# The undeclared war on American regional banking

by David Goldman

Half a trillion dollars of banking assets and control over the direction of the nation's economy are at stake in a war of attrition in the nation's banking system. When delegates from the nation's 14,700 commercial banks arrive in Chicago Oct. 11 for the annual conference of the American Bankers Association, the principal question on their minds will be which of them will be left when it is all over.

Last month, the Carter administration leaked word of a policy document prepared by presidential adviser Stuart Eizenstat recommending repeal of longstanding safeguards against bank takeovers that cross state lines, including the so-called Douglas Amendment. Although the White House signal stirred up concern from regional bankers and the state bank supervisors' association, it served more than anything to distract attention from the game plan pursued by the administration and Paul Volcker's Federal Reserve. Whether or not Congress preserves the Douglas Amendment, which forbids bank holding companies to buy out-of-state banks, or the McFadden Act, which bans interstate branch banking, the transformation is underway. "We'll chip away at it," says David Roderer, general counsel to the Comptroller of the Currency, the Treasury's bank supervisory arm. "Little by little it will become irrelevant and one day someone will say, 'Hey, by the way, we still have McFadden here,' and we'll take the corpse and sweep it under the rug. The way McFadden and Douglas are written, there are too many ways to get around them. They are all loopholes and no cheese."

The move for nationwide banking is taking shape on a dozen legislative and regulatory fronts. Its proponents count on at least one major victory before the end of the year: Federal Reserve approval of the proposed International Banking Facility (IBF) which will allow banks to conduct Eurodollar market business reserve-free from their home office. "We expect to get it through," Citibank chairman Walter Wriston told *EIR* in an Oct. 1 interview. However, the strategy of the core group of money center bankers who planned the offensive indicates that they will win the war, even if they lose every battle in Congress.

*Chairman Volcker before the Senate Banking Committee on July 23.*

The objective is a banking system like that of Britain or Canada, with a few giants dominating all commercial branch banking. What men like Citibank's Walter Wriston and First Chicago's Barry Sullivan are counting on is their opponents' failure to understand that this is an *economic* more than a mere *banking* issue. As *EIR* showed in a Sept. 2 economic survey, the intent of Federal Reserve Chairman Paul Volcker's tight-credit regime is to shrink the traditional, mainly consumer-oriented basic industries such as housing, auto, steel, rubber, and trucking, in favor of so-called sunrise industries. The banking war is an adjunct of the basic economic game plan embodied in Fed Chairman Volcker's monetary policy, with the support of the leading members of the Reserve City Bankers Association, the money center banks' club.

What counts is not whether the Main Street bank in a small American town calls itself the First National Bank or the town branch of Citibank. Detailed comparisons of the balance sheets of the small club of money center banks against those of the rest of the nation's commercial bankers shows that America has two competing banking systems with radically different markets and lending philosophies. One is principally oriented to the $1.2 trillion Eurodollar market, the unregulated, reserve-free whirl of foreign-held dollars where the typical deposit turns over in less than two weeks. The other is tied to the household finances of the United States and the circulation of consumer durable goods—precisely the economic sectors that Volcker has put under siege.

The 1980 economic collapse saw a 13 percent per annum rate of decline of personal income, and the lowest

## In this section

David Goldman, who supervised this investigation and contributed the introductory section, is *EIR*'s economics editor. The remaining sections were written by senior *EIR* economist Kathy Burdman.

savings rate since the data series was assembled. The nation's thrift institutions have lost through June $20 billion in deposits to high interest rates prevailing in the money markets. They stand to lose another $20 billion in the second half. The correlates of this collapse of household finances was a reduction by one-third in the output of the auto and housing industries, and somewhat smaller drops in dependent industries such as steel, rubber, and road haulage, and other consumer durables industries. Estimates of the 1979 to 1980 reduction in net farm income range about 25 percent.

## The root of the problem

*Both the deposit base and the lending base of the regional banks are in jeopardy for economic reasons.* On the liabilities side, the balance sheets of the regionals are heavily weighted toward consumer and small business deposits, and on the asset side toward lending to households and small businesses. Until 1980 the regionals were historic net sellers of federal funds, i.e. short-term lenders to the money center institutions, an activity that fell back sharply along with net inflow of deposits.

The most important statement Federal Reserve chairman Volcker has made concerning the future of banking came a week after his new turn to monetarism was announced last October, in Oct. 15, 1979 testimony before the Senate Banking Committee. For the first time, Volcker announced that "the American living standard has got to fall." That implies rapid attrition of the basic usefulness of the regional banks. Despite their strong opposition to repeal of Douglas and McFadden, most regional bankers reluctantly backed Volcker's monetary measures in the name of fiscal and monetary conservatism—ultimately rendering their opposition to the legislative changes useless.

The biggest irony is the heated rivalry between small commercial banks and thrift institutions, including savings banks and savings and loan associations. This rivalry centered on the phase-out of Federal Reserve Regulation Q, which formerly gave savings banks the right to offer more attractive rates on time deposits, and collateral issues such as savings banks' right to accept Negotiated Order of Withdrawal (NOW) accounts, the close equivalent of commercial checking accounts. Leaving the details to the final article of this report, the issue boiled down to a fight over a dwindling supply of household-originated deposits.

In fact, the global impact of the Volcker measures will be to spur mergers between savings and commercial banks, on the same terms by which the money center banks will gobble up smaller institutions. Such a wave of mergers was widely expected at the end of the first

### U.S. commercial & savings bank lending, total domestic loans outstanding

As of June 30, 1980
(billions of dollars)

| Loans by: | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Commercial | | | | Savings | | | | |
| **Loans to:** | **Loans* (2-10)** | **Commercial* Bank** | **Top 134** | **Regional** | **Foreign** | **Savings* (7-9)** | **Savings* Banks** | **Regional Savings** | **Savings* & Loans** | **Commercial Paper**** |
| **Total** | **$1,643.09** | **$942.20** | **$389.57** | **$467.41** | **$85.22** | **$590.89** | **$109.70** | **$60.58** | **$481.19** | **$110.00** |
| **Agriculture** | 32.60 | 32.60 | 4.98 | 27.62 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Real Estate** | 250.00 | 250.00 | 98.98 | 151.02 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Consumer** of which: | 764.89 | 174.00 | 62.49 | 111.51 | 0 | 590.89 | 109.70 | 60.58 | 481.19 | 0 |
| **Housing** | 640.35 (Est.) | 60.00 (Est.) | | 30.00 (Est.) | | 580.35 | 99.16 | 54.76 | 481.19 | 0 |
| **Commercial & Industrial Total** | 407.82 | 297.82 | 149.99 | 106.76 | 41.07 | 0 | 0 | 0 | 0 | 110.00 |

* Total
** Loans between corporations

Source: Board of Governors, U.S. Federal Reserve

The chart breaks down the total banking credit issued in the United States, now over $1.6 trillion, in two ways. It shows both how much is lent for different purposes, including business, consumer, housing, and agricultural loans, and also shows who lends it. What is striking is how much of agricultural, housing, and consumer lending depends on thousands of small, local commercial and savings banks. If these banks were swamped into a "nationwide banking system" on the British model, as the Carter administration threatens, the type of business these banks do would be sharply reduced, with devastating consequences for the American living standards and for traditional industries.

## International earnings as a percentage of total earnings

| | 1975 | 1976 | 1977 | 1978 | 1979 |
|---|---|---|---|---|---|
| Citicorp | 70.6 | 72.4 | 82.2 | 71.8 | 64.7 |
| Chase Manhattan | 64.5 | 78.0 | 64.9 | 53.2 | 46.9 |
| Bank America Corp. | 54.7 | 46.7 | 41.8 | 34.6 | 37.7 |
| Manufacturers Hanover Corp. | 49.1 | 59.3 | 60.2 | 51.2 | 48.8 |
| J. P. Morgan & Co. | 60.2 | 46.1 | 48.1 | 51.0 | 52.0 |
| Chemical N.Y. Corp. | 41.6 | 41.1 | 38.8 | 42.0 | 35.1 |
| Bankers Trust N.Y. | 58.6 | 60.4 | 82.8 | 67.9 | 51.5 |
| First Chicago Corp. | 34.0 | 17.0 | 21.0 | 16.0 | 3.5 |
| Continental Illinois Corp. | 13.4 | 23.0 | 16.6 | 17.8 | 18.5 |
| Security Pacific Corp. | 12.6 | 6.9 | 11.6 | 15.1 | 10.4 |
| **Composite** | **52.5** | **50.8** | **50.5** | **45.5** | **42.6** |

**Source:** Salomon Brothers, "Lending to LDCs: Mounting Problems," April 2, 1980, Table 19, p. 24.

quarter of 1980, when the prime rate had reached a historic peak of 20 percent, and many such preparations are quietly underway now that interest rates are climbing back up again. The smaller commercial banks and the thrift institutions are in the same lifeboat, despite their animosity over regulatory and legislative issues.

### The nation's balance sheet

Table 1 gives the breakdown of total bank lending activity in the United States as of June 1980. For the large commercial banks, listed as the top 134 commercial banks, the lending figures are only partial, since they exclude foreign lending by American banks. However, the information in this table is sufficient to show the differences between what are actually two different banking sectors operating in the United States, namely the top 134 on one hand, and the regional, smaller commercial banks plus the thrift institutions on the other.

First of all, the proportion of regional banks' lending to the nonfinancial sector is much higher than that of the top 134. Ninety-two percent of the regionals' total loans outstanding of $467 billion is to the nonfinancial categories listed, against only 81 percent for the top group. The difference is made up by a higher proportion of money center bank lending to financial borrowers, largely brokerage loans. This is the most volatile, potentially inflationary sector of lending.

Secondly, in all categories except commercial and industrial loans, the regionals have the overwhelming preponderance. They have 85 percent of the total $32.6 billion agricultural loans; 60 percent of total real estate loans; and 64 percent of total consumer loans. As might be expected, the large banks' group has half the total commercial and industrial loans, the regionals 36 percent, and foreign commercial banks the remainder.

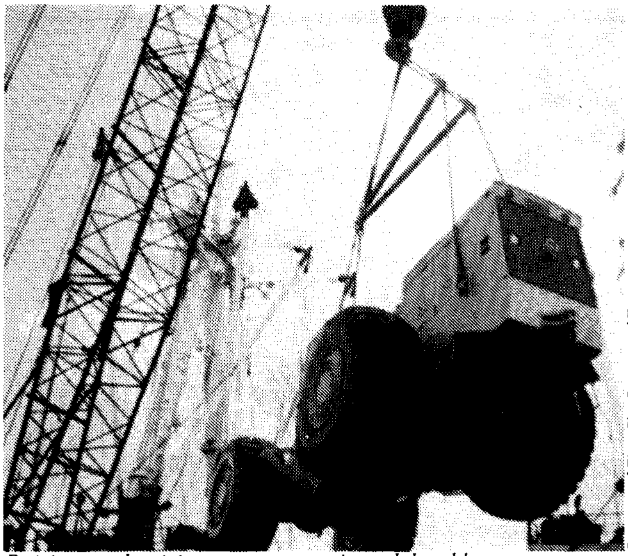
When the thrift institutions are taken into account, the overwhelming preponderance of housing loans derives from the regional commercial banks plus the savings institutions, 98 percent of whose total loans are housing-related.

When the composition of the regionals' commercial and industrial lending is taken into account, the huge side of the economy these banks account for is in view (see Table 1). Typically, a regional commercial bank will have neither the size nor the facilities to conduct significant business with a Fortune 1000 corporation. However, it will lend to the retailer, including prominently auto dealers, as well as to the consumer who purchases the retail item. The most important single sector of small business the regionals serve is agriculture. The second largest industry group they serve is housing contractors, financing the business side of single-family home construction while a savings bank finances the consumer side.

Table 2 shows the extent to which the largest commercial banks are oriented away from all forms of domestic lending. The decline in the composite of international earnings as a percent of total earnings reflects an actually higher proportion of assets abroad earning relatively less.

### Banking and the real economy

To understand the significance of the absorption of large portions of the regional banks—ultimately full absorption Canadian-style—into a national branch banking system, we proceed from the national accounting categories employed in the LaRouche-Riemann econometric model. Excluding the financial sector from consideration, for a moment, we analyze the workings of the physical economy in terms of two categories, maintenance and surplus. Broadly, the maintenance


Courtesy of First City Bancorp of Texas

*Raising productivity: consumer-oriented durables.*

costs break into two divisions, the portion of the physical product required to maintain the goods-producing workforce at its existing living standard, and the raw materials, capital investment (depreciation) requirements to maintain the capital stock. The surplus of the physical economy also breaks down into two divisions: that portion of the physical economy's output required to maintain the rest of the economy, i.e. the nonproductive or services sector, and the portion of surplus available for productive investment.

Clearly, it is the final category, surplus available for productive investment, that determines the course of economic events. This is the margin of new net investment in plant and equipment, labor force expansion, or upgrading of the existing labor force. Whichever institutions control the distribution of this surplus direct national economic activity.

The question we then ask is what *legal* form the surplus takes for purposes of distribution. The closest surrogates for net surplus on the national income tables are *personal saving* and *net corporate profits* (after tax, inventory valuation adjustment, and depreciation). In the American economy, these are of roughly the same magnitude. The 1980 level for both, according to Department of Commerce estimates, will fall between $60 and $70 billion.

## Credit requirements

Of course, there is no one-to-one relationship between the categories of financial and physical surplus. It is simply the case that the financial flows which allocate the net surplus occur principally in the categories of household savings and corporate net profits. An additional margin of bank credit may be required to circulate net physical surplus in the case that corporate income and household income do not rise as fast as the physical product.

The basic financial ratios of the American economy do correspond to the results of the physical analysis we have conducted with the LaRouche-Riemann model. Historically, the real rate of surplus creation in the United States is the lowest among the ten leading industrial nations save Britain. Savings in the United States have correspondingly fallen as a percentage of Gross National Product from 7.6 percent in 1962 to 4.9 percent in 1977 and barely 3 percent during the current year. The net surplus allocated by the disposition of household income has become negligible.

This is the root of the problem of the regional banks and the thrift institutions. As the Comptroller of the Currency wrote in a June 1980 staff paper, "The potential growth of any nation's banking system, and individual banks within that system, is heavily dependent upon the overall rate of growth in that nation's economy and money supply and underlying factors, such as household savings and private capital formation, which influence economic growth."*

In one further respect, the use of the financial flows we have labeled personal savings and net profits is helpful. Total economic net surplus will be applied either to expanding and upgrading the labor force or to improving the productivity of industry. Most of the financial surplus available for the former is channeled through those institutions which provide funds for housing and other big-ticket consumer durables. In very broad terms, we can say that the major portions of net economic surplus are allocated on the labor force side by the regional savings banks and the thrift institutions, and on the corporate side by the large commercial banks.

The consolidation of the commercial banking system into a few hands will put the disposition of the nation's future into the control of Walter Wriston, David Rockefeller, and similar money center bankers. Politically, it will immensely strengthen the power of the money centers against the regions, since it will leave the regions dependent for supply of credit—a circumstance that has become a point of great bitterness in Canada.

We already know, and have reported in detail, the economic program of the potential consolidators of the nation's banking assets. It is a permanent depression for the "sunset industries" and the transfer of resources to coal, high-cost oil, synthetic fuels, electronics, and other so-called sunshine industries. Bankers around the country are already planning the next wave of mergers and consolidations on these terms. In interviews with *EIR*, officers of Security Pacific Corp. and Alabama Bancorp indicated an intention to change the geographic patterns of their lending to correspond to the "sunset versus sunrise" industry breakdown.

* "U.S. Banks' Loss of Global Standing," by C. Stewart Goddin and Steven J. Weiss, The Office of the Comptroller of the Currency, Washington, D.C., p. 8.

# Comptroller's office: using the loopholes

*From a Sept. 26 interview with David Roderer, legislative counsel to the Comptroller of the Currency:*

**Q:** What is the status of your in-house study for Comptroller Heimann on restructuring and interstate regulation?
**A:** It's not ready, because the administration is getting nowhere in Congress and with the banks. Stu Eizenstat's report is not going to be made public this Congress or in a lame duck session. It may never be made public. And it is very general, anyway. All it contains is some proposals for stretching McFadden to allow branching across Standard Metropolitan Statistical Areas and slow phasing out of the Douglas Amendment. So far we have written the technical language for this, to be able to implement it in legislative form. We're also writing the technical language for every other form of interstate bank deregulation. We'll have it ready if anyone ever delivers the Congress. . . .

**Q:** Do you see any way to speed up the process? What about the new move to implement International Banking Facilities this fall?
**A:** Certainly this will promote national banking, it will expand it. Institutions that are now unable to afford engaging in multinational lending will be able to do so, since they'll have easier access to the markets in their own city.

**Q:** Do the prospects for a national CHIPS system fit in?
**A:** Yes, we will have a national CHIPS—this is the demand of the regional money center banks, and it will be met. This will, of course, create a new kind of banking system, a type of banking that didn't exist before, and it will be very profitable for the IBF owners and make them more competitive, in that sense. But it won't impact much more on the domestic market, it will just facilitate them in doing the same things they did in Nassau.

Interstate banking is going to be a slower process than I'd like. We will have to do it through liberalization of Edge Acts, the formation of new kinds of financial institutions, extensions of Loan Production Offices across state lines, building up in short all the mechanisms we now have in place to subvert McFadden. Little by little it will become irrelevant, and one day someone will say, "Hey, by the way, we still have McFadden here," and we'll take the corpse and sweep it under the rug. The way McFadden and Douglas are written, there are too many ways to get around them. They are all loopholes and no cheese.

I'll give you an example. Gulf & Western just purchased a bank in California, the Fidelity Bank. Corporations aren't normally supposed to do that. Now Fidelity Bank has stripped off its commercial loans, and is now set up only to do retail business—retail lending and retail deposit taking. So they claim they're no longer a bank under the Bank Holding Company Act definition of a bank, which reads that a bank is any institution "which makes commercial loans and takes deposits." It's not a bank under the Act—we don't think so. We haven't objected and they haven't bothered to go to the Fed. They need no further regulatory approval. I'd watch the status of this one; of course somebody may sue. But for now, we've got a new form of institution doing deposit taking and lending which is a national bank operating interstate. . . .

Then we have liberalization of the Edge Acts [subsidiaries allowed to lend and take deposits interstate, but only from foreign entities—K.B.]. The Fed has developed this new "qualified business entity" concept under which we would liberalize Regulation K, governing to whom Edges may lend, such that we'd let Edges become a full-service bank to any corporation which is an exporter. Unlike now, where Edges are only allowed to finance a foreigner's imports from the U.S., in other words to finance a U.S. company's exports, now the Edges would be able to do general lending to any such U.S. company. The Fed in fact proposed this six months ago and was shot down. Within six weeks it will come back with a modified proposal to let Edges start expanding at least into financing the manufacturer of goods for export. St. Germain also has his own version of this same idea—rather than liberalizing Regulation K he would expand the 1914 Edge Act to liberalize Edges' powers directly.

**Q:** About the IBF plan to allow non-New York money center banks to establish Cayman-style full-service branches in New York—can that be done without congressional debate and legislation?
**A:** No. The McFadden Act totally precludes such branches, which are fine as foreign branches, to move domestically across state lines. This would require legislative change of McFadden. However, one of the major reasons the administration wants to reform the Douglas Amendment is that IBFs could then be established as subsidiaries of these non-New York banks across state lines. That is, under the Douglas Amendment at present, a bank in a multibank holding company can have a sister institution, another bank which is a subsidiary of the same holding company, in the same state. Furthermore,

if two or more state legislatures pass reciprocal state laws, as South Dakota and New York have, then with mere state legislation the same holding company can have two bank subsidiaries in both states, just as South Dakota has allowed Citibank to come in.

If, in addition to this, on the federal level we change the federal law to relax the Douglas Amendment, the parent bank can have a sister institution through its holding company all over the country. Bank of America's holding company then has Bank of America's parent headquarters in California and Bank of America's full-subsidiary IBF in New York. The BOA New York IBF subsidiary wouldn't be directly owned as a subsidiary of BOA San Francisco headquarters the way BOA London, Limited is today, but the IBF subsidiary would be recognized by foreign depositors dealing with it as having the equivalent full backing of the parent bank through the parent holding company.

**Q:** If you do this on a federal level, can the states block it?
**A:** No, once it's done on the federal level it can't be blocked on the state level. And that way we don't have to go state by state. We've got to stamp on states' rights and force the issue. Look at New York and California—they've been negotiating reciprocal state-level agreements on Douglas for years, and no results. The California assembly just killed a bill allowing it, Assembly Bill 1926, and a similar one died in the New York legislature. If we change the federal law, it forces the issue.

**Q:** What about the Emergency Bank Aquisitions Bill?
**A:** That's dead for this Congress; of course, we may be able to sell it next year in January, on the basis that this is the minimum we need in case there is an emergency.

**Q:** What about the First Penn takeover? Isn't the bill already de facto law?
**A:** As a matter of fact, yes, that's why we let it die. So the FDIC bought a bank in Pennsylvania and sold it to a bunch of banks in New York. We don't need the bill, we can do it anyway.

And don't forget the whole expansion of credit card subsidiaries across state lines. Did you see Citicorp's ad in the *Washington Post* today? They've made another end-run around McFadden—they're offering to take deposits, commercial bank savings deposits in effect, on the Citibank credit card across state lines. Now, technically, this is only the Citicorp holding company's credit card subsidiary, which is a non-bank subsidiary. Technically it doesn't make loans, so it's not a bank. It just grants credit, ha, ha. But there it is doing banking across state lines. They've made an end-run around Reg Q, too. They're paying no less than 8 percent on what is really a savings deposit, but they're not calling it that—that really will give the savings banks competition.

# Sunbelt 'survivors' plan banking expansion

*An aide to Maurice R. Cox, executive vice-president of Alabama Bancorporation, Alabama's largest bank holding company, whose flagship bank is the First National Bank of Birmingham, gave the following assessment of the bank's future plans for capital shifts under interstate banking:*

**Q:** With the move to interstate banking, your bank has been dubbed a "survivor institution" which will expand and absorb other banks into other states through the South. Do you foresee a redeployment of regional banking capital as a result of this interstate evolution out of "sunset" and into "sunrise" industries? Into which industries and geographical areas do you plan to move?
**A:** Yes, we fully welcome the move to relax the McFadden Act, and we are developing a large network of correspondent banks throughout the Gulf states, in Georgia, Florida, Mississippi, and Louisiana, with which, as legislation allows, we contemplate an even closer relationship. In general, we see a broad move away from the northern tier of the Sunbelt, where we are now, into the Gulf region. And we plan to be moving the concentration of our lending into energy and energy-related industries along the Gulf Coast.

**Q:** You are now one of the lead banks to the Birmingham steel industry?
**A:** Yes, but our studies indicate that future growth in Alabama and contiguous states will be primarily in the southern part of the states. The Port of Mobile has seen a great expansion and will see continued expansion. The governor is becoming more involved in increasing the flow of traffic through the port. He just returned from London, where the Port of Mobile opened a new office to expand European activity—both exports out of and imports into the port. Of course coal is a major factor with the new European coal demand. There are a number of corporations seeking deep-water ports for large coal handling facilities all along the Gulf Coast, and Mobile is seeing a good share of this, seeking sites for 60 to 200 acres for coal shipping facilities.

We are also very interested in expanding lending to the oil and gas industry, particularly offshore.

**Q:** Have you actually begun to put finance into any of these port expansion programs?
**A:** Well, there are a number of proposed projects we are looking at in ports all along the Gulf, but in terms of our clients, it is premature to discuss even with them the concretes of financing of their projects. The U.S. government is a tremendous variable in this entire coal program

and for any port expansion in general. The companies have no idea whether or when the government will lift the environmental restrictions on coal and deep-water ports.

**Q:** What other industries will need financing relative to the port boom?
**A:** Europe is also very interested in our Gulf ports, because there is increased European investment coming into the Southern states. We are negotiating right now with a German company to build a steel-related facility in Birmingham.

**Q:** Someone wants to build more steel plants?
**A:** No, I said a steel-related facility, I can't be more specific. We also have foreign auto makers coming into the area, and the paper industry will expand. Foreign investors are very interested in the whole computer-related industry here. They want to produce for export.

*Jay C. Crager, Jr., executive vice-president and chief financial officer of Allied Bancshares, Inc., one of the top ten Texas-based holding companies whose lead bank is the Allied Bank of Texas, gave the following view:*

**Q:** With the move to interstate banking, your bank is seen as a "survivor" which will expand. Do you foresee a new move into the "sunrise" industries?
**A:** We're very confident that there will be a relaxation of the Douglas Amendment and we are very comfortable with that. We are expanding a large network of correspondent banks into other states, especially Louisiana.

**Q:** What about lending to new industries?
**A:** The energy map of Texas here on my desk shows a broad band of energy resources in an arc around the Gulf Coast. We have here oil and gas, oil services, and a tremendous expansion in deep-water ports for those industries, which can only expand under decontrol and rising energy prices. On the other hand, we have made a corporate policy decision against west Texas.

**Q:** You mean against more exposure to agriculture?
**A:** Yes. We haven't that much expertise in agriculture. But more important, there is no future in that area of the economy. Agriculture requires water, which out there is a disappearing resource. We'll move our expansion into the eastern third of Texas, Louisiana, and points east. That's where there are the most people and water, and the long-range growth potential is far better.

**Q:** What about the coal boom?
**A:** Coal? There's a lot of talk, and we do have some considerable deposits of lignite in this area, but no opportunities have really been defined due to the start/stop policies of this administration. Logic says coal would be very big, but unfortunately, we see no practical movement taking place at this time.

**Q:** You're expanding into Louisiana; does that mean you're going into the big plans for expansion of the Port of New Orleans?
**A:** No. We don't see any concrete plans there, either. So we intend to just continue for the time being with our current concentration of expertise in oil and gas and oil services as we expand into these new geographical areas. Why New Orleans? Morgan City is a port where we're more interested in the business environment—that's the oil port in Louisiana, where the oil is both onshore and offshore. We'll be expanding especially in the area from Morgan City to Houston.

# Security Pacific eyes the Gulf states

*Security Pacific Corporation, California's third largest bank and the nation's tenth largest, is one of the most aggressive money center banks planning to move throughout the Sunbelt to take over regional banking as soon as the McFadden Act and Douglas Amendment can be weakened. The bank has developed a non-banking "Finance Group" with loan production and finance company offices in 29 states.*

*Security belongs to the Aspen Institute group that initiated banking deregulation in the first place. Chairman Frederick G. Larkin, Jr., is on the board of ARCO, the oil company of Aspen Chairman Robert O. Anderson. ARCO President Thornton Bradshaw sits on the Security board.*

*An excerpt follows from a recent interview with Security Pacific's executive vice president for corporate planning, John J. Duffy.*

**Q:** What is your attitude toward interstate banking?
**A:** The economy will be greatly helped by a consolidation of the banking system. We want an end to McFadden and Douglas, and we want to see that happen fairly completely by about five years out.

**Q:** How will you expand geographically?
**A:** We want to open full-service operations in the Sunbelt in particular, especially Texas and Florida. We will also open up in New York and Chicago, but that will be primarily for international banking purposes.

**Q:** And into which industries will you be moving?
**A:** Energy. Our corporate banking department already works heavily with the major energy companies across the country. We especially hope to expand into Texas with decontrol, and go into oil and related areas. Houston will be a big area.