The importance of mergers and acquisitions in shaping the character and structure of American banking cannot be denied. Official estimates of approved mergers and acquisitions since World War II indicate that close to 6,000 U.S. banks have been merged, consolidated into existing institutions, or acquired by bank holding company organizations. On an annual basis recent federally approved bank merger transactions have tripled since the decade of the 1960s and increased by almost 50 percent over the average annual number of bank acquisitions during the 1970s. From a long-run perspective the number of separately owned (independent) U.S. banking organizations peaked as the 1980s began, and since that time, has entered a secular decline as increasing numbers of what were formerly independent banks have been acquired. The advent of interstate banking legislation in more than 40 states points to a future industry structure dominated by relatively few regional and money-center holding companies.

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The recent surge in U.S. bank mergers and acquisitions has stimulated a substantial body of research concerned with such diverse issues as the profitability and risk of acquiring and acquired banks, the impact of bank mergers upon the public welfare (including the array of services offered and the prices charged customers), the principal motivations that lead buyers and sellers of banks to pursue and consummate merger transactions, and the magnitude and nature of the rewards (if any) flowing to bank shareholders who, ultimately, must sanction every acquisition. Certainly our knowledge of the causes and consequences of U.S. bank mergers has mushroomed in the past decade; yet, surprisingly few conclusions from this growing body of research seem “safe” today as contradictory and conflicting evidence continues to unfold along both the private and public dimensions of the bank merger process.

This chapter looks at the evidence in three key research areas:

1. Are the banks and bank holding companies choosing merger and acquisition as a way to grow different from or are they similar to other banking organizations? And, if they are different from other banking firms, how and why are they different?

2. Does the performance of merging banks and bank holding companies really improve following acquisition or merger? If so, who benefits and who (if anyone) loses?

3. Are the reasons behind most mergers and acquisitions—the motivations and expectations of buyers and sellers—vindicated by the outcomes actually achieved? What do bankers, stockholders, and customers seek in a bank merger, and what do they actually receive?

These are difficult questions to answer given the current state of the art in business and economic research, yet each is a crucial question that demands careful study. For bank mergers and acquisitions are, by and large, private business decisions with significant social implications. They bear upon the allocation and efficient use of the nation’s scarce resources by both banks and their customers, upon the availability of credit to a broad spectrum of individuals and institutions, and upon the risk to the public’s funds and, therefore, to the financial security of millions of businesses and households.

Moreover, there is evidence that many mergers during the 1980s were hastily arranged to benefit from new liberalized antitrust rules followed by the Justice Department during the Reagan Administration’s years in office and in anticipation of tax reform legislation that would substantially