

Multibank holding company expansion in Michigan

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Michigan has only 365 banks, the fewest of any of the five states making up the Seventh Federal Reserve District. Even Wisconsin, with deposits totaling only about half the \$36 billion in Michigan, has well over 600 banks. Illinois, with practically no branching, has considerably more than 1,200 banks. In Michigan, where deposits total only a little over half the deposits in Illinois, there are roughly 1,600 branches.

As in other states, the structure of banking in Michigan was formed through the interaction of state banking law and regional economic developments. And as in other branching states, the structure of banking there has long been concentrated. Less than a tenth of the banks, for example, hold two-

thirds of the deposits.

But also as in other states in recent years, a third factor has come into prominent play. Since 1971, when bank holding companies were first allowed in Michigan, 22 multibank holding companies have been formed. They have acquired over a third of the banks.

Most of the expansion of multibank holding companies has been in the southern part of the state, where a heavy concentration of industry has caused population and income to cluster in large urban areas. Nearly two-thirds of the banks acquired by multibank holding companies are in Standard Metropolitan Statistical Areas in the industrial south. These banks hold almost three-fourths of the deposits in these urban areas.

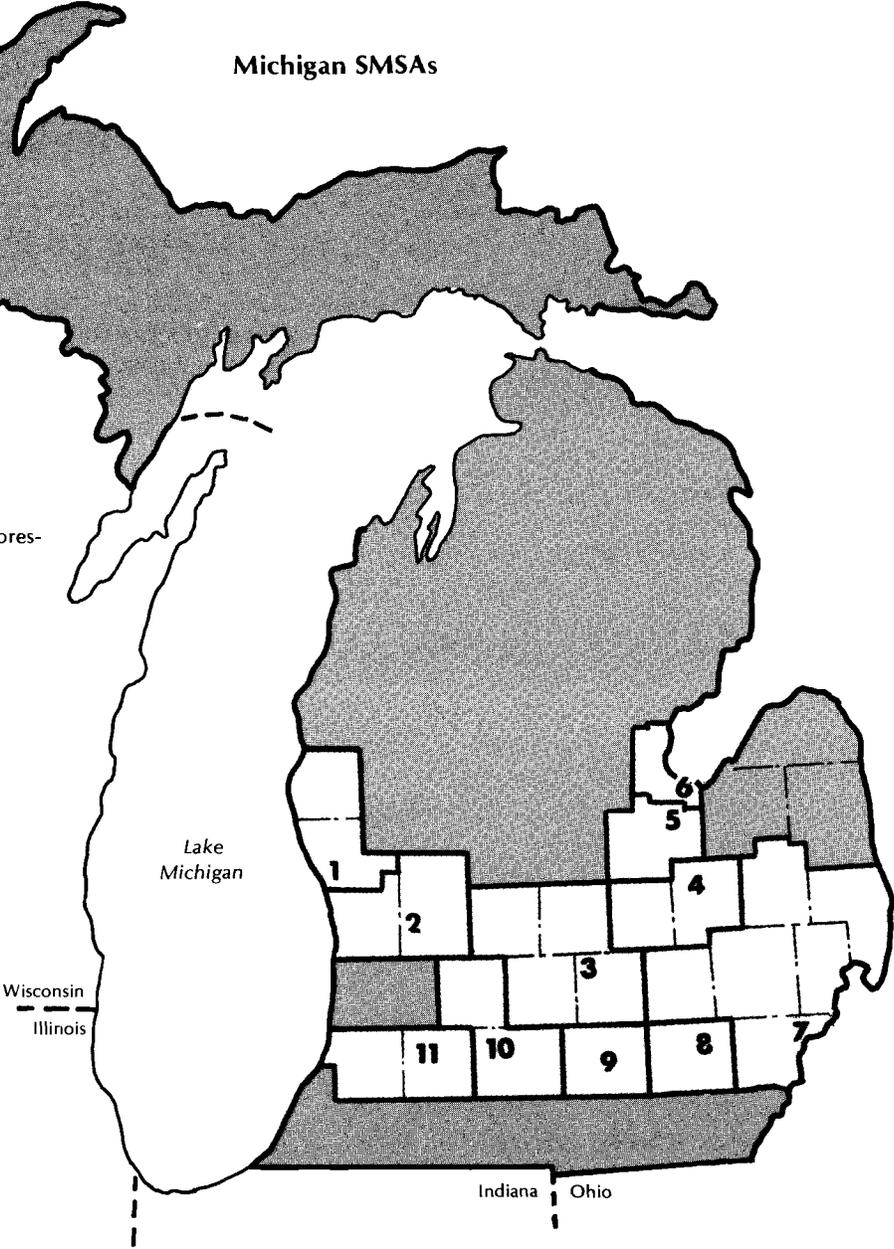
Michigan banks by size and holding company status*

Deposit size class	All banks		Banks in multibank holding companies		Banks in one-bank holding companies	
	Number	Deposits (million dollars)	Number	Deposits (million dollars)	Number	Deposits (million dollars)
\$2.5 bil. or more	3	11,320.4	3	11,320.4	—	—
\$1.0 bil. - \$2.5 bil.	2	2,709.7	2	2,709.7	—	—
\$500 mil. - \$1.0 bil.	6	4,556.9	4	2,911.1	1	853.3
\$250 mil. - \$500 mil.	7	2,570.7	4	1,456.0	1	369.7
\$100 mil. - \$250 mil.	37	5,853.8	18	3,094.9	5	701.0
\$50 mil. - \$100 mil.	52	3,660.3	17	1,259.2	3	209.0
Less than \$50 mil.	258	5,429.5	83	1,473.0	8	182.1
Total	365	36,101.3	131	24,224.3	18	2,315.1

*Deposits as of December 31, 1977; holding company subsidiaries approved through June 30, 1978.

Michigan SMSAs

- SMSA central city**
- 1. Muskegon-Norton Shores-
Muskegon Heights
 - 2. Grand Rapids
 - 3. Lansing-East Lansing
 - 4. Flint
 - 5. Saginaw
 - 6. Bay City
 - 7. Detroit
 - 8. Ann Arbor
 - 9. Jackson
 - 10. Battle Creek
 - 11. Portage-Kalamazoo



Effects of regional development

Michigan is far more industrialized than most states. Nearly a third of nonfarm employment is in manufacturing compared with less than a fourth nationwide. And far more of the manufacturing employment is in the generally better paying production of durable goods. Chiefly because of the auto industry, four out of five of the state's manufacturing workers produce durable goods, compared with three out of five nationwide.

<u>Number of banks in county</u>	<u>Number of counties</u>
0	5
1 or 2	24
3 or 4	29
5 or 6	9
7 - 10	9
11 - 15	4
16 or more	3

*Distribution as of December 31, 1977.

This large proportion of workers engaged in durable goods manufacturing accounts in large part for the earnings of Michigan manufacturing workers being 30 percent higher than the national average.

Per capita income in Michigan, second in the Seventh District only to Illinois, was 6 percent higher than for the nation in 1976, the latest year for which data are available. Since 1970, personal income had increased from \$37.2 billion to \$61.5 billion. During that time, population increased only from 8.9 million to 9.1 million, allowing the state to achieve continued gains in per capita income—even during the years that the auto industry suffered one of its most severe setbacks from recession.

Most of the industry, however, is concentrated in 24 southern counties. The rest of the state—the Upper Peninsula and the northern part of the Lower Peninsula—is still essentially rural with little economic activity that has much bearing on activity in the industrial south. Only 4 percent of the personal income in Michigan is found in the 45 rural counties in the north, where business activity is based mostly on farming, mining, forestry, and the tourist trade.

Eight out of ten people in the state live in 11 SMSAs spread across the southern part of the state. That is more Standard Metropolitan Statistical Areas than in any other state of the Seventh District. It is also a larger proportion of population living in SMSAs than in any other district state.

Ten urban areas made up of 16 southern counties had been designated SMSAs in 1960, when three-fourths of the people in the state lived in these areas. Since then, Battle Creek has also been designated an SMSA and the original ten have grown to include six more counties. Another Michigan county, Monroe, is counted as part of the Toledo, Ohio, SMSA.

In 1975, these 11 SMSAs accounted for 87 percent of the personal income in Michigan. And banks headquartered in the SMSAs accounted for 83 percent of the deposits in the state.

Income is further concentrated within the 24-county region. Detroit, a six-county SMSA with close to half the state's population, has considerably more than half the personal income and bank deposits. Its deposits, in fact, total almost eight times as much as deposits at banks in Lansing-East Lansing, the second largest SMSA.

Though bank deposits, like income and population, are regionally concentrated, Michigan's banks are not. Over half the banks in the state are located in 59 non-SMSA counties, where deposits last year amounted to only \$6 billion against the \$30 billion on deposit at banks in SMSA counties. However, over three-fourths of all branch bank offices are concentrated in SMSA counties. That the distribution of branch bank offices follows the distribution of income and population,

Banking in Michigan's SMSA¹

SMSA	Deposits (million dollars)	Share of state deposits (percent)	Number of		Share of deposits controlled by MBHCs (percent)
			Banks	MBHC subsidiary banks	
Detroit	19,596.2	54.3	77	36	78.0
Lansing-East Lansing	2,507.8	6.9	20	7	82.7
Grand Rapids	2,250.5	6.2	24	17	93.4
Flint	1,770.7	4.9	10	5	47.1
Kalamazoo- Portage	957.9	2.7	13	6	72.3
Ann Arbor	863.6	2.4	11	2	30.6
Saginaw	703.0	1.9	7	3	83.7
Muskegon-Norton Shores-Muskegon Heights	488.1	1.4	6	3	62.1
Jackson	471.8	1.3	4	0	—
Bay City	323.1	0.9	3	3	100.0
Battle Creek	<u>193.6</u>	<u>0.5</u>	<u>6</u>	<u>3</u>	<u>20.1</u>
Total	30,126.3	83.4	181	85	74.7

¹Deposit data are as of December 31, 1977; multibank holding company subsidiaries through June 30, 1978.

while the distribution of banks does not, can be attributed to state banking law.

Effects of state banking law

Michigan has been a limited branching state since 1937. Banks can establish branches only in the same county as their home office or within 25 miles of the home office. One bank, Michigan National of Detroit, is exempt from this restriction by a grandfather clause. When the current branching law went into effect in 1945, Michigan National already had branches in several cities. It was allowed to keep one in each location.

Michigan banking law also has a home office protection clause that allows branches to be opened only in the same town as the home office or in towns not already served by

a bank or a branch. Otherwise, the only possible locations are in unincorporated areas.

The limited geographic area in which branching is permitted has kept banks from expanding on a regional or state basis. Banks have responded in two ways—both of which have fostered the development of large banks. To attract as many local customers as possible, banks have branched extensively within the areas that are allowed. And to preempt potentially good bank sites, particularly in areas where high population growth was expected, they have opened branches in unincorporated areas. These offices would later be protected if the area were to become incorporated.

As such, a two-tiered banking structure has developed in Michigan's SMSAs. Each SMSA is typified by a few large banks that con-

trol most of the deposits and a larger number of smaller banks that divide the remaining deposits.

When the legislature repealed the state's longstanding prohibition against Michigan corporations owning bank stock, opening the way for the creation of multibank holding companies, banks were given a way around the state's restrictive branching law. Through holding company arrangements, they could expand their service areas either by chartering new banks or by acquiring existing banks beyond the 25-mile limit of the branching law. Also, many suburbs where banking offices had been protected from competition by the home office rule could now be entered through the chartering of new subsidiary banks.

But while changes in the law providing for holding companies created the means for improving bank competition, the new law also gave holding companies a means of reducing competition. By acquiring an existing bank in a market where the company already controlled a bank, holding companies could reduce the choices open to the banking public. With this kind of expansion, the number of competitors would be reduced and the concentration of banking resources increased.

As the law puts no limit on either the number of bank subsidiaries a company can own or the amount of deposits it can control, some bank holding companies have expanded statewide while others have concentrated their expansion efforts in market areas they already served, but where entry by branching was prohibited.

Effects of multibank holding companies

The lead banks of Michigan's 22 multibank holding companies rank among the largest in the state. Half of them hold deposits of more than \$250 million. Seventeen are in SMSAs.

Multibank holding companies have acquired 72 other existing banks, half of them also in SMSAs. And they have chartered 37 new banks, all but five of them also in SMSAs.

Michigan multibank holding companies by size*

<u>Number of subsidiary banks</u>	<u>Number of companies</u>
15 or more	2
10 - 14	0
7 - 9	7
4 - 6	4
2 - 3	9

<u>Deposit size class</u>	<u>Number of companies</u>
\$5 billion or more	1
\$3 billion to \$4.9 billion	3
\$1 billion to \$2.9 billion	3
\$500 million to \$999.9 million	5
\$100 million to \$499.9 million	7
Less than \$100 million	3

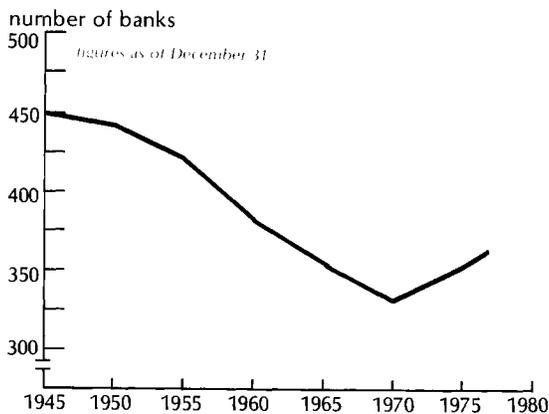
*Deposit data as of December 31, 1977; multibank holding company subsidiaries approved through June 30, 1978.

Three-fifths of all subsidiaries of multibank holding companies are in ten SMSAs, the one-county Jackson area being the only one that multibank holding companies have not entered.

Though most of the expansion has been where the demand for banking services is strongest, three companies controlling 13 banks operate exclusively in the Upper Peninsula. Two other companies, one in Kalamazoo and one in Detroit, have expanded into the Upper Peninsula through the acquisition of six existing banks.

Since multibank holding companies have been allowed in Michigan, a downward trend in the number of banks has been reversed but the concentration of banking resources has increased. Through mid-1978, the number of banks had increased by 34 while the number of independent banking organizations had dropped by 75.

Downtrend in number of Michigan banks reversed by multibank holding companies



A 1975 Federal Reserve Bank study of holding company developments in Michigan showed that the expansion of multibank holding companies had been confined primarily to the chartering of new banks in markets already served by the holding company or to the acquisition of existing banks in new markets.¹ Little use had been made of the procompetitive alternative of chartering new banks in markets where the holding company was not already represented.

The prior expansion did not increase the number of competing bank organizations in a market nor did it immediately change the structure of the local market (usually measured by the distribution of market shares among competing organizations).

This kind of expansion is still going on. Of 109 banks acquired by multibank companies through June 1978 (excluding lead banks), 21 were new banks chartered in markets already served by the parent company and 58 were existing banks acquired in new markets.

The newly chartered banks have all been used as a means around the state's home office protection rule. Although costs are higher for starting a new bank than for open-

ing a branch, the rapid growth of some suburbs has made entry with a new bank feasible.

The 58 existing banks acquired in new markets have allowed Michigan's largest banking organizations to expand beyond their own urban markets into other urban markets in the southern part of the state.

The five largest multibank holding companies headquartered in Detroit have acquired banks in metropolitan banking markets such as Lansing, Grand Rapids, Ann Arbor, Muskegon, and Bay City. Expansion into these other metropolitan areas would have been impossible without the holding company form of organization.

Likewise, multibank holding companies in Grand Haven and Grand Rapids have acquired banks in the Detroit market. The company in Grand Haven has also gone into the Flint market, as has a company based in Bay City. A Flint-based company has entered the Lansing market. A Kalamazoo company has entered Lansing, Muskegon, and Ann Arbor. And a Midland company has entered the Battle Creek SMSA.

More entries into new markets with new banks would have improved the competitive structure of banking in Michigan, giving the public more alternatives without increasing the concentration of deposits. In the last three years, multibank holding companies have begun making more entries that increase alternatives. By mid-1978, nine multibank holding companies have entered ten new markets with 16 newly chartered banks. Ten of these banks have been chartered since September 1975.

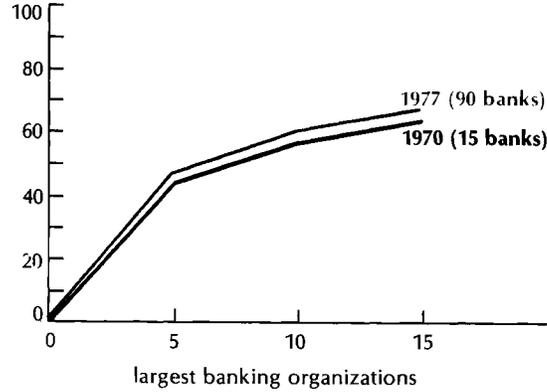
The two largest multibank holding companies, both based in Detroit, have entered the Kalamazoo market with new banks, and one has also entered the Flint market. Companies based in Kalamazoo have established new banks in the Grand Rapids and Battle Creek SMSAs. A company in Grand Rapids has entered Muskegon with a newly chartered bank.

Expansion of multibank holding companies, then, has resulted mainly in large, urban banks entering other SMSAs beyond the 25-mile limit of the branching law and

¹For information on the development of multibank holding companies in Michigan through August 31, 1975, see Nancy M. Goodman, "Holding company developments in Michigan," *Business Conditions*, October 1975.

Formations of multibank holding companies slightly increase concentration of Michigan deposits

cumulative percent of state deposits



areas of their own SMSAs that were previously closed to them. Multibank holding companies have eliminated 12 bank alternatives in three SMSAs, while being directly responsible for 35 instances of initial entry into ten SMSAs, all of which would have been precluded under the branching laws.

The influence of Michigan's large banks is growing as the expansion of multibank holding companies has increased the number of metropolitan banking markets in which these banks compete and has caused a decline in the number of independent banks in Michigan. As this trend continues, Michigan's banking structure appears to be evolving toward what is actually a statewide branching state, where a few large banks compete with each other in almost every major banking market.