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# *Foreign Banks in the United States Since World War II: A Useful Fringe*

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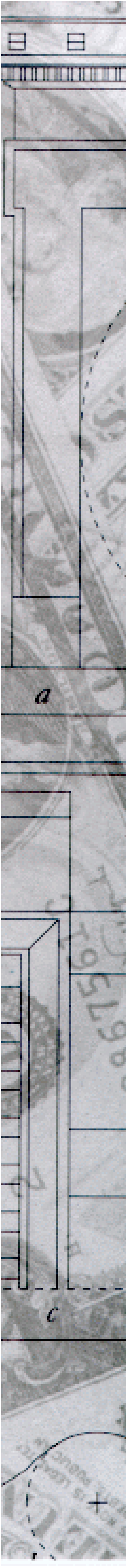

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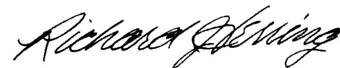

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**Foreign Banks in the United States since World War II:**
**A Useful Fringe**

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I would like to thank Geoff Jones, Mira Wilkins and the other participants at the August 2000 Unilever Conference in Rotterdam for helpful comments on the previous draft. Jean Newland of Penn's Lippincott Library went well beyond the call of duty to dig up some obscure information that enabled me to dot an i.

Notes: If I am strong I may acquire weak banks to profit from their rehabilitation. If I am weak, I may buy a strong bank to gain access to its capabilities. Deutsche-BT is example of latter; almost all other cases are examples of the former. Highlight this re GJ's question about learning.

# Foreign Banks in the United States since World War II: A Useful Fringe

## 1.0 Introduction

Foreign banks have had an organizational presence in the United States since the early 1800s. Until after World War II, the foreign banks' presence was generally limited. They engaged in trade finance, and in some cases ethnic banking. The growth really dates to the period from the mid-1960s to 1990. Banks are service firms, and their growth reflects a demand for their services. This growth in demand is itself the consequence of the growth of four other activities: trade, the Eurodollar market, foreign exchange trading and non-financial foreign direct investment in the US.

First, the General Agreement on Trade and Tariffs (GATT), and its successor the World Trade Organization (WTO), facilitated the rebound of trade from its collapse during the Great Depression. Since the end of World War II, world trade has grown more rapidly than world GNP, and this has generated an increase in the demand for trade financing and the execution of trade payments. Second, liberalization of capital flows and the growth of the Eurodollar market from the late 1950s on led many foreign banks to want to have a presence in the US money markets, and therefore New York, and perhaps a dollar deposit base as well, to be able to fund their customers' demand for US dollar loans. Third, the breakdown of the Bretton Woods systems of fixed exchange rates led to the development of foreign exchange trading, with New York again appearing as a leading center. Lastly, as companies in Europe and Japan recovered from World War II, they first rebuilt their domestic operations. By the mid-1960s (Europe) or mid-1970s (Japan), many of these companies were ready to establish operations in the US. As they did so, they wanted their bankers to accompany them.

As we shall see below, this period of rapid growth in the presence and role of foreign banks in the US is over. Although the share of foreign banks in US Commercial and Industrial (C&I) loans reached a peak of 35 percent in 1995, we are now seeing a retreat.

Wilkins (2001)…

The second section below describes the legal and regulatory background to the foreign banks' presence and some legislative milestones. The third section focuses on the agencies and branches of foreign banks. The fourth section focuses on the foreign banks' subsidiaries. The last section is the conclusion.

## 2.0 Some legal and regulatory background

### 2.1 The legal form of the foreign banks' presence

To examine the impact of foreign banks in the US I will consider separately the activities of what I will call the integral forms and the equity forms of presence. Representative offices, agencies and branches of foreign banks are not separate legal persons but are, instead, an integral part of their parents. However, affiliates, consortia and subsidiaries are separate legal persons. Integral forms trade on the basis of their parents' capital; their commitments are automatically their parents' commitments. An integral form cannot go bankrupt unless the parent goes bankrupt; however, if the parent is bankrupt, so are its branches and agencies. An equity form trades on the basis of its own capital. As a separate legal person, an equity form can go bankrupt even when its parent remains solvent and may remain solvent even when the parent is bankrupt.

Under the Basle Agreement, prudential supervision of integral forms is primarily the responsibility of the regulatory authorities of the parent bank's home country.

Supervision of the equity forms is primarily the responsibility of the regulatory authorities of the entity's country of incorporation, which is generally the host country. This division of duties follows logically from the legal status of the two sets of forms.

This legal distinction parallels an operational distinction as well in terms of the activities the banks undertake and hence the markets that they serve. Heinkel and Levi (1992) establish an empirical link between the legal form of a foreign bank's presence in a country and the activities that it undertakes. Earlier, Cho et al. (1987) found that foreign banks' agencies and branches in the US engaged primarily in trade finance, corporate banking, foreign exchange dealing, and money market activities.

Grubel (1977) distinguished three markets for multinational banking: wholesale, corporate, and retail. Agencies and branches are an appropriate form for banks wishing to participate in wholesale capital markets as they permit the parent bank to trade on its own capital rather than the smaller capital base of a subsidiary. The same considerations apply in the case of corporate lending; under most regulatory regimes, the capital base restricts the size of the loan a bank may make and hence agencies and branches may make larger loans than may a subsidiary. Typically, banks use subsidiaries for retail banking to disengage the operation from the parent and to bring it under local regulatory supervision which qualifies it for deposit insurance, should that be available.

Of course, frequently host country or home country laws and regulations constrain the foreign banks' choices (Tschoegl 1981; Engwall 1992). For instance, New York will not permit foreign banks from countries that do not permit New York banks to establish branches or subsidiaries there to establish a branch in New York. It does, though, permit

banks from countries with such immigration barriers to open representative offices and agencies; this is one factor in the establishment of agencies in New York.

Norway provides an example of both of what Engwall (1992) calls immigration and emigration barriers. Until 1985, Norway prohibited foreign banks from establishing anything more than representative offices in the country. Also until 1985, it prohibited its banks from opening branches or agencies abroad; they were only permitted representative offices or equity forms. Thus until 1985-86, under either set of rules Norwegian banks could only operate in New York via representative offices and consortia or subsidiaries. Once the rules changed, the Norwegian banks converted their operations in New York to branches (Jacobsen and Tschoegl 1999).

### 2.2 Some legislative milestones

Congress intended the 1978 International Banking Act (IBA) to remove some regulatory loopholes that permitted foreign banks to operate in more than one state while US banks were restricted (with only a few grandfathered exceptions) to one state (Hultman 1987). Before the IBA of 1978, banks such as Barclays Bank and Bank of Tokyo had established subsidiaries in New York and California, something that was denied to US banks. Even after the passage of the law, foreign banks could still have a subsidiary in one state and a branch in another.

The Depository Institutions Deregulation and Monetary Control Act (DIDMCA) of 1980 included provisions granting foreign banks' branches and agencies direct access to Federal Reserve services and privileges, including the discount window. However, it also subjected all foreign banking institutions accepting deposits to Federal Reserve rules.

In 1989, it was discovered that Banca Nazionale del Lavoro's agency in Atlanta had made unauthorized loans to Iraq in an amount in excess of US$5bn. In 1990, the Bank of Credit and Commerce International went bankrupt as a result of massive internal fraud that involved top management. These shocks led to Congressional demands for tighter scrutiny of foreign banks. In 1991, Congress passed the Foreign Bank Supervision Enforcement Act (FBSEA). Before FBSEA, state authorities could license foreign banks to operate branches and agencies within their states with only a courtesy notification to the Fed. Now, the Fed must approve all entries. The Fed apparently approves applications from banks from Europe and Japan quickly, but delays interminably in the case of banks from Latin America, the Transition Economies, and anywhere else where the Fed believes that regulatory supervision may be inadequate.

FBSEA limited deposit insurance to U.S.-chartered depository institutions. It also barred foreign branches from accepting deposits of less than US$100,000 from U.S. residents and citizens, though deposits from foreigners may be of any size. Lastly, FBSEA required foreign banks acquiring more than 5 percent of a US bank to notify the Federal Reserve (the previous limit had been 10 percent). If the foreign bank owns or controls at least 25 percent of the US bank, the Federal Reserve Bank must also approve the foreign parent bank as a holding company.

The most recent development has been the Interstate Banking and Branching Efficiency Act (IBBEA) of 1994 (Hultman 1997). This act took effect in 1997 and authorized interstate branching by domestic banks and the US subsidiaries of foreign banks. Foreign banks may also operate branches in more than one state without

establishing a subsidiary unless the Board of Governors requires the bank to establish a subsidiary to ensure that the bank adheres to US capital requirements.

## 3.0 Integral forms: representative offices, agencies, and branches

In this Section I first discuss the foreign banks' lending activities and then their contribution to the development of the major financial centers in the US.

### 3.1 The foreign banks' lending

As one can see from Table 3, total assets at the agencies and branches of foreign banks has grown 35 times since 1973, and peaked in 1997. Business loans grew 18 times, and peaked in 1993. What is perhaps more interesting is that the *share* of foreign banks in total banking system assets and loans peaked around 1991-92. It is no coincidence that this peak coincides with that in the number of Japanese banks in New York (and the US).

From the mid-1980s on, Japanese banks, buoyed by the strength of the Japanese economy, the yen and the effect of the stock market bubble on their capital base, expanded their presence throughout the world. Before the early 1980s, the Japanese, constrained by the Ministry of Finance in terms of the number of offices they could establish, were under-represented in world financial centers, relative to what one might otherwise expect (Choi et al. 1986). By 1990, the restraints had been lifted and they were over-represented (Choi et al. 1996).

As Baer (1990) found, foreign penetration of U.S. wholesale banking markets was strongly linked to the market capitalization of foreign banks. At the time, the market capitalization (as a percent of assets) of Japanese banks was almost three times that of U.S. banks, and at least 50 percent higher than that of the major Swiss, German and

British banks. Market capitalization correlated strongly with the growth in foreign bank activity as the banks sought to add assets explicitly by making loans and implicitly by issuing stand-by-letters of credit. At the same time as Japanese banks capitalization increased due to the rise in land values and stock prices in Japan,[1] the market capitalization of U.S. banks suffered from a series of regional downturns and the failure of many LDC borrowers to repay loans on schedule.[2]

However, as Peek and Rosengren (1997) found for the 1988-95 period, the sharp decline in land and share prices in Japan between 1989 and 1992, together with an increased regulatory emphasis on capital adequacy, led Japanese banks to reduce their lending. To limit the effect on long-standing customers the banks concentrated the reduction on overseas customers. Japanese branches in the U.S. showed a statistically significant decrease in both total loan growth and business loan growth relative to assets as their parent banks' risk-based capital ratios fell. However, the US subsidiaries of Japanese banks did not show a similar reduction in lending.

Similarly, Laderman (1999) found that since 1992, Japanese banks' California branches and agencies share of the total business loans made by banking institutions based in the state plunged. However, Japanese-owned U.S.-chartered banks headquartered in California held their share of business loans fairly steady during the same period. The difference is that loans by agencies and branches reflect the capital of the parent, whereas those of subsidiaries reflect their own capital.

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[1] Japanese banks held large portfolios of stocks in companies or in their customers. Under the Basle rules, the Japanese banks could count 40 percent of the unrealized capital gains on these shares as part of their capital base.

[2] The U.S. banks' LDC lending was particularly heavily weighted towards Latin America. The Japanese banks' LDC lending was particularly heavily weighted towards Asia. Latin America suffered a "lost decade" from 1982 on. Asia saw the growth of the "4 tigers" until the Asian Crisis of 1997.

Shrieves and Dahl (2000) found that US lending by Japanese banks fell in the years after 1989 due to a variety of factors, including developments in foreign exchange rates and exports to the US, but most importantly due to a complementarities between the banks' domestic and US lending. They suggest that the complementarities also could reflect a correlation between the domestic and US borrowing needs of Japanese firms, or the banks' reassessment of their customers' creditworthiness. Again, the Japanese banks' subsidiaries appeared to be unaffected by their parents' capital or domestic lending.

In a later analysis, Peek and Rosengren (2000) found that the pullback by the Japanese branches had at least a temporary effect on the overall availability of credit in the U.S. However, this is part of a larger story. In the late 1980s a property boom swept across a number of countries. Ball (1994) argues that technical change in key service industries led to an upsurge in demand for buildings from the mid-1970s onward. Also, deregulation increased credit availability. Monetary authorities, attempting to rein-in the credit expansion, ended the boom. Deflation of real estate values hit banking systems in Australia, Canada, Denmark, Finland, Japan, Norway, Sweden, the UK and the US (Ball 1994; Bartholemew 1994). Japanese lending abroad, including in the US, is part of the story, but whether it was the keystone or not is an open question.

Before leaving the topic of lending by foreign banks it is worth noting that the activities of the U.S. agencies, branches and subsidiaries of foreign banks understates the activities of foreign banks. As McCauley and Seth (1992) point out, in the second half of the 1980s, US reserve requirements interacted with money market interest rates to give foreign banks an incentive to book loans offshore. When the regulations changed, foreign

banks transferred or rebooked some of their offshore business to branches and agencies located in the US (Terrell 1993).

For 1993, Terrell's data shows that French, German, Swiss and British banks had both more loans and deposits that the onshore figures would suggest. The French were small net borrowers rather than small net lenders. The Germans and Swiss remained small net placers of funds in US domestic markets. The British had double the loans and deposits that their onshore figures would indicate, and the British too were small net placers. The Canadian banks had substantially more loans than onshore figures would indicate; their ability to take deposits in Canada meant that they did not book deposits in the offshore centers. Lastly, the offshore figures indicated a small increase in Japanese lending from offshore offices, but a large increase in deposit taking.[3]

### 3.2 The development of US financial centers

There is a circular causation between the presence of the integral forms of foreign banks and the development of a financial center. The foreign banks plant their representative offices, agencies and branches in certain cities because they are financial centers and it is the foreign banks presence and their activities that make the center. In terms of the number of foreign banks with a presence in the city in the form of a representative office, an agency or a branch, Table 1 suggests that the six most important cities are New York, Los Angeles (LA), Miami, Chicago, San Francisco (SF), and Houston. Interestingly, of the top centers in 1980, all but New York have only held their

[3] Loans to or deposits from nonbanks at US banks' offices in the Bahamas and Cayman Islands were stable and very small throughout the 1983-1992 period.

place, or have lost ground. In the last 20 years, the dramatic growth has been in the South, with the rise of Miami and the entrance of Houston and Dallas into the ranks.

**New York:** Already in 1912, New York was the premier US financial center. In 1957, there were 67 different foreign banks with a presence in the city, of which three were subsidiaries and the rest represented representative offices and agencies (Tamagna 1959). Between 1959 and 1961, Chase Manhattan Bank and Citibank led the Association of New York Clearing House Banks to sponsor a bill permitting foreign banks to open branches in New York. Both Chase and Citibank were meeting resistance to their expansion in Japan and Latin America on the grounds that New York did not offer reciprocity (Pauly 1988). More recently, Rosen and Murray (1997) urge New York (the city and the state) to encourage the government of the United States to work to increase openness abroad to the establishment of foreign banks. This is part of their strategy for enhancing the importance of New York as a financial center.

In Figure 1, I have graphed the number of foreign banks in New York from 1970 to the present. There is some double counting of branches and subsidiaries, but the overall shape appears representative of developments in the US overall. Almost all foreign banks have a presence in New York if they have a presence in the US.

The turndown in the line that represents the total number of foreign banks in New York is due to three factors. First, there has been a decline in the number of Japanese banks with a presence in New York. Second, mergers among the world’s largest banks are resulting in some consolidation of operations. Third, increased regulatory caution is slowing the inflow of newcomers.

The second line on the graph is the number of Japanese banks in New York, net of double counting. The evident downturn in the number is primarily a function of the decline in profitability in banking in Japan, which has caused several banks to cut back on unprofitable offices overseas. An increase in mergers, itself a consequence of the difficulties in the Japanese financial sector, is also a factor. Thus the merger of Bank of Tokyo and Mitsubishi Bank, both of which had New York branches, resulted in a reduction in the number of separate institutions by one.[4]

Japan is not the only country to have seen mergers. Mergers and acquisitions (M&A) among large foreign banks appear to have increased in the 1990s. By my count, there was only one merger each in the 1950s and the 1960s that resulted in a consolidation in New York. In the 1970s there were six, in the 1980s five, and in the 1990s 31. Even allowing for the increase in the number of foreign banks in New York over the second half of the 20th Century, merger activity appears to have increased in the 1990s.

Lastly, while retreat from unprofitable operations and M&A have reduced the number of foreign banks in New York, the Federal Reserve has become more cautious in authorizing the entry of foreign banks. For instance, in 1992 the Fed blocked an application by the Banco Nacional de Mexico, the largest bank in Mexico, to open a branch in Florida, though state regulators had approved it the previous year.

**Los Angeles & San Francisco:** In 1910, San Francisco was the financial center for the West Coast in that five foreign banks had a presence there, and none were in Los Angeles. The Canadian Bank of Commerce did operate in Seattle and Portland (Wilkins 1989) and other Canadian banks had short-lived offices elsewhere but San Francisco was

[4] Also there were idiosyncratic events such as the Federal Reserve's expulsion of Daiwa Bank from the US for its failure to inform the Fed of serious internal losses (Tschoegl 2000).

clearly the center. In 1960, four of the five foreign banks in California at the turn of the century were still present and two others had joined them.[5] By 1970, SF had 11 agencies of foreign banks and LA had three. By 1975, LA had pulled ahead with 23 agencies to SF's 20. Since then, LA has pulled even further ahead in terms of the number of foreign banks with a presence in the city, while SF has seen only slight growth.

**Chicago:** The first foreign bank in Chicago was a branch of the Bank of Montreal (BoM), established in 1861, closed thereafter before being re-opened in 1871 (James 1938). Other Canadian banks came and went but by 1914, Bank of Montreal was the largest bank in Illinois (Wilkins 1989). However, after a change in Illinois law in 1921, BoM was forced to restrict its activities and the branch lost its pre-eminent position. In 1952 BoM downgraded its branch to a representative office (Denison 1967). In the same year Dai-Ichi Kangyo (DKB) became the first foreign bank to enter after World War II when it established a representative office. Then in 1972, DKB established a consortium bank, First Pacific Bank, in company with some of its Japanese clients firms.[6] In 1973, six months before the Illinois legislature passed the Foreign Banking Office Act permitting foreign banks to open one branch per bank, Banco di Roma also established a subsidiary.[7] The new law restricted the location of the foreign banks' branches to the area of the Loop (Chicago's town center). The restrictions on foreign banks were consistent with Illinois' general banking laws, which restricted all banks to a single office (so-called

[5] The four survivors were the Bank of Tokyo (then Yokohama Specie Bank), Canadian Bank of Commerce (now Canadian Imperial Bank of Commerce), the Bank of Montreal and HSBC. The non-survivor was the Russo-Chinese Bank, which established a branch in San Francisco in 1904. It never fully recovered from the 1906 earthquake and local Chinese entrepreneurs established the Bank of Canton (the first of three banks that would bear that name), which took over the Russo-Chinese Bank's lucrative remittance business. (Russo-Chinese was the first joint venture bank in China, with the name indicating the nationalities of its owners. Its headquarters were in St. Petersburg and it opened its first branch on the Bund in Shanghai in 1896.) The additions by 1960 were Sanwa Bank and Sumitomo Bank.

[6] Later it acquired all the shares and then converted it to a branch in 1981.

"unit banking"). Chicago's largest banks had backed the market-opening measure as they had found themselves restricted in their own international expansion when trying to enter countries such as Japan that required reciprocity. The large Chicago banks and the business community in general also favored the development of Chicago as a financial center for the middle of the country. Barclays Bank was the first foreign bank to establish a branch. Unlike most of the subsequent entrants that essentially specialized in corporate and wholesale banking business, Barclays actively attempted to develop the retail side as well. In 1987 it gave up the effort and it too decided to focus its attention on wholesale and corporate business. The number of foreign banks with a presence in Chicago apparently peaked at over 80 in the late 1980s, before dropping to the present 40.

**Miami:** Before 1972, foreign banks could own banks in Florida but when the law changed to block further entry only Canada's Royal Trust Company had acquired local subsidiaries (Wilkins 1979). In 1977, Florida passed the Firestone-Bloom bill, which authorized the entry of agencies of foreign banks starting in 1978. By 1979 there were 13 in the greater Miami area and by 1981 there were 21. By 1984 there were 48 but since then the number has stabilized. Grosfoguel (1985) argues that Miami emerged as a world city in the late 1970s as it became the core of the Caribbean system of cities on the basis, in part, of an infrastructure built to serve tourism. Ó hUallacháin (1994) maintains that Miami now acts as node for flows of trade and investment between the United States, South America and Europe and as a center for South America. In a process in which the banks played a pivotal role, Miami has emerged as a financial and business center for Latin America.

[7] In 1977, Banco di Roma also established a branch. It consolidated the subsidiary into the branch in 1986.

**Houston and Dallas:** In 1985, the Texas legislature finally authorized foreign banks to operate as agencies. Prior to the passage of the Foreign Bank Agency Act (SB746), foreign banks could only operate via rep offices and Edge Act banks. The Act still limited the foreign banks to operating only within counties with a population of over 1.5 million. However, this limit included the two cities of greatest interest: Houston, with its Port of Houston—one of the busiest ports in the US, and Dallas-Ft. Worth with its hub airport.

**Atlanta:** In 1972 Georgia authorized the entry of foreign banks in a bid to make Atlanta a financial center. Originally there was some hope that Atlanta could provide a central base for foreign banks servicing foreign firms establishing manufacturing plants in the South. However, the rise of Miami and the Texas centers, and the increase in the number of cities with the presence of just a single foreign bank has probably come at some expense to Atlanta's role as a financial center. The airports of Miami, Dallas-Ft. Worth, and Chicago equal Atlanta as hubs for access to the south.

We should not allow the focus on the quantity of lending by agencies and branches to overshadow completely the other contributions of these foreign banks' offices. For instance, foreign banks have been able to gather some correspondent banking business because smaller domestic banks consider them less of a threat in terms of stealing customers than large domestic banks (Goldberg 1992). On occasion this can extend to an invitation to participate in loans that are too large for the domestic bank to carry on its own. Probably the most important long-run role of the integral offices is their dispersal of specialized knowledge and expertise (including knowledge of their home countries). Face-to-face contact is important when banks produce specialized services for corporate

customers. By locating in several cities throughout the U.S., the foreign banks reduced the cost of access to such services for smaller, local firms.

## 4.0 Equity forms: consortia, affiliates and subsidiaries

Consortia, banks owned by several parent banks, have never played a large role in the presence of foreign banks in the US. One consortium that we will mention below at some slight length is European American Bank, the US manifestation of the European Bank Club (EBIC; Ross 1999). The Scandinavians, constrained by domestic regulations, limited international experience, and the small size of their home economies, also made use of consortia. The three Scandinavian consortia—Scandinavian Bank, Nordic Bank, and PK-Christiania Bank—operated like branches, though they were, of course, limited by their capital (Jacobsen and Tschoegl 1999). Other consortia also made an appearance, but this form was really a child of the late-1960s to the early 1980s, having peaked in popularity in the early 1970s.

The Federal Reserve data does not distinguish between affiliates and subsidiaries as it takes a 25 percent ownership stake as its dividing line for reporting purposes. There are many examples of foreign banks acquiring a minority position in a US bank. Usually these appear to be passive investments, the motive for which is idiosyncratic to the transaction. However, the most important equity presences of foreign banks, especially the ones we discuss below, are (almost) all subsidiaries.

### 4.1 The largest affiliates or subsidiaries

From Table 4 it is apparent that the five largest banks control 67 percent of all the banking system assets accounted for by affiliates and subsidiaries of foreign banks. The

next five account for 18 percent of the assets. Thus the 10 largest banks account for 86 percent of all assets in affiliates and subsidiaries. The largest banks are almost all subsidiaries whose growth came about by acquisition, typically with one major acquisition accounting for the bulk of the story.

**Hongkong & Shanghai Banking Corporation** (HSBC) first came to the US in its own name in 1875 when it opened an agency in San Francisco.[8] It then established another agency in New York in 1880. This agency changed status to a branch and back again, acquired the assets of Global Union Bank in 1990, and now is a representative office. HSBC established The Hongkong Bank of California in 1955 with headquarters in San Francisco. This subsidiary was never successful and since 1972 it had been selling off its branches. HSBC's real growth in the US occurred in 1978-79, when it bought 51 percent of Marine Midland Bank in New York. The bank was badly in need of additional capital though HSBC's purchase of Marine Midland raised a number of issues with NY regulators, which HSBC finessed by switching to a Federal charter (King 1991).[9] However, as a condition of purchase, the Federal Reserve required that HSBC sell

[8] King (1991) reports that the bank initially appointed a local bank as agent. When this bank failed, HSBC decided to create a bank-staffed agency. However, it required the agent to operate as W.H. Harris, agent for Hongkong Bank, rather than Hongkong Bank, W.H. Harris agent. This may be why Wright (1910) makes no mention of Hongkong Bank's presence in California. Still, HSBC dates it presence in San Francisco to 1875. The first annual report of the California State Banking Department in 1909 lists HSBC as having an agency in San Francisco. In 1995, HSBC closed its agencies in San Francisco and Los Angeles and its representative offices in Alhambra and Newport Beach. It transferred the business of these offices to a newly created, San Francisco-based joint venture - Wells Fargo HSBC Trade Bank – which provides trade finance and international banking services. The joint venture is 60-40 Wells Fargo-HSBC, though Wells owns 80 percent of the voting shares to comply with the Federal Reserve Board's definition of "controlling interest" and to be able to supply services to the subsidiary at cost. HSBC also has non-equity strategic alliances with Wells Fargo Bank (dating back to 1989) and with Wachovia Corporation.

[9] Marine Midland was unrelated to Midland Bank of the UK until HSBC also bought 15 percent of the latter in 1987, and then acquired Midland in 1992. Curiously, Sir Thomas Sutherland, a director of what was to become the Midland Bank, was instrumental in the 1860s in setting up the Hongkong & Shanghai Banking Corporation.

Hongkong Bank of California.[10] In 1987, HSBC acquired the remaining 49 percent of Marine Midland, making it a wholly-owned subsidiary. Marine Midland (later HSBC USA) then acquired a number of smaller banks.[11] The most recent major purchase was that of Republic National Bank of New York in 1999.[12] While growing beyond its ethnic banking niche, HSBC has still kept that as a part of its strategy.[13]

**Deutsche Bank's** direct presence in the US dates to 1978 when it opened a branch in New York. In 1998 it bought Bankers Trust. This purchase is part of an ongoing, and so far highly successful, attempt to create an investment bank. DB's strategy earlier included the purchase of Morgan Grenfell, a UK merchant bank, in 1989, and the transfer of the Bank's headquarters for its investment banking activities from Frankfurt to London.

**ABN AMRO** is the result of a 1990 merger between Algemene Bank Nederland (ABN) and Amsterdam-Rotterdam Bank (AMRO). ABN first entered the US when it established an agency in New York in 1941. In 1979 it bought LaSalle National Bank of Chicago. LaSalle's owner—a diversified nonbanking company—had to sell because of a law that bars such firms from continuing to own a bank. Other acquisitions in the

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[10] HSBC sold to Central Bank System of Oakland. Central Bank had long been interested in expanding across San Francisco Bay and the acquisition provided the opportunity. To retain the bank's ties to the local Chinese community, Central Bank brought two local businessmen with an ethnic Chinese background onto its Board of Directors.

[11] In 1986, Marine Midland bought Westchester Federal Savings Bank. Later, it bought United Northern Federal Savings Bank (1995); the branches of East River Savings Bank (1996); and First Federal Savings and Loan of Rochester (1997).

[12] HSBC bought Republic from its owner, the legendary Edmond Safra, who died in a bizarre incident later that year.

[13] In 1985, HSBC bought the branches and deposits of the failed Golden Pacific National Bank in New York's Chinatown and Queens. The Comptroller of the Currency had closed the bank for "irregularities" and later Kuang Hsung (Joseph) Chuang, the chairman, president, and chief executive officer of the bank, and some other executives were convicted of fraud. However, although he had lost four earlier legal challenges, a New York Federal District Judge permitted Chuang to proceed with a $57 million negligence lawsuit against the FDIC. Chuang's argument is that the bank was not insolvent and that the FDIC botched the liquidation. In 1996, HSBC purchased Hang Seng Bank's two branches in New York's Chinatown. HSBC owns 61 percent of Hang Seng and the two branches continued to operate under the Hang Seng Bank USA name but as part of Marine Midland. Lastly, in 1999 HSBC bought First Commercial Bank of

Chicago area followed, particularly after the Illinois legislature authorized multibank holding companies in 1982.[14] ABN AMRO's build-up in the US reflected its strategy to give itself a second home market outside of the Netherlands.

Also in 1991, ABN-AMRO took full control of European American Bank (EAB) by buying the remaining 34 percent still held by two European partners. EAB began in 1952 as the Belgian American Bank in New York, a subsidiary of Belgium's Société Générale de Banque. In 1968 the Bank changed its name to European American Bank when it widened its ownership by becoming a consortium.[15] In 1974 EAB acquired and absorbed Franklin National Bank of Long Island, New York after Italian financier Michele Sindona had run the bank into the ground.

**Bank of Tokyo-Mitsubishi** is the result of the 1996 merger of Bank of Tokyo and Mitsubishi Bank. The Bank of Tokyo (the then Yokohama Specie Bank-YSB) first entered New York in 1880, San Francisco in 1886 and Hawai'i in 1892 (Tamaki 1995). Originally its agencies operated out of the Japanese government's consular offices but eventually acquired their own premises. In 1899, YSB opened a branch in San Francisco that it incorporated under state law in 1910, and in 1913 this bank opened a branch in Los Angeles (Wilkins 1989).

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Philadelphia. First Commercial Bank of Philadelphia had two branches and catered to the local Asian population; it continues to do so but under the HSBC name.

[14] These included Hartford Plaza Bank (1980); Bank of Lisle (1986); Exchange Bancorp (1990); Cragin Federal Savings (1994); the Illinois offices of Savings of America (1994); Comerica Bank-Illinois (1996); the Chicago branches and deposits of Home Savings of America (1994); Columbia National Bank (1996); and Chicago Corp. (1997; brokerage). Home Savings of America was the principal subsidiary of H.F. Ahmanson of Irwindale, California. The 1992 purchase of Talman Home Federal Savings, the largest savings bank in Illinois, doubled the size of ABN-AMRO's operations in Illinois. In 1997, ABN AMRO acquired Standard Federal Bank of Troy, Michigan, and its Michigan-based InterFirst and Chicago-based Bell Federal Bank divisions.

[15] Amsterdam-Rotterdam Bank (AMRO; the Netherlands) took 14.3 percent of the equity. The other partners were, with 28.6 percent each, Société Générale de Banque (Belgium), Deutsche Bank (Germany), and Midland Bank (Great Britain). By the early 1970s, the ownership was: AMRO – 17 percent;

The US authorities closed all the Japanese banks the day after the Japanese attack on Pearl Harbor.[16] After the war, the Occupation under General MacArthur forced the YSB to get rid of all its overseas assets and ordered the bank's liquidation. The Bank of Tokyo (BOT) was constituted to take over the YSB's domestic assets.

After the 1952 Peace Treaty and the end of the Occupation, the Japanese returned BOT to its mission as Japan's international flagship bank. In 1952, BOT established agencies in California and New York. In 1953, it established Bank of Tokyo of California, which sought to help Japanese-Americans rebuild their lives after their return from the internment camps in which they had spent the War, and in 1955 it established Bank of Tokyo Trust Company in New York.

In 1975, Bank of Tokyo of California acquired Southern California First National Bank of San Diego and renamed the resulting institution California First Bank. Southern California First was in receivership when BOT took it over. Then in 1988, California First acquired Union Bank from Standard Chartered, which had bought the bank in 1979. California First was primarily retail-oriented, while Union was basically a business lender. Although California First was based in San Francisco and Union in Los Angeles, the markets of each of the banks were fairly evenly distributed between the northern and southern sections of the state. The merger doubled the size of Bank of Tokyo of California. In 1983, Union Bank bought eighteen branches from Bank of California.

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Creditanstalk-Bankverein (Austria) - 2.5 percent; and Deutsche Bank, Midland Bank, Société Générale de Banque, and Société Générale (France) - 20.125 percent each.

[16] In California, the liquidation of YSB and the branches of Sumitomo Bank took until the mid-1950s in a process by which officials of the State Banking Department and their cronies fleeced the dispossessed Japanese owners and depositors (Doti and Schweikart 1994).

Mitsubishi Bank opened an agency in NY in 1920. It too was closed on 8 December 1941. The bank returned in 1952.[17] Mitsubishi established the Mitsubishi Bank of California in 1972 and later bought two more small banks.[18] Then in 1984, Mitsubishi, acquired Bank of California.[19] What originally attracted Mitsubishi was the Bank of California's unique three-state charter, which gave it offices in Washington and Oregon, as well as California.[20] When Bank of Tokyo merged with Mitsubishi Bank in 1996, the banks merged their subsidiaries as well to create Union Bank of California. Bank of Tokyo-Mitsubishi now owns about 64 percent of the combined institution.

**Bank of Montreal** (BoM) has had one of the longest associations with the US of any foreign bank. It had appointed representatives in New York from 1818 to 1841 and established an agency there in 1859. Later, it established a subsidiary there too. It entered California in 1864 and incorporated Bank of Montreal (California) in 1918.[21] As I mentioned above, it had a branch in Chicago from 1861 until 1952. Thus, when in 1984 it purchased Harris Bank and Trust in Illinois, BoM had subsidiaries in two states with a home state of New York. In order to comply with the 1978 IBA Act, BoM moved its home state to Illinois and converted its small California and New York subsidiaries to non-depository trust banks. Harris was already in the process of buying several banks in

[17] It entered under the name of the Chiyoda Bank but reclaimed the Mitsubishi name in 1953.
[18] In 1976 it acquired Hacienda Bank and in 1981 the First National Bank of San Diego County.
[19] The largest shareholder was Baron Edmond de Rothschild who had acquired a 32 percent stake in 1973.
[20] In 1905, Bank of California acquired the London and San Francisco Bank, which had branches in Portland, Seattle, and Tacoma. When the McFadden Act (1927) blocked any further interstate banking these branches were grandfathered. The purchase by Mitsubishi means that in a little over a century, the Seattle Branch, inter alia, went from British to US to (minority) French to Japanese ownership.
[21] The initial presence was that of a branch of the Bank of British North America, which merged with Bank of Montreal in 1918.

the Chicago area at the time of the BoM takeover and proceeded with these and subsequent acquisitions.[22]

**Allied Irish Bank**'s (AIB) acquisition of First Maryland Bancorp represents the only case in which the acquirer's initial stake, in 1983, was a minority position (43 percent). In 1988, Allied Irish acquired all the remaining shares, after having built up its stake to 49 percent. In 1999, First Maryland changed its name to AllFirst Bank.

**National Australia Bank** (NAB) bought Michigan National Bank in 1995. NAB is reportedly an extremely well-managed and efficient bank that has been acquiring banks throughout the English-speaking world. [23]

**BNP Paribas** (BNP; the result of the merger of Banque National de Paris with Paribas) is the only French bank to have a major subsidiary or affiliate. BNP entered the US in 1919 when it provided half the capital French American Banking Corporation in New York.[24] In 1971, BNP took complete control of French American. However, what puts BNP on the list is Bank of the West. That story begins when BNP established French Bank of California in 1970. In 1979 it acquired Bank of the West (BW). [25] BW then acquired a number of other banks and branches.[26] Most recently, in 1998, BNP merged

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[22] These were Suburban Bancorp (1994) and the Chicago-area branches of Household Bank (1996).

[23] NAB earlier had acquired Bank of New Zealand, Yorkshire Bank (England), Clydesdale Bank (Scotland), National Irish Bank, and Northern Bank (Republic of Ireland).

[24] The French partner was an ancestor of BNP – the Comptoir National d'Escompte de Paris. The US partners (25 percent each) were National Bank of Commerce, New York and the First National Bank of Boston. At some point Guaranty Trust replaced National Bank of Commerce. In 1947-48 Banque de l'Indochine took over the American shares. I am indebted to Mira Wilkins for this information.

[25] The Bank of the West began in 1874 as Farmers National Gold Bank and after 1879, when all national banknotes became redeemable in gold or silver, it changed its name to First National Bank of San Jose (Doti and Schweikart 1994). (Curiously, neither Cross (1927) nor Wright (1910) has any mention of the bank.) First National Bank of San Jose changed its name to Bank of the West as part of a revitalization campaign in the 1970s.

[26] In 1987, BW bought the insolvent Bank of Los Gatos. In 1990 BW bought Central Banking Systems Inc, (see fn. 7 above). In 1991 BW bought some 30 branches in Northern California that had belonged to the failed Imperial Savings and Loan. In 1992, BW bought Atlantic Federal Savings Bank. In 1993, BW

Bank of the West with First Hawaiian Inc, the parent of First Hawaiian Bank and Pacific One Bank, a bank in the Pacific Northwest. The new holding company took the Bank of the West name, merged Pacific One into Bank of the West itself, and now consists of two banks, First Hawaiian and Bank of the West. BNP Paribas owns 44 percent of the holding company and has agreed not to increase its stake for some time.

**Sanwa Bank** established an agency in California in 1953 and a subsidiary in 1972. In 1973 it acquired Charter Bank. Following a merger in 1978 with Golden State Bank, one of the oldest financial institutions in California, it changed its name to Golden State Sanwa Bank. In 1986 it bought Lloyds Bank California and ultimately changed the name of the merged bank to Sanwa Bank California. By combining the 9$^{th}$ largest bank in California with its own subsidiary, the 14$^{th}$ largest bank in the state, Sanwa Bank's California subsidiary became the 8$^{th}$ largest bank in California. Sanwa Bank California is now the 3$^{rd}$ largest bank headquartered in California.

A number of home countries are noteworthy for their absence. With the exception of Deutsche Bank, the major Swiss and German banks have eschewed any forays into retail or general commercial banking. All are universal banks and several had securities affiliates in New York. The banks feared that acquiring retail banks would push the Federal Reserve's tolerance to the limit, given the then separation between securities activities and commercial banking mandated of US banks by the Glass-Steagall Act.

The British had a substantial presence but no longer do so. They withdrew after experiencing performance that ranged from mediocre at best to disastrous at worst.

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bought 15 branches in Northern California from Citibank. In 1995, BW bought NorthBay Savings Bank. Lastly, in 1997, BW bought isolated branches from Bank of America and Coast Federal Bank.

Below, I deal briefly with the British but for a fuller treatment refer the interested reader to Jones (1993) and Rodgers (1999).

Britain's Standard Chartered Bank established the Chartered Bank of London (California) in 1964. Then in 1978 it bought Commercial and Farmers National Bank. The major acquisition though was that of Union Bank in 1979, which was among the top 10 banks in the state. Standard Chartered then combined Union Bank with Chartered Bank of London in a merger that included selling or closing a number of branches. In 1988, Standard Chartered withdrew from retail banking in California by selling Union Bank to California First Bank, a subsidiary of Bank of Tokyo (see above).

Barclays Bank established Barclays Bank of California in 1964. After building it up further, it sold the bank to Wells Fargo in 1987. In 1974, Barclays bought 1st Westchester Bank in New York. In 1979 it bought and added-in 28 of the branches that Bankers Trust was selling. In 1992 it sold its now 65 branches in New York to Bank of New York.

In 1974, Lloyds bank bought First Western Bank and Trust in California and First State Bank of Northern California.[27] In 1983, Sir Brian Pitman became CEO of Lloyds and implemented a strategy of focus. He declared “Where we are not a leader, or cannot aspire reasonably to leadership, our course will be to divest and capture the value for our shareholders…” In 1986, Lloyds Bank sold Lloyds Bank California to Sanwa Bank.

National Westminster Bank (then National Provincial Bank) entered New York in 1970 with a branch. In 1979 it bought 75 percent of National Bank of North America (NBNA), which earlier that year too had bought some 16 branches from Bankers Trust. In 1995, NatWest sold NatWest Bancorp to Fleet Financial after it had spent 15 years

building up a network of 330 branches in New York and New Jersey and struggling without success to make the operation profitable. Over the history of NatWest's ownership of NBNA, the return on its investment averaged 1 percent per annum. As Derek Wanless, then Nat West's CEO put it (Graham 1995), "The story of Bancorp over 16 years is an awful story for shareholders, and we have never hidden that."

Lastly, Midland Bank bought Crocker National Bank in California in 1980. Earlier it had had indirect presences in retail banking in the US via its then 16 percent ownership in Standard Chartered Bank and its share in European American Bank. Midland sold Crocker to Wells Fargo in 1986 after suffering spectacular losses.

### 4.2 The role and contribution of the foreign banks

As we have already seen in the case of Bank of Tokyo and HSBC, a number of foreign banks established subsidiaries in the US to provide retail-banking services to emigrants from the bank's home country, or their descendants, and other co-ethnics. In addition to the banks we have already discussed, examples include other Japanese banks, plus banks from Greece, Israel, Korea, and the Philippines. Although it is not a foreign bank under the rules of classification of the Federal Reserve, Banco Popular of Puerto Rico came to serve the Puerto Rican population in New York and has expanded to become the premier Hispanic bank in the US.

Some of these banks, such as the National Bank of Greece's Atlantic Bank (which dates its origins back to the Bank of Athens Trust Company, established in 1926), or the Korean or Philippine banks (which arrived more recently), have not grown beyond their

[27] The 1970 Bank Holding Company Act made it unattractive for diversified conglomerates to own banks, leading First Western's owner, Ling-Temco-Vought to want to sell. An anti-trust suit blocked Wells Fargo

ethnic niches. At the other extreme, banks such as Bank of Tokyo-Mitsubishi and HSBC have retained their ethnic banking roots while growing well beyond them. In between we have banks such as Sumitomo Bank of California. Like Bank of Tokyo, Sumitomo Bank re-entered California in 1953 to serve Japanese-Americans.[28] At the time of the bank's sale to Zion Bancorp in 1998, 45 percent of the depositors still were Japanese-Americans (Domis 1998). The contribution of the ethnic banks is clear: they provide immigrant communities with banking services that are more tailored to their needs than host country banks can or perhaps choose to provide. Customer service issues include matters of culture, language, and remittance facilities.

The foreign banks that have grown beyond their ethnic niche, or that have never attempted to serve an ethnic clientele, appear to behave just like domestic banks. The newspaper accounts of some of the more notable acquisitions such as Bank of Tokyo's acquisition of Union Bank are replete with quotes from Japanese executives assuring the public that nothing will change as a result of the change of ownership. All the evidence suggests that the foreign-owned subsidiaries are indistinguishable in their behavior from the domestic banks. For instance, Aaker (1990) found that the Japanese banks in California chose not to export the Japanese service industry's culture and programs. Instead, the Japanese firms tended to compete very much like American firms. The Japanese managers he interviewed doubted the feasibility and lacked the motivation to introduce "the Japanese way" in the United States.

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from acquiring the bank and discouraged other California banks as well.

[28] Sumitomo had established a branch in San Francisco in 1916 and another in Los Angeles in 1924. In 1924 it also had established a subsidiary in Sacramento to take over the operations of the domestically-owned Nippon Bank, which had been closed by the State Superintendent (Cross 1927; Doti and Schweikart 1994).

Unlike the case of the branches and agencies, it is clear from the data in Table 3 that both in terms of assets and business loans, the subsidiaries of foreign banks did not exhibit growth and peaking. Assets have grown 63 times and business loans 35 times since 1973, and in absolute terms, for both quantities 1999 represents the high. However, the shares of total assets or business loans appear to have reached a steady state in the early 1980s at about four percent and six percent, respectively.

The largest foreign subsidiaries have grown by acquisition. This is part of a more general phenomenon. As Lichtenberg and Seigel (1987) argue, firms rearrange ownership of assets through the purchase and sale of operations. A firm lacking a comparative advantage with respect to a given operation will sell it to another firm. This process may lead both to internationalization by acquisition, and to exit by divestiture. As we have seen above, foreign banks have been on both sides of the process. They have bought operations, and some have subsequently sold them, having perhaps demonstrated to themselves that they did not have the comparative advantage they thought they did.

Numerous relatively recent studies have documented that foreign-owned banks are not as profitable as their domestic peers (e.g., Seth 1992 and Nolle 1995). Nolle also found that foreign-owned banks tended to be less cost-efficient than their domestic peers. DeYoung and Nolle (1996) pushed the issue further and found that the lack of profitability stemmed from the foreign banks' dependency on purchased funds. These findings are consistent with earlier work too (e.g., Hodkins and Goldberg 1981, and Houpt 1983). Peek et al. (1999) find that the poor performance of foreign bank subsidiaries was not a result of the acquisition but that the banks' problems predated the

acquisition. The foreign banks were generally simply unsuccessful at raising the acquired banks' performance levels to those of their domestic peers.

The first part of the story, that foreign banks tended to acquire poorly performing domestic banks, is clear. Our earlier discussion covered numerous examples. Such banks probably appeared cheap, as shareholders would have welcomed any offer in the absence of signs that existing management had credible plans to turn the banks around. The foreign acquirers, for their part, may have overestimated their own abilities and underestimated the scope of the problem. However, as Peek and his co-authors note, one must be careful about inferring too much from these studies of profitability. Reported profits are vulnerable to transfer pricing. DeYoung and Nolle (1996) point out that foreign-owned banks tended to buy market share by offering good rates to high quality borrowers, and funded the loans through the use of bought funds. This ties in with Tschoegl's finding (1988) for foreign banks in Japan that small adjustments to the interest rate paid on "due to parent and affiliates" accounts could serve to siphon-off substantial profits.

One can find anecdotes of cases in which the acquired banks introduced innovations in retail or commercial banking products transferred from the parent after the acquisition. For example, Michigan National introduced a home mortgage product with numerous novel features after its acquisition by NAB (Serju 1997). Furthermore, Michigan National is attempting to build on this by acquiring a HomeSide, Inc., the Florida-based but nationwide producer and servicer of residential mortgages.

However, we do not know if, one-time transfers aside, foreign-owned banks are any more (or less) innovative than domestically-owned ones. There has simply been no study

that has attempted to define innovations in commercial banking and then determined whether there is a difference in the rate of innovation between the two types of banks.

Perhaps the most important long-run impact the subsidiaries of foreign banks had on the US financial system was to force the pace of deregulation of interstate banking. I have already mentioned the issue of interstate banking. However, there was a more interesting problem. In those states that permitted foreign banks to acquire local banks, frequently a foreign bank was the only viable purchaser of local banks that were on the block. All US banks from other states were automatically barred from the sale. Frequently the largest local banks were not viable acquirers for antitrust reasons. Permitting them to acquire the bank in question would frequently result in an increase in concentration and a reduction in competition. Small local banks might be unwilling or unable to take on the task, especially when the bank to be acquired was larger then they, and in difficulties. Hence, permitting a large, foreign bank to make the acquisition was often the only viable solution. The foreign bank would have the resources to be able to rehabilitate the acquisition, and its entry would enhance competition rather than reduce it. However, the large US banks that were shut out of the bidding objected, pointing out that because they were excluded from the bidding, generally the foreign bank was unopposed and that therefore shareholders of the acquired bank would not necessarily get the best price. In time, this argument, together with a general trend towards deregulation, had its effect in the passage of the IBBEA (1994).

## 4.0 Conclusion

Although the total assets and business loans of foreign banks continues to grow, their shares of total domestic banking systems assets or business loans are off the peaks

achieved in 1992. To understand this evolution it is necessary to examine separately the operations of the integral forms of foreign presence (representative offices, agencies and branches) and the equity forms (affiliates and subsidiaries).

The 1992 peak in the foreign banks' shares is due entirely to the activities of branches and agencies, and in particular to that of the Japanese banks. The bubble economy resulted in the Japanese banks having excess capital and hence lending capacity, which they deployed in the US. When the bubble burst, the Japanese banks cut back their lending, reducing credit availability in the US. However, the long-run contribution of the foreign banks is in the development of financial centers throughout the US, making specialized services more accessible to smaller firms. In this process, foreign banks have contributed to the development of the financial sector in the southern half of the US, especially, Los Angeles, Texas and Miami.

As far as equity forms are concerned, nine parent banks and nine subsidiaries and one affiliate account for 86 percent of all the assets in foreign banks' affiliates and subsidiaries. The parent banks tend to be among the largest banks in the world; six are among the top 20, two among the next 80, and the smallest is still the 115$^{th}$ largest bank in the world. Most of the growth of these subsidiaries and affiliates is due to the acquisition, in the 1970s, or later, of one large domestic bank, supplemented by further ongoing acquisition. Although their growth is recent, three of the parents have had a presence in the US since the 19$^{th}$ Century, two entered during the first half of the 20$^{th}$ Century, and four entered since then. Although foreign banks have bought and sold subsidiaries and their positions in affiliates, the share of these banks in total domestic bank assets and business loans has been small and constant since the early 1980s. The

foreign banks have contributed innovation and competition, especially in the market for control given the then rigidities in US law. Long-run, the most important contribution of these banks has been arguably to speed the deregulation of US banking, especially the dismantling of the barriers to interstate banking.

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## Table 1

| New York is the most important center for offices of foreign banks | | | | |
|---|---|---|---|---|
| City | Representatives | Agencies | Branches | **TOTAL** |
| New York (NY) | 89 | 20 | 174 | **283** |
| Los Angeles (CA) | 17 | 26 | 26 | **69** |
| Miami (FL) | 14 | | 35 | **49** |
| Chicago (IL) | 11 | | 29 | **40** |
| San Francisco (CA) | 9 | 5 | 10 | **24** |
| Houston (TX) | 16 | 9 | | **25** |
| Atlanta (GA) | 4 | 7 | | **11** |
| Seattle (WA) | 4 | | 4 | **8** |
| Portland (OR) | | | 4 | **4** |
| Washington (DC) | 8 | | 2 | **10** |
| Dallas (TX) | 6 | 2 | | **8** |
| Coral Gables (FL) | | | 2 | **2** |
| Boston (MN) | 3 | | 1 | **4** |
| Flushing (NY) | 1 | | 1 | **2** |
| San Jose (CA) | 1 | | 1 | **2** |
| Alhambra (CA) | | | 1 | **1** |
| Aventura (FL) | | | 1 | **1** |
| Greenwich (CT) | | | 1 | **1** |
| Monterey Park (CA) | | | 1 | **1** |
| Stamford (CT) | | | 1 | **1** |
| Menlo Park (CA) | 1 | 1 | | **2** |
| Beverly Hills (CA) | | 1 | | **1** |
| Honolulu (HI) | | 1 | | **1** |
| Huntington Park (CA) | | 1 | | **1** |
| Minneapolis (MN) | 3 | | | **3** |
| Jacksonville (FL) | 2 | | | **2** |
| Pittsburgh (PA) | 2 | | | **2** |
| Staten Island (NY) | 2 | | | **2** |
| Baltimore (MD) | 1 | | | **1** |
| Boca Raton (FL) | 1 | | | **1** |
| Buffalo (NY) | 1 | | | **1** |
| Charlotte (VA) | 1 | | | **1** |
| Cincinnati (OH) | 1 | | | **1** |
| Cleveland (OH) | 1 | | | **1** |
| Denver (CO) | 1 | | | **1** |
| Florence (KT) | 1 | | | **1** |
| Jackson Heights (NY) | 1 | | | **1** |
| Jersey City (NJ) | 1 | | | **1** |
| Memphis (TN) | 1 | | | **1** |
| New Orleans (LA) | 1 | | | **1** |
| Palm Beach (FL) | 1 | | | **1** |
| Philadelphia (PA) | 1 | | | **1** |
| Richmond (VA) | 1 | | | **1** |
| Rye (NY) | 1 | | | **1** |
| Somerville (MA) | 1 | | | **1** |
| Southfield (IL) | 1 | | | **1** |
| St. Louis (MO) | 1 | | | **1** |
| **TOTAL** | **212** | **73** | **294** | **579** |

Source: Board of Governors of the Federal Reserve (Mar 2000)

# Table 2

New York City, the Miami area, and Houston and Dallas have gained importance as centers for foreign banks over the last 20 years; most of the other cities have lost ground

| | 1980 | | | Mar 2000 | | | Change (1980-2000) | |
|---|---|---|---|---|---|---|---|---|
| State | Agencies | Branches | Total | Agencies | Branches | Total | (No.) | (%) |
| New York | 59 | 74 | 133 | 20 | 175 | 195 | 61 | 47 |
| California | 79 | | 79 | 34 | 39 | 73 | -6 | -8 |
| Illinois | | 31 | 31 | | 29 | 29 | -2 | -6 |
| Florida | 12 | | 12 | | 38 | 38 | 26 | 117 |
| Georgia | 9 | | 9 | 7 | | 7 | -2 | -22 |
| Washington | | 8 | 8 | | 4 | 4 | -4 | -50 |
| Pennsylvania | | 5 | 5 | | | 0 | -5 | -100 |
| Oregon | | 4 | 4 | | 4 | 4 | 0 | 0 |
| Massachusetts | | 4 | 4 | | 1 | 1 | -3 | -75 |
| Hawai'i | 2 | | 2 | | 1 | 1 | -1 | -50 |
| Texas | | | 0 | 11 | | 11 | 11 | |
| D. of Columbia | | | 0 | | 2 | 2 | 2 | |
| Connecticut | | | 0 | | 2 | 2 | 2 | |
| TOTAL | 161 | 126 | 287 | 72 | 295 | 367 | 80 | 28 |

Source: Board of Governors of the Federal Reserve

# Table 3

The assets and loans of the agencies, branches and subsidiaries of foreign banks

| | Agencies & Branches | | | | Subsidiaries | | | |
|---|---|---|---|---|---|---|---|---|
| | Total assets | | Total business loans | | Total assets | | Total business loans | |
| Year | (US$bn) | (%)[1] | (US$bn) | (%)[1] | (US$bn) | (%)[1] | (US$bn) | (%)[1] |
| 1973 | 25 | 3% | 10 | 6% | 5 | 1% | 2 | 1% |
| 1974 | 34 | 4% | 15 | 8% | 10 | 1% | 3 | 1% |
| 1975 | 38 | 4% | 16 | 8% | 12 | 1% | 3 | 2% |
| 1976 | 46 | 4% | 16 | 8% | 14 | 1% | 4 | 2% |
| 1977 | 59 | 5% | 18 | 8% | 16 | 1% | 4 | 2% |
| 1978 | 87 | 6% | 27 | 11% | 20 | 2% | 5 | 2% |
| 1979 | 114 | 8% | 38 | 13% | 33 | 2% | 9 | 3% |
| 1980 | 147 | 9% | 46 | 14% | 50 | 3% | 13 | 4% |
| 1981 | 172 | 9% | 53 | 14% | 76 | 4% | 20 | 5% |
| 1982 | 207 | 10% | 57 | 13% | 89 | 4% | 24 | 6% |
| 1983 | 228 | 10% | 56 | 12% | 98 | 4% | 27 | 6% |
| 1984 | 272 | 11% | 64 | 14% | 119 | 5% | 32 | 7% |
| 1985 | 312 | 11% | 73 | 15% | 126 | 5% | 34 | 7% |
| 1986 | 397 | 13% | 90 | 17% | 124 | 4% | 35 | 6% |
| 1987 | 461 | 15% | 109 | 19% | 128 | 4% | 38 | 7% |
| 1988 | 514 | 16% | 125 | 21% | 132 | 4% | 41 | 7% |
| 1989 | 580 | 16% | 138 | 22% | 152 | 4% | 44 | 7% |
| 1990 | 627 | 17% | 147 | 24% | 160 | 4% | 45 | 7% |
| 1991 | 700 | 18% | 165 | 28% | 157 | 4% | 41 | 7% |
| 1992 | 712 | 18% | 168 | 29% | 154 | 4% | 40 | 7% |
| 1993 | 695 | 17% | 158 | 27% | 159 | 4% | 37 | 7% |
| 1994 | 740 | 17% | 171 | 27% | 203 | 5% | 45 | 7% |
| 1995 | 761 | 17% | 197 | 28% | 222 | 5% | 52 | 7% |
| 1996 | 821 | 17% | 222 | 27% | 170 | 3% | 43 | 5% |
| 1997 | 925 | 17% | 232 | 26% | 201 | 4% | 50 | 6% |
| 1998 | 901 | 15% | 223 | 23% | 217 | 4% | 57 | 6% |
| 1999 | 904 | 14% | 205 | 19% | 325 | 5% | 74 | 7% |
| **Δ73-99** | **879** | **3510%** | **195** | **1850%** | **320** | **6300%** | **72** | **3500%** |

Note: 1) Percentage of total for all banks in the US, domestic and foreign.
Source: Board of Governors of the US Federal Reserve.

## Table 4

A small number of banks account for the bulk of the assets in the subsidiaries or affiliates of foreign banks.

| | | Headquarters | | Parent Bank | | Subsidiary assets | |
|---|---|---|---|---|---|---|---|
| Rank | US subsidiary | City | State | Name | World Rank[1] | (US$Bn) | (% of Total) |
| 1 | HSBC Bank USA | Buffalo | NY | HSBC | 3 | 82.3 | 24 |
| 2 | Bankers Trust | New York | NY | Deutsche Bank | 18 | 46.3 | 14 |
| 3 | LaSalle Bank | Chicago | IL | ABN AMRO | 16 | 46.2 | 14 |
| 4 | Union Bank of California | San Francisco | CA | Bank of Tokyo-Mitsubishi | 4 | 33.1 | 10 |
| 5 | Harris Trust | Chicago | IL | Bank of Montreal | 63 | 20.5 | 6 |
| | *Top 5* | | | | | *228.4* | *67* |
| 6 | AllFirst Bank | Baltimore | MD | Allied Irish | 115 | 16.2 | 4 |
| 7 | European American Bank | New York | NY | ABN AMRO | 16 | 15.0 | 4 |
| 8 | Michigan National | Farmington Hills | MI | National Australia Bank | 43 | 11.4 | 3 |
| 9 | Bank of the West | San Francisco | CA | BNP Paribas | 14 | 10.2 | 3 |
| 10 | Sanwa Bank California | San Francisco | CA | Sanwa Bank | 11 | 9.0 | 3 |
| | *Second 5* | | | | | *61.8* | *18* |
| | ***Top 10*** | | | | | ***290.2*** | ***86*** |
| | Total | | | | | 339.3 | 100 |

Note: 1) In terms of total assets in 1999.
Sources: Board of Governors of the Federal Reserve (Mar 2000); *The Banker* June 2000.

**Figure 1**