THE DUAL BANKING SYSTEM 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

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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 review of legislative and supervisory developments under the dual banking system in the United States.

Respectfully,

E. A. Goldenweiser
Chairman

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INTRODUCTION

Many of the problems of commercial banking in the United States today have arisen from the historical division of responsibility between the Federal and State Governments in chartering and supervising banks. Competition between the two systems has not only been an important factor in the incorporation of thousands of small banks, but has also led to the relaxation of legal regulations and has tended to diminish the effectiveness of supervision.

At the time of the Civil War an attempt was made to bring about unified control through the establishment of the national banking system. A large measure of unified control was temporarily achieved, primarily because national banks were accorded the privilege of issuing currency while the notes of State banks were subjected to a prohibitive tax. For about twenty years the amount of banking business controlled by State incorporated institutions was negligible. If such a condition had obtained through the subsequent decades, it is likely that supervision, unaffected by the kind of competition that was later to develop, would have been able to maintain a higher standard of banking practice. The practice of deposit banking began to develop on so large a scale, however, that State banks found it increasingly profitable to operate without the privilege of issuing notes; and from the early eighties State banks have grown steadily in relative importance.

It soon became evident that State banks had many competitive advantages over national banks, notably in the matter of lower minimum capital and other requirements for receiving charters, and in more extensive powers and privileges, which provided greater opportunities for making profits. The Federal Government was under pressure to grant similar powers and privileges to national banks. The granting of such powers and privileges tended to remove some of the restrictions previously imposed by the National Bank Act. Thus it was that about the beginning of the present century, or somewhat earlier, there began between the national and the several State systems a form of rivalry which has been described as a competition in laxity.

When the Federal reserve system was established in 1913, a second opportunity to consolidate a unified control over commercial banking was presented, but this legislation did not reach the thousands of small State banks. Today only about 800 of the 12,000 State commercial banks belong to the Federal reserve system. Most of the larger State banks have become members of the Federal reserve system and all national banks are members as a matter of law. National banks, however, are free to leave the system by conversion to State charter, and State banks may relinquish their membership upon six months' notice. It is clear, therefore, that all Federal reserve membership is in effect voluntary. This condition weakens the power of the Federal reserve system to exercise effective supervision over the banking system. Nonmember commercial banks, meanwhile, continue to operate under the laws of forty-eight States.

CHAPTER I

THE COMPETITIVE STATUS OF NATIONAL AND STATE BANKS PRIOR TO 1913

Throughout the period extending from the expiration of the charter of the Second Bank of the United States in 1836 to the passage of the National Bank Act in 1863, the only incorporated banks in existence operated under State charter. In addition, there were many private banks in existence which continued to operate even after the passage of the National Bank Act. Information as to the volume of banking strength represented by these private concerns is not available, but there were some individual firms of importance.

Prior to the Civil War note issue was the principal activity of incorporated banks, although many banks operated without the note issue privilege. When provision was made for national banks of issue, it was hoped that State banks of issue would apply for national charters. The bulk of the State banks, however, did not enter the national system of their own free will, and in 1865 a tax of 10 per cent was 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."

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

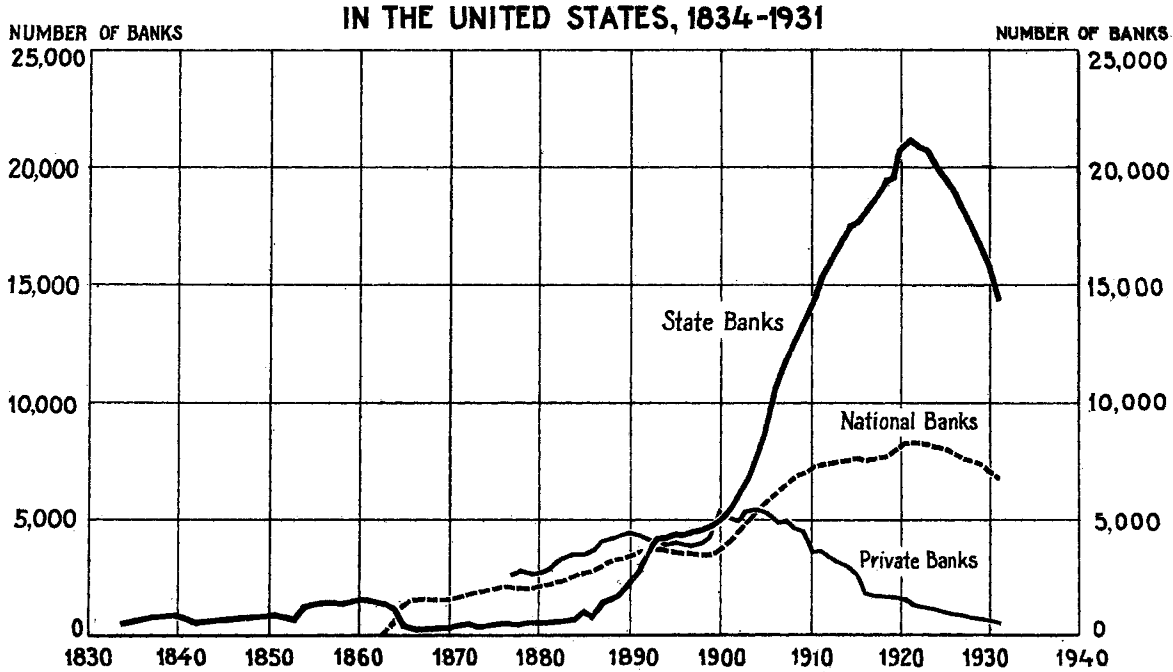
The tax put an immediate end to State bank issues, and all but a few State incorporated banks soon disappeared. The great majority of them converted into national banks, liquidated voluntarily, or failed during the Civil War, and most of the newly organized banks obtained national charters. By 1868 there were 1,640 national banks and only 247 incorporated State banks reported in existence.[1] Changes in the number of banks in operation are shown in Chart 1, and the resources of State and national banks from 1863 through 1931 in Chart 2. Table I in the appendix gives the figures on which these charts are based.

The privilege of note issue continued to be a major influence upon the choice of bank charters until about 1880. With the increased use of checks in business transactions, however, the relative importance of bank notes was steadily declining. This decline may be illustrated by the liabilities of national banks. In 1870 about 30 per cent of the currency and deposit liabilities of these banks consisted of bank notes, but by 1895 this proportion had declined to about 7 per cent, and in 1931 it was less than 3 per cent. State banks gradually developed the business of discount and deposit and found that they could operate profitably without the note issue privilege. From about 1880, therefore, State banks began to develop again and increased in number almost continuously until 1921.

(1) The term "State bank" is used here to include State banks, trust companies, and stock savings banks: that is, all banks incorporated under State laws. It does not include mutual savings banks or private banks.

CHART 1

NUMBER OF COMMERCIAL BANKS AND TRUST COMPANIES IN THE UNITED STATES, 1834-1931

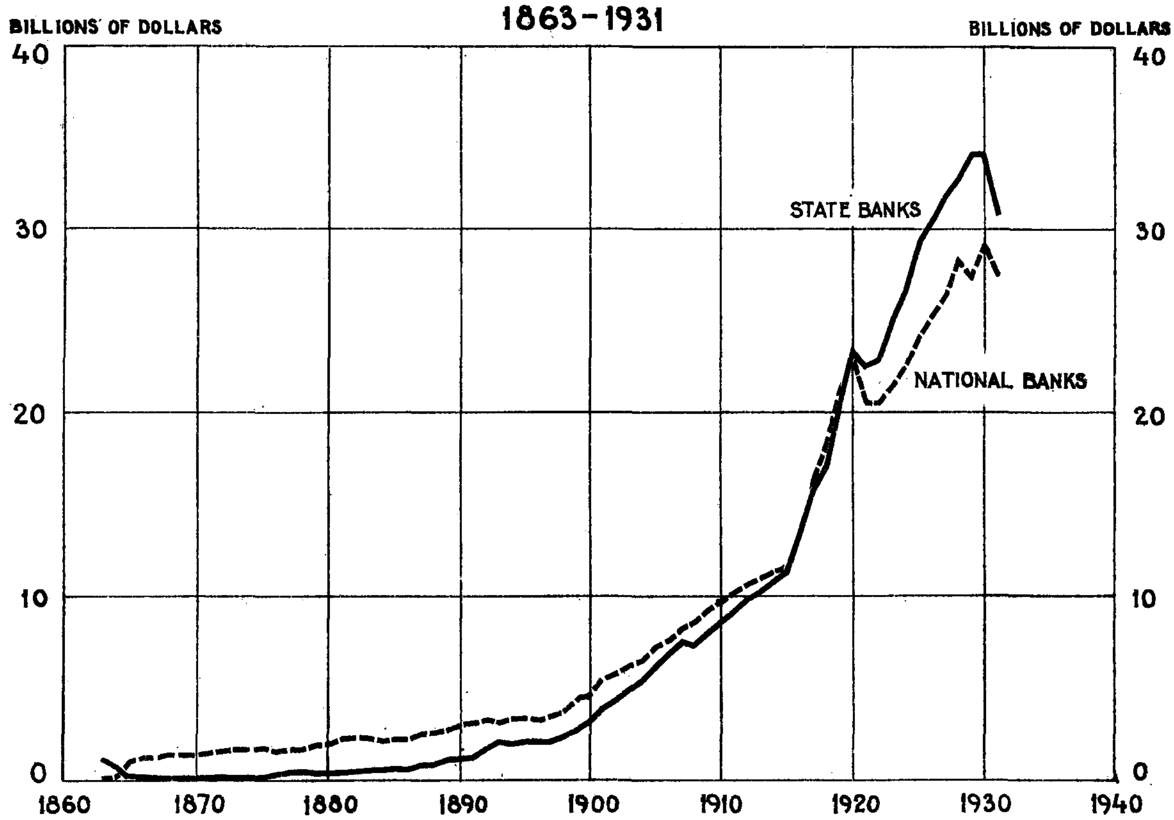


State banks include trust companies and stock savings banks. Mutual savings banks are not included. Figures are as of June 30 of each year or nearest reporting date.

CHART 2

RESOURCES OF STATE AND NATIONAL BANKS

1863-1931



State banks include trust companies and stock savings banks but exclude private banks and mutual savings banks. Figures are as of June 30 of each year or nearest reporting date.

The Competitive Advantages of State Banks

For many years national banks had two competitive advantages over State banks, but these gradually diminished in importance while a number of advantages developed in favor of State banks. One of the advantages in favor of national banks was the note issue privilege, which, while only moderately profitable after 1880, continued to be valued. The other advantage was the fact that in the newly developed sections of the country, especially in the South and West, outside capital had to be depended upon; and since non-resident investors were more familiar with the provisions of the national law than with those of the various States, it was easier to procure capital for a new bank incorporated by the Federal Government. This advantage also became of less importance as the years passed and the development of communities made it possible for bank capital to be supplied from local sources.(1)

In contrast to these dwindling advantages of national banks, State banks had a number of apparent advantages which grew in importance as time went by. One of the most important of these was the lower capital required of State banks. The minimum capital permitted by the National Bank Act prior to 1900 was $50,000. Many Western and Southern States, on the contrary, permitted the incorporation of banks with a minimum capital as low as $10,000, while in at least one State the minimum was placed at $5,000, and in several there were no capital requirements.(2)

(1) Cf. George E. Barnett, State Banks and Trust Companies Since the Passage of the National Bank Act, Publications of the National Monetary Commission, Vol. VII, pp. 232 - 233. A considerable part of the discussion in this chapter is based on Mr. Barnett's analysis.

(2) Table 10, Ch. III, shows the capital requirements in 1909 for banks incorporated in the various States.

The provisions of the State banking laws relative to the amount of credit which might be extended by a particular bank to a single individual, firm, or corporation were also more liberal in most cases than those of the National Bank Act. The national system originally restricted such loans to 10 per cent of paid-in capital and continued to do so up to 1906. State banking laws, however, authorized individual loans when unsecured to an amount ranging as high as 30 per cent of capital and surplus and in some States when secured there were apparently no limitations at all. In about a third of the States there was apparently no mention of restrictions either as to secured or unsecured loans.(1)

Furthermore, the National Bank Act prior to 1913 did not permit the granting of loans on real estate, while most State banks could make such loans. In some States the real estate loans of State banking institutions averaged one-third or more of their total loans and discounts.(2)

In 1909 reserve requirements against deposits were, as a rule, smaller in the State banking laws than in the National Bank Act. In some States no legal reserves were stipulated, the matter being left entirely to the discretion of the directors of the banks. Moreover, several of the State laws permitted lower reserves against savings and time deposits than against demand deposits; while in the national law no distinction was made between demand and time deposits and the comptroller had to require the same reserves against both types.(3) Several States, however, required the

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(1) Samuel A. Welldon, Digest of State Banking Statutes, Publications of the National Monetary Commission, Vol. III.

(2) Abstracts of condition reports of State banks published by the Comptroller of the Currency. It is apparent that few State banks fully classify their loans in reports to the Comptroller of the Currency. There are States, however, which in some years have reported more than a third of their total loans and discounts as made on real estate, e.g., New Hampshire, Ohio, and Michigan.

(3) Annual Report of the Comptroller of the Currency, 1912, p. 11.

segregation of savings deposits and their investment in high-grade securities.

There were also a number of States which prior to 1913 permitted the establishment of branches, a privilege held to be illegal under the National Bank Act.(1) In 1909 about a fourth of the States expressly authorized State banks or trust companies to open branches, while in only about a sixth of the States were branches specifically forbidden. This competitive advantage of the State systems in regard to branches was, however, more potential than actual, for relatively few banks established branches prior to 1913. The number of State banks with branches was only 82 in 1900, and 283 in 1910, with 114 branches in the former year and 536 in the latter.(2) Moreover, under the amendment to the National Bank Act passed in 1865, State banks having branches, with capital assigned to the head office and branches in definite proportions, could convert into national banks and retain their branches, regardless of the location of those branches.

Although it was not lawful for a national bank to invest in the stock of banks and other corporations, the banks and trust companies of a number of States were authorized to do so, and to a considerable extent seem to have taken advantage of the privilege. This made it possible for State banks and trust companies legally to engage in activities from which national institutions were debarred. These legal rights exercisable by certain State

(1) The National Bank Act did not specifically prohibit the establishment of branches, but the Comptroller of the Currency had held that it did so by implication. See report of Committee on Branch, Group, and Chain Banking, Branch Banking in the United States. Not until 1924 was there a court decision to the effect that national banks could not establish branches. This was in the case of First National Bank in St. Louis v. State of Missouri (263 U. S. 640).

(2) Branch Banking in the United States.

institutions, were no doubt in many instances of influence in determining whether a new institution should obtain a State or a national charter.

Trust companies, which developed rapidly after 1900, especially in New England and the Middle Atlantic States, also presented a serious competitive problem to the national banks, for national banks could not exercise fiduciary powers prior to 1913. In a number of States reserves required of trust companies were as high or higher than those of national institutions, but this was not generally true. In about a fourth of them there were no reserve requirements stipulated in the law for trust companies. Moreover, trust conapnies in many States could make real estate loans and purchase stocks of banks and other corporations. The advantages of the trust companies over national banks were summarized by a leading authority as follows:(1)

> "A third cause (of the growth of trust companies), and in the writer's opinion by far the most important one in most communities, lies in the wide range of powers which the trust company may exercise. In most States it may do all of the things that an ordinary bank may do, except issue notes; and it performs numerous duties that other banks may not undertake. These wide powers attract customers. It is a distinct convenience to most people to have all of their financial business attended to under one roof. The trust company will not only care for their banking business, but will also receive their valuables for safe-keeping, care for their property, manage their estates temporarily or permanently, make investments for them, give financial and legal advice, aid in the preparation of wills and execute the same after the decease of the customer."

Still another factor favorable to the growth of State banks at the expense of national banks was the higher standards of examination and supervision of the comptroller's office as compared with the standard of many State supervisory authorities. Many States had no supervision of banks and trust companies until several years after 1910, while in other cases State

(1) Clay Herrick, Trust Companies, p. 32.

examiners found it easier to take a so-called "sympathetic attitude" as a result of an alleged intimate knowledge of local conditions, and there was also a greater possibility of direct political influence under State than under national charters.

Thus a number of factors gave the State banks, during the period from 1880 to 1913, apparent competitive advantages over the national banks, the most important being smaller capital requirements, more liberal lending and investing powers, smaller legal reserves, less restriction on branches, and less strict supervision.

Meeting State Bank Competition by National Legislation

The effect of State bank competition began to be marked in the late eighties and early nineties. Especially was this true in the newly exploited regions of the West and South, where banking facilities were lacking, new capital was scarce, and the small capital required of State banks was of considerable importance.

In order to meet these conditions by an expansion of the national banking system the Comptroller of the Currency in 1896 urged upon Congress several amendments to the National Bank Act. One of these was the reduction of the minimum capitalization of national banks from $50,000 to $25,000 in places with less than 2,000 inhabitants. Such a change, it was declared, would not only permit the expansion of the national system into the South and West, where the majority of the banks had State charters and where there were few large towns, but would also be of advantage to the communities in those sections of the nation on account of the greater strength of the national system.

Another recommendation of the Comptroller of the Currency was that national banks, with the approval of the comptroller, should be permitted to establish branches in communities of less than 1,000 inhabitants. This, he stated, would bring outside capital to agricultural and other communities which required it, and would create an outlet for national bank notes in localities where they were most needed. He maintained that small communities where independent banks could not operate profitably could be served by branch offices.

A third recommendation of the comptroller designed to foster the expansion of the national banking system was that national banks be permitted to issue notes to the full par value of the bonds by which they were secured, instead of the 90 per cent permitted in the original act. This would increase the profitableness of the note issue.

These recommendations were repeated with varying emphasis in subsequent reports of the comptroller and sanctioned by the President and the Secretary of the Treasury.(1) It was not until 1900, however, that any of them were acted upon by Congress. In the Currency Act of March 14, 1900, it was provided that bank notes might be issued to the full par value of the bonds by which they were secured, and that national banks might be organized in places not exceeding 3,000 population with a capital of not less than $25,000. Permission to establish branches was not granted, however.

The reduced capital requirement resulted in the organization of a considerable number of new national banks with capital stock of less than $50,000. During the first decade after the passage of the Currency Act,

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(1) Annual Report of the Comptroller of the Currency, 1896, Vol. 1, pp. 100-105; 1897, Vol. 1, p. xvi; 1898, Vol. 1, p. xi; and 1899, Vol. 1, pp. xiv and xx. The Comptroller of the Currency in 1896 and in 1897 was James H. Eckels and in 1898 and 1899 Charles G. Dawes.

the number of national banks increased from 3,731 to 7,138, or by 91 per cent, and nearly a third of the total number in 1910 had capital stock of less than $50,000. This expansion in the number of national banks was less, however, than the expansion in the number of State banks, for during the same decade the State banks increased from approximately 5,000 to more than 14,000, or by more than 180 per cent. The aggregate resources of State banks also increased during the decade more rapidly than those of the national banks. (See Charts 1 and 2 and Table I of the appendix.)

In 1905 the Comptroller of the Currency also recommended raising the limit on individual loans from 10 per cent of the paid-in capital to 10 per cent of the capital and surplus. An amendment to the National Bank Act was approved on June 22, 1906, changing the limitation on individual loans as suggested to 10 per cent of capital and surplus, provided the total should not exceed 30 per cent of the capital.(1)

State banks continued to grow more rapidly, however, both in number and in resources, than the national banks. From 1906 to 1913 the State banks increased 65 per cent in number and 46 per cent in resources; while the national banks increased 24 per cent in number and 42 per cent in resources.

Indirect Methods of Meeting State Bank Competition

The most important matters in which State banking laws were more liberal than the National Bank Act were not the subject of significant Federal legislation prior to the passage of the Federal Reserve Act; and in most instances the State banks, even after the amendment to the National Bank Act in 1900, still had much lower capital requirements than national banks.

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(1) Annual Report of the Comptroller of the Currency, 1905, pp. 62-63; 1906, p. 63.

Some of the important powers possessed by State banks but not by national banks during this period were the ability to make loans on real estate, the more liberal provisions regarding loans to single borrowers, the right to engage in fiduciary business, and to purchase or deal in corporate stocks. The State banks were also subject to less stringent examinations and supervision than the national banks. To some extent these apparent advantages of the State banks were overcome through the affiliation of many national banks with State banks and trust companies. This enabled them to compete successfully with rival State institutions without technically violating the provisions of the National Bank Act.

One of the most common means employed was for a national bank and a State bank or trust company to have identical stockholders, or at least for the control of both institutions to be in the hands of the same stockholders. Directorates of many national and State institutions were interlocked. Prior to the Clayton Act, passed in 1914 and effective in 1916, interlocking was not limited by law in the case of national banks. It was also possible for the stockholders of a national bank to organize a State bank or trust company, which could then purchase and own a controlling interest in the national bank. Affiliated commercial banks, trust companies, and savings banks were thus placed adjacent or close to national banks, and frequently it was a matter of common knowledge that they were operating in cooperation.

In the larger cities, such as New York, a common device was to enter into trustee arrangements whereby the stock of an affiliated company was made inseparable from the stock of the national bank. A leading example of the use of this device occurred in 1908 when the First National Bank of New York organized an affiliate, the First Security Company. Three years later, the National City Bank followed by the establishment of the National City Company.

By these and other methods, national banks, State banks, trust companies, and security and real estate corporations chartered under State laws were bound together either directly or indirectly in one community of interest. While the establishment of such relations did not make it possible to bring all operations of the various institutions under one charter, it did release the national banks from turning over business to a competitor, for it enabled them to refer the things they could not do to an affiliate chartered under State laws. Inequalities in powers between national and State institutions were thus rendered of less consequence, particularly to banks in large cities, and the various advantages of each type of institution inured to the benefit of the same group of stockholders.

The Dual Banking System in 1913

It is evident from the foregoing discussion that the developments after 1880 nullified the intention of the framers of the National Bank Act that this legislation should develop a uniform, united, nation-wide system of commercial banking. Early experience in the development of the national bank system seemed to indicate that this would be the result, but the rapid growth of State banks after 1880 and the extraordinary development of trust companies after 1900 turned the tide in the opposite direction.

During the period from 1880 to 1913 the number of State banks and trust companies increased from about 650 to 16,841, while national banks increased from 2,076 to 7,467. Thus the number of State institutions was multiplied by twenty-six and that of national banks by three and a half. In 1880 there were only about one-third as many State as national banks, with only about a fourth of the resources. By 1913, when the Federal Reserve Act was under consideration, the number of State banks was more than twice as great as the number of national banks, and the aggregate resources of the State banks were nearly as great as the aggregate resources of national banks. Instead of a single system of banking, there was a dual system, with the State chartered part of the system gaining in scope and power.

CHAPTER II

THE DUAL SYSTEM SINCE THE PASSAGE OF THE FEDERAL RESERVE ACT

There had been agitation for banking reform in the United States for many years prior to 1913. This agitation was concerned principally with the need for an elastic currency, central banking facilities, the development of a discount market, the abolition of the independent treasury system, and the introduction of improved methods of clearing and collecting checks. It was recognized that the dual system of independent unit banks, chartered and supervised in part by the Federal Government and in part by the various State governments, complicated the problem of providing the much-needed banking reforms; but apparently it was not fully realized by the proponents of new legislation to what extent the competition between national and State banks would influence the formulation of measures for banking reform or the operation of those finally adopted.

Adoption of the Federal Reserve Act

Some of the early proposals, such as the Baltimore plan presented before the American Bankers Association in 1894, the plan for an asset-secured currency fostered by the Indianapolis Monetary Commission of 1897 and 1898, and the Fowler bill of 1908, included only national banks in their scope. In the Muhleman plan for a central bank, however, and in the Warburg plan for a united reserve bank, no distinctions were made between State and national banks.[1]

As these and other plans for banking reform were discussed, it came to be realized that it would be necessary to secure the cooperation of the State banks if an adequate and unified banking system was to be developed. However, neither in the Aldrich-Vreeland Act of 1908 which reflected the influence of the reform movement nor in the original form of the Aldrich plan submitted in January, 1911, by its chairman to the National Monetary Commission was provision made for the participation of State banks. The reason for this omission in the former case was the emergency character of the legislation, and in the latter case, the uncertainty as to what recommendations to make. But in the revised form of the Aldrich plan and in the final report of the National Monetary Commission, it was contemplated that State banks and trust companies be permitted to become members of the proposed National Reserve Association, provided they conformed to requirements in respect to capitalization, reserves, examinations, and reports similar to those imposed on national banks.

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(1) The details of these various plans may be found in the following publications:

Maurice L. Muhleman, "A Plan for a Central Bank," Banking Law Journal, Vol. 26, pp. 805-810, 883-890, and Vol. 27, pp. 13-20, 119-126, 211-219; and Monetary and Banking Systems.

Charles S. Tippetts, State Banks and the Federal Reserve System, ch. 2.

Paul M. Warburg, "A Plan for a Modified Central Bank," and "A United Reserve Bank of the United States," Essays on Banking Reform in the United States, Proceedings of the Academy of Political Science, July, 1914, Vol. IV, No. 4, p. 75; and The Federal Reserve System, Vol. I, ch. III; Vol. II, pp. 117-161.

Report of the Monetary Commission of the Indianapolis Convention, Chicago, 1898.

The National Monetary Commission also recommended that national banks be permitted to make loans secured by real estate up to 50 per cent of the value of the real estate and to a maximum of 30 per cent of time deposits.(1)

Supporters of the proposals of the National Monetary Commission believed that the advantages of membership in the National Reserve Association would be so great that State banks would be induced to join the association. Professor J. Laurence Laughlin, chairman of the National Citizens' League for the Promotion of a Sound Banking System, stated this point of view as follows:(2)

> "In fact, it is one of the best features of the National Reserve plan that it would tend to unify the state and national banking systems. With a definite pattern afforded by federal legislation, with which the state banks were willing to comply in order that they might be placed upon terms of equality in competing with national banks, it may be expected that progress toward uniformity in banking legislation throughout the country would be much more rapid than ever before. This uniformity would be exceedingly desirable, since it would take away the possibility of evading legal provisions. At the same time it would prevent the transaction of undesirable forms of business that are sometimes undertaken by banks as a result of their being 'played off' against one another by designing borrowers.
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> "This tendency would be to segregate and harmonize into one general group all the commercial banks of the country whether organized under state or national laws. Those that did not choose to conform to the requirements laid down in the legislation, with respect to reserves, kinds of business done, etc., would remain out of the National Reserve Association and would at once be recognized as belonging to quite a different class of banking institutions. They would exercise in their way as good and as effective a function as that performed by the banks, whether state or national, that had brought themselves into conformity with the provisions of the proposed reform, but their position in the community and the rules of their action would be quite different. They would be set apart, not as being state institutions, the line of distinction drawn at present, but as being institutions properly classed as not strictly banks in the proper sense of the term."

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(1) Report of the National Monetary Commission, Publications of National Monetary Commission.

(2) J. Laurence Laughlin, Banking Reform, (Chicago, 1912), pp. 276-277.

As finally passed, the Federal Reserve Act permitted State banks to become members of the Federal reserve system on certain conditions, the more important of which may be summarized as follows:

1. A State bank applicant must have a paid-up, unimpaired capital sufficient to entitle it to become a national bank in the place where situated.

2. Should conform to laws governing national banks in respect to the limitation of credit to be granted to any single person, firm, or corporation.(1)

3. Must conform to the reserve requirements of national banks.

4. Must not purchase or loan on its own stock, reduce or impair its capital, or pay unearned dividends.

5. Must submit to examinations and reports required by the comptroller or by the reserve bank, but the Federal Reserve Board might authorize substitution of State examinations or reports.(1)

6. Must conform to such regulations as the Federal Reserve Board might require for admission to membership.

7. State member bank officers and employees to be subject to the same penalties and punishments for crime as those of national banks.

The competition between State and national banks was reflected not only in these provisions regarding State bank participation in the central banking facilities, but also in numerous proposals for liberalizing the powers of national banks. It was desired to make membership attractive to the State banks, but it was realized that this would not be possible if they were as strictly limited in their powers as national banks had been. On the other hand, it was also realized that national banks might consider the compulsory feature of membership onerous, especially in view of the broader powers of State banks, and that there might be a tendency to convert from national to

(1) Subsequently modified.

State banks. This was all the more to be feared, because to the competitive advantages which State banks had enjoyed for many years was now added the privilege of optional membership in the Federal reserve system. It is probable also that the prospect of extensive revision of the national banking laws was made the occasion for the exertion of pressure on the part of national banks desiring broader powers. Under these conditions, important changes were made in the National Bank Act, enlarging the powers of national banks. These new powers were briefly as follows:

1. To receive time deposits subject to a reserve of only 5 per cent, as compared with 12, 15, or 18 per cent on demand deposits.(1)

2. With the exception of banks in central reserve cities, to make loans, for a maximum period of five years, on improved and unencumbered farm land situated within its Federal reserve district, up to 50 per cent of its actual value and to an aggregate amount of 25 per cent of capital and surplus or to one-third of time deposits.

3. To exercise, with the permission and under the regulations of the Federal Reserve Board, fiduciary powers as executors, trustees, administrators, and registrars of stocks and bonds.

4. With the special permission of the Federal Reserve Board to establish, in the case of banks with a minimum capital and surplus of $1,000,000, branches in foreign countries or in the dependencies of the United States.

These provisions by no means gave to the national banks all of the powers possessed by State banks. Unless the Federal Reserve Board set more strict standards than those specified in the act, State banks which chose to become members of the system still had broader lending and investing powers, more extensive fiduciary powers, and in many States the privilege of operating branches. State banks not choosing to join the Federal reserve system still

(1) Subsequently modified.

possessed in most States lower capital requirements, were subject to less stringent supervision, and had power to extend a larger volume of loans to particular interests.

Nevertheless, as a result of the play of competitive forces in the dual banking system, national banks were released to a considerable degree from the strict standards of commercial banking which had previously prevailed; and the movement toward "omnibus banking,"(1) already well under way in the State systems, spread into the national system. The most significant aspect of these changes is that "omnibus banking" was not advocated as sound or as a desirable innovation, but on the ground of the expediency of expanding the national banking system and of strengthening the competitive position of national banks.

State Bank Membership in the Federal Reserve System

The Federal Reserve Board began to give consideration to the conditions of State bank membership soon after its organization. In its first report, at the end of the year 1914, it stated:(2)

> "From the opening of the new banks, the Federal Reserve Board has been keenly anxious to settle the conditions upon which State banks may be admitted into the system. The Federal reserve act especially provides for such admission, and it has been supposed in many quarters that the process of admission would involve few difficulties. Investigation has shown that owing to the differences in State laws, the comprehensive character of the charters enjoyed by some State banks, and the complex conditions of competition between such institutions and their national competitors, the determination of these conditions was far from being easy if an equitable adjustment was to be found."

(1) The term "omnibus banking" is used here to mean the carrying on of varied types of financial activities, such as the receipt of demand deposits and of time deposits, the making of commercial loans, the investment of funds in bonds and "capital loans," the exercise of fiduciary services, and the dealing in securities by the same institution without the segregation of assets. It is thus to be contrasted not only with pure commercial banking, but also with the "departmental" banking in California and with affiliation of separate corporations carrying on, separately, these various activities.

(2) First Annual Report of the Federal Reserve Board, 1914, p. 20.

Six months later the Federal Reserve Board expressed its hope that a unified system of banking would develop through the Federal reserve system, and announced the conditions under which State institutions would be admitted to membership.(1)

> "A unified banking system, embracing in its membership the well-managed banks of the country, small and large, State and National, is the aim of the Federal reserve act. There can be but one American credit system of nation-wide extent, and it will fall short of satisfying the business judgment and expectation of the country and fail of attaining its full potentialities if it rests upon an incomplete foundation and leaves out of its membership any considerable part of the banking strength of the country. . . . "

In accordance with the attitude taken in this announcement, the regulations issued by the board provided for the admission of State banks to membership with few if any significant requirements other than those expressly stated in the Federal Reserve Act. The board declared that in passing on an application for membership it would consider the financial condition of the applying bank or trust company, the general character of its management, and whether the nature of the powers exercised by the bank or trust company and its charter provisions were consistent with the proper conduct of the business of banking and with membership in the Federal reserve system. It stated, however, that subject to such requirements as might be embodied in the certificate of approval, or in regulations of the Federal Reserve Board, and those contained in the Federal Reserve Act, every State bank or trust company while a member of the Federal reserve system would retain its full charter and statutory rights and could continue to exercise the same functions as before admission.

While the board thus retained the right to issue further regulations binding upon the conduct of State member as well as national banks, the only

(1) Federal Reserve Bulletin, July 1, 1915, p. 145.

regulations actually laid down as a condition of membership were of a general character. They referred to such matters as sufficient limitations on real estate loans or mortgages to avoid the impairment of the bank's liquid condition, the adjustment within a reasonable time of loans in excess of the limitations imposed by the act, and the maintenance of the standard of banking embodied in the certificate of approval. The board further announced that State member banks would be permitted to withdraw upon twelve months' notice;[1] that its examiners would cooperate wherever possible with State examiners; and that the State examinations would, when satisfactory, be accepted in lieu of its own examinations.

The Federal Reserve Board thus extended to State banks very liberal terms of admission. Nevertheless, the State banks still hesitated about applying for membership. They were apprehensive regarding the possibility of changes in the attitude of the Federal Reserve Board and the issuance later of more stringent regulations. The necessity of limiting loans to individuals to 10 per cent of capital and surplus, or 30 per cent of paid-up capital, was also considered unduly restrictive. Moreover, the Clayton Act, which was approved on October 15, 1914, sharply limited interlocking directorates among banks organized or operating under the laws of the United States, and it was feared that banks joining the Federal reserve system would be considered by the courts to be "operating under the laws of the United States," which might seriously interfere with existing affiliations.

As a result of these conditions State banks and trust companies continued generally to hold aloof from the Federal reserve system. By June, 1917,

(1) By Act of June 21, 1917, this was changed to six months' notice, which by Act of April 17, 1930, the Federal Reserve Board was empowered to waive.

only 53 State institutions had joined,(1) although a few additional ones had come into the system by converting to national banks. The number which were eligible for membership, on the basis of capital stock, was approximately 8,500 so that only about 0.6 per cent had taken advantage of the privileges accorded to State member banks.

W. P. G. Harding, Governor of the Federal Reserve Board, and Frederic A. Delano, one of its members, met with the executive committee of the State bank section of the American Bankers Association, and reached an agreement regarding amendments to the Federal Reserve Act, including several relating to State bank membership.(2) The amendments were submitted to Congress and, because of the war emergency, were expedited and became law on June 21, 1917.

Most of the provisions in the 1917 amendment dealing with State bank membership followed the spirit of the regulations issued by the board in 1915, which they extended. State bank members were permitted to withdraw from membership on six months' written notice to the Federal Reserve Board. They retained their full charter and statutory rights subject to the restrictions of the Federal Reserve Act and regulations of the board relative thereto. Their examination and supervision were delegated to the Federal reserve banks and board, which, in turn, were authorized to accept reports and examinations from State supervising authorities in lieu of those of their own examiners. Furthermore, State member banks were relieved of the restrictions upon national banks as to the amount which could be loaned to one person, firm, or corporation, subject to the restriction that no paper of a borrower indebted to the State

(1) Fifth Annual Report of the Federal Reserve Board, 1918, p. 25.

(2) American Bankers Association, Proceedings of the Forty-third Annual Convention, 1917, p. 672.

bank in excess of these limits could be rediscounted at the Federal reserve banks.

Prior to 1917, the reserves required of member banks were lower than those formerly required of national banks, and lower than those required in many States of State banks. When financial resources were being marshalled for war purposes in 1917, the reserve requirements of all member banks were reduced: on time deposits, from 5 to 3 per cent; on demand deposits of banks not in reserve or central reserve cities, from 12 to 7 per cent; on demand deposits in reserve cities, from 15 to 10 per cent; and on demand deposits in central reserve cities, from 18 to 13 per cent. The whole of these reserves, however, was to consist of non-interest bearing balances with the Federal reserve banks, vault cash resuirements being discontinued.

The 1917 amendments also clarified the position of member banks with respect to the provisions of the Clayton Act, since it was expressly declared that they should retain their full charter and statutory powers, subject only to the provisions of the amended Federal Reserve Act and the regulations of the board pursuant thereto.

After the United States had entered the World War, a special appeal was made to the State banks to join the system on the grounds of patriotism and the desirability of mobilizing the banking resources of the entire country for purposes of war finance.(1) The number of State members increased from 53 on June 21, 1917, to 936 on December 31, 1918.(2)

Extension of National Bank Powers, 1916-1922

The Federal Reserve Act as passed in 1913, the regulation of the Federal Reserve Board issued in 1915, and the amendments to the Federal Reserve

(1) Fourth Annual Report of the Federal Reserve Board, 1917, p. 9.
(2) Fifth Annual Report of the Federal Reserve Board, 1918, pp. 25, 26.

Act made in 1917, placed the State member banks in an apparently preferred position in the banking structure of the nation. They had all the privileges and advantages of membership in the Federal reserve system, and they also had, in most States, powers much more extensive than those of national banks.

A series of amendments to the Federal Reserve and National Bank Acts during the years from 1916 to 1922 broadened the powers of national banks.(1) The first of these amendments was passed on September 7, 1916. This amendment empowered national banks to cross Federal reserve district lines in making loans on farm land, provided such land is within 100 miles of the location of the bank. It also provided for loans, for one year only, on other improved and unencumbered real estate within 100 miles of the location of the bank. It provided further that national banks in places not exceeding 5,000 population might be authorized by the Comptroller of the Currency to act as insurance agents and as brokers or agents in making loans on real estate located within 100 miles of the bank.

The Senate Committee on Banking and Currency, in reporting these amendments, also recommended that national banks, with certain restrictions, be permitted to open not more than 10 branches within the city or county or within twenty-five miles of the parent bank. This recommendation, like the previous recommendations of the Comptrollers of the Currency and others as to branch banking, was not adopted by Congress.

Another amendment to the Federal Reserve Act for the purpose of enabling national banks more effectively to compete with State member banks was passed on September 26, 1918. This amendment provided specifically that

(1) There was a large number of amendments to both of these acts during the years 1916 to 1922. Only such amendments as directly affected the competitive position of national and State banks are mentioned here.

national banks, under special permission from the Federal Reserve Board, might engage in any kind of fiduciary activity which State banks, trust companies, or other corporations coming into competition with national banks were permitted to undertake under State law.

There were also amendments liberalizing the limitation on loans by national banks to a single interest. One was enacted September 24, 1918, and another October 22, 1919. An amendment designed to enlarge the powers of national banks in order that they might compete more effectively with State banks was passed on July 1, 1922. This legislation provided for the extension of the charters of all existing national banks for a period of 99 years from that date and for the organization of new banks with charters running 99 years from date of organization. The purpose of this act was not only to obviate the formalities required in extending charters for another period of 20 years, but also to enable national banks to undertake trusts and other fiduciary activities which might extend beyond the date of the limitation of national bank charters.

The McFadden Act of 1927

During the years from 1923 to 1926, inclusive, there were no important changes either in the Federal Reserve Act or the National Bank Act bearing on the problem of competition between the national and State bank systems. This lull in legislation was not, however, because powers had been so equalized that there was satisfaction on the part of bankers and the public regarding the situation. State institutions had felt adversely the results of the concessions made to national banks by Congress.

But the principal subject of controversial discussion during this period was branch banking. The Federal Reserve Board, in a regulation issued on November 7, 1923,(1) and in a ruling of April 7, 1924,(2) declared that State member banks must have the approval of the board in opening additional branches, and stipulated as a general principle that new branches should be restricted to the city or adjacent territory of the parent institution. The State banks contended, however, that this contravened the guarantee in the amendments to the Federal Reserve Act of 1917 that State banks joining the system would retain all of their charter and statutory powers. They argued that the guarantees of the board and of Congress had not been kept, and that State banks could not continue their membership in the Federal reserve system in the face of regulations which violated the conditions under which they had entered.

Among national banks there was still dissatisfaction, despite the broadening of their powers in the Federal Reserve Act and the subsequent amendments to that act and to the National Bank Act. Even these new powers did not give national banks all the advantages of the State member banks, the most serious difficulty being their inability to open branches. The Comptroller of the Currency had attempted in 1922 to mitigate this prohibition by permitting national banks to open additional offices in the home office city referred to as "teller's windows" at which only routine business, such as the receipt of deposits and the cashing of checks, was transacted. These were permitted only in States where State banks were permitted branches. This policy was continued in subsequent years, in the face of considerable opposition, but failed to meet the demand for the privilege of branch banking.

(1) <u>Federal</u> <u>Reserve</u> <u>Bulletin</u>, December, 1923, p. 1256.
(2) <u>Ibid</u>., September, 1924, p. 716.

As a result of this demand from national banks, and of the other disabilities which they still suffered in comparison with State banks, the McFadden bill was introduced into Congress in 1924. It was intended to equalize competitive conditions between national and State banks. This was recognized by both its supporters and its opponents, and explains the fact that debate over its various measures was bitter and its passage delayed until February 25, 1927.(1) The chief conflict developed over branch banking. While it was evident that the national banks would have to be given at least limited branch banking powers, there was a violent conflict over the precise character of these powers.(2) As passed, the chief provisions of the act were as follows:

1. National banks were authorized to establish new branches within the city or town in which the bank was located, in those States in which State banks had the power to establish branches. However, no branch could be opened in cities of less than 25,000 population, only one if the city had between 25,000 and 50,000 population, and only two if the city had between 50,000 and 100,000 population, while in cities of more than 100,000 population the comptroller could limit the number of branches.

2. A national bank was authorized to retain all its branches in lawful operation prior to the passage of the act, and if subsequently a national bank consolidated with another bank, either national or State, all the branches of both institutions which had been in lawful operation at the date of approval of the act could be retained, but their location could be changed only with the consent of the Comptroller of the Currency.

3. State member banks were governed by the same restrictions as national banks in respect to new branches and those in operation at the date of the passage of the act, and State banks joining the system could not retain out-of-town branches established after the date of the approval of the act.

4. National banks were given indeterminate instead of 99-year charters.

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(1) Public No. 639.

(2) This conflict has been described in another section of the report of the Committee on Branch, Group, and Chain Banking. See <u>Branch Banking in the United States</u>, pp. 121-154.

5. The power of national banks to make loans on the security of real estate was broadened materially.

6. The limitation on loans to one interest was again relaxed. The most important change allows a national bank to advance larger amounts to one borrower when his obligation is secured by certain documents of title.

7. The capital required for the organization of national banks in outlying districts of large cities was reduced.

8. National banks were given legal sanction to the practice of merchandising bonds by regulating and limiting their purchase and sale of evidences of indebtedness.

9. National banks were authorized to invest up to 15 per cent of their capital and surplus in the stock of State corporations engaged in the safe deposit business.

10. National banks were empowered to issue their stock in less than $100 denominations and to issue stock dividends.

11. State banks were authorized to consolidate directly with national banks without, as formerly, being required first to convert into national banks.

A later amendment, June 25, 1930, authorizes national banks in which public funds of any State or any political subdivision thereof are deposited to give security for such deposits in the form required by State law.(1) This merely gave legal sanction to a practice of long standing.

Even these extensions of power, however, did not give the national banks all the powers enjoyed by many of the State banking institutions. State member banks and trust companies in many States still had advantages in respect to the making of real estate loans, the ownership of corporate stocks, the amount which could be loaned to one borrower, exemption from the Clayton Act prohibition upon interlocking directorates, the ability to withdraw from the Federal reserve system on six months' notice,(2) and in many States, to less

(1) Public No. 431.

(2) In practice national banks can withdraw from the Federal reserve system without any notice whatever, merely by conversion to State charter. But this means, of course, that by so doing they also lose their membership in the national system.

rigorous examinations and control. State banks and trust companies which were not members of the system still retained certain advantages which they possessed over both the State member banks and the national banks, and in particular were now the only class of banks which could open branches (in those States permitting them) in places outside of the town or city in which the main office was located.

Furthermore the decision of the Supreme Court in the case of the Worcester County National Bank on May 13, 1929 was somewhat disturbing to national banks. In that decision, it was held that a national bank absorbing a trust company could not succeed to the trust business under the Massachusetts State law without obtaining, in so far as such trusts were subject to the approval of the court, a reappointment by the court for each trust. This decision, a reaffirmation by the United States Supreme Court of judgments handed down by the probate court of Worcester County, and the Supreme Judicial Court of Massachusetts, thus added uncertainty to the powers of succession of national banks to trusts held by a State bank or trust company, in case a merger should be consummated.(1)

Par Clearance of Checks

After the passage of the Federal Reserve Act measures were initiated for the development of a system of universal par clearance, so that any check drawn upon a commercial bank in the United States would be paid without discount upon presentation.

The Federal Reserve Board first made the par collection of checks optional, but subsequently the Federal reserve banks in some instances resorted

(1) See ch. VI of this report.

to the device of presenting over the counter checks drawn on banks which failed to remit in full. Many of the smaller banks of the South and West had derived a considerable portion of their income from the remittance and collection charges which they deducted from payments of checks drawn by their own depositors and presented for payment through the mail. The practice of presenting checks over the counter, therefore, aroused the resentment of these banks. In eight States the opposition of the State banks to par remittance resulted in legislation during 1920 and 1921 expressly legalizing the practice of making exchange charges. The attitude of the State banks was also expressed in litigation directed against the Federal reserve banks.(1)

Partly as a consequence of such legislation and litigation, the pressure of the Federal Reserve Board and the Federal reserve banks to bring all the banks of the country into the par clearance system has been withdrawn. In 1920 par clearance had been extended to all but 1,755 banks, or less than 6 per cent of the banks in the country.(2) In July, 1932, there were 3,108 banks which were not on the par list, as compared with 6,947 member banks and 8,448 nonmember banks clearing through the Federal reserve banks at par.(3) At present checks on only about 84 per cent of the banks are collected through the Federal reserve par clearance system. The banking system is therefore still far from unified in this phase of banking operations.

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(1) Annual Reports of the Federal Reserve Board, 1920, pp. 64-65, 327-334; 1921, pp. 68-72, 357-358.
(2) Ibid., 1924, p. 106.
(3) Federal Reserve Bulletin, Vol. XVIII, September, 1932, p. 608.

Relative Strength of Member and Nonmember Banking Systems, 1913-1931

The period since 1913 has been characterized by constant conflict of interest between the three classes of banks operating in each State: national banks, member State banks, and nonmember banks. National banks have sought powers similar to those of State institutions, which, in many States, operate under more liberal laws. They have especially felt the need of obtaining powers similar to those enjoyed by member State banks. State banks at the same time have opposed the extension of the powers of national banks in some directions.

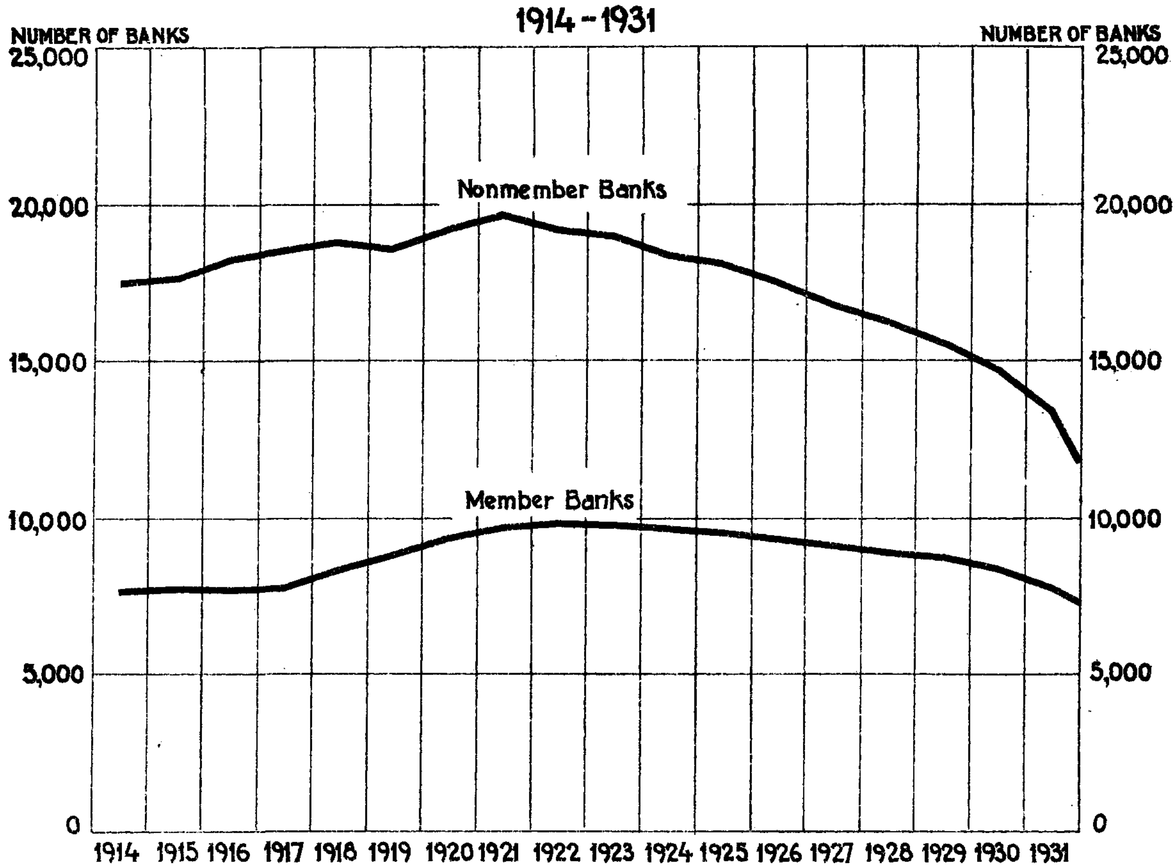
This rivalry between the State systems and the national system has resulted in the exact opposite of the unification intended by the advocates of banking reform in the early years of the century. Under the prevailing conditions the Federal Government has found it impossible to formulate and maintain any consistent banking policy of its own. Since 1913, in fact, the majority of important changes in the Federal law have been made in an effort to place national banks in a position to meet the competition of institutions operating under the less exacting requirements of some of the States, or to induce State banks to become members of the Federal reserve system. The standards of commercial banking practice formerly required in the national system have been relaxed, and the whole banking structure has suffered the consequences.

Yet in spite of all the so-called "liberalization" of the powers and privileges of national banks which has occurred since 1913, national banks have continued to grow less rapidly in number and resources than the State chartered banking institutions. The resources of national banks in 1931 were two and one-half times as great as those in 1913, while the resources of State banks in 1931 were three times as great as those in 1913. Although many more State banks than national banks had suspended during this interval, State banks at the beginning of 1932 were still more than twice as numerous as national banks; and the aggregate resources of State banks, which in 1913 had been slightly less than those of national banks, on June 30, 1931, surpassed the resources of national banks by 12 per cent. (See Charts 1 and 2.)

Unification has been somewhat more nearly approximated by membership in the Federal reserve system, for some State banks have become members of the reserve system. On June 30, 1931, the loans and investments of all member banks amounted to $33,923,000,000 as compared with $10,534,000,000 for all nonmember commercial institutions. But the unification of the banking structure achieved in this manner is more apparent than real. On the above date Federal reserve membership was made up of 6,800 national banks and only 982 State banks, while 13,341 State banks remained outside the system. Furthermore, all membership in the Federal reserve system is in effect voluntary, since national banks can leave the system by conversion to State charter and member State banks can withdraw by giving notice. Chart 3 and Table 1 show the number of member and nonmember banks from 1914 through 1931, and Chart 4 and Table 2 show the loans and investments of these banks from 1914 through 1931.

CHART 3

NUMBER OF MEMBER AND NONMEMBER BANKS
1914-1931



Nonmember banks do not include private banks or mutual savings banks. Figures are as of June 30 each year and December 31, 1931.

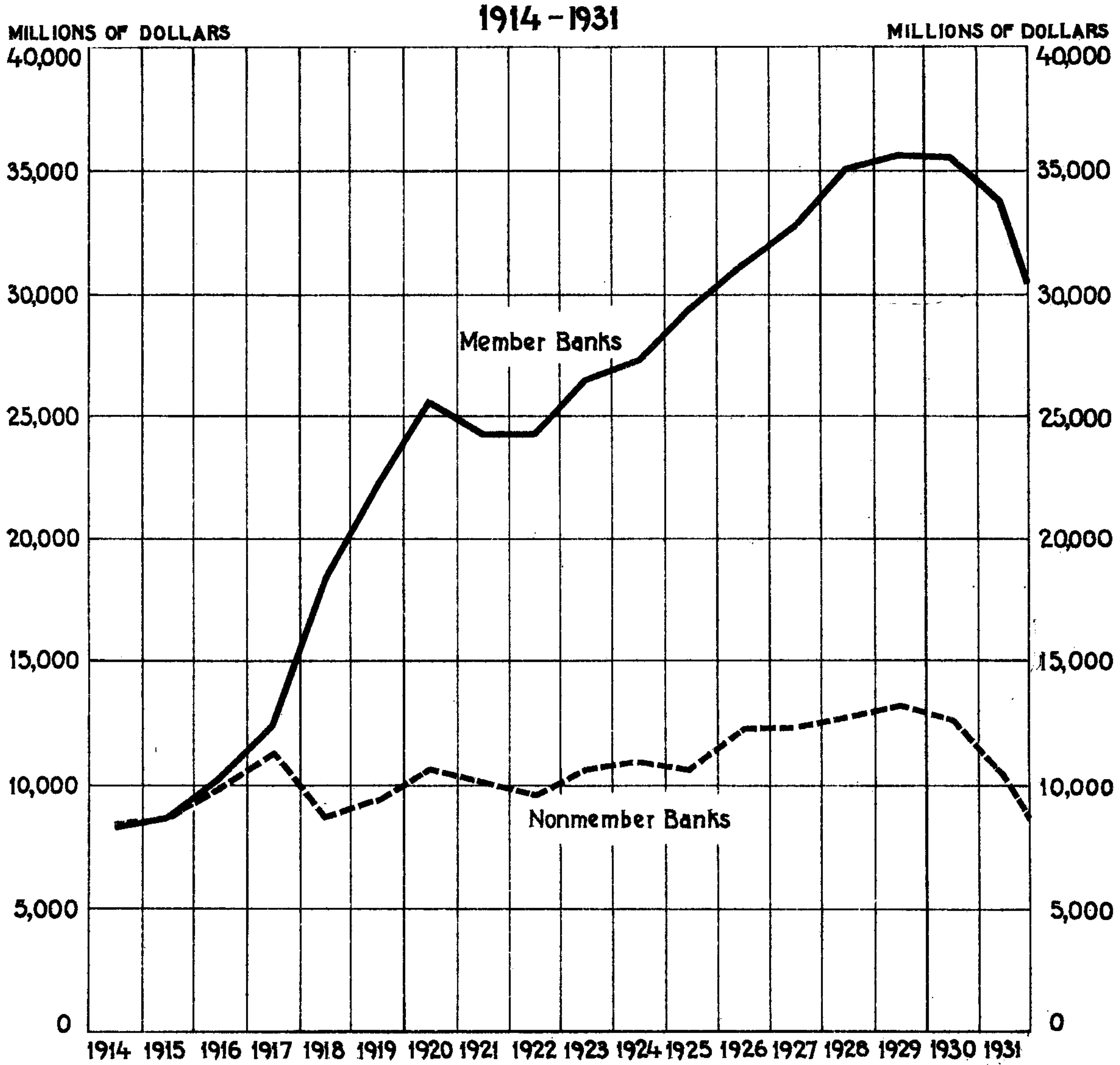
Table 1 - Number of Banks in the United States, Exclusive of Mutual Savings Banks and Private Banks[1]
1914-1931

Date (June)	Member banks			Nonmember State banks (exclusive of mutual savings and private banks)	All State banks	All State and national banks
	State	National	Total			
1914	-	7,518	7,518	17,498	17,498	25,016
1915	17	7,597	7,614	17,731	17,748	25,345
1916	34	7,571	7,605	18,219	18,253	25,824
1917	53	7,599	7,652	18,657	18,710	26,309
1918	513	7,699	8,212	18,891	19,404	27,103
1919	1,042	7,779	8,821	18,604	19,646	27,425
1920	1,374	8,024	9,398	19,261	20,635	28,659
1921	1,595	8,150	9,745	19,672	21,267	29,417
1922	1,648	8,244	9,892	19,141	20,789	29,033
1923	1,620	8,236	9,856	19,034	20,654	28,890
1924	1,570	8,080	9,650	18,458	20,028	28,108
1925	1,472	8,066	9,538	18,101	19,573	27,639
1926	1,403	7,972	9,375	17,591	18,994	26,966
1927	1,309	7,790	9,099	16,810	18,119	25,909
1928	1,244	7,685	8,929	16,196	17,440	25,125
1929	1,177	7,530	8,707	15,551	16,728	24,258
1930	1,068	7,247	8,315	14,730	15,798	23,045
1931	982	6,800	7,782	13,341	14,323	21,123
1931 (Dec.)	878	6,368	7,246	11,921	12,799	19,167

(1) Banks in continental United States only. "All State banks," "national banks," and "all State and national banks" were taken from the Comptrollers' abstracts and annual reports, except that for December, 1931, the State bank figures were compiled by the Division of Bank Operations of the Federal Reserve Board from State bank abstracts. State bank members were compiled from Federal Reserve Board abstracts andcall reports, and nonmember banks were derived by deducting member banks from the total of national and State banks.

CHART 4

LOANS AND INVESTMENTS OF BANKS IN THE UNITED STATES
1914 - 1931



Loans and investments of nonmember banks do not include those of private banks or mutual savings banks. Figures are as of June 30 each year and December 31, 1931.

Table 2 - Loans and Investments of Banks in the United States
Exclusive of Mutual Savings Banks and Private Banks
1914-1931(1)

(in millions of dollars)

Date (June)	Member banks			Nonmember State banks (exclusive of mutual savings and private banks)	All State banks	All State and national banks
	State	National	Total			
1914	-	8,313	8,313	8,410	8,410	16,723
1915	76	8,688	8,764	8,582	8,658	17,346
1916	229	10,086	10,315	9,972	10,201	20,287
1917	556	11,897	12,453	11,248	11,804	23,701
1918	4,594	13,913	18,507	8,727	13,321	27,234
1919	6,530	15,712	22,242	9,404	15,934	31,646
1920	8,012	17,547	25,559	10,712	18,724	36,271
1921	8,226	15,895	24,121	10,090	18,316	34,211
1922	8,477	15,705	24,182	9,677	18,154	33,859
1923	9,702	16,805	26,507	10,590	20,292	37,097
1924	10,109	17,058	27,167	10,938	21,047	38,105
1925	11,225	18,293	29,518	11,694	22,919	41,212
1926	12,025	19,159	31,184	12,263	24,288	43,447
1927	12,519	20,237	32,756	12,331	24,850	45,087
1928	12,999	22,062	35,061	12,874	25,873	47,935
1929	14,254	21,457	35,711	13,132	27,386	48,843
1930	13,907	21,749	35,656	12,638	26,545	48,294
1931	13,098	20,825	33,923	10,534	23,632	44,457
1931 (Dec.)	11,481	19,094	30,575	8,600	20,081	39,175

(1) See note, Table 1.

Table 3 gives by size groups the number of commercial banks, both national and State, within and without the Federal reserve system in 1920 and in 1930.

Table 3 - Membership in the Federal Reserve System, June 30, 1920 and 1930, by Size Groups

Size group loans and investments	Number of banks(1) 1920 Members(2)	1920 Nonmembers	1930 Members(2)	1930 Nonmembers	Percentage of total number that were members 1920	1930
Under $500,000	3,591	15,048	2,913	10,402	19.3	21.9
500,000 - 2,000,000	4,094	3,630	3,418	3,096	53.0	52.5
2,000,000 - 10,000,000	1,339	742	1,567	915	64.3	63.1
10,000,000 - 50,000,000	305	64	326	128	82.7	71.8
50,000,000 and over	69	3	91	10	95.8	90.1
Total	9,398	19,487	8,315	14,551	32.5	36.4

(1) The 1920 figures include 386 banks in Illinois which were classed as private banks on June 30 of that year, but which had nearly all been converted to State banks by the end of the year in compliance with a law prohibiting the operation of private banks after January 1, 1921.
In classifying active State 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 totals given here differ somewhat from similar figures elsewhere in this report and in the reports of the Comptroller of the Currency. The State bank figures used were either supplied by the State banking departments or compiled from their published reports.

(2) National and State.

Only a third of all the commercial banks in the nation were members of the Federal reserve system in 1920, and the percentage was not very much larger in 1930. The proportion of members among the large banks was very high in 1930 though not so high as 10 years earlier. There were 138 nonmembers out of a total of 555 with over $10,000,000 of loans and investments in 1930, as compared with only 67 out of 441 in 1920.

Table 4 gives by size groups the aggregate loans and investments of member and nonmember banks in 1920 and in 1930.

Table 4 - Loans and Investments of Member and Nonmember Banks (of the Federal Reserve System), June 30, 1920 and 1930, by Size Groups

Size group loans and investments	Aggregate loans and investments(1) (000,000 omitted)				Percentage of the total in the reserve system	
	1920		1930			
	Member(2) banks	Non-member banks	Member(2) banks	Non-member banks	1920	1930
Under $500,000	$ 1,079	$ 3,027	$ 846	$ 2,078	26.3	28.9
500,000 - 2,000,000	4,027	3,253	3,539	2,921	55.3	54.8
2,000,000 - 10,000,000	5,402	2,841	6,402	3,555	65.5	64.3
10,000,000 - 50,000,000	6,183	1,182	6,372	2,459	83.9	72.2
50,000,000 and over	8,868	288	18,497	1,394	96.9	93.0
Total	$25,559	$10,591	$35,656	$12,407	70.7	74.2

(1) See note (1), Table 3.
(2) National and State.

Owing to the fact that most of the larger State banks and trust companies are members of the Federal reserve system while most of the small banks are not, the percentage of the total banking resources embraced within the system is far greater than the percentage of banks within the system. This percentage, which was 70.7 in 1920, increased to 74.2 during the decade from 1920 to 1930. As in the case of the number of banks, however, a larger proportion of the business of the large banks was outside the system in 1930 than ten years earlier.

Table 5 shows the number of State member and nonmember banks and trust companies in 1920 and 1930 by size groups, and the percentage of the total that were members in each of these years.

Table 5 - State Bank and Trust Company Membership in the Federal Reserve System, June 30, 1920 and 1930, by Size Groups

Size group loans and investments	Number of banks(1)				Percentage of State banks that were members	
	1920		1930			
	State members	Non-members	State members	Non-members	1920	1930
Under $500,000	458	15,048	286	10,402	3.0	2.7
500,000 - 2,000,000	495	3,630	363	3,096	12.0	10.5
2,000,000 - 10,000,000	268	742	246	915	26.5	21.2
10,000,000 - 50,000,000	121	64	124	128	65.4	49.2
50,000,000 and over	32	3	49	10	91.4	83.1
Total	1,374	19,487	1,068	14,551	6.6	6.8

(1) See note (1), Table 3.

In all size groups the percentage of the State banks and trust companies which were members of the Federal reserve system declined between 1920 and 1930. Due, however, to changes in the number of banks in the various size groups, the percentage of the total number of State banks and trust companies that are members of the system was almost the same in 1930 as in 1920, that is, 6.8 per cent as compared with 6.6 per cent. Only one State chartered banking institution out of fifteen is a member of the Federal reserve system.

In 1920, 43 per cent of the loans and investments of all State banks and trust companies was within the system, and in 1930, 53 per cent. This is shown in Table 6.

Table 6 - Loans and Investments of Member and Nonmember State Banks (of the Federal Reserve System), June 30, 1920 and 1930, by Size Groups

Size group loans and investments	Aggregate loans and investments(1) (000,000 omitted) 1920 State member banks	1920 Non-member banks	1930 State member banks	1930 Non-member banks	Percentage of the total in State member banks 1920	1930
Under $500,000	$ 137	$ 3,027	$ 77	$ 2,078	4.4	3.6
500,000 - 2,000,000	501	3,253	394	2,921	13.3	11.9
2,000,000 - 10,000,000	1,186	2,841	1,154	3,555	29.5	24.5
10,000,000 - 50,000,000	2,549	1,182	2,556	2,459	68.3	51.0
50,000,000 and over	3,639	288	9,726	1,394	92.7	87.5
Total	$8,012	$10,591	$13,907	$12,407	43.1	52.9

(1) See note (1), Table 3.

Table 7 shows for 1920 and for 1930 the aggregate loans and investments of national banks, member State banks, and nonmember banks grouped by size.

Table 7 - Distribution of Aggregate Loans and Investments of Commercial Banks and Trust Companies, June 30, 1920 and 1930, by Size Groups

Size group loans and investments	Aggregate loans and investments (000,000 omitted) All State and national banks 1920	1930	National banks 1920	1930	Member State banks and trust companies 1920	1930	Nonmember State banks and trust companies 1920	1930
Under $500,000	$4,106	$ 2,924	$ 942	$ 769	$ 137	$ 77	$ 3,027	$ 2,078
500,000 - 2,000,000	7,280	6,460	3,526	3,145	501	394	3,253	2,921
2,000,000 - 10,000,000	8,243	9,957	4,216	5,248	1,186	1,154	2,841	3,555
10,000,000 - 50,000,000	7,365	8,831	3,634	3,816	2,549	2,556	1,182	2,459
50,000,000 and over	9,156	19,891	5,229	8,771	3,639	9,726	288	1,394
Total	$36,15C	$48,063	$17,547	$21,749	$8,012	$13,907	$10,591	$12,407

Table 8 shows the changes during the decade in the loans and investments of the banks in these size groups, both in millions of dollars and in percentages.

Table 8 - Changes in the Aggregate Loans and Investments of Commercial Banks and Trust Companies from 1920 to 1930, by Size Groups

Size group loans and investments	Changes in millions of dollars			Percentage changes		
	National banks	Member State banks and trust companies	Nonmember State banks and trust companies	National banks	Member State banks and trust companies	Nonmember State banks and trust companies
Under $500,000	-174	-60	-949	-18.4	-43.8	-31.4
500,000 - 2,000,000	-381	-107	-332	-10.8	-21.4	-10.2
2,000,000 - 10,000,000	+1,032	-32	+714	+24.5	-2.7	+25.1
10,000,000 - 50,000,000	+182	+7	+1,277	+5.0	+0.3	+108.0
50,000,000 and over	+3,542	+6,087	+1,106	+67.7	+167.3	+384.0
Total	+4,202	+5,895	+1,816	+23.9	+73.6	+17.1

These tables indicate that among banks with less than two million dollars of loans and investments, national, State member, and nonmember State banks all lost banking strength during the decade. Those with national charters have lost less aggregate banking strength than those with State charters. This has resulted principally from the higher suspension rate among State banks. A somewhat different situation exists with respect to banks with from two to ten million dollars of loans and investments. Those with national charters and those with State charters but without Federal reserve membership grew at a moderate rate. Member State banks, on the contrary, lost loans and investments.

The changes among banks with more than fifty million dollars of loans and investments are the most striking. Loans and investments of all three classes of banks grew rapidly during the decade, with those of member State banks and trust companies increasing at a more rapid rate than those of national banks. The nonmember banks and trust companies, however, showed the greatest percentage growth.

Further light on the changes in State bank and trust company membership in the Federal reserve system may be obtained from an examination of the number and resources of State banks and trust companies admitted to and withdrawing from membership. These figures are given in Table 9.

Table 9 - Number and Aggregate Resources of State Banks and Trust Companies Admitted to and Withdrawing from Membership in the Federal Reserve System, 1921-1931(1)

Year	Admitted to membership		Withdrawn from membership		Absorbed by nonmember banks	
	Number	Resources (000 omitted)	Number	Resources (000 omitted)	Number	Resources (000 omitted)
1921	204	$ 224,958	19	$ 10,872	2	$ 3,823
1922	95	280,190	13	24,842	1	3,603
1923	66	137,830	30	139,222	-	-
1924	41	60,771	27	67,081	5	2,406
1925	40	139,865	40	32,340	14	13,768
1926	32	88,379	61	54,215	4	1,163
1927	29	62,876	34	59,141	6	7,042
1928	23	48,445	45	73,429	9	32,996
1929	27	148,130	48	141,385	16	433,733
1930	18	41,109	47	189,564	13	24,930
1931	23	119,126	20	23,461	8	66,822
Total	598	$1,351,679	384	$815,552	78	$590,286

(1) Based on revised data furnished by the Division of Bank Operations, Federal Reserve Board, supplemented by Rand McNally Bankers Directory. Since the Directory figures appear only every six months, resources at time of admission or withdrawal may have differed from those included above in some cases.

The above figures do not give all of the changes in State bank membership since 1920. They do not include changes resulting from bank suspensions, voluntary liquidations, absorptions of member State banks by national banks, conversions of member State banks to national banks, nor changes in member resources due to absorption of nonmember banks by member banks. They embrace only changes where State banks were admitted to or withdrew from the Federal reserve system.

It will be noted that for several years after 1920, the admissions were more numerous than the withdrawals and the absorptions by nonmember banks. Since 1924, however, admissions to membership have been less than the losses on account of withdrawals and absorptions by nonmember banks. The same situation is generally true in respect to resources since 1926.

CHAPTER III

STATE LEGISLATION AND THE DUAL BANKING SYSTEM

Two main opposing trends are apparent in the development of State banking legislation in recent years.(1) On the one hand, the recognition of weaknesses in many State systems, as revealed especially by the numerous failures of banks since 1920, has been followed by attempts to improve banking standards. On the other hand, the States have endeavored to improve the competitive position of their banks and prevent the conversion of their institutions to national banks. Thus the States have attempted to strike a balance between the desirability of strengthening their systems from the viewpoint of safety to depositors, and of increasing the numbers and resources of their banks by making State charters attractive. With forty-eight different States involved, there have been wide variations in the banking standards actually adopted and maintained from time to time.

In a few instances the State laws appear to have become fully as effective as the national laws in the matter of requiring sound banking practices. Moreover, certain extensions of powers and privileges to State banks have resulted in no apparent diminution of safety to depositors. But in the great majority of the States banks have been and still are chartered without adequate capital and other requirements, and various practices are permitted

(1) This brief summary of State banking legislation is based principally upon the following: (1) Digests of particular aspects of State laws made from time to time by counsel of the Federal Reserve Board; (2) Digest made in 1909 by the National Monetary Commission; (3) Replies to questionnaires procured from State banking departments by the twelve Federal reserve banks; and (4) Text of the banking laws of the various States.

which have resulted in lower standards of safety than those prevailing in the national system.

The Opening of New Banks

One of the chief evils of the dual banking system and the accompanying competition for numbers and resources has been manifested in the organization of new banks. Numerous institutions have been chartered which should never have been allowed to commence business. In their subsequent failure lies a large part of the explanation of the deplorable safety record of our banking structure. Charter requirements differ considerably in the several States, and some improvements have been made in recent years; but the status in this respect is still far from satisfactory, especially in view of the competitive situation which prevents the enforcement of more adequate requirements in either the national or the State systems.

Capital Requirements. - It was noted in an earlier chapter that in 1900, when Congress reduced the minimum capitalization of national banks from \$50,000 in places under 6,000 to \$25,000 in places of under 3,000 population, many States permitted banks to organize with only \$10,000 of paid-in capital.

Since then the majority of the States have recognized the evils resulting from the excessive granting of charters during the early years of the century and have taken some measures either legislative or administrative to limit the number of primary organizations. In part this has been accomplished by the adoption of higher capital requirements. A comparison of the laws in force in 1909 indicates that in only about 13 States were the minimum capital requirements as high as the minimum requirements for national banks, and in over half of the States it appears that banks could be organized in small rural communities with $10,000 of capital or less.[1] At present 36 States require a minimum capital of $25,000 or more for institutions doing a commercial banking business, and 8 of these require a minimum of $50,000. In 11 of the other 12 States, however, the requirement still is less than $25,000, varying from $10,000 to $20,000, while in one State no minimum is specified in the law. Table 10 shows the minimum capital requirement for institutions engaged in commercial banking by States around 1909 and in 1932.

Table 10 - Minimum Capital Requirements for Establishment of Institutions Engaged in Commercial Banking, 1909 and 1932[2]

State	Minimum capital requirements	
	1909[3]	1932[4]
Alabama	$ 15,000	$25,000
Arizona	-	25,000
Arkansas	-	25,000
California	25,000	50,000[5]
Colorado	10,000	25,000
Connecticut	-	50,000
Delaware	-	25,000[5]
Florida	15,000	25,000
Georgia	25,000	25,000
Idaho	10,000	25,000[5]
Illinois	25,000	50,000[5]
Indiana	25,000	25,000
Iowa	10,000[6]	25,000
Kansas	10,000	20,000
Kentucky	15,000	15,000
Louisiana	10,000	25,000
Maine[7]	25,000	50,000
Maryland	50,000	25,000
Massachusetts[7]	100,000	50,000
Michigan	20,000	20,000[5]
Minnesota	10,000	10,000[5][8]
Mississippi	10,000	25,000
Missouri	10,000	15,000
Montana	20,000	25,000[5]
Nebraska	10,000	25,000
Nevada	10,000	50,000[5]
New Hampshire	-	25,000

(1) Samuel A. Welldon, Digest of State Banking Statutes, Publications of the National Monetary Commission, Vol. III.

Table 10 - Minimum Capital Requirements for Establishment of Institutions Engaged in Commercial Banking, 1909 and 1932(2) (Continued)

State	Minimum capital requirements	
	1909(3)	1932(4)
New Jersey	$50,000	$50,000
New Mexico	30,000	25,000(5)
New York	25,000	25,000
North Carolina	5,000	25,000
North Dakota	10,000	15,000(5)
Ohio	25,000	25,000(5)
Oklahoma	10,000	10,000
Oregon	10,000	25,000
Pennsylvania	25,000	25,000
Rhode Island	-	-
South Carolina	-	10,000(5)(9)
South Dakota	10,000	15,000(5)
Tennessee	-	20,000
Texas	10,000	17,500
Utah	10,000	25,000(5)
Vermont(7)	-	25,000
Virginia	10,000	50,000
Washington	10,000	15,000(5)
West Virginia	25,000	25,000
Wisconsin	10,000	25,000
Wyoming	10,000	25,000(5)

(2) These minimum requirements do not apply necessarily to all cities and towns, but in many cases only to the smallest communities.

(3) Source: Samuel A. Welldon, Digest of State Banking Statutes.

(4) Text of various State laws and data supplied by State banking departments. In a very few cases where data for 1932 were not available, data for the latest available year preceding were used.

(5) In addition, banks in these States must have a paid-in surplus of from 10 to 100 per cent of capital before they may open for business.

(6) Savings banks doing commercial business. Minimum requirement for commercial banks, $25,000.

(7) Trust companies doing a commercial banking business. No commercial banks chartered.

(8) In communities with less than 500 population where no bank is located. Otherwise, $20,000.

(9) "Depositaries" may be organized with capital of $2,500.

The changes shown in Table 10 do not indicate the full measure of improvement in the matter of minimum capital requirements since 1909. In the former year a great many of the States did not require the whole of the minimum capital to be paid up before the bank commenced business, while at present this appears to be required in practically all the States. On the other hand, the minimum capital requirement in all but 8 States remains far below the minimum for national banks prior to 1900 when the competition of State systems forced it down. This fact undoubtedly has constituted a serious obstacle to any improvement of national banking standards in the matter of requiring capital adequate for safety.

Other Restrictions. - Restrictions upon the opening of new banks, other than minimum capital requirements, are mainly a matter of banking supervision. This subject will be dealt with in a later chapter. Here it will be sufficient to observe that in the early part of the present century supervisory officials in many States were allowed but little discretion in the granting of charters to new banks. In most cases no power of refusal was lodged in the hands of banking boards or commissioners. In only a few States were such boards or officials specifically empowered or required to consider the public convenience and necessity in granting charters, or even to investigate the integrity and reliability of the proposed incorporators. Since 1929, however, the banking board, commissioner, superintendent, or other charter-granting authority has had almost complete discretionary power in most of the States to grant or refuse applications for bank charters, subject in a number of States to appeal or review by courts or special boards. In over three-fourths of the States the bank commissioner, superintendent, or banking board is expressly instructed by law to consider the public convenience or public necessity for the proposed bank.(1)

(1) See Table 13, ch. V.

Powers and Privileges of Banks

This discussion will be limited to some of the more important powers and privileges accorded to the banks of the various States: namely, loans on real estate, the ownership of corporate stocks, loans to individual borrowers, loans to officers and directors, branch banking, fiduciary business, and investment banking, whether directly or through affiliated companies. The laws, administrative rulings, and banking customs vary in so many points in the different States and are so numerous and complicated in the aggregate that a survey of this nature can make only general comparisons. It would be exceedingly difficult to present an accurate picture of detailed differences. Moreover the information is of a type that does not lend itself readily to statistical summary, and has been used only for the purpose of making general comparisons of the powers and privileges of banks.

Loans on Real Estate. - Until 1913 national banks were forbidden to make loans upon the security of real estate. In 1909 the State laws did not have this prohibition, although in a few instances real estate loans were limited in aggregate amount, and in a considerable number of others they were restricted to first liens or to given percentages of the value of the land.(1)

Much the same situation with respect to State banks exists today, although several additional States have laid down restrictions as to the kind and amount of mortgages which may be taken and the aggregate amount of real estate loans which may be made. All the States still permit their banks to make real estate loans, but since national banks are now also permitted to make such loans, there is less difference in this respect than formerly between the national and

(1) George E. Barnett, State Banks and Trust Companies Since the Passage of the National-Bank Act, Publications of the National Monetary Commission, Vol. VII, pp. 100-103.

the State systems. National banks, however, were granted the privilege of making loans on real estate primarily in order to enable them to meet the competition of State chartered institutions, and their powers in this respect have been extended from time to time for the same reason.

Apart from limits on loans to single borrowers or to officers and directors, about one-half of the States appear to have no restrictions whatever on the making of real estate loans, either as to the kind of mortgages taken as security or the aggregate amount of such loans. There appears to be nothing in the laws of such States to prevent banks from investing the whole of their available funds, whether represented by time or demand deposits, in long-term real estate mortgages, which may even be second or third liens. Moreover, in several of the States which limit the aggregate amount of real estate loans, the limitation applies to percentages of both time and demand deposits, and such percentages, taken together, usually make up a considerably larger proportion of total deposits than is permitted in the case of national banks. The sum total of all the privileges still existing in the majority of the States with respect to the making of real estate loans therefore appears to be much more liberal than even the extended powers of the national banks.

An immediate cause of banking difficulties in recent years, particularly in agricultural areas, was loans based either immediately or ultimately on real estate values. This class of business is the commonest example of the extension of the activities of banks beyond the traditional field of commercial banking and into the field of capital financing.

Ownership of Corporate Stocks. - In addition to the power to purchase and hold bonds and other interest bearing obligations, which national banks also have, the institutions chartered by many States have long had the power to purchase and hold corporate stocks. This is especially true with respect to trust companies. It is difficult to tell exactly what the status is in some States, but roughly speaking it appears that in about 17 States trust companies are specifically or implicitly permitted to purchase corporate stocks, in about 11 they are permitted to do so under specific limitations either as to amount or kind, in about 10 they are specifically forbidden to purchase them, and in about 10 there is either no mention of the matter or information is unavailable. The actual practice of course frequently depends not only upon the law but also upon administrative regulation.(1)

State chartered commercial banks, as it happens, are not so frequently authorized to purchase corporate stocks, less than one-fourth of the States specifically or by implication granting the privilege, over one-third specifically forbidding it, a few placing restrictions upon the amount or type of purchase, and the remaining States have no legislation on the subject.(2) Inasmuch, however, as in the great majority of the States trust companies can by law and usually do engage in commercial banking, the differences in the privileges of the two classes of institutions are not important.

The power of State chartered banks and trust companies to purchase corporate stocks is a competitive advantage primarily because it gives a greater flexibility to investment policies and provides greater opportunities for speculative profits than those available to banks without the privilege. National

(1) For 1909, Samuel A. Welldon, Digest of State Banking Statutes, Publications of the National Monetary Commission, Vol. III; for 1932, Digest of State Laws Relating to the Purchase of Corporate Stocks by Banks and Trust Companies, prepared by the office of the counsel of the Federal Reserve Board.

(2) Ibid.

banks have to some extent met the situation by having their stockholders organize State chartered affiliates under identical control, and have thus indirectly been enabled to take advantage of the more extensive privileges permitted to State institutions.

Loans to Single Borrowers.(1) - It is not possible in a brief space to compare the limitations placed on loans to single borrowers by the various States with the limitations placed on such loans by the National Bank Act, or to summarize the changes which have been made in State laws over a period of time. The chief reason for this is the complexity of the limitations and of the exceptions. However, there is not so much difference at present between the powers of national and State banks to lend to single borrowers as there was two decades ago, partly on account of stricter requirements in many of the States and partly on account of the extension of lending powers granted to national banks.

Loans to Officers and Directors.(2) - The National Bank Act has never contained any limitations on loans to officers and directors of the bank, except those which apply to all borrowers. Comptrollers of the Currency have frequently recommended restrictions on such loans, but they have never been enacted by Congress. On the other hand, about two-thirds of the States had some kind of special regulations regarding loans to officers and directors as early as 1909. These were of three types: (a) the requirement that a majority, or more, of the board of directors should approve the loan; (b) a limitation on the amount

(1) Sources of information on this subject: for 1909, Samuel A. Welldon, Digest of State Banking Statutes, Publications of the National Monetary Commission, Vol. III; for 1932, text of the various State laws and data supplied by State banking departments.

(2) Sources of information on this subject: for 1909, Barnett, op. cit., p. 98; for 1932, text of the various State laws and data supplied by State banking departments.

of such loans more stringent than that to other persons; and (c) the requirement that loans to officers and directors should be secured.

At present nearly all States have limitations of some kind on loans to officers and directors and, in some cases, on loans to employees of banks and trust companies, in addition to those upon loans to single borrowers, although in many cases it is doubtful whether the restrictions are of much practical effect. In about half a dozen States loans to certain active officers are actually prohibited. At present more States appear to have specific restriction on loans to officers and directors than in 1909. About two-thirds of the States require that such loans, at least in excess of certain amounts, be approved by a majority or more of the board of directors or of the discount committee, in many cases the applicant not voting. Most of the others either have special limitations upon the amount loaned or stipulate the kind or amount of security required. In a few instances the restrictions are extended to loans to partnerships or corporations of which officers or directors of the banking institution are members or which they control.

Branch Banking. - As previously noted, some States have for many years permitted banks and trust companies to establish branches, although two decades ago this advantage over national banks was more theoretical than practical, since relatively few branches were established. In 1909 branch banking was of so little practical importance in most sections of the country that more than half of the States had no legislation regarding it.

During the past twenty years, however, there has been a definite movement toward the establishment of branches of banks within the corporate limits of the larger cities, and in California, on a state-wide scale. This development has been followed by the passage of laws either permitting or prohibiting branches in most of the States previously without legislation on the subject. Nevertheless, there has been no general movement toward the extension of state-wide branch banking. The new legislation, for the most part, has either prohibited branch banking, or authorized it only within limited areas, such as the city, town, or county in which the parent bank is located, or at least to cities, towns, or counties contiguous thereto. The extent of these changes in State legislation regarding branch banking may be seen from Table 11, which summarizes branch banking legislation in 1909, 1924, and 1932.

Table 11 - State Branch Banking Legislation in 1909, 1924, and 1932(1)

	Number of States		
	1909	1924	1932
States permitting state-wide branch banking(2)	9	12	9
States permitting branch banking within limited areas(3)	4	7	14
States prohibiting branch banking(4)	8	17	18
States with no legislation regarding branch banking(5)	27	12	7

(1) Based on Welldon, op. cit.; and Federal Reserve Bulletin, March, 1925, pp. 182-187, and July, 1932, p. 455.

(2) Including 3 States in 1924 in which there was no express provision for branches, but in which they were implied in certain provisions of the law; and 1 State in 1924 in which the law authorized branch banking but the commissioner of banks and banking did not sanction their operation.

(3) Limited areas include same city, town, county, or other local area as the location of the parent bank, and in a few cases, contiguous cities, towns, or counties. Includes 1 State in 1909 which allowed limited branches to trust companies but made no provision for general commercial banks to have branches. Includes 1 State in 1932 which permitted "stations" in towns deprived of other banking facilities.

(4) Includes 1 State in 1932 which allowed mercantile companies doing a banking business to operate branches.

(5) Includes 1 State in 1924 and in 1932 in which agencies for the receipt of deposits and the cashing of checks were permitted by court decisions.

Of the 8 States which prohibited all branch banking in 1909, none has since authorized state-wide operation, 2 have authorized branch banking within limited areas, and 1 has authorized the establishment of agencies in towns in the same county without banking facilities. Of the 9 States which permitted state-wide branch operation in 1909, 2 have since limited branches to restricted areas, and 3 have prohibited the establishment of new branches. Of the 27 with no legislation in 1909 regarding branch banking, 10 now prohibit branches, 5 authorize the establishment of state-wide branches, 5 permit branches within limited areas, and 7 still have no legislation regarding branches.

The whole subject of branch banking in the United States is dealt with in other volumes of the Committee's report, where branch operation in relation to the competitive position of national and State banks is examined in considerable detail.

Fiduciary Powers. - The greatest variety exists among the various States in respect to trust and other fiduciary powers. The relations between commercial banks and trust companies also differ markedly from State to State.

There has been a pronounced tendency since 1909, however, to authorize State chartered institutions to perform the functions of both banks and trust companies. At the same time the number of States requiring either complete or partial segregation of the two classes of business has been reduced. Since national banks also may now be authorized by the Federal Reserve Board to exercise fiduciary powers, the trend towards a complete intermixture of banking and fiduciary functions in the same institutions is general and nation-wide. This aspect of dual control of the banking structure, in fact, is no longer so important a matter of competition between the national and the State systems as in the past, although, as will be made clear in a later chapter,(1) questions regarding the succession of national banks to the trust business of State institutions have sometimes been an obstacle to the conversion of State banks to national charter. Moreover, national banks have been accorded the privilege of exercising in each State only the fiduciary powers permitted to State institutions operating there. Consequently the national banking legislation on the subject of fiduciary powers is not uniform, but varies from State to State.

Investment Banking. - With respect to the underwriting and merchandising of securities, neither the national banking laws nor those of most of the States are very clear or specific. In general there appears to be nothing in the law to prevent banks, whether national or State, from underwriting and merchandising such securities as they are permitted on their own account to purchase and hold. Except for a few very large institutions, however, they do not generally engage in underwriting in their own name or under their own charter. Merchandising, on the other hand, has become an increasingly important activity of commercial banks in recent years. Numerous banks, both national and State, often buy for resale such securities as they themselves are permitted to own. This class of business, of course, is to be distinguished from the older practice of acting in behalf of customers as agents for the purchase or sale of securities. The only essential difference between the privileges of State and national banking institutions in the matter of merchandising securities appears to be the wider powers of ownership of the former.

The most important extension of the activities of commercial banking institutions into the field of investment banking in recent years has occurred

(1) See ch. VI.

through the use of affiliated companies, organized and controlled by the same interests as the banking institutions for the express purpose of underwriting and merchandising securities. In recent years the operation of securities affiliates has become common among large State banking institutions as well as among national banks.

Reserves Against Deposits

Prior to the passage of the Federal Reserve Act, national banks were required to carry a certain proportion of their deposits in cash in their own vaults and in most cases as balances with other banks. This proportion varied with the locality of the bank. State statutes had analogous provisions, but it was usually true that reserves against deposits required of national banks were higher than those required of State banks of the same size and in the same situation. It is not desirable here to go into all the manifold variations in these requirements from one State to another or from one locality to another.

The reserve requirements of national banks were reduced by the original Federal Reserve Act and subsequent amendments. In general, however, the States have tended to reduce commensurably their requirements for State institutions, and the process has operated in the direction of lower banking standards without any stable competitive gain to national banks. Among many small banks today, membership in the Federal reserve system is considered unattractive, largely because of the reserve requirements. The State law may require that the small State bank in question carry as much reserve in its own vaults or as balances with correspondent banks as it would have to carry with the Federal reserve bank if it were a national bank. The fact, however, that the Federal reserve bank pays no interest on bank balances while the correspondent banks do, as a rule, is an important consideration in causing a bank's management to prefer a State to a national charter.

With the passage of the Federal Reserve Act it was hoped that State banks, and trust companies engaged in commercial banking, would become members of the system. State banks joining the Federal reserve system, however, faced the possibility of being required to conform to two separate bodies of legislation governing reserves. Since the amendment of June 21, 1917, to the Federal Reserve Act, the required reserves of member banks have been kept entirely in the form of balances with the Federal reserve banks. At the time of the amendment, however, a large number of the States required the maintenance of vault cash reserves. In a number of States, therefore, membership in the system meant the maintenance of primary reserves greater than those required of State nonmember banks or of national banks. Since that time the majority of the States have enacted legislation permitting State banks which become members of the system to substitute the Federal reserve member bank requirements for the State requirements. In most of the remaining States the actual vault cash reserve required is so small that it is not in excess of the needs for daily operation, and the required vault cash plus balances held with the reserve bank, which constitute balances with approved depositories under State law, is not larger than the member bank reserves plus the minimum vault cash necessary for daily operations. In these States the actual required reserves may be higher for State member banks than for nonmember banks, but they are not higher than those for national banks.

CHAPTER IV

THE INFLUENCE OF BANKERS ON LEGISLATION

One of the principal activities of the State banks through their various agencies has been directed against legislative proposals designed to place national banks on a competitive parity with State banks. Especially has this been true with respect to the extension of fiduciary powers and branch banking privileges to national banks.

The original central banking plan submitted by the National Monetary Commission in 1911 provided for "national trust companies,"[1] but there was

(1) Suggested Plan for Monetary Legislation, Publications of National Monetary Commission, p. 17.

vigorous opposition on the part of State chartered trust companies, and the proposal did not appear in the commission's final recommendations. The Federal Reserve Act, however, despite the opposition of the State bankers, authorized the Federal Reserve Board to grant by special permit to national banks, when not in contravention of State law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds, under such rules and regulations as the board might prescribe.

Opposition by trust companies to the granting of these powers to national banks by the Federal Reserve Board,(1) was manifested not only in States in which banking and fiduciary functions were separated, but also in States in which trust companies engaged in commercial banking in direct competition with national banks. In 1914 the New York State Legislature enacted a statute restricting the exercise of fiduciary powers to trust companies organized under State laws.(2) Similar laws existed in Colorado, Florida, Missouri, and North Carolina in 1915 and attorneys general in at least twelve other States interpreted the laws to deny fiduciary rights to national banks.(3) That same year representatives of the Trust Company Section of the American Bankers Association went to Washington to protest to the Federal Reserve Board that the authorization in the Federal Reserve Act was unconstitutional. About the same time litigation was initiated in attempts to prevent the national banks from exercising the fiduciary powers granted them, the expense of the litigation being borne by individual trust companies.(4) On the other hand, there

(1) A comprehensive review of the litigation over the fiduciary powers of national banks is contained in an article by Charles S. Tippetts, "Fiduciary Powers of National Banks," _American Economic Review_, September, 1925, Vol. XV, pp. 417-434.

(2) _Federal Reserve Bulletin_, January, 1918, p. 12.

(3) _Commercial and Financial Chronicle_, American Bankers Association Supplement, September 18, 1915, pp. 140-141.

(4) _Ibid._, pp. 142, 148.

were some States which adopted enabling acts designed to remove various disabilities under which the national banks labored in their exercise of fiduciary powers.(1)

On June 11, 1917 the Supreme Court rendered a decision in First National Bank of Bay City vs. Fellows which settled in principle the constitutionality of trust powers exercised by national banks under the provisions of the Federal Reserve Act,(2) but left some question as to the adequacy of the law in certain particulars. Thus it appeared still to be of doubtful effectiveness in face of statutes such as existed in New York State. In connection with the latter the Attorney General of the United States said that "The power of Congress to determine how far national banks may be subject to State control is settled. . . . But in this case Congress has not exerted its powers."(3)

The inadequacy of the existing statute was removed by an amendment of September 26, 1918 to the Federal Reserve Act, providing specifically that the exercise of fiduciary powers by national banks should "not be deemed to be in contravention of State or local law" when such powers were authorized for State banks.(4) Even this did not end the agitation and litigation. Difficulties continued particularly in States which required trust companies to deposit securities with the State authorities. Attorneys general in at least two of these States are reported to have held that the authorities had no right to accept such securities from national banks. On the strength of an opinion of the attorney general of Wisconsin still maintaining that national banks had no right to exercise trust powers, the legislature enacted in 1919 a law forbidding them to do so, but the Supreme Court of the State declared it unconsti-

(1) Ibid., p. 140.
(2) 244 U. S. 416. See Federal Reserve Bulletin, April, 1917, p. 254; July, 1917, pp. 534-538.
(3) Opinions of the Attorneys General, 1916-1919, Edited by George Kearney, Vol. 31, pp. 186-188. See Federal Reserve Bulletin, January, 1918, pp. 12-13.
(4) Public No. 218, 65th Congress. See Federal Reserve Bulletin, October, 1918, p. 948.

tutional.(1)

It is obvious that though the national banks had their constitutional rights confirmed by unquestionable authority they were in practice being discouraged from exercising them, for besides the suits and the adverse State laws that had to be fought, they also found probate courts unwilling to grant their appointments.(2) In several States litigation on this account continued, therefore. A number of these cases established the rights of national banks under various conditions. In one of them in which a Missouri probate court had refused the appointment of a national bank as executor, the State Supreme Court sustained the refusal and the case came before the United States Supreme Court, where, April 28, 1924, a decision was rendered reversing the Missouri court's judgment. The United States Supreme Court declared that "the State can not lay hold of its general control of administration to deprive national banks of their power to compete that Congress is authorized to sustain."(3)

In 1896, as previously noted, the Comptroller of the Currency recommended that national banks be permitted to open branches in small towns. Congress, however, did not adopt this recommendation. The proposal was vigorously opposed by the banks generally, but more especially by the smaller institutions.

In the more recent movement toward branch banking by national banks the pressure of State bankers has been directly evident. The prolonged consideration of the McFadden bill, lasting from 1924 to early 1927, was due principally

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(1) Journal of the American Bankers Association, May, 1919, pp. 601-602. Also July, 1919, p. 19.

(2) 179 N. Y. Supp. pp. 179-190; 110 Atl. 54; 178 N. W. Rep. 310. Also Federal Reserve Bulletin, November, 1919, pp. 1059-1060; June, 1920, pp. 610-611; July, 1920, pp. 700-701. For general discussion see Charles S. Tippetts, "Fiduciary Powers of National Banks," American Economic Review, September, 1925, Vol. XV, p. 428 ff.

(3) State of Missouri ex rel. Burnes National Bank of St. Joseph v. Duncan, 265, U. S. 17, 44 Sup. Ct. 427, decided April 28, 1924. See Federal Reserve Bulletin, May, 1924, pp. 418-419.

to the controversy over the so-called Hull amendments. These were sponsored by the State banking interests, and were designed to prohibit forever any member of the Federal reserve system, either national or State, from establishing branches in States which, at the time of the passage of the McFadden bill, did not provide for branch banking. This would have given nonmember State banks and trust companies a permanent advantage over national and State bank members of the Federal reserve system in regard to the future development of branch banking, in States then prohibiting it but thereafter adopting branch banking.

Activities of the American Bankers Association

The American Bankers Association, including in its membership most of the country's banks, is composed of semi-autonomous divisions representing State banks, national banks, trust companies, and savings banks. Consequently it is sometimes difficult for the varied elements to agree on matters of policy, because of conflicting interests. Nevertheless, the association has generally been able to agree on important issues, although the final decisions have undoubtedly been compromises. The association itself and its various divisions have legislative committees to which are entrusted the duties of informing the membership of legislation in which they would be interested, in sponsoring bills considered favorable and opposing those considered prejudicial to the interests of the members.

In 1905 the Committee on Federal Legislation of the American Bankers Association was appointed.(1) It has since been actively engaged in presenting the views of the association to influential government officials and legislators

(1) American Bankers Association, Proceedings of the Thirty-second Annual Convention, 1906, p. 142.

in Washington. Also, the general counsel of the association has been active in keeping in close touch with all Federal banking legislation.

Associated with the Committee on Federal Legislation is the Federal Legislative Council, which has a State chairman in each State, and subcommittees in each Congressional district. The latter are immediately advised by the committee in case it decides that the need has arisen to take action. In the words of a chairman of the council, "Then, if an emergency arises, distress calls are made upon the great subcommittee and all the solicitude of the banking public is aroused."(1)

The State bankers in the American Bankers Association have consistently advocated the perpetuation of the dual banking system. As far back as 1913 the then president of the Trust Company Section stated:(2)

> ". . . our State governments are far better able to govern our affairs than if we are regulated under any National act, something which I think many of us fear is surely on the way."

At the 1930 convention the State Bank Division passed a resolution which read in part:(3)

> "Whereas, the prevailing dual system of banking has contributed substantially to the remarkable economic development of our country, therefore be it
>
> > "Resolved, That we believe our present State and National banking systems should continue working in cooperation, thus assuring the endurance and permanency of individual initiative and the free play of personalized enterprise which history has proven so desirable."

President M. Plin Beebe made extensive remarks of like tenor at the

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(1) Commercial and Financial Chronicle, American Bankers Convention Section, Vol. CXXI, October 17, 1925, p. 96.

(2) American Bankers Association, Proceedings of the Thirty-ninth Annual Convention, 1913, pp. 358-359.

(3) Commercial and Financial Chronicle, American Bankers Convention Section, Vol. CXXXI, October 18, 1930, p. 94.

1931 convention.(1)

At the 1932 convention the State Bank Division passed a resolution in still stronger terms, reading in part as follows:(2)

"Further, be it resolved, That we are unalterably opposed to the so-called unification of all banking under Federal control in place of the present dual system of State and National banks which is being promulgated for the purpose of destroying the State supervised banking systems. It is almost unbelievable that such a movement could attain success, but it is being supported by such powerful interests that desire to being the entire banking business of this country under the control of a single Washington bureau as to constitute a serious menace to our State banks."

The report to the 1932 convention of the Economic Policy Commission, representing the American Bankers Association as a whole, took a somewhat less uncompromising view of the question of unified control, although reiterating previous endorsements of the dual system. Pertinent passages of this report are as follows:(3)

"Another line of thought argues that the great reform in banking by means of law that is needed is in the direction of a single, unified system for the country as a whole under Federal Government supervision. It is the theory in this proposal that this plan would make for better supervision, a more compact and better co-ordinated banking structure, a nationally higher standard of management for all banks and a credit mechanism that would be subject to greater control in the National interest.

"While we are wholly in sympathy with the basic purposes envisioned in this argument, we believe, as we have brought out in previous reports and will not repeat in detail here, that they can be attained under the present dual system of State and National charters, that this dual system has additional virtues in itself, particularly along the lines of maintaining local financial independence and credit sympathies free from the domination of over-centralized Federal Government, and that the dual system should be strengthened rather than destroyed.

(1) Ibid., Vol. CXXXIII, October 24, 1931, pp. 60-62.
(2) Ibid., Vol. CXXXV, October 22, 1932, p. 60.
(3) Ibid., p. 33.

"Specifically, we have in mind the material enlargement of the sphere of influence of the Federal Reserve System in the present dual banking structure, which is particularly favored by the reduction of the banking picture to its present dimensions and character. The changes this has involved have promoted unity in the operating aspects of our commercial banking systems embracing both State and National banks, without abrogating their respective charter rights or nullifying the advantages of our dual system."

The National Bank Division has been concerned to no little extent with attempting to stem the tide of losses to the national system through conversions to State charters, by advocating "liberalization" of the Federal laws. A resolution passed by this division at the 1929 convention read in part:(1)

"Members of the National Bank Division have observed with increasing concern the withdrawals of banks from the National System for the purpose of operating under State laws. This movement, which has gained considerable momentum in some sections of the United States, and which shows no evidence of subsiding, indicates unmistakably the necessity for some change which will inject more attractiveness into National charters and stay the decline in National bank resources.

"...The National Bank Division . . . . is . . . guided by the realization that to be acceptable to those engaged in banking National charters must be free from restrictions which handicap them in competition with banks operating under the broader powers of sound State laws."

The division pledged itself to exert its efforts to bring about such needed change.

In 1929, when the need of new Federal legislation became more apparent, the Committee on National Bank Research was formed. This committee recommended among other things that small national banks be permitted to withdraw from the Federal reserve system if they so desired, and that each national bank be allowed to own 66 2/3 per cent or more of the stock of one trust company and one securities company.(2) These recommendations to meet the competition of State

(1) Ibid., Vol. CXXIX, October 19, 1929, p. 100.
(2) Ibid., Vol. CXXXI, October 18, 1930, p. 82.

institutions would, if enacted, have added further to the list of measures of relaxation of the National Bank Act which have been passed for the same purpose.

In the fight over the granting of trust powers to national banks the American Bankers Association clearly showed its dual composition. While the State bank and trust company members actively opposed this extension of the rights of their national bank competitors, the latter naturally took a contrary view, and sponsored the development of such powers. The Trust Division was the most antagonistic and took the lead in the legal fight which sought to restrict or prevent the exercise of these powers.(1)

Perhaps in no other phase of the competitive struggle did the American Bankers Association play a more important role than in that concerning the extension of branch banking powers to national banks. Here again the national and State bank divisions found their interests opposed to some extent, although the small national banks probably feared branch banking about as much as their State competitors. Compromise was necessary, and when the climax of the contest was reached during the deliberations over the McFadden Act, the association finally approved provisions giving national banks the right to increase branch operations to a limited extent. This approval, which had been withheld while still more rigid restrictions were advocated, apparently assured the passage of the measure.

In the par clearance controversy, all divisions of the American Bankers Association found a policy of opposition upon which they could unite. Special

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(1) American Bankers Association, Proceedings of the Forty-third Annual Convention, 1917, pp. 385-386.

committees were appointed which attempted to prevail upon the Federal Reserve Board to alter its regulations, and failing in that, to persuade the banking committees of Congress to initiate changes in the law.(1) The Committee on Federal Legislation supplemented the work of these committees.(2)

Activities of the State Supervisors

State bank supervisors have reflected the point of view of State banking institutions. In constant touch with State bank officials, and also interested in a professional way in Federal banking legislation and supervision, they have been quick to detect proposals to improve the competitive position of the national banking system, and to assist in mobilizing the State banking and political forces for the purpose of defeating such proposals. They have considered it their duty on such occasions to take the initiative in opposition to proposed Federal legislation, and to form special organizations to exert their influence in behalf of the State banking interests.

At the annual convention of the supervisors of State banks in 1919, a resolution protesting against the exercise of fiduciary powers by national banks was adopted. As introduced the resolution memorialized Congress "to repeal the existing law conferring fiduciary powers upon National Banks," but as passed it was confined to a protest against the action that Congress had taken, on the ground, among other things, that it was ". . . an invasion, in spirit, of the constitutional rights of the States."(3) The interest of the supervisors of State banks in Federal legislation was also shown in the hearings in Congress

(1) See Committee of Five of the American Bankers Association, <u>Report on Exchange and Collection Charges</u>, 1918.

(2) American Bankers Association, <u>Proceedings of the Annual Convention</u>, 1917, p. 160; 1918, p. 339.

(3) National Association of Supervisors of State Banks, <u>Proceedings of the Eighteenth Annual Convention</u>, 1919, pp. 96-97, 112.

on branch banking in the spring of 1930.

They insisted that the unit system of banking should be protected from branch banking, even though in several States branch banking is permitted to State institutions. In recent conventions they have protested both to the Federal Reserve Board and to Congress, and have invoked the aid of the American Bankers Association, in an effort to combat the possibility of national banks being permitted to maintain branches over wider limits than State lines, or in States where branch banking is not permitted to State chartered institutions. In this controversy the merits or demerits of branch banking have not been the main consideration. The question has been reduced essentially to that of the maintenance of certain banking systems.

Not only have the State supervisors expressed their own protests against Federal legislation, but they have also assisted in organizing the State banking interests for the purpose of lobbying at Washington. The National Association of Supervisors of State Banks as early as 1916 passed resolutions commending the Kansas State Bankers' Association for creating an organization to be known as the National Association of State Banks. It was clearly implied that such an agency was needed to look out for the interest of State banking institutions before Congress and the State legislatures.(1) During their convention in the following year the need for political action was further discussed and a committee appointed to formulate definite plans.(2) A member from New York expressed the attitude of the association quite frankly by saying:(3)

> ". . .It is certain, however, that the only way that State institutions can procure protection from unjust national legislation is through a national body and co-operation there."

(1) Ibid., 1916, pp. 66-67, 163.
(2) Ibid., 1917, pp. 109-112.
(3) Ibid., p. 112.

At the 1918 convention, this committee reported that the National Association of State Banks had been organized, and recommended that each supervisor organize his own State. It was thereupon resolved that each supervisor should call a conference of the State banking institutions for the purpose of organizing State associations, and that the president of the association of supervisors appoint a committee to cooperate with the State banking associations in the formation of a "National Council of State Institutions."(1) These resolutions were carried out, and the "United States Council of State Banking Associations" was organized. In November, 1918, it opened a Washington office, and sent to all State chartered banks and trust companies an announcement promising:(2)

> "'When legislation is introduced in Congress which affects or may affect State chartered institutions an endeavor will be made to furnish the appropriate committee of Congress with the information it should have in order to reach a proper conclusion, and this office will also endeavor to keep the State institutions informed of any proposed legislation which may affect their interests; so that through the medium of the Council the views of those affected may be presented for consideration.'"

Since that time a legislative committee of the National Association of Supervisors of State Banks has been appointed. In 1924 the secretary of the association declared that this legislative committee was more powerful than the State Bank Section of the American Bankers Association, and that the possibility of marshalling the interested forces in regard to legislation on financial affairs was lodged in it to a greater extent than in any other place.(3)

This mobilization of the State bankers by the State supervisors was no doubt from their own point of view thoroughly wise. Its significance lies in the fact that because the country has a dual banking system, administrative

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(1) Ibid., 1918, p. 78.
(2) Ibid., 1919, pp. 44-45.
(3) Ibid., 1924, p. 119.

officials of the various States devote their energies to defeating legislation in the Congress of the United States, and are constantly engaged in efforts to bring about competitive advantages for their institutions.

From the foregoing survey of the influences which have been brought to bear upon the development of banking legislation, some of the worst evils of the dual system should be apparent. Except the general public with the safety of its deposits at stake, all parties concerned--whether bankers, supervisory agencies, or legislative authorities of the States and of the nation--are involved willy-nilly in a sort of rivalry which frequently can only take the form of competition in laxity. Sincere efforts have been made by most of the States to improve the standards of banking safety, and some improvement in legal safeguards has certainly been achieved; but the possibility of losing banks to the national system constantly intervenes to prevent the measures of reform which have been shown by the record of bank failures to be urgently necessary. The dilemma of State authorities is well illustrated by the following remarks of the commissioner of banks of Massachusetts in 1929:(1)

> ". . . What steps are to be taken to protect the state banking system? I am a firm believer in harmony and I dislike to see the question always arising as to how the national banks can win friends from the state banking system, and on the other hand, how the state banks can get ahead of the national banks. I wish the question could be settled, so the banks could attend solely to the business in which they are engaged. . .

(1) Ibid., 1929, p. 85.

"We are also careful in passing state legislation that nothing will be done to drive out the state banks that are now doing a good and legitimate business. If they find that the State Legislature is inclined to be a little harsh on them, it will be very simple for them to convert into a national bank and be received with open arms. . ."

CHAPTER V

EFFECTS OF DUAL CONTROL UPON BANK SUPERVISION

The effects of dual control of commercial banking have not been confined to legislation. The supervisory machinery and the standards and practices of both State and national supervisory authorities have also been greatly influenced by competition between the two systems. In order to make this clear, it will be necessary in the present chapter to examine in some detail the origin and development of the various types of bank supervision now in operation, as well as their practical results in the matter of maintaining adequate standards of banking practice.

During the first half century after national independence was achieved there was little governmental supervision of banks in any part of the United States. The filing of reports with Government officials was often a requirement inserted in the bank charters granted by legislatures; but only in isolated instances is there any record of penalties attached to failure to make reports, and very rarely were any Government officials specifically designated for making bank examinations.

Experiences during this period led to two types of State supervision. One type was inaugurated in several of the New England and Middle Atlantic States, where "free banking" was developing. Banking departments or boards of bank commissioners were created, some of which have had a continuous existence down to the present time. These supervisory authorities had varying degrees of power. The banking committee established in

Connecticut in 1836, for example, consisted of the State treasurer, comptroller, and commissioner of the school fund. It had power to inspect all books and papers of banks and to examine bank officials under oath. Two commissioners were appointed in the place of this committee the next year. In Massachusetts, on the contrary, the board of commissioners established in 1838 was to make annual examinations of all banks in the Commonwealth and to render special reports if requested by the governor. It was also authorized to procure an injunction from the Supreme Judicial Court if the condition of any bank was hazardous to the public or its depositors, or if it had exceeded its powers or violated the banking laws.(1)

Another type of bank supervision developed in the agricultural States of the Mississippi Valley, notably in Indiana, Missouri, Ohio, and Iowa. Indiana, for example, established in 1834 a State Bank, of which the central board of directors and the officials were not operating executives and did not directly conduct any banking business. Rather, they constituted a supervisory authority over the "branches," which were semi-independent banking offices carrying on the actual functions of banking, in which the public held stock, and of which local boards of directors were the operating heads. But since the board of directors of the State Bank had almost unlimited control over the branches, its supervision was far more direct and effective than that of bank superintendents or boards of bank commissioners in the "free banking" systems of the Northeast. These State bank systems were successful in furnishing adequate and safe banking facilities, but they were all liquidated soon after the passage of the National Bank Act in 1863, many of the branches becoming independent national banks.

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(1) Davis R. Dewey, State Banking Before the Civil War, Publications of National Monetary Commission, Vol. IV, pp. 126-136.

A large number of the States, however, had neither of these types of bank supervision in force when the National Bank Act was passed. With the introduction of the national banking system it was expected that the State banks would be driven out of existence, and this expectation was almost realized. For many years, therefore, no significant attempts were made either to improve the State bank systems or to extend the scope of State bank supervision. It was not until State banks generally became able to operate profitably without the note issue privilege that the States again attempted to raise banking standards and practices by means of supervisory agencies. For the most part, therefore, present types of State supervision over banking institutions have been a development of the period since 1885, and especially since the beginning of the present century.

National Bank Supervision

The estalishment of the national banking system carried with it the beginnings of a system of supervision. This supervision had become a significant element in the strength of the national banking system before the movement toward the creation of State supervisory agencies had made much headway. It is therefore appropriate to discuss the type and character of national bank supervision since 1863 before treating the development of State supervision.

National Bank Supervision Prior to the Federal Reserve Act. - The original provisions of the National Bank Act were largely influenced by the assumption that the act was a currency measure. The office of the Comptroller of the Currency was created and detailed regulations were laid down with respect to the issues of notes by the national banks. Subject to the approval of the Secretary of the Treasury, the comptroller was authorized to appoint examiners. Provision was made for examination "into all the affairs of the association," although the most important duty of the examiners was to ascertain whether the condition of the banks was such that their notes would be honored when presented.

As time went on, however, the experience of the comptroller's office made it increasingly clear that the scope of supervision must be constantly enlarged and the duties of the examiners made more exacting. Public opinion from the outset tended to blame the comptroller's office for failures or defalcations. As the deposit phase of banking came to be of greater importance than the note issues, it became increasingly important to investigate all of a bank's assets in the interest of depositors as well as noteholders.

National bank supervision, however, was far from adequate when in 1908 and 1909 the National Monetary Commission made its study of the banking structure. Examiners were subjected to no tests before appointment, and members of Congress made recommendations to the comptroller regarding applicants. While the comptroller and the Secretary of the Treasury made appointments as far as possible on the basis of experience and fitness, political pressure was considerable.

Examinations were paid for by the banks according to a fee system, varying in amount according to the capital of the bank. Assessments were levied and the proceeds were turned over to the examiners, who received no other official compensation. Out of these gross receipts, assistants' wages, travel, and other expenses were paid. Thus the net compensation of the examiners was subject to considerable variation, though it was estimated to be about one-third less than their gross receipts. The fee system unduly hastened the work of examination and reduced its effectiveness. In order to minimize travel expense, the examiners usually followed the same route, and the banks were often able to learn in advance the approximate date of their arrival and could make preparations accordingly.

The geographical assignments of the examining force were such that the examiners rarely had any contact with each other. As a consequence, there was little or no uniformity in the method of examinations, in the judgment of examiners as to the value of various types of assets, or the propriety of banking practices. Still another handicap to effective supervision was the fact that the assistants were appointed and paid by the examiner alone, and did not come under the comptroller's direction.

Other difficulties were caused by the slight amount of power possessed by the comptroller. Then as now, he had no authority to require bank directors and officials to correct unsatisfactory conditions, unless the capital of the bank was actually impaired. He could institute measures to revoke a bank's charter, but this was so severe a penalty that as a practical matter it could be used only after the most flagrant violation of law.

Banks were also able to transfer bad and illegal assets to other banks or corporations during the period of an examination, especially when State chartered affiliates were operating in the same buildings. Securities could be borrowed so as to prevent examiners from obtaining a correct knowledge of the condition of the bank. Moreover, the condition of the affiliate itself might impair the solvency of the bank, while the examiner would be unable to discover the true situation because the affiliated corporations were beyond the jurisdiction of the national supervisory agencies.

But despite all these limitations, the examinations conducted by the comptroller were an important force in the maintenance of relatively high banking standards in the national system, and of the greater prestige enjoyed by national banks as compared with State chartered institutions.

National supervision in other respects also was of a fairly high order, notably in the matter of chartering new banks. This was particularly true prior to 1900, when minimum capital requirements were lowered, and even in later years before the competition of the various State systems caused the successive comptrollers to exercise their discretionary power to charter more new institutions in an effort to maintain the relative importance of the national system in terms of numbers and resources.

National Bank Supervision since 1913. - While there was no general revision of the national banking laws at the time of the establishment of the Federal reserve system, one of the most urgently needed reforms in the character of supervision was accomplished. The payment of examiners was changed from a fee to a salary system, with salaries fixed by the Federal Reserve Board upon the recommendation of the Comptroller of the Currency. It was provided further that the costs of examinations were to be assessed against the banks by the comptroller according to the assets or resources of the banks examined. The power of appointment of examiners was vested in the comptroller subject to the approval of the Secretary of the Treasury.

Under these new provisions as to compensation, the former tendencies toward hasty and superficial examinations were partially eliminated. The method of paying examiners no longer prevented them from taking the time necessary to examine each bank thoroughly and as frequently and in as great detail as might be deemed necessary. The comptroller's authority was at first extended to all banks in the Federal reserve system, but in 1917 the authority to examine State bank and trust company members was transferred to the Federal Reserve Board.

Selections of bank examiners are made on the basis of ability and experience, although no competitive examinations are held. Additions to the examining forces are, as a rule, recruited from the staffs of banks examined, and selected through the regional or local bank examiners who have acquired a knowledge of their training and experience and are in a position to obtain accurate knowledge of an applicant's character and personality. All original appointments are made to the position of assistant examiner, and these receive their preliminary training when working with experienced examiners.

While the salaries of examiners are more adequate than in former years, the complaint is still constantly made by the comptroller and his assistants that it is impossible to retain the best trained and most valuable examiners. Bankers with whom they are brought into contact recognize their qualifications and offer them salaries which the comptroller's office cannot meet.

The Comptroller of the Currency is given unrestricted authority in regard to the examination of national banks and to the banking standards which he may suggest as adequate, but he has little power to compel bank officials to adhere to these standards or to adopt the recommendations made by the examining forces. He has the power to enter suit for the forfeiture of charters on account of unlawful practices, or he may appoint a receiver for failure to make good impaired capital or failure to redeem notes. Otherwise, however, the comptroller has no direct powers for changing the methods and practices of bank management, so long as they are technically in conformity with the law. Neither can he remove recalcitrant or incompetent bank officials who may persistently engage in unsound practices. He may remonstrate and call their acts to the attention of their superiors or to the directors, but beyond this point he cannot go, except to sue for forfeiture of the bank's charter.

Moreover, the comptroller does not have the power to order impaired assets to be written off, or frozen and slow loans to be taken care of by elimination or the setting up of reserves. A bank may hold in its portfolio large amounts of "frozen" paper, the ultimate repayment of which is doubtful, without an appropriate write-down being reflected in the bank's statements to the public and to its stockholders. Likewise, drastic depreciation of security holdings may occur, such as has taken place since the autumn of 1929, and the comptroller must rely upon "moral suasion" only to force any writing down of such assets.

The absence of powers intermediate between calling the attention of directors and officials to unsatisfactory conditions, and the closing of a bank in the case of actual insolvency, sometimes creates a serious situation. It both prevents adequate supervisory protection being given to depositors and places an unfair responsibility on the comptroller, who can neither prevent a bank from pursuing policies that are likely to result in insolvency, nor inform stockholders or depositors that their funds are likely to be endangered.

If all banks were under one supervisory authority, it would be possible for the supervisor, even without further powers, to be much more stringent in his admonitions to bank directors, more prompt in closing banks on account of insolvency, and more exacting in the conservative valuation of assets in condition statements. Bank officials and directors are apt to resent "interference" and "moral suasion," and the ease with which they may escape national supervision by becoming State banks or trust companies greatly reduces the actual effectiveness of suggestions made by examiners and the comptroller's staff.

From the establishment of the national banking system in 1863 to the present time, the Comptrollers of the Currency have placed before Congress recommendations for reform of the system of supervision by specifying certain banking standards and by providing adequate powers and penalties for their enforcement. Thus it was recommended in 1863 that the failure of a national bank be declared _prima facie_ fraudulent and that the officers and directors be made personally responsible as well as punishable criminally unless upon investigation it was found that the bank's affairs had been honestly administered; in 1887 that penalties be imposed for making loans contrary to law; in 1895 that the comptroller be authorized, with the approval of the Secretary of the Treasury and after a hearing, to remove officers and directors for mismanagement or violations of law; in 1914 that the comptroller be authorized to penalize both banks and their officers by appropriate fines for failure to comply with his regulations; and in 1931 that a board composed of the Secretary of the Treasury, the governor of the Federal Reserve Board, and the comptroller. should have power to remove officers or directors of banks who persistently violated the law or who continued unsafe and unsound practices. None of these recommendations have been adopted by Congress, but it appears probable that had there been no fear of driving banks out of the national and into the State system, most of them would have been long since enacted into law.

However, some of the most harmful effects of the dual banking system upon national supervision have occurred, not so much from the lack of legal powers on the part of the Comptroller of the Currency, as from the chartering of new banks, over which he is vested with almost complete discretionary authority.

Apart from minimum capital and a few other requirements of the law, the comptroller has full power to grant or refuse a charter on the basis of his judgment as to the probable soundness and stability of the new institution. But he has also been forced to choose in many cases between refusing a national charter, on the one hand, with certain knowledge that the applicants will then obtain a State charter, and on the other hand, granting the national charter perhaps against his best judgment. Many charters have, as a matter of fact, been granted to national banks which could not hope to survive except in periods of unbroken prosperity. This has been pointed out by the Comptroller of the Currency in his annual report for 1927.

State Bank Supervision

The manner in which State banks began in the late eighties to recover from the effects of the Federal tax upon their note issues and to increase rapidly in number and resources has been discussed earlier in these pages. Here it will be sufficient to note that this new development was soon followed by evidence of the need of supervision. The actual putting into effect of supervisory measures, however, was not so rapid as might have been expected, in view of the example of the national banking system. In Table 12 the initiation of bank supervision in the various States is indicated by the year in which regular examinations of banks were authorized and the year in which permanent authorities were established for the particular purpose of supervising banking institutions. Complete accuracy in determining when a given status of supervision originated is not always possible, but it is believed that the table is substantially correct.

The status of supervision shown by this table may be summarized briefly as follows: By 1870, 4 States authorized regular examinations of banks and 8 States had established supervisory authorities. In all these States examinations and supervisory authorities had been established prior to the Civil War, for the most part between 1830 and 1840. Six of these States were in New England, and the other 2 were New York and Ohio.

During the fifteen years from 1870 to 1885, 6 more States had authorized regular examinations of banks, but only one more had established a definite supervisory authority. During the following fifteen year period, from 1885 to 1900, however, 21 additional States provided for regular examinations and 8 established separate supervisory authorities, while 2 others established what were essentially banking departments within the offices of other supervisory agencies.

Table 12- The Initiation of Bank Supervision in the Various States(1)

Year regular examinations were authorized	Year separate or virtually separate supervisory authority was established(2)
Prior to 1870 - Connecticut, Maine, Massachusetts, New Hampshire	Prior to 1870 - Connecticut, Maine, Massachusetts, New Hampshire, New York, Ohio, Rhode Island, Vermont
1873 - Indiana, Iowa	1878 - California
1874 - Vermont	1888 - Michigan
1878 - California, Minnesota	1891 - Florida,(3) Kansas, New Jersey, Wyoming
1884 - New York	1892 - Pennsylvania
1887 - Illinois, Michigan	1894 - Wisconsin
1888 - Utah, Wyoming	1895 - Nebraska
1889 - Florida, Georgia, Nebraska, New Jersey, North Carolina	1897 - Illinois(4)
1890 - North Dakota	1898 - Louisiana
1891 - Kansas, Pennsylvania, South Dakota, West Virginia	1901 - West Virginia
1895 - Missouri, Montana, Wisconsin	1905 - South Carolina, North Dakota
1897 - Arizona, Oklahoma	1906 - Idaho, Oregon
1898 - Louisiana, Maryland	1907 - Colorado, Oklahoma, Washington
1903 - Alabama, Delaware, New Mexico	1909 - Minnesota, Missouri, Nevada
1905 - Idaho, Texas	1910 - Maryland, Virginia
1906 - South Carolina	1911 - Alabama, Utah
1907 - Colorado, Nevada, Oregon, Washington	1912 - Kentucky
1908 - Ohio, Rhode Island	1913 - Arkansas, Tennessee
1910 - Virginia	1914 - Mississippi
1912 - Kentucky	1915 - Montana, New Mexico, South Dakota
1913 - Arkansas, Tennessee	1917 - Iowa
1914 - Mississippi	1919 - Delaware, Georgia, Indiana
	1922 - Arizona
	1923 - Texas
	1931 - North Carolina(5)

(1) Sources: George E. Barnett, State Banks and Trust Companies Since the Passage of the National-Bank Act, Vol. VII, pp. 148-156 and 178-181, Publications of National Monetary Commission. H. Parker Willis, Report of an Inquiry into Contemporary Banking in the United States, Appendix B (unpublished), and various State banking statutes.

(2) Date of establishment of a banking department, board of commissioners, bank commissioner, bank examiner, or other board or official with substantially no other duties except the examination and supervision of banks. In some States, where banks, prior to the date given, were under the supervision of State auditors or other officials having other duties, there may have been assistants devoting full time to bank supervision at earlier dates than those stated.

(3) In Florida bank supervision is under the State comptroller, who published the first report on banking in 1891.

(4) In Illinois bank supervision is under the State auditor, with the earliest report available published in 1897.

(5) In North Carolina supervision was under the Corporation Commission until 1931, when a separate banking department was established.

By 1914, all the States had provided for regular examinations, but it was not until 1931 that all States had also established either separate supervisory agencies or agencies within the offices of other State departments.

State Supervisory Agencies. - The scope and powers of the supervisory agencies of the forty-eight States have varied greatly. In many cases numerous changes have been made from time to time. No attempt has been made by the Committee to outline the history of these State supervisory agencies, or to trace in detail the growth of their powers and the changes in their character. It has been felt desirable, however, to summarize briefly the status of State supervision at the time of the National Monetary Commission's investigation of banking conditions, and then to examine briefly the changes which have taken place since that date.

More than half of the States had set up separate or virtually separate banking departments prior to 1910, but several of these were comparatively new and were not well established. Moreover, many of them did not have adequate powers, especially in the handling of insolvent institutions, and in regard to the maintenance of sound assets as a means of preventing insolvency. The chief supervisors in almost all cases were political appointees, holding office in fact at the pleasure of the governors or of boards composed of their associates. The control of the supervisors over new charter applications was especially weak, as they either did not have discretionary power in granting them or else were subject to direct, or indirect but nevertheless potent, political influence. Their terms of office were also often too short to permit either the development of efficient organizations or a thorough acquaintance with the real problems and details of their duties and responsibilities. The salaries available for examiners, as well as the uncertain terms of office, were not sufficient to attract men of the proper qualifications to these positions. Because of inadequate funds and forces, bank examinations could not be made as frequently in some States as necessary. Finally, standards of banking practice and of supervision in general were more lax in most of the States than in the national system. Nevertheless the tendency toward creating single departments, or supervisors clothed with full authority to act without deferring to a board or other official, and entirely divorced from other administrative activities, was becoming quite marked.

The principal changes in the character of State supervisory authorities since 1909 are summarized in Table 13. (See also appendix Table II.)

Table 13 - The Status and Powers of State Supervisory Agencies
1909 and 1929-1932(1)

	Number of States	
	1909(2)	1929-1932
1. Supervisory agency		
(a) Separate or virtually separate	28	46
(b) Under other department	18	2
2. Type of supervisory authority		
(a) Single official in charge of banking	37	32
(b) Single official, supplemented by banking board	1	10
(c) Single official, appointed by or under the control of an executive banking board or other board	3	6
(d) Board, or two or three commissioners in charge of department	5	-
(e) No specific arrangement for supervision	2	-
3. Method of selecting commissioner or supervisor		
(a) Appointment by governor	19	41
(b) Election by popular vote	1	2
(c) Selection by banks, or from panel named by banks	-	2
(d) In other ways	2	3
4. Term of office of supervisor		
(a) Three years or less	12	10
(b) Four years	18	30
(c) Five or six years	2	4
(d) Indefinite term	1	4
5. Salary of supervisor		
(a) Under $5,000 per year	23	14
(b) $5,000 to $10,000 per year	7	28
(c) $10,000 or over per year	1	6
6. Method of selection of examiners		
(a) Civil service	-	6
(b) By supervisory agency solely	15	31
(c) By supervisory agency with approval of the governor or board	1	11

Table 13 - The Status and Powers of State Supervisory Agencies
1909 and 1929-1932[1] (Continued)

	Number of States	
	1909[2]	1929-1932
7. Powers relative to the organization of new banks		
(a) Principal discretionary power in passing on applications for new charters		
(1) Exercised by commissioner	13	31
(2) Exercised by banking board	4	17
(b) Must be assured of legitimate purpose and/or integrity of applicants	14	34
(c) Must take into consideration the public need and convenience for banking facilities	6	38
8. Powers relevant to banking operations		
(a) Examinations		
(1) Required to conduct annual examination	21	15
(2) Required to conduct examinations more than once a year	17	29
(3) Authorized to conduct examinations at any time	39	44[3]
(b) May require stockholders to make good impairment of capital	31	44
(c) May limit borrowing by banks	5	12
(d) May require removal of undesirable and/or illegal assets	2	15
(e) May order removal of officers or employees	4	12
(f) May order removal of directors	-	6
(g) May recommend removal of officers or employees	1	8
(h) May recommend removal of directors	-	3
9. Powers relevant to insolvent banks[4]		
(a) May liquidate the bank	9	35
(b) May appoint a receiver	3	4
(c) May apply for appointment of a receiver	37	21

(1) Sources: 1909, George E. Barnett, State Banks and Trust Companies Since the Passage of the National-Bank Act, Vol. VII; and Samuel A. Welldon, Digest of State Banking Statutes, Vol. III, Publications of National Monetary Commission. 1929-1932, State bank division, American Bankers Association, Results of Questionnaire on Bank Supervision, 1929, prepared by the various State banking departments; and banking statutes of the various States.

(2) In many instances data for 1909 only partially available.

(3) In 40 of these States, at present, regular examinations are also required, while in the other 4 the frequency of examinations is discretionary.

(4) In several States the supervisory authority has the option of liquidating the bank or of applying for the appointment of a receiver, while in one State the option is between appointing and applying for the appointment of a receiver.

It is apparent from this tabulation that there have been substantial changes in the degree and character of State bank supervision during the past twenty years. It will be clear, also, that in most States the supervisory agencies now have about as much power over the organization of new banks, over the operation of active banks, and over insolvent banks as the Comptroller of the Currency has over national banks. In actual operation it is not to be expected that all State banking departments would be, at the present time, as effective as the office of the Comptroller of the Currency. Some of these departments are relatively new, and have not yet had time to build up so well trained a staff or so carefully worked out a procedure in regard to examinations and other aspects of supervision as has been done in the comptroller's office.

Weakness of State Supervision. - Political pressure has been an important influence in State banking departments. In many States the pay is meager, and the terms of office of supervisors and length of appointment of examiners too short and uncertain to attract capable, qualified men. Some States have too few examiners to examine the banks adequately.

In most States, as in the case of national bank supervision, there is no statutory power in the hands of the supervising authority to require the removal of bad assets. Also, few supervisory authorities have any power to enforce the banking laws of the States except by the arbitrary closing of insolvent banks. In some States the liquidation of failed banks is still handled by the courts rather than through the departments of banking, and this has prevented prompt disposal of insolvencies and the development of a good technique for liquidation.

While the foregoing tabulation indicates in a general way the chief elements of strength and weakness of bank supervision in the various States, a clearer conception of some of these elements may be gleaned from statements of the supervisors themselves. In 1929 the American Bankers Association sent a questionnaire to the supervisory authorities of the forty-eight States which elicited a considerable amount of factual material as to the status of these agencies and their powers, with particular reference to those features which had contributed most to efficiency and those which had weakened effective supervision.

The matter of adequate funds with which to meet the expenses of the banking departments received especial attention. Whereas some States reported both ample salaries and provision for an adequate staff, about a third stated that they were inadequately financed.

One supervisor complained of the rigidity of salaries fixed by statute. Another stated:

> "Salaries have not been increased to keep step with increases in other walks of life, and it is very difficult to get qualified examiners."

Several suggested salary scale revisions for their offices, with increases ranging as high as 100 per cent. In support of these recommendations, it was held that compensation was markedly out of proportion with the degree of responsibility assumed, and that it was impossible to keep capable men in office, for they were continually being attracted to other employment by higher pay. One comment was:

"Salaries of senior examiners, chief examiner and deputy commissioner should be on a graduating scale equal to the salaries of vice-presidents and treasurers of large banking institutions. This will have a greater tendency to hold permanently the men filling these positions, for the reason that experience in this work is an important qualification."

A number of supervisors reported that political influence on their departments was strong. One result of this influence was the instability of the tenure of office of supervisors, as illustrated by the following reply to the questionnaire:

"With the exception of 1928 no governor has ever been elected for two successive terms which has resulted necessarily in new appointments (of banking department officials) being made every two years."

In a number of States steps were taken to lessen political influence by making the term of office of the supervisor longer than that of the governor, so that the former does not automatically go out of office with the latter. In two States the supervisors were nominated or selected by the bankers, and the examiners in a few States were selected solely on the basis of their experience and fitness.

In a number of States the supervisor has duties other than the administration of the banking law. In many States he is charged with the supervision of building and loan associations, credit unions, etc., and in some cases with the auditing of public accounts. The effect of such a situation was expressed by one of the supervisors as follows:

"The principal element of weakness lies in the fact that the commissioner's duties extend to the administration of the Fraud Act and the supervision of institutions other than banks. It would make for greater efficiency if this department confined its activities to the supervision of banks only."

In about a third of the States applications for new charters are passed upon by a board, instead of a single official. But no matter what the type of authority, political influence has too often been brought to bear. This state of affairs is described in the following extract from an address delivered in 1923 by Mr. E. H. Wolcott, bank commissioner of Indiana:(1)

> "In Indiana all applications for a charter for a new bank must be presented to the charter board. When an application is made for a charter the duty of the commission is to have an investigation made to see whether the situation is desirable and whether the men are responsible and capable. That is presented to the charter board when application is made and action is taken. I have been absolutely opposed to certain conditions in banking. One of the conditions that causes us concern in Indiana is the establishment of two small banks in a small town. The competition is too heavy and eventually one bank or the other goes under. We have two banks in towns with only 400 people in it. (sic.) Think of that! Most of the board are candidates for office. An application for a charter is scarcely ever made in Indiana unless it is presented by some distinguished lawyer who has influence with some one connected with the charter board. Usually the charter is granted. We are striving to correct that condition and I feel that as the banking department is responsible for the conditions of these banks that the charter should be granted by the Commissioner of Banking."

The general impression conveyed by the answers to the questionnaire of 1929, as well as by other comments of State supervisors, is much the same as that conveyed by the tabulation given above. That is to say, most of the State supervisory authorities appear to be about as well equipped with legal powers as the national authorities. With a few exceptions, however, there seems to be considerable difference in the exercise of such powers.

The quality of supervision may be illustrated for one State by the report of the attorney general after conducting an investigation of the

(1) National Association of Supervisors of State Banks, Proceedings of the Twenty-second Annual Convention, 1923, p. 106.

department of banking and finance ordered by the Legislature of South Dakota. In the introduction to his report the attorney general made the following significant statement:(1)

"This report will show that for the past ten years the true spirit and intent of our laws relating to banking have been ignored by the persons in charge of their administration. The purpose of the law has been completely subverted. Instead of administering the law for protection of the public it has been administered solely for the benefit of the individual bank corporation. Banks which were hopelessly insolvent have been kept open by deposits of the public money, fictitious valuation of assets, and in utter disregard of the plain provisions of the law requiring banks in unsafe condition to be closed. Liquidation of closed banks has been slow and expensive. Funds of closed banks have been used for bolstering up other insolvent bank where they were later lost a second time. Dividends were withheld from depositors accordingly. The whole system has been badly infected with politics. The superintendent of banks now in office has, in utter disregard of the spirit of his trust, kept large sums of closed bank money upon deposit in banks at Platte, South Dakota, on account of his interest in one of said banks; and has deliberately tried to conceal the true facts of such deposits from the legislative investigating committee. The Bankers' Association of the state, aided by the superintendent of banks, has conducted a vicious legislative lobby during every session of the state legislature and as a result every important banking law enacted since 1915 when the Association was given official recognition has been a law in the interests of the individual bank corporation and against the interests of the public.

"We realize that the foregoing statement is strong and pointed. The following report shows that every statement made is supported by reliable evidence."

(1) South Dakota, attorney general, Report and Supplemental Report to the Legislature of the Investigation of the Department of Banking and Finance, February 27, 1930.

It would be impracticable to make anything like a general appraisal of the merits or demerits of State bank supervision. As in the case of banking legislation, wide variations exist among the different States. In a few instances there is some reason to believe that both the State banking laws and the State supervision are of a quality equal to those of the national banking system, but in many States this is not the case.

Excessive Granting of Charters

One of the most obvious defects in State banking supervision has been manifested in connection with the chartering of new banks. It is true that minimum capital and other legal requirements are beyond the control of supervisory authorities, but in most instances they have considerable discretionary power to grant or refuse charters. State supervisors in general have been in a position to discourage or to further the multiplication of small banks according to their own judgment of sound public policy. But their judgment has been subject to the pressure of the constantly existing competition for numbers and resources of banks between the national and the State systems. The simplest method of increasing the relative importance of their own systems has been to grant charters for the opening of new State institutions. This phase of competition was described by F. R. Smith, Superintendent of Banks of South Dakota, as follows:(1)

(1) National Association of Supervisors of State Banks, Proceedings of the Twenty-eighth Annual Convention, 1929, p. 90.

"I think perchance one of the greatest dangers that confronted the banking industry in South Dakota was a contest and conflict between the national and state systems some five years ago. Each system was fighting the other and, in an effort to win, each was granting charters beyond the interests of the communities. That fight was responsible for much of the failure of banks in the State of South Dakota."

Numerous examples can be cited of the overbanked condition which resulted from the excessive granting of charters prior to 1920. A town of 1,300 population in Iowa had four banks in 1921. By 1931 only one bank remained in business. A town in South Dakota with a population of 300 had one bank with a State charter when the Comptroller of the Currency granted a national charter for another. The result was two crippled banks. Another South Dakota town of 600 inhabitants had three banks. All failed. One county in North Dakota with a population of 10,000 had 18 banks. By the end of 1931 it had only three. In one Montana county of 14,000 inhabitants where all towns but the county-seat were under 500 population there were 21 banks, of which only two remained in 1931, and both of them were in the county-seat town.

The instances cited above are not isolated cases; they are typical of conditions in many agricultural States around 1920, particularly in the Northwest and in the South. In the Western Grain States,(1) for example, the number of incorporated banks (State and national) increased from 2,760 in 1900 to 8,992 in 1920. By the end of 1931 the number had been reduced to 4,878, partly by consolidations but mainly by bank failures. In the Southeastern States(2) the increase was from 519 in 1900 to 2,793 in 1920, and the number had been reduced by the end of 1931 to 1,389 institutions. The

(1) Minnesota, North Dakota, South Dakota, Iowa, Nebraska, Missouri, Kansas.
(2) North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi.

record is of the same character in the Southwestern States,(1) where the number of incorporated banks rose from 448 in 1900 to 3,261 in 1920 and then declined to 2,102 by the end of 1931.

In 1920, 18 States had less than 3,000 persons per bank, and half of these less than 2,000. The latter 9 States constitute a solid block in the Middle West and Northwest, including Minnesota, Iowa, Kansas, Nebraska, South Dakota, North Dakota, Montana, Wyoming, and Idaho. In 2 of these States, the Dakotas, the population per bank was less than a thousand. This would roughly indicate an average of only two or three hundred individual customers per bank.

The great increase in the number of banks took place during a period of rising prices and land values. Under such conditions banks were apparently able to operate regardless of size or the quality of management. This growth in numbers occurred chiefly among State banks which were four times as numerous in 1920 as in 1900, as is shown in Chart 1.

The great majority of banks in existence in 1920 were small institutions. Over 6,500 of them had loans and investments of less than $150,000 each, and nearly 19,000 had loans and investments of less than $500,000 each. About 83 per cent of these 19,000 small banks were operating under State charter. In addition there were 1,350 private banks in operation at that time, most of which were also small institutions.

Small communities boasted of the number of banks in their midst. In North Dakota the attempt to check the opening of new banks by raising the $10,000 minimum capital requirement was defeated in every legislative session for eight years prior to 1915 on the ground that existing banks were trying

(1) Louisiana, Texas, Arkansas, Oklahoma.

to monopolize the banking business. In 1915, however, a compromise bill was enacted requiring a minimum of $15,000 instead of the $20,000 recommended by the governor in his message.(1) In Iowa somewhat later a committee of bankers (both State and national) undertook to persuade the State legislature to restrict the chartering of new banks, but the legislature in effect laughed at the committee and took the position that more competition was desirable. It did, however, enact a war emergency measure temporarily authorizing the superintendent to restrict the grant of new charters.(2)

Supervisory authorities in this situation might have been expected to use at least the discretionary power at their command to restrict the excessive organization of new banks. In some cases they did foresee the dangers of too many small institutions. Occasional notes of warning of an overbanked condition began to appear in the annual reports of the supervisors in certain States as early as 1910. Similar expressions of apprehension, coupled with recommendations that more power be given the supervisors to refuse charters, were more frequent in later reports.(3) Quite apart from the sometimes inadequate powers of the supervisory authorities, however, they were subjected not only to the pressure of public opinion, but often also to strong political influence in behalf of would-be bankers. Moreover, in the absence of authority to permit large banks to establish branches in small communities, it was frequently the case that such communities could be provided with the banking service they wanted only through the opening of new local banks. Thus the supervisory authorities were often

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(1) The North Dakota Banker, July, 1915, p. 7.

(2) H. H. Preston, History of Banking in Iowa, p. 199 ff.

(3) See, for example, reports of State banking departments: Oklahoma, 1910 and 1914; South Dakota, 1913-1914; Minnesota, 1912, 1913-1914, and 1915; Missouri, 1912; North Dakota, 1914.

faced with difficult problems, even without the competitive situation inherent in the dual control of banking. With that competitive situation added, the proper performance of their duties was rendered well-nigh impossible. Promoters of new banks were sometimes able to play one supervisory agency against the other. One authority was made to understand that if he refused a charter the proposed institution would be opened in any case with a charter from the other supervisory authority.

All too often, consequently, a charter was issued for a community which could not support a bank or in which banking facilities were already ample. Many charters were granted with little or no regard to the qualifications of the applicants. Frequently the men running the new institutions knew very little about the principles or practices of banking. Many banks of this sort were not only foredoomed to failure but they were also likely to imperil the existence of other banking institutions.

Some of the results of indiscriminate chartering of banks and the resulting competition were stated as follows by the Study Commission for Indiana Financial Institutions:(1)

> "Authorities are unanimously agreed that the indiscriminate chartering of banks has been one of the major causes for the difficulties through which we have recently passed. Receivers, liquidating agents, and other persons familiar with the affairs of failed banks suggested, in 41 instances, that bank failures in Indiana have been due to improper chartering. . . . Intimate knowledge of individual failures, however, leads to the inescapable conclusion that many of the practices leading to bank failures, were directly caused by 'cut-throat' competition which sprang up in various communities as a result of too many banks or of the chartering, often for direct or indirect political reasons, of 'spite' banks.
>
> "Instances are known in Indiana of new bank charters being sought and obtained by church groups, lodge groups, or political groups antagonistic to the church group, lodge group or political

(1) <u>Report of Study Commission for Indiana Financial Institutions</u>, 1932, p. 87.

group in control of the existing institutions. In numerous instances from 1920 to 1932, villages of less than 500 people had two or more banks operating. Competition in such communities necessarily was bitter because it was nothing less than a death struggle between the contending business groups, and consequently desperate chances were taken nearly always making for bad banking practice. In some instances, bankers with long records of successful management were driven by the emergency in which they found themselves to take 'long' chances and to indulge in practices not sanctioned by sound banking management.

"Many of the new banks that were chartered between 1910 and 1924 were chartered by groups not in sympathy with the conservative or anti-inflationary policies of existing institutions. During this period in which the most rapid increase in banking units took place in Indiana, much 'inflation-madness' was apparent throughout the state. If certain groups were unable to satisfy their demands for banking facilities at one bank, they would threaten to take their business to competing banks where perhaps more agreeable treatment in the matter of borrowing awaited them. Many customers borrowed from several banks, but allowed each banker to think that he alone was advancing them credit. If all the bankers in a community were 'old-fashioned' and 'unreasonable', the usual procedure was to start a new bank by way of protest, a bank that would be unfettered by 'old fogey ideas' as to the caution with which banks should be operated.

"As time went on and inflation increased, deposits in all institutions mounted steadily. Funds accumulated faster than loan applications were made, and consequently competition for loans was keen. Equities seemed always to increase. As a result the new and oftentimes untried and unsound bank executive appeared to succeed as well or even better than the more experienced and conservative executive. It was not surprising, therefore, that many seasoned bankers were swept into this mad maelstrom of reckless and 'cut-throat' competition."

CHAPTER VI

MOTIVES FOR CHOICE OF CHARTERS

It was indicated in Chapter II, Table 8 particularly, that the growth of loans and investments of State banks was considerably greater in the decade from 1920 to 1930 than the growth of the loans and investments of national banks. The greatest growth was among State member banks and trust companies, the loans and investments of which increased $5,895,000,000 against $4,202,000,000 for national banks, and $1,816,000,000 for nonmember State banks and trust companies. On a percentage basis the greater growth of the State member banks was even more striking. Their loans and investments increased nearly 74 per cent, while those of national banks increased only about 24 per cent and those of nonmembers increased only 17 per cent. In all these cases the greatest growth was among the largest banks.

The Effect of Consolidations and Conversions

As a means of obtaining a partial measure of the extent to which the shifting of banks from one system to the other has been responsible for differing rates of growth of various classes of banks, a list has been made of the more important instances of conversions since 1920 from national to State charter, and *vice versa*. This list, which is given in the appendix (Table III) includes not only direct conversions from national to State or from State to national charter, but also mergers of national and State banking insitutions. In view of the difficulty of obtaining data regarding the mergers of small banks, or the absorption of small banks by large banks, the list has been limited to the larger institutions. All consolidations and conversions are included in which the disappearing banks had $5,000,000 or more of loans and investments.

From this list a tabulation has been made of aggregate loans and investments lost to the national system and gained by the State system through conversions from national to State charters and through the absorption of national banks by State chartered institutions; and likewise, of the aggregate loans and investments lost by the State systems and gained by the national system as a result of conversions from State to national charter and of the absorption of State banks and trust companies by national banks.[1] The results of these tabulations are given in Table 14.

Table 14 - Aggregate Loans and Investments of Large Banks Lost to the National and State Banking Systems by Consolidation and Conversion, by States, 1921-1931[2]

(in thousands of dollars)

State by geographic division	National charters given up		State charters given up	
	By consolidation	By conversion	By consolidation	By conversion
New England	75,784	8,109	178,955	20,568
Maine	7,387	8,109	-	-
Massachusetts	20,775	-	166,596	20,568
Rhode Island	19,180	-	-	-
Connecticut	28,442	-	12,359	-
Middle Atlantic	2,305,403	20,476	1,158,783	15,835
New York	2,027,114	13,786	1,009,524	15,835
New Jersey	93,154	6,690	57,133	-
Pennsylvania	125,747	-	82,541	-
Maryland	59,388	-	-	-
District of Columbia	-	-	9,585	-
North Central	1,031,693	-	826,269	31,064
Michigan	54,646	-	472,696	-
Wisconsin	-	-	34,126	10,713
Illinois	671,938	-	234,418	20,351
Indiana	-	-	15,930	-
Ohio	305,109	-	69,099	-

(1) The shrinkage of loans and investments often experienced upon the consolidation of banks has not been taken into consideration. Because of this shrinkage the gains to each system are probably less than the respective losses to the other.

Table 14 - Aggregate Loans and Investments of Large Banks Lost to the National and State Banking Systems by Consolidation and Conversion, by States, 1921-1931(2) (Continued)

(in thousands of dollars)

State by geographic division	National charters given up: By consolidation	National charters given up: By conversion	State charters given up: By consolidation	State charters given up: By conversion
Southern Mountain	57,356	-	19,585	26,309
Virginia	44,424	-	13,484	-
Kentucky	12,932	-	-	-
Tennessee	-	-	6,101	26,309
Southeastern	47,062	-	61,237	74,645
North Carolina	24,219	-	-	-
South Carolina	9,132	-	-	-
Georgia	13,711	-	27,973	50,754
Florida	-	-	20,952	-
Alabama	-	-	12,312	10,878
Mississippi	-	-	-	13,013
Southwestern	29,882	-	-	20,192
Louisiana	10,514	-	-	-
Texas	19,368	-	-	20,192
Western Grain	186,766	-	95,395	31,447
Minnesota	-	-	13,894	-
Iowa	-	-	6,863	-
Missouri	186,766	-	74,638	26,233
Kansas	-	-	-	5,214
Rocky Mountain	-	-	-	8,970
Colorado	-	-	-	8,970
Pacific Coast	258,824	-	891,944	541,517
Oregon	-	-	18,195	-
California	258,824	-	873,749	541,517
UNITED STATES	3,992,770	28,585	3,232,168	770,547
Total 1921-1930	3,891,526		3,504,172	
Occurring in 1931	129,829		498,543	
Total 1921-1931	4,021,355		4,002,715	

(1) Table based on data concerning banking changes collected by the Committee on Branch, Group, and Chain Banking, supplemented by records of the Federal Reserve Board, Division of Bank Operations, and Rand McNally Bankers Directory. Since the Directory figures appear only every six months, loans and investments at time of consolidation or conversion may have differed from those included above in some cases. Table includes only those banks with loans and investments of $5,000,000 or more at the time of conversion or consolidation.

While neither the period nor the data covered by Table 14 are identical with those covered by Table 8 (Chapter II), they are nearly enough alike to give a rough indication of the degree to which charter changes account for the changes in the aggregate loans and investments of State and of national banks, respectively. The total growth during the decade from June 30, 1920, to June 30, 1930, in the loans and investments of large State banks (those shown in Table 8 with more than $10,000,000 of loans and investments) amounted to approximately eight and a half billion dollars, and that of large national banks to nearly four billion dollars. In comparison with this, the net gains to the State banks, and conversely, the net losses to national banks, from charter changes during the decade from January 1, 1921 to December 31, 1930, as indicated by Table 14, amounted to less than half a billion dollars. It is evident therefore that the greater growth of State banks was not accounted for by the shift of banks from national to State charter.

In the list of charter conversions and consolidations referred to above there were 119 national banks absorbed by State banks or trust companies and 4 converted directly from national to State charters, with loans and investments of $3,992,770,000 and $28,585,000, respectively. All four of the converted banks became nonmembers, and 29 of the absorbed banks were consolidated with nonmembers. The loans and investments of the banks lost to the Federal reserve system by these conversions and consolidations amounted to $416,770,000. Accordingly, of the $4,021,355,000 of loans and investments which Table 14 shows was lost by the national banking system, only $416,770,000, or about 10 per cent, was also lost by the Federal reserve system. About sixty per cent of the State banks turning to national charters were already members of the system.

The regional character of the shift from national to State, and from State to national charters is also shown by the figures in Table 14. The net loss to the national system was greatest in New York, Illinois, and Ohio in the eleven year period because of conversions and consolidations. The State systems lost most heavily in California and Michigan.

No special investigation has been made to determine the type of State charters taken out in the case of conversions from national charters, nor the type of State charter held by the institutions absorbing national banks. In all but a very few cases, however, the succeeding institution had the word "trust" in its title, indicating that in nearly all cases the charters issued were of the trust company rather than the commercial bank type, or at least that the new institution possessed fiduciary powers.

The McFadden Act, passed in 1927, was designed to stop the movement of banking business from national to State banks by giving national banks a number of additional powers, and making their charters of indeterminate length, instead of ninety-nine years. This latter provision was expected to be of considerable advantage in the exercise of fiduciary powers, for the fact that national banks had not been chartered in perpetuity had militated against their appointment as trustees. To indicate what the effect of the McFadden Act has been, the basic data shown in Table 14 are presented in Table 15 by years, instead of by States.

Table 15 - Aggregate Loans and Investments of Large Banks Lost to the National and State Banking Systems by Consolidation and Conversion by Years, 1921-1931(1)

Year	National charters given up: Number	National charters given up: Loans and investments (000 omitted)	State charters given up: Number	State charters given up: Loans and investments (000 omitted)
1921	11	$ 565,423	3	$ 57,642
1922	3	70,724	7	84,035
1923	12	238,752	4	104,073
1924	6	128,500	7	108,850
1925	4	98,272	6	91,001
1926	14	359,533	5	169,228
Total 1921-1926	50	$1,461,204	32	$614,829
1927	9	$ 117,177	15	$ 982,070
1928	16	309,778	18	356,248
1929	27	1,844,416	17	637,359
1930	15	158,951	8	913,666
1931	6	129,829	7	498,543
Total 1927-1931	73	$2,560,151	65	$3,387,886

(1) Banks with loans and investments of $5,000,000 or more at time of conversion or consolidation. Source of data same as for Table 14.

It will be seen that, measured in loans and investments, the losses suffered by the national system through surrender of large bank charters in the six years prior to the passage of the McFadden Act were counterbalanced by an almost equal gain in the succeeding five years. In the six years preceding passage of the act, the national system suffered a net loss of $846,375,-000 through conversion of large banks (i.e., the difference between $1,461,204-000 belonging to large banks which gave up national charters, and $614,829,000 belonging to larger banks which gave up State charters); whereas in the six succeeding years, the State systems suffered a net loss of $827,735,000 (i.e., the difference between $3,387,886,000 belonging to large banks which gave up State charters and $2,560,151,000 belonging to large banks which gave up national charters).

This bears out what has already been said to the effect that charter conversions of large banks do not account for the relatively larger growth of State banks and trust companies compared to national banks in the eleven year period. The greater growth of State banks as a whole, therefore, must have been due to new organizations and to the more rapid growth of individual institutions with State charters.

Reasons for Charter Preferences

Although the factors which have been responsible for the more rapid growth of State banks have not led to wholesale conversions of national banks into State institutions, it is possible to determine in a general way some of the more important of these factors by listing the motives for the charter changes which have occurred.

To secure as accurate information as possible in regard to the reasons for charter preferences, the Committee has made special inquiries in the case of a considerable number of charter conversions and consolidations of national banks with State banks or trust companies. These inquiries were addressed to the various Federal reserve agents, and forwarded in many cases to officials of the banks concerned. In other cases the Federal reserve agents were sufficiently familiar with the circumstances to reply directly to the Committee's inquiry. The cases of charter conversions and consolidations were chosen from the list referred to in the preceding paragraphs and reproduced in full in the appendix.(1) They included all cases in that list of direct conversion from State to national, or national to State charter, and all consolidations in which the consolidating banks were approximately the same size or in which the charter of the smaller bank was retained.

(1) See appendix, Table III.

After omitting the instances in which the motive for consolidation had no apparent connection with the competition between the various classes of banking institutions, 61 cases remained.

Of these 61 cases, State charters were chosen or retained in the case of 45, and national charters in the other 16. Inquiry was not made as to whether the State charters chosen or retained were trust company charters or bank charters. The titles of the banks, however, and the character of the correspondence indicate that most of them were trust company charters. In only 2 cases did the succeeding insitution fail to have the word "trust" in its title.

The motives given for the choice or retention of national or State charters, respectively, are indicated in Table 16. In most of the cases several motives were involved, and in only a few cases has it been possible to be sure which was the primary one. The table shows, therefore, only the number of times each motive was reported to have been a significant influence. Because of the extensive changes in the powers of national banks made early in 1927 by the passage of the McFadden Act, the conversions and consolidations during the period 1921-1926 have been separated from those during the period 1927-1931.

Table 16 - Motives for the Choice of National or State Charters in 61 Conversions and Consolidations, 1921-1931

	Total 1921-1931	1921-1926 Direct conversions	1921-1926 Consolidations	1927-1931 Direct conversions	1927-1931 Consolidations
	National charters chosen				
Number of cases	16	1	1	7	7
Number of times the following motives appeared:					
Prestige of national banks	10	-	-	7	3
Prospective branch banking	4	-	-	1	3
Economy (taxation)	2	-	1	-	1
To escape State supervision	1	-	-	1	-
Good-will value of name	4	1	-	-	3
	State charters chosen				
Number of cases	45	2	23	2	18
Number of times each motive was mentioned:					
Branch and group banking:					
Branches	10	-	6	1	3
Ownership of bank stocks	2	-	-	-	2
Loan and investment powers:					
Real estate mortgage loans	11	-	8	1	2
Limits on individual loans	3	-	2	-	1
Ownership of corporate stock or other investment privileges	3	-	2	1	-
Non-banking powers:					
Fiduciary powers	19	-	10	-	9
Securities underwriting and merchandising	2	-	2	-	-
Title insurance	2	-	1	-	1
Broader powers in general:					
Under special charters	3	-	3	-	-
Under trust company charters	12	-	8	-	4
Economy:					
Nonmembership in Federal reserve system	1	-	-	1	-
Taxation	1	-	1	-	-
Changes in forms	1	-	-	-	1
To escape Federal supervision	13	2	4	2	5
Good-will value of name	7	-	2	-	5

Choice of National Charters

According to this analysis, the most important motive for choosing a national instead of State charter is the greater prestige of the national banks. Out of the 16 banks which chose to convert from State to national banks, or upon consolidation, to retain national rather than State charters, 10 mentioned the superior standing of the national banks in the eyes of the communities and customers to be served. In 4 cases the name of the specific national bank was believed to have more good-will value. In 7 cases where banks chose to operate under State charter the good-will of the name was mentioned.

Choice of State Charters

Fiduciary Powers. - The motive most frequently mentioned for choosing a State charter was the greater or more secure fiduciary powers held by State banks, this having been mentioned in 19 out of the 45 cases. Of these, 10 were conversions or consolidations occurring prior to 1927, and 9 occurring since the beginning of 1927. Preference for exercising fiduciary powers under State charter appeared as a motive more often in New York and Ohio than elsewhere. The predominance of this motive may appear surprising, in view of the amendment to the Federal Reserve Act of September 26, 1918, and especially in view of the clause relating to trust powers in the McFadden Act. It is desirable, therefore, to consider somewhat more fully than hitherto the fiduciary powers of national banks.

The amendment to the Federal Reserve Act approved on September 26, 1918, provided for additional trust powers to national banks.(1) It gives the

(1) Fifth Annual Report of the Federal Reserve Board, 1918, p.262.

Federal Reserve Board power:

> "(k) To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located.
>
> "Whenever the laws of such State authorize or permit the exercise of any or all of the foregoing powers by State banks, trust companies, or other corporations which compete with national banks, the granting to and the exercise of such powers by national banks shall not be deemed to be in contravention of State or local law within the meaning of this act."

There appear to have been several important questions which arose in regard to the exercise of fiduciary powers by national banks under the provisions of this act. In the first place, the phrase, "when not in contravention of State or local law," led to difficulties because of the applicability to national banks of various State laws regarding duties imposed upon trustees or other fiduciaries.

A second problem arose because of the limited charter of national banks, which at that time was for twenty years only. National banks could not accept trusts for a period of time beyond the expiration date of their charters, since they had no power to enter into contracts to perform any kind of service after those dates. After the passage on July 1, 1922, of the amendment extending the charters of national banks to 99 years, this difficulty became less serious, since most trusts would be completely terminated within that time. But it was not even then possible to accept trusts of indeterminate length, particularly those which might extend beyond the charter period. This difficulty was not, therefore, entirely removed until the passage of the McFadden Act, which made national bank charters perpetual.

Moreover, the question as to whether or not the corporate identity of a State chartered trust company ceased when it was absorbed by a national bank was an important one. If it did cease, all trusts naming the trust company as trustee automatically became vacated, and the court would have to make new appointments of trustees. Upon this question there appears to have been disagreement. The Comptroller of the Currency, in 1927, in reply to an inquiry from a bank which wished to take out a national charter, stated that he had no doubt but that "all the trust business automatically goes over under the national jurisdiction. . . . The courts have held that the corporate entity of the State bank continues, there being only an exchange of jurisdictions."(1) The contrary opinion is expressed in the following quotation from a letter written in January, 1927, by the legal advisor to a trust company that was contemplating a merger with a national bank.

> "If the ______ Trust Company, a (State) Corporation, went into voluntary liquidation as would necessarily be the case if it were absorbed by or merged with the National Bank, we are clearly of the opininion (as was Mr. ____ when this matter came up for discussion at various times during the past eight or nine years) that all Wills and Trust agreements now executed naming the _____ Trust Company, would, if not voluntarily changed so as to specifically name the National Bank, be of no value so far as the _____ Trust Company is concerned. This is true because the National Bank could in no sense be considered as the same Corporation as the _____ Trust Company ******** nor could the National Bank be considered as a successor of the Trust Company so as to be entitled, or claim to be the company designated in such Wills and Trust agreements as the _______ Trust Company. In addition, if the Trust Company went

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(1) In support of this opinion the comptroller cited the following three cases: Metropolitan National Bank v. Claggett 141 U. S. 520; City National Bank of Poughkeepsie v. Phelps 97 N. Y. 44; and In re Turner's Estate, 120 Atl. 701.

into liquidation by reason of an absorption or merger as above outlined, automatically all of the Trusts which it now administers as the _____ Trust Company would be without a Trustee, and it would then be up to the Probate Court to appoint a successor Trustee, and as you very well see, the Probate Court might or might not appoint the National Bank in our arrangement, in view of the fact that the _____ Trust Company had voluntarily disqualified itself from administering such Trusts, a very considerable portion of such business would be lost to the National Bank."

Other comments in this connection are the following:

"On account of a peculiarity of the _____ law, as relating to private trusts, it, in the event the trust company should be succeeded by another institution, would give to the beneficiaries of a trust, the right to change the trustee, and for this reason, it would probably be necessary, when the consolidation was effected, to liquidate the National Bank."

"The Trust Company of _____ had a large volume of trust business and a number of Wills in their vaults which could not then or now be transferred to a national bank without the consent of the parties interested."

When the McFadden Act was drafted, it was hoped that provisions could be included which would solve some of these questions. The act included the following language:(1)

". . . any bank incorporated under the laws of any State, or any bank incorporated in the District of Columbia, may be consolidated with a national banking association located in the same county, city, town, or village under the charter of such national banking association. . . all the rights, franchises, and interests of such State or District Bank so consolidated with a national banking association in and to every species of property, real, personal, and mixed, and choses in action thereto belonging, shall be deemed to be transferred to and vested in such national banking association into which it is consolidated without any deed or other transfer, and the said consolidated national banking association shall hold and enjoy the same and all rights of property, franchises, and interests including the right of succession as trustee, executor, or in any other fiduciary capacity in the same manner and to the same extent as was held and enjoyed by such State or District bank so consolidated with such national banking association . . . No such consolidation shall be in contravention of the law of the State under which such bank is incorporated.

(1) Fourteenth Annual Report of the Federal Reserve Board, 1927, pp. 258, 259.

> "The words 'State bank,' 'State banks,' 'bank,' or 'banks,' as used in this section, shall be held to include trust companies, savings banks, or other such corporations or institutions carrying on the banking business under the authority of State laws."

The Worcester Case. - The question dealt with in this statute was promptly tested by the Worcester County National Bank case in Massachusetts in 1928-1929. The Fitchburg Bank & Trust Company, a State institution of Massachusetts, and the Merchants National Bank of Worcester had consolidated on June 27, 1927, under the name of the Worcester County National Bank. In the spring of 1928 the Worcester County National Bank filed in the probate court of the county an account of its executorship of one of the wills of which the predecessor trust company had been executor. The question was then raised as to whether the national bank had automatically succeeded to the executorship, when it had absorbed the trust company, or whether the executorship had been vacated by the disappearance of the predecessor trust company, which had been named as executor.

It is clear that the McFadden Act intended that national banks should succeed automatically to trusteeship in cases of consolidation. The case filed in the Massachusetts courts involved the question whether or not, under the State law, this succession was true in practice. There were two parts to this question. In the first place, the McFadden Act provided that no consolidation between a national bank and a State bank or trust company should be in contravention of the State law under which such bank was incorporated. The State law regarding bank consolidations had therefore to be examined, to see whether it forbade the succession of these powers. In the second place, the property of deceased persons is a matter subject to the jurisdiction of State law, and the laws regarding trusteeship of such property had to be examined, to see whether the succession of the national bank to the trusteeship conformed to Massachusetts law.

In regard to the consolidation of banks, the Massachusetts law read as follows:

> "The charter of a trust company, the business of which shall, on or after July 1, 1922, be consolidated or merged with, or absorbed by, another bank or trust company, shall be void except for the purpose of discharging existing obligations and liabilities."

In the light of this law, the Supreme Judicial Court of Massachusetts held that the trust company had gone out of existence and all of its property had become the property of the consolidated bank, which was an enlargement of a continuously existing national bank. That is, the corporate identity of the trust company had not been continued, but had been extinguished. The question still remained, however, whether the trusteeship was property which had become the property of the national bank, or whether its exercise was a continuance of an obligation or liability existing at the time of consolidation. With respect to these questions the court held that the appointment of an executor is a strictly confidential relationship, is not contractual, is not a property right of the fiduciary, and involves no pecuniary interest on the part of the fiduciary. The succeeding national bank had, therefore, no obligations or liabilities in respect to the executorship, flowing from its succession to the property of the trust company, no longer in existence.

In regard to the law governing the trusteeship of the property of a deceased person, the Supreme Judicial Court of Massachusetts held that the appointment of an executor is a function of the probate court. This authority before appointing an executor, administrator, trustee, or other fiduciary must inquire carefully as to his character, integrity, soundness of judgment, and general capacity. An appointment should follow only after a favorable finding, regardless of whether the fiduciary is an individual or a trust company or a national bank. The probate court had never made such an examination of the Worcester County National Bank, and had not appointed that bank as executor. The decision held, moreover, that the appointment of fiduciaries to administer trusts and the settlement of estates is a subject within the exclusive jurisdiction of the States. No clause of the Constitution of the United States confers upon Congress any such power, which is among those reserved to the States by Article 10 of the amendments. The automatic recognition of the Worcester County National Bank as executor of the estate would amount to the appointment of an executor by Congressional legislation. This would be in contravention of Massachusetts law, under which the State judiciary is the only authority with power to appoint.

The Supreme Judicial Court of Massachusetts thus held that the executorship was vacated at the time of the absorption of the Fitchburg Bank and Trust Company, and that the Worcester County National Bank was not the executor of the estate in question. The national bank could apply for appointment as executor, and the probate court could, if it so desired, make the appointment. The case was appealed to the Supreme Court of the United States,(1) which confirmed the decision of the Massachusetts court.

In several consolidations occurring since 1927, this decision has influenced bank officials to choose a State charter for the amalgamated institution. The following statements indicate this:

> "We were influenced largely by the 'Massachusetts Case,' fearing we could not, by a national charter for the new insti-

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(1) Ex parte Worcester County National Bank of Worcester, 279 U. S. 347, on appeal from 263 Mass. 444, 162 N. E. 217, and the Federal Reserve Bulletin, Vol. XV, June, 1929, pp. 407-409.

tution, protect and conserve successor executorship and successor trusteeship."

"It was hoped that the merger might be effected under the national bank charter . . ., but this has been found impracticable on account of the decision of the Supreme Court of the United States in the Worcester County National Bank case."

In other cases the situation created by this decision has been important, even though the decision was not specifically mentioned by bank officials in giving their motives for choosing State charters. The following are examples:

"Our reason for withdrawing from the System is the fact that there is some considerable doubt in the minds of our Counsel as to whether or not we can legally transfer the trust estates of the ______ Trust Company into a National Bank. Both on account of the amount involved, which is considerable, and of the duty we owe to the beneficiaries of the trusts, we cannot take any chances."

"The impelling reason was that the latter bank (a State trust company) had a great many trust funds, a number of which were quite large, and some of its leading officers and directors were of the opinion that it would be better to continue to have such trusts administered by an institution organized and operating under the laws of this State."

The actual effect of the decision in the Worcester County National Bank case differs from State to State. Some State laws provide that upon the consolidation of State banks and trust companies with each other and with national banks, the successor bank shall inherit the banking and fiduciary powers of the absorbed institution and that the corporate identity of the absorbed bank is not extinguished by such consolidation. In these States the problem of successor executorship or successor trusteeship in the case of a national bank is not as important as in those jurisdictions where the legal situation is analogous to that in Massachusetts.

<u>Loan and Investment Powers</u>. - In 11 out of the 45 cases where State

charters were chosen or retained, the less severe restrictions on real estate or mortgage loans were mentioned as a reason for preferring the State charter. Of these, 8 were prior to and 3 subsequent to the passage of the McFadden Act enlarging the powers of national banks in making real estate loans. In 3 of the 45 cases, 2 in the same State, the larger limit permitted on loans to single borrowers was mentioned. Three mentioned the privilege of owning corporate stock or the wider latitude allowed in bank investments.

Supervision. - Escape from Federal supervision is given as a cause for the choosing of State charters in 13 cases, and escape from State supervision in 1. The latter case was one where State supervision was objected to not because it was in general too strict, but because according to allegation it was grossly unfair to the bank in question.

Only part of the 13 cases in which escape from Federal supervision is listed were so reported by the banks concerned; in others it was simply remarked that the requirements of the State examiner were less severe than those of the national examiner. This category also includes cases where the examination records of the national banks showed that the banks had been unwilling to accept the recommendations of the national examiners, and cooperate with the office of the comptroller in the maintenance of banking standards. In many of these cases the national banks were in bad condition at the time of the merger as a result of policies persisted in despite the recommendations of the national examiner and the office of the comptroller.

Branch and Group Banking Powers. - Of the 45 conversions and consolidations which obtained or retained State charters, branch banking was an important element in 10 cases. Of these, 6 occurred prior to the passage of the McFadden Act, and were, apparently, mostly cases where it was desired to open additional banking offices within the city of the parent bank. The other 4 have occurred since the beginning of 1927, and have been cases where the consolidating banks were located in different towns and wished to retain all offices, or where the amalgamated bank wished to establish out-of-town branches. In 2 of these cases the bank officials added that they much preferred to operate under national charter, and regretted that consolidations could be made only by means of State charters.

In 2 cases the power to hold bank stocks, so as to head a group of banks, was an important element. Among those choosing national charters, there were 3 cases where the prospect of broader branch banking powers being given to national banks appeared as a motive. In one of these cases a group banking system operated in a State which prohibited state-wide branch banking, and the bank managers were of the opinion that they would be able to convert their subsidiary banks into branches through a modification of the Federal law sooner than through a modification of the State law.

Branch banking power was a motive for choosing a State charter in New York in several cases. One case involving this motive appeared in each of 6 other States.

Underwriting and Merchandising of Securities. - In 2 cases the broader powers of State banks in respect to the underwriting and merchandising of securities were mentioned, one of them emphasizing the underwriting of securities and the other the business of dealing in securities. In view of the wide extent of the practice of dealing in securities by banks and the limitations upon these powers in the McFadden Act, it is noteworthy that this reason was mentioned only twice.

Insurance Business. - Two banks mentioned title insurance departments which had been maintained by the merging State institution.

Broader Powers in General. - In 15 cases the broader powers which could be exercised under State charters were mentioned in general terms. These include: (a) cases in which no specific powers were mentioned; (b) cases in which one or more specific powers were mentioned, and the phrase "broader powers" or its equivalent added; and (c) cases where more liberal lending and investing powers were mentioned, without specifying the point of liberality. These broader powers undoubtedly refer in most cases to powers mentioned elsewhere in the table.

In 3 of the 15 cases the broader powers were those exercised under charters granted by special acts of State legislatures early in the century. It is possible that this is true also in other cases. In all the other cases the State institution was operating under a trust company charter or at least used the word "trust" in its title. It is clear that in nearly all, if not all, of these cases the broader powers were those granted to State trust companies, rather than to State commercial banks.

Economy. - One bank stated that as a national bank it would escape certain taxes imposed on State banks, and that this entered into the decision to operate under a national charter. Three banks, on the contrary, reported economies in continuing to operate under State charter: one on account of smaller taxes, one because of the relinquishment of Federal reserve membership and the cost of maintaining idle reserves, and the other because of the cost of making the necessary changes on all of the forms used in the trust division of the bank's operations.

CHAPTER VII

SUMMARY

The division of authority between the national and State governments in chartering and supervising banks has been an important factor in: (1) the granting of an excessive number of charters and the consequent establishment of too many small banks; (2) the relaxing of the standards set up in the National Bank Act for commercial banks and the gradual extension of the powers of national banks; (3) the retarding of the development of effective standards of supervision in both State and national systems; and (4) the hampering of the work of the Federal reserve banks in maintaining proper standards for membership and in promoting sound banking policy.

Excessive Chartering of Banks

The rapid growth in the number of banks in the country between the middle eighties and 1920 resulted in part from a number of favorable economic factors and in part from the competition between the State and national banking systems in the granting of charters. Prices and land values were rising during the greater part of the period and the agricultural communities were increasingly prosperous. Bank profits were relatively high during the early years of this century. The growth in the number of small banks had legislative encouragement in the lax provisions of State laws, permitting in some States the organization of incorporated banks with capital as low as $10,000, and in one State with a capital of only $5,000. In fact several States had no capital requirements at all for many years. There was little restraint upon the number of new bank organizations. Authorities in several States were without legal power to deny an application for a charter, even where they felt it was desirable to do so. In some States there was no banking department until well into the present century, and charters might be issued by judges or other officials whose main responsibilities lay in other fields.

An important factor in the increase in the number of small banks, however, was the competition between the State and national systems in the granting of charters. One of the first efforts of the national system to meet the competition of State banks was the reduction in 1900 of the minimum capital requirement from $50,000 to $25,000. After that there was a rapid growth in the number of both national and State banks but the number of State banks continued to increase more rapidly, as shown in the chart on page 5. By 1920 there were two and one-half times as many State banks in operation as national banks.

The national supervisory authorities, as well as those of some of the States, have long been empowered to refuse charters at their discretion, if for any reason the proposed banks were not deemed reasonably certain of becoming sound and stable institutions. But both classes of supervisory agencies have been solicitous for the relative importance in numbers and resources of the banks under their respective jurisdictions, and this fact has had an important bearing upon the exercise of their discretionary powers.

Too many banks were chartered in communities which could not support a bank or in communities in which banking facilities were already ample. Many towns ranging in population from 200 to 1,000 had two or three banks or even more. In fact this was not an uncommon condition in many agricultural States around 1920. In the entire Western Grain States, for example, the population per bank was only 1,363 and in the two Dakotas the population per bank was less than 1,000 as contrasted with a population of nearly 10,000 per bank in New England.

The great majority of banks in existence in 1920 were small institutions. Over 6,500 of them had loans and investments of less than $150,000 each, and nearly 19,000 had loans and investments of less than $500,000 each. About 83 per cent of these 19,000 small banks were operating under State charter. In addition there were about 1,350 private banks in operation at that time, most of which were also small institutions.

Charters were granted frequently with little or no regard to the qualifications of the applicants. In many cases the men running these banks knew little about the principles or practices of banking. Many of the new banks were not only foredoomed to failure but were also likely to imperil the existence of other banking institutions. The establishment of such large numbers of small banks has in itself presented many problems, the principal of which are the difficulties of making adequate earnings, of providing reasonably competent management, and the inherent difficulties of exercising proper supervision over a large number of small institutions.

Some indication of the consequences of the small capital requirements for banks may be had from the fact that, of the 1,336 national banks which suspended in the eleven year period 1921-1931, no less than 545, or over 40 per cent of the total, were institutions with capital of under $50,000. Of the combined total of 8,916 national and State banks which suspended during the same period, 5,987, or over 67 per cent, had capital of less than $50,000. The assumption would not be justified that all these smaller banks would have avoided suspension had their size been larger; there have been other elements of weakness in the banking structure, attributable also in large part to dual control, which have affected large and small banks alike. Many fairly large institutions, with capital up to $500,000 and more, have suspended; but the fact remains that the very small banks have been particularly vulnerable.

In chartering large numbers of small institutions the banking departments have created vested interests which now make up the strongest element in opposition to the measures proposed for strengthening the banking structure. Numerically the small banks are the dominant part of the various banking associations and their political influence is great. Banks with loans and investments of less than $500,000 each still constituted well over half of the banks in the country in 1930 when the latest classification of all banks by size was made.

Relaxation of Restrictions on National Banks

Lowering the minimum capital requirement in 1900 was the first important measure of the national banking system to meet the competition of State banks. Another occurred in 1913 when the Federal Reserve Act authorized national banks not situated in reserve or central reserve cities to make loans on improved and unencumbered farm land within their Federal reserve districts.

Prior to 1913 national banks had been forbidden to make loans against the security of real estate. State banks everywhere could do so, however, and in most instances without any stipulated restrictions as to the amount of the loans, their duration, or the quality of the mortgages securing them. The prohibition against real estate loans by national banks was removed in 1913 with respect to farm land, and in the course of the ensuing fourteen years, culminating with the passage of the McFadden Act in 1927, restrictions were further relaxed, until finally all national banks were permitted to make loans against any kind of improved real estate for periods up to five years and in aggregate amounts up to 50 per cent of their time deposits.

While the tendency to invest funds in long-term loans of a capital nature was accelerated by the growth of time deposits in banks doing both a commercial and savings business, these deposits have almost invariably been payable and actually paid on demand. This is true not only in the United States but also in England and Canada. In the latter countries, however, the fact that time deposits in commercial banks are in effect payable on demand is recognized as of basic importance in determining the manner in which such deposits are invested. In England bank loans of a capital nature are frowned upon as a matter of traditional principle; in Canada the banking laws contain prohibitions against loans secured by real estate and other capital assets, similar to the prohibition of real estate loans by national banks in the United States prior to 1913. The significance of the removal of this restriction upon national banks lies in the fact that definite legal sanction has been given to a departure from the principles originally laid down as necessary for sound commercial banking practice.

Other measures of relaxation have occurred in connection with loans to single borrowers. Prior to 1906 the amount of such a loan by a national bank was limited to 10 per cent of the paid-up and unimpaired capital of the bank. In many States there were no limitations of this character upon State chartered institutions; in others the limitation applied to both capital and surplus. To improve the competitive position of national banks the Federal law was amended in 1906 so as to make the 10 per cent limitation apply to both capital and surplus, provided the amount did not exceed 30 per cent of the capital stock alone. Most of the State laws, however, provided numerous exceptions to such limitations for State banks. To meet this situation the restriction on national banks was further relaxed by a series of amendments in 1918, 1919, and 1927.

These relaxations from the original National Bank Act have grown out of State bank competition. The less stringent laws of many of the States have been inducements for banks to operate under State charter, to such an extent that the resulting development has threatened to destroy or weaken the power of the national system. The Federal Government has elected, not to preserve the spirit of its own institutions through restraining the action of the States, but to attempt to solve the problem by removing restrictions on national banks.

In two other important matters Federal legislation has followed the lead of the States; namely, in the granting of fiduciary powers and branch banking privileges. In both cases, however, the powers granted to national banks are not uniform throughout the country but are adjusted to the standards set by the various States. In 1913, with the passage of the Federal Reserve Act, the Federal Reserve Board was authorized to grant limited trust powers to national banks "when not in contravention of State or local law." As a result of this act and a series of amendments in 1918, 1922, and 1927, all the varied fiduciary functions of trust companies are now commonly performed by national banks.

Fiduciary business as an additional activity of commercial banks is today an important element in the competition between the national and the various State banking systems. The laws governing executorships and trusteeships are not Federal but State; they are made and administered by State legislatures, State judges, and other State officials. In view of this fact many bankers transacting a large amount of fiduciary business believe that they are in a sounder position in the administration of such business if their banks are State rather than Federal instrumentalities. Consequently the State charter has been retained after many consolidations between national and State banks, which accounts in part for the relatively more rapid growth in recent years of the State systems. The Worcester County National Bank case in Massachusetts, litigated in 1928 and 1929, is of importance in this connection. In that case it was decided by the State courts and confirmed by the Supreme Court of the United States that the national bank could not automatically succeed to an executorship held by the State bank which had been merged with it, but that a new appointment as executor would have to be made. Since this decision especially, doubts have arisen in other States as to the right of a national bank to inherit the fiduciary business of a State chartered institution, and the question involves difficult problems whenever State institutions are converted into national banks.

The McFadden Act of 1927 provided that national banks in those States which permit branch banking may establish branches in the head office cities. This change in Federal legislation, like the grant of fiduciary powers, was made for the express purpose of improving the competitive position of national banks. Branch banking in this limited form does not appear to have led to any lowering of safety standards.

Various other changes in Federal legislation have removed restrictions on national banks or extended their powers. Among those are: the authorization for national banks in towns of under 5,000 inhabitants to act as insurance agents and as brokers for real estate loans; the lowering of reserve requirements against both time and demand deposits; and the authorization for Federal reserve members, including national banks, to issue bankers' acceptances. All these measures have been passed at least in part for the purpose of enabling national banks to compete with State chartered institutions. This purpose, in fact, has dominated the development of Federal banking legislation to such an extent that most of the important amendments to the national banking law since 1913 have been enacted in response to the competitive situation inherent in the dual banking system.

Dual Control and Supervision

Bank officials and directors are likely to resent criticism and the ease with which they may escape existing supervision by changing from one system to the other greatly reduces the effectiveness of examining authorities. While there can be no doubt that bank supervision in general is on a higher plane than it was twenty years ago, it is nevertheless a fact that dual control of banking has tended to keep down the standards of supervision, as well as of banking law.

Effective supervision has been handicapped largely by two factors. In the first place, the supervisory authorities, whether national or State, have not been endowed with adequate powers; and in the second place, they have been unable to make full and effective use of such powers as have been granted them. To what extent the failure of legislative bodies to grant adequate powers is due to the dual system is difficult to determine, but the inability of supervisors to make full and effective use of such powers as they have arises out of the fact that banks are able to avoid the supervision of one system by leaving it and entering the other.

From the establishment of the national banking system in 1863 to the present time, successive Comptrollers of the Currency have placed before Congress recommendations for the improvement of banking supervision, by specifying certain standards and providing adequate powers and penalties for their enforcement. Thus it was recommended by the first comptroller that the failure of a national bank be declared prima facie fraudulent and that the officers and directors be made personally responsible as well as punishable criminally unless upon investigation it was found that the bank's affairs had been honestly administered. In 1887 it was recommended that penalties be imposed for the making of loans contrary to law; in 1895 that the comptroller be authorized, with the approval of the Secretary of the Treasury and after a hearing, to remove officers and directors for mismanagement or violations of law; in 1914 that the comptroller be authorized to penalize both banks and their officers by appropriate fines for violation of the law and failure to comply with his regulations; and in 1931 that a board composed of the Secretary of the Treasury, the governor of the Federal Reserve Board, and the comptroller should have power to remove officers or directors of banks who persistently violated the law or who continued unsafe and unsound practices. Congress has adopted none of these recommendations.

An important duty of both national and State supervisory authorities is to recommend legislation designed to improve the safety standards of banking. They are hampered, however, by the competitive situation into which they are forced by the existence of dual control. The dilemma of State supervisors in recommending banking legislation was described by the commissioner of banks of Massachusetts when he stated in 1929 that in passing State legislation care is exercised that nothing is done to drive State banks into the national system. That similar considerations have frequently influenced the Congress of the United States is evident from the record of legislation actually passed and the proposed measures defeated.

State Banks and the Federal Reserve System

Soon after its organization the Federal Reserve Board expressed its hope that a unified system of banking would develop through the Federal reserve system, and stated that, "There can be but one American credit system of nation-wide extent, and it will fall short of satisfying the business judgment and expectation of the country and fail of attaining its full potentialities if it rests upon an incomplete foundation and leaves out of its membership any considerable part of the banking strength of the country."[1]

The board extended liberal terms of admission to State banks, including the right to withdraw from membership on twelve months' notice. The State banks, however, were apprehensive of changes in the attitude of the board and hesitated about applying for membership. By June, 1917, only 53 State institutions had joined. Consequently certain amendments were passed by Congress in 1917 to encourage applications for membership by State banks.

Most of the provisions in the 1917 amendments dealing with State bank membership followed the spirit of the regulations issued by the board in 1915, which they extended. State bank members were permitted to withdraw from the system on six months' written notice to the Federal Reserve Board. They retained their full charter and statutory rights subject to the restrictions of the Federal Reserve Act, and regulations of the board relative thereto. Their examination and supervision were delegated to the Federal reserve banks and board, which, in turn, were authorized to accept reports and examinations from State supervisory authorities in lieu of those of their own examiners. Furthermore, State member banks were relieved of the restrictions upon national banks as to the amount which could be loaned to one person, firm, or corporation, subject, however, to the restriction that if the State bank had loaned to any one borrower more than the limitations governing a national bank, none of the paper of the borrower so accommodated could be rediscounted at the Federal reserve banks.

In spite of these concessions, only about 800 of the 12,000 State commercial banks belonged to the Federal reserve system in 1932. These 800

(1) Federal Reserve Bulletin, July 1, 1915, p. 145.

members included most of the very large State banks, however, and had about 58 per cent of the loans and investments of all State banks and trust companies. It is noteworthy, on the other hand, that in the large size groups the number of nonmember banks has grown faster since 1920 than the number of member State banks. From 1920 to 1930 the number of nonmember banks with loans and investments of $10,000,000 to $50,000,000 increased from 64 to 128, while member State banks in the same size group increased from 121 to 124. The number of nonmember banks with loans and investments of $50,000,000 and over increased from 3 to 10 during the same period, while member State banks of that size increased from 32 to 49.

Competition between the two banking systems, resulting in an overbanked condition and relaxed standards, has materially hampered the effective functioning of Federal instrumentalities, i.e., the national banking system and the Federal reserve system. This has been in some measure responsible for the development of unsound banking practices, the ineffectiveness of supervision, and the serious banking difficulties during the past twelve years.

APPENDIX

Table I - Commercial Banks and Trust Companies in the United States
1834-1931

(resources in millions of dollars)

Year	State banks		National banks		State and national banks		Private banks	All banks
	Number	Resources	Number	Resources	Number	Resources	Number	Number
1834	506				506			
1835	704				704			
1836	713				713			
1837	788				788			
1838	829				829			
1839	840				840			
1840	901				901			
1841	784				784			
1842	692				692			
1843	691				691			
1844	696				696			
1845	707				707			
1846	707				707			
1847	715				715			
1848	751				751			
1849	782				782			
1850	824				824			
1851	879				879			
1852	815				815			
1853	750				750			
1854	1,208				1,208			
1855	1,307				1,307			
1856	1,398				1,398			
1857	1,416				1,416			
1858	1,422				1,422			
1859	1,476				1,476			
1860	1,562				1,562			
1861	1,601				1,601			
1862	1,492				1,492			
1863	1,466	1,185.4	66	16.8	1,532	1,202.2		
1864	1,089	725.9	467	252.2	1,556	978.1		
1865	349	165.8	1,294	1,126.5	1,643	1,292.3		
1866	297	154.8	1,634	1,476.3	1,931	1,631.1		
1867	272	151.9	1,636	1,494.5	1,908	1,646.4		
1868	247	154.6	1,640	1,572.1	1,887	1,726.7		
1869	259	156.0	1,619	1,564.1	1,878	1,720.1		
1870	325	201.5	1,612	1,565.7	1,937	1,767.2		
1871	452	259.6	1,723	1,703.4	2,175	1,963.0		
1872	566	264.5	1,853	1,770.8	2,419	2,035.3		
1873	277	178.9	1,968	1,851.2	2,245	2,030.1		
1874	368	237.4	1,983	1,851.8	2,351	2,089.2		
1875	586	395.2	2,076	1,913.2	2,662	2,308.4		
1876	671	405.9	2,091	1,825.7	2,762	2,231.6		
1877	631	506.9	2,078	1,774.3	2,709	2,281.2	2,432	5,141

Table I - Commercial Banks and Trust Companies in the United States 1834-1931 (Continued)

(resources in millions of dollars)

Year	State banks		National banks		State and national banks		Private banks	All banks
	Number	Resources	Number	Resources	Number	Resources	Number	Number
1878	510	388.8	2,056	1,770.4	2,566	2,159.2	2,586	5,152
1879	648	427.6	2,048	2,019.8	2,696	2,447.4	2,545	5,241
1880	650	481.8	2,076	2,035.4	2,726	2,517.2	2,573	5,299
1881	683	575.5	2,115	2,325.8	2,798	2,901.3	2,799	5,597
1882	704	633.8	2,239	2,344.3	2,943	2,978.1	3,107	6,050
1883	788	724.5	2,417	2,364.8	3,205	3,089.3	3,306	6,511
1884	852	760.9	2,625	2,282.5	3,477	3,043.4	3,458	6,935
1885	1,015	802.0	2,689	2,421.8	3,704	3,223.8	3,456	7,160
1886	891	807.0	2,809	2,474.5	3,700	3,281.5	3,689	7,389
1887	1,471	1,003.9	3,014	2,637.2	4,485	3,641.1	3,966	8,451
1888	1,523	1,055.4	3,120	2,731.4	4,643	3,786.8	4,064	8,707
1889	1,791	1,237.3	3,239	2,937.9	5,030	4,175.2	4,215	9,245
1890	2,250	1,374.6	3,484	3,061.7	5,734	4,436.3	4,305	10,039
1891	2,743	1,442.6	3,652	3,113.4	6,395	4,556.0	4,230	10,625
1892	3,773	1,999.5	3,759	3,493.8	7,532	5,493.3	4,004	11,536
1893	4,188	2,168.7	3,807	3,213.3	7,995	5,382.0	4,031	12,026
1894	4,188	2,071.7	3,770	3,422.1	7,958	5,493.8	3,844	11,802
1895	4,369	2,251.6	3,715	3,470.6	8,084	5,722.2	3,924	12,008
1896	4,279	2,255.9	3,689	3,353.8	7,968	5,609.7	3,810	11,778
1897	4,420	2,273.9	3,610	3,563.4	8,030	5,837.3	3,806	11,836
1898	4,486	2,534.0	3,581	3,977.6	8,067	6,511.6	3,853	11,920
1899	4,738	2,957.7	3,582	4,708.6	8,320	7,666.3	4,168	12,488
1900	5,007	3,375.3	3,731	4,944.0	8,738	8,319.3	5,187	13,925
1901	5,651	4,034.6	4,163	5,674.2	9,814	9,708.8	5,060	14,874
1902	6,171	4,557.4	4,532	6,007.0	10,703	10,564.4	4,976	15,679
1903	6,890	5,084.3	4,935	6,284.7	11,825	11,369.0	5,417	17,242
1904	7,970	5,558.5	5,327	6,653.3	13,297	12,211.8	5,484	18,781
1905	9,018	6,417.0	5,664	7,325.2	14,682	13,742.2	5,291	19,973
1906	10,220	7,048.6	6,046	7,780.5	16,266	14,829.1	4,823	21,089
1907	11,469	7,657.1	6,422	8,472.0	17,891	16,129.1	4,947	22,838
1908	12,803	7,330.6	6,817	8,710.0	19,620	16,040.6	4,576	24,196
1909	13,421	8,031.3	6,886	9,364.0	20,307	17,395.3	4,407	24,714
1910	14,348	8,684.4	7,138	9,891.9	21,486	18,576.3	3,669	25,155
1911	15,322	9,237.0	7,270	10,378.5	22,592	19,615.5	3,683	26,275
1912	16,037	9,923.2	7,366	10,856.9	23,403	20,780.1	3,406	26,809
1913	16,841	10,321.9	7,467	11,031.5	24,308	21,353.4	3,213	27,521
1914	17,498	10,967.2	7,518	11,476.8	25,016	22,444.0	3,062	28,078
1915	17,748	11,433.8	7,597	11,789.8	25,345	23,223.6	2,737	28,082
1916	18,253	13,510.4	7,571	13,919.7	25,824	27,430.1	1,968	27,792
1917	18,710	15,694.3	7,599	16,283.3	26,309	31,977.6	1,852	28,161
1918	19,404	17,119.4	7,699	18,346.3	27,103	35,465.7	1,846	28,949
1919	19,646	20,664.7	7,779	21,226.1	27,425	41,890.8	1,817	29,242
1920	20,635	23,490.3	8,024	23,401.6	28,659	46,891.9	1,736(1)	30,395
1921	21,267	22,627.7	8,150	20,509.5	29,417	43,137.2	1,242	30,659

Table I - Commercial Banks and Trust Companies in the United States
1834-1931 (Continued)

(resources in millions of dollars)

Year	State banks		National banks		State and national banks		Private banks	All banks
	Number	Resources	Number	Resources	Number	Resources	Number	Number
1922	20,789	22,912.5	8,244	20,697.9	29,033	43,610.4	1,157	30,190
1923	20,654	25,191.6	8,236	21,502.2	28,890	46,693.8	1,080	29,970
1924	20,028	26,783.3	8,080	22,555.3	28,108	49,338.6	1,008	29,116
1925	19,573	29,352.7	8,066	24,338.8	27,639	53,691.5	915	28,554
1926	18,994	30,688.4	7,972	25,302.6	26,966	55,991.0	860	27,826
1927	18,119	32,082.5	7,790	26,566.5	25,909	58,649.0	792	26,701
1928	17,440	32,899.3	7,685	28,492.9	25,125	61,392.2	737	25,862
1929	16,728	34,217.6	7,530	27,425.2	24,258	61,642.8	685	24,943
1930	15,798	34,219.0	7,247	29,072.4	23,045	63,291.4	598	23,643
1931	14,323	30,981.0	6,800	27,598.6	21,123	58,579.6	504	21,627

(1) Includes 386 private banks in Illinois, most of which converted to State banks before the end of the year because of a law prohibiting private banks after January 1, 1921.

Sources of Figures in Table I

National Banks. - Figures for national banks are taken from the annual reports of the Comptroller of the Currency, 1931, pp. 3 and 5 (for years 1863 to 1891, inclusive); 1920, pp. 279 *et seq.* (for years 1892 to 1920, inclusive); and 1921 to 1931 (for years 1921 to 1931, inclusive). Banks in Alaska and insular possessions are excluded.

State Banks. - Figures for State banks are taken from the annual reports of the Comptroller of the Currency, 1909, p. 912 (for years from 1834 to 1862, inclusive, the figure for 1852 being interpolated); 1931, pp. 3 and 5 (for years from 1863 to 1891, inclusive); and 1892 to 1931 (for years from 1892 to 1931, inclusive). Banks in Alaska and the insular possessions are excluded. Mutual savings banks are excluded. Loan and trust companies and stock savings banks are included, save that stock savings banks do not appear to be uniformly included prior to 1892.

For most of the earlier years the figures both of number and resources are lower than the true figures, on account of the incompleteness of reports by State authorities to the Comptroller of the Currency. There are, moreover, differences among the States in the types of institutions under State supervision, and therefore in the bases of the reports; and many States had no department or official responsible for banking statistics until recent years.

For the years from 1877 to 1909, inclusive, more complete figures than those given in this table are available for the number, but not for the resources, of State banks, in the Publications of the National Monetary Commission, Vol. 7, p. 248. The figures of the Monetary Commission have not been used here because of the desirability of using figures for the number of banks which correspond with those for resources.

Private Banks. - The figures for private banks are for most years only approximations. Those for 1877 to 1909, inclusive, are taken from the Publications of the National Monetary Commission, Vol. 7, p. 250, and are based on lists in Homans' Bankers Almanac, otherwise entitled, The Bankers Directory: Homans' and Sharp & Alleman's Edition. The figures given in this directory are stated to include "bankers and brokers at New York City, Chicago, Boston, Philadelphia and Baltimore"; but in most years the figures given by the National Monetary Commission are smaller than those given in the directory, indicating that an effort was made to omit those doing only a brokerage business. Figures for the years from 1910 to 1919, inclusive, are taken from the Rand McNally Bankers' Directory. The sharp decrease between 1909 and 1910 is apparent rather than real, being due to the fact that after 1910 the Rand McNally directory listed a smaller number of private banks than Homans'. Figures for the years from 1920 to 1931, inclusive, were collected by the Committee on Branch, Group, and Chain Banking with the cooperation of the Federal reserve banks and the State banking departments. The marked decrease from 1920 to 1921 is due primarily to the outlawing of private banks in Illinois on January 1, 1921.

For all banks, figures are as of June 30, or the nearest reporting date. In the early years, however, no uniform date can be assumed; and those relating to private banks for some of the recent years have been obtained by averaging year-end figures.

Table II - The Status and Powers of State Supervisory Agencies
1909 and 1929-1932(1)

1. Supervisory agencies					
(a) Separate or virtually separate				(b) Under other department	
1909		1929-1932		1909	1929-1932
California	New Jersey	Alabama	Nevada	Alabama	Florida
Colorado	New York	Arizona	New Hampshire	Arizona	Illinois
Connecticut	North Dakota	Arkansas	New Jersey	Delaware	
Idaho	Ohio	California	New Mexico	Florida	
Kansas	Oklahoma	Colorado	New York	Georgia	
Louisiana	Oregon	Connecticut	North Carolina	Illinois	
Maine	Pennsylvania	Delaware	North Dakota	Indiana	
Massachusetts	Rhode Island	Georgia	Ohio	Iowa	
Michigan	South Carolina	Idaho	Oklahoma	Kentucky	
Minnesota	Vermont	Indiana	Oregon	Maryland	
Missouri	Washington	Iowa	Pennsylvania	Mississippi	
Nebraska	West Virginia	Kansas	Rhode Island	Montana	
Nevada	Wisconsin	Kentucky	South Carolina	New Mexico	
New Hampshire	Wyoming	Louisiana	South Dakota	North Carolina	
		Maine	Tennessee	South Dakota	
		Maryland	Texas	Texas	
		Massachusetts	Utah	Utah	
		Michigan	Vermont	Virginia	
		Minnesota	Virginia		
		Mississippi	Washington		
		Missouri	West Virginia		
		Montana	Wisconsin		
		Nebraska	Wyoming		

Table II - The Status and Powers of State Supervisory Agencies
1909 and 1929-1932(1) (Continued)

2. Type of supervisory authority					
(a) Single official in charge of banking(2)				(b) Single official supplemented by banking board	
1909		1929-1932		1909	1929-1932
Alabama	Mississippi	Arizona	Michigan	Rhode Island	Alabama
Arizona	Missouri	Arkansas	Minnesota		Iowa
California	Montana	California	Mississippi		Kansas
Colorado	New Jersey	Colorado	Missouri		New York
Delaware	New Mexico	Connecticut	Montana		North Carolina
Florida	New York	Delaware	New Hampshire		Oklahoma
Georgia	Ohio	Florida	New Jersey		Rhode Island
Idaho	Oklahoma	Georgia	Ohio		South Dakota
Illinois	Pennsylvania	Idaho	Pennsylvania		Texas
Indiana	South Carolina	Illinois	South Carolina		Wisconsin
Iowa	South Dakota	Indiana	Tennessee		
Kansas	Texas	Kentucky	Utah		
Kentucky	Utah	Louisiana	Vermont		
Louisiana	Vermont	Maine	Washington		
Maine	Washington	Maryland	West Virginia		
Maryland	West Virginia	Massachusetts	Wyoming		
Massachusetts	Wisconsin				
Michigan	Wyoming				
Minnesota					

(c) Single official, appointed by or under control of an executive banking board or other board		(d) Board, or two or three commissioners in charge of department		(e) No specific arrangement for supervision	
1909	1929-1932	1909	1929-1932	1909	1929-1932
Nevada	Nebraska	Connecticut		Arkansas	
North Dakota	Nevada	Nebraska		Tennessee	
Oregon	New Mexico	New Hampshire			
	North Dakota	North Carolina			
	Oregon	Virginia			
	Virginia				

Table II - The Status and Powers of State Supervisory Agencies
1909 and 1929-1932[1] (Continued)

3. Method of selecting commissioner or supervisor					
(a) Appointment by governor				(b) Election by popular vote	
1909		1929-1932		1909	1929-1932
Arizona	Washington	Alabama	Nebraska	North Carolina	Florida
California	Wyoming	Arizona	Nevada		Illinois
Kansas		Arkansas	New Hampshire		
Louisiana		California	New Jersey		
Massachusetts		Colorado	New Mexico		
Minnesota		Connecticut	New York		
Montana		Delaware	North Carolina		
Nevada		Georgia	North Dakota		
New Hampshire		Idaho	Ohio		
New Jersey		Indiana	Oklahoma		
New Mexico		Iowa	Pennsylvania		
New York		Kansas	Rhode Island		
Pennsylvania		Kentucky	South Carolina		
Rhode Island		Louisiana	South Dakota		
South Dakota		Maine	Texas		
Utah		Maryland	Utah		
Virginia		Massachusetts	Vermont		
		Michigan	West Virginia		
		Minnesota	Wisconsin		
		Missouri	Wyoming		
		Montana			

(c) Selection by banks or from panel named by banks		(d) In other ways	
1909	1929-1932	1909	1929-1932
	Mississippi	Nebraska	Oregon[3]
	Tennessee	Oregon	Virginia[4]
			Washington[5]

Table II - The Status and Powers of State Supervisory Agencies
1909 and 1929-1932(1) (Continued)

4. Term of office of supervisor				
(a) Three years or less		(b) Four years		
1909	1929-1932	1909	1929-1932	
Arizona	Idaho	California	Alabama	North Carolina
Maine	Massachusetts	Colorado	Arizona	North Dakota
Massachusetts	Michigan	Connecticut	Arkansas	Oklahoma
Minnesota	New Jersey	Idaho	Colorado	Oregon
Nevada	New Mexico	Kansas	Connecticut	Pennsylvania
New Hampshire	New York	Louisiana	Delaware	South Carolina
New Jersey	Ohio	Michigan	Florida	South Dakota
New Mexico	Rhode Island	Missouri	Georgia	Tennessee
New York	Texas	Montana	Illinois	Utah
North Dakota	Vermont	Ohio	Indiana	Washington
Rhode Island		Oklahoma	Iowa	West Virginia
Vermont		Oregon	Kansas	Wyoming
		Pennsylvania	Kentucky	
		South Carolina	Louisana	
		South Dakota	Maine	
		Washington	Maryland	
		West Virginia	Mississippi	
		Wyoming	Montana	

(c) Five or six years		(d) Indefinite term	
1909	1929-1932	1909	1929-1932
North Carolina	Minnesota	Utah	California
Wisconsin	Nebraska		Missouri
	New Hampshire		Nevada
	Wisconsin		Virginia

Table II - The Status and Powers of State Supervisory Agencies
1909 and 1929-1932(1) (Continued)

5. Salaries of supervisors				
(a) Under $5,000 per year		(b) $5,000 to $10,000 per year		
1909	1929-1932	1909	1929-1932	
Alabama	Delaware	Massachusetts	Alabama	Tennessee
Arizona	Idaho	Minnesota	Arizona	Texas
Colorado	Kentucky	Nevada	Arkansas	Washington
Connecticut	Maryland	New Jersey	Colorado	West Virginia
Idaho	Minnesota	New York	Connecticut	Wisconsin
Kansas	Missouri	Ohio	Florida	
Louisiana	Nevada	Pennsylvania	Georgia	
Maine	New Mexico		Indiana	
Michigan	South Carolina		Iowa	
Missouri	South Dakota		Kansas	
Nebraska	Utah		Louisiana	
New Hampshire	Vermont		Maine	
New Mexico	Virginia		Massachusetts	
Oklahoma	Wyoming		Montana	
Oregon			Nebraska	
Rhode Island			New Hampshire	
South Carolina			New Jersey	
South Dakota			North Carolina	
Utah			North Dakota	
Vermont			Ohio	
Washington			Oklahoma	
West Virginia			Oregon	
Wisconsin			Rhode Island	

(c) $10,000 or over per year	
1909	1929-1932
California	California
	Illinois
	Michigan
	Mississippi
	New York
	Pennsylvania

Table II - The Status and Powers of State Supervisory Agencies
1909 and 1929-1932(1) (Continued)

6. Method of selection of examiners						
(a) Civil service		(b) By supervisory agency solely			(c) By supervisory agency with approval of governor or board	
1909	1929-1932	1909	1929-1932		1909	1929-1932
~~(2)~~	California	Arizona	Alabama	Missouri	Maryland	Arizona
	Colorado	California	Arkansas	Montana		Indiana
	Maryland	Florida	Connecticut	Nevada		Louisiana
	New Jersey	Illinois	Delaware	New Hampshire		Nebraska
	New York	Indiana	Florida	New Mexico		North Dakota
	Ohio	Iowa	Georgia	North Carolina		Oklahoma
		Minnesota	Idaho	Oregon		Pennsylvania
		Missouri	Illinois	Rhode Island		South Dakota
		New Mexico	Iowa	South Carolina		Utah
		New York	Kansas	Tennessee		Vermont
		North Carolina	Kentucky	Texas		Wyoming
		Ohio	Maine	Virginia(~~4~~ 7)		
		Oregon	Massachusetts(~~5~~ 6)	Washington		
		Texas	Michigan	West Virginia		
		Virginia	Minnesota	Wisconsin		
			Mississippi			

Table II - The Status and Powers of State Supervisory Agencies
1909 and 1929-1932(1) (Continued)

7. Powers relative to the organization of new banks				
(a) Principal discretionary powers in passing on applications for new charters				
(1) Exercised by commissioner			(2) Exercised by banking board	
1909(~~5~~)8	1929-1932		1909	1929-1932
California	Alabama	Nevada	Massachusetts	Arizona
Florida	Arkansas	New Jersey	Nebraska	Connecticut
Illinois	California	New Mexico	North Carolina	Indiana
Maine	Colorado	North Carolina	Rhode Island	Kansas
Michigan	Delaware	Ohio		Massachusetts
Minnesota	Florida	Oregon		Minnesota
New Jersey	Georgia	Pennsylvania(~~8~~)9		Mississippi
New York	Idaho	South Carolina		Nebraska
Ohio	Illinois	Tennessee		New Hampshire
Oklahoma	Iowa	Utah		New York
South Dakota	Kentucky	Vermont		North Dakota
West Virginia	Louisiana	Washington		Oklahoma
Wisconsin	Maine	West Virginia		Rhode Island
	Maryland	Wyoming		South Dakota
	Michigan			Texas
	Missouri			Virginia
	Montana			Wisconsin

(b) Must be assured of legitimate purpose and/or integrity of applicant			(c) Must take into consideration the public need and convenience for banking facilities		
1909	1929-1932		1909	1929-1932	
California	Alabama	New Mexico	Maine	Alabama	Nebraska
Florida	Arizona	New York	Massachusetts	Arizona	Nevada
Illinois	Arkansas	North Carolina	New Jersey	Arkansas	New Hampshire
Michigan	California	North Dakota	New York	California	New Jersey
Minnesota	Florida	Ohio	Rhode Island	Connecticut	New Mexico
Nebraska	Georgia	Oklahoma	South Dakota	Florida	New York
New York	Idaho	Oregon		Georgia	North Carolina
North Carolina	Illinois	South Carolina		Idaho	North Dakota
North Dakota	Indiana	South Dakota		Indiana	Ohio
Ohio	Kansas	Tennessee		Kansas	Oregon
Oklahoma	Kentucky	Texas		Louisiana	Rhode Island
South Dakota	Louisiana	Utah		Maine	South Dakota
West Virginia	Maryland	Virginia		Maryland	Tennessee
Wisconsin	Michigan	Washington		Massachusetts	Texas
	Minnesota	Wisconsin		Michigan	Utah
	Missouri			Minnesota	Vermont
	Montana			Mississippi	Virginia
	Nebraska			Missouri	Washington
	Nevada			Montana	Wisconsin

Table II - The Status and Powers of State Supervisory Agencies 1909 and 1929-1932(1) (Continued)

8. Powers relevant to banking operations				
(a) Examinations				
(1) Required to conduct annual examinations		(2) Required to conduct examinations more than once a year		
1909	1929-1932	1909	1929-1932	
Alabama	Arkansas	California	Alabama	South Dakota
Arizona	California	Colorado	Arizona	Tennessee
Florida	Connecticut	Connecticut	Colorado	Texas
Idaho	Delaware	Georgia	Florida	Utah
Illinois	Illinois	Kansas	Georgia	Vermont
Maine	Kentucky	Louisiana	Idaho	Virginia
Maryland	Maine	Michigan	Kansas	West Virginia
Massachusetts	Massachusetts	Minnesota	Louisiana	Wyoming
Missouri	Missouri	Nebraska	Maryland	
Montana	Montana	Nevada	Michigan	
New Hampshire	New Hampshire	New York	Minnesota	
New Mexico	North Carolina	Ohio	Mississippi	
North Carolina	Pennsylvania	Oklahoma	Nevada	
North Dakota	Washington	Rhode Island	New Mexico	
Oregon	Wisconsin	South Dakota	New York	
South Carolina		Texas	North Dakota	
Utah		Vermont	Ohio	
Washington			Oklahoma	
West Virginia			Oregon	
Wisconsin			Rhode Island	
Wyoming			South Carolina	

(3) Authorized to conduct examinations at any time			
1909		1929-1932~~(7)~~	
Alabama	New Mexico	Alabama	Montana
Arizona	New York	Arkansas	Nebraska
California	North Carolina	California	Nevada
Colorado	North Dakota	Colorado	New Hampshire
Delaware	Ohio	Connecticut	New Jersey
Florida	Oklahoma	Delaware	New Mexico
Georgia	Oregon	Florida	New York
Idaho	Pennsylvania	Georgia	North Carolina
Illinois	Rhode Island	Idaho	Ohio
Indiana	South Dakota	Illinois	Oklahoma
Iowa	Texas	Indiana	Oregon
Kansas	Utah	Iowa	Pennsylvania
Maine	Vermont	Kansas	Rhode Island
Maryland	Virginia	Kentucky	South Dakota
Massachusetts	Washington	Louisiana	Tennessee
Michigan	West Virginia	Maine	Texas
Minnesota	Wisconsin	Maryland	Vermont
Montana		Massachusetts	Virginia
Nebraska		Michigan	Washington
Nevada		Minnesota	West Virginia
New Hampshire		Mississippi	Wisconsin
New Jersey		Missouri	Wyoming

Table II - The Status and Powers of State Supervisory Agencies 1909 and 1929-1932(1) (Continued)

8. Powers relevant to banking operations (continued)					
(b) May require stockholders to make good impairment of capital				(c) May limit borrowing by banks	
1909		1929-1932		1909	1929-1932
California	Oregon	Alabama	Missouri	Kansas	Arizona
Colorado	Pennsylvania	Arizona	Montana	Michigan	California
Florida	South Dakota	Arkansas	Nebraska	Oklahoma	Idaho
Georgia	Texas	California	Nevada	South Dakota	Kansas
Idaho	Utah(~~8~~10)	Colorado	New Hampshire	Wisconsin	Michigan
Illinois	Virginia	Connecticut	New Mexico		Montana
Indiana	Washington	Delaware	New York		North Dakota
Iowa	West Virginia	Florida	North Carolina		Oregon
Kansas	Wisconsin	Georgia	North Dakota		South Dakota
Kentucky		Idaho	Ohio		Virginia
Louisiana		Illinois	Oklahoma		Washington
Massachusetts		Indiana	Oregon		Wyoming
Michigan		Iowa	Pennsylvania		
Minnesota		Kansas	South Dakota		
Missouri		Kentucky	Tennessee		
Nebraska		Louisiana	Texas		
Nevada		Maine	Utah		
New Mexico		Maryland	Virginia		
New York		Massachusetts	Washington		
North Dakota		Michigan	West Virginia		
Ohio		Minnesota	Wisconsin		
Oklahoma		Mississippi	Wyoming		

(d) May require removal of undesirable and/or illegal assets			(e) May order removal of officers or employees		
1909	1929-1932		1909	1929-1932	
North Dakota	Alabama	Ohio	Kansas	Florida	Oklahoma
Ohio	Arkansas	Oregon	Nevada	Georgia	Oregon
	Delaware	South Dakota	Oklahoma	Idaho	South Dakota
	Florida	Utah	South Dakota	Kansas	Wyoming
	Idaho	West Virginia		Montana	
	Montana	Wisconsin		Nebraska	
	Nebraska	Wyoming		New Hampshire	
	North Dakota			North Carolina	

Table II - The Status and Powers of State Supervisory Agencies, 1909 and 1929-1932(1) (Continued)

8. Powers relevant to banking operations (continued)					
(f) May order removal of directors		(g) May recommend removal of officers or employees		(h) May recommend removal of directors	
1909	1929-1932	1909	1929-1932	1909	1929-1932
	Florida	Missouri	Arkansas		Massachusetts
	Idaho		Colorado		Missouri
	Montana		Massachusetts		New York
	North Carolina		Missouri		
	Oregon		New York		
	South Dakota		Utah		
			Washington		
			Wisconsin		

9. Powers relevant to insolvent banks(8) //					
(a) May liquidate the bank				(b) May appoint a receiver	
1909	1929-1932			1909	1929-1932
California	Alabama	Minnesota	Oregon	Kansas	Florida
Michigan	Arizona	Mississippi	Pennsylvania	Maryland	Illinois
Minnesota	Arkansas	Missouri	Rhode Island	West Virginia	Kansas
New York	California	Montana	South Dakota		West Virginia
Oklahoma	Colorado	Nebraska	Tennessee		
Rhode Island	Georgia	Nevada	Texas		
South Dakota	Idaho	New Jersey	Utah		
Texas	Iowa	New Mexico	Vermont		
Wisconsin	Kentucky	New York	Washington		
	Louisiana	North Carolina	Wisconsin		
	Maryland	Ohio	Wyoming		
	Massachusetts	Oklahoma			

(c) May apply for the appointment of a receiver					
1909				1929-1932	
Alabama	Iowa	Nebraska	Oregon	Alabama	Missouri
Arizona	Kansas	Nevada	Pennsylvania	Connecticut	Nebraska
Colorado	Kentucky	New Hampshire	Rhode Island	Delaware	New Hampshire
Connecticut	Louisiana	New Jersey	Texas	Illinois	New Mexico
Delaware	Maine	New Mexico	Vermont	Indiana	North Dakota
Florida	Massachusetts	New York	Virginia	Iowa	Rhode Island
Georgia	Michigan	North Carolina	Washington	Kentucky	South Carolina
Idaho	Missouri	North Dakota	West Virginia	Maine	Tennessee
Illinois	Montana	Ohio	Wisconsin	Michigan	Texas
Indiana				Minnesota	Vermont
					Virginia

(1) Sources: 1909, Barnett, State Banks and Trust Companies Since the Passage of the National-Bank Act, and Welldon, Digest of State Banking Statutes, Publica-

tions of the National Monetary Commission, Vols. VII and III, respectively; 1929-1932, State Bank Division, American Bankers Association, Results of Questionnaire on Bank Supervision, 1929, prepared by the various State banking departments; and banking statutes of the various States.

In many instances data for 1909 were only partially available.

(2) Several of these States have charter boards, whose sole function is to consider applications for new charters.

(3) Appointed by State banking board.

(4) Appointed by State corporation commission.

(5) Appointed by director of taxation and examination.

(6) In 1932, appointment is by supervisory agency with approval of the director of personnel.

(7) Deputies and other employees appointed by corporation commission.

(8) In North Dakota discretionary power was exercised by the Secretary of State.

(9) In 1932, new charters must also be approved by the governor.

(10) Secretary of State could apply for receiver if capital was impaired.

(11) In several States the supervisory authority has the option of liquidating the bank or of applying for the appointment of a receiver, while in one State the option is between appointing and applying for the appointment of a receiver.

Table IV - Banks with Loans and Investments of $5,000,000 and over Lost to the National and State Banking Systems by Consolidation and Conversion, by States, 1921-1931

(in thousands of dollars)

Location and name of bank	Year of change	National charters given up		State charters given up	
		By consolidation	By conversion	By consolidation	By conversion
EW ENGLAND STATES - TOTAL		75,784	8,109	178,955	20,568
MAINE					
Bangor					
First Nat'l Bk.	1928	7,387			
Portland					
Chapman Nat'l Bk.	1929		8,109		
Total		7,387	8,109		
MASSACHUSETTS					
Boston					
Am. Tr. Co.	1930			24,999	
Beacon Tr. Co.	1930			34,458	
Commonwealth Tr. Co.	1923			29,607	
Federal Tr. Co.	1923				20,568
Internat'l Tr. Co.	1923			44,769	
Jamaica Plain Tr. Co.	1931			5,884	
Mass. Tr. Co.	1925			20,347	
Nat'l Union Bk.	1925	15,156			
Fall River					
Massasoit Pocasset Nat'l Bk.	1928	5,619			
Worcester					
Park Tr. Co.	1922			6,532	
Total		20,775		166,596	20,568
RHODE ISLAND					
Providence					
Nat'l Exch. Bk.	1926	19,180			
Total		19,180			
CONNECTICUT					
Bridgeport					
City Nat'l Bk. & Tr. Co.	1929	13,976			
Hartford					
Phoenix Nat'l Bk.	1926	14,466			
U. S. Security Tr. Co.	1927			12,359	
Total		28,442		12,359	

Table IV - Banks with Loans and Investments of $5,000,000 and over Lost to the National and State Banking Systems by Consolidation and Conversion, by States, 1921-1931 (Continued)

(in thousands of dollars)

Location and name of bank	Year of change	National charters given up		State charters given up	
		By consolidation	By conversion	By consolidation	By conversion
MIDDLE ATLANTIC STATES - TOTAL		2,305,403	20,476	1,137,202	15,835
NEW YORK					
Albany					
First Nat'l Bk.	1926	10,899			
Buffalo					
Community Nat'l Bk.	1929	20,980			
Lafayette Nat'l Bk.	1924	8,075			
Mfgs. & Traders Nat'l Bk.	1925	46,614			
Jamestown					
Am. Nat'l Bk.	1931	5,330			
Lockport					
Nat'l Exch. Bk.	1926		6,067		
Mt. Vernon					
Am. Nat'l Bk. & Tr. Co.	1930	7,380			
New York City					
Am. Exch.-Pacific Nat'l Bk.	1926	167,089			
Am. Express Bk. & Tr. Co.	1931			32,381	
Atlantic Nat'l Bk.	1922	16,408			
Bank of America	1928			94,883	
Bank of N. Y.--N. B. A.	1922	42,648			
Battery Park Nat'l Bk.	1923	12,347			
Bowery Bank of N. Y.	1925			5,069	
Broadway Nat'l Bk. & Tr. Co.	1930	5,920			
Brooklyn Nat'l Bk. of N. Y.	1931	8,162			
Bronx Nat'l Bk.	1928	7,671			
Capital Nat'l Bk. & Tr. Co.	1928	23,795			
Central Nat'l Bk.	1930	12,643			
Chemical Nat'l Bk.	1929	205,865			
Coal & Iron Nat'l Bk.	1926	21,040			
Com'l Exch. Bk.	1921			8,496	
Com'l Exch. Bk. of N. Y.	1928			19,899	
Com'l Tr. Co.	1924			10,700	
Equitable Tr. Co.	1930			496,351	
Fifth Nat'l Bk.	1925	19,420			
First Nat'l Bk. (Brooklyn)	1928	20,669			
First Nat'l Bk. (Jamaica)	1926	8,014			
Fordham Nat'l Bk. in N. Y. (Bronx)	1929	5,365			
Franklin Nat'l Bk. in N. Y.	1927	5,375			
Gotham Nat'l Bk.	1925	17,082			

Table IV - Banks with Loans and Investments of $5,000,000 and over Lost to the National and State Banking Systems by Consolidation and Conversion, by States, 1921-1931 (Continued)

(in thousands of dollars)

Location and name of bank	Year of change	National charters given up: By consolidation	National charters given up: By conversion	State charters given up: By consolidation	State charters given up: By conversion
New York City (Continued)					
Greenwich Bk.	1927			24,655	
Hamilton Nat'l Bk.	1928	17,362			
Hanover Nat'l Bk.	1929	143,182			
Importers & Traders Nat'l Bk.	1923	35,016			
Industrial Nat'l Bk.	1931	7,662			
Interstate Tr. Co.	1930			45,360	
Irving Nat'l Bk.	1923	194,782			
Italian Discount & Tr. Co.	1927			5,673	
Liberty Nat'l Bk.	1921	103,203			
Lincoln Tr. Co.	1922			22,546	
Longacre Bk.	1928				7,256
Longacre Nat'l Bk.	1928	8,181			
Mercantile Tr. Co.	1922			18,977	
Metropolitan Bk.	1921			43,031	
Metropolitan Tr. Co.	1924			39,909	
Murray Hill Tr. Co.	1930			11,345	
Mutual Bk.	1927			15,248	
Nat'l Am. Bk.	1926	9,661			
Nat'l Bk. of Commerce	1929	532,191			
Nat'l Butchers & Drovers Bk.	1926	14,213			
Pacific Bk.	1925			35,760	
Peoples Tr. Co. (Brooklyn)	1926			62,383	
Ridgewood Nat'l Bk. (Queens)	1921	7,615			
Seaboard Nat'l Bk.	1929	162,533			
Seventh Nat'l Bk.	1928	12,152			
Seward Nat'l Bk. & Tr. Co. of N. Y.	1931	6,287			
Straus Nat'l Bk. and Tr. Co. of N.Y.	1931	9,006			
United Nat'l Bk.	1928	14,033			
W. R. Grace & Co.'s Bk.	1924				8,579
New York City - Total		1,876,592		992,666	15,835
Niagara Falls					
Bank of Niagara	1927			6,677	
Nat'l Bk. of Niagara & Tr. Co.	1929	11,145			
North Tonawanda					
State Nat'l Bk.	1926		7,719		
Rochester					
Nat'l Bk. of Rochester	1928	17,881			

Table IV - Banks with Loans and Investments of $5,000,000 and over Lost to the National and State Banking Systems by Consolidation and Conversion, by States, 1921-1931 (Continued)

(in thousands of dollars)

Location and name of bank	Year of change	National charters given up		State charters given up	
		By consolidation	By conversion	By consolidation	By conversion
Utica					
First Nat'l Bk. & Tr. Co.	1926	16,433			
Utica Nat'l Bk. & Tr. Co.	1930	5,785			
Yonkers					
Yonkers Tr. Co.	1929			10,181	
Total		2,027,114	13,786	1,009,524	15,835
NEW JERSEY					
Bloomfield					
Bloomfield Nat'l Bk.	1929	6,420			
Elizabeth					
Peoples Nat'l Bk.	1930	7,582			
Hoboken					
Second Nat'l Bk.	1926		6,690		
Jersey City					
Lincoln Tr. Co. of N. J.	1929			7,494	
Union Tr. Co. of N. J.	1923			9,129	
Newark					
Am. Nat'l Bk.	1927	16,443			
Guardian Tr. Co. of N. J.	1923			23,188	
Merchants & Mfgs. Nat'l Bk.	1927	21,433			
North Ward Nat'l Bk.	1930	12,749			
Union Nat'l Bk.	1921	28,527			
Passaic					
Passaic Tr. & Safe Deposit Co.	1922			11,207	
Paterson					
Paterson Safe Deposit & Tr. Co.	1921			6,115	
Total		93,154	6,690	57,133	
PENNSYLVANIA					
Philadelphia					
Am. Bk. & Tr. Co.	1929			5,655	
Bank of North Am. (Nat'l Bk.)	1923	23,400			
Broad Street Nat'l Bk.	1928	9,479			
Nat'l Bk. of Commerce	1927	9,058			
Nat'l Bk. of North Philadelphia	1928	5,270			
Nat'l Security Bk. & Tr. Co.	1930	10,417			
Ninth Nat'l Bk.	1923	11,551			

Table IV - Banks with Loans and Investments of $5,000,000 and over Lost to the National and State Banking Systems by Consolidation and Conversion, by States, 1921-1931 (Continued)

(in thousands of dollars)

Location and name of bank	Year of change	National charters given up: By consolidation	National charters given up: By conversion	State charters given up: By consolidation	State charters given up: By conversion
Philadelphia (Continued)					
Northern Nat'l Bk.	1929	9,262			
Oxford Bk. & Tr. Co.	1928			7,964	
Tenth Nat'l Bk.	1929	9,012			
Textile Nat'l Bk.	1930	5,874			
Union Bk. & Tr. Co.	1929			27,786	
Union Nat'l Bk.	1927	18,903			
Pittsburgh					
Farmers Deposit Svgs. Bk.	1928			12,435	
Scranton					
County Svgs. Bk.	1927			7,120	
Wilkes-Barre					
Luzerne County Nat'l Bk.	1923	5,217			
Williamsport					
West Branch Nat'l Bk.	1927	8,304			
Total		125,747		60,960	
MARYLAND					
Baltimore					
Drovers & Mechanics Nat'l Bk.	1930	13,179			
Farmers and Merchants Nat'l Bk.	1930	6,943			
Nat'l Bk. of Baltimore	1930	15,953			
Nat'l Exch. Bk.	1923	13,930			
Nat'l Union Bk. of Md.	1929	9,383			
Total		59,388			
DISTRICT OF COLUMBIA					
Washington					
Merchants Bk. and Tr. Co.	1930		9,585		
Total			9,585		
NORTH CENTRAL STATES - TOTAL		1,031,693		826,269	31,064
MICHIGAN					
Detroit					
Central Svgs. Bk.	1928			33,700	
Griswold-First State Bk.	1929			39,318	
Griswold Nat'l Bk.	1927	15,096			

Table IV - Banks with Loans and Investments of $5,000,000 and over Lost to the National and State Banking Systems by Consolidation and Conversion, by States, 1921-1931 (Continued)

(in thousands of dollars)

Location and name of bank	Year of change	National charters given up		State charters given up	
		By consolidation	By conversion	By consolidation	By conversion
Detroit (Continued)					
Guardian Detroit Bk.	1931			91,701	
Merchants Nat'l Bk.	1929	25,878			
Peoples Wayne County Bk.	1931			301,125	
Grand Rapids					
Old Nat'l Bk.	1929	13,672			
Port Huron					
Federal Com'l & Svgs. Bk.	1930			6,852	
Total		54,646		472,696	
WISCONSIN					
Milwaukee					
Am. Exch. Bk.	1924				10,713
Second Ward Svgs. Bk.	1928			34,126	
Total				34,126	10,713
ILLINOIS					
Chicago					
Cont'l and Com'l Tr. and Svgs. Bk.	1927			96,332	
Cont'l Nat'l Bk. & Tr. Co. of Chicago	1929	490,823			
Corn Exch. Nat'l Bk.	1924	81,960			
Haugan State Bk. (State Bk. of Chicago)	1929			53,417	
Nat'l Bk. of Commerce in Chicago	1927	5,773			
Nat'l Bk. of the Republic of Chicago	1931	93,382			
Peoples Stock Yards State Bk.	1929				14,892
Rawson State Bk. (Union Tr. Co.)	1929			68,558	
Standard Tr. & Svgs. Bk.	1928			16,111	
Straus Tr. Co.	1928				5,459
Total		671,938		234,418	20,351
INDIANA					
Fort Wayne					
Lincoln Tr. Co.	1928			6,001	
Tri-State Loan & Tr. Co.	1929			9,929	
Total				15,930	

Table IV - Banks with Loans and Investments of $5,000,000 and over Lost to the National and State Banking Systems by Consolidation and Conversion, by States, 1921-1931 (Continued)

(in thousands of dollars)

Location and name of bank	Year of change	National charters given up		State charters given up	
		By consolidation	By conversion	By consolidation	By conversion
OHIO					
Akron					
First-Second Nat'l Bk.	1923	18,125			
Nat'l City Bk.	1929	13,220			
Cincinnati					
Citizens Nat'l Bk. & Tr. Co.	1927	16,792			
Fifth-Third Nat'l Bk.	1926	41,743			
Fourth Nat'l Bk.	1923	8,786			
Cleveland					
Engineers Nat'l Bk.	1930	17,761			
First Nat'l Bk.	1921	60,768			
Union Commerce Nat'l Bk.	1921	63,729			
United Bkg. & Tr. Co.	1929			33,157	
Columbus					
First Citizens Tr. Co.	1931			29,794	
First Nat'l Bk.	1928	11,322			
Dayton					
City Nat'l Bk. & Tr. Co.	1930	15,365			
City Tr. & Svgs. Bk.	1928			6,148	
Toledo					
Nat'l Bk. of Commerce	1921	14,703			
Northern Nat'l Bk.	1924	10,478			
Second Nat'l Bk.	1924	12,317			
Total		305,109		69,099	
SOUTHERN MOUNTAIN STATES - TOTAL		57,356		19,585	26,309
VIRGINIA					
Norfolk					
Citizens Bk.	1928			7,061	
Trust Co. of Norfolk	1927			6,423	
Richmond					
Am. Nat'l Bk.	1928	16,437			
Nat'l State and City Bk.	1922	11,668			
Planters Nat'l Bk.	1926	16,319			
Total		44,424		13,484	
KENTUCKY					
Louisville					
Louisville Nat'l Bk. & Tr. Co.	1929	12,932			
Total		12,932			

Table IV - Banks with Loans and Investments of $5,000,000 and over Lost to the National and State Banking Systems by Consolidation and Conversion, by States, 1921-1931 (Continued)

(in thousands of dollars)

Location and name of bank	Year of change	National charters given up: By consolidation	National charters given up: By conversion	State charters given up: By consolidation	State charters given up: By conversion
TENNESSEE					
Chattanooga					
Chattanooga Svgs. Bk. & Tr. Co.	1929			6,101	
Memphis					
Union & Planters Bk. and Tr. Co.	1929				26,309
Total				6,101	26,309
SOUTHEASTERN STATES - TOTAL		47,062		61,237	74,645
NORTH CAROLINA					
Greensboro					
Am. Nat'l Bk. & Tr. Co.	1929	7,610			
Raleigh					
Citizens Nat'l Bk.	1929	7,149			
Wilmington					
Murchison Nat'l Bk.	1929	9,460			
Total		24,219			
SOUTH CAROLINA					
Charleston					
Peoples-First Nat'l Bk.	1930	9,132			
Total		9,132			
GEORGIA					
Atlanta					
Atlanta Tr. Co.	1929			5,344	
Lowry Bk. & Tr. Co. of Ga.	1924			22,629	
Lowry Nat'l Bk.	1923	13,711			
Savannah					
Citizens & Southern Bk.	1927				50,754
Total		13,711		27,973	50,754
FLORIDA					
Miami					
Com'l Bk. & Tr. Co. of Miami	1926			6,088	
Miami Bk. & Tr. Co.	1926			14,864	
Total				20,952	

Table IV - Banks with Loans and Investments of $5,000,000 and over Lost to the National and State Banking Systems by Consolidation and Conversion, by States, 1921-1931 (Continued)

(in thousands of dollars)

Location and name of bank	Year of change	National charters given up		State charters given up	
		By consolidation	By conversion	By consolidation	By conversion
ALABAMA					
Birmingham					
Am. Tr. & Svgs. Bk.	1927			12,312	
Mobile					
Merchants Bank	1927				10,878
Total				12,312	10,878
MISSISSIPPI					
Clarksdale					
Planters Bk.	1922				13,013
Total					13,013
SOUTHWESTERN STATES - TOTAL		29,882			20,192
LOUISIANA					
New Orleans					
Canal-Com'l Nat'l Bk.	1921	10,514			
Total		10,514			
TEXAS					
Dallas					
Guaranty Bk. & Tr. Co.	1922				6,426
Mercantile Bk. & Tr. Co.	1925				6,416
Mercantile Nat'l Bk.	1929	10,867			
Galveston					
Texas Bk. & Tr. Co.	1924				7,350
San Antonio					
City Nat'l Bk.	1929	8,501			
Total		19,368			20,192
WESTERN GRAIN STATES - TOTAL		186,766		95,395	31,447
MINNESOTA					
Minneapolis					
St. Anthony Falls Bk.	1922			5,334	
St. Paul					
State Svgs. Bk.	1931			8,560	
Total				13,894	

Table IV - Banks with Loans and Investments of $5,000,000 and over Lost to the National and State Banking Systems by Consolidation and Conversion, by States, 1921-1931 (Continued)

(in thousands of dollars)

Location and name of bank	Year of change	National charters given up: By consolidation	National charters given up: By conversion	State charters given up: By consolidation	State charters given up: By conversion
IOWA					
Des Moines					
Des Moines Svgs. Bk. & Tr. Co.	1929			6,863	
Total				6,863	
MISSOURI					
Kansas City					
Nat'l Bk. of Commerce	1921	51,852			
St. Louis					
Boatmans Bk.	1926				20,473
Central Nat'l Bk.	1921	20,808			
Farmers & Merchants Tr. Co.	1928				5,760
Franklin-Am. Tr. Co.	1931			29,098	
Internat'l Bk.	1928			7,740	
Liberty Central Tr. Co.	1929			37,800	
Merchants-Laclede Nat'l Bk.	1929	17,745			
Nat'l Bk. of Commerce	1929	66,673			
Nat'l City Bk.	1930	12,268			
State Nat'l Bk.	1929	17,420			
Total		186,766		74,638	26,233
KANSAS					
Topeka					
Bank of Topeka	1925				5,214
Total					5,214
ROCKY MOUNTAIN STATES - TOTAL					8,970
COLORADO					
Denver					
Am. Bk. & Tr. Co.	1924				8,970
Total					8,970
PACIFIC COAST STATES - TOTAL		258,824		891,944	541,517
OREGON					
Portland					
Ladd & Tilton Bk.	1925			18,195	
Total				18,195	

Table IV - Banks with Loans and Investments of $5,000,000 and over Lost to the National and State Banking Systems by Consolidation and Conversion, by States, 1921-1931 (Continued)

(in thousands of dollars)

Location and name of bank	Year of change	National charters given up: By consolidation	National charters given up: By conversion	State charters given up: By consolidation	State charters given up: By conversion
CALIFORNIA					
Fresno					
First Nat'l Bk.	1921	8,922			
Long Beach					
First Nat'l Bk.	1929	5,043			
Long Beach Nat'l Bk.	1924	6,225			
Los Angeles					
Citizens Tr. & Svgs. Bk.	1928			39,793	
Hellman Com'l Tr. & Svgs. Bk.	1926			65,420	
Merchants Nat'l Tr. & Svgs. Bk.	1928	123,896			
Nat'l City Bk. of Los Angeles	1928	8,624			
Pacific-Southwest Tr. & Svgs. Bk.	1927			179,033	
Security Tr. & Svgs. Bk.	1929			230,788	
Oakland					
First Nat'l Bk.	1924	9,445			
Oakland Bk.	1929			53,767	
Sacramento					
Farmers and Mechanics Bk.	1928			7,143	
Peoples Bk.	1927			7,460	
San Diego					
First Tr. & Svgs. Bk.	1927			5,629	
San Francisco					
Am. Nat'l Bk.	1923	18,434			
Bk. of Am. of Calif.	1930			284,716	
Bk. of Italy	1927				541,517
Merchants Nat'l Bk.	1923	8,024			
Wells Fargo-Nevada Nat'l Bk.	1923	70,211			
Total		258,824		873,749	541,517
UNITED STATES - TOTAL		3,992,770	28,585	3,210,587	770,547

Sources: Data on bank changes collected by Committee on Branch, Group and Chain Banking, supplemented by records of Federal Reserve Board, Division of Bank Operations, and Rand McNally Bankers Directory. Since the Directory figures appear only at six-month intervals, loans and investments at time of consolidation or conversion may have differed from those given above in some cases.

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