

TO: Board of Governors
FROM: Banking Markets Section

DATE: February 24, 1970.

SUBJECT: Competitive factor report:
National Bank of Washington, Tacoma,
Washington and The Pacific National
Bank of Seattle, Seattle, Washington.

Summary of Issues:

Little competition presently exists between the two banks and the potential for increased competition is severely restricted by Washington's branching laws. Though National Bank of Washington could expand into the City of Seattle by acquiring any one of three smaller Seattle banks, it is believed that the costs and administrative difficulties which would attend such an acquisition make it unlikely that they would do so.

Recommendation: SLIGHTLY ADVERSE

Competition:

The relevant market is approximated by the Seattle Standard Metropolitan Statistical Area (SMSA). The Tacoma area, in which National Bank is headquartered, is excluded from the Seattle market for several reasons. The cities of Seattle and Tacoma are the principal cities of separate SMSAs. They are also labeled as separate metropolitan areas in Rand McNally's 1970 Commercial Atlas and Marketing Guide in which metropolitan areas are delineated on the basis of commuting patterns.^{1/} Further, field work done by the Research Department of the Federal Reserve Bank of San Francisco leads them to define Tacoma and Seattle as separate markets.

1/ A "Ranally Metropolitan Area" includes the central city and all other cities and towns from which 8 per cent or more of the total population or 15 per cent or more of the working population commutes to the central city.

No significant amount of existing competition would be eliminated by the proposed merger. National Bank of Washington (NBW), a subsidiary of Western Bancorporation, has total deposits of \$371.7 million and operates two branches in King County, 12 and 17 miles south of Seattle. These two branches have total deposits of \$30.5 million which represents 1.3 per cent of total market deposits; in terms of market shares NBW ranks ninth of twenty-nine banks in the market ^{1/} (see Table). Pacific National Bank is the fourth largest bank in the Seattle market with total deposits of \$224 million or 9.7 per cent of total market deposits. It operates 15 offices in the Seattle area. The resulting bank would be the fourth largest in the Seattle market with 11.0 per cent of total market deposits.

Because it has only two offices in the Seattle area and because of the location of these offices, it is unlikely that NBW competes effectively in the Seattle market at present. Moreover, the potential for greater competition in the Seattle market is greatly limited by branching laws in the State of Washington. Branching outside a bank's head office county is restricted to de novo branching in incorporated but unbanked communities and to acquisitions of existing banks. De novo branching within a bank's head office county is limited to its head office city and unbanked incorporated communities or unincorporated areas of the county. Thus, de novo entry into the city of Seattle by NBW is precluded by the State's banking law.

1/ There are four mutual savings banks with total deposits of \$757.1 million which also compete in the Seattle market, particularly for mortgage loans and time and savings deposits.

NBW could enter the City of Seattle by acquiring one of three ^{1/} smaller banks. These banks are not in the downtown financial district; but if, as the application states, the purpose of the merger is to create another large Seattle-based bank, then one of the small banks could conceivably be used as a base from which NBW could branch de novo throughout the City of Seattle. To do this would require NBW to move its head office from Tacoma to Seattle. Though possible, this course of action is not considered probable due to the expense and the administrative difficulties involved. To follow such a course would require the creation of a branch network in Seattle, including downtown Seattle, through de novo branching. This, per se, would be costly. Moreover, the transfer of the home office to Seattle--a Reserve City--would mean an increase in the bank's reserve requirements, a factor which would further add to the cost of entry.

NBW is the fourth largest bank in the State with 7.5 per cent of the total deposits in the State, and Pacific National Bank of Seattle is the sixth largest with 4.1 per cent. The resulting bank would be the third largest in the State with 11.6 per cent.

1/ There are actually five somewhat smaller banks with head offices in the City of Seattle, two of which are in the downtown area. The smaller of these two downtown banks, North West Bank, has agreed to merge with Old National Bank of Washington, Spokane; NBW approached the other downtown bank, Seattle Trust and Savings, but this bank was not interested in merging with NBW.

The Research Department of the Federal Reserve Bank of San Francisco concludes:

". . .the evidence would appear to support the view that the consolidation probably would have only a slightly adverse effect upon competition. At present, the degree of competition between the subject banks is insignificant; the markets in which most of their operations are conducted are still basically distinct (Tacoma and Seattle), and neither has an office in any city or town in the State of Washington where the other does business. The question of potential competition also is precluded by Washington's restrictive banking laws."