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The Effect of State Banking Laws on Holding Company Bank

by Donald M. Brown

Donald M. Brown investigates the effect of state banking laws on the financial and market characteristics of banks owned by bank holding companies. Brown applies a statistical approach known as probit analysis to a sample of banks from six unit-banking states. In those states that permit multi-bank holding companies, he finds that the financial and market characteristics of one-bank and multi-bank holding company subsidiaries differ significantly from one another, as well as from independent banks. Such characteristics associated with one-bank holding company subsidiaries also differ from those of independent banks in states that prohibit multi-bank holding companies. Furthermore, one-bank holding companies in this group of states share financial characteristics of both the one-bank and multi-bank holding company subsidiaries in the other group of states. This suggests that, if it were legal in those states to form multi-bank holding companies, some of the holding companies would choose to own several banks. Finally, Brown finds that banks are more likely to be owned by bank holding companies in states that permit multi-bank holding companies than in those that do not. Brown concludes that studies which attempt to examine the effects of holding company ownership on bank financial ratios and market characteristics should control both for differences among state banking laws and for differences between one-bank and multi-bank holding companies.

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