

HOUSE BILL REPORT

HB 2891

*As Reported By House Committee on:
Commerce & Labor*

Title: An act relating to bank concentration levels.

Brief Description: Restricting bank acquisitions.

Sponsor(s): Representatives Day, Heavey, Lisk, Grant, R. Meyers, Fuhrman, R. Fisher, D. Sommers, Wilson, Rayburn, Franklin, Wynne, Wood, Hochstatter and May.

Brief History:

Reported by House Committee on:
Commerce & Labor, February 7, 1992, DPS.

**HOUSE COMMITTEE ON
COMMERCE & LABOR**

Majority Report: *The substitute bill be substituted therefor and the substitute bill do pass.* Signed by 11 members: Representatives Heavey, Chair; G. Cole, Vice Chair; Fuhrman, Ranking Minority Member; Lisk, Assistant Ranking Minority Member; Franklin; Jones; R. King; O'Brien; Prentice; Vance; and Wilson.

Staff: Jim Kelley (786-7166).

Background: On August 12, 1991, BankAmerica and Security Pacific announced a merger that would make BankAmerica the nation's second largest banking company. The proposed merger is a "stock swap" through which Security Pacific shareholders will receive .88 shares of BankAmerica stock for each share of Security Pacific stock. This appears to be part of a trend toward greater consolidation in the banking industry. In the past year, two large New York banks, Chemical Bank and Manufacturers Hanover Trust merged to form Chemical Bank and two large Southeastern banks, NCNB and C&S/Sovran merged to form NationsBank.

The costs of the proposed merger have been estimated to be over \$1.7 billion. The estimates of cost savings from the merger have ranged from \$1 - 1.2 billion annually. The cost savings will result from the closing of branches where the two banks compete with each other, consolidation of services, and laying off of approximately 1,000 employees statewide.

In 1983, SeaFirst, the largest bank in Washington, was purchased by BankAmerica. In 1988, Washington's second largest bank, Rainier, was purchased by Security Pacific and renamed Security Pacific Washington. The merger of BankAmerica and Security Pacific will result in the consolidation of nearly 50 percent of all the commercial bank deposits and assets in Washington in one bank.

The source of state anti-trust law, the Washington Consumer Protection Act, prohibits unfair methods of competition and unfair or deceptive acts or practices in trade or commerce. One section of this act makes it unlawful for any corporation to acquire, directly or indirectly, the whole or any part of the stock or assets of another corporation where the effect of such acquisition may be to substantially lessen competition or tend to create a monopoly in any line of commerce.

Summary of Substitute Bill: An acquisition of a commercial bank doing business within the state is presumed to substantially lessen competition for purposes of the Consumer Protection Act, if the acquisition would give the acquiring entity control of 30 percent or more of the deposits held by commercial banks in the state. These provisions apply to any acquisition closing after January 1, 1992.

Substitute Bill Compared to Original Bill: The substitute bill removed provisions that would have created a legal presumption of noncompetition based upon county by county concentration levels as measured by the Herfindahl Hirschman Index.

Fiscal Note: Requested February 1, 1992.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect immediately.

Testimony For: Competition is good for the banking industry. Our concern has to be doing what is best for the consumer. This bill alone does not prohibit a merger. There is no question that the state has independent authority to prohibit a merger. Banks located in other states do not care about the people of Washington. The concern is that there will be undue concentration in the market, limiting consumer choices and making funds less available for small business and low income loans.

Testimony Against: Anybody who loses his or her job as a result of the Bank of America/Security Pacific merger will be taken care of. There is no reason to be overly concerned. The merger will result in increased efficiency.

Banking law is within the exclusive jurisdiction of the Federal Reserve and the Department of Justice. The state attorney general has no authority to attempt to block a merger. Mergers can benefit many people when they prevent banks from struggling or failing. Larger banks can provide more specialized service than smaller banks. This bill will not help small borrowers.

Witnesses: Representative Bill Day, Prime Sponsor; Carol Smith, Assistant Attorney General; Joe Brennan, SeaFirst Bank (opposed); John McCormack, Western Construction and Design, Inc. (in favor); Kaye Pethe, Bucket Brigade (in favor); John Bley, Supervisor of Banking; John Pfaff, Financial Democracy Campaign (in favor); Mike Sivia, Washington Reinvestment Alliance; and Kurt Creager, Vancouver Housing Authority.