BRANCH BANKING IN THE UNITED STATES

Material prepared for the information of the
Federal Reserve System by the
Federal Reserve Committee on
Branch, Group, and Chain Banking

Members of the Committee

E. A. Goldenweiser, Director, Division of Research and Statistics, Federal Reserve Board, Chairman
Ira Clerk, Deputy Governor, Federal Reserve Bank of San Francisco
M. J. Fleming, Deputy Governor, Federal Reserve Bank of Cleveland
L. R. Rounds, Deputy Governor, Federal Reserve Bank of New York
E. L. Smead, Chief, Division of Bank Operations, Federal Reserve Board

---

J. H. Riddle, Executive Secretary and Director of Research

The Committee was appointed February 26, 1930, by the Federal Reserve Board

> ". . . to assemble and digest information on branch banking as practiced in the United States, group and chain banking systems as developed in the United States and elsewhere, the unit banking system of the country, and the effect of ownership of bank stocks by investment trusts and holding corporations."

LETTER OF TRANSMITTAL

To the Federal Reserve Board:

The Committee on Branch, Group, and Chain Banking transmits herewith a history and statistical analysis of branch banking in the United States. The statistical series in this volume in most instances end with the year 1931.

Respectfully,

E. A. Goldenweiser
Chairman

CONTENTS

CONTENTS (Cont'd)

CONTENTS (Cont'd)

CHAPTER I

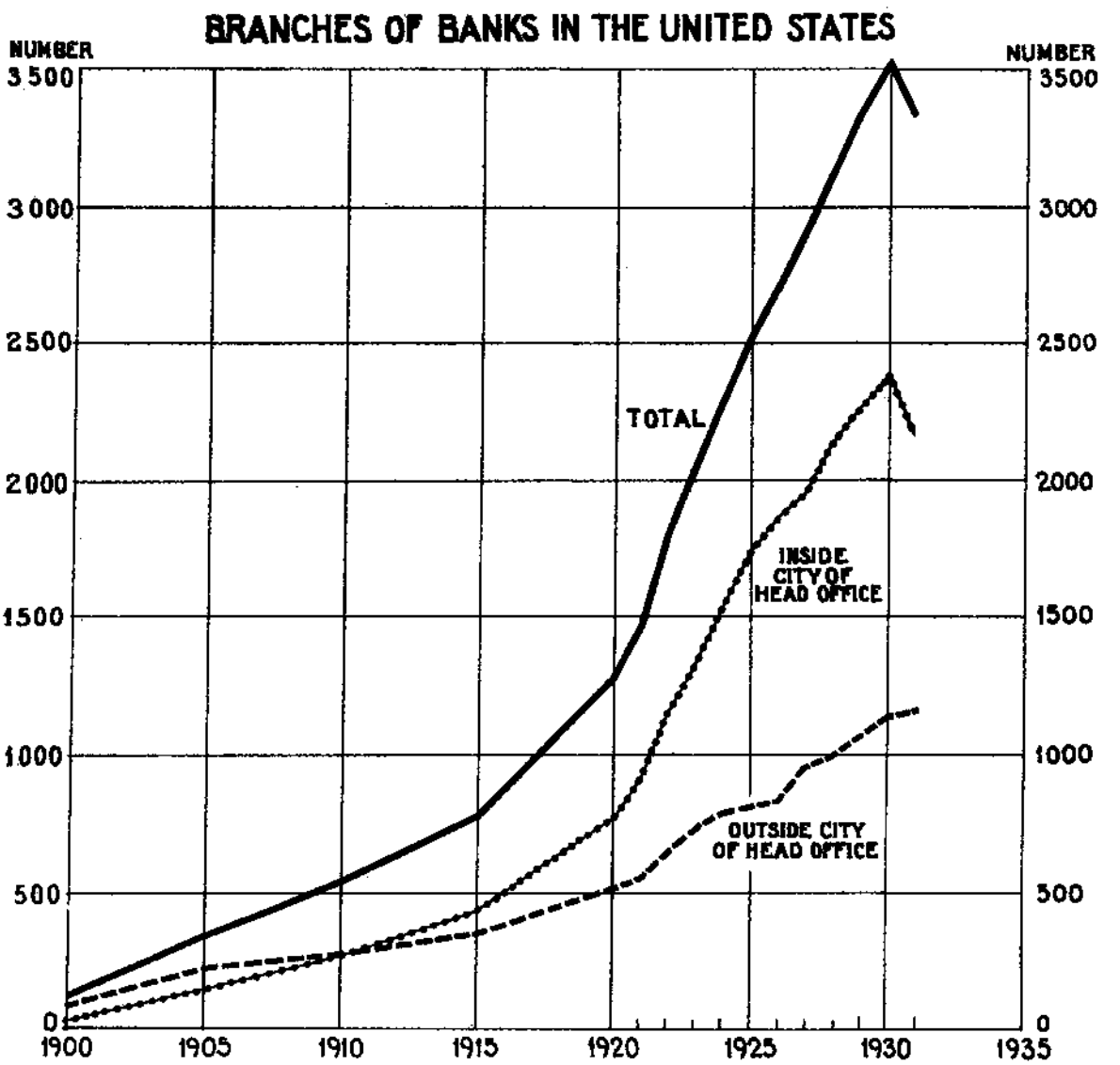
GROWTH AND DISTRIBUTION OF BRANCH BANKING IN THE UNITED STATES

Branch banking was not uncommon in the United States prior to the Civil War. Following the passage of the National Bank Act in 1863, however, public policy became committed to the unit banking system. With banking corporations limited in general to one office, the kind of concentration which builds on branch offices was barred. From the end of the Civil War until around 1900 there was very little branch banking in the United States. The majority of State banks and their branches in existence prior to the Civil War converted into unit national banks, failed as a result of the conflict, or liquidated as a result of the tax imposed on their note issues by the National Bank Act. With the growth of deposit banking, however, which gradually supplanted issue banking, the number of State banks began to increase towards the end of the century, and the development of present day branch banking in the United States may be said to date from approximately that time.

In 1900, according to the best information available, there were only about 119 branches in existence. A gradual growth brought the number to 785 in 1915, after which the increase was accelerated so that by 1920 there were 1,281 branches. During the next ten years the number nearly trebled to 3,518 in 1930. In 1931 the suspensions resulted in a decrease in the number of branches as well as of unit banks. The thirty-one year movement is illustrated in Chart 1.

The greater part of the growth through 1930 was among branches located within the same city as the head office of the bank operating them; at the end of that year roughly two-thirds of the branches in the country were in the city of the head office.

CHART 1



Number of branches of State and national banks in the United States, 1900-1931. From 1900-1920 the figures are for five year intervals, but from 1920-1931 they are annual.

Table 1 - Number of Branch Systems and Number of Branches in the United States, 1900-1931

Year(1)	Number of banks with branches	Number of branches		
		In head office city	Outside head office city	Total
1900	87	25	94	119
1905	196	135	215	350
1910	292	271	277	548
1915	397	435	350	785
1920	530	773	508	1,281
1921	547	904	551	1,455
1922	610	1,156	645	1,801
1923	671	1,327	727	2,054
1924	706	1,514	783	2,297
1925	719	1,724	800	2,524
1926	743	1,877	824	2,701
1927	739	1,958	954	2,912
1928	774	2,140	996	3,136
1929	763	2,273	1,076	3,349
1930	750	2,387	1,131	3,518
June 1931	722	2,299	1,164	3,463
Dec. 1931	677	2,176	1,158	3,334

(1)For the years 1900 to 1923, inclusive, the figures are not as of any uniform month. For 1924 they are as of June, for 1925 and 1926 as of December, and for 1927 to 1930, inclusive, they are as of June.

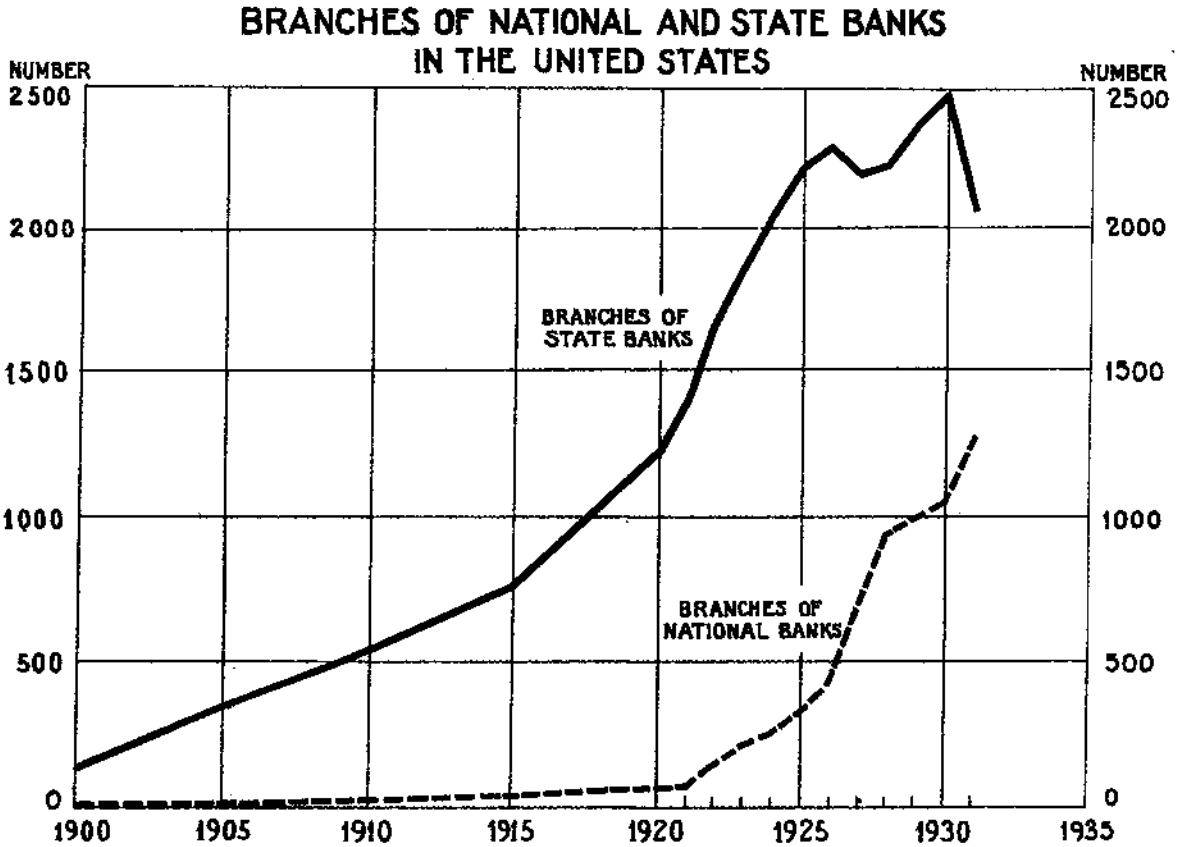
Note: This and following tables give revised figures for the years 1924-1930, inclusive, on the basis of additional data received since the preparation of previous summaries of branch banking by the Federal Reserve Board. Furthermore, mutual savings banks and private banks reported as operating branches have been omitted. Mutual savings banks thus excluded numbered 72 at the end of December, 1931, with 112 branches and loans and investments of $4,090,606,000. Private banks excluded numbered 4 on the same date, with 5 branches and loans and investments of $2,859,000. Where comparisons in these tables are made with all active banks, private and mutual savings banks have likewise been eliminated from the active bank figures.

The number of banks operating branches, as shown in Table 1, increased from 87 in 1900 to 677 in December, 1931. Since the decline

in the number of banks operating branches from 1928 through the three succeeding years was not accompanied by a corresponding decrease in the number of branches, it is apparent that the movement does not indicate an abandonment of branch banking, but rather a concentration of it in the hands of fewer banks.

Branches of State and National Banks. - Prior to 1922 the development of branches was limited almost entirely to State banks, as shown by Chart 2. Occasionally a State bank with branches was converted into a national bank and retained its branches, or was absorbed with its branches by a national bank. The growth in the number of branches of national banks from this source was slow, however, and in 1921 there were only 72 branches of national banks compared with 1,383 branches of State banks. Beginning in 1922 the branches of national banks increased much more rapidly, and on December 31, 1931, aggregated 1,274 compared with 2,060 for State banks. The growth of national bank branches from 1922 to 1927 was due chiefly to the "additional offices" authorized by the Comptroller of the Currency in cities where State banks were permitted to have branches. At the same time there was an increasing number of conversions of State banks with branches into national banks and of absorptions of such State banks by national banks. The growth was accelerated by the passage of the McFadden Act on February 25, 1927, which, with certain restrictions, expressly permitted national banks to establish branches in cities where State banks may have them. The passage of this act also precipitated the conversion of certain State banks with numerous branches into national banks and caused the number of State bank branches to decline temporarily.

CHART 2



Number of branches of State and national banks in the United States, 1900-1931. From 1900-1920 the figures are for five year intervals, but from 1920-1931 they are annual.

The relative importance of State bank branches and of national bank branches varies extremely in different cities; in New York, for instance, there are 349 branches of State banks against 192 branches of national banks, while in Detroit there are only 51 branches of State banks against 218 branches of national banks. But taking ten or fifteen of the largest cities as a whole, branches of State banks and of national banks are nearly equal in number. Among branches in smaller towns and outside the city of the head office, however, State bank branches are much more numerous than national bank branches. Chart 2 illustrates the relative growth of branches among State and national banks and Table 2 gives the figures. The decline in the number of branches of State banks between June 30, 1930 and the end of 1931 was due mainly to the absorption by national banks of two State banks in California and in Michigan and to the failure of a State bank in New York.

Table 2 - Number of State and National Banks with Branches and Number of Branches in the United States, 1900-1931

Year	National banks				State banks			
	Number of national banks with branches	Number of branches			Number of State banks with branches	Number of branches		
		In head office city	Outside head office city	Total		In head office city	Outside head office city	Total
1900	5	1	4	5	82	24	90	114
1905	5	1	4	5	191	134	211	345
1910	9	1	11	12	283	270	266	536
1915	12	15	11	26	385	420	339	759
1920	21	41	22	63	509	732	486	1,218
1921	23	50	22	72	524	854	529	1,383
1922	55	118	22	140	555	1,038	623	1,661
1923	91	181	23	204	580	1,146	704	1,850
1924	112	233	23	256	594	1,281	760	2,041
1925	130	296	22	318	589	1,428	778	2,206
1926	148	384	37	421	595	1,493	787	2,280
1927	153	433	290	723	586	1,525	664	2,189
1928	171	595	339	934	603	1,545	657	2,202
1929	167	650	345	995	596	1,623	731	2,354
1930	166	703	339	1,042	584	1,684	792	2,476
June 1931	164	714	396	1,110	558	1,585	768	2,353
Dec. 1931	157	885	389	1,274	520	1,291	769	2,060

See Note to Table 1.

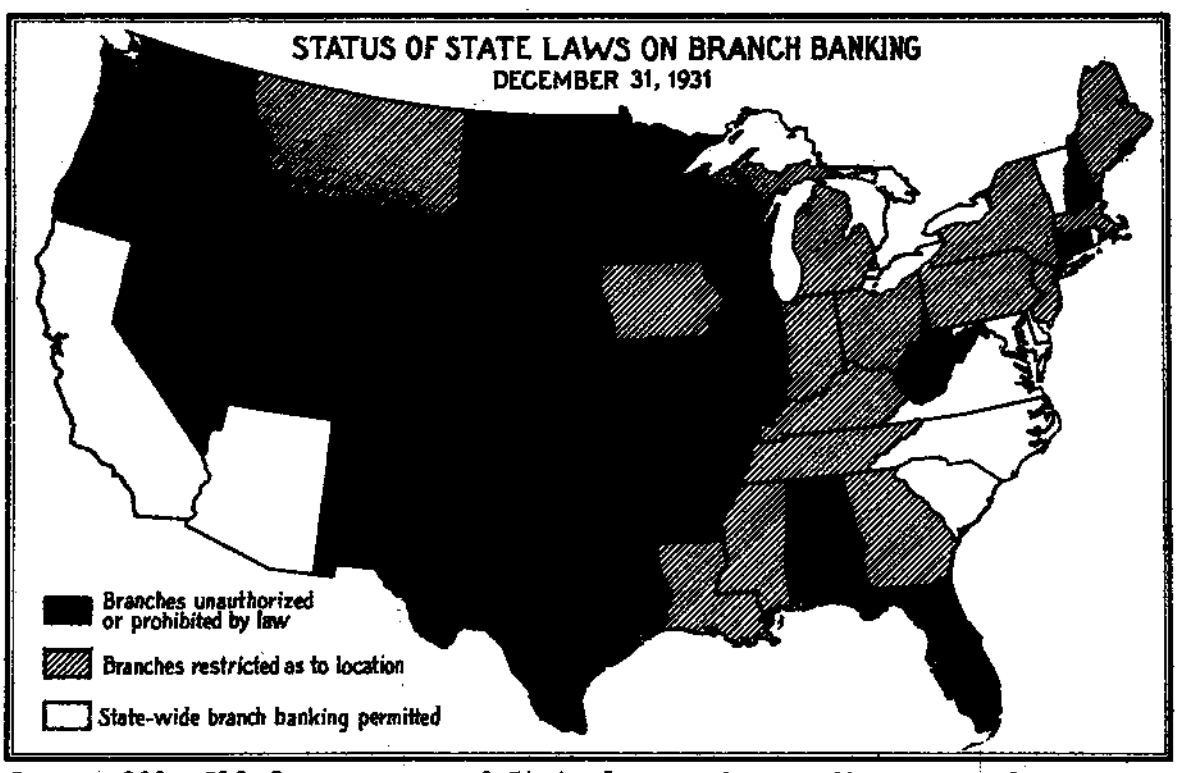
Of the 3,334 branches in operation on December 31, 1931, the number of branches of member banks of the Federal Reserve System, national and State, was 2,347, and of nonmember banks, 987. The number of member banks with branches was 298, and the number of nonmember banks with branches was 379. Member banks are of course larger on the average than nonmember banks and have individually a larger number of branches.

Geographic Distribution of Branches

The geographic distribution of branches in the United States is determined largely by the State laws regarding branches. Nine States and the District of Columbia permitted state-wide branch banking at the end of 1931, and fifteen States permitted some form of branch banking restricted as to area. The other twenty-four States at that time either prohibited branches or made no provision in law for them. Chart 3 shows in general the legal status of branch banking in each State on December 31, 1931, and Tables I and II of the Appendix classify the States on the same basis.(1) Simple classifications, such as are followed in Chart 3 and in Tables 3 and 4, which show figures for States restricting branches as to location and for States permitting state-wide branch banking, do not do justice to all the legal differences and uncertainties that obtain. Virginia, for instance, is classified as permitting branch banking state-wide, though in fact her law restricts branches to cities of 50,000 or more. Again, Kentucky is classified as restricting branches as to location, though the legal decision on which the Kentucky rule is based puts the restriction on function. The situation in each State is reviewed in a subsequent chapter.

(1) Wisconsin has subsequently amended her law to permit a limited form of branch banking.

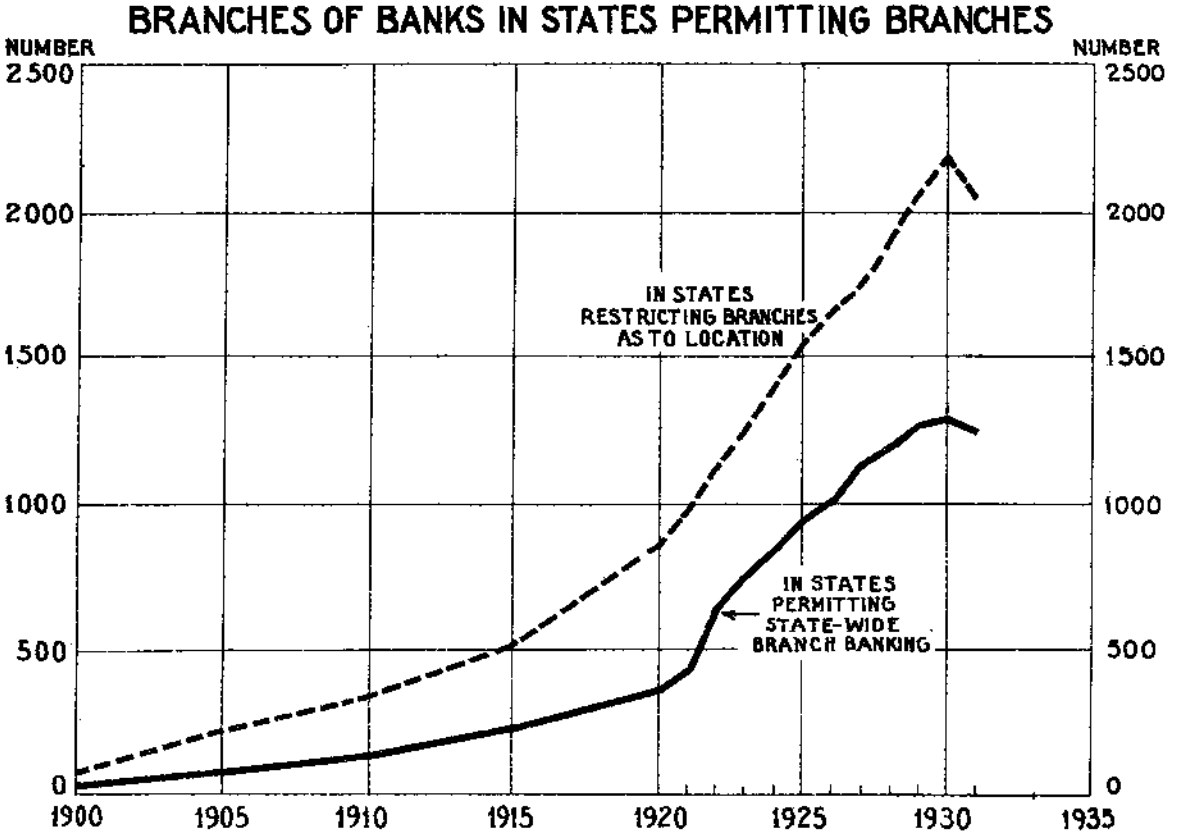
CHART 3



See pp 209, 210 for summary of State laws and appendix p ____ for digest of State laws. Wisconsin passed a law in 1932 permitting a restricted form of branch banking

CHART 4

BRANCHES OF BANKS IN STATES PERMITTING BRANCHES



Number of branches of State and national banks in those States which on December 31, 1931, permitted the establishment of state-wide branch systems and branches restricted as to location

Table 3 - Branch Systems in States Restricting Branches As to Location(1)

Year	Number of banks with branches	Number of branches		
		In head office city	Outside head office city	Total
1900	53	20	53	73
1905	127	123	98	221
1910	175	230	111	341
1915	227	369	135	504
1920	319	671	180	851
1921	331	781	190	971
1922	365	906	198	1,104
1923	404	1,006	230	1,236
1924	439	1,152	245	1,397
1925	461	1,295	245	1,540
1926	483	1,415	233	1,648
1927	497	1,509	235	1,744
1928	529	1,653	244	1,897
1929	525	1,802	248	2,050
1930	517	1,928	257	2,185
June 1931	504	1,858	283	2,141
Dec. 1931	475	1,746	309	2,055

(1) Legal status as of December 31, 1931. These States are: Georgia, Indiana, Iowa, Kentucky, Louisiana, Maine, Massachusetts, Michigan, Mississippi, Montana, New Jersey, New York, Ohio, Pennsylvania, Tennessee.

Table 4 - Branch Systems in States Permitting State-wide Branch Banking(2)

Year	Number of banks with branches	Number of branches		
		In head office city	Outside head office city	Total
1900	24	1	26	27
1905	46	6	81	87
1910	81	27	120	147
1915	137	53	169	222
1920	180	91	280	371
1921	188	113	314	427
1922	215	230	402	632
1923	239	300	456	756
1924	240	342	499	841
1925	232	413	517	930
1926	235	443	561	1,004
1927	217	430	689	1,119
1928	220	468	721	1,189
1929	215	452	798	1,250
1930	212	440	846	1,286
June 1931	197	422	854	1,276
Dec. 1931	184	411	825	1,236

(2) Legal status as of December 31, 1931. These States are: Arizona, California, Delaware, District of Columbia, Maryland, North Carolina, Rhode Island, South Carolina, Vermont, Virginia.

Over 60 per cent of the branches in the country are in the fifteen States restricting branches as to location, as illustrated in Chart 4 and Table 3. These branches are mostly in the same city as the head office of the bank operating them. In fact the restriction which is most common and most important in these States is that branches be kept within the same city or county as the head office. Branch banking in restricted areas, therefore, is largely tantamount to branch banking inside the city of the head office. The development of branches in these restricted areas has been more rapid than in the States permitting state-wide branch banking. This is due largely to the fact that the States restricting branches as to location include many populous and wealthy cities where there is actually more scope for branch banking than in the majority of States where it is state-wide. The States that permit restricted branch banking are listed in Table 5 in the order of the number of branches as of December 31, 1931.

Table 5 - Number of Branches in States Restricting Branches As to Location

State	In head office city	Outside head office city	Total
New York	690	-	690
Michigan	385	-	385
Ohio	183	30	213
Pennsylvania	122	4	126
New Jersey	115	9	124
Massachusetts	110	6	116
Louisiana	51	47	98
Maine	7	66	73
Iowa	-	67	67
Tennessee	24	34	58
Georgia	18	16	34
Indiana	19	8	27
Kentucky	21	2	23
Mississippi	1	20	21
Montana	-	-	-
Total	1,746	309	2,055

Table 6 - Number of Branches in States Permitting State-wide Branch Banking

State	In head office city	Outside head office city	Total
California	258	543	801
Maryland	59	49	108
North Carolina	12	72	84
South Carolina	9	68	77
Virginia	29	28	57
Rhode Island	16	20	36
District of Columbia	26	-	26
Arizona	-	25	25
Delaware	2	10	12
Vermont	-	10	10
Total	411	825	1,236

Consideration of the relative size and commercial importance of the States listed in Tables 5 and 6 will make it clear ~~obvious~~ why branch banking in States permitting it on a state-wide scale (Table 6) has developed more slowly than in States restricting branches as to location (Table 5). According to Tables 7 and 8, the States permitting state-wide branch banking had a total of only 2,823 banking offices with loans and investments of less than $5,300,000,000, while in the States where branches are restricted as to location there were 9,666 offices and loans and investments of almost $25,000,000,000.

Table 7 - Number of Banks and Banking Offices in Branch Systems Compared with All Banks, December 31, 1931

States classified according to law regarding branch banking(1)	Branch systems		All active banks		Ratio of branch systems to total number of banks (per cent)	Ratio of banking offices in branch systems to total banking offices (per cent)
	Number of banks	Total banking offices (banks and branches)	Number of banks	Total banking offices (banks and branches)		
State-wide branch banking permitted	184	1,420	1,587	2,823	11.6	50.3
Branches restricted as to location	475	2,530	7,611	9,666	6.2	26.2
Establishment of branches prohibited	17	59	8,790	8,832	.2	.7
No provision in State law	1	2	1,181	1,182	.1	.2
Total	677	4,011	19,169	22,503	3.5	17.8

(1) See Table I of the Appendix for figures by States in each class.

Table 8 - Loans and Investments of Branch Systems Compared with Loans and Investments of All Banks, December 31, 1931

States classified according to law regarding branch banking(2)	Loans and investments of banks operating branches (000 omitted)	Loans and investments of all active banks (000 omitted)	Per cent of total in branch systems
State-wide branch banking permitted	$ 3,502,886	$ 5,293,821	66.2
Branches restricted as to location	14,424,894	24,812,564	58.1
Establishment of branches prohibited	408,371	8,866,187	4.6
No provision in State law	610	594,752	.1
Total	$18,336,761	$39,567,324	46.3

(2) See Table II of the Appendix for figures by States in each class.

The distribution of branch systems and branches by geographic divisions is shown in Charts 5 and 6 and Tables 9 and 10. Branches are

most numerous in the Middle Atlantic States, North Central States, and Pacific Coast States. Most of the branches in the Middle Atlantic States are in New York, and most of those in the North Central States are in Michigan. In the Pacific Coast States they are nearly all in California.(1) In fact 56 per cent of the branches in the country are located in these three States, New York, Michigan, and California, as Table 11 shows. In both New York and Michigan branches are confined to the city of the head office.

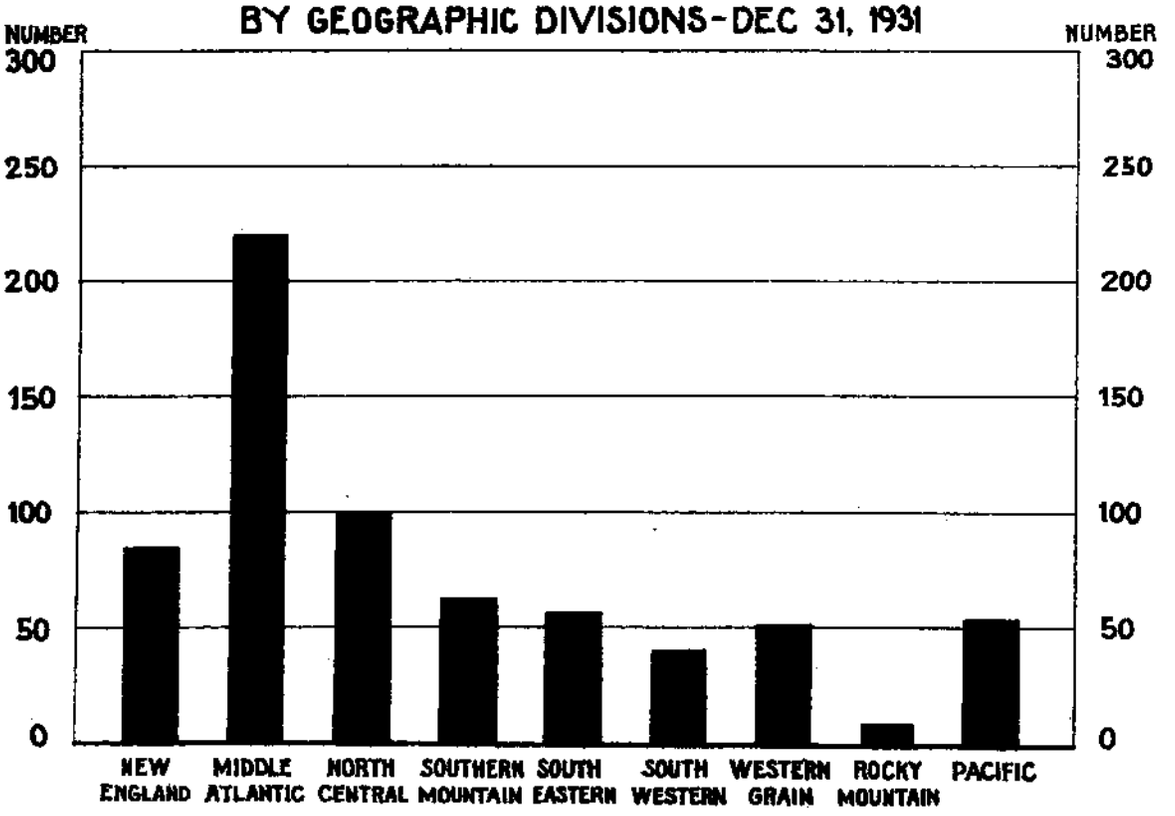
The geographic distribution of branches located outside the city of the head office is shown in Chart 7. According to this map there are twenty-seven States in which branches are located outside the city of the head office, but it should be noted that in only seventeen is the further establishment of such branches permitted. The twenty-seven States in which branches operate outside the head office city are as follows, those in italics being States where further extension of outside branches is prohibited either by law or by judicial or administrative ruling:

Alabama	*New Hampshire*
Arizona	*New Jersey*
Arkansas	*New Mexico*
California	North Carolina
Delaware	Ohio
Georgia	*Pennsylvania*
Indiana	Rhode Island
Iowa	South Carolina
Kentucky	Tennessee
Louisiana	Vermont
Maine	Virginia
Maryland	*Washington*
Massachusetts	Wisconsin
Mississippi	

(1) There are five branches in Washington. The Bank of California N. A. has two branches in Washington in addition to these and one in Oregon, but these are counted in the California figures.

CHART 5

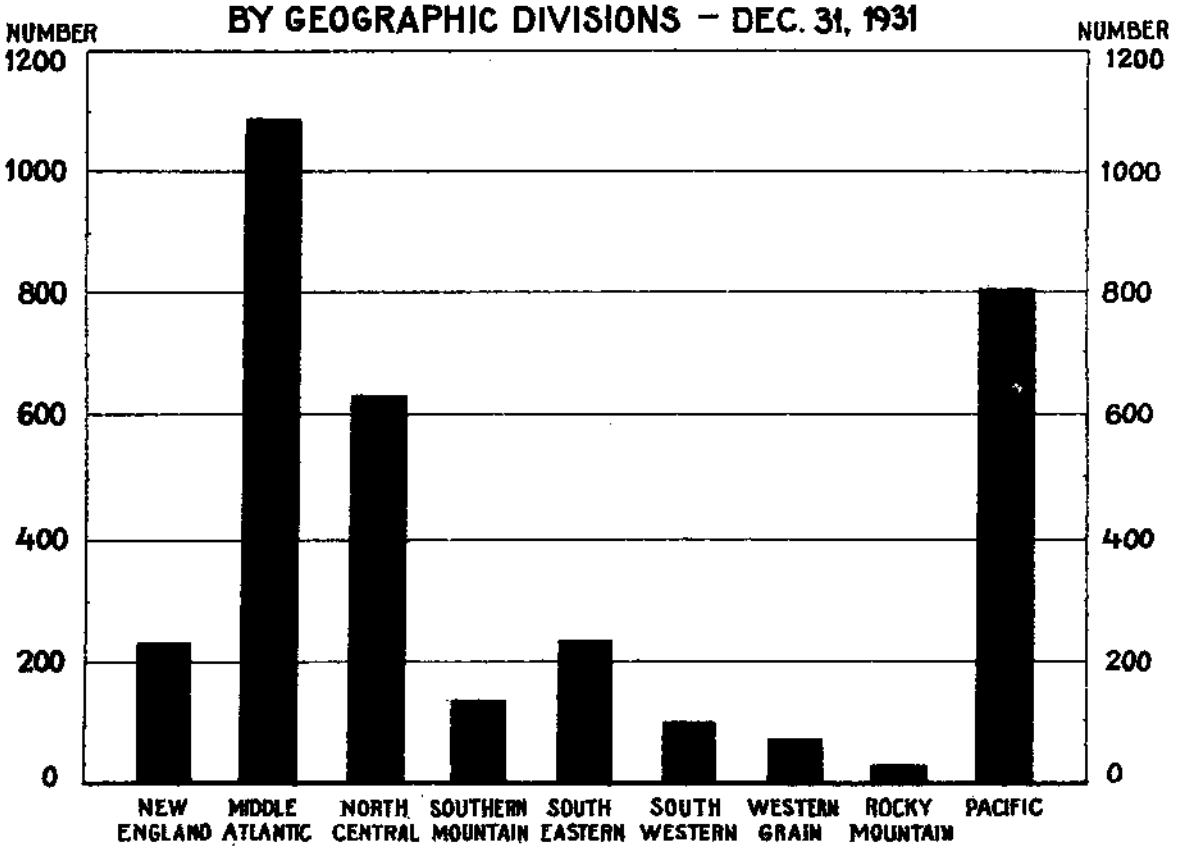
DISTRIBUTION OF BRANCH SYSTEMS
BY GEOGRAPHIC DIVISIONS-DEC 31, 1931



Number of State and national banks with branches arranged according to the geographic divisions in which they are situated

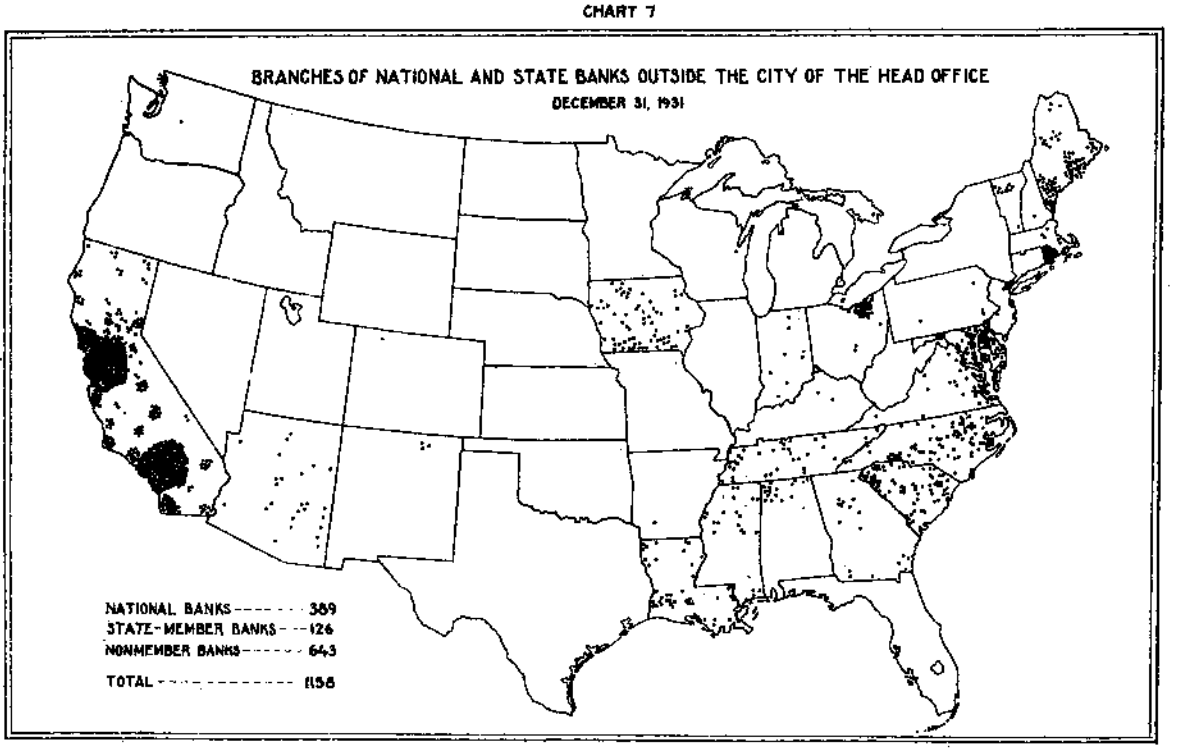
CHART 6

DISTRIBUTION OF BRANCHES
BY GEOGRAPHIC DIVISIONS – DEC. 31, 1931



Number of branches of State and national banks arranged according to the geographic divisions in which they are situated

CHART 7



In California there are numerous branches in the metropolitan areas centering around San Francisco and Los Angeles, but technically outside their city limits. On the map the dots extend much beyond the territory in which the branches are actually located around these cities.

Montana now permits branches outside the head office city under certain conditions, but none have been established there (June, 1932).

It will be noted from the map that the great majority of branches located outside the city of the head office are in California and in the Eastern and Southern States. It would not be practicable to make a similar map showing the distribution of branches inside the city of the head office, because these branches are so highly concentrated in a few large cities.

Table 9 - Branch Systems by Geographic Divisions

Geographic division(1)	Number of banks with branches		Number of branches		Loans and investments (000 omitted)	
	June 1920	December 1931	June 1920	December 1931	June 1920	December 1931
New England	63	86	92	236	$ 597,531	$ 1,560,338
Middle Atlantic	126	220	365	1,086	4,054,644	10,918,789
North Central	93	100	336	634	922,960	2,367,340
Southern Mountain	32	62	52	138	98,982	406,755
Southeastern	80	57	132	232	152,989	338,042
Southwestern	36	40	86	99	204,157	191,341
Western Grain	2	51	2	75	10,480	187,781
Rocky Mountain	9	8	26	28	15,624	17,215
Pacific Coast	89	53	190	806	839,484	2,349,160
UNITED STATES	530	677	1,281	3,334	$6,896,851	$18,336,761

(1) New England: Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut.
Middle Atlantic: New York, New Jersey, Delaware, Pennsylvania, Maryland, District of Columbia.
North Central: Michigan, Wisconsin, Illinois, Indiana, Ohio.
Southern Mountain: West Virginia, Virginia, Kentucky, Tennessee.
Southeastern: North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi.
Southwestern: Louisiana, Texas, Arkansas, Oklahoma.
Western Grain: Minnesota, North Dakota, South Dakota, Iowa, Nebraska, Missouri, Kansas.
Rocky Mountain: Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada.
Pacific Coast: Washington, Oregon, California.

Table 10 - Branches Inside and Outside the City of Head Office by Geographic Divisions, December 31, 1931

Geographic division	Number of banks with branches	Number of branches			
		In head office city	Outside head office city but in same county	Outside county of head office	Total
New England	86	133	62	41	236
Middle Atlantic	220	1,014	47	25	1,086
North Central	100	595	34	5	634
Southern Mountain	62	74	34	30	138
Southeastern	57	40	32	160	232
Southwestern	40	51	43	5	99
Western Grain	51	8	60	7	75
Rocky Mountain	8	-	11	17	28
Pacific Coast	53	261	87	458	806
UNITED STATES	677	2,176	410	748	3,334

Table 11 - Branch Banking in Three States, New York, Michigan, and California December 31, 1931

State	Number of banks with branches	Number of branches			Loans and investments (000 omitted)
		In head office city	Outside head office city	Total	
New York	70	690	-	690	$ 8,053,264
Michigan	48	385	-	385	967,122
California	50	258	543	801	2,279,873
Total 3 States	168	1,333	543	1,876	$11,300,259
Total all States	677	2,176	1,158	3,334	$18,336,761
Per cent of 3 States to all States	24.8	61.2	46.9	56.2	61.6

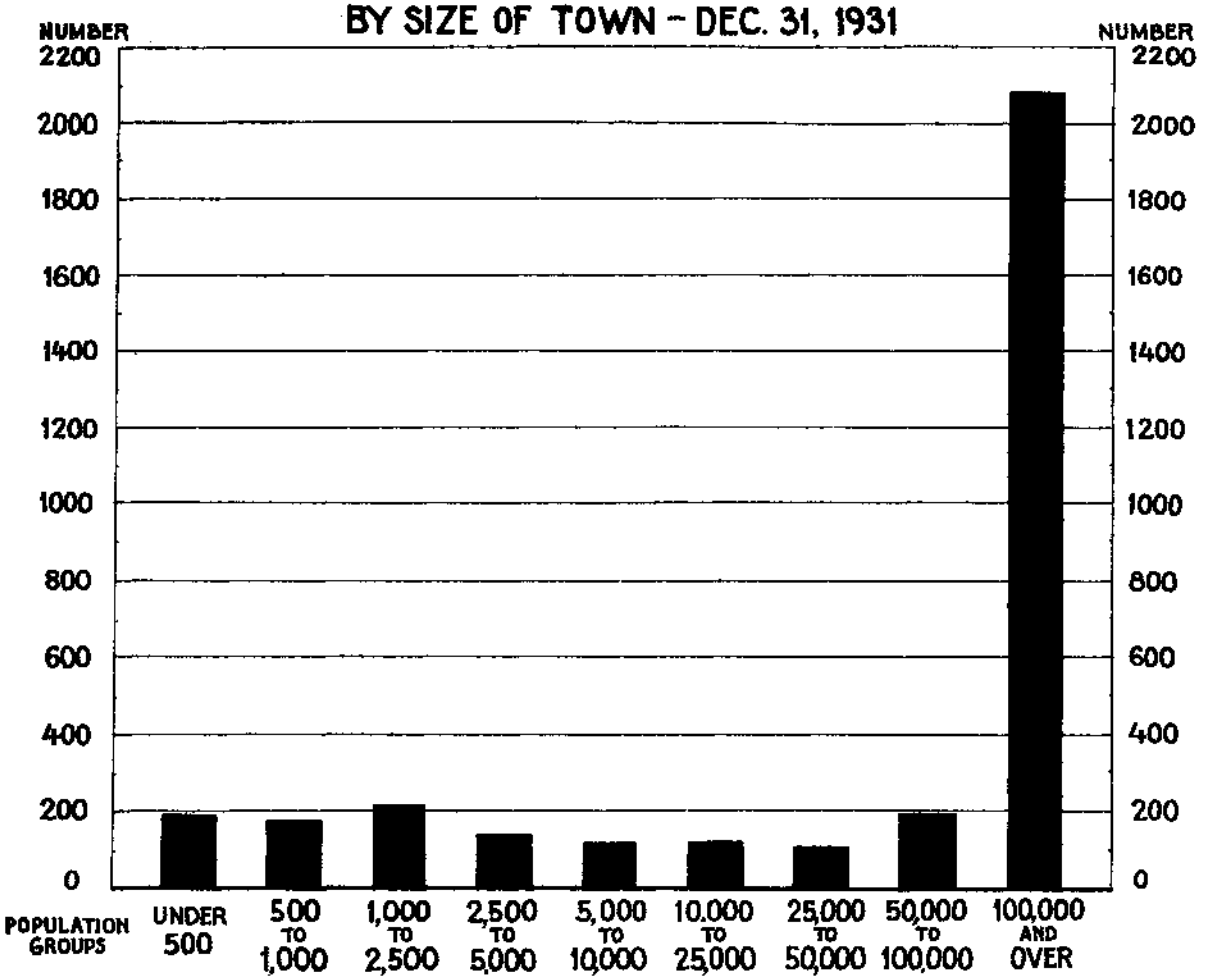
Distribution of Branches by Size of Town

Over 62 per cent of the branches in the United States are in towns of over 100,000 population. On the other hand, only about 17 per cent of the branches are in towns of 2,500 people or less. In other words, there are only 578 branches in towns of 2,500 population and less. Chart 8 and Table 12 illustrate the extent to which branches are concentrated in the large cities.

About 39 per cent of the banks operating branches are in towns of over 100,000 population, but these banks have over 90 per cent of the loans and investments of all banks operating branches. This is illustrated in Table 13.

CHART 8

DISTRIBUTION OF BRANCHES
BY SIZE OF TOWN - DEC. 31, 1931



Number of branches of State and national banks arranged according to the size of town in which they are situated

Table 12 - Branches by Size of Town, December 31, 1931

Population of town	In head office city		Outside head office city		Total	
	Number	Per cent of total	Number	Per cent of total	Number	Per cent of total
Under 500	2	.1	189	16.3	191	5.7
500 - 1,000	0	0.0	173	14.9	173	5.2
1,000 - 2,500	7	.3	207	17.9	214	6.4
2,500 - 5,000	7	.3	134	11.6	141	4.2
5,000 - 10,000	9	.4	107	9.2	116	3.5
10,000 - 25,000	27	1.2	91	7.9	118	3.5
25,000 - 50,000	63	2.9	46	4.0	109	3.3
50,000 - 100,000	132	6.1	60	5.2	192	5.8
100,000 and over	1,929	88.7	151	13.0	2,080	62.4
Total	2,176	100.0	1,158	100.0	3,334	100.0

Table 13 - Branch Systems by Size of Town of Head Office
December 31, 1931

Population of town	Number of banks	Per cent of total	Loans and investments (000 omitted)	Per cent of total
Under 500	25	3.7	$ 13,480	.1
500 - 1,000	41	6.1	21,584	.1
1,000 - 2,500	52	7.7	51,403	.3
2,500 - 5,000	61	9.0	107,492	.6
5,000 - 10,000	36	5.3	79,571	.4
10,000 - 25,000	56	8.3	183,905	1.0
25,000 - 50,000	62	9.2	392,796	2.1
50,000 - 100,000	79	11.6	875,625	4.8
100,000 and over	265	39.1	16,610,905	90.6
Total	677	100.0	$18,336,761	100.0

The extent of the concentration of branches in cities is also indicated in Table 14, which gives the number of branches in the thirteen largest cities of the country, i.e., cities with a population of 500,000 or more each. Two of these cities, Chicago and St. Louis, have no branches, yet the remaining eleven, in one of which, Milwaukee, further extension is

not allowed,[1] have over 40 per cent of all branches in the country.

Table 14 - Number of Branch Systems and Branches in the Thirteen Largest Cities of the United States,[2] December 31, 1931

City	Population 1930 census	Number of banks with branches	Loans and investments of banks with branches (000 omitted)	Number of branches within city	Number of branches outside city	Total branches
New York City	6,930,446	41	$ 7,079,025	541	-	541
Chicago	3,376,438	-	-	-	-	-
Philadelphia	1,950,961	20	1,016,851	77	-	77
Detroit	1,568,662	5	658,308	269	-	269
Los Angeles	1,238,048	7	631,127(3)	148(3)	70	218
Cleveland	900,429	9	694,376	88	21	109
St. Louis	821,960	-	-	-	-	-
Baltimore	804,874	9	255,084	56	2	58
Boston	781,188	10	771,322	55	-	55
Pittsburgh	669,817	2	164,162	8	-	8
San Francisco	634,394	8	1,476,572	93	425	518
Milwaukee	578,249	2	161,930	5	-	5
Buffalo	573,076	3	377,052	76	-	76
Total 13 cities	20,828,542	116	$13,285,809(3)	1,416(3)	518	1,934
Remainder U. S.	101,946,500	561	5,050,952	760	640	1,400
Total U. S.	122,775,042	677	$18,336,761(3)	2,176(3)	1,158	3,334

(2) Cities of 500,000 or more population.
(3) Exclusive of 79 branches belonging to banks outside of Los Angeles.

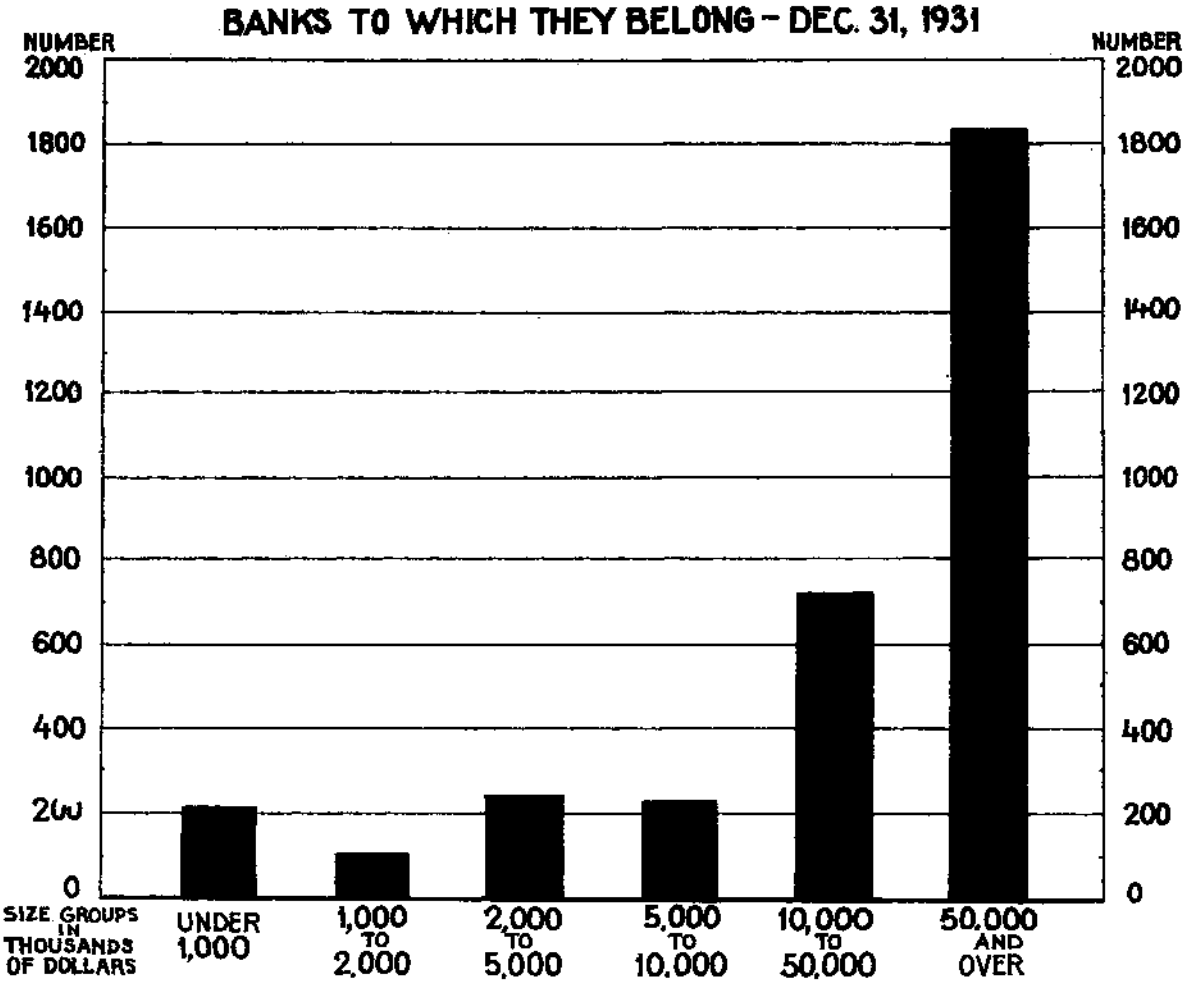
Classification of Branches by Size of Bank or Branch System

The majority of branches in existence are operated by large banks as shown in Chart 9 and Table 15. Out of the total of 3,334 branches, 1,837, or 55.1 per cent, belong to banks with $50,000,000 or more of loans and investments. Moreover, the majority of large banks have branches, as shown in Table 16. On June 30, 1930, 70 out of the 101 banks with loans and investments of $50,000,000 and more were operating branches.

(1) December 31, 1931. The law as later changed in 1932 appears to permit a limited extension of branches.

CHART 9

DISTRIBUTION OF BRANCHES BY SIZE OF BANKS TO WHICH THEY BELONG - DEC. 31, 1931



Number of branches of State and national banks arranged according to the amount of loans and investments of the branch systems to which they belong

Table 15 - Branch Systems Classified by Size of Loans and Investments, December 31, 1931

Size group loans and investments	Number of banks with branches	Number of branches	Per cent of total	Aggregate loans and investments (000 omitted)	Per cent of total
Under $150,000	21	21	.63	$ 2,376	.01
150,000 - 250,000	13	16	.48	2,652	.01
250,000 - 500,000	48	63	1.89	17,862	.10
500,000 - 750,000	40	49	1.47	25,322	.14
750,000 - 1,000,000	34	62	1.85	36,756	.20
1,000,000 - 2,000,000	71	102	3.06	100,522	.55
2,000,000 - 5,000,000	119	237	7.11	392,148	2.14
5,000,000 - 10,000,000	104	227	6.81	742,512	4.05
10,000,000 - 50,000,000	157	720	21.60	3,343,128	18.23
50,000,000 and over	70	1,837	55.10	13,673,483	74.57
Total	677	3,334	100.00	$18,336,761	100.00

Table 16 - Ratio of Branch Systems to Active Banks by Size of Loans and Investments, June 30, 1930

Size group loans and investments	Number of all banks in the U. S.	Number of banks with branches	Ratio of banks operating branches to all banks
Under $150,000	4,839	6	.12
150,000 - 250,000	3,510	8	.23
250,000 - 500,000	4,966	49	.99
500,000 - 750,000	2,362	41	1.74
750,000 - 1,000,000	1,552	22	1.42
1,000,000 - 2,000,000	2,600	85	3.27
2,000,000 - 5,000,000	1,887	146	7.74
5,000,000 - 10,000,000	595	124	20.84
10,000,000 - 50,000,000	454	199	43.83
50,000,000 and over	101	70	69.30
Total	22,866 (1)	750	3.28

(1) In classifying active banks by size groups, whenever individual reports for June 30 were not obtainable, figures for the nearest available date were used. For this reason the total differs somewhat from figures published in the comptroller's report.

ration between size and number of branches. Of the twenty-five largest banks in the country, four have no branches, and four have only two branches each, one of these four being the third largest bank in the country. The fifth largest bank has no branches at all. The majority of these banks were large before they acquired branches, and their branches are responsible for only a portion of their subsequent growth. It has rather been through consolidation that they have grown, consolidation having been more extensive and having affected more banks than branch operation. Only in certain States and under certain circumstances has branch banking been able to follow consolidation.

At the same time, the twenty-five largest banks listed in Table 17, by no means include all the largest branch systems, for the following named banks, though smaller in size than the twenty-five named, have more branches than the majority of them have:

Bank	Loans and investments	Number of branches
Bank of America, ~~Los Angeles~~ San Francisco	$49,842,000	63
California Bank, Los Angeles	78,827,000	54
Guardian National Bank of Commerce, Detroit	152,987,000	39
Citizens National Trust & Savings Bank, Los Angeles	92,535,000	34
Public National Bank & Trust Co., New York City	82,458,000	33

Table 17 - Twenty-five Largest Banks in the United States and their Branches, December 31, 1931

Name	Loans and investments (000 omitted)	Number of branches
Chase National Bank, New York	$ 1,397,744	44
National City Bank, New York	1,054,230	79
Guaranty Trust Co., New York	1,025,828	2
Bank of America N. T. & S. A., San Francisco	785,222	344
Continental Illinois Bk. & Tr. Co., Chicago	757,265	-
Central Hanover Bank & Tr. Co., New York	538,840	15
Bankers Trust Co., New York	458,766	2
First Wayne National Bank, Detroit	454,668	179
First National Bank, New York	450,359	-
Security-First Nat'l Bank, Los Angeles	444,575	125
Irving Trust Company, New York	425,281	27
First National Bank, Chicago	402,437	-
First National Bank, Boston	357,026	22
Bank of Manhattan Trust Co., New York	301,872	79
Chemical Bank and Trust Co., New York	290,121	13
Manufacturers' Trust Co., New York	259,162	54
Cleveland Trust Co., Cleveland	240,206	57
Philadelphia National Bank, Philadelphia	229,836	2
New York Trust Co., New York	229,097	2
Union Trust Co., Cleveland	222,014	22
Penn. Co. for Insurance on Lives, etc., Phila.	204,297	12
Corn Exchange Bank Trust Co., New York	202,948	71
American Trust Co., San Francisco	202,239	93
Marine Trust Company, Buffalo	198,082	35
Mellon National Bank, Pittsburgh	198,063	-
Total twenty-five largest banks	$11,330,178	1,279
All other banks in United States	27,844,521 28,237,146	2,055
All banks in United States	$39,~~567,324~~ 174,699	3,334

Table 18 shows a classification of branch systems by the number of branches per system. There are 355 banks with one branch each and at the other extreme one bank with 344 branches. The average size of the 355 banks with one branch each is about $5,500,000 of loans and investments, and of the 110 banks with two branches each the average size is about $27,000,000. The banks with one and two branches obviously include some very large banks. Moreover, these banks with one or two branches account for only 575 branches, or about a sixth of all the branches in the country. There are only 17 systems with more than 30 branches each.

Table 18 - Number of Branch Systems Classified by Number of Branches in Each System, December 31, 1931

Number of branches per bank	Number of banks with branches	Aggregate number of branches	Aggregate loans and investments (000 omitted)
1	355	355	$ 1,952,845
2	110	220	2,948,959
3	66	198	972,266
4	36	144	844,554
5	21	105	489,638
6	10	60	397,170
7	4	28	128,002
8	7	56	376,440
9	7	63	226,659
10	5	50	257,529
11-15	23	290	1,950,565
16-20	9	168	535,358
21-30	7	170	1,235,310
33	1	33	82,458
34	1	34	92,535
35	1	35	198,082
39	1	39	152,987
44	2	88	1,421,613
54	2	108	337,989
57	1	57	240,206
63	1	63	49,842
71	1	71	202,948
79	2	158	1,356,102
93	1	93	202,239
125	1	125	444,575
179	1	179	454,668
344	1	344	785,222
Total	677	3,334	$18,336,761

In Table 19 the distribution of the 677 banks with branches is shown according to the number of towns in which the various branch offices of such banks are situated. More than half the banks with branches, or 381 out of 677, have all their branches in the same city or town as the head office, and 184 operate in only two towns. Only one bank in the country has offices in more than 100 towns.

Table 19 - Branch Systems Classified by Number of Towns in Which Offices Are Situated December 31, 1931

Number of towns in which offices are situated	Number of banks
1	381
2	184
3	49
4	24
5	9
6	5
7	3
8	2
9	2
10	3
12	3
13	3
14	1
16	1
18	1
21	1
34	1
42	1
48	1
63	1
172	1
Total	677

Summary

The salient descriptive facts about branch banking in the United States may be summarized as follows:

1. Branch banking, which was fairly common before the Civil War, disappeared almost entirely soon after the passage of the National Bank Act, and the present development may be said to have begun about 1900.

2. State banks are responsible for most of the growth of branches.

3. A few States permit state-wide branch banking, but outside of these States branches are confined by prohibitions and restrictions chiefly to certain large cities.

4. Branches in California, New York City, and Detroit constitute over 56 per cent of all branches in the country.

5. Branches constitute less than 18 per cent of the total number of banking offices in the country, and banks with branches constitute less than 4 per cent of the total number of banks.

6. Most branches are in large cities and belong to large banks, but there is no close relationship between the size of banks and the number of their branches.

7. The majority of banks with branches have only one branch; the majority of them also have all their branches, whether one or more, in the same town as their head office.

CHAPTER II

BRANCH BANKING BEFORE THE CIVIL WAR

The status of branch banking in the United States is in striking contrast to the situation in Canada, England, and other important countries where commercial banking is done chiefly by a small number of large branch systems. The reasons for the predominance of unit banks in this country and the motives back of the persistent opposition to branch banking can be adequately presented only by a historical survey of the branch movement and the controversy which has centered around that movement.

Early Branch Banking in New York and New England

In the last decade of the eighteenth century and the earlier years of the nineteenth century it was not uncommon for banks in New York and New England to have branches. All incorporated banks in those States at that time were created by special charter and the number and location of their branches was stipulated therein. A bank seldom had more than one branch, and two or three appear to have been the maximum. There was apparently an irresistible tendency, however, for branches to become independent, and by the end of the first twenty-five or thirty years of the century nearly all branches in these States had disappeared. The Manhattan Company had at one time banking offices at Utica and Poughkeepsie, but they were discontinued in 1819 in compliance with the following resolution of the company's directors:(1)

> "Whereas the inducements which led to the establishment of the two offices of the company at Utica and Poughkeepsie no longer exist, in consequence of the multiplication of banks in the interior of the state, and the depreciation of the paper of the said banks, which have destroyed the usefulness of the said offices, be it therefore
>
> "Resolved, That the offices of the Company at Utica and Poughkeepsie be withdrawn."

In a list of banks in the United States in the Bankers' Magazine of 1848(2) no

(1) Platt, Poughkeepsie's First Bank, Yearbook, Dutchess County Historical Society, 1931, Vol. 16, p. 55.
(2) Bankers' Magazine, 1848, Vol. II, pp. 774, 776.

branches are reported for any of the New England States, and only two are reported for New York (the branch of the Bank of Utica in Canandaigua, and the branch of the Ontario Bank of Canandaigua in Utica). In the report of the bank commissioner of Connecticut, April, 1849, two branches were mentioned as in existence in the State, though no particulars are given as to their ownership or location.

In Massachusetts, Connecticut, and Rhode Island, on the other hand, a practice is recorded which, though apparently never called branch banking, bears a certain resemblance to it. This was a custom that arose among country banks, apparently in the 1850's, of sending officers to metropolitan centers for the discount of paper offered there. It is described as follows:(1)

> "Massachusetts Banks.--The Bank Commissioners of this State have lately issued an order, which will probably have an important bearing on the business of some of the banks. Within four or five years past, charters have been granted for several banks to be located in towns in the vicinity of Boston. The local business of these suburban towns has not been sufficient to give these banks a run of custom of enough profit to answer their desires. To extend their business, some of them have adopted an illegal course in order to obtain customers. Instead of confining their negotiations and business to the town in which they are situated, as provided in the Revised Statutes, offices have been opened in or near State street, and at stated hours the cashiers have been in attendance to receive deposits, pay checks, discount notes, and indeed to do all the business of the bank--a Teller being left at home to perform what local work is to be done. To such an extent has this been carried, that in the case of two or three banks, the business done in the city has been greater than that performed at home.
>
> "For years a few banks, situated remote from State street, have been allowed to perform a very limited amount of business away from their banking houses, to accommodate customers, and so long as the innovation was kept within proper bounds, and was not made a regular business, no complaint was made. Taking advantage of this leniency, two or three banks have carried the matter to extremes, and have so conducted their affairs that the Bank Commissioners last week issued a positive prohibitory order that no bank should do any business except at the banking house, and threatening an injunction on one or two banks which were disposed not to yield. Those who have only done a limited amount are not much affected, while others suffer. In the end, however, the result will be most beneficial, and will conduce both to the interests of the banks and their customers also."

(1) Ibid., 1853, Vol. VIII (N.S. III), p. 437.

The Banking Commissioners of Massachusetts had already included in their report of the year before an admonition against this practice.(1)

> ".....Banking institutions have a locality to which their operations are designed to be confined. It is a perversion of such design, if the officers are sent into the money market in other places in pursuit of paper which, under the form of exchange, will give a higher rate of interest than it would be prudent for them to exact of the business community in their own neighborhood; it is an interference with the rights and interests of other banks, and the practice is frequently attended with loss on account of ignorance of the true character of the paper. The increased facilities of communication have a tendency to concentrate business in the metropolis. Managers of banks in the country, established for local convenience, should be at all times aware that to discount paper, receive checks, and exchange their bills through an agency in the city, is an infringement upon the foregoing statute."

The Commissioners added that their remarks applied particularly "to the operation of banks within the Commonwealth," but they proceeded to condemn operations made outside the State. "Paper thus inconsiderately taken, is frequently not paid at maturity; renewals are submittted to; the object originally sought is defeated; and serious losses close the operation." Furthermore, as to the circulation extended by these foreign loans and discounts they said, "...it is not to be concealed that Massachusetts can have no desire to establish banks to furnish a currency for other states, especially if the policy has a tendency to weaken its own."(2)

The same difficulties arose in Connecticut and Rhode Island and those States also took steps to keep the banks from going away from home for business.(3) The problem was apparently not unknown elsewhere as well; the Ohio Life and Trust Company, a Cincinnati bank, maintained a large and prominent agency in New York till its failure in 1857. The

---

(1)Massachusetts Bank Commissioner's Report, 1852, p. 8.
(2)Ibid., 1853, p. 9.
(3)Dewey, State Banking Before the Civil War, p. 141.

movement, however, attracted most attention in New England. Its characteristic feature was an invasion of the metropolitan centers by country banks in pursuit of discounts and investments. The offices established in the centers were not called branches and the practice seems to have grown up long after what had been previously known as branch banking had disappeared.

First and Second Banks of the United States

The earliest banking systems comprising numerous branches in this country were those set up by the Federal Government. A few branches were operated earlier by State banks with one or two branches each, but none of these approached in extent the branch systems of the First and Second Banks of the United States.

The First Bank of the United States was organized in 1792 and eventually had nine offices in as many cities, including its head office in Philadelphia. The provision that it should have branches was at first disapproved by Alexander Hamilton, then Secretary of the Treasury, because he doubted "the practicability of a safe and orderly administration" of them. In his report to Congress on the project for a "national bank," December 14, 1790, he said:(1)

> "The situation of the United States naturally inspires a wish that the form of the institution could admit of a plurality of branches. But various considerations discourage from pursuing this idea. The complexity of such a plan would be apt to inspire doubts, which might deter from adventuring in it. And the practicability of a safe and orderly administration, though not to be abandoned as desperate, cannot be made so manifest in perspective, as to promise the removal of those doubts, or to justify the Government in adopting the idea as an original experiment. The most that would

(1) Clarke, Legislative and Documentary History of the Bank of the United States, pp. 28, 29.

> seem advisable, on this point, is to insert a provision which may lead to it hereafter, if experience shall more clearly demonstrate its utility, and satisfy those who may have the direction, that it may be adopted with safety. It is certain that it would have some advantages, both peculiar and important. Besides more general accommodation, it would lessen the danger of a run upon the bank.
>
> "The argument against it is, that each branch must be under a distinct, though subordinate direction, to which a considerable latitude of discretion must of necessity be entrusted. And as the property of the whole institution would be liable for the engagements of each part, that and its credit would be at stake, upon the prudence of the directors of every part. The mismanagement of either branch might hazard serious disorder in the whole."

Nevertheless, the directors of the Bank proceeded to establish branches at once, and Hamilton expressed his personal disapproval of the action in a private letter in November, 1791, in which he said that "the whole affair of Branches was begun, continued, and ended, not only without my participation, but against my judgment."(1) No difficulties of any moment appear to have arisen over the branches, however, and Hamilton's doubt of their advisability disappeared. The bank continued in existence twenty years, but largely because of opposition on the part of the States to a corporation with Federal powers, its charter, which then expired, was not renewed. The opposition to the Bank was not based on the fact that it had branches.

The Second Bank of the United States was chartered in 1816. It had at the maximum about twenty-nine offices and agencies,(2) including the Philadelphia headquarters. These extended from Mobile, New Orleans, Natchez, and St. Louis, in the South and West, to Burlington and Portland, in the Northeast and to Charleston and Savannah, in the Southeast.

---

(1) Hamilton, Works, 1851, Vol. V, p. 486.

(2) Catterall, Second Bank of the United States, table and map opposite p. 376.

There was a branch in practically every important city within the existing settled area of the United States. ~~The~~ Experience ~~with these branches~~ indicated that Hamilton's apprehensions in 1791 had not been unjustified, for the branches got out of hand and nearly wrecked the Bank.

Both Cheves and Biddle, successive presidents of the Bank, complained of the difficulty of holding ~~them~~ the branches in check. The seriousness of this difficulty is made apparent by two considerations: first, the relative amount of business transacted by the offices, and second, the great distances between branches and headquarters. The following table shows the distribution of the Bank's business as measured by the loans held by the various offices in the year 1825: (1)

New York	$4,895,000	16.5%
Baltimore	4,031,000	13.6
Philadelphia	3,723,000	12.6
New Orleans	2,455,000	8.3
Charleston	2,428,000	8.2
Boston	1,790,000	6.0
Cincinnati	1,329,000	4.5
Washington	1,294,000	4.4
Richmond	1,226,000	4.1
Louisville	1,069,000	3.6
Lexington	1,002,000	3.4
Pittsburgh	730,000	2.5
Norfolk	696,000	2.4
Savannah	626,000	2.1
Middletown and Hartford	536,000	1.8
Fayetteville	457,000	1.5
Chillicothe	450,000	1.5
Providence	440,000	1.5
Portsmouth	437,000	1.5
Total	$29,614,000	100.0%

The head office at Philadelphia at this time stood third in point of size. The three largest offices together had more than 42 per cent of the business. New Orleans, the most remote, was the fourth in size, but in a few years it moved up and became the largest office in the

(1) The Second United States Bank, National Monetary Commission, Vol. IV., p. 200.

whole system. Branches of such relative size were naturally inclined to independence of action.

This was the more serious in view of the great territory covered by the Second Bank and the means of communication and transportation then available. It took weeks to communicate between New Orleans, the largest office, and Philadelphia, the head office. To a less degree, the same difficulties of communication, and consequently of control, held as between other offices. It would be impossible to find centers in the United States at the present time as remote from one another in an operating sense as were the cities in which, a hundred years ago, the branches of the Second Bank were situated.

The loose control of the branches is emphasized by historians. Catterall, in his exhaustive history of the Bank, says in his criticism of the branch organization:(1)

> "The defects of the system were, however, great and perilous. In the last analysis all resolved themselves into a failure to exercise an adequate control over the offices."

Professor Davis R. Dewey, in his monograph on the Second Bank published in the report of the National Monetary Commission, says that "The losses due to the branches in proportion to their capital were ten times greater than that of the mother bank"; and that "Although by its fundamental regulations the bank apparently had the power to supervise and restrict the branches in their operations, it did not effectually exercise this right during its early management."(2)

---

(1) Catterall, Second Bank of the United States, p. 402.

(2) Dewey, The Second United States Bank, National Monetary Commission, Vol. IV, pp. 196,201.

This inadequacy of control, however, since it meant, among other things, that the branches made local extensions of credit beyond the limits prescribed for them by the Philadelphia office, was not the kind of thing that would arouse public hostility. The real grounds of opposition to the Bank were complex; they involved a variety of political, economic, and social considerations. Politically the opposition hinged principally on the question whether it was constitutional for a Federal corporation to operate within the territory of a State without the latter's consent. This issue would not have arisen, to be sure, if the bank had had no branches,(1) but nevertheless it did not touch on the merits of branch banking under circumstances where no conflict of Federal and State sovereignty was involved.(2) The opposition was intensified economically by the competition which the Bank's branches offered to the banks chartered by the States. Finally on social grounds there was opposition to the Bank simply because of its size. Individual enterprise was the ideal, and institutions of great size were considered undemocratic and monopolistic. Since branches contribute to size, this opposition to what Jackson called the "mammoth" might be held to imply opposition to branch banking even though no explicit charges against branch banking on those grounds were made. However, in view of his silence on the subject it is to be

(1) Catterall, Second Bank of the United States, p. 376.

(2) This was also evident in the case of the attempt in 1841 to organize a third Bank, the "Fiscal Bank," for then the issue hinged distinctly on the right of Congress to authorize branches in disregard of State laws. The bill incorporating the bank affirmed the right to do so. It was vetoed by President Tyler, who emphasized in his message his opposition "To any bank created by Congress with the power to establish branches in the States independently of their consent." (Quoted from Sumner, History of Banking, Vol. I, pp. 348, 349. See also Knox, History of Banking, p. 89.)

inferred that branch banking was not a very important aspect of the issue. Certainly it would be rash to construe that silence as approval of what we know as branch banking, and it would appear equally unsound in the face of it to construe the opposition to the Bank as opposition to what we know as branch banking. How general the grounds of opposition were may be indicated by the following remark of Andrew Jackson in a letter he wrote to Biddle:(1)

> "I do not dislike your Bank any more than all banks. But ever since I read the history of the South Sea bubble I have been afraid of banks."

Renewal of the Bank's charter, which ran for twenty years, was vetoed by Jackson, and the Bank discontinued as a Federal corporation. In expectation of having to liquidate, it had sold the majority of its branches. It changed its plans however, and in 1836 procured a charter from the State of Pennsylvania, under which it continued to operate for about five more years and then failed. At the time of failure it had "eight agencies outside of Pennsylvania and three offices in that State."(2) Failure was due to bad loans and investments. According to Knox, "It seemed impossible for the managers to say no to anyone."(3)

> "In 1840 it was found that the assets of the institution consisted chiefly of all kinds of internal improvement, and bank and State stocks and bonds. There was hardly an enterprise, good, bad or indifferent in the United States that was not represented in the list."

It appears therefore that the Bank in these years exemplified the complete opposite of those policies of credit restriction and denial

---

(1)Catterall, The Second Bank of the United States, p. 184.
(2)Sumner, History of Banking, p. 342.
(3)Knox, History of Banking, pp. 77, 78.

of enterprise that are most frequently alleged as the evils of branch banking. Nevertheless all the notes and deposits of the Bank were ultimately paid in full, principal and interest.(1)

Aside from the political opposition perhaps the principal cause for the lack of success of the Bank lay in the fact that with the imperfect means of transportation and communication then available it was impossible to exercise prompt control over the branches.

State Bank Branch Systems(2)

That branches per se were not the object of disapproval is apparent not only from contemporary discussion, but from the fact that a large proportion of the States, especially in the South and West, where opposition to the Second Bank had been most bitter, continued to authorize branches for their own banks both before and after the end of the Second Bank in 1837. Four of these branch organizations were outstanding--the State Banks of Indiana, Missouri, Ohio, and Iowa.

The State Bank of Indiana, one of the most successful banks in American history, was established in 1834 towards the end of the life of the Second Bank of the United States. In the words of Hugh McCulloch, the State Bank's president, and later the first Comptroller of the Currency, the State Bank of Indiana, "...was not, like the Bank of the United States, a bank with branches, but rather a bank of branches. It

---

(1) Ibid., p. 79.

(2) The chief references for the following discussion are McCulloch, Men and Measures of Half a Century; Esarey, State Banking in Indiana, 1814-1873; Knox, History of Banking; Sumner, History of Banking; Cable, Bank of the State of Missouri; Preston, History of Banking in Iowa; White, Money and Banking; and State laws.

was a bank in this respect only: it had a president, a cashier, and a board of directors, but as a bank it transacted no banking business."(1) All banking was done at the offices. "It was a board of control, and its authority over the branches was arbitrary, almost unlimited." It was not a corporate entity which issued shares, but merely a supervisory authority. All stock was issued by the individual branches.

Another great difference between the State Bank of Indiana and the Second Bank of the United States lay in the area covered, for the thirteen branches of the Indiana bank were all within the one State. Even at that McCulloch, when he was manager at Fort Wayne, was "three good days' ride from Indianapolis" by horseback, which for fifteen years he had to make periodically to attend the managers' meetings. The Indiana bank was a monopoly for about twenty years, with the State a stockholder. It continued in business from 1834 to 1857, when its charter expired. It was then succeeded by a new corporation, the Bank of the State of Indiana, with the same management in general but with increased authorized capital and certain other corporate changes. It had twenty branches instead of thirteen, this increase being authorized by the legislature. It had no monopoly, however, and other banks were permitted. It continued operations until shortly after the passage of the National Bank Act, when it liquidated, and most of its branches procured charters as individual national banks. The record of the organization for the nearly thirty years of its existence was highly successful; it was profitable to its owners and there were no losses to the public through its operations.

---

(1)McCulloch, Men and Measures of Half a Century, p. 117.

The second prominent branch system was the Bank of the State of Missouri, chartered in 1837, with five branches and a complete monopoly. It was so conservatively managed that its notes came to circulate at a premium over gold, even as far away as in California. This very virtue led to an insufficiency of its notes for local business, which was filled by an influx of inferior issues from other States. In consequence there was pressure on the bank to issue its notes more freely, and by 1859 it had been authorized to increase the number of branches to ten. It had lost its monopoly within the State, however, for seven new banks were chartered, each of which "must have at least two branches." Its organization appears to have been more closely unified than that of the State Bank of Indiana, and therefore more like a present day branch system. The Bank of the State of Missouri continued until 1866, when it liquidated.

The third prominent "branch" organization set up between the end of the Second Bank of the United States and the passage of the National Bank Act was the State Bank of Ohio, which was authorized in 1845. In 1863 it had 36 branches. Opposition to the Second Bank of the United States had been especially bitter in Ohio. It was one of the States that attempted to tax the Bank's branches out of existence, and the branch at Chillicothe had been raided by State authorities, who entered the vault forcibly and took the money they claimed due as taxes. Yet Ohio set up a system with more "branches" than any other State. The branches as a whole individually organized constituted the bank, which was administered by a board of control. Its organization was therefore similar to that of the State Bank of Indiana, which at the time was about eleven years old.

The State Bank of Ohio was not a complete monopoly however. The number of banks in the State was limited, branches being counted as banks. The State Bank continued in operation till after the passage of the National Bank Act, when some, if not most of its branches, became individual national banks. Its career was successful and there were no losses to the public through its operations.

In 1857, however, its strength was severely tested by the failure of the Ohio Life and Trust Company, a Cincinnati bank whose experience is pertinent to this discussion since it maintained a branch or agency in New York City. Its failure was due to the irregularities of its New York agent, who speculated with its funds and ruined the bank, notwithstanding its head office transactions had been managed with probity and conservatism. Its esperience illustrated, as did that of the Second Bank of the United States, the difficulty of maintaining adequate control of remote offices. The State Bank of Ohio, on the other hand, like the State Bank of Indiana, extended its branches within a comparatively small area.

The fourth branch organization in this same class was the State Bank of Iowa, which was organized in 1858. At that time the State Bank of Indiana and its successor had been in existence twenty-four years; the Bank of the State of Missouri, twenty-one years; and the State Bank of Ohio, thirteen years. The organizers of the State Bank of Iowa therefore had the advantage of three successful and experienced organizations to use as patterns.

For several years prior to this, banking had been a penal offense

in Iowa, prohibited by the State constitution.(1) When this situation became admittedly unsatisfactory, and the project for a bank came to be considered, the comparative merits of branch banking as practiced in Indiana, Missouri, and Ohio were weighed against the merits of "free banking" as developed in New York. The result was that branch banking was adopted in a form closely resembling that of the State Bank of Indiana.(2) The branches, of which thirty were authorized, were managed by a board of control which was purely an administrative body and performed no banking functions itself. The only stockholders were the stockholders of the individual branches. The Governor of the State, Ralph P. Lowe, in his message to the legislature in 1860, said that there were 12 branches of the State Bank then in existence, and that it was expected that 8 more would be established shortly. He went on:(3)

> "If these branches have not accomplished all that the public have expected of them, it is gratifying, at least, to know that they have done a cautious and safe business, commanding the confidence of the people, whilst they have in no small degree subserved the interest of the community at large in relieving the wants of its business men."

The maximum number of branches actually established appears to have been fifteen. The bank had been in business five years, when the National Bank Act went into effect, and within two or three years more, some if not all of its branches converted to Federal charter as individual national banks. Its operations, like those of the three other State banks after

---

(1) In Texas (1845) and Arkansas (1846) also banking was prohibited by the State constitution. A similar prohibition in Illinois failed of enactment by one vote. These prohibitions did not affect private banks. In Virginia, however, private banks were prohibited in 1816 in favor of incorporated banks.

(2) Iowa adopted a free banking law at the same time it authorized its State Bank, but the law was never put into effect.

(3) Bankers' Magazine, March, 1860, p. 743.

which it was patterned, were very successful and were conducted without loss to the public.

These organizations support the view that there was in the West no opposition to branches as such but they were, as a matter of fact quite unlike modern branch systems except in the case of the Bank of Missouri. Although they differed from one another in detail, it was in general typical of them that each branch was locally organized, had its own capital, its own stockholders, made its own earnings, and paid (with the permission of the board of control) its own dividends. The Ohio law declared that "The board of control,...shall be a body corporate,...and by the name of the State Bank of Ohio," though it had no banking powers but only supervisory powers. A "banking company" might operate either as "a branch of the State Bank" or as an independent bank. The board of control was chosen partly by the "branches" and partly by the State. Substantially the same was true in Indiana and Iowa. The States subscribed part of the capital of their State Banks--i.e., part of the capital of the individual branches--and the institution was partly a State government enterprise and partly a private enterprise. Obviously these "branches" and the "State Banks" to which they belonged have little counterpart in modern branch banking, where the branches are merely multiple offices of one undivided entity, owned by private capital. Nor are they like modern group banking, where the individual banks are owned in whole or in part by a purely private corporation. On the other hand, these branch systems of the State Banks of Indiana, Ohio, and Iowa bear close resemblance, in structure, to the Federal Reserve System, which includes the reserve

banks, organized, like the branches of the old State Banks, with their own capital and their own stockholders, and also the Reserve Board, a supervisory body like State Banks' boards of control, and like them without stock or stockholders. The boards of control, like the Federal Reserve Board, did no banking, but merely supervised the operations of the branches. If the Federal Reserve System were known as "the Federal Reserve Bank" and the twelve reserve banks were known as branches, the essential analogy would be obvious. The functions of the old State Banks, however, were quite different from those of our reserve banks; their dealings were direct with the public, and they were engaged in commercial banking, not in reserve banking.

It should also be mentioned that several other States—Illinois, Kentucky, Tennessee, Delaware, Vermont, for instance, and possibly Michigan—had branch systems similar in a way to those described. That is, they were corporations in which the State itself was frequently interested, and they were partial or complete monopolies. They do not appear to have been so successful or so extensive, however, as the branch systems of Indiana, Missouri, Ohio, and Iowa.

Branches in the Southern States

Besides the branch systems that have been described, there were others, mainly in the Southern States, that in structure more nearly resembled modern branch organizations. The branches had no independence, and though capital might be assigned to them, they were nevertheless merely offices of one single corporation. The difference is usually apparent in the name—the institutions that have been described having a

name like "State Bank of Indiana" to connote its official character, while these others would have names like "Farmers' Bank" or "Merchants' Bank" connoting their private character. This, however, was not an invariable distinction. Some States had branch systems of both sorts, but it was in the South that branches of the more modern type were chiefly found. This is apparent ~~from the table on page ____ of the Appendix.~~

No certain answer can be made as to why branch banking of the modern type should have been comparatively common in the South, while it was practically non-existent in the North, though it appears that in the South the first branches were established in conscious emulation of Scottish banking, which, as described by Adam Smith, seems to have made considerable impression there.(1) Their persistence may simply have to be taken as one of the examples of economic differentiation between the North and the South. None of the Southern banks had very many branches, however. There were more branches in Virginia, which at that time included West Virginia, than anywhere else in the South. The Farmers Bank of Virginia, with twelve branches, appears to have been the largest branch organization in the country at that time if we exclude the systems in the four Western States as outlined above. Virginia banks had a high reputation before the Civil War, and there is no record of failure or of currency depreciation in the case of any of them.(2)

Branches were also numerous in North Carolina, Kentucky, and Tennessee. Delaware should be mentioned also, because the Farmers' Bank

(1) Bryan, History of Banking in Maryland, 1899, p. 14; and Starnes, Sixty Years of Branch Banking in Virginia, pp. 27, 28.

(2) Knox, History of Banking, p. 532; and Starnes, Sixty Years of Branch Banking in Virginia, p. 129.

of that State is apparently the only one of the old ante-bellum banks with branches surviving to the present in its original form. It was chartered in 1807, and is still operating in three different cities three of its four original offices.

The history of banks in the West and South prior to the Civil War indicates that branches were taken as a matter of course. No record has been found of contemporary dissatisfaction with them. Some banks had more successful careers than others, but branches appear to have had little or nothing to do with that fact. Most banks with branches were created by special charter, which stipulated the operation of branches at designated points. In Mississippi the Union Bank, chartered in 1838, was criticized by the legislature for not establishing the branches authorized.(1) The purpose of branches in all these cases was evidently to make adequate banking facilities accessible throughout the State, without, however, creating more banks than could be watched and controlled.

The Civil War destroyed most of the banks in the South, and the larger ones set up after the war were national banks, since they alone had the power of note issue. Branch banking, therefore, became almost negligible in the South from the time of the Civil War till after 1900. During this period, however, there appears to have been nothing in the laws to prevent the establishment of branches by State banks.

---

(1) Dewey, State Banking Before the Civil War, p. 139.

CHAPTER III

BRANCH BANKING AND THE NATIONAL BANK ACT

When the national banking system was established in 1863, the intention and expectation was that it would supersede State banks. There were two primary reasons for the establishment of the national banking system. The first was that the Government, then engaged in the Civil War, needed a better market for its bonds and better instrumentalities for its fiscal operations in general. The second was that the country as well as the Government required a uniform and sound currency.

That the attainment of this end involved the displacement of State banks was due to the importance of the note issue function. Some banks at that time had no deposits at all, but were banks of circulation only. In the Eastern centers there were banks which were primarily banks of deposit, but taking the country as a whole they were the exception. The view then prevailing was expressed in the following words which Daniel Webster addressed to the Supreme Court in 1839:(1)

> "What is that, then, without which any institution is not a bank and with which it is a bank? It is a power to issue promissory notes with a view to their circulation as money."

From 1834 to 1844 the circulation of the banks in the country, not counting the Second Bank of the United States, was every year greater than their deposits.(2) In 1844 deposits were higher, but in 1845 circulation regained the lead and with the exception of 1853 held it till 1855. Since that time deposits have always exceeded circulation. To trace the further decline in the relative importance of circulation since that time is unnecessary; it is sufficient to point out that at the present time bank deposits are nearly seventy times as large as bank circulation, and that the total deposits of all banks in the country are over ten times the total money in circulation.(3) The majority of banks

(1) Webster, Bank of the U. S. vs. Primrose, Works, edition of 1851, Vol. VI, p. 127.
(2) Annual Report of the Comptroller of the Currency, 1920, Vol. II, p. 847.
(3) June 30, 1931.

today do not possess or exercise the privilege of issue at all, and have not for forty years or more, while with those which do exercise it, it has become a function of comparatively slight moment. At present the chief and essential function of banks is discount and deposit. Up to a short time before the Civil War it was discount and issue.

Accordingly the real purpose in superseding State banks was to supersede their issues, upon which the country had depended for its paper currency until that time. It was a currency without uniformity, without known worth, and in many instances without any worth. The currency of national banks was uniform, and its redemption was guaranteed by the Federal Government.

It was not the expectation however that the existing banks would be replaced by entirely new organizations. The intention was that the banks would surrender their State charters and take out national charters instead. Apparently it was thought that the advantages which the banks would derive from being under national charter and having their note issues redeemed by the Government would alone compel them to convert. It was soon found however that those advantages were insufficient, or at any rate that they did not induce banks to enter the national system fast enough to assist the Government in its emergency. A tax of 10 per cent was therefore levied upon all State bank notes paid out by any bank. In introducing the tax measure Senator Sherman said:(1)

> "The national banks were intended to supersede the State banks. Both cannot exist together; . . .
>
> "If the State banks have power enough in Congress to prolong their existence beyond the present year, we had better suspend the organization of national banks."

The tax put an immediate end to State bank issues. It also put an end to State banks themselves--except those few which had developed a deposit

(1) Congressional Globe, 38th Congress, 2d Session, February 27, 1865, p. 1139.

business-- and consequently to such branches as they had. The law made no discrimination, explicit or implicit, against branches however. Instead, Congress specifically authorized such banks as had branches to retain them.

This provision, while it indicates that branches were not objectionable, also indicates that they were not contemplated as a regular feature of national banks. This was due to the fact that the National Bank Act was based on the "free banking" laws already in force in numerous States--notably in New York, where "free banking" originated. The typical "free bank" was a single office institution.

Free Banking

Free banking derived its name from the fact that it developed out of dissatisfaction with the original practice of authorizing banks by special charter only. This practice was universal, except where banks were prohibited, until about 1837. Its evil lay in the opportunity it gave for favoritism and corruption in the granting of charters. The practice implied the idea of monopoly, the benefits of which banks already chartered sought to retain and those seeking new charters sought to share.

The New York legislature ended the issuance of special charters by the adoption of the Act of April 18, 1838, which provided that "any person or association of persons formed for the purpose of banking" should be authorized "to establish offices of discount, deposit and circulation." One important feature of this act was that it made the authorization of banks a matter of administration rather than of legislation. Another was that it constituted a general banking law applicable to all banks established under

it.(1) Still another was that it created these "associations" in contradistinction to "incorporated" banks, the latter being those organized under special charter. The most important feature of all though was the basic idea of making banking free to anyone who had the capital to engage in it, instead of leaving it a monopolistic or semimonopolistic privilege. Millard Fillmore, in his report as Comptroller of New York in 1849 described it as follows:(2)

> "This is the free bank system, as it now stands, and it takes its name from the fact that all are freely permitted to embark in it who comply with the rules prescribed."

This idea of freedom in banking had a wide popular appeal, and the New York legislation was copied by the majority of Eastern and Northern States as well as by a number in the South. It had the obvious advantage of creating plenty of banks and consequently plenty of "money," or circulating notes, which was what a new and developing country seemed to need. The crucial provision in all the free banking laws was that each association must deposit bonds with the State to protect its circulation. In the East, where there was a supply of good securities, and a better discrimination by the authorities between good and bad ones, free banking worked very well. It worked extremely well in Louisiana.(3) In the West the experience was generally disastrous, however. McCulloch, describing free banking in Indiana, said:(4)

> "As the times were flush, and credit easily obtained, anybody who could command two or three thousand dollars of money could buy on a margin the bonds necessary to establish a bank, to be paid for in its notes after its organization had been completed."

---

(1) This was only a step from the special charters previously issued, since they had become uniform in wording and provisions.

(2) Bankers' Magazine, Vol. III, May, 1849, p. 679.

(3) Helderman, National and State Banks, p. 97.

(4) McCulloch, Men and Measures of Half a Century, p. 125.

Besides having insufficient capital, the banks would put up worthless securities behind their circulation, and the State banking authorities would accept them. Furthermore, too many banks of circulation only were set up in the West and South, and to a lesser extent in the East. The result was a redundant and depreciated currency.

As already indicated, some of the States rejected free banking, and tried either prohibition or monopoly. In the country as a whole however, free banking was popular. It was considered democratic. It gave full opportunity to the vigorous spirit of individualistic enterprise that was characteristic of the period. This made it especially desirable as the basis of the national system, for the more popular and the more numerous the national banks should become, the better would they serve the purpose of providing an adequate and uniform circulation and a wide market for government bonds. The popularity that free banking would bring the national system was conceded by the latter's opponents. The Superintendent of the Banking Department of New York said that "The first obvious effect of the national system must be the inordinate multiplication of banks of small capital throughout the country."(1)

It is obvious that the principle of free banking was essentially opposed to that of branch banking. This does not mean, however, that it was adopted as a reaction from branch banking. It was rather a development from social and economic conditions which were unfavorable to branch banking, for in the Northern and Eastern States where free banking was strongest, the few branches that once existed had already practically disappeared. Banks evinced

(1) Bankers' Magazine, Vol. XVIII, April, 1864, p. 817.

no inclination to establish branches, and where they did it was generally at the behest of the legislatures. This was true of the South as well as of the North. The difficulties in the way of extensive branch banking before the Civil War are obvious. The means of travel and communication made control of remote branches almost impossible, as the experience of the Second Bank of the United States demonstrated. The same conditions forced communities to be more nearly self-sufficient than they are now, and encouraged a spirit of localism. At the same time they preserved rich opportunities for individual enterprise in all kinds of economic activity. All these things considered, it seems inevitable that branch banking should have been at a decided competitive disadvantage against free banking. To have any kind of branch banking on an extensive scale it was necessary to create legislative discrimination in its favor, as was done in Indiana and Iowa. Free banking, on the other hand, required no such protection.

Prohibition of Branch Banking

There is little evidence that the provisions of the National Bank Act which have been interpreted as prohibiting branches were designed specifically for that purpose. It is true, of course, that the language of the act, read in the light of the fact that branch banking after the Civil War almost wholly disappeared, seems to imply such an intention. This was undoubtedly the view in 1892, when special legislation was enacted by Congress to permit a branch of a national bank to be set up on the grounds of the World's Columbian Exposition in Chicago, and again in 1901 when permission was granted to establish a branch on the grounds of the Louisiana Purchase Exposition in St. Louis.

It was also the view in 1909 when the Comptroller of the Currency held that "While the national bank act does not in express terms prohibit the establishment and maintenance of branch banks or agencies by associations of primary organization, the implication to that effect is clear, ..."(1)

Again in 1911 the Attorney General held that:(2)

> "First. Independently of section 5190, Revised Statutes, a national bank is not, under its charter, authorized to establish a branch or coordinate office for the purpose of carrying on a general banking business in the place designated in its certificate of organization; and,
>
> "Second. That section 5190, Revised Statutes, properly construed, restricts the carrying on of the general banking business by a national bank to one office or banking house in the place designated in the association's certificate of organization."

Finally in 1924 in the St. Louis case, the Supreme Court affirmed the foregoing opinion of the Attorney General in a decision that involved primarily the jurisdiction of a State government over a national bank, but incidentally the power of a national bank to establish branches, which was by implication denied.(3) As to the effect to be given the law, therefore, there was nothing more to be said.

Provisions of the Act Prohibiting Branches. - There were two provisions in the National Bank Act, which, without mentioning branches, nevertheless have been interpreted as precluding their establishment by national banks. The first, as it stood in the Act of June 3, 1864, is as follows:

> "Section 6. And be it further enacted, That the persons uniting to form such an association shall, under their hands, make an organization certificate, which shall specify--
>
> "First. The name assumed by such association, which name shall be subject to the approval of the Comptroller.
>
> "Second. The place where its operations of discount and deposit are to be carried on, designating the State, Territory, or District, and also the particular county and city, town, or village.

---

(1) Instructions and Suggestions of the Comptroller of the Currency Relative to the Organization, etc., of National Banks, 1909, p. 42.
(2) Opinions of the Attorney General, Vol. 29, p. 98.
(3) "First National Bank in St. Louis vs. State of Missouri," January 28, 1924, in the Federal Reserve Bulletin, April, 1924, pp. 281-286.

"Third. The amount of its capital stock, and the number of shares into which the same shall be divided.
"Fourth. The names and places of residence of the shareholders, and the number of shares held by each of them.
"Fifth. A declaration," etc.

That part of the above specifications which relates to "the place" where the bank's business is to be carried on clearly does not imply that it may be carried on in more than one place.

These stipulations did not originate in the National Bank Act. They were taken from a corresponding passage to be found in apparently all the free banking laws of the States, the oldest of which was the New York free banking act of April 18, 1838, which reads as follows:

"Section 16. Such persons, under their hands and seals, shall make a certificate which shall specify:
"1. The name assumed to distinguish such association, and to be used in its dealings;
"2. The place where the operations of discount and deposit of such association are to be carried on, designating the particular city, town or village;
"3. The amount of the capital stock of such association, and the number of shares into which the same shall be divided;
"4. The names and places of residence of the shareholders, and the number of shares held by each of them respectively;
"5. The period," etc.

In the Ohio law of 1845, which established free banking and at the same time incorporated the State Bank with its branches, the corresponding passage makes the same requirement as to the place of business apply to "<u>branches</u>[1] of the State Bank" as to independent banks. The passage is as follows:

"Sec. 7. Persons associating to form a banking company, shall, under their hands and seals, make a certificate, which shall specify:

---

[1] Italics ours.

"First--The name assumed by such company and by which it shall be known in its dealings, in which name shall be included the name of the city, village, or town, in which its banking operations shall be carried on;

"Second--The amount of the capital stock of such company and the number of shares into which the same is divided;

"Third--The name and place of residence and the number of shares held by each member of the company;"

The requirement that the place where the bank's operations of discount and deposit were to be carried on be specified, although originating in form in the New York free banking act of 1838, did not originate there in substance, for the special charters by which all banks in New York had previously been created were drawn uniformly, and specified the place of business. The only exceptions were in the earliest charters drawn. These, practically all in the eighteenth century, were not uniform and did not say where the operations of discount and deposit were to be carried on. The uniform requirement once developed, however, was made in the case of banks with branches as well as in the case of those without. It therefore cannot be considered as evidence of any intention to prohibit branch banking.

The second provision of the act interpreted as prohibiting branches is the one which usually receives the greatest emphasis. That is the last clause of Section 8, Act of June 3, 1864, which reads as follows:(1)

"...; and its usual business shall be transacted at an office or banking house located in the place specified in its organization certificate."(2)

---

(1) Section 5190, Revised Statutes, prior to Amendment of February 25, 1927.

(2) The original National Bank Act of February 25, 1863, Section 11, provided "...and their usual business shall be transacted in banking offices located at the places specified respectively in its certificate of association, and not elsewhere." (Italics ours.) This use of singular and plural pronouns with the same reference is one of the numerous errata to be found in the original version of the National Bank Act. Since "offices" and "places" follow the plural "their," these terms probably were intended to apply to individual, independent units, and there is no reason to suppose that they were inserted with any thought of branch banking. This is substantiated by the revised wording of the act, where the grammar is corrected and the discrepancy between this and the first provision prohibiting branches is removed.

This passage is likewise derived from the New York law, where it appears in an Act of April 12, 1848, amending the free banking law, and reading in part as follows:(1)

> "All banking associations or individual bankers organized under the (free banking act of April 18, 1838), or which shall hereafter be organized, shall be banks of discount and deposit, as well as of circulation; and the usual business of banking of said association, or individual banker shall be transacted at the place where such banking association or individual banker shall be located, agreeably to the location specified in the certificate directed to be made by the second clause of the sixteenth section of the act passed April 18th, 1838, hereinbefore mentioned, and not elsewhere;...."

It is the clause following the semicolon, "and the usual business," etc., that was incorporated in the National Bank Act. On internal evidence alone, it might be concluded that this was not originally aimed at branch banking, since it relates only to free banks, which had no branches.(2)

There is evidence of a positive sort, however, as to what the amendment was aimed at. This is in the following official statement made at the time by Millard Fillmore, the Comptroller of the State of New York:(3)

> "It will be seen that the first and fourth sections of the act, will, after the first day of June next, operate upon banks and individual bankers now doing business under the general banking law, and that every such bank is to be, and every such banker is to keep a bank of discount and deposit, as well as of circulation and its usual business of banking is required to be transacted at the place where such banking association or individual banker shall be located, as specified in the certificate required by the second clause of the 16th section of the act of 1838. That

(1) A previous amendment to the free banking law, passed May 6, 1844, had provided that it should not be lawful for an individual banker, i.e., not an association, to transact business in any other place than that in which he resided.

(2) There appear to have been few branches of any sort left in New York at the time of this amendment. See p. 29, Chapter II. However, in a law dealing with safety fund banks passed the same day as the one quoted, April 12, 1848, there was a reference to "all cases where a bank has a branch," which indicates that there were branches, and that there was no intention of curtailing their operations.

(3) Bankers' Magazine, Vol. II, May, 1848, p. 744.

certificate is required only of associations and not of individual bankers, and the second clause of the act declares, that 'the place where the operations of discount and deposit of such associations are to be carried on, designating the particular city, town, or village,' shall be specified in the certificate. In the case of an individual banker, his place of residence is the place where his banking business must be done.

"A practice had grown up under the general banking law, of establishing banks in obscure places, in remote parts of the state where little or no business was done, with a view of obtaining a circulation merely, and doing no other business. This circulation was then redeemed in New York or Albany by the agents of the bank, at one-half of one per cent. discount, and again put in circulation without being returned to the bank, thereby enabling the bank to redeem its own paper at a discount, and then again put in circulation in the same place where it was redeemed. The object of the present law appears to be to break up that practice, and to ensure obedience to its requirements, the legislature have enacted that the president and cashier shall in every report made to this office, state that their business has been transacted at the place required by that act, and that such report shall be verified by their oaths. A strict compliance with this rule will hereafter be exacted from every bank and individual banker subject to its provisions."

The two important provisions of the amendment, as the State Comptroller indicated by repeating and emphasizing them, were: first, that every bank of circulation must be a bank of deposit also; and, second, that every bank must transact its business at the place specified. Furthermore he explains that this requirement is intended to break up a practice which had developed under free banking of establishing in obscure and remote places banks of issue only, the idea being to prolong the circulation of outstanding notes by making it difficult for them to find their way back to the bank for retirement.

This was a practice peculiar to banks of issue only, and to realize how general it had been, it is necessary to recall the fact, already emphasized by the quotation from Daniel Webster, that before the Civil War note issue was the essential and sometimes the sole function of banks. At first

it seems to have been considered sufficient if the notes were amply secured. But experience showed that security was not enough, for unless the note could return readily to the bank which issued it, the circulation became redundant and depreciated. If the banks were remote from the centers of commerce and obscure or inaccessible, the notes could not return readily, which was a gain to the bank and a loss to the note holder. This was all the more true if the bank did not open its doors or had no known location at all, an anomaly that apparently was not uncommon, as the following instances go to show.

In Florida in 1839 it was officially reported of the Bank of West Florida, whose notes were still in circulation, that it appeared "to have no fixed or permanent abiding place" and was "not to be found in the Territory."(1)

In Ohio in 1854 the State auditor recommended a number of new rules for banking, according to Sumner, "the purport of which was generally that the banks should have a well-known and accessible domicile, and be open in banking hours of every business day."(2)

In New Jersey, at about the same time, the governor of the State said:(3) "In many cases our banks, although ostensibly located in New Jersey, have their whole business operations conducted by brokers in other States. The facility with which they may be organized and located, without reference to the wants of the community or the business of the place, is destructive to all the legitimate ends of banking."

In Indiana in 1855 the General Bank Act was thoroughly revised, and a new section inserted which provided, in part, that all banks were to transact their business "at a place designated in their issues, and where the directors, or a majority of them, reside"; and that they were to have "painted above the outside door of said bank, in large letters, the name of said bank or banking association," and were to keep regular banking hours, ten to three each day. Since several provisions of this act considerably restricted the operations of banks in obscure places, the latter were given an opportunity to re-

(1) Sumner, History of Banking, p. 246.
(2) Ibid., p. 445.
(3) Banker's Magazine, October, 1882, Vol. 17, p. 278.

move "to some other place of greater commercial importance" within six months of the passage of the act.(1)

The requirement seems not to have been wholly effective, however, for Hugh McCulloch, speaking of the situation a few years later, said that "these free banks, organized as most of them were as banks of circulation only, had nothing to do but to put out their notes and draw interest on their bonds."(2)

In Illinois, about 1858, according to Knox, the legislature passed a bill which "prohibited the location of banks in inaccessible places."(3)

Massachusetts also had a statute similar to the one just described in New York. It read that "no loan or discount shall be made, nor shall any bill or note be issued by any bank, or by any person on its account, in any other place than at its banking house." It also required that every bank "be kept in the town in which it is established, and in such part of such town as is prescribed by its charter."(4)

In Massachusetts in 1865, according to a statement in Congress by a representative from that State, there was a bank organized under the National Bank Act, which put out its circulation and then never opened its doors from one week's end to the other, yet it paid its stockholders 18 per cent to 20 per cent dividends.(5)

It is evident therefore that the difficulty aimed at in the New York amendment of 1848 which required banks to transact business at the

(1) Indiana Laws, 1855, Chapter VII, Sections 40, 49.
(2) McCulloch, Men and Measures of Half a Century, p. 126.
(3) Knox, History of Banking, p. 725.
(4) Massachusetts Bank Commissioner's Report, 1853, p. 41.
(5) Congressional Globe, Vol. XXXV, 38th Congress, 2d Session, 1865, p. 833.

place specified in their organization certificate and not elsewhere was not peculiar to that State. The situation had been bad in New York for a long time and the amendment of 1848 was adopted after several previous remedies had been attempted.(1) The statement of the New York comptroller, therefore, fully explains the amendment on quite different grounds from branch banking and without any reference to it.

In the Sherman Act, or original National Bank Act of February 25, 1863, the concluding words of the New York law "and not elsewhere" were retained; whereas in the revised National Bank Act of June 3, 1864, they were omitted. Their omission makes the passage less positive then it was before, which would appear to be a weakening of the provision. However the point was of importance, for during consideration of the bill Senator Howard of Michigan argued that the articles of association of each bank should be published in the laws in order that "the public should know, in every case, where an association has established itself, who its members are, etc."(2) Senator Henderson of Missouri introduced an amendment to prevent the locality of the banks from being "inaccessible," and said that one of the evils of the State banks was that "we do not know where they are located." His object he said was "to avoid the establishment of banks in those inaccessible places."(3)

The need for emphasis upon this requirement is indicated by the following excerpt from general regulations issued by the first Comptroller of the Currency in 1863:(4)

---

(1) White, Money and Banking, 5th Edition, pp. 313, 314.
(2) Congressional Globe, Vol. 33, Part 1, 1862-1863, 37th C 3rd, p. 848.
(3) Ibid., pp. 850, 851.
(4) Bankers' Magazine, Vol. XVIII, July, 1863, p. 9.

"Before circulating notes will be delivered to any bank organized under the national general banking law, the Comptroller must have satisfactory evidence, by the report of an examiner, or otherwise,

"1st. That the bank is located in some city, town or village, which is easily accessible, and not in some out-of-the-way, inaccessible place, selected for the purpose of making the return of its notes difficult or expensive."

Amendment to Permit Branches of Converted State Banks. - The supposition that the National Bank Act aimed to prevent branch banking implies that there was in the legislators' minds when the act was being drafted either a consciousness of some unhappy experience with branch banking or an apprehension that such an experience might arise. No evidence has been brought to light to indicate that this was the case. Certain proposals for "a national bank" with branches were made before the present system of free banks was adopted for the national system, but the feature of branches appears to have provoked no interest or attention one way or the other.(1) There is no mention of branches in the original act itself, either in the form in which it was passed February 25, 1863, or in the revised and permanent form adopted June 3, 1864. The first and only mention of branch banking in early national bank legislation was in the Revenue Act of March 3, 1865, which put into effect the prohibitory 10 per cent tax on State bank issues, and which also contained the section providing: first, that State banks desiring to become national banks should be given preference over new associations; and, second, that State banks with branches, "the capital being joint and assigned to and used by the mother bank and branches in definite proportions," might convert and retain their branches. The amendment embodying this provision was introduced by Senator Van Winkle of West Virginia,

(1) Bankers' Magazine, Vol. XVI, January, 1862, p. 530; March, 1862, p. 663.

which had recently been separated from Virginia. His remarks are quoted from the Congressional Globe:(1)

> "MR. VAN WINKLE. I have an amendment which I intended to offer to the banking system. I intended to offer it as a proviso to the fifth section, but probably it would come in more properly as a proviso to this amendment of the Senator from Rhode Island. Its object is to enable the State banks of West Virginia to avail themselves of the privileges of becoming national banks, though it is not confined to that State. I offer my amendment as a proviso to the amendment of the Senator from Rhode Island, in this form:
>
> > Provided, That it shall be lawful for any bank or banking association organized under State laws and having branches, the capital being joint and assigned to and used by the mother bank and branches in definite proportions, to become a national banking association in conformity with existing laws, and to retain and keep in operation its branches or such one or more as it may elect to retain, the amount of the circulation redeemable at the mother bank and each branch to be regulated by the amount of capital assigned to and used by each.
>
> "It may be perhaps that the law as it now stands would not forbid banks of the character here described becoming national banks and retaining their branches; but there has been some misconception in relation to the character of these branches. It is not the system that prevails I believe in Indiana and Ohio where there are in fact a number of affiliated banks regulated by a central board of control, and the objection to their being transferred in a bunch and made national banks is that there cannot be two controlling powers. But the banks of the character described in the amendment that I have offered are found in our State, in Missouri, in Pennsylvania, I believe, and in some other States, and they amount simply to one bank having two or more offices at which it transacts its business. In the case of our banks the State owns about one half of the stock and in granting an additional subscription of stock on the part of the State--I will take a specific case with which I am more familiar--in granting an additional subscription on the part of the State they made it a condition that the Northwestern Bank at Wheeling should establish a branch with a capital of $100,000 at Parkersburg. That branch was long since established, twenty years ago, and has been in operation under a renewal of the charter ever since, and is now in operation. The point that I desire to accomplish here is to make it certain that these banks retaining this organization with a branch, may become

(1) Congressional Globe, Vol. XXXV, 38th Congress, 2d Session, March 3, 1865, p. 1281. The full discussion of the two amendments in the Revenue Act of March 3, 1865 pertaining to national banks will be found in the Appendix, p.

> national banks. They will be wholly under the national banking law; they will be wholly under the control of the Comptroller of the Currency as much as any other banks, and they will not in fact differ from any other banks that are created by the national law except in the single fact that they will have two or more offices where they transact business. The mother banks generally have a large capital while the branches have a smaller capital. In our case you could not withdraw those branches without withdrawing the benefaction, if you choose to call it so, of the State to neighborhoods not so wealthy and not so well able to have banks of their own.
>
> "I understand that there is no objection to this amendment. The objection of the Comptroller of the Currency, as I understood, only applied to the system of affiliated banks of which I have spoken. Now you have determined, so far as you have gone, to impose a tax of ten per cent. on the circulation of these banks which have been desirous and are authorized by a law passed at the present session of our Legislature to become national banks. I propose to let them do it without throwing off their branches, which perhaps they cannot do unless this additional authority is afforded. I cannot see any objection that can be made to it, and I trust that it will be adopted."

The provision was adopted after conference in essentially the form in which it was introduced, without any recorded objection or discussion beyond what is quoted. The distinction which the Senator made between types of branches will recall the explanation already given in Chapter II of the difference between the branches of the State Banks of Indiana, Ohio, and Iowa, and the branches of banks in most of the other States. The branch systems to which his amendment applies, as he says, "amount simply to one bank having two or more offices"; while those to which it does not apply, "in Indiana and Ohio . . . are in fact a number of affiliated banks regulated by a central board of control." His language implies that there was no opposition to branches. If there had been any opposition, or any generally recognized experience on which to ground opposition, it is probable that either he himself or some opponent would have mentioned it. The attitude which he imputes to the Comptroller, Hugh McCulloch, cannot be interpreted

as one of hostility to branches. What McCulloch objected to was the conversion as one unit of the kind of branch organization he knew, which was in part a State government instrumentality and in part a private enterprise. This objection is the more interesting since the entire previous experience of the comptroller had been with the best known of these "branch" organizations, the State Bank of Indiana, of which he had been president. His reason for opposing such conversion was that "there cannot be two controlling powers." By two controlling powers he meant the State Bank's own board of control, which was virtually the State's supervisory authority, and the comptroller himself, who was the Federal supervisory authority.

In his memoirs, written years later, McCulloch describes the "branch" system of the State Bank of Indiana with pride and satisfaction.(1) He speaks with the same satisfaction of the national banking system. Yet nowhere does he take cognizance of any opposition to branches on the part of anyone. Finally the fact that he owed his appointment by Lincoln and Chase as first Comptroller of the Currency to his long official career with what was the best known "branch" system in the country, would be difficult to explain if Chase and the other sponsors of the National Bank Act had felt any antagonism to branch banking.

As it happened, the amendment permitting conversion of banks with branches proper was not used till more than forty years later, when in 1907, the first conversion occurred of a State bank with its branch.(2) The reason for this doubtless lies in the fact that in the period immediately following the passage of the provision the

(1) Hugh McCulloch, Men and Measures of Half a Century.

(2) This was the Pascagoula National Bank of Moss Point, Mississippi, having a branch at Scranton, Mississippi. The date of the conversion was March 14, 1907.

number of banks with more than one office was comparatively small, the majority of them having been in the Southern States where banking was demoralized by the war and by reconstruction, and the number which could in fact have applied for national charter was therefore negligible. Moreover there were probably few, if any, applicants with more than two or three branches each, so that it was easy as an administrative measure to insist upon their conversion as independent banks.

No Mention of Branches in Congressional Debates. - No mention of "branch banking" has been found in contemporary discussions of the National Bank Act, either in the Congressional Globe, or in the files of the Bankers' Magazine, with the exception of the comments on the above amendment and the proposals for a national bank with branches, similar in a way to the First and Second Banks of the United States. In the accounts of the older historians of banking, such as Knox and Sumner, although there is frequent mention of branches, there is no mention of them in connection with the National Bank Act. In Davis' documentary study, The Origin of the National Banking System, prepared for the National Monetary Commission in 1910, there is no mention of branches.(1)

Finally there must be taken into account the fact that nothing exists in the contemporary records of the number of banks and the number of branches to suggest either that branches were numerous enough to excite comment or that they were inclined at any time to increase markedly in number.

Further research may discover something that will throw a different light on this point, but the present state of the evidence indicates that the

(1) Davis, Origin of the National Banking System, National Monetary Commission, Vol. V.

provisions which effectively prevented branch banking from developing under the national bank legislation, till amended in 1927, had no connection with branch banking. They originated as measures to control note issue, and were intended, according to the explanation made at the time, to prevent the practice under free banking "of establishing banks in obscure places, in remote parts of the state where little or no business was done, with a view of obtaining a circulation merely, and doing no other business." That they had the effect of almost completely suppressing such branch banking as then existed is not to be denied. It may be pointed out, however, that the National Bank Act had also the effect of wholly suppressing the Suffolk Bank system of New England, yet it has never been thought that it was the purpose of the act to destroy that system.

The conclusions reached on this subject are, in general, consonant with views expressed previously by Mr. Edmund Platt, and Professor S. D. Southworth. Professor Southworth wrote as follows in 1928, with respect to the bearing of the National Bank Act on branch banking:(1)

> "Branch banking was not the issue involved. Secretary Chase was endeavoring to bring about uniformity in the currency, with incidental advantages to the government in a market for government bonds and safe depositories for government funds."

In an address before the Alabama Bankers Association, Birmingham, May 20, 1927, Mr. Edmund Platt, then Vice-Governor of the Federal Reserve Board, spoke as follows regarding the New York amendment of 1848 which was taken over in the National Bank Act:(2)

> "This New York amendment was, therefore, probably not intended to apply to genuine branch banking. As the New York Free Banking Act became the model on which the National Banking Act was built during the Civil War it would seem probable that this New York Amendment of 1848 explains the origin of

(1) Southworth, Branch Banking in the United States, p. 11.
(2) Platt, Branch Banking for Country Banks, pp. 6-7.

> the provision in the National Banking Act of 1864 that the principal business of each bank must be transacted at 'an office' in the place mentioned in its charter - a provision which Comptrollers later interpreted as prohibiting branches. It explains also the apparent inconsistency of the Act of 1865 which provided that State banks with branches could convert into National banks and retain their branches wherever located, thus providing an indirect method of doing what another section of the law was interpreted as prohibiting."

The evidence accumulated in the present study therefore confirms and amplifies the ideas already advanced by the foregoing authorities.

Effects of the National Bank Act

The National Bank Act had first the effect of breaking up the State "branch" systems in Indiana, Ohio, Missouri, and Iowa. It did this because note issue was an essential function of those systems. Their choice lay therefore between conversion and liquidation. The third choice, of giving up the issue function and becoming banks of deposit, appears to have been considered out of the question. One reason for this was that the national bank legislation in effect annulled such monopoly privileges as they had under State law, just as it annulled in effect the constitutional prohibition on banks that had been in force in Texas and Arkansas. On the other hand, since the national banks were primarily banks of issue and since State banks desiring to convert were given preference over new organizations, it was natural that the Western banks should transfer to the new system and with that change abandon the so-called "branch" arrangement that had characterized them.

In the East the national bank legislation had little effect on branch banking partly because there were scarcely any branches still in operation there, and partly because deposit business was more developed and issue had become of secondary importance to many banks with the result that

Eastern banks were generally under less impulsion to convert.

In the South and in the border States, where branches in the sense we recognize nowadays were most common, the war between the States prevented the national bank legislation from having any immediate effect one way or the other.

Finally, for the country as a whole, the national bank legislation had the general effect of establishing free banking as the dominant feature of the banking structure.

Summary

The facts presented in this and the preceding chapter indicate that deductions applicable to the present cannot be casually drawn from our banking experience before the Civil War.

In the first place, banking functions were different. A primary function of banks was note issue. Consequently branches were mainly engaged in issuing and redeeming notes--or in avoiding their redemption; whereas branches are chiefly important now for the receipt of deposits.

Moreover, branches before the Civil War, of whatever type, appear to have had far more independence than branches have now. Evidence of this lies in the fact that they were often enumerated as banks, that they frequently had their own presidents and directors, and their own capital, and that they issued their own notes. There is also evidence of this greater independence in the fact that the Second Bank of the United States, which had the most extensive spread of branches of any bank ever set up in this country, experienced the utmost danger from its inability to make its branches conform to general policy. This was due largely to the difficulties of transportation and communication.

Branches operated before the Civil War were, without any known exception, situated outside the town of their head offices; whereas the great development of branches since 1900 has been within the cities of the head offices. This of itself would mean that modern branches are much more directly subordinate to central control than the older ones.

Branch banking before the Civil War was almost wholly rural, in the sense that no branch system operated in or was controlled from the larger metropolitan centers; with the exception of the First and Second Banks of the United States, whose headquarters were in Philadelphia. Branch systems at that time existed only in the less populous States; by the time of the Civil War there were apparently no branches at all in New York and New England. Modern branch banking on the contrary has been predominantly a metropolitan activity. The largest and most important branch organizations before the Civil War had a large part of their stock subscribed by the States, as was done by the Federal Government in the case of the Second Banksof the United States, and the States participated in the management.

Finally, branches before the Civil War were not a matter of spontaneous growth, in the sense that a bank would increase the number of its branches indefinitely. Instead the number and location of the branches of each bank was customarily determined in its charter.

With these distinctions in mind, conclusions based on the survey of branch banking history up through the establishment of the national bank system, may be summarized as follows:

1. The experience of the Second Bank of the United States did not create any opposition to branch banking, as such, except as it represented intrusion upon the States by a Federal corporation without their consent.

2. The branch systems in Indiana, Ohio, and Iowa, and systems like them in other States, seem to have been held in high repute, and converted to individual national banks under circumstances that in no way reflect on branch operations.

3. There is no evidence of any experience with branch banking before the Civil War which might have led to widespread opposition, though there were experiences which engendered distrust of banks in general.

4. There is no evidence that up to and including the time of the passage of the original National Bank Act there was any legislation specifically designed to prohibit banks from having more than one office, nor that branch operation was recognized as an issue or as a form of banking requiring restriction.

5. The virtual disappearance of branch banking in the Northeastern States many years before the Civil War was the natural result of economic and social conditions which favored individual enterprise.

6. The virtual disappearance of branch banking in the South after the Civil War was due: first, to the destruction of practically all existing banks by the war; and, second, to the fact that banks there as in the North had henceforth to be under national charter in order to have the circulation privilege.

7. The provisions in the National Bank Act effectively preventing the establishment of branches by national banks were not adopted with that intent, but were taken over from State laws where they originated in an effort to control abuses of the note issue privilege by banks of circulation only.

CHAPTER IV

MOVEMENT FOR BRANCH BANKING, 1892-1902

For about thirty years following the Civil War and the passage of the original National Bank Act national banks greatly surpassed State banks in both number and importance. During that period there was very little branch banking in the country and apparently very little discussion of the subject. In 1887 and 1888 the Comptroller of the Currency, Mr. W. L. Trenholm, had recommended that national banks be allowed to establish offices with limited functions in the city of the head office, but this recommendation received no important consideration.(1)

During that period, however, State banks began to grow in number and in the nineties became more numerous than national banks. This increase in State banks was due to two conditions: first, the development of deposit banking to the point where it overshadowed issue banking; and second, the need for banking services in rural communities too small to have national banks. At that time national banks could not be organized with less than $50,000 capital, a requirement which was beyond the resources of most small communities, especially in agricultural regions. The need was therefore met by the organization under State charter of banks with smaller capital.

At the very outset of this rapid increase in the number of banks, however, the suggestion was made that the need of banking ser-

(1) Annual Reports of the Comptroller of the Currency, 1887, pp. 4, 17, 26; and 1888, p.4.

vices in such regions could be more advantageously met by branch banking. In 1892 Professor Charles F. Dunbar of Harvard wrote as follows:(1)

> "....Moreover, the greatest possible diffusion of banking facilities, under an admirably guarded system, might be secured if the establishment of branches were encouraged and facilitated by law. That, in the present state of opinion, the branches of a central bank would have to contend with some local jealousies is probable; but any real improvement in commerce or finance is tolably sure to make good its footing. It is obvious, also, that, if the multiplication of branches were once fairly recognized again in the United States as a natural method, as it has been in the past, it would be as available for central banks under the State systems as for national banks. For both alike it would have the convenience of making it unnecessary to provide a full board of directors for every establishment, large or small,—a necessity which is often embarrassing in small places,—since a local manager under the direction and supervision of a central board could often perform the duties for which a local board now has to be made up. For both alike it would tend to diffuse business risks over somewhat larger areas than at present, with a gain analogous to that which such diffusion brings in insurance; and for both it would be possible to apply banking capital at a given moment according to the unequal and variable needs of the different parts of any section covered by a given institution and its agencies."

In 1893 at the World's Congress of Bankers and Financiers Mr. Byron E. Walker of the Canadian Bank of Commerce delivered an address entitled "Banking in Canada" in which the advantages of branch banking for the United States were urged.

In 1894 the Comptroller of the Currency, Mr. James H. Eckels, in his annual report,(2) described the existing situation in the follow-

(1) "The Bank Note Question," Quarterly Journal of Economics, October, 1892. Reprinted in Dunbar, Economic Essays, 1904, p. 188.

(2) Annual Report of the Comptroller of the Currency, 1894, p. 10.

ing words:

> "No one can deny that banking has overreached itself in many communities. Profits are sought by several institutions when one strong bank only could be able to make them, the others conducting their business at either an actual loss, or at least without profit. The consolidation of rival concerns in such localities would add quite largely to the available banking capital, and at the same time escape a large proportion of expense. It would also tend to check reckless banking springing from an unwholesome competition to obtain business. Such a course invites public confidence and goes to justify it."

The Comptroller did not at the time speak of branch banking, but the following year, 1895, he published in his annual report the results of an inquiry he had made into the banking systems of other countries and of the various States. On page 25 of his report he made the following observation:

> "It is notable that every country reporting allows the banks to maintain branch offices or banks. This is worthy of much consideration, as it appears that branches are thought to be necessary adjuncts to the banks to enable them to exercise their function to the greatest benefit of their governments and patrons. One country even goes so far as to absolutely require that branch banks must be established and operated for the convenience of the public. Our national banking act has been construed as prohibiting all branches, except for converted State banks having them in operation at the time of entering the national system. It is worthy of serious consideration whether many communities here would not be better served with banking facilities if branch banks, limited to a deposit and commercial business, under the national banking act, were to be allowed."

At the same time the Secretary of the Treasury, Mr. J. G. Carlisle, discussed the subject:(1)

---

(1) Report of the Secretary of the Treasury, 1895, pp. LXXXIII-LXXXIV.

"....One of the most serious objections heretofore urged against the (national bank) system as it now exists has been that, while it is well adapted to large commercial communities, where capital is easily concentrated, it has not furnished the necessary banking facilities to the small centers of local trade where, especially at certain seasons of the year, such facilities are greatly needed to assist in cultivating, gathering, and removing our surplus agricultural products. All our trade in these products, which constitute such a large and important part of our domestic and foreign commerce, begins in the localities where they are grown, and it is there that the means for their first movement must be provided. It must be evident, therefore, that any system which will promote such a distribution of the loanable capital of the country as will make it easily accessible, upon reasonable terms, to the producers and purchasers of these products, must be highly beneficial to both, and I am satisfied that, under present conditions, the only successful attempt that can be made to secure these benefits is so to amend the law as to permit national banking associations to establish branches for the transaction of all kinds of business now authorized, except the issue of circulating notes. By receiving local deposits and discounting local bills and notes, these branches would not only make the capital and resources of the parent institution available when needed in the localities where the branches are established, but they would collect and utilize in the business transactions of the people all the surplus accumulations of their respective communities. These accumulations, although small in detail, are quite large in the aggregate in every industrious and thrifty community, and if they could be actively employed, when needed in the circulation, they would materially aid in relieving the stringency, which, notwithstanding the abundance of currency in the financial centers, is sometimes severely felt in particular localities."

The same year, 1895, President Cleveland in his annual message to Congress said:(1)

(1) Sound Currency, 1895, Vol. III, No. 1, p. 6.

> "It has always seemed to me that the provisions of law regarding the capital of national banks which operate as a limitation to their location fails (sic) to make proper compensation for the suppression of State banks, which came near to the people in all sections of the country and readily furnished them with banking accommodations and facilities. Any inconvenience or embarrassment arising from these restrictions on the location of national banks might well be remedied by better adapting the present system to the creation of banks in smaller communities, or by permitting banks of large capital to establish branches in such localities as would serve the people--so regulated and restrained as to secure their safe and conservative control and management."

In 1896, the year following, Comptroller Eckels in his annual report made a specific recommendation in favor of branches for national banks. He supported his recommendation with a discussion from which the following is taken:(1)

> "The very smallest of agricultural communities, even though deprived of transportation facilities, under a branch-bank system could still be given the advantages of available capital, lower interest, and lessened cost of exchange, privileges they can not enjoy when dependent upon the banking methods employed by the village or entirely isolated storekeeper. The branches grafted upon a parent institution of strength would introduce a capital into places unable to support independent banks, which could successfully compete with that of the local loaner of money at exorbitant rates of interest, and make it possible to obtain credit without endangering all property interests in so doing."

Further on he said:

> "It may be objected to the establishing of branch banks that they would tend to create a monopoly. The

(1) Annual Report of the Comptroller of the Currency, 1896, pp. 103-105.

objection is hardly tenable; for there could not, under the proposed amendment, be established a branch in any city, town, or village where a national bank was in existence, and moreover the privilege of establishing a branch at a designated place would be open to the competition of all banks already established outside of such place. Upon the other hand, they would stand as an aid introduced from the outside, which, while of profit to the nonresident shareholder, would in the end be of equal if not of greater benefit to resident citizens. They could not weaken the parent bank; for with the taking on of new responsibilities additional capital could be required. They would place the national banking system in this respect in line with the systems maintained in other great commercial nations and in accord with the provisions of some of the banking systems of the States. Under the restrictions adverted to, it is immaterial that the number of central banks in the United States would be so largely in excess of those in England, Scotland, Ireland, Germany, France, and Canada. If the principle is a correct one, the administrative detail involved will not be difficult of solution."

The same year Secretary Carlisle in his report said:(1)

"For reasons which were submitted at some length in my last annual report, and which it is unnecessary to repeat, I recommended such amendments to the national banking laws as would permit the issue of circulating notes equal in amount to the face value of the bonds deposited and reduce the tax on notes to one-fourth of one per centum per annum, and that authority be given to establish branch banks for the transaction of all kinds of business now allowed, except the issue of circulating notes. These amendments would, in my opinion, greatly improve the system, by increasing its efficiency as a means of furnishing accommodations to the people in times of need and in localities where adequate banking facilities do not now exist."

The next year, though there was a shift of the party in power, Mr. Eckels was still Comptroller. He made no recommendations on any

(1) Report of the Secretary of the Treasury, 1896, p. LXXIX.

subject in his annual report beyond reference to his previous recommendations, and did not discuss branch banking. He did appear before the House Committee on Banking and Currency in January, 1897, however, and in a general discussion of bills then pending repeated his statement of the desirability of branches. There seems to have been no opposition from any members of the Committee to his suggestion.(1) The new Secretary of the Treasury, Mr. Lyman J. Gage, also made no mention of branch banking in his annual report, but he recommended, among other things relating to currency and banking, that Congress "Permit national banks to be organized with a minimum capital of $25,000 in any place having a population of 2,000 inhabitants or less."(2) This change was intended to remedy the condition for which branch banking had previously been recommended.

This question, whether it would be advantageous to permit national banks with less than $50,000 capital to be organized, had already been discussed that same year, 1897, at the annual meeting of the American Bankers Association by two speakers. One of them, Mr. G. G. Jordan, President of the Third National Bank of Columbus, Georgia, incidentally advocated what we should call chain or group banking. The other, Mr. W. C. Cornwell, President of the City Bank, Buffalo, advocated branch banking. There appears to have been no discussion in

(1) United States Congress, 54th, 1st and 2d Sessions, House Committee on Banking and Currency, Hearings and Arguments on the Financial and Banking Situation, 1896-1897.

(2) Report of the Secretary of the Treasury, 1897, p. LXXVI.

opposition to either. At the next year's meeting of the association, its president, Mr. J. C. Hendrix, president of the National Union Bank of New York, expressed the opinion in his presidential address that branch banking was desirable. At the same meeting, under discussion of the subject "The Need of Banking Facilities in Rural Districts," both Mr. W. S. Woods, president of the National Bank of Commerce, Kansas City, and Mr. John P. Branch, president of the Merchants' National Bank of Richmond, advocated branch banking and no opposition was expressed.

A bill was pending in Congress at that time designed to provide an asset currency and to permit the establishment of branches. In a report on the proposed legislation dated May 11, 1898 the Banking and Currency Committee of the House said in part:(1)

> ". . . There can be no question, in the opinion of your committee, that the combination of the power to establish branches with the power to issue a reasonable amount in notes upon commercial assets would give a vigor to the credit system of this country which has been lacking under the present complicated and unscientific system of fixed government issues, rigid security for bank

(1) United States Congress, 55th, 2nd Session, H. R. Report 1575, ordered to be printed June 15, 1898, p. 30.

notes, and the prohibition upon the power to establish branches."

The House Committee also said:

> "One of the most striking benefits of branch banking is that a branch may be created and maintained at a profit in a community without sufficient business for an independent bank. This would permit the extension of credit into many localities in the thinly settled portions of the country where it is now impossible. Branch banking, moreover, permits the more ready flow of capital from communities where it is not needed to those where it is needed than does the operation of independent banks."....

> "Branch banking in connection with reasonable freedom of note issues has produced such favorable conditions in Scotland and Canada that interest rates are almost uniform throughout those countries, even in the most remote sections, and disclose none of the striking differences disclosed in this country between rates in the money centers and in certain remote sections."

This last consideration became one of the principal points urged in favor of branch banking. It was contended that branch banking would make interest rates lower and more uniform, and thereby be of special benefit to agricultural regions. Professor R. M. Breckenridge, in a discussion entitled "Branch Banking and Discount Rates," tabulated the diverse interest rates prevailing in different parts of the country, compared American conditions with foreign, and contended that "The preeminent advantage of branch banking....is its tendency to equalize domestic discount rates."(1)

The case for branch banking appears to have been advocated along the lines indicated in the preceding quotations without much

(1) Bankers' Magazine, Vol. LVIII, January, 1899; Sound Currency, Vol. VI, No. 1, January, 1899.

opposition until 1898. Its advocates were in general those among both Democrats and Republicans who opposed "free-silver" and defended the gold standard in what was the main political issue of the period.(1) In the controversy which was raised branch banking was secondary to asset currency.

It was in 1898 that the proposals for branch banking and asset currency met their first serious reverse. The report of the House Committee on Banking and Currency just quoted did not represent the unanimous views of the committee; a minority report was rendered by Mr. Walker of Massachusetts in which the committee bill was severely criticized at all points and a substitute bill prepared by Mr. Walker himself was recommended. With respect to the branch banking provisions of the committee bill, the minority report read as follows:(2)

> "The Hill-Fowler bill authorization of branch banks is very bad economics as compared with encouraging the local independent bank, and still worse statesmanship.
>
> "It finds no justification in the policy of our free banking system or in any amendment of it proposed in this bill.
>
> "It is unwise to permit powerful city banks to extablish branches in places of 4,000 inhabitants or less. The putting its local agent in a place with no interest in it other than the money he can make out of it for his

(1) The activities of the group of economists and bankers who advocated the gold standard, asset currency, and branch banking are covered in their publication Sound Currency, Vols. 1-10. See especially discussions by Horace White, R. M. Breckenridge, H. Parker Willis, A. Barton Hepburn, James B. Forgan, Lyman J. Gage, L. Carroll Root.

(2) United States Congress, 55th, 2nd Session, H. R. Report 1575, Part 2, ordered to be printed June 23, 1898, pp. 44, 45.

nonresident employer, means that no independent local bank, managed by its citizens, can be established in the town, and if one is there it must go out of business."....

"The agent of the city bank may for a time loan money, in 'good times,' at rates to drive out the country bank, and in times of stringency the funds with this country agent will be sure to be immediately returned to support the city bank. The customers of the country agency will be sacrificed to the necessities of the parent bank.

"Generally there are two stores in a town. In times of excitement each is the headquarters of one political party. The agent of the parent bank knows the politics of his city employer, and again the bestowal of his favors is liable to be influenced by his own politics.

"But our choice must be made between one great 'United States Bank' with ten thousand branches, and on the other hand ten thousand independent local banks, united together, that all in union may support each, and thus all together make each secure in times of stringency or in threatened or actual panic, as in the Walker bill."....

"Under the Walker bill independent banks will be formed in every considerable town by its leading citizens and in the immediate future.

"Each bank will necessarily have in its direction the two storekeepers. It will necessarily have Republicans, Democrats, and Populists in its management. There are not enough men in either party alone so situated as to maintain the bank."

A much more serious reverse for the proposed legislation occurred a few months later when the new Comptroller of the Currency, Mr. Charles G. Dawes, in his annual report for 1898, expressed vigorous opposition to the proposals for asset currency and only a qualified approval of

branch banking. He recommended,[1] "in accordance with former recommendations of his predecessor, that domestic branch banking should be legalized in communities of less than 2,000 inhabitants, many of which are now unable to support independent banks." This was followed, however, by an argument against branch banking on a larger scale.

> "The main arguments which are advanced in favor of the granting of more liberal privileges of branch banking than this, are based largely upon the theory that with branch banking allowed in all communities, irrespective of size, more uniform interest rates would prevail throughout the country, and the flow of capital to points of scarcity would be facilitated."....
>
> "The facilities now afforded by the 3,600 national banks of the country for the movement of capital toward points of scarcity are such that any new system would probably not result in great changes in the general rate of interest. But when the economic tendencies adverse to business individualism involved in unlimited domestic branch banking are considered, the question of interest rates becomes secondary."

The action of the Comptroller caused considerable surprise and criticism, since in certain respects it was in apparent conflict with the recommendations of the Secretary of the Treasury, Mr. Lyman J. Gage,[2] whose report was dated the day following.[3] It was also in opposition

---

(1) Annual Report of the Comptroller of the Currency, 1898, p. xl.

(2) In view of the aggressiveness and prominence of the Cook County Bankers' Association in opposition to branch banking years later, it is interesting to note that several of the persons interested in the movement for and against branch banking at the time of this early movement were connected with Chicago banks. Mr. J. H. Eckels, who appears to have been the first Comptroller to recommend emphatically branch banking, became subsequently president of the Commercial National Bank. Mr. Charles G. Dawes, whose opposition to branch banking was of decisive importance, became president of the Central Trust Company. Mr. Lyman J. Gage was president of the First National Bank when appointed Secretary of the Treasury, and Mr. James B. Forgan, one of the public advocates of branch banking, succeeded him in the presidency of that bank.

(3) Report of the Secretary of the Treasury, 1898, p. CIV; see also 1897, pp. LXXVI-LXXXI.

to the asset currency and branch banking provisions in the McCleary bill then pending before Congress and favored by the party in power. According to the Bankers' Magazine the proposals attacked by the Comptroller were founded on the "best features of plans proposed by former Comptrollers of the Currency, by the most experienced bankers and financial experts," and had "a still more solid foundation in the history and experience of practical banking in this and other countries." In a note entitled "The Comptroller's Objections to Currency Reform" in the Journal of Political Economy, March, 1899, Professor Breckinridge made the statement: "Among other things, it has been pointed out that the comptroller is in opposition, on the question of banking reform, not only to his party and its pledges, but to the weight of expert opinion in the United States."

Nevertheless the opposition checked immediate action and the McCleary bill was withdrawn from the calendar.

In his following report, 1899, the Comptroller did not review the recommendation that branches be authorized in towns of less than 2,000. Instead there was the following:(1)

> "In accordance with the recommendation of the President and the Secretary of the Treasury, and for the purpose of affording our smaller communities the business advantages incident to increased banking facilities, the Comptroller would urge the enactment of laws authorizing the organization of national banks with a capital of $25,000 in towns of 2,000 or less population."

A provision to this effect, the size of town being changed to 3,000, was enacted three months later in the Currency Act of March 14, 1900; and at the end of the year the Comptroller reported that "In

(1) Annual Report of the Comptroller of the Currency, 1899, p. XX.

anticipation of and as a result of the passage of the currency law passed March 14, 1900, approximately one thousand informal applications for authority to organize national banks have been filed...."[1] He also reported that in the period of about seven months since the passage of the act, 208 national banks with capital of $25,000 and 41 with capital between $25,000 and $50,000 had been organized, most of them being in the Middle West. About half of these were primary organizations.

It should be noted that the great increase in the number of banks, national and State, which ran through the two following decades, began about this time.

Although the increase in the number of banks, as a consequence of the new law, tended to relieve the dearth of banking facilities in agricultural regions for which branch banking had been urged as a relief, nevertheless, the advocacy of branch banking and asset currency continued. Bills covering these subjects remained before Congress. The controversy became more vehement than before, though some of the proponents were already discouraged by the political opposition. Thus the Secretary of the Treasury, Mr. Lyman J. Gage, describing the weaknesses of our banking system, which he said "is devised for fair weather, not for storms," used the following words, having in mind the events of 1893:[2]

---

(1) Annual Report of the Comptroller of the Currency, 1900, p. XXX.

(2) Report of the Secretary of the Treasury, 1901, pp. 76, 77. Reprinted in Sound Currency, December, 1901, p. 236.

> "....Many bank failures occurred and business bankruptcies were numerous; factories and work shops were closed, and unemployed labor suffered the pains of want. Nor could these evil consequences, under the limitations of our banking system, have been avoided. Unless modifications be made whereby the strength of association can be secured, and the surplus power of the safe and strong extended in confidence to the support of the weak and exposed, a repetition of the disastrous phenomena of 1893 awaits only the progress of time.
>
> "Argument has been put forward for a system which contemplates a large central bank with multiplied branches. That system does, indeed, afford the elements which would give the highest assurance of protection against the present evil of individual banks, each an independent unit, with no bond of cohesion, no power of cooperative action, no ability to coordinate for the general good or for mutual defense. But the proposition for large central banks, with broad powers for the establishing of branches, offends the common instincts of our people, and may fairly be looked upon as at present impossible of realization."

In May, 1902, Mr. Horace White, who had for some time been one of the most active advocates of branch banking, made an address to the Joint Convention of the Bankers' Associations of Missouri, Kansas, Oklahoma, and Indian Territory on "Branch Banking: its Economies and Advantages." The following is taken from his address:(1)

> "There is a wide diversity of opinion in this country as to the advisability of branch banking, and this diversity exists largely among bankers themselves. The mass of the people know nothing about it, and few of them care enough about it to study the question. The doctrinaires, the college professors, the economists, are generally in favor of branch banking. They are not, however, so far as I know, in favor of forcing that

(1) Sound Currency, Vol. IX, June, 1902, pp. 51, 52.

> system upon the national bankers against their will.... .....I for one do not believe that branch banking will ever be adopted by Congress until the majority of bankers acquiesce in it. Nevertheless, I believe that it will come, because I believe that it will be economical and profitable to all banks in both city and country, and that it will extend and enlarge instead of crippling their business, and that after trying it they will wonder why they were ever opposed to it."

According to the Commercial and Financial Chronicle the bankers, after listening to the address and discussing the subject, passed resolutions condemning branch banking "in all its forms as being unpatriotic, un-American, unbusinesslike and as tending to establish a monopoly of the honored business of banking in the hands of a few millionaires to the exclusion of the men of the West, old and young, who have labored so faithfully and well to make our banking system what it is today, the best in the known world."

In that same year an even more decisive test of feeling on the subject was made at the meeting of the American Bankers Association in New Orleans, where the main topics of discussion were branch banking and asset currency. The address of the association's president, Mr. Myron T. Herrick, was largely occupied with it, and other principal speakers on the subject were Mr. W. B. Ridgely, Comptroller of the Currency, Representative Charles N. Fowler of New Jersey, Mr. Charles G. Dawes, President of the Central Trust Company of Chicago, and Mr. Horace White.(1) These addresses are extremely illuminating records of prevailing attitudes on the subject.

---

(1) Proceedings of the American Bankers Association, 1902.

Mr. Herrick in discussing branch banking described the experience in Australia:(1)

> "President Stickney, of the Chicago Great Western Railway Company, urged with marked ability before this Association last year, that the experience of Canada proved the desirability of branch banks and note issues secured by bank assets, and we wonder that anything other than a Scotch banking system should be taught by the experience of the great self-governing colonies of England. The ordeal which Australia passed through after the Baring failure is suggested in this connection. In that country of very large gold reserves and exceptional per capita wealth, the multiplication of branches of great banks established in Sidney, Melbourne and other cities, had been carried to the extreme limit of possible need, in the most active times. When the crash came in land values, as an inevitable result of overspeculation, and when general business languished, the banks did not pay, and they could not safely be closed when the public was uneasy and apprehensive. The managers of branch banks had been far too ready, in eager competition for patronage, to procure the loaning of funds on security unfit to stand the test of hard times. In the beginning of 1892 there were 28 banks in the Australian colonies of Great Britain, with more than 1,700 branches, which had gone through the first crisis of 1891. But in the following year panic swept the Antipodes. Immense banks, one after another, succumbed to ruin and losses. Some had deposits reaching $50,000,000 apiece. Others owed their patrons from $25,000,000 to $35,000,000. In several instances a single big institution had over 100 branches. Several banks went down in spite of capital paid in to the amount of more than $5,000,000 apiece."

Mr. Dawes, in more outspoken opposition to branch banking and asset currency, said:(2)

> "I want to speak now for a few moments about this branch banking proposition. Those of us who oppose

(1) Proceedings of the American Bankers Association, 1902, pp. 10, 11.
(2) Ibid., pp. 119, 120.

branch banking have no quarrel with political economists as to the principles which are involved. We know that a branch banking system would cost the community less in the amount of interest which must be collected to pay the expenses and profits of a banking system.

"We admit that there would be a less number of banks, a less number of clerks, a less amount of rent to pay and greater facility in the movement of money between the different sections of our country, and greater convenience to some lines of business. Nor do we take the ground that the small banker, as a small banker, is entitled to any greater protection than any other class of small business men when the interests of the public are at stake. The position we do take at this time is this: That to let the great central banks of our cities into competition with the smaller banks of the country by taking down the restrictive legislation of present laws would so injure the opportunities for credit of the present great class of borrowing customers of small banks--those men who are starting small enterprises, who are starting small manufactories, who are developing the mineral and agricultural wealth of this magnificent country of ours, which is as yet an undeveloped country--that we would so injure them that as a national policy it would be most unwise for us at this time to adopt."

In conclusion he answered the argument that the experience of other countries with branch banking had proved its superiority to American practice, in the following words:[1]

"....And we have the greatest banking system that the world has ever known. Thank heaven this great system has been built up under the American theory as distinguished from the monarchial theory--by protecting the opportunities of the small institution, by protecting the right to exist and the right to grow of fifteen thousand differentiated banking units as distinguished from a great central bank protected by government and ramifying out in its commercial influence by branches which prevented the proper development of the country through small institutions fit to cope with the conditions of their localities, built

---

[1] Proceedings of the American Bankers Association, 1902, p. 121.

> up as we have built up the great American nation--not from the top down, but from the bottom up--by protecting the rights of the individual, by fostering the great American principle embodied in the American Constitution that the greatest national good comes from the protection of the rights and opportunities of the smallest and weakest as well as the greatest, built up until now in banking, as in commerce, we are coming to be the great and dominant power in the business of the world."

On this general point Congressman Fowler of the Banking and Currency Committee of the House, in the course of his address advocating branch banking and asset currency, argued that there was extreme weakness in our banking structure:(1)

> "Hardly a single financial or currency law graces our statute books that has been the result of cool, clear, dispassionate calculation and economic reasoning; but nearly all of them have sprung from the necessity of war, political purpose, or the shock incident to some commercial convulsion.
>
> "The result is that the banking business of the country is conducted in a most wasteful way, with machinery utterly inadequate to provide for the business at hand, and wholly unsuited to successfully withstand the storms of expanded credits and keep the debtors in safety while contraction rages and panics prey upon prices.
>
> "At the very time when banks should be of the greatest assistance our 12,000 integrated, so-called independent banks become the most dependent weaklings and destructive forces in the business organization. Each individual institution, conscious that all its creditors know its weakness, begins the desperate struggle of self-preservation and ruinous liquidation follows."

The same speaker, in answering Mr. Herrick's criticism of branch banking already quoted, said:(2)

---

(1) Proceedings of the American Bankers Association, 1902, p. 112.
(2) Ibid., p. 100.

> "Mr. Herrick alluded in his speech to the fact that there had been great failures in Australia, where the banking system was Scotch, both as to currency and branches. That is true, but it was because those banks forgot that their business was a commercial business, and went into the real estate business. The fact that they failed only proves that no well-managed bank, dealing with the commerce of a country, will engage in the real estate business."

With reference to the principal argument in favor of branch banking, that it would lower interest charges to country borrowers, Congressman Fowler made the following remark:(1)

> "A banker said to me a short time ago: 'Don't you know, Mr. Fowler, that five thousand bankers are against you?' I replied: 'I do, but I know on the other hand that there are five million borrowers for me.'"

A contrary view of the practical aspects of the issue was expressed by the Comptroller, Mr. Ridgely, in a summary of the situation:(2)

> "I believe in branch making. Theoretically, it is the best system, as it is more economical, more efficient, will serve its customers better, and the organization can be such as to secure in most respects better management. Owing to co-operation between its branches, it can be made safer than any system of independent banks. If I were outlining a new system for a country in which there was none, I would adopt this system; and I regret that it was not adopted or permitted in the beginning of the National banking system. I believe the National banks would be stronger and better to-day if branches had been permitted and the system had been developed with the branch feature an essential part of it. If this had been done the currency would doubtless have been made more elastic before now. If it had not, it would be easier now to do so with a system of large banks with numerous branches. Our system, however, was started on the other plan. All its growth has been in the other

(1) Proceedings of the American Bankers Association, 1902, p. 110.
(2) Ibid., p. 72.

> direction. Our people know the independent home bank and banker. It is too radical a change for the bank, the banker and the customer, to introduce at this late day. I do not think it would be wise to make such a change now if it could be done. I most emphatically believe it will not and cannot be done. The majority of bankers, the majority of the people are against it, and they will see that the majority of Congress are against it."

This same obstacle in the way of branch banking legislation was described by Mr. Dawes:(1)

> "As bankers we do not need much education in the theory of branch banking. We have read the text books. But tell us something about the chance for the passage of such a law at this time. Do you think that now, when there seems to be a growing public apprehension as to this great process of consolidation of business interests which is going on in other lines in this country; when the whole country is agitated concerning the effects of the immense steps in the centralization of industry which is accompanying the formation of these great industrial corporations; when there is an increasing and general apprehension that through that process the scope of individual activity is being too limited; when the Congress and the Executive and his Cabinet are studying and discussing the question of either regulation or additional restrictions in corporation law, do you tell us that there is any chance of Congress taking down the restrictive provisions of the law which prevents branch banking, and which prevents the formation of great central banks and branches?"

At the same convention a resolution was later introduced by Mr. A. J. Frame, President of the Waukesha National Bank, Waukesha, Wisconsin, and though it failed of adoption, it probably illustrates, as did the resolution adopted at Kansas City six months before, the feeling of the average unit banker. Mr. Frame's resolution was in part as follows:(2)

---

(1) Proceedings of the American Bankers Association, 1902, p. 120.
(2) Ibid., pp. 132, 133.

"Whereas, In the past forty years the United States has forged ahead by leaps and bounds in material prosperity until to-day it has distanced all competitors, and we believe the most potent factor in producing this result, next to the intelligent energy of our people, is the aid given by the banks; and,

"Whereas, While this great advance has been in progress the banking system of this country--under the fostering care of local ownership, coupled with continual progress in conservatism and sounder banking laws--has more than kept pace with the general progress in other lines, until to-day her banking power...exceeds 44 per cent. of the world's banking power;....

".....therefore be it

"Resolved, That the American Bankers' Association is opposed to the passage by Congress of the so-called Fowler bill, which undoubtedly would revolutionize the present system of banking, thus forcing the 500,000 stockholders to sell their vested rights or stand monopolistic competition, and substitute therefor a brood of two hundred or three hundred great central banks, with 10,000 to 15,000 branches in large cities as well as small, and as such branches would have no capital and only figure-head management, individualism in management would cease, local tax be evaded, no home distribution of profits, local progress retarded, in short, the great central banks would skim the cream from the whole country to enrich the exchequers of the great central banks, further....

"Resolved, That as the quality of our money is undoubted and the quantity ample for all legitimate requirements--but not for wild speculative purposes--we are opposed to an asset currency that will further inflate credit, drive our gold abroad under the Gresham law and help us into a panic when we are out of one;.. ....."

At this meeting in New Orleans in 1902 the early movement for branch banking, which had run about ten years, may be said to have spent itself. The bankers, realizing that the movement threatened their independence, offered it their determined and vigorous opposition.

At the next year's meeting of the association the subject was scarcely mentioned. Mr. Frame, in summing up progress in currency reform during the year past, used these words: "Branch banking in the United States has been relegated to the rear." "Asset currency with its first lien to rob the depositor has not been considered by the committee and is doomed to certain defeat."(1)

The success of the bankers was indirectly acknowledged by the currency reformers. Mr. H. Parker Willis, in discussing the situation in 1902, said that "from a political standpoint," one of the greatest obstacles in the way of the desired reforms was "found in the selfishness of some of those who are at the head of national banks of low capitalization." He continued:(2)

> "....Country bankers foresee danger to themselves in the possibility of inroads upon their fields of effort, should the larger institutions of the cities be permitted to establish branches and compete with them in their home market on equal terms. They know that such a policy would result in a reduction of interest rates in their towns and that their chances for the profitable use of their funds might thereby be somewhat diminished unless they were prepared to go as far as their new rivals in serving customers cheaply. The usual complaint against such proposals is that they would result in building up a money power which would crush the small banks out of existence. A more absurd reversal of the actual facts in the case could scarcely be imagined. What the establishment of branches would actually do would be to destroy the local money power which now practically stifles many forms of legitimate industry by the pressure of excessive interest rates, and by other even less justifiable means."

---

(1) Proceedings of the American Bankers Association, 1903, p. 162.
(2) Sound Currency, Vol. IX, March, 1902, pp. 23, 24.

The next year, speaking with regard both to branch banking and asset currency, he said:(1)

> "The most potent cause of difficulty is found in the attitude of certain banking interests, and particularly of the country banks, in the United States."

There still remained, however, a conviction that the theoretical advantages of branch banking would prevail over the practical objections to it. In the same year, 1903, Professor O. M. W. Sprague wrote:(2)

> "Upon few subjects has the consensus of opinion of both economists and financial writers been more general than upon the advantages of branch banking over a system of separate local banks. Its superiority in respect to safety, economy, the equalization of rates for loans, and the diffusion of banking facilities, cannot be questioned. The system is common to all commercial countries, with the exception of the United States; and it has been the settled conviction of writers to whom experience and knowledge of banking give authority that its prohibition in the national banking law and in that of most of the States is a serious defect, and that these advantages would follow the adoption of the system in this country.....
>
> "The advantages of branch banking are incontestable; and the arguments urged against the system are after all, in large part, dependent upon temporary conditions and feelings."

Yet as a matter of fact, so strong had been the reaction against the proposal for branch banking that, except for occasional academic mention, the subject was dead, and the controversy that was active from about 1892 to 1902 was practically forgotten. For in-

---

(1) Sound Currency, Vol. X, December, 1903, p. 136.

(2) "Branch Banking in the United States," Quarterly Journal of Economics, Vol. 17, February, 1903, pp. 242, 259.

stance, Professor William A. Scott of the University of Wisconsin in his book, Money and Banking, published in 1903, gave a very judicious discussion of branch banking, taking into account both what was said for it and against it. In 1910 he published a revised edition of his book in which he omitted this discussion. Branch banking, which had seemed timely and deserving of discussion in 1903, had evidently lost its importance entirely by 1910.

At the convention of the American Bankers Association at Denver in 1908, where Woodrow Wilson in the course of an address spoke favorably of branch banking, Mr. Byron E. Walker, President of the Canadian Bank of Commerce, whose address in Chicago in 1893 has already been mentioned as one of the pioneer recommendations of branch banking for this country, said that the purpose of his paper would be amply served if he could "for one brief moment lay emphasis upon the disagreeable fact that while reform in the banking and currency systems of the United States is absolutely necessary, there is no probability whatever that any substantial reform will take place at the moment."

As the discussion has indicated, the two related aims of the currency reformers were asset currency and branch banking. For these two they had been working for almost twenty years. Their main interest lay in asset currency, however, and their interest in branch banking arose in large part, though not wholly, from the fact that it presented itself as the obvious centralizing agency for the proposed currency.

It was still recognized that a centralizing agency was essential, but since the door to centralization through branch banking was shut, other angles of approach had to be attempted. Consideration of currency reform went on, therefore, without branch banking, and the National Monetary Commission in 1911 mentioned branch banking only incidentally in the descriptions of various banking systems which it studied. It was not considered in the Commission's recommendation. Senator Aldrich, however, the chairman of the Commission, mentioned the subject in an address in the following words:(1)

> "Competent authorities base the success of the Canadian system upon their extensive use of branches. Of course, I realize that there are in this country a great many intelligent men who think we ought to have a system of branch banking like the Canadian; but unless I greatly mistake the character of the American people that will not be possible. In my judgment any system which is to be adopted in this country must recognize the rights and the independence of the 25,000 separate banks in the United States."

Mention of branch banking was also made by the Vice Chairman of the Commission, Representative E. B. Vreeland:(2)

> "....No one will ever live to see the day when the branch banking system....will be tolerated by the people of the United States. It is un-American. It is not in accord with the American character and American ideas."

Further on he said:

> "The economies of the branch banking system are such that no other system can live beside it. It is just as sure that as the sun will arise to-morrow that the branch banking system, if taken up in the United States, would in the end drive out of existence all the banks in every city and town in the country outside of the great financial centers."

(1)National Monetary Commission Report, 1911, Vol.20, p. 24.
(2)Address at New York State Bankers' Association, July, 1910.

In reading these two statements it is well to bear in mind how greatly the picture had changed in twenty years. At the time Senator Aldrich spoke the number of banks had risen, since branch banking was first suggested in 1892, from 10,000 to 25,000. Capital and enterprise were going into the establishment of new banks every day. In 1910 and 1911 the number of banks increased almost 1,000 a year. The small communities for which branches had been recommended eighteen years before, so that they might not be without banking facilities, were now presumably being supplied in abundance with independent banks of their own. So long as these independent banks prospered and performed their functions satisfactorily, there could be little ground for aggressive advocacy of branch banking, even by those who were still convinced on principle of its desirability.(1)

Three things stand out with respect to the movement for branch banking whose course has been reviewed. The first is that it was concerned exclusively with branches for rural communities; the second is that it did not arouse great public interest, but remained an issue among specialists; the third is that the opposition raised among bankers was politically overwhelming.

The purpose of the movement, as avowed, had been to make the flow of credit easier between the financial centers, where the supply of money was greatest, and the farming regions, where the demand for it was most acute. The rejection of the proposal meant postponement of a closer

(1)It is interesting to note, however, that what appears to be the first book published in the United States on branch banking appeared in 1911. It was entitled A Rational Banking System, and was by H. M. P. Eckardt.

community of financial interest between country and city than already existed. For this decision it appeared on the surface that the country bankers were mainly responsible, since the emphasis was placed on the importance of this independence. It is not improbable, however, that city bankers with correspondent relationships which they preferred not to disturb were just as influential in determining the decision against branch banking as were the country bankers in whose interest that decision appeared to have been made.

That the movement for branch banking should not have attracted great public interest is to be expected, considering the technical nature of the subject. Moreover, even to the extent that public interest was aroused, the arguments for branch banking were chiefly economic, while the arguments against it were chiefly political and social. It was not possible, therefore, to obtain a decision on purely economic grounds.

That the opposition of the bankers should have been overwhelming, in the absence of any real public interest in favor of branch banking, is not strange. Nor is it strange that the bankers, pursuing, as in the main they were, a thriving and profitable business, should have been more moved by the probability that branch banking would affect them individually than by the possibility that the economic system as a whole would profit.

CHAPTER V

BRANCH BANKING AMONG STATE BANKS

Although the movement described in the preceding chapters failed to accomplish its aim and the establishment of branches remained illegal for national banks, an increasing number of branches of State banks came into operation. This is apparent from Chart 2, Chapter I. That the growth in branch banking should become noticeable just at the time the agitation for it was dying out is an interesting fact. The growth occurred, however, in a different quarter from that in which it had been advocated. The advocates had in mind rural and agricultural communities, but it was in large cities that branch banking now began to show the most perceptible development.

In 1900 the number of branches outside the city of the head office was 94, while the number of branches inside was only 25. In the years following the branches inside the head office city increased much more rapidly, so that in 1915 they were considerably in excess of the number of branches outside. In fact from 1900 to 1930 branches in large cities, which are approximately identical with branches classified as inside the city of the head office, increased much more rapidly in number than rural branches, which are approximately identical with branches classified as outside the city of the head office. Between June, 1930, and December, 1931, the number of city branches has declined, but the number of rural branches has shown a further increase.

Growth of City Branches

The increase in city branches since 1900 has occurred chiefly in a

few large cities--New York, Cleveland, Detroit, Philadelphia, and Boston. The increase in rural branches in the same period was most notable in California, though it was also important in Louisiana, South Carolina, Maine, Maryland, North Carolina, Arizona, and Tennessee. Developments in California are described in a separate report. Developments in New York, Massachusetts, Ohio, and Michigan are described in the following paragraphs.

New York. - Developments in New York began in 1898, when the law was amended with a specific authorization of branches. Prior to that Section 89 of the Banking Law of 1892 had read:

> "No bank in this state, nor any officer or director thereof, shall open or keep an office of deposit or discount other than its usual place of business."

This prohibition appears to be a rewording of the gist of the Act of April 12, 1848, which, as described in Chapter III, was designed to curb the wildcatting of bank notes. There is no evidence that it was brought about by any contemporary experience. The evidence is rather to the contrary, for in the same law in which the prohibition appears there is a restatement of provisions for State bank note issues which the National Bank Act had made obsolete twenty-seven years before. The change appears to have been merely incidental, therefore, to a general codification of the banking law.

The Act of April 22, 1898, which amended the foregoing, provided that banks in cities of over 1,000,000 inhabitants might have branches. The act applied therefore to New York City alone. The law required that the banks' charters provide for branches, and therefore existing charters had to be amended before branches could be established.

The pioneers in establishing branches in New York City appear to have been the Corn Exchange Bank and the Colonial Bank. The Corn Exchange had five branches in 1900, and the Colonial Bank, three. Three banks, the Astor Place Bank, the Hudson River Bank, and the Queens County Bank, are also listed in old directories as "branches of the Corn Exchange Bank";

whether they were then affiliated banks subsequently absorbed, or were offices still continuing to bear the names of banks already absorbed, is not clear. The Colonial Bank was apparently an affiliate of the Hanover National Bank at that time.(1) It was an up-town bank, its head offices and branches being on the upper west side far from the financial section. The Corn Exchange Bank, though its head office was in the Wall Street district, was establishing its other offices in quite different parts of the city. Three other banks had one branch each, the Nassau Trust, the New Amsterdam, and the Union Bank. This made five banks operating eleven branches. In 1905 the number had increasedto 34 banks with 86 branches.

The 1898 law was interpreted as giving the superintendent of banks no authority to keep a bank from establishing branches, and in his 1905 report he recommended that the law be changed to give him unquestioned authority to do so.(2) In 1906 his recommendation was that he be given the same control over the establishment of branches that he had over the establishment of banks.(3)

In the fourth week of October, 1907--the height of the panic of that year--ten New York City banks suspended. Of these all but three had branches, the total number being twenty-one; the Hamilton Bank had six; and the Jenkins Trust Company, five. The superintendent of banks, in commenting on the fact that seven of the ten suspended banks had branches, said:(4)

> ".....In several cases the failure may be attributed in some measure to this fact. As the company became weakened, the ad-

(1) Sound Currency, 1902, Vol. IX, p. 100.
(2) New York, Annual Report of Superintendent of Banks, 1905, pp. xxiv-xxv.
(3) Ibid., 1906, pp. xxxi-xxxii.
(4) Ibid., 1907, pp. xliv-xlv.

ditional exposure rendered possible by the existence of these branches greatly increased the embarrassment.

"The maintenance of branches, in our judgment, requires that the corporation have greater strength than would otherwise be necessary.

"The establishment of a branch of either a bank or trust company is in effect the opening of another institution. There should therefore be a statutory minimum requirement as to capital in order properly to protect the corporation in the extension of its business." .....

"In my judgment the minimum amount of capital prescribed by statute for a bank or trust company should be increased for each branch by $100,000. As elsewhere stated, I deem it wise that no branch of a bank or trust company should be established without the consent of the Superintendent of Banks and his approval of the location of such branch office.

"I therefore recommend:

> "That no bank or trust company shall hereafter establish a branch without the written consent of the Superintendent of Banks, nor unless its capital be equal to the amount required by statute for incorporation with an additional $100,000 of capital for each branch established after incorporation.

"I further recommend:

> "An enactment that every bank or trust company now having branches, whose capital stock does not equal the amount above prescribed, shall, within six months from the time the act takes effect, either increase its capital stock to the amount above required or reduce the number of its branches so as to comply with the proposed limitation."

The legislature adopted these recommendations in an act of April 27, 1908, except that in the case of branches already established only $50,000 additional capital for each branch was required. The act applied, however, only to "banks"--not to trust companies. It restricted branches of State banks to cities of over 1,000,000, and the branches were authorized "for the receipt and payment of deposits and for making loans and discounts

to the customers of such branch offices only," a restriction that doubtless betrays an intent to keep branches from competing with independent banks, though it is not clear how it could be made effective. By an act of March 7, 1919, the law was further amended to permit branches of State banks in towns of more than 50,000 population, but trust companies in towns of any size still have the right to establish branches, provided their capital is adequate and the superintendent approves.

The more and more liberal legal provisions for branch banking which have been enacted in New York in the past thirty-four years have been adopted without evidence of controversy and have been attended by an active increase in the number of branches in operation. There has not been any disposition, however, to procure permission for out-of-town branches. So far from seeking such permission, the New York City banks have preferred to confine their offices to the city--a preference that seems reasonable in view of the abundance of business which comes to them without out-of-town branches. Their present policy is consistent with their past, for the great Wall Street banks took no important part in urban branch banking until after 1920, and even at present several of them have either no branches or so few that they do not count as "systems."

The only marked tendency to intercity activity has developed in Buffalo, where the Marine Midland group exercises control over nineteen banks in nineteen different cities. In all the large cities in the State, however, there are banks with home city branches. The majority of the banks with branches are under State charter and the majority of branches belong to such banks.

Massachusetts. - Branch banking began in Massachusetts about the same time as in New York. Apparently there was no branch banking in the

State from the early 19th century until after 1900, though shortly before the Civil War certain country banks established agencies in Boston. This practice is referred to in Chapter II. In 1895 it was reported in response to the inquiry of the Comptroller of the Currency that none of the banks were permitted to have branch offices. In 1902 a law was passed permitting any trust company (there are no State "banks" in Massachusetts) to have "a branch office" in its home city, "for the sole purpose of receiving deposits, paying checks, and transacting a safe deposit business." A few branches were established, but obviously the law was not encouraging. In 1908 it was amended to permit lending at the branches, though the limitation of one branch to each trust company remained in force. In 1914 it was enacted that a trust company might retain as a branch "any office" of another trust company that it had absorbed, provided it was in the same town. This permitted the addition of more than one branch, but only by a slow process. The following year, 1915, there were 26 banks with 33 branches, and in the next five years this was increased by only 10 banks and 12 branches, 7 of which were in the cities of the head offices. When the McFadden Act was passed, it became possible for national banks in Massachusetts to have branches in their home cities since the State law permitted them, but without the narrow restriction as to number that the State law imposed. The State law was accordingly changed May 8, 1928, to permit trust companies to have "one or more" branches, a privilege that equalized conditions. The larger branch systems and the majority of branches now belong to national banks, though the majority of banks with branches are under State charter.

The gradual liberalization of the laws on branch banking over the past thirty years in Massachusetts has been attended by little or no con-

troversy apparently and the growth in the number of branches has been deliberate. As in New York, there has been no marked interest in procuring permission for intercity branch banking, but three leading groups have developed control of banks in various cities of the State. Two of these groups have headquarters in Boston and one in Worcester.

Ohio. - As explained in Chapter II, there was an extensive system of "branches" belonging to the State Bank of Ohio before the Civil War, although they were unlike modern branches of a single corporation. There may have been a few branches of the modern type as well, but not many were in existence in 1895 apparently, for it was then reported to the Comptroller of the Currency as follows: "There are some of the unincorporated banks or partnerships that have branch offices, but there are no provisions of law regulating branch offices of incorporated banks now in active operation." In 1900, however, six banks with nine branches between them were reported, all but one of the branches being outside the city of the head office. Around 1902 urban branches of State banks began to be established, especially in Cleveland, though as a common law right apparently rather than by special authorization, since it was reported in the Comptroller's survey in 1902 that branches were not authorized. In the National Monetary Commission's Digest of State Laws in 1908 there is no mention of branches in the section on Ohio laws. The number of branches and the number of banks with branches steadily increased, but chiefly as a home city activity. Since 1923 the law has limited branches to the home city and to contiguous communities; as amended in 1931, it allows them within "other parts of the county or counties in which the municipality containing the main bank is located."

Branch banking still remains almost wholly a State bank activity in Ohio

and the majority of branches are in the home cities. The development has been gradual and apparently has not been attended by controversy.

Michigan. - The fourth State in which branch banking has been an important urban development since the beginning of the century is Michigan. There appear to have been few or no branches in the State before the Civil War, but by 1895 they were permitted and a few were in operation, though evidently without specific statutory authorization. The same was true in 1902. There is a provision in the State constitution giving the legislature authority to "create a single bank with branches," but it dates from before the Civil War and refers to the type of State bank with branches that Indiana and Iowa had, as described in Chapter II. There is also a provision in Act 296 of the Public Acts of 1917 authorizing branches for "industrial banks," which applies to Morris Plan banks and others of that type. The real authority for branches, according to statements in the annual reports of the commissioners of banks, is an opinion of the Attorney-General of the State rendered May 27, 1909, in answer to the following question: "Whether or not a State bank has authority to establish branches in the city or village in which it is authorized by its articles of incorporato transact business." The relevant portions of the opinion follow:(1)

> "For answer to your second question I would say that no authority to establish branches is conferred upon banks by any provision of the laws of this State. In the absence of statute a bank has no authority to establish branches at which a general banking business is conducted.
>
> Magee on Banks and Banking, page 41; Atty. Gen. v. Oakland Co. Bank, Walk, page 90.
>
> "While a bank has no authority to establish branches unless expressly authorized by statute so to do, it seems that it may have an agency for the transaction of some parts of

(1) Report of the Commissioner of Banking, Michigan, 1915, p. xxxi.

its business in the city or village designated in its charter as the place where the bank is to be located and to conduct its business.

"In Magee on Banking, page 41, are compiled the provisions in force in the different states relating to this subject and of this State it is said:

> "'There is no law authorizing the establishment of branches. Agencies are permitted which are restricted in their operations to receiving and paying out of deposits and issuing exchange.'"

The Attorney-General also stated that several instances had been noted of banks in Detroit and Lansing which had established agencies of this character. He continued as follows:

> "The agencies established by the banks at the cities indicated have been conducted by the banks for some time and the right of the banks to establish such agencies does not appear to have been heretofore questioned by the banking department or any officer of the State. In view of the foregoing I am of opinion that a bank may establish agencies of the character of those indicated herein within the limits of the city or village in which the bank is located."

Although this opinion would seem to make a distinction between "branches" and "agencies," and to hold that only the latter were authorized, it has evidently been taken as sanctioning branches as well. It is reprinted in fifteen or more successive annual reports under the heading: "Branch Banks Permitted in Certain Instances." In the annual report for 1915 it is said that "state banks may operate agencies or branches within the corporate limits of the city named in its Articles of Incorporation, under the construction of the banking law by the Attorney General."(1) In 1916 the same statement is repeated in substance.

It is probable that the Attorney-General's opinion was taken as sanctioning branches because of the impossibility of observing an actual

---

(1) Report of the Commissioner of Banking, Michigan, 1915, p. xx.

distinction between "branches" and "agencies." Legally, agencies are supposed to be limited to routine functions exclusive of lending, but the distinction is probably not followed in practice.

Meanwhile the number of banks with branches and the number of branches was steadily increasing. In 1900 there is a record of 5 banks and 7 branches; in 1905 this had increased to 13 banks and 18 branches; and in 1910, to 23 banks and 55 branches. In 1915 the number had grown to 35 banks and 117 branches and in that year the Commissioner of Banks adverted to the development in the following words:(1)

> "...It can not be denied that up to the present time this privilege has extended banking facilities to many parts of larger cities and has expedited and facilitated the business of these particular communities. It has also been the means of curtailing the organization of many banks, some of which might not have inured to the credit of the fraternity at large. Notwithstanding the benefits that have accrued on account of branch bank privileges in the larger cities, I am of the opinion that some limitation should be placed on the number of branches which can be established, based upon the aggregate deposits, and the ratio of deposits to capital stock. This is a matter I believe that is worthy of consideration by the next legislature."

The following year he repeated the comment and recommendation, but no action was taken by the legislature and the commissioner still remains without direct authority to control the number of branches established.

The development of branch banking in Michigan, which is altogether an urban activity and mostly confined to Detroit, has been rapid. Since 1926 when there were 66 banks, State and national, with branches, the number has declined to 48, and there are also slightly fewer branches. This decline has come about chiefly through bank consolidations. Until very recently the great bulk of branches and of banks with branches were under State charter,

---

(1) Ibid.

but in 1931 with the consolidation resulting in what is now the First Wayne National Bank, the national system gained the majority of branches, although the banks with branches are still mostly State banks.

It is notable that the establishment of branches in Michigan has gone on with apparently no direct supervisory control, and with very little legal restriction, except that branches have had to be in the city of the head office. Banks have established branches without having to procure the commissioner's consent, and they have not been required by law to maintain capital proportionate to the number of their offices.

Although there are no branches outside head office cities, there are two groups with headquarters in Detroit, which control banks in numerous Michigan towns and among them, especially in Detroit, banks with numerous branches.

General Features of Urban Branch Banking. - The foregoing description of recent branch banking developments in New York, Massachusetts, Ohio, and Michigan brings out common features in all four States. In each the development began about 1900, has shown a steady subsequent growth without controversy, and has been almost exclusively urban. For the first twenty years or more the establishment of branches was wholly a State bank activity. As its competitive force began to be felt by national banks, however, it impelled them to acquire branches in the two ways open to them: i.e., either directly, by the absorption of State banks with branches, or indirectly, by affiliation with them. Neither compensated for the lack of power to establish branches on the same terms as the State banks, however, and the inequality created problems for both the Comptroller of the Currency and the Federal Reserve Board, which are discussed in the following chapter.

It was not necessarily the largest and most important banks that were pioneers in the establishment of branches, though in different places different types of banks took the leadership. In Cleveland the Cleveland Trust Company, which was a pioneer in branch operations, was among the three or four largest banks in the city in 1901. The same was true in Detroit of the Peoples Savings Bank. In New York City, on the other hand, the large Wall Street banks were very slow in establishing and acquiring branches. The Corn Exchange Bank, which for years was the preeminent branch organization, and had ten branches in 1901, was surpassed in size by seventeen banks, nine of which were national banks and eight State banks. That these larger banks should not have been interested in branches is natural. The purpose of branches in the cities is to reach small customers, and these the banks in the financial center did not want. They preferred the business of large customers, few in numbers compared to the public as a whole; and such customers--large corporations and wealthy individuals--are not usually reached by branches. Yet in New York as elsewhere it was proved by the banks possessing branches that the business of small customers was profitable, if properly cultivated and handled, and eventually some of the typical Wall Street banks decided also to go into this wider market which existed among the great mass of individuals, employees, and tradesmen of small means. It is obvious, therefore, viewed in the large, that the urban growth of branches had analogies with the development of mass distribution through chain stores of standard low-priced merchandise, and also with the tendency of large industries--such as General Motors, for instance--to specialize in several types of markets at once.

Intercity Branch Banking

Meanwhile in certain other States a development was going on that involved not merely urban branches but rural as well. It occurred principally in California, as described in a special section of the report, and in Maine, Maryland, Virginia, North Carolina, South Carolina, Georgia, Tennessee, and Louisiana. In none of these States besides California has there been a marked tendency towards the building up of extensive systems, unless the Georgia State Bank with 20 branches which failed in 1926, and the Peoples State Bank and Trust Company of South Carolina, which had its whole branch growth between 1929 and 1932, when it failed with 44 branches, be considered such. Most of the branches in these States belong to banks with less than a half dozen branches each, the largest in point of number being the Eastern Shore Trust Company of Cambridge, Maryland, with 20 branches. The largest in point of assets is the Citizens and Southern National Bank of Savannah, which has 10 branches situated in five cities in Georgia, four being in Atlanta. Because the development in these States was quiet and involved no such competitive issues as were caused by branch banking in metropolitan centers and in California, it contributed but little to the new controversy regarding branches for national banks that had arisen by 1920. It has therefore seemed unnecessary at this point to review what occurred in those States individually. In a succeeding chapter, however, a review of the development and status of branch banking in each State is presented.

That the growth of branches under State laws should have been so much more pronounced in urban than in rural areas is natural, even though laws permitted it in both. The areas reached by urban branches were more compact, the banks undertaking branch extensions were usually larger to

begin with, the competition between them was more aggressive, and less inertia stood in the way of change than in the country. Moreover, the prejudice against "absenteeism" in management was less forceful in respect to the branches of a bank in the same city than in the case of branches in a different town. This difference was especially emphasized by Mr. H. M. Dawes, Comptroller of the Currency in 1923 and 1924, and an active opponent of branch banking.

The explanation that the growing congestion of city traffic made branches necessary was frequently offered, and no doubt was one of the influential conditions leading to their establishment.

Bearing of State Bank Branches on the Controversy

In States where branches were permitted the national banks never offered any important opposition except in California, where both the small State banks as well as national banks resisted the movement. In some cases, however, national banks either control other banks through group affiliations or have State bank affiliates with branches. In those cities where urban branch banking has had its greatest development however--cities in States like New York, Massachusetts, Ohio, Michigan, and others--as soon as the competitive advantage of branch banking was demonstrated the national banks sought not to forbid it for their State competitors, but to secure the right for themselves. Accordingly, the development of branch banking by State banks contributed to an intense national controversy, the story of which is continued in the next chapter.

The national controversy, being itself largely a reaction from the situation in certain States where banks had branches, produced in turn a reaction in States where branches did not exist. It was obvious that

while a uniform authorization for members of the Federal Reserve System to establish branches would permit members in New York City or Detroit to do what their nonmember competitors could do, it would also permit members in Illinois and Minnesota to do what their nonmember competitors could not do. In the States where banks did not have branches there was, therefore, a strong countermovement to keep branch privileges out of the Federal laws. This was directed not merely at keeping branches of national banks from being permitted in States locally opposed to branch banking, but at keeping them from being permitted anywhere, so far as possible. The contention was that branch banking was inherently vicious and should be prevented from gaining any more foothold lest it spread uncontrollably. This extreme purpose was not attained, however, so far as Federal legislation was concerned. It expressed itself more successfully in the enactment of State legislation between the years 1919 and 1929, prohibiting branch banking in Arkansas, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Minnesota, Montana, Nebraska, Oregon, Washington, and West Virginia, and restricting it in Tennessee and Virginia. In some of these States there were a few branches in existence at the time the prohibitions were enacted, but in most States there was either no branch banking at all, or it was on a very small scale.

In general, therefore, it may be said that the opposition to branch banking was most successful in those States where there had been the least experience with it. This is especially true of such Western States as

Illinois, Iowa, Wisconsin, Minnesota, Nebraska, and Kansas, where the opposition was intense. Since there was no controversy so far as the internal policy of these States was concerned, the object of the opposition was of course the proposed changes in the Federal law. The Cook County Bankers' Association was as aggressive as the California independent bankers in leading the efforts to keep branch privileges from being given to national banks.

Meanwhile, bank failures were increasing in unprecedented volume, and chain and group banking were spreading rapidly. These movements were particularly notable in those States where the opposition to branch banking was especially strong. The effect of the failures and the generally adverse conditions suffered by all banks was to diminish the opposition to branch banking on the part of many bankers whose independence was no longer profitable. An even more striking evidence of the reaction is that the tendency to enact laws imposing restrictions and prohibitions on branches came to an end; and since 1929 all changes have looked in the opposite direction.

In Vermont, whose statutes had been silent on the subject before, a law was enacted in 1929 authorizing "agencies." These are apparently the same as branches and may be state-wide.

In Georgia, the prohibition adopted in 1927 was modified two years later in 1929 to permit branches in the same city as the head office.

In Montana, a prohibition adopted in 1927 was modified by an act of March 9, 1931, which authorizes banks in the same or adjoining counties to consolidate and maintain "offices" at the original locations.

In Indiana, a prohibition adopted in 1921 was modified by an act of March 11, 1931, which authorizes banks to establish branches in the same county, in a town or city in which no bank or trust company is located.

In Iowa, a prohibition adopted in 1927 was modified by an act of March 13, 1931, authorizing banks to establish "offices" within the counties in which they are situated and in contiguous counties. Such offices can be established, however, only in towns or cities where no established banking institution exists.

In Ohio, the law formerly permitted banks to establish branches in the city of the head office and in contiguous cities and villages; on August 27, 1931, this power was broadened to permit branches "in other parts of the county or counties in which the municipality containing the main bank is located."

In Wisconsin, a prohibition adopted in 1909 was modified by an act of January 23, 1932, which authorizes banks to have "receiving and disbursing stations" in small communities in the same county which have been deprived of banking facilities. It also authorizes banks under certain conditions to operate at more than one location within the city of the head office.

In most of these States the reversal of practice appears to have come about as a result of bank failures or threatened failures. In Iowa and Wisconsin this is especially evident. The purpose in these two cases appears to be in part to save weak banks by consolidating them with sound banks and converting them into "offices" of the latter, and in part to supply banking facilities where they are otherwise no longer available. The

changes in these two States are especially striking since both States still avow their opposition to branch banking. In both of them branches are still expressly prohibited, but at the same time they are in fact allowed under other names--"offices," "receiving and disbursing stations," "locations"--and with restricted powers and functions. When failures had gone so far as to deprive communities of banking facilities, a need was felt which in spite of the hostility to branch banking could be supplied in no other way.

CHAPTER VI

THE MCFADDEN ACT

Three phases of the growth of branch banking among State banks were mentioned in the preceding chapter. These were: first, the branch banking developments in California, which involved both urban and rural branches, and which are described in full in another volume of the report; second, the purely urban developments in several of the large cities, expecially in New York, Massachusetts, Ohio, and Michigan; and third, state-wide branch banking in a miscellaneous group of States, chiefly in the East and South, where branch banking was partly urban but mainly rural. It was pointed out that this third development was never aggressive and contributed but little to the controversy over Federal legislation. The developments in California and in the large Eastern cities, however, forced the member banks of the Federal Reserve System, both State and national, to seek the same powers that their nonmember competitors had. Every member bank did not have the same interest, of course. Some wanted the right to have branches state-wide, some wanted them only for their home cities, some wanted to deprive their competitors of branches, and some, wanting no branches themselves, were unconcerned as to what their competitors had.

During the early period of development of branch banking by State banks, as described in the preceding chapter, the only means by which the national system could acquire branches was under the section

of the National Bank Act which permitted State banks to convert to national charter and retain their branches. This section, for reasons suggested in Chapter III, was inoperative from its passage in 1865 to the year 1907, when a charter was issued to the Pascagoula National Bank of Moss Point, Mississippi, a converted State bank with a branch at Scranton. It seems as if the existence of the section had been practically forgotten. This is indicated by a letter written to the Commercial and Financial Chronicle in 1900 by a correspondent who explains that "contrary to the general understanding, national banks may, under certain conditions, maintain branches in their own domiciles."(1) The writer's inaccuracy in implying that branches were limited by the law as to their location gives all the more force to his own indication that the existence of the provision was not common knowledge. In 1910 the Bank of California, San Francisco, was converted to the national system with its branches in Virginia City, Nevada; Portland, Oregon; and Seattle and Tacoma, Washington.

In these instances there was nothing involved but simple conversion. In 1915, however, occurred the first important instance involving consolidation. This was the transaction whereby the Chatham Phoenix National Bank acquired twelve branches in New York City by absorption of the Century Bank. Since there was then no authorized procedure in the national banking laws for consolidation either of national banks or of national banks and State banks, the following roundabout course was followed: the Century Bank with its branches was converted to

(1) Commercial and Financial Chronicle, Vol. 71, November 10, 1900, p. 942.

the Century National Bank; simultaneously the Chatham Phoenix National Bank went into voluntary liquidation and sold its assets to the Century National Bank, transferring also its liabilities; the Century National Bank then changed its name to Chatham Phoenix National Bank.

The Consolidation Act of November 7, 1918, provided a simpler procedure for consolidating national banks by making it possible for two corporate entities to continue legally in one, thus making the sale of assets and voluntary liquidation unnecessary. Although it did not provide for similar direct consolidation of a State bank with a national bank without preliminary conversion of the State bank to national charter, nevertheless it did to some extent facilitate the acquisition by national banks of branches originally established under State charter. A State bank with branches could then convert to a national charter and at once consolidate with another national bank. Accordingly, conversions and consolidations increasing the number of branches of national banks became more common thereafter.

The Policy of the Federal Reserve Board

It has already been pointed out that the National Monetary Commission in its report in 1911 made no recommendations with respect to branch banking, but that its leaders were convinced that the operating advantages of branches were so great that unit banks would be driven out of business by them. In one of the preliminary drafts of the Federal Reserve bill there was a provision that would have permitted national

banks with a capital of not less than $1,000,000 to operate branches,[1] but it does not appear in later drafts of the bill as introduced in Congress.

In the annual report of the Federal Reserve Board for 1915, the first report covering actual operations, there was a recommendation for branches which read: "Permission should be granted to national banks to establish branch offices within the city, or within the county, in which they are located."[2] Similar recommendations were made by the Board in its reports for the years 1916, 1917, 1918, and 1919, with the reservation, however, that the branch privilege apply only in those States whose laws permitted State banks to have branches. The recommendations in 1915 and 1916 were made without comment; in 1917 attention was called to the fact that some member State banks and some national banks which had absorbed State banks were legally operating branches, which national banks under ordinary circumstances were not permitted to do. "There seems to be no reason," the report says, "for such discrimination between members of the Federal Reserve System, and with the view of placing them more nearly upon terms of equality, besides affording in many cases better service to the public, it is recommended that provision be made for the establishment of branches by national banks, under proper limitations."[3]

---

(1) H. P. Willis, Federal Reserve System, p. 1537.
(2) Annual Report of the Federal Reserve Board, 1915, p. 22.
(3) Ibid., 1917, p.33.

This is possibly the earliest official comment on competitive pressure due to branch banking. It indicates that branch banking was now becoming a practice of actual importance. In the States where the majority of the country's largest cities are situated--New York, Pennsylvania, California, Michigan, Ohio, Massachusetts, and Maryland--State banks were permitted by the State laws to have home city branches and they were actively availing themselves of the right. This was producing an element of competition between State and national banks that was comparatively new. Later on as this tendency grew, it came to be recognized that the inability of national banks to establish branches in important cities where State banks could do so was one of the important causes of the gains that State banks were making at the expense of national banks. In 1917, of course, this tendency had not excited the attention that it did later, but it had already shown itself. The year following, 1918, the Board repeated its recommendation, and urged again the same argument in favor of branch banking. "As the law now stands," the 1918 annual report read, "national banks are at a serious disadvantage in meeting the competition of State banks with branches." This appears to have been the case in New York, Michigan, California, and Ohio, the four States that in order named had the greatest increase in the number of branches operated between 1900 and 1920. The competition was therefore almost wholly within the large cities, for California was the only State of the four with statewide branch banking. In this fact that the growing acitivity in branch banking was chiefly in the cities rather than in rural areas lay a marked

contrast to branch banking as it had hitherto been known and advocated. Shortly before 1900 practically all the branches in the country were outside the town of the head office and belonged to small town banks. Large metropolitan banks had no branches at all. Branch banking was thought of and advocated wholly as a rural measure. The current proposals, it will be recalled, were that branches be authorized in towns of "less than 2,000 inhabitants." Yet now branch banking was growing up in practice as mainly an urban activity, and the recommendations were that branches be authorized in cities of "not less than 100,000 inhabitants." A bill which passed the Senate in 1919 but never became law makes the contrast even more striking by raising the minimum to 500,000.

In connection with this bill the Board made the following comment in its report for 1919:(1)

> "....While the Board would prefer to have this privilege extended to national banks in cities of not less than 100,000 inhabitants, or, failing that, have the population limit raised to 200,000, it wishes to point out that the limit fixed in the Senate bill does not affect the principle involved, and it therefore respectfully recommends once more that national banks be permitted to establish branches in the cities in which they are located under such limitations as in the wisdom of Congress may be deemed desirable."

Further evidence of the practical interest of the Board lies in the action it took at this same time with respect to the admission of certain California State banks to membership. In 1917, after our entry into the war, special efforts were made to get the larger State banks

(1) Ibid., 1919, p. 65.

of the country to enter the Federal Reserve System, and an amendment was adopted assuring them of their charter rights. It read as follows:(1)

> "....Subject to the provisions of this act and to the regulations of the board made pursuant thereto, any bank becoming a member of the Federal Reserve System shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise all corporate powers granted it by the State in which it was created, and shall be entitled to all privileges of member banks:...."

This assurance, although qualified by being made "subject to.... the regulations of the board," was taken to apply to the charter rights of State banks to have branches outside the city of the head office as much as to any other rights. Nevertheless in 1919 the Security Trust and Savings Bank of Los Angeles asked for further assurances. It desired to have the specific approval of the Board for two branches it was about to open and to "be advised if there will be any fundamental objection to our acquiring other banks for the purpose of establishing branches."(2)

In reply it was informed by the Federal Reserve Agent at San Francisco as follows:(3)

> "As to the board's attitude regarding the establishment of branches, I can say that its sole concern will be to satisfy itself that any proposed extension will not impair the general strength and safety of your institution. In admitting State banks having branches the board has taken the view that State banks are not to be restricted in the exercise of their powers except where there is reason to believe that the exercise of such powers will impair the liquidity of the bank.
>
> "As you no doubt are aware, the Federal reserve board is not opposed to the principles of branch banking, so that you need have no hesitation in bringing your bank into the Federal reserve system through fear that difficulties will be interposed to your maintaining branches or establishing

(1) Digest of Rulings of the Federal Reserve Board, 1914-1927, inclusive, p. 217.
(2) United States Congress, 68th, 1st Session, Hearings on H. R. 6855, Consolidation of National Banking Associations, etc., April, 1924, p. 56.
(3) Ibid., p. 59.

> new ones. The board simply reserves the right to approve the establishment of new branches in order that it may be assured that the bank's general strength and liquidity will not suffer."

During the years indicated, in which the Board was recommending legislation to permit branch banking, the Advisory Council was making recommendations to the same effect, though the terms they used implied less restrictive conditions than those implied in the Board's recommendations.

In 1920 and 1921 the Board appears to have made no recommendations, but in 1921 the Federal reserve agents in their October conference adopted a resolution favoring city branches in those places where State laws permitted them.

In 1922, however, the Board renewed its recommendation, supporting it with comment in which there are new and significant notes. It takes cognizance of the fact that it is in California, and in a few large cities that branch banking is becoming a pressing problem. It speaks also of the "additional offices" of national banks which the Comptroller had been authorizing, takes account of branch banking as a matter of rural finance, and mentions the development of "chains." Because of its description of the situation at the moment when the problem was entering a new administrative phase, it seems desirable to quote the passage in its entirety:(1)

> "One of the developments in banking which has attracted considerable attention during the past year has been the establishment of branches by some of the larger State

(1) Annual Report of the Federal Reserve Board, 1922, pp. 5,6.

banks. Attention was drawn to this development largely because it had gone so far in a few States, notably California, and in a few large cities, including New York, Cleveland, and Detroit, as to reduce greatly the number of national banks. In view of this fact, and of the fact that the national banking act does not prohibit the opening of additional offices of a national bank within the limits of the city mentioned in its charter, the Comptroller of the Currency has been permitting such banks to open additional offices in States where State banks are given the privilege of establishing branches. This does not meet the situation in California and does not fully meet it in the cities mentioned, and an amendment to the national banking act allowing national banks the same privilege given State banks in States where branch banking is permitted is much to be desired. There has been some discussion of branch banking in connection with the discussion over rural credits legislation. The Joint Commission of Agricultural Inquiry in Chapter VIII of Part 2 of its report, entitled 'Credit,' published in 1922, recognizes the fact that our independent banking system, with its 30,000 units, 'makes impossible the full utilization of the resources of some banks in the locality to relieve a situation where other banks of the same locality are extended to the full limit consistent with safety to their depositors,' and adds 'A system of limited branch banking might furnish a possible solution of this problem.' Such systems are in fact already established in some sections of our country, notably in California, and appear to have gone far toward solving the problem. Branch banking has lowered the rate of interest in some of the leading agricultural sections of California and at the same time has provided added security for the deposits of the farmers. There are interesting neighborhood branch banking groups in other States, which appear to be serving their communities well. State-wide branch banking is permitted in several southern States, but has not yet been developed on an extensive scale. In the absence of laws permitting branch banking, there has been in certain sections a considerable development of so-called 'chain banks'--banks owned or controlled in groups by individuals or by holding companies. The largest of these systems includes some 175 small banks."

Up to this time, the Board's policy on branch banking had followed two parallel lines with respect to the two types of banks--

that is, national and State--that were within the system. With respect to the national banks it had followed "a policy of recommending to Congress amendatory legislation liberalizing national bank charters." With respect to State member banks it had followed the policy "of permitting the States to determine what branch banking privileges should be exercised by State institutions within the Federal reserve system--in so far as the exercise of such privileges violated no principle of sound banking."(1)

Branch banking, particularly in the State of California, had now reached a degree of extension, however, that made it necessary for the Board to be more active in determining just how it could feel satisfied that the principles of sound banking were not being violated. Furthermore, the problems arising from "differences in the legislation of the various States and the competitive disadvantages suffered by national banks in States that permit branch banking,"(2) were more pressing than ever.

Resolutions adopted by the Board on November 7, 1923, laid it down that "as a general principle," State banks should not be admitted to membership unless they relinquished any branches established after February 1, 1924, they might have outside the city of their main office, and that after becoming members they might not establish branches, except

---

(1) Federal Reserve Bulletin, December, 1924, p. 928.
(2) Annual Report of the Federal Reserve Board, 1923, p. 48.

within the city. The Federal Advisory Council on November 19 expressed the opinion that this principle would have the effect of giving State banks that had already established branches prior to February 1, 1924, "a position of monopoly." A little later, March 27, 1924, the Board issued new regulations amended April 7, governing the admission of State banks to membership. In these regulations the principle was reiterated of restricting member bank branches to the city of the main office and contiguous territory. It was also stated as a general principle that applications to establish branches would not be considered unless the State authorities "regularly make simultaneous examinations of the head office and all branches." This stipulation was based on the fact that some of the systems in California had already grown to such size that the State authorities were finding simultaneous examination of all offices impracticable. This was a departure from the established technique of examination that the Federal authorities were reluctant to sanction.

A further difficulty had arisen in the fact that indirect methods of branch extension were being resorted to, the nature of which is indicated by the following paragraph from Section IV of Regulation H, as amended April 7, 1924:

> "(5) Such bank or trust company, except after applying for and receiving the permission of the Federal Reserve Board, shall not consolidate with or absorb or purchase the assets of any other bank or branch bank for the purpose of operating such bank or branch bank as a branch of the applying bank; nor directly or indirectly, through affiliated corporations or otherwise, acquire an interest in another bank in excess of 20 per cent of the capital stock of such other bank; nor directly or indirectly promote the establishment of any new bank for the pur-

pose of acquiring such an interest in it; nor make any arrangement to acquire such an interest."

On February 11, 1924, the McFadden bill, which covered the points that had been the subject of the Board's previous recommendations, was introduced in Congress. It was framed to permit national banks to establish branches in their own cities, and to restrict and equalize the branch powers of State members of the Reserve System. It was pending in Congress for a little more than three years, however, and till the time of its passage the policy of the Board continued as expressed in Regulation H, as amended April 7, 1924. Before proceeding with discussion of the McFadden Act however, it is necessary to describe the policy of the Comptroller of the Currency in this earlier period.

The Policy of the Comptroller of the Currency

The Comptroller of the Currency likewise faced the problem of competition growing out of the development of branch banking. No recommendations in favor of branch banking had been made by the Comptroller's office since 1898. In 1911 he had had occasion to refuse permission to the Lowry National Bank of Atlanta to establish branches in that city, and had referred the question to the Attorney-General for opinion. Though the opinion was that it was illegal for national banks to establish branches, the Comptroller recommended that the law be changed so as to make the prohibition specific and remove all possible ambiguity.(1) In 1915, however, the Comptroller's office, like the Board, recommended branch banking and repeated the recommendation for several successive

(1) Annual Report of the Comptroller of the Currency, 1911, p. 82.

years. In the report for 1915, under the head of legislation recommended "to prevent bank failures," twelve amendments to existing legislation were suggested, one of which applied to branch banking. It was suggested that national banks be allowed to establish branches "within certain limits; for example, within city or county lines, but not without the boundaries of the State" or of the Federal reserve district in which the "parent bank" was situated; that no national bank should have more than twelve domestic branches; and that the capital of the bank should be increased in proportion to the number of branches. This recommendation, which differed in details but not in substance from the Board's recommendation of that same year, was made again in 1916, along with others, "for the protection and benefit of the depositors and stockholders of national banks, as well as in the interest of the customers and the communities dependent upon these banks." It was repeated in 1917, 1918, 1919, and 1920. Throughout these years Mr. J. S. Williams had held the position of Comptroller. The next year, 1921, the new Comptroller, Mr. D. R. Crissinger, noted in his annual report that the legislation previously recommended had been introduced in Congress, and indicated his hope for a liberalization of the National Bank Act "so as to put national banks on an equal footing with State institutions."(1) The year following he felt it necessary to authorize national banks to have "additional offices" in cities where the State laws permitted State banks to have them. His policy was announced in press dispatches June 29, 1922. In

(1)Ibid., 1921, p. 4.

printing this news the Commercial and Financial Chronicle made the following comment on the situation:(1)

> "Considerable agitation has recently developed anent the question of the establishment of National bank branches. In a discussion in the House of Representatives of the bill providing for the continuance of National bank charters for 99 years, Representative Wingo declared on June 29 that there is a 'movement on foot to destroy State banking systems in the United States and to turn the National banking system into a branch bank system and to give charters in perpetuity.' His comments were referred to at length in our issue of July 8, pages 133 and 134. Early in May it was announced by President F. O. Watts that the First National Bank of St. Louis planned to open offices at various centres within the city. The St. Louis 'Globe-Democrat' of May 16 in reporting this said:
>
> > "'Several months ago Watts ordered the bank's attorneys to make a special study of the Federal law with reference to this point, and they rendered an opinion that the law permits a National bank to establish additional places of business within the city within which it is located. This opinion was submitted to the Comptroller of Currency, D. R. Crissinger, who has concurred in this view. It is, therefore, with full knowledge of the Comptroller that the First National Bank will act.'"

This last refers to the St. Louis case, which will be described a little later.

The immediate reaction to these announcements that the Comptroller was going to authorize "additional offices" and that he concurred in the view that a national bank could establish them even in a city where, as in St. Louis, the State law forbade State banks to have

(1) Commercial and Financial Chronicle, Vol. 115, July 15, 1922, p. 253.

branches, was one of great alarm among the State bankers who opposed branch banking. The Chicago and Cook County Bankers' Association convened in a special meeting June 29, the day of the press announcement, and adopted resolutions of which the following is a part:(1)

> "Whereas, The American Bankers' Association and various other banking associations throughout the country have placed themselves on record, innumerable times, as being strongly opposed to branch banking; stating in their resolutions that branch banking is detrimental to the best interests of the people and contrary to the American system of banking; and
>
> "Whereas, The attempt of the Comptroller to designate 'Place' of business as different and distinct from 'Branch' appears as an effort upon his part to promulgate an administrative action in terms and meaning entirely inappropriate to a matter of such grave importance and thereby availing himself of a distinction without a difference in order to find a basis for his ruling.
>
> "Now, therefore, be it resolved, That this association of national and State banks of Chicago condemns the recent ruling of the Comptroller as contrary to the precedent established by his very able predecessors for the past sixty years, and furthermore, believes the Comptroller did wrong to sanction a change so radical and without notice to the public that such an innovation was contemplated."

On July 21, 1922, the Comptroller made public a letter which he had just sent to Senator McCormick of Illinois in reply to the latter's inquiry as to his policy. He first noted the status of branch banking under State laws:(2)

---

(1) Ibid., July 29, 1922, p. 495.
(2) Ibid., p. 494.

"....There are twenty-two States in the Union that authorize or permit State banks to have branches, offices or agencies in addition to their main office or banking house. It has never occurred to State bankers to become interested about this condition of affairs until just recently."

He went on to explain:

"....I have been permitting national banks in States where State banks and trust companies have offices, agencies or branch banks to establish additional offices in some of the large cities where it is necessary to meet the competition of State banks that have literally taken possession of cities with branch banks or offices, and these facts are notorious and are well known to all the State bankers of the country.

"Continued acquiescence in this condition is bound to lead to the disintegration of the national banking system."

In conclusion he said:(1)

"Now I have not granted permission to any bank to have an agency, branch or office in any State that prohibits State banks and trust companies from having such offices or places, although I am convinced that at common law these banks have a right to establish agencies even in those States, but I am not giving any sanction to it. Up to this time I have limited these additional offices to the States where the State authorities or the State law permits like facilities, and in this I am quite sure that I am more than fair to your constituents and State banking institutions, and I know that I am within right and justice, as above stated, and such action is neither revolutionary nor does it favor a few at the expense of the many, and it is not un-American, but it is the American square deal for national banks that have to meet the competition permitted by the legislation and executive orders of 22 States of the Union."

The concern of the Cook County bankers in the first place might have been explained on the ground that until the Comptroller had made this statement it was not clear that he was excepting from his policy

(1) Ibid., p. 495.

those cities, of which Chicago was one, where branches were forbidden for State banks. But as a matter of fact their interest in the subject remained active and, as mentioned in the preceding chapter, they continued an aggressive opposition to branch banking in general. It is of interest to note that the principal speaker at their special meeting held to protest at the original announcement of the Comptroller's policy was Mr. A. J. Frame, Chairman of the Board of the Waukesha National Bank, Waukesha, Wisconsin, whose resolution offered at the 1902 convention of the American Bankers Association in New Orleans was quoted in Chapter IV. Mr. Frame was described in the Bulletin of the Cook County Bankers' Association in 1922 in the following words:(1)

> "Mr. Frame is truly a pioneer in the fight against branch banking, for at an early age he foresaw the evils that would result should our system of independent banks be discarded. To-day, 78 years of age, he is more vigorous than ever in his efforts to save this country from the fate of Canada. He painted a very vivid picture of conditions that are inevitable when branch managers take the place of presidents; bank earnings are sent out of the localities where made; loanable funds are not used for local needs; and when the financial strength of the country is centralized in the hands of the few. At the close of Mr. Frame's speech several members voiced their opinions on the subject and the calling of a spade by its correct name was much in evidence. To put it mildly, supporters of branch banking were conspicuous by their absence."

The Comptroller was not deterred by these protests from his policy of authorizing additional offices. In his annual report for that year, 1922, he stated with great urgency his conviction that the

---

(1) Ibid., p. 495.

right to engage in branch banking gave the State banks so great competitive advantages that "we are in grave danger of losing our larger national banks"(1) in States where branch banking was permitted to State banks. He said that in order to meet this condition he had "declined to hold that a national bank may not open additional offices in the city in which established." In spite of his personal conviction of the legality of this action, he nevertheless "earnestly recommended" that Congress give national banks "the privileges enjoyed in each State by its State banks."

In 1923 Mr. H. M. Dawes succeeded Mr. Crissinger as Comptroller, and continued the practice established by his predecessor of authorizing "additional offices." Shortly after taking office, however, he asked the opinion of the Attorney-General as to the practice. The opinion of the Attorney-General, given on October 3, 1923, was that:

> "National banking associations have the power to open and operate offices at places other than their banking houses, within the place specified in their organization certificate, for the performance of such routine services as the receipt of deposits and the cashing of checks for their customers."

This opinion, though in its practical effects it permitted what the opinion of the Attorney-General's office in 1911 had denied, was nevertheless consonant with the latter legally. The 1911 opinion had been that a national bank is not, under its charter, authorized to estab-

---

(1) Annual Report of the Comptroller of the Currency, 1922, p. 4.

lish a branch or coordinate office, "for the purpose of carrying on a general banking business"; but it was also stated that there was recognized "a vital distinction between a mere agency for the transaction of a particular business and a branch bank wherein is carried on a general banking business."(1) Under stress of the same competitive conditions that Mr. Crissinger had testified to and under the sanction of the Attorney-General's opinion, Mr. Dawes drew up regulations governing the establishment and operation of these "additional offices." They were described as "nothing more than tellers' windows at which none of the discretionary powers of the board of directors may be exercised, by delegation or otherwise."(2) Mr. Dawes did not feel however that these "additional offices" enabled the national banks to meet competition fully, and he recommended that Congress give them greater powers by authorizing branches under close restrictions as to area. This recommendation was made reluctantly, nevertheless, and purely under pressure of a condition

(1) This distinction between branches and agencies is indicated in Morse on Banks and Banking, section 46, as follows:

> "....Agencies for specific purposes, as for the redemption of bills or the dealing in bills of exchange may be established in other places. In these cases, it is for the convenience of the public that such should be the case. But there is no case which holds that an agency for the exercise of the more important and valuable functions, such as issuing circulating paper or discounting notes, or an agency designed to carry on the general business of banking, would be regarded as legal. For such nominal establishment of agencies might easily result in the practical establishment of a network of branch banks throughout the home State or in other States."

See also Morawetz on Corporations, Vol. I, section 387, to the same effect.

(2) Annual Report of the Comptroller of the Currency, 1923, p. 12.

created by the State laws; and Mr. Dawes, adopting a position substantially the same as that his brother, Mr. C. G. Dawes, took as Comptroller in 1898, condemned branch banking in principle as monopolistic. Its principal evil, in his eyes, was that it set up "absenteeism" in bank management, and made the interests of a community suffer by putting its banking under the control of managers in remote places. Branches within the home city of the bank's main office did not, he felt, present this evil to so objectionable a degree.

In October, 1923, hearings were held by the Joint Committee of Inquiry on Membership in the Federal Reserve System, representing the Banking and Currency Committees of the House and Senate, and in these hearings considerable attention was given to branch banking. Both the Governor of the Federal Reserve Board, Mr. D. R. Crissinger, and the Comptroller, Mr. Dawes, testified to the difficulties raised by the fact that State banks might have branches, and national banks might not.

In the light of what has been described, the years 1922-1923 may be taken as marking one of the most important turning points in branch banking history, for though the number of branches had been increasing steadily for years, it was not till around this time that they came to present a serious administrative problem. It was in 1922 that the first "additional offices" were authorized and that the Board took cognizance of new elements in the branch banking problem. It was in 1923 that both the Board and the Comptroller found themselves under the necessity of prescribing regulations, the one governing the branch operations of

State bank members of the Reserve System, and the other governing "additional offices." It was in the same year that the Attorney-General rendered his opinion that national banks might have "additional offices," and it was also in that year that the case of the First National Bank in St. Louis was argued before the Supreme Court. This case merits a brief review.

The St. Louis Case

In 1922 the First National Bank established a branch within the city of St. Louis as the first step in a program of branch operations. This action was taken in spite of the prevailing opinion that the National Bank Act gave it no authority to do so, and in spite of a Missouri statute specifically forbidding the maintenance of branches. In the Missouri Supreme Court the bank defended its action on the ground that since its charter was from the Federal Government it was not bound by the State's law, and that moreover the establishment of branches was within its charter powers. The bank lost, however, and the case was brought to the Supreme Court of the United States, where its hearing attracted widespread attention, the States of Illinois, Connecticut, North Dakota, Washington, Wisconsin, Iowa, Arkansas, Minnesota, Indiana, and Kansas participating with Missouri in its brief. The Supreme Court affirmed the decision of the Missouri court, holding that the National Bank Act did not empower national banks to establish branches, that the State law forbidding branches was therefore left in effect, and that the State was within its rights in enforcing its law. The following gives the gist of

the Supreme Court's opinion:[1]

> "....The State is neither seeking to enforce a law of the United States nor endeavoring to call the bank to account for an act in excess of its charter powers. What the State is seeking to do is to vindicate and enforce its own law, and the ultimate inquiry which it propounds is whether the bank is violating that law, not whether it is complying with the charter or law of its creation. The latter inquiry is preliminary and collateral, made only for the purpose of determining whether the State law is free to act in the premises or whether its operation is precluded in the particular case by paramount law. Having determined that the power sought to be exercised by the bank finds no justification in any law or authority of the United States, the way is open for the enforcement of the State statute. In other words, the national statutes are interrogated for the sole purpose of ascertaining whether anything they contain constitutes an impediment to the enforcement of the State statute, and the answer being in the negative, they may be laid aside as of no further concern."

The issue in the eyes of the court was whether the State had jurisdiction, and on this ground Mr. Justice Van Devanter rendered a dissenting opinion, concurred in by Chief Justice Taft and Mr. Justice Butler, without suggesting, however, that a national bank had any right under the law to establish a branch. On that point the prevailing interpretation of the law was merely confirmed both by the majority and the minority. There was nothing either in the decision or the dissent, however, that affected the Attorney-General's opinion that "additional offices" were permissible under the act.[2]

---

(1) Federal Reserve Bulletin, Vol. 10, April, 1924, p. 283.

(2) The text of the decision, with the dissenting opinion and brief comment will be found in the Federal Reserve Bulletin, Vol. 10, April, 1924, pp. 281-286.

The McFadden Bill

Meanwhile branch banking had become a subject of active controversy centering around the provisions in the McFadden bill, which was introduced in Congress on February 11, 1924. It was a more intense controversy than the one of twenty-five years before, in the nineties. At that time branch banking was virtually non-existent, and legislation to permit it was advocated only by economists and Government officials, while among the bankers with few exceptions it was overwhelmingly opposed. During the consideration of the McFadden bill, however, branch banking had come extensively into practice, and the bankers were divided over it. There were several different interests in the controversy:

1. Small banks generally, both State and national, fearing the competition of branch systems, were more vigorously opposed to branch banking than before.

2. Some large banks, preferring correspondent relationships with out-of-town banks to branch operation, wanted to prevent branch organizations from absorbing their out-of-town correspondents.

3. Some large national banks wanted the power to operate branches, at least in their home cities, since their State bank competitors had it.

4. State members of the Federal reserve system, in States where branch banking was permitted, being restrained by Reserve Board regulations from exercising the power their nonmember competitors had, wished to be freed from that restraint.

5. A very few banks wanted the power to establish branches across State lines, but they made no serious attempt in that direction.

While the bankers themselves were divided, supervisory officials also took different attitudes. The Comptroller, Mr. H. M. Dawes, was vigorously opposed to branch banking in principle, yet at the same time desirous of protecting the national banking system from inequitable competitive conditions. The Federal Reserve Board was interested not only in the national banks, but also in the State member banks, which, if they were allowed to exercise the branch banking privileges the States gave them, were at an advantage over national banks; and if they were forbidden to exercise them were at a disadvantage as compared with nonmember banks. The State supervisors of banks were at the same time jealous of attempts to restrain State banks from the exercise of privileges which were legally theirs, and of attempts to give national banks greater powers than State banks had.

The issue was not clear cut, nor a simple matter of yes or no. It involved mainly two interests, viz., the interest of the large national banks which desired permission to operate branches in their own cities, especially where State banks could do so; and the interest of the small banks, which were generally not disposed to make any legislative concession to branch banking, no matter how reasonable it might be per se, for fear of the political advantage it might give the advocates of branch banking.

In Congress itself, although there was for the most part a feeling of hostility to branch banking, the fact that State banks had branches and thereby offered serious competition to national banks made it impossible for its preferences to be followed. Either the right of

State banks to operate branches had to be overridden and destroyed or else national banks had to be given compensatory privileges. It appeared as a choice between authorizing branch banking for member banks of the Federal Reserve System or of having them withdraw from the system. The predicament was stated in the following words by Representative Strong of Kansas, a member of the House Committee on Banking and Currency, in the course of the Committee's hearings in 1924:(1)

> "If any man on this committee can find any way to absolutely stop branch banking in the United States, I would like to join him. I have been fighting for that for several years; and, to my mind, as long as States allow State banks to have branch banks we cannot stop it."

According to Mr. C. W. Collins, former Deputy Comptroller of the Currency, "It would have been conceivably possible to force both national and State member banks to give up all branches, both home-city and extra-city, which they have at the present time and absolutely to prohibit them from having any additional branches of any kind in the future."(2) This radical action seems never to have been considered, however, and the opponents of branch banking, tolerating it as it was, devoted their efforts to stopping its extension into larger territory.

At the outset the McFadden bill, although its provisions were not radical in any direction, was a branch banking measure by virtue of

---

(1) United States Congress, 68th, 1st session, Hearings on H. R. 6855, Consolidation of National Banking Associations, etc., House Committee on Banking and Currency, April 9, 15, 16, and 18, 1924, p. 30.

(2) C. W. Collins, The Branch Banking Question, p. 108.

the fact that it gave national banks power to establish branches in their home cities, provided the State laws permitted State banks to do so. In other directions it restricted branch banking,(1) but not enough to make it acceptable to the unit bankers. In order to make its restrictions more severe, it was proposed that they be based on the status existing at the time the law should go into effect. This would mean that though a State at present prohibiting branches should alter its law subsequently in order to permit them, the prohibition would still remain in force under the Federal law so far as all member banks were concerned. The bill would thus forestall any attempt to secure State legislation permitting branches, by making such legislation largely nugatory, except for banks which were not members of the Federal reserve system. This proposal, which originated with the Chicago and Cook County Bankers' Association in May, 1924, was approved by the American Bankers Association at its convention in Chicago in October, 1924. The proposal became embodied in what were known as the Hull Amendments, so-called because they were introduced in the House by Representative Morton D. Hull of Chicago. These amendments were designed to prohibit forever the establishment of branches by any member of the Federal reserve system, State or national, in States which at the time of the passage of the bill did not permit branch banking. They were adopted in January, 1925, by the House. Since they attempted to put a permanent barrier in the way of any further extensions

(1) It forbade State member banks from establishing branches outside their home cities, and it forbade State banks which might be entering the Federal reserve system, or converting to national charter, or consolidating with national banks or with State member banks, from retaining any branches outside their head office city which they had not been in legal possession of at the date of approval of the act.

of branch banking territory, they more than counterbalanced the permissive clauses of the bill in the minds of its opponents and made it distinctly an anti-branch banking measure.

The bill with the amendments was passed by the House that same month. The Senate however refused to accept it, objecting to the Hull Amendments, and it continued pending for two years longer. During this time it was a subject of continued controversy.

Associations for the defense of the unit bank were formed, the chief of these being the Association Opposed to Branch Banking, which was national in scope and had its headquarters in Chicago. The American Bankers Association was by majority action opposed to branch banking, though it had an important minority of Federal reserve member banks in the large cities, who wanted right to have home city branches.

The majority attitude of the American Bankers Association was communicated to the Senate committee January 30, 1925, by Mr. Thomas B. Paton, its counsel. He said in part:(1)

> "Now, a large majority of the membership of the American Bankers' Association is opposed to branch banking. That is the condition. By resolution adopted at the general convention in 1916, and a second resolution adopted at the general convention in 1922, it was emphatically stated that 'we oppose branch banking in every form.'

(1) United States Congress, 68th, 2nd Session, Hearings on S. 3316 and H. R. 8887, Consolidation of National Banking Associations, etc., Senate Committee on Banking and Currency, January 19, 26, 29, and 30, 1925, pp. 85, 86.

That is the general fundamental principle underlying the association.

"Those resolutions grew out of the demand of the national banks to procure city branches in order to compete with the State banks having such branches, but in every such case the association, when the matter was brought to its vote, by an overwhelming vote refused to indorse any such proposition. Finally, after the McFadden bill in its original form had been reported to the House by the House Committee on Banking and Currency, and the companion bill in the Senate, the Pepper bill, had been reported by this committee to the Senate, various elements in the association got together and agreed that if certain amendments were put in the bill, known as the Hull amendments, drafted by Representative Morton D. Hull, of Illinois, that the association would indorse the McFadden bill as thus amended.

"By resolution at the Chicago convention in October of last year the McFadden bill, as modified, and only as modified by the Hull amendments, was unanimously indorsed. There were representatives from California and from every other State in the Union, delegates to that convention. No voice was raised in opposition; it was the unanimous indorsement of the McFadden bill with the Hull amendments.....

"The general purpose and effect of the McFadden bill, as modified by the Hull amendments, which has passed the House by a large majority, is to stop statewide branch banking where it is now, and prevent its further headway in the Federal reserve system and confine the State branch banks in the system to national and State banks in those few States which now permit branch banking, but only so long as such permission continues."

He said further on:(1)

"Of course this bill is based, so far as the American Bankers' Association is concerned, on the proposition to down branch banking. That is a controverted proposition,

(1)Ibid., p. 91.

> of course; but so far as the American Bankers' Association is concerned, the matter has been argued and argued, and the general sentiment of the members is against branch banking, and to do everything they can to eliminate it."

Congress adjourned March, 1925, with the Senate still opposed to the Hull Amendments. When it convened again in December consideration of the bill was renewed. It again passed the House February 4, 1926, and came before the Senate. At the Senate committee hearings in that same month, Mr. Paton reiterated the opposition of the American Bankers Association, which he had expressed a year before and quoted the resolutions then referred to. He said in part:(1)

> "Back in 1916 the question first arose in the association with regard to branch banking in the Kansas City convention, and after a debate then held, it went on record in the form of a motion, which was adopted by a large majority, that the association is opposed to branch banking in any form. Following that the subject again came before the annual convention in 1922 in New York. The convention floor was thrown open as a forum for the proponents of both sides of the question and this was the resolution adopted in October, 1922:
>
> "Resolved by the American Bankers Association, That we view with alarm the establishment of branch banking in the United States and the attempt to permit and legalize branch banking; that we hereby express our disapproval of and opposition to branch banking in any form by State or national banks in our Nation.
>
> "Resolved, That we regard branch banking or the establishment of additional offices by banks as detrimental to the best interests of the people of the United States. Branch banking is contrary to public policy, violates the basic principles of our Government, and concentrates the credits of the Nation and the power of money in the hands of a few."

---

(1) United States Congress, 69th, 1st Session, Hearings on S. 1782 and H. R. 2, Consolidation of National Banking Associations, etc., Subcommittee of the Senate Committee on Banking and Currency, February 16, 17, 18, and 24, 1926, pp. 194, 195.

The McFadden bill embodied banking legislation that was of extreme importance on other points than branch banking and there was the utmost desire that it be passed. Its other provisions were not seriously controversial, yet the whole measure continued to be held up by the deadlock over branch banking, and particularly over that portion of the branch banking provisions known as the Hull Amendments. In May the bill passed the Senate without the amendments and went to conference. The conferees finally agreed on a substitute for the amendments but it was rejected by the House, and the deadlock in the conference could not be broken. As the time for adjournment was near, it was apparent that the whole measure was again apt to fail of passage. Accordingly, the Comptroller of the Currency, Mr. J. W. McIntosh, in a letter to Chairman McFadden of the House Committee on Banking and Currency, expressed his urgent conviction that the amendments were not of essential importance and should not be allowed to stand in the way of the bill's immediate passage. His letter was dated June 2, 1926, adjournment of Congress then being imminent, and he said in part:(1)

> "I should regard it no less than a calamity to our banking system if this important bank bill is made to suffer defeat on account of an insistance upon the enactment of the Hull amendments."

On the same date, June 2, 1926, Mr. H. M. Dawes, former Comptroller, also wrote to Chairman McFadden as follows:(2)

---

(1) Commercial and Financial Chronicle, Vol. 123, July 3, 1926, p. 37.
(2) Ibid.

> "....I feel that the matter of the Hull amendment is one which involves adjustments to future conditions, whereas the substance of the McFadden bill is to meet an imminent peril. If it is not possible at this moment to agree as to how future developments should be met, I see no reason why a vitally important piece of legislation should be killed."

On June 3, 1926, Mr. Edmund Platt, Vice Governor of the Federal Reserve Board, wrote to Chairman McFadden as follows:(1)

> "In answer to your letter of June 1, asking for an expression of opinion from the Federal Reserve Board on the so-called Hull amendments to H. R. 2, the board has directed me to say that it is of the opinion that the Hull amendments should be eliminated."

Congress adjourned however without passing the bill. The following comment on its failure to pass was made by Representative Hull of Chicago.(2)

> "Since my departure for Europe I have had called to my attention a newspaper statement in which Senator Glass attempted to put the responsibility on the House for the failure to pass the McFadden banking bill.
>
> "The responsibility rests on the Senator from Virginia and on him alone. He hold the proxies of the other Senate members of the Conference Committee. The House Committee yielded on practically everything the Senate demanded except on one point, that there should be some safeguard against the extension of branch banking in States not now infected."....
>
> "....The Senator of Virginia is not an heroic figure when through his own individual perversity he defeats the banking bill.
>
> "He is fighting for something which is distasteful to the American spirit, nor can he defend himself behind the vote of the Senate. The Senate would at any time have accepted the bill with the House branch banking provision had he been willing to approve it. It is my opinion that

(1) Ibid., p. 37.
(2) Ibid., August 21, 1926, p. 939.

the House will not yield the disputed point and should not do so."

About the same time, August, 1926, a Committee of One Hundred was formed by bankers most actively opposed to branch banking and in favor of the Hull Amendments. Their purpose was in part to present their case as effectively as possible at the 1926 convention of the American Bankers Association to be held in Los Angeles, which was recognized as branch banking territory. The committee in an announcement made in September published some figures they had gathered as to increases in the number of branches and commented on them as follows:(1)

> "No independent banker can look at these facts without realizing that an epidemic of branch banking is spreading over the country. Unless he can stop the spread of branch banking at the present State lines, it will only be a question of a short time before he will be called upon to defend himself from the branch banking evil within his own territory.
>
> "The Hull amendments have been devised to offer him this necessary protection. The fact that tremendous pressure has been brought upon the Senate to omit this protection from the McFadden bill is the best evidence of the success with which the Hull amendments would defend antibranch banking territory from the inroads of branch banking."

In its Los Angeles convention that fall, however, the American Bankers Association reversed its action and refused to support the Hull Amendments. This represented a victory for the national banks of the association as against the State banks. It also deprived the amendments of their chief public support outside Congress. In an address before the

(1) Ibid., September 18, 1926, p. 1458.

New York State Bankers' Association at Syracuse on November 20, 1926, Deputy Comptroller of the Currency Collins said:(1)

> "The Hull amendment owed its prestige and presence in the bill very largely to the active support of the American Bankers Association, which had endorsed it by resolution of the Chicago convention of 1924. Since that time there has been a long and intensive discussion of this amendment by the banking fraternity, followed by its reconsideration and decisive rejection by the American Bankers Association at the 1926 convention at Los Angeles. This action should augur well for the early enactment of the bill."

This expectation proved to be correct, for on January 24, 1927, the House accepted the bill without the Hull Amendments. After conference on other minor differences, the bill was passed and on February 25, 1927, it was approved by the President. With the omission of the amendments it had become again what it was at the time of its introduction three years before--a mildly pro-branch banking measure.

Practically all the opposition to branch banking which was expressed while the McFadden Act was pending originated with the small bankers. They naturally desired to protect their competitive position, and they were supported by their large city correspondents, who preferred existing relationships to the responsibilities of branch operation.

There were two States where the opposition was peculiarly strong--California, where branch banking was very active, and Illinois, where there had not been any experience with branches for over eighty years.

---

(1) Ibid., November 27, 1926, p. 2735.

That the feeling should have been strong in California, where there was actual and severe competition between unit banks and branch organizations, is natural. But that it should have been so strong in Illinois is not so easy to explain, since the law would not have had the effect of authorizing branch banking there. Yet the Illinois banks and the Illinois delegation in Congress took aggressive leadership against it. The following passage is taken from remarks of Senator Glass during the Senate hearings in January, 1925:(1)

> "....I agree with Senator Pepper that we ought to give the National banks the same branch banking privileges that the State banks have. The Senate twice passed a bill to that effect. The Banking and Currency Committee of the House twice reported a bill of that sort, and strange to say--now, mark the singularity of this fact--strange to say, those bills were beaten each time in the House by Members accredited to a State that does no branch banking at all, and the same State which is the home of the Comptroller of the Currency--Illinois. We simply propose to extend to the National banks the same branch banking privileges that the State banks might have under the laws of their respective States. Illinois prohibited State branch banking, and yet both of these bills were beaten by gentlemen from Illinois, and this bill was written by a gentlemen from Illinois,....."

With the exception of California most of the opposition of bankers to branch banking came from regions where there had never been any branch banking since the Civil War, or perhaps before.

On the other hand, there was no organized advocacy of branch banking. The majority of witnesses who appeared before the Congressional

---

(1) Ibid., p. 79.

committees were its opponents. Its formal advocacy was mainly in the hands of members of the committees of both Houses who seemed convinced that the interests of the Federal Reserve System required that member banks in large cities be permitted to have branches on the same conditions as nonmember banks. Statements on the subject by the Federal Advisory Council, and by the governors of the Federal Reserve Banks of San Francisco, Richmond, Chicago, Atlanta, New York, Minneapolis, and Boston, the Federal reserve agent at Minneapolis, and the chairman of the board of the New York Federal Reserve Bank were submitted to the Senate committee in January, 1925, by Senator Glass. Some of these statements were positively in support of branch banking, but others were limited to protests against the attempt implied in the Hull Amendments to shut off all future extensions of it.

Although the main subject of contention while the bill was pending was the Hull Amendments, there had also been dissatisfaction over those sections of the bill which would prevent any State bank from converting to national charter, or consolidating with a national bank, or entering the Federal Reserve System, unless it relinquished all branches outside the city of the head office which had been established after the enactment of the act. Under this stipulation State member banks in certain States would not be allowed to establish branches outside their home office cities, although their nonmember competitors might do so. The State members protested that this in effect abrogated their charter rights, which they had been assured by the amendment of 1917 to the Federal Reserve Act,

would not be impaired by their being members of the Federal reserve system. Apparently, however, they were either not numerous enough or not energetic enough to secure modification of the bill in their favor.

Effects of the Act

The branch banking provisions of the McFadden Act, which had been the subject of long controversy, embodied substantially the regulation formulated in 1923 by the Federal Reserve Board and the Comptroller of the Currency for administrative purposes. While specifically legalizing local branches, the act prohibits any further extension of rural branches. It not only restrained State members from establishing branches outside the city of the head office--in this respect merely following previous regulations--but it also deprived the board of the power it had formerly exercised to make exceptions for such banks. Furthermore, in allowing State banks to come under national charter either by conversion or consolidation with only such out-of-town branches as had been in existence when the act became effective, it tended to restrict branches for national banks more than had been the case before.

That the law should have done little more than "freeze" branch banking in the status which then existed is mainly the result of the fact that the interests of different classes of banks stood in each other's way. Congress could neither disregard the claim of national banks to the same powers that State banks had, nor the protests of the

20,000 or more small banks against what they thought a threat to their independence.

The branch banking provisions of the Federal law as they stand in the McFadden Act may be summarized as follows:(1)

1. A national bank may retain branches which it had lawfully on February 25, 1927.

2. A national bank which had operated only one branch more than twenty-five years prior to February 25, 1927, may retain that branch.

3. A national bank formed by conversion of a State bank with branches, or which has absorbed a State bank with branches, may retain such of those branches as were in lawful operation February 25, 1927.

4. A national bank may establish branches in its home city, if branches are permitted there by State law, provided the city has a population of at least 25,000; if more than 25,000 and less than 50,000, one branch may be established; if more than 50,000 and less than 100,000, two branches may be established; in towns of more than 100,000 the number of branches is left to the discretion of the Comptroller of the Currency.

---

(1) See Sections 7, 8, and 9 of the McFadden Act, from which this summary is paraphrased.

5. No State bank with branches established outside its home city after February 25, 1927, may be admitted to Federal reserve membership except upon relinquishment of such branches.

6. No national or State member bank may establish a branch outside of its home city.

7. No branch of a national bank may be established or moved without the consent of the Comptroller of the Currency.

CHAPTER VII

THE GLASS BILL AND BRANCH BANKING

The McFadden Act did not settle the branch banking issue. The alarming continuance of bank failures carried the suggestion that our banking structure was inherently weak. At the same time group and chain banking had become especially important in territory where there had been no branch banking and where sentiment had seemed strongly antagonistic to it. Furthermore it was found possible, where statewide branch banking was permitted, as in California, for a member bank, which itself could not establish branches outside its home city, to control through affiliation a nonmember bank which could establish them.

Under these circumstances dissatisfaction with the results of the McFadden Act was not confined to those who believed that branch banking should be allowed on more liberal terms. Even those who favored its restrictions were dissatisfied when it was apparent that by methods of

affiliation it was possible to associate banks into groups which accomplished very much the same thing as branch banking itself; and that in States where branch banking was permitted it was possible for a bank to have an affiliate establishing branches even though forbidden by the Federal law from establishing them in its own name.

The House Hearings, 1930

The increased importance of these two developments, rural bank failures and affiliations, is manifest in the hearings on the subject of branch, group, and chain banking which were held by the House Committee on Banking and Currency in 1930. These hearings were authorized by House Resolution 141 (Seventy-second Congress), "for the purpose of obtaining information necessary as a basis for legislation." In contrast to previous hearings, the majority of the witnesses who appeared before the committee were in favor of branch banking in some form, and the case for branch banking was presented with more fullness than ever before. The Comptroller of the Currency, Mr. J. W. Pole, and the Governor of the Federal Reserve Board, Mr. Roy A. Young, were heard at greater length than other witnesses, and both recommended that the power of national banks to have branches be extended.

The Comptroller, who was the first incumbent of his office in thirty years or so to give emphatic endorsement to branch banking, embodied in his testimony the recommendations he had already made to Congress in his

annual report. The distinctive feature of his recommendations was that branches be authorized for national banks "within the trade areas of the cities in which such banks may be situated."(1)

> "....These trade areas may in some cases be coextensive with Federal reserve district lines; in other cases they may be of a more limited extent, but in my judgment they should not extend beyond Federal reserve district boundaries, except to take care of a few exceptional cases where a trade area may extend from one Federal reserve district into another, nor should a bank be permitted to establish a branch in another city in which there is a Federal reserve bank or a branch thereof.
>
> "Under such a system of branches there would gradually be extended to the agricultural communities from the large city banks a safe and sound system of banking which would render remote the possibility of bank failures. There would, however, be no compulsion upon unit banks to enter a branch organization. The two systems of banking--unit banking and branch banking--would no doubt operate side by side for an indefinite length of time; that is to say, there would be in every rural section some unit banks well organized, competently managed, and held in high esteem by the community which would continue to operate advantageously."

In its emphasis upon branches as a means of serving rural communities, the recommendation of the Comptroller took the issue back where it had been thirty years before, when the earlier advocates of branch banking had urged it for the same reason. Mr. Pole, however, emphasized

---

(1) United States Congress, 71st, 2nd Session, Hearings under H. R. 141, Branch, Chain, and Group Banking, House Committee on Banking and Currency, 1930, Vol. I, p.6.

more than those earlier advocates did that the branches were to belong to large banks. Of the latter he said:(1)

> "They are giving the general public a safer and higher type of banking service than has hitherto been known. Their stability rests upon the great diversity of banking business to which they have access and to the further fact that they are able to secure the most highly trained and experienced talent."

The power to operate branches would, as the Comptroller proposed, make the services of these banks available to rural communities, so that the latter would not be dependent exclusively upon banks of small size.

Hitherto the areas within which it was suggested to permit branches had been political; i.e., within municipalities, counties or contiguous counties, or within States. Both the advantage and the disadvantage of following political boundaries are obvious. The advantage is that such boundaries are easy to prescribe; the disadvantage is that in many cases they do not include sufficient banking business for competing branch systems of adequate size. These arbitrary limitations which political areas involve are avoided in the Comptroller's concept of "trade areas," which are economic and disregard political boundaries. The trade area would have the advantage of being extensive enough to include banks of adequate size, but it has also the disadvantage that its boundaries would not be easy to prescribe.

---

(1) Ibid., p. 3.

The extensiveness of the "trade area" would in part depend, according to the Comptroller, upon the minimum size of bank to be permitted to have branches. If, for instance, no bank with a capitalization of less than $1,000,000 should be allowed to have branches, the trade area would have to be large enough, at least, to support a bank of that size.(1)

> "As to the size of the parent bank, under such a branch banking system as I have suggested, it seems advisable to consider the question of a minimum capitalization as a condition precedent to the establishment of branches in the rural districts in the trade area. In this respect discretion should be allowed the Comptroller of the Currency to require a capitalization higher than the minimum, as he now does with unit banks. Some trade areas are naturally more important and more highly developed financially than others. A bank of one million capitalization in some trade areas might be considered a large enough bank to support a branch system, whereas in other trade areas it might be small by comparison. To support a system of branches within a trade area the bank should be of undoubted strength and prestige in order to discharge the responsibilities which such an undertaking entails. This situation would be met if Congress required a minimum capitalization for a branch banking institution of $1,000,000. Such a provision would automatically determine, to some extent, the size of the trade area for branch banking purposes. They would have to be large enough, at least, to support a bank of that size."

Although the Federal Reserve Board itself has expressed no opinion on the subject since the McFadden Act, Mr. Roy A. Young, who was Governor of the Board at the time, avowed his personal agreement with the Comptroller. He stated that he thought "there should be a liberalization of the national banking law in reference to the establishment of branches," and when he was asked to what areas he would confine the branches of a given bank,

---

(1) Ibid., p. 106.

he replied:[1]

> "I have given a good deal of consideration to that. I have thought of it from the county-wide standpoint, and that does not permit proper diversification, in my opinion. I have considered it from the standpoint of state-wide, and there have been some difficulties with that. I have considered it from the standpoint of being district-wide, and that would work out very nicely in some districts, but in others it would not. I have considered it from the standpoint of being state-wide or district-wide, together with a radius of 100 miles, and there are some difficulties with that.
>
> "So I have come down to the same conclusions that the Comptroller of the Currency has, that a trade area is the proper thing at the moment. To describe a definite trade area is extremely difficult. If the Federal reserve act intended to have the Federal reserve system do it, I might say that they did it as well as they could with 12 regional banks, and we have since extended that by the establishment of 25 branches, and even that is not 100 per cent perfect."

Another distinctive feature of the House committee's hearings was the discussion of branch banking by bankers engaged in group banking. There was some difference of opinion among them as to the relative merits of group and branch systems.

Mr. John K. Ottley of the First National Associates of Atlanta said that the formation of their group "was due to the lack of a national law permitting the extension of branch banking within the Federal reserve system outside of Atlanta," and that he and his "associates....in the First National Bank of Atlanta would have preferred to engage directly in branch banking rather than to resort to the more cumbersome method of

---

[1] Ibid., p. 501.

group banking as a means of furnishing adequate banking facilities to our territory."(1) He affirmed that he did not "regard group banking in its present form as the equal of branch banking either in its ability to meet the needs of local communities with dispatch and precision, in the flexibility and simplicity of its organization or in the economy of its operation."

Mr. Robert O. Lord of the Guardian Detroit Union Group of Detroit said that "While undoubtedly economies of operation would result from the conversion of some of the present group systems into branch systems," he questioned whether the change should be forced by legislation.(2) He nevertheless regarded group banking as a step toward branch banking.(3)

Mr. George F. Rand of the Marine Midland Corporation of Buffalo said that "Obviously certain advantages of branch banking can not be realized fully by group banking," though he also felt that group banking had its own merits. Even though group banking should be considered merely a transitional step towards branch banking, "the retention of local interest and contacts" seemed to him to be a very real advantage.(4)

Mr. E. W. Decker of the Northwest Bancorporation of Minneapolis appeared to be more positive of the independent advantages of group banking, but believed that branches should be used to supplement it in communities too small for independent banks.(5)

Mr. L. E. Wakefield of the First Bank Stock Corporation of

---

(1)Ibid., Vol. II, p. 1262.
(2)Ibid., Vol. II, p. 1057.
(3)Ibid., p. 1122.
(4)Ibid., pp. 1182, 1183.
(5)Ibid., Vol. I, pp. 857-860.

Minneapolis made the same contention.[1] He took cognizance of the allegations that group banking was "but an evasion of the ban on branch banking," and admitted that branch banking might be more economical in some instances. The operations of his group had shown, he said, "that there is a size and type of community which is too small to justify the maintenance of a separately capitalized and corporately staffed bank of its own and which the group can not enter with a unit bank." But at the same time, he held that group banking had its "distinct advantages" and that these "should not be sacrificed." "Group banking and branch banking could well go hand in hand, supplementing each other."

Two years later, however, Mr. Wakefield, appearing before the Senate committee, acknowledged that his views upon the relative advantages of group banking and branch banking had changed. Speaking of the suggestion that the Federal law disregard the limitations on branch banking imposed by State law, he said:[2]

> "....If this limitation were removed, it is almost impossible to exaggerate what it would accomplish in our territory. I recognize that in advocating state-wide branch banking at this time, I am departing from opinions I expressed in my testimony before the subcommittee a year ago. I admit that frankly. We have learned by our experience of the last three years how much more effective branch banking would be than group banking. I do not think that a year ago the people in the country districts were ready to accept branch banking, but this sentiment has undergone a great change, and I am certain that the majority of these people are not only no longer opposed to branch banking but anxiously hoping that it will be accomplished with least possible delay."

---

(1) Ibid., pp. 888, 889.

(2) United States Congress, 72nd, 1st Session, Hearings on S. 4115, Operation of the National and Federal Reserve Banking Systems, Senate Committee on Banking and Currency, March, 1932, p. 341.

It is impossible to make reference to all of the witnesses who appeared before the House Committee, but some of the more prominent among them were Mr. A. P. Gianinni and Mr. James A. Bacigalupi of the Transamerica Corporation, whose discussions belong to the report on branch banking in California; Mr. A. H. Wiggin and Dr. Benjamin M. Anderson, Jr., of the Chase National Bank; Mr. Charles E. Mitchell of the National City Bank; Mr. George W. Davison, President of the Central Hanover Bank and Trust Company of New York; and the Commissioners of Banking from Oklahoma, Michigan, and Massachusetts. Mr. Wiggin, Dr. Anderson, Mr.Davison, and Commissioner Shull of Oklahoma were opposed to branch banking. Mr. Davison introduced into his testimony an address he had made before the American Bankers Association at San Francisco, October, 1929, from which the following is quoted:(1)

> "Branch banking, should it become legalized, may possibly give us better mechanical banking. Nobody knows better than we do that banking is not an enterprise of formulas and machinery. It is profoundly involved with the human side of life, with people engaged in the business of making a living. Let us have all of the better banking machinery that our ingenuity can devise and our judgment approve, but let us not place out confidence in the perfection of banking mechanism, for it we should our banking system would become increasingly rigid and lose the flexibility which is indispensable to the service that banks have to perform. For the preservation of that essential flexibility I believe our correspondent banking to be most admirably adapted."

Commissioner Reichert of Michigan said that his "State allows branch banking in municipalities. This has worked out very satisfactorily."(2)

---

(1) House Hearings, op. cit., p. 1789.
(2) Ibid., p. 1614.

He reserved judgment however as to the idea of branches outside home office cities.

Mr. Mitchell made the following comment:[1]

> "How far immediate legislation should go in advantageously extending permissive powers for branch banking is a difficult problem. The trade area suggestion appears to me at present too broad in its scope. The suggestion of extension to county or to State lines seems artificial. The expansion to Federal reserve districts extends the territory to an unwarranted degree under existing circumstances and furthermore is filled with impracticabilities owing to the fact that the districts themselves do not represent either trade areas or spheres of natural banking relationships. My one suggestion would be that legislation should be such that under the carefully given permits of the comptroller's office the limitations of branch banking be extended to a somewhat larger field in the immediate vicinity of our cities, allowing the experience of this extension to be the guide in future legislation."

Glass Bill, 1932

The hearings held by the House Committee which ended June 11, 1930, did not result in the immediate introduction of a committee measure. Congress adjourned less than a month later, July 3, 1930. When it convened again, December 1 of the same year, a subcommittee of the Senate Banking and Currency Committee was set up. This subcommittee was under the chairmanship of Senator Glass, and had Dr. H. Parker Willis as its expert. It was authorized by Senate Resolution 71 (Seventy-first Congress), and had a much wider commission than the House Committee, the latter's hearings having been authorized with reference to branch, chain, and group banking alone. The Senate subcommittee's field of study was the "operation of the national and Federal reserve banking systems," and

---

[1] Ibid., p. 1959.

branch banking was given much less attention in its hearings than other subjects.

Of the numerous witnesses who appeared before the subcommittee, the Comptroller of the Currency, Mr. J. W. Pole, was the principal advocate of branch operations, and a large part of his testimony was devoted to a restatement of his previous recommendations for trade area branch banking. Other persons mentioned branch banking, but for the most part incidentally.

Mr. Rome C. Stephenson, President of the American Bankers Association, also appeared before the subcommittee, but beyond a brief statement that he did not consider branch banking necessary he did not discuss the subject.

Mr. Melvin A. Traylor, Chairman of the Board, First National Bank of Chicago, and Mr. Albert H. Wiggin, Chairman of the Governing Board, Chase National Bank, were perhaps the most positive opponents of branch banking. Mr. Traylor said:(1)

> "I believe in the independent unit system of banking which this country has always enjoyed. I believe the thing we have to fear most of all is the extent to which, in supposed emergencies, we modify that system."

Mr. Wiggin said, in speaking for his bank:(2)

> "Our own preference would be not to see any extension of branch banking. If the branch banking were limited to trade areas or to Federal reserve districts, it would cause, in the New York district, a competition in the buying of other banks in other cities, which we would dislike to see."

---

(1) United States Congress, 71st, 3rd Session, Hearings on S. R. 71, Operation of the National and Federal Reserve Banking Systems, Subcommittee of the Senate Committee on Banking and Currency, 1931, p. 397.

(2) Ibid., pp. 195, 196.

He also said:

> "We act as the correspondent of banks from all over the country and we lend those banks from all over the country and if there was any suggestion of branch banking to the extent of the whole country, we would consider it exceedingly inadvisable, because of the difficulty and impossibility of running branches at such a distance, in a satisfactory way.....
>
> "So in the suggestion of branch banking, whether it be country-wide or trade area or Federal reserve districts, I can see nothing that is going to supply a community that will not support a bank, with a bank, and that apparently is the one thing they are striving for."

The Glass bill, which was finally reported by the subcommittee, embodied provisions for branch banking on a more extensive scale than the McFadden Act permits. It proposed to give national banks state-wide branch banking privileges wherever State banks have the same privileges. At additional hearings held by the Senate Committee in March, 1932,(1) a number of witnesses criticized the bill because its provisions made national bank privileges dependent on State laws. They said that state-wide branches should be allowed for national bank, regardless of the State laws. Two of the group bankers who had testified in previous hearings, Mr. Robert O. Lord and Mr. L. E. Wakefield, made this suggestion. Mr. J. W. Pole, the Comptroller of the Currency, again recommended trade area branch banking and expressed dissatisfaction with the principle of making the privileges of national banks depend on the privileges of State banks. He said:(2)

> "....In my judgment, this section will accomplish little or nothing in the way of branch banking, since only a few States permit state-wide branch banking. The particular need for

---

(1) United States Congress, 72nd, 1st Session, Hearings on S. 4115, Operation of the National and Federal Reserve Banking Systems.

(2) Ibid., p. 432.

branch banking by national banks is in those States which do not permit branch banking to the State banks. There is a crying need for banking facilities which can be given by strong city banks in the rural communities of the United States. I know of no other sound solution of the rural bank question."

Following these hearings, in which other matters than branch banking occupied most of the attention, the bill was altered in a number of provisions. Its branch banking provisions as reported from the Banking and Currency Committee to the Senate on April 18, 1932, authorized state-wide branch banking for national banks regardless of State laws. This draft of the bill also contained a provision authorizing branches across State lines under certain circumstances. These provisions are given in full as follows:(1)

"(c) A national banking association may, with the approval of the Federal Reserve Board, establish and operate new branches within the limits of the city, town, or village, or at any point within the State in which said association is situated: Provided, That, if by reason of the proximity of such an association to a State boundary line, the ordinary and usual business of such association is found to extend into an adjacent State, the Federal Reserve Board may permit the establishment of a branch or branches by such association in an adjacent State but not beyond a distance of fifty miles from the place where the parent bank is located. No such association shall establish a branch outside of the city, town, or village in which it is situated unless it has a paid-in and unimpaired capital stock of not less than $500,000."

"(d) The aggregate capital of every national banking association and its branches shall at no time be less than the aggregate minimum capital required by law for the establishment of an equal number of national banking associations situated in the various places where such association and its branches are situated."

Paragraph (d) should be interpreted in connection with another

(1) United States Congress, 72nd, 1st Session, S. 4412, Section 19.

provision of the bill which raised the minimum capital requirements for new national banks from $25,000 to $50,000. The change restored the minimum to what it had been before 1900, when, as described in Chapter IV, the movement for branch banking in rural regions was met by reducing the minimum capital required for new national banks to $25,000.

Between the first draft of the McFadden bill in 1924 and the form the Glass bill bore in April, 1932, there was a marked shift of the issue. In 1932 it was no longer a question of merely permitting national banks to have limited powers in certain States where State banks had equal or greater powers--it was a question of giving national banks powers greater than those of State banks. The issue had moved to entirely new ground, where deference to State law was not followed. It is noteworthy that whereas in 1924 and 1927 the proposal was to permit national banks to have branches in cities where State banks were permitted to have them, in 1932 that point had long been conceded and the far more radical proposal was being made that national banks be permitted to have state-wide branches even where State banks were forbidden to have them.

This shift of the issue reflects a very considerable shift of general opinion, which may not support an extreme position but which is nevertheless more favorable to branch banking than the general body of opinion a few years ago. No better evidence of this is to be found than the official attitude of the American Bankers Association, whose opposition to branch banking both at the time of the earlier movement at the turn of the century and more

recently while the McFadden bill was pending, has been described. At its Cleveland convention in 1930, however, the association in response to the recommendations of its Economic Policy Commission, relaxed from the stand it had traditionally taken. Mr. R. S. Hecht, President of the Hibernia Bank and Trust Company of New Orleans and Chairman of the Economic Policy Commission, which had made a study of banking trends for the association, expressed his opinion as follows:(1)

> "It is not at all necessary to advocate any revolutionary changes in our banking system to adjust ourselves to the changed conditions but, on the other hand, we should admit that we cannot adhere to the rigid policy the Association has adopted in the past and should recognize that some extension of branch bank privileges within such restricted territorial limits as experience has proved would be economically sound and will inevitably come."

A resolution agreed upon by the commission was presented by Mr. Hecht and after considerable debate was adopted by the association.(2)

> "The American system of unit banking, as contrasted with the banking systems of other countries, has been peculiarly adapted to the highly diversified community life of the United States. The future demands the continued growth and service of the unit bank in areas economically able to support sound, independent banking of this type, especially as a protection against undue centralization of banking power. Modern transportation and other economic changes, both in large centers and country districts, make necessary some readjustment of banking facilities.
>
> "In view of these facts this Association, while reaffirming its belief in the unit bank, recognizes that a modification of its former resolutions condemning branch banking in any form is advisable. The Association believes in the economic desirability of community-wide branch banking in metropolitan areas and county-wide branch banking in rural districts where economically justified.

---

(1) American Bankers Association Journal, Vol. 23, October, 1930, p. 374.
(2) Ibid., p. 338.

"The Association supports in every respect the autonomy of the laws of the separate states in respect to banking. No class of banks in the several states should enjoy greater rights in respect to the establishment of branches than banks chartered under the state laws."

Opposition to the Glass Bill. - While this formal pronouncement of the American Bankers Association expressed an altered attitude on branch banking, it was far from being the unanimous opinion of bankers. Moreover, it accepted branch banking under close restrictions, and was a long way from endorsement of state-wide branch banking. The report of the association's Economic Policy Commission, May, 1932, as approved by the Executive Council of the Association, contained the following statement:(1)

"The Glass Banking Bill as finally revised would in Section 19 create a revolutionary situation in respect to banking. It would not only permit national banks with capital of not less than $500,000 to establish branches locally or on a statewide basis regardless whether State banks in the jurisdiction were granted branch privileges of any kind--but it would go much further and set up in some places trade-area branch banking for national banks by permitting them to spread out their branch systems across State lines up to distances of fifty miles, if, by reason of their proximity to a State boundary line their ordinary and usual business is found to extend into an adjacent State."

The report went on to make the following comment:

"(1) We believe the decision as to whether a State shall have branch banking should be left to the States themselves, and that it should not be imposed upon them by Federal Legislation.

"(2) We oppose inter-state branch banking.

"(3) Where communities have been deprived of banking facilities, by the failure either of unit, branch or group banks, or where local conditions fail to offer support to existing facilities, measures should be provided whereby banks in stronger centers within the State can extend adequate facilities."

(1) The Commercial and Financial Chronicle, May 7, 1932, p. 3377.

The Glass bill itself did not have the unanimous support of the Senate Committee. It was opposed, so far as its branch banking provisions were concerned, by a minority led by Senator Norbeck, the chairman of the committee, and on April 29, 1932, he submitted a minority report. This report was submitted "in protest against the proposed extension of branch banking, without taking issue with the distinguished author of the bill, Senator Glass, on other matters in the bill...."(1)

At the same time individual bankers, banking commissioners, and State banking associations attacked the branch banking provisions of the Glass bill with bitterness. The editor of the American Banker as "spokesman....for the welfare of the 19,000 smaller independent banks of the nation" addressed a series of letters to Congress from which the following excerpts are taken.

> "In none of the preliminary hearings was serious consideration given to any State-wide branch banking proposal. THE PRACTICALLY UNANIMOUS VIEW OF AMERICAN BANKERS THAT STATE-WIDE BRANCH BANKING WAS A RADICAL EXPERIMENT WHICH OUGHT TO BE LEFT TO THE STATES was too well known to permit serious consideration of any other attitude."(2)

> "You may not clearly realize it. But if you vote for the Glass Banking Act of 1932, with its degenerative branch banking provisions, your local banks are doomed."(3)

> "Branch banking was inevitably a factor in the breaking of the Bank of England. Mismanagement of British public finances was paralleled by a banking system in which deflation could not be LOCALIZED as it has been in the United States. The pyramid of

---

(1) United States Congress, 72nd, 1st Session, Senate Report 584, Part II, Minority views to accompany S. 4412, April 29, 1932.

(2) American Banker, May 12, 1932, p. 1.

(3) Ibid., May 9, 1932, p. 1.

centralized banking and finance could only be readjusted by the disaster of currency revaluation."(1)

"We see no need for Federal 'trade area' branch banking, or any sort of branch banking, unless indeed as AN ALIBI FOR THE FAILURE OF THE FEDERAL RESERVE BOARD AND NATIONAL BANKING DEPARTMENT TO MAINTAIN SUFFICIENTLY HIGH STANDARDS for the banks, under their supervision, prior to 1929.

"What need have we for 'trade area' or any other branch banking when more than 19,000 unit banks have given their depositors 100% safety, whereas branch banking nations have been forced off the gold standard or shot through with great failures of their unwieldly chain store banks? We can do better than imitate a discreditable Old World financial error.

"Why be tricked into doing so by a political maneuver? Half a spoonful of branch bank poison is as bad medicine as the whole spoonful."(2)

In June, 1932, Mr. Peter J. Cameron, former banking commissioner of Pennsylvania, began organizing the Association of Independent Unit Banks of America to fight the proposals for state-wide branch banking embodied in the Glass bill. Mr. Cameron, who was already well known for his opposition to the extension of branch banking, made the following statement explaining the purpose of the association:(3)

"During the past six or more years, certain interests in the larger cities of the country and certain Federal authorities have been active in promoting the branch banking idea.

"Branch banking such as is provided for in Section 19 of the Glass bill, now pending in the United States Senate, and for which the interests above referred to are clamoring, is objectionable to the vast majority of banks, both State and national, whose management believe that the laws of the respective States should regulate branch banking within their borders.

---

(1) Ibid., p. 6.
(2) Ibid., May 14, 1932, p. 1.
(3) Ibid., June 8, 1932, p. 8.

"Nation-wide branch banking powers for national banks is favored by many big bankers and officials of the Federal Government. If adopted, such a system would, in due time, wipe out our present dual banking system, of which the thousands of independent unit banks form an important part.

"Unit bankers in the various States, after careful consideration, have decided to organize the Association of Independent Unit Banks of America, with headquarters in Harrisburg, Pa., whose main purpose will be to uphold the autonomy of State laws as a cardinal principle in Federal branch banking legislation."

It is important to observe the evidence in this statement that the issue as to the conditions under which banks may be authorized to establish branches relates not so much to the adequacy of the existing banking structure as to the belief "that the laws of the respective States should regulate branch banking within their borders"; that branch banking threatens to "wipe out our present dual banking system"; and that "the autonomy of State laws" should be a "cardinal principle in Federal branch banking legislation." Since the majority of banks that fear branch banking because of their size are State banks, it is natural that this identification of their own interest with States' rights should be made.

Substantially the same point of view is expressed in the following resolutions of the Illinois Bankers' Association, May, 1932:[1]

"In certain legislation now pending in the United States Senate, we see an attempt to give such competitive advantages to national over State banks as to lead to the destruction of our dual banking system. We emphatically reiterate our previous declarations that Congress should grant no further branch banking privileges than to give national banks equal rights with other banks in States where branch banking is permitted. We

---

[1] Ibid., May 28, 1932, pp. 1, 2.

> believe the decision as to whether a State shall have branch banking should be left to the State itself, and that this should not be imposed upon it by Federal legislation. We oppose inter-State branch banking. Where local conditions in any community in the State fail to offer support to the existence of a regularly chartered bank, measures should be provided whereby adequate banking facilities may be extended."

It is obvious that this is a protest not so much against the general proposition that banks should be permitted to have more than one office, as against the alleged intent to override State banking laws in giving them that permission. In its last sentence the resolution expressly recognizes the desirability of branches where adequate banking facilities are not otherwise accessible. In view of the former radical hostility among Illinois bankers to branch banking under any circumstances, the present attitude bespeaks a change of opinion that is significant.

The history of branch banking in the United States from the beginning has involved the conflicting relationships of banks under Federal charter and of banks under State charter. First the branches of the Second Bank of the United States were resented by the States in which they were situated. Next the National Bank Act taxed away the circulation privilege of State banks and thereby diminished the number both of State banks and of their branches. In 1900 out of deference to the numerous small banks in the country, most of which were State banks, proposals to authorize national banks to establish branches in rural communities were overridden in favor of lower capitalization for rural national banks. In 1924, when Mr. H. M. Dawes was Comptroller, the Federal authorities and Congress preferred not to authorize branches for national banks, but since the laws in some States permitted branches, it was necessary in the McFadden bill

to give national banks similar privileges. At present, in 1932, the proposal to give national banks uniform power in all States to have branches is mainly opposed on the ground that it infringes on the rights of the States and their chartered institutions.

CHAPTER VIII

STATE LAWS

The interaction of State and Federal banking legislation upon each other was emphasized in the preceding chapter, and it was pointed out that opposition to the branch banking provisions of the Glass bill centered on the fact that they would override State laws by permitting national banks to have branches where State banks could not. This close relationship between State and Federal legislation requires that a description be given of the situation in each State individually, with attention not only to the present legal status, but to the historical background and developments as well.

In 1895 the Comptroller of the Currency made what appears to have been the first survey of State laws on branch banking; it preceded the recommendation for branch banking by his office discussed in Chapter IV. It was a comprehensive survey of State banking laws in general, and was based on twelve questions asked of each State, the seventh being, "Are any of the banks permitted to conduct branch offices or banks?" The Comptroller summarized the information received in answer to this question as follows:(1)

> "Thirteen States do not allow branch banks. Ten States report no law prohibiting them nor providing for their establishment. In twenty States branches are permitted, and to some extent encouraged by favorable legislation."

(1) Annual Report of the Comptroller of the Currency, 1895, p. 40.

This summary unfortunately does not always give clear evidence of the legal status of branch banking, which might be a matter of specific legislation, of judicial interpretation, of administrative interpretation or ruling, or of precedent and custom only.

It is doubtful, however, if any State in 1895 had a law specifically prohibiting branch banking by name. Nor where branches were permitted was it by express authorization of law, but merely by implication and custom. The laws in many States, and possibly in most of them, appear to have said nothing at all on the subject. The replies to the Comptroller's question, however, are generally so brief and ambiguous that it is impossible to classify them with any assurance of accuracy. In some States emphasis seems to have been on the fact that branches were not forbidden. In others it seems to have been on the fact that they were not permitted. In still others it is simply reported that there was no provision in the law for branches. The evidence in the information itself as well as the relative attention accorded it among the other subjects in the survey indicates both that branches were not numerous and that the subject was not one in which much interest was felt.

In August, 1902, a second survey of branch banking by State banks was made by the Comptroller. Information was requested as follows:

> "First. Whether or not branches or agencies are authorized by the banking laws of the State or the charter of the banks.
>
> "Second. If authorized, the regulations and provisions of law relative thereto.
>
> "Third. The names and location of banks operating branches and the number and location of the branches."

A summary of the information, State by State, appeared in the Comptroller's report for that year.(1) The situation had changed very little since 1895. Missouri had enacted a specific prohibition and New York, Massachusetts, and Louisiana had enacted specific authorizations. Most of the changes indicated seem to arise from the fact that informal opinions of the law were being given rather than formal or judicial interpretations of it.

In 1911 the National Monetary Commission made a digest of State banking laws up through 1909, which was published in Volume III of its report. It includes information on branch banking, which is more precise and satisfactory than the Comptroller's surveys already mentioned. The principal changes indicated between this digest and the Comptroller's surveys are that Colorado, Mississippi, Nevada, Texas, and Wisconsin had enacted prohibitions on the establishment of branches and that California had enacted a specific authorization for their establishment.

Between these early studies and the digests of branch banking laws prepared by the Federal Reserve Board in 1925 and 1930, and published in the Federal Reserve Bulletin, March, 1925, and April, 1930, the changes are very great, for during the interval many States enacted prohibitions on branch banking, and many others enacted provisions for its regulation. It is impossible to classify these changes in simple form, for the reason that the status of branch banking is not usually stated in simple terms. Conditions vary as to the size of banks that may have branches, the size of towns, the number of branches, the areas branches may cover, etc. In

(1) Annual Report of the Comptroller of the Currency, 1902, pp. 47-51.

many cases the actual status of branch banking depends more on tradition and interpretation than on the letter of the law. Furthermore, the letter of the law itself often requires interpretation. Finally, it is often difficult if not impossible, because of conflicting evidence or lack of evidence, to tell what the status of branch banking was at a given time or when it changed. The classifications used in the following pages must therefore in many instances be taken as tentative and flexible.

It is obvious both that the laws respecting branches in effect in the various States vary extremely from one another and that the development of branch banking also varies. But the development does not vary uniformly with the laws. There are branches in States where branches were never specifically authorized and there is at least one State, Montana, where branches are permissible, but none have been established. And in States, counties, and cities where branches are permitted on the same terms there will be found widely different degrees of development.

This is in part to be explained by the fact that aside from what the laws may say, the attitude of the State supervisory authority is of very great importance in determining branch banking developments in a given State. A supervisor who wishes to have the powers granted by a law exercised, can encourage banks accordingly; or if he chooses otherwise, he can discourage them. This may explain in part why rural branches have been actively established in Iowa, for instance, and why in Montana there have been none.

In twenty-four of the States where prohibitory legislation has

been in effect at one time or another in recent years,(1) fourteen appear to have had branches at the time the prohibition was enacted, though in only three, Alabama, Mississippi, and Georgia, was branch banking represented by more than a dozen branches or so. In Mississippi and Georgia the prohibition has since been relaxed. In twelve States the prohibition seems to have originated since 1920, and in all but one, Missouri, it seems to have originated since 1900. In only one State where branch banking has been prohibited since 1920, was there any branch banking of consequence, and in five of those States, Illinois, Iowa, Kansas, Montana, and West Virginia, there were no branches at all. The one State, Georgia, where branch banking was active has since relaxed the prohibition. The Wyoming law, which by implication formerly permitted "offices" at different "places," was amended in 1926 by changing these words to the singular. This may or may not be considered a prohibition on branches, but at any rate there appear to have been no branches in the State at any time.

The conclusion therefore seems inescapable that the greater part of the prohibitory legislation has not been adopted as the result of direct experience. Some part of it seems to have come about as a result of the active controversy over branch banking which culminated in 1902, but a greater part seems ascribable to the later controversy which began around 1920 and reflected first, the growth of branch banking in California, and

---

(1) Arkansas, Georgia, Illinois, Indiana, Iowa, Kansas, Minnesota, Montana, Nebraska, Oregon, West Virginia; Alabama, Colorado, Connecticut, Florida, Idaho, Mississippi, Missouri, Nevada, New Mexico, Texas, Utah, Washington, Wisconsin.

The first eleven enacted prohibitory legislation since 1920. The fourteen underlined had branches at the time the prohibition was enacted.

second, its growth in the large cities. There is evidence that in certain cases prohibitions or restrictions came about through fear that the Giannini interests of California planned to enter the State. This is said authoritatively to be true of Virginia, where after having been permitted state-wide, branch banking was put under restrictions. But leaving that aside it is natural that there should be a close connection, as stated in Chapter V, between the intense controversy which preceded the passage of the McFadden Act, and the prohibitory legislation adopted by various States during the same period.(1)

Finally it should be noted that seven States(2) have since 1927 changed their branch banking laws in the direction of relaxing previously existing prohibitions and restrictions, and Vermont has passed a law authorizing agencies.

Scope of Survey and Sources of Information

In the following description of the status of branch banking in individual States, no attempt is made to cover fully the conditions as to the amount of capital required for each branch, the population of the towns in which branches may be situated, and such details, for which the laws themselves should be consulted, as presented in the March, 1930, Federal Reserve Bulletin, with late changes in the July, 1932, Bulletin. Whenever it is said that the law authorizes branches whether state-wide or within

(1) When the St. Louis case (see Chapter VI) was argued before the Supreme Court in 1922, ten other States were sufficiently interested in the subject to join Missouri in its brief of the issue.

(2) Georgia, Indiana, Iowa, Massachusetts, Montana, Ohio, and Wisconsin.

smaller restricted areas, it is to be understood that such authorization depends upon compliance with numerous conditions and the approval of the supervisory authority. It ~~is~~ seems to be nowhere true that banks are allowed to establish, move, or discontinue branches without administrative permission.

Sources of Information. - The material in this chapter is based mainly on the five earlier surveys already mentioned: those of the Comptroller of the Currency in 1895 and 1902, the Digest of State Banking Laws in 1909, published as Volume III of the report of the National Monetary Commission, and the two digests of State laws relating to branch banking, published in the Federal Reserve Bulletin, March, 1925, and April, 1930. Other miscellaneous sources have been drawn on also. These include annual reports of State banking superintendents, and legal digests such as those of Morse and Magee on Banks and Banking, and Morawetz on Private Corporations.

Terminology. - In the following summaries it will be noted that different terms are used in certain States in place of the term "branches." These are "agencies," "offices," "branch banks," "stations," and "locations." There have also been used the terms "tellers' windows" and "additional offices," the latter particularly in connection with national banks, as described in Chapter VI.

Most of these terms seem to have been adopted as euphemisms for branches where prejudice or law stood in the way of branch operation. This is the case with "offices," "additional offices," "tellers' windows," "stations," and "locations." In general also these terms connote a limitation of function, as in Iowa and Wisconsin, where the purpose is to restrain

branches from competing on equal terms with single office banks. In the case of national banks it is doubtful if the limitation of "additional offices" to merely routine paying and receiving functions was enforceable, for the reason that the negotiation of a loan, for instance, could be easily arranged by telephone, or written application, or through other means that made it unnecessary for the customer of the "additional office" to go to the main office of the bank.

The term "branch bank" is an ambiguous one, sometimes used to designate a branch and sometimes to designate the bank operating branches.

The term "agency," as noted in Chapter VI, has usually been given a legal distinction from branch, though this distinction has not been universally observed. In Vermont the law which authorizes agencies apparently follows established local usage, without however implying any distinction between branches and agencies in practice.

In general connection with the legal effort to limit functions and to use special terms in distinction from the term "branch," it is to be pointed out that banks themselves limit the functions of their branches according to circumstances, and that they also frequently use the term "office" in preference to "branch". In view of the fact that both laws and banking customs assign several different terms to the same thing and also different things to the same term, it has been found impracticable to observe all the distinctions in effect. Logically the term "office" appears proforable to all othors, and there seems to be a disposition on the part of banks to use it in place of the term "branch", but the latter, together with the expression "branch banking," is still in such common use that it seems

necessary in a discussion of this nature to adhere to it. The word branch has been used, therefore, as the general synonym for all the special and local terms, such as "branch bank," "agency," "office," "suboffice," "sub-agency," "additional office," "station," "substation," "teller's window," "location," etc., even where the latter is used in the State law.

Changes in Laws of Individual States

The following accounts give the changes in the State laws on branch banking with brief reference to the situation at present. In the Appendix will be found a more detailed digest of the current State laws.

Alabama. - No returns from Alabama are in the Comptroller's survey for 1895, but in 1902 it was reported that the code of 1896 permitted banks to have branches "at pleasure in the State other than the principal place of business." There were a few branches in operation and the law continued to permit their establishment till 1911, when a prohibition was enacted. At that time the Tennessee Valley Bank, with its sixteen offices, had already been established. This bank is one of the oldest branch systems in the country now operating. Its headquarters are in Decatur and its other offices are in fifteen other towns in northern Alabama. It was established in 1892, and built up its branches gradually, though no new ones have been established since the law of 1911 forbidding further development of branch banking. The direct occasion of that law appears to have been the experience of a bank established in Birmingham in 1910 with a capital of $100,000, without any increase of which about twelve branches were set up in different towns within a few weeks of organization. Shortly there-

after the bank failed, and its failure induced a strong reaction against branch operation. The Committee on Legislation of the Alabama Bankers' Association reported in January, 1911, that branch banking "is a favorite method of the fakir who starts in to rob the depositors of the suburbs or the small towns."[1] It is obvious that it was not necessary to prohibit branch banking in order to prevent recurrence of such action, and the inference is that the Alabama bankers were opposed to branch banking on the same general grounds that had already influenced the American Bankers Association. The legislative committee also reported that it had "so modified the original sections of the bill.....as to leave absolutely untouched the branch banks already in existence, but providing that no more shall be established." "We believe," the report continued, "that all interests in the association will be brought into harmony by that provision and the only obstacle to a united front before the Legislature is thus removed." The proposals of the bankers were enacted and while branches already established were permitted to continue, the establishment of more was forbidden.

Arizona. - The information as to Arizona in the Comptroller's survey of 1895 is simply: "Branch banks not provided for." By 1900, however, there were three branches in existence in the State, and the Revised Statutes of 1901 took cognizance of the fact that banks might maintain them. The laws of 1922 specifically authorize their establishment without restriction as to location. The number has steadily increased, all the branches being outside the city of the head office.

---

[1] Montgomery (Ala.) Advertiser, January 19, 1911.

Arkansas. - In 1895 in reply to the Comptroller's question as to whether banks were permitted to have branches, it was reported: "Yes, if they so desire, there being no restrictions." There is no record, however, that any existed. The status was still the same in 1902. A very few were subsequently established, all outside the city of the head office. Under the present law, in effect apparently since 1923, the establishment of branches is not permitted. However, it is to be noted that the bank commissioner of the State has in the last year or so authorized a few temporary branches to be set up in towns deprived of other banking facilities, these branches being called "tellers' windows."

California. - The complete account of branch banking in California is covered in a special report. It may be noted here for convenience that it was reported in the Comptroller's survey in 1895 that, "there are some banks which have branch offices," but nothing was said as to the law. In 1902 it was reported:

> "The right of a bank to establish agencies has never been passed on by the State supreme court. It is stated that 'the law may permit agencies to be established within the county by the parent bank, but it certainly has no authority to conduct a general banking business.'"

In 1909 the present law authorizing state-wide branches was enacted.

Colorado. - There is no record that there have ever been any branches in Colorado; they have been under express prohibition since before 1909. In 1895 and 1902 they were not mentioned.

Connecticut. - It is not clear whether there ever were any regularly authorized branches in Connecticut, but in 1837 and later banks were

establishing agencies, which were analogous to branches. This practice was apparently the same as that described in the paragraphs on Massachusetts in Chapter II, and the present specific law forbidding branches in Connecticut, which has been in effect since 1902, appears to be a modification of an earlier law aimed at preventing that practice.

Delaware. - Branches are operated by banks in Delaware whose special charters specify their right to do so. Other banks are not permitted to have them. The Farmers Bank of Delaware, already mentioned, has operated at three or more offices since 1813. Nearly all the branches in the State are outside the city of the head office.

District of Columbia. - No report for the District of Columbia appears in the 1895 Comptroller's survey. In 1902 it was stated that, "there are....branches of savings banks doing business....without any special grant of authority other than the payment of an annual license tax to the District government." Loan and trust companies and banks other than national situated in the District in some cases have charters from the Federal Government and in some cases from various States. They are now expressly permitted to establish branches under authority of an act of April 26, 1922 (Millspaugh Act), though a few branches had been in operation before that for several years.

Florida. - Branches were formerly expressly permitted in Florida, but a prohibitory law was enacted June 7, 1913, two years after similar action in Alabama. Apparently there were never more than seven branches in existence, and under pressure from the State

comptroller these were all closed, the last two in 1925.

Georgia. - There was branch banking in Georgia before the Civil War, but it is not clear what was true for several years thereafter. The Comptroller's survey has no report from Georgia in 1895. It was reported in 1902 that branches were authorized in the charters of three banks only. Although they were not generally authorized, others were in existence and apparently the law took cognizance of them and required their examination. In 1927, however, a prohibitory law was passed as a result of experience with three chains previously operating in the State. These were: the Walker system, which flourished in the period from 1910 to 1920, approximately, comprised forty to fifty banks, and at last failed after fraudulent manipulations; the Benton system, which flourished and failed about the same time as the former; and most important of all, the Witham-Manley system, which was in operation from about 1890 to 1926, when it failed. Although one of the banks involved had branches, the failures were of chain organizations, and the prohibitory law did not touch the principle on which they were set up. The form of organization which was intended to be prohibited is therefore still legal and in practice. By subsequent Acts of July 20, 1929, and August 17, 1929, provisions were adopted which in effect permit banks in Savannah and Atlanta to establish branches within their city limits.

Idaho. - According to the Comptroller's survey in 1895, "there was nothing in the law to prevent" banks from having branches. There is evidence, however, in old directories that a few were in operation either then or a little later. In 1902 it was reported that there was no law on

the subject. In 1898 a branch of the Spokane and Eastern Trust Company of Spokane, Washington, was established in Moscow, Idaho, and the State law took cognizance of the existence of such branches of foreign banks as late as 1909. All branches in the State, domestic as well as foreign, appear to have been discontinued by 1910, however. The present prohibition, which uses the same words as that enacted in Missouri in 1899, has been in effect since 1919.

Illinois. - Apparently there have not been any branches in Illinois since the failure in 1843 of the State Bank of Illinois, which had about a half dozen branches. According to the Comptroller's survey in 1895, the Illinois law at that time made no reference to branch banking, and that silence was interpreted as not allowing it. In 1902 it was reported that they were not authorized. The present formal prohibition on branches has been in effect since 1923. It was strengthened by an amendment in 1929 making it more specific and forbidding banks even to establish branches in other countries. This is an unusual prohibition; some States, for example Missouri, specifically permit their banks to have foreign branches, while forbidding domestic ones.

Indiana. - After the passage of the National Bank Act, under which most of the so-called "branches" of the State Bank of Indiana became separate national banks, there appear to have been no branches in the State till after 1900. In 1895 it was reported that there was "no provision in the law authorizing" branches. In 1902 it was reported that the law did "not permit" branches. In 1920-1921, the law not forbidding, a few were established, mostly inside the city of the head office. On March 19, 1921, a law was approved permitting branches already established to continue, but

prohibiting any more. On March 11, 1931, a new law was adopted, permitting branches to be established by banks in other towns, in the same county, where no bank is already situated; and also permitting branches in county-seat cities of 50,000 population or more, in which the head office is situated. The provision for branches in outside towns was occasioned by the fact that because of failures many small towns were without banking offices.

Iowa. - After the Civil War, at which time most of the so-called "branches" of the State Bank became separate national banks, there appear to have been no branches in Iowa, nor any provision of law relating to them. In 1895 it was reported that branches were "not permitted by law." In 1902 they were reported as not authorized. On April 18, 1927, an act was approved specifically prohibiting them. This was amended March 13, 1931, by a paragraph reading as follows:

> "9258-b1. No banking institution shall open or maintain any branch bank. However, as may be authorized by and subject to the jurisdiction of the banking department, any banking institution may establish an office for the sole and only purposes of receiving deposits and paying checks and performing such other clerical and routine duties not inconsistent with this act. No banking institution may establish any office beyond those counties contiguous to the county in which said banking institution is located, nor in a city or town in which there is already an established banking institution. No office shall be continued at any place after a banking institution has actually commenced business at that place. Nothing in this act shall prohibit national banks the privileges of this section whenever they may be so authorized by Federal law."

Under this law numerous offices have been set up. It would seem, however, that banks would be deterred from the attempt to cultivate much business through such "offices," by the fact that their functions are limited and their tenure impermanent.

It is striking that although circumstances have made it expedient

to authorize these rural branches in Iowa, the prejudice against branch banking is so strong that the legislation gives them the less innocuous name of "offices," a term which as it happens is also used by many metropolitan banks in preference to the word "branches."(1)

Kansas. - There has apparently never been any branch banking in Kansas, and no mention of the subject in the laws until recently. In 1922 the bank commissioner said in his report: "Bankers, both state and national, are almost unanimously opposed to branch banking, and feel that a law positively prohibiting the establishment of branch banks in Kansas should be enacted at this time."(2) The commissioner's recommendation was not based upon any branch banking experience within the State, but upon the feeling of bankers towards it as a general issue. The present prohibitory law was not enacted till 1929.

Kentucky.- There has apparently always been branch banking in Kentucky, both before and after the Civil War, though there is no mention of it in the law, and it has not in recent years been important. In 1895 it was reported that there were seven branches in the State belonging to five different banks, and that there were "no restrictions as to the number of branches a bank may have" so far as was known. In 1902 it was reported that the law did not authorize branches but was "not construed as prohibitive." The Court of Appeals held in 1909,(3) however, that a bank cannot establish a branch in the absence of statutory authority, but that it may have additional offices or agencies to receive deposits and pay

(1)In New York City the Bank of Manhattan Trust Company, the Central Hanover Trust Company, the Irving Trust Company, the Manufacturers Trust Company, and others designate their branches as "offices".

(2)The Sixteenth Biennial Report of the Bank Commissioner, Kansas, 1922, p.10.

(3)Bruner vs. Citizens' Bank, 120 S. W. 345.

checks or transact other necessary duties" not requiring special discretion or business acumen." It is not clear how this distinction is observed by the banks--national and State--that have branches.

Louisiana. - It was reported of Louisiana in 1895 that "there is no law forbidding banks from conducting branch offices," but it is not indicated how many branches there were. By 1902 the law expressly authorized banks to have two branches provided they were in the same parish with the head office. This limitation as to number seems to apply to "banks" only; "trust and savings banks" are permitted to have "one or more" branches according to capital. They must be in the same parish however. An exception is made in the case of banks situated in parishes that represent a division of previously existing parishes. This exception, for instance, permitted the Calcasieu National Bank of Lake Charles to continue the maintenance of its branches after the single large parish they were situated in had been divided into several parishes.

Maine. - Branches have been operated in Maine since before 1895. The trust company law of 1907 expressly authorizes them, though before that they had already been permitted in special charters. Branches are allowed only in the same county with the head office and in contiguous counties.

Maryland. - Although there were some branches in Maryland before and possibly after the Civil War, there appear to have been none in 1895, at which time it was reported: "no provision is made for the banks to have any branch offices, nor is there any prohibition of it." No new information was reported in 1902. Branch banking seems to have developed without specific authorization, for even the present laws only impliedly authorize branches by making stipulations as to what the capital of banks with

branches must be. These stipulations recognizing branches appear to date from about 1910. At present Maryland is one of the few States in which branch banking has anything like extensive development. It is interesting to observe that there has been no tendency for state-wide branch systems to center in Baltimore, the principal banks with branches outside the city of the head office being in small towns.

Massachusetts. - The status of branch banking in this State has been described in Chapter V. For convenience changes in the laws are noted here as follows. In 1895 it was reported that "none of the institutions are permitted to have branch offices." In 1902 "a branch" to a trust company in its home city was allowed. In 1914 other branches acquired by consolidation were authorized. By Act of May 8, 1928, "one or more" branches to a trust company were authorized.

Michigan. - Since branch banking in Michigan is described in Chapter V, it is sufficient here to note that it is not specifically authorized by law and apparently never has been, though there has been great activity in the establishment of branches, all within the city of the head office.

Minnesota. - In 1895 it was reported that "banks are not authorized to conduct branch offices," though what is meant apparently is that the law was silent on the subject. In 1902 it was reported that "no branch banking....can be permitted." In 1922 two national banks in the city of Minneapolis had nine branches between them, six of which are now in operation, though they appear never to have been officially recognized. Since 1923 the State has had a law prohibiting branches.

Mississippi. - There is no report from Mississippi in the Comptroller's survey of 1895, but branches were undoubtedly then permitted, as they had been since before the Civil War, and there appear to have been some in existence. In 1902 it was reported that they were permitted by special charters only. In 1906 a law was passed forbidding the establishment of any more. The indications are that this law was inspired by fear on the part of other bankers of the state-wide growth of the Grenada Bank, the sole branch organization in the State of any size, which had established twelve branches in as many different towns in the preceding eight years. Under the law the operation of branches already in existence was allowed to continue. The law was amended in 1924 to permit the establishment of branches within the city of the head office.

Missouri. - Branches were common in Missouri before the Civil War, as described in Chapter II, but there is no record of any since then. In 1895 it was reported: "branch banks are not authorized by the laws of Missouri, and are not permitted to do business in the State," though this does not mean they were under statutory prohibition. A law forbidding them was enacted in 1899 however. It appears to be the oldest statute in the country prohibiting them explicitly. In its original form, since then slightly changed, it was an amendment approved May 29, 1899, and read as follows: "Provided, however, that no such corporation shall maintain a branch bank, receive deposits or pay checks except over the counter of and in its own banking house." It is not clear on what occasion this amendment was enacted. So far as is known there were no branches in the State at the time. It seems not unlikely that the prohibition was a reaction

from the movement then going on to authorize branches for national banks, described in Chapter IV. The President of the National Bank of Commerce of Kansas City, Mr. W. S. Woods, was active in that movement, and his competitors may have become alarmed. The principal event in recent banking history in Missouri relevant to branch banking is the St. Louis case, which involved the right of a national bank to establish branches regardless of State prohibition. This case is discussed in Chapter VI.

Montana. - There appears never to have been any branch banking in Montana, nor any mention of the subject in the laws until 1927, when a law was enacted prohibiting it. The wording of this law was the same as Idaho's law of 1919, which in turn was evidently derived from Missouri. In 1931 a new law was adopted authorizing banks in the same or adjoining counties to consolidate and "maintain and operate offices in the locations of the consolidating banks." Its full text is as follows:

> "Section 1. When any two or more banks located in the same county or in adjoining counties shall consolidate in accordance with the provisions of section 94 of chapter 89, Laws of 1927, as amended, the consolidated bank may, if it has paid-up capital of $75,000 or more, upon the written consent of the Superintendent of Banks and under rules and regulations promulgated by him, maintain and operate offices in the locations of the consolidating banks."

As yet no branches appear to have been set up under this law, ~~however.~~

Nebraska. - Although the Nebraska laws seem never to have authorized branches, and a recent law (about 1927) prohibits them, there have been two branches of national banks in operation in Omaha for many years, one of them for more than thirty. The Nebraska law is identical with Idaho's.

Nevada. - There is evidence that branches were in operation in Nevada for many years before the existing prohibition went into effect. In 1867 a branch of the Bank of California of San Francisco was established at Virginia City and continued till 1918, when it was withdrawn for lack of business. The bank also had branches for a shorter period at Gold Hill, Treasure City, and Hamilton, Nevada. In 1895 it was reported that branches might be established "at option of the bank corporations." In 1902 two branches were reported, one of them the branch of the Bank of California just mentioned. In the year 1905 there were eight branches in the State, which was almost a fourth of the total number of banking offices. Two banks with branches failed a few years later, and though the economic decline in Nevada seems to have been mainly responsible for this, the State in 1909 forbade any branch thereafter to be opened or maintained. In 1932 the law was changed to permit branches within county limits.

New Hampshire. - In 1895 it was reported: "No banks are permitted to conduct branch offices or banks, although there is no statute on the subject." In 1902 the commissioner said that though there was no law directly authorizing branches and none in operation, he was "not aware of any law which would prohibit such a practice within certain limits." The law is still silent. However, one branch of a national bank has been in operation there for many years. This branch was officially recognized by the comptroller March 27, 1930, under authority of that clause of the McFadden Act which provides that any national bank "which has continuously maintained and operated not more than one branch for a period of more than twenty-five years immediately preceding the approval of this act may continue to maintain and operate such branch."

New Jersey. - According to the Comptroller's survey in 1902, an act was passed in 1889 which provided that no bank should have a branch or agency or more than one place of business without approval of the bank commissioner. This law is reported to have been repealed the same year, but in 1895 a law to the same effect was reported in force, though only one branch had been authorized under it. This law was later amended to restrict the establishment of branches to the same town as the head office. The general corporation act of 1896 authorized any corporation to have branches in any other State, a provision which presumably recognized the legality of the branches of certain Camden banks in Philadelphia. These branches are discussed under Pennsylvania.

New Mexico. - In 1895 there was "no law" bearing on branches. In 1902 it was reported that the law had been held to prohibit them. At present the law, apparently in effect since 1915, forbids the establishment of branches by banks, but permits "any mercantile corporation which maintains a banking department" to continue banking operations at its "branch stores." This in effect allows the Blossburg Mercantile Company of Raton, whose banking department is recognized officially as a State bank, to operate branches, as it has done since about 1910.

New York. - Branch banking in New York is more fully described in Chapter V, but the following references to legal status are given here for convenience. In the early years of the nineteenth century, several banks operated branches in New York State, but the practice seems to have died out almost entirely by the beginning of the Civil War. Under subsequent interpretation certain laws passed in 1844 and 1848 had the effect

of prohibiting branches, though the 1844 law, which applied merely to "individual bankers," and the 1848 law, which is explained in Chapter III, were both aimed at wildcatting of bank notes and not at branch operation. In 1892 the revised general banking law repeated in simpler terms the requirements of the older acts that each bank have one office. In 1898 the law was changed to permit branches to be established in New York City. In 1908 the law was changed again, at the request of the superintendent of banks, to raise the capital requirements of banks with branches and to give the superintendent power to deny application for the establishment of new banks and of new branches, which according to the Attorney-General the existing law did not give him. Since 1919 branches have been permitted within cities of 50,000 or over.

North Carolina. - Branches have been a characteristic feature of banking in North Carolina since long before the Civil War, and specific sanction in the law appears to have been considered unnecessary. It was reported in 1895 that "the banks conduct branch offices at their own discretion." In 1902 it was reported that there was no general law authorizing branches, though some banks had special charters permitting them. Evidently the right was assumed in time to be general. It is new specifically authorized by a law of 1927. Branches outside the city of the head office are numerous, though there are no banks with a very large number of branches.

North Dakota. - This State appears never to have had any branches nor any law dealing with the subject. In 1895 and 1902 it was simply reported that they were "not provided for." At present this is undoubtedly construed as not permitting them.

Ohio. - Branch banking in Ohio has been described in Chapter V, but it is desirable at this point to mention certain important changes in its legal status. As was explained in Chapter II, there was an extensive system of "branches" belonging to the State Bank of Ohio before the Civil War, although they were unlike modern branches. It appears also that there may have been a few branches of the modern type as well. In 1895 it was reported: "There are some of the unincorporated banks or partnerships that have branch offices, but there are no provisions of law regulating branch offices of incorporated banks now in active operation." Since 1923 the law has authorized branches in contiguous communities; the law as amended in 1931 allows them within "other parts of the county or counties in which the municipality containing the main bank is located." The law does not require capital to be preportionate to the number of branches.

Oklahoma. - There apparently have never been any branches in Oklahoma except a branch of the Dallas Trust and Savings Bank, Dallas, Texas, which was in business in Oklahoma City around 1910. There is no specific provision regarding branch banking in the State laws.

Oregon. - There was no report for Oregon in the Comptroller's survey of 1895. In 1902 it was reported:

> "There are no banking laws on the Oregon statute books, and there are, consequently, no parent or branch banks as recognized by the State in operation. The State issues no charters to banks nor has it on its statute books any laws pertaining to the operation of banks."

The first general banking law appears to have been enacted in 1907. At that time branches were permitted, though there is no evidence that there were more than a half dozen or so of them. Since 1921 the law has forbidden the establishment of any more. At that time it was provided that

State banks should have the power to establish branches "whenever national banks....are given the privilege or authority to open and maintain" branches in the State. This latter provision was repealed the same year. There is now only one branch in Oregon. It belongs to the Bank of California National Association of San Francisco, which as a California State bank established a branch in Portland in 1883, and retained it, together with two branches in Washington and one in Nevada, when it converted to national charter in 1910.

Pennsylvania. - There were a few branches in Pennsylvania in the early 19th century. In 1850 a law was enacted forbidding banks to have branches without express authority of an act of legislature, but since banks were still created only by special charter the effect of the act was to confine banks to their charter powers, not to prohibit branch banking. Nevertheless, there were few if any branches for many years; in 1900 only three are recorded. The number from then on increased slightly, although according to the Comptroller's survey in 1902 branches were not authorized. An act of July 28, 1917, permitted branches of limited functions--"sub-offices or subagencies"--in the home city of the head office. By an act of April 27, 1927, branch banking was put under a general prohibition which forbids any bank to "establish, maintain, or operate, either directly or indirectly, any branch bank, branch office, agency, suboffice, sub-agency, or branch place of business." The law however makes the important exception that branches may be established and operated in those places where there were branches of national banks on March 1, 1927. Since the prohibition remains in force in all other places, the effect is, by virtue

of the terms of the McFadden Act, to confine branches of national banks also to the same places and in general to "freeze" the status of branch banking as of that date; "the intention being," in the words of the act itself, "to limit to the respective corporate limits of such cities, boroughs, or townships as they existed on March 1, 1927, the right to establish and maintain" branches.

For many years three banks in Camden, New Jersey, operated one branch each in Philadelphia, the oldest having been established in 1812, the other two many years later. With consolidations between the three banks in 1922 and 1927 consolidation of the Philadelphia branches also took place, so that now there is only the one belonging to the First Camden National Bank and Trust Company. The status of this branch was officially approved under authority of the clause of the McFadden Act applying to single branches in operation more than twenty-five years before the date of the act.(1) The status of the branch under Pennsylvania law was long a matter of contention, several efforts having been made to close it by court action. Apparently it was at length accepted by the other Philadelphia banks, however, and it is now a member of the Philadelphia Clearing House.

---

(1) R. S. Section 5155 (a).

Rhode Island. - It is not certain whether there were any branches in Rhode Island in the early 19th century, but if there were they had disappeared long before the Civil War. Around 1836 legislation which was enacted to meet conditions described in Chapter II forbade banks to have an office or agency for discount in any place other than its regular office, without express permission. In 1895 in answer to the Comptroller's question whether branches were permitted, it was reported that "they are not." The law was changed apparently the following year, 1896, and by 1900 there were several branches in operation. The general banking law of 1908, which was based on a revision of earlier laws, contained a clause expressly authorizing branches. Their extension has been state-wide.

South Carolina. - There were branches in South Carolina before the Civil War, but it is not clear that there were any thereafter till after 1890. It does not appear that the law expressly permitted them. In 1895 the answer to the Comptroller's question whether banks were permitted to have branches was "yes, as suits the management." In 1902 it was simply reported that the laws contained no authority for branches, or no mention was made of their being in existence. In 1909 there was still no mention of the subject in the law, but subsequent legislation impliedly authorizes branches by stipulating capital requirements, etc. Branches maintained outside the city of the head office are numerous.

The failure of the Peoples State Bank, January, 1932, a bank with 44 branches, is discussed in the chapter on suspensions of banks with branches.

South Dakota. - Incorporated banks appear never to have had branches in South Dakota, and the law is silent on the subject. In 1895, however, it was reported that private banks had branches.

Tennessee. - Branch banking was common in Tennessee before the Civil War, but died out thereafter, so that there were almost no branches in the State in 1900. This was not because of any prohibition, for the Comptroller's survey of 1895 reports that the law did not prohibit them. The law appears to have alluded to branches, however, in a way that implied permission. In 1902 the report indicates that they were permitted. An act of April 6, 1925, as amended January, 1932, restricts the establishment of branches to the same county in which the head office is situated.

Texas. - According to the Comptroller's survey, branches were permitted in Texas in 1895, but since State banks were prohibited in Texas at that time, the permission must have applied only to private banks, which did indeed have branches. In 1905 when State banks were authorized, an amendment to the Constitution was adopted forbidding them to have branches, and this is still in effect. However, in 1910 there was a branch of the Dallas Trust & Savings Bank of Dallas situated in Oklahoma City, Oklahoma.

Utah. - In 1895 and 1902 it was reported that there was no provision in the law relative to branches. Since 1917, apparently, the law has forbidden them. The law also required those already in existence to be closed. This implies that there were branches, though they appear to have been only two or three in number.

Vermont. - There were a few branches in Vermont in the first years of the 19th century, but as in all New England and New York they soon disappeared. No report for Vermont appears in the Comptroller's survey of 1895. In 1902 "branches or agencies" were reported as "not authorized." The first mention of anything like branches appears in the Act of March 13, 1929, which permits "agencies," a few of which were already in existence. They are permitted state-wide, though a public hearing is required before any given branch may be established, and they seem to have the functions of branches as ordinarily understood. The law does not prescribe capital proportionate to the number of branches.

Virginia. - Branch banking was common in Virginia before the Civil War, but appears to have died out thereafter. The report to the Comptroller in 1895 was as follows:

> "....Under our general law governing chartered companies, banks could have branches, but I know of none."

Within the next few years, however, a number were in operation; though as a common law right apparently rather than as a specifically authorized practice. No further information was reported in 1902. In 1922 they were authorized, with the condition however that they "shall not be operated or advertised under any other name than that of the identical name of the home bank." In 1928 an act was passed restricting the establishment of branches to the city of the head office or to other cities of not less than 50,000 inhabitants. It is stated on competent authority that this change in the law was made because bankers feared that interests outside the State were planning to enter it and build up a branch system. The law also permits, however, "the merger of two banks in the same or adjoining

counties and the operation by the merged company of the two banks."

Washington. - According to the comptroller's survey in 1895 branches were not forbidden, but there were probably few, if any, in operation. In 1902 the law was silent. By 1907 it specifically authorized them. By 1920 there were ten branches of seven banks, not counting the two branches in Seattle and Tacoma of the Bank of California of San Francisco. About that time a law was passed prohibiting further establishment.

Two branches of the Bank of California National Association are in operation in Washington, one in Tacoma and one in Seattle, both acquired in 1905, the bank being then a California corporation. These branches originally belonged to the London and San Francisco Bank of London, England, which established them in 1889 and 1901 respectively. From 1898 the Spokane and Eastern Trust Company of Spokane, Washington, had a branch at Moscow, Idaho, which was discontinued between 1905 and 1910.

West Virginia. - Branch banking was common in West Virginia before the Civil War, when it was still a part of Virginia, and the original clause in the national banking legislation permitting State banks to convert to national and retain their branches was introduced with West Virginia branch organizations in mind. These apparently all discontinued before 1900. By 1895, according to the comptroller's survey, branches were not permitted, though it is not clear that the law forbade them. In 1902 it was reported:

> "Each bank must be operated under special charter in an independent way. State banks may hold stock in other banking corporations."

There is no indication that use was made of this power.

In 1909 the law still did not specifically forbid branches. In 1925 it was reported that the corporation laws, which provided for the organization of banks, authorized corporations to have branches, but that the commissioner of banks did not permit banks to have them. It was not till 1929 apparently that the present prohibition was adopted.

Wisconsin. - According to the Comptroller's survey in 1895, branches, although not mentioned in the law, were in operation in Wisconsin, but there is no evidence that they were numerous. In 1902 it was reported that they were "possibly" permitted if they were in the same city "as the parent bank." Two banks in Milwaukee were reported as operating branches. In 1906 and 1909, however, legislation was enacted forbidding further establishment. In 1932 new legislation (Act of January 23, 1932) authorized the establishment of "receiving and disbursing stations," similar to "offices" in Iowa, their functions being limited and permission to operate them being given only for towns of less than 800 persons where no banks exist, "Stations" are limited to three to each bank, must be in the same county with the head office, not less than three miles from the nearest bank, and cannot accept more than $300,000 of deposits. These restrictions are obviously intended to prevent competition with unit banks, and do not encourage the establishment of branches.

Another portion of the same act further provides that if:

> "....after the closing of any bank....any other bank in the same city is willing to purchase the assets of the closed bank...., provided such bank is permitted to operate a bank at two locations in the same city, which are at least one and one half miles apart, then the commissioner of banking may issue a license to such bank to establish and operate its banking business in any two such locations in the same city...."

The effect of the new Wisconsin law appears to be therefore to authorize branches in the form of "stations" in adjacent towns, and to authorize them in the same town under permission to operate at "two locations." It is interesting that, as in Iowa, though authorizing what are branches in fact, the law avoids calling them such, and thus apparently leaves in effect the older law prohibiting branches. The home-city branches, it is to be noted, seem to be under none of the restrictions as to size and function that are imposed on the out-of-home-city "stations."

Wyoming. - There apparently has never been branch banking in Wyoming and there is no mention of it in the law. In 1895 it was reported as not permitted and in 1902 as not contemplated. The banking laws of 1921, by requiring that a bank's articles of incorporation state "the place or places where its offices be located," implied that banks might have branches. The Revised Statutes of 1926, however, amended this passage by making it read, "the place where its office, etc."; the change suggests a prohibition was intended.

Interstate Branches

Several instances of interstate branches have been mentioned in the preceding pages. For convenience they are grouped together here. Only four are still in operation; the others are described as discontinued. Some of these, if more conclusive information were available, might be classified as agencies rather than branches.

Bank of California, San Francisco (formerly a State bank, but since 1910 a national association).

Branches:

- New York City, authorized July 12, 1864; discontinued May 1, 1884
- Virginia City, Nevada, authorized September 6, 1864; discontinued July 9, 1917
- White Pine, Nevada, authorized February 9, 1869; discontinued about 1873
- Treasure City, Nevada, authorized February 9, 1869; discontinued about 1873
- Hamilton, Nevada, authorized February 9, 1869; discontinued January, 1873

Portland, Oregon, established 1883 by the London and San Francisco Bank, London, England, and purchased by the Bank of California, then a State bank, in 1905

Tacoma, Washington, established in 1889 by the London and San Francisco Bank, London, England, and purchased by the Bank of California, then a State bank, in 1905

Seattle, Washington, established in 1901 by the London and San Francisco Bank, London, England, and purchased by the Bank of California, then a State bank, in 1905.

Wells Fargo & Company Bank, San Francisco (consolidated with Nevada National Bank of San Francisco in 1905 as Wells Fargo Nevada National Bank, which in turn consolidated with Union Trust Company of San Francisco in 1923 as Wells Fargo Bank & Union Trust Company)

Branches:

New York City, opened in 1852; acquired by National Park Bank, 1905-1906

Carson City, Nevada, opened 1860; discontinued 1891

Virginia City, Nevada, opened 1860; discontinued 1891

Portland, Oregon, opened 1855; sold to United States National Bank, 1905

Salt Lake City, Utah, opened 1860-1861; sold to Walker Bros., 1905

In addition to the above, the company maintained what it called agencies at from 150 to 200 mining towns in the Western States during the period from 1852 till the eighties. It also had what it called agents in the smaller mining settlements.

First Camden National Bank (formerly National State Bank), Camden, New Jersey

Branch:

Philadelphia, Pennsylvania, established 1812

First National Bank (discontinued by consolidation with National State Bank, 1922), Camden, New Jersey

Branch:

Philadelphia, Pennsylvania, established before 1900; discontinued 1922

Camden National Bank (discontinued by consolidation with National State Bank, 1927), Camden, New Jersey

Branch:

Philadelphia, Pennsylvania, established before 1900; discontinued 1927

Spokane and Eastern Trust Co., Spokane, Washington

Branch:

Moscow, Idaho, established 1898; discontinued between 1905 and 1910

Dallas Trust and Savings Bank, Dallas, Texas

Branch:
Oklahoma City, Oklahoma, established 1908; discontinued about 1911

At the present time there are in the United States two banks with branches outside the home State, both these banks being national. One has three branches and the other has one. Around the year 1910 there were at least nine branches so situated, maintained by six banks, and possibly more. In early years both before and after the Civil War there is evidence that interstate branches or agencies may have been more common than they have been recently. This is without counting, of course, the branches of the First and Second Banks of the United States.

Summary of State Laws

Five things stand out in the foregoing review of recent changes in status in branch banking in the individual States:

1. The majority of States in 1895 had no mention of branches in their laws.

2. In some States silence has been taken as permitting and in others as forbidding branches.

3. Nearly half of the States which have subsequently prohibited branch banking have done so since 1920.

4. The majority of States which have prohibited branch banking are States where there was little or no branch banking experience.

5. Since 1929 such changes as have occurred in State laws have been in the direction of relaxing prohibitions and restrictions on branches.

The following summary taken from the Federal Reserve Bulletin, July, 1932, p. 455, is based on the digest of State laws which appears in the appendix.

Revised Summary of State Laws

States permitting state-wide branch banking	States permitting branch banking within limited areas	States prohibiting branch banking	States having no legislation regarding branch banking
Arizona	Georgia(1)	Alabama	Kentucky(2)
California	Indiana(3)	Arkansas	Michigan(4)
Delaware	Iowa(5)	Colorado	New Hampshire
Maryland	Louisiana(6)	Connecticut	North Dakota
North Carolina	Maine(7)	Florida	Oklahoma
Rhode Island	Massachusetts(8)	Idaho	South Dakota
South Carolina	Mississippi(9)	Illinois	Wyoming
Vermont(11)	Montana(10)	Kansas	
Virginia(18)	New Jersey(12)	Minnesota	
	New York(13)	Missouri	
	Ohio(14)	Nebraska	
	Pennsylvania(15)	Nevada	
	Tennessee(16)	New Mexico	
	Wisconsin(17)	Oregon	
		Texas	
		Utah	
		Washington	
		West Virginia	
Total, 9	Total, 14	Total, 18	Total, 7

(1)City or municipality.

(2)No provisions regarding branches; but court decisions permit establishment of additional offices or agencies to receive deposits and pay checks.

(3)Same county.

(4)"Industrial banks" may establish branches in city or village of head office; but no provisions covering establishment of branches by other banking institutions. On a basis of a ruling of the attorney general, however, branches are permitted in the head office city.

(5)"Office" to receive deposits and pay checks permitted in contiguous counties if no bank is located in city or town in which such office is proposed to be located.

(6)Same municipality or parish.

(7)Same county or adjoining county.

(8)Same town.

(9)Same city.

(10)Consolidated bank may operate offices of consolidating banks if in same or adjoining counties.

(11)No provisions regarding branches, but state-wide establishment of "agencies" permitted.

(12)Same city, town, township, borough or village, and where institutions located in same county have merged, at the locations of the offices of merged institutions in such county.

(13)City limits.

(14)Same city, or city or village contiguous thereto or county or counties in which municipality containing main bank is located.

(15)Corporate limits of same place.

(16)County in which principal office is located and principal banking business is carried on.

(17)Same city, at location of closed bank; and "stations" with limited functions in places deprived of banking facilities in same county.

(18)Banks may establish branches in their home city or in other cities of more than 50,000 inhabitants. They may also acquire banks in the same or adjoining counties through merger and convert them into branches.

CHAPTER IX

ORGANIZATION AND OPERATION OF BRANCH SYSTEMS

In preceding chapters a difference has been recognized between branches inside the city of a bank's head office and branches outside. It was observed in the statistical description that the principal growth in the number of branches has occurred inside the head office cities. It was observed in the historical review that the first movement to sanction branch banking--which failed--was concerned chiefly with the establishment of branches in rural communities; and that the second movement--which was relatively successful--was concerned chiefly with the establishment by banks of branches within the large cities in which they themselves were situated. The consequence of the second movement is that with two prominent exceptions--Chicago and St. Louis--branches may be established in most of the large cities of the United States, provided they belong to banks situated in the same city. The opposition to branches of large city banks confined to the head office city was never so strong as the opposition to the establishment of branches outside, and at the present time the question of the desirability of the latter constitutes practically the whole issue. In other words, there is no great objection to the establishment of branches by banks in their own cities, but there is objection to "absenteeism" or the establishment of branches in one community by banks in another.

Wherever the tradition of highly centralized management is strong, as it is in the typical American bank, there is a psychological barrier to widespread branch operation. The more conservative the banker, the less he is apt to desire responsibility for offices out of his reach. This attitude may explain in part why many banks of large size have opposed branch banking, and why they have joined with small banks in opposition to it.

It is not from the point of view of operation, however, that the strongest objection to branches in territory outside the city of the head office has come. The strongest objection has come from the small banks, which have desired not to have their established position disturbed. They have been able to gain support for their opposition by urging that the branch organization with its headquarters in a large and remote city will not be as much interested in the credit needs of the local community as the local bank.

American experience outside of California does not offer much that is factual on this point. Leaving California aside, since it is discussed in a separate report, there is very little branch banking carried on in this country outside the head office city. Only twelve banks in other States have as many as ten branches each outside the head office city. They are the following.

Table 20 - Banks, with the Exception of Those in California, Operating 10 or More Branches Outside the Head Office City December 31, 1931(1)

Name and location of bank	Population head office city	Loans and investments Dec. 31, 1931	Branches outside head office city
Eastern Shore Trust Co., Cambridge, Md.	8,544	$ 15,660,000	20
South Carolina State Bk., Charleston, S. C.	62,265	6,200,000	17
Tennessee Valley Bank, Decatur, Ala.	15,593	3,800,000	15
Page Trust Co., Raleigh, N. C.	37,379	3,900,000	13
Cleveland Trust Co., Cleveland, O.	900,429	240,200,000	12
North Carolina Bk. & Tr. Co., Greensboro, N. C.	53,569	26,600,000	12
Augusta Trust Co., Augusta, Me.	17,198	17,400,000	12
Grenada Bank, Grenada, Miss.	4,349	5,500,000	12
Merrill Trust Co., Bangor, Me.	28,749	23,000,000	11
Valley Bank & Tr. Co., Phoenix, Ariz.	48,118	8,500,000	11
Branch Banking & Tr. Co., Wilson, N. C.	12,613	4,900,000	11
Industrial Trust Co., Providence, R. I.	252,981	129,400,000	10

(1)Peoples State Bank of South Carolina, with 42 branches, which suspended in January, 1932, is omitted from this table.

Only two of these, the Cleveland Trust Company of Cleveland, Ohio, and the Industrial Trust Company of Providence, Rhode Island, are banks of very large size, or situated in large cities, and neither of them exemplifies territorially extensive branch systems. The twelve branches of the Cleveland Trust Company are all within thirty or forty miles of Cleveland, and though they are outside the city limits they are still within the metropolitan area and not essentially different from the

bank's forty-five other branches that are within the city limits. The Industrial Trust Company, although its ten branches are in all parts of Rhode Island, is necessarily not extensive territorially. It also has four branches inside the city of its main office. As members of the Federal Reserve System, neither the Cleveland Trust nor the Industrial Trust can establish more branches outside their city limits.

Most of the other ten banks have their main offices in small places. Only three or four of them have branches scattered in a very large area, the Valley Bank and Trust Company, the South Carolina State Bank, the North Carolina Bank and Trust Company covering the largest territory. The Eastern Shore Trust Company, with the largest number of branches, operates in a rather small area, almost wholly rural. Most of these systems in fact are rural. At the same time they are among the largest and most important banks in their States. Seven of the twelve have the right to establish more branches outside their city limits. Five of them, either because they are members of the Federal Reserve System or because they are in States where further extension of branches is prohibited, may not establish additional branches outside the city limits. Most of the ten banks have been in operation several years, some as much as twenty to forty-five. All of them were built up gradually, partly by the establishment of branches de novo, and partly by consolidation.

In order to secure as much factual information as possible about branch banking practice, a questionnaire was prepared and submitted to 28 banks, including those already named, maintaining offices in more than one city. Information was received from 20 of these banks, but in many cases the replies were of negative value, for the reason that the branch

operations were so small. The results of the questionnaire emphasized the fact that except in California there are practically no branch banking systems extensive enough and old enough to use as oxamplars of branch banking on the scale generally contemplated for it in legislative proposals.

The banks outside of California replying to the questionnaire were maintaining at the close of 1930 branches in 143 communities exclusive of their home office cities. In 94 of these communities there were no local independent banks in existence. In the remainder the number of independent banks ranged from one to five. In only 28 of them were there branches of other banks. In 79, over half the total, there were no other banking facilities whatsoever. While there might have been independent banks in some of these places had not branch systems entered them, it is safe to assume that this would not have been true in all. The majority of the towns served by branches outside the city of the head office are in agricultural communities, although a relatively large proportion are basically industrial and commercial. Some are primarily residential, frequently being suburbs of large cities in which the head office is situated.

Relations to Communities Served

The stock of these branch banking systems is fairly widely held, considering their size. They had from 102 to 2,316 stockholders, and the average holding ranged between $700 and $6,000, approximately. A large proportion of the stock is held in the communities in which the banks operate. In about half of the cases 50 per cent or more of the stock is owned by residents of the head office city, the proportion so held ranging from 28 per cent to 84 per cent of the total issue. In addition a

large amount is held in the other communities served by branches amounting to from 5 per cent to 70 per cent of the total. In practically all cases three-fourths or more of the stock is owned in communities served by the bank. In one case over half the stock is held by a group holding company. It is a fixed policy of a number of the banks to keep their stock distributed in the communities in which their branches are located.

The leading consideration for the establishment of branches by these banks, according to their own reports, has been the public demand for banking facilities in communities with no banks or with inadequate facilities. A few systems were attracted by opportunities for profit in other communities, and others acquired branches by taking over weak banks, being attracted by the low price at which they could be acquired.

A substantial number of the banks reported that they have taken over weak independent banks which have since been operated at a profit as branches. Not only have these branch systems absorbed unprofitable independent banks, but most of them have established de novo branches in communities which, they declare, could not support unit institutions. Practically all of these branches have been profitable, principally because they can be operated at less cost than a unit bank transacting a like amount of business. In a few cases branches appear to have been able to secure a greater volume of business than a unit bank in the same locality. A few of the systems have operated branches at a loss for a time hoping that the business of the communities in which they were located would undergo sufficient development to assure a profit-

able volume of deposits and loans in the future.

Local advisory boards have been established at some or all of the branches of nearly every system. The members of each board are residents of the community, and in most cases they all own stock in the bank. They are helpful to the bank in questions of local credit and in extending local business. As a further means of assuring personal contact with the communities served, officers of absorbed banks are usually retained as managers of the resulting branches. In about a third of the cases reported, all, or almost all, of the branches acquired by merger were managed by men who had been in charge of these offices as unit banks. Few of the systems shift managers from branch to branch, and most of these shift only in exceptional cases.

The majority of the systems reported that their branch managers have considerable discretion concerning the operation of their respective offices. A few of them indicated that their branches are run almost as independent banks, being required only to conform to the general policies laid down by the head office. In but one case was it reported that district or zone offices had been established to supervise the branches in their respective areas. This bank has since failed. The others operate so few branches, usually within a comparatively small region, that they are all easily controlled from the head office.

Credit Policies

Most of the systems reported that each branch was permitted considerable autonomy in the granting of loans, but it is apparent that in many cases this may be exercised only within rather narrow limits. In about half of them all applications for large loans must be passed on by

the head office, although local managers are permitted practically complete authority concerning smaller loans. In a few additional cases it was reported that all questionable applications are referred to the head office.

The limitation upon the size of loans that may be made by a branch office ordinarily varies with the customer, whose usual requirements and line of credit are already determined, and with the nature of the loan, whether secured or unsecured, and by the nature of the collateral. Five representative answers to the question on this point follow:

1. "There are no definite specific restrictions imposed upon the Managers in making loans so far as total funds available are concerned, with the exception of mortgage loans. But there are definite restrictions relative to the amounts loanable in relation to the credit of the borrowers."

2. "Unsecured Discount Loans: Branch Managers have authority within certain limits to make loans without reference to the main office. These limits are specific and vary according to the ability and experience of each manager and range from $500.00 to $5,000.00.
"Mortgage Loans: All branches make mortgage loans subject to approval of loaning committee upon which branches have representation. Appraisals of properties are made by branch appraisers, and bank attorneys pass upon all titles.
"Collateral Loans: Collateral loans are made by branches without reference to main office when collateral is within established loaning basis, otherwise managers communicate with loaning officials at main office by telephone or letter."

3. "We do not give our Units definite and specific restrictions within which to operate in the matter of making loans. The individual Units pass upon credits, but whenever there is anything unusual in regard to a credit or any possible doubt as to whether or not a loan should be made, the entire file is referred to the central office for decision. In other words, we depend upon the officers in each Unit to refer any doubtful matters to the central office and we are securing one hundred per cent cooperation from our Units in this manner. We have, in our central office, duplicate files on all of our borrowers of $1,000 and over, and we are advised daily as to new loans handled.

An extremely small proportion of the loans made by our branches is passed upon by the central office before same are made."

4. "There are no definite specific restrictions upon the power of the managers to make loans as to total funds available and as to credit of individual borrower, as each branch tries to take care of the legitimate demands of its customers. The head office makes no attempt to pass on out-of-town branch loans, but a complete list of loans made by each branch office is furnished the head office each week and these loans are closely checked by the head office, and the branch so advised of any adverse criticism regarding them. A complete credit file is kept in the home office on each borrower."

5. "Discretionary loan limits are given to each branch manager according to the needs of each community and the credit experience of the manager. In seven branches the managers have discretionary limits of $1,000 on unsecured loans and $5,000 on listed stocks and bonds. In the other four branches the discretionary limits are $500.00, and $2,500.00, respectively. We attempt to anticipate the borrowing needs of important customers by setting up lines of credit in advance. We have no figures on the proportion of the volume of loans made by the branches on which head office approval is required before the loans are made, but would estimate that 50% of the branch loans in volume come under this classification."

In general it may be said that the lending policies of the branch systems tend toward conservatism, although wide variations of practice are observable from bank to bank. For example, loans to customers ranged from 32 per cent to 80 per cent of available funds[1] on June 30, 1930, with the average at about 50 per cent. As a rule the systems located in predominantly rural regions put the greatest proportion of available funds into local loans. The four in which this ratio was 70 per cent or more were all located in Southern agricultural States. On the other hand, of the three in which this ratio was below 35 per cent, two operate in and around large industrial cities and the third chiefly in mining communities.

---

(1) I.e., capital, surplus, undivided profits, deposits, borrowed money, and notes in circulation.

Naturally these three institutions had a large proportion of their funds invested in securities--as much as 55 per cent in one instance. A number of systems operating in agricultural regions, on the other hand, had security investments of less than 10 per cent of available funds. Half of those reporting had no funds invested in the New York money market, and only two had 5 per cent or more of their available resources so invested.

Deposits with other banks ranged from nothing to 19 per cent of available funds, and averaged about 8 per cent. In this case the systems serving agricultural regions generally had the highest ratios. The average for all banks in the country, including deposits with reserve agents, was about 10 per cent on the same date.

In spite of the fact that a number of the branch systems indicated that their branches which were formerly independent banks now make loans on a more conservative basis than before their absorption, several stated that their ratios of loans to deposits have increased. It was explained that this was made possible by the ability to make more complete use of available funds, inasmuch as they can be shifted from branches where there is scant demand for loans to branches where demand is in excess of deposits.

The charge has often been made that branch systems refuse to lend as great a proportion of deposits locally as independent banks do. The branch systems, it is alleged, prefer to draw funds from the smaller communities and invest them in the larger centers.

Data were secured in response to the questionnaires and from other sources concerning the loans and deposits of 163 branches which are

Ie., capital, surplus, undivided profits, borrowed money, notes in circulation.

located outside the city of the head office. All loans and discounts of all banks in the United States on June 30, 1930, amounted to about 68 per cent of deposits. Over half of the 163 branches had higher ratios of local loans to deposits than this average figure. Forty-one of them, about a fourth, had more local loans than deposits, that is, they had put more funds into their community than they had taken out. It is true that the loans of many other branches were an extremely small percentage of their deposits, but it was apparent in a number of these cases that the demand for loans was low. Branch banking as exemplified in these systems has ~~indubitably~~ facilitated the direct transfer of funds from communities with little need for loans to those where the need exceeds local deposits. The above figures do not substantiate the charge that the smaller towns are drained of funds by branch systems.

They indicate moreover that the volume of loans that may be made by a branch does not depend on the volume of deposit business originating there, but on the funds of the bank as a whole, which may be used wherever there is demand for them. In a given branch system some offices will be constantly lending in excess of deposits and others will be constantly unable to lend all they have; or there may be seasonal fluctuation, which give some offices excess funds while others have excess demands. A majority of the branch organizations replying to the Committee's questionnaire reported that this process enabled the demands of all branches to be fully met without recourse to borrowing.

Of twelve banks in different parts of the country nearly all reported that they allowed the needs of their branches to be adjusted automatically by debits and credits to the head office account. A few reported

that they were adjusted by loans and rediscounts arranged between branches by the head office. Some banks reported doing both, and one no borrowing at all within the system.

Four representative answers are quoted:

1. "In most cases, demands for credit do not absorb all the funds on deposit in our various branches, the surplus being on deposit with the head office, upon which interest at a nominal rate is credited to that particular branch. Whenever deposits of the branch are not sufficient to meet the local demand, such branch receives a credit from the head office and interest charge at a nominal rate."

2. "Branches are allowed to draw on our main office, creating a debit balance instead of a credit balance. A few of our branches carry a perpetual debit balance--in other words, are perpetually overdrawn because the credit demands of their communities are greater than their local deposits. Specifically this is the case at 8 of our branches."

3. "If the credit demands of a particular branch are in excess of the funds available, a sufficient amount of their loans are purchased by another branch or by the main office, having idle funds, until such time that the branch originally making the loans can again care for them comfortably, when the loans are repurchased by them."

4. "Each branch makes such loans as appear desirable according to our general credit practice, and if its own funds are insufficient for its volume of loans, the excess is taken care of by an overdraft on the Head Office books. This is the case with one branch at present."

Apparently branch operation has lowered interest rates in some cases but not in all. The inquiries made for this study indicate that as a rule the smaller branch organizations have left interest rates unchanged, and that the larger ones have lowered them. The tendency also appears to be for rates to be made more uniform.

The difference in credit policy between banks with branches and banks without branches appears to be less clearly marked than the difference between large banks and small banks. A large bank tends to be more

conservative than a small bank, and more impersonal in its decisions. This is the more apt to be true if besides being a large bank it has extensive branches and adequate control over them. For adequate control entails at least a minimum of reference to headquarters and of obedience to rules applicable over a region rather than to one community.

Operating Economies

The branch systems cited a number of ways in which their operations are more economical than those of independent banks. The centralized purchase of standardized forms and equipment is obviously less costly than if each office should purchase independently. A considerable saving has been effected by several of the systems through consolidated advertising. These economies, however, affect items of expense which do not represent important proportions of the total costs of operation. On the other hand, appreciable reductions have been made in many cases in salaries and payrolls, which are important items of expense. These reductions are made possible because complete staffs do not have to be maintained at each branch. The employees of the head office can perform certain functions for all branches, and not only are they fewer in number, but each of them is able to specialize and confine his attention to fewer operations than would be the case if he were working for a small independent bank.

Two branch systems, however, stated that they had not effected any economies as to personnel, for the close supervision and scientific management they exercised over their branches required as many or more high-salaried employees than their offices would have operating independently. One system even went so far as to say that branch operation, on account of this situation, was more expensive than unit operation. This improved operation, however, should to some extent pay for itself by cutting other costs and reducing losses.

Aside from these specific economies, many other advantages over unit operation were listed. The most frequently mentioned was the larger loans which could be made to individuals, on account of the larger capital

of a branch system. Other factors of importance which were mentioned were the greater public confidence in large scale banking, the better service rendered, the more highly trained employee, and the more cautious investment and credit policies.

A majority of the systems indicated that they feel that the proper legal limits on branch operation are State boundaries. This must be considered in view of the fact that nearly all the systems answering the questionnaire are State institutions, which would be restricted to branch operation within their home States even if national banks were allowed wider privileges. A few, however, indicated that a slow extension of territorial limits would be desirable. For instance, after state-wide branch banking had become well established, it might be possible to permit its extension throughout trade areas of Federal reserve districts. One suggested that it might eventually be made nation-wide.

Practically all the replies indicated that there appear to be no economic, as distinguished from legal, barriers to the further development of branch banking, but over a third stated that there might be the problem of securing adequate administrative personnel. Only a few of the systems, however, admitted having had any difficulties in developing a competent personnel. Several of those which have had such difficulties feel that they may be eliminated by proper training.

Branches and Capital

A substantial majority of the branch systems which replied to the Committee's questionnaire definitely assign a certain amount of capital to

each branch. The chief purpose of this is to enable the profit or loss of each branch to be determined. In over half of the systems which thus assign capital a detailed system of cost accounting has been worked out. The branches are credited with interest for surplus balances turned over to the head office, and with commissions on services sold; they are debited with interest on funds drawn from the head office, and with proportions of the overhead cost, and so on. In other cases, however, little more is done than to keep individual income and expense accounts for each branch, or permit each branch to determine its own profits.

Public Attitude Toward Branches

In answer to the question whether there was any prejudice in their regions against either group banking or branch banking, twelve banks made the following replies:

1. "No."

2. "No."

3. "We know of no prejudice within this State against either group or branch banking."

4. "Judging by the growth of our branches we believe the public is taking kindly to branch banking in this territory. Here as elsewhere it is not the public at large who are prejudiced against branch banking but rather some of the independent bankers."

5. "No."

6. "Apparently, there is no general prejudice in this territory to branch banking. As a matter of fact, sentiment seems to be in favor of that plan."

7. "No."

8. "No."

9. "There does not seem to be any general prejudice against either group or branch banking as we have been received most cordially by the public where we have established branches and have been invited to open branches in almost every part of the state."

10. "No."

11. "Apparently there is more prejudice against branch banking where there is an independent bank located in the same community, due to the fact that the competitor at times endeavors to prejudice the minds of the public by proclaiming that the branch 'is a foreign corporation.'"

12. "No."

The reports of six of these banks were corroborated by the oral statements of a large number of independent bankers in the same regions who were personally interviewed. The majority of them approved branch banking, though some qualified this by saying that what they had in mind was the rural type of branch banking that they were familiar with. Those who disapproved of branch banking were in the main extremely conservative men

who objected that it taxed their abilities to run one bank, and that they could not see how anyone could safely run several of them.

CHAPTER X

SUSPENSIONS OF BANKS WITH BRANCHES

Branch banking on an important scale in the United States has been so recent in development that it does not furnish an adequate body of data for comparing the safety record of branch systems with that of unit banks. We must rely upon the Canadian and English records for such a comparison. However, the suspensions of banks with branches during the period 1921-1931 have been tabulated, and these figures are presented in this chapter as a matter of record. Of those suspensions nearly 60 per cent were banks with only one branch each, and another 20 per cent were banks with only two branches each. There have been very few failures of banks with numerous branches.

There were altogether 179 banks with branches which suspended during the eleven-year period, 1921-1931, as illustrated in Table 21. Three-fourths of these suspensions occurred in the last two years of the period, that is in 1930 and 1931. The suspensions in those two years also accounted for over 81 per cent of the branches involved in failures during the whole period and over 92 per cent of the loans and investments.

Table 21 - Suspensions of Banks with Branches, 1921-1931

Year	Number of suspensions	Per cent of total	Number of branches				Loans and investments (000 omitted)	Per cent of total
			In head office city	Outside head office city	Total	Per cent of total		
1921	6	3.4	3	3	6	1.3	$ 33,911	3.2
1922	2	1.1	-	2	2	.4	1,921	.2
1923	4	2.2	-	6	6	1.3	2,629	.2
1924	4	2.2	-	5	5	1.0	1,867	.2
1925	2	1.1	1	1	2	.4	2,652	.3
1926	11	6.1	-	33	33	7.0	11,724	1.1
1927	3	1.7	-	7	7	1.5	2,226	.2
1928	3	1.7	-	7	7	1.5	2,843	.3
1929	10	5.6	7	11	18	3.8	23,213	2.2
1930	40	22.4	109	38	147	31.0	434,074	41.1
1931	94	52.5	166	75	241	50.8	538,947	51.0
Total	179	100.0	286	188	474	100.0	$1,056,007	100.0

Table 22 shows that 168 of these suspensions were State banks and only 11 national banks and that the national bank suspensions all occurred in 1930-1931. This may be explained by the fact that before 1930 the failures were mainly of small banks with one or two branches each, and that the majority of such banks were State banks. In 1921 there were only 23 national banks with branches, but this number had grown to 157 by the end of 1931. The increased failures in 1930 and 1931 reflect the business depression and the general increase in the number of bank failures.

Table 22 - Suspensions of State and National Banks with Branches, 1921-1931

Year	State banks					National banks				
	Number of suspensions	Number of branches			Loans and investments (000 omitted)	Number of suspensions	Number of branches			Loans and investments (000 omitted)
		In head office city	Outside head office city	Total			In head office city	Outside head office city	Total	
1921	6	3	3	6	$ 33,911	-	-	-	-	-
1922	2	-	2	2	1,921	-	-	-	-	-
1923	4	-	6	6	2,629	-	-	-	-	-
1924	4	-	5	5	1,867	-	-	-	-	-
1925	2	1	1	2	2,652	-	-	-	-	-
1926	11	-	33	33	11,724	-	-	-	-	-
1927	3	-	7	7	2,226	-	-	-	-	-
1928	3	-	7	7	2,843	-	-	-	-	-
1929	10	7	11	18	23,213	-	-	-	-	-
1930	38	107	38	145	383,407	2	2	-	2	$ 50,667
1931	85	144	74	218	483,564	9	22	1	23	55,383
Total	168	262	187	449	$949,957	11	24	1	25	$106,050

The 179 failures that occurred in the eleven-year period amounted to 26.4 per cent of the total number of banks with branches on December 31, 1931 (Tables 23 and 24). Comparison on the basis of size instead of number, however, shows a very different result, for the loans and investments of the 179 failed banks aggregated only 5.8 per cent of loans and investments of all banks with branches. It is evident that the smaller banks with branches suffered the most suspensions.

The distribution of failed banks with branches is given by size of loans and investments in Table 23. Among banks with less than $1,000,000 loans and investments the percentage that failed was high, ranging from 40.0 per cent to 76.9 per cent. Among the larger banks the proportion was much smaller.

Table 23 - Suspensions of Banks with Branches, 1921-1931, Per 100 Active Banks with Branches December 31, 1931, by Size of Loans and Investments

Size group loans and investments (000 omitted)	Active banks with branches December 31, 1931			Suspensions of banks with branches 1921-1931			Ratio of suspended to active banks (per cent)		
	Number of banks	Number of branches	Aggregate loans and investments (000 omitted)	Number of banks	Number of branches	Aggregate loans and investments (000 omitted)	Number of banks	Number of branches	Loans and investments
Under $150	21	21	$ 2,376	9	9	$ 917	42.9	42.9	38.6
150 - 250	13	16	2,652	10	11	1,983	76.9	68.8	74.8
250 - 500	48	63	17,862	28	32	10,695	58.3	50.8	59.9
500 - 750	40	49	25,322	16	23	9,587	40.0	46.9	37.9
750 - 1,000	34	62	36,756	16	25	14,110	47.1	40.3	38.4
1,000 - 2,000	71	102	100,522	24	51	37,302	33.8	50.0	37.1
2,000 - 5,000	119	237	392,148	27	59	85,608	22.7	24.9	21.8
5,000 - 10,000	104	227	742,512	25	77	178,329	24.0	33.9	24.0
10,000 - 50,000	157	720	3,343,128	23	129	504,073	14.6	17.9	15.1
50,000 and over	70	1,837	13,673,483	1	58	213,403	1.4	3.2	1.6
Total	677	3,334	$18,336,761	179	474	$1,056,007	26.4	14.2	5.8

The same distinction is brought out in Table 24, where failures of banks with branches are classified according to the size of town in which the head office is situated. According to this table the ratio of failures to active banks was lower in the large towns than in the small towns. Here it is also apparent that in towns of practically every size it is the smaller banks with branches that show the greatest frequency of failures; in towns of less than 1,000, for instance, the failures were 37.9 per cent of the total number of banks with branches, but the loans and investments involved in these failures were only 26.4 per cent of the loans and investments of all active banks with branches.

Table 24 - Suspensions of Banks with Branches, 1921-1931, Per 100 Active Banks with Branches December 31, 1931, by Size of Town

Population group	Active banks with branches December 31,1931		Suspensions of banks with branches 1921-1931		Ratio of suspended to active banks (per cent)	
	Number of banks	Aggregate loans and investments (000 omitted)	Number of banks	Aggregate loans and investments (000 omitted)	Number of banks	Loans and investments
Under 1,000	66	$ 35,064	25	$ 9,248	37.9	26.4
1,000 - 5,000	113	158,895	48	32,138	42.5	20.2
5,000 - 10,000	36	79,571	12	16,280	33.3	20.5
10,000 - 25,000	56	183,905	14	58,813	25.0	32.0
25,000 - 100,000	141	1,268,421	24	119,750	17.0	9.4
100,000 and over	265	16,610,905	56	819,778	21.1	4.9
Total	677	$18,336,761	179	$1,056,007	26.4	5.8

Table 25 gives a list of eight States in which a substantial number of branches operate outside the city of the head office. Iowa is omitted because branches have been in operation there only a little more than a year. The States are those, therefore, which have had the most experience with rural branch banking. Although the number of failures of banks with branches in some of these States is very high as compared to the total number of active banks with branches, there are two important qualifications to make. The first is that the base is unsatisfactory because the number remaining after several years of failures and consolidations is not representative of the period as a whole. The number at the beginning of the period is even less representative, however, and an average of the number in operation is no better. The second qualification and the more important one is that only a very few of the suspended banks really exemplify branch banking. This is apparent from a glance at the two right hand columns which show the number of

suspended banks and the number of their branches. In five of the eight States the average number of branches per failure is less than two and in only one is it as much as four. As a matter of fact the largest number of branches of any bank in the list was eleven and there was only one system of that size.

Table 25 - Suspensions of Banks with Branches, 1921-1931, and Active Banks with Branches December 31, 1931, in Important Branch Banking States

State(1)	Active banks with branches December 31, 1931		Suspensions of banks with branches 1921-1931	
	Number of banks	Number of branches	Number of banks	Number of branches
California	50	801	5	15
Maryland	27	108	4	17
Louisiana	39	98	12	18
North Carolina	23	84	24	40
South Carolina	11	77	9	24
Maine	19	73	3	5
Virginia	30	57	6	7
Tennessee	25	58	4	5
Total	224	1,356	67	131

(1) Only those States are given in which a substantial number of branches have been in operation outside the city of the head office for several years, although the number of branches shown includes both those inside and outside the city of the head office of the bank.

In Table 26 both active and suspended banks with branches are classified in groups according to the number of their branches. The highest proportion of failures was among the banks with fewest branches--29.9 per cent of the banks with one and two branches each suspended as compared with only 12.5 per cent of the banks with over ten branches each. Moreover, within each group the failures occurred chiefly among the smaller banks of the group. Thus although 29.9 per cent of the

banks with one and two branches failed, their loans and investments were only 7.8 per cent of the total; among banks with from three to ten branches failures were 21 per cent in number but only 8 per cent in loans and investments; and among banks with ten or more branches they were 12.5 per cent in number but only 3.7 per cent in size.

Table 26 - Suspensions of Banks with Branches, 1921-1931, Per 100 Active Banks with Branches December 31, 1931, Grouped by Number of Branches

Number of branches per bank	Active banks with branches December 31, 1931			Suspensions of banks with branches 1921-1931			Ratio of suspended to active banks (per cent)	
	Number of banks	Aggregate number of branches	Aggregate loans and investments (000 omitted)	Number of banks	Aggregate number of branches	Aggregate loans and investments (000 omitted)	Number of banks	Loans and investments
1 - 2	465	575	$ 4,901,804	139	173	$ 382,503	29.9	7.8
3 - 10	156	704	3,692,258	33	155	309,227	21.2	8.4
Over 10	56	2,055	9,742,699	7	146	364,277	12.5	3.7
Total	677	3,334	$18,336,761	179	474	$1,056,007	26.4	5.8

A noteworthy fact is brought out in Table 27, where the banks are classified in greater detail as to the number of their branches. Of the 179 banks with branches that suspended in the eleven-year period, 1921-1931, 105 had only one branch each and 34 more had only two branches each. Manifestly branch banking is not typified by banks with only one or two branches each; nor is it typified by banks with only three branches. Yet there were only 40 suspensions of banks with three branches or more in eleven years. As these 40 are still further divided in order to get instances of what may justifiably be called "branch systems" that have failed, it is found that there have been only seven suspended banks with

more than ten branches each.

Table 27 - Suspensions of Banks with Branches, 1921-1931, and Active Banks with Branches December 31, 1931, Grouped by Number of Branches

Number of branches per bank	Active banks with branches December 31, 1931			Suspensions of banks with branches 1921-1931		
	Number of banks	Aggregate number of branches	Aggregate loans and investments (000 omitted)	Number of banks	Aggregate number of branches	Aggregate loans and investments (000 omitted)
1	355	355	$ 1,952,845	105	105	$ 265,179
2	110	220	2,948,959	34	68	117,324
3	66	198	972,266	10	30	34,264
4	36	144	844,554	9	36	90,361
5	21	105	489,638	6	30	73,552
6	10	60	397,170	3	18	62,043
7	4	28	128,002	2	14	16,998
8	7	56	376,440	1	8	7,023
9	7	63	226,659	1	9	1,433
10	5	50	257,529	1	10	23,553
11 - 15	23	290	1,950,565	3	33	54,691
16 - 20	9	168	535,358	3	55	96,183
Over 20	24	1,597	7,256,776	1	58	213,403
Total	677	3,334	$18,336,761	179	474	$1,056,007

The seven suspensions with more than ten branches each, together with one additional bank which failed January 2, 1932, are listed in Table 28. Only three of these banks had branches outside the city of the head office. The failure of the first, the Georgia State Bank, was part of the general failure of the Witham-Manley chain, which is described in the report on group and chain banking.

Table 28 - Suspensions of Banks with More than 10 Branches Each, 1921-1931(1)

Name and location of bank	Year	Branches		Loans and investments (000 omitted)
		In	Out	
Georgia State Bank, Atlanta	1926	-	20	$ 3,990
Bank of United States, New York City	1930	58	-	213,403
Bankers Trust Co., Philadelphia	1930	19	-	47,932
Security Home Trust Co., Toledo	1931	11	-	25,148
Commercial Savings Bank and Trust Co., Toledo	1931	11	-	14,103
Ohio Savings Bank and Trust Co., Toledo	1931	16	-	44,261
Central Trust Co., Frederick, Md.	1931	-	11	15,440
Peoples State Bank, Charleston, S. C.	1932	2	42	23,869
Total		117	73	$388,146

(1) Including one in 1932, added because of its importance, but not included in any of the previous tables.

The Bank of United States, which was the largest bank that has ever failed in this country, had 58 branches, but they were all in the one city. After its failure, indictments were brought charging the principal officials of the bank with abstracting and wilfully misapplying its funds.

The Bankers Trust Company of Philadelphia, all the branches of which were in the one city, was closed by action of the directors after a long period of declining deposits.

The suspension of the three banks in Toledo was due to a local crisis, in which four leading banks closed in one day, another having closed two months earlier. One of the five banks had no branches, and all the branches of the others were within the city of Toledo.

All of the foregoing were banks whose size and situation made their branch operations of comparatively minor significance, the bulk

of their business belonging to their main office. They were city banks and their branches were confined to the city in every case, except the Georgia State Bank.

The Central Trust Company of Maryland, however, was more distinctively a branch organization. Frederick, where its main office was situated, is a town of about 15,000 people, and the bank, which had loans and investments of more than $16,500,000 at the end of 1930, or 45 per cent of the loans and investments of all the banks in town, appears to have owed a substantial part of its business to its branches, which were situated in eleven other towns. The bank was not a member of the Federal Reserve System. According to the State bank commissioner of Maryland, its difficulties arose mainly from "various large commitments accumulated in real estate holdings....., a majority of which were located outside the State, and of course, the conditions existing nationally at that time contributed in no small degree to the shrinkage in the asset value of this class of commitment."(1)

Of all the banks with branches that have failed, the Peoples State Bank of South Carolina was most distinctively a branch organization. It had 45 offices in 42 different cities, towns, and villages situated in every part of the State. Its business was largely derived from its branches, and externally it would appear to have been the chief exemplar of state-wide branch banking in this country outside of California. It was not a member of the Federal Reserve System, for its branch organization had been developed almost entirely after the passage of the McFadden Act in 1927.

---

(1) Twenty-Second Annual Report of the Bank Commission of the State of Maryland, February 1, 1932, p. 7.

Its failure, according to reports, "was caused by poor judgment, poor management, and an excess of ambition. The branches contributed to the failure of course, but if the institution had possessed good ability and good judgment it would not have failed just because it had a string of branches." Before converting to State charter and beginning its career as a branch organization it had already been "continuously subject to criticism from national examiners..... The part which the branches played in the failure was played not because they were branches but because of the manner in which they were established. A large proportion of the branches were formed by taking over unit banks which were practically 'busted' when they were taken over. These operations filled the group with highly unliquid, and in many cases, worthless assets, and when public confidence began to weaken in South Carolina, the Peoples State Bank had absolutely no margin of safety.... The whole thing was recklessly and inexpertly done, and therein lies the real cause of the failure."

Another report listed the following as causes of the failure of this bank:

"1. Its capital structure was not sound from the beginning.
2. It expanded too fast.
3. Its operating personnel had neither the experience nor capacity for the management of an institution of such size or so many branches.
4. It absorbed too many busted banks.
5. It operated many small branches that were economic impossibilities.
6. The credit set-up of local loan committees was unsound.
7. It was too big and too unwieldly to be saved by stockholders and directors."

Little if anything is divulged in the eight foregoing cases of suspended banks with branches to indicate that the causes of failure of banks with branches differ essentially from the causes of failure of

banks without branches.

APPENDIX

Table I - Number of Banks(1) and Branches by States
December 31, 1931

States classified according to law regarding branch banking	Total number of banks(2)	Total number of branches	Banks with branches			Number of branches	
			City systems(3)	Other systems	Total	In head office city	Outside head office city
State-wide Branch Banking Permitted							
Arizona	32	25	-	7	7	-	25
California	390	801	21	29	50	258	543
Delaware	46	12	2	4	6	2	10
Dist. of Columbia	38	26	12	-	12	26	-
Maryland	187	108	12	15	27	59	49
North Carolina	288	84	5	18	23	12	72
Rhode Island	25	36	8	3	11	16	20
South Carolina	114	77	4	7	11	9	68
Vermont	81	10	2	5	7	-	10
Virginia	392	57	11	19	30	29	28
Total	1,588	1,236	77	107	184	411	825
Branches Restricted As to Location							
Georgia	321	34	5	8	13	18	16
Indiana	651	27	6	7	13	19	8
Iowa	935	67	-	47	47	-	67
Kentucky	498	23	6	1	7	21	2
Louisiana	200	98	10	29	39	51	47
Maine	81	73	2	17	19	7	66
Massachusetts	229	116	45	3	48	110	6
Michigan	589	385	48	-	48	385	-
Mississippi	229	21	1	7	8	1	20
Montana	157	-	-	-	-	-	-
New Jersey	455	124	57	2	59	115	9
New York	834	690	70	-	70	690	-
Ohio	772	213	27	6	33	183	30
Pennsylvania	1,266	126	43	3	46	122	4
Tennessee	398	58	7	18	25	24	34
Total	7,613	2,055	327	148	475	1,746	309
Establishment of Branches Prohibited by Law							
Alabama	256	16	-	2	2	-	16
Arkansas	276	1	-	1	1	-	1
Colorado	233	-	-	-	-	-	-
Connecticut	143	-	-	-	-	-	-
Florida	187	-	-	-	-	-	-
Idaho	122	-	-	-	-	-	-
Illinois	1,295	-	-	-	-	-	-

Table I - Number of Banks(1) and Branches by States
December 31, 1931 (Continued)

States classified according to law regarding branch banking	Total number of banks(2)	Total number of branches	Banks with branches			Number of branches	
			City systems(3)	Other systems	Total	In head office city	Outside head office city
Kansas	923	-	-	-	-	-	-
Minnesota	886	6	2	-	2	6	-
Missouri	992	-	-	-	-	-	-
Nebraska	633	2	2	-	2	2	-
Nevada	32	-	-	-	-	-	-
New Mexico	50	3	-	1	1	-	3
Oregon	199	-	-	-	-	-	-
Texas	1,102	-	-	-	-	-	-
Utah	88	-	-	-	-	-	-
Washington	286	5	1	2	3	3	2
West Virginia	218	-	-	-	-	-	-
Wisconsin	869	9	5	1	6	8	1
Total	8,799 89	42	10	7	17	19	23
No Provision in State Law Regarding Branch Banking							
New Hampshire	66	1	-	1	1	-	1
North Dakota	250 46	-	-	-	-	-	-
Oklahoma	524	-	-	-	-	-	-
South Dakota	263	-	-	-	-	-	-
Wyoming	78	-	-	-	-	-	-
Total	1,181 77	1	-	1	1	-	1
Total all States	19,167	3,334	414	263	677	2,176	1,158
National	6,368	1,274	146	11	157	885	389
State member	878	1,073	124	17	141	947	126
State nonmembers	11,921	987	144	235	379	344	643

(1) Mutual savings banks and private banks are excluded.

(2) Compiled from records of the Federal Reserve Board and reports of State banking supervisors to the Committee on Branch, Group and Chain Banking.

(3) Includes banks operating branches in head office city and contiguous territory only.

Table II - Loans and Investments of All Banks and of Banks(1) Operating Branches by States
December 31, 1931

(In thousands of dollars)

States classified according to law regarding branch banking	All active banks(2)	Banks operating branches		
		City systems(3)	Other systems	Total
State-wide Branch Banking Permitted				
Arizona	$ 56,590	$ -	$ 17,000	$ 17,000
California	3,025,755	560,520	1,719,353	2,279,873
Delaware	134,032	45,161	41,385	86,546
Dist. of Columbia	249,087	153,738	-	153,738
Maryland	546,254	259,599	44,332	303,931
North Carolina	240,429	18,963	81,958	100,921
Rhode Island	336,728	50,788	253,606	304,394
South Carolina	112,854	12,939	59,022	71,961
Vermont	137,361	3,137	22,588	25,725
Virginia	454,731	130,619	28,178	158,797
Total	$5,293,821	$1,235,464	$2,267,422	$3,502,886
Branches Restricted As to Location				
Georgia	$ 269,733	$ 92,186	$ 51,874	$ 144,060
Indiana	563,844	105,963	7,074	113,037
Iowa	546,624	-	28,817	28,817
Kentucky	403,775	89,980	2,595	92,575
Louisiana	355,416	152,078	38,455	190,533
Maine	284,510	4,333	131,827	136,160
Massachusetts	1,648,682	1,058,991	34,458	1,093,449
Michigan	1,489,814	967,122	-	967,122
Mississippi	120,875	5,810	11,228	17,038
Montana	109,134	-	-	-
New Jersey	1,784,027	904,675	70,345	975,020
New York	10,336,648	8,053,264	-	8,053,264
Ohio	1,862,666	798,636	313,510	1,112,146
Pennsylvania	4,317,614	1,327,350	18,940	1,346,290
Tennessee	326,577	130,193	25,190	155,383
Total	$24,419,939	$13,690,581	$734,313	$14,424,894
Establishment of Branches Prohibited by Law				
Alabama	$ 207,177	$ -	$ 4,062	$ 4,062
Arkansas	106,670	-	808	808
Colorado	226,110	-	-	-
Connecticut	554,581	-	-	-
Florida	179,622	-	-	-
Idaho	60,331	-	-	-
Illinois	2,712,360	-	-	-

Table II - Loans and Investments of All Banks and of Banks(1) Operating Branches by States
December 31, 1931 (Continued)

(In thousands of dollars)

States classified according to law regarding branch banking	All active banks(2)	Banks operating branches		
		City systems(3)	Other systems	Total
Kansas	$ 310,060	$ -	$ -	$ -
Minnesota	709,373	152,393	-	152,393
Missouri	996,103	-	-	-
Nebraska	245,493	6,571	-	6,571
Nevada	33,885	-	-	-
New Mexico	30,839	-	215	215
Oregon	211,137	-	-	-
Texas	781,289	-	-	-
Utah	133,936	-	-	-
Washington	331,050	66,371	2,916	69,287
West Virginia	254,111	-	-	-
Wisconsin	782,060	173,846	1,189	175,035
Total	$8,866,187	$399,181	$9,190	$408,371
No Provision in State Law Regarding Branch Banking				
New Hampshire	$ 96,665	-	$610	$610
North Dakota	74,182	-	-	-
Oklahoma	288,390	-	-	-
South Dakota	88,210	-	-	-
Wyoming	47,305	-	-	-
Total	$594,752	-	$610	$610
Total all States	$39,174,699	$15,325,226	$3,011,535	$18,336,761
National	$19,093,615	$6,542,917	$1,433,311	$7,976,228
State members	11,481,510	7,365,523	884,827	8,250,350
State nonmembers	8,599,574	1,416,786	693,397	2,110,183

(1) Mutual savings banks and private banks are excluded.
(2) Compiled from abstracts of condition of State banks and national banks.
(3) Includes banks operating branches in head office city and contiguous territory only.

Table III

Table III will show for each State the number of banks with branches and the number of branches from 1900 to 1931. This is the same as the data shown for the United States in Table 2, page 6. This will occupy about twenty-four printed pages.

The material is available for national banks and State banks separately, but it is thought unnecessary to print it in that detail unless the members of the Committee think it advisable.

Digest of State Laws Relating to Branch Banking

At this point in the appendix it is proposed to add a digest of State laws relating to branch banking, which will be substantially the same as the digest printed in the Federal Reserve Bulletin of April, 1930, and revised in the July, 1932, Bulletin. This digest, which was prepared by the Counsel of the Federal Reserve Board, is referred to in Chapter VIII. The material will occupy about twenty-five printed pages.

BIBLIOGRAPHY

ADAMS, EDWARD F. Credit Facilities for Rural Districts. Sound Currency. Vol. VIII, No. 3: Pp. 145-182. September, 1901.

Alabama Bankers Association. Proceedings of the Eighteenth Annual Convention, Held at Birmingham, May 20 and 21, 1910. The Financier, New York. Vol. XCV: Pp. 2219-2234. May 28, 1910.

American Bankers Association. Proceedings of Annual Conventions, 1897-1902.

Anderson, Benjaman M., Jr. Branch Consolidations in a Period of Speculation. Chase Economic Bulletin. Vol. IX, No. 5. October 12, 1929.

ATTFIELD, J. B. The Branch Banking System. Sound Currency. Vol. IV, No. 15: Pp. 16. August 1, 1897.

BARNETT, GEORGE E. State Banks and Trust Companies. Vol. VII, Publications of the National Monetary Commission: Part I, Pp. 366. Washington: Government Printing Office. 1910.

BRECKINRIDGE, R. M. Bank Notes and Branch Banks. Sound Currency. Vol. VI, No. 4: Pp. 49-56. April, 1899.

_____ Branch Banking and Discount Rates. Sound Currency. Vol. VI, No. 1: Pp. 2-14. January, 1899.

_____ The Comptroller's Objections to Currency Reform. Journal of Political Economy. Vol. VII: Pp. 253-265. March, 1899.

BRYAN, ALFRED COOKMAN. History of State Banking in Maryland. Johns Hopkins University Studies in Historical and Political Science. Series XVII: Nos. 1, 2, 3. Baltimore: Johns Hopkins Press. 1899.

CABLE, JOHN RAY. The Bank of the State of Missouri. (Submitted in partial fulfilment of the requirements for the degree of Doctor of Philosophy in the Faculty of Political Science Columbia University.) Pp. 323. New York: n. p. 1923.

CATTERALL, RALPH C. H. The Second Bank of the United States. Pp. 538. Chicago: University of Chicago Press. 1903.

CHADDOCK, ROBERT E. The Safety-Fund Banking System in New York State, 1829-1866. Vol. IV, Publications of the National Monetary Commission: Part II, Pp. 227-388. Washington: Government Printing Office. 1910.

CLARKE, M. ST. CLAIR, and HALL, D. A. Legislative and Documentary History of the Bank of the United States. Pp.808. Washington: Gales and Seaton. 1832.

CLEVELAND, GROVER. Our Financial Disease. Sound Currency. Vol. III, No. 1: Pp. 1-11. December 1, 1895.

COLLINS, CHARLES WALLACE. The Branch Banking Question. Pp. 182. New York: The Macmillan Company. 1926.

_____ Rural Banking Reform. Pp. 187. New York: The Macmillan Company. 1931.

CONANT, CHARLES A. Scotch Bank Currency. Sound Currency. Vol. IV, No. 4: Pp. 14. February 15, 1897.

Congressional Globe. Vol. XXXV. 38th Congress, 2nd Session.

COOKE, THORNTON. Branch Banking for the West and South. Quarterly Journal of Economics. Vol. XVIII, No. 1: Pp. 97-113. November, 1903.

DAVIS, ANDREW MCFARLAND. The Origin of the National Banking System. Vol. V, Publications of the National Monetary Commission: Pp. 246. Washington: Government Printing Office. 1910.

DE SAUSSURE, GEORGE R. Branch Banking. Sound Currency. Vol. VIII, No. 4: Pp. 246-253. December, 1901.

DEWEY, DAVIS R. The Second United States Bank. Vol. IV, Publications of the National Monetary Commission: Part I, Pp. 145-311. Washington: Government Printing Office. 1910.

_____ State Banking before the Civil War. Vol. IV, Publications of the National Monetary Commission: Part II, Pp. 1-226. Washington: Government Printing Office. 1910.

Digest of Rulings of the Federal Reserve Board (1914-1927, inclusive) with appendices containing text of Federal Reserve Act, Regulations of Federal Reserve Board, National Bank Act, Instructions of Comptroller of the Currency and Related Matters. Compiled under direction of the Federal Reserve Board in the Office of its General Counsel. Pp. 774. Washington: Government Printing Office. 1928.

Does Branch Banking Mean Monopoly? Sound Currency. Vol. IX, No. 2: Pp. 83-87. June, 1902.

DUNBAR, CHARLES FRANKLIN. Economic Essays. Pp. 372. New York: The Macmillan Company. 1904.

ECKARDT, H. M. P. Branch Banking among the State Banks. Annals of the American Academy of Political and Social Science. Vol. XXXVI, No. 3: Pp. 148-161. November, 1910.

_____ A Rational Banking System. Pp. 329. New York: Harper and Brothers. 1911.

ESAREY, LOGAN. State Banking in Indiana, 1814-1873. Indiana University Bulletin. Vol. X, No. 2: Pp. 219-305.

FARQUHAR, A. B. Democracy and Banking. Sound Currency. Vol. IX, No. 3: Pp. 101-111. September, 1902.

FORGAN, JAMES B. Branch Banking. Sound Currency. Vol. IX, No. 2: Pp. 88-100. June, 1902.

FOWLER, W. J. National Banks May Conduct Branches. The Financier, New York. Pp. 2113-2114. May 28, 1910.

GILLETT, A. D. S. Better Credit Facilities for our Rural Districts. Sound Currency. Vol. VIII, No. 3: Pp. 183-208. September, 1901.

Great Britain. Committee on Industry and Trade. Final Report. Sir Arthur Balfour, K. B. E., Chairman. Pp. 338. London: His Majesty's Stationery Office. 1929.

HAMILTON, ALEXANDER. Works. Hamilton, John C., ed. Vol. V: Pp. 635. New York: John F. Trow. 1851.

HEPBURN, A. BARTON. Branch Banks and the Currency Problem. Sound Currency. Vol. IX, No. 1: Pp. 35-42. March, 1902.

HOLDSWORTH, JOHN THOM. The First Bank of the United States. Vol. IV, Publications of the National Monetary Commission: Part I, Pp. 1-144. Washington: Government Printing Office. 1910.

HUNTINGTON, A. T., and MAWHINNEY, ROBERT J. Laws of the United States Concerning Money, Banking, and Loans, 1778-1909. Vol. II, Publications of the National Monetary Commission: Pp. 812. Washington: Government Printing Office. 1910.

Indiana. Laws. 38th Session of the General Assembly. Indianapolis. 1855.

KNOX, JOHN JAY. A History of Banking in the United States. Pp. 878. New York: Bradford Rhodes and Company. 1903.

MCCULLOCH, HUGH. Men and Measures of Half a Century. Pp. 542. New York: Charles Scribner's Sons. 1889.

MAGEE, H. W. A Treatise on the Law of National and State Banks including the Clearing House and Trust Companies. Pp. 800. Albany: J. B. Lyon and Company. 1906.

_____ _____ Second edition, revised and enlarged. Pp. 1159. Albany: Matthew Bender and Co. 1914.

MORAWETZ, VICTOR. A Treatise on the Law of Private Corporations. Second edition. Vol. I, Pp. 545. Boston: Little, Brown and Company. 1886.

MORSE, JOHN T. A Treatise on the Law of Banks and Banking. Fifth edition revised and enlarged by James N. Carter. Vol. I, Pp. 754. Boston: Little, Brown and Company. 1917.

New York. Banking Laws, 1838-1854. Albany. 1854.

_____ Laws. 115th Session of the Legislature, 1892; 121st Session, 1898; 131st Session, 1908; 142nd Session, 1919.

New York State Bankers Association. Proceedings of the Seventeenth Annual Convention, New York, 1910. Pp. 222. New York.

_____ Proceedings of the Thirty-second Annual Convention, Ithaca, New York, 1925. Pp. 328. n. p.

Ohio. General Laws. 43rd General Assembly, 1845.

OSTROLENK, BERNHARD. The Economics of Branch Banking. Pp. 209. New York: Harper and Brothers. 1930.

PLATT, EDMUND. Branch Banking for Country Banks: address before Alabama Bankers Association at Birmingham, May 20, 1927. Pp. 17 (mim.). Washington. 1927.

PRESTON, HOWARD H. History of Banking in Iowa. Pp. 458. Iowa City: The State Historical Society of Iowa. 1922.

Rand McNally Bankers Directories. January, 1901; July, 1905; January, 1910; January, 1921; July, 1931; January, 1932.

Reports of the Superintendents of Banks for each of the 48 States.

RIEFLER, WINFIELD W. Money Rates and Money Markets in the United States. Pp. 259. New York: Harper and Brothers. 1930.

ROOT, L. CARROLL. Canadian Bank-Note Currency. Sound Currency. Vol. II, No. 2: Pp. 16. December 15, 1894.

SCOTT, WILLIAM A. Money and Banking. Fourth edition. Pp. 377. New York: Henry Holt and Company. 1910.

SOUTHWORTH, SHIRLEY DONALD. Branch Banking in the United States. First edition. Pp. 236. New York: McGraw-Hill Book Company, Inc. 1928.

SPRAGUE, O. M. W. Branch Banking in the United States. Quarterly Journal of Economics. Vol. XVII, No. 2: Pp. 242-260. February, 1903.

_____ and BURGESS, W. RANDOLPH. Money and Credit and their Effect on Business. Report of the Committee on Recent Economic Changes of the President's Conference on Unemployment. Vol. II, Chapter X, Pp. 657-707. New York: McGraw-Hill Book Company, Inc. 1929.

STARNES, GEORGE T. Sixty Years of Branch Banking in Virginia. Pp. 142. New York: The Macmillan Company. 1931.

SUMNER, WILLIAM GRAHAM. A History of Banking in the United States. A History of Banking in All the Leading Nations. Vol. I, Pp. 485. New York: Journal of Commerce and Commercial Bulletin. 1896.

U. S. Comptroller of the Currency. Annual Reports to the Congress of the United States, 1866-1931. Washington: Government Printing Office.

_____ Instructions and Suggestions Relating to Organizations, etc. Washington: Government Printing Office. 1909.

U. S. Congress. House Committee on Banking and Currency. Hearings and Arguments on H. R. 171. 54th Congress, 1st and 2nd Sessions. 1896-1897.

_____ _____ Strengthening the Public Credit, Etc. 55th Congress, 2nd Session. Report No. 1575, on H. R. 10289. 1898.

_____ _____ Consolidation of National Banking Associations, Etc. 68th Congress, 1st Session. Hearings on H. R. 6855. 1924.

_____ _____ Branch, Chain, and Group Banking. 71st Congress, 2nd Session. Hearings under H. Res. 141. 1930.

_____ Senate Committee on Banking and Currency. Consolidation of National Banking Associations. 68th Congress, 2nd Session. Hearings on S. 3316 and H. R. 6887. 1925.

_____ _____ Consolidation of National Banking Associations. 69th Congress, 1st Session. Hearings before a subcommittee on S. 1782 and H. R. 2. 1926.

_____ _____ Operation of the National and Federal Reserve Banking Systems. 71st Congress, 3rd Session. Hearings persuant to S. Res. 71. 1931.

_____ _____ Operation of the National and Federal Reserve Banking Systems. 72nd Congress, 1st Session. Hearings on S. 4115. 1932.

_____ _____ Operation of the National and Federal Reserve Banking Systems. 72nd Congress, 1st Session. Report No. 584 to accompany S. 4412. 1932.

U. S. Department of Justice. Official Opinions of the Attorneys General of the United States Advising the President and Heads of Departments in Relation to their Official Duties. Vol. 29. Washington: Government Printing Office. 1913.

U. S. Federal Reserve Board. Annual Reports, 1914-1924. Washington: Government Printing Office.

_____ Federal Reserve Bulletin. Changes in State Laws Relating to Branch Banking. Vol. XVIII: Pp. 455-458. July, 1932.

_____ _____ Digest of State Laws Relating to Branch Banking. Vol. XVI: Pp. 258-266. April, 1930.

_____ State Laws Relating to Branch Banking. Vol. XI: Pp. 182-187. March, 1925.

_____ Right of a National Bank to Establish a Branch. Vol. X: Pp. 281-286. April, 1924.

U. S. National Monetary Commission. Report. Vol. XXIV, Publications of the National Monetary Commission: Pp. 72. Washington: Government Printing Office. 1912.

U. S. Secretary of the Treasury. Annual Reports on the State of Finance, 1894-1901. Washington: Government Printing Office.

WHITE, HORACE. Branch Banking: Its Economies and Advantages. Sound Currency. Vol. IX, No. 2: Pp. 51-64. June, 1902.

_____ Money and Banking. Fifth edition. Pp. 541. Boston: Ginn and Company. 1914.

WILLIS, H. PARKER. The Demand for Centralized Banking. Sound Currency. Vol. IX, No. 1: Pp. 1-24. March, 1902.

_____ The Status of the Currency Reform Movement. Sound Currency. Vol. X, No. 4: Pp. 117-146. December, 1903.

WEBSTER, DANIEL. Works. Vol. VI: Pp. 633. Boston: Charles C. Little and James Brown. 1851.

WELLDON, SAMUEL A. Digest of State Banking Statutes. Vol. III, Publications of the National Monetary Commission: Pp. 746. Washington: Government Printing Office. 1910.

World's Congress of Bankers and Financiers. Pp. 615. Chicago: Rand McNally and Company. 1893.

PERIODICALS

American Banker. 1929-1932.

Bankers Magazine. (N. Y.) 1848-1909.

Chase Economic Bulletin Vol. IX, No. 5. October 12, 1929.

Commercial and Financial Chronicle. 1922-1932.

Montgomery Advertiser. Montgomery, Alabama. January 19, 1911.