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North Carolina Banking in 1997: The Year in Review

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NORTH CAROLINA BANKING IN 1997: THE YEAR IN REVIEW

I. INTRODUCTION

The banking industry is in the midst of radical change. The distinctions between banks, thrifts, and other financial institutions are diminishing rapidly.\(^1\) In addition, the geographic restraints on banking are disintegrating, leading to nationwide and worldwide banking.\(^2\) Finally, the number of banks is decreasing due to mergers, acquisitions, and consolidation through interstate branching, while the largest banks are steadily increasing in size.\(^3\) North Carolina banks are at the forefront of this radical change. Charlotte, North Carolina, is second only to New York in terms of banking assets and houses two of the nation’s largest bank holding companies—NationsBank Corporation which is ranked third in terms of asset size and First Union Corporation which is ranked sixth.\(^4\) In addition, North Carolina serves as home to Wachovia Corporation, the seventeenth-largest bank holding company in the country, as measured by assets at year-end 1997.\(^5\)

This review of North Carolina banking surveys some of the major developments in the North Carolina banking industry in 1997. It begins by summarizing the mergers and acquisitions activities and other growth strategies of North Carolina banks.\(^6\) Next, this review describes the effect of interstate branching on North Carolina banks,\(^7\) and then it discusses the international expansion of those banks.\(^8\)

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2. See id.
3. See id.
4. See Robert Trigaux, Pulling Florida’s Banks Strings, ST. PETERSBURG TIMES, Sept. 7, 1997, at 1H.
6. See infra notes 11-98 and accompanying text.
7. See infra notes 99-111 and accompanying text.
8. See infra notes 112-29 and accompanying text.
Finally, this review concludes by considering the insurance activities of several North Carolina banks9 and some of the major technological developments in the North Carolina banking industry.10 Although this review is limited to a discussion of developments in the North Carolina banking industry, the actions of North Carolina banks mirror those of the banking industry across the country.

II. BANK MERGERS AND ACQUISITIONS AND OTHER GROWTH STRATEGIES

In 1997, a strong economy and stock market, regulatory and technological changes, and the desire by corporations to participate in large strategic transactions prompted yet another year of record merger and acquisition activity in the United States and abroad.11 The banking industry continued its consolidation trend, primarily induced by pressure on revenues and the need to spread technology costs over larger institutions.12 According to the head of financial institutions mergers at Merrill Lynch & Co., "[t]he real pressure on revenues from traditional banking is driving a lot of [mergers and acquisitions] activity, both in traditional bank acquisitions, as well as banks using their excess capital to diversify into higher growth businesses such as securities firms and asset-management firms."13 In addition, the Federal Reserve Board’s (FRB) new interpretation of section 20 of the Glass-Steagall Act, which permits bank holding company affiliates to derive up to twenty-five percent of their revenues from securities activities that are not otherwise eligible activities for banks, is a factor driving the recent merger frenzy.14

9. See infra notes 130-47 and accompanying text.
10. See infra notes 148-79 and accompanying text.
12. See id. As of November 1997, $70.3 billion in commercial bank or bank holding company acquisitions had been announced in the United States—NationsBank and First Union accounted for about 49% of those acquisitions. See Joel B. Obermayer, For First Union and NationsBank, It’s Always Shopping Season, NEWS & OBSERVER (Raleigh), Nov. 23, 1997, at 1E.
13. See Lipin, supra note 11 (statement of Herbert Lurie).
14. See Richard Siklos, Banks Shift Their Paradigm; Banks are Tearing Down the Walls Between Traditional and Investment Banking—then Doing Megadeals, FIN. POST,
Finally, banks’ desire to expand geographically and to diversify into new economic regions played a significant role in the mergers and acquisitions activity in 1997. The following transactions demonstrate some of the mergers and acquisitions in which North Carolina banks were involved in 1997.

A. **NationsBank Corporation (NationsBank)**

NationsBank’s first major acquisition of 1997 was its purchase of San Francisco-based Montgomery Securities for more than $1 billion in stock. NationsBank followed its acquisition of Montgomery Securities by announcing a deal to take over Jacksonville-based Barnett Banks, the largest bank in Florida, in a $15.5 billion stock swap. NationsBank’s acquisition of Barnett Banks is the most expensive merger in banking history to receive approval from the FRB. The fact that Barnett was considered one of the nation’s “trophy” franchises largely explains NationsBank’s willingness to pay 4.1 times Barnett’s book value.

Upon its acquisition of Barnett Banks, NationsBank jumped ahead of First Union to become the largest bank in Florida in terms of asset size. In addition, the merger made NationsBank the third largest bank holding company in the country in terms of asset size, thereby moving ahead of J.P. Morgan & Company and BankAmerica Corporation and remaining behind only Chase Manhattan Bank.

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15. See Lipin, supra note 11.
20. See Speizer, supra note 17.
Corporation and Citicorp. Finally, NationsBank’s acquisition of Barnett Banks catapulted NationsBank to number four among bank mutual fund managers.

The Barnett Banks deal capped a long period of growth in the Southeast for NationsBank and may foreshadow the bank’s westward expansion. When looking beyond the Southeast, the bank’s Chief Executive Officer, Hugh McColl, Jr., feels “the best opportunities lie west of the Mississippi.” Mr. McColl has indicated that NationsBank will aim its next acquisition toward the Pacific, perhaps California.

B. First Union Corporation (First Union)

First Union began its acquisition activity for the year in July when Signet Banking Corporation (Signet) of Richmond, Virginia, agreed to be acquired by First Union for $3.25 billion. Signet was renowned for its direct mail and database marketing skills, particularly in the credit card business. In addition to acquiring this mail and marketing expertise, First Union added a small but “nimble” mutual fund complex through its purchase of Signet.

21. See id. Upon closure of the deal with Barnett Banks, NationsBank will grow to $284 billion in assets based on June 30 numbers and not including anticipated divestitures. See Gillam, supra note 17. The bank’s customer base will expand to 16 million. See Speizer, supra note 17.


24. See id. at 24.

25. See id. Following NationsBank’s purchase of St. Louis-based Boatmen’s Bank, Mr. McColl commented that St. Louis was closer to California and is considered the gateway to the West. See Nikhil Deogun & Martha Brannigan, NationsBank’s McColl Masters the Soft Sell, WALL ST. J., Sept. 2, 1997, at B1. In addition, many observers noted with interest that when NationsBank recently bought an investment bank, Montgomery Securities, it was in California. See id.


28. See id. After closing the deal with Signet, First Union, with $30.4 billion of fund
First Union's next major acquisition came in August when it announced it would pay $471 million in stock for another Richmond, Virginia-based company, Wheat First Butcher Singer (Wheat First), one of the Southeast's premier investment and brokerage companies. First Union's purchase of Wheat First mirrored previous moves made by six other major commercial banks in 1997 to purchase securities firms, including NationsBank's billion-dollar acquisition of Montgomery Securities. The FRB's decision to let banks move further into the securities business precipitated this trend of purchasing securities firms. First Union named the new company Wheat First Union.

In November, First Union announced a $16.1 billion deal to purchase CoreStates Financial Corporation (CoreStates) of Philadelphia. The deal will be the most expensive bank merger in United States history if approved by federal regulators, topping NationsBank's $14 billion purchase of Barnett Banks. The acquisition means First Union will have assets of $204 billion, and the combined bank will have 2,766 branches serving 16 million customers. In addition, the deal gives First Union the largest assets in mid-1997, retained its number three spot among banks that manage mutual funds. See id. Mellon Bank Corporation and PNC Bank Corporation are number one and number two among bank mutual fund managers. See id.

29. See Andrew Park, First Union Buying Wheat First Securities, NEWS & OBSERVER (Raleigh), Aug. 21, 1997, at 8C. Wheat First had 126 offices in 19 states and was ranked 18th nationally in equity underwriting and 16th in initial public offerings in the first half of 1997. See id. In addition, the firm had $32 million in earnings on $494 million in revenue in the fiscal year ending March 31, 1997. See id.

30. See id. First Union's purchase of Wheat First surprised many banking and Wall Street observers who expected the bank to build its stock underwriting business internally due to a comment by a senior First Union official in June to that effect. See Aaron Elstein, First Union in Deal to Buy Wheat First for $471M, AM. BANKER, Aug. 21, 1997, at 1, 20. According to G. Kennedy Thompson, co-head of capital markets at First Union, the rash of bank-brokerage mergers inadvertently changed First Union's strategy. See id. Mr. Kennedy indicated that First Union stood to lose customers if it could not provide the same array of financial services as the five banks that had just recently accelerated the development of their equity underwriting. See id.

31. See Park, supra note 29.

32. See Carey Gillam, Crutchfield: It was Time to Act, AM. BANKER, Nov. 20, 1997, at 1. First Union Chairman Edward E. Crutchfield indicated that First Union is willing to pay 5.4 times book value for CoreStates due to the large market share gains the deal would bring to First Union and the premium First Union places on CoreStates' corporate banking capabilities. See id at 6.

33. See Ken Elkins, CoreStates to be First Union's Biggest Merger Test, BUS. J. CHARLOTTE, Nov. 24, 1997, at 3.

34. See id.
market share in both Pennsylvania and New Jersey. Since announcing the deal, First Union has decided to move its Northeast regional headquarters to Philadelphia, where it will serve as First Union's base of operations for New York, New Jersey, Pennsylvania, Connecticut, and Delaware.

CoreStates is a "solid strategic fit" for First Union, which has focused the last several years on becoming a dominant player up and down the East Coast. Recognizing that one cannot predict bank deals, some analysts suggest that First Union will continue its march up the East Coast by acquiring Fleet Financial Group, a dominant New England bank located in the Boston area. However, First Union recently advised investors that because of its pending acquisition of CoreStates, it anticipates higher earnings growth and greater profitability by the year 2000 than initially forecast. According to some analysts, those figures are predicated on First Union refraining from any major acquisition that diminishes earnings between now and the year 2000.

C. Wachovia Corporation (Wachovia)


35. See Gillam, supra note 32, at 6. First Union will have a 33% market share in Philadelphia following the acquisition. See id.
37. See Gillam, supra note 32, at 1.
38. See Obermayer, supra note 12.
39. See Aaron Elstein, First Union, Raising Its Goals, Says CoreStates Deal to Feed Profitability, AM. BANKER, Dec. 3, 1997, at 1, 30. First Union announced that it expects its earnings per share growth to reach 14% by the year 2000—originally earnings per share growth was predicted to reach only 10% to 13%. In addition, the bank expects return on equity could rise to 22%, and its efficiency ratio should improve to between 50% and 54%. See id. at 1.
40. See id. at 30.
41. Wachovia's move to make this first acquisition was, perhaps, instigated by the fact that bank analysts had been placing a lot of heat on Wachovia for sitting out the bank merger boom. See Carey Gillam, Wachovia to Enter Va. with $542M Acquisition, AM. BANKER, June 11, 1997, at 1,32. Wachovia's conservative stance regarding mergers was partially explained by the fact that for several years Wachovia was involved in an internal makeover as a result of being behind technologically and owning unprofitable lines of
INTRODUCTION

plan to buy Charlottesville, Virginia-based Jefferson Bankshares (Jefferson) for $542 million and hinted that more acquisitions would follow.\(^4\) Wachovia’s purchase of Jefferson was the bank’s first venture outside of its traditional Carolina and Georgia markets.\(^4\) Although the Jefferson deal gives Wachovia approximately $2.1 billion in assets and ninety-six offices spanning from the southeast to the northwest part of Virginia, it does not give the bank any presence in the much sought after areas bordering the nation’s capital.\(^4\) However, Wachovia’s Chief Executive Officer, L.M. “Bud” Baker, has indicated that moving his bank into the Washington area is on the top of his list for expansion in Virginia.\(^4\)

Within two weeks of revealing its intention to purchase Jefferson Bankshares, Wachovia announced it would expand its newfound presence in Virginia by agreeing to acquire Central Fidelity Banks Incorporated (Central Fidelity) of Richmond, Virginia, for $2.3 billion in stock.\(^6\) The deal reinforced Wachovia’s declaration that it would become an active player in the banking industry’s recent merger frenzy. The acquisitions of Central Fidelity and Jefferson Bankshares made Wachovia the largest bank in Virginia, with 335 branches and $9.9 billion in deposits,\(^7\) even though it had no presence in the state just a few weeks earlier. However, Wachovia’s reign as the number one bank in Virginia was short lived—First Union’s July 1997 Signet Bank deal eclipsed Wachovia’s Virginia purchases, making First Union the largest bank in Virginia.\(^8\)

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\(^{44}\) See *id.* Virginia is particularly attractive to Wachovia and other banks, as it is one of the largest and fastest growing states in the Southeast, next to Florida. *See id.*

\(^{45}\) See *id.*


\(^{47}\) See *id.* at 1.

\(^{48}\) See Joel B. Obermayer, *First Union Buying Virginia’s Signet*, NEWS & OBSERVER (Raleigh), July 22, 1997, at 1D. Following Wachovia’s purchase of Jefferson Bankshares and Central Fidelity Banks, First Union sank to third place in terms of its market share in Virginia. *See id.* When asked about the timing of the Signet deal First Union Chairman
Wachovia also announced its first venture into Florida with a $220 million deal to buy Boca Raton, Florida-based 1st United Bancorp (1st United). The acquisition came as a surprise to banking industry observers, as they did not expect Wachovia to act so quickly after concluding the two deals in Virginia. The 1st United deal was relatively small and was considered a low-risk way for Wachovia to test the Florida market. Analysts and observers predict an aggressive acquisition plan for Wachovia in Florida, and Wachovia’s Chief Executive Officer acknowledged there are “rich opportunities” in Florida that the bank might be interested in exploring over the longer term.

D. BB&T Corporation (BB&T)

BB&T, a $27 billion-asset organization, is positioning itself to become a major player in the banking industry. Standard & Poor’s Financial Information Services added BB&T to the S&P 500 Index on December 3, 1997, an important milestone for the bank because it “increases...[the] company’s visibility and interest to the investment community.” In addition, BB&T has a deposit market

Edward E. Crutchfield, indicated that First Union had been interested in increasing its Virginia presence for some time but that Wachovia’s Virginia purchases had shortened its timetable. See id. 49. See Joel B. Obermayer, Buy Puts Wachovia in Florida Market, NEWS & OBSERVER (Raleigh), Aug. 8, 1997, at 8C. 1st United was a small bank with $820 million in assets and 33 branches in Palm Beach, Broward, Martin, and Brevard counties—coastal areas north of Miami. See id. 50. See id. 51. See id. 52. See Carey Gillam, Wachovia Entering Florida with a $222 Million Deal, AM. BANKER, Aug. 9, 1997, at 1. 53. BB&T merged with Southern National Corp. in 1995. After the merger, both banks retained their own identity—the new organization’s holding company was to operate as Southern National while the banking subsidiaries were to continue under the BB&T name and logo. See Carey Gillam, Whoops! Southern National Decides It Should Have Called Itself BB&T, AM. BANKER, March 24, 1997, at 6. However, the different names created confusion for investors, so Southern National Corporation (Southern National) decided to take the name of its merger partner, BB&T, to give the new organization a single identity. See id. 54. See Carey Gillam, BB&T Beefing Up for Next Level of Competition, AM. BANKER, Dec. 1, 1997, at 6. 55. See BB&T Reports Record Earnings; Recurring Earnings per Share Increases 17%, PR Newswire, Jan. 14, 1998, available in WESTLAW, USNEWS Database. BB&T’s stock jumped almost 16% on the day of its move to the S&P 500 stock index. See Business
share of 18.9 percent in North Carolina, the largest in the state despite competition from "industry Goliaths" such as NationsBank and First Union.\textsuperscript{56} Due to an aggressive acquisition strategy in Virginia and other southeastern states in 1997, BB&T is strengthening its position outside the state as well.\textsuperscript{57}

In May 1997, BB&T announced its intention to buy Virginia First Financial Corporation of Petersburg, Virginia. This acquisition was followed on July 1 by the bank's completion of its purchase of $4.5 billion-asset United Carolina Bancshares (UCB), the year's most significant in-state acquisition.\textsuperscript{58} BB&T continued its expansion into Virginia by purchasing Life Bancorp, a $1.5 billion-asset Norfolk, Virginia-based thrift, for $359 million.\textsuperscript{59} The Life Bancorp deal essentially doubles BB&T's assets in Virginia and gives it one of the larger branch networks in the southeastern portion of the state.\textsuperscript{60} The deal is also indicative of BB&T's intention to build its presence in Virginia over time rather than overnight through one major acquisition.\textsuperscript{61} When the Life Bancorp deal is complete, BB&T will have $3.5 billion in Virginia assets, bringing the bank closer to BB&T Chairman John Allison's goal of $8 billion in Virginia assets in the next three years.\textsuperscript{62}

BB&T's latest Virginia acquisition is a $165 million stock purchase of Franklin Bancorp (FNBC) in Washington, D.C.\textsuperscript{63} The FNBC deal gives BB&T a presence in the nation's capital and adds

\begin{itemize}
\item Briebs, NEWS & OBSERVER (Raleigh), Dec. 4, 1997, at C9.
\item 56. See Gillam, supra note 54.
\item 57. See id.
\item 58. BB&T (while it was still known as Southern National) announced its intention to purchase UCB on November 4, 1996. See Joel B. Obermayer, Southern National to Buy UCB, NEWS & OBSERVER (Raleigh), Nov. 5, 1996, at D1. Southern National agreed to pay nearly $1 billion for UCB, and the purchase gave Southern National the largest market share of any bank in North Carolina. See id.
\item 59. See Joel B. Obermayer, Bank Deal: BB&T with Side of Life, NEWS & OBSERVER (Raleigh), Oct. 30, 1997, at 7C.
\item 60. See id.
\item 61. As a general rule, BB&T acquires smaller banks with $250 million to $2 billion in assets. See Joel B. Obermayer, BB&T Feels Pressure to Keep Growing, NEWS & OBSERVER (Raleigh), Nov. 6, 1997, at 9C. The bank's purchase of UCB with more than $4 billion in assets is an exception to that rule and an indication that the bank may be willing to look a little bigger. See id. Chairman John Allison has indicated that his limit is around $10 billion in assets. See id.
\item 62. See Gillam, supra note 54.
\end{itemize}
two additional branches to its rapidly growing Virginia banking business. In addition to continued growth in the Carolinas and Virginia, BB&T has expressed an interest in exploring markets in Tennessee, Alabama, and West Virginia.

E. Triangle Bancorp, Inc. (Triangle)

Triangle Bancorp of Raleigh, North Carolina, has acquired almost a dozen in-state community banks over the last six years. In 1992, Triangle adopted a strategy of rapid growth with the goal of spreading its asset risk, increasing shareholder value, and listing its stock on the Nasdaq national market. Triangle seems to be reaching its goal. Over the last four years, the bank has increased its assets more than four-fold and more than tripled its stock price. In addition, Triangle's stock moved to the New York Stock Exchange in January of 1998.

Triangle Bancorp's first purchase of 1997 was its acquisition in May of ten BB&T branches with deposits of $215 million.

64. See id.
66. See Lloyd, supra note 63. Chairman John Allison is primarily interested in markets like those it serves in the Carolinas with two caveats: the investment must return at least 15% to earnings annually and must add to earnings within three years. See id.
67. See Joanna Sullivan, N.C. Bank Heading Past $1B with Eighth Deal in Six Years, AM. BANKER, April 3, 1997, at 5. Triangle considers itself a "super community bank" or one that tries to "out-local the nationals and out-national the locals," according to Anat Bird, a Senior Executive Vice President and Chief Operating Officer at Roosevelt Financial Group in Chesterfield, Missouri. See Liz Moyer, Growing Community Banks Get Caught in Middle, AM. BANKER, June 26, 1997, at 1, 6. Super community banks strive to "strike a balance between locally based, personalized service and the efficiencies that size and scale can bring, especially in administration and back offices." Id.
68. See Sullivan, supra note 67.
70. See id.
71. See id. At the same time Triangle Bancorp purchased these ten BB&T branches,
Triangle followed this deal by purchasing $270 million-asset Bank of Mecklenburg, one of the only remaining community banks in Charlotte.\textsuperscript{72} Bank of Mecklenburg will remain a separate unit, as it is Triangle's custom to retain the managers of banks it acquires and to stress delegation of authority.\textsuperscript{73} Triangle next acquired $104 million-asset Guaranty State Bancorp of Durham County in a $36 million deal, increasing its total assets to $1.7 billion.\textsuperscript{74} Finally, Triangle ended 1997 by executing a letter of intent to acquire all of the capital stock of United Federal Savings Bank (United) of Rocky Mount, North Carolina.\textsuperscript{75} Assuming approval by the shareholders of United and the appropriate federal regulatory authorities, the United deal will increase Triangle's total assets to approximately $1.9 billion.\textsuperscript{76} In terms of future growth, Michael S. Patterson, Triangle Chairman, President and Chief Executive Officer, has indicated that his bank will focus on western North Carolina with an eye toward eventually entering Virginia and South Carolina.\textsuperscript{77}

\section*{F. Other Merger Developments}

Other North Carolina banks, such as Central Carolina Bank (CCB) and Centura Banks Incorporated (Centura) made significant acquisitions in 1997. For example, CCB agreed to purchase American Federal Bank of Greenville, South Carolina, for $325 million in stock.\textsuperscript{78} The deal marked CCB's first excursion outside of North Carolina and the bank's largest acquisition to date.\textsuperscript{79}

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Centura Bank acquired thirteen. See Joel B. Obermayer, \textit{BB&T Selling 23 Branches to Triangle, Centura}, \textit{News & Observer} (Raleigh), May 22, 1997, at 10C. BB&T sold the branches as part of an antitrust settlement reached between BB&T and the Department of Justice which required BB&T to sell the twenty-three branches in order to complete its merger with UCB. See id.
\textsuperscript{72} See Sullivan, supra note 67.
\textsuperscript{73} See Moyer, supra note 67, at 6.
\textsuperscript{76} See id.
\textsuperscript{77} See Whiteman, supra note 74.
\textsuperscript{79} See id. Under the terms of the agreement, American Federal will retain its name
\end{flushright}
Similarly, Centura, a Rocky Mount, North Carolina-based bank, made its first acquisition outside of North Carolina by purchasing Pee Dee State Bank of Timmonsville, South Carolina, for approximately $40 million in stock.  

Some North Carolina community banks pursued a growth strategy this past year that primarily involved acquiring branches of superregional and midsize banking companies. As a general rule, these branches are on the sale block for two main reasons: (1) in the case of “castoff” branches, the superregional and midsize banks no longer find the branches to be profitable; or (2) the larger banks must sell the branches in order to comply with antitrust laws so that they can complete a merger with another bank. Purchasing these branches from banks such as NationsBank, First Union, and Wachovia, among others, allows community banks to increase their market share without having to build new branches or buy other banks. Demand for these branches is high among community banks despite the skepticism expressed by some analysts regarding the acquisition of castoff branches that superregional banks no longer want. Other industry observers have noted that these branches are a good fit for community banks because they have different standards with respect to profitability and because they tend to focus their operations in more rural communities, while bigger banks concentrate on larger communities.

G. Bank Start-ups

In addition to being a year of record mergers and acquisitions, 1997 witnessed an explosion of start-up banks in North Carolina. According to the state Office of the Banking Commissioner, nine new banks opened in 1997. In addition, the North Carolina and its thrift charter and operate as a wholly owned subsidiary of CCB. See id. at 5.

82. See id.
83. See id.
84. See Doug Campbell, For N.C. Banks, It's All in the Name, GREENSBORO NEWS & REC., Jan. 25, 1998, at E1.
85. See id. These nine banks include: New South Bank of Washington, Capital Bank
Banking Commission approved the de novo charter applications of Bank of Wilmington and The Scottish Bank at its January 18, 1998, meeting. The record number of mergers in 1997 involving North Carolina banks has created a niche for new banks that offer attention and flexibility to their customers, especially for customers from small and medium sized businesses. In addition, big banks are pushing their customers in the direction of automated banking, but a large number of bank customers prefer dealing with real people rather than telephones and computers.

One of the start-up banks that opened its doors in 1997 is Capital Bank. Capital Bank opened on June 23, 1997, and was the first new bank to open in Wake County, North Carolina in a decade. The bank started with $26 million—more than any startup bank in North Carolina banking history. Capital’s Chief Executive Officer, James A. Beck, indicated that Capital Bank was formed to fill the vacuum left by the mergers of North Carolina’s largest banks. Mr. Beck stated that “[t]here’s a market there that wants the personal touch. . . . A lot of bigger banks have been abandoning the [small business] market or are handling it with technology . . . rather than through personal relationships.”

Banking analysts have predicted that the key to Capital’s survival will be for it to convince potential customers that they will get better service from locally headquartered banks, such as Capital, than from one of the state’s banking giants.

86. See Email from Raymond E. Grace, Application Director, North Carolina Commissioner of Banks, to Laura Turner Beyer, Editor in Chief, North Carolina Banking Institute (March 3, 1998) (on file with author). Both of these banks are continuing their organizational efforts and are expected to open by the second quarter of 1998. See id.
87. See Joel B. Obermayer, Capital Bank Lives up to Name, NEWS & OBSERVER (Raleigh), June 24, 1997, at 1D.
88. See Martin, supra note 85, at 49.
89. See Obermayer, supra note 87.
90. See id.
91. See id.
92. See Joel B. Obermayer, Investors Plan New Bank, NEWS & OBSERVER (Raleigh), Jan. 25, 1997, at 1D.
93. See Obermayer, supra note 87.
Analysts and industry experts indicate that more new banks will appear as the consolidation trend continues among the superregional and mid-size banks. These analysts also predict that as a result of consolidations, only ten megabanks will be standing by the year 2000; mid-size banks like Centura and CCB will disappear; and community banks will flourish.94

H. Summary

The merger frenzy of 1997 that created the vacuum for new community banks is expected to continue in 1998, although at a slower pace.95 First Union and NationsBank are predicted to spend most of 1998 “digesting” the two largest mergers in banking history, although they may complete some smaller deals.96 Wachovia is the bank considered most likely to maintain an aggressive acquisition strategy in 1998, having emerged from a six-year period of no mergers activity.97 In addition, banks such as BB&T and Centura continue to express interest in Virginia where several attractive small banks remain vulnerable to acquisition.98 Finally, consolidation is expected to continue among community banks in North Carolina.

III. INTERSTATE BRANCHING

The number of banks is decreasing due to acquisition through merger and consolidation of multiple banks within a holding company as a result of interstate branching. In the past, the McFadden Act gave national banks the authority to open branches “within a state” but only to the same extent that a state bank could branch in accordance with that state’s law.99 The ultimate effect of the McFadden Act was to allow state legislators and regulators to

95. See Joel B. Obermayer, Banks at Top of Food Chain Will Continue Feeding, NEWS & OBSERVER (Raleigh), Jan. 25, 1998, at 9E.
96. See id.
97. See id.
98. See id.
prevent out-of-state banks from opening branches within their borders.\(^{100}\) The McFadden Act was repealed by the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Riegle-Neal)\(^ {101}\) which legalized interstate branching by both national and state banks as of June 1, 1997, unless a state opted-out prior to that date.\(^ {102}\) As of that date, only two states, Texas and Montana, had enacted opt-out legislation.\(^ {103}\) North Carolina passed legislation which became effective on June 22, 1995, opting-in to interstate branching.\(^ {104}\)

Taking advantage of Riegle-Neal, NationsBank, First Union, and Wachovia have begun the process of merging their bank subsidiaries into their bank holding companies. First Union estimates that it will save about $6.5 million a year due to the consolidation of its bank subsidiaries.\(^ {105}\) First Union is merging twelve of its thirteen banks into one bank, which will be known as First Union National Bank\(^ {106}\) and will keep a separately chartered bank in Delaware due to the favorable insurance laws of that state.\(^ {107}\)

NationsBank is also in the process of merging all of its subsidiary banks into one bank but has not set a deadline for completing the consolidation.\(^ {108}\) The task will be onerous for NationsBank due to its recent purchase of Boatmen’s Bancshares of St. Louis—NationsBank inherited fifty-seven banks when it acquired Boatmen’s in January of 1997.\(^ {109}\) NationsBank is presently clashing with Texas bank regulators who are seeking to keep NationsBank from introducing interstate branching into Texas as a result of the state’s decision to opt-out of interstate branching.\(^ {110}\)
wants to merge NationsBank of Texas into NationsBank of North Carolina and convert all of its Texas branches into branches of the Charlotte bank.\textsuperscript{111}

IV. INTERNATIONAL EXPANSION

In addition to unprecedented merger activity in the United States, the large North Carolina banks increased their international banking efforts in 1997 in an effort to expand the range of services available to corporate clients. In the past, North Carolina banks have largely refrained from adopting international growth strategies and focused on domestic expansion. As a result of this tactic, North Carolina banks were relatively shielded from overseas volatility caused by the Asian crisis. The economic turmoil in Asia clearly affected the fourth-quarter earnings of the nation's multinational banks—Chase Manhattan Corporation, Citicorp, and J.P. Morgan.\textsuperscript{112}

In January of 1997, Wachovia broke with its policy of having no full-fledged banking offices overseas when it agreed to purchase a $100 million-asset Brazilian bank, Banco Portugues do Atlantico-Brazil, from Portugal's Banco Commercial Portugues SA.\textsuperscript{113} An executive vice president and head of Wachovia Corporate Services Incorporated stressed that the deal was a direct result of demand for international services by Wachovia's corporate clients.\textsuperscript{114} He explained that "international capabilities and global services will be a key determinant of a bank's ability to maintain and develop large corporate relationships."\textsuperscript{115}

Wachovia also formed an alliance with London-based HSBC Holdings PLC to jointly market corporate financial services

\textsuperscript{111} Statesman, Dec. 5, 1997, at D1.
\textsuperscript{112} See id.
\textsuperscript{113} See Asian Mess Hits Profits at J.P. Morgan, Citi, Chase, AM. Banker, Jan. 21, 1998, at 1. J.P. Morgan's net income decreased 35% from its 1996 fourth-quarter earnings; Chase Manhattan and Citicorp's net income increased only five percent and seven percent respectively. See id.
\textsuperscript{114} See James R. Kraus, Wachovia, Buying Brazil Bank, Concedes International Service is a Must, AM. Banker, Jan. 9, 1997, at 8. Until the purchase of Banco Portugues do Atlantico-Brazil SA, Sao Paolo, Wachovia's international holdings included only a loan booking office in the Cayman Islands, a branch in London, and a representative office in Tokyo. See id.
\textsuperscript{115} See id. (statement of Hugh Durden).
globally. The new alliance will provide trade finance, cash management, and corporate banking services and products to both Wachovia's and HSBC Holdings' customers. In addition, Wachovia received approval from the Bank of England and the Federal Reserve Board to convert its London representative office to an operating branch. Other international banking initiatives by Wachovia in 1997 included establishing an Atlanta-based global services division and offering an integrated payments and collections network for companies doing business in Canada, the United States, and Mexico.

In January of 1998, NationsBank acquired a fifty-one percent interest in a Brazilian bank, Banco Liberal, Sao Paolo. The Brazilian bank specializes in corporate finance, asset management, and underwriting. Under the merger agreement, Banco Liberal's top three Brazilian executives will continue to manage the newly merged company. As with Wachovia's international expansion, NationsBank's purchase of Banco Liberal was largely instigated by the bank's need to service its corporate customers, a large number of whom have sizable operations in Brazil. NationsBank's move was also part of a larger strategy to expand the bank's international reach. As part of that overall strategy, NationsBank has increased the number of its offices located outside the United States from six to

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117. See id. Some of the products and services made available by the alliance include import and export letters of credit, local-currency financing, cross-border and in-country cash management, and structured and project financing. See id.
121. See id. at 1.
122. See id. at 26.
123. See id.
124. This strategy represents a change in NationsBank's thinking regarding international expansion. As recently as November 1996, NationsBank Chairman Hugh L. McColl Jr. commented that California was the foreign country in which he was the most interested. See NationsBank Widens Focus to Include Latin America, AM. BANKER, July 24, 1997, at 1, 7.
fourteen over the last two years, with representative offices extending from Bombay, India, to Bogota, Colombia.125

First Union also expanded its overseas operations in 1997 by opening a representative office in Djakarta, Indonesia.126 In addition, First Union received approval to open representative offices in Istanbul, Turkey, and Cairo, Egypt.127 First Union will use these offices to facilitate trade finance and to provide business development and service centers for local financial institution customers.128 The bank’s international growth strategy focuses on serving banks in emerging-market countries with strong trade and payment flows to the United States.129

V. INSURANCE ACTIVITIES

North Carolina banks expanded into the insurance business in 1997 in an effort to take advantage of deregulation in the financial services industry. Although state-chartered banks in North Carolina have been able to offer a variety of insurance products for many years, federally chartered banks only recently have gained expanded opportunities to enter the insurance business by virtue of key judicial and regulatory decisions.130

Taking advantage of these judicial and regulatory decisions, First Union announced it would join with The Hartford to offer property and casualty insurance to small businesses or businesses with annual sales of less than $5 million.131 The joint venture

125. See Kraus, supra note 120, at 26.
127. See id.
128. See id.
129. See id. In October 1997, First Union had approximately 2,400 correspondent international banking relationships as well as offices in London, South Africa and Hong Kong and representative offices in Bombay, India and now Djakarta, Indonesia. See id.
130. See Christeena Naser, The Insurance Quest Isn’t Over Yet: How Banks can Enter the Insurance Business and how Legal Uncertainties Affect Each Choice, ABA BANKING J., June 1, 1997, at 22.
between First Union and The Hartford marks the first time a bank and an insurance company have come together to provide a commercial insurance program to small business customers. First Union will sell the insurance through its insurance affiliate, First Union Insurance Group, using toll-free telephone numbers, while The Hartford will handle customer service and insurance claims. The President of First Insurance Group commented, "[t]his strategic partnership with Hartford is consistent with our mission statement in proactively providing premier products and services to our customers through leading-edge systems at the lowest possible cost."

Wachovia also announced an expansion of its insurance business, which began operation in February of 1997. Wachovia plans to sell life, disability, and long-term care insurance products from ten different national insurance carriers to private banking and trust customers and to small businesses. Wachovia chose such a large number of carriers after it made a list of insurance products that its customers would need and then searched for insurers who specialized in selling those particular products. Wachovia is offering these products through its Wachovia Insurance Services Incorporated unit. Initially, the bank will limit sales to Winston-Salem, Greensboro, Charlotte, and Raleigh, but it hopes to expand the program to other North Carolina cities as well as Georgia and South Carolina. Providing these insurance products fits into Wachovia's strategy of being a "full financial planner," which includes offering products that address risk in addition to providing

132. See Joins Forces, supra note 131.
133. See id.
the basic services such as checking and savings accounts, loans, and investment products.\textsuperscript{138}

Other North Carolina banks expanding their presence in the insurance business include CCB, BB&T, and Centura. CCB Investor Services (CCBI) has offered life insurance since the early 1990s but has only recently begun focusing on investment services.\textsuperscript{139} CCBI describes itself as doing investment and insurance planning with an investment approach.\textsuperscript{140} For example, CCBI examines the financial and retirement needs of a customer and then suggests an array of products to meet those needs, including annuities, long-term health insurance, and different forms of life insurance.\textsuperscript{141}

BB&T has had an insurance division since 1922, which today represents one of the five largest bank-owned insurance companies in the country and is among the top forty largest insurance companies in the country.\textsuperscript{142} BB&T offers five lines of insurance through twenty-seven agencies in the Carolinas, and has indicated that it is interested in adding to its "insurance agency arsenal."\textsuperscript{143} The bank ended 1997 by doing just that. On December 22, BB&T Insurance Services Incorporated announced an agreement in principal to purchase DeJarnette & Paul Incorporated, of Richmond, Virginia.\textsuperscript{144}

In an effort to strengthen its presence in the insurance business, Centura Bancorp announced deals to buy two insurance agencies—Moore & Johnson Agency Incorporated of Raleigh, North Carolina and Betts & Company of Rocky Mount, North Carolina.\textsuperscript{145} According to a Centura Vice Chairman, the purchases were necessary to achieve the critical mass the bank needed to make its

\textsuperscript{138} See id.
\textsuperscript{139} See Mark Hilpert, Agents Wary as Banks Move Into Insurance, TRIANGLE BUS. J., July 25, 1997, at 27.
\textsuperscript{140} See id. at 38.
\textsuperscript{141} See id.
\textsuperscript{142} See id.
\textsuperscript{143} See Gillam, supra note 54.
insurance business truly worthwhile. In addition to acquiring two agencies, Centura signed a partnership agreement with Travelers Insurance Corporation, which allows Centura customers to buy Travelers' Insurance products by telephone or over the Internet twenty-four hours a day.

VI. TECHNOLOGICAL DEVELOPMENTS IN HOME BANKING

Centura introduced online (or "PC" banking) banking in North Carolina in October of 1995. Since that time several other North Carolina banks have followed Centura's lead, and thousands of people have signed up for online banking. As North Carolina banks continue to experiment with computer-based banking, they are beginning to offer creative new products including PC banking for small businesses, real-time access, and Web-based banking.

North Carolina banks are increasing the online banking services they offer small business customers through programs such as Intuit's Quickbooks financial software. Quickbooks, a variation on Intuit's Quicken program, is designed for businesses with up to thirty employees. It offers the ability to check account balances, transfer money, and pay bills but also offers features especially useful to small businesses. As of March 1997, twenty-nine banks had, or were planning to introduce computer banking services using Quickbooks financial software, including First Union and Centura.

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146. See id.
147. See id.
148. Online banking allows bank customers to access account information through personal computers by using a modem and a computer software program. See Kimbrely Kegler, Electronic Banking: Security, Privacy, and CRA Compliance, 2 N.C. BANKING INST. 426, 428 (1998).
150. See id.
152. See id.
153. See id.
154. See id.
In addition to the Quickbooks software, some North Carolina banks are developing their own computer banking software for small businesses. For example, BB&T introduced BB&T Business OnLine, a computer banking package for small-business customers that gives them access to a toll-free direct telephone line through which they can conduct transactions, monitor accounts, and manage cash flow. Banks anticipate that computer banking for small businesses will be more successful than for individual consumers because entrepreneurs typically are more computer savvy. In addition, they are more likely to balance their books at strange hours making twenty-four hour access to their financial institution quite helpful. Banks realize that introducing computer banking to small businesses is costly, but expect it will pay for itself by attracting new customers and limiting more costly interactions with branch personnel.

Real-time access is another innovation in PC banking that was originally introduced in North Carolina by CCB. CCB’s software package allows customers to make transactions in real time so they are transferring money between accounts before their eyes. The easiest way to explain the new software is by comparing it with the older PC banking product, which most banks still use. The older software requires customers to enter their transactions, dial the bank’s modem, and then have their computer execute the transactions in such a manner that customers do not see the money being transferred from their account in real time, a process which many customers find confusing. In addition to offering real-time access, CCB’s software informs a customer whether a particular creditor accepts electronic payments, whereas older software is designed so that customers have to contact each merchant separately to determine whether it accepts electronic payments.

156. See Oppenheim, supra note 151.
157. See id.
158. See id.
159. See Andron, supra note 149.
160. See id.
161. See id.
162. See id. In fact, many companies, including American Express, Duke Power, and
Finally, web-based banking (or "Internet" banking) is the latest revolution in home banking. Internet banking provides similar services to bank customers as PC banking but uses a more flexible access medium, the Internet. According to a researcher with the American Bankers Association in Washington, D.C., a year ago only a handful of banks had transactional Internet sites, whereas today there are twenty to thirty banks with transactional Internet sites.

Among North Carolina banks, Wachovia, Centura, and First Union introduced Internet-based banking services in 1997, and NationsBank and BB&T are expected to have full Internet banking sometime in 1998. Internet-based banking services permit banking customers to access their accounts from any computer with a World Wide Web browser, rather than being limited to accessing their accounts from a computer that has the special software required for PC banking. In addition to serving as a convenient banking tool for bank customers, bankers are attracted to Internet-based banking because it is proving to be an easy way to attract new customers. The customers who are signing up tend to have a better profile, meaning they are more profitable to the bank, than the typical bank customer.

Wachovia introduced a banking program in July of 1997 that allows customers to purchase stocks, options, and mutual funds, download brokerage account applications, check account balances, and obtain stock quotes over the Internet. Rather than requiring

Bell South, do not accept electronic payments, in some ways defeating one of the major purposes of online banking, which is to accelerate payment of creditors through electronic payment. See id. If the merchant does not accept electronic payment, the customer still sends a payment request to their bank via their computer, but once the bank receives the request they send the merchant a check. See id. Consequently, these payments take about five days. The banks are lobbying merchants to accept online payments. See id.

163. See Kegler, supra note 148, at 430.
165. See Andron, supra note 149.
166. See Martin, supra note 164.
167. See Home Banking: Now Finally may be the Time for the Revolution, INFORMATION & INTERACTIVE SERVICES REP., June 6, 1997, available in 1997 WL 10454187 [hereinafter Home Banking Revolution]. For example, studies done by Commerce Bank of Cherry Hill, New Jersey, show that their typical bank customer has 2.8 accounts, while the home banking customer has 4.7, which translates into average balances of $9,830 in deposits for all households but $11,387 for home banking households. See id.
168. See Joel B. Obermayer, Wachovia to Take Investing to the World Wide Web, NEWS & OBSERVER (Raleigh), June 3, 1997, at 1D. Although several investment companies offer
customers to use special software and private networks, this
innovative program allows customers to handle their financial affairs
by reaching Wachovia’s site on the World Wide Web. In the near
future, Wachovia’s customers will be able to conduct more
traditional banking services online such as transferring funds and
paying bills.

First Union has also introduced an innovative banking
program that can be accessed through the Internet. First Union is the
first bank in the United States to offer CyberCoin, a payment service
that enables secure, instant cash transactions over the Internet. The
payment service allows First Union consumers to purchase articles,
software, and other inexpensive items over the Internet using the
First Union-branded CyberCoin Wallet. Before the introduction of
First Union’s payment service, merchant were generally unable to
sell low-priced products and services over the Internet because prices
were too low to be practical for credit card use, a payment method
that works well for transactions of twenty dollars or more. CyberCoin has eliminated that problem and in the process has
expanded electronic commerce opportunities. However, the
CyberCoin system has not caught on with consumers. An industry
analyst explained that few Internet merchants are set up to accept
electronic cash payments because few customers use them, and
customers do not use the payment method because there are not
many places to shop. There are additional problems with the

their customers the option of buying stocks and mutual funds over the Internet, Wachovia is
one of the first consumer banks to do so. See id. The cost of trading over the Internet is
25% less than Wachovia’s regular discount brokerage prices. See id. Also, in July of 1997,
Wachovia acquired Macro-World Research Corp., an Internet provider of financial
information, news, and stock and mutual fund ratings. See Tech Bytes: Wachovia Buys
Firm Offering Data on Web, AM. BANKER, July 10, 1997, at 20. Wachovia added the
Macro-World system to its PC Access for investors on the Internet. See id.

169. See Obermayer, supra note 168.
171. See First Union Introduces New Payment Service for Internet Shoppers, PR
Newswire, Jan. 27, 1997, available in WESTLAW, NCNEWS Database [hereinafter New
Payment Service].
172. See id. First Union added a CyberCoin MiniMall to the Community Commerce
page of its web site, listing the merchants that accept CyberCoin payments. See id.
173. See Joel B. Obermayer, First Union Buys Ideas with Net Cash, NEWS & OBSERVER
(Raleigh), July 9, 1997, at 1D.
174. CyberCoin allows consumers to purchase items over the Internet that cost as little
as $0.25. See New Payment Service, supra note 171.
175. See Obermayer, supra note 173.
INTRODUCTION

CyberCoin system that may be keeping customers from taking advantage of the new product and that lead many analysts to believe that in the future micropayments will go in another direction altogether.\(^\text{176}\)

Despite problems consumers and banks are experiencing with services such as the CyberCoin payment method and more than ten years of promises and false starts, the home banking industry is on the verge of taking off.\(^\text{177}\) For example, recent studies indicate that the telebanking customer base of about 2 million users that existed in June of 1997 will increase to 16 million households by 2000.\(^\text{178}\) In addition, a Stanford Research Institute analysis discovered that 16 million American homes currently have both the "motivation" and "capability" to use online financial services.\(^\text{179}\) Although the cost of offering the home banking option is expensive for the banking industry, it is excited and motivated by the prospect that ultimately the new service will save millions of dollars by greatly reducing the need for more costly services such as human interaction with bank tellers.

VII. CONCLUSION

Over the past twenty years, structural changes such as consolidation among institutions have drastically altered the landscape of the banking industry.\(^\text{180}\) This structural change "has been driven by advances in technology, efforts to increase efficiency and reduce costs, the general performance of the economy, and the globalization of financial services markets."\(^\text{181}\) In addition, a change in the regulatory aspects of banking, including a loosening of regulatory restrictions has also contributed to structural changes in the banking industry.

\(^\text{176}\) See id. Some additional problems with CyberCoin include potential privacy concerns and the fact that it is a payment technique that takes almost as much time as a credit card purchase. See id.

\(^\text{177}\) See Home Banking Revolution, supra note 167.

\(^\text{178}\) See id.

\(^\text{179}\) See id.


\(^\text{181}\) See id.
These same factors contributed to structural change in the North Carolina banking industry in 1997. A tremendous number of mergers and acquisitions involving North Carolina banks occurred in 1997 and both large and small banks took part in this consolidation trend. As a result of the large number of mergers and acquisitions, a record number of start-up banks opened their doors in North Carolina in an attempt to fill the void left by the mergers among big banks. The Riegle-Neal Act also precipitated further consolidation in the North Carolina banking industry by legalizing interstate branching. In addition to being a record year of consolidation, 1997 marked a year of increased international banking efforts for North Carolina banks. For the first time, the banking giants in North Carolina adopted growth strategies that unequivocally included international expansion. In addition, North Carolina banks took advantage of deregulation of the financial services industry by expanding into the insurance business in 1997. Finally, North Carolina banks continue to be at the forefront of technological advances in banking, having introduced innovative online and Internet-based services to the banking industry in 1997.

As the regulatory walls of banking continue to crumble, North Carolina banks are poised to lead the banking industry into the next millennium. They are seizing opportunities as they arise and formulating innovations for the future. In a speech last year at the Georgia Institute of Technology, NationsBank Chief Executive Officer, Hugh McColl, quoted the 19th-century German philosopher Arthur Schopenhauer as saying, "Every man takes the limits of his own field of vision for the limits of the world." North Carolina banks have not.

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