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BANK MANAGEMENT

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BANK MANAGEMENT

INTRODUCTION

This study embraces a review of the principal provisions of Federal and State laws which have been enacted and are in effect for the improvement of the management of banks and of writings, speeches, hearings and reports, and other data, indicating the views of prominent public officials, economists, bankers, business men, and others (contained in various periodicals, reports of hearings and commissions, etc.) with respect to past management practices and policies, particularly with reference to their weaknesses and the effects thereof, as well as suggestions which have been made for the improvement of bank management. The study has been divided into two principal parts. Part I indicates some of the outstanding defects or weaknesses in management and Part II treats of the statutes and practices now in effect and of suggestions which have been made for the enactment of additional legislation and for the establishment of certain other practices for the purpose of improving bank management.

Many of the statutes prohibit unwise investments, the improper declaration of dividends, the receipt of deposits after insolvency, and other unsound practices, and were undoubtedly intended to insure sound bank management. While such statutes may place restrictions upon the actions of directors and officers, they are aimed at the improper practices themselves and not at the qualifications of the managing directors and officers and, therefore, are not included in this study. As used in this study, the term "bank management" is intended to refer to those persons charged with the management of a bank--directors, officers and employees--with particular reference to their qualification, fitness, and integrity. The term "banker" or "bankers" is used synonymously.

PART I

WEAKNESSES IN BANK MANAGEMENT AND EFFECTS THEREOF

The principal weaknesses or defects in bank management which have been noted are incompetency, lack of sense of responsibility and inattention to duties, and dishonesty on the part of bank directors and officers. These have been evidenced by the practices of bankers with respect to: violations of laws and regulations and sound principles relating to loans and investments, slow assets, deposits, capital accounts, earnings and dividends, personnel, too rapid expansion or establishment of branches, establishment of and relationships with affiliated organizations, types of business and services rendered, parallel connections and services of bankers, advances to bankers and their interests for speculative and promotional ventures, other transactions in which the bankers have personal interests, and the misapplication and embezzlement of funds.

A classification by apparent causes of failures of the 1786 national banks which suspended from 1865 through October 31, 1931, indicated that incompetent management and dishonesty were involved in the case of 1052 of these banks, as shown by the following summary:(1)

		No. of banks
(A)	Incompetent management	617
(B)	Dishonesty	82
(A-B)	Combination of incompetent management and dishonesty	36
(A-C)	Combination of incompetent management and local financial depression from unforeseen disaster	292
(B-C)	Combination of dishonesty and local financial depression from unforeseen disaster	23
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		1052

(1) "The Analysis of National Bank Failures 1865-1932", Ph. D. thesis submitted by A. R. Tebbutt at Harvard University in December, 1934, based upon data taken from the annual report of the Comptroller of the Currency, 1931. (Comptroller's reports do not indicate causes of failures subsequent to October 31, 1931.)

In this connection, the following tabulation[1] is of interest:

CAUSES OF FAILURE OF NATIONAL BANKS

Ratio of number of occurrences of each cause to the total occurrences of all causes (in approximate percentages)*

Years	Poor Management - 1 -	Fraud and Violation of law - 2 -	All Internal Causes - 1 - and - 2 -	Depression and Depreciation of Assets
1865-1872	47	32	79	20
1873-1879**	26	23	49	50
1880-1889	21	41	62	38
1890-1900**	31	29	60	38
1901-1905	21	48	69	30
1906-1908	25	48	73	26
1909-1913	20	55	75	25
1914-1920	25	63	88	12
1921-1922*	23	18	41	58
1923-1929#				
West of Mississippi River**	31	9	40	60
East of Mississippi River, mainly in agricultural South	32	26	58	41
1930-1931**	51	1	52	47

* Computed from data given in the Annual Reports of the Comptroller of the Currency. The data apply to all national banks placed in the hands of a receiver.

** The starred periods contain years of severe depression. These periods show a sharp decline in fraud and illegal practices as causes of failure.

\# Beginning 1925 the Comptroller's reports classify causes of failure only as (a) incompetent management, (b) fraud, and (c) depression. This results in a reduction of the size of Group 2 by putting violation of banking laws, excessive loans, etc., into the category of poor management.

(1) "Bank Failures - Causes and Remedies", by R. G. Thomas, Associate Prof. of Ec., Purdue University, Journal of Business of the University of Chicago, July 1935, p. 298.

With respect to 210 state supervised institutions which failed in Indiana from 1925 to 1931, a table (see Appendix I(A)) prepared by the Study Commission for Indiana Financial Institutions (1932) indicated that about 63% of such failures were caused by improper loan policies, inefficient management and breach of trust; 8% by inadequate state supervision; and 29% by external causes, such as declining price levels and earnings of borrowers, psychological attitude of the public, failure of other banks, etc.

In summarizing the causes of failure of 163 State banks in Michigan between January 1, 1930, and February 11, 1933, Professor R. G. Rodkey, of the University of Michigan, stated:

> "But, while indiscriminate censure of all those bankers whose institutions failed to survive is clearly unwarranted, an overwhelming percentage of our 163 failures must be ascribed to one fundamental cause - plain incompetence. * * * *
>
> "Two elements in our American banking system tend to foster incompetence in the management of individual institutions. The one is our system of independent unit banks. * * * *
>
> "The second element tending to breed incompetent bank managements is closely related to the first. Reference is to our dual system of control. So long as State banking departments and the Federal government compete with each other for the privilege of granting charters to promoters of new banks, the difficulty of limiting such charters to competent persons is obvious. * * * *
>
> "But incompetence in management cannot be eliminated by merely reserving to the Federal government the right to grant bank charters. The problem extends even to the managements of old, well established, and highly respected institutions. To meet it, we must, in the first place, find ways and means of keeping incompetent individuals out of executive positions in banks; and, in the second place, we must narrow the scope within which incompetent management may operate."(1)

(1) "State Bank Failures in Michigan", Vol VII, University of Michigan Business Studies for 1935. The author stated, "with one exception, these banks were located outside Detroit and they therefore belonged in the country bank classification. During this same period 411 other State banks remained open."

J. J. Driscoll, prominent Philadelphia bank analyst, in discussing bank management, stated:

> "After loans and investments the factor most frequently cited by receivers as an important cause of failure was the quality of management. In many cases the former officials were referred to as incompetent, weak, yielding, and lacking in courage.
>
> "It is a fair statement to say that 85 per cent of the success of any bank is traceable to its management and not to its size or location. The unhealthy loan and security situation already discussed, and other pertinent points that have influenced these banks largely reflect the viewpoint, ability and foresight of the management.
>
> "In some instances the size of the bank would hardly permit the hiring of capable management because of the lack of earnings to pay required salaries. However, in many of these cases high rates of interest were paid on deposits. It would have been sounder to curtail interest rates and apply a portion of the sum saved to obtain more capable officers.
>
> "Occasionally, the dominance of one man who spent only part of his time in the bank was the chief factor of weakness. His conclusions and policies forced on the bank, were influenced by politics, and by possible effect on other business with which he was associated, etc."
>
> * * * * * *
>
> "Lack of definite policies and goals to be attained was very prevalent. Preconceived policies for making loans and investments, and for their liquidation were missing. Predetermined standards of earnings to be attained were rarely asked of the management. If these things are not worked out in advance then the final result is placed in the hands of luck with everyone hoping for the best."(1)

(1) "Closed Banks - A Study of Causes", A.B.A. Journal, June 1933, p. 17; based upon data furnished to Thomas B. Paton, then assistant general counsel of the A.B.A., by Government officials in charge of liquidation. The number of banks or the period covered was not stated.

Mr. Driscoll listed, in the order of relative importance, 24 causes of failure, from which the following causes relative to management were taken:

1. Frozen loans
2. Owned insufficient quantity of securities
3. Incompetent management
6. Dishonesty
11. Loans to officers and directors
15. Activities of individuals connected with the bank, detrimental to good will
16. Excessive competition
21. Loans to affiliated companies
23. Managed by persons with political connection.

With further reference to the matter, he stated:

> "The greatest number of closings is traceable to loan losses arising from the fact that the bank did not insist on liquidation until it was too late, or concentrated its loans in a few lines or suffered a severe depreciation of collateral values. Incompetent management was, of course, a factor of great importance in most failures entering into this analysis.
>
> "Contrary to a widely accepted belief, securities depreciation was not the cause of most failures. * * *
>
> "Failure to maintain a reasonable degree of liquidity was present in a great majority of instances. * *
>
> "The banks included in this study were located in farm, industrial and resort communities and in a few instances in medium sized cities.
>
> "The range of population was from towns of 1,000 to cities of 50,000 or over. More than half the banks in this analysis were in towns of 5,000 or less."(1)

(1) ibid. p. 14.

In a paper presented at a meeting of the Academy of Political Science in January 1933, Pierre Jay, Chairman of the Fiduciary Trust Company of New York, made the following statement with respect to the responsibility of management for bank failures:

> "From the best information obtainable concerning the bank failures of this eleven-year period, two general observations may be made:
>
> "First, the vast majority of them were due to mismanagement reflected principally in over-lending, in exploitation by officers and directors and in some disregard of legal restrictions. * * * *
>
> "The second observation is that about 80% of the failures were those of very small local banks * * * *. They cannot pay for experienced management, even if it were locally available. * * * *
>
> "If mismanagement was the principal cause of failures, it seems fair that the failure of bank supervision to correct it should also be assigned some secondary share in the responsibility for what has occurred. * * * * But in assigning a share of the responsibility to supervision, it must be borne in mind that neither banking laws nor bank supervision can ever perform the positive function of assuring sound bank management. Bank supervisors do not manage banks and, at best, they can only perform the negative function of criticizing, after the fact, the loans and investments which bank managers have made; and only by extreme measures, which the laws seldom permit, can they make their criticisms effective if bank officers and directors are not co-operative. * * * * "(1)

With respect to directors' responsibility for bank failures, Lawrence A. Tamme, State Bank Examiner, New Mexico, stated:

> "I feel that indifferent and inexperienced directors were responsible to a large extent for the many failures in this state during the five years preceding 1927. In my opinion, fully 60 per cent of the directors of the defunct banks in New Mexico were incapable of analyzing a bank statement, and a large percentage of the remainder were too absorbed in collateral undertakings to devote any time to the affairs of their institutions."(2)

(1) "The Structure of the Banking System", Proceedings of the Academy of Political Science, January 1933, Vol. XV, pp. 152-153.
(2) The Bank and Its Directors, Ronald Press (1929) p. 55.

In writing on the subject of directors' lack of a sense of responsibility and inattention to duties, Craig B. Hazlewood, Vice President of the First National Bank of Chicago, stated:

> "Directors often fail to be helpful because they are inclined to take an impassive attitude rather than active interest in managing and directing the affairs of the bank. In other words, they fail to appreciate the full significance of the office of trust in which they are placed and which they must properly discharge if they expect to make a proper accounting of stewardship to the stockholders whom they are representing. They are not only under obligation to direct a bank's management, but they should have every confidence in it themselves and do their business with it. There are instances where the directors sit on the board of one bank and keep their money in another, probably a rival institution. A director should use every means toward getting business for the bank and be its active supporter."

* * * * * * * *

> "In Michigan, Commissioner R. E. Reichert became convinced that many directors were not cognizant of the condition of their institutions or of their responsibility for that condition. It was discovered that the prerogatives of the directors were sometimes usurped by the executive officer and that in many cases inaction was due to incompetence, lack of initiative, or insufficient time. On more than one occasion it was discovered that items which had been subjected to criticism in the correspondence following examination by the State Banking Department, were omitted in the reading of these letters before the board of directors and in the written minutes of such meeting. Situations that were serious and detrimental to the interests of the executive officer were frequently omitted."

* * * * * * * *

> "The chief causes of failure, in summary, have been ignorance, or an intellectual and moral disregard of established rules and margins of safety; it is charitable to describe these causes under the double heading of mismanagement and incompetence."(1)

(1) The Bank and Its Directors, Ronald Press (1929), pp. 33, 48 and 52.

Mr. Hazlewood also set forth the comments of several state bank superintendents and examiners on the negligence and incompetency of many bank directors. Some of these comments are included in Appendix I(B).

With respect to the lack of sense of responsibility of directors, F. G. Awalt, while Deputy Comptroller of the Currency, stated:

> "Lack of knowledge of their responsibilities by directors still remains the cause of many bank failures. The duties of a bank director and the nature of banking places functions upon the director not unlike those of a trustee.
>
> "The law does not intend that a director shall be a figurehead, but places specific responsibilities and liabilities upon him. Directors are bound to maintain supervision over the affairs of the bank at all times and to have a general knowledge of the character of the business and the manner in which it is conducted. They may delegate the operation of the business to duly authorized officers, but this does not absolve them from maintaining supervision over the affairs of the bank at all times.
>
> "Directors are liable under both statutory and common law. They cannot escape liability to stockholders by maintaining they did not know of unfortunate transactions, were ignorant of the business of the bank, or did not participate in the transactions. They may be sued where lack of knowledge is the result of negligent inattention."(1)

(1) Summary of remarks on an address, "The Duties and Responsibilities of Bank Directors", Proceedings Second Central Atlantic States Bank Management Conference, Washington, D. C., February 26-27, 1931, p. 94.

The following decision of the Supreme Court indicates directors' responsibilities:

> "The directors must exercise ordinary care and prudence in the administration of the affairs of the bank and this includes something more than officiating as figureheads. They are entitled under the law to commit the banking business, as defined, to their duly authorized officers, but this does not absolve them from the duty of reasonable supervision nor ought they to be permitted to be shielded from liability because of want of knowledge of wrongdoing if that ignorance is the result of gross inattention."(1)

In commenting upon the causes of poor or weak banking, L. A. Andrew, Superintendent of Banks of Iowa until May 1933, said:

> "One of the main causes of poor banking has been the use of the bank's investments by officers for their own profit. This has had many devious complications, as is well known. Another important cause of weak banking has been the mixture of commercial and investment banking in the same institution, the bidding for business by the making of unsafe loans, the payment of too high interest, and the combination of banks and their affiliates of different kinds to cover up the results of speculative banking."(2)

A report of the Study Commission for Indiana Financial Institutions (1932) contained the following statement relative to causes of failure of Indiana State banks from 1925 to 1931:

> " * * * Banks did not fail by reason of a lack of ability to execute high and intricate financial projects; they failed because they made obvious mistakes, the dangers of which are well known, and easily recognizable by the ordinary successful bank executive. Moreover * * * in 18 instances failure was caused by dishonesty on the part of officials. * * * * "(3)

(1) Bowerman v. Hamner, 250 U. S. 504; 1918, quoted in Hazlewood's, The Bank and Its Directors, p. 226.
(2) "The Future of the Unit Bank", Proceedings of Missouri Bankers Association, May 1934, p. 98.
(3) Report of Study Commission for Indiana Financial Institutions (1932), pp. 75-76.

In this connection, the following statement by Marshall R. Diggs, Executive Assistant to the Comptroller of the Currency, also is of interest:

> " * * * In the 19 banks that we have taken over since deposit insurance went into effect, fifteen of them have been brought about by either shortages or dishonest practices which are sufficient for criminal prosecution."(1)

It is apparent that violations of the laws and of the principles of sound banking have resulted in the loss, to a very great extent, of public confidence in bankers and in the unprecedented number of bank failures in the United States, particularly as compared with the small number of failures in Canada, England, and Scotland. Although many bankers, and in a measure bankers in general, have been indicted in the press and in the public forum by economists, business men, and others, it is obvious that there are a large number of bankers who are not guilty of the faults and practices of which they have been accused, particularly by certain types of politicians who have seized upon the opportunity of maligning bankers in general because of the popular appeal to the masses. In this connection, B. C. Forbes, editor of Forbes Magazine, stated:

> "The Good-will Portfolio is the most vital of all.
>
> "Confidence is the element most necessary to maintain intact that portfolio.
>
> "What really brought about the collapse of our banks?
>
> "It wasn't wholly the shrinkage in the market value of bonds, of stocks, of mortgages, of real estate, terrific though that collapse was.
>
> "It was, rather, the loss of confidence in banks by depositors, by those who theretofore had faith in the stability of the institutions to which they had entrusted

(1) "Deposit Insurance and Sound Banking", Ohio Banker, July 1935, p. 10.

> their money. The Good-will Portfolio shrank and shrivelled faster than all other portfolios combined.
>
> "The innocent were made to suffer with the guilty. Because a few - relatively few - of the nation's bankers were found to be derelict, public opinion, goaded by politicians, blindly applied the tar-brush to all."(1)

W. F. Gephart, vice president of the First National Bank in St. Louis, has stated (see Appendix I(C)) that the three most important causes of bank failure are : first, the inadequacy of bank capital; second, the lack of qualifications of those organizing and operating banks, and third, the unnecessarily large number of banks.

The published statements of several other bankers, writers, and others with respect to weaknesses in bank management are included in Appendix I(C). It should be noted that some have attempted to place at least part of the blame for the weaknesses or defects in bank management upon the government officials and supervisory authorities. In doing so, it has been contended that the authorities have permitted banks to be organized with small or insufficient capital and by persons with little or no banking or business experience to qualify them to conduct a banking business; also, that banks have been permitted to be organized in communities already having adequate banking facilities or where there was not sufficient business to support a properly conducted bank.

Leniency by bank examiners and supervisory authorities with respect to violations and unsound practices have caused bankers to continue bad practices, and even develop worse ones, assuming such practices were sound or would not be objected to by the supervisory authorities in view of the failure of such authorities to exercise promptly or vigorously their supervisory authority and responsibility. Bad or unsound practices, when permitted to grow, have brought about the unsound financial condition of a bank, as well as degenerated its management.

(1) "American Banking's National Program", Banking, February 1936 (Sec. 2)

PART II

METHODS FOR THE IMPROVEMENT OF BANK MANAGEMENT

(A) LEGISLATION

1. QUALIFICATIONS OF DIRECTORS AND OFFICERS.

(a) Licensing of bankers. From a review of economic and financial periodicals, proceedings of bankers associations, etc., it appears that various suggestions for the enactment of laws regulating bankers by means of licenses have been made from time to time by speakers and writers. However, it appears that only the State of Nebraska has enacted such a law. The Nebraska statute, enacted in 1921, now reads as follows:

> " * * * Executive officers of banks shall be persons of good moral character, known integrity, business experience and responsibility, and be capable of conducting the affairs of the bank on sound banking principles. No person shall act as an active executive officer of any bank until such bank shall apply for and obtain from the department, a license for such person to so act. If the department, upon investigation shall be satisfied that any active executive officer of a bank is conducting its business in an unsafe or unauthorized manner, or is endangering the interests of the stockholders or depositors, the department shall have authority to revoke said license. Any person who shall act or attempt to act as an active executive officer of any bank except under a license from the department, or any one who shall permit or assist such person to act or attempt to act as such, shall be guilty of a felony and upon conviction, shall be fined not more than five thousand dollars, or be imprisoned not more than ten years. The Department of Banking may make and enforce reasonable regulations and prescribe forms to be used to carry out the intent of this section. Each executive officer acting as such when this act takes effect shall be deemed to have a license for three months thereafter subject to revocation by the department." (Comp. Stats. of 1929, as amended, Sec. 8-166)

In Pennsylvania, the Department of Banking, before approving the articles of incorporation of a proposed banking institution, is required to conduct such investigation as it may deem necessary to ascertain, among other things, "whether the responsibility, character, and general fitness for the business of the incorporators, directors, and officers named in the articles are such as to warrant the belief that the business of the proposed incorporated institution will be honestly and efficiently conducted."(1) This provision, however, relates only to the fitness of the original directors and officers of a bank; and there is no provision for the approval by the Department of Banking of the subsequent officers and directors or for the issuance of licenses to individual officers and directors as in the case of the Nebraska statute.

The Federal statutes contain no provision for the licensing of bankers, nor do they specify any qualifications relative to integrity, education, or general experience and ability which should be possessed by either directors or officers of banks. It is the general practice of Federal bank authorities to consider the general qualifications of the proposed directors and officers in acting upon applications for charters, establishment of branches, trust powers, etc. However, the licensing of banks should not be regarded as the licensing of bankers. It does not necessarily follow that the officers and directors of a bank on the opening day will always manage it, especially since under laws and practices heretofore existing the controlling stockholders, whoever and however unscrupulous they may become, have the sole right of determining who shall manage the bank for them. Under any practical

(1) Penna. Banking Code of 1933, Sec. 306, as amended.

system of licensing present and future bankers it would be impracticable to expect all licensees to forever remain satisfactory bankers. Therefore, insofar as the public supervisory bodies are concerned, the real remedy for the management problem seems to lie not merely in considering the qualifications of the management at the time of chartering banks, nor in the licensing of bankers, but in the exercise of the power of continuous, positive supervision, including the right to veto or remove for cause any unsatisfactory element in the management at any time.

The Federal laws relating to certification for Federal deposit insurance, membership in the Federal Reserve System, and the granting of voting permits to holding company affiliates require that "the general character of its management" be considered, without any further details or explanations as to minimum requirements or standards to be followed. The Federal and several State laws contain more or less superficial requirements relating to the qualifications of directors, as indicated in the following sections of this memorandum.

It is apparent that the subject of licensing bankers has been receiving more and more attention, but that very little has been accomplished with respect to the formulation of definite plans for putting the idea into effect.

A report of the Committee on State Licensing of Bankers, State Secretaries Section of the American Bankers Association, presented at the annual meeting in October 1929, was construed as being unfavorable to a licensing requirement. The following excerpts are from the Committee's report:

" * * * The Committee was instructed to include in its scope of investigation the following:

1. What States, if any have or are considering the licensing of men and women to engage in banking?

2. How far should the licensing of bankers extend?

3. If adopted as a policy of the State, how should the State proceed to license bankers?

4. In what way may State Bankers' Associations properly co-operate with the State in the administration of such a system?

5. How much of sentiment exists among the people of the States and among the bankers themselves, favorable to a system of licensing bankers?

6. Could the work of the American Institute of Banking and the co-operation of State Bankers' Associations, with State universities, be related effectively to the administration of a State licensing system?

" * * * The Committee finds that there are no States in the Union having or considering the licensing of bankers, save only that which obtains in a limited way in the State of Nebraska, where it appears bank executives, charged with the responsibility of making loans, are required to secure from the State a license. It is difficult to see how such a system measures up to any proper conception of the licensing of bankers. If a system of licensing of bankers is to be established at all, it should fairly compass the entire scope of the bank; for incompetency, inferiority, infidelity and all else that contributes to the infirmity, and finally to the insolvency of banks, have origin quite as frequently in the accounting department, at the receiving teller's station, in safety deposit administration, as in the discount portfolio."

* * * * * * * *

"No sensible person will doubt the wisdom of raising the standards of qualifications of all those who now or may in the future hold official positions in banks. He who gives a moment to the serious

consideration of this far reaching movement will not fail to be impressed with the magnitude of the problem. It cannot be accomplished by legal fiat, nor by rituals prescribed by an administrative board. The most that can be done by either is to merely permit men to engage in the banking business, it cannot qualify them. It must be clear to every thinking person that the law can do little or nothing to qualify men to be good bankers. All the law can do is to create a system of banks, provide for their Government, impose limitations of capital, prescribe the number of directors, establish a department of supervision, clothe official boards with authority to grant or refuse charters, impose stockholders liabilities, clothe the Banking Department with a large measure of authority in all cases of infractions of the law, and with power in case of insolvency to take charge of the institutions and close out its affairs. The law has to do with bank organization and with supervision over bank management, but it cannot qualify the bank manager. Boards of directors, chosen by the body of the shareholders, make deliberate choice of those whom they will call to manage the bank's affairs.

"The immediate question now presents itself: shall there be established in every State a board of examiners, before whom each applicant aspiring to engage in the banking business must first present himself and pass examination before being permitted to engage in the business of banking? If so, and if left to the initiative of the individual States, there would be 48 varieties of standards and possibly in some States no standards at all. Moreover, it could not apply to the 26,000 banks now existing in which there are probably 200,000 officers and employees, who for years to come will be continuing in the service of their institutions--unlicensed, unhonored and unsung. From the beginning this agitation for the licensing of bankers has pointed for justification to the fact that licenses are required of physicians and of lawyers. 'Why not license bankers like we license doctors?" is the cry. The answer is 'Amen, and Amen, and Amen.'"

* * * * * * * * *

"Furthermore, Federal and State laws do not contain ample authority for the control of banking and do not empower Bank Commissioners and Banking Boards with authority

for looking into the qualifications of bank officers, and of removing them, for dishonesty, incompetency or insubordination to lawful authority."

* * * * * * * *

"The weakness of this proposal is that it assays to do great things and accomplishes nothing. It promises what it cannot perform. It is a specious thing and easily invites applause when every thinking banker knows that it is a mere formula, a mere ceremony, and adds nothing to the integrity, intelligence and ability of the bank officer."

* * * * * * * *

" * * * If degrees of proficiency are to be demanded in financial economies, let the student understand that he can win the prize only through years of patient toil. Sound, profound judgment, so essential to good banking, becomes seasoned only through continuing years of experience, while integrity, that other matchless prerequisite to good banking, without which the mightiest financial structure will fall, is a gift coming down only from above. Bankers are made, like the oak, from long years of experience and endurance.

"Bankers should not wait to be prompted by public opinion. They should, by their own resolution, elevate the standard of banking. Associations of bankers can and should hold aloft the highest standards of banking and beckon all who would win to follow its lead * * * * * It would be unfortunate if the law of the State would require that none could be bankers but graduates of schools of finance. Banking must ever remain to be a matter largely of integrity and good judgment. Technical knowledge of practical banking is simple and easy to obtain, in fact every day banking is the best school in banking.

"Then too, any rigid system of licensing bankers would clash with the native propensities of men. Good men differ. The best of two men, perhaps the best among ten men, and the best qualified by far, it may be, to successfully manage a bank in all that by which good qualities for bank management are measured, might and often would fare ill in an academic examination, compared with a bright youngster, accustomed to the atmosphere of the class room.

> "Finally, the impracticability of the proposed scheme to license bankers must be apparent. While there are common standards for honesty and sound judgment, it would manifestly be impractical, if not impossible, to establish uniform standards of qualification in all classes and sizes of banking institutions. All these adaptations can be much more satisfactorily and efficiently taken care of within and among the banks themselves than by the fiat of the legislature; nor is any public board so capable of determining who are qualified to hold positions in country banks as the individual banks themselves. The appointment of a public examining board with the requirement that all who enter banking shall appear before them, and pay a license fee, is but an added piece of useless machinery, adding nothing to efficiency. Good bankers become better bankers, not by being branded by some public board, but when diligently and patiently they have received training in banking and when by higher tokens the grace of God rules in their hearts, and the fear of the Lord is ever before their eyes."(1)

In 1929, counsel for the American Bankers Association prepared a draft of a model bill for licensing of bankers (see Appendix II(A)1(a)). Under its provisions, there would be created in each State a non-partisan State banking board, the five members of which would be bankers in good standing appointed by the president of the State bankers association subject to the approval of the executive committee of such association. The board would be an adjunct of the State banking department and its necessary expenses of operation would be paid out of the appropriations of the State banking department (license fees would be paid to the Treasurer of the State and added to the appropriation for the State banking department). It would be the function of such board to determine the qualification and fitness of applicants for licenses according to its required standards of education, ability, experience and

(1) "Report on Committee of State Licensing of Bankers", Commercial & Financial Chronicle, A. B. Convention Section, October 19, 1929, pp. 136-137.

character, and make such investigations and provide for such examinations as it deemed necessary.

It is noted that the bill would provide that a license be required only of any person thereafter appointed or elected an executive officer of a bank and that an applicant for a license be required to submit proof that he was over 21 years of age and of good moral character; also, that licenses would be issued by the State bank commissioner upon the certification of qualification by the banking board, and that they may be suspended for cause by the bank commissioner with the approval of two members of the banking board, and may be revoked by the board after hearing.

Another feature of the model bill is that bank charters would be granted by the State bank commissioner only upon approval and certification by the banking board after it had investigated the need for a new bank in the community, the character and capacity of its organizers, adequacy of capital, etc., and had otherwise determined whether the granting of a charter would be wise and desirable.

In June 1934, the "Committee on Grievances and Making of Banking a Legalized Profession" of the Illinois Bankers Association submitted a report prepared by Professor James Washington Bell of the Northwestern University, in cooperation with the Committee, in which it recommended that banking be made a profession and legally recognized as such, by means of a simple licensing system. In this connection, the report reads as follows:

"* * * Means should be provided to cover the situation not only of new bank incorporations, but (a) meeting the problem of selecting and accrediting bank officials during the life of the bank and (b) for eliminating undesirable and unfit bankers in the business.

"In the judgment of the Committee the most effective means of attaining these ends is to incorporate in our bill * * * provisions for licensing bank officers (either the model A.B.A. bill or the simple Nebraska provision, Statutes 1929, chapter VIII, 166). This function would be administered by a state banking board, a superintendent of banking, and bank examiners. The provisions contemplate a judicial and nonpolitical board in order to avoid the exercise of power to grant and revoke licenses for political reasons. And the superintendent and examiners should be removed from political appointment and influence to avoid the pressure that might be brought by bankers interested and affected to nullify and thwart the action of these officials in the exercise of their duties.

"Licensing would affect only bank officers, present and future. Present officers should be presented with licenses (on the theory that a general housecleaning of unfit bankers has taken place) so that any violation of law or sound and ethical practice may be made the occasion of suspension or revoking of the license.

"The limited experience which we have had so far seems to point toward licensing as a salutary restraining influence upon unsound banking. The Nebraska law, extremely simple in form, does not attempt over-much and has not been arbitrarily administered, but has been instrumental in ridding state banks of those who willfully break banking laws and who are otherwise unfit. The law has been administered chiefly in cases involving the revoking of licenses. Licensing examinations are provided for but these are not pro forma academic tests of knowledge of banking operations and are not designed to furnish new evidence of the 'licensee's' fitness for banking, but the examinations are rather a means of providing the authorities with an opportunity to gather and weigh the past evidence of the 'licensee's' experience and qualifications to continue in business.

"The success of any licensing law obviously depends upon its administration. The state banking board would have to evolve certain standards by which to judge the qualifica-

tions of candidates applying for license and for bankers whose worthiness to hold office is questioned. Employees or outsiders applying for a license would present their case to the board to prove by evidence of their knowledge, experience, and other qualifications of fitness that they are or are not entitled to the privilege of joining the fraternity of bank officials. Offenders, guilty of some mal-practice or otherwise unfit for office, would be brought before the board by the examiner and superintendent of banking for a hearing to show cause why they should not be removed. The board would have the power on the basis of this evidence to suspend or revoke the license.

"The above is a description of the most elemental form of licensing scheme. More elaborate provisions might contemplate: (1) periodic examinations at which time the applicants could submit the record of their background, experience, and other qualifications (examinations of the civil service type are not recommended); (2) establishment of qualification levels such as Class A for staff officers or bank executives, managers and administrators (the committee does not recommend including directors in this category for reasons given below), Class B for junior officers, subordinates and other employees; (3) specification of defaults, such as repeated failure to conform to the requirements or recommendations of supervisory authorities (definition and specification would eliminate a certain amount of discretion and hence the possibility of abuse of power on the part of administrative officers); (4) specified penalties applying to specified defaults.

"Standards once determined could conceivably be raised and strengthened with resulting improvement in the caliber of our bankers. Even with very rough standards young men coming up in the business would have a more definite objective to guide them in their education, training and conduct. These standards would, to be sure, be merely external ones applying to all banks in the jurisdiction and individual banks might well require more stringent qualifications but could not adopt less stringent ones.

"It does not seem desirable to formulate specific standards for incorporation into law because we are not sure enough what provisions should be included. Until we

> have further experience to work out definite standards these had better remain general to allow for administrative discretion. It would be understood that the administrative body would take into consideration such factors as (1) education, (2) training, (3) experience, (4) intellectual and moral qualities of the applicants and licensees."(1)

With respect to licensing of directors, the Committee in its report stated:

> "Some observers * * * have advocated the licensing of directors themselves. They feel that there is need of an outside influence to control and even to remove directors as well as officers. Such direct control may not be necessary if officers are made answerable to administrative regulation and the Committee believes that the desired ends can be obtained without the more vigorous measure which would make it much harder than it is to enlist competent men to serve on boards of directors."(2)

In May 1935, the Illinois Bankers Association's committee reported as follows:

> " * * * * Proposed state bank legislation and in particular national banking legislation which is dealing with bank and monetary structures has not made it desirable to press the thought of making banking a legalized profession. The subject can well wait for studied consideration until these new structures have been agreed upon. But the objective should not be abandoned.
>
> "Believing in the unit bank system and local bank autonomy for the United States, bankers recognize that laws can be adopted for the sound organization of banks. But the chartered bank can be only a part of banking. The management of banks lies in part in technical skill but in larger part in a personal professional relationship and trusteeship to the bank's customers. Indeed it is this personal relationship with its possibilities of sound direction which constitutes the chief merit of the unit system. Therefore we believe that bankers must be developed for the continuation of that system, and that the system should be in the future built as much around a body of professional bankers as around the idea of a soundly chartered bank.

(1) Making Banking a Legalized Profession, Committee report of Illinois Bankers Association, June 1934, pp. 4-5.
(2) ibid, p. 11.

"Starting largely by the licensing of those executives now in charge of the banks we believe that a license system should be adopted by the public for those men who hold themselves out as able to manage banks. Other professions were so "started". We believe that the running of a bank requires a body of knowledge and a technique justifying the public to set it up as a profession. We believe that the public has as much right to know the qualifications of its bankers as it has to know the nature of the assets of the banks.

"We believe that the public when it has had a hand in qualifying bankers will look to such a body of professional men for the financial policies of Government as well as in personal and corporate finance. We believe such a situation desirable for America.

"The Committee takes satisfaction in the knowledge that the minds of bankers are beginning to focus on the idea which it is advancing. This is evidenced in the recent action of the American Bankers Association setting up a Graduate School of Banking to hold its first session this coming June at Rutgers College in New Brunswick, New Jersey.

"We recommend that the Illinois Bankers Association adopt a steady, consistent program advancing these ideas to the point of their being adopted into law."(1)

The following views on the matter appear to be worthy of note:

S. P. Meech (educator) and R. O. Byerrum (banker):

"There is clearly as much need to regulate the entrance and exit of bank administrative officers to and from their profession as of doctors, lawyers, nurses, and accountants to and from theirs. Further, the licensing of bankers should not be the more or less nominal process of certifying of life insurance underwriters, which is not legally prescribed or enforced. Law and government must play a part in licensing and unlicensing bank officers. Why license banks and not bank officers? Is there not as much need for the latter as for the former? The high failure rate of recent years, the fact that large and small unit and multiple banks failed, points to bank administration as a vital factor in providing us with a safe banking system."

(1) Illinois Bankers Association Bulletin, May 1935, p. 78.

* * * * * * *

"The writers advocate licensing of bank executive officers because of the 'public utility nature' of banking; to keep out inexperienced and dishonest bankers; to improve control of the quality of bank credit; to facilitate and co-ordinate business and credit planning as one means of avoiding the extremes of the business cycle."(1)

C. L. Stout, Executive Vice President, Poudre Valley National Bank, Fort Collins, Colorado:

"We seem to believe it is all right to allow the ex-junk dealer, the merchants, the farmer or what have you, to acquire control of a bank through purchase of stock. He may immediately thereafter install himself as executive manager. It appears that because a man has been successful in another profession, that is the only qualification needed to insure against malpractice in banking.

"Banking is a profession. One which can never be completely mastered. Therefore every executive should pass the most rigid requirements. It is not fair to allow unskilled and insufficiently trained individuals to enter this profession as executive managers. Unethical and unsound practices in the management of institutions can be corrected by more rigid requirements. We seem to believe it is all right for these individuals to wield the financial knife just so they leave a little meat here and there on the community skeleton. Remember that while everyone carries fire insurance, it does not prevent conflagrations, neither does life insurance prevent epidemics. The Federal Deposit Insurance Corporation will not protect us from banking diseases in the future. There is no protection from the quack banker except to disbar him from the privilege of serving the public as a banker."(2)

(1) "The Certified Public Banker (C.P.B.)", Journal of Business of the University of Chicago, October 1935, pp. 323; 335. Mr. Meech is Associate Professor of Finance in the School of Business of the University of Chicago; Mr. Byerrum is vice president of the University State Bank, Chicago.

(2) Which Road Are You Going to Travel?", Northwestern Banker, July 1936, p. 9.

A. C. Agnew, Counsel for the Federal Reserve Bank of San Francisco, in an address before the California Bankers Association in May 1933, said:

> " * * * It has always been a mystery to me why we should require a certificate of qualification from our doctor, our lawyer, our minister, yes, even our undertaker, but entrust our worldly goods to the care of one whose immediate prior occupation may have been that of shearing sheep and whose only qualification consists in an ability, with others, to raise the small capital required to buy a bank charter. What I have said leads to the suggestion that the law should provide that no bank charter be granted until the examining authority, after careful and personal investigation, is satisfied that the proposed management is thoroughly experienced in the business of banking, of good and successful past record and unimpeachable integrity."(1)

H. J. Haas, Vice President, First National Bank, Philadelphia:

> "From time to time we hear much about the licensing of bank officers upon their passing examinations conducted by governmental agencies. The prevention of such a program ever being forced on us by legislative action plainly depends on the American Bankers Association pursuing a policy that will raise the standards of bank management not only in its technical operation but in its social, economic and ethical phases as well, to such levels as to make government paternalism in this respect plainly uncalled for."(2)

The outstanding views of a few others are included in Appendix II(A)1(b).

(1) "Some Thoughts on the Future of American Banking", California Banker, June 1933, p. 197.
(2) "Annual Address of the President", Commercial & Financial Chronicle, A. B. Convention Section, October 1932, p. 29.

In the consideration of the practicability of licensing bankers numerous questions are presented, among which are those relating to the following matters:

(a) The type and functions of the licensing authorities;

(b) Standards of qualifications - education, experience, ability, integrity, judgment, etc.;

(c) Examinations of bankers - scope and character, re-examination, etc.;

(d) Persons required to obtain licenses;

(e) Types of licenses issued and functions covered;

(f) The effects of failure of present bankers to pass examinations or to meet high standards or rigid requirements;

(g) The effects, if any, which the licensing of bankers would have upon banking ethics and practices;

(h) Suspension or revocation of licenses - procedure and effects thereof.

Types and functions of licensing authorities. Two broad types of boards for the licensing of bankers have been suggested--the local or state type and the Federal Reserve district or national type.

Some have suggested that as a practical matter it might be more desirable to let the individual states take the initial step by the enactment of a licensing law such as the Nebraska law or the A.B.A. model bill (see Appendix II(A)1(a)) with the hope that the various states would join in the movement until a uniform law is in force in all states. It has also been suggested that a Federal licensing law

similar to the suggested uniform state law might be enacted. As previously explained, the A.B.A. model bill provides for the creation of a state banking board of five members, appointed by the state bankers association. Such board would be an adjunct of the state banking department and would be empowered to determine the qualifications and fitness of applicants, standards of education, ability, etc., conduct examinations, and grant and revoke licenses.

Another plan suggested(1) is that uniform laws, either state or Federal, or both, be enacted to provide for a tripartite board in each state, empowered to grant and revoke licenses, one member of which would be chosen by the executive council of the state bankers association, one appointed by the board of directors of the Federal Reserve Bank for the district, and the third to be selected from academic circles by the first two members.

One of the principal disadvantages or defects of the local or state plan, it appears, is that if the matter is left solely to the initiative of the individual states it is entirely possible that there might be 48 varieties of standards or that in some states there would be no standards. Also, it is considered important that any licensing board function as a part of or in close harmony with the bank supervisory agency, especially in view of the importance of management and the responsibility placed upon the supervisory agency for the removal of officers. State boards, therefore, might not properly solve the problem unless supervision is to be left largely to the 48 states.

(1) Meech and Byerrum, "The Certified Public Banker (C.P.B.)", Journal of Business of the University of Chicago, October 1935, pp. 335-336.

Various suggestions have been made with respect to national or Federal Reserve district licensing boards. Meech and Byerrum have suggested a national board with one member chosen by the executive council of the A.B.A., one appointed by the Board of Governors of the Federal Reserve System, and the third selected from academic circles by the first two, the term of office of the members to be for life or during good behavior. It has been suggested further that in addition to the licensing body there might be an administrative body or "audit" committee, composed of persons selected, one each, by the executive councils of the A.B.A., the American Economic Association, the Association of Collegiate Schools of Business, and the Board of Governors of the Federal Reserve System, which could make an annual audit of the curriculum required, the nature and extent of the examination, and the methods applied in the various sections of the country. This plan would also provide that examinations would be administered periodically through A.I.B. chapters; papers would be graded tentatively by local examining committees; and final grades would be determined by the national board. One suggested advantage of such a plan is that it would be a means of minimizing politics and of maintaining uniform and high standards of examinations. It might be regarded as defective inasmuch as it is somewhat removed from active bank management and bank supervision, and would be slow in operation.

There have been some suggestions that the Board of Governors of the Federal Reserve System either act as a national licensing board or be empowered to designate a licensing board. It was further suggested that

the actual administrative machinery of such board might be decentralized into 12 districts or zones and that the actual work of conducting examinations, issuing and revoking licenses, etc., might be administered by the local commissions or committees, in accordance with the broad or fundamental policies laid down by the national board.

A somewhat similar plan would be to empower the Board of Governors to formulate licensing policies and to have the directors of the Federal Reserve banks, or committees thereof, or officers of the Federal Reserve banks, actually handle the administrative details in connection with the licensing of bankers.

It has also been suggested that the U.S. Civil Service Commission might be a logical agency for the licensing of bankers because of its long years of experience in conducting examinations and in the classification of personnel through examinations, special investigations, etc. It is pointed out that standards and policies of the Civil Service Commission are largely determined by the central organization in Washington and the administrative features of conducting examinations, special investigations, etc., are handled in the districts, and that with possibly only small additions these facilities could be made available in connection with the licensing of bankers. The power and responsibility for the revocation of licenses should, of course, go with the power to grant licenses and in order that the Civil Service Commission might be able to exercise its power of revocation efficiently, it would seem necessary that it keep in close touch with bankers through examinations or by close cooperation with the supervisory authorities in that repect.

Revocations might be based upon hearings and under a procedure somewhat similar to that in connection with the removal of officers under section 30 of the Banking Act of 1933. One of the objections which has been offered to this plan is the political element which frequently enters into a body of this type and the great number of objections voiced against examinations of the Civil Service type, especially if technical banking laws and problems are to be covered. Another important disadvantage of such plan is that the commission is too far removed from day to day bank management practices and requirements.

One of the principal advantages of any form of Federal licensing of bankers is that the element of local political pressure is reduced. An objection occasionally voiced is that the examination procedure and requirements involved would not be sufficiently flexible to meet varying conditions in the different districts or states.

One important advantage of having bank licenses issued by an existing bank supervisory agency or by a newly created board consisting of bankers or bank supervisors--whether such board be a state, Federal Reserve district, or national board---lies in the fact that its members would be in constant touch with banking developments and problems and would therefore be in a better position to understand and formulate desirable standards, particularly those appropriate in the licensing of bankers.

Many have indicated that one disadvantage of the issuance of licenses by state banking boards lies in the possibility and probability of local political pressure being unduly exerted and yielded to. As

a means of eliminating or reducing such pressure, it has been suggested that licenses be issued by a board consisting of Federal Reserve bank directors or Federal Reserve bank officers, or by a committee consisting of some of these and additional appointees named by bankers associations, etc. One important advantage of having a licensing board consisting of Federal Reserve bank directors or officers, or committees thereof, functioning in accordance with the general policies laid down by the Board of Governors, would lie in the probable closer coordination of bank management problems with the credit and supervisory functions and responsibilities of the Board. Another advantage is that Reserve bank officials are in close touch with operating and management problems of many of the banks and their experience with bankers through operating contacts and examinations and supervision shed considerable light upon the character and ability of bankers. This feature should be doubly important if consideration should be given to the annual or triennial licensing of bankers.

One of the principal objections which has been offered to the licensing of bankers under any type of board is the general belief that the licensing board or commission would not be able to formulate a type of examination which would insure the selection of capably trained and experienced bankers, especially with respect to integrity, general ability, and judgment. This defect may be more pronounced if the examinations and the standards should be formulated by a body or commission consisting of persons who are not engaged in banking or bank supervision.

Another possible licensing organization would be the American

Bankers Association. This organization might formulate licensing policies, prepare the examination questions from time to time, and determine the methods of conducting the examinations and the minimum standards of training, experience, ethics, and general ability of licensees. It is probable that satisfactory machinery for conducting the examinations and tentatively rating applicants could be set up through or in conjunction with the state bankers associations, where the applications for licenses and the results of the examinations could be tentatively graded and passed on to the A.B.A. for final grading and the issuance of licenses. To be of greatest effect, it would be necessary for the association to be recognized by Federal law, particularly with respect to the matter of education, training, and licensing of bankers. It might not be necessary that the law require a banker to be licensed but at least it would be necessary that it require all banks to display in their banking rooms a list of the officers who possess A.B.A. licenses and of those who do not. Also, it might be required of banks to show in their published statements the total number of officers and employees and the number thereof holding licenses. In this way the public would have an opportunity to know which bankers had demonstrated their qualifications by meeting the requirement of the A.B.A. and could decide which banks or which bankers they might prefer to deal with. It would be necessary, also, that the A.B.A. have power to revoke licenses for cause.

To complete this type of licensing system, it would be desirable to provide in the law that the A.B.A. be required to formulate a set of minimum standards and requirements with respect to the education, train-

ing, judgment, ethics, and other qualifications which a licensee must possess and the nature of the examinations required. It should be provided further that these standards must be satisfactory to the consolidated (or designated) supervisory agency, which should also have the power to revoke for cause any license issued by the A.B.A. and not revoked by it. Any revocation of licenses by the A.B.A. might be made subject to appeal to the consolidated (or designated) supervisory agency.

Some of the advantages of this method of licensing are: The A.B.A. has developed educational facilities for bankers and is striving for further development and this plan would give a tremendous impetus to bank education, particularly among country bankers. It is a plan for self-advancement, and would be much less objectionable than other plans and would develop further interest in education and training, which is the base for future bank management. It would remove from the supervisory agency or public licensing authority an enormous amount of administrative detail in the matter of preparing examination rules and questions, preparing and handling applications for licenses, conducting examinations, issuing and recording the different classes of licenses, etc. Bankers themselves would be given an incentive to raise the standards of bank management. The plan would probably receive from bankers and the public in general much less criticism than many of the other plans suggested, especially during the first few years.

The A.B.A. is probably in closer contact with banking problems and with a large number of bankers through its various divisions and

committees than any other organizations except bank supervisory authorities. Many prominent bankers are devoting considerable of their time to participating in the formulation and development of educational programs and the general raising of the level of standards of bank management through the A.B.A. The Association, therefore, is in a position to formulate, with a minimum amount of additional preparation and work, courses of study preparatory to the types of examinations which may be required in connection with the issuance of licenses.

Some of the objections to this plan are: The failure of the A.B.A. in the past to harmonize various banking interests and to cause their members to put into practice various standards of education, ethics, and principles of sound bank management. This may have been largely due to the fact that it has had no legal recognition and no power to compel bankers either to join the Association or to carry out its precepts after they become members. On many occasions various groups of bankers, such as the State Bankers Division of the American Bankers Association, Reserve City Bankers, etc., have objected to actions and policies on other matters proposed by other divisions of the association, resulting in delays in putting them into effect or the ultimate abandonment thereof. It is easily conceivable that country bankers would not readily agree upon the type of educational and licensing program or standards which might be favored by Reserve City bankers. Another disadvantage of this plan lies in the fact that the Association is not constantly in touch with the banks and bankers through bank examinations, conferences with officers on various problems, rediscounts, and many other day to day transactions,

as are the officers of the Federal Reserve banks.

Standards of qualifications. The matter of establishing standards of qualifications relative to education, experience, ability, integrity, judgment, etc., has been indicated by many bankers and writers as one of the principal difficulties incident to the licensing of bankers. Many have indicated that while there are common standards of honesty and judgment, it would be manifestly impractical, if not impossible, to establish uniform standards of qualifications for bankers in all classes and sizes of banks and that banking must remain a matter largely of integrity and good judgment rather than of a technical knowledge of banking. This is particularly true of bankers in rural sections where opportunities for technical training are not so great as in Reserve cities. Obviously, a great many injustices might result from the requirement of an academic examination or a requirement that only graduates of schools of finance or persons who had pursued certain types of training could be licensed bankers. Then, too, there may be instances in which a person well qualified to successfully manage a bank might and often would fare ill in an academic examination, compared with a student accustomed to the technique of the class room. Others have said that while educational training is important there is no substitute for sound judgment based upon practical experience and consideration must also be given to character, reputation for business leadership, etc. These and many other questions presented in this matter are illustrative of the problems encountered in attempting to set up standards of qualifications for the examination of bankers. Many who have advocated the

licensing of bankers have suggested that the determination of standards of qualifications should be left to the licensing or examining body and in this connection it is noted that the A.B.A. model bill provides that the state banking board "shall fix its own standards of education, ability, experience and character".

Examinations of bankers. Numerous questions have been raised as to the type, scope and details of examinations for licenses. Some of these are: Should examinations be written or oral, or both, and should such examinations cover both educational training and experience? Can a set of examination questions and requirements be designed to definitely and adequately test all of a banker's qualifications--as to technical and general education, integrity, and judgment--without being unduly burdensome in general and unfair to many capable applicants? Should the task of formulating examinations be left to an examining body, or to educators, or to others? Once a banker is licensed should he be required to be re-examined, say, annually or every three or five years, to make sure he has kept up to date on banking and other related matters? In view of the developments in the many matters relating to banking which do not always come to the bankers' attention as a part of the day's work, it has been suggested that re-examinations would provide a stimulus for keeping up with changes. Should each banker be required to file some form of application for a license or for an examination or re-examination? Should forms for such applications be drawn up in such manner as to furnish useful data in considering whether a banker is eligible for the examination or the license sought? Most advocates of the licensing

plan have suggested that the type, scope, and details of examinations should be determined by the examining or licensing agency.

Persons required to obtain licenses. Some of the questions raised with respect to the different classes of bankers who should be required to obtain licenses are: Should the requirement be limited to the executive officers of a bank (as provided in the A.B.A. model bill), or extended to include directors and all bank employees? Should licensing include all present officers or only those persons who are appointed to officerships in the future (A.B.A. bill)? The 1934 report of the Illinois Bankers Association's Committee favored the adoption of the A.B.A. model bill but stated that "present officers should be presented with licenses (on the theory that a general house-cleaning of unfit bankers has taken place)". If licenses are presented to all present bankers, is it not possible that many unfit bankers would be licensed? What would be done about licensing the many competent bankers who have been forced out in the past due to circumstances beyond their control and who are not now in banking service?

The Nebraska licensing law now in effect and the A.B.A. draft of a model bill for licensing bankers provide for the licensing only of executive officers. It should be noted, however, that the A.B.A. Committee on State Licensing of Bankers (1929) stated that incompetency, infidelity, etc., frequently have their origin at the receiving teller's station, and in other departments of the bank, and that if a system of licensing of bankers is to be established it should cover the entire scope of the bank.

Type of licenses issued and functions covered. Some of the questions presented with respect to these matters are: Should different types of licenses be issued to bankers in different classes and sizes of banks, different communities, etc.? Should licenses be issued to cover a specified function, such as credit, investment, trust, personnel, audit, foreign, general, etc., or would a licensed officer be permitted to handle any and all types of transactions in a bank? Or would licenses be general in nature and apply to all bankers alike, as in the case of lawyers, accountants, etc.? Would unlicensed officers be prohibited from participating in certain types of transactions?

Effects of failure of bankers to pass examinations, etc. The effects of the failure of the present bankers to pass examinations or to meet high standards or rigid requirements appear worthy of much consideration. Some of the questions in this connection are: Would bankers be given a reasonable length of time within which to prepare themselves for examination and would adequate facilities be provided for such preparation? Would bankers unable to pass the academic phases of the examinations be permitted to prove their fitness on grounds of experience, character and judgment? Would it be more desirable to begin with reasonably lax standards and raise them as time goes on? Is it to be expected that the really competent bankers, particularly many of those in rural communities without educational advantages, who may be unable to meet even comparatively simple standards with respect to education, shall be forced out of banks and the banks operated by them be forced to close, with considerable loss or injury to the bankers and the people in

the community?

Effects upon banking ethics and practices. The opinion has been expressed that licensing of bankers will not eliminate all banking or bank management defects and difficulties. If properly administered, however, any satisfactory system of licensing of bankers should contribute to a further improvement of banking practices and ethics, since standards of qualifications would be increased and many of the present undesirable types of bankers would be eliminated in the future. This may be particularly true if the licensing process were closely coordinated with effective bank supervision. It appears doubtful that a system of licensing bankers could be inaugurated under present circumstances which would eliminate the unethical types of bankers who have in the past developed and maintained large or powerful influence in their communities or spheres. A license hanging on the wall in the lobby of a bank can not long remain a substitute for integrity and sound judgment behind the counters.

Suspension or revocation of licenses. Effective powers and procedure for the suspension or revocation of licenses would seem essential to the successful operation of a licensing plan. The A.B.A. model bill provides that the state banking commissioner, with the approval of two members of the state banking board, may suspend any licensee for violations of the state law or for the performance of his duties in an unsafe, unauthorized, negligent or dishonest manner, etc., and that the banking board, after a hearing, may revoke licenses. The suggestion has been made that licensed bankers might be re-examined periodically and

their licenses revoked if they fail to pass the renewal examination; also, that the reports of bank examiners (assuming a state or Federal licensing agency) might be used as a basis for notice of revocation proceedings.

The A.B.A. model bill provides that during the period of suspension the licensee may not be employed by any bank and that the state bank commissioner, upon approval by the banking board, may reissue a license which has been revoked after one year from the time of such revocation upon reasons deemed satisfactory and sufficient.

It is obvious that the principal questions concerning the suspension or revocation of licenses are: What should be the grounds and the procedure for the suspension or revocation of licenses? Should a person whose license has been revoked be forever disbarred from serving as a banker, or may he again be licensed at some later date?

By way of summary, there are indicated below some of the principal advantages and disadvantages and difficulties of licensing bankers:

Advantages

(a) The minimum of effort required by supervisory agencies and minimum of injury to banks and bankers resulting from the exclusion by examinations of prospective unqualified bankers, as compared with removal proceedings.

(b) The improvement in bank management which should result from the power of the licensing authority to decline to renew licenses periodically and to suspend or revoke licenses for cause.

(c) The impetus which would be given to the education and training of bankers--both general and specialized.

(d) The ultimate improvement in the calibre of bankers and in banking ethics and practices through the establishment of more rigid standards of qualifications.

Disadvantages and Difficulties

(a) The difficulties which would be encountered in connection with the selection and establishment of a satisfactory licensing authority.

(b) The difficulty of setting up standards of qualifications for bankers in all classes and sizes of banks and in various communities.

(c) The various administrative details arising in connection with the formulation and holding of examinations, re-examinations, etc.

(d) The problem of licensing those persons now engaged in the banking business and the probable effects of rigid requirements in this connection.

(e) The inability of the licensing authority to determine by any reasonable examination an applicant's soundness of judgment and ethical principles--what they are at the time of examination or what they might be in the future--as compared with the position of the controlling shareholders in these matters.

(f) The fear and danger of placing a premium upon clerical and routine phases of banking and the ultimate operation of banks by governmental agencies or strictly in accordance with formulae determined by them.

(g) The probable ill effects upon the attitude and initiative of bankers.

From the foregoing, it is apparent that the possible advantages are relatively unimportant when compared with the many disadvantages and difficulties which would be involved in any plan for the licensing of bankers. Neither does it appear that the licensing of bankers could accomplish much of good which could not be accomplished as readily and more effectively by the sound administration of adequate supervisory authority. Furthermore, licensing of bankers would not relieve the

necessity for continuation of the authority to remove bankers for cause.

Apparently no standardized set of requirements has been developed which would warrant setting up formal examinations for bankers such as exist for doctors, pharmacists, lawyers, accountants, and other professional men. As a matter of fact bankers are already subject to much more regulation than most professional men. Doctors, pharmacists, and lawyers usually are required to pass only one examination covering largely theory or technical subjects. Their licenses are subject to revocation for reported and proved serious malpractices and on very few other grounds, if any. In most such cases, the matters with which they deal or the efficiency with which they handle such matters are not easily susceptible of inspection or examination. In spite of this and the fact that the interests of the public(which is practically helpless on its own accord) are involved to a very great extent, once such a professional man is licensed, largely upon the basis of a technical examination, with but little emphasis upon ethics, general intelligence, and sound judgment, additional examinations are only infrequently required, if at all.

Bankers, however, are subject to rigorous and frequent examinations in that their actions and the results of their judgment and their reputation with the public are closely scrutinized by bank examiners. Banks are licensed at the time charters are issued and this, in effect, is equivalent to the licensing of the management at that time. The character and ability of bankers is continually being observed by examiners and the public through the condition of assets, earnings, and the growth

of their institutions; whereas, there are no such definite means of measuring either the character or ability of doctors, lawyers, etc., who are in a position to jeopardize liberties and health and thus prey upon the public to a far more dangerous extent than bankers, who handle only property.

It would be in the public interest to disbar all quacks--whether bankers, doctors, or lawyers. However, it appears that pressure from enlightened customers and the public has been more effective than licenses in eliminating quacks from the professions. Since successful banking is based largely upon sound business judgment and only to a small extent upon technical or theoretical training, it would be far more difficult or impossible in the banking business than in the professions to determine in advance by examinations prerequisite to the issuance of licenses which persons might later turn out to be quacks.

The Government has a responsibility to the public for the supervision of banks and bankers within broad limitations. It is not responsible for the direction of operations or the determination of the individual problems or practices of banks. Licensing of bankers by a Governmental agency would in effect constitute its approval of the management of a given bank and the responsibility for the success of the bank would be regarded by many as falling on the Government to a far greater extent than if the Government limited its functions to the supervisory power of vetoing or removing untrained and unethical bankers.

Much has been accomplished in the past few years by the supervisory authorities and the bankers, themselves, by way of improving bank

management. It would seem that if additional legislation in this connection is regarded as necessary the most practical and effective methods, under present conditions, would be to enact laws which would require directors and officers (or "executive officers") of a bank to possess minimum requirements with respect to education, ability, experience, integrity, etc., (to be specified either in the law or in regulations by a Federal supervisory agency) and which would place in one designated Federal authority adequate power to remove directors and officers from office, or to impose other penalties, for violations of the law or for unsafe and unsound practices. This would not require that bankers be licensed but would involve a strengthening of the powers of the Federal supervisory authority with respect to requiring corrections of unsound practices and the removal of bankers.

It is to be expected, of course, that all bankers with the required minimum qualifications will not forever possess and exercise the necessary sound judgment and integrity, and that it would be necessary for the supervisory authority to criticise and cause to be eliminated unsatisfactory bankers in much the same manner that it will be required to cause the elimination of the unsatisfactory assets of a bank. Discretion and judgment must be exercised by the supervisory authority whether licenses are required or not, and it would therefore seem practical to give such authority adequate power to determine by observation in any given case whether bankers are qualified and are actually conducting

their banks along safe and sound lines. This method should not arouse the maximum of objection from bankers because of their knowledge and more or less tacit approval of section 30 of the Banking Act of 1933. Under such a plan, bank examiners should be required to analyze and classify bankers as carefully as they would analyze and classify the bank's assets and to such extent that the supervisory authority may be able to determine from their reports whether such bankers are qualified---whether good, doubtful, or losses--and should be retained or removed.

As between a plan of licensing bankers under reasonably rigid standards and a plan of continuing and strengthening the present laws with respect to qualifications and removal of bankers, a voluntary licensing plan, which might have merit under existing circumstances, may be considered. Such a plan might contemplate the enactment of laws which would provide for the necessary licensing system and standards and procedure, the suspension or revocation of licenses; and the requirement that all banks publish, in connection with the publication of their reports of condition under existing laws, the extent to which their directors and/or officers are licensed. This would give the depositors of banks and the general public an opportunity to determine whether they regard it necessary that bankers be licensed. Of course, it would not be expected that the depositors or the public would be as well informed of the licensed status of the bankers as the licensing authority might be, inasmuch as the depositors and the public would not have close contact with or interest in many of the details pertaining to the banks.

This might be a step toward the ultimate requirement that all bankers be licensed. As in the case of some of the other licensing plans suggested, it is very probable, of course, that a great many injustices might result from the inability of many competent bankers to obtain licenses because of their failure to meet rigid requirements. Undoubtedly, there would be many cases in which none of the officers of a bank could meet the licensing requirements. It might not seem practicable to remove all such officers or to close the banks, especially in those cases where the banks have been well operated. Thus the necessity for licensing bankers might be conspicuous by its absence.

(b) Maximum and minimum number of directors. Statutes limiting the number of directors which a bank may have (see Table A, Appendix II) are obviously intended to guard against mismanagement by reason of the existence of too few or too many directors. A bank with only two or three directors may easily fall under the domination of one or a few persons and thereby become what has often been criticized as a "one-man bank" and bad practices may be the result. On the other hand, where a bank has too many directors, mismanagement may result from the division of responsibility or from the existence of "dummy" directors who may in many cases be persons of high standing and of considerable appeal to the public but without the inclination or ability to direct the affairs of the bank, with the result that unscrupulous directors and officers less known to the public actually direct the operations of the bank, often for their personal benefit and the ultimate detriment of the well known directors, the shareholders, and the depositors.

Under the provisions of Section 31 of the Banking Act of 1933, the board of directors or other governing body of every bank or trust company which is a member of the Federal Reserve System must consist of not less than five or more than twenty-five members.

All of the states except seven have statutes limiting the minimum number of directors or trustees which State banks, trust companies and savings banks may have. However, a maximum number is prescribed in only twenty-one states and in some of these states only with respect to certain types of banking institutions.

(c) Residence and citizenship. Section 5146 of the United States

Revised Statutes requires that every director of a national bank must during his term of service be a citizen of the United States and that at least three-fourths of the directors must have resided in the state, territory, or district in which the bank is located, or within fifty miles of the location of the bank's office for at least one year immediately preceding their election and must continue to meet this requirement during their continuance in office.

With respect to this statute, the Supreme Court of the United States in 1888 stated:

> "One of the evident purposes of this enactment is to confine the management of each bank to persons who live in the neighborhood, and who may, for that reason, be supposed to know the trustworthiness of those who are to be appointed officers of the bank, and the character and financial ability of those who may seek to borrow this money." (Concord First National Bank v. Hawkins, 174 U. S. 364, 368.)

No provision is made by Federal law with respect to the residence or citizenship of directors of State member banks. The provisions of State laws with respect to the residence and citizenship of directors vary widely, as indicated in Table A of Appendix II.

Only nine States require directors of banks to be citizens of the United States; and in one of these, New York, it is provided that one director of a trust company need not be a citizen of the United States. The requirements as to residence of directors are identical with those prescribed by the Federal law in only one state--Indiana.

(d) Ownership of stock. It appears to have been considered important that a director of a banking institution own a certain amount of shares of stock of the institution of which he is a director. This is indicated by the fact that such requirements exist both under Federal law and under the laws of all the States, with the one exception of the State of Tennessee.

Generally speaking, the statutory provisions with respect to this matter uniformly require that the stock to be held by a director shall be held by him in his own name and right, unpledged and unencumbered in any way, not only at the time of his election but during his continuance in office.

The provisions of the State statutes are in general similar to those contained in the Federal law with respect to national banks, which reads as follows:

> " * * * Every director must own in his own right shares of the capital stock of the association of which he is a director, the aggregate par value of which shall not be less than $1,000, unless the capital of the bank shall not exceed $25,000 in which case he must own in his own right shares of such capital stock the aggregate par value of which shall not be less than $500. Any director who ceases to be the owner of the required number of shares of the stock, or who becomes in any other manner disqualified, shall thereby vacate his place." (Sec. 5146, R. S.; U. S. C., title 12, sec. 72.)

Apparent defects in this statute have been noted in considering many voting permit cases where directors had contracted to "resell" their qualifying shares to the holding company affiliate upon termination of their directorship. There is no longer any provision in the Federal laws with respect to the ownership of stock by directors of State member banks.

While the State statutes relating to this matter are substantially similar in all the States, they vary widely from State to State with respect to the amount of stock which must be owned by a director, as indicated in Table A of Appendix II.

(e) Bonds and oaths. The banking laws of nearly all of the States contain requirements with respect to fidelity bonds of officers of banks and the oaths of office required to be taken by directors. In a few States the law authorizes the directors of a bank to require bonds of the bank's officers and to fix the penalty thereof. In most instances such statutes are applicable only to officers who are active in the management of the bank or to officers who have the care, custody or control of the funds or securities of the bank. A typical statute is that of the State of Iowa, which reads as follows:

> "The officers and employees of any state bank, savings bank or trust company having the care, custody or control of any funds or securities for any such bank or trust company, shall give a good and sufficient bond in a company authorized to do business in this state indemnifying the said bank or trust company against all losses, which may be incurred by reason of any act or acts of fraud, dishonesty, forgery, theft, larceny, embezzlement, wrongful abstraction, misapplication, misappropriation or other criminal act committed by such officer or employee directly or through connivance with others, until all of his accounts with the said bank or trust company shall have been fully settled and satisfied. The amounts and sureties shall be subject to the approval of the board of directors of any such bank or trust company. The premium on said bonds shall be paid by the said bank or trust company."
> (Iowa Banking Laws, Sec. 9217-c3.)

By such laws qualifications of bankers may be said to be regulated, at least to some degree, inasmuch as it is presumed that the surety con-

panies look into the character and reputation of the officers concerned before writing the bonds. It is not presumed that surety companies give much consideration to the other qualifications based upon education, training, experience, general ability, etc.

In practically every State in the Union, a director of a banking institution is required to indicate his acceptance of the office by formally subscribing to an oath of office. In a few States it is provided only that each director shall be sworn to the faithful performance of his duty, but in most states the language of the statute is almost identical with that of Section 5147 of the Revised Statutes of the United States requiring oaths of directors of national banks, which is as follows:

> "Each director, when appointed or elected shall take an oath that he will, so far as the duty devolves on him, diligently and honestly administer the affairs of such association, and will not knowingly violate or willingly permit to be violated any of the provisions of this title, and that he is the owner in good faith, and in his own right, of the number of shares of stock required by this title, subscribed by him, or standing in his name on the books of the association, and that the same is not hypothecated, or in any way pledged, as security for any loan or debt. * * * " (R. C. Sec. 5147; U. S. C., title 12, sec. 73.)

(f) Services in other institutions or in other capacities.

The Federal laws contain provisions regarding the following matters, which may be considered as negative requirements, with respect to qualifications or provisions which indicate what bankers may not be or may not do:

1. Interlocking bank connection, Section 8 of the Clayton Antitrust Act.

2. Connections with securities companies, Section 32 of the Banking Act of 1933.

3. Connections with public utilities and registered holding companies, the Public Utility Act of 1935.

Under the banking laws of several states one or more of these classes of relationships are prohibited or restricted: (1) interlocking bank services, (2) connections with securities companies, (3) connections with companies making loans on stocks or bonds, and (4) holding certain public offices.

It will be observed from Table B of Appendix II that in certain cases it is provided that trustees of a savings bank may serve in the relationships generally prohibited. In certain other cases the prohibited relationship is permitted if a majority of the trustees of a savings bank will not be directors or trustees of other institutions. In only one instance is there any provision for the issuance of a permit authorizing the relationship prohibited. That case is in New York where it is provided that an officer or director of a State bank or trust company may serve as an officer, director, or employee of a securities company if a permit for such service is issued by a two-thirds vote of the State Banking Board.

There are no provisions whatsoever with respect to the service of directors or officers of banks in other capacities in 36 of the States in the Union; and in one other State, Texas, there is not only no restriction upon such services but it is specifically provided that a director

of a savings bank shall not be disqualified by reason of his service as a director or officer of another State bank. So far only eleven States have taken any action towards restricting such services; and nearly all of the existing State statutes with respect to this matter are applicable only to trustees or officers of savings banks.

(g) In general. In a small number of States certain grounds are specified as disqualifying a person for service as a director of a banking institution, such as

1. Conviction of a violation of the banking laws (Colorado, Montana, Oklahoma, and Wisconsin)

2. Judgments held by the bank against the person (Missouri and Texas)

3. Bankruptcy

4. General assignment for the benefit of creditors, etc. (New York, Oregon and Washington, with respect to a trustee of a mutual savings bank.)

5. Serving other institutions or holding certain public offices (about one-fourth of the states).

In addition to the foregoing, Federal and State laws contain numerous and varying restrictions and limitations with respect to loans, investments, capital, etc., misapplication and embezzlement of funds, etc., and various other prohibitory provisions, for the violation of which penalties are provided, although these provisions may be regarded as indirectly affecting the qualifications of directors and officers of banks, they are not to be regarded as of such nature as to positively promote and improve the qualifications of bankers.

Neither Federal nor State laws contain any direct provisions with respect to the qualifications of bankers specifically enumerating

requirements with respect to education, training, experience, integrity, and general all-around ability.

Although many restrictions and limitations have been made upon certain transactions and activities of bankers, many persons consider that legislation has not touched upon the fundamental problem involved; namely, incompetency of bankers.

In connection with the provisions of the statutes which deal with criminal violations, much could be accomplished in revising the laws in such manner as to eliminate many technicalities which have proved to be stumbling blocks, particularly in the trials of bankers involving complicated transactions, etc.

Although there have been some efforts and much agitation for the raising of the standards of qualifications for bankers by legislation, a large percentage of the bankers and a great number of bank supervisors, prominent speakers, and authors have generally indicated that the desired improvements must come from within the banks rather than from legislation. In this connection S. Sloan Colt, President, Bankers Trust Company, New York City, has stated:

> "It must be clear by now that lasting improvement in the banking system can seldom be obtained by legislation. The futility of trying to substitute arbitrary rules and laws for sound business judgment has been amply demonstrated. That is why a project wherein the men actually operating banks undertake to make a careful analysis of the banking problems is so important and may bring productive results. We have tried legislation for a hundred years; let us now try research and analysis."(1)

The views of John W. Pole, former Comptroller of the Currency, and others, in the matter of legislation relative to qualifications of directors and officers are contained in Appendix II(A)1(c).

(1) Address before the Kansas and Missouri Bankers Associations in Kansas City, May 6, 1936.

2. LIABILITY OF OFFICERS AND DIRECTORS AND PROVISIONS FOR THEIR REMOVAL FROM OFFICE FOR MISMANAGEMENT OR VIOLATION OF BANKING LAWS.

The laws affecting national banks and those of practically all of the states contain provisions making bank directors personally liable for losses resulting from excessive loans or illegal investments made by them and for the improper declaration of dividends, and both the Federal and state banking laws contain criminal provisions with respect to embezzlement, abstractions, and false entries by officers and directors of banks.

Statutes which impose liability upon officers and directors for violations of the banking laws or for mismanagement generally may be divided into three classes: (1) statutes imposing civil liability in damages; (2) statutes imposing criminal liability; and (3) statutes rendering the offending officer or director liable to removal from office.

Section 5239 of the United States Revised Statutes (U.S.C. Title 12, Chap. 2, Sec. 93) provides as follows:

> "If the directors of any national banking association shall knowingly violate, or knowingly permit any of the officers, agents, or servants of the association to violate any of the provisions of this chapter, all the rights, privileges, and franchises of the association shall be thereby forfeited. Such violation shall, however, be determined and adjudged by a proper district, or Territorial court of the United States, in a suit brought for that purpose by the Comptroller of the Currency, in his own name, before the association shall be declared dissolved. And in cases of such violation, every director who participated in or assented to the same shall be held liable in his personal and individual capacity for all damages which the association, its shareholders, or any other person, shall have sustained in consequence of such violation."

This provision relates to violations of certain provisions of the National Bank Act, and it has been held that it does not relieve directors of a national bank from the common law liability for failure to

administer the affairs of the bank with reasonable care and diligence. Bowerman v. Hamner (1919) 250 U. S. 504. There is a similar statutory provision regarding violations of the Federal Reserve Act by directors of national banks (Fed. Res. Act section 2, paragraph 6).

Section 22 of the Federal Reserve Act contains a similar provision relating to the responsibility of directors and officers for violations of section 22 of the Federal Reserve Act. It will be noted from the following quotation of the provision that, while it relates only to Section 22, it specifies all member banks and not merely national banks, and it specifies officers as well as directors:

> "(f) If the directors or officers of any member bank shall knowingly violate or permit any of the agents, officers, or directors of any member bank to violate any of the provisions of this section or regulations of the board made under authority thereof, every director and officer participating in or assenting to such violation shall be held liable in his personal and individual capacity for all damages which the member bank, its shareholders, or any other persons shall have sustained in consequence of such violation."

In eleven states(1) there are statutes (as distinguished from common law responsibilities) imposing personal liability in damages upon officers and directors of banks for violations of State banking laws, and in eight states (2) violations of the banking laws by officers or

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(1) Arkansas, Connecticut, Idaho, Kentucky, Nevada, North Carolina, North Dakota, Ohio, Oklahoma, South Dakota, and Wisconsin.

(2) Connecticut, Georgia, Kansas, Louisiana, Maryland, North Dakota, Texas, and Vermont.

directors are specifically made punishable by fine or imprisonment and constitute misdemeanors or felonies. Many of these statutes are open to the objection that in practice they may not be effective in producing sound bank management. Court proceedings will ordinarily be necessary and it is not at all inconceivable that an officer or director may be permitted to continue in his position even after he has paid the penalty provided by such statutes.

Statutes providing for the removal of officers and directors guilty of misconduct, unsound practices, or violations of the banking laws are found in a number of states. These provisions vary greatly with respect to the persons removable, the causes for removal, and the proceedings, if any, which must be followed. Table E (Appendix II) indicates these variations. It may be noted that this table is intended to give only a general picture of the situation with respect to the removal of officers and directors in the various states and is not a complete digest of the statutes in question.

Some of the principal causes of removal are summarized as follows:

(1) Specified causes, such as failure of directors to own stock or to attend meetings, etc. (Alabama, Wisconsin, Indiana, Florida, and other states).

(2) Dishonest, reckless or incompetent conduct. (Idaho, North Carolina, Oregon, Washington, and other states).

(3) Abuse of trust or negligence in performance of duties. (Massachusetts, Pennsylvania).

(4) Conduct injurious or hostile to bank. (New York, Oregon, Washington).

(5) Continued violations of law or unsound or unsafe practices (Federal Laws and 7 states).

The Idaho statute which may be regarded as typical of those in effect in some of the other states, reads as follows:

> "Any director, officer or employee of any bank found by the Commissioner to be negligent, dishonest, reckless or incompetent, shall be removed from office by the board of directors of such bank on the written order of the Commissioner, and if the directors neglect or refuse to remove such director, officer or employee, in event any losses accrue to such bank thereafter by reason of the negligence, dishonesty, recklessness or incompetency of such director, officer or employee, such written order of the Commissioner shall be deemed to be conclusive evidence of the negligence of the directors failing to act upon the same as herein provided in any action brought against them, or any of them, for recovery of such losses," (Idaho Code, Title 25, Sec. 25-407).

While there is no specific provision for removal in the banking laws of Texas, it is there provided that if the Commissioner of Banks finds that any director or officer of a bank has abused his trust or been guilty of misconduct in his official position injurious to the bank, he shall communicate the facts to the Attorney General of the State who shall thereupon institute such proceedings as the nature of the case may require. Apparently, under this provision, the Attorney General would be authorized to bring proceedings for the removal of directors or officers guilty of the misconduct described in the statute.

Prior to 1933, there was no provision in the Federal statutes for the removal of bank directors or officers. Section 30 of the Banking Act of 1933, however, in an effort to improve the management of national and State member banks, made directors and officers of banks subject to removal for continued violations of banking laws or continued unsound or unsafe banking practices, after being warned by the Comptroller of the Currency (in the case of national banks) or the Federal reserve agent of the district (in the case of State member banks) to discontinue such violations or such practices.

Some of the obvious defects of the Federal statutes, from the standpoint of effective supervision of bank management, are: (1) action must be predicated upon the opinions of two different supervisory agencies in the case of national banks; (2) the director or officer must have been warned to discontinue the violations of law or unsound practices before action for removal can be started; (3) the violations of law or unsound practices must have been continued after warning; (4) the facts of continued violations after warning must then be certified to the Board of Governors, together with sufficient details to justify the Board in giving the offender notice to appear; (5) notice of the charges must be served upon the director or officer who must be given an opportunity for a hearing before removal may be effected; (6) the necessity for describing specifically the alleged violations of law or unsound practices in the warning or certification to the Board of Governors and of showing their repetition may preclude the removal of a director or officer who in the meantime has discontinued the alleged violations or unsound practices but has begun the violation of other provisions of the law or other unsound practices.

The warning process and the necessity for a continuance of the violations charged or alleged before removal proceedings can be held, together with the time consumed in preparing for and conducting a hearing, presupposes the lapse of a period of time dangerously long in some cases, particularly those subject to bitter contests which may be based largely upon technicalities. Thus, it will be seen, a series of violations and warnings may be continued over a long period of time before the Board could legally take any effective action.

The above-mentioned defects suggest the necessity for revising the statutes in such manner as to provide for the summary suspension of directors and officers in certain types of situations and the removal for violations after a warning and hearing in other cases, care being exercised to draft

the statutes in such terms as to clearly prevent evasions by directors or officers by shifting to other violations or unsound practices, or only temporarily discontinuing those in connection with which warnings have been issued. In this connection attention must of course be given to meeting the constitutional requirements of "due process of law" in effecting such removals.

It is interesting to note that removal statutes on the order of the Federal statute are found only in certain States in the northeastern section of the United States, viz., Connecticut, Massachusetts, New Hampshire, New Jersey, Pennsylvania, and Vermont, and in Indiana.

In two of these States the statutes are substantially different from the Federal statute with respect to the proceedings to be followed. In New Jersey it is provided that the Commissioner of Banking and Insurance may direct the discontinuance of any violations of law or unauthorized or unsafe practices by the managers of a mutual savings bank and that if his directions are not complied with, the Attorney General of the State may institute proceedings for the removal of the offending managers of the bank. In Vermont the Commissioner of Banks is authorized to direct the officers of a bank to discontinue illegal, unsafe or unauthorized practices or conduct, but no specific provision is made for removal.

In the other States, however, viz., Connecticut, Indiana, Massachusetts, New Hampshire, and Pennsylvania, the statutes are essentially like the Federal statute. They provide for a preliminary warning to be given to the offending officer or director by the State Superintendent of Banks and they make provision for a hearing to be had before some duly constituted public body. They likewise provide that the order of removal shall not be made public or disclosed to anyone except the delinquent officer or director and to the board of directors of the bank with which he is connected, except in the course of the proceedings for removal.

In certain other respects, however, the removal statutes in these five states present important differences.

In Connecticut, the statute is applicable not only to officers and directors who have been guilty of continued violations of the banking laws or unsafe or unsound practices, but also applies to officers or directors who have used their official position in a manner contrary to the interests of the bank or its depositors or shareholders, or who have been negligent in the performance of their duties. Whenever, after having been warned by the Bank Commissioner, the offending officer or director does not discontinue the practices mentioned by the statute, the Bank Commissioner is required to serve notice upon such officer or director to appear before the State Advisory Council for hearing. If the Advisory Council finds him guilty of any delinquency, it must so advise the Bank Commissioner who will then issue an order for his removal. Upon the issuance of such an order, the officer or director involved automatically ceases to be an officer or director of his institution and is disqualified from further participating in its management. Any such officer or director, however, is entitled to appeal to the Superior Court for Hartford County within 20 days after the receipt of the order and that court, if it finds that the order was arbitrary, illegal or unreasonable, may vacate the order of removal. It is to be noted, with respect to the Connecticut statute, that its provisions will expire July 1, 1937.

The Massachusetts statute, like the Connecticut statute, is also applicable to officers or directors who have used their official positions in a manner contrary to the interests of the bank or its depositors or who have been negligent in the performance of their duties. However, it is provided that the Commissioner of Banks shall certify the fact in any such case to a board composed of the State Treasurer, the Attorney General,

and the Commissioner of Corporations and Taxation. Provision is then made for a hearing to be held before such board. In other respects, the proceedings are practically identical with those prescribed by the Connecticut statute, except that it is provided that the order of removal shall be enforced by proceedings instituted by the Attorney General of the State. Any person removed from office under this statute who thereafter participates in the management of the bank is punishable by imprisonment for not more than five years, or by a fine of not more than $5,000, or both. Any officer or director aggrieved by the order of removal is given the right within twenty days to file a petition in the supreme judicial court for the County of Suffolk for a review of the order of removal; and the decision of such court becomes final and conclusive.

In New Hampshire, the procedure for removal is substantially the same as in Connecticut and Massachusetts, except that in this State, the order of removal is required to be issued by the Bank Commissioner with the approval of two persons in good standing in the banking business to be named by the Governor upon the request of the Bank Commissioner. Any person removed from office under this statute may, with the approval of the trustees or directors of the bank with which he is connected, appeal by petition to the supreme court of the State within thirty days from the date of the order of the removal. However, the court may not set aside such order except for errors of law, unless the court finds by a clear preponderance of the evidence that the order is unjust or unreasonable.

Finally, in Pennsylvania, after providing for a preliminary warning by the Department of Banking, the statute provides that the accused officer or director shall appear before the State Banking Board to show

cause why he should not be removed from office. If he fails to make an appearance, his office automatically becomes vacant. If, after a hearing the officer or director involved fails to show cause why he should not be removed from office, the Banking Board is required to notify the department of its decision and the department is thereupon required to issue an order directing the bank involved to remove the officer or director and declare his position vacant.

In connection with the Pennsylvania statute, it is interesting to note that if the institution of which the accused person is an officer or director is a member of the Federal Reserve System or of the Federal Deposit Insurance Corporation, the statute provides that any duly authorized representative of the Federal Reserve bank or of the Federal Deposit Insurance Corporation may appear at the hearing as a witness against the officer or director involved.

Before concluding this discussion of statutory provisions relating to the removal of officers and directors of banks, two unique State statutes may be mentioned which, if not particularly important, are at least of some interest. In Pennsylvania, which it will have been noted has a variety of removal statutes, it is specifically provided that the board of directors or the board of trustees of a banking institution may declare a vacancy in the office of a director or trustee who has been adjudged to be of unsound mind by an order of court or has been convicted of a felony or has failed within sixty days, after notice of his election, to accept his office either in writing or by attending a meeting of the board.

The statutes of the State of Wyoming provide for the removal of officers of banks who have been guilty of dishonest, reckless, or incompetent conduct. The banking laws of that State also include a provision authorizing the district court of the county wherein any savings bank is located to remove any director of such bank "for due cause shown", after proper notice and opportunity for the director to be heard in his defense. (Appendix II, Table E.)

In connection with the removal of bank officers and directors, mention should again be made of the Nebraska statute, which provides for the licensing of active executive officers of banks in that state. The provision contained in that statute authorizing the revocation of the license of any officer conducting the business of a bank in an unsafe or unauthorized manner is, of course, tantamount to a provision for removal. However, it may be pointed out that the Nebraska statute for the licensing of officers appears, in theory at least, to be superior to the removal statutes discussed in this subdivision, inasmuch as the Nebraska statute affords some measure of assurance before the election of officers that they will not be guilty of mismanagement, while the removal statutes provide for the elimination of incompetent and reckless bank officers only after the harm has been done.

If many leading bankers have expressed themselves publicly upon the question of the removal of officers and directors for mismanagement or violation of banking laws, such expressions have not come to light in the present study. However, the opinions of a few prominent writers and others on this matter have been noted and are presented in Appendix II(A)2.

3. DUTIES, RESPONSIBILITIES AND POWERS OF DIRECTORS

Section 5136, U.S.R.S., grants to national banks the following powers, among others:

> "Sixth. To prescribe, by its board of directors, by-laws not inconsistent with the law, regulating the manner in which its stock shall be transferred, its directors elected or appointed, its officers appointed, its property transferred, its general business conducted, and the privileges granted to it by law exercised and enjoyed."

Accordingly, the Comptroller of the Currency has issued a pamphlet (Form 1417, revised October 1935) relative to the duties and liabilities of directors of national banks, which contains the following:

> "When a bank is organized, the board of directors should adopt by-laws and send a copy to the Comptroller of the Currency. (Sec. 5136,U.S.R.S.) The following is submitted as a general form that may be modified in any manner deemed expedient, but not in conflict with law or the articles of association:
>
> " * * * Sec. 22. (By-Laws) There shall be appointed by the board of directors a committee of members, exclusive of the president and cashier, whose duty it shall be to examine every six months the affairs of this bank, * * * ascertain whether the bank is in a sound and solvent condition, and to recommend to the board such changes in the manner of doing business, etc., as shall seem to be desirable, the result of which examination shall be reported in writing to the board at the next regular meeting thereafter."

The pamphlet describes in detail the suggested procedure for verifying various accounts, etc. Information is not available as to what extent, if any, the by-laws of national and state banks require annual or semi-annual audits by the directors or to what extent the provisions of the by-laws in this connection are complied with or the frequency or extent to which the by-laws may have been modified in this respect. In connection with this matter, the following editorial

which appeared in the American Banker on June 15, 1936, is of interest:

> "Most of the states require directors of banks to conduct an examination of their banks once or twice a year, and report on their findings to their respective state banking departments. There is nothing in the Federal banking laws requiring directors to make examinations of their banks, but this very important function is generally found in the by-laws of each national bank."

It appears that comparatively few really worthwhile audits are made by the directors of banks and that in many respects the most satisfactory audits made for the directors are those conducted by independent public accountants, especially in the case of the larger or more complex organizations.

With respect to the duties of directors, the Indiana Financial Institutions Act contains the following:

> "Sec. 99. In addition to such other duties as may be imposed upon the directors by any other provisions of this act, such directors shall keep a record of the attendance of directors at meetings of the board, and shall make a report, showing the names of the directors, the number of meetings of the board, regular and special, the number of meetings attended and the number from which each director was absent, which report shall be read at and incorporated in the minutes of the annual meeting of the shareholders. Such directors, at such times as they are meeting as a board of directors, shall also require the secretary of such board, or some other duly designated agent, to make official communications from the department a matter of record in the minutes of the meetings of such board of directors. The board of directors, or a committee therefrom, or if the board shall so authorize, an Indiana certified public accountant or a firm of Indiana certified public accountants, shall examine the corporation once each year and submit a complete statement of the condition of such corporation to the department."

It has also been noted that the Bank Act of Canada (1934-Section 27)

contains the following provisions with respect to attendance of directors:

> "(4) A record shall be kept of the attendance at each meeting of directors, and a summary thereof prepared so as to show the total number of directors' meetings held and the number attended by each director shall be sent to each shareholder with the notice of the annual general meeting hereinbefore mentioned.
>
> "(5) Such summary may state the nature and extent of the services rendered by any director who, by reason of residing at a point remote from the chief office of the bank, has been unable to attend meetings of directors." (R.S., c. 12, s. 27, am.)

The duties and responsibilities of directors developed by law or practice may be summarized as follows:

1. To formulate policies governing the conduct of the bank's affairs and see that these policies are adhered to.

2. To select and maintain proper management, personnel and administrative machinery, including the appointment of the necessary committees of directors and officers.

3. To supervise the operations of the bank through examinations by directors or by committees thereof or by independent public accountants, and through reports of operations, such as reports on new and renewal loans, investments, trust activities, earnings and expenses, etc.

4. To participate in deliberations upon the above matters through satisfactory attendance at directors' meetings.

The foregoing suggests the recommendation that the directors should actually make examinations or should employ independent public accountants to make such examinations or audits. The directors should carefully study the reports of examinations and should give particular attention to asset values, operating statements, etc. In addition, they should carefully review all reports submitted by the public supervisory authority

together with the official correspondence relative thereto. A satisfactory method of evidencing directors' knowledge of and interest in the manner in which the bank is being operated by its officers should be evidenced in the minutes of directors' meetings which should show that the various matters of importance had been considered.

It would seem that if changes in the banking laws are deemed necessary to emphasize directors' responsibilities, such changes should be made as would adequately cover the various matters mentioned above or the statutes should be couched in such broad language that the supervisory authorities could require that directors give the necessary active attention to the bank's affairs and could bring about the removal of directors for their inattention to duties.

4. RESTRICTIONS ON FINANCIAL INTERESTS OF DIRECTORS AND OFFICERS IN BANK TRANSACTIONS:

A number of laws intended to prevent directors and officers of a bank from deriving any unfair financial advantage or profit from the transactions of the banks with which they are connected have been enacted by both the Federal and the State legislatures. Statutes of this nature, which are clearly designed to improve bank management, include statutes restricting loans to directors and officers; prohibiting the receipt of fees or commissions in connection with loans, discounts, or sales by the bank or the receipt of preferential rates of interest on deposits; and prohibiting directors or officers from selling property to, or purchasing property from, the bank with which they are connected on more favorable terms than those offered other persons.

One of the chief criticisms made of numerous banks which were forced to close their doors during the banking crisis of 1933, was that they had made excessive and inadequately secured loans to their own directors and officers. The Banking Act of 1933 sought to remedy the situation by making it a criminal offense for member banks of the Federal Reserve System to make loans to their executive officers; and at the present time there is only one State, Arkansas, which has no provision specifically restricting or prohibiting loans by banks to their directors and/or officers.

There are set forth in Table C of Appendix II to this memorandum the principal provisions of State laws with respect to this matter. Since in many cases the statutes are of some length, this table must necessarily be more or less incomplete and is intended only to indicate the persons to whom the statutes are applicable, the circumstances under

which loans to directors or officers are permitted, and the penalties, if any, provided for the violation of the provisions.

The statutes of many of the states with respect to loans to directors and officers do not specifically fix any penalties for the violation of their provisions. In three states, however, Alabama, Iowa and South Dakota, the violation of such statutes renders the offending director or officer subject to conviction for embezzlement; and in two states, Minnesota and Oklahoma, such a violation renders him guilty of larceny. In a half dozen states the receipt of loans in violation of the statute is made a misdemeanor; and a half a dozen other states have made it a felony. In three states, Connecticut, Florida and Idaho, the officers are civilly liable in damages for any loss or damage resulting from the receipt of a loan in violation of the statutes.

The Banking Act of 1933 imposed criminal penalties for violations of Section 22(g) of the Federal Reserve Act prohibiting loans to executive officers of member banks. These penalties, however, were eliminated by the Banking Act of 1935; and in lieu thereof, it is now provided that any executive officer of a member bank violating the provisions of this statute is subject to removal by the Board of Governors of the Federal Reserve System under Section 30 of the Banking Act of 1933. The statutes contain no restrictions whatsoever on the making of loans by member banks to directors who are not also executive officers.

Apparently in only two states, Florida and Indiana, has any provision been made for the removal of directors or officers for the violation of a statute prohibiting loans to them by the bank with which they were connected. However, it is noted that in nine other states the violation of statutes of this kind operates to vacate or forfeit the office of the offending

director or officer. The North Carolina statute in this respect is applicable not only to loans to officers and employees but also to firms or partnerships in which they are members and to corporations in which they own a controlling interest. This is also the case in a number of other states; and in some instances the statute is made applicable to corporations in which directors or officers of a bank own, not merely a controlling interest, but any interest.

A number of the statutes restricting or prohibiting loans to officers and directors, including the Federal statute, are probably broad enough to cover overdrafts as well as loans. However, the banking laws of fourteen states specifically prohibit the officers or directors of banks from knowingly and wilfully overdrawing their accounts with the bank with which they are connected.

A method by which directors and officers of banks may improperly use their official position in the bank to obtain a financial advantage from transactions to which the bank is a party, is the receiving of fees, commissions, or other rewards for assisting persons in procuring loans or discounts from the bank. In order to prevent bank directors and officers from thus abusing their official positions, the legislatures of twenty-nine states have enacted laws prohibiting the receipt of fees and commissions in such cases, the provisions of which laws are similar, except for minor variations, to the Federal statute (Sec. 22(c) of the Federal Reserve Act). The states in which such laws exist are listed in the first column of Table D of Appendix II.

In nearly all the states having statutes of the kind under discussion, the violations of their provisions are made punishable by fine or imprisonment. In a few states the offending director or officer is subject to a fine for each offense; and in North Carolina and Ohio, he is made ineligible for further service in the bank.

The directors and officers may further abuse their official connections by purchasing property from the bank with which they are connected or by selling to such bank on terms more favorable to themselves than it would have been offered to persons outside of the bank in the same transactions. However, it appears that only the Federal banking laws (Sec. 22(d) of the Federal Reserve Act) and the banking laws of a comparatively few of the states contain any provisions designed to prevent such practices. The conditions under which purchases and sales by directors and officers from or to their banks may be made under these statutes are indicated briefly in Table D of Appendix II.

Another statute designed to prevent directors and officers from deriving improper financial advantages from their official positions is that relating to preferential interest rates on deposits. (See Table D, Appendix II) Section 22(e) of the Federal Reserve Act provides:

> "No member bank shall pay to any director, officer, attorney, or employee, a greater rate of interest on the deposits of such director, officer, attorney or employee than that paid to other depositors of similar deposits with such member bank."

It is interesting to note that no similar provision has been found in the banking laws in any of the states of the Union, except in the case of Pennsylvania. The statute in that state goes even further than the Federal statute inasmuch as it is applicable not only to the directors, officers, attorneys, or employees of banks but also to the direc-

tors, officers, employees, and attorneys of affiliated institutions.

In this connection, it is also noted that a "Draft of Suggested Law Governing Operation and Management of Mutual Savings Banks", prepared by the National Association of Mutual Savings Banks of New York in 1936, places very definite restrictions upon trustees and officers with respect to the borrowing or the use of funds of a savings bank for their own personal benefit and provides with respect to removal of trustees, as follows:

> "Whenever, in the judgment of three-fourths of the trustees, the conduct and habits of a trustee of any savings bank are of such character as to be injurious to the savings bank, or if he has been guilty of acts that are detrimental or hostile to the interests of such savings bank or his services are not materially beneficial to the savings bank, such trustee may be removed from office at any regular meeting of the trustees, by the affirmative vote of three-fourths of the total number thereof; provided, however, that a written copy of the charges made against him shall have been served upon him personally at least two weeks before such meeting, that the vote of such trustees by ayes and nays shall be entered into the records of such meeting, and that such removal shall receive the written approval of the superintendent of banks, which shall be attached to the minutes of such meeting and form a part of the record."

The views of a few bankers and others with respect to legislation relating to restrictions on the financial interests of directors and officers in bank transactions are included in Appendix II(A)4.

5. GENERAL

Certain types of bankers have to an appreciable extent abandoned certain ideas and formulas which they might have had, and which many of the outstanding bankers have had and still have, and have shaped their operations and practices in accordance with the limitations and restrictions laid down in the laws, even though such limitations might be too broad with respect to the particular type of transaction involved in a given bank or in a given community. In other words, some bankers consider that, because the laws and regulations lay down too many and too definite formulas, many bankers have abandoned their own initiative and managed their banks largely according to formula.

It has been frequently stated, and has been admitted by many outstanding bankers, that the bankers themselves have not worked out uniform practices and policies for the general public good and that it has been necessary that laws be enacted in connection with qualifications of bankers and in prescribing the metes and bounds within which they may function. Typical of such statements is the following by R. G. Smith, Cashier, Bank of America N.T. & S.A.:

> "The restrictions on security purchases by banks embodied in the recently issued regulations of the Comptroller of the Currency should do much to improve the quality of bank bond portfolios. While the principles upon which the restrictions were based have long been recognized as a part of sound banking practice, their addition to our organic bank law is a salutary development in banking regulations.
>
> "Prohibiting the purchase of speculative securities; limiting the amount of securities of any one obligor which may be held; requiring the amortization of bond premiums paid; requiring that bank investments have (sic) ready marketability, are requisites which can only be regarded as definitely beneficial to our banking structure.

> "When new laws are passed regulating any business, those who are affected usually chafe under the new restrictions. This is particularly true of banking. It must appear evident to bankers, however, that Federal legislation and regulation have been the only means of bringing about uniform practices and united action for the protection of banks and bank depositors alike." (1)

A great many bankers, economists, and writers have likewise expressed the view that deposit insurance would have very far-reaching detrimental effects upon bank management policies and practices. On the other hand, some have stated that bankers and bank management, in general, would be improved by the efforts of the Federal supervisory authorities because of their superior and more uniform examinations, requirements, etc., in connection with the administration of the insurance laws. The following views in this connection are typical:

R. S. Hecht, President, Hibernia Bank & Trust Company, New Orleans:

> " * * * Taxing properly managed banks to make up losses of failed banks is not only unfair and unreasonable but it weakens the whole banking structure. Again guaranty of deposits places the incompetent and reckless banker on an equal footing with the able and conservative banker, which encourages bad banking at the expense of sound banking. We are therefore opposed to the passage of any law carrying a guaranty of bank deposits and believe that it is against the interest of the people of the United States to develop any such system." (2)

(1) Address before Bank Management Section, A.I.B. Convention, Seattle, June 1936, American Banker, June 11, 1936.
(2) "Report of Committee on Resolutions", A.B.A. (1932), Commercial & Financial Chronicle, A.B. Convention Section, October 1932, p. 36.

Hon. Henry B. Steagall, member of Congress from Alabama:

> "It is said that insurance of bank deposits will place a premium on bad banking. Of course, there can be no basis for such a contention. My reply is that the records abundantly prove that a banking system without deposits insurance has put a premium on unsafe banking - disastrous both to depositors and bankers. Protection of the interests of the public is the true criterion by which to measure the merits of any legislation."(1)

A. A. Berle, Jr., Professor of Corporation Finance at Columbia University (1933):

> "Behind the powerful agitation for bank guaranties was the realization by a tremendous part of the country that its bank deposits lay at the mercy of a conflict of forces, the outcome of which no one could foresee. Having already seen large deposits wiped out and having dimly - not accurately I think, but dimly - seen the crushing effect on the communities which they serve, there came this tremendous wave from the banks in several parts of the country, notably from the Northwest, the Middle West and the Southwest, demanding some security. They thought of it in terms of security of bank deposits, but if you were able to analyze the meaning of the demand, it would be for a secure banking system. It is a just demand. Whatever you may think of deposit guaranty, you cannot merely ignore that demand and leave it unrecognized." (2)

Several additional published statements of bankers and others with respect to deposit insurance are contained in Appendix II(A)5.

(1) "Recent Banking Legislation", Tarheel Banker, October 1933, p. 68.
(2) Address before the Fortieth Annual Convention of the New York State Bankers Association, June 1933, p. 49.

(B) COOPERATIVE EFFORTS OF BANKERS

Apparently most bankers have come to realize that cooperation through associations, clearinghouses, institutes, conferences, and otherwise develops better bank management. During the past few years clearinghouse associations have been established in a great number of communities in the country and bankers have been very active in conferences and other efforts at cooperation. Serious thoughts and efforts of many bankers went into the preparation of a Banking Code to meet the requirements of the N.R.A. in 1933, from which many bankers believe that much good has come. The need for cooperation among bankers is indicated by the following:

F. H. Sisson, vice president, Guaranty Trust Company, New York City:

> "We need to co-operate as we never have before. The banker is under indictment the country over. We should stand shoulder to shoulder through our great organization to meet this issue and to try to bring about a better day not only for banking but for American business life." (1)

James H. Perkins, Chairman of the National City Bank, New York:

> "* * * the time has come when we bankers must attack our problems with a united front and prove that we are the best qualified group to lay down the rule under which we shall operate. Let us prove to the community our competence to serve it well. Let every one of us feel that we are responsible, not to our depositors and shareholders alone, but to the association which represents our common purposes. Then, I believe, we shall have no difficulty in securing laws that shall provide for the protection of the public and for healthy development of industry and business generally." (2)

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(1) "Annual Address of the President", Commercial & Financial Chronicle, A.B. Convention Section, September 23, 1933, p. 33.

(2) Address before Texas Bankers Association in 1936, as reported in The American Banker, June 2, 1936.

With respect to the efforts of bankers through the A. B. A. Regional Conferences in 1936, Robert V. Fleming, President, Riggs National Bank, Washington, D. C., stated:

> "I have urged the bankers attending these conferences to enter into similar programs upon their return to their home communities, for it is my belief that if these bankers would undertake a program of education of their own personnel, who, in turn, in their contacts with the bank's customers could make plain to them the functions of banking, in addition to advertising or other public relations programs, the objectives of the regional conferences would be intensified and it would not be many years before there would be a thorough understanding of banking on the part of the people which would be bound to result in the proper public sentiment towards banking."
>
> * * * * * * *
>
> "I am hopeful that this nation-wide program of banking development inaugurated in these conferences will be carried on by my successors in office, as I am satisfied that, if banking is to progress and render the highest service, there must be an understanding between bankers and their customers of their common problems."
>
> * * * * * * *
>
> "In the regional conferences which we have conducted this year I have seen ample evidence that bankers are assuming their share of responsibility in this cooperative effort, and I have also seen evidence that the supervisory officials of Government are willing to cooperate with bankers in the solution of banking problems in the public interest. Likewise, from the attitude of the press and comments which have come to me as president of the American Bankers Association, containing a wide cross-section of public opinion and reaction to these meetings, there is evidence that the people of the country already have a better understanding of banking and its functions." (1)

The Bank Management Commission of the A.B.A. pointed out in its manuals on Clearinghouse Associations that critics and special story writers

(1) "American Banking Faces the Future", Financial Age, June 4, 1936, pp. 389-390.

in the magazine field have charged bankers' as a class with complete complacency and indifference to banking conditions and with having done nothing to treat our financial maladies and to prevent loss to the public growing out of what those critics characterize as neglect, incompetence, and selfish disregard of the public interest. The Commission also pointed out that there has been a growing inclination to turn to legislation for a remedy but that it believes that banking from within itself can supply "the standards and uniformities, the ethics and practices and the mobilized force of a concerted professional determination to enforce them and to give the nation the working benefit of them;" and that it has been demonstrated "that all of this can be accomplished through the broad extension of the principle of professional cooperation to be realized through the instrumentality of clearinghouses of both the city and regional types."

The Commission also pointed out that clearinghouses should be purely voluntary; that they are highly mutual and their acts must of necessity be the result of practical unanimity; and that while their articles provide for majority rule, and strict conformity to the rules is enforced by suitable penalties, there must be no room for a charge of coercion; and that the "value of the regulatory side of clearinghouses thus comes from the free will and acquiescent attitude of the members, who not only willingly submit themselves to a mutualized form of extra-legal supervision and government, but sanction and enforce the clearinghouse rules and government by a crystallized body of professional opinion which is stronger and more effective in securing complete performance than any law or legal penalty."

The Commission listed the following general subjects for clearing-

house consideration:

A. Credit regulation
B. Fixing hours for banking
C. Compensation bases
D. Advertising and new business activities
E. Donation and gifts
F. Public relations
G. Clearinghouse examination
H. Education

Fred W. Ellsworth, Vice President, Hibernia Bank & Trust Co., New Orleans, stated(1) that as of March 25, 1935, there were 350 city and 243 regional clearinghouse associations, or a total of 593 in the United States, located in every state except one, Nevada. The Rand McNally Bankers Directory, First Edition, 1936, listed 350 cities having clearinghouse associations and 31 cities having clearinghouse examinations. The present study has failed to disclose information with respect to the extent or quality of such examinations or the number, if any, of regional clearinghouses which make examinations.

Credit bureaus were first organized within the metropolitan clearinghouses and proved invaluable from their inception and from this experience in the cities, the plan was extended and later found its place as an adjunct to county bankers' associations. The "ideal" credit bureau has been described as follows:

> "In the ideal bureau, it is sought not only to collate credit line information so as to detect duplications where they exist but to look farther toward a progressive survey of the entire credit structure of the area served by the member banks, and ultimately to classify the loans as to character and security, to warn members of approaching hazards, changing stresses, over-extensions and improper trends, as evidenced by the loans being made, and to avoid any degree or form of unliquidity or freezing." (2)

(1) BANKING, July 1935, p. 23.
(2) City Clearinghouse Associations, Bank Management Commission of the A.B.A., p. 26

The Commission pointed out that the necessity for clearinghouse examinations has been due to the fact that public supervision in too many instances "has proved not entirely adequate unless assisted from within and among the banks, by additional safeguarding systems voluntarily set up and willingly and liberally participated in by the banks;" and that banking therefore should "submit willingly and with full acquiescence to the regular public supervision looking to the safety of the people's funds and close compliance with the laws granting specific powers and limiting conduct," and in addition "there ought to be a strictly voluntary system of mutual self-examination combined with means for making the knowledge and experience of the best individual banking practitioners in the region the common possession of all the bankers within the region." This, the Commission pointed out, can be done by clearinghouse associations affording the following:

"1. Agreed articles of association, and by-laws and rules establishing standards, penalizing and preventing conduct offensive alike to good banking practice and recognized banking ethics.

2. Centralizing the credit information of the specified region, and more especially exchanging specific data as to individual borrowing lines, duplications and credit bases.

3. Some system of mutual self examination to determine -

A. (1) The tendencies within each given member bank, growing out of its management, its methods, and its policies, and the specific application of them to individual transactions within the bank.

(2) The development of increasing liquidity in each member bank, and the adoption of budgets, controls and programs to that end.

(3) The compliance of each member bank with the standards adopted from time to time by the clearinghouse association.

B. The examination methods may be initiated by -

(1) Use of the regular reports of examinations of public examiners; copies being furnished by the member banks to the executive (or similar) committee as agreed (either regularly, or upon request).

(2) Outside independent auditors or certified accountants making periodical examinations and reports to clearinghouse executive committee.

(3) Regular clearinghouse examiner employed for that purpose by the executive committee and reporting to the committee in detail, or under such plan or limitation as may be agreed upon." (1)

The value of clearinghouse associations is indicated by the following views:

John W. Pole, former Comptroller of the Currency:

"What constitutes good management can always be determined by the consensus of banking opinion. In our larger cities clearinghouses have played an effective part in the development of banking standards. The type of work done by these associations should be extended to all banks. I know of no better instrumentality by which to build up in this country traditions strong enough to effectively discourage all types of bad banking." (2)

S. L. Cantley, State Bank Commissioner, Missouri:

"Organized cooperation in banking is just as essential to success as is organization in an army.

(1) ibid, p. 32.
(2) ibid, p. 13.

A most important factor in banking is organization for assembling and disseminating credit information by cities, counties or groups of counties, preferably the latter, and also, for self-imposed examinations. The clearinghouse idea appeals to me as not only one of the best corrective but also one of the most salutary agencies available for stable competitive unit banking." (1)

W. L. Brooks, President, Northern National Bank, Bemidji, Minnesota:

"Our bank now makes $8000 annually from float and service charges and savings on interest. Why? Because we work with our competitors through a clearinghouse. My advice is: organize a clearinghouse association without delay. It's a simple proposition, so easily done, and it will greatly increase your bank profits and promote safety in banking." (1)

O. W. Adams, Vice president, Utah State National Bank, Salt Lake City:

"Salt Lake City banks have demonstrated, beyond any question of a doubt, the value of city clearinghouse associations. Good fellowship among the bankers has been promoted and maintained.

"Recently a service charge, based upon account activity, has been worked out and agreed upon, which is the most forward looking step that the Salt Lake bankers have ever taken, as an organization. Criticism resulted therefrom. The Clearinghouse banks, first having decided that the schedule of charges was fair, remained firm and although this new departure has been in operation only a short time, its success is admitted. Many other difficult problems have been handled successfully.

"Our association has demonstrated its importance and made its contribution a most valuable one in bank management problems.

"Clearinghouse organizations are indispensable." (1)

(1) ibid, p. 19.

The American Bankers Association, with its various divisions, sections, commissions, and committees, and the several state associations, county organizations and special federations or groups have, despite the fact that they have no power to compel bankers either to join such associations or to follow their precepts after they become members, contributed considerable to the cooperative efforts to improve bank management, as indicated by the following statements and by the statements of others included in Appendix II(B):

William K. Payne, Chairman, National Bank of Auburn, New York:

> "Bankers' associations, both nation-wide and in the States and in smaller subdivisions, have a record of wonderful accomplishments, in many ways. I believe the bankers' associations have more real accomplishments to their credit than nearly any of the others of the vast number of trade organizations which exist in nearly every branch of American business. But the weakness of this sort of organization is that it has had relatively less influence for good on those bankers who most need it, and has no power to compel such bankers either to join the association or to follow its precepts after they become members." (1)

James H. Perkins, Chairman, National City Bank, New York:

> "The supervision of our banks must be more alert, more thorough and more resourceful than it has been heretofore. I feel that the strengthening of our banking associations, their standards of membership, and the discipline of their members, can be as important a source of mutual protection as the examinations by public authorities." (2)

W. Gordon Brown, Executive Manager of the New York State Bankers Association:

> "The county associations are the logical machinery for the more intimate discussions of local problems and determination of policies." (3)

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(1) Address before New York State Bankers Association, June 1933. (Underscoring supplied)
(2) Address before Texas Bankers Association, American Banker, June 2, 1936.
(3) Annual report to New York State Bankers Association, American Banker, June 27, 1936.

It is interesting to note that neither the Federal banking laws nor the banking laws of the various states, to any great extent at least, recognize the American Bankers Association, the various state or regional associations or clearinghouse associations, whereas in Canada the Canadian Bankers Association, of which the chartered banks are members and bank officers and clerks are associates, was formed in 1892, and later came to have an important influence on Canadian banking. It was incorporated by Parliament in 1900 and empowered "to promote generally the interests and efficiency of banks and bank officers and the education and training of those contemplating employment in banks"; to establish and regulate clearing houses, of purely voluntary membership; to supervise issue and destruction of bank notes. In 1901 the by-laws of the association were made subject to approval by the Treasury Board and came into effect according to law. They required from every chartered bank doing business in the Dominion a monthly return, under penalty of fine, showing all details of their circulation and provision was made for an annual inspection of the circulation account of each bank. A considerable amount of cooperation among the banks resulted from the formation of the association. (The Canadian Bank Act of 1934 repealed these note issue powers, after the creation of the Bank of Canada.) (1) In this connection, it has been said:

> "The co-operation, good management, and safety of depositors which are mentioned as highly desirable, are all attained in Canada, through the branch banking system and through the Canadian Bankers' Association. Their effects are patent in the solidity of our banking institutions in this time of worldwide economic stress." (2)

(1) Report of the Royal Commission on Banking and Currency in Canada, 1933.
(2) "Where Banks Do Not Fail", by Horace F. Pomeroy, New York, published in Journal of the Canadian Bankers Association, July 1932.

The Canadian Bankers Association is the recognized medium for correlated measures on the part of the banks. The origin of this organization has no exact counterpart in other banking systems. Its declared objects were to "watch legislation and court decisions relating to banking to protect the interest of the contributories to the bank circulation redemption fund, and generally to guard the interests of the chartered banks; also to promote the education and efficiency of bank officers by various means". There is no attempt to formulate what in Great Britain or the United States would be called "monetary" or "banking policy". Each bank is autonomous and determines its own policy, but policies and other matters are discussed informally by the chief executive officers of the banks at meetings of the association.

Some of the outstanding views of bankers and others with respect to the cooperative efforts of bankers are included in Appendix II (B).

(C) SELECTION, EDUCATION AND TRAINING OF PERSONNEL

1. Selection of Personnel. H. N. Stronck, former Chicago bank consultant, in his book on "Bank Administration" (1929), stated that a recognition of the importance placed upon the selection of personnel is witnessed by the rapid development of personnel departments and specialists in interviewing and engaging help in large banks and the tendency also of centering this work in one individual in the smaller banks. Mr. Stronck stated that personnel selection should be recognized as a function of major importance. He pointed out that from a practical standpoint the two major questions to be answered in the consideration of prospective employees are:

1. Has the individual the experience, ability, and personal characteristics necessary to handle effectively the work of the position under direct consideration?

2. Has the individual personal characteristics and dormant abilities which, if properly fostered and developed, will qualify him for the position of next higher rank?

The views of a few bankers in this connection follow:

R. M. Hanes, President, Wachovia Bank & Trust Co., Winston-Salem, N.C.:

> "Giving serious thought and constant attention to the development of the bank's personnel will pay any banker handsomely. Merely because the son of some director or substantial customer wants a position is no earthly reason for hiring the young man unless, after serious consideration, it is believed that he possesses qualities which some day will make him a good bank officer. Systematically picking young men from families whose forebears have themselves accomplished something, whose characters are above reproach, who have accepted their educational opportunities and, preferably, have college degrees, who have shown a capacity for leadership and the accepting of responsibilities, in college or community, and who have a real, earnest desire to succeed at anything they undertake, will pay large dividends to any bank's stockholders over a period of years." (1)

(1) "Bank Earnings--Positive and Negative", discussion before Regional Conf. Phila., Jan. 23-24, 1936, Present Day Banking (1936), p. 236.

Henry R. Kinsey, president of the Williamsburg Savings Bank, Brooklyn:

> "I think we all agree that the root of possible trouble lies in the original selection of men to fill our executive positions." (1)

2. Education and Training. The importance of banking education and training is evidenced by the many articles written and speeches made on the subject of banking education by bankers and others in recent years and by the educational opportunities which have been afforded by the banking profession through the American Institute of Banking and other agencies. The Bank Management Commission of the American Bankers Association has issued a booklet (No. 16) on the subject of "Educational Policies in the Training of Bank Employees" in which it pointed out that for 35 years the banking profession has offered, through the American Institute of Banking, courses which constitute an invaluable training in the technique of banking. In addition to the American Institute of Banking, educational facilities are available through the newly inaugurated Graduate School of Banking (which is under the auspices of the Institute), through courses in banking and related subjects offered in various other schools and universities, and through trade associations and other agencies. (Examples of educational programs followed by several banks of varying size and in different geographical locations were included in an appendix to the A.B.A. booklet.) It appears, however, that the efforts to provide educational opportunities have exceeded the efforts to bring such opportunities to the attention of bank employees and that perhaps many employees who need the training have not been sufficiently encouraged to secure such training.

(1) Address Savings Banks Asso. of State of New York, Banking, November 1935, p. 72.

In writing on the subject of professional bank management, Dr. Gaines T. Cartinhour, New York University Professor, pointed out that the stability of the Canadian banking system is greatly facilitated by the systematic and progressive training of bank executives. He wrote as follows:

> "* * *The activities of the Bank Management Commission and the American Institute of Banking (both of the American Bankers Association) should be developed to their full potentialities, and employees who are so inclined should be permitted to follow prescribed and approved banking and finance curriculums in the colleges of commerce of reputable universities. Successful progress in the educational aspects of banking should be made a definite prerequisite to promotion.
>
> "Educational facilities in Canada along this line are provided by the Canadian Bankers Association in the form of a junior and senior course, fees for which are usually advanced by the banks, repayable in small monthly payments without interest. To all who pass the examination the banks refund the fees in full, and in addition pay a bonus. The Canadian Bankers Association has no facilities such as the American Bankers Association, but has arranged for these courses as well as supplementary courses to be given under the direction of Queen's University." (1)

It has also been pointed out by others that in the training of personnel the branch banking system in Canada has a distinct advantage over the unit banking system in this country. In Canada, the banks begin the training of their employees at an early age, shift them from branch to branch and from locality to locality and when deemed satisfactory, make branch managers out of them. This training system weeds out the fit from the unfit before they obtain posts of responsibility so that the branch manager is an experienced banker when he becomes a manager. The status of their personnel is in practice analogous to the Civil Service in the United States with respect to permanence of tenure so that a devotion to the bank is developed.

(1) "Branch Banks versus Unit Banks," Annals of the American Academy of Political and Social Science, January 1934, p.44.

In this connection, E. L. Stewart Patterson stated:

> "An unique feature of Canadian banking service is that it recruits its staff with lads fresh from school and trains them to advance to the highest position in the service. Every officer of a bank from general manager down, started his career as a junior.
>
> "Promotion goes by merit and not by seniority. The officer who ably discharges the duties assigned to him and endeavors to obtain a working knowledge of the positions ahead, is the first to obtain merited promotion." (1)

With respect to the value of education in banking, Ernest L. Pearce, President, Michigan Bankers Association (1936), said:

> "The high objectives of sound banking will be ultimately attained through education. The instruction and education of employees is one of the best ways of insuring public favor. The effectiveness of any public relations work of a bank will be helped or hindered by the attitude and training of its own personnel. There is really no excuse for any bank, at this time, not taking up the work of training its employees in all phases of banking and in customer relations work. The American Bankers Association has given us the American Institute of Banking, has given us the prepared program on Constructive Customer Relations, and last year the Graduate School of Banking. Time will not permit a discussion of either, but those of us who have taken advantage of them can recommend them unconditionally.
>
> * * * * * * * * * * *
>
> "Sound banks rest upon sound management and sound management rests squarely on education in sound banking principles. The problem, therefore, resolves itself into a matter of the wide dissemination of knowledge and the encouragement of the proper educational activities, for sound banking management is simply sound banking education in practice." (2)

Education and training may come--

(a) From within the bank,
(b) Through educational institutions,
(c) Through bank management conferences and studies, trade periodicals, and other facilities.

(1) Canadian Banking, The Ryerson Press, Toronto (1932), p. 243.
(2) Address before Michigan Bankers Association, 1936, Michigan Investor, July 18, 1936, p. 5.

(a) Within the bank. The Bank Management Commission in its booklet No. 16 pointed out that if a bank realizes and assumes the responsibility for the training of its employees, it will find some way of accomplishing that training and by so doing will insure the smooth and continuous functioning of its own organization and will aid greatly in eliminating many of the misunderstandings of the general public.

The Commission also pointed out that in considering an educational policy thought should be given to a program which will train each person in a three-way point of view of his job - the educational policy should be so designed that it will give the person the best possible training for the work he is now doing; it should encourage him to study the job ahead; and should make him realize his obligation to help teach someone else the technique of the position he now holds. It was indicated that as a result of its study the Commission feels that the best educational policies in banks have been those which have been predicated upon this three-fold attitude of every employee towards his job.

In its booklet, the Commission described some of the methods used by banks to educate their own employees. It stated that it believes that the prominence given to intra-bank education is warranted by the importance of this work. The following statement is of interest in this connection:

> "Regardless of the excellence of the educational work done by outside agencies, what the employee learns in connection with his daily duties is by far the most practical, most useful, and most lasting training of any, for it is a well-established principle of psychology that the best and most efficient time to learn is when one has need of the information or training." (1)

(1) Educational Policies in the Training of Bank Employees (Booklet No. 16), issued by Bank Management Commission, A.B.A., p. 4.

That many banks have adopted programs for the education and training of their employees is indicated by letters from a number of banks of varying size describing the methods they follow in educating their employees, which have been included in an appendix to the Commission's booklet No. 16.

(b) Educational institutions. The Commission stated that there are several organizations offering courses designed to aid employees in the study of certain phases of bank operation and that the most important of these is the American Institute of Banking, which represents banking's organized effort to provide educational opportunities for its employees. The Commission also stated that it believes that the courses given by the Institute are sufficiently comprehensive to provide training for all types of bank employees, no matter what department of the bank they may work in. A brief description of the courses offered by the Institute has been included in the Commission's booklet No. 16. They included courses in bank management, bank organization and operation, credit management, analysis of financial statements, investments, money and banking, trust business, economics, commercial law, public speaking, constructive customer relations, and other subjects.

In 1934, the American Bankers Association took another step in education for those engaged in banking, through the organization of the Graduate School of Banking, as a means of extending the work of the American Institute of Banking in its program of offering training for bank officers. The work of the Graduate School is embraced in three resident sessions of two weeks each at Rutgers University, and twenty months of extension work given off the campus. Those eligible to make application for admission to the school are: Institute graduates who are bank officers, Institute graduates who hold positions equivalent to those of bank officers, and bank officers with Institute courses or their equivalent to their credit. The Bank Management Commission explained that advanced courses are available also through

other educational institutions; that in most of the large cities, universities have either extension divisions or business school evening classes for the specific development of various subjects having to do with a well rounded education in banking and finance; and that most universities offer correspondence courses which may prove valuable to bank employees.

(c) Other. In its booklet No. 16, the Bank Management Commission also explained that the trade associations in various fields can be enormously helpful in banking education and made brief mention of association work in several fields related to banking and to certain books and publications bearing on these subjects.

Other means of banking education mentioned in the booklet were: trade periodicals, which furnish information on the progress of banking technique and make it possible for each bank to take advantage of new methods and processes found successful in other banks; studies of the Bank Management Commission, which should be utilized by banks which would offer to employees the opportunity of keeping up with current banking developments; and regional bank management conferences, at which current problems in bank operation are discussed by practical bank men who have solved them successfully in their own banks.

The attitude of bankers and others towards the American Institute of Banking and other educational agencies and facilities is illustrated by the following excerpts from addresses and writings:

Fred N. Shepherd, Executive Manager, American Bankers Association:

> "I regard the American Institute of Banking as the most potential single influence for good in the American banking field today." (1)

(1) "Organized Banking - An Educational Force", California Banker, July 1936, p. 32.

C. T. Leinbach, Vice President, Wachovia Bank & Trust Co., Winston-Salem, North Carolina, and President of the North Carolina Bankers Association (1936):

> "The management of a bank calls for qualities and capabilities equal to those of any profession, and, while I believe banking is distinctly a business, I am convinced that, in the selection and training of men who conduct the business of banking, professional standards should be employed. More and more our chartering authorities are giving consideration to this thought, and the renewed interest in the activities of the American Institute of Banking, and particularly the success of the newly established Graduate School of Banking at Rutgers University, are further evidences that professional standards of requirement are gaining wider attention and acceptance." (1)

G. Fred Berger, Vice President, Norristown-Penn Trust Company:

> "Many members of our profession who now have to do with the operation of banks must also provide themselves with improved bank management knowledge, but in addition we can look forward with confidence to the future, for there is a greater realization of the need for education in bank management and thousands of our junior bankers are obtaining it through the classes of the American Institute of Banking." (2)

H. J. Haas, Vice President, First National Bank, Philadelphia, and former President of the American Bankers Association (1932):

> "In the American Institute of Banking we have what is considered to be the outstanding project for adult education now being carried on in business and industry. The Institute should be familiar to every member of the Association, and every senior banker should insist that his employees wherever practicable shall pursue its courses. It is one of the best practical methods for bringing about universal good banking for America." (3)

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(1) "Annual Address of the President", Tarheel Banker, July 1936, p. 31.
(2) "Bank Management Lessons Learned from Recent Experiences", Financial Age, May 27, 1933, p. 413.
(3) "Annual Address of the President", Commercial & Financial Chronicle, A. B. Convention Section, October 1932, p. 29.

Henry M. Zimmerman, while president of the Michigan Bankers Association:

> "In spite of all the panaceas offered to provide necessary protection to depositors it is pertinent to point out that nothing provides such security as does sound bank management, therefore the idea of Bank Management Conference should be encouraged and enlarged upon." (1)

Craig B. Hazlewood, Vice President, First National Bank, Chicago:

> "We must continue our cooperative study of bank management. I have strongly recommended to the American Bankers Association that they encourage the holding of and actually institute bank management conferences in groups of counties in each state, probably working through and with State bankers' associations. This is the real nub of the County Clearing House idea, which has been advocated for several years; and in my judgment the conference part of the program is more important than the clearing of checks and is possibly more workable than the idea of local and private examination.I commend this idea for development by your Ohio Bankers Association." (2)

In writing to Dr. Harold Stonier, Educational Director of the American Institute of Banking, Hon. J.F.T. O'Connor, Comptroller of the Currency, stated:

> "The demand for trained minds was never as great as today. Every banker who is interested in raising the standards of the profession should lend his support to the work of the Graduate School." (3)

(1) "Annual Address of the President", Michigan Investor, July 23, 1932, p.9.
(2) "We Must Rebuild the Banking Business But We Must Have a New Plan", Ohio Banker, July 1932, p. 29.
(3) Banking, March 1935, p. 70.

A P P E N D I X

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(A) Table Showing Major Causes for Bank Failures for Indiana Banks 1925-1931[1]

Causes for Failure	Number of times each cause occurred	Percentage of occurrences to total occurrences
INTERNAL CAUSES		
Improper loan policies	190	
Inefficient management	155	
Breach of trust	18	
Bank unable to obtain aid on collateral	4	
Death of President who was sole owner	1	
	368	63.12%
INADEQUATE STATE SUPERVISION AND CONTROL		
Improper chartering of banks	41	
Inadequate supervision of banks	7	
	48	8.24%
EXTERNAL CAUSES		
Declining price levels and earnings of borrowers	72	
Psychological attitude of the public	71	
Failure of other banks	14	
High taxes	7	
Robbery of bank	1	
Charter expired	2	
	167	28.64%
Total	583	100.00%

(1) Report of Study Commission for Indiana Financial Institutions (1932), p. 74.

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(B) Comments of State Bank Authorities and Others With Respect to the Negligence and Incompetency of Bank Directors, As Summarized in a Book by Craig B. Hazlewood.(1)

"This department, in reviewing bank failures, cannot but conclude that, in every instance, the boards of directors have been largely responsible through neglect of their duties."-C. F. Schwenker, Commissioner, State Banking Department, Wisconsin.

"Let me say that the outside directors of banks are often to blame for bad conditions in banks. I admit that their sins are far more often sins of ommission than sins of commission, but they do not take seriously enough the obligations imposed on them in accepting directorships. If they will take their obligations in all seriousness, and oppose lending money to those people or corporations that they know are not worthy of credit, many banks will be saved, and communities enriched." - James Shaw, State Commissioner of Banking, Texas.

"A good bit of bank trouble comes from directors failing to take proper interest in the bank's management. They are either grossly negligent or willing to allow some one person in the bank to take the responsibility. This keeps directors in ignorance of the bank's affairs and true condition, and when trouble comes it is always a shock."--Ernest Amos, Comptroller, State of Florida.

"A number of directors accept the obligation as an honor rather than as a real liability." - A. A. Schram, Superintendent of Banks, Oregon.

"During the past ten years there have been only three bank failures in Maryland, all of small institutions, and those failures were directly attributable to either crookedness or indifference on the part of the directors." - G. W. Page, Bank Commissioner, Maryland.

(1) The Bank and Its Directors, Ronald Press (1929), pp. 54-58.

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"My observation as a bank examiner and bank commissioner, covering a period of more than ten years, convinces me that fully seventy-five per cent of the bank failures in this country are due primarily to the fact that directors are not fully conversant with their bank's condition or with the details of its operations; and that the majority of such failures could have been averted or would never have threatened had the board of directors functioned as the law contemplates. For when a bank functions under the direct supervision and careful management of its directors, a sound, solvent institution is the result, serving its clientele as a bank should, deserving the confidence reposed in it - a financial success. And, on the other hand, when a bank becomes embarrassed and it is necessary to call for assistance either from neighborhood banks or from the Banking Department, it usually develops that the board has failed in its duties, and the directors have allowed some one man to assume the authority that they should exercise as a body." - J. S. Love, Superintendent of Banks, Mississippi.

"We have found where directors are vigilant in keeping up with the bank's affairs and really know the condition of the bank that such an institution does not cause this department much anxiety." - E. H. Blair, Former Superintendent of Banks, Ohio.

"The duty of a director is to Direct. The business of the bank should not be entrusted to the judgment and management of One Man. Recent developments have disclosed that every bank failure in Oregon was very largely the result of "One-Man Management (or mismanagement)."-- Frank C. Bramwell, Former Superintendent of Banks, Oregon.

"Audits of banks by certified public accountants may provide, in large measure, against abstractions of cash and manipulation of the bank's records; and since directors are usually not accountants and do not make audits of their institutions, I am strongly in favor of periodical audits being made by certified accountants."--Peter G. Cameron, Secretary of Banking, Pennsylvania.

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"In one examination I discovered that the cashier had been using some customers' liberty bonds, which had been left for safekeeping, to bolster up his undivided profits account to prevent showing an operating deficit. He plead with me to overlook the matter and to refrain from reporting it to his directors or to the department, and threatened suicide if I should do so. Of course, I reported the fact to both. The directors were very much astonished and could not understand how Bill could do such a thing. This illustration, I believe, demonstrated the necessity of the directors having a competent Examining Committee or of engaging auditors outside the bank to assist them in their semi-annual examinations. They should make an examination themselves, and not depend on the bank examiners, as it is their duty to do so."--P. D. Marshall, Chief, Bureau of Banking, Nebraska.

"It is my belief that failures of many banks could have been and can be averted if the directors had given or would give closer attention to the affairs of the bank."--J. W. McIntosh, Former Comptroller of the Currency.

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(C) Published Statements of Bankers, Writers, and Others With Respect to Weaknesses in Bank Management and the Effects Thereof.

W. F. Gephart, Vice President, First National Bank in St. Louis:

> "Political control of banking in the United States has not concerned itself primarily with those major aspects of banking organization and operation which were most influential in promoting public welfare and protecting the bank depositors. Three of the most important causes of bank failures are: first, the inadequacy of bank capital; second, the lack of qualifications of those organizing and operating banks; and, third, the unnecessarily large number of banks. For many decades the states and even the federal government have permitted banks to be organized with small capital (in many states with as little as $10,000) and by individuals with no banking or business experience to qualify them to conduct a banking business. Banking, by and large, in this country is not a profession and, in many cases, does not even have the standards required of the personnel of many trades. Not only has this been true, but banks have been permitted to be organized in communities where there were already adequate banking facilities or in communities where there was not sufficient business to support a properly conducted bank.
>
> "State bank commissioners and even federal authorities cannot perhaps be too much criticized for this situation, for if they had not consented to grant the charters, political influence would have been brought to bear in many cases and they would have been forced to do so."(1)

(1) "Our Commercial Banking System", American Economic Review, March 1935, p. 84.

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Craig B. Hazlewood, Vice President, First National Bank, Chicago:

"In the great majority of cases where failure and inadequate profits were found, there also were found bankers without the proper experience or with an astonishing lack of familiarity with the technique of banking.

* * * * * *

" * * * * The record of the American unit banking system not only proves that a poorly managed unit bank fails, but it also proves - a fact we have too frequently forgotten - that a soundly managed unit bank succeeds."

" * * * * It is not the system, but the management that needs attention. Sound banking depends upon sound bankers far more than it does upon any particular system. It was primarily bad management that caused 5000 failures in the past decade, approximately 90 per cent of which occurred in cities of 10,000 or less and in banks with a capital of less than $100,000. * * * One may examine every kind of banking system in operation anywhere in the world, and it will be found that there is only one factor which in the last analysis determines whether a particular system will be successful. That factor is management. Give me the measure of a banker's management ability, and I can describe the limits of his bank's success."

* * * * * *

" * * * * Banking evils are not to be cured by any revolutionary procedure which completely changes banking systems. They are rather to be eliminated by the evolution of management ability through management education. * * *

"Whether we operate unit banks, branches, or groups, we must improve our management. * * * *(1)

(1) "Well-Managed Unit Banks Can Stand Alone", A.B.A. Journal, October 1930, p. 298.

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Dr. Harold Stonier, National Educational Director of the American Institute of Banking:

> "To understand why the American banking system is as it is today, we must consider not only our political theories but also our economic ideals and objectives. America has believed in an economic order which gives wide opportunity to all the people to enter any business or profession they choose. During at least two-thirds of our banking history, it has thus been possible for almost any one to enter the banking business without training or experience and without very much money. Through the years we have consistently supported the thought that America was the land of opportunity, that a man could enter any trade, profession, or calling which his judgment dictated. Is it any wonder, then, that thousands of incompetent or irresponsible people have entered the banking business by the easy routes that our laws left open to them?"(1)

F. H. Sisson, Vice President, Guaranty Trust Company, New York:

> "There are a few principles of practical bank operation that have been widely enough disregarded in the recent past to make them worthy of special mention. * * * *
>
> "These few concrete suggestions (relating to liquidity of assets, bonds as secondary reserves, segregation of deposit accounts, investments in real estate mortgages) are intended merely to point to some of the more obvious ways in which our banking practice can be improved. Underlying and antecedent to them all is the need for a more uniformly high grade of bank management. Social progress consists largely in the elimination of undesirable elements from the body politic, and banking is not different in this respect from any other branch of human activity. The weeding-out process has been going on very swiftly and painfully in recent years; and, for all its disastrous features, our banking system is a better and stronger system because it has taken place. It ought never to have been necessary. The least we can do now is to avoid repeating the mistakes of the past."(2)

(1) "Why the American Banking System?", Commercial & Financial Chronicle, A.B. Convention Section, September 23, 1933, p. 28.
(2) "Annual Address of the President", Commercial & Financial Chronicle, A.B. Convention Section, September 23, 1933, p. 31.

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O. Howard Wolfe, Cashier, Philadelphia National Bank:

" * * * * I am going to outline as briefly as I can seven different kinds of things that have come to our attention in the handling of the work of the Reconstruction Finance Corporation that have to do with bank management, and I would list as Number One this fact: that our bankers don't seem to have used enough foresight as to their needs to borrow in crises like these." (Then followed a discussion of the physical condition and the characteristics of notes presented by various institutions, etc.)

" * * * * So I would criticize then as the second marked weakness in bank management the disposition to consider what has been done in the past as good enough for all time.

"Then the third thing I have noticed is a very common and old weakness * * * * and that is a fear of depositors * * * *.

"Then the fourth, and this gets down a little bit deeper, is the hesitancy which is almost characteristic, I think, of the average country bank, to buy good commercial paper because of the low rate. * * * *

"Then the sixth thing (the fifth not being indicated) is one that I would like to talk on for an hour. * * * * If there is any one thing, gentlemen, that hurts banking, not only in Pennsylvania, but throughout the country, it is our disposition to look upon mortgages as gilt-edge investments, and so they are, provided one thing is true: provided the man who has borrowed on the mortgage has been taught to know that a mortgage is a loan.

"Then finally, and we see this everyday in the bank statements submitted with the applications (to the Reconstruction Finance Corporation) is evidence that no effort is made to keep some balance or proportion between time deposits and demand deposits. * * * * The trouble isn't on the asset side of the ledger; the trouble is on the liability side. The trouble with your bank is with the depositor, not with the borrower."(1)

(1) "The Reconstruction Finance Corporation", Financial Age, June 6, 1932, pp. 506-508.

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J. T. Flynn, author:

"As a matter of fact the outrageous performances of the Bank of United States were not the criminal acts for which the bank's officers were prosecuted but a group of acts which did not figure in the trial at all - a group of acts which are not against the law - a collection of acts which can be duplicated in numerous other banks. To put the matter more seriously, the acts which were responsible for the destruction of that institution are those which now characterize the tendency in bank management.

"The crime of the officials of the Bank of United States consists in having failed, in not having been intelligent enough bankers to manage the mechanism they set up without a crash. * * * *

* * * * * *

" * * * * All the things, or many of them, which the bank's officers were charged with having done are acts made possible by the financial structure of the bank. In other words when the collection of corporations which constituted that institution was formed it could have been done with no other purpose than to permit the doing of the very things which were later done. * * * *

* * * * * *

"The important fact now is not that * * * * made bad loans here and there, but that they started off with this carefully set up manipulation of the bank's powers with the intention of exploiting the bank's funds.

" * * * * It was a scheme deliberately cooked to deprive the bank's stockholders of a large part of the profits accruing from the management of their funds. The point I am laboring to make is that the failure of the bank was a mere incident. Even if the bank had not failed, and all these affiliates had pursued their appointed courses, the profits arising from all the variety of transactions of the Bankus Corporation and the City and Municipal corporations would have been cleverly detoured from the bank's stockholders to the pockets of the officials. With these three corporations, unrestricted by law and outside of all official scrutiny, the bankers proceeded to organize some fifty-seven other corporations engaged in all sorts of business. It was through these three initial affiliates that they were

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enabled to carry out their schemes. * * * * It must not be supposed, however, that the men who formed the directorate of the Bank of United States were not reputable business men. That is the most serious phase of the affair. That bank had a large board of directors practically all of them widely known as business men. Yet most of them approved the things that were done, all of them were thoroughly aware of the intricate web of affiliates organized and some of them had full knowledge of everything that went on. The disturbing thing is that an organization, carefully devised, rigged from the outset to perform secret services for the gentlemen who run the bank, invested for no other purpose than grafting in bank credit, should have among its directors a group of well-known business men. * * * "(1)

F. P. Bennett, Jr., Editor, United States Investor, Boston:

"I am firmly of the opinion, however, that the program for lifting bank management to the higher plane must be far more virile than any program thus far suggested (referring to deposit insurance). Here is a system of 22,000 separate banks, each manned by its own executives and directors. Each is in the main a self-governing unit, owing some fealty to laws and to State or Federal regulations, by its shaping its own conduct for the most part in the light of its own experience and its own self-interest. * * * * The alternative acceptable to the public must be more virile than a plan seeking by mere argument to overcome the inertia of 22,000 self-governing corporations and to induce them to adopt new methods that to the country banker's eye seem expensive and otherwise burdensome. Probably the correct response of the American banking system to the indictment brought by the grand jury of public opinion against it, is for bankers to unite in lifting our banking examinations to a much higher level of efficiency.

"The great parade of 9,285 bank failures in the eleven years recently ended is just as much of an indictment of our present scheme of bank examinations as of our banking system itself."(2)

(1) Graft in Business, Vanguard Press (1931), pp. 255-257; 266-268.
(2) "Our Banking System on Trial", California Banker, June 1932, p. 294.

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J. S. Love, while Superintendent of Banks in Mississippi:

> " * * * * to a great extent the large number of bank closings is due to the fact that too many banks have been chartered by both National and State authorities; and it is due to the further fact that too many banks have been operated by men who are not bankers; who are not conversant with the banking business. And we have emphasized from time to time the absolute necessity of better bank management and better and closer supervision, and we can't get away from the fact that banks cannot be operated by remote control and properly promote local interest."(1)

William A. Kennedy, President, The First National Bank of Pomona, California:

> "Our critics say that banks are operating with insufficient capital and with untrained men as officers and directors. May I ask in all fairness at whose door the blame should be laid? Who made the laws and chartered the banks and approved the management? How often have banks been licensed by state and national banking departments, when a committee of experienced and impartial bankers would have definitely refused the charters? The matter of adequate capital and qualified personnel has been too often of minor consideration by those in authority."(2)

H. J. Haas, Vice President, First National Bank, Philadelphia:

> " * * * * The idea has become widely prevalent that the blame rests wholly with the banks and bankers and their faulty management."
>
> * * * * * *
>
> "Who is to blame if government officials, in both the state and national systems, for over a period of more than twenty years, permitted the organization of great numbers of banks with insufficient capital or in places where they never could be successful? In many instances in all parts of the country this took place over the protest of the well established banks. But what happened was this - the

(1) "President's Address", Proceedings of the Thirty-first Annual Convention of the National Association of Supervisors of State Banks, Philadelphia, July 1932, p. 28.
(2) "Address of the President", California Banker, June 1934, p. 203.

(1) "Annual address of the President", Commercial & Financial Chronicle, A.B. Convention Section, October

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applicant for a charter would get the most influential political sponsorship and the protest of the well established banks was made to appear as selfishness on their part; however, we all know that except in rare cases they acted for the best interests of the public."

* * * * * *

"It certainly was not wholly the fault of the banker if customers with whom he had safely loaned money year after year suddenly failed to meet their notes owing to the ruination that had overtaken their own businesses. Nor was he to blame for the fact that the basic securities of the nation's industries, municipal governments, even of the national government, suddenly suffered such market depreciations that he could not realize from them the deposits entrusted to them rapidly enough to meet the hysterical demands for cash from rumor-scared depositors."(1)

(1) "Annual address of the President", Commercial & Financial Chronicle, A.B. Convention Section, October 1932, p. 28.

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(A)1(a). Draft of A. B. A. Model Bill for Licensing of Bankers.

A BILL for Licensing of Executive Officers of Banks and Regulating the Granting of Bank Charters.

(Note: Title of Bank Commissioner must, of course, be changed to conform to the correct title in each particular State.)

Be it enacted, etc.

Section 1. DEFINITIONS. (a) An "executive officer" is one who holds a position in a bank calling for the exercise of executive duties, as more specifically defined in regulations of the State Banking Board.

(b) Bank. The term "bank" shall include any institution doing a banking business under authority of the law of the State, whether a commercial bank, trust company (mutual savings bank or private bank).

Section 2. LICENSE REQUIRED. No person shall hereafter be appointed or elected an executive officer of a bank unless licensed as hereinafter provided; except a person now an executive officer or a person now holding similar office in a national bank doing business in this State.

Section 3. STATE BANKING BOARD. There is hereby created a State Banking Board hereinafter termed Board which shall consist of five members who shall be either (a) licensed executive officers of banks or (b) persons who at the time of the passage of this Act have been for more than five years active bank executives. The members of such Board shall be appointed by the President of the _____ Bankers Association subject to the approval of the Executive Committee of the Association and the names of such appointees shall be certified by the Secretary of the Association to the Bank Commissioner. For the purpose of making, approving and certifying such appointments such Association officers and Executive Committee are hereby vested with a governmental function and such Board shall be an adjunct of the State Bank Department. No two of such appointees shall be from the same town or city. The terms of such appointed members shall be for five years from the first day of January next succeeding the date of their appointment and until appointment and qualification of their successors, except that the members first appointed shall serve from the date of their appointment for terms of one, two, three, four and five years from the ensuing first day of January and one member shall be appointed annually thereafter. Members of the Board shall be eligible for reappointment and vacancies shall be filled for the unexpired term in the same manner as original appointments. In default of appointment of a member or members of the Board as above provided, the appointment shall be made by the Bank Commissioner upon a strictly nonpartisan basis. The Board shall elect

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one of its members as Chairman and another as Secretary. The Board may meet at any time and place in the State, upon call of the Chairman or any three members. Each member of the Board shall be entitled to compensation at the rate of $__ for each day of actual attendance at meetings of the Board and reimbursement of his actual and necessary expenses to be paid out of the appropriation for the State Banking Department.

Section 4. APPLICATION FOR LICENSE. All applications for license shall be addressed to the Bank Commissioner accompanied by a fee of $__ which shall be paid to the Treasurer of the State and added to the appropriation for the Banking Department. It must be accompanied by proof that the applicant is over twenty-one years of age and of good moral character and such other information as may be required by the rules and regulations of the Board. Applications for license when received by the Bank Commissioner shall be turned over to the Board for investigation and report.

Section 5. BOARD ASCERTAINS QUALIFICATION. It shall be a function of the Board to determine the qualification and fitness of applicants for licenses and for this purpose it shall fix its own standards of education, ability, experience and character and make such investigations and provide for such examinations as it may deem necessary.

Section 6. REGULATIONS OF BOARD. The Board shall make and may amend from time to time, all rules and regulations needed to carry into effect the purpose of this Act including regulations prescribing the standard of qualification, the conduct, scope and character of examinations, the time and place of meetings, the form and contents of all notices, certificates, documents and papers necessary to its operation and methods of procedure. The necessary expense for printed matter shall be chargeable to the appropriation for the Banking Department.

Section 7. REJECTION OF APPLICATION. If upon due investigation and examination, the Board shall decide that an applicant is not qualified to receive a license as an executive officer, it shall report such decision to the Bank Commissioner. No license shall be issued by the Bank Commissioner in the absence of a certificate of qualification by the Board. An applicant for license whose application has been rejected, may renew such application after six months from the time of such rejection.

Section 8. ISSUE OF LICENSE. Upon decision of the Board after due investigation and examination that an applicant for license is duly competent and qualified as an executive officer, the latter shall return such application to the Bank Commissioner accompanied by a certificate of qualification duly attested by the Secretary of the Board, whereupon the Bank Commissioner shall issue a license in such form as may be prescribed by the Board, entitling such applicant to accept employment as an executive officer in any bank in the State.

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Section 9. SUSPENSION OF LICENSE. Whenever it appears to the Bank Commissioner that any licensee has violated any law of the State or has performed the duties of his office in an unsafe, unauthorized, negligent or dishonest manner or has refused to obey any lawful order of the Bank Commissioner, the latter with the approval of any two members of the Board may suspend the licensee and during the period of suspension the licensee shall not be employed by any bank.

Section 10. RESTORATION OR REVOCATION OF LICENSE. At any time within thirty days after suspension, a licensee may appeal to the Board for a hearing and a restoration of his license in which case the Bank Commissioner shall prefer written charges against the suspended licensee and submit the same to the Board. Such charges shall be heard and determined by the Board as soon as practicable and in no event longer than three months from date of appeal. The time and place of such hearing shall be fixed by the Board and notice thereof with a copy of the charges shall be served by registered mail on the suspended licensee at least ten days before the date fixed for the hearings. At such hearing the suspended licensee shall have the right to appear personally or by counsel, to cross-examine witnesses against him and to submit evidence in his own behalf. After such hearing the Board may restore or revoke such license as the facts may warrant. Failure of the licensee to appeal to the Board within thirty days after suspension of license shall operate as a revocation thereof. Nothing herein shall deprive a court of competent jurisdiction in a proper proceeding of power to review a decision of the Board revoking a license and to grant such relief to the licensee as the facts may warrant. The Bank Comissioner, upon approval of the Board, may re-issue a license which has been revoked after one year from the time of such revocation upon reasons deemed satisfactory and sufficient.

Section 11. BANK CHARTERS. From and after the passage and approval of this Act, all applications for bank charters made to the Bank Commissioner shall be referred to the Board for approval. It shall be the duty of the Board to investigate the need for a new bank in the community, the character and capacity of its organizers, and adequacy of capital and all matters and things pertinent to a decision whether the granting of a charter would be wise and desirable. No charter shall be hereafter granted by the Bank Commissioner except upon approval of the Board duly certified by it to the Bank Commissioner. Nothing herein shall deprive a court of competent jurisdiction in a proper proceeding of power to review an adverse decision of the Board and to grant such relief to the organizers of a proposed bank as the facts may warrant.

Section 12. PENALTY FOR VIOLATION. Any person or corporation who violates Section 2 of this Act by appointing or accepting appointment and acting as an executive officer of a bank contrary to the provisions of that section, shall be guilty of (insert nature of crime and punishment).

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(A)1(b). Published Views of Bankers and Others With Respect to the Matter of Licensing of Bankers:

E. V. Frick, Vice President and Cashier, American Trust Company, San Francisco:

> "Tomorrow's banker includes bank officials, directors, and all others connected with banks who are in any way responsible for the funds entrusted to them by the public. The attitude of the public in regard to this responsibility has reached such a stage that perhaps in the not-far distant future bankers will be licensed or accredited as are doctors, lawyers, engineers and other professional people. This should be welcomed by bankers, and it is a question whether the time has not come when they themselves should provide for this, and erect such barriers as will prevent undesirables from entering or remaining in the profession."(1)

The view of another prominent San Francisco banker was reported in the "American Banker" of August 11, 1936, as follows:

> "F. L. Lipman, chairman of the Wells Fargo Bank & Union Trust Co., stated that he would like to see the banker given a better professional status by requiring that officers qualify for their jobs by pursuing required courses of study leading to certificates of competence. Amplifying this suggestion the other day, Mr. Lipman said that the idea might be tried first in some of the large cities and, if it worked there, be gradually expanded. He implied that it might be as well to have more than one type of certificate for different executive duties, much as doctors must pass a different group of qualifications from those laid down for nurses. However, he would go very slowly so as not to place an undue burden on small country banks. Presumably, too, he would prefer to see the plan developed by the banks themselves rather than by statute."

(1) "Qualifications of Tomorrow's Banker", California Banker, June 1933, pp. 270-271.

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John M. Miller, Jr., President, First & Merchants National Bank, Richmond, Virginia:

> "The time should and will come when bankers will be required to pass an examination and to secure a license before they may become executive officers of banks. When that time comes maybe we shall be able to call our business a 'profession'.
>
> "In Virginia, and doubtless in North Carolina, a man, in order to practice on a hog, a dog, or any other animal, must be a 'professional' man. He has studied. He has taken an examination and secured a license. But they turn us bankers loose to practice on the widows and orphans and defenseless without requiring an examination or a license.
>
> "And what has been the result? It has been distressing, and the situation should be corrected. Some day we shall have a higher standard for bank officers, brought about by requirement of examination, license, etc."(1)

Thomas C. Hennings, Vice President, Mercantile-Commerce Bank and Trust Company, St. Louis:

> "In my opinion the great mass of bankers of this country are not and have no desire to be considered members of a learned profession. Many have come up from the grass roots, are practical bankers, financiers, and business men, are the leaders of public thought and business in their communities, are proud of their vocation and would prefer to be known now and in the future as business men."(2)

(1) "Troubles and Remedies", Tarheel Banker, June 1932, p. 92.
(2) "Is Banking a Profession?", A.B.A. Journal, October 1932, p. 86.

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R. G. Thomas, Associate Professor of Economics, Purdue University:

> "There are, naturally, two general methods of approach to the problem of improving bad bank-management. The first consists of using direct pressure; the second involves altering the institutional framework within which bankers must function. One form of direct pressure might well consist of 'a requirement that all bank executives should demonstrate their possession of a minimum amount of knowledge of sound banking principles and practice by passing some form of examination'. Such a plan 'might give rise to a body of "Certified Bankers" which would assist in the promotion of a professional attitude among bankers in general'. In addition to such measures, there must be retained and strengthened the existing methods of examination and control by public authority. The intelligent bank examiner and supervisor can very effectively improve the quality of bank management by insistence upon sound loan and investment policies as well as by the detection of fraudulent and illegal practices."(1)

The following statements were contained in a bulletin of the Employment Stabilization Research Institute of the University of Minnesota:

> " * * * * Any shareholder possessed of sufficient voting power, even though he has no knowledge of banking, may elect himself a director or have himself appointed president of his bank, and the state raises no objection until the depositors' money has been lost. Could not a license system for bank directors and officers be adopted, involving for directors an examination covering the general field of banking practice, certain legal phases, and especially the tests of sound banking? For officers a more searching proof of their knowledge of sound practice and of some knowledge of theory should be required. In the case of officers, successful completion of such minimum tests might well be pre-requisite to qualification for the lowest executive position."

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(1) "Bank Failures - Causes and Remedies", Journal of Business of the University of Chicago, July 1935, p. 316.

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"Important advantages of a license system on these general lines are at once apparent. The requirement of the test would insure that directors were informed of the specific nature of the obligations to be assumed, a most important desideratum. Furthermore, it would contribute materially to the selective process in choosing directors. As applied to officers, the test would first of all tend to reduce nepotism in banks. The requirement of a searching examination before the lowliest executive position could be legally held would induce, first, careful preparation for the all-important test, and second, a spirit of professional pride in thoroughness."

* * * * * * * *

" * * * * Poor management of a grocery would eliminate that one enterprise. Equally poor management of a bank might paralyze hundreds of businesses and work hardship to society in a much wider circle. Mere ownership therefore should not confer the same right to absolute control of the policies and affairs of a bank as in the case of other businesses. Since the public is so profoundly concerned with the quality of management, the director or officer who assumes control should be obligated to give satisfactory evidence of previous training and of ability to manage a bank successfully.

* * * * * * * *

"The principal hope for sound banking lies in improved management; hence in men and not in laws. Nevertheless, as long as a system composed of large numbers of banks, many of them of small resources is retained, the regulatory authorities may greatly assist in the process of securing good banks through the further education and training of bankers. What is needed is a better standard of management."(1)

(1) A Type Study of American Banking: Non-Metropolitan Banks in Minnesota, Vol. IV, November 1934, pp. 159 and 162.

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(A)1(c) Published Statements With Respect to Legislation Relating to Qualifications of Bank Directors and Officers.

John W. Pole (while Comptroller of the Currency):

> "In banking as in many of our activities we are inclined to attempt to cure all defective operations by new statutory enactments and new governmental regulations.
>
> "In the final analysis however governmental action, whether statutory or regulatory, can only set the metes and bounds of bank operations. They can penalize violations of the law and can exercise a restraining influence upon banking practices within the law but it is well known that good management cannot be procured by legislation or governmental fiat. Good management must be a natural growth from within the institution.
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> * * * * * * * *
>
> "I realize that from the standpoint of the banker, banking is a private business similar to other gainful occupations and that the fundamental business principles of freedom of action and unity of responsibility upon boards of directors should not be subjected to what might be called governmental interference. On the other hand in banking there is a large public interest at stake--an interest both of the government and of the depositors--and so long as there is the possibility of a repetition of certain recent outstanding examples of bad management, whether through incompetency or through a wilful disregard of responsibility and honor, there is the prospect of increasing the powers of governmental supervision as a remedy."(1)

(1) "Public Aspect of Bank Management", Proceedings Second Central Atlantic States Bank Management Conference, held in Washington, D. C., in February 1931, pp. 8-9.

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C. T. Leinbach, Vice President, Wachovia Bank & Trust Company, Winston-Salem, North Carolina:

> "At the same time, we recognize that the ultimate soundness of our banking system lies not so much in legislation as it does in the ability and integrity of bank management. Laws provide certain safeguards, but the experience, honesty and sound judgment of the men who operate our banking institutions will always be the determining factors. Therefore, while we welcome helpful banking legislation, it in no manner relieves us of our individual responsibility to operate good banks."(1)

J. S. Love, former Superintendent of Banks in Mississippi:

> "My observation as a bank examiner and bank commissioner, covering a period of more than ten years, convinces me that fully 75 per cent of the bank failures in this country are due primarily to the fact that the directors are not fully conversant with their bank's condition or with the details of its operation, and that the majority of such failures could have been averted or would never even have threatened had the board of directors functioned as the law contemplates.
>
> * * * * * * * * *
>
> "The problem of getting directors of a bank interested in their own institution is not only being given serious thought by the leading bankers and bank commissioners of the country today, but by the law-making bodies of the various states. They realize that a bank, in order to function as it should, must be carefully supervised and controlled by its directors, and they are trying to devise some means by which directors may be aroused to such keen interest that they will keep themselves familiar with the detailed management of their own banks.
>
> "Legislation on this important matter is helpful to a certain extent, and in some states statutes have been enacted making it unlawful for a loan of any consequence to be made by the active officer of a bank without first getting the approval of a majority of the board of directors, or of a loan committee

(1) "Annual Address of the President", Tarheel Banker, July 1936, p. 31.

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appointed by the board. But it is obviously impossible through legislation to make competent bankers."(1)

Commission for Financial Institutions of the State of Indiana:

"The Department of Financial Institutions has made a careful survey regarding the extent of the knowledge of bank directors concerning their duties and responsibilities. This survey discloses that a surprisingly large percentage of directors actually do not realize what is implied when the Oath of Office is taken.

"Safety is synonymous with sound bank administration, and in order to insure the greatest possible protection to stockholders, depositors, and other interested parties the legislatures of various states have imposed definite obligations on directors. The courts of the United States have invariably construed these obligations to be valid and have upheld them.

* * * * * * * *

"It is important for directors to understand that their duties, responsibilities, and liabilities are not governed alone by the statute, but also by common law. Briefly, the common law principles applicable are: ORDINARY DILIGENCE, REASONABLE CONTROL, and GENERAL KNOWLEDGE of the peculiar problems of their bank."(2)

Employment Stabilization Research Institute of the University of Minnesota:

"What measures, if any, can be taken to accomplish the selection of suitable directors and officers of banks? First, the law can more explicitly and directly lay upon both the responsibility for the sound conduct of the business. Our theory of government makes banking a semi-public activity; the banker is privileged to dispose of the funds of others. The statute should by law more sharply define this position of trusteeship and more clearly fix the responsibility it involves."(3)

(1) "Slipshod Bank Direction", A.B.A. Journal, May 1928, p. 869.
(2) Duties and Responsibilities of Directors of State Banks and Trust Companies, compiled in 1935 under the direction of the Commission for Financial Institutions of the State of Indiana (Foreword and Conclusion).
(3) A Type Study of American Banking: Non-Metropolitan Banks in Minnesota, published in November 1934, pp. 158-159.

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(A)2. Published Statements With Respect to Removal From Office of Directors and Officers, etc.

J. E. Goodbar, author:

> " * * * * Government administration has no power to prevent the elevation to positions of authority in banks of ex-soap manufacturers, ex-real-estate operators (as well as real-estate operators who operate a bank as adjunct to the real-estate business), ex-investment bankers, ex-furniture dealers, ex-medical men, ex-ministers, ex-ranchers, ex-cattle dealers, ex-hardware merchants. Too often some of these men take on the bank business because it facilitates the securing of credit for some outside interest that has otherwise an uncomfortably low borrowing limit.
>
> "Until 1933 reckless management of any kind within the law was beyond the reach of positive control by administrative officers. The power of removal that was conferred on the Federal Reserve Board, in 1933, is necessarily so restricted, and the exercise of it would be so damaging to a bank's reputation, that it cannot be regarded as even approaching in effectiveness the power that lies in the hands of the managing officers of a large system of branch banks."
>
> * * * * * * * * *
>
> "Effective enforcement of banking law has always suffered from the serious dilemma that faces any government officer who discovers improper conduct on the part of a bank officer who is unwilling to mend his ways. Unless prepared to close up the bank, which, of course, means injury to thousands of innocent depositors, and might even start a wave of distrust that would affect innocent banks in the same territory, with ultimate results which could not be foreseen, the administrative officer has been utterly helpless to compel the adoption of sounder practices.
>
> "The Banking Act (of 1933) has sought to remedy this * * * *."(1)

(1) Managing the People's Money (1935), pp. 177; 400-401.

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Dr. Robert Weidenhammer, Assistant Professor of Economics at the University of Minnesota:

> "The authorities should have the right to remove officers that are found to be objectionable, be it on account of having purposely violated banking laws or be it on account of obvious lack of competency."(1)

Chamber of Commerce of the United States:

> "The Committee does not desire to question, in any way, the importance of proper management of member banks of the Federal Reserve System. It believes, however, that any power to remove an officer or director or to cite an officer or director to a board which has power to compel his removal upon such general grounds as the continuance of 'unsafe or unsound practices' in conducting the business of a bank, must be carefully safeguarded. The Committee feels that in all such cases the charges under consideration should be investigated by the board of directors of the regional Federal Reserve Bank and a report made by that body to the Federal Reserve Board. The directors of the regional banks are charged with the responsibility of keeping themselves informed as to conditions within their districts and are in intimate contact with the peculiar conditions surrounding the banks of those areas. Under another section of the Act, moreover, the directors of the regional reserve banks are required to keep themselves informed with respect to the uses of credit by member banks in their districts and to report to the Federal Reserve Board any misuse of credit. It would seem that the same procedure should be followed in regard to the removal of officers or directors for unsound banking practices or the violation of banking laws, so as to centralize these extraordinary powers and to insure uniform treatment for national and state member banks."(2)

(1) "Better Bank Management: An Analysis of Fifty Bank Failures", The Annals of the American Academy of Political and Social Sciences, January 1934.

(2) Legislation on Banking, a report of the Finance Department Committee, Chamber of Commerce of the United States, Washington, D. C., April 1934, p. 11.

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Employment Stabilization Research Institute of the University of Minnesota:

> "Because of the far-reaching effects of the suspension of a bank it appears to be desirable that the banking department be provided with means less abrupt and cataclysmic for the protection of the public interest. The Glass Act provides that any officer or director of a member institution who violates the law or who continues unsound practices in conducting the business of such an institution after being warned by the comptroller or by the Federal Reserve agent may be called before the Federal Reserve Board for a hearing. If found guilty he may be removed from office by order of the board.....The New York superintendent of banks recommended in 1931 that he be given legal power to remove from office directors or officers of banking institutions who were guilty of persistent violations of the banking law or of a continuance of unsafe and unsound policies and practices, with the provision that a board of directors upon two-thirds vote might reinstate any officers or directors removed. Similar powers should be authorized as an aid to bank supervision in Minnesota."(1)

(1) A Type Study of American Banking: Non-Metropolitan Banks in Minnesota, published in 1934, p. 152.

March 26-27, 1936, published n esent Pa Ba Kl & (1936b), pp. 62-64

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(A)3. Excerpts from a Report of the Study Commission for Indiana Financial Institutions (1932) With Respect to Duties, Responsibilities and Powers of Directors.

> "The Study Commission's investigation of insolvent banks has revealed the fact that in some instances officers failed to apprise the members of the board of directors of the state department's criticism of conditions within the bank. In some of these instances directors have maintained that they could have corrected unsound conditions had they known of their existence. To prevent such situations from arising and to insure that the board will at all times be fully acquainted with the recommendations of the Department of Financial Institutions the proposed statute provides that the directors shall require the secretary of the board or some other duly designated agent to make official communications from the state department a matter of record in the minutes of the meetings of the board. The enforcement of this provision will not be difficult because it will be possible for the examiner to bring with him at the time of the examination duplicate copies of all official communications from the department to the bank and check his copies with those entered in the minute book of the board.
>
> "After the failure of a bank, its directors sometimes insist that they were intentionally deceived by the officers and, as a result, did not know the true condition of the bank. In many well-managed banks in order to make such deceptions impossible it has long been the practice to have the directors periodically audit and examine the books and affairs of the institution. In this manner it is possible for the members of the board to secure a personal knowledge of the bank's condition. Such examinations, moreover, serve to place the responsibility for unsound practices and conditions squarely upon the board. Recognizing the desirability of this practice of self-examination the proposal of the Study Commission provides that the board or a committee therefrom or a firm of certified accountants selected by the board shall examine every bank or trust company at least twice each year and shall submit to the Department of Financial Institutions a complete statement of the bank's condition as determined by the examination."(1)

(1) Report of Study Commission for Indiana Institutions (1932), p. 120.

APPENDIX II

(A)4. Published Statements With Respect to Legislation Relating to Restrictions on Financial Interests of Directors and Officers in Bank Transactions.

Russell G. Smith, Cashier, Bank of America N. T. & S. A.:

> "Certain provisions of the new laws have ended some unsound practices and abuses of which a few banks were guilty. I refer particularly to the provisions which prohibit the employment of bank funds in loans to officers, the restrictions regarding the use of bank credit for speculation in securities, and the separation of the investment securities from commercial banking."(1)

J. F. Sullivan, Jr., Vice President, Crocker First National Bank, San Francisco:

> "One of the primary laws in sound banking practice is that loans must be based on good credit judgment and not dictated by bank directors or officers for their personal benefit. Recent disclosures of a sensational nature have focused the spotlight of public censure upon flagrant abuses of this custom, and this circumstance has given birth to a recommendation that there should be enacted federal legislation more strictly to regulate bank loans. Laws, however detailed and stringent, can never completely control every banking practice, and it is still possible to run a good bank with a degree of latitude left to good management. Laws can never be a substitute for sound judgment and approved procedure. I would personally go much further than this recommendation and urge that banks should not make loans against unlisted bank stocks. Banking capital supposedly is supplied by stockholders out of their own funds, and not furnished indirectly by bank deposits loaned against collateral of that class. This may be regarded as an extremely radical viewpoint, but in my opinion it is in the interests of conservative banking and I submit it for your more deliberate consideration."(2)

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(1) Address before Bank Management Section, A.B.A. Convention, Seattle, June 1936, The American Banker, June 11, 1936.
(2) "The Address of the President", California Banker, June 1933, p. 184.

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Professor R. G. Thomas, Purdue University:

> "In both good and bad times defective bank-management has all too frequently taken the form of excessive loans to the bank's own officers. This fact suggests two possibilities for improvement. First, the prohibition against loans by banks to their executive officers, as provided in the Banking Act of 1933, should be extended to include loans to firms controlled in any substantial measure by such bank officers. This would definitely ban the doubtful practice of attempting an impartial appraisal of the banker's own credit standing and should go far in reducing the abuses of excessive and fraudulent loans to insiders.
>
> "Second, temptation to borrowing by inside interests might well be reduced. An outright prohibition of all banking affiliates would be a wholesome change. This could be done with no harm to banking efficiency if branch banking barriers were abolished. Also branch banking, in contrast to unit banking, furnishes a more adequate outlet for the energies and abilities of the capable banker and reduces somewhat the urge to develop outside business interests."(1)

(1) "Bank Failures - Causes and Remedies", Journal of Business of the University of Chicago, July 1935, p. 317.

APPENDIX II

(A)5. Views of Bankers and Others With Respect to Legislation Relating to Deposit Insurance.

S. Sloan Colt, President, Bankers Trust Co., New York City:

> "Deposit insurance on a national scale is a new experiment and while it may have its effect in preventing withdrawals in time of trouble, it can in no way be accepted as a substitute for good banking. Supervision can limit the scope of bank operations but the ultimate decision as to quality of assets to be held in the portfolios of the banks rests with the bankers themselves.
>
> " * * * The banker has become a trustee for the public and has assumed responsibility for the investment of its funds * * *.
>
> "The responsibility assumed in this connection is a real one. * * * Give this class of small savers security and protection in good times and bad, and you will establish a public confidence and support of the banking system against which the demagogue will be powerless. Let the losses to these people be substantial and the seeds of political and economic discord will fall into fertile ground.
>
> "The Federal Reserve and the other supervisory authorities have been given extensive powers to check or prevent unsound credit activities and excessive credit expansion. However effective these controls may be, it is my opinion that they can never take the place of sound bank management. The responsibility for maintaining high quality assets of the right character must rest upon the management of the individual institutions."(1)

Col. James L. Walsh, former executive vice president, Guardian Detroit Union Group, Inc.:

> "The proposed system of guaranty of bank deposits cannot fail to place a premium upon unsound banking methods, and, in the end, destroy both sound and unsound banks, without distinction. As such, it should be opposed by every intelligent banker - if only in his own selfish interest."(2)

(1) Address before Kansas and Missouri Bankers Association in Kansas City, May 6, 1936.
(2) Address before Michigan Bankers Association, July 1932, Michigan Investor, July 23, 1932, p. 31.

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L. E. Birdzell, General Counsel, Federal Deposit Insurance Corp.:

> "In the face of the record since the insurance fund came into effect, which I have already given you, there should be no occasion to argue its need. However, there are still some who say that it is but a substitute for a sound banking system, and that our efforts should be directed toward establishing better management for banks rather than insuring banks against losses. The proponents of this argument usually give the Canadian banking system as an illustration.
>
> "The argument for better banks is well taken. We concur fully in what its proponents say, but we feel that better banking can best be achieved with the aid of our corporation. In the United States there is a division of authority between the several states and the Federal Government, and consequently, unlike the Dominion of Canada, the character of our banking varies according to the location of the bank and the character of supervision given it. Through the aid of our corporation we believe that there can be a better co-ordination throughout the country to the end that a uniform high standard of banking may be maintained."(1)

O. Howard Wolfe, cashier, Philadelphia National Bank and former president of Pennsylvania Bankers Association:

> "The following statement which I have read recently sums up the argument against deposit guaranty:
>
> "'The conception of a guaranty of bank deposits strikes at the foundation of sound banking. It leads to unsound loans and poor banking practices which hasten failures. It is a direct encouragement to reckless banking. The reckless banker realizes the larger profits which can accrue to that type of banking in good times and in bad times passes the losses to the experienced, conservative banker.'"(2)

(1) "What Deposit Insurance Has Accomplished", Michigan Investor, July 7, 1934, p. 21.
(2) Address before Pennsylvania Bankers Association, Financial Age, May 27, 1933, p. 406.

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F. P. Bennett, Jr., Editor, United States Investor, Boston:

> "But guaranty of deposits is not the correct method of relieving my client from the indictment which has dragged our banking system once more before the bar of public opinion. Let that be the sentence meted out to our banking system, and the system must inevitably be haled again before this same bar a few years hence, for having once more dealt unfairly with the American people. The woes that will occur under guaranty of deposits are fairly to be compared with the woes that have occurred under existing conditions. I shall not use much of the time of this audience in exposing the evil possibilities of deposit guaranty plans. The idea underlying them is plausible enough. So long as guaranty plans are exposed only to the tests of the inventor's laboratory, they indicate only their alluring features. It is only when they meet the tests of real life that they reveal their weaknesses. Eight states, beginning with Oklahoma in 1907, and including your own state for a season, have given the guaranty idea as fair a trial as even its own earnest advocates could expect. Not one of these states has been satisfied with the results. How could they be, when the plan is in reality an effort to apply the insurance idea without including the most fundamental of insurance principles, the intelligent selection of risks? Only in Utopia can insurance succeed if it turns its back squarely upon the most fundamental lesson which insurance companies have learned from their hundreds of years of actual experience. Guaranty plans assume the existence of a millennium, when the whole despairing world unites in testifying that the millennium is still far away."(1)

Mortimer J. Fox, former Chief of Division of Research and Statistics, Federal Deposit Insurance Corporation:

> "* * * *we must bear in mind that the present installation of confidence in bank deposit money is no more a cure for basic banking ills than was the creation of confidence in bank note money 70 years ago. The problems of proper bank management and bank supervision are quite as great as ever before."(2)

(1) "Our Banking System on Trial", California Banker, June 1932, p. 293.
(2) American Banker, June 4, 1936.

APPENDIX II

(B) Published Statements of Bankers and Others With Respect to Cooperative Efforts of Bankers.

W. F. Gephart, Vice President, First National Bank, St. Louis:

> "In the first place, there must be increasing recognition by the bankers and business men of the unfair, unjustified, and unprofitable practices in their own business and an increasing effort and co-operation among them to correct these shortcomings without the intervention of the Government. More self-government in banking and business by the individual bankers and business men is the greatest need. There are too many lone wolves in banking as well as in many other lines of business. Through county and regional clearing houses and group and state bankers associations and the American Bankers Association, bankers have agencies for correcting many of the bad banking practices. Such correction would result not only in profit to the banks themselves and their stockholders, but also would create a better public attitude and thus prevent and even remove unduly restrictive legislation and regulation."(1)

C. K. Withers, former trust officer of First-Mechanics National Bank, Trenton, and now Commissioner of Banking and Insurance, New Jersey:

> "If we are to have a Code of Fair Competition--and we should, by all means--let us have one which can be interpreted; one that will be workable and equitable alike to depositor and bank, and one which shall not require of every institution the elaborate system of costs apparently necessary in the present regulations. Let us assume for once that most bankers are honest, and ready and willing to cooperate in every way possible to bring about a return to more nearly normal conditions. Permit us to get together in our local clearing house or county associations and trade areas, and work out a code of compliance which shall be fairly based upon average conditions in our individual communities. Let us have cooperation, not recrimination, and our Codes will be speedily completed--and enforced."(2)

(1) Address before the Regional Conference of the A.B.A., Memphis, March 26-27, 1936, published in Present Day Banking (1936), pp. 23-24.
(2) The President's Address, Proceedings, New Jersey Bankers Association, May 1934, p. 113.

Edward J. McQuade, then Vice president, Liberty National Bank, Washington, D. C.:

> "Senior bank officers of District of Columbia get together at weekly luncheons to bring about more intimate and frequent contacts. Discussions are frank and not carried beyond meeting room. Ideas are exchanged and problems worked out. As a result of such luncheons committees for various purposes are formed.
>
> "A Protective Committee was created to furnish information on undesirable accounts, employees dismissed for cause, and to issue special warning bulletins as emergencies arise. The results were noteworthy.
>
> "Cooperation in advertising brought about a tremendous saving to banks plus an increase in business. It has been valuable in installing service charges, credit bureaus, securing concerted action in legislative enactments, standardization of bank forms, etc.
>
> "These weekly luncheons protect members' business, promote welfare, and foster fraternal relationship, all of which in turn react favorably on the general business interests of the community." (1)

Professor Paul F. Cadman, University of California:

> "In some respects it is unfortunate that there are not bankers' exchanges whose members would submit voluntarily to the control and regulation of the group. Such control from within the profession would be far better than a political control from without. It is immediately argued that the business is too intimate, personal, and competitive to submit to exchange regulations. Such has not been the case with stock brokers. Theirs is perhaps the most competitive business in the financial field, but exchange members nevertheless submit to investigation and analysis which no other business in the country would endure. What has been the result? The smallest percentage of failure in this present depression which any business has suffered. In the New York Stock Exchange, with thirteen hundred members, less than ten

(1) Summary of an address before the Central Atlantic States Bank Management Conference in Philadelphia, March 1930, in which Mr. McQuade stated that the District of Columbia bankers had for many years recognized the value of getting together for the discussion of common problems. Proceedings, p. 53.

failures; in the San Francisco Stock Exchange, with over seventy members, only two failures. To press this analogy further; the relations between stock brokers and clients are as intimate as those between banker and client, yet the Ethics and Business Conduct committees of the major exchanges examine such relations in detail, criticize, restrict, and, if necessary, penalize. Furthermore, one of the most rigid regulations of the stock exchange is the uniform commission rule. In only the rarest of instances may a commission be split with a nonmember and under no circumstances can a member ever cut a commission for a client. The language of the commission rule is so inclusive and exact that no violation is possible. If stockbrokers were to compete by rate cutting as banks now compete by interest-rate inducements, the majority of brokerage houses would be bankrupt in less than a decade.

"Perhaps a bankers' exchange is too radical an idea. Banking is an exceedingly conservative profession and in some respects a very self-satisfied one. It will not take many years of operation in the red, however, to shake this complacency. Clearing houses could easily function as exchanges and could, under member consent, extend the control which they already exercise. But if this is too advanced a proposal, then consideration should be given to other existing agencies. Local, State, and national banking associations are well established. Few trade associations have such excellent organization. The committees and secretaries of the State and national associations have done excellent work in research and have served admirably in an advisory capacity. Publications have been, particularly in recent years, informatory and stimulating. Conventions have been numerous, well planned, entertaining, and as far as it is possible for any American convocation to be serious, they have devoted a goodly number of their sessions to real business for the good of the profession. The accomplishments of the A.I.B. are so noteworthy as to place that organization at the head of all institutions of its kind." (1)

(1) "Competition, Cooperation or Control", California Banker, June 1933, pp. 209-210.

T A B L E A.

QUALIFICATIONS OF DIRECTORS OR TRUSTEES

STATE	NUMBER		RESIDENCE AND/OR CITIZENSHIP	SHARES OF STOCK TO BE OWNED	SPECIAL DISQUALIFICATIONS	STATUTORY REFERENCES
	Min.	Max.				
Federal Law	5	25	Each must be citizen of U.S.; 3/4 must reside in State, territory, or district where bank is located, or within 50 miles. (Nat. Bks.)	$1,000; or $500 if bank's capital is less than $25,000. (Nat. Bks.)	Service of other institutions. (see Table B)	U.S.C., Title 12, §§ 71, 71a, 72.
Alabama	--	--	3/4 must reside in State	$200.	------	Alabama Code, § 6839
Arizona	--	--	------	$200; or $500 in cities of more than 20,000 population.	-----	Rev.Code 1928, §236.
Arkansas	3	--	------	$500.	------	Crawford & Moses' Digest, Castle's 1927 Supp. § 683
California	--	--	------	$500.	------	Deering's Codes, Title 50, § 10.

T A B L E A. - 2

STATE	NUMBER		RESIDENCE AND/OR CITIZENSHIP	SHARES OF STOCK TO BE OWNED	SPECIAL DISQUALIFICATIONS	STATUTORY REFERENCES
	Min.	Max.				
Colorado	3	21	Majority must reside in county or contiguous counties.	5 shares in bank of less than $50,000 capital, 10 shares in bank of more than $30,000.	Conviction of felony or violation of State or Federal banking laws.	Colorado Stats. (1935), Ch. 18, §§ 15,17.
Connecticut	--	--	3/4 must reside in State	$500.	Service of other institutions. (see Table B.)	Gen. Stats., §§ 3016,3074.
Delaware	5	--	-----	$1,000.	----	Rev.Code (1935) § 2380
Florida	5	25	All must be citizens of United States; 3/5 must reside in State.	Banks: 10 shares, or 5 shares in bank of less than $25,000 capital. Trust companies: 10 shares of $100 par value.	----	Rev. Stats., §§ 4123, 4133, 4190, 4134.

T A B L E A. -

STATE	NUMBER Min.	NUMBER Max.	RESIDENCE AND/OR CITIZENSHIP	SHARES OF STOCK TO BE OWNED	SPECIAL DISQUALIFICATIONS	STATUTORY REFERENCES
Georgia	3	25	All must be citizens of State or reside within 25 miles of city in which bank is located. 3/4 must reside in city or within 25 miles.	10 shares; or 5 shares if bank's capital is less than $25,000.	-----	Civ. Code, §§ 2366 (147), 2366 (148)
Idaho	5		Majority must reside in State.	$500.		Idaho code, Title 25, § 25-406.
Illinois	3	Fixed by stock-holders.	-----	$1,000.	---	Ill.Stats., Ch.16-1/2, §§ 4, 12.
Indiana	5	Fixed by Arts. of In-corp.	All must be citizens of U.S.; 3/4 must re-side in State or within 50 miles of bank.	$1,000; or $500 if capital is less than $50,000.	----	Ind.Stats.(1933), §§ 18-509,18-510.
Iowa	5	Fixed by Arts.of Incorp.	3/4 must be citizens of State. (Savings Bks.)	$200 if capital is less than $30,000; $500 if more than $30,000.	----	1935 Code, §§ 9163, 9164, 9210,9211, 9212, 9217-c2.

T A B L E A. - 4

STATE	NUMBER		RESIDENCE AND/OR CITIZENSHIP	SHARES OF STOCK TO BE OWNED	SPECIAL DISQUALIFICATIONS	STATUTORY REFERENCES
	Min.	Max.				
Kansas	5	25	Bank: Must reside in county or adjoining counties. Trust cos.: Majority must be citizens of State.	Bank: 5 shares (applicable also to cashier and managing officer) Trust cos: $1,000.	-----	Rev.Stats.(1923), §§ 9-109, 9-104, 17-2008.
Kentucky	--	--	-----	5 shares	-----	Carroll's Ky. Stats., § 1654a-20.
Louisiana	5	30 or 5 more for each million dollars of capital over 2 million	3/4 must be citizens of State, all must be citizens of U.S.	$100.	-----	Dart's Gen.Stats. (1932), § 611.
Maine	Sav: 5 Tr.Cos: 5	--	Tr.Cos.: 2/3 must reside in State.	Tr.Cos.: $1,000.	Service of other institutions (see Table B).	Rev.Stats.,Ch.57, §§ 16,72,74.

T A B L E A. - 5

STATE	NUMBER Min.	NUMBER Max.	RESIDENCE AND/OR CITIZENSHIP	SHARES OF STOCK TO BE OWNED	SPECIAL DISQUALIFICATIONS	STATUTORY REFERENCES
Maryland	Bks: 5 Sav: 5 Tr.Co: 5	-- -- 30	Majority must reside in State (bks.)	Bks: $100 if capital is less than $25,000; $250 if more than $25,000 but less than $50,000, $500 if more than $50,000. Tr.Cos.: $500.	-----	Ann.Code (1924). Art. 11, §§ 26, 31, 50.
Massachusetts	Tr.Cos: 7 Sav.Bks: 11 Coop. Bks: 5	25	Tr.Cos.: 3/4 must be citizens of, and reside in State.	Tr.Cos.: $1000.	Service of other institutions. (see Table B)	Gen.Laws,Ch.172, §§12, 14; ch.168, § 13; ch. 170, § 4.
Michigan	Bks: 5 Tr.Cos:7	--	-----	Bks.: $1,000; or $300 if capital is less than $25,000. Tr.Cos.: $1,000.	-----	Comp.Laws (1929), §§ 11911,12007.
Minnesota	Bks. 3 Sav.Bks:7	--	Sav.Bks.: Must reside in county. Tr.Cos.: Majority must reside in State.	Bks.: $300; or $500 if capital is more than $15,000; or $1,000 if capital is more than $25,000. Tr.Cos.: 10 shares.	-----	Gen.Stats.(1923), §§ 7458,7729, 7670, as amended.

TABLE A. - 6

STATE	NUMBER Min.	NUMBER Max.	RESIDENCE AND/OR CITIZENSHIP	SHARES OF STOCK TO BE OWNED	SPECIAL DISQUALIFICATIONS	STATUTORY REFERENCES
Mississippi	5	--	-----	$200.	Service of other institutions. (see Table B).	Laws 1934,ch.146, §§6,37, as amended by ch. 165, Laws of 1936.
Missouri	Bks. 5 Tr.Cos. 5 Sav. Bks:5	30 60 13	All must be citizens of U.S.; 3/4 must reside in State.	Bks: 2 shares, or 5 shares if capital is more than $25,000. Tr.Cos.: 5 shares	Judgment held against person by bank.	Laws of Mo.ch.34, Art. 2, §§ 5363, 5435, 5494.
Montana	3	11	All must be citizens of U.S. 3/4 must reside in State	$1,000.	Conviction of crime against Federal or State banking laws.	Rev.Codes(1935), §§ 6014.14, 6014.15.
Nebraska	Bks.:3 Tr.Cos.5	15	Majority must reside in county or adjoining counties.	Bks.: $500; or $1,000 if capital is more than $25,000. Sav.Bks.- $500.	----	Comp.Stats.1929, §§ 8-121,8-133, 8-204.
Nevada	3	--	Majority must reside in State; at least one must reside in county.	$1,000.	Service of other institutions (see Table B).	Comp.Laws, §§ 747,747.09.

TABLE A. - 7

STATE	NUMBER Min.	NUMBER Max.	RESIDENCE AND/OR CITIZENSHIP	SHARES OF STOCK TO BE OWNED	SPECIAL DISQUALIFICATIONS	STATUTORY REFERENCES
NEW HAMPSHIRE	Tr. Cos.: 5	--	Tr.Cos.: Majority must be citizens and reside in town or city.	Bks. & Tr.Cos.: 10 shares; or 5 shares if capital is less than $50,000.	Service of other institutions (see Table B)	Pub.Laws,ch. 260, §3; ch. 265, §§ 28,30.
New Jersey	Bks. 5 Tr.Co.5 Sav.Bk.9	-- -- 15	Bks.: Majority must reside in State Reside in State.	Bks.: 5 shares Tr.Cos.: $500.	---	Comp.Stats., §§ 17-9, 184-21a,221-12
New Mexico	3	--	Majority must reside in county.	10 shares.	-----	Laws of 1915, ch.167, § 17, as amended by Laws of 1919, ch.120.
New York	Bks. 5	15; or 20 if capital is more than 2 million dollars; or 25 if capital exceeds 5 million dollars.	Bks.: All must be citizens of U.S., majority must be citizens and residents of State; 3/4 must be citizens and residents of State or contiguous States.	Bks.: 10 shares of value of $1,000.	Service of other institutions (see Table B). Sav.Bks.: Bankruptcy, general assignment, or unsatisfied judgment. (N.Y. cont. p. 8)	Cons.Laws,ch. 3, Art. III, § 123; Art.V, §§ 208,210; Art.VI, § 260.

T A B L E A. - 8

STATE	NUMBER Min.	NUMBER Max.	RESIDENCE AND/OR CITIZENSHIP	SHARES OF STOCK TO BE OWNED	SPECIAL DISQUALIFICATIONS	STATUTORY REFERENCES
N.Y.(cont)	Tr.Cos. same as banks Sav. Bks: 9	 30	Tr.Cos.: All but one must be citizens of United States. Majority must be citizens and residents of State; 3/4 must be citizens and residents of State or contiguous States. Sav.Bks.: All must reside in State, except that 1/5 of trustees of Bk in City of New York may reside in State adjoining such city or county of Westchester.	Tr.Cos.: Same as banks	Sav.Bks.: Bankruptcy, General Assignment, or unsatisfied judgment.	
North Carolina	5	--	3/4 must reside in State	$200; or $500 if capital is more than $15,000.	-----	N.C.Code;ch.5, Art. 6, §§220(w) 221(c).
North Dakota	Bks. 3 Tr. Cos.: 9	11 15	Bks.& Tr.Cos.: Majority must reside in State.	Bks.: & Tr.Co.: 10 shares.	-----	Sess.Laws; 1931, ch. 96, §§ 13, 26; Comp. Laws 1913, § 5208.

T A B L E A. - 9

STATE	NUMBER Min.	NUMBER Max.	RESIDENCE AND/OR CITIZENSHIP	SHARES OF STOCK TO BE OWNED	SPECIAL DISQUALIFICATIONS	STATUTORY REFERENCES
Ohio	5	--	3/4 must reside in State.	$500.	-----	Gen.Code, §§710-61, 710-65.
Oklahoma	Bks.: 3 Tr. Cos.: 3	21 25	---	Bks.: $500.	Violation of banking laws.	Comp.Stat.(1921) §§ 4119, 4137, 4136.
Oregon	Sav. Bks.:9	21	Bks. & Tr.Cos.: All must be citizens of U.S. - 2/3 must reside in State or within 100 miles of bank, provided that at least one must reside in State.	Bks. & Tr. Cos.: $500.	Service of other institutions. (see Table B) Svs.Bks.: Bankruptcy, general assignment, or unsatisfied judgment.	Ore. Code (1930) §§ 22-605, 22-2637; 1935 Supp. § 22-604.
Pennsylvania	Bks & Tr.Cos.: 5 Sav.Bks: 15	25	All must be citizens of U.S.; 2/3 must reside in State.	Banks & Tr.Cos.: $300.	Service of other institutions or in certain other capacities. (see Table B)	Purdon's Code, Title 7, § 819-502.

T A B L E A . - 10

STATE	NUMBER Min.	NUMBER Max.	RESIDENCE AND /OR CITIZENSHIP	SHARED OF STOCK TO BE OWNED	SPECIAL DISQUALIFICATIONS	STATUTORY REFERENCES
Rhode Island	Sav. Bks.: 9	--	---	Bks. & Tr.Cos.: $500.	Sav. Bks.: Service of other institutions (see Table B)	Gen.Laws(1923), Title XXV,ch.270, § 8;ch.278, § 12.
South Carolina	Tr. Cos. 5	30	Tr.Cos.: All must be citizens of U.S., 3/4 must reside in State.	Tr.Cos.: $500.	----	Code(1932), § 7331.
South Dakota	Bks.:5 But if average deposits & capital are less than $10,000, bks.may have 3. Tr. Cos.:7	--	Bks.: Majority must reside in State; 3 must reside in county or adjoining counties. Tr.Cos.: Majority must reside in county or adjoining counties.	Bks.: 5 shares Tr.Cos.: 10 shares	------	Comp.Laws(1929) §§8957,9042.
Tennessee	--	--	------	------	------	----

T A B L E A. - 11

STATE	NUMBER Min.	NUMBER Max.	RESIDENCE AND/OR CITIZENSHIP	SHARES OF STOCK TO BE OWNED	SPECIAL DISQUALIFICATIONS	STATUTORY REFERENCES
Texas	Bks. 5 Sav. Bks.5	25;or 35 if bank has capital over $500,000. 15	Bks.: Majority must be residents and citizens of State. Sav.Bks.: Majority must be citizens of State.	Bks.: $500; or $1,000 if capital exceeds $17,500.	Persons against whom bank holds judgment Sav.Bks.: Service of other institutions by trustees.(see Table B)	Civ.Code, Arts. 337,386,337.
Utah	--	--	-----	$200; or $500 if bank is in city of first or second class.	----	R.S. 1933, §§ 7-3-19
Vermont	Sav.	11,or 13 if a merged bank.	----	Tr.Cos.: $1,000	----	Pub. Laws, §§ 8785, 6810.
Virginia	5	--	Majority must reside in State.	$100, if capital less than $50,000; $500, if capital exceeds $50,000 but not more than $100,000; $750, if capital exceeds $100,000 but not more than $300,000; $1,000, if capital exceeds $300,000.	-----	Va.Code(1930), §§ 4149(18), 4149(19).

STATE	NUMBER Min.	NUMBER Max.	RESIDENCE AND/OR CITIZENSHIP	SHARES OF STOCK TO BE OWNED	SPECIAL DISQUALIFICATIONS	STATUTORY REFERENCES
Washington	Bks.& Tr. Cos. 5; or 3 if capital is less than $50,000. Sav. Bks.: 3	-- 30	Sav.Bks.: All must reside in State.	Bks.: 10 shares; or 5 shares if capital is less than $50,000.	Service of other institutions (see Table B). Sav.Bks.: Bankruptcy, General assignment, or unsatisfied judgment.	Rem.Rev.Stats., §§3377,3357.
West Virginia	5	--	Majority must reside in State.	$500.	----	W.Va.Code (1931), ch. 31, Art. 4, §13.
Wisconsin	5	--	All must reside in State; majority must reside in county or adjoining counties.	$500; or one per cent of capital stock if capital is less than $50,000.	Conviction of crime against State or Federal Banking laws.	Wis.Stats., §221.06.
Wyoming	Banks & Tr.Cos.: 5	9	----	Bks. & Tr.Cos.: $500 Savs.Bks: $1,000	Bankruptcy or General assignment.	R.S. 1931, §§10-119,10-120, 10-209,10-402.

TABLE B.

OFFICERS AND DIRECTORS SERVING OTHER INSTITUTIONS OR IN OTHER CAPACITIES

STATE	TO WHOM APPLICABLE	OTHER SERVICES PROHIBITED	EXCEPTIONS	STATUTORY REFERENCES
Federal Law	(1) Directors, officers or employees of member banks, or private bankers.	Directors, officers, or employees of national or State banks or branches.	One other institution under regulation of Board of Governors; Institutions of which U.S. owns more than 90% of stock; Bank in formal liquidation; Foreign banking corporations; Bank of which more than 50 per cent of common stock is owned by more than 50 per cent of common stock of member bank; Bank not located and having no branch in same city or town or in any contiguous or adjacent city or town; Bank not engaged in same class or classes of business; Mutual savings banks; Services lawful on Aug. 23, 1935, until Feb. 1, 1939.	Clayton Act, §8; U.S.C., Title 15, § 19.
	(2) Officers, directors, or employees of member banks.	Officers, directors, or employees of securities companies; or individuals dealing in securities.	Limited classes of cases permitted by regulation of Board of Governors.	Bkg.Act 1933, § 32; U.S.C., Title 12, § 78.

(Federal law continued on p. 2)

TABLE B. - 2

STATE	TO WHOM APPLICABLE	OTHER SERVICES PROHIBITED	EXCEPTIONS	STATUTORY REFERENCES
Federal Law (continued)	(3) Officers and directors of banks which underwrite securities	Officers or directors of public utilities	Authorization by securities and exchange commission.	Public Utility Act of 1935;U.S.C. Title 16, § 825d(b).
	(4) Executive officers or directors of banks	Officers or directors of registered holding companies	Authorization by Securities and Exchange Commission	Public Utility Act of 1935; U.S.C., Title 15, § 79j(c)
	(5)Officer or director of member bank	Members of Board of Governors.	-----	Federal Reserve Act, § 10; U.S.C. Title 12, §§ 242, 244
	(6) Officer,director, or employee of any bank.	Class B and C directors of Federal Reserve banks	-----	Fed. Res. Act, § 4; U.S.C., Title 12, § 303.
	(7) Officer or director of any bank	Directors of Federal Deposit Insurance Corporation	-----	Fed.Res.Act, § 12B(b);U.S.C. Title 12, § 264.

TABLE B. - 3

STATE	TO WHOM APPLICABLE	OTHER SERVICES PROHIBITED	EXCEPTIONS	STATUTORY REFERENCES
Alabama Arizona Arkansas California Colorado	(--(No Provisions)			
Connecticut	(1) Executive officers of savings banks	Officers of banks of discount or circulation.	3 or less may serve in such other capacities	Gen.Stats., § 3973
	(2) Officers of any State bank, savings bank, or trust company	Bank Commissioner	-----	Gen.Stats., § 3863.

TABLE B. - 4

STATE	TO WHOM APPLICABLE	OTHER SERVICES PROHIBITED	EXCEPTIONS	STATUTORY REFERENCES
Delaware	(-- (No Provisions)			
Florida				
Georgia				
Idaho				
Illinois				
Indiana				
Iowa				
Kansas				
Kentucky				
Louisiana				

TABLE B. - 5

STATE	TO WHOM APPLICABLE	OTHER SERVICES PROHIBITED	EXCEPTIONS	STATUTORY REFERENCES
Maine	(1) Trustees of savings banks	Directors of national banks or other banking institutions.	2 or less trustees may serve in such capacities	R.S., ch. 57, § 16.
	(2) Certain officers of savings banks	Agent or representative of securities company	----	R.S., ch.57 § 17.
	(3) Treasurer of savings bank	Cashier in national bank or other bank	If deposits of savings bank are less than $150,000, treasurer may be cashier of another bank provided not more than one director or 2 stockholders of the other bank are trustees of the savings bank.	R.S., ch.57 § 17.
Maryland	(No Provisions)			

TABLE B. - 6

STATE	TO WHOM APPLICABLE	OTHER SERVICES PROHIBITED	EXCEPTIONS	STATUTORY REFERENCES
Massachusetts	(1) Director, officer or employee of trust company	Director, officer, or employee of corporation which makes loans on stock or bond collateral	Mutual savings banks; Cooperative banks; Morris Plan company or credit unions Service authorized by permit issued by Commissioner of Banks	Gen.Laws, ch.172, § 14.
	(2) President, vice-president, or treasurer of savings bank	President, vice-president, treasurer, or cashier of national bank, trust company, or other bank of discount.	-----	Gen.Laws, ch.168, § 5
	(3) Trustees or officers of savings banks	Trustee or officer of another savings bank	-----	Gen.Laws, ch. 168, § 13.
Michigan	)			
Minnesota	) -- (No provisions)			

TABLE B. - 7

STATE	TO WHOM APPLICABLE	OTHER SERVICES PROHIBITED	EXCEPTIONS	STATUTORY REFERENCES
Mississippi	Directors	Directors of other banks serving same city or town	Inapplicable to savings banks and trust companies operated in connection with commercial banks in same building	Laws 1934, ch. 146, § 32.
Missouri Montana Nebraska	))) (--- (No provisions))))			
Nevada	Directors	Director of any other bank in State, national or State.	----	Comp. Laws, § 747.09.
New Hampshire	(1) President, treasurer or member of investment committee of savings bank	Agent of corporation, or person selling or negotiating securities in State, or officer of such corporation.	----	Pub.Laws, ch.261, § 3.
	(2) Treasurer of savings bank.	Private banker	----	Pub.Laws, ch.261, § 4.

STATE	TO WHOM APPLICABLE	OTHER SERVICES PROHIBITED	EXCEPTIONS	STATUTORY REFERENCES
New Jersey New Mexico	(— (No provisions)			
New York	(1) Officer or director of any bank or trust company	Officer, director or manager of securities company which deals in securities other than those issued or guaranteed as to principal or interest by United States.	Permit issued by 2/3 vote of State Banking Board	Consol.Laws, ch.3, Art. III, § 139; Art.V. § 222.
	(2) Trustee of savings bank	Director or trustee of bank operating special interest department; or of mortgage or title co; or of any bank, trust co. or national bank.	Permitted if majority of trustees will not be directors or trustees of the other institution	Art. VI, §§ 260, 267.

TABLE B. - 9

STATE	TO WHOM APPLICABLE	OTHER SERVICES PROHIBITED	EXCEPTIONS	STATUTORY REFERENCES
North Carolina North Dakota Ohio Oklahoma	--(No provisions)			
Oregon	(1) Director of savings bank	Director, officer, employee of any other savings bank in same county	----	Ore. Code, § 22-2537.
	(2) Director of savings bank	Director of any other bank, trust company, or national bank.	Permitted if majority of directors of savings bank will not be directors of the other bank.	Ore. Code, § 22-2543.

TABLE B. - 10

STATE	TO WHOM APPLICABLE	OTHER SERVICES PROHIBITED	EXCEPTIONS	STATUTORY REFERENCES
Pennsylvania	(1) Directors of trustees of banks	Judge of court of record; officer in Dept. of Banking, Treasury Dept., Auditor General's Dept., or Dept. of Revenue; Person authorized to receive public moneys of State	-----	Purdon's Code, Title 7, § 819-502.
	(2) Trustees of savings banks	Trustee, officer, or employee of another savings bank	-----	Ditto
	(3) Cashier or treasurer of bank	Judge of court of record; Officer in Departments of banking, treasury, revenue, or Auditor General; Person authorized to receive public moneys; Treasurer of city or county; Any other gainful business or profession.	-----	Purdon's Code, Title 7, § 819-512.

TABLE B. - 11

STATE	TO WHOM APPLICABLE	OTHER SERVICES PROHIBITED	EXCEPTIONS	STATUTORY REFERENCES
Rhode Island	Trustee of savings bank	Trustee of another savings bank	----	Gen.Laws, Title XXV, ch.270, § 8
South Carolina	(No Provisions)			
South Dakota	(No Provisions)			
Tennessee	(No Provisions)			
Texas	Director of savings bank.	Director or officer of another State bank	No prohibition; such service does not disqualify director of savings bank	Civ. Code, Art. 397.
Utah	(No Provisions)			

TABLE B. - 12

STATE	TO WHOM APPLICABLE	OTHER SERVICES PROHIBITED	EXCEPTIONS	STATUTORY REFERENCES
Vermont Virginia	) --(No Provisions)			
Washington	(1) Officer or employee of bank or trust company	Officer, employee, member, or majority stockholder of securities company; Trustee, director, officer or employee of corporation which makes loans on stock or bond collateral	----	Comp. Stats., § 3237-1
	(2) Director, officer, or employee of bank or trust co.; or trustees of savings banks.	Director of another bank, trust company, or national bank.	Permitted if majority of directors or trustees will not be directors of other institution	Comp.Stats., § 3363.
	(3) Trustees of savings banks	Trustee, officer or employee of another savings bank	-----	Comp.Stats., § 3357

TABLE B. - 13.

STATE	TO WHOM APPLICABLE	OTHER SERVICES PROHIBITED	EXCEPTIONS	STATUTORY REFERENCES
West Virginia	)			
Wisconsin	(-- (No Provisions)			
Wyoming	)			

TABLE C.

STATE	TO WHOM APPLICABLE	CIRCUMSTANCES UNDER WHICH PERMITTED	PENALTY FOR VIOLATION	STATUTORY REFERENCES
Federal Law	Executive officers of member banks, including partnerships in which they have majority interest.	Loans not exceeding $2,500, with approval of directors, Indorsements for bank's protection.	Removal from office	Fed.Res.Act, § 22(g); U.S.C., title 12, § 375a
Alabama	(1) Directors, salaried officers, and employees, or firms or corporations in which interested	Approval by directors and good security; Not over 20 per cent of capital and surplus to one individual.	-----	Ala.Code, § 6338
	(2) Officers and employees (not directors)	Prior approval by directors, execution of note	Conviction for embezzlement	Ala.Code, § 3412.
Arizona	Officer or director	Approval by directors; Security twice value of loan; Not over 10 per cent of capital and surplus to one person; nor over 25 per cent to all active salaried officers or directors.	Forfeiture to State of amount loaned; loss of office.	Rev.Code of 1928, 1936 Supp., § 222.

TABLE C. -2

STATE	TO WHOM APPLICABLE	CIRCUMSTANCES UNDER WHICH PERMITTED	PENALTY FOR VIOLATION	STATUTORY REFERENCES
Arkansas	(No Provisions)			
California	(1) Officers	Loan to corporation of which officer is minority stockholder, director, officer, or employee	Felony	Deering's Codes, Tit.50, § 83.
	(2) Directors	Approval by directors and report to Superintendent of Banks	Ditto	Ditto
	(3) Directors and officers of savings banks.	Loan to corporation in which director or officer is minority stockholder, with approval of directors of bank	Ditto	Deering's Codes, Tit.50, § 65
Colorado	(1) Officers of banks	None; except that officer may become indorser on loan with approval of directors	----	Colo.Stats. (1935), ch.18, § 39.
	(2) Directors of banks	Not over 10 per cent of capital and surplus, except with approval of directors	----	Ditto

TABLE C - 3

STATE	TO WHOM APPLICABLE	CIRCUMSTANCES UNDER WHICH PERMITTED	PENALTY FOR VIOLATION	STATUTORY REFERENCES
Connecticut	(1) Executive officers and clerks of banks and trust companies; including discount of paper indorsed by them.	Loans to clerks if secured by real estate worth twice amount of loan.	Civil liability; $1,000 fine or one year.	Gen.Stats., § 3904, as amended by 1935 Cum.Supp., § 1455c.
	(2) Directors or trustees of banks and trust companies.	Not more than 5 per cent of capital and surplus to one individual unless secured by readily marketable collateral worth 20 per cent more than amount of loan; Not more than 10 per cent of capital and surplus to one individual; Not more than 30 per cent of capital and surplus to all borrowers.	Ditto	Gen.Stats., § 3905, as amended by 1935 Cum.Supp. § 1456c.
	(3) Officers, directors, or trustees of savings banks.	None; absolute prohibition	----	Gen.Stats., § 3971, as amended by 1935 Cum.Supp. § 1474c.

TABLE C - 4

STATE	TO WHOM APPLICABLE	CIRCUMSTANCES UNDER WHICH PERMITTED	PENALTY FOR VIOLATION	STATUTORY REFERENCES
Delaware	Directors, officers, and employees	Approval by 2/3 of directors; and submission of statement of financial condition unless loan is secured by liquid collateral worth 20 per cent more than amount of loan.	----	Rev.Code(1935) § 2300.
Florida	(1) Officers and directors of banks and trust companies; or corporations in which interested.	Not in excess of 10 per cent of capital and surplus, unless approved by directors	Felony; removal from office.	Rev.Stats., §§ 4151,5733.
	(2) Officers and directors of trust companies.	Submission of written application and approval by directors.	Misdemeanor	Rev.Stats., §§ 4195,5734.
	(3) Officers of savings banks in charge of investments.	None; absolute prohibition.	---	Gen.Bkg.Laws, § 4181.
Georgia	Officers, directors, and employees; or firms of which they are members.	Approval of directors; good and ample collateral or other security	Misdemeanor	Civ.Code, §§ 2366(157), 2366(158), 2236; Penal Code, § 211(21), 211(22).

TABLE C - 5

STATE	TO WHOM APPLICABLE	CIRCUMSTANCES UNDER WHICH PERMITTED	PENALTY FOR VIOLATION	STATUTORY REFERENCES
Idaho	Officers actively engaged in management	Not over 5 per cent of capital and surplus to one officer; Combined indebtedness of officers, directors, and employees not to exceed 40 per cent of capital and surplus, Good collateral or other ample security or indorsement; In no case, without approval of majority of directors or committee thereof.	Directors personally liable for resulting damages.	Idaho Code, § 25-603.
Illinois	President, vice president, or salaried officers or employees, or corporations controlled by them.	Approval by directors as to security and amount.	-----	Ill.Stats. ch.16- 1/2, §10.
Indiana	(1) Active executive officers of banks or trust companies	Loans to corporations or firms in which officers are members or stockholders, if approved by directors, provided total loans to officers and directors of firms or corporations must not exceed 15 per cent of total resources.	Felony; 2-14 years in prison and fine double amount of loan	Ind.Stats.(1933) §§ 18-1306, 18-1716.

(Indiana continued on p. 6)

TABLE C - 6

STATE	TO WHOM APPLICABLE	CIRCUMSTANCES UNDER WHICH PERMITTED	PENALTY FOR VIOLATION	STATUTORY REFERENCES
Indiana (continued)	(2) Directors not holding other office	Authorization by majority of directors and all present at meeting	Felony	Ditto
	(3) Trustees and officers of savings banks.	None; absolute prohibition.	Removal from office	Ind.Stats. (1933), § 18-2615.
Iowa	(1) Active executive officers; and corporations in which majority stockholders.	Not in excess of 10 per cent to one officer, nor in excess of 25 per cent to all active executive officers; prior approval by directors.	Embezzlement; fine in amount embezzled or not more than 10 years.	1935 Code, §§ 9220, 9221.
	(2) Directors not holding other office	Authorization by directors	Ditto	Ditto
Kansas	(1) Executive or managing officers.	Not more than 5 per cent of capital and surplus to one officer; nor more than 10 per cent to all such officers; Approval by directors	-----	Rev.Stats. 1933 Supp § 9-111.
	(2) Directors and officers other than active managing officers	No restrictions	-----	Ditto.

TABLE C. - 7

STATE	TO WHOM APPLICABLE	CIRCUMSTANCES UNDER WHICH PERMITTED	PENALTY FOR VIOLATION	STATUTORY REFERENCES.
Kentucky	Directors and officers of banks and trust companies	Not in excess of 10 per cent of paid-up capital stock, unless excess is secured by real or personal property double amount of excess.	-----	Carroll's Ky. Stats., §§583,610.
Louisiana	(1) Active president, vice president, cashier, or asst. cashier; or corporation of which he is active officer.	Resolution of directors	$500 to $1,000 fine.	Dart's Gen. Stats.(1932), § 616.
	(2) Corporation with stock unpaid up to 50 percent, of which officer or director of bank is officer or stockholder.	Adequate security approved by directors	$1,000 fine or not more than 5 years	Dart's Gen. Stats.(1932), § 662.
	(3) Active officers of bank, trust company or savings bank.	Approval by directors	$500 or 90 days	Dart's Gen. Stats. (1932) § 566.

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STATE	TO WHOM APPLICABLE	CIRCUMSTANCES UNDER WHICH PERMITTED	PENALTY FOR VIOLATION	STATUTORY REFERENCES
Maine	(1) Officers of savings banks or firms of which members.	None; absolute prohibition	----	R.S., ch.57, § 33.
	(2) Directors and officers of trust companies; or firms of which members; or corporations of which directors, officers, or managers. (Renewals regarded as loans.)	Submission of proposition to directors and approval by majority of board or executive committee.	----	R.S., ch.57, § 78.
	(3) Treasurer, assistant treasurer, or employee.	If loan is not on security of corporate stocks.	----	Ditto

TABLE C. - 9

STATE	TO WHOM APPLICABLE	CIRCUMSTANCES UNDER WHICH PERMITTED	PENALTY FOR VIOLATION	STATUTORY REFERENCES
Maryland	(1) Officers; or corporations of which officers or holders of majority interest; or firms of which members.	Approval of directors	----	Md.Code 1924, Art.11, § 68.
	(2) Directors for personal account	Approval of directors	----	Art. 11, § 63.
	(3) Directors actually engaged in business; or firms of which members; or corporations in which they have majority interest	No restrictions, if for use in business.	----	Ditto
	(4) Officers or directors of savings institutions.	None; absolute prohibition	----	Art.11,§ 33.

TABLE C. - 10

STATE	TO WHOM APPLICABLE	CIRCUMSTANCES UNDER WHICH PERMITTED	PENALTY FOR VIOLATION	STATUTORY REFERENCES
Massachusetts	(1) Executive officers of trust companies	None; absolute prohibition	Not more than $5,000 fine or 1 year	Gen.Laws, ch. 172, §§ 16,17.
	(2) Officers of savings banks charged with investments.	Loans on deposits	----	Gen.Laws, ch. 168, § 29.
Michigan	(1) Officer and director; or firm of which member; or corporation of which majority stockholder	Not in excess of 10 per cent of capital and surplus; except that 2/3 of directors may authorize loan up to 20 per cent of capital and surplus on satisfactory security.	-----	Comp.Laws of 1929, § 11922.
	(2) Officers and employees	Prior approval of directors	----	Ditto

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STATE	TO WHOM APPLICABLE	CIRCUMSTANCES UNDER WHICH PERMITTED	PENALTY FOR VIOLATION	STATUTORY REFERENCES
Minnesota	(1) Officers and directors of banks	Approval of directors on same security as other loans	-- -	Gen.Stats., § 7673
	(2) Trustees and officers of savings banks	Current and necessary disbursements authorized by directors	Forfeiture of office	Gen.Stats., § 7707
	(3) Trust funds to officers or directors of any bank	None; absolute prohibition	Guilty of larceny	Gen.Stats., § 7664
	(4) Directors and officers of trust companies	None; absolute prohibition	Guilty of larceny	Gen.Stats., § 7740
Mississippi	(1) Directors	Not more than 7-1/2 per cent of capital and surplus to one director; or not more than 15 per cent, if secured by certain government obligations, provided loan does not exceed 80 per cent of value of such security. In no case without approval of directors	----	Laws, 1934, § 59, as amended by ch.165,Laws of 1936.
	(2) Active officers	No more than 5 per cent of capital and surplus to one officer; or not more than 10 per cent, if secured by certain government obligations, provided loan does not exceed 80 per cent of value of such security. In no case without approval of directors	----	Ditto
	(3) Officers and directors	Up to $300 on demand,secured by warehouse receipts or bills of lading, with approval of directors	----	Ditto

TABLE C. - 12

STATE	TO WHOM APPLICABLE	CIRCUMSTANCES UNDER WHICH PERMITTED	PENALTY FOR VIOLATION	STATUTORY REFERENCES
Missouri	(1) Active salaried officers of banks and trust companies; or corporations in which they own or control majority of stock.	Not in excess of 10 per cent of capital and surplus to one person; nor in excess of 25 per cent to all active salaried officers. In no case without approval of directors	Forfeiture to State of amount of loan.	Mo.Laws, §§ 5357,5429
	(2) Director of Savings Bank.	Necessary current payments or investments for safety.	Forfeiture of office	Mo.Laws, § 5499
Montana	(1) Managing officer of bank or trust company.	Good collateral, and approval of directors if loan exceeds 10 per cent of capital stock.	----	Rev.Codes(1935), § 6014.49
	(2) Directors of banks and trust companies.	Approval of directors if loan exceeds 10 per cent of capital stock.	----	Ditto.
	(3) Officers and directors of savings banks.	None; absolute prohibition	----	Rev.Codes(1935), 6014.28.

TABLE C - 13

STATE	TO WHOM APPLICABLE	CIRCUMSTANCES UNDER WHICH PERMITTED	PENALTY FOR VIOLATION	STATUTORY REFERENCES
Nebraska	(1) Officers	None; absolute prohibition	Felony- $1,000 fine or 5 years	Comp.Stats. 1929, § 8-148.
	(2) Directors and corporations in which directors or officers have controlling interest.	Approval of directors	Felony - $1,000 fine or 5 years.	Ditto.
Nevada	Director, officer or employee	Good and sufficient security and approval of directors.	----	Comp.Laws, § 747.17.
New Hampshire	(1) Officer or director of bank or trust co.	Unanimous approval of directors		Pub.Laws, ch.260, § 14.
	(2) Officers of savings banks	Unanimous consent of trustees in writing		Pub.Laws, ch.261, §10.
	(3) Trust funds to officers or directors of trust company	None; absolute prohibition.		Pub.Laws, ch.264, §16.

TABLE C. - 14

STATE	TO WHOM APPLICABLE	CIRCUMSTANCES UNDER WHICH PERMITTED	PENALTY FOR VIOLATION	STATUTORY REFERENCES
New Jersey	(1) Directors and officers of banks and trust companies	Submission of proposition in writing and approval by directors	Misdemeanor - $1000 fine or 5 years	Comp.Stats. §§17-12,221-15.
	(2) Managers or officers of savings banks.	None; except use of funds for current and necessary payments authorized by managers.	----	Comp.Stats., § 184-20.
New Mexico	Officer or director of any bank	Not in excess of 10 per cent of capital and surplus, and in no case without approval of directors.	----	Laws of 1915, ch.67, § 35, as amended by Laws of 1919, ch. 120.
New York	(1) Directors and officers of banks and trust companies; or corporations in which they own or control majority of stock.	Written approval of directors. Restrictions not applicable to loans on liberty bonds or other U.S. bonds issued for war purposes, if market value exceeds amount of loan by 10 per cent.	Forfeiture to State of twice amount of loan.	Consol.Laws, ch.3, Art.III, § 139; Art.V. § 222.
	(2) Officer of bank or trust company in city of first class.	None;unles secured by liberty bonds or other U.S. bonds issued for war purposes, if market value exceeds loan by 10 per cent.	Ditto	Ditto
	(3) Trustees or officers of savings; or corporations of which they own 15 per cent of stock singly, or 25 per cent with other trustees or officers.	None; absolute prohibition	Forfeiture of office	Art. VI, §§ 267,268.

TABLE C - 15

STATE	TO WHOM APPLICABLE	CIRCUMSTANCES UNDER WHICH PERMITTED	PENALTY FOR VIOLATION	STATUTORY REFERENCES
North Carolina	Officers and employees or firms of which members; or corporations in which they own controlling interest.(Not applicable to directors)	Good security and approval by directors	-----	N.C.Code, ch. 5, Art. 6,§ 221(n)
North Dakota	Directors and officers of State banks	Approval of directors and security like that required of other borrowers; Consent of State examiner if in excess of $1,000.	----	Sess.Laws, 1931, § 36.
Ohio	Officer,director,or member of executive committee of any bank	Approval of directors and security like that required of other borrowers	----	Gen.Code § 710-115.
Oklahoma	(1) Active managing officers.	None; absolute prohibition	Larceny; 5 to 15 years.	Comp.Stats., 1921,§ 4127.
	(2) Person, firm, or corporation with which officer or director is associated in business.	Written approval of directors	Felony; $100 to $1,000 fine, or 1 to 3 years.	Comp.Stats., § 4184.

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STATE	TO WHOM APPLICABLE	CIRCUMSTANCES UNDER WHICH PERMITTED	PENALTY FOR VIOLATION	STATUTORY REFERENCES
Oregon	(1) Directors, officers, or employees of banks or trust companies, or firm of which partner, or corporation in which such person owns 20 per cent of capital.	Not in excess of 50 per cent of capital and surplus to all directors, officers, and employees; nor in excess of 5 per cent to any employee or officer active in management; good collateral for loan to employee or active officer; and approval by directors or executive or finance committee, In other cases, only with written consent of superintendent of banks	----	Ore.Code, 1935 Supp, § 22-917.
	(2) Director or officer of savings bank; or corporation in which he owns 15 per cent of stock, or with other directors or officers 25 per cent of stock	None; absolute prohibition	- --	Ore.Code, § 22-2543.
	(3) Trust funds to officer or employee of trust company.	None; absolute prohibition	Misdemeanor; $500 to $1,000 fine, or one month to one year.	Ore.Code,1935 Supp., § 22-1230.

TABLE C - 17

STATE	TO WHOM APPLICABLE	CIRCUMSTANCES UNDER WHICH PERMITTED	PENALTY FOR VIOLATION	STATUTORY REFERENCES
Pennsylvania	(1) Trustees of savings banks	None; absolute prohibition	Forfeiture of office	Bkg.Code, § 509.
	(2) Director, officer, or employee of bank or trust company.	Prior approval of directors or of executive committee subsequently ratified by directors; but such approval is not required if loan is secured by collateral having market value of 20 per cent more than loan.	Misdemeanor; one year or $1,000 fine; further fine equal to amount of loan; and disqualification from holding office.	Bkg.Code, § 1007.
	(3) Salaried officer or employee of bank or trust company; or salaried officer or employee of an affiliated bank or trust company.	Not in excess of $1,000, unless excess is secured by readily marketable collateral worth 120 per cent of amount of such excess; but restriction is not applicable to loan on home of such salaried officer or employee.	Ditto	Ditto
Rhode Island	(1) Officers of savings bank charged with investments.	None; absolute prohibition	Forfeiture of office	Gen.Laws, ch.278, § 5.
	(2) Officers, directors, employees of banks and trust companies.	Submission of proposition for loan and prior approval by directors or executive or finance committee; but loans may be made to directors up to 2 per cent of capital and surplus on good collateral, to be approved at next succeeding meeting of directors or executive or finance committee.	$1,000 fine or 5 years.	Gen.Laws, ch.278, § 4.

TABLE C. - 13

STATE	TO WHOM APPLICABLE	CIRCUMSTANCES UNDER WHICH PERMITTED	PENALTY FOR VIOLATION	STATUTORY REFERENCES
South Carolina	(1) Directors and officers of banks	Good security; and approval by 2/3 of all directors; Not in excess of 10 per cent of capital and surplus to any director or any firm of which member or any corporation of which an officer; unless loan is secured by cotton in bales evidenced by warehouse receipts.	Fine or imprisonment	Code(1932), §§ 1361,7872
	(2) Directors, officers,and employees of trust companies, or corporations in which they own majority of stock.	Not in excess of 10 per cent of capital and surplus, unless first approved by directors	-----	S.C.Code(1932) § 7889.
South Dakota	Active officers or employees, and non-resident officers and directors of any bank	Prior approval of directors and ample collateral or responsible indorser.	Embezzlement;$1,000 fine or 5 years	Comp.Laws(1929) § 8932.
Tennessee	Officers,directors, and employees of any bank; or any firms in which they own interest.	Prior written approval of directors or executive or finance committee; report of financial condition of any firm in which borrower owns an interest.	Misdemeanor to fail to file report of condition of any firm in which interested.	Tenn.Code, § 6024.

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STATE	TO WHOM APPLICABLE	CIRCUMSTANCES UNDER WHICH PERMITTED	PENALTY FOR VIOLATION	STATUTORY REFERENCES
Texas	(1) Directors of banks and trust companies	Not in excess of 10 per cent of capital and surplus without prior consent of directors	2 years	Civ.Code, Art. 526; Pen.Code, § 546.
	(2) Officers of banks and trust companies	Prior consent of directors	2 years	Ditto
	(3) Trust funds to officers, directors or employees of banks and trust companies	None; absolute prohibition	Felony; 2 to 5 years	Pen.Code, Arts. 546a, 546b.
	(4) Directors and officers of savings banks	None; except use of funds to make necessary current payments, investments or deposits authorized by directors.	Forfeiture of office	Civ.Code, Arts. 402,403.

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STATE	TO WHOM APPLICABLE	CIRCUMSTANCES UNDER WHICH PERMITTED	PENALTY FOR VIOLATION	STATUTORY REFERENCES
Utah	Officer or director of any bank	Security at least double amount of loan; prior approval by 2/3 of directors; in no case in excess of 15 per cent of capital and surplus to one borrower	Forfeiture of office bank to be taken over by bank commissioner	Rev.Stats., § 7-3-25
Vermont	(1) Trustees or officers of savings banks	None; absolute prohibition	----	Pub.Laws, § 6790
	(2) Officers, directors, or employees of trust companies	Written consent of directors; not in excess of 5 per cent of paid-in capital stock. Restrictions are not applicable to discount of bills of exchange against existing values or commercial or business paper actually owned by borrower, or to $10,000, or to loans on securities which are legal investments up to same amount.	----	Pub.Laws, § 6809.
Virginia	Officer, director or employee of any bank	Good collateral or ample security or indorsement; and prior approval of directors or committee of directors	----	Va.Code, § 4149(48)

STATE	TO WHOM APPLICABLE	CIRCUMSTANCES UNDER WHICH PERMITTED	PENALTY FOR VIOLATION	STATUTORY REFERENCES
Washington	(1) Officers and employees of banks or trust companies	None; absolute prohibition	----	Rem.Comp. Stats. § 3259
	(2) Directors of banks or trust companies	Approval of directors 30 days prior to loan and report to supervisor of banking; not in excess of 5 per cent of capital and surplus to one director, unless approved by supervisor of banking. If in judgment of supervisor, bank is making unsafe loans to directors or to firms or corporations in which directors are interested, he may require all loans to directors to be submitted to him for approval.	----	Ditto
	(3) Trust funds to officers and employees of trust companies	None, absolute prohibition	Felony	§ 3260.
	(4) Trustees and officers of savings banks, or corporations in which they singly own 15 per cent of stock or together own 25 per cent of stock.	None; absolute prohibition	Forfeiture of office	§ 3363.

TABLE C - 22

STATE	TO WHOM APPLICABLE	CIRCUMSTANCES UNDER WHICH PERMITTED	PENALTY FOR VIOLATION	STATUTORY REFERENCES
West Virginia	Officer, director, or employee of any bank; or corporation in which he is majority stockholder	Written approval of directors or discount committee	----	W.Va.Code, ch.31, Art.8 § 18.
Wisconsin	Directors, officers, and employees of banks and mutual savings banks	Not more than $1,000 to one borrower, unless previously approved by directors, and secured by indorsements of collateral approved by directors	10 years	Wis.Laws, § 221.31
Wyoming	(1) Officers, directors or employees of State banks; or firms or corporations in which they are interested	Written application approved by directors	----	Rev.Stats. 1931, § 10-136.
	(2) Officers of savings banks	None; absolute prohibition	----	§ 10-213.

TABLE D.

RESTRICTIONS ON FINANCIAL INTEREST OF DIRECTORS AND OFFICERS IN BANK TRANSACTIONS

Receipt of fees for Procuring Loans and Discounts by Bank Prohibited.	Purchases or Interest in Purchases of Property from Bank	Sales or Interest in Sales of Property to Bank	Ownership of Property on which Bank holds mortgage as Forfeiting Office	Preferential Interest Rate on Deposits Prohibited	Interest in Gains or Profits of Bank Prohibited
Federal Law[1]	Federal Law[1,5,6]	Federal Law[1,6,7]	Florida[3]	Federal Law[1]	Minnesota[3]
Alabama	California[3]	California[3]	Massachusetts[3]	Pennsylvania	New Jersey[3]
Arizona	Georgia[10]	Montana[6]	New York[3]		New York[3]
California	Montana[10]	North Dakota[6]	Oregon[3]		Oregon[3]
Colorado[2]	Pennsylvania[7]	Pennsylvania[7]	Rhode Island[3]		Washington
Connecticut[2]	Washington[6,9]	West Virginia	Washington[3]		
Florida[3]					
Georgia					
Idaho					
Indiana[3]					
Kansas					
Louisiana					
Maine[3]					
Massachusetts[4]					
Montana					
Nebraska[2]					
New Hampshire[2]					
New Mexico[2]					
New York[3]					
North Carolina					
Ohio					
Oregon[3]					
Pennsylvania					
Tennessee					
Vermont[2]					
Virginia					
Washington[2]					
West Virginia[2]					
Wisconsin					
Wyoming					

[1] Member Banks

[2] Also fees for procuring purchases or sales of securities or property.

[3] Savings banks only

[4] Trust companies only.

[5] Permitted if terms not more favorable than those offered to others.

[6] Permitted if approved by directors.

[7] Permitted if terms not less favorable to bank than those offered to others.

[8] Prohibited if for less than face value, without consent of directors.

[9] Prohibited without consent of Supt. of Banks.

[10] Prohibited if for less than face value.

T A B L E E.

REMOVAL OF OFFICERS AND DIRECTORS.

STATE	PERSONS REMOVABLE	CAUSES	BY WHOM	PROCEEDINGS, IF ANY	STATUTORY REFERENCES
Federal Law	Director and officers of national or State member banks.	Continued violations of law or unsound or unsafe practices	Board of Governors.	Preliminary warning by Comptroller or Federal Reserve Agent; Certification of facts to Board of Governors; Opportunity to be heard; Order of removal, which is not to be made public; Further participation in bank's management punishable by not more than $5,000 fine or 5 years imprisonment.	U.S.C., Title 12, § 77.
Alabama	Directors	Failure to own required amount of stock.	Board of directors or Supt.of Bks.	None	Ala.Code, § 6399.
Arizona	(No provisions)				
Arkansas	Officers	Dishonest, reckless, or incompetent conduct	Board of directors	None	Crawford & Moses' Digest, Castle's 1927 Supp., § 683.

TABLE E. - 2

STATE	PERSONS REMOVABLE	CAUSES	BY WHOM	PROCEEDINGS, IF ANY	STATUTORY REFERENCES
California	Directors	Failure to own required amount of stock.	Supt. of Banks.	None	Deering's Codes, Title 50, § 10
Colorado	Officers	Dishonest, reckless or incompetent conduct.	Bank Commissioner	Commissioner authorized to report conduct to sureties on bond	Colo.Stats.(1935) Ch. 18, §90.
Connecticut	Officers, directors, or trustees.	Violation of banking laws or continued unsafe or unsound practices, improper use of position, or negligence.	Bank Commissioner.	Warning by bank commissioner; Hearing before State Advisory Council; Report of Advisory Council to bank commissioner; Order of removal, which is not to be made public; Appeal to court.	1935 Com.Supp. to Gen.Stats., § 1519c (Expires July 1, 1937)
Delaware	(No provisions)				

TABLE E - 3

STATE	PERSONS REMOVABLE	CAUSES	BY WHOM	PROCEEDINGS, IF ANY	STATUTORY REFERENCES
Florida	Officer or director	Violation of certain laws relating to excessive loans, improper investments, and carrying of fictitious assets.	State Comptroller	Summary removal; Renders officer or director ineligible for reelection for 5 years.	Rev.Stats., § 4154.
Georgia	Officer or employee	Dishonest, incompetent, or reckless conduct, or violation of law.	Supt.of Banks	None	Civ.Code, § 2363(47)
Idaho	Directors, officers, or employees.	Negligent, dishonest, reckless or incompetent conduct.	Board of directors on order of Bank Commissioner.	None	Idaho Code, Title 25, § 25-407.
Illinois	(No Provisions)				

TABLE E. - 4

STATE	PERSONS REMOVABLE	CAUSES	BY WHOM	PROCEEDINGS, IF ANY	STATUTORY REFERENCES
Indiana	(1) Directors or officers.	Continued violations of law or unsafe or unsound practices.	Commission for financial institutions.	Warning by director of financial institutions, Certification of facts to commission for financial institutions; Hearing before commission; Order of removal, which is not to be made public; Further participation in management punishable by not more than $5,000 fine or 5 years in prison.	Ind.Stats. (1933), § 18-220
	(2) Trustees or officers of savings banks.	Unlawful borrowing from bank or receipt of commissions for procuring loans.	Court order	Application for removal to be made to circuit court by any trustee, officer, or any five depositors.	Ind. Stats., § 18-2639.
Iowa	Directors	Failure to attend meetings of Board without good cause	Supt. of Banks	None	1935 Code, § 9224-c2

TABLE E - 5

STATE	PERSONS REMOVABLE	CAUSES	BY WHOM	PROCEEDINGS, IF ANY	STATUTORY REFERENCES
Kansas	Officers	Dishonest, reckless, or incompetent conduct.	Board of directors on order of bank commissioner.	None	Rev.Stat.(1923), § 9-158.
Kentucky	(No Provisions)				
Louisiana	(No Provisions)				
Maine	(No Provisions)				
Maryland	(No Provisions)				

TABLE E. - C

STATE	PERSONS REMOVABLE	CAUSES	BY WHOM	PROCEEDINGS, IF ANY	STATUTORY REFERENCES
Massachusetts	(1) Officers, directors, or trustees.	Violation of law, continued unsafe or unsound practices, improper use of position, or negligence in duties.	Board composed of State treasurer, Atty.Gen., and Commissioner of corporations.	Warning by Bank Commissioner; Certification of facts to a board composed of State treasurer, Attorney General and Commissioner of Corporations and taxation; Hearing before board; Order of removal which is not to be made public; Institution of proceedings by Attorney General; Further participation punishable by not more than $5,000 fine or 5 years in prison; Appeal to county court for review within 20 days.	Gen.Laws, Ch.167, § 5.
	(2) Trustees of savings banks.	Abuse of trust or negligence in duties.	Trustees on recommendation of Bank Commissioner.	None	Gen.Laws, Ch. 168, § 23.

TABLE E- 7

STATE	PERSONS REMOVABLE	CAUSES	BY WHOM	PROCEEDINGS, IF ANY	STATUTORY REFERENCES
Michigan	(No Provisions)				
Minnesota	(No Provisions)				
Mississippi	(No Provisions)				
Missouri	(No Provisions)				
Montana	(1) Directors	Failure to own required amount of stock	Superintendent of banks.	None	Rev.Codes (1935), § 6014.15
	(2) Directors, officers, or employees.	Negligent, dishonest, reckless or incompetent conduct	Board of directors on order of Supt. of banks.	None	Rev.Codes (1935), § 6014.120
Nebraska	(Licenses may be revoked)				
Nevada	Officers, directors, or employees.	Negligent preparation or approval of accounts, reports or statements.	Supt. of banks	None	Comp.Laws, § 747.15

TABLE E. - 8

STATE	PERSONS REMOVABLE	CAUSES	BY WHOM	PROCEEDINGS, IF ANY	STATUTORY REFERENCES
New Hampshire	Officers, directors, or trustees.	Continued violation of banking laws or unsafe or unsound practices.	Bank Commissioner	Warning by bank commissioner; Hearing before bank commissioner; Removal by commissioner with approval of two bankers named by Governor, order not to be made public; Appeal to court within 30 days.	Pub.Laws.Ch.260, § 5a.
New Jersey	(1) Managers of savings banks.	Violations of law or unsafe or unauthorized practices.	Proceedings by Attorney General.	Commissioner of banking and insurance may report managers to Attorney General who may institute proceedings for removal.	Comp.Stats., § 184-52
	(2) Directors and officers of banks and trust companies.	Illegal and unsafe practices.	Commissioner of Banking and Insurance.	Commissioner not specifically authorized to order removal, but may make such orders "as the fact and justice may require."	Comp.Stats., §§ 17-25, 221-23.
New Mexico	Directors	Failure to attend 3 meetings without good cause.	State Bank Examiner.	None	Laws of 1915, Ch.67, § 23, as amended.

TABLE E. - 9

STATE	PERSONS REMOVABLE	CAUSES	BY WHOM	PROCEEDINGS, IF ANY	STATUTORY REFERENCES
New York	Trustees of savings banks.	Conduct injurious to bank or acts detrimental or hostile to bank's interests.	3/4 of trustees at regular meeting.	Written charges to be served at least 2 weeks before meeting.	Cons. Laws, ch. 3, Art. VI, § 268.
North Carolina	Officers, directors, or employees.	Dishonest, incompetent, or reckless conduct, or persistent violations of law or orders of Bank Commissioner.	Commissioner of Banks.	None	N.C.Code, ch. 5, Art. 8, § 223(c).
North Dakota	(No Provisions)				
Ohio	Directors	Failure to own required amount of stock.	Board of directors or Supt. of Banks.	None	Gen.Code, § 710-65.
Oklahoma	Officers	Dishonest, reckless, or incompetent conduct.	Board of directors on order of Bank Commissioner.	None	Comp.Stats., § 4120.

TABLE E - 10

STATE	PERSONS REMOVABLE	CAUSES	BY WHOM	PROCEEDINGS, IF ANY	STATUTORY REFERENCES
Oregon	(1) Officers or directors of banks or trust companies.	Dishonest, reckless, or incompetent conduct; or refusal to comply with instructions of Supt. of Banks.	Board of directors on demand of Supt. of Banks.	Right of appeal to State Banking Board.	Ore.Code, § 22-413.
	(2) Directors	Failure to own required amount of stock.	Supt. of Banks.	None	Ore.Code, § 22-803.
	(3) Directors of savings banks.	Conduct injurious to bank or acts detrimental or hostile to banks.	3/4 of directors at regular meeting.	Written charges to be served at least 2 weeks before meeting.	Ore. Code, § 22-2544.

TABLE E. - 11

STATE	PERSONS REMOVABLE	CAUSES	BY WHOM	PROCEEDINGS, IF ANY	STATUTORY REFERENCES
Pennsylvania	(1) Directors, officers of employees.	Continued violation of law or unsafe or unsound practices.	Department of Banking	Warning by Department; Order to appear before State Banking Board; Forfeiture of office for failure to appear; Hearing before Banking Board; Report of findings of board to Department of Banking; Representation of Federal Reserve Bank or F.D.I.C. at hearing; Order of Removal; Proceeding not to be public; Subsequent disqualification for period fixed by Banking Board.	Purdon's Code, Title 71, § 733-501.
	(2) Directors	No cause	Majority of stockholders.	None	Banking Code of 1933, § 510.
	(3) Directors or trustees	Unsound mind, conviction of felony, or failure to accept office.	Directors or trustees.	None	Banking Code of 1933, § 510.
	(4) Directors	Fraudulent or dishonest acts, or abuse of authority.	Court of common pleas.	Suit must be brought by a shareholder or shareholders holding at least 10 per cent of outstanding shares.	Banking Code of 1933, § 510.

TABLE E - 12

STATE	PERSONS REMOVABLE	CAUSES	BY WHOM	PROCEEDINGS, IF ANY	STATUTORY REFERENCES
Rhode Island	(No Provisions)				
South Carolina	(No Provisions)				
South Dakota	Officers	Dishonest, reckless, incompetent or dilatory conduct.	Board of directors on order of Supt. of Banks.	None	Comp.Laws (1929) § 9001.
Tennessee	(No Provisions)				
Texas	Directors or officers.	Abuse of trust, misconduct or malversation injurious to bank.	Attorney General.	No specific provision for removal but Commissioner of Banks may report misconduct to Attorney General who shall institute such proceedings as the nature of the case may require.	Civ.Code, Art. 368.
Utah	Officers or employees.	Dishonest, reckless, or incompetent conduct or failure to perform duties.	Board of directors on report of Bank Commissioner.	Board required to meet within 20 days after report by Commissioner of Banks.	Rev.Stats.1933, § 7-1-13.

TABLE E. - 13

STATE	PERSONS REMOVABLE	CAUSES	BY WHOM	PROCEEDINGS, IF ANY	STATUTORY REFERENCES
Vermont	Officers	Violations of law or unsafe or unauthorized practices.	Commissioner of Banks.	No specific provision for removal, but Commissioner of Banks may direct discontinuance of improper practices.	Pub.Laws, § 6756.
Virginia	(No Provisions)				
Washington	(1) Officers or directors of banks and trust companies.	Dishonest, reckless, or incompetent; failure to perform duties; or violations of law.	Board of directors or Supervisor of Banking.	Supervisor of Banking to notify Board of directors; Board to meet within 20 days and if objections are well founded it must order removal; If after hearing, board fails to order removal, supervisor may himself order removal; Removal is bar to reelection without consent of supervisor; Right of appeal to court.	Rev.Stats. § 3217
	(2) Trustees or officers of Mutual Savings Banks	Dishonest, reckless, or incompetent conduct, or failure to perform duties.	Board of Trustees.	Supervisor of banking to notify Board of trustees which must meet within 20 days.	Rev.Stats. § 3364a.
	(3) Trustees of savings banks.	Conduct injurious to bank or acts detrimental or hostile to bank's interest.	3/4 of trustees at regular meeting.	None	Comp.Stats. § 3364.

TABLE E. - 14

STATE	PERSONS REMOVABLE	CAUSES	BY WHOM	PROCEEDINGS, IF ANY	STATUTORY REFERENCES
West Virginia	(No Provisions)				
Wisconsin	(1) Directors	Failure to attend meetings of board.	Commissioner of Banks.	None	Wis.Laws, § 221.08.
	(2) Directors or officers.	Loaning, investing, or other banking practices which will endanger safety or solvency of bank or impair interests of depositors.	Board of directors or Commissioner of Banking.	Commissioner may request removal by board of directors; If request is not complied with in reasonable time, Commissioner may order removal, with approval of Banking Review Board, after giving opportunity to be heard; Removal bars reelection without consent of Commissioner and Banking Review Board.	Wis.Laws, § 220.04.

TABLE E. - 15

STATE	PERSONS REMOVABLE	CAUSES	BY WHOM	PROCEEDINGS, IF ANY	STATUTORY REFERENCES
Wyoming	(1) Officers of banks.	Dishonest, reckless, or incompetent conduct, or noncompliance with law or regulations of banking dept.	Board of directors on demand of State Examiner, with approval of Governor.	None	R.S. 1931, § 10-138.
	(2) Directors of savings associations.	"For due cause shown".	District Court.	Notice to director and opportunity to be heard.	R.S., 1931, § 10-205.