RESCINDED

AL 95-4
Subject: Bank Merger Competitive Analysis
Review Screening Process

TO: Chief Executive Officers of all National Banks, Department and Division Heads, and
all Examining Personnel

PURPOSE

Al 1995-4 has been replaced by Comptroller's Licensing Manual - Business Combinations.

This advisory announces the replacement, effective immediately, of the Quick Check Merger
Screen (QCMS), a screen devised to test the competitive effects of proposed mergers in order
to identify those mergers that could substantially lessen competition. The new Bank Merger
Competitive Analysis Screen (merger screen) provides merger applicants with:

- A better tool for identifying mergers that could be competitively significant.

- A description of the kinds of information found to be useful to the Department of
Justice (department) and the OCC in their competitive review of mergers identified as
needing further review.

The merger screen will be included in the Comptroller's Corporate Manual that will be
issued later this year.

BACKGROUND

Previously, merger applicants could elect to use the QCMS (located in the Comptroller's
Manual for Corporate Activities Vol. II, p. 103) to test the competitive effects of a proposed
merger. OCC designed the QCMS to identify mergers that may not have significantly
adverse competitive effects. The QCMS contained a Proximity Market Test and an
Expansive Market Test. In recent years, the QCMS's effectiveness eroded and OCC
amended it by eliminating the Proximity Market Test. OCC retained the Expansive Market
Test since it was effective at identifying mergers that may be competitively
significant. See
OCC Advisory Letter 94-5, September 23, 1994.

In 1994, the OCC began interagency discussions with staff from the department and the
Federal Reserve Board. The new merger screen was developed as a result of those
discussions. The OCC decided to replace the QCMS's Expansive Market Test with screen A
of the merger screen. Screen A differs from the QCMS's Expansive Market Test by increasing the weight
given to thrift deposits from 20 percent to 50 percent. Giving thrift deposits greater weight
should reduce the number of mergers subject to further competitive review.

The new merger screen provides additional assistance to applicants when screen A identifies
their merger as needing further review. Section two of the merger screen describes the types
of information that may establish a better picture of actual market competition. That
information may show that the merger would not have significantly adverse

competitive effects.

The merger screen also includes a description of the department's review process. In recent years, many applicants voiced concerns about not understanding the department's review process. Unfortunately, that lack of understanding sometimes resulted in unnecessary costs and delays. Describing the department's process should provide greater predictability about the department's view of a proposed merger.

To describe the department's process, the merger screen includes screen B. The department uses screen B when screen A identifies a merger for further review. In screen B, applicants complete another Herfindahl-Hirschman Index (HHI) using a slightly different geographic market and excluding thrift deposits when figuring market shares. Applicants whose merger is highlighted by screen A may complete screen B. Applicants who complete screen B may avoid closer scrutiny of their merger by the department. If screen B also identifies their merger as needing further review, applicants may consider providing additional information, outlined in section two of the merger screen.

In limited circumstances, a merger could receive closer scrutiny by the department although it was not highlighted by either screen A or B. These circumstances are described in the new merger screen.

RESCINDED

QUESTIONS

Questions concerning this advisory should be directed to Robert B. Norris, national bank examiner, Licensing Policy and Systems, Bank Organization and Structure, at (202) 874-5060 or Mitchel Mertens, senior attorney, Bank Activities and Structure, at (202) 874-5300.

Steven J. Weiss
Deputy Comptroller
Bank Organization and Structure

Attachment
(Tabular Material Not Suitable for ASCII)