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The Recent Rise of Southern Banking

Thomas D. Hills

THE RECENT RISE OF SOUTHERN BANKING

AN EXAMINATION OF THE SOUTHEASTERN REGION BANKING COMPACT AND SOME RESULTING DISPARITIES AMONG THE BANKING INDUSTRIES OF THE LEADING SOUTHERN STATES

by

THOMAS D. HILLS

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ABSTRACT

Between 1984 and 1986 the legislatures of several southern states enacted changes to their banking laws that enabled banking companies in Southern Region states to acquire and be acquired by banking companies in other Southern Region states, as long as these companies qualified as "Southern." The purpose of the compact was to allow some southern banking companies an opportunity to grow and gain financial strength before full interstate banking was permitted. This study shows that the compact was successful. In 1985 no southern banking companies were among the top ten banks in the country, but by 2005 four were. Furthermore, no major southern bank has been acquired by a U.S. banking company outside of the South, although several southern banking companies have bought banks in other regions. The southern economy and its banking industry have benefited, although the benefits have been unevenly spread among states.

INDEX WORDS: Southeastern Region Banking Compact, Interstate banking, Southern banking, Banking history, Regional banking compact, Southern Regionalists, North Carolina banking history, Georgia banking history, Bank mergers, Banking law

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF ABBREVIATIONS

Bancorp.	Bancorporation
B of A	Bank of America
BB&T	Branch Bank and Trust Company
BUS	Bank of the United States
C&S	Citizens and Southern National Bank
CB&T	Columbus Bank and Trust Company
CCB	Central Carolina Bank
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Co.	Company
Corp.	Corporation
D.C.	District of Columbia
FDIC	Federal Deposit Insurance Corporation
FED	Federal Reserve System
FIRREA	Financial Reform Recovery and Enforcement Act
Ga.	Georgia
GBA	Georgia Bankers Association
GDP	Gross Domestic Product
IBA	Independent Bankers Association
IBBEA	Interstate Banking and Branching Efficiency Act
MSA	Metropolitan Statistical Area
NBC	National Bank of Commerce
NCNB	North Carolina National Bank
OCC	Office of the Comptroller of the Currency
RTC	Resolution Trust Company
S&L	Savings and Loan Association
SGPB	Southern Growth Policies Board
Sub	Subsidiary
UNC	University of North Carolina
Univ.	University
U.S.	United States

CHAPTER ONE

INTRODUCTION

In celebration of the recent vote by the shareholders of C&S/Sovran Corporation in favor of a merger of their bank holding company (which controlled the largest banks in Georgia and Virginia) with NCNB Corporation of North Carolina, Hugh McColl, Jr., NCNB's Chief Executive Officer, aptly described the significance of the amalgamation of these important southern banking institutions into a new organization to be known as NationsBank, as he addressed the officers of C&S/Sovran from the stage of Atlanta's Fox Theater on July 24, 1991. McColl stated: "Southern banks were last powerful during the pre-Civil War days when they supported the cotton trade…But NationsBank sends the signal that the region is back in high cotton."

This important merger of southern banking companies was enabled by mid-1980s changes to the banking laws of the states in the South which allowed interstate mergers of banking companies, but restricted the mergers only to banking companies domiciled in the southern states and required the preponderance of those banking companies' deposits to be garnered from southern states. This collaboration in banking regulation has come to be known as the Southeastern Regional Banking Compact. This study examines how this compact was created in the early and mid-1980s and how it was implemented by the banking industry in the South over the following two decades

Reportedly, the intent of the compact was to foster an economic environment in which well-capitalized and well-managed southern bank holding companies would be given the opportunity to grow and gain relative financial strength through intraregional affiliations before full nationwide, interstate banking was permitted and the larger money center banks were able to gain legal entry into the South.[1] Perhaps, the authors of *The Story of NationsBank – Changing the Face of American Banking,* expressed it even more graphically when they stated: "The regionals did not want to become a meal for the money-center banks….All feared the power and resources of banks from New York, Chicago, and large West Coast institutions."[2]

As Hugh McColl described in his Fox Theater address, southern banking, and indeed the economy of the South, had lagged and been playing catch-up with the other more prosperous regions of the country since the South's defeat in the Civil War. Only in the last decades of the twentieth century did the South begin to experience a rate of economic growth that exceeded the national growth rate.

The main premise of the Southeastern Regional Banking Compact was that Southern banking companies needed the opportunity to combine with other banking companies in the South, which was considered to be an area of the country with shared common cultural and societal attributes. Southern bankers and some governmental leaders anticipated that some of the larger southern banking companies would be able to take advantage of the opportunity for intraregional mergers and gain financial strength and size sufficient for them to compete more effectively in the national banking arena against the stronger money center banks that had dominated the U.S. banking industry for most of the country's history. A report prepared by the

[1] Pat Watters, ed., *1980 Commission on the Future of the South* (Research Triangle Park, North Carolina: Southern Growth Policies Board, 1980), p. 30.
[2] Howard E. Covington, Jr. and Manon A. Ellis, *The Story of NationsBank – Changing the Face of American Banking* (Chapel Hill: The University of North Carolina Press, 1993), p 152.

Commission for the Future of the South in 1980 indicated that the region's banks needed to prepare… "to protect their competitive situation and at the same time assure a supply of money for expansion of trade and industry."[3]

The Southeastern Regional Banking Compact was essentially abrogated a decade later by the Riegle-Neal Interstate Banking and Branching Act of 1994, new national banking legislation that overrode and preempted the various states' interstate banking laws and for the first time allowed for full interstate banking in the United States, effective July 1, 1995. However, by that time, so many intraregional banking company mergers had occurred in the South that several leading southern banking companies were well on their way to attaining sufficient financial scope and size that they became very effective competitors of the large money center banks during the next decade of interstate banking combinations.

In retrospect, the Southeastern Regional Banking Compact has seemingly succeeded in achieving the purposes for which it was intended. Since the southern state legislatures enacted the regional banking compact between 1984 and 1986, almost no major banking company that was then headquartered in a Deep South state in the mid-1980s has been acquired by any U. S. banking or other financial institution from outside of the South for essentially a twenty year time frame. An examination of a listing of the leading banking companies in the mid-1980s in the states of Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee and Virginia shows that those banking companies that have been acquired were merged into other southern-based banking companies. See Table 1. Among all of the Deep South states only Louisiana had any of its larger banks acquired by a U.S. financial institution from

[3] Watters, ed., p. 30.

outside the South. Louisiana experienced relatively more problematic economic difficulty in the 1990's and sought to attract outside capital by encouraging broader bank merger opportunities. Consequently, Bank One of Ohio acquired two intermediate-sized banks in Louisiana in the 1990s. Bank One was later acquired by J.P. Morgan/Chase of New York in 2004. [4]

While almost no large southern states-based banks have been purchased by U.S. financial institutions located outside the South, a few of the largest southern states-based bank holding companies have acquired very large banks that were headquartered in other regions of the country. Notably, Bank of America (formerly North Carolina National Bank or NCNB) has purchased banks in the West, Northeast, Southwest and Midwest, while First Union National Bank (now named Wachovia) has purchased major banks formerly based in the Northeastern United States,

Also in retrospect, in 1980 no southern banking companies were included among the top ten banking companies in the United States, and only one, North Carolina National Bank, was included among the top twenty five. By June 30 2005, however, as measured by bank holding company deposits and reported by the Federal Deposit Insurance Corporation, four of the top ten banking companies in the U.S. were headquartered in the South: Bank of America Corporation in Charlotte, North Carolina; Wachovia Corporation in Charlotte, North Carolina; SunTrust Banks, Inc. in Atlanta, Georgia; and BB&T Corporation of Winston-Salem, North Carolina. Two additional southern banking companies were listed among the top twenty five banking companies as of June 30 2005: Regions Financial and AmSouth Bancorporation, both in Alabama.[5]

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[4] Ingo Walter, *Mergers and Acquisitions in Banking and Finance – What Works, What Fails and Why* (New York: Oxford University Press, 2004), pp. 241 and 243.
[5] http://www2.FDIC.gov/sod/sodSumReport.asp?barItem=3&sInfoAsOf=2005.

In the early twentieth century, a group of southern social scientists at the University of North Carolina, including Howard W. Odum and Rupert Vance, began to study the effects of increasing urbanization and industrialization on the South and advocated for and urged improvements to the South's health and educational systems, its manufacturing base, and its job opportunities in order for the South to begin to catch up economically with the rest of the nation.[6] This group of academics were called Regionalists, and this study suggests that the Regionalist school of thought prepared the way for the Southeastern Regional Banking Compact of the mid-1980s through its advocacy of economic nationalism. The Regionalists were influential in the formation of the Southern Growth Policies Board in the early 1970s. While several late twentieth century historians and economists have noted the formation of the Southern Growth Policies Board, inspired and organized by the Southern Governors Association, little has been written about the significance of the Southern Growth Policies Board's 1980 Report on The Future of the South that laid the groundwork for the Southeastern Regional Interstate Banking Compact. Not coincidentally, this influential report was adopted at a meeting of the Commission held at the Research Triangle Park in North Carolina in which a leading North Carolina Banker, Tom Storrs of North Carolina National Bank, and that state's governor, Jim Hunt, played key roles in guiding the adoption of a plan calling for a regional interstate banking compact.

While the Southeastern Regional Banking Compact was arguably quite successful in providing growth opportunities and enhanced economic power for the banking industry in the South as a whole, there have been disparate benefits among the

[6] David R. Goldfield, *Cotton Fields and Skyscrapers – Southern City and Region 1607 - 1980* (Baton Rouge: Louisiana State University Press, 1982), p. 163

banking industries of the individual southern states. The economies and the banking industries of all southern states have grown over the past quarter century, but North Carolina, in particular, has received disproportionate benefits from the implementation of this intraregional strategy – the types of benefits that accrued from having the headquarters of three of the top ten U. S. bank holding companies headquartered there by 2005. In comparison, only one of the nation's top 25 bank holding companies was then domiciled in Georgia, and none was headquartered in Florida, Virginia or South Carolina by that time. Contrastingly, in 1980, when the first steps were taken to design the Southeastern Regional Banking Compact, each of these leading southern states was the headquarters location for a number of like-sized, large banking companies, most of which were eventually merged into North Carolina or Georgia-based banking companies over the next two decades.

This study examines how the banking laws and public policies of southern states generally affected the relative success of their banking companies. Specifically, this study compares how state laws and banking regulatory policies of North Carolina and Georgia aided or impeded the development of their banking industries. The banking laws and practices in North Carolina were more supportive of growth than were the banking laws of Georgia and most other southern states. As a result, North Carolina banking companies were able to build stronger management teams and greater capital bases to support their acquisitions of banking companies in other southern states when regional interstate banking was permitted. Table 1 shows how very successful the North Carolina banking companies of Bank of America and Wachovia were in gaining dominant positioning within the commercial banking industry in the South.

As a means of emphasizing how North Carolina's less restrictive banking laws and policies facilitated the growth of that state's banking industry in comparison to the manner in which Georgia's more restrictive laws arguably impeded the growth of its banks, this study applies a methodology of tracing the development and consolidations of the three largest and a few other banks in each of these two states over the course of the twentieth century. Georgia's biggest banks were generally larger than the biggest North Carolina banks for the first half of the century, as measured by total assets and total deposits. In Georgia, Citizens and Southern Bank and First National Bank of Atlanta alternated in claiming the title of Georgia's and the South's largest bank over most of the early twentieth century before the state's banking laws were tightened. However, for most of the last half of the century, Wachovia and North Carolina National Bank (NCNB), and later First Union, vied for the position as that state's and the South's largest bank, as North Carolina's more liberal banking laws allowed that state's banks to take fuller advantage of the post World War II growth boom in the South. This study also considers how the national banking laws affected banking in the South within the structure of the nation's dual banking system.

Historically, commercial banks in the South have played a significant role in financing the economic development of the region. History professor William J. Cooper, Jr. references the importance of this role even in the antebellum era. He states: "Important to the South, banks had become inextricably connected to the prosperity that surged throughout the southern economy….Banks furnished much of the credit that financed economic expansion, chiefly the purchase of land and slaves."[7] In more recent years commercial banks have continued to provide capital for other industries to grow. Renowned Harvard business professor Michael Porter comments on the relationship between banks and the communities they serve: "The bank lender is viewed as embedded in the community itself. Its own decisions affect the economic outcomes of the households and businesses in its market area." [8] Also, the headquarters location of a large commercial banking organization usually attracts numerous support industries, like commercial printers, information technology businesses, and accounting and law firms, and all of their related jobs to a headquarters city.[9] In addition, commercial banks, generally, have become significant employers in their communities, and the leading bankers often provide leadership and financial support for various community development activities. As a result, this study suggests that the rapid recent growth in the scope and size of several southern-headquartered bank holding companies is relevant to both the history of the South and the history of the commercial banking industry.

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[7] William J. Cooper, Jr., *Liberty and Slavery – Southern Politics to 1860* (New York: McGraw Hill, Inc., 1983; reprint, Columbia: University of South Carolina Press, 2000), p. 201 (page citations are to the reprint edition).

[8] Michael E. Porter, *Clusters of Innovation Initiative – Regional Clusters of Innovation* (Washington, D.C.: Council on Competitiveness, 2001), p. iv.

[9] James O. Wheeler, "Corporate Spatial Links with Financial Institutions: The Role of the Metropolitan Hierarchy," *Annals of the Association of American Geographers,* Vol. 76, No. 2 (Jun., 1986), p. 270.

TABLE 1

The Leading Southern Banking Companies as of Dec. 31, 1983 and their Merger Results

Banking Company Name	1983 Asset Base (in Billions)[10]	Changes In Ownership	2005 Holding Company Owner
Alabama:			
AmSouth	$3.6	none	AmSouth
Central Bancshares	$2.8	Name change only	Compass Bancshares
First Alabama	$3.2	Name change only	Regions Financial
SouthTrust Corp,	$3.0	Acquired, 2004	Wachovia
Florida:			
Atlantic Bancorp.	$3.3	Acquired 1985	Wachovia
Barnett Banks	$9.4	Acquired 1997	Bank of America
First Florida Banks	$2.8	Acquired 1992	Bank of America
Florida National	$3.5	Acquired 1989	Wachovia
Landmark Banking	$1.8	Acquired 1985	Bank of America
Pan American Bank	$1.4	Acquired 1985	Bank of America
Southeast Banking	$8.9	Acquired 1991	Wachovia
Southwest Florida Banks	$1.7	Acquired 1984	Bank of America
Sun Banks	$8.9	Acquired 1985	SunTrust
Georgia:			
Bank South	$1.9	Acquired 1995	Bank of America
CB&T	$ .8	Name change only	Synovus Financial
C&S National	$6.9	Acquired 1991	Bank of America
First Atlanta	$5.6	Acquired 1985	Wachovia
First Railroad & Banking	$1.7	Acquired 1986	Wachovia
Trust Company of Ga.	$4.8	Name change only	SunTrust
Louisiana:			
First Commerce Corp.	$2.0	Acquired 1998	J.P.Morgan/Chase
Mississippi:			
Deposit Guaranty	$2.3	Acquired 1998	AmSouth

[10] Florida Financial Institutions – Banks and Bank Holding Companies 1983 Edition (Jacksonville, Florida: Allen C. Ewing & Co., 1984, p. 28

Banking Company Name	1983 Asset Base (in Billions)	Changes In Ownership	2005 Holding Company Owner
North Carolina:			
Branch Corp.	$1.7	Name change only	BB&T Corp.
First Union Corp.	$6.8	Name change only	Wachovia
NCNB Corp.	$12.8	Name change only	Bank of America
Northwestern Financial	$2.5	Acquired 1985	Wachovia
United Carolina	$1.1	Acquired 1997	BB&T Corp.
Wachovia	$7.8	Acquired 2001	Wachovia (Renaming of First Union)
South Carolina:			
Bankers Trust	$2.4	Acquired 1985	Bank of America
C&S of South Carolina	$2.0	Acquired 1987	Bank of America
South Carolina National	$2.3	Acquired 1991	Wachovia
Southern Bancorp	$. 9	Acquired 1985	Wachovia
Tennessee:			
Commerce Union	$2.4	Acquired 1987	Bank of America
First American	$3.5	Acquired 1999	AmSouth
First Tennessee	$4.6	Name change only	First Horizon
Third National	$3.7	Acquired 1987	SunTrust
Union Planters	$1.8	Acquired 2004	Regions Financial
Virginia:			
Bank of Virginia/Signet	$3.8	Acquired 1997	Wachovia
Central Fidelity	$2.7	Acquired 1997	Wachovia
Dominion Bancshares	$3.8	Acquired 1993	Wachovia
First Virginia Banks	$2.4	Acquired 2003	BB&T Corp.
Sovran Financial	$7.2	Acquired 1991	Bank of America
United Virginia/Crestar	$5.4	Acquired 1998	SunTrust

CHAPTER TWO

THE HISTORY OF BANK REGULATION IN THE SOUTH

In the colonial era, banking and other financial services were largely provided by English merchant houses. In order to finance the Revolutionary War effort the State of Pennsylvania formed and chartered the Bank of Pennsylvania in 1780; however, that bank was organized for the sole purpose of supporting the Revolutionary War. Also to assist in the war effort, in 1781 the Continental Congress authorized Robert Morris of Philadelphia to organize the Bank of North America that has sometimes been called "the first genuine bank," as it had such broad banking powers. However, because of the concern regarding the authority of the Continental Congress to establish a bank, the Pennsylvania legislature also chartered the same bank.[11] Other states also began to charter banks, and in 1784 their respective state legislatures chartered the Bank of Massachusetts and the Bank of New York, thus beginning the first iteration of a dual banking system of federally-chartered and state-chartered banks within the country.

In 1791 at the urging of Secretary of the Treasury Alexander Hamilton, the United States Congress chartered the First Bank of the United States (BUS) for a term of twenty years. This bank issued bank notes and made loans to the central government and to private businesses and was the repository of government funds. The bank established eight branches, including four in the South in the cities of Charleston, Norfolk, Savannah and New Orleans. The first bank's charter was not renewed when it expired in 1811, but

[11] Gerald C. Fischer, *American Banking Structure* (New York: Columbia University Press, 1968), p. 9.

Congress established a Second Bank of the United States in 1816, also under a charter of only twenty years. This second bank had even more branch banks with one located in almost every state.

Meanwhile, state legislatures also continued to issue charters for banks in their states. In fact, with the exception of the Bank of North America and the First and Second Banks of the United States, all banks, other than non-chartered, private banks, were state-chartered, prior to the passage of the National Banking Act in 1864. Federal law prohibited the individual states from creating money, but the states were permitted to charter banks that in turn could create money, represented by each individual bank's notes. The states created these early banks essentially as quasi-state instrumentalities of the state, either by investing in them or by levying substantial taxes on bank capital or by both means.[12]

In the South banks were established in the early years of the nineteenth century in Virginia, North Carolina, South Carolina and Georgia. In 1804 the Virginia legislature chartered the Bank of Virginia to be located in Richmond with branches in Norfolk, Fredericksburg and Petersburg. Until Farmers Bank of Virginia was later chartered in Richmond in 1812, the Bank of Virginia enjoyed a virtual monopoly in Virginia banking, with the exception of the existence of the Norfolk branch of the First Bank of the United States.[13]

In North Carolina in 1804 the legislature chartered the Bank of New Bern in that town and the Bank of Cape Fear in Wilmington. The latter bank's charter established an

[12] Richard Sylla, John B. Legler and John J. Wallis, "Banks and State Public Finance in the New Republic: The United States 1790 – 1860, *Journal of Economic History*, Vol. 47, No. 2 (Jun., 1987), pp.392-393.
[13] George T. Starnes, *Sixty Years of Branch Banking in Virginia* (New York: The McMillan Company, 1931), p. 37.

early precedent by authorizing a branch of the bank ninety miles away in Fayetteville, and additional branches were later opened in other North Carolina communities including Salem, Charlotte and Hillsboro. In the charters of both the Bank of Cape Fear and the Bank of New Bern, the State of North Carolina reserved the right to subscribe to some of the stock in those banks and later exercised those rights. In what one bank historian has described as a victory for the Federalists, in 1810 the state legislature chartered the State Bank of North Carolina, which was opened in the capital city of Raleigh with individual investors owning the majority interest but with the state also owning a large part of the stock of the bank from the beginning. This same historian indicates that the charter of the State Bank of North Carolina explicitly permitted statewide branching, thus establishing a statement of branching policy that today has been consistently maintained for almost two hundred years.[14] Subsequently, State Bank opened branches in six other cities, but after the creation of State Bank, no additional banks were chartered by the state legislature until the 1830's, by which time the state ceased to own stock in new banks. However in 1841, to provide an additional source of state revenue, North Carolina levied a 1% tax on the par value of the stock owned by individual investors.[15]

In Georgia, the legislature chartered the Planters Bank of the State of Georgia in Savannah in 1807 and the Bank of Augusta in 1810. A few years later in 1818 the state legislature chartered the Bank of Darien, and that bank soon opened branches in Marion and Milledgeville, indicating that in the antebellum era statewide branching was also allowed in Georgia.[16] The State of Georgia invested in the capital of these early banks

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[14] T. Harry Gatton, *Report of the North Carolina Banking Commission* (Raleigh: Edwards and Broughton Co., 1991), p. 4.
[15] Sylla, Legler and Wallis, p. 398.
[16] Jan Pogue, *To Wield a Mighty Influence – the Story of Banking in Georgia,* ed. Rob Levin (Atlanta: Corporate Stories, 1992), p. 18.

and received dividend income on the stock investments. In fact by 1836, the Financial Report of the State Treasurer indicated that dividend income to the state from bank stock investments amounted to $59,336 of the total state revenue that year of $287,062, or almost 21% of the total.[17]

In 1833 the state chartered Georgia Railroad and Banking Company and authorized it to build and own a railroad and to operate a banking company. This bank was also permitted to branch, and it established a branch office in Atlanta in 1856.
In 1835 the state chartered The Bank of Milledgeville, which was owned exclusively by twenty five prominent private investors. Later that same year, over some local opposition, the legislature also chartered in Milledgeville a state-owned Central Bank of Georgia, which in effect served as the state treasury, and this bank also was allowed to finance a state railroad.[18]

Since several of the states derived a portion of their state revenue from bank investments and thereby benefited from the profits of those banks, some economists have suggested that the theory of limiting the number of banks that were permitted to operate within a particular geographical territory and restricting the territorial boundaries of those banks might have had its origins in the antebellum years, when states were interested in protecting their revenue flow from bank investment and share taxation. This protectionist school of thought might also explain why interstate banking and the Bank of the United States were unpopular in the antebellum era, since the individual states were not

[17] R. P. Brooks, *The Financial History of Georgia 1732 – 1950* (Athens: Institute for the Study of Georgia Problems, Monograph No. 9, The University of Georgia, 1952), p. 11.
[18] Pogue, To *Wield a Mighty Influence – The Story of Banking in Georgia,* pp. 20-21.

able to derive any revenue from banks that were incorporated in other states or from the branches of the BUS.[19]

Some states did attempt to tax the branches of Bank of the United States operating within their states, but they were barred by the Supreme Court from taxing the BUS in the 1819 United States Supreme Court case of *McCulloch v. Maryland.*[20] In this case, the State of Maryland questioned the Constitutional power of Congress to incorporate the Bank of the United States and asserted the state's rights to tax the operations and property of the Bank's branch in Maryland. In a landmark decision, the Supreme Court affirmed the right of Congress to incorporate the Bank of the United States in order to execute its Constitutional powers and denied the State of Maryland the right to tax the operations of an agency of the federal government. In the next year of 1820, in the case of *Osborn v. Bank of the United States,*[21] the Supreme Court reaffirmed that a state could not tax the Bank of the United States and ruled that any attempt by state agents to enforce collection of a state tax could be restrained by the federal courts. In this case, Ralph Osborn, the auditor of the State of Ohio, attempted to enforce and collect a tax (which was actually more like a fine) on the Bank of the United States branch in Ohio, when that state contested the right of the Bank to operate in Ohio.

Because of the growth of the Second Bank of the United States with its numerous branch offices in twenty nine cities throughout the country, there was growing concern, particularly in the South, about the potential of the banks to have substantial influence on the agrarian economy of the region. In 1832 when a bill was passed in Congress to

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[19] Robert S Kroszner and Philip E. Strahan, "What Drives Deregulation? Economics and Politics of the Relaxation of Branch Banking Restrictions," *The Journal of Economics,* Vol. 114, No. 4 (Nov. 1999), p. 1439.

[20] 17 US 316, 4 Wheat. 316.

[21] 22 US 738, 9 Wheat. 738.

re-charter the Second Bank of the United States, President Andrew Jackson, who was a southern Democrat, vetoed the legislation, thus dealing a death knell to the Bank. Reportedly, Jackson vetoed the bill in large part because of his concern about the growing economic influence of the Second Bank of the United States on the South and the nation. According to historian Robert Remini, "Jackson seriously contended that the Bank was dangerous to the liberty of the American people because it concentrated enormous power in private hands and used this power to control legislation, influence elections and even manipulate the operation of government to get what it wanted."[22] Remini also comments that the Bank had begun using and circulating twenty dollar drafts, payable to bearer, a new means of exchange that allegedly "drove state bank currencies from circulation" and thereby diminished the influence and profitability of state banks."[23]

Historian William J. Cooper, Jr., opines that Southerners especially distrusted the concept of a central bank. He reports that most southern Democrats and many southern Whigs opposed the economic nationalism of a strong central bank, although "Whigs generally adopted a pro-bank position, while Democrats usually stood on the anti-bank side."[24] However, Cooper does indicate that southern Whig President John Tyler twice vetoed Whig bills drawn by Henry Clay to create another national bank. Tyler especially objected to the possibility of a federal central bank establishing branches in the states without the consent of the states.[25]

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[22] Robert V. Remini, *Andrew Jackson and the Bank War – A Study in the Growth of Presidential Power* (New York: W.W. Norton & Company, 1967), p. 44.
[23] *Ibid.* p. 38.
[24] Cooper, p. 201.
[25] Bernard Shull and Gerald A. Hanweck, *Bank Mergers in a Deregulated Environment – Promise and Peril* (Westport, Connecticut: Quorum Books, 2001), p. 46.

After Jackson abolished the Second Bank of the United States, state-chartered banks grew rapidly to fill the credit gap left by the central bank that had funded almost one fifth of the nation's notes in circulation.[26] The state banks experienced a tremendous increase in outstanding loans. However, an economic downturn occurred with the Panic of 1837, and many of the legislatively chartered and protected state banks went out of business. As a consequence of the bank failures and the need for new banks, a less restrictive "free banking system" emerged in many states. The free banking laws removed the bank chartering decision from the state legislature and vested it with elected or appointed state officials charged with evaluating the soundness of bank applications and supervising the banks' risk-related activities.[27] These regulatory changes tended to open up banking to increased competition. From 1837 to 1860 the number of state banks grew from 788 to 1,601 in the U. S. Among the southern states, Georgia and Florida both adopted free banking laws and grew the number of banks in this era.[28] In these antebellum years, the Virginia legislature also took the opportunity to clarify their state banking law that no bank outside of Virginia could invest directly or indirectly in a Virginia bank. In this era of free banking that allowed for increased competition in the granting of bank charters, most state governments also adopted some safety and soundness regulatory policies to sustain depositor confidence in the banking system.[29] Still, there were many flagrant abuses in this wildcat era of a decentralized banking system that existed in the South and the Nation from 1836 until

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[26] Remini, p. 38.
[27] Shull and Hanweck, p. 57.
[28] House Committee on the Judiciary, Subcommittee No. 5, *Bank Mergers and Concentration of Bank Facilities*, 82nd Cong., 2d Sess., 1952, Committee Print, p. 3.
[29] Shull and Hanweck, p. 34.

1864 when a new dual banking system of both nationally and state chartered banks was created.

From 1861 to 1865 the nation was involved in a painful and destructive Civil War that considerably strained the banking system of the country as a whole and particularly of the South. Most southern banks extended credit to war-related businesses and agricultural plantations dependent on slave labor. They also purchased bonds of the Confederate States of America and of their respective state governments to finance the war effort. At the war's end the Confederate States government depleted its funds and was unable to repay its debts, and under a harsh Reconstruction government, the southern states' legislatures were required to repudiate their war bond indebtedness.
According to Mildred Thompson, a historian of the era of Reconstruction, very few southern banks survived the War, and "No kind of (southern) business suffered more heavily by reason of the failure of the War for Secession than did banking."[30]

During the Civil War, United States Secretary of the Treasury, Salmon Chase, recommended the establishment of a national banking system. While there had been many abuses in the state banking system that needed correction, banking law professor Albert Bolles suggests that the national banking legislation was initiated by Secretary Chase primarily to create a vehicle for the issuance of demand treasury notes to finance the federal government's war needs.[31] One part of the new national banking system was the adoption of a standard and uniform national currency, apparently a much needed

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[30] C. Mildred Thompson, *Reconstruction in Georgia – Economic, Social and Political 1865 – 1872* (Freeport, New York: Books for Libraries Press, 1915, reprinted 1971), p. 26 (page references are to the reprint edition).
[31] Albert S.Bolles, *The Financial History of the United States from 1861 to 1885,* Vol. II (New York: D. Appleton and Company, 1894, reprinted Augustus M. Kelly – Publisher, 1969), p. 59 (page references are to the reprint edition).

reform. In Georgia alone, "between 1810 and 1865 more than 1,500 different types of currency were in circulation…with no central clearing house to facilitate redemption."[32] The National Currency Act of 1863 established within the Treasury Department a Bureau of Currency to implement the new law. State chartered banks were no longer permitted to issue their own currency. As an additional reform, the National Banking Act of 1864 called for the creation of a new dual banking system, whereby the federal chartering of banks became an option to state chartering. The new federal law established the Office of the Comptroller of the Currency that was charged with supervising the safety and soundness of federally chartered banks. Under the new law nationally chartered banks were required to have a minimum of $50,000 in initial capitalization. As the South emerged from its defeat in the Civil War, bank investors in several of the larger southern cities, including both Atlanta and Charlotte, quickly applied for new national banking charters. In addition, existing state chartered banks were encouraged to change from state to national banking charters, and most of the state banks voluntarily converted. Within the first few years following the enactment of the National Banking Act, nine hundred and twenty two of the one thousand six hundred newly chartered national banks were conversions.[33]

The new banking law contained a limitation which was to haunt the nationally chartered banks in later years. The National Banking Act was silent on a national bank's right to branch. Section 6 of the statute required each bank to specify "the place where its operations of discount and deposit are to be carried out," and Section 8 references the specific "office or banking house" location specified in the organizational

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[32] Pogue, To *Wield a Mighty Influence – the Story of Banking in Georgia*, *p.* 27.
[33] Bolles, p. 341.

certificate.[34] Over the next few decades the Office of the Comptroller issued administrative rulings denying the right of national banks to branch, and in 1911 the U.S. Attorney General supported the previously issued administrative rulings against de novo branching. This opinion was affirmed by the U.S. Supreme Court in 1924 in the case of First National Bank of St. Louis v. State of Missouri.[35] The new National Banking Act did not prohibit mergers between national banks, however. Neither did the National Banking Act seem to prohibit large national banks from affiliating with state chartered trust companies, which conducted investment banking activities, or with real estate, insurance and mortgage lending activities.[36] The pace of these bank-affiliated activities picked up considerably as the end of the nineteenth century approached. These ancillary financial service activities were largely unregulated.

According to noted historian C. Vann Woodward, the leading bankers of the newly formed southern banks were what he called "new men who are sprung from the non-planter class," and not the planters and plantation owners who had been the dominant class in the South in the antebellum era.[37] Accordingly, these new bankers were supposedly more supportive of changes in the economy of the South, and they were active financiers of the industrialization of the South and the textile industry in particular. University of North Carolina historian, Dwight Billings, Jr., has chronicled how several leading bankers and industrialists in late nineteenth and early twentieth century North Carolina, including John Motley Morehead and others, "provided leadership in banking, insurance, railroad building, cotton mills and other enterprises."[38] Another

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[34] Fischer, p.19.
[35] Shull and Hanweck, p. 59. The law suit is reported in 263 US 640.
[36] *Ibid.* p. 63.
[37] C. Vann Woodward, Origins *of the New South 1877 – 1913* (Baton Rouge: Louisiana State University Press, 1951), p. 152.

North Carolina historian, David Goldfield supports Billings' conclusions about the early important link between the lending activities of the post war North Carolina banks and the fast growing textile industry that was centered in the Carolinas. Goldfield states:

> "Northern capitalists were initially reluctant to invest in textile milling, and indigenous capital typically financed cotton mill operations in the South prior to 1900. The cotton mill campaign of the 1880's approached the status of a religious crusade, especially in the Carolina Piedmont towns….By 1900 one-half of the South's looms were within a hundred mile radius of Charlotte."[39]

Billings plausibly argues that the expansionary role played by North Carolina financial institutions and investors in the post-Reconstruction era set the stage for the late twentieth century advancement of that state's banking industry.

While Charlotte and North Carolina were industrializing and growing in the late nineteenth and early twentieth century, so was Atlanta, as the new capital of Georgia and the Gate City of the South. A number of new banks were organized in Atlanta in those years to finance the growth of that city and region. Goldfield comments about Atlanta: "By 1910 Peachtree Street was emerging as Atlanta's focus for commercial and financial activity. Thirteen banks were located within a three-block area known as Five Points."[40] He further indicates that the business opportunities made available by the formation of these financial institutions were part of the reason that Atlanta quadrupled its population between 1870 and 1900 at a growth rate higher than any other city in the South.[41] The Atlanta population also more than doubled from 1900 to 1920, by which time the city's population exceeded 200,000.

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[38] Dwight B Billings, Jr., *Planters and the Making of a "New South" – Class, Politics and Development in North Carolina 1865 – 1900* (Chapel Hill: The University of North Carolina Press, 1979), p. 91.
[39] David R. Goldfield, *Cotton Fields and Skyscrapers – Southern City and Region 1607 - 1980*, p. 123.
[40] *Ibid. p*. 129.
[41] *Ibid.*

Still these were difficult economic times for the South and its banks. Banking scholars Bernard Shull and Gerald Hanweck report that the fast pace of chartering new state banks resumed in the late years of the nineteenth century, largely because state banks generally had lower capital and reserve requirements and were less restricted in lending and investing activities than were national banks. In addition, state banks were often less strictly supervised or examined.[42]

As a result of inconsistent bank regulation and in response to a series of financial crises in the U.S. economy, culminating in the Panic of 1907, Congress passed the Federal Reserve Act in 1913. The Act established the Federal Reserve Bank to serve as a bankers' bank and be a short term lender, a repository for the reserves, the distributor of coin and currency and a processor and collector of checks for its member banks. All nationally chartered banks were required to join the Federal Reserve System, and state chartered banks were permitted to join. Most of the larger state banks did so. Two of the twelve district banks were located in the southern cities of Atlanta and Richmond, and branch offices of those district banks were eventually established in other southern cities, including Charlotte in 1927.

As the economy of the United States grew rapidly in the 1920s, the country's banking industry began a series of mergers and consolidations of banking institutions in order to consolidate and grow capital to better finance their large commercial and industrial customers that were also merging. Many of the smaller banks simply had insufficient resources to serve the needs of their larger customers, while others were running the risk of failure or liquidation because of a lack of adequate capital. Between 1920 and 1932 nearly 6,000 mergers and consolidations occurred in the banking sector.[43]

[42] Shull and Hanweck, p. 61.

The South certainly participated in this phase of consolidation within its banking industry. In this same era many banks formed bank holding companies to hold ownership in some of the acquired banks. Also, bank holding companies were seen as a means to circumvent restrictive branching laws, particularly by national banks that were by then clearly denied the right to branch by the 1924 Supreme Court ruling in First National Bank of St. Louis v. Missouri. [44]

In this expansionary era, particularly as the nation grew more urbanized and its population more concentrated, there was a desire on the part of banks to establish branch offices apart from a bank's main office. Shull and Hanweck have reported how a growing tension arose between rural banks and expanding, urban-based banks that were regarded by rural banks as competitive threats, particularly at a time when the industry was undergoing an inordinate amount of consolidation. As a result, some states with rurally dominated legislatures began to restrict branch banking of state chartered banks by new state laws.[45]

In 1927 Congress passed the McFadden Act which finally permitted branching by nationally chartered banks but subjected the approval and regulation of branching by those banks to the powers of the states in which the banks were operating. In his June 24, 1927 comments to Congress, as recorded in the *Congressional Record,* Congressman McFadden explained: "This resolution contains the fundamental anti-branching bank policy of the House bill. It is an anti-branch-banking measure severely restricting the further spread of branch banking within the United States."[46] The new law also had the

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[43] Fischer, pp. 128 and 205.
[44] 263 US 640.
[45] Shull and Hanweck, p. 62.
[46] Fischer, p 48.

effect of restricting interstate branching by preventing out-of-state banks from attempting to establish branches in another state without that state's approval. A later amendment to the National Banking Act in 1933 permitted nationally chartered banks the same branching rights within the states that were permitted to state banks within those states.

The combination of economic incentives for banks to merge in the 1920s and the failure of many banks in the early years of the Great Depression together reduced the number of nationally and state chartered banks and mutual savings banks in the United States by fifty percent from 30,419 total banks in 1921 to 15,029 banks at the end of 1933.[47] This whole era represented the greatest period of consolidation that the banking industry had ever experienced until the last two decades of the twentieth century. A 1989 study by Federal Reserve Bank of Atlanta economists, William C. Hunter and Larry D. Wall, concluded that in the late 1920s and early 1930s, when there were a significant number of bank failures, small banks failed at a disproportionately high rate, perhaps at least partially because their limited market diversification may have lessened their ability to defuse the concentration of risk factors that were contained within a confined market.[48]

Some of the most significant changes in the regulation of the banking industry occurred with the New Deal programs of the Roosevelt administration in the early 1930s following the collapse of many nationally and state chartered banks during the early years of the Great Depression. A provision of the Glass Steagall Act of 1933 prohibited commercial banks from participating in any measure in the underwriting or the distribution of securities. At least one historian has argued that this legislation actually

[47] "Bank Mergers and Concentration of Bank Facilities," p. 7.
[48] William C. Hunter and Larry D. Wall, "Bank Merger Motivations: A Review of the Evidence and an Examination of Key Target Bank Characteristics," *Economic Review*, The Federal Reserve Bank of Atlanta, (September/October 1989), p. 5.

weakened the country's stronger banks which had sufficient capital to continue to engage in investment banking activities, while protecting weaker, less-well-capitalized investment banking firms from competitive market forces.[49] It was not until 1997 that Congress finally repealed this competition-limiting law to allow commercial banks to own and affiliate with investment banking firms again.

The National Banking Act of 1933 established the Federal Deposit Insurance Corporation, which provided limited deposit insurance coverage to bank depositors in the event of a bank failure. As an additional safety and soundness measure, the new legislation also prohibited banks from paying interest on demand deposit accounts and limited the rates of interest that could be paid on various maturities and amounts of time and savings deposits. In looking back on the more restrictive banking regulation of the late 1920s and the 1930s some economists have theorized that the governments' motivation in regulating the banking industry more tightly was an anti-competitive endeavor designed to protect the smaller banks in the industry, but the laws may have had the unintentional effect of limiting the ability of larger banks to moderate their risks.[50]

While regulation of individual banks and their branching practices was tightening in the in the first half of the century, the activities of bank holding companies continued to be largely unregulated. A 1952 Congressional study of bank holding companies revealed that 31 bank holding company groups, operating in 29 states in 1951, held some 12.4% of all commercial bank deposits in the United States.[51] A number of attempts to introduce bank holding company regulation failed between 1941 and the early 1950s.

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[49] John Steele Gordon, "Politicians and Bankers," *American Heritage* (February/March 2001), p. 18.
[50] Charles F. Haywood, *The Potential Competition Doctrine: An Analysis of its Application to Bank Acquisitions* (Washington: Association of Registered Bank Holding Companies: 1972), p. 60.
[51] House Committee, "Bank Mergers and Concentration of Bank Facilities," pp. 39-40.

Then, in 1956 Congress passed the Bank Holding Company Act. Under this legislation the Federal Reserve System was designated as the regulator of any bank holding companies owning 25 % or more of two or more banks. The new law required registration of all bank holding companies with the Federal Reserve System, and it also required prior approval of all future acquisitions by bank holding companies. However, the new federal law legitimized the interstate banking ownership interests of all existing multi-state bank holding companies by "grandfathering" them. In addition, this act prohibited multi-bank holding companies from acquiring non-banking firms, unless those businesses were engaged in activities were "closely related to the business of banking."[52]

Until 1956 the activities of bank holding companies had not been necessarily confined to the borders of a particular state, and some holding companies did operate banks in multiple states, particularly in the upper Midwestern and western sections of the United States. However the Douglas Amendment to the Bank Holding Company Act in 1956 prohibited out-of-state banks from undertaking a bank acquisition in any state unless it obtained explicit permission from the target state's banking regulators. This provision of banking regulation remained in effect until it was effectually repealed by the Riegel-Neal Interstate Banking and Branching Efficiency Act (IBBEA) in 1994.[53]

The Bank Holding Company Act was soon followed by the Bank Merger Act of 1960. According to Shull and Hanweck there were over 1,300 bank mergers between 1950 and 1959, including several very large mergers among some of the biggest banks in the country.[54] In 1955 in New York, City National City Bank merged with First National

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[52] For a general discussion of the Bank Holding Company Act of 1956, see Shull and Hanweck, pp. 82-85.
[53] Dileep R. Mehta, "Interstate Banking and Georgia-based Banks," FRP Report No. 58 (Atlanta: Fiscal Research Program, Andrew Young School of Public Policy, Georgia State University, May 2001, p. 2.
[54] Shull and Hanweck, p. 85.

Bank to form First National City Bank (now Citibank), and Chase National Bank merged with Manhattan Bank to form Chase Manhattan Corporation. These combined organizations became the two largest banks in that market and also two of the largest banks in the U.S. [55]

These mergers involved the consolidations of banking companies operating within the same state markets that were therefore, by definition, competitors. Before 1960 the prevailing school of thought in the banking industry was that the anti-trust provisions of the Clayton Act applied only to corporations governed primarily by the Federal Trade Commission and therefore did not apply to banking consolidations. Even a substantial number of Congressmen had taken the position that the kind of antitrust standards envisioned by the Clayton Act were impractical or inappropriate for the banking industry.[56] However, under the 1960 Bank Merger Act and its 1966 amendments, it became clear that the provisions of the Clayton Act would henceforth apply to the banking industry. This new legislation prescribed several factors for banking regulators to consider in evaluating proposed mergers, to include financial condition, capital adequacy, future earnings prospects, character of the management, convenience and needs of the communities being served and lastly "the effect of the transaction on competition."[57] The Board of Governors of the Federal Reserve System was prohibited from approving mergers or acquisitions that would lessen competition or create a monopoly. In retrospect, the Bank Merger Act may have tended to slow the consolidation of the banking industry, as it no doubt was intended to do, but as soon thereafter as the early 1970s, some economists were already advocating that banking

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[55] *Ibid*. p. 85.
[56] *Ibid,* p. 82.
[57] *Ibid.* p. 87.

industry consolidation through merger and consolidation actually tended to produce more competition, more efficient performance and more financially viable banks, without a serious threat of adverse effects on competition.[58]

In 1970 Congress passed the Bank Holding Company Amendments with the intent of more closely regulating the so-called one-bank holding companies, or those that did not fit under the definition of a bank holding company as was specified by the 1956 Bank Holding Company Act, namely that the company did not control more than 25% of two or more banks. Many banking companies had been utilizing a one-bank holding company to acquire non-bank financial service businesses without regulatory review or the approval of bank supervisory agencies. The new law required Federal Reserve approval of non-bank acquisitions by one-bank holding companies and limited such acquisitions to companies involved in "activities closely related to banking or a proper incident thereto."[59] As was the usual legislative practice, existing acquisitions by these companies were "grandfathered in."

In general, the proclivity of banking companies to utilize holding company structures to get around the regulation of both federally and state chartered banks seems to be an indication that banks generally were not satisfied with what they may have perceived as over-regulation of their industry and insufficient regulatory support for the pace of desired deregulation and consolidation in their industry. However, the fast pace of consolidation did continue anyway, in spite of the increased regulation. Two Texas A&M banking and finance professors researched and determined that by the early 1970's more than one half of all bank deposits in the United States were held by bank

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[58] Haywood, p. 95.
[59] Shull and Hanweck, p. 103.

holding company-affiliated banks, a very substantial increase from the 12 % share held by bank holding companies a little more than twenty years earlier when a 1952 Congressional committee had undertaken a similar research project.[60]

While federal legislation increasingly restricted banking mergers and slowed the consolidation of the industry, state laws restricting the expansion of bank branching were also limiting the growth of the industry in many states, including most of the states in the South. Even though geographic dispersion of markets arguably had the effect of mitigating the risk of failure for smaller unit banks, most state legislatures seemingly preferred to limit the ability of banks in their states to branch into new markets.[61]

With the exception of North and South Carolina, most southern states historically maintained some of the most restrictive branching laws in the nation. Perhaps, the distrust of banking that many southern Democrats exhibited in the Jacksonian era carried over into the early twentieth century. In fact, the degree of restrictiveness in branching laws seemingly increased in the early twentieth century. A University of Virginia business professor reported that in 1910 only eight states prohibited bank branching, but by 1930, twenty three states prohibited branching.[62] Furthermore, the McFadden Act of 1927 finally recognized the right of national banks to branch, but provided that branches of national banks would be subject to the same branching laws that governed state banks in each state jurisdiction.

Some economists have observed that the tight regulation of banks at the state level made the deregulation of the banking industry in the United States somewhat

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[60] Peter S. Rose and Donald R. Fraser, "State Regulation of Bank Holding Companies, "*The Bankers Magazine,* Vol. 157, No. 1 (Winter 1974), p. 42.
[61] Kroszner and Strahan, p. 1445
[62] Paul. L. Foster, *Bank Expansion In Virginia, 1962 – 1966 – The Holding Company and Direct Merger* (Charlottesville: The University Press of Virginia, 1971), p. 6.

different than the experience of most industries that have engaged in consolidation and deregulation. In banking, deregulation did not start on a national basis; rather it proceeded on a state by state or regional basis, and it has arguably proceeded at a slower pace, as a result.[63] The most vocal opposition to less restrictive state branching regulations traditionally came from smaller rural bankers, represented by community and independent bankers' associations, whose members may have wanted to protect their markets from larger, and perhaps more efficient, banking organizations that arguably may have offered a broader range of product options.[64] Smaller banks might also have feared that less geographically-constrained state or national banking could have drained capital from smaller, slower-growth communities.[65] As branching laws became increasingly restrictive in some states, expansion-minded banks often resorted to the use of bank holding companies which owned several subsidiary unit banks.

In fact, the use of unit banks within bank holding companies may have diminished the availability of bank services in smaller communities. An early 1970s study by Charles Haywood, then Dean of the University of Kentucky School of Business and Economics, revealed how banks operating in states with few or no branching restrictions had fewer unit banks but actually were able to provide an overall larger number of banking offices than did the states with limited branches but more unit banks.[66] A similar study in the mid-1980s also revealed that branch banking provided for

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[63] Kroszner and Strahan, pp. 1437-1438.
[64] Margaret M. Polski, *The Invisible Hand of U.S. Commercial Banking Reform – Private and Public Guarantees* (Boston: Kluwer Academic Publishers, 2003), p. 7.
[65] *Ibid*.
[66] Haywood, pp. 76-77.

more offices per population unit than unit banking did. The latter study also concluded that branch banks also generally offered a broader range of services than unit banks did.[67]

Other scholars have concluded that state limitations on the growth of banks through branching and merger restrictions have historically limited the ability of the banks in some of those states to meet the credit demands of large commercial and industrial projects in their states, thus resulting in those enterprises seeking banking services out-of-state. [68] Within the context of the dual banking system that existed in the United States, there was much variation in the ability of banks to meet the full needs of their customers because of the differences in state banking laws before interstate banking was permitted and state branching laws were liberalized in the later years of the twentieth century. Such disparities in state banking laws certainly existed among southern states.

[67] Vincent A. Apilata, "Geographical Expansion in Banking: An Analysis of Issues and Attractive Solutions," *Commercial Banking and Interstate Expansion – Issues, Prospects and Strategies,* ed. Larry A Friedler (Ann Arbor: UMI Research Press, 1987), p.132.
[68] Foster, p. 16.

CHAPTER THREE

A COMPARISON OF BANK MERGER AND BRANCHING PRACTICE IN THE STATES OF NORTH CAROLINA AND GEORGIA

A comparative study of the growth and development of the banking industry and the laws regulating banking over the course of the twentieth century in the states of North Carolina and Georgia demonstrates how the public policies of each of those states seems to have affected different banking industry outcomes. This study focuses particularly on the banking laws of North Carolina, a state without limits on statewide branching and mergers, and the banking laws of Georgia, the southern state that arguably had the most restrictions on its banking industry. This study examines and analyzes how the dominant banks in North Carolina and the dominant banks in Georgia grew and developed over the course of the twentieth century up to the mid 1980s, when interstate banking was first permitted on a regional basis. This approach provides an opportunity to study in detail how the public policy and laws of these two states varied and how the outcomes differed. For most of the early years of the twentieth century, Georgia's biggest banks, C&S National Bank and First National Bank of Atlanta, were larger in size of assets and deposits than were the biggest banks in North Carolina, Wachovia, North Carolina National Bank (NCNB) and First Union. As the South emerged from World War II and experienced substantially greater economic growth, the less restricted North Carolina banks were able to grow at a faster rate than the Georgia banks. By the mid-1950s Wachovia overtook C&S as the largest bank in the South and by 1972 NCNB became the largest bank in North Carolina and in the South.

For all of the twentieth century North Carolina had no legal restrictions on statewide bank branching or mergers, and with South Carolina, the two were the only states in the South for most of the century that had essentially no restrictions on statewide expansion through either branching or merger activities. In the early years of the twentieth century North Carolina was one of the two most rural, least urbanized states in the South (along with Mississippi) and among the five most rural states in the U. S. [69] University of North Carolina banking and finance professor, Lissa Broome, suggests that since the state was so rural, it may have been difficult for a bank to raise sufficient capital in a single community, and therefore the banks may have sought the opportunity to provide banking services to several communities through branching in order to raise more deposits and capital than a single community could provide.[70] This point of view is supported by Wachovia's John Medlin who states: "Subsequent to the Civil War, there were no prohibitions, and in fact some say if you wanted to open a bank somewhere, they welcomed you because things were so poor and there weren't many banks."[71]

For the first seven decades of the twentieth century Wachovia Bank and Trust Company was the largest bank and undisputed leader of the industry in North Carolina. Wachovia was also the largest bank in the South from the mid-1950s until the early 1970s when its most aggressive in-state competitor, North Carolina National Bank, overtook it.

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[69] http://www.census.gov/population/censusdata/urpop0090.txt

[70] Lissa Lampkin Broome, "The First One Hundred Years of Banking in North Carolina," *North Carolina Bank Institute,* Vol. 9 (April, 2005), p. 129.

[71] John G. Medlin, interview by author, tape recording, Winston-Salem, North Carolina, 10 November 2005.

Wachovia traces its ancestry to a Salem branch of the antebellum Bank of Cape Fear. The Salem office was originally opened as a part-time agency of that bank in 1815 and later became a branch in 1847. After the Bank of Cape Fear closed during the Civil War, its cashier, Israel Lash opened the First National Bank of Salem in 1866 under a charter permitted by the recently passed National Banking Act. In 1879 Lash's bank moved to the adjacent town of Winston which was experiencing greater business growth. The relocation required a new charter, and the new bank was organized as Wachovia National Bank.[72]

In 1891 The North Carolina General Assembly approved a charter for a new form of financial institution that was called a trust company. A trust company functioned as a state-supervised bank, but it was empowered "to act as executor, trustee, guardian, fiscal or transfer agent and in any and every fiduciary capacity for individuals, firms and companies."[73] According to a late 1890s banking analysis, "trust companies…are enabled to do many things, which are forbidden to national banks and which are profitable."[74] The new North Carolina organization was named Wachovia Loan and Trust Company, and Colonel Francis H. Fries was its organizer.[75] Its broad trust company powers allowed the new bank's participation in various investment banking activities, including municipal bond underwriting and insurance brokerage.

According to an old in-house Wachovia magazine, Wachovia was an early leader in providing these non-traditional banking services. A 1918 article reported: "The Bond

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[72] Jo Hunter, ed., *A Course Well Charted – A History of Banking and Wachovia* (Winston-Salem: Wachovia Corporation, 1991), pp. 24-25.
[73] *Ibid.* p. 26.
[74] Gilbert Thomas Stephenson, *The Life Story of a Trust Man, being that of Francis Henry Fries, President of Wachovia Bank and Trust Company* (New York: F. S. Crofts & Co,, 1930), p. 14.
[75] *Ibid.* p. 26.

Department of the Wachovia Bank and Trust Company has for a number of years specialized in investment securities. It is the oldest bond business in North Carolina."[76] An earlier issue of the same Wachovia magazine referenced the tie-in of commercial and investment activities in these early years. The article stated the following: "It is the policy of the Trust Company to buy and sell and make a market for the bonds which it originates….Any bonds which we recommend and sell are considered good collateral (for bank loans)."[77]

Fries also was a pioneer in statewide branching and acquisitions. Because there were no state legal branching or merger restrictions, he expanded Wachovia Loan and Trust Company into the North Carolina cities of Asheville, Salisbury, High Point and Spencer in the early 1900s when few other banks were expanding.

Wachovia Loan and Trust Company and Wachovia National Bank merged, effective January 1, 1911, to form Wachovia Bank and Trust Company, but under a state bank charter. At that time, the new Wachovia claimed to be the largest bank in the state and the largest trust operation in the South. In 1923 Wachovia also acquired an additional bank in Raleigh, the state's capital city.

The Great Depression slowed the bank's expansion, but in 1939 Wachovia merged with Charlotte National Bank, which had been organized in 1897, and this acquisition then provided the state's leading bank with a base of operations in most of the major cities of the mid-region of the state. A review of the annual reports of the North Carolina Commissioner of Banks, on file with the Banking Commission in

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[76] Wachovia Bank and Trust Company, *The Solicitor – a Magazine of Banking,* Vol. 10, No. 9 (Sept. 1918), p. 14. Archives of Wachovia Bank, Winston-Salem, North Carolina.
[77] *Ibid.* Vol. 9, No. 3 (March 1917), p. 8.

Raleigh, substantiate that Wachovia was the largest bank in North Carolina for the entire first seven decades of the twentieth century.

Following World War II and under the leadership of Robert Hanes and John Watlington in the 1950's and 1960's, Wachovia acquired other banks in Burlington, Wilmington, Greensboro, Durham, Greenville, Kinston, Thomasville, Kernersville, Morganton and Laurinburg. By 1966 Wachovia was the first bank in the region to hold deposits of more than one billion dollars. [78] A history of one of its chief competitors describes the scope of Wachovia's influence over North Carolina banking at mid-twentieth century as follows:

> "In addition to its considerable financial clout, Wachovia exercised its accumulated political influence in Raleigh. State government was one of its leading depositors, and Wachovia's political connections guaranteed the bank ready access to the governor, attention from the legislature, and a seat on the state banking commission, which approved new branch locations, issued charters for state banks and regulated the banks under its jurisdiction."[79]

Wachovia made a few more in-state acquisitions over the next several years before regional interstate banking was permitted, but in–state growth was slowing and was becoming more rigorously controlled by state banking authorities. In 1969 Wachovia converted from a state bank charter to a national bank charter. When asked why Wachovia converted from a state to a national charter, John Medlin replied: "As a state bank and a Federal Reserve member bank, your mergers had to be approved by the state banking commission. We became a national bank in the late 1960s primarily because it was easier to get branches approved through the Comptroller of the Currency than it was through the state banking commission."[80]

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[78] *A History of Wachovia* (Winston-Salem: Wachovia Corporation, 2001), p. 13.
[79] Howard E. Covington, Jr. and Marion A. Ellis, p. 23.
[80] John G. Medlin interview by author.

Meanwhile in the late 1950s, an aggressive banking team at North Carolina National Bank (NCNB) in Charlotte was determinedly organizing to challenge Wachovia's long-time leadership position in North Carolina banking. NCNB traces its earliest roots to Commercial National Bank which was formed in Charlotte in 1874, and by the 1950s it purportedly had the oldest surviving national banking charter in the state.[81] In 1957 Commercial National Bank merged with in-town rival, American Trust Company, to form American Commercial Bank which became Charlotte's biggest bank.

American Trust had been organized in 1901, as Southern States Trust Company, by the developers of the upscale Myers Park neighborhood in Charlotte. In 1903 the bank opened a branch in the nearby college town of Davidson, and in 1907 the name was changed to American Trust Company.[82] According to the 1950 annual report of the North Carolina Commission of Banking, American Trust was the second largest state-chartered bank in the state with assets about 55% of those of Wachovia.

At the time of the intra-city merger, visionary banker Addison Reese was heading American Trust, and he became the Chief Executive Officer of the combined banking company. Reese was ambitious and highly competitive and challenged his associates at American Commercial to set about "chasing the Wachovia" for banking leadership in North Carolina. A history of the American Commercial Bank, as it developed into NCNB, then NationsBank and now Bank of America, quotes a late 1950s personnel manager who related the American Commercial mantra to its young bankers, one of whom was Hugh L. McColl, Jr., the bank's future CEO: "Mr. Reese wants us to beat The Wachovia. Now, nobody in his right mind would say this little bank could ever beat the

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[81] LeGette Blythe and Charles Raven Brockmann, *Hornet's Nest – The Story of Charlotte and Mecklenburg County,* (Charlotte: McNally, 1961), p. 303.
[82] Covington and Ellis, p. 26.

biggest bank in the state, but Mr. Reese thinks we can."[83] Reese's sense of competitiveness clearly reflected the strong rivalry with Wachovia.

In the spring of 1960 American Commercial Bank in Charlotte merged with Security National Bank of Greensboro to form North Carolina National Bank. Security National had opened in 1933 following the Banking Holiday of that year, which none of the banks in Greensboro had survived. By the time of the merger Security had branches in the cities of Burlington, High Point, Raleigh, Wilmington and Tarboro. A Greensboro insurance company, Jefferson Pilot Life, owned controlling interest in Security National Bank, and a few months before Security National merged with the Charlotte bank, Jefferson Pilot had influenced the in-city merger of Security National and Guilford National Bank, which was also based in Greensboro and was also controlled by Jefferson Pilot.[84] The merger of Security National with American Commercial in Charlotte created the then undisputed number two bank in North Carolina with deposits of $462 million, compared with Wachovia's 1960 deposits of $689 million.[85]

Shortly after the American Commercial-Security National merger to form NCNB, Addison Reese hired Federal Reserve banker, Tom Storrs, a Ph D. economist, to strengthen his management team. In 1961 NCNB expanded by acquiring Statesville Bank and the First National Bank of Winston-Salem, in Wachovia's backyard. In 1962 NCNB continued its in-state growth by acquiring the Bank of Wilkesboro and the Bank of Wilmington, the latter being a bank which could trace its origins back to the 1804-chartered Bank of Cape Fear. The next year NCNB acquired the Bank of

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[83] Ross Yockey, *McColl – The Man with America's Money* (Atlanta: Longstreet Press, 1999) pp. 15-16.
[84] Covington and Ellis, p. 33.
[85] "The Hundred Largest Banks in the United States – Listed in Order of Amount of Deposits on December 31, 1960," *American Banker,* 1961, from the Archives of *American Banker,* Source Media, Inc., New York City, New York.

Chapel Hill, and in 1967 it acquired Commercial and Industrial Bank of Fayetteville. In the next few years, NCNB took advantage of North Carolina's absence of branching restrictions and expanded into even more cities. Both the branching and the mergers allowed NCNB to grow to become the third largest bank in the Southeast by 1970, just behind in-state rival, Wachovia, and the Citizens and Southern Bank of Georgia.[86]

In 1968 North Carolina National Bank's board created a new one-bank holding Company which over the next few years was used to form or acquire several non-banking businesses, including a commercial insurance agency, a real estate management firm, a residential and commercial mortgage company, a consumer finance company and a commercial factoring company. In 1972 NCNB also used the new holding company structure to make a strategically important acquisition of Trust Company of Florida, a small, one-office trust operation in Orlando, Florida. This low profile move later provided NCNB with a vehicle for entry into the robust banking markets in the State of Florida in the early 1980s just before the Southeastern Regional Banking Compact was initiated. Hugh McColl has described how, in its haste to prohibit banks in other states from buying any more Florida trust companies with banking charters, the state had left open a loophole for the three out-of-state financial institutions that had already purchased Florida trust companies. McColl reports: "In their haste to shut the door, they had a major loophole. We then plowed through that."[87]

In 1972 NCNB, with total assets of $2.9 billion, surpassed Wachovia in asset size for the first time, achieving the ambition of the aggressive management team of a newer banking company that the venerable Wachovia undoubtedly

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[86] *Ibid.* p. 67.
[87] Hugh L. McColl, Jr. interview by author, tape recording, Charlotte, North Carolina 27 February 2006.

regarded as an upstart. In 1974, Tom Storrs replaced Addison Reese as Chairman and Chief Executive Officer of NCNB. Under Storrs's leadership NCNB continued the rapid in-state expansion program. In 1981 NCNB acquired Bank of Asheville and Carolina First National Bank of Lincolnton. In 1982 NCNB acquired the historic Bank of North Carolina which was headquartered in the state capital of Raleigh. On the eve of the formation of the Southeastern Regional Banking Compact in June of 1985, NCNB Corp. was the largest bank in the Southeast with total assets in North Carolina and Florida of over $16 billion.[88]

While NCNB was intentionally "chasing Wachovia" in order to be the state's largest banking organization, another Charlotte-based bank, First Union National Bank, was also building a statewide banking system that would one day rival both of its major competitors to garner the largest banking share in North Carolina. First Union traces its North Carolina ancestry to the formation of Union National Bank in Charlotte in 1908. In 1949 Union National was the first Charlotte bank to open an in-city branch.[89] In 1958 Union National merged with First National Bank and Trust Company of Asheville to become First Union National Bank. Later that year the new statewide banking company acquired banks in Lenoir, Durham and Wilson, North Carolina.[90] In 1962 First Union acquired Bank of Greensboro, and in 1963 it also acquired Scottish Bank of Lumberton. First Union diversified in 1964 when it acquired the successful mortgage banking business of Cameron-Brown Company and retained Cliff Cameron as an executive of the bank as well as the mortgage company.

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[88] "The Top 100 Bank Holding Companies, Listed in Order of Amount of Assets as of June 30, 1985, *American Banker*, 1986, Archives of *American Banker*, Source Media, New York city, New York,.
[89] Cliff C. Cameron, *First Union Corporation – A Bank Holding Company – A Tradition of Leadership* (New York: The Newcomen Society of North America, 1980), p. 10.
[90] LeGette and Brockmann, p. 306.

In 1967, in recognition of the growth and profitability opportunities available to banks through participating in activities closely related to commercial banking, the First Union organization was the second major banking firm in the country to form a new one-bank holding company (which was initially named Cameron Financial Corp. and later changed its name to First Union Corp.). The new holding company was used to acquire other financial service companies that sometimes were referred to as "near banks.[91] In 1966, Cliff Cameron became the CEO of First Union and supervised some twenty five in-state acquisitions until his retirement in 1984.

Ed Crutchfield succeeded Cameron at the helm of First Union, and in May of 1985, he initiated his banking company's largest in-state acquisition by negotiating a merger with Northwestern Financial Corporation of North Wilkesboro. The latter company's primary bank subsidiary was state-chartered Northwestern Bank, which had been organized in 1937, and through acquisitions and branching Northwestern Bank had grown to become North Carolina's fourth largest bank by 1984 with assets of more than $2.7 billion, according to that year's annual report of the North Carolina Commissioner of Banking. When asked about the coincidence of the timing of the intrastate Northwestern merger at the same time that regional interstate banking was becoming available to First Union, Crutchfield explained:

> The guy who ran the thing was a guy named Ben Craig whom I had known at Davidson….I convinced Ben that he was either going to be bought out – he was going to be a branch of somebody else – or, if he would come with me, we would have enough critical mass to go out of state and really start moving. He would be the number two guy. He simply bought that logic. I was very lucky. I got turned down by him for two years. I kept going back and going back. Finally, I got him. [92]

[91] Cameron, p. 18.
[92] Edward E. Crutchfield interview by author, tape recording of telephone interview to North Palm Beach Florida, 15 March 2006.

The state's liberal branching and merger laws also allowed four other North Carolina banks to form extensive statewide networks of banks and "near-banks" each with assets in excess of one billion dollars before the state laws were changed to permit interstate banking mergers. First Citizens Bank and Trust Company was organized in Smithfield in the auspicious year of 1929 by the Holding family of eastern North Carolina. By 1930 it had opened branches in the nearby towns of Benton and Dunn. While it was somewhat slow to venture out into other parts of the state in its early years, it began to grow rapidly in the 1960's. The bank opened a branch in Wilson in 1960, and it branched into the mid and western regions of the state in 1963 when it opened offices in Charlotte, Gastonia, Hickory, Canton and Brevard. By 1970, it also had expanded to Fayetteville, Wilmington and Greensboro. In 1974 First Citizens moved its home office to the state capital of Raleigh. By 1984 on the eve of interstate banking, First Citizens had banking assets of over $2.1 billion.

In 1888 Branch Bank and Trust Company (BB&T) was chartered in Wilson, North Carolina. According to the 1930 report of the state banking commissioner, by that time Branch Bank already had bank branches in the other eastern North Carolina towns of Goldsboro, Fayetteville, New Bern and Bailey, and it subsequently opened a branch in the state capital of Raleigh. By the end of 1984 the holding company's assets totaled approximately $2.4 million.

Southern National Bank was organized in Lumberton in 1897 by former state governor, Angus MacLean. Southern National began its statewide expansion in 1977 by acquiring Lafayette Bank and Trust Company of Fayetteville, and it acquired Forsyth Bank and Trust Company in 1982. Forsyth had been organized in Winston-Salem in

1973 by former Wachovia banker, L. Glenn Orr, and after the merger Orr became CEO of Southern National. Assets of Southern National exceeded one billion dollars in 1984.

In 1979 another statewide banking company consolidated when Cape Fear Bank and Trust Company of Fayetteville and Central National Bank of Raleigh merged into Waccamaw Bank and Trust Company of Whiteville. Two years later Waccamaw merged with a bank in Monroe, North Carolina, and changed its name to United Carolina Bank, and in 1984, on the eve of interstate banking, UCB had assets of $1.3 billion.

In 1995 BB&T merged with Southern National, and in 1997 BB&T also acquired United Carolina Bank. Perhaps, this recent in-state combination of large banks is one of the best illustrations of how the liberal banking laws in North Carolina have easily accommodated free-market combinations of banks that, in turn, have enabled that state to develop its disproportionately high share of large southern bank holding companies that are based in that state.

In the neighboring state of Georgia, the laws governing the banking industry were considerably more restrictive for most of the twentieth century, and arguably these more stringent laws may have repressed the twentieth century development of the leading banks in Georgia. According to a history of the Georgia Department of Banking, state banks were not prohibited from branching before 1927, but neither was branching specifically authorized. In addition, Georgia's banking law was silent as to the regulation of bank holding companies until 1956. However, even in the early years of the twentieth century branching by banks was controversial in Georgia. In 1918 the state treasurer, who then regulated banks, questioned the legitimacy of branches when he wrote in his annual report: "There is really no law authorizing branch banks in this state."[93] However, in 1919 the legislation which had created the new state Department of Banking that year did authorize branches "in cities in which (banks) are located and elsewhere."[94]

By 1927 the prevailing attitudes of the state legislature and the superintendent of banking had become decidedly more restrictive. In that year the General Assembly passed a law prohibiting any additional branching, while "grandfathering" all existing branch banks. In the same year the federal government approved the McFadden Act which permitted branching by national banks but subjected the approval of those branches to the laws of the state in which an individual national bank was operating, thereby effectively prohibiting any branching by national banks headquartered in Georgia. In 1929 the state's restrictive branching law was liberalized to allow branches in Atlanta, a city defined as "a municipality now or hereafter having a population of not less than 200,000" and in Savannah, which was defined in the statute as one of the "municipalities with a population of 80,000 to 125,000." [95]

A sizeable and notorious series of bank failures in Georgia and Florida in the mid-1920's apparently influenced the State of Georgia (and perhaps Florida also) to tighten its banking regulations rather considerably. In 1926 in a banking debacle, over one hundred and fifty banks in the Manley chain of banks failed and closed within two weeks of each other. Depositors lost an estimated $30 million.[96] W. S. Witham had founded this chain of small community banks in Georgia in the late nineteenth century. In the

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[93] Robert M. Mohler, *Georgia Department of Banking 1920 – 1982: Sixty Three Years of Historical Review with Perspective on the Future (*Atlanta: Georgia Department of Banking, 1982), p. 2.
[94] *Ibid.* p. 68.
[95] *Ibid.*
[96] Raymond B. Vickers, *Panic in Paradise –Florida's Banking Crash of 1926* (Tuscaloosa: The University of Alabama Press, 1994), p. 5.

early twentieth century, Witham's protégé, Wesley. D. Manley, purchased and took over the chain, expanded it into Florida and formed the Bankers Trust Company in Georgia in 1911 and Bankers Financing Company in Florida in 1914 in partnership with James Anthony of Palm Beach. These affiliated finance companies manipulated funding among the member banks of the Manley chain for several years until the chain failed as a result of losses from bad insider loans.[97] Manley was convicted of bank fraud, and the banking commissioners of both states were disgraced.[98] In his 1930 annual report, A. B. Mobley, the Superintendent of Banks in Georgia, specifically attributed the new restrictiveness in branch banking laws to "the sentiment against banking growing out of the Bankers Trust Company debacle back in 1926."[99]

Georgia banking laws became even more stringent with the passage of the state's first bank holding company legislation in 1956, the same year that the federal government closed the loophole on interstate bank holding companies and required their registration with the Federal Reserve System. The Georgia legislation prohibited bank holding companies from owning more than 15% of two or more banks but "grandfathered" all existing bank holding companies, of which there were very few then in operation. The holding company law was changed again in 1960 to limit the holdings to 5% of two or more banks, thereby establishing the parameters of an affiliate bank structure that some of the large Atlanta banks used for the next fifteen years in order to form a network of allied banks that were based in the state's larger cities and the suburbs of Atlanta. The 1960 amendments to the state's Bank Holding Company Act also prohibited any Georgia

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[97] *Ibid.* p. pp. 114-115.
[98] *Ibid.* P, 147.
[99] A. B. Mobley, *Eleventh Annual Report of the Department of Banking of the State of Georgia – Year Ending December 31, 1930* (Atlanta: Department of Banking,, State of Georgia, 1931), p. 3.

bank holding company from merging or consolidating with any bank holding company in another state.

Also in 1960 the Georgia branching laws were moderated slightly to remove branching limitations in municipalities with populations of 80,000 or more. In 1967 the population threshold for unrestricted branching in cities was reduced again, this time to the level of 60,000 in population. Another slight modification was made to the branching law in 1963 through legislation known as the Village Banking Act. This new law provided that a bank could branch up to three miles from the center of an unincorporated village in order to take advantage of the suburban growth opportunities that were occurring in the more populous regions of the state, principally in metropolitan Atlanta.

The Georgia General Assembly also made an additional slight change in the banking laws in 1971 when new legislation allowed banks to branch countywide, outside of the city limit boundary lines that previously been the territorial limits for expansion. Sufficient opposition to countywide branching still existed in 1970 that a poll of its members by the Georgia Bankers Association revealed a fairly even vote split between those favoring countywide branching limits and those opposing it. The association's membership remained was divided, even though a study committee of the banking association had reported a few months earlier that "the municipal corporate limits are no longer a meaningful criterion for determining what a social or economic community is."[100] Nevertheless, the slightly expanded branching legislation was approved by the

[100] The Georgia Banking Association's December 15 1969 membership survey results, as reported in a December 15 1969 letter to GBA from the accounting firm of Gottenstrater and McClain of Atlanta Georgia and the August 21, 1969 Report of Special Study Committee are both maintained in the Archives of the Georgia Bankers Association, Atlanta, Georgia.

Georgia General Assembly by a relatively comfortable vote margin of 108 to 66 in the state House and by a favorable vote of 37 to 14 in the state Senate.[101]

Within the restrictive branching and merger environment in Georgia from the 1920s until the 1970s the largest state banks quite naturally developed and grew primarily in the largest cities of the state. For most of the first three decades of the twentieth century and for much of the rest of the century Citizens and Southern Bank of Georgia (C&S) was the largest banking company in the state. In 1891 Mills Lane, Sr. moved from Valdosta, Georgia to Savannah and joined Citizens Bank of Savannah, that had been founded in 1887. He became president of the bank in 1901, and in 1906 his bank merged with Southern Bank of the State of Georgia to form Citizens and Southern Bank of Georgia, which became the largest bank in the Southeast for the next several years, or as was reported at that time, "the largest bank between Baltimore and New Orleans," [102]

C&S was the most aggressive bank in Georgia in taking advantage of the less restrictive banking environment in the early years of the twentieth century and in 1912 it purchased the National Bank of Augusta, in 1916 the American National Bank of Macon, in 1919 the Third National Bank of Atlanta, in 1922 Central Bank and Trust Corporation of Atlanta (which had been organized in 1907 by Asa G. Candler, the founder of The Coca-Cola Company, and which had established two other branches in Atlanta), and in 1926 the Citizens Bank in Valdosta and the Merchants Bank of Valdosta (which had been organized by the family of Mills Lane, Sr., before his move to Savannah). It was the practice of C&S in its early years to liquidate the acquired bank

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[101] *Journal of the House of the State of Georgia at the Regular Session*, 1970, p. 1075 and *Journal of the Senate of the State of Georgia at the Regular Session*, 1970, p. 834.
[102] Jan Pogue, *Cornerstone Bank* (Atlanta: NationsBank Corp., 1993), p. 28.

and reopen it as a branch bank.[103] C&S had also opened a branch office in Athens in 1925, thus giving the bank a presence in six Georgia cities before bank branching was prohibited in Georgia in 1927. C&S also established Citizens and Southern Company, a securities business, which operated as an affiliated company until the Glass-Steagall Act of 1933 required the separation of commercial and investment banking. At that time the securities company was spun out to the shareholders as a separate investment banking company and renamed as Johnson, Lane, Space and Co. When the McFadden Act of 1927 equalized the in-state branching opportunities of state and national banks, C&S converted its charter from a state to a national in that same year.

To take advantage of a remaining loophole in Georgia banking law, C&S organized a bank holding company, Citizens and Southern Holding Company in 1928, with all of the stock owned by the shareholders of C&S National Bank. In that same year the new holding company acquired a majority interest in Atlantic Savings Bank and Atlantic National Bank of Charleston, South Carolina, consolidated them and renamed the bank as the Citizens and Southern National Bank of South Carolina in the era before interstate acquisitions by bank holding companies were prohibited by the 1956 bank holding company regulations. Over the next several years C&S continued to acquire other banks in Georgia, in Dublin in 1928, in La Grange, Thomaston and Albany in 1929, and in East Point and Atlanta in 1948, and it subsequently converted each acquired bank into a Citizens and Southern bank.[104]

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[103] *Ibid.* p. 32.
[104] Carl A. Lewis, *Atlanta Clearing House Association 1932 – 1949* (Atlanta: Darby Printing Company, 1950), pp. 178-179. The Clearing House Association report provides this chronology of the early C&S banking combinations.

After Georgia's Bank Holding Company Act of 1956 was passed and restricted C&S from making further acquisitions of more than fifteen per cent of the stock of any other bank, and after the percentage of the allowable stock that could be purchased in any other bank was further reduced to five per cent in 1960, C&S had to revise its growth strategy plans. At that time C&S, by now under the leadership of Mills Lane, Jr., commenced a bank program of having the holding company purchase five per cent of newly formed banks in growth areas of the state and then having C&S National Bank, or perhaps other holding company banks, finance the acquisition of the remaining stock in the new bank, through bank loans secured only by the stock in the newly-formed bank. It was the reported intent of C&S National Bank to acquire the remaining ninety five per cent of the new bank's stock at such time as Georgia's banking laws were liberalized to allow merger of the new banks into C&S National Bank. Former C&S executive, James R. Lientz explains this program, as follows:

> Bank holding companies were allowed to invest five per cent in other bank holding companies, as I recall. The C&S distribution model was that we looked for a combination of a friendly crowd, if you will, a good market and a place where we could either go *de novo,* as we did in many cases, or we could acquire a bank in a good market. By acquire, I mean acquire five per cent of it. Typically, then we would finance the directors and president. The president was never given the stock, but they were always given the opportunity to buy stock…..That was always financed for them on a basis program that we had. So it was an expansion vehicle; it was basically a franchise. In most, not all cases, the bank took the name C&S. In virtually all cases the directors were pretty friendly, and the stock pretty much in friendly hands. That was the main vehicle that was used. There were a lot of those….The products were the same; the personnel policies were the same; most of the branding was the same. It was always assumed that it would all be one system in the future.[105]

While the leaders of C&S had worked diligently for many years to liberalize the banking laws in Georgia, and as the state's economic and population growth and the

[105] James R. Lientz, interview by author, tape recording, Atlanta, Georgia, 23 December 2005.

urban sprawl in metropolitan Atlanta further exacerbated the limiting effects of Georgia's restrictive banking laws, change was very slow to come. In 1973 the Independent Bankers Association of Georgia, an organization whose membership was composed of 209 smaller independent banks, challenged the legitimacy of the C&S "five-percenter" expansion program in a lawsuit in which they sued the state banking commissioner to require him to institute civil action and enjoin the C&S Holding Company from further violating the banking law through their "control" of more than five per cent of the stock of the ten affiliated banks. In the lawsuit C&S stipulated that "The President of each of the ten five percent defendant banks was formerly either an officer of Citizens and Southern National Bank or another bank in the Citizens and Southern system of banks."[106] Also in the trial, a first vice president of C&S testified that C&S had formerly employed all the officers and employees of one of the affiliated banks, that over fifty per cent of the bank's stock was held by officers, employees or wives of officers and employees of C&S National and that some stock acquisitions were financed by C&S.

Consequentially, in 1973 the Supreme Court of Georgia ruled against the C&S program, finding that it violated the provisions of the Bank Holding Company Act by positioning C&S to hold "indirectly," more than five per cent of ten community banks through its officers and directors.[107] Subsequently, the Georgia Commissioner of Banking ordered C&S Holding Company to terminate all direct and indirect supervision of the five per center banks, to remove itself as trustee or fiduciary of any of the stock holdings of the banks, to divest any of the outstanding shares in excess of five per cent

[106] Independent Bankers Association v. Dunn, 197 S.E.2d 129 (1973), p. 132.
[107] 230 Ga. 345, 197 S. E. 2d 129.

and to terminate all loans to current and former executives of C&S for investment in the these banks.[108]

This adverse Supreme Court of Georgia ruling against the five-percenter financing plan caused the leadership of C&S National Bank to affiliate more closely with other large Georgia banks in an effort to change the state banking laws and permit holding company acquisition of other Georgia banks. Former First National Bank of Atlanta/Wachovia executive and lobbyist John P. Stevens explains how an alliance of bankers coalesced around the need to change the Georgia banking law limiting holding company acquisitions of other banks:

> Mills Lane had that problem with the court case on the control issue, so we formed a little alliance. It was C&S, Trust Company, us. BankSouth would not join; they were opposed to it. Georgia Railroad (Augusta). Mid Harris (Brunswick) and Jimmy Blanchard (Columbus)….We organized it in teams. I devoted almost full time to it, and we organized people in every part of the state. We organized manufacturers and bank customers.[109]

The larger banks in the state attempted to enlist the support of the Georgia Bankers Association (GBA) to change the holding company law, but the association membership could not form a consensus opinion regarding this proposed change in the state banking law. Even though a GBA study of the benefits of less restrictive bank holding company laws concluded that states with the least restrictions on bank holding companies (mentioning North Carolina and South Carolina, in particular) had lower populations per banking office, which was a presumed benefit to the banking public, the Georgia Bankers Association (GBA) membership was split in its opinion on this issue.[110]

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[108] E. D. Dunn, Commissioner of Banking and Finance, State of Georgia, Order to Citizens and Southern National Bank, et. al, dated May 22 1974, Document Files of the State of Georgia Department of Banking and Finance, Atlanta, Georgia.
[109] John P. Stevens interview by author, tape recording, Atlanta, Georgia, 14 October 2005.
[110] Georgia Bankers Association, "Notes on Banking Structure," *Statistics on the Bank Holding Company Study Committee,* 1974, p. 2. Archives of the Georgia Bankers Association, Atlanta, Georgia.

GBA commissioned the accounting firm of Main La Frentz & Co. to conduct a survey of its membership in 1974 to discern the members' opinions about proposed changes to the holding company laws. The survey revealed a worse split than had been anticipated with only 155 member banks supporting a change in law, and 252 objecting. Main LaFrentz suggested that the GBA take a neutral stand on the issue, which they did.[111]

The legislative debate to liberalize Georgia's bank holding company law spanned two years. Under the leadership of Atlanta/ Fulton County Representative John Greer, the House approved HB 131 in its 1975 session by a fairly close vote of 92 to 82,[112] but the bill failed in the state Senate that year by one vote. In the 1976 session of the General Assembly the bill finally passed the Senate by a vote of 33 to 23,[113] and the bill was signed into law by then Governor George Busbee. The new law allowed the state's bank holding companies to acquire banks anywhere in Georgia as long as the acquired bank had been in existence and continually operating for a period of five years or more, with all acquisitions subject to the approval of the state banking commissioner.

Among those voting against the liberalized bank holding company bill in the Senate was future Georgia Governor Roy Barnes, who along with his family had financial interests in community banks. Barnes explained his vote as follows: "There was a lot of controversy. It was the big banks versus the small little banks. I tend to pull for the underdog, and I voted against the holding bill."[114]

Although the larger Atlanta banks had lobbied for liberalization of the branching and holding company laws for many years, the timing of the eventual passage of the

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[111] Main LeFrentz Bank Holding Company Survey, October 9, 1974, Archives of the Georgia Bankers Association, Atlanta, Georgia.
[112] Journal of the House of the State of Georgia in its Regular Session, 1975, p. 669.
[113] Journal of the Senate of the State of Georgia in its Regular Session, 1976, p. 59.
[114] Roy E. Barnes interview by author, tape recording, Marietta, Georgia, 27 January, 2006.

statewide holding company legislation was somewhat ill-fated for the Atlanta banks. In 1974 and 1975 Atlanta experienced the beginnings of a several-year business recession spurred by rapidly rising energy prices and overbuilding in the commercial real estate sector. All of the major Atlanta banks suffered decreases in profitability as a result of extensive loan losses, particularly in their real estate loan portfolios. The situation is well-described in a history of the Georgia Bankers Association: "As the full brunt of the recession hit, bank profits plunged in 1975 to half what they were in 1973. Unemployment in Georgia rose during 1974 and 1975 by more than twice as much as it did in the rest of the country."[115] As a result of these conditions, the major Atlanta banks were slow to acquire other banks in Georgia after the new holding company law went into effect in July of 1976. Former Legal Counsel and Chief Financial Officer of the First National Bank of Atlanta, Paul Hill, describes the situation: "As you will recall, the major focus in 1976 until about 1979 or 1980 was dealing with the problem loan situation in Atlanta, real estate loans."[116]

When asked how the real estate recession played out on the ability of C&S to acquire the other ownership interests in the C&S five per centers and other banks, former C&S executive Jim Lientz replied as follows:

> It delayed it. It played out in two or three ways. One was the currency was depressed. If you are going to do a stock acquisition, the stocks, at least the C&S stock, was very depressed because of the real estate environment. Secondly, the OCC (Office of the Comptroller of the Currency) - we probably could not have gotten approval for it. Third, if we could have, it would have been really foolish to issue a registration date (for a new stock issue). The SEC would have never let us done that.[117]

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[115] Pogue, *To Wield a Mighty Influence – The Story of Banking in Georgia,* p. 118.
[116] Paul D. Hill interview by author, tape recording of telephone interview to Ashland, Oregon, 10 February 2006.
[117] James R. Lientz interview by author.

However, as the Georgia and Atlanta economies improved, C&S was able to acquire full ownership of most of the affiliated five percenters over the nine years between the passage of the statewide bank holding company legislation in 1976 and the advent of regional interstate banking in 1985. For all of those years C&S was the largest banking company in Georgia.

An additional change was made to the Georgia banking law in 1980 when bank holding companies were allowed to give up charters of acquired banks and merge the acquired banks into the primary bank of the holding company and henceforth operate it as a branch of the principal bank. Former First Atlanta executive John Stevens explains it this way: " Both institutions, the acquirer and the acquiree, had the option, if they both chose, to merge the acquired bank into the banking sub of the holding company as a branch instead of operating as a separate unit." This new branching option provided Georgia banks with a cost savings and efficiency option that had always been available to the banks in North Carolina.

Georgia's second largest bank, the First National Bank of Atlanta, or First Atlanta as it was sometimes known, was also anxious to take advantage of the new holding company structure. First National Bank of Atlanta traced it origins to Atlanta National Bank, which was the first national bank chartered in the former states of the Confederacy at the close of the Civil War in 1865. Alfred Austell, an East Tennessee unionist who had moved to the new city of Atlanta before the Civil War, was the leading organizer of the new bank. In 1916 American National Bank was consolidated into Atlanta National. American National had been organized in 1879 as the Maddox-Rucker private bank; in

1891 it was chartered by the state as Maddox Rucker Banking Company; and in 1909 it was converted to a national banking charter as American National Bank.

In 1924 Atlanta National Bank merged with another old line Atlanta banking company, Lowry Bank and Trust Company of Georgia, to form Atlanta and Lowry National Bank under the more venerable banking charter of Atlanta National. Lowry Bank and Trust Company of Georgia had been formed just a year earlier in 1923 when The Trust Company of Georgia purchased the asserts and assumed the liabilities of Lowry National Bank, which had been organized initially at the end of the Civil War as the private banking firm of W. M. and R. J. Lowry, Bankers, later state-chartered in 1888 as Lowry Banking Company and then converted to a national charter in 1900 as Lowry National Bank.[118] An unusual feature of the combination of Lowry Bank and Trust Company of Georgia with Atlanta National Bank was that the stock of Trust Company of Georgia was placed in a trust for the benefit of the shareholders of the new national bank.

In 1929 Atlanta and Lowry National Bank merged intra-city with Fourth National Bank. The latter bank had been state chartered in 1889 as American Trust and Banking Company, and it converted to a national charter in 1896 as Fourth National Bank. This newly merged banking powerhouse in Atlanta was named the First National Bank of Atlanta, and it became the largest bank in the South and the fifteenth largest bank in the country at that time.[119] Reportedly, the merger had occurred at the urging of Ernest and Robert Woodruff of The Coca-Cola Company in order for Atlanta to have a larger bank to finance more of the community's business credit needs.[120] A November

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[118] Jo Hunter, ed. *A Course Well Charted - A History of Banking and Wachovia*, pp. 16-25, provides a history of these banks and their various combinations.
[119] Hunter, ed., p. 23.
[120] Franklin M. Garrett, *Atlanta and Environs – A Chronicle of its People and Events*, Vol. II (New York: Lewis Historical Publishing Company, Inc. 1954). p. 856.

1929 front page newspaper announcement on the occasion of the merger perhaps indicates why the Woodruffs and other Atlanta business and banking leaders may have supported this combination of banks. It stated: "The merger will give to Atlanta a more conspicuous position than ever before as one of the nation's important financial centers."[121]

For various reasons, this combination of banks was partially dissolved in 1933 when Trust Company of Georgia severed its relationship with First National Bank of Atlanta and resumed operating as a separate commercial bank, but one with extensive trust operations. The trust agreement under which the Trust Company of Georgia shares that had been held in trust, originally for the benefit of stockholders of Atlanta and Lowry National Bank and later for the shareholders of the First National Bank, was dissolved, and the shares of Trust Company of Georgia were distributed to all of the shareholders of First National. Resultantly, although First Atlanta and Trust Company became separate banks again in 1933, they were both owned by the same shareholders. As a part of the dissolution arrangement, Trust Company retained ownership through Trust Company Associates of a portion of the ownership of five banks located in other cities in Georgia. First Atlanta was left with the dominant commercial banking operation in the Atlanta market, but it retained no branches or separately chartered banks outside of the city limits of Atlanta. This geographic isolation probably did not seem problematic at the time, when many banks were closing and the remainder were experiencing operating losses or shrinkages in assets during the Great Depression years, but as growth opportunities returned to Georgia in the last half of the twentieth century, First Atlanta was in a

[121] *Atlanta Constitution,* November 21, 1929, p.1.

disadvantageous position relative to C&S Bank and Trust Company of Georgia, both of which already had "grandfathered" statewide distribution systems. It was also to the detriment of First Atlanta that bank expansion laws were tightening in Georgia and the nation at the time of the bank split, as it became increasingly difficult for banks to establish new holding companies or merge with other banks or branch outside of narrow city limits. Former First Atlanta executive John Stevens summarized his bank's dilemma: "So anyway they started looking for ways to influence the legislature because it was obviously understood that they were going to have to change the law if we ever wanted to expand as First National Bank of Atlanta and compete on equal footing with the Trust Company and with Mills Lane (of C&S)."[122]

First Atlanta expanded moderately by taking advantage of the 1971 countywide branching law change that allowed it to branch anywhere in Fulton and DeKalb Counties. Since the City of Atlanta was in parts of both counties, the county-wide branching law allowed Atlanta banks into branch in both counties. It was not until 1976 when the statewide holding company law was liberalized that First Atlanta had its first opportunity to engage in banking outside of Fulton and DeKalb Counties. However, since capital was in limited supply at the time because of the real estate recession in Atlanta, progress was slow on acquiring banks.

In 1977 First Atlanta purchased the failed First Augusta State Bank and Trust Company, a small bank with assets of only $20 million.[123] The next acquisitions by First Atlanta Corporation, the bank's new holding company, were First Bank of Savannah and The First National Bank of Dalton. First Atlanta had acquired a five percent interest in

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[122] John P. Stevens interview by author.
[123] Pogue, *To Wield a Might Influence –The Story of Banking in Georgia,* p. 121.

both banks in the previous decade, and as was the case with the C&S five per centers, trusts and individuals close to First Atlanta owned much of the remaining stock, some of it financed by the bank. Former First Atlanta executive Paul Hill comments on this arrangement: "You had both C&S and First Atlanta and some other banking companies as well, situations where individuals who were friendly to the banking organization would buy interests in banks in other counties in the state."[124] Hill also explains First Atlanta's acquisition strategy once the holding company law was passed:

> I think our strategy was to target markets that were in the metropolitan Atlanta area that were fairly rapidly growing, principally from the standpoint of retail deposits. That was our major gauge in terms of the attractiveness of a market. We also looked at those other second tier cities after Atlanta in the state that had sufficient volume of deposits in their metropolitan areas that it would make it attractive to go into those markets.[125]

Subsequent acquisitions by First Atlanta showed coherence with that strategy as First Atlanta Holding Corporation purchased banks in Cobb, Clayton and Gwinnett Counties in metro Atlanta and banks in the cities of Macon, Calhoun, Warner Robins, Gainesville, Cartersville and Americus before the advent of regional interstate banking in 1985.

The third largest bank in Atlanta, Trust Company of Georgia, was originally chartered by the Georgia Legislature in 1891 as Commercial Travelers Savings Bank. In 1893 one of its investors, Joel Hurt, took control of the new bank, increased its capital and successfully petitioned the Georgia legislature for a charter amendment to rename the bank as Trust Company of Georgia and grant them trust and investment banking powers. In 1907 Trust Company of Georgia decided to discontinue certain commercial banking operations in order to concentrate on trust and investment services and transferred its loans and savings accounts to Lowry National Bank in exchange for 2,000

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[124] Paul D. Hill interview by the author.
[125] *Ibid.*

shares in the Lowry bank. Several of the directors served on both bank boards. Perhaps the most prominent instance of Trust Company's involvement in investment banking activities in this era was its lead role in organizing the syndicate that financed the Woodruff investment group in its purchase of The Coca-Cola Company from the Candler family in 1919, for which the Trust Company received a valuable fee in the form of 110,000 shares of The Coca-Cola Company. In 1923 Trust Company of Georgia and Lowry National Bank merged, thus formalizing the long-standing working arrangement between the two banks.[126]

In 1924 Lowry Bank and Trust Company of Georgia merged with Atlanta National Bank to form Atlanta and Lowry National Bank, and the Trust Company shares were held in a trust arrangement. This trust arrangement was continued when Lowry Bank and Trust Company merged with Fourth National Bank in 1929 to form the First National Bank of Atlanta. A December 31, 1932 Statement of Condition of the combined banks, issued just before the banks split in 1933, shows that the First National Bank had assets of $91 million, while Trust Company's assets were only $16.7 million, reflecting the relative size advantage that First National Bank had over Trust Company at the time of their dissolution.[127] In comparison, Wachovia's 1930 assets were recorded at only $51 million in that year's report of the North Carolina Commissioner of Banking.

Under the dissolution agreement Trust Company of Georgia retained a sizeable portion of the ownership of five banks located in the next largest cities in Georgia: National Exchange Bank in Augusta, Fourth National Bank in Columbus, The First

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[126] Harold H. Martin, *Three Strong Pillars – The Story of Trust Company of Georgia* (Atlanta: Trust Company of Georgia, Second Edition, 1981), p. 51.
[127] 1932 Statement of condition, The First National Bank of Atlanta and Trust Company of Georgia, in the personal archives of the author.

National Bank and Trust Company in Macon, First National Bank in Rome and Liberty Bank and Trust Company in Savannah. John Spiegel, the former Chief Financial Officer for SunTrust, now the parent of Trust Company of Georgia, offers an interesting account of how and why Trust Company retained the banks outside of Atlanta in the dissolution agreement. Spiegel conjectures:

> The Trust Company directors decided after about eighteen months or so that this just wasn't working. They wanted to break it apart. So, as a penalty, they ended up taking four or five of the affiliates that were a burden during the Depression years….Again, as a penalty, Trust Company had to take these affiliates around the state….In the early years they were losing money. It was in the Depression years, but as time went on, it became advantageous because the cities grew and developed; so the banks turned profitable and did okay.[128]

Also, incidental to the dissolution of the First National Bank-Trust Company union, Trust Company of Georgia ceased its investment banking operations, primarily in consequence to the Glass Steagall Act of 1933 that mandated the separation of commercial and investment banking activities.

Like First Atlanta, Trust Company took advantage of the countywide branching law change in 1971 to expand its distribution system in Fulton and DeKalb Counties. When the statewide bank holding company law was enacted in 1976 Trust Company of Georgia had experienced relatively fewer problem real estate loans and, unlike the other large Atlanta banks, it had written off most of the losses in one year, thus enabling the bank's earnings and stock prices to recover faster than those of its chief competitors. Hence, Trust Company was able to move at a somewhat faster pace in expanding its holding company. Trust Company acquired Commercial Bank and Trust Company in Jonesboro and Security National Bank in Smyrna in 1976, and in 1977 they acquired

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[128] John W. Spiegel interview by author, tape recording, Atlanta, Georgia 10 December, 2005.

First National Bank of Albany and First National Bank of Brunswick. In 1978 they purchased First National Bank of Jesup and Peoples Bank of LaGrange. By 1985 when regional interstate banking was enacted, Trust Company had also acquired banks in Bowdon, Conyers, Douglas, Douglasville, Lawrenceville, and McDonough, most of which were in the growing metropolitan Atlanta suburbs.[129]

As was the case in North Carolina, a second tier of banks also began an era of rapid growth in Georgia in the years following the 1976 liberalization of the state's bank holding company law. In Atlanta, Fulton National Bank, which had been chartered in 1909, was the fourth largest bank in the state. Fulton National Bank was relegated to a sphere of operation in the City of Atlanta and later in Fulton and DeKalb Counties, until the 1976 statewide holding company law was approved. In 1977 Fulton National moved rapidly to acquire banks in Doraville, Duluth, Forest Park and Riverdale, which were located in suburban Atlanta. In 1980 the bank changed it name to Bank of the South, and in 1982 shortened it to Bank South. By the arrival of regional interstate banking, Bank South also had acquired banking offices in the out-state communities of Cumming, Griffin, Fitzgerald, Macon, Columbus, Perry, Monticello and Tennille.

First Railroad Banking Company in Augusta was organized as a bank holding company in 1954 in Augusta and was the fifth largest banking organization in Georgia by 1985. Its principal banking subsidiary, Georgia Railroad Bank and Trust Company was chartered in 1833 and survived the Civil War. Through its grandfathered bank holding company, the banking organization owned an interest in First Georgia Bank in Atlanta, but its operations were limited to two cities until Georgia's bank holding company

[129] Sixty-Sixth Annual Report – Year Ending December 31, 1985 (Atlanta: Department of Banking and Finance, State of Georgia, 1986), pp 19-31.

laws changed in 1976. Subsequently, First Railroad acquired the prominent banks of Savannah Bank and Trust, First National Bank of Columbus and First National Bank of Valdosta and the balance of the ownership in the First Georgia Bank in Atlanta, prior to the enactment of legislation allowing interstate banking on a regional basis.

Synovus Financial Corporation, another Georgia bank holding company that has become a leading banking company in Georgia and the South, traces its origins to Columbus Savings Bank, now renamed as Columbus Bank and Trust Company (known as CB&T) , which was chartered by the state in 1888. Shortly after the changes to the bank holding company act in 1976, CB&T Bancshares, Inc. purchased LaGrange Banking Company and Commercial Bank in Thomasville.[130] Over the next few years CB&T also acquired banks in Albany, Americus, Moultrie, Tallapoosa, Brunswick, Valdosta, Hazlehurst, Carrollton and Chatsworth, all middle-sized communities outside of metropolitan Atlanta.

Clearly, banking companies in Georgia were much slower to develop integrated statewide networks of bank offices than were the banking companies of North Carolina. The question is for what reasons did the banking industry in Georgia develop more slowly than did the banking industry in North Carolina?

By the 1980s the populations and the economies of both states were growing at a similar pace, both faster than the national average. Atlanta, in particular, was thriving, while Charlotte was just beginning its growth spurt. Both states had solid industrial bases, although North Carolina was slightly more industrialized. On balance, however, both states were prospering. Thus, the faster growth rate of the North Carolina banking

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[130] Pogue, *To Wield a Mighty Influence,* p. 122.

industry in the 1970s and 1980s, when compared the slower growth rate in Georgia, does not seem to be related primarily to economic differences between the states; rather it seems more related to differences in banking regulation.

In the early twentieth century in both Georgia and North Carolina, the economic growth rates lagged the nation as a whole, and both were among the poorest states in the country. Both states benefited from the relocation of the textile industry to the South in the late 1800's, although apparently, North Carolina became industrialized sooner than Georgia did. North Carolina historian Dwight Billings, Jr. comments on this issue: "In 1860 North Carolina was the poorest state in the South, a region that as a whole was measurably poorer than the nation as a whole. However, by 1900 North Carolina was becoming the industrial leader of the New South, offering its citizens better paying jobs."[131] This trend continued throughout the next century. A 1972 study of economic development in the South revealed that North and South Carolina had the highest percentage of non-agricultural jobs in the manufacturing sector in 1970, both at 40 %. Georgia's percentage of jobs in manufacturing in 1970 was just under 30%.[132] Arguably, the liberalized banking laws in North and South Carolina may have facilitated those states' achievement of a higher rate of industrialization than other southern states.

Although it was somewhat less industrialized, Georgia also benefited from the textile industry growth in the early and mid-twentieth century, but Georgia experienced a greater growth in the construction and services industry sectors in the later years of the century. Atlanta, in particular, experienced significant economic and population growth

[131] Billings, p. 4.
[132] Ross W. Hammond, *Economic Development Trends in the 16-State South* (Atlanta: Industrial Development Division, Engineering Experiment Station, Georgia Institute of Technology, 1972), p. 10.

in the late twentieth century. There was a very significant distinction between the states in their patterns of growth, however. In Georgia most of the population and economic growth was concentrated in Georgia's one major city of Atlanta. In North Carolina the population and the economic growth were more dispersed among several mid-sized cities. John Medlin, CEO of Wachovia Bank from 1976 to 1993, suggests that his state's less restricted and more evenly distributed banking system may have encouraged a pattern of more distributed economic development throughout the state, than might have been the case in Georgia, at least to the extent that bankers were in positions to influence the economic development decisions of businesses. In discussing the economic development interests of Wachovia's founding bankers Medlin opines:

> They were people who thought beyond a city or beyond a county…. It was just a mentality….It did not matter when someone wanted to come to the state- It didn't matter where they went – because we had a bank close by anyway. Because of that, we developed three distinct major MSA's (metropolitan statistical areas)….They essentially total the Atlanta MSA.[133]

Medlin further suggested that North Carolina's success in developing the Research Triangle Park is illustrative of his premise that banks in his state successfully unified to attract important economic development projects because they were all operating in an unrestricted statewide banking environment that allowed an opportunity for all of the major banks in the state potentially to benefit from any new economic development. Following Medlin's logic Georgia's more concentrated growth patterns of economic development may have been influenced by the restrictiveness of Georgia's banking laws. Since the state's largest banks were geographically focused on Atlanta, they concentrated their most intense economic development activities on the metropolitan Atlanta area. As

[133] John Medlin interview by author.

a result the Atlanta-based banks grew larger, while the many rural and smaller town-based banks and their communities developed more slowly.

Economists Randall Kroszner and Philip Strahan argue that intrastate barriers to banking deregulation are generally removed earlier in states with fewer small banks and where larger banks have more political influence. [134] Table 2 indicates that in the post World War II years of more rapid economic development, North Carolina operated with considerably fewer banks than Georgia or any of the other southern states did, except for South Carolina, which also had no laws restricting bank branching or mergers. In an unrestricted statewide banking environment, fewer banks were needed, but it was politically difficult to attain industry consolidation in non-statewide systems.

TABLE 2

Number of Chartered Banks by State
Years 1900 to 2005
Number of Banks in Each State[135]

Year	Florida	Georgia	North Carolina	South Carolina	Virginia
1900	38	223	118	137	159
1920	263	779	578	461	496
1940	170	352	228	151	314
1955	232	408	222	151	317
1988	415	379	71	77	184
2005	296	343	94	83	151

[134] Kroszner and Strahan, p. 1438.
[135] Data on numbers of banks in various states from 1900 to 1955 available in tables in *All-Bank Statistics, United States 1896 - 1955* (Washington, D.C.: Board of Governors of the Federal Reserve System, 1959). Data on numbers of banks in 1988 and 2005 available from the Federal Deposit Insurance Corporation.

The research of Boston College finance professor, Edward Kane, supports the theory of Kroszner and Strahan. Kane econometrically researched the Congressional votes on the 1927 McFadden Act and the 1933 New Deal banking legislation and concluded that "representatives from states with a large number of poorly capitalized, state chartered banks were more likely to vote against branching." [136]

Georgia's county structure seems quite likely to have influenced the perpetuation of more restrictive branching laws. Georgia is politically divided into 159 counties, the second highest number of counties of any state in the country. Only the geographically much-larger state of Texas has more counties. North Carolina has only 100 counties in a geographic territory that is not much smaller than Georgia's. Since Georgia banks were restricted to operating in single counties for most of the twentieth century, Georgia naturally had more small banks than most of the states in the nation had. The resulting large number of small banks tended to neutralize the influence of the state's larger banks within the Georgia Bankers Association.

The historic county unit system of weighting votes in Georgia may also have retarded the deregulation of the banking industry in the state. Georgia historian Numan Bartley has explained the county unit system as "an arrangement whereby each county was assigned two, four or six unit votes and primary elections were determined by the number of unit votes won by each candidate, and grossly magnified the ballots cast in small, rural counties."[137] As a result of the heavy weighting of the unit votes of smaller, rural counties, the Georgia legislature was dominated by a disproportionate number of

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[136] Edward J. Kane, "*De Jure* Interstate Banking – Why Only Now?" *Journal of Money, Credit, and Banking,* Vol. 28, No. 2 (May 1996) p. 148.

[137] Numan V. Bartley and Hugh D. Graham, *Southern Politics and the Second Reconstruction* (Baltimore: Johns Hopkins University Press, 1975), p/ 47.

more conservative rural Georgians, many of whom tended to support more restrictive banking laws. The county unit system was finally ruled illegal in 1962. However, conservative rural legislators, mostly Democrats, continued to dominate the Georgia General Assembly for many years thereafter so that any changes in attitudes toward banking deregulation were slow to develop in Georgia.

According to a 1999 research study, the partisan bias of a state legislature also might tend to shape attitudes regarding the regulation of banking. One conclusion from the research of Kroszner and Strahan, was that Republicans were typically perceived as more likely to favor deregulation than Democrats. These economists stated: "a higher proportion of Democrats in the government tends to delay deregulation."[138] Since state governmental leadership in Georgia was tightly controlled by Democrats from Reconstruction until 2002, and North Carolina has had bi-partisan state leadership since the early 1970s, it stands to reason that Georgia has been slower to deregulate its banking industry, if one accepts the theory of these economists.

Because of the restrictiveness of Georgia's banking laws, by the last quarter of the twentieth century, Georgia's larger banks were increasingly unable to meet the full banking needs of their customer bases, as they were somewhat limited by the size of their capital bases and the geographic distribution of their bank offices. In other southern states, including North Carolina, other banks also recognized that they needed more geographic flexibility to be able to continue their growth patterns and to better serve their customers' needs across state boundary lines, as the economy of the South continued to prosper.

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[138] Kroszner and Srtrahan, p. 1446.

CHAPTER FOUR

THE CASE FOR NEEDED CHANGE

From the time of the Civil War until the later years of the twentieth century, the economic health of the South, as a region, lagged the economic health of the other regions of the United States. In 1938 President Franklin D. Roosevelt proclaimed the South as "the Nations No. 1 economic problem."[139] Historically, the South was more agrarian than industrial. As the South began to industrialize in the last two decades of the nineteenth century, most of the jobs created were low-wage. Southern historians David Carlton and Peter Coclanis report that by 1900 the per capita income in the South was but half of the U. S. average.[140] By 1960 conditions were improving, with manufacturing jobs exceeding agricultural employment; but per capita income in the South was still only 76 per cent of the income level of the rest of the nation.[141] According to historian James C. Cobb, "Even in the 1970s the South's economy continued to be dominated by low-wage industries that had relocated with the tacit assurance that they would not have to compete for labor with better-paying plants. Thus, many communities maintained a policy of recruiting only non-union operations."[142]

In addition to being a region of low per capita income, the South was capital-poor. In a relatively depressed economic region of the country, home-based southern financial

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[139] Numan V. Bartley, *The New South 19945 – 1980, The Story of the South's Modernization.* (Baton Rouge: Louisiana State University Press, 1995), p. 1.
[140] David L. Carlton and Peter A Coclanis, *The South, The Nation and the World – Perspective on Southern Economic Development* (Charlottesville: University of Virginia Press, 2003), p. 22.
[141] Bartley, *The New South* p. 260
[142] James C. Cobb, *The Selling of the South- The Southern Industrial Crusade for Industrial Development 1936 – 1980* (Baton Rouge: Louisiana State University Press, 1982), pp. 254-255.

institutions were not growing to the same extent that larger commercial and investment banks and insurance companies were developing in New York and in the other larger Eastern and Midwestern financial centers. In examining the continuing need for large southern businesses to patronize New York banks, historian David Goldfield cites economist Charles Haywood who observed, even as late as 1978: "The South is a region of capital shortage. It remains so today and will be so for years to come."[143]
John Medlin, former CEO of Wachovia Bank and Trust Company describes this situation: "We used to be a capital-short region. When I first started, most of the big business in the South was done by overlaying the money center banks. We didn't have a legal limit that could be of much help to them." [144] Former NCNB CEO, Hugh McColl, also comments on the capital limitations of southern banks in the early years of his career: "We had been poor. We were a defeated nation, and all the big New York banks dominated the region. All our triple-A customers banked with J.P. Morgan, Hanover, Chemical (banks in New York)."[145]

As early as the interwar years a group of sociologists, working on an interdisciplinary basis with historians, economists and others at the University of North Carolina (UNC), began promoting the theory of "Regionalism," which cultural historian Daniel Joseph Singal has defined as follows: "Under regionalism, in other words, the South would become organically interconnected with the rest of the country to form a coherent "integrated whole while still retaining part of its identity."[146] Regionalists

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[143] Goldfield, *Cotton Fields and Skyscrapers - Southern City and Region, 1607 -1980*, p. 192.
[144] John G. Medlin interview by author.
[145] Hugh L. McColl, Jr. interview by author.
[146] Daniel Joseph Singal, *The War Within – From Victorian to Modernist Thought in the South 1919-1945* (Chapel Hill: The University of North Carolina Press, 1982), p. 149.

Howard W. Odum and H. E. Moore amplify the definition of regionalism and differentiate it from sectionalism: “Regionalism connotes a unity in a total national composition, while sectionalism with its separation is inherently different.”[147] Odum also explains: “”Regionalism has the desired objective of making the states less provincial and more to the end that creates unity, and richness of national life may be attained.”[148]

The uplifting of the economy of the South was of special interest to the Regionalists, and they stressed the value of enhanced economic development in the South. Historian John Sheldon Reed captured the spirit of the Regionalist approach to economic development in an essay in which he quotes a speech made by Rupert Vance, a UNC sociologist, to a meeting of the 1960 Southern Historical Society. Vance stated:

> In economic development, industrialization and all that goes with it, regional forces and leaders have pushed toward integration with the national economy. As they succeed, regional differences blur, but regional identity remains. Regionalism, like individualism, claims a right to maintain identity, to defend and to cherish certain autonomy in cultural values, a style of life, certain attitudes, regarded as Southern. This autonomy takes nothing from a national life.[149]

This study of southern banking suggests that the Regionalist school of thought regarding the economic development needs of the South provides a conceptual framework for the design and implementation of the Southeastern Regional Banking Compact. The compact was designed to allow southern banks to merge on a regional interstate basis in order for some of those combined financial institutions to take a leadership role in financing the economy of the South and the Nation, while still maintaining a southern regional identity in the manner that Rupert Vance described.

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[147] Howard W. Odum and Harry Estill Moore., *American Regionalism – a Cultural-Historical Approach to National Interpretation* (New York: Henry Holt and Company, Inc. , 1938), p. 46.
[148] *Ibid*. p. 640.
[149] John Shelton Reed, *Regionalism and the South- Selected Papers of Rupert Vance,* ed. John Shelton Reed and Daniel Joseph Singal (Chapel Hill: The University of North Carolina Press, 1982), p. 217.

World War II provided an excellent opportunity for the South to implement the regionalist concept of more closely integrating its economy with that of the rest of the nation. During the war years the federal government located a disproportionately high number of military training and defense installations in the South. This action had the salubrious effect on the South of creating many new higher-paying jobs for southerners, pumping new streams of federal spending into the economy and favorably exposing other Americans to life in the South. Urban historian David Goldfield describes the benefits of World War II spending in the cities of the South:

> By the early 1940s the federal government had numerous positive experiences with military operations in and near southern cities….What local private enterprise and southern urban governments could not do or would not do, the federal government did by raising wage scales and helping to diversify the urban economy, moving it further away from its dependence on agriculture…. Washington was in the process of redistributing the national wealth, thereby placing the different regions of the country on a more equitable footing in the national economy….It was the federal assistance to southern urban industry that achieved the priming effect on the urban economy.[150]

Historian James Cobb observed in his analysis of the post-war South that: "World War II resurrected the southern economy and encouraged its leaders to take whatever action was necessary to keep their states from slipping back.….In the postwar period economic progress became a regional obsession as every southern state expanded and intensified its industrial development activities."[151]

In fact, the level of growth in personal income in the South, as a whole, began to outpace the growth rate for the nation as a whole, although the growth rates varied from state to state. Bartley reports that whereas the 1960 level of per capita income in the South was some 76% of the national average, by 1980 personal income in Florida, Texas

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[150] Goldfield, *Cotton Fields and Skyscrapers,* pp. 182-184.
[151] Cobb, p. 1.

and Virginia approximated the national average; and he observed that when cost-of-living differences were taken into account, there was no longer a chasm between the income averages of the South and the nation.[152]

As job opportunities and personal incomes rose in the South in the post war years, the value of financial assets and the amount of capital in the South continued to lag the rest of the nation in the 1970s and early 1980s. The lack of capital was measurably clear with respect to the banking industry. A 1980 position paper on the Future of the South, prepared by a blue ribbon commission under the auspices of the Southern Growth Policies Board observed that even though the value of bank loans and deposits continued to increase in the South, the region was still a "net importer of capital."[153] An early 1980s economic study of bank loans and deposits reflected similar findings. According to the study, in 1981 per capita bank deposits in the Southeast region (excluding Florida which was 98% of the national average) were only 65% of the national average. On the same basis of comparison, per capita bank loans for the Southeastern states (ex. Florida) were 57% of the national average.[154] A U.S. Bureau of Economic Analysis study of the gross state product value of the financial services industry in the South in comparison to the nation in 1987, reveals that financial, real estate and insurance services were only 16.4.% of gross state product in the Southeastern region (which was the lowest regional percentage of any region in the nation) versus a national average of 19.3 %.[155] This study would seem to indicate that the southern states were either not getting their relative share

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[152] Bartley, *The New South 1945 – 1980,* p. 430.
[153] Watters, p. 29.

[154] Thomas G. Giles, "Changing Financial Structures and Economic Development," Commercial *Banking and Interstate Expansion,* ed. Larry Frieder, et. al. (Ann Arbor: UMI Research Press, 1987 p. 116.
[155] Polski, p. 99.

of financial service industry jobs or were paying less for the jobs they did have, or both, at a time when the regional interstate banking compact had just gone into effect, ostensibly to remedy economic disparities like these.

For many years *American Banker,* a financial services industry daily newspaper has published at least on an annual basis a listing of the largest banking organizations in the country, as ranked by assets or deposits. In addition, on an annual basis, the Federal Deposit Insurance Corporation (FDIC) gathers information on bank deposits as of June 30 of each year and publishes the data in a comparative ranking format. An analysis of these two sources of data generally substantiates the disparities in banking assets and deposits in the South versus the Northeast, the Midwest and the West Coast, in particular, over the last half of the twentieth century.

Even as early as 1938, Regionalists Odum and Moore noted the financial dominance of the Northeastern and mainly the New York City banks in the industry in their report on the status of regionalism in the country. [156] The *American Banker* rankings of 1950 bear out this observation, with 6 of the top 10 banks in the U.S. based in New York City, and no bank from the South in the top 50. The then largest bank in the South, C&S National in Atlanta, had deposits of $325 million whereas the nation's then largest bank, Bank of America, NT&SA in California, had deposits of $6.2 billion, followed by 10 New York City, Chicago and California banks whose deposits ranged between $1.5 billion and $5 billion.[157]

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[156] Odum and Moore, p. 507.

[157] "The One Hundred Largest Banks in the United States, Listed in Order of Amount of Deposits as of December 31, 1950 and December 31, 1960, *American Banker*, 1961. Archives of the *American Banker*, Source Media, Inc., New York City, New York.

In the 1960 rankings 7 of the top 10 banks in the U.S., when ranked by deposit size, were based in New York City, two were based in California, and one was in Chicago. Among the top 25 banks in 1960, 8 were New York City banks, 6 were in California, 3 were Chicago banks, 2 were in Philadelphia, and one each was in Boston Cleveland, Detroit, Pittsburgh, Dallas and Seattle. Only Wachovia from the South was listed among the top 50 banks, at the rank of 39, and only 6 southern banks were in the top 100: two from North Carolina, 2 from Georgia and one each from Louisiana and Tennessee. Several of the large California banks had evidently benefited from their structure of statewide branching, as they rose in the rankings.

By 1970, 6 of the top 10 banks, as ranked by deposit size, were in New York, and 2 each were in California and Chicago. Of the top 25 banks, 9 were in New York, 6 in California, 3 in Philadelphia, 2 each in Chicago and Detroit and one each in Boston, Cleveland and Pittsburgh. 3 banks from the South were now in the top fifty, Wachovia, C&S and NCNB, and 12 southern banks were now in the top 100. These included 4 from North Carolina, 3 from Georgia, 2 each from Virginia and Tennessee and one from Florida.

By 1980 the rankings of the top 25 banks began to show some changes in geographic distribution. 11 of the top 25 were in New York, 5 in California, 2 in Chicago and one each in Pittsburgh, Boston, Detroit and Seattle, but the top 25 were now rounded out by 2 banks from Texas and by NCNB from North Carolina.
9 southern banks were ranked in the top 100 in 1980; 3 from North Carolina,3 from Virginia, 2 from Georgia and one from Florida.

As of June 30 1985, as regional interstate banking in the South was commencing, according to the *American Banker,* the order of the top 10 had not much shifted, but 2 southern banks were now in the top 25, NCNB and Southeast Bank of Miami, and 19 southern banks were now in the top 100. These included 3 banks from North Carolina, 3 from Georgia, and now 4 from Virginia, 5 from Florida, 2 from Tennessee and one each from Alabama and South Carolina. In 1985 the *American Banker* also ranked the top bank holding companies in the nation based on the different measurement of total assets, and the South had 21 holding companies in the top 100. To some extent the southern banks and bank holding companies had already entered into a period of fast growth, as most states by this point in time now allowed some degree of intrastate banking company consolidation. However, the scope of the large New York and California bank holding companies still eclipsed the holding companies from the South. As of June 30, 1985, Citicorp, the largest in the country, with assts of almost $160 billion, was nearly ten times the size of the largest in the South, NCNB Corporation, with assets of only $16.9 billion. Hugh McColl, the ambitious leader of NCNB (now Bank of America), expresses the significance of this scope issue clearly from the standpoint of a leading southern banker: "I remember one year that Bank of America's retained earnings grew more than my bank's assets were. It shook me up. This was in the early 1960s, and I thought, if we don't do something, we are never going to be anything."[158]

Also, an analysis of holding companies in 1984 indicates that as of December 31,1983, the nation's eight largest money center banks alone had accumulated more than 25% of the total banking assets in the United States, signaling that the scope and scale of influence of these money center financial service companies

[158] Hugh L. McColl, Jr., interview by author.

far exceeded the accumulated financial resources and influence of the southern bank holding companies.[159] Two Atlanta banking attorneys who drafted the interstate banking legislation for Georgia in participation with attorneys from the other southern states commented in 1985 about a fear of takeover by money center banks that was shared by southern banks: "No southeastern financial institution could at present resist the economic power of money- center banks. A very real fear exists that nationwide interstate banking would spell the end of major regional institutions."[160] It seems that the cultural desire to preserve some southern banks was an important driver toward regulatory changes in the South.

Coincidentally with the cultural urge to protect and preserve southern banks, there were a number of very real economic and technological changes that were occurring in the industry and driving the desire on the part of bank managements for regulatory change so that their banking companies would be able to sustain their desired growth rates in market share and profitability. The Depository Institutions Deregulation and Monetary Control Act of 1980 began a phase-out of previously prescribed interest rate ceilings on time and savings deposits. While this regulatory change benefited customers by allowing financial market forces to price the interest rates to be paid on savings accounts, the change came at a time when interest rates were very high, and the greater cost of money strained bank profitability.[161] Also, non-bank competitors, like Merrill Lynch and other brokerage firms, had created money market mutual fund accounts as an effective competitor to bank savings accounts, and bank deposits were

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[159] *Florida Financial Institutions – Banks and Bank Holding Companies, 1983 Edition*, p. 16.
[160] Daniel B. Hodgson. and John L. Douglas, "Georgia Legislation: Interstate Banking," Georgia State Bar Journal, Vol. 20, No. 4, (1984), p. 186.
[161] Polski, p. 80.

being drained from the banking system to the extent of several billion dollars.[162] As a result, Congress passed the Garn-St.Germain Depository Institutions Act of 1982 that accelerated the pace of deregulation on interest rate ceilings and created a new type of money market bank depository account that allowed banks to be more competitive with brokerage firms.[163] However, the net effect to banks of the deregulation of interest rates was an increase in the cost of deposit funds and pressure on sustaining growth in profitability.

In addition to the pressure of higher funds costs, banks were beginning to experience more direct competition from less-regulated credit unions and savings and loan associations (S&L's). In Georgia and other states with branching limitations, S&L's were operating under federal charters that permitted "unlimited statewide branching," providing them with what bankers described as "an unfair competitive advantage."[164]

In the 1970s technological advances like the ATM and information technology systems began to change the manner in which customers interacted with their banks. ATM networks allowed bank customers in one state to be served in another state or even a foreign country. Economists Jith Jayratne and Philip E. Strahan suggest that these new technologies in deposit taking and lending encouraged the elimination of geographic boundaries to banking.[165] These advances influenced bankers and bank regulators in the South and elsewhere to consider elimination of geographical restrictions at county

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[162] Shull and Hanweck, pp. 92-93
[163] Larry A. Frieder, ed., Commercial *Banking and Interstate Expansion – Issues, Prospects and Strategies* (Ann Arbor: UMI Research Press, 1987) p. 1.
[164] Georgia Bankers Association, "History and Impact of Branching Restrictions," 1984, p. 2, a position paper in the archives of the Georgia Bankers Association, Atlanta, Georgia.
[165] Jith Jayratne and Philip Strahan, "The Benefits of Branching Deregulation," *Economic Policy Review,* #4, (1997), Federal Reserve Bank on New York, p16.

and state levels, as a convenience to customers, but also as an opportunity that would allow banks to diversify risk and increase profitability through additional market options.

Whereas in the early twentieth century, bank regulators seemed to believe a broad geographical distribution of bank offices might increase risk of failure, in more recent years many economists and other academics have argued that geographical and product restrictions on banks and other financial institutions may have actually increased the risk of declining profitability or even bank failure in an era of economic downturn. Jayratne and Strahan have expressed this opinion: " Previous research has suggested that geographic restrictions destabilized the banking system by creating small, poorly diversified banks that were vulnerable to bank runs and portfolio shocks."[166] Their research spanning a time frame from 1978 to 1992 indicates that bank loan losses, in fact, decreased in states after branching laws were deregulated.

Arguably, the two-two-tiered structure of federal and state regulation of banking has resulted in slower regulatory response to economic and technological changes in the industry. Economist Margaret Polski has observed that the United States banking system is highly fragmented and much more diffused than the banking systems of other advanced economies in the world. One result is that the U. S. has a much higher number of banking institutions than most nations have.[167] Although the number of banks in the U.S. in 2005 was approximately half of the number of banks that operated in the country when interstate banking deregulation began, and a fourth of the number of banks that operated in the U.S. in the early 1920's, a large number of banks still existed. The

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[166] *Ibid.* p. 13.
[167] Polski, p. 49.

number of commercial banks in the U.S. grew and then decreased over the course of the twentieth century, as bank expansion and consolidation occurred.

Table 3

Number of Commercial Banks in the U.S.
1800 to 2005 [168]

YEAR	NUMBER OF BANKS
1800	30
1830	330
1860	1,562
1890	10,039
1920	30,395
1933	13,235
1960	13,462
1970	13,511
1980	14,434
1984	14,496
1994	10,452
1999	8,580
2005	7,549 [169]

As Table 3 reflects, the number of banks substantially decreased in the early 1920s in a period of general business consolidation and during the years of the

[168] Shull and Hanweck, Table 3.1, p. 47 and Table 5.2, pp. 124-125. The authors identify the source of the data for the years 1800 to 1830 as Bray Hammond, *Banks and Politics in America* (1957), and for the years 1860 to 1960 as Historical *Statistics of the U.S. Colonial Times to 1857*, Part 2 (1960) and the Board of Governors of the Federal Reserve System, and the FDIC for the years 1970 to 1999.
[169] http://www2.fdic.gov/sod/sodSumReport.asp?barItem=3&sInfoAsOf=2005.

Great Depression, when many banks did not reopen. The series of interstate bank mergers that resulted from liberalization of interstate banking laws accounts for the preponderance of the recent reduction in the number of banks in the U.S.

Although a few interstate banking companies in the upper Midwest and the West were grandfathered through the passage of the Bank Holding Company Act of 1956, no new interstate banking activity occurred until 1975 when the State of Maine passed the nation's first reciprocal banking legislation under the terms permitted by the Douglas Amendment to the U.S. Bank Holding Company Act. Maine's statute provided that banks headquartered in other states could branch into Maine through their bank holding companies, provided that the home state of the branching bank holding company offered reciprocal privileges to bank holding companies incorporated in Maine. In 1982 the State of New York also passed a nationwide reciprocal banking law.

In 1982 and 1983 Massachusetts and Connecticut enacted novel legislation in the form of the first regional interstate compact. The Massachusetts law allowed banks in Connecticut, Rhode Island, New Hampshire, Maine and Vermont to acquire banks in Massachusetts, as long as those states' laws provided reciprocal privileges for Massachusetts banks and bank holding companies. Subsequently, Bank of New England Corporation in Massachusetts and CBT Corporation of Connecticut agreed to merge, and the merger was approved by the Federal Reserve Board. Then, Hartford National Corporation and Arltru Bancorporation of Massachusetts and later Bank Boston Corporation and Colonial Bancorp of Connecticut also agreed to merge and sought and received Federal Reserve approval. Roderick M. McDougal, then Chairman of Bank of New England Corp., explained that the New England banks were attempting "to fend off expansion by large financial houses in New York City,"[170]

In 1984 Northeast Bancorp, Union Trust Company of Connecticut and Citicorp, then the largest bank holding company in the country and headquartered in the neighboring state of New York, sued the Federal Reserve to disallow these mergers and declare the enabling reciprocal interstate banking statutes of Massachusetts and Connecticut to be unconstitutional on the basis of violations of the Commerce and Compact Clauses of the U.S. Constitution and in denial of equal protection of law under the Constitution. In June of 1985 the Supreme Court of the United States denied the petition of these banks, ruled that the New England interstate compact was permissible and thereby legitimized this and other such regional banking compacts.[171]

The 1985 Supreme Court decision was well received in the South where several southern states were already in the process of finalizing a like-type regional banking compact. For more than a decade banking and governmental leaders had been strategizing a Regionalist approach to enhance the economic development of the South. As the concept of Regionalism gained support, business and community leaders began to meet and develop action plans to improve the economic and educational positioning of the South. Intellectual leaders from several southern states organized the L.Q.C. Lamar Society, which, in turn, influenced the formation of the Southern Growth Policies Board, a still extant and important think tank on issues facing the South. Historian Numan Bartley reports on this development: " In 1969 political leaders, professional people, businessmen and educators from twelve southern states created the L.Q.C. Lamar Society

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[170] Covington and Ellis, p. 191.
[171] 472 US 158 (1985).

to encourage a more cautious and better-planned approach to economic growth and regional change. The Lamar society inspired the formation of the Southern Growth Policies Board."[172]

Terry Sanford, the governor of North Carolina from 1961 to 1965 and later a president of Duke University, was one of the most influential thought leaders in the formation of the Board. In an explanation of his proposed approach to dealing with the issues then facing the South, Sanford expressed his Regionalist philosophy:

> Let us develop our own cooperative approach among the southern states, using the familiar interstate compact as our means, much as we developed the Southern Regional Educational Board to look at our competitiveness needs in higher education….A regional approach is desirable. No state can take the necessary steps alone. We are too interrelated and, in a sense, states are too competitive.[173]

The vision of Sanford and other southern leaders came into being in 1971 when the Southern Growth Policies Board was organized by the governors of nine southern states as a non-partisan public policy think tank, appropriately based in Research Triangle Park of North Carolina.[174]

In 1980 the Southern Growth Policies Board convened the Commission for the Future of the South, a task force that was charged with developing a plan for improving the economic prospects of the region over the decade of the 1980s. Representatives included 22 governmental, educational, civic business and banking leaders from 13 southern states and Puerto Rico. Among the governmental representatives were Former Florida Governor Leroy Collins, and then U.S. Representative Al Gore, Jr. of Tennessee and then state senator and future Georgia

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[172] Bartley, The *New South 1945 – 1980,* p. 443.
[173] Terry Sanford, *The End of Myths: The South Can Lead the Nation*, ed. H. Brandt Ayers and Thomas H. Naylor (New York city: McGraw-Hill Book Company, 1972), pp. 323-324.
[174] http://www.southern.org/main/about/shtml

governor, Roy Barnes. Prominent among the bankers was Thomas Storrs, CEO of North Carolina National Bank.

Evidently, the executives of NCNB deemed it to be rather important for their banking company to be represented in this forum. A history of NCNB and its immediate successor, NationsBank, reports on Storr's personal involvement on this commission that subsequently adopted a policy in support of a regional banking compact:

> NCNB lobbyist Mark Leggett enlisted the support of North Carolina governor Jim Hunt, who appointed Storrs to the economic task force of the Southern Growth Policies Board. Together they maneuvered a recommendation through the Board's Commission on the Future of the South whose report was the first endorsement of the idea by an official body outside of the financial industry.[175]

The Commission recognized the trends toward nationwide interstate banking in its findings: "Changes in federal laws to allow interstate banking seem likely during the 1980s. The region's banks need to prepare for this eventuality to protect their competitive situation and at the same time assure a supply of money for expansion of trade and industry."[176] The task force recommendations laid the foundation for the Southeastern Regional Banking Compact and the legislation that eventually was passed by the legislatures of most southern states between 1984 and 1985. The report advocated: "As a precursor to interstate banking, the southern states should develop reciprocal banking agreements within the region as permitted under current federal law with an eye toward the eventual development of regional, mutibank holding companies." The report also recommended that state banking laws should be amended to permit statewide branching of commercial banks, savings institutions and credit unions.[177]

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[175] Covington and Ellis, p 156.
[176] Pat Watters, ed., p 30.
[177] *Ibid.* p. 31.

Commission member Roy Barnes of Georgia comments on the very influential role of NCNB CEO Tom Storrs on the commission report. Barnes relates:

> Tom Storrs opened my eyes to a lot of things. He and Jim Hunt were big friends. Jim was governor of North Carolina when I was governor. Storrs started this dialog about the capital starvation of the South since the Civil War. He said the capital currency before the Civil War was cotton. After the Civil War, he said it was poverty…..He said if we were ever to come out of that, and to control our own destiny and not have it controlled by Northeastern bankers or Midwestern bankers, we had to create some system to allow the collective capital in the Southeast to be assimilated and to grow large enough to compete. It was really the genesis of the interstate banking compact….Let me just tell you this. Storrs ran the deal. He took over.[178]

Clearly, Storrs and the executives of NCNB were leaders in guiding regional interstate banking from the very beginning of the concept. A history of NCNB and NationsBank reports how Storrs' advocacy of interstate banking was influenced by Guy Botts, a former CEO of Barnett Banks of Florida, which was that states' largest bank holding company. According to this account, Botts and Storrs visited together at a 1978 meeting of the Association of Reserve City Bankers, and Storrs learned from Botts that compacts could be designed to allow for regional interstate banking. Consequently, NCNB introduced legislation in the 1979 session of the state legislature that would have allowed reciprocal regional interstate banking, but the bill failed to gain sufficient support and was not voted out of its assigned legislative committee.[179]

In spite of Guy Botts' and Barnett Bank's interest in interstate banking, a bill introduced in the Florida legislature in 1982 met a fate similar to the proposed North Carolina reciprocal banking law. That bill did pass out of one chamber of the legislature but failed to pass the state Senate.[180] The Florida legislation also had the strong support

[178] Roy E. Barnes interview by author.
[179] Covington and Ellis, p. 153.
[180] Frieder, p. 8.

of then Governor Bob Graham, who at the same time was serving as Chairman of the Southern Growth Policies Board. Reportedly, Governor Graham advocated for a "Southern Common Market."[181]

By the time that the Florida legislature began to engage in the debate about regional interstate banking, NCNB had already gained entry into Florida through its 1972 acquisition of Orlando-based Trust Company of Florida. The timing of NCNB's purchase of this state chartered trust company was fortuitous because the Florida legislature closed the loophole that had allowed this out-of-state purchase of a Florida trust company only one week after the NCNB acquisition, but the new law allowed NCNB and two other out-of-state bank owners of Florida trust companies to retain their trust subsidiaries, that had been chartered as banks in that state and thereby maintain a banking foothold that later proved to be very valuable to them. [182]

In 1981 NCNB organized an internal task force to find ways to expand its business opportunities across state lines. NCNB chief attorney, Paul Polking, examined the Florida statute that had closed out future interstate acquisitions in 1972 and concluded that NCNB's grandfathered trust company status in Florida provided them with a bank charter and the opportunity to acquire other Florida banks under that state's bank holding company laws. In 1982 NCNB contracted to acquire a small north Florida bank, First National Bank of Lake City, and the Federal Reserve Board approved the purchase. Shortly after the Lake City deal, also in 1982, NCNB expanded its new Florida franchise by acquiring Gulfstream Bank of Boca Raton, Exchange Bank and Trust Company of Tampa and the Downtown Bank of Miami, ramping up NCNB's scope of banking

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[181] Covington and Ellis, p 194.
[182] *Ibid*. p. 157.

business in Florida to more than $2 billon in banking assets. In 1983 NCNB acquired Ellis Banking Corp., which operated on the west coast of Florida. Also in 1983 Chemical and Citicorp tried to influence the Florida legislature to change the state's interstate banking laws to allow an interstate reciprocal arrangement so that New York banks would also be able to enter the lucrative Florida banking market, but the legislation failed to pass.[183]

In anticipation of an eventual change in interstate banking laws several banks in the Southeast entered into what banking attorneys Dan Hodgson and John Douglas have labeled as "stake-out" arrangements. They defined these agreements as "relationships between aggressive bank holding companies and their preferred acquisition targets or merger partners, combining limited investment in common stock with substantial investment in preferred or non-voting common stock… to create the impression of an alliance that will be consummated once laws permit."[184] Three of these stake-out arrangements involved southern banks. In 1982 Trust Company of Georgia, South Carolina National Bank and AmSouth of Birmingham, Alabama cross invested $2 million in each other in the form of non-voting, nonconvertible, cumulative preferred stock, subject to redemption. In a second transaction in1983, First Atlanta Corp. and Southeast Banking Corp. of Miami entered into an agreement to cross invest in the common and preferred stock of each other's companies. Southeast needed funding to purchase approximately one quarter of its holding company stock from two outside investor groups and arranged for Norfolk Southern Corp. and First Atlanta Corporation to make equity investments in Southeast in order to provide the needed funding. Southeast

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[183] *Ibid.* p. 193.
[184] Daniel B. Hodgson and John L Douglas, "Interstate Banking Comes to Georgia," The *Atlanta Lawyer,* (Summer, 1984), p. 9.

also agreed to make a cross investment in First Atlanta stock at a later time.[185] Former First Atlanta executive Paul Hill comments on the Southeast investment:

> We had an interesting situation.. Southeast was struggling because this was a time when the Miami market had gotten overheated in real estate. Southeast was having some problems….There was a block of stock of Southeast Bancorp; I don't remember who owned it, but they were looking to sell it….Norfolk Southern basically purchased five per cent of Southeast Bancorp. Subsequently, First Atlanta acquired that from them. That was perfectly legal because under the Bank Holding Company Act, you could. As long as you owned less than five per cent, it was all right.[186]

In addition to these two intra-regional agreements, in the early 1980s, Chemical Bank of New York arranged for an investor group to purchase a block of stock in Florida National Bank that Southeast Banking Corp. had acquired in an earlier "unfriendly " takeover attempt of Florida National. A settlement agreement allowed Chemical Bank to acquire $14 million in nonconvertible cumulative preferred stock with limited voting rights and a grant of warrants in Florida National Bank along with an option to purchase up to 52 per cent of a subsidiary bank, Florida National of Miami, if and when interstate banking laws allowed the purchase.[187]

As various interviews and written accounts of the development of the regional interstate compact indicate, the chief executive and chief financial officers and other executive officers of the major southern bank holding companies pursued discussions among themselves about the desirability for and possibilities of interstate mergers. Southern bankers were intent on facilitating intra-regional banking combinations before full national interstate banking occurred. In a 1985 essay on regional approaches to interstate banking, Federal Reserve Bank economist Robert Eisenbeis (who was then

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[185] *Florida Financial Institutions – Banks and Bank Holding Companies 1983 edition*, p. 86.
[186] Paul D. Hill interview by author.
[187] *Florida Financial Institutions*, p. 19.

banking and finance professor at the University of North Carolina), comments on the intent of the southern banks in moving toward a regional compact in a 1985 essay on regional approaches: "The main advantage of this policy of regional reciprocity would be to preserve regional control of banking companies and permit the major organizations within the region to grow to a size to compete with money center organizations….Regional reciprocity would also permit firms to expand their representation in natural markets with cross state boundaries."[188]

A key meeting occurred in late August of 1983 when representatives from the major banks and the state banking associations convened at the Atlanta Marriott Airport Hotel for a two-day symposium on the subject of "Will Conventional Interstate Banking Occur in the Southeast in the 80s?"[189] Interestingly, the letter of invitation came from Gordon W. Campbell, Vice Chairman of the newly organized NCNB National Bank of Florida and formerly the head of Exchange Bank and Trust Company of Tampa, which NCNB had acquired just the previous year. Campbell was serving as a convener of the meeting in his capacity as that year's president of the Florida Bankers Association.

At the meeting several prominent guest speakers moderated discussions that included a perspective on interstate banking in the South by then Atlanta Fed President, William Ford; a Washington perspective presented by a Georgia and a Florida member of the U.S. House of Representatives, both of whom served on the Banking Committee of the House; and a discussion on the New England Banking Compact, chaired by Roderick

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[188] Robert A Eisenbeis, "An Analysis of Regional Approaches to Regional Banking," *Commercial Banking and Interstate Expansion – Issues, Prospects and Strategies* ed. Larry Frieder, et. al. (Ann Arbor: UMI Research Press, 1985), p. 52.

[189] Letter of Invitation, Agenda, Registration List and various assigned reading materials for the conference are in the archives of the Georgia Bankers Association, Atlanta, Georgia

McDougall, Chairman of Bank of New England, whose plan to merge across state lines with a Connecticut bank holding company was challenged in the U.S. Supreme Court.

Dr. Jesse White, Executive director of the Southern Growth Policies Board, also spoke at the conference as an advocate of the position of his Board on the issue of interstate banking as it had been reported by the 1980 Commission for the Future of the South. At the conference White presented a report prepared in November of 1982 by a Southern Regional Banking Committee, that had been appointed by then SGPB chairman, Governor Bob Graham of Florida. This committee consisted of 17 members from 9 southern and border states, and the committee was dominated by 9 bankers, including regional interstate banking advocates Tom Storrs of NCNB, Charlie Rice of Barnett Banks and Lee Sessions, Executive Vice President of C&S National Bank in Atlanta. The 1982 committee report called for a regional interstate banking compact and removal of state bank branching restrictions, consistent with the recommendations of the 1980 Commission.[190]

Essentially all of the leading banks in the Southeast were represented at the August 1983 conference in Atlanta. According to the attendance roster, 111 very senior bankers from Alabama, District of Columbia, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia and West Virginia and representatives of their state banking associations were all present. Attendees included most of the leaders of the largest banks in the South, including Charlie Rice of Barnett Banks, Joel Wells of Sun Bank in Orlando, Jack Uible of Florida National, Billy Walker

[190] Alton "Bud" Skinner, "Report of the Southern Regional Banking Committee to the Executive Committee of the Southern Growth Policies Board," November 14, 1982, Archives of the Georgia Banking Association, Atlanta, Georgia.

of Atlantic Bank in Jacksonville, Bob Strickland of Trust Company of Georgia, Bennett Brown of C&S, John McNair of Wachovia and Ed Crutchfield of First Union in Charlotte. Ed Crutchfield comments on the purpose of this meeting and his assessment of the need for it:

> We had a balkanized banking system in America forever. It prohibited anybody from being outside their own state….We had an artificial constraint, or a constraint on, essentially, the free market. Now all of a sudden New York banks want to say "Let's throw it all open immediately." My notion is that we have been like fish who have been restricted to a little creek and only allowed to grow to a certain size. By happenstance, in this case of New York, they have grown to a great big size. If you want a healthy pond you don't turn a six pound trout loose on fingerlings...The argument, the feeling, the reason and the sentiment of that conference was to say, we are okay with eventually letting the big eat the small, but let's don't just go from one hundred years of totally balkanized, restricted one-state banking on Monday to Tuesday saying anything goes.
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> We had been undercapitalized since about 1860. It took us one hundred years to get over that. It wasn't just twenty years of Reconstruction. It lasted all the way through the 1800s until well after World War II. Really, the purpose of the meeting was "let's go back and get our state legislatures to ratify this pact."[191]

Paul Hill, who at the time of this conference was Executive Vice President and Chief Financial Officer of the First National Bank of Atlanta, was also an attendee at the meeting and comments on the purpose of the meeting from his perspective and explains why bankers from several smaller banks were invited to the conference:

> It was an attempt to interest these folks who had the most influence within the Georgia Bankers (Association) to get unified on a position…. It was principally the idea of simply encouraging people at all levels of banking in Georgia to think about the advantages that the interstate compact might bring and to get a broader groundswell of support beyond just the Atlanta banks….You (also) needed to get a groundswell of support in some of these other states.[192]

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[191] Edward E. Crutchfield, interview by author.
[192] Paul D. Hill interview by author.

Evidently, the Atlanta Airport conference served its intended purpose, because soon after that meeting a team of lawyers, mostly representing the larger Georgia and North Carolina banks, began a cooperative working arrangement that facilitated the preparation of banking legislation that would be sufficiently consistent among the southern states to allow the proposed regional compact an opportunity to work. The attorney working group was composed of in-house counselors, Paul Polking of NCNB, Marion Cowell of First Union, and Ralph Strayhorn of Wachovia, Tom Caldwell, the General Counsel for the Florida Bankers Association, the South Carolina banking commissioner and private practice attorneys Dan Hodgson and John Douglas of Alston and Bird, who often represented C&S National Bank of Atlanta and occasionally worked for the Georgia State Department of Banking. When asked how he became involved, Douglas reported: "The Southern Growth Policies Board left it to the banks to figure out how to get it done. Jack Dunn (the State of Georgia Commissioner of Banking and Finance) turned it over to Dan Hodgson; Dan was semi- retired….I worked for Dan, and it ended up on my desk. ….It was an iterative process of drafting and exchanging drafts among the various bank attorneys."[193]

Douglas was the primary draftsman of the Georgia legislation, which was the first state to pass the Southeastern Regional Banking Compact in February of 1984.[194] According to Douglas, once the attorneys representing banking organizations in Georgia, Florida, North Carolina and South Carolina had established a consistent legal framework that accommodated the needs of those four states, it was easier to get other states like Alabama, Tennessee and Virginia to agree to the same basic provisions of the

[193] John L Douglas interview by author by telephone, 6 March 2006, Atlanta, Georgia.
[194] Hodgson and Douglas, "Interstate Banking Comes to Georgia," p. 8.

legislation. If they wanted "to play," their state legislatures essentially had to adopt the language of the Georgia model legislation.[195]

Douglas has also indicated that a collaborative effort was needed inside the State of Georgia to facilitate passage of the legislation that was being drafted. Georgia Governor Joe Frank Harris appointed a small committee of lawyers to provide input on the proposed Georgia bill to work cooperatively with Jack Dunn, the state banking Commissioner and Bob Mohler, his Deputy Commissioner. Dan Hodgson chaired the group that also included attorney Stell Huie who represented the Georgia Bankers Association, Jerry Harrell of Macon who represented the Independent Bankers Association and Rusty Sewell, Executive Counsel to Governor Harris. According to Hodgson and Douglas, Governor Harris charged the group with the primary mission of "drafting the best regional bill possible."[196]

In late 1984 Georgia's influential banking commissioner facilitated the passage of legislation to permit regional interstate banking. On December 20, 1983 Banking Commissioner E. D. "Jack" Dunn wrote a letter to Representative Frank Pinkston, who then was serving as Chairman of the House Banks and Banking Committee and was himself a trust banker with C&S National Bank in Macon, in which Dunn implicitly, and with amusing analogy, indicates his general support for the proposed new legislation. Dunn wrote:

> The majority view both within the industry and from outside observers appears to be that interstate banking as conceived by the Department at this time does not pose a significant real threat to any person or financial institution….Certainly, the more cautious regulatory view must hold that a gradual, evolutionary expansion is always desirable and that regional interstate would allow institutions to grow into a multi-state operation

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[195] John L. Douglas interview by author.
[196] Hodgson and Douglas, "Georgia Interstate Banking Legislation," p. 187.

> reasonably close to home in a cultural-economic-business climate with which they are familiar….Not unlike the aspiring young boxer who wants to try for the championship some day, our state's institutions need to be given time to develop their skills and financial resources to stand a chance when the bell does ring to begin the big fight.[197]

Lee Sessions, a former senior executive of C&S National Bank, worked closely with Commissioner Dunn to provide him with plentiful banking industry information in favor of regional interstate banking. Sessions comments on his relationship with Commissioner Dunn in the era in which Georgia was considering a change in its banking laws to permit the regional banking compact:

> I did a lot of work with Dunn. We never would have had any of these laws without Jack….One of the things I spent a lot of time on…. I took white paper after white paper to Jack, and Jack would use that unbeknownst to anybody else. He would use that for all of his arguments and legal background.[198]

Banking association executive Joe Brannen also comments on Dunn's leadership and influence in passing the regional compact law in Georgia, as Brannen recognizes Dunn's role in comforting other southern state banking regulators with the concept of a regional compact. Brannen comments: "Jack was very active with the conference of State Bank Supervisors that had always been viewed as an anti-expansionary organization, but Jack, very much behind the scenes, spent an awful lot of time with his counterparts in other southeastern states talking about post-acquisition regulatory structure."[199] Evidently, Dunn was very helpful in allaying their concerns about the proposed changes in banking law.

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[197] E.D. Dunn, letter to Frank C. Pinkston, December 20, 1984, p. 2, Document Files of the State of Georgia, Department of Banking and Finance, Atlanta, Georgia.
[198] Lee M. Sessions interview by author, tape recording, Atlanta, Georgia, 16 March 2006.
[199] J. Joseph Brannen interview by author, tape recording, Atlanta, Georgia, 27 September 2005.

Still, opinion in Georgia was divided. Many of the smaller independent bankers opposed the new legislation, and even Bob Guyton, CEO of Georgia' fourth largest bank, Bank South in Atlanta, wrote the Georgia Bankers Association opposing the bill as "premature."[200] Because of a split in opinion among its membership, the GBA stayed in a neutral position regarding the proposed change in law. On the other hand, a Georgia Bankers Association Bulletin, dated January 19, 1984, indicated that Governor Joe Frank Harris, then Lieutenant Governor Zell Miller and speaker of the House Tom Murphy all supported the bill. The bulletin states: "The three officials endorsed the concept as one which would lead to further growth and development of Georgia as the financial hub of the Southeast."[201]

Former Georgia Governor Roy Barnes explains how two Georgia governors, George Busbee and Joe Frank Harris supported the 1984 legislation. When discussing Busbee's role in positioning the regional banking compact for approval in Georgia Barnes states: "Really, the Southern Governors Association was pushing this. About that time, Busbee was chair of the National Governors Association, and it became a big thing for him. In Georgia Busbee was the impetus in getting it (the regional compact) passed."[202] Barnes also reports that he was a floor leader for Governor Harris when the regional banking compact bill was introduced. He reports: "Governor Harris was for it. By that time there had been two or three years to get used to it. He was a proponent."[203]

Representative Pinkston introduced the regional banking compact legislation in the second week of Georgia's 1984 legislative session. This bill amended the state's

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[200] Robert Guyton, letter to Joe Brannen, Executive Director of the Georgia Bankers Association, January 9, 1984, Archives of the Georgia Bankers Association, Atlanta, Georgia.
[201] GBA Bulletin, January 19, 1984, p. 1. Archives of the Georgia Bankers Association, Atlanta, Georgia.
[202] Roy Barnes interview by author.
[203] *Ibid.*

bank holding company law to authorize the commissioner of banking and finance to approve acquisitions by a Georgia bank holding company of a Southern Region bank holding company or by a Southern Region bank holding company of a Georgia bank holding company. The Southern Region included the states of Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, and Virginia. West Virginia and the District of Columbia which had been earlier participants in the regional compact discussions were not included, but Kentucky was. Under the new law, a qualifying Southern Region banking company had to have its principal place of business in a Southern Region state and had to have total deposits in the Southern Region in excess of 80 percent of total deposits of holding company-owned banks. The new law was to be effective July 1, 1985, or by January 1, 1985, if any two contiguous states enacted reciprocal legislation by the earlier date.

Pinkston's bill passed the House by a vote of 125 to 46, and the Senate passed the bill soon thereafter by a vote of 43 to 11.[204] Senator Hine from Rome, Georgia, proposed an amendment to trigger full interstate banking in three years , but it was overwhelmingly defeated.[205] Following the approval of the Southern Compact by several states in 1984, New York banks began to lobby at the American Bankers Association and in Congress for a five-year trigger provision for full national interstate banking, but their efforts failed at that time.

In the months immediately following the passage of the Georgia version of the regional interstate banking compact, three other southern states enacted essentially the

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[204] *Journal of the House of the State of Georgia at its Regular Se*ssion , 1984, p. 997, and *Journal of the Senate of the State of Georgia at its Regular Session,* 1984, p. 1507.
[205] *Journal of the Senate*, 1984, p. 1505.

same law. In May the Florida legislature passed a similar regional compact bill with the strong support of Governor Graham and the Florida Bankers Association. The Florida law varied slightly from the Georgia law by including Arkansas, Maryland, West Virginia and the District of Columbia in the bill but eliminating Kentucky. Like the Georgia legislation, the Florida law required that 80 percent of the holding company deposits be in the defined southern states.[206] South Carolina also passed the new banking law the Spring of 1984, but it was not to become effective until July, 1986.

Initially, North Carolina was not expected to be able to enact a new banking law until the 1985 session of its legislature, because of certain bi-annual legislative activity limitations, and, surprisingly NCNB Corp. objected to the new Georgia law, as was reported in the *Wall Street Journal* in February 1984. The reporter speculates that since North Carolina was not expected to be able to offer reciprocity to Georgia banking companies until 1985, "NCNB fears that by the time North Carolina passes a regional-banking law, the best opportunities to expand into the Georgia market will have been snapped up."[207] Through a change in processes the North Carolina legislature passed a reciprocal interstate banking bill on July 7, 1984, allowing NCNB and the other North Carolina banks to participate early in the expected merger activity. When asked if there was any difficulty in passing the bill through the North Carolina legislature, Wachovia's John Medlin responded: "Once the governor got on board, the House, the Speaker of the House – I think there was never any controversy about it in North Carolina."[208]

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[206] Frieder, p. 10.
[207] Martha Brannigan, "Georgia Seen Passing Bill that May Spur Debut of Regional Banking in Southeast," *Wall Street Journal*, February 13, 1984, p. 8.
[208] John G. Medlin interview by author.

Even though the passage of the new regional compact legislation in four southern states triggered the earlier implementation date of January 1, 1985 for Georgia, the Northeast Bancorp/Citicorp lawsuit challenging the constitutionality of regional banking compacts slowed down the merger activity. While many discussions were taking place, most banking companies were waiting for a U.S. Supreme Court ruling on this issue. When asked if the lawsuit had slowed the process of southern banks talking with each other about possible interstate mergers, former First Atlanta executive Paul Hill replied: "Talks went on. There was every expectation that it was going to get resolved. It was never a factor that slowed things down."[209] However, the lawsuit was delaying the actual implementation of any possible mergers.

On June 10, 1985 the Supreme Court dismissed the Northeast Bancorp/Citicorp challenge to regional banking compacts and allowed the New England interstate mergers to proceed. Former Wachovia CEO John Medlin comments on the implementation delay caused by the lawsuit: "Well, you really couldn't do very much because there was a suit that challenged it…. We kind of laid back. Some conversations were going on, and we just sort of tea-talked until I guess that Monday in June 1985 we got word that the Supreme Court had approved the interstate compact."[210] A few months after the lawsuit was settled, John Medlin was quoted more vividly in a banking newspaper article: "After that ruling, all of us felt like a kid in a candy store….You try to get as much as you can eat."[211] The feeding frenzy was about to begin.

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[209] Paul D. Hill interview by author.
[210] John G. Medlin interview by author
[211] John G. Medlin, "In Terms of Regional Banking in the Southeast, Florida's Loss Has Been North Carolina's Gain," *American Banker,* October 9, 1985, p. 3.

CHAPTER FIVE

THE IMPLEMENTATION OF INTERSTATE BANKING

As southern banking companies began to arrange interstate mergers, the types of combinations differed in the manner in which they were characterized to the public. An arrangement which some bankers called "a merger of equals" seemed to differ from the more conventional buy-out and absorption of the acquired bank's identity into the structure of the acquiring bank. Banking journalist and historian Richard Gamble explains the subtle difference, although he acknowledges that mergers of equals were considered by some bankers to be only "partnership charades":

> There are two philosophical approaches at work: the merger of equals and the conventional buy-out. The majority of interstate expansions have been conventional, with some variations in the degree of centralization. NCNB, First Union, C&S, Sovran, United Virginia and Bank of Virginia have all extended their franchises with standard acquisitions, and NCNB and Sovran have renamed their conquests….But the two financially strongest companies, SunTrust and First Wachovia, are new "partnership" corporations with carefully shared power.[212]

In the merger of equals model, some of the consolidation issues, such as the surviving name, the headquarters city, the management structure and the designation of the chief executive officer were more problematic to resolve. The largest merger of equal combinations concluded with combination names, SunTrust and First Wachovia, and in the case of First Wachovia, Winston-Salem and Atlanta were both designated as dual headquarters cities.

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[212] Richard A. Gamble, "Opening Moves: the Curtain Rises on Interstate Banking," *The Southern Banker* (October, 1985), p. 20

The first significant southern banking combination announced was the union of Trust Company of Georgia and Sun Banks, Inc. of Orlando, Florida, labeled as a merger of equals to operate under the new name of SunTrust Banks, Inc. This merger, announced in November of 1984, was the only significant combination that was both announced and approved by banking regulatory authorities before the Supreme Court ruling in the Northeast Bancorp case. John Spiegel who was then Executive Vice President and Treasurer of Trust Company explains how this merger developed:

> We had some feelers out through investment bankers and so on, into the Carolinas, into Alabama and west and into Florida. Joel Wells, who was the chairman, was very, very forward thinking….He didn't have to be CEO. He had in Florida a high growth situation, but he did not have much capital. Trust Company had a lot of capital and a slower growing market to the extent we couldn't employ the developing capital base, so the two were a natural fit. They had a need for capital, and we had the capital. They did not care where the headquarters was or who was the CEO. Our management did, and so it came together pretty easily.[213]

Fairly soon after the closing of Sun Banks - Trust Company combination in June of 1985, the new SunTrust announced an acquisition of Third National Bank of Nashville, Tennessee in December of 1986. When asked about the motivation behind this next decision, Spiegel replied:

> Trust Company of Georgia had always been very close to American National Bank in Chattanooga. Scotty Probasco and the Coke bottling group, the Luptons, everybody, and we had been correspondent bankers for them….Scotty Probasco and the American National team had merged with Third National….So Scotty was very instrumental in making sure that Trust Company people and Third National people got to know each other well and so on. Really, in effect, he kind of brokered the situation.[214]

SunTrust then made no other major interstate bank acquisitions for approximately ten years after consummating these two deals.

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[213] John W. Spiegel, interview by author.
[214] *Ibid.*

The second merger of equals arrangement between Wachovia Corporation and First Atlanta Corporation was announced in mid-June 1985, just one week after the Supreme Court ruling ratified regional banking compacts. However, Wachovia had to overtake a competing offer from NCNB to combine with First Atlanta Corp. Securities analyst and writer John B. Moore, Jr. explains the appeal of First Atlanta to the two North Carolina banking companies. He writes: " Georgia may be more attractive because of the highly concentrated Atlanta Market….It is the biggest and fastest growing market in the Southeast."[215] Former Wachovia CEO John Medlin comments on Atlanta's strategic importance to Wachovia's plans:

> Atlanta was our number one – the biggest place in the Southeast…. We became aware sometime in the spring of 1985 that NCNB had the same interest in Atlanta that we did, and particularly in First Atlanta. Some conversations got going, and we just tea-talked until I guess that Monday in June 1985, we got word the Supreme Court had approved the interstate compact. I called Tom Williams and said "Do you want to talk?" [216]

Interestingly, Medlin relates another story about how he also had a discussion with Bob Strickland, CEO of Trust Company of Georgia in Atlanta, about a potential merger at the time SunTrust was being formed and before he entered into the arrangement with First Atlanta. Wachovia's reluctance to join into this new combination in the earliest days of the compact is perhaps indicative of the cautious conservatism of Medlin and Wachovia:

> I got a call from Bob Strickland one Saturday afternoon to tell me he and Joel Wells had just shaken hands on a deal to merge when interstate banking became legal. Didn't I want to join them? He said he didn't care who runs it; you can run it. I said … "We better not say we are interested." ….You weren't sure what you were getting into with Sun and Trust….

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[215] John B. Moore, Jr., "Regional Banks & Southern Markets," *The Southern Banker* (October, 1985), p. 24.
[216] John G. Medlin interview by author.

> There would be no questions about Trust Company for us. The fact that Sun was a Florida bank and had been put together fairly quickly over a relatively short time. We weren't sure what we were getting into there.[217]

Apparently at the same time Wachovia and NCNB were eyeing First Atlanta, that bank was studying combinations with those and other banks. The May 14, 1985 minutes of the Board of Directors of First Atlanta Corporation state: "The chairman (Thomas R. Williams) reported on the legal and legislative status of regional banking laws, the company's policy for external growth and discussions at the special meetings of the Executive Committee held on April 18 and April 25 concerning potential upstream and downstream business combinations."[218] It is logical to assume that First Atlanta had examined possible combinations with both Wachovia and NCNB before definitive offers were received in June of 1985. Former First Atlanta executive Paul Hill indicates that his banking company was indeed carrying on discussions simultaneously with many others southern banks:

> We talked with Atlantic Bancorp. We talked with Landmark. We talked with Southeast. We had extensive conversations with Sun Banks. I thought at one point we were very, very close to a deal with Sun Banks. At the time we frankly didn't realize they were having parallel discussions with Trust Company….We also looked at North Carolina, and we had extensive conversations with Wachovia, with NCNB and with First Union….We also had some conversations going on with banks in South Carolina and Alabama. Hootie Johnson was considering selling Bankers Trust. He and Raymond (First Atlanta President and Chief Operating Officer Raymond Riddle) were very close…so we had lengthy conversations with Hootie. Frank Plummer was a good friend of Tom's (First Atlanta CEO Tom Williams), so we had lengthy conversations with Frank (First Alabama Bank, now Regions Financial).[219]

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[217] *Ibid.*
[218] First Atlanta Corporation, Minutes of the Regular Meeting of the Board of Directors, May 14, 1985, First National Banking Corporation Board Minutes, First Atlanta legal files, Wachovia Bank archives, Charlotte, North Carolina.
[219] Paul D. Hill interview by author.

In an interview with Merrill Lynch and Company after the merger with Wachovia was announced, Tom Williams of First Atlanta commented on his approach to deciding which of these merger opportunities to pursue. He stated: "We did our homework intensively….We finally arrived at a pattern that said there are three major considerations….First, market coverage; second, financial strength; and third, management compatibility of the resulting combination."[220] From the comments made by several of the principals involved in the discussions between First Atlanta and NCNB, it appears that the third criterion of management compatibility, or lack thereof, was the stumbling block in the negotiations between Williams and Hugh McColl. Paul Hill reports how the discussions between the two banking companies ensued and developed:

> Hugh McColl tried to initiate conversations directly with Tom Williams and then with Raymond (Riddle). It was clear from the approach it would be a situation where NCNB management would essentially take over the whole situation. Those conversations did not go much of anyplace….Hugh was looking to move forward with something in Atlanta. Then, he approached, through Salomon Brothers, Mack Robinson. Through Salomon, Hugh made a proposal to buy Mack's roughly ten percent interest in First Atlanta. Mack was always…a very straight up guy. He let it be known to either Tom or Raymond that he had been approached, and he thought we ought to talk with Hugh….Through Salomon we arranged a meeting with Hugh, and it was out at the Ritz Carlton in Buckhead. Hugh was still in his kind of Marine mentality, and he was marching strong. He could be pretty abrasive….Hugh started talking about the power of the combination and why this made sense and how NCNB was going to run the thing You could see he was getting more excited about it…Then, he paused obviously expecting a reaction. He got kind of a somewhat unenthusiastic reaction from Tom, and he began to get red in the face and started pounding the table.[221]

McColl actually has a very similar account of the discussions and reveals a consistent and self-effacing understanding of why his approach was rebuffed by First Atlanta

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[220] Thomas R. Williams, script of presentation to Merrill Lynch and Company, June 26, 1985, (New York: Adler Reporting Service, 1985), p. 19. First Atlanta file, Archives of Wachovia Bank, Winston-Salem, North Carolina.

[221] Paul D. Hill interview by author

executives. He also explains a broader vision that involved a tri-party arrangement including Bankers Trust in South Carolina. McColl reports:

> The interesting thing about that, the real author of that was Hootie Johnson, who came to me and said, "Let's go see Raymond Riddle, and let's put Bankers Trust, NCNB and First National Bank of Atlanta together. We will make Tom Williams Chairman, but you will be CEO, and we will have a powerful bank. We went to them and proposed that, although I admit I did a very poor job of it. I was very inexperienced. Essentially, I have always been told, I told Tom "I am going too run your bank." I may have said that: I don't remember….I am quite certain I would have offended anyone because I was too abrasive and too pushy.[222]

However, McColl and his NCNB team did not just walk away from the First Atlanta opportunity. McColl went over the heads of the First Atlanta executive team and appealed directly to the First Atlanta Board of Directors. In a letter to the Board, dated June 16, 1985, McColl wrote: "Over the past several days, First Atlanta management has made itself unavailable….Due to the above circumstances…we feel we must present our proposal to you and each of the other directors of First Atlanta."[223] According to the terms of the offer, First Atlanta shareholders were to receive approximately $33.50 in NCNB common stock per share of First Atlanta stock, which was reported to be a premium of 33% over First Atlanta's most recently traded price per share.

In the end, the First Atlanta Board accepted, instead, the slightly lower per share price that Wachovia Corporation, offered of $30 per share, based on the most recent trading prices of both stocks. The First Atlanta and Wachovia Boards were meeting simultaneously on the evening of Sunday, June 16 to negotiate the deal. The minutes of the Wachovia Board meeting report that Tom Williams called John Medlin from the First

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[222] Hugh L .McColl Jr. interview by author.

[223] Hugh L. McColl, Jr., Letter to Board of Directors, First Atlanta Corporation, dated June 16, 1985, Board Minutes, First Atlanta Corporation, First Atlanta legal files, Archives of Wachovia Corporation, Charlotte, North Carolina.

Atlanta board meeting at 7:30 P.M. and asked if Wachovia wanted to improve its offer. The Wachovia minutes further report that John Medlin replied that "Wachovia was not prepared to increase its offer,"[224] In the end, the First Atlanta Board still accepted the Wachovia offer in the belief that in a stock offer the share currency of Wachovia was of a higher quality and would be worth more over time that the share currency of NCNB. Harry Keefe of the investment advisory firm of Keefe, Bruyette and Woods, Inc. and Joe Flom of the Skadden Arps law firm were advisors to the First Atlanta Board, and the June 16 minutes of the First Atlanta Board meeting minutes report Mr. Keefe's advice to the board: "Mr. Keefe expressed the opinion to the Board that the Wachovia offer of 0.80 shares of Wachovia common stock for each share of the company was financially more attractive to the company's shareholders than the NCNB offer of .77 shares on NCNB common for each common share of the company."[225] These same board minutes also reveal that, under an Investment Agreement, the First Atlanta board also agreed to grant Wachovia Corporation a warrant to purchase 1,175,000 shares of adjustable rate cumulative preferred stock of First Atlanta, in what might be labeled as a "shark repellant" tool to ward off any future bids for First Atlanta by other banks.

Hugh McColl expresses his grave disappointment in First Atlanta's rejection of the NCNB bid. McColl states: "I guess I had the worst day of my life on my fiftieth birthday, June 18, 1985…. I woke up to find that Tom Williams had run away and sold himself to Wachovia, and Atlantic had agreed to merge with First Union….I was out in the cold, and our company was out in the cold." [226] A business report the next year

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[224] Minutes of Wachovia Corporation Specially called Board Meeting, June 16, 1985, First Atlanta merger files, First Atlanta legal files, Archives of Wachovia Corporation, Winston-Salem North Carolina.
[225] *Ibid.*
[226] Hugh L. McColl, Jr. interview by author.

commented on the competition between Wachovia and NCNB for the hand of First Atlanta, and the latter bank's rejection of NCNB's determined bid: "First Atlanta didn't wave the white flag; it accepted instead a lower offer from Wachovia Corp., like NCNB, a North Carolina bank. And the moral of the story is that even in the new age of super-regional banks, style and ego can count for more than dollars and cents in making a merger."[227]

The merger was approved by the shareholders of Wachovia and First Atlanta in September of 1985, and the deal was closed that December. In this purported merger of equals, Wachovia had the larger capital base, and directors were apportioned in relationship to the relative value of capital contributed in the merger, thus giving former Wachovia directors greater representation on the new combined holding company board with an approximate 60/40 split. Also, Wachovia's John Medlin was named CEO, and Tom Williams assumed the title of Chairman. The holding company adopted the blended name of First Wachovia Corporation; and the company announced it would maintain dual headquarters in Winston-Salem and Atlanta, although the "registered office" of the company continued to be Winston-Salem. John Medlin remained in Winston, but he sent two of his most senior executives to Georgia to preside over the joint credit policy of the combined institution and to manage international banking. After the closing of the merger, Paul Hill briefly left Atlanta and took a new trust executive position in Winston-Salem, but he stayed for only about a year before resigning to return to practice law.

The combination of these two companies did accomplish some of the anticipated objectives of the Southeastern Regional Banking Compact. According to a Keefe,

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[227] John Helyer, "Hugh L. McColl, Jr. to Thomas R. Williams, *Wall Street Journal,* 18 December 1986, p 1.

Bruyette and Woods newsletter, the merger combined the sixth-largest and the eighth-largest banking companies in the South to form the second largest, behind SunTrust but slightly ahead of NCNB and First Union, at least for a brief period of time. [228] Also, in their June 26, 1985 presentation to the Merrill Lynch and Company securities analysts, Medlin and Williams jointly reported that their banking company could now provide a broader range of credit services to their large corporate customers (an important market segment for both organizations) by being able to assemble up to $100 million in line of credit capability, representing a step toward reducing the South's dependency on northern capital for its banking clients. [229]

In 1991 First Atlanta ceased operating under its own name and adopted the Wachovia name; the holding company name also reverted simply to Wachovia Corporation. Even though The First National Bank of Atlanta had been the largest bank in the South briefly in the 1930s, it had failed to maintain its preeminent positioning because the restrictive banking laws in Georgia prevented it from growing at the same rate as the North Carolina banking companies did, or even as its intrastate rivals, C&S National Bank and Trust Company of Georgia, which were grandfathered into broader statewide systems of banking offices. When regional interstate banking was enacted, First Atlanta had banks in only 14 Georgia counties, whereas Trust Company was in 28 counties and C&S in 31 counties, according to the 1985 Annual Report of the State of Georgia Department of Banking and Finance. Arguably, the relatively small statewide distribution system of First Atlanta placed that bank in a disadvantageous position, and as a result, First Atlanta quite likely had not built the same kind of management

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[228] "Banking Industry Study," Keefe Bruyette and Wood, Inc., Vol. # 9, 2 July 1985, p. 1, Archives of Wachovia Corp., Winston-Salem, North Carolina.
[229] Thomas R. Williams and John G. Medlin, script of presentation to Merrill Lynch and Company, p. 25.

structure that its Georgia rivals and the North Carolina banks had developed.

A 1986 article assessed the relatively disadvantageous positioning of First Atlanta once the interstate banking compact was approved, in the following manner:

> First Atlanta went into the merger game carrying a number of handicaps. One was the effective consolidated organization. Williams saw mergers as a way to get economies of scale and savings in the back office. Problem is, bankers in smaller towns saw First Atlanta as more stifling than efficient. They signed up with less centralized competitors in droves….It (First Atlanta) lacked the statewide network that added to the negotiating heft of its downtown rivals. It remained small enough to be acquired by another big southeastern bank.[230]

In the Wachovia-First Atlanta merger, the arrangement which initially was billed as a "merger of equals" turned out to be more of a conventional buyout.

After the 1985 merger between First Atlanta and Wachovia, the banking company continued to make infill acquisitions of smaller banks in Georgia, particularly in the booming metropolitan Atlanta market. However, Wachovia Corporation made no further interstate acquisitions until 1991 when it merged with South Carolina National Bank that December. At that time, South Carolina National was the largest bank in South Carolina as measured by banking assets and market share and was an attractive target.

Just as Wachovia and NCNB did, their other intrastate rival, First Union National Bank of Charlotte, sprang into interstate action as soon as the U.S. Supreme Court ruled on the regional interstate banking compact issue in June of 1985. In mid-June First Union immediately announced its acquisition of Jacksonville, Florida-based Atlantic Bancorporation. Atlantic had been established in 1908 by the Lane family, who also had organized Citizens and Southern Bank in Savannah and the Atlantic Bank in Charleston (which eventually became C&S Bank of South Carolina). In the mid-1980s

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[230] Stuart Mieher, "The Riddle of Tom Williams," *Georgia Trend* (October 1986), pp. 53 and 57.

the Lane family still controlled more than 15% of the stock of Atlantic Bancorp.[231]

Former First Union CEO Ed Crutchfield relates the story of how this merger developed.

Crutchfield reports:

> I remember in June of 1985 somebody walked in my office and handed me a thing off the ticker tape which said the Supreme Court has ruled that national banking is legal….I had been flying all over everywhere trying to cultivate banks from Maryland to Florida and west to Tennessee, believing that it was going to happen. By Monday morning we had acquired the Atlantic Bank in Jacksonville, Florida…The same morning Wachovia acquired First Atlanta.[232]

At this time Hugh McColl of NCNB was also discussing merger possibilities with Atlantic Bancorp. McColl relates the story of his discussions with Atlantic: "We were in discussions with the Atlantic Bankshares, and had reached an agreement for a merger in Jacksonville, but my CFO at the time thought it was too expensive, and we turned away and went after First Atlanta….First Union acquired the company I already had under contract but had not closed."[233] Ed Crutchfield amplifies the story:

> I went down to talk to Billy Walker, who was the Chairman and CEO of Atlantic. We went to his beach cottage at Ponte Vedra….I am sitting there talking to Billy, and we do a hand shake. This is one day after the pact is legal. I say "Billy, I am really excited. Do you have a phone here I can call back to my guys and get this merger process started. He said "Sure, right here." He went into the bedroom and there were twin beds in it, and I sat down. Just before I picked up the phone, Billy looked as me with a crooked grin on his face and said, "Do you know who slept in that bed last night?" I said "No, I don't." He said, "Hugh McColl."[234]

Although Crutchfield did not comment on why Billy Walker may have chosen First Union as a merger partner over NCNB, Crutchfield did make a salient observation in a late 1986 interview with a Wall Street Journal reporter when he stated: "When

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[231] *Florida Financial Institutions – Banks and Bank Holding Companies – 1983 edition*, p. 40.
[232] Edward E. Crutchfield interview by author.
[233] Hugh L. McColl, Jr. interview by author.
[234] Edward E. Crutchfield interview by author.

you've got five or six major buyers, all capable of paying about the same price, the decision is made on other grounds. It's the ability to get along – personality and chemistry."[235]

Unlike the SunTrust and First Wachovia mergers, First Union's acquisition of Atlantic was not packaged as a merger of equals, but more like a conventional buy-out. When asked about First Union's merger philosophy of centralization, Crutchfield replied, "It was a non-negotiable part of our approach. We are going to be on one system. If you can't handle that, then we can't handle you. The reason we did that was we could do it. Other big banks did not have the systems ability."[236] Soon after the Atlantic acquisition, First Union expanded its new Florida franchise and acquired Central Florida Bank Corporation, which owned the Bank of Pasco County.

In 1986 First Union entered the South Carolina market with the purchase of Southern Bancorporation of Greenville. They also entered the Georgia market with the acquisition of First Railroad and Banking Company of Georgia, based in Augusta, but with a strong statewide distribution system of banks in Atlanta, Savannah, Columbus, Macon, Dalton, Griffin, Newnan, Valdosta and a few smaller cities. When First Union acquired First Railroad, its principal subsidiary bank, Georgia Railroad Bank and Trust Company, was the oldest continually-operating bank in Georgia, dating back to 1833. In 1986 and 1987 First Union also acquired a number of smaller community banks in the Georgia communities of Roswell, Mableton, and Clarkston, in what Ed Crutchfield describes as "an in-fill strategy." When asked why First Union had not pursued a merger with any of the three larger Georgia banking companies, Crutchfield replied that the size

[235] John Helyer, Edward Crutchfield," *Wall Street Journal,* December 18, 1986, p. 1.
[236] Edward G. Crutchfield interview by author.

of his bank at the time was not sufficiently large to acquire C&S, First Atlanta or Trust Company, but First Union did, in fact, come close to acquiring Bank South, Georgia's fourth largest bank. Crutchfield explains:

> You had C&S, First Atlanta and Trust Company….I just had a feeling that we would not be seen as a proper bride or groom. We might have been smaller than those three….I actually thought these Atlanta banks… might even have been insulted. They probably would have said "Who is this guy from North Carolina who thinks he is going to run this thing?" …. I did not think I was eligible to marry one of the three Atlanta banks. I tried Bank South, and actually had Bank South and the Railroad Bank teed up on the same weekend. By teed up, I mean I could have done either one. I chose Georgia Railroad because I thought what First Atlanta doesn't have, and what Trust Company doesn't have, and even C&S doesn't really have is a real statewide presence.[237]

After absorbing the Georgia banks, First Union refocused on Florida and over the next few years and acquired additional banking companies in Pompano Beach, Naples, Fort Myers, Sarasota, Pensacola, Bradenton and Miami. In 1989 First Union acquired Florida National Bank, which was headquartered in Jacksonville. Florida National was a venerable banking company that had been organized in 1888 as Southern Savings and Trust Company, and in 1906, the bank converted to a national charter. In the late 1920s, Alfred I Dupont acquired a sizeable interest in the bank. In the 1970s Florida National purchased Alliance Mortgage Company, and Jack Uible of Alliance became CEO and held ownership of 11 percent of the outstanding stock at the time First Union purchased the bank. This acquisition significantly expanded the Florida franchise of First Union.

In 1991, First Union took advantage of the opportunity to purchase the large but ailing Southeast Bancorporation of Miami. Essentially, this bank was being auctioned off by the FDIC because of problem loans in its portfolio. At various times in the 1970s and early 1980s Southeast had been the first or second largest bank holding company in

[237] *Ibid.*

Florida and for many years the dominant corporate financier in Florida through its lead bank, the former First National Bank of Miami, renamed Southeast. SunTrust and Barnett Banks were competitive bidders, and NCNB withdrew its bid to focus on its quest for C&S/Sovran instead. Ed Crutchfield describes the purchase of the failing Southeast Bank as one of First Union's signal events in its acquisitions of southern banks:

> The was a complete, bases loaded, out-of-the-park home run….We had bought Atlantic and Florida National ….We stayed in touch with the FDIC with back and forth trips to Washington, on and on and on….Anyway, we figured out if we put a bid in on Southeast, as part of the bid you could put back all of the loans and all of the real estate you did not want…I think we paid $185 million for Southeast, and we made that much in year two. We got our money back.[238]

In 1993 First Union had a particularly active year with the acquisition of First American Metro Corp. of McLean, Virginia and Dominion Bankshares Corporation, a Virginia holding company that owned the former First National Exchange Bank of Roanoke. In the early 1990s First Union also purchased a number of savings and loan associations, including several still-solvent institutions like Georgia Federal Bank, DF Southeastern in Decatur, Georgia, South Carolina Federal, and Home Federal in Washington, D.C. In addition, First Union took advantage of the opportunity to purchase deposit and mortgage loan customers through the acquisition of failing or failed thrifts.

Economists Shull and Hanweck explain the difficulties experienced by the S&L's in the 1980s: "The savings and loan (S&L) industry succumbed to inflation, high interest rates, depressed real estate markets, inept and fraudulent management, and misguided regulatory forbearance that fostered excessive risk taking. Thousands of S&L's became insolvent, and it required major banking legislation."[239] The Financial

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[238] *Ibid.*
[239] Shull and Hanweck, p. 3.

Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) established the Resolution Trust Company (RTC) to deal with the problems. The FDIC and RTC negotiated with many healthy financial institutions to absorb the operations and protect the depositors of many of these S&L's. First Union was a large purchaser, and Ed Crutchfield explains his strategy:

> They (S&L's) started dying like flies, and RTC began calling banks on a Friday afternoon, about noon, and they would say, "We are going to close down this ABCD, and we are going to close them this weekend. If you would like to bid on them to take them over, you have to take them over on Monday morning….By that time we had a pretty widespread franchise. I don't remember what all, but probably seven or eight southeastern states. We knew how to run remote locations and all of that….the deal was you got to put back everything to them you did not want…..They would call and we would stick a bid in. "We will pay you a million or a half million"….Finally, one day after we bought about fifteen of them, our deal guy said, "I'm beginning to think we may be bidding against ourselves here. There's not many banks that can take these things over."…. The guy said "Why don't we tell them the next time they call that they are going to have to pay us to take it over?" …Damned if they didn't agree. They were paying us to take these savings and loans over.[240]

By the end of 1993 First Union had grown to become the ninth largest bank holding company in the U.S., outranked in the South only by its in-state rival, NationsBank, the former North Carolina National Bank.[241]

In the week following the acquisitions of First Atlanta by Wachovia and of Atlantic Bancorporation by First Union, and only eleven days after the Supreme Court ruling in the Northeast Bank case, on June 21, 1985 Georgia's largest banking company, C&S National Bank, received approval to acquire Florida's fifth largest bank organization, Landmark Banking Corporation of Florida, based in Ft. Lauderdale, Florida. Just two years earlier Landmark had merged with Southwest Florida Banks

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[240] Edward G. Crutchfield interview by author.
[241] "Ranking the Banks, *American Banker*, 18 August 1994, p. 30A

to form a holding company with over $4 billion in assets and 121 branches, mostly in South and West Florida. In explaining the rationale of C&S in acquiring this bank as a subsidiary of C&S Georgia Corp., then C&S Georgia's president John Poelker, stated to a journalist: "We were looking for a bank that was like our Georgia banking operation, in a high-growth area. Landmark had 23 separate banks serving 13 counties in Florida, and nine of those counties are among the ten fastest growing counties in the state."[242] However, former C&S bank executive Lee Sessions comments on the challenge C&S faced in assimilating the Landmark organization: "Landmark was an institution, but it was not one institution. It was an amalgamation of mergers of other banks in Florida. They had not really put it together to run as a financial institution. We acquired an entity…but we acquired that entity with a bunch of other entities….They did not have the computer systems hooked up….It slowed us down tremendously." [243]

In fact, it was more than a year until Citizens and Southern Corporation made its next major acquisition, the C&S Bank of South Carolina, in 1987. The South Carolina C&S had been closely affiliated with the Georgia C&S since 1928, when Mills Lane Sr. arranged for Citizens and Southern Holding Company to purchase Atlantic Savings Bank and Atlantic National Bank of Charleston, South Carolina, and Lane renamed the bank as C&S and installed his son Hugh as President. The two state banking companies were separated in 1940 when the stock of the South Carolina bank was distributed to the shareholders of Citizens and Southern Holding Company.[244] Although the regional interstate compact was not effective in South Carolina until 1986, the two C&S

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[242] Charles Craig, "C&S-Landmark Acquisition," *The Southern Banker*, May 1985, p. 26.
[243] Lee M. Sessions, Jr. interview by author.
[244] Jan Pogue, *Cornerstone Bank,* pp. 27 and 99.

banks took still another year to consummate their merger. Former C&S Georgia executive Jim Lientz explains the delay:

> The C&S Bank of South Carolina was one that we felt like it was logical for us to own. The banks had always been identified together. Hugh Lane started the C&S Bank of South Carolina, Mills Lane's brother…He expanded it from Charleston, so it was statewide. It did have the number two market share in the State of South Carolina. We felt like we had to have it because it would have been inappropriate for anybody else to own it….As we tried to acquire it, First Union came in with a competitive bid and ran the price up a lot higher than we should have had to pay. …It was something we had worked on for at least two years prior, and it just ended up costing more money.[245]

Following the South Carolina acquisition the C&S organization expanded its new Florida franchise by purchasing Southern Bancorp, Inc of Tallahassee, Ocean State Bank of Neptune Beach and Marine Bank of Monroe County of Marathon between 1987 to 1990. However, in 1989 Citizens and Southern National Bank of Georgia became a takeover target itself when NCNB made an unsolicited bid to acquire C&S, and C&S resisted the offer.

Four years after most southern states had enacted legislation authorizing southern regional interstate banking NCNB still had no presence in Georgia other than its 1986 foothold acquisition of the tiny Southern National Bank in North Atlanta. Georgia continued to be one of the fastest growing states in the nation, and Hugh McColl and his management team were focused on the Georgia banking market. According to a history of NationsBank, in early March of 1989 McColl asked Craig Wall, an old friend who sat on the C&S board by virtue of his position as the chief executive of a large South Carolina-based forest products company, to approach C&S CEO Bennett Brown with a proposal that the two bankers should meet at Litchfield Beach and discuss the possibility of a banking combination. Brown declined that invitation and other requests to meet with

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[245] James R. Lientz interview by author

McColl. On March 30, McColl called Brown to let him know that his NCNB board was discussing a possible takeover bid. When Brown again was not receptive to the offer to discuss a merger, McColl told Brown, "My board is meeting, and we've gone too far. I've got to launch my missiles," to which Brown reportedly replied, "You do what you have to do. We'll just hunker down?"[246]

Brown's reply represented the first step of the "Just Say No," defense that the C&S team deployed. On the evening of the confrontational phone call, a young NCNB banker delivered to Brown's home a note from McColl offering NCNB a tax-free exchange of stock valued at $2.4 billion, which represented a price bigger than any previous buyout in banking history.[247] Similar letters were delivered to several C&S directors and large shareholders. C&S declined public comment until its April board meeting, and the board responded by declining McColl's offer "as inadequate from a financial point of view."[248] C&S also responded with an internal and external anti-takeover public relations campaign to encourage its stockholders to "Just Say No." Former C&S executive Jim Lientz describes the reaction of the C&S team to this bid:

> Bennett's first response was we're not interested – not just No, but Hell No! He (McColl) offered Bennett a million dollar bonus if he would help him do this….Bennett used this to his advantage internally, saying that "Hugh is trying to bribe me to sell you boys," talking to his leadership team. Holding up the letter, he would say this. "He offered me a million dollars to sell y'all as slaves." Our "Just Say No" was effective at that particular time. We came to then-Governor Harris, at that point, and we proposed some legislation that would prevent the acquisition….There were conversations with Governor Harris and the banking commissioner.[249]

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[246] Covington and Ellis, p. 281.
[247] *Ibid.*
[248] Pogue, *Cornerstone Bank,* p. 104.
[249] James R. Lientz, interview by author.

Lee Sessions, another former C&S executive, comments on the critical role played by Banking Commissioner Jack Dunn, and on their close working relationship:

> All the lawyers were making stuff to help draft all the public relations releases, "Just Say No"….The real thing that occurred was I went out to talk to Jack Dunn and reminded Jack of the laws we had passed….I took a white paper out there separately, back-doored, and said, "Look, you have parallel, mirrored, equal rights, whatever you want to call it, with the Fed and whatever else. They are not going to override a state's right on this in my opinion."…
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> He asked if I would wait in another room on another day, when McColl and the folks came down. I was in a conference room while they were talking to him and their lawyers. It was very interesting because I got to hear it. I came up with a deal….He (Dunn) wrote up a paper, wrote up every single thing, and basically showed them that there was no way that thing could be approved….Jack Dunn did not feel it was the thing that should be done.[250]

On April 10, 1989 the Georgia Department of Banking and Finance released Dunn's public statement on the topic of The NCNB proposal to acquire the Citizens and Southern Corporation. The statement expressed clearly the opinion of the commissioner that "The Georgia Department of Banking is the primary regulatory agency over a holding company whose corporate authority is granted under Georgia law."[251] Dunn's statement highlighted the various laws that governed banking company acquisitions in Georgia, including safety and soundness tests, anti-competitive tests and the "Aggregate Deposit test," of the regional interstate banking compact that required qualifying Southern Region banks to have 80% of their deposits in Southern Region states, except for those deposits acquired from failed banks. The commissioner's opinion then stated: "Although a federal decision would normally be reached within six months, applications involving complex legal and technical issues have required twelve to eighteen months

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[250] Lee M. Sessions interview by author.
[251] E. D. Dunn, "NCNB, Charlotte, North Carolina, Proposal to Acquire the Citizens and Southern Corporation., Atlanta, Georgia," 10 April 1989, document files of the Georgia Department of Banking and Finance, Atlanta, Georgia. p. 1.

state/federal regulatory time. Delays may be experienced."[252] Whether it was Dunn's statement tacitly supporting C&S or the bank's public relations campaign, or both, that dissuaded McColl from pursuing his bid, within three weeks of the original offer McColl withdrew his offer for C&S on April 21, 1989.

In September of 1989 C&S, still the largest banking company in Georgia, announced it would merge with Sovran Financial Corp., the largest banking company in Virginia. Sovran had recently been formed from a 1983 merger of Virginia National Bankshares, based in Norfolk, and First and Merchants Bank, based in Richmond. Like most other southern states Virginia had experienced a wave of in-state bank consolidation in the years just before regional interstate banking was allowed. Traditionally, Virginia's branching and merger laws were less restrictive than Georgia's but not as liberal as those of North Carolina.[253] With the advent of regional interstate banking, by 1987 Sovran had acquired Commerce Union Bank , based in Nashville, Tennessee and a bank in Maryland, so that Sovran had in excess of $20 billion in deposits when it merged with a like-sized C&S. Initially, the merger partners agreed on the new holding company name of Avantor Financial Corp., but within a year the banks rejected that name and adopted the C&S/Sovran name.

The merger never really gelled. In 1990 the nation experienced an economic downturn, and Sovran, in particular, experienced high real estate loan losses in the

[252] *Ibid*. p. 3.
[253] In 1928 the Virginia General Assembly limited branching privileges except in cities where the head office was located or in other cities with 50,000 or more population, but the ability to branch in other large cities was eliminated in 1948. In 1962,Virginia banking companies were legally permitted to merge on a statewide basis and branch into contiguous counties. The 1962 legislation facilitated a rapid consolidation of banks across Virginia, so that the state's banking was dominated in the early 1980's by several large statewide banks. For a fuller description Virginia banking laws see Paul L. Foster, *Bank Expansion in Virginia -1962-1966, The Holding Company and Direct Merger* (Charlottesville: The University of Virginia Press, 1971).

Washington/Northern Virginia market. As a result earnings fell, and the stock price dropped to a level of less than half its value of just a year earlier.[254] Additionally, the new management team and the combined board were not working cooperatively together. McColl's biographer, Ross Yockey, recounts a June 1991 board vote in which the fifteen former Sovran directors voted in a bloc against CEO Bennett Brown in a vote of no confidence while the fourteen former C&S directors supported him.[255] Former C&S executive Jim Lientz describes from his perspective how the merger occurred:

> The due diligence wasn't conducted on our part is the only thing you can say. We had First Boston as our investment banker….The valuation was such that Sovran ended up with a marginally higher valuation than C&S, and that weighting was reflected in the stock exchange, but what turned out to be most important was reflected in the board of directors….The Sovran directors stuck together and they basically ran the company. Bennett was CEO, and he thought his force of personality that had worked for the last ten years could rectify that. What he did not understand that their board of directors would not and did not ever come out of their bloc vote mentality. Part of the deal was that Denny Botttorff would become the CEO…. Bennett tried to have him removed as his successor, and that is when the whole thing fell apart. That's why McColl came back.[256]

Former C&S executive Lee Sessions has a similar assessment of the flawed merger. Session s states: "I think our investment banker represented Sovran as well. They are the ones that I think really drove it….We were going to call this a merger of equals. I don't think due diligence was done enough."[257]

In the same June board meeting at which the C&S/Sovran directors had forced a discussion of Brown's proposed retirement, the board granted Brown authority to begin talks with Hugh McColl about a possible merger with NCNB. First Boston and

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[254] Yockey, pp. 423-424.
[255] *Ibid.* p. 426.
[256] James R. Lientz interview by author.
[257] Lee M. Sessions interview by author.

Robinson-Humphrey were hired as the Board's investment bankers. In an unusual move Dennis Bottorff hired Dillon Read as his own advisory firm.

Meanwhile, McColl and his strategic analysis team at NCNB had been following the developments at C&S/Sovran and began planning what they hoped would be a more effective approach to Brown this time. NCNB personnel chief Chuck Cooley had commissioned personality profiles of Brown, Bottorff and even McColl and role-played with McColl how he could be most effective in communicating with Brown.[258] NCNB also hired the team of Salomon Brothers and Merrill Lynch as their investment bankers to advise on the strategy. Reportedly, McColl and Brown met in late June in Atlanta and then also conferred over the July 4th holiday weekend at Litchfield Beach in South Carolina, where each had a beach house. In mid July the boards of both banking companies approved the new union which would operate under the new name of NationsBank. Hugh McColl is quoted as describing his feelings about the merger: "Truthfully, I always dreamed about acquiring C&S and Sovran, not because I am some sort of genius, but because I wanted to build a bank that dominated the South; they were the biggest banks in their states. I dreamed about acquiring them. They literally never left my subconscious or my conscious mind."[259]

Before this critically important consolidation of leading banking companies in three southern states, NCNB had been somewhat slower than its major competitors in merging with other large banks in the South. In July of 1985 NCNB agreed to acquire Hootie Johnson's Columbia-based Bankers Trust Company of South Carolina. Bankers Trust had grown out of Bank of Greenwood and State Bank and Trust in

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[258] Covington and Ellis, p. 294.
[259] *Ibid.* p. 280.

Columbia, and Bankers Trust had formed a close business relationship with McColl and NCNB over many years of a correspondent banking relationship. Later that same month McColl announced the acquisition of Pan American Banks of Miami Florida which had assets of $1.7 billion and over 50 banking offices in six Florida counties. In 1986, NCNB had acquired two relatively small banking companies in Maryland and Virginia, which NCNB planning officer Frank Gentry called "flagpole banks," since they represented NCNB's first entry into those two states.[260] NCNB acquired CentraBank in Baltimore, Maryland with branches in the northern suburbs of Washington, and in Virginia NCNB acquired Prince William Bank with branches in Washington's Northern Virginia suburbs.

In 1988 NCNB reached outside of the Southeastern Region compact states in a bold move to acquire the largest banking organization in Texas. Hugh McColl explains that in the early 1980s his bank had been more concerned about takeover attempts by large Texas banks than they had been about the threat of a takeover by New York City and other northern banks: "The people we were most afraid of actually were not the northerners, bur rather the Texans. They were the richest banks. They had not had a recession in Texas in the 1974-1975 time period that nearly wiped out C&S, First Atlanta, NCNB and a lot of other people, but it did not affect the Texans. They were rich, and their stock prices were high."[261]

However, in the mid-1980s the Texas economy experienced a dramatic downturn when oil and natural gas prices fell substantially. Many businesses related to petroleum and gas extraction and distribution failed and were unable to repay their bank loans. Consequently, even the largest Texas banks were in perilous financial condition and on

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[260] Yockey, p. 303.
[261] Hugh L. McColl, Jr. interview by author

the brink of insolvency. The Federal Deposit Insurance Corporation (FDIC) was the responsible banking regulatory authority designated to manage the sale of failing banks to protect the depositors insured by the FDIC. The FDIC was empowered to sell failing banks to banks headquartered in other states, which provided the legal arrangement by which a North Carolina banking company was able to acquire a bank in Texas. Federal Reserve System economists Frank King, Shelia Tschinkel and David Whitehead track the two federal law changes that facilitated NCNB's acquisition of First RepublicBank Corp.

> The emergency provisions of the 1982 Garn-St. Germain Act provided another way for banking organizations to acquire and operate full-service offices in more than one state. This law permitted out-of-state banking organizations to acquire certain large, troubled commercial banks and insured mutual savings banks. Its provisions were modified and extended by the Competitiveness Equality in Banking Act of 1987, which also authorized the Federal Deposit Insurance Corporation to arrange interstate takeovers of institutions with assets of more than $500 million as long as FDIC granted the necessary financial assistance. In addition, some states enacted laws that allowed out-of-state banks and thrifts to acquire failing in-state institutions.[262]

In Texas, First Republic had been formed in December of 1986 through a merger of the two largest bank holding companies in Texas, both headquartered in Dallas, InterFirst Corporation and RepublicBank Corporation, in what one observer had labeled as "the product of one of those last-ditch efforts by two big, faltering Texas banks to shore each other up through a merger."[263] As the bank failed in 1988, the FDIC transferred the ownership of more than two hundred offices of forty subsidiary companies of FirstRepublic into a new bridge bank, in which NCNB purchased an initial twenty percent of the stock and signed an agreement to buy the remaining eighty percent over the next five years. The so-called "bad loans" of the various banks were transferred to a

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[262] B. Frank King, Shelia L. Tschinkel, and David D. Whitehead, "Interstate Banking Development in the 1980's," *Economic Review*, Federal Reserve Bank of Atlanta, May/June 1989, p. 34.
[263] Yockey, p. 315,

separate special asset bank and liquidated by the FDIC. The bridge bank structure allowed NCNB to retain the tax advantage of being able to use the previous operating losses of the Texas subsidiary banks against its future profits.[264] NCNB announced its acquisition of the new NCNB Texas bridge bank in July of 1988, and in August of 1989, NCNB prepaid its commitment to buy the remaining stock in NCNB Texas from FDIC. The merger doubled the size of the NCNB organization, and Hugh McColl describes the importance of the Texas deal: "I always looked at the Texas deal as the turning point of the company. It brought us from where we were. Becoming so wealthy, they still may not like us, but it vaulted us to where we could do what we wanted to do, and we did do what we wanted to do after that. After that, we did think we were going to build the biggest bank in the country."[265]

The 1991 merger with C&S/Sovran to form NationsBank was the next big step in the growth of NCNB, positioning it as the fourth largest bank holding company in the U.S. as of December 31, 1991, according to *American Banker* rankings. The merger creating NationsBank was also the most costly banking consolidation to occur at that point in time, with an exchange value of more than $4 billion. In early 1992, NationsBank had an opportunity to align with Maryland's largest banking company, MNC, parent of Maryland National Bank of Baltimore, which was mired in problem real estate loans in the Greater Washington market, much like C&S/Sovran was. For an investment of $200 million in MNC to sustain its operations, NationsBank was granted a five year option to buy the company for $1.3 billion. NCNB earnings were so strong in 1992 that NCNB accelerated its option and purchased MNC for the stipulated

[264] *Ibid*. pp. 332-333.
[265] Hugh L. McColl, Jr. interview by author.

price. This acquisition positioned NationsBank Corp. as the third largest bank holding company in the country with the largest deposit market shares in Virginia, Maryland, Georgia and Texas and the second largest deposit market shares in South Carolina and Florida, but now only in third place in its home state of North Carolina, with First Union leading, according to the 1993 year end rankings by *American Banker*.

Meanwhile, Barnett Banks of Florida, Inc., whose primary banking company had been organized as Bank of Jacksonville in 1877 and re-chartered as Barnett National Bank in 1908, had grown to become the largest banking chain in Florida by the time the Southeastern Regional Banking Compact was enacted by the Florida legislature. Its former CEO, Guy Botts, had been an ardent advocate for interstate banking in the late 1970s and early 1980s when he and Tom Storrs of NCNB had discussed a possible affiliation. However, most of Barnett's activity was centered around continued expansion of its Florida footprint, since Florida still represented the greatest growth opportunity of any state in the Southeast.

Florida had been slow to liberalize its banking laws. Since 1913 Florida had had operated under a unit banking law prohibiting any branching, although statewide multi-bank holding companies were permitted. Even then, there were relatively few active multi-bank holding companies until the 1970s. In 1966 there were only ten registered holding companies, controlling 62 banks collectively, but by 1983, there were 30 multi-bank holding companies controlling 209 banks.[266] Bank holding companies aggressively acquired independent banks to offset their branching limitations.[267] In 1975 the branching laws were liberalized slightly to allow banks to open two branches a year, and

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[266] *Florida Banks and Bank Holding Companies, 1983 edition,* p. 2.
[267] Frieder, ed. p. 3.

in 1980 Florida passed a law that permitted the statewide merger of banks that had been organized and in continuous operation for three years or more. Finally in 1981 state law removed the limitation on the number of branches that were permitted annually. As result of these restrictions Florida was reported to have been one of the most under-banked states in the nation when ranked by number of citizens per bank office.[268] Thus, Barnett focused first on the opportunities still available to them in Florida.

In October 1986 Barnett entered into its first out-of-state acquisition when it purchased First City Bancorp, Inc., parent of First National Bank in Cobb County and the ninth largest bank in Georgia. According to a Barnett Banks historian, this acquisition provided Barnett entry into metropolitan Atlanta and the South's second greatest growth opportunity behind Florida.[269] Over the next couple of years Barnett bought a few other but smaller community banks in Fulton, Fayette and Gwinnett Counties in Metropolitan Atlanta. In 1988 Barnett ventured into South Georgia and purchased ANB Bankshares of Brunswick with $211 million in assets in three coastal region counties. In 1989 Barnett concluded the purchase of First Federal Savings and Loan, an insolvent S&L in Georgia's fourth largest city of Columbus. Then in 1992, Barnett refocused on Florida and purchased one of the last remaining large Florida bank holding companies, First Florida Banks, Inc. whose lead bank, First National Bank of Florida, had begun operations in Tampa in 1883. The Lykes steamship family controlled over ten percent of this banking company.[270]

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[268] Covington and Ellis, p. 155.
[269] David J.Ginzl, *Barnett: The Story of "Florida's Bank"* (Tampa: University of Tampa Press, 2001. p 274.
[270] *Florida Banks and Bank Holding Companies 1983 edition*, p. 55.

While the South's very largest banks in Florida, North and South Carolina, Georgia and Virginia were consolidating into a new category of banking companies, called "Superregionals," a few smaller southern banking companies also were taking advantage of the Southeastern Regional Banking Compact to acquire banks across state lines. CB&T Bankshares, Inc., later renamed as Synovus Financial Corporation of Columbus, Georgia, acquired banks in Pensacola, Valparaiso and Fernandina, Florida and in Phenix City, Enterprise, and Ft. Rucker, Alabama. Also, in this same time frame three large Alabama banks, Regions Financial, AmSouth and SouthTrust were buying banks in Florida, Tennessee and Georgia, while BB&T in North Carolina was rapidly consolidating banks in its home state to position itself as one of the fastest growing interstate banks over the next decade. The Southeastern banking compact had provided the regional banking companies a window of opportunity in which to grow and remain independent under its protective coverage for ten years until full interstate banking was finally permitted in 1995 by the passage of the Riegel-Neal Interstate Banking and Branching Act of 1994 (IBBEA).

By the time IBBEA was passed in 1994, the South's two largest banking companies, NationsBank and First Union, were ready to begin looking at expansion opportunities outside of the South. When asked for an assessment of the Southeastern Regional Banking Compact, Hugh McColl sums up his attitude toward the compact during the early 1990's: "I would sum it up in two thoughts. One nobody wanted it, and then nobody wanted to give it up. It was a protective wall….It became a Berlin Wall, which was an interesting wall because it kept us in as well as keeping the Yankees out."[271] Consequently, NationsBank played a leading role in lobbying Congress for

[271] Hugh L. McColl, Jr. interview by author.

elimination of the remaining geographic restrictions in banking laws. Journalist Kenneth Cline recognizes McColl's lead role in seeking to change the laws: "The Chairman and CEO of NationsBank Corp. put more effort into lobbying for the legislation than any other banker in the country."[272] McColl shares the credit with a few other leading bankers of the era:

> We were trapped behind the Southeast wall….That's when we began to lobby for interstate banking, and we had very few friends. The only people with us were Terry Murray, Fleet's Chairman, Bank of America was ostensibly with us, but they would kind of come and go. The other, of course was Citibank…..John McCoy (of Bank One in Ohio) would come and go on it also.[273]

Under the provisions of IBBEA, or Riegel-Neal as it was colloquially called, effective one year after the bill's passage in 1994, responsible federal agencies were permitted to approve mergers between insured banks "without regard to whether such transaction is prohibited under the law of any state," but the mergers were limited by some anti-competitive provisions so that a combined banking company could not have more than 10 percent of insured deposits nationwide or more than 30 percent of deposits in the state in which the acquired bank was located. States could opt-out but were required to affirmatively do so before June 1, 1997.

Both Ed Crutchfield of First Union/Wachovia and Hugh McColl of NCNB/NationsBank/Bank of America give credit to North Carolina congressman Steve Neal for securing passage of the new law. McColl states: "Neal really helped us….He was intellectually interested in it and thought it was good for the South."[274] Crutchfield

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[272] Kenneth Cline, McColl Downplays Starring Role in Long Campaign for Banking," *American Banker*, 15 September 1994, p. 4.
[273] Hugh L. McColl interview by author.
[274] *Ibid.*

adds to the report: "I grew up in a little town called Albermarle, North Carolina… Steve was from Winston, but his wife was from Albermarle. She had been in high school with me, so I got very comfortable with him. Long story short, yeah, you bet, Steve was leading our charge."[275] Congressman Stephen Neal was yet another North Carolinian who facilitated interstate banking.

The passage of the Riegel Neal Act marked a new phase in Southeastern banking. Bank holding companies in the South could now acquire banking companies in other regions of the country, as NationsBank and First Union began to do. Other southern superregionals continued to focus on expanding their franchises only in the South. However, for the first time southern banks were at risk of being purchased by banking companies headquartered in other regions of the country.

Wachovia was one of the superregionals that continued to focus on greater expansion in the South. In June of 1997 Wachovia announced back-to-back acquisitions of two Virginia banking companies, Jefferson Bankshares of Charlottesville and Central Fidelity Banks, Inc. of Richmond. Later that year Wachovia announced the purchase of two smaller banks in Boca Raton and Hollywood, Florida, representing Wachovia's first entry into that state. In 2000 Wachovia purchased Republic Security Financial Corporation, the parent of Republic Security Bank of West Palm Beach and the largest still-independent commercial bank based in Florida at that time.

SunTrust Banks, Inc. also limited its additional expansion to the South. In 1998 SunTrust merged with Crestar Financial Corp, of Richmond, Virginia, the largest independent banking group remaining in that state. Crestar traces its origins to State-Planters Bank of Commerce and Trust, which merged with other Virginia banks in the

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[275] Edward E. Crutchfield interview by author.

1960s and changed its name to United Virginia Banks. The name was changed again in 1987 to Crestar with the advent of limited interstate banking. Virginia's interstate banking statute provided for mergers with Maryland and District of Columbia banks, in addition to the other states in the southeastern compact. In 1985 and 1986 United Virginia acquired NS&T Bankshares in the District of Columbia and Bethesda Bancorp, based in the D.C. suburbs of Maryland. In 1996, Crestar acquired Citizens Bancorp of Laurel. Maryland.

In 2001, after a failed attempt to merge with Wachovia Corporation, SunTrust announced its acquisition of Huntington Bancshares of Florida to further expand its Florida network of offices. SunTrust's most recent interstate acquisition was made in 2004 when it outbid an Ohio bank and acquired Memphis, Tennessee-based National Commerce Financial Corp., parent of National Bank of Commerce (NBC). This acquisition expanded SunTrust's footprint in Tennessee, but it also gained SunTrust entry into North and South Carolina, since NBC had merged with Durham, North Carolina-based CCB Financial Corp. four years earlier in 2000. CCB was the parent of Central Carolina Bank and Trust Company which traced it origins to Durham Bank and Trust Company, chartered in 1915. SunTrust's merger with NBC in 2004 positioned SunTrust as the nation's seventh largest banking company.

While the largest southern superregionals, NationsBank, First Union, Wachovia, SunTrust and Barnett Banks continued to grow intra-regionally following the passage of Riegel-Neal in 1994, a number of smaller southern banking companies also grew into a superregional status through acquisitions of banks in their own and other southern states. In North Carolina Branch Bank and Trust Company (BB&T), the state's fourth largest bank, combined with Southern National Bank of Winston-Salem, the state's fifth largest bank, in a merger of equals in 1995, through which John Allison became the new CEO, and the company retained the BB&T name. In 1997 BB&T merged with United Carolina Bancshares, which had rolled up several North Carolina banks during the previous two decades. In the late 1990s BB&T began an aggressive out-of-state expansion program with the purchase of medium-sized banks and S&L's in Virginia, Maryland, District of Columbia, West Virginia, Georgia, Tennessee, South Carolina, Kentucky and Florida. By 2005 BB&T had grown to become the tenth top bank holding company in the U.S., as measured by total deposits.

Several Alabama banks also took advantage of the opportunity to grow and acquire banks, primarily in the South, although some of those banks also ventured into Texas and other southwestern states and some Midwestern states. The largest Alabama-based banking companies with banks in other states, in order of deposit size in 2005 were Regions Financial, Amsouth Corp., Compass Bank, Colonial Bank National Association and Alabama National Bancorp. SouthTrust Corporation of Birmingham, Alabama had been the third largest independent Alabama-based banking company before it was acquired by Wachovia in 2004. When asked why Alabama banks had not been an appealing target company for his company, Hugh McColl stated: "The reason was there was no money. It would drag our growth rate down. The second reason is the legal system is all screwed up with the damage suit lawyers….While they show you they've got branches all over Florida and everywhere else, they really don't have dominant positions; they are just there."[276] Nevertheless, Regions, AmSouth and Compass were all

[276] Hugh L. McColl, Jr. interview by author

ranked in the top 50 bank holding companies in the U.S. in 2005, and SouthTrust was a top-ranked bank before its 2004 acquisition by Wachovia.[277]

Once Riegel-Neal was effective First Union was the first southeastern superregional banking company to acquire a bank outside of the South. In June of 1995 First Union announced it was acquiring Fidelity Bancorporation of Newark, New Jersey, the largest bank holding company in New Jersey, with banks also in Pennsylvania, New York, Connecticut and Delaware. The deal was valued at $5.4 billion and was the highest priced banking acquisition up to that point in time.[278] In 1997 First Union acquired Signet Banking Corporation of Richmond, Virginia (formerly the Bank of Virginia), and then in November of 1997 First Union announced its acquisition of CoreStates Financial Corporation of Philadelphia, Pennsylvania, which set a new record for the value of a banking company acquisition at just over $17 billion. [279] Core States traced its ancestry to the venerable Philadelphia Bank, which had been chartered in 1803 and converted to a national charter in 1864 as the Philadelphia National Bank. Over the course of the twentieth century, Philadelphia National had acquired other in-state banks, including Girard National Bank and Franklin National Bank in the 1920s, First Pennsylvania Corp. in 1990 and Meridian Bancorp, Inc., based in Reading, in 1996. Former First Union Ed Crutchfield explains the rationale for these out-of-region mergers:

> There was no consolidator in the Northeast. The New York banks were, but by that time they were getting a little on the defensive. Their currency wasn't worth anything, meaning their stock wasn't doing well. They had all these international bad loans. My feeling was this is a pretty good time to steal a march right up in their backyard and do it while they were on the defensive. That was the reason for looking up there….I began to court a guy named Tony Terracciano on the theory that the banking industry was still sort

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[277] http:///www2.fdic.gov/sod/sodSumReport.asp?/bariIem=3&InfoAsOf=2005.
[278] Walter, p. 241.
[279] *Ibid.* p. 243

> of fragmented up there. We could go in there; we did not have any competition We would be the only consolidator in there after we acquired this bank. It is always easier to add onto a position like that than it is to make the initial foray. Your dilution is less. Your consolidation opportunities are greater. That's why we did it.
>
> We later on acquired Core States which is the biggest bank in Philadelphia…. You might say, "why did you go up there. They aren't growing." But there's a lot of wealth up there. What we decided was by this time we were beginning to get into the brokerage business in a big way and into the mutual fund business. The thinking was we will bring brokerage, mutual funds, insurance to these customers who had pretty good money…It was a play on diversification.[280]

In April of 2001 Wachovia Corporation announced that it had agreed to merge with First Union. Within a few days, SunTrust, which had also been in potential merger discussions with Wachovia off and on for several years, intervened with a hostile takeover bid with a slightly higher per share premium. After a protracted public relations campaign by SunTrust to dissuade the directors and shareholders of Wachovia from merging with First Union, the Wachovia shareholders affirmed the consolidation with First Union in August, and the merger occurred before year-end. As a part of the merger agreement First Union Holding Corp. changed its name to Wachovia Corporation, enabling that respected banking name to survive. The value of the transaction was $13 billion, less than the value of the CoreStates acquisition.[281] Ed Crutchfield, who had retired from First Union just before the merger, comments on the discussions with Wachovia: "Bud Baker (then CEO of Wachovia) and I started talking about it. By talking about it, we sniffed around each other. We did not overtly say, 'let's do a deal.' We kind of batted eyes at each other for a year or two before the deal was done. By the time it came up, SunTrust wasn't in the picture."[282] Former Wachovia CEO John

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[280] Edward E. Crutchfield interview by author.
[281] *Ibid*. p. 247.
[282] Edward E. Crutchfield interview by author.

Medlin explains why he thinks the merger with First Union was fitting:

> It is interesting when you look at the First Union arrangement. Obviously, the financial issues were the main issues, I guess, and some of the market reasons….Bud and others, probably Ken Thompson (the new CEO of First Union, succeeding Crutchfield) felt a certain comfort with an in-state knowledge and had known each other so long. But I think Wachovia and SunTrust could have merged. Jimmy (Former SunTrust CEO Jimmy Williams), Bob Strickland and I had conversations. They (SunTrust) ran independent banks, and we were centralized. They were decentralized, and the model that worked for them worked well, and our model worked fine for us. It was always hard to see how you were going to put together those two models and not have a mess. It was - when you came to the Wachovia-First Union possibility - you had two operating models that were very similar, and I always think you have to see how the top management gets along in a merger. It is as critical as anything else.[283]

In 2004 the new Wachovia expanded again by purchasing SouthTrust of Alabama.

While in-state rivals Wachovia and First Union were expanding, NationsBank also continued to acquire banks both inside and outside of the southeastern region. In 1996 the management team at Bank South in Atlanta put their bank on the market, and the superregionals in Atlanta all bid competitively. NationsBank had the highest offer, valued at $1.6 billion. Former Bank South Executive Lee Sessions, who had departed from C&S at the time it was merging with NCNB, comments on the bid process: "Wachovia, NationsBank and Trust Company – Those were the three that were very aggressive….They (NationsBank) came in with a price to blow everybody away."[284]

In 1996 NationsBank ventured outside of the South to purchase a large Midwestern bank holding company, Boatmen's Bancshares, Inc., the largest banking company in Missouri with headquarters in St. Louis and bank offices in nine states and with $41 billion in assets. NationsBank bid against Banc One of Ohio, and two

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[283] John G. Medlin interview by author.
[284] Lee M. Sessions, Jr. interview by author.

Minneapolis –based interstate holding companies, Norwest Corporation and First Bank System. NationsBank won this bid with a generous offer of $9.46 billion and a high multiple of 2.7 times the book value of Boatmen's. Hugh McColl comments on how the Boatmen's merger helped NationsBank:

> We worried about a Boatmen's acquisition because we went into a slower growth market. But what it did, it allowed us to bulk up capital. I always had a little litany that said, "No Boatmen's, no Barnett; no Barnett, no Bank of America." So, I needed their capital. I needed the amalgamated capital to get larger. [285]

The next year NationsBank returned to the South with an offer to acquire Barnett Banks, Inc., Florida's only surviving superregional banking company. NationsBank paid almost $15 billion for Barnett in a competitive bid against Wachovia, First Union and SunTrust. Ironically, this combination joined together two banks whose former CEO's, Tom Storrs of NCNB and Guy Botts of Barnett, had visited together at a Reserve City Bankers Association meeting twenty years earlier and talked about the possibility of a later merger if the banking laws ever allowed.

This last banking combination did give McColl the bulk of capital that he needed to entertain the idea of a merger with Bank of America (B of A) in California, a bank that had consistently ranked in the top two or three banking companies in the country for all of the last half of the twentieth century. Bank of America continued to grow in the early 1990s with its 1991 acquisition of Security Pacific Bank and its saving acquisition of the troubled Continental Bank of Chicago in 1994. Bank of America and NationsBank together were a dream combination that MColl had been considering for several years, since McColl and Dick Rosenberg, the former B of A CEO, had discussed a potential merger in 1995. McColl's biographer relates a story of a March 1995 private dinner in

[285] Hugh L. McColl, Jr. interview by author.

San Francisco between McColl and Rosenberg. Rosenberg made an offer to McColl in which he suggested a possible combination of their banking companies and said: "You run the show. We'll work out all the details later, but you will be in charge. Imagine, Hugh, running the largest damn bank in the world….Then, just to make our board of directors happy, when you retire in five years, one of our people will take over….What do you say?" [286] To McColl, the offer sounded like an attempted acquisition of NationsBank, and McColl declined.

By February of 1998 the Board of Bank of America had decided to look at possible combinations, and according to McColl's biographer, Citicorp and NationsBank were the preferred choices of David Coulter, the new B of A CEO.
In February of 1988 Jim Hance, NationsBank's chief financial officer, had a brief merger discussion with his counterpart at B of A, and other executives of the two banking companies also began conversations.

In April of 1998 McColl and Coulter reached an agreement to merge in a transaction valued at a record $61.6 billion, currently still a record price for a U.S. banking company. The primary stipulations of the merger agreement provided that the name of the merged company would be Bank of America, the headquarters location would be Charlotte and the Board of Directors would be split 11 to 9 in favor of NationsBank, since the relative value of the two company's stocks was split 55 to 45 in favor of NationsBank. MColl had clearly won another victory.[287] Economics professor Gary Dymski described the combination as the largest bank merger in history, "with significant market share in twenty four states, holding 8 percent of all U.S. bank

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[286] Yockey, p 10.
[287] *Ibid*. p. 559.

deposits, where span reaches from the Atlantic to the Pacific."[288] When asked about his long term interest in combining with Bank of America, Hugh McColl stated:

> We talked about it from time to time, but we always thought it was too big. I will never forget in November of 1997, Greg Curl, who was head of strategic planning…we had been talking about buying Wells Fargo….He came to seem me, and he said, "Hugh, we can't buy Wells Fargo. They are too expensive, and we can't make it work. But, hey, we don't want to do that anyway." He said "We ought to buy either Citicorp or Bank of America." I said, Are you crazy?" "No, no," he said. "let me show you." He got out charts that show what I call "the wonder of it all" – what happens if you put it all together….It was a dead flat, perfect fit. I said, "We can't afford them." He said, "Yeah, we can. Let me show you."….Remember, they had tried to buy me. They really courted us in 1995 and talked at length about putting the companies together. Well, I wasn't selling my company out.

McColl also comments on one of the social issues of the merger:

> We carried on negotiations with their CFO…He came to talk to me on a Saturday morning. He said we can get a deal, but they don't want to be a southern company. I said, "Tough…! That's what we are. I really did say that. We are a southern company, so we are not going anywhere with this conversation. They blinked, and the rest is history. The California press attacked us unbelievably….They thought we were bumptious barbarians…. We aren't ashamed of being from the South.[289]

The most recent large acquisition by the bank that is now called Bank of America occurred in 2004 after Hugh McColl had retired and Ken Lewis became CEO. That year the company bought superregional FleetBoston, a powerhouse bank holding company in the New England market. Beginning in the mid-1990s Fleet Financial rolled up several New England banking companies, including Shawmut National Corp., Bank of Boston, National Westminster Corp. of New York, and Summit Bancorp of Princeton, New Jersey. Ironically, it was the proposed combination of one of these rolled-up banks, Shawmut National Corp. and CBT Corp. in the 1980s, which had precipitated the

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[288] Gary A Dymski, *The Bank Merger Wave – the Economical Causes and Social Consequences of Financial Consolidation* (Armonk, New York: M.E. Sharp, 1999), p. 48.
[289] Hugh L. McColl, Jr. interview by author.

Northeast Bancorp. lawsuit that had resulted in the U.S. Supreme Court decision that legitimized regional banking compacts.

There was one potential draw-back to the B of A- Fleet merger, however. The Riegel Neal Act limited the U.S. deposits of any one institution to 10 % of the insured deposits in U..S. depository institutions. The Fleet acquisition temporarily moved B of A into control of about 9.9 % of the national deposit share, thereby limiting it future U.S. growth by additional acquisitions.[290]

In the consolidation of banks in the Southeastern United States between 1985 and 2005, there were clear winners and losers. The two big North Carolina banking companies, NCNB, now called Bank of America, and First Union, now called Wachovia, were the most successful southern bank holding companies in terms of the size and scope of their banking and other financial operations. Branch Bank and Trust, also based in North Carolina, is now positioned among the largest banking companies in the country. SunTrust, based in Georgia, is the other southern banking company that is ranked in the nation's top ten. Georgia's other largest banking companies, C&S and First Atlanta, were acquired, as were the major bank holding companies in Florida, Virginia and South Carolina. Most of these acquired banks were merged into one of the large North Carolina banking companies.

The question to be answered is what was it about the environment of North Carolina banking that inspired the relative success of that state's leading financial institutions over the leading financial institutions of most other southern states? Several commentators have suggested that North Carolina's freedom from bank

[290] "Spotlight on Financial Services – Industry Trends," American Financial Services Association, 2004, http://www.spotlightonfinance.org/2004/September/industry-story4.htm.

branching and merger restrictions and the earlier development of statewide distribution systems may have been the primary determinant in the relative success of North Carolina banks, particularly when compared to Georgia and Florida, both of which had fairly restrictive constraints on the expansion of the banking industries of their states.

In writing about the North Carolina bank attorneys who helped to engineer their banks' expansion strategies, University of North Carolina banking law professor Lissa Broome discusses the opinions of NCNB chief counsel Paul Polking and comments:

> North Carolina had long permitted statewide branching, while many other Southeastern states did not. The result was that the North Carolina banks were larger than their competitors in Atlanta, Richmond, Miami and other southeastern financial centers….In addition to their size advantage, Polking notes that North Carolina banks, through their statewide acquisitions and branching operations, knew how to build a branch banking network and how to integrate two different institutions.[291]

Former Wachovia CEO John Medlin also comments on how it was relatively easy for North Carolina banks to take advantage of the growth opportunities offered by interstate banking by virtue of their experience in running widespread distribution systems. He states: "You had to develop the expertise and management skill and culture for a statewide organization in banking to be successful. You had to have the infrastructure to manage something at a long distance….so when interstate banking came, it was nothing new for the major North Carolina banks."[292]

By comparison, Georgia did not have the legal or public policy backing for its banks to develop extensive statewide banking systems until much later than North Carolina did. In fact, it was not until 1996 that Georgia eventually passed legislation allowing relatively unrestricted statewide branching, and even then it had to be phased in

[291]Lissa L. Broom, "The Legal Giants That Propelled North Carolina Banks To National Prominence," *North Carolina Banking Institute,* Vol. 8, April, 2004, p. 125
[292] John G. Medlin interview by author.

over three years at the rate of only two new branches per year in counties where a bank was not already engaged in banking. Full statewide branching was thus delayed in Georgia until almost four years after Congress had authorized interstate banking on a nationwide basis. Jack Hunnicutt, a community banker from Moultrie, Georgia, who served as 1995 president of the Georgia Bankers Association (GBA), became an advocate for the removal of branching restrictions. In a GBA "Branching Update" in which Hunnicutt replies to a question regarding the sale of some of Georgia's largest banks Hunnicutt admits, "Some would say our branching restrictions caused it, and that may have been part of it,"[293] In a Fall 1995 speech to the combined banking committees of the House and Senate of the Georgia General Assembly, former GBA president Jimmy Blanchard, the long-time CEO of Columbus Bank and Trust Company and its parent, Synovus Financial, commented: "Our laws kept our largest banks out of some of the growing markets throughout the state, and these banks were not able to develop to a size significant enough to survive a merger."[294]

Proposed liberalizations of the Georgia branching laws to allow banks to branch in contiguous counties or throughout metropolitan statistical areas (MSA's) were defeated in one house or the other of the state legislature on two occasions between 1985 and 1996. When statewide branching was finally approved by the General Assembly, it was still somewhat of a contentious issue. However, 1996 was the first time that the Georgia Bankers Association and the Commissioner of Banking had ever actively supported legislation in Georgia to remove restrictions on branch banking.

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[293] Jack Hunnicutt, "Branching Update' GBA Proposes Legislation to General Assembly," Fall, 1995, Archives of the Georgia Bankers Association, Atlanta, Georgia.
[294] James Blanchard, transcript of a speech to the Banking and Finance Committees of the House and Senate of the State of Georgia, 17 November 1995, Archives of the Georgia Banking Association, Atlanta, Georgia.

Representative Larry Smith of Jackson, Georgia introduced the statewide branching bill in the House, where it passed by a vote of 116 to 56. The legislation subsequently passed the state Senate by a vote of 40 to 12.[295] Representative Smith, who sponsored the successful legislation, discusses the importance of the passage of the bill:

> We had a Banks and Banking Committee meeting in the Fall prior to the session that year when it passed. Jack Dunn, who was then head of the Georgia Department of Banking and Finance, spoke in favor of it….The bill should have passed in 1985, and I think Georgia would have competed more with North Carolina, who did all the things right in the banking industry, and I think Georgia would have profited by the passage in 1985.[296]

Another difference, not so much between the states as between the bankers in each state, seems to be the spirit determination with which the North Carolina bankers pursued the vision of a nationwide banking network. Certainly, Hugh McColl of NCNB/NationsBank and Ed Cruthchfield of First Union reached higher than did most of their southern banker competitors. Former SunTrust executive John Spiegel compares the competitiveness of the banking environments in North Carolina and Georgia: "You had two leaders who were very competitive in North Carolina at the time….You had McColl and you had Crutchfield, who were very competitive. In Georgia, we had a very collegial, gentlemanly-managed business."[297] Ed Crutchfield also comments on his and McColl's aggressiveness when asked about the successes of North Carolina banks and bankers: "You are going to have to cut me a little slack here because it is going to sound bad. I don't think they were as aggressive as I was or as Hugh McColl was."[298]

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[295]GBA Bulletin, 26 January 1996, Archives of the Georgia Bankers Association, Atlanta, Georgia.
[296] Larry Smith, interview by author, tape recording, Georgia State Capitol, Atlanta, Georgia, 8 November 2005.
[297] John W. Spiegel interview by author.
[298] Edward E. Crutchfield interview by author.

Even though the North Carolina-based banking companies may have achieved relatively greater success in acquiring other banks, rather than being acquired, and they may have enjoyed longer endurance than the banking companies of Georgia, the next question is, does it make a definable difference in the overall economic development of each of those states. This study shows that, on balance, it has not made a significant difference in the economic performance of those states, although there are some discernable differences in the microeconomic segment of the commercial banking industry.

A comparison of total deposits in commercial banks, as a source of capital for investment, over the last several years (for which FDIC data is readily available) reveals that North Carolina grew its in-market bank deposit base much faster than Georgia did. As of the reporting date of June 30, 1994, all FDIC insured commercial banks in North Carolina had total in-market deposits of $60.2 billion in 69 institutions with 2,281 offices. Correspondingly in 1994, Georgia FDIC insured commercial banks had total in-market deposits of $62.1 billion in 396 institutions with 1,940 offices. By June 30, 2005, North Carolina banks reported in-market deposits of $178.9 billion in 94 banks with 2,396 offices, while Georgia reported in-market deposits of only $143.2 billion in 343 institutions with 2,481 offices.[299] Although most banking companies tend to consolidate their large corporate deposits at the headquarters office of the bank, North Carolina's deposit growth exceeded that of Georgia rather significantly.

In addition, the largest North Carolina banks have invested more capital in their urban office development than the largest Georgia banks have. In Downtown Charlotte, both Bank of America and Wachovia have constructed major new office towers in the

[299] http://www2.fdic.gov/sod/sodSumReport.asp?barItem=3&sInfoAsOf=1994/2005

last decade, whereas neither SunTrust nor the Georgia headquarters offices of B of A or Wachovia have built new office towers. In Atlanta, both Wachovia and SunTrust have relocated to newer headquarters buildings, but the office buildings were not built by the banks.

Georgia's employment in the broad financial services sector continues to grow, at only a slightly slower rate than that of North Carolina, but arguably the headquarters location of a banking company provides higher paying jobs than does just a state headquarters of an out-of-state-based banking company. Former SunTrust executive John Spiegel comments on the issue of not having as many corporate headquarters locations of large banking companies in a community: "Corporate leadership in Atlanta and the communities around the state were very focused on supporting cultural growth, supporting welfare protection, and so on in our communities. When you get outsiders coming in and managing those resources, you don't get the participation…. You don't get participation in terms of contributions in many different ways."[300] When asked about the benefit of having a corporate headquarters location in a community, Hugh McColl responded in a similar manner to Spiegel:

> The difference is having the CEO and all the top management, who make millions of dollars – I think it's a fair statement to say last year in Charlotte Bank of America paid over 300 people over a million dollars. Now that shows up in the United Way drive. It shows up in the Arts and Sciences drive. It shows up in the churches. It shows up in the Little League. It shows up at the YMCA. What really pays off is not just having the company's flag there but actually having all the money there.[301]

According to the U.S. Bureau of Labor Statistics reports available in 2006, Georgia actually had more jobs, on average, in the broadly defined employment

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[300] John W. Spiegel interview by author.
[301] Hugh l. McColl, Jr. interview by author..

sector of Finance and Insurance (of which commercial banking is a sub-sector), than did North Carolina; however North Carolina's finance and insurance jobs were growing at a faster pace. The rate of growth in this job sector nation-wide over the last ten years was 16.8 %, but the comparable rate of growth was 24 % for Georgia and 27 % for North Carolina. [302] According to 2000 census data, both states had approximately 6% of their work forces employed in the even broader category of Finance, Insurance and Real Estate. Georgia had a slightly higher number of workers, but the overall population of Georgia was slightly larger at the last census date.[303]

The per capita personal income in Georgia for the year 2004 at $29,782 (90% of the national average) was slightly higher than that of North Carolina at $29,332 (89% of the national average). However, North Carolina experienced a higher rate of year to year growth in personal income, than did Georgia.[304]

According to 2005 FDIC state profiles, small business growth was healthy in both states with Georgia's number of small businesses increasing 5.5 % while North Carolina's grew at a 3% annual rate. According to the same report banks in both states were earning profits at a satisfactory rate, although Georgia had slightly greater net interest margins and return on assets in its banking sector.[305] Also, Georgia's three year rate of growth in new bank formation has been almost three and one half times the rate of growth in North Carolina new bank formation, with Georgia opening a running average of 35 new banks to North Carolina's 10 new banks each over a three year time horizon. .In addition, Georgia continues to serve as the corporate headquarters for more *Fortune*

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[302] http://data.bls/gov/PDQ/servlet/SurveyOutputServlet
[303] http://ww.census.gov/servlet/QTTable?_bm=y&-qr_name=Dec_2000. Georgia's population was reported at 8.186 million, while North Carolina was reported at 8.049 million for 2000.
[304] http://www.bea/regional/bearfacts/stateaction.cfm?fips=2004
[305] http://www.fdic.gov/bank/analytical/stateprofile

Magazine-ranked largest corporations, than does North Carolina, and Georgia's primary airport, Hartsfield-Jackson, continues to serve as one of the two or three busiest airports in the world.

The economies of both states and their banking industries remain strong. Thus, while the headquarters location of a major banking company does have many benefits for its home state, it does not appear that the banking headquarters locations alone have a significant effect on a state's overall economic performance. Harvard business professor Michael Porter also makes a consoling observation about Atlanta's loss of banking headquarters:

> In 1999, the Atlanta Metropolitan Statistical Area (MSA) had the eighth largest financial services cluster in the country, and was the second fastest growing out of the twenty largest clusters in the United States….Once the home of many bank headquarters, Atlanta is no longer a headquarters for leading national banks. However, the (financial) cluster has continued to grow through the establishment of major regional bank operations and strong development of real estate, insurance and financial planning services. It is also the home of the Southeast Region Federal Reserve."[306]

The obvious open question is whether or not Georgia would have experienced even greater economic growth over the last two decades if more mega-banks had been headquartered in Atlanta.

[306]Porter, p. xx.

CHAPTER SIX

CONCLUSION

In concluding this analysis of the Southeastern Regional Interstate Banking Compact, it is appropriate to look at the consolidation of the commercial banking industry in the South in the context of the consolidation that was taking place in banking nationwide and also the consolidation that was occurring in the broader financial services industry, of which commercial banking is only a part of the whole. It is also important to examine the issues that were driving an upheaval in the financial services sector of the economy in the last decades of the twentieth century.

Within the commercial banking sector of financial services, consolidation has been extraordinary. Between 1984 and 2005 the number of banks decreased by half from 14,496 to 7,549. See Table 3. Economist Margaret Polski reports that there were over 8,000 bank mergers in the U.S. between 1980 and 1998, involving more than $2.4 trillion in bank assets.[307] Corresponding to a decrease in the number of banks was a substantial increase in the number of bank offices, growing from 57,417 in 1985 to 78,029 in 2005, according to the FDIC summary reports of FDIC-insured commercial banks. Thus, access to banking services by bank customers seems to have increased.

The concentration of banking deposits in a few larger institutions is significantly even more dramatic than the reduction in the number of banks. In the more restrictive era of banking regulation from the 1930s to the 1970s, the proportion of deposits held by

[307] Polski, p. 49.

the 10, 25 and 100 largest banks actually declined. For instance, in 1940 the top 100 banks in the country held 57% of all the deposits, and the top 300 banks held 69%. By 1965 the share of deposits held by the top 100 banks had slipped to 48%, while the share held by the top 300 fell to 62%.[308]

In the states of Georgia and Florida, both of which restricted their banking laws in this timeframe, the deposit shares of the larger banks also decreased. In Florida between 1939 and 1965 the share of deposits held by the largest banks fell from 41.5% to 17.1%. In Georgia the share fell from 68.4% to 53% over the same years. Contrastingly, in North and South Carolina, where there were no restrictions on branching or merging, the share of market for larger banks increased. In North Carolina the market share moved from 48% to 64% for the large banks between 1939 and 1965, and in South Carolina at the same time market share for larger banks rose from 42% to 48%. [309] Obviously, restrictions on bank expansion, as a matter of public policy, can have meaningful effects on a regulated industry.

As the industry consolidated in the 1980s and 1990s these trends changed again. Between 1985, when a new wave of interstate mergers was initiated, and 1997 the share of the total U.S. deposit base held by the largest 100 banks increased from 52% to 69%.[310] While the commercial banking sub-sector of the broad financial services industry was consolidating and concentrating deposits and assets in fewer large banks, the banking industry as a whole was losing market share of the total assets and revenues within the broader financial services industry. Economists Shull and Hanweck report that

[308] Fischer, p.331.
[309] *Ibid*. pp 334-335.
[310] Shull and Hanweck, p. 149.

from 1981 to 1998 the proportion of financial sector assets held by commercial banks fell from 36% in 1981 to 23% by 1998.[311]

Because of the serious competitive threats to the banking industry from other financial service providers, commercial banks were very instrumental in lobbying for a change in the banking laws that repealed the Glass-Steagall Act of 1933. In November of 1999 Congress passed the Gramm-Leach-Bliley Financial Modernization Act that effectively repealed Glass-Steagall and modified the bank holding company law to permit commercial banks to once again affiliate with securities firms and insurance companies through holding company structures. A new "legal list" of permissible activities was drafted into the law. As this law became effective, banking companies were able to purchase many other financial service companies, because commercial banking companies generally maintained larger capital bases than other types of financial service businesses; indeed, banking regulations require commercial banks to have relatively larger capital bases in order to support the risk-taking of commercial lending activities. As profit opportunities in the commercial banking market narrowed, the leading banking companies simply responded by acquiring other types of financial service businesses with lower capital requirements and higher growth rates. Political economist Margaret Polski comments on the ingenuity of the banking companies:

> As forces in the economic environment produced new competition, extensive structural change and eroded market share in traditional service segments, the banking industry not only adapted, it prospered. Revenues as a share of all private industry GDP (gross domestic product) increased from about 2% in 1960 to over 4% in 2000. Rather than being stymied by restrictions, bank managers implemented extensive innovations that affected the structure of the banking business.[312]

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[311] *Ibid*. p. 3.
[312] Polski, p. 83.

An interesting anomaly of late twentieth century deregulation in the banking industry is that it began at the state level, rather than the national level. It was also driven more by the business leaders in the banking industry than by governmental regulators. Polski also comments on the change process in the banking industry: "Regulatory reform works as follows: given economic technical or legal shocks from outside the industry, self-interested political pressure will be exerted for deregulation. This pressure will have a snowball effect, leading to more and more deregulation."[313] Hugh McColl seemed to agree with Polski's assessment when asked why he thought southern bankers had come together to form the Southeastern Regional Banking Compact in the mid-1980s. He states: "So why would they cooperate like they did to get the legislation passed? The answer is it was enlightened self interest. Getting ten legislatures to approve it had to be couched in terms that what's good for the South is good for us all."[314]

Another important reason why the regional banking compact worked was that the South was consistently growing its population and its economy at a faster rate than other regions of the U.S. In the last decades of the twentieth century, the profits of southern banks grew, so that their stock prices rose and enhanced the value of the currency used in almost all of the bank mergers in this era. Atlanta Federal Reserve Bank economists Hunter and Wall analyzed the bank mergers in the decade of the 1980s and observed:

> A cluster analysis of the financial characteristics of a sample of 559 target banks indicates that the strategic profile of the most valued merger partners' characteristics consists of the following items: higher-than-average profitability (as measured by the return on equity), faster growth in core deposits and total assets, and a higher ratio of loans to earning assets, all augmented by the judicious use of financial leverage.[315]

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[313] *Ibid*. p. 20.
[314] Hugh l. McColl, Jr. interview by author.

Certainly, the capital-short but high growth environment of southern banking provided a sufficient number of attractive target banks for the larger and more aggressive southeastern banks that wanted to dominate regional banking after the compact was adopted, so that there was little need for Southeastern banks to shop for merger partners outside of the region in the early years of the compact. At the same time, the attractive southern target banks were protected from acquisition from outside of the South by the compact that Hugh McColl labeled as "the Berlin Wall of banking."

In conclusion, the Southeastern Regional Interstate Banking Compact, designed in the 1980s by self-interested southern banks, actually worked and achieved the purpose for which it was established. Although several of the southern states no longer have as many large banks headquartered in their states, by 2005 four of the top ten U.S. bank holding companies and six of the top twenty five were now headquartered in the South. Also, none of the major banks of the South, with the exception of the two medium-sized Louisiana banks sold to Bank One, have yet been purchased by banks headquartered in states outside of the South. There is one additional technical exception to this conclusion. In 2000, Royal Bank of Canada purchased a fast-growing North Carolina bank, Centura Bank, but the U.S. subsidiary of that Canadian bank. RBC Centura, is a North Carolina-chartered bank, based in the South.

While none of the largest southern banks has been purchased by U.S. banks from other regions of the country, several of the largest southern banks have purchased banks headquartered outside of the South. Notably Wachovia (formerly First Union) and Bank of America (formerly North Carolina National Bank and later NationsBank) have purchased several banking companies in other regions. Southern Regionalists like Rupert

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[315] Hunter and Wall, p. 17.

Vance and Howard Odum should be very proud that modern-day southern bankers have emerged to play leading roles in this new economic nationalism.

The perseverance of the leading southern bankers in maintaining their southern heritage while positioning their banks in leadership roles in the national economy seems consistent with the philosophy that Rupert Vance expressed when he addressed the 1960 Southern Historical Society and stated: "Regionalism, like individualism, claims a right to maintain identity, to defend and to cherish certain autonomy in cultural values, a style of life, certain attitudes, regarded as Southern."[316] Southern identity continues to be of significant importance to most southerners, according to southern historian David Goldfield, who commented as follows in his 2002 study of the American South: "After more than two decades of significant northern in-migration, a majority of respondents in every southern state still viewed themselves as a distinctive category of Americans, as Southerners."[317] Goldfield also observes that many of the leaders in Congress and the federal judiciary have southern heritage. Perhaps then, it is not coincidental that essentially all of the leading bankers who guided their southern banking companies into national leadership within the industry were also raised as Southerners and were educated in the South. North Carolinians Hugh McColl and Ken Lewis of NCNB/B of A, Ed Crutchfield and Ken Thompson of First Union/Wachovia, John Medlin and Bud Baker of Wachovia and John Allison of BB&T are all Southern. From Georgia, former C&S leaders Bennett Brown, Jim Lientz and Lee Sessions, First Atlanta's Tom Williams, Raymond Riddle, and John Stevens, and Trust Company's Bob Strickland, Jimmy Williams, John Spiegel and Phil Humann are also all southern in

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[316] Reed, p. 217.
[317] David R. Goldfield, *Still Fighting the Civil War – the American South and Southern History* (Baton rouge: Louisiana University Press, 2002), p. 10.

heritage and education. Therefore, this study concludes that the southern heritage of these leading bankers had some significant influence on their decisions to try and position their southern banks as leaders in the national economy while maintaining their banking headquarters in the South. As noted southern historian C. Vann Woodward has observed, "The distinctive, collective experience of the past…is the source of Southern identity."[318] Southern banker Hugh McColl comments on the role of southern identity in influencing the ambitions of many of the southern bankers when he states: "I actually think part of what drove the southerners was that we had been poor so long and were looked down upon."[319]

As the banking industry of the South looks ahead to the next phase of consolidation in financial services industry in the twenty-first century and the potential of acquisition of southern banks by large U.S. banks from outside of the South, or even the possibility of purchase by foreign banks, the influence of the South on its leading bankers still may impact their business decision-making. David Goldfield expresses the issue with which southern bankers may still be struggling. He observes: "What southern society will become in this new century, especially given the growing economies and political importance of the region, and what Americans will become, as well, will depend largely on how southerners reconstruct their past." [320]

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[318] C. Vann Woodward, *Thinking Back: The Perils of Writing History* (Baton Rouge, Louisiana State University Press, 1986), p. 108
[319] Hugh L. McColl, Jr. interview by author.
[320] Goldfield, *Still Fighting the Civil War – The America South and Southern History*, p. 15.

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