third area of banking law could be created which would meet their needs--somewhat more restrictive than that for the major metropolitan areas and yet more liberal than for the rural areas.

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[1]Rand McNally International Bankers Directory, The Bankers Blue Book (Chicago, Illinois: Rand McNally & Company), Final 1950 and Final 1965 Edition.

[2]The 8th bank was The Wichita State Bank, a new downtown bank (across the river, and about ½ mile from the other downtown banks).

The Growth of Branch Banking in both Kansas and the United States

Branch banking is a growing phenomenon in America. As is shown in Table 3, the ratio of branch banking systems to unit banks has gone from .010, in the year 1900, to .242, in the year 1962. Even in Kansas, under the strict definition of branch banking and with the strong limitations placed upon it, branch banking has grown rapidly in the last few years. As is shown in Table 4, the number of branches in Kansas has grown, from almost a negligible number prior to 1950, to 22 in 1960 and to 47 in 1964...the growth in the number of branches in the 4-year period from 1960 to 1964 being almost 114 per cent.

TABLE 3*

NUMBER OF BRANCH BANKING SYSTEMS AND UNIT BANKS IN THE UNITED STATES BY SELECTED YEARS FROM 1900-1962

Year	Banks Operating Branches	Unit Banks	Ratio of Branch to Unit Banks
1900	87	8,651	.010
1910	292	21,194	.014
1920	530	28,129	.019
1930	750	22,295	.034
1940	954	13,334	.072
1950	1,291	12,830	.101
1960	2,329	11,143	.209
1962	2,619	10,808	.242

*Summarized from Table 12, page 319 of The National Banking Review, Vol. 1, No. 3, March 1964.

TABLE 4*

COMMERCIAL BANKS AND BRANCHES IN KANSAS
BY SELECTED YEARS FROM 1919-1964

Year	Banks	Branches	Total
1919	1,304	0	1,304
1934	752	0	752
1946	614	1	615
1950	612	0	612
1960	587	22	609
1964	594	47	641

*Summarized from Table 3, p. 25 of The Banking Structure in Evolution, The Administrator of National Banks, United States Treasury, 1964.

In the United States branch banking "is growing in both relative and absolute importance."[1] Today, branches of banks make up "nearly one-half of all commercial banking offices in this country. This is in contrast to earlier periods when, as recently as 1949, branches of banks accounted for less than one-quarter of the total number of banking offices."[2]

[1]Leland J. Pritchard, Money and Banking (Boston, Massachusetts: Houghton Mifflin Company, 1964), p. 132.

[2]Ibid.

CHAPTER II

THE DIFFERENT FORMS OF BANKING

Unit, Correspondent, Branch, Group, and Chain Banking

In spite of the inroads branch banking has made on our banking structure in the United States, we are still considered to have a unit banking system. We have more than 10,000 banks (see Table 3), while in England and Wales five banks and their branches account for three-fourths of the banking resources--and branch offices. Canada, for instance, has only eleven chartered banks, three of which "dominate the field of commercial banking."[1]

A unit bank can be defined as a single-bank corporation which operates only one banking office and is not related to other banks, either through ownership or control. A unit bank is not controlled by another bank, person, group, or corporation: and it does not itself control other banks.[2]

Correspondent banking acts as a supplement to the unit banking system. It works in the following manner: smaller, outlying banks maintain "non-interest bearing accounts" with their city correspondent banks.

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[1]W. H. Steiner, Eli Shapiro, and Ezra Solomon, Money and Banking, An Introduction to the Financial System (New York: Holt, Rinehart and Winston, Inc., 1958), p. 86.

[2]Pritchard, p. 131.

In return for this, these city correspondent banks provide check clearing services, aid in buying and selling bonds, banking and technical information, and other services for these smaller banks. If the customer of a small bank wants trust services, a larger loan than the "loan limit" of the smaller bank, or other services which the smaller bank wouldn't otherwise be able to provide on its own; this bank is able to provide these things through the aid of its larger, city correspondent bank.[1]

Branch banking exists when a single banking corporation, having one group of directors and one charter, directly owns and operates more than one banking office...with each local office being supervised by a manager appointed by the officers of the bank.[2] Once a branch banking corporation exists, there are two ways in which it can expand. It can expand by buying up, or emerging with, existing banks; or it can expand by forming _de novo_, or new branches.

The following passage from, _Biography of a Bank, The Story of the Bank of America,_ gives a good description of the workings branch banking:

> Loans are made direct by the branches, except in instances where the amount is unusually large or the branch manager wishes to secure the advice of the head office credit department. The customers of the branch deal with the local officers, and only in extraordinary circumstances are they brought into contact with the head office departments. Each branch has a general lending limit fixed by the bank's finance committee. Within this limit each branch may lend and report without previous consultation with the head office. These limits vary with the proven credit capacity of the various

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[1] _Banking and Monetary Studies_, edited by Deane Carson (Homewood, Illinois: Richard D. Irwin, Inc., 1963), pp. 301-302.

[2] W. H. Steiner, Eli Shapiro, and Ezra Solomon, p. 87.

> branch loaning officers. . . . All applications for unfixed lines of credit in excess of the lending limit of a given branch are promptly considered and acted upon by the proper central credit department and proper advice and instructions issued. The broad fundamental policies respecting credits are outlined by the general executive committee and application is then made by the credit department.[1]

Each branch of a branch banking corporation carries on the same kind of activities performed by unit banks; however, trust, investment, and other kinds of specialized banking services are usually limited to the main office and to the larger branches. In communities too small to support a full-scale bank, a branch may be little more than a "teller's window" limited to receiving and paying deposits and taking applications for loans. In other communities where there is a need for some banking services, but not on a full-time basis, branch offices operating on a part-time basis are capable of taking care of the banking needs ...and although branches located in quite small communities may have only the minimum of facilities, they are able to arrange through the head office for all types of banking services.[2]

Group banking refers to an arrangement by which two or more separately incorporated banks are under the control of a holding company, or separate corporation.[3] This holding company controls banks that have

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[1]Marquis James and Bessie Rowland James, Biography of a Bank, The Story of Bank of America (New York: Harper & Brothers, 1954), p. 90.

[2]Gerald C. Fischer, Bank Holding Companies (New York: Columbia University Press, 1961), p. 47.

[3]Financial Institutions, edited by Roland I. Robinson (Homewood, Illinois: Richard D. Irwin, Inc., 1960), p. 136.

separate charters and boards of directors.[1] According to Gerald C. Fischer in his book, Bank Holding Companies, "economies and efficiencies" exist in group banking, but not to the degree that they exist in branch banking. According to Fischer:

> Many of the problems of the small bank owner can be solved through the formation of a group of cooperating banks. The marketability of shares can be improved, specialists can be employed, elaborate machinery can be installed at the headquarters to serve the members, and numerous other advantages of a sizable branch system can be enjoyed without the considerable sacrifice of local autonomy which occurs in a branch system.[2]

From the banks that Fischer had analyzed for his study, he came to the conclusion that, "The group system has been able to offer considerable financial gain to the stockholder of a small bank. The holding company's shares, when an exchange of stock occurred, were usually more marketable, provided a higher rate of return on book value, and resulted in a tax saving for the owners."[3]

According to the Federal Bank Holding Company Act of 1956, a bank holding company is defined as any company owning 25 per cent or more of the voting shares of two or more banks or which in any manner controls the election of a majority of directors of two or more banks. Holding companies are required to register with the Board of Governors of the Federal Reserve System and to obtain consent to acquire more than 5 per cent of the voting stock of any bank. No bank holding company is permitted

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[1] Marquis James and Bessie Rowland James, p. 298.

[2] Fischer, p. 141.

[3] Ibid., p. 140.

to acquire ownership or control in any company other than a bank.[1]

Chain banking is quite similar to group banking, except that the control of two or more banks is held by one individual, or by a group of individuals, through interlocking directorates--the same man, or men, sitting on several boards of directors. Chain banking has primarily been a development in agricultural areas and has achieved its greatest significance "in a few middle western states where branch banking is prohibited."[2]

According to Mr. Carl A. Bowman, Executive Secretary of the Kansas Bankers Association, chain banking "isn't significant in the state of Kansas."[3] Mr. Bowman said that, primarily, only two chain banking systems operate in the state of Kansas--"the Chandler banks" and those owned by a man named "C. H. Goppert"--but that they don't significantly influence banking in Kansas. According to Mr. Bowman, one of the major advantages of chain banking, as it exists in Kansas, is that it has certain advantages in buying securities--for example, in being able to buy municipal bonds in larger blocks.[4]

Satellite or affiliate banking is somewhat similar to chain banking, but according to Mr. A. K. Davis, President of the American

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[1] Financial Institutions, p. 137.

[2] Ibid., p. 139.

[3] From an interview with Mr. Bowman in June of 1966.

[4] Ibid.

Bankers Association, it "has some resemblance to chain banking but control is somewhat looser."[1]

Branch banking, group (or holding company) banking, and chain (and affiliate) banking are similar to each other in that they are all, "devices whereby several banks are brought under a single control."[2] In states where branch banking is prohibited by law, these other forms have a tendency--when not prohibited by law--to come into existence.

According to Mr. Carl Bowman, there are 33 one-bank holding companies in Kansas. They are permitted by Federal and State law--and are not covered by the Federal Bank Holding Company Act of 1956--because they affect only one bank. The advantage of these, according to Mr. Bowman, is that they are a way in which a young banker can gain control of a bank--for example, through the use of an Insurance Agency as a holding company. Again, as with chain banking, these aren't a particularly "significant" influence in Kansas banking, said Mr. Bowman.[3]

The Different Types of Branch Banking

Branch banking may vary greatly in its scope or extent. Branch banking may be nation-wide, such as it is in Canada or in England; it may be state-wide, as it is in California; or it may be limited to a

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[1] We Must Keep Building (Address of Archie K. Davis, President, The American Bankers Association, before the Midwinter Meeting of the Ohio Bankers Association, Sheraton Columbus Hotel, Columbus, Ohio, Friday Noon, February 18, 1966.)

[2] United States House of Representatives, Banking Concentration and Small Business (A Staff Report to the Select Committee on Small Business. 86th Congress, 2nd Session, December 23, 1960), p. 2.

[3] From the interview with Mr. Bowman in June of 1966.

geographic, or economic region within a state. Several of the possible geographic limitations to branch banking within a state are as follows: branch banking within the "city limits" of the major cities of a state; branch banking within, say, 15 miles of the city limits of the major cities of a state[1] or branch banking, "within the head-office county or counties contiguous to it."[2]

Branching may be limited to certain "regions" within a state. A state legislature may divide a state into regions--within which banks are permitted to branch and merge, subject to certain restrictions--using geographic and economic factors as criteria in establishing the borders for these regions. For example, in New York State, 1934 legislation divided the state into 9 banking regions, or districts, designed to work in this manner.[3]

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[1] The Monopolistic Character of Branch Banking (An Address given in 1965 by John F. McCarthy, President, Illinois Bankers Association.)

[2] Pritchard, p. 133.

[3] New York State Banking Department, Branch Banking, Bank Mergers and The Public Interest (January, 1964), p. 8.

CHAPTER III

THE "DUAL" BANKING SYSTEM IN THE UNITED STATES

The "Dual" Banking System

The "Dual Banking System" in the United States, with the co-existence of national banks and of banks chartered by the 50 states, is unique among the nations of the world.[1] This system "springs from the continuing conflict between Federal power and States rights which has characterized American politics over the years."[2]

Table 5 gives a comparison between the number of national banks and state banks in Kansas during recent years--1953 to 1962.

In the United States, as of December 31, 1958, only 34 per cent of the total number of commercial banks were national banks, and yet they held over 50 per cent of all commercial bank deposits. Thus, although national banks are of a larger average size in the nation as a whole, the larger number of state banks exists because, "State regulations, in general, permit more freedom in the use of funds and an enhanced earning position when compared with national regulation."[3]

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[1] United States House of Representatives, Banking Concentration and Small Business (A Staff Report to the Select Committee on Small Business. 86th Congress, 2nd Session, December 23, 1960), p. 1.

[2] Ibid.

[3] Financial Institutions, pp. 128-129.

TABLE 5*

BANKS IN KANSAS, 1953-1962
(DECEMBER 31)

Year	National Banks	State Banks	Total
1953	172	434	606
1954	170	432	602
1955	170	431	601
1956	170	428	598
1957	169	426	595
1958	169	424	593
1959	169	424	593
1960	167	420	587
1961	167	423	590
1962	168	425	593

*From Table 1, page 19, An Evaluation of Commercial Banking in Kansas, Internal Report to the Kansas Bankers Association, by Philip B. Hartley and Robert D. Schrock.

Federal Banking Law

Generally speaking, national banks operating within a given state are subject to the same limitations and restrictions as the state banks operating within that state in respect to branch banking. Thus, in a state where branch banking is permitted by the state law, national banks may establish and operate branches to the same extent that the state banks are permitted to do so. In a state where branch banking is prohibited by the state law, national banks are held to the same restrictions as the state banks...and thus are not permitted to establish branches.

The following are the major provisions of federal laws relating to the establishment of branches--as a result of the Federal Reserve Act of 1913, the McFadden Act of 1927, the Banking Acts of 1933 and 1935, and various rulings of the Board of Governors and the Comptroller of the Currency:

1. Both national and state member banks may establish branches in their main office cities if the laws of the state specifically authorize state banks to establish such branches. They may also establish state-wide systems if state law allows, with the proviso that member banks must meet the minimum capital requirements fixed by federal law. The effect of this provision is to make total capital requirements much more onerous than is required by most state laws.

2. The approval of the Comptroller of the Currency for national banks and the approval of the Board of Governors for state member banks is required before any branch may be moved or established.

3. State banks that are insured by the FDIC but are not members of the Federal Reserve may not establish or move a branch without the consent of the FDIC, but there is no other quantitative restriction by the FDIC.[1]

Therefore, in summary, a national bank generally, "has the same right to establish branches as it would if it were a state bank, except that there are special requirements as to capital and the approval of the Comptroller of the Currency is required."[2]

Kansas Banking Law

As stated previously in this paper, present Kansas Law prohibits branch banking to any extent in Kansas greater than one drive-in branch located within 2,600 feet of the branch which operates it. This is an oversimplification of the banking law in Kansas, so at this point it seems appropriate to give complete quotations of the portions of Kansas law pertaining to branch banking and bank holding companies. The following deals with the establishment of bank branches in Kansas:

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[1] Pritchard, p. 133.

[2] Gavin Spofford, Guideposts for Banking Expansion (New Brunswick, New Jersey: Rutgers University Press, 1961), p. 157.

SECTION 1. Section 9-1111 of the General Statutes of 1949 is hereby amended to read as follows: Sec. 9-1111. The general business of every bank shall be transacted at the place of business specified in its certificate of authority, and it shall be unlawful for any bank to establish and operate any branch bank, or branch office or agency or place of business: Provided, That any bank domiciled in this state may, or two (2) or more such banks may jointly establish and maintain not more than one (1) detached or attached auxiliary teller office to be used as a motor vehicle off-street banking facility, such office to be located within two thousand six hundred (2,600) feet of the premises specified as its place of business in its certificate of authority, but not within fifty (50) feet of another nonparticipating bank or auxiliary teller office thereof: Provided, however, That the services of such teller office be limited to receiving deposits of every kind and nature, cashing checks or orders to pay, issuing exchange, and receiving payments payable at the bank.[1]

The following is the Kansas Law pertaining to bank holding companies:

9-504. Bank holding companies; prohibited acts; definitions. For the purpose of this act, the following definitions shall govern:

(a) "Bank holding company" means any company: (1) Which directly or indirectly owns, controls, or holds with power to vote, twenty-five percent (25%) or more of the voting shares of two (2) or more banks or of a company which is or becomes a bank holding company by virture of this act; (2) which controls in any manner the election of a majority of the directors of each of two (2) or more banks; or (3) for the benefit of whose shareholders or members twenty-five percent (25%) or more of the voting shares of each of two (2) or more banks or a bank holding company is held by trustees; and for the purposes of this act, any successor to any such company shall be deemed to be a bank holding company from the date as of which such predecessor company became a bank holding company. Notwithstanding the foregoing (A) no bank shall be a bank holding company by virtue of its ownership or control of shares in a fiduciary capacity, except where such shares are held for the benefit of the shareholders of such bank.[2]

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[1]<u>The Laws of Kansas</u>, Chapter 72, Senate Bill No. 105, Section 1, Approved April 5, 1957.

[2]<u>1959 Supplement to General Statutes of Kansas 1949</u>, § 9-504.

9-505. Same; unlawful acts. It shall be unlawful for any bank holding company, as defined in section 1 (9-504) hereof: (1) To take any action which results in a company becoming a bank holding company as defined in this act; (2) for any bank holding company to acquire direct or indirect ownership or control of any voting shares of any bank if, after such acquisition, such company will directly or indirectly own or control more than twenty-five percent (25%) of the voting shares of two or more banks; (3) for any bank holding company or subsidiary thereof, other than a bank, to acquire all or substantially all of the assets of a bank; or (4) for any bank holding company to merge or consolidate with any other bank holding company. Notwithstanding the foregoing, this prohibition shall not apply to: (A) Shares acquired by a bank, (1) in good faith in a fiduciary capacity, except where such shares are held for the benefit of the shareholders of such bank, or (2) in the regular course of securing or collecting a debt previously contracted in good faith, but any shares acquired after the date of enactment of this act in securing or collecting any such previously contracted debt in excess of the number of shares permitted under the terms hereof as hereinbefore set forth shall be disposed of within a period of two years from the date on which they were acquired; or (B) additional shares acquired by a bank holding company in a bank in which such bank holding company owned or controlled a majority of the voting shares prior to such acquisition.[1]

Thus, in essence, the Kansas Law pertaining to bank holding companies "restricts the expansion of existing bank holding companies and forbids the organization of new companies."[2]

In 1961, a bill pertaining to branch banking was before the House of Representatives and Senate of the state of Kansas, but it failed to pass. It was introduced on February 10, 1961, in the House of Representatives as a bill which would extend the 2,600 foot limitation to 3,600 feet (other distances were proposed before the bill was killed, one for 6,500 feet). This proposed extension of the distance for auxiliary teller offices was intended to be statewide. On March 30, 1961,

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[1] <u>1959 Supplement to General Statutes of Kansas 1949</u>, §9-505.

[2] Fischer, p. 169.

the Senate Banking Committee "reported [that] the limitation be left at 6,500 feet for banks in Wyandotte and Johnson counties (as based on amounts relating to population and total assessed taxable tangible valuation) and for all other counties [the] limit be 2,600 fee."[1]

On April 5, a vote of 19-19 in the Senate killed this bill. Even if the Senate had passed this measure, it "would...have been subject to concurrency by the House in the Senate amendments or non-concurrence [,] which would have thrown the bill into conference procedures between the two houses."[2]

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[1]The Kansas Banker, published monthly by the Kansas Bankers Association, Topeka, Kansas, April, 1961, p. 15.

[2]Ibid.

CHAPTER IV

BRANCH BANKING IN OTHER STATES

The Extent

Kansas Laws restrict branch banking to such a great extent--to "auxiliary teller offices" instead of full fledged branches capable of performing numerous other banking services--that, when considered with other states, Kansas is grouped with those which in effect have unit banking. Under somewhat general criteria, the following is a classification of the 50 states according to their banking laws:

TABLE 6*

CLASSIFICATION OF STATES BY BRANCHING LAW
(1963)

Statewide Branch Banking	Limited Branch Banking	Unit Banking
Alaska	Alabama	Arkansas
Arizona	Georgia	Colorado
California	Indiana	Florida
Connecticut	Kentucky	Illinois
Delaware	Louisiana	Iowa
Hawaii	Massachusetts	Kansas
Idaho	Michigan	Minnesota
Maine	Mississippi	Missouri
Maryland	New Jersey	Montana
Nevada	New Mexico	Nebraska
North Carolina	New York	New Hampshire
Oregon	Ohio	North Dakota
Rhode Island	Pennsylvania	Oklahoma
South Carolina	South Dakota	Texas
Utah	Tennessee	West Virginia
Vermont	Virginia	Wyoming
Washington	Wisconsin	

*From Appendix A, page 341, Paul M. Horvitz and Bernard Shull, "Branch Banking and the Structure of Competition," The National Banking Review, Vol. 1, No. 3 (March, 1964).

Using the classification of states by branching law as given in Table 6, Table 7 gives information on banking concentration in the statewide branching states, limited branching states, and unit banking states:

TABLE 7[a]

NUMBER OF COMMERCIAL BANKS AND CONCENTRATION
DECEMBER 31, 1962

State Classification[b]	Number of States	Number of Banks	Average Number of Banks per State	Average Proportions of Deposits Held by Five Largest Banks[c]
Statewide Branching States	17	1,010	59	75.5
Limited Branching States	17	5,573	328	41.2
Unit Banking States	16	6,831	427	36.6
All States[d]	50	13,414	268	51.4

[a]From Table 7, page 313, Paul M. Horvitz and Bernard Shull, "Branch Banking and the Structure of Competition," The National Banking Review, Vol. 1, No. 3 (March, 1964).

[b]For states within each classification, see Table 6.

[c]Means of ratios for each state.

[d]Excludes District of Columbia.

As Table 7 shows, the average proportion of deposits held by the five largest banks is the greatest for the statewide branching states, next greatest for the limited branching states, and least for the unit banking states. In the same manner, the average number of banks per state is least for the statewide branching states, more for the limited branching states, and greatest for the unit banking states.

At this point, the reader may want to refer again to Table 3 on page 4 of this paper, which shows the increase in the number of banks operating branches and the increase in the ratio of branch to unit banks in the United States.

Some Banking Laws in Other States

In this paper we have divided the state banking laws into three categories: statewide branch banking, limited branch banking, and unit banking. The Kansas banking law, previously given in this paper, is an example of a state law permitting only unit banking. It limits branching to such an extent that only "auxiliary teller offices" are permitted instead of "true" branches; thus, in effect, only a unit banking system exists in Kansas. Texas is an even better example of a state having a unit banking system than Kansas. In Texas "an express prohibition of branch banking is contained in the constitution of the State, as well as in the statutes."[1] The following is the applicable part of the Texas Constitution: "...Such body corporate (banking corporation) shall not be authorized to engage in business at more than one place which shall be designated in its charter...."[2] The relevant part of the Texas Civil Statutes is: "No State, national or private bank

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[1]United States House of Representatives, Banking Concentration and Small Business, p. 32.

[2]Texas Constitution, art. 16, sec. 16. (from, Banking Concentration and Small Business, p. 32).

shall engage in business in more than one place, maintain any branch office, or cash checks or receive deposits except in its own banking house."[1]

California is a good example of a state which permits statewide branch banking. The following is the portion of California Law which pertains to its branch banking:

> 500. When authorized by the superintendent as provided in this chapter, a bank or trust company, pursuant to a resolution of its board of directors, may establish and maintain one or more branch offices within the State.
>
> 501. The request for authority to establish a branch office shall be set forth in an application in such form and containing such information as the superintendent may require and shall be accompanied by an application fee of one hundred dollars ($100) for each new branch office.
>
> 502. Before opening a branch office a bank or trust company shall have and shall thereafter maintain as long as the branch is operated, for each branch so opened paid-up capital in addition to the paid-up capital required by Chapter 3 of this division, equal to the following:
>
> (a) If the branch office will be located in the city in which the head office of the bank is located or in a city in which the bank has already established a branch office, fifty thousand dollars ($50,000).
>
> (b) If the branch office is to be located elsewhere, the amount required by Chapter 3 of this division to open a new bank in the place in which the branch will be located, exclusive of the amount required for a trust department.
>
> (c) If the branch is to engage in no other banking business than the trust business, fifty thousand dollars ($50,000).
>
> 503. The superintendent may give or withhold his approval of an application in his discretion but he shall not approve an application until he has examined into the matters referred to in subdivisions (b), (c), and (f) of Section 361 and until he has ascertained to his satisfaction that the following are true:
>
> (a) That the public convenience and advantage will be promoted by the establishment of the proposed branch office.
>
> (b) That the bank or trust company has the capital required by Chapters 3 and 4 of this division.[2]

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[1]Art. 342-903, Vernon's Civil Statutes of Texas, Anno. (from, Banking Concentration and Small Business, p. 33).

[2]State of California, Banking Law and Related Acts, December 31, 1962, pp. 17-18, Chapter 4, Article 1, §500 to 503.

> 507. When authorized by the superintendent a bank or trust company may change the location of a branch office from one location to another in the same vicinity.[1]

The concepts of "unit banking" and "statewide branch banking" are fairly clear-cut because they represent the two extremes; but between these two extremes the possibility exists for many different forms, and degrees, of branch banking. Table 8 gives some of these various forms which branch banking may take, as they exist in the United States (this listing of states isn't intended to coincide exactly with the list of "Limited Branch Banking" states, as given in Table 7, page 20 of this paper):

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[1] Ibid., p. 18, § 507.

TABLE 8*

THE BANKING LAWS OF SOME STATES PERMITTING
LIMITED DEGREES OF BRANCH BANKING
(1959)

Alabama[1]	New Mexico[6]
Arkansas[2]	New York[7]
Georgia[3]	North Dakota[4]
Indiana[1]	Ohio[2]
Iowa[4]	Pennsylvania[2]
Kentucky[1]	Tennessee[1]
Massachusetts[1]	Utah[1]
Michigan[2]	Virginia[1]
Mississippi[5]	Alaska[5]
New Jersey[1]	Hawaii[8]

[1]Permits branches within the city and county of head office.

[2]Permits branches within city, county, or county contiguous to county of head office.

[3]Permits banks in certain classes of cities to establish branches within limits of city of head office.

[4]Permits only "offices," "agencies," or "stations" for limited purposes, as distinguished from branches.

[5]Permits branches within 100-mile radius of head office.

[6]Permits banks to establish branches within the county or county contiguous to the county in which the parent bank is located, or within a certain distance of the parent bank.

[7]Permits banks to establish branches within the limits of the banking district in which the parent bank is situated.

[8]Permits branches within certain zones.

*From Table XVII, page 35, United States House of Representatives, Banking Concentration and Small Business, A Staff Report to the Select Committee on Small Business, 86th Congress, 2nd Session (December 23, 1960).

CHAPTER V

BRANCH BANKING STUDIES

Horvitz Studies

Paul M. Horvitz of Boston University is a Senior Economist in the Department of Banking, Office of the Comptroller of the Currency, Washington, D. C. He has published material on such topics relating to branch banking as, "Economies of Scale in Banking," "Branch Banking and the Structure of Competition," and "The Impact of Branch Banking on Bank Performance"--the last two of which he has done in conjunction with Bernard Shull, another Senior Economist in the Department of Banking. Some of the conclusions and findings given in these articles will be reported here without an attempt being made to explain the studies and statistics used to arrive at these conclusions. From the descriptions given of these studies, it appears that they were carefully thought out and interpreted; and generally, the tone of their "findings" supported the case for statewide branch banking.

The major results and findings in the article, "Branch Banking and the Structure of Competition," by Horvitz and Shull are as follows: over the last decade branch banking has been associated with a declining number of banks, and there are far fewer banks in the branch banking states than in the unit banking states. In recent years, though, the decline in the number of banks has slowed down despite the continued rapid expansion of branch banking. In the non-metropolitan areas of the United States, on the average, there are no fewer competitors in the branch banking states than in the unit banking states in the most important banking markets--especially, the local market. Banking concentration is typically higher in the metropolitan areas of branch banking states than it is in the metropolitan areas of unit banking states, but it is very high in both, and there is no evidence that the difference is economically significant. The economic barriers to entry in banking are low in comparison to such barriers in manufacturing, and they are probably somewhat lower under branch banking than under unit banking.[1]

In this article, they stated that:

> Our analysis suggests that neither in terms of number of competitors, nor concentration..., nor in terms of the condition of entry (potential competition) have the structures of local banking markets been adversely affected by branch banking in the United States. The weight of evidence suggests that, to the contrary, market structures are adversely affected by restrictions on branch banking.[2]

The results of one of their studies, reported in this article, showed that there is a tendency for economies of scale to increase (for the costs of a bank to decline) until it reaches a size of, "2-5 million in deposits. Costs are then relatively constant until the very large size of $100-500 million is reached."[3] It was their

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[1]Paul M. Horvitz and Bernard Shull, "Branch Banking and the Structure of Competition," <u>The National Banking Review</u>, Vol. 1, No. 3 (March, 1964), pp. 340-341.

[2]<u>Ibid</u>., p. 341.

[3]<u>Ibid</u>., p. 307.

view, though, that "economies of scale do not pose a serious barrier to entry in banking,"[1] and that "the most important barrier to entry in banking is found not in the economic factors, but in the regulatory policy and procedure."[2]

According to them, there is a danger of overestimating the number of actual competitors in banking. "There is a natural tendency in a country where free trade is the norm to look at numbers of firms and ignore geographic barriers that keep them from competing."[3] Many small banks in the United States are:

> ...locked in sanctuaries protected against outside competition; they can neither grow to an efficient size nor disappear through failure. Over one-half the banks in the United States have less than $5,000,000 in deposits, and nearly one-quarter have less than $2,000,000. There is, further, some evidence to suggest that the unit banks absorbed through merger in branch banking communities have generally been the relatively inefficient ones.[4]

Horvitz and Shull also present an argument for branch banking which rests upon the unbalanced banking needs of some communities. They say that even if a unit bank could be operated as efficiently as the branch of a large bank, the branch would be better suited to certain types of communities, because many smaller communities or suburban areas present the need for a very unbalanced banking business.

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[1] Paul M. Horvitz and Bernard Shull, "Branch Banking and the Structure of Competition," p. 308.

[2] Ibid., p. 310.

[3] Ibid., p. 330.

[4] Ibid., p. 318.

Some wealthy suburban communities may generate sizable time deposits and personal checking accounts, but they may have almost no demand for business loans. In contrast, other residential areas may provide a substantial demand for installment and mortgage loans, but an inadequate deposit volume. The branch system, "provides for mobility of funds and can shift excess reserves for lending through other outlets of the system. Thus there are offices of some branch banks which have loan-to-deposit ratios of over 100 percent."[1]

It is necessary for unit banks to maintain some reasonable balance between total loans and total deposits, and there must also generally be some balance in the loan portfolio between real estate, consumer loans, and commercial loans. "Thus entry to a potential unit banker looks attractive only in an area in which a sufficient volume and diversified composition of business appears available."[2]

They also give another reason why entry by a new branch may be easier than entry by a new bank:

> The new branch can draw upon a reservoir of trained management personnel developed by the large branch system...In addition... the branch can benefit in its early months from the service of experienced, specialized personnel who can be transferred temporarily to the new branch.[3]

The main results and conclusions of another article by Paul Horvitz and Bernard Shull, "The Impact of Branch Banking on Bank

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[1]Paul M. Horvitz and Bernard Shull, "Branch Banking and the Structure of Competition," p. 337.

[2]*Ibid.*, p. 337.

[3]*Ibid.*, pp. 337-338.

Performance," are as follows: "Most recent studies of economies of scale have found that branch banks tend to have higher operating costs than unit banks of similar size."[1] Most evidence suggests that unit banks can attain minimum optimum size at substantially lower asset sizes than branch banks. Branching has the advantage of permitting growth by way of geographic extension, but it has the disadvantage of raising the minimum optimum size of banks. The diseconomies of branching can be overcome, though, by growth as long as fairly extensive branching is permitted in a particular state.[2]

They give in the favor of the efficiency of branch banking the fact that:

> It has generally been confirmed that branch banks as a group devote a larger proportion of their resources to loans than unit banks as a group. Unit banks must generally have higher ratios of liquid to total assets than branch banks.[3]

It is their conclusion that, "branch banking is likely to result in a somewhat greater convenience of banking facilities in moderate and large sized non-metropolitan areas."[4] The results of some of their studies suggest that, "branch banks are more apt to satisfy the heterogeneity of consumer demands than are unit banks, and in medium and large size communities to provide more convenience in the form of more offices."[5]

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[1]Paul M. Horvitz and Bernard Shull, "The Impact of Branch Banking on Bank Performance," The National Banking Review, Vol. 2, No. 2 (December, 1964), p. 145.

[2]Ibid.

[3]Ibid., p. 146.

[4]Ibid., p. 149.

[5]Ibid., p. 155.

They say that one important difference between branch banking systems and unit banks is in the range of services provided. Branch banking systems "clearly outstrip" unit banks in the variety of produce offered and in the convenience provided by multiple offices--in towns large enough to make more than one banking office a convenience.[1]

Also, branch banking appears to influence bank performance in other ways. According to Horvitz and Shull, the existence of "permissive branching legislation" has an effect on the performance of unit banks--"unit banks in branch banking states generally have higher loan-asset ratios and higher ratios of time-to-total deposits, and...they pay higher rates of interest on time deposits than unit banks in unit banking states."[2]

Arizona--New Mexico Study

The article, "Branch Banking and Economic Growth in Arizona and New Mexico," originated as a thesis entitled, "The Branch Banking Question in Arizona and New Mexico: A Comparative Study," written and submitted by Mr. Paul D. Butt in partial fulfillment of the requirements for his degree of Master of Business Administration at the University of New Mexico. It was begun in 1958 and completed in the spring of 1959. As with the Horvitz studies, the results of Mr. Butt's work will be given here without an attempt being made to explain the studies and statistics used in arriving at them.

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[1]Paul M. Horvitz and Bernard Shull, "The Impact of Branch Banking on Bank Performance," p. 178.

[2]*Ibid*.

This study examined the "validity of two opposing philosophies" concerning branch banking. It was based upon comparisons of economic activity between 1947 and 1959 in Arizona and New Mexico, one of which permits unlimited branch banking, while the other has a system of branch banking, "so limited as to constitute little more than unit banking."[1] The success of the banking operations in these two states was measured,

> by the relative contribution of each system to its state's economic progress, with the contributions being measured in turn (1) by the extent to which bank funds were used in earning assets, (2) by the magnitude of interest costs to borrowers, (3) by the availability of banking facilities, (4) by a comparison of bank failures.[2]

Mr. Butt summarized the banking laws of the two states somewhat as follows: Arizona permits unlimited branch banking, and the only qualifications for the opening of a branch are those of meating the standards of public convenience and advantage and of possessing minimum amounts of capital and surplus. New Mexico permits a form of limited branch banking such that, "a branch may be opened either in the same county in which the parent bank is located, in an adjacent county if there is no bank located in such county, or within a radius of 100 miles of the home bank provided that the county in which the branch is to be located has no bank already in operation."[3] But according to Mr. Butt, "No matter what it is called, the limited branch

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[1] Paul D. Butt, "Branch Banking and Economic Growth in Arizona and New Mexico," New Mexico Studies in Business and Economics: No. 7, Bureau of Business Research, The University of New Mexico, Albuquerque, New Mexico (1960), p. 1.

[2] Ibid.

[3] Ibid., p. 2.

banking system in New Mexico is, for all practical purposes, really a system of unit banking," and, "certainly, the primary advantages to be obtained from branch banking are not present in any of the state's systems."[1]

The following are, in my own words, the conclusions reached by Mr. Butt as reported in his study:

1. The economic growth and development of Arizona exceeded that of New Mexico over the period studied (from 1947 to 1959), and the evidence strongly supports the contention that during this period the unlimited branch banking system of Arizona contributed more to Arizona's economic development.[2]

2. Throughout the period analyzed, Arizona's banks kept a higher proportion of their funds invested in loans and discounts; and the average interest cost to the user of bank funds in Arizona was lower than in New Mexico, yet the Arizona banks actually earned higher returns on capital.[3]

3. Banking facilities expanded more rapidly in Arizona, and they were more widely available than in New Mexico--with the unlimited branch banking system apparently being the chief contributing force.[4]

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[1]Paul D. Butt, p. 2.

[2]_Ibid._, pp. 1 and 18.

[3]_Ibid._, p. 21.

[4]_Ibid._

4. Stability of branch banking seems to have been greater than that of unit banking because of the wider economic and geographic diversification of loans under unlimited branch banking.[1]

5. Mr. Butt recommended, upon the basis of the evidence presented in his thesis, that a law be enacted in New Mexico which would permit unlimited branch banking, since this system--he felt--would be the kind most advantageous in New Mexico both to the consumer and to the general economy.[2]

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[1]Paul D. Butt, p. 21.

[2]Ibid.

CHAPTER VI

ADVANTAGES AND DISADVANTAGES OF BRANCH BANKING FOR KANSAS

The "Traditional" Arguments Given For and Against Branch Banking

The discussion of branch banking in this paper thus far has been based upon the results of studies, the opinions of experts, and thoughtful analysis. The subject of branch banking is highly controversial, and often the arguments given in favor of, or against, branch banking are emotionally charged and are based upon few real facts. Although some of these arguments may not be of great value in the quest for the "correct" or "right" answers concerning branch banking (the "correct" or "right" answers must, of necessity, be based upon studies and empirical observations), even so, many prominent men high in financial circles use, and believe in, these arguments. Thus, no study of branch banking would be complete without outlining briefly some of these arguments; and so, the following is a brief list of the "disadvantages" commonly listed as going along with branch banking (along with which will be a few remarks as to their faults or validity):

1. Independent unit banks know the needs of their community better, and can meet these needs on a more personal basis, than the branches of large branch banking systems.[1] These locally owned and

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[1] W. H. Steiner, Eli Shapiro, and Ezra Solomon, p. 90.

controlled banks are more responsive to local needs, and the management of these banks will be more enterprising in promoting local projects.[1]

2. Branch banking "fosters monopoly." There may be some degree of truth in this, but it appears likely that "the competition between rival branch organizations of large size might be more effective in providing good banking services than would competition among a large number of smaller unit banks."[2]

3. "The single-office independent bank is likely to have a more flexible management. Decisions can be made locally on the spot without waiting for the approval of a distant main office."[3]

4. It is difficult for a supervisory authority to adequately examine a branch banking system. This seems to have been somewhat solved, though, by a plan used in California whereby "state examiners audit a random sample of the branch offices simultaneously."[4]

5. If a large branch system were not competently managed and were to fail, the "ensuing disaster" would be very widespread. "In fact, the failure of a large branch banking system may imperil the banking structure of a nation."[5]

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[1] Pritchard, p. 134.

[2] Financial Institutions, p. 134.

[3] Pritchard, p. 134.

[4] Financial Institutions, p. 135.

[5] Ibid.

6. With branch banking "loans made to local borrowers will be administered by bankers not especially interested in local welfare or keenly aware of local credit needs."[1] It would be a short-sighted branch banking system that would, knowingly, pursue this policy; because the welfare and growth of the system as a whole would be dependent upon the welfare and growth of each of the local branches--and their local communities--making up the branch banking system.

7. There is less chance of competition among the branches of branch banking systems with respect to service charges, interest rates on time deposits, and services rendered to customers than is true of independent unit banks.[2] The Horvitz studies reported in this paper suggest that this usually isn't the case.

The following are some of the "advantages" commonly given for branch banking:

1. Branch banking provides safety resulting from a wide diversification of assets. Branch banking systems are less likely to fail because they are spread over many localities; and, because of their size, they are able to achieve a better diversification of assets than unit banks.[3]

2. Small unit banks are often too small to supply all of the specialized banking services that are needed in their community. The

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[1] Financial Institutions, p. 134.

[2] Pritchard, p. 134.

[3] Financial Institutions, p. 133.

branches of a large banking system are better able to supply these services.[1]

3. A branch office can be established more quickly and at a lower capital cost than a unit bank. Statistics seem to uphold the validity of this argument.[2]

4. Branch banking promotes a better distribution and mobility of credit and banking resources.[3] "Not only does this mean a better accomodation of local loan demands but [also it] results in an over-all reduction in interest rates."[4]

5. The loan limits of many small unit banks may be too small to meet the needs of their largest borrowers and, although they are able to make these loans with the aid of their larger city correspondent banks, the branch banks of large branch banking systems are faster and more efficient at handling these loan needs.[5]

The above have been only a few of the arguments which have been put forward in favor of, and against, branch banking. Other than where the validity or falsehood of these arguments has been pointed out (as based upon studies or empirical evidence, for example by Horvitz)...it is hard to say whether these arguments are valid or not. The facts just

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[1] Pritchard, p. 134.

[2] Financial Institutions, p. 134.

[3] Ibid., p. 133.

[4] Pritchard, pp. 134-135.

[5] Ibid., p. 134.

aren't available, and this ought to prove a fruitful field for further research.

Growth in the Number of Suburban Banks in Wichita Since 1950

Wichita appears to be the best example in Kansas of a growing metropolitan area in which a number of new suburban banks have been chartered (to see the population growth in Wichita, refer to Table 2, on page 2 of this paper). From Table 9, it can be seen that in 1950, there were 6 banks in Wichita (all of them downtown banks), while in 1965, there were 14 banks in Wichita (seven of the eight new banks being suburban banks).

The idea presented in Chapter I of this paper was that, under more liberal banking laws in Kansas, it seems likely that the existing downtown banks in Wichita could have efficiently handled a portion of this growing suburban business by means of establishing suburban branches. It also seems reasonable to assume that some of these suburban areas would have presented somewhat of an unbalanced banking situation--"unbalanced banking needs"--as discussed in the summary of the Horvitz Studies in this paper. If this unbalanced banking situation indeed existed, the results of the Horvitz Studies suggest that branch banking would be more efficient at handling this situation than unit banking.

Although Wichita is the best example of suburban bank growth, perhaps a similar trend could be found in Topeka and in metropolitan Kansas City, Kansas. Included here is information only on the growth of suburban banking in Wichita (Table 9) for the following reasons:

TABLE 9*

GROWTH IN THE NUMBER OF WICHITA BANKS
(1950 to 1965)

Banks: Suburban (S), or Downtown (D); and Year Chartered, eg: (1906)	Deposits, In Thousands of Dollars (All Statements as of June 30th)		
	1965	1955	1950
(S) Boulevard State Bank (1954)	12,949	5,267	-----
(S) Central State Bank (1962)	5,938	-----	-----
(S) East Side National Bank (1955)	7,050	-----	-----
(D) First National Bank (1876)	104,620	105,911	90,820
(D) Fourth National Bank (1887)	214,678	172,198	121,455
(D) Kansas State Bank (1934)	28,969	19,341	8,541
(S) National Bank of Wichita (1964)	2,616	-----	-----
(S) Parklane National Bank (1962)	4,732	-----	-----
(S) Seneca National Bank (1961)	5,190	-----	-----
(D) Southwest National Bank (1915)	20,220	13,684	9,004
(D) Stockyards National Bank (1910)	21,072	5,350	4,500
(S) Twin Lakes State Bank (1965)	-----[a]	-----	-----
(D) Union National Bank (1906)	57,202	25,216	16,303
(D) Wichita State Bank (1953)	9,203	3,784	-----

[a]The Twin Lakes State Bank had 882 thousand dollars of deposits as of December 31, 1965.

*From statistics given in the Rand McNally International Bankers Directory, The Bankers Blue Book (Chicago, Illinois: Rand McNally & Company), Final 1950 Edition, Final 1955 Edition, and Final 1965 Edition.

The population growth in Topeka, although extremely rapid, has been somewhat slower than the population growth in Wichita. In beginning to compile a table similar to the one for Wichita (Table 9) for Topeka, it was found that the banking situation isn't as clear-cut in Topeka and that several bank mergers have somewhat confused the situation as far as presenting the banking information for Topeka in an orderly and meaningful table. The city of Kansas City is located on a state line, and it appeared that any suburban banking information gathered on it would have had doubtful value.

More Extensive Branch Banking for Kansas

The question of whether branch banking--and if so, to what degree--would be a benefit to Kansas is a difficult one to answer. Not enough data and research directed specifically at the possibility of branch banking in Kansas is available, so the only way to attempt to answer this question is to draw inferences from studies that have been done in other states.

From the Horvitz Studies of branch banking throughout the United States and from the study which compared Arizona and New Mexico, it appears that branch banking of some degree would be a benefit to Kansas. The problem comes in trying to find the proper form and proper degree of branch banking for Kansas. It seems that a minimal change in Kansas Banking Laws should include provisions for branching within the city limits (including the "suburbs") of the major cities in Kansas--Wichita, Topeka, and Kansas City...and later, perhaps some of the other cities in Kansas after they have reached a certain size.

The Arizona-New Mexico Study pointed out that a great deal is at stake for a state...the "economic growth." If the banking system in Kansas is a handicap to its economic growth in relation to that of other states, something should be done about it. As was stated in, An Evaluation of Commercial Banking in Kansas, Internal Report to the Kansas Bankers Association, in a somewhat different context, "While many Kansas communities possess adequate banking facilities and will continue to do so for some time, other communities experiencing a change in both population and the level and nature of economic activity currently pose a real question as to whether the general public is enjoying the maximum level of banking services."[1]

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[1]Philip B. Hartley and Robert D. Schrock, An Evaluation of Commercial Banking in Kansas, Internal Report to the Kansas Bankers Association (Lawrence, Kansas, January, 1964), p. 142.

CONCLUSIONS

Although several of the major cities in Kansas appear to have some need for branch banking, it appears likely that if the branch banking question were to come up in Kansas, the rural areas would oppose any movement toward branch banking. There appears to be a mildly growing sentiment among the city bankers of the larger city banks in Kansas in favor of branch banking, but these city bankers seem reluctant to speak out on the matter. They are afraid that if they come out in favor of branch banking they stand to lose correspondent banking business from the smaller banks in the rural areas of Kansas.

If the branch banking question were to develop in Kansas, it seems likely that these small rural banks would oppose branch banking. As a matter of self-interest they would probably fear the possibility that, under statewide branch banking laws, large city banks could build "empires" by buying up banks in all parts of the state. Although they might be somewhat "hazy" about how it could occur, these small rural banks would perhaps fear that, through their size, the large banking systems, which could grow up under liberal banking laws, would have an "unfair advantage" and would have tools at their disposal which would put smaller banks into a "squeeze."

One of the major advantages of branch banking appears to be that it can provide banking services for a community which has an unbalanced banking situation. Some communities, or suburban areas, might have the potential for large amounts of deposits and yet almost no demand for loans. Other communities might have a sizable demand for loans but not an adequate deposit volume to support these loans. Branch banking appears to be the answer to this problem. The branches of the same bank existing in these two areas might be able to balance each other out, while a single, independent unit bank would have a difficult time existing, or coming into existence, in either of these areas.

Thus, branch banking might be of benefit to suburban areas and shopping centers--if unbalanced banking situations exist. In the same manner, it might be of service to rural areas and small communities which otherwise wouldn't be able to support a bank. If Kansas is to strive for maximum economic growth, and for the best possible banking services for its people, branch banking may provide some of the answers.

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PROBABLE ADVANTAGES AND DISADVANTAGES OF BRANCH BANKING
FOR THE STATE OF KANSAS

by

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Kansas is changing from the traditionally rural state it has been in the past into an agricultural state containing growing areas of urban population. It appears probable that this trend will continue into the future and may require the enactment of new laws designed to cope with this. Present Kansas law prohibits branch banking to any greater extent in Kansas than one drive-in branch located within 2,600 feet of the bank which operates it. It is felt by some that this present law it too restrictive.

Seven of the eight new banks chartered in Wichita between 1950 and 1965 were suburban banks. In some cases suburban areas provide an unbalanced banking situation. For example, an unbalanced banking situation exists in an area which has a high potential for deposits and yet almost no demand for loans. Similarly, an unbalanced banking situation exists in an area which has a sizable demand for loans but not an adequate deposit potential to support these loans. Branch banking may be the answer to this problem; the branches of a branch banking system existing in these two types of unbalanced banking areas might be able to balance each other out, but a single unit bank would have a difficult time existing, or coming into existence, in either of these areas. Thus, it seems reasonable to assume that the existing downtown banks in Wichita could have efficiently handled a portion of the growing suburban banking business in Wichita by establishing branches, if they had been permitted to do so under a more liberal banking law in Kansas.

Branch banking might be able to benefit suburban areas and shopping centers in Kansas in which unbalanced banking situations exist; and, in the same manner, it might be able to aid rural areas and small communities which otherwise wouldn't be able to support a bank. If Kansas is to strive for maximum economic growth, and for the best possible banking services for its people, branch banking may be able to provide some of the answers.