

## GROUP BANKING IN THE UNITED STATES

A group system comprises separately incorporated banks,<sup>1</sup> with or without branches, which are owned or controlled, directly or indirectly, by a corporation, business trust, association, or other similar organization. Chain banking is similar to group banking except that control is held or exercised by an individual or a group of individuals.

Some of the characteristics and features of group banking were described in the following statement at a Congressional hearing:

"Group banking is the name that has come into common usage for this step in the evolution of the American banking system, which has developed extensively in the Northwest, prompted by a need to meet a definite change in economic conditions. Group banking is not simply chain banking under another name. Chains of banks under common ownership or common control, usually of a single individual, have existed for generations, the majority stockholder or stockholders simply exercising that natural right to supervise the operations of all the corporations in which their holdings represented controlling interests. Chain management generally reflected a single dominant individual. Group banking, on the other hand, is the association of a number of corporately independent institutions within a single holding company for mutual advantages, the group being built around one or more large banks of a territorial nature and its management resting in the hands of the banking interests of the territory served."<sup>2</sup>

The banking groups which have developed in the United States have followed no standard pattern. Some groups have been developed within the framework of a corporation or business trust formed for the purpose of owning bank stock. Many of such groups have been organized by interests identified with some large banking institution which came to be known as the "key" bank of the group. In other cases, and in States in which banks may own stock, the groups have developed around State banks which themselves owned the other banks in the groups. Not all of the groups, however, include any one bank which may be termed a "key" bank.

**Scope of survey.**—Tabulations and compilations used in this survey are limited to groups each of which had three or more banks as of December 31, 1936. They include groups of three or more banks controlled by (1) a "holding company affiliate" as defined in section 2(c) of the Banking Act of 1933

as amended;<sup>3</sup> (2) a holding company which would be a "holding company affiliate" if the Reconstruction Finance Corporation did not own preferred stock in the subsidiary banks; and (3) what is regarded generally as a bank group even though there is technically no "holding company affiliate" as defined in section 2(c) of the Banking Act of 1933.

Systems classified as banking chains are not included in the tabulations since satisfactory data relating to them are not available. The distinction between a chain and a group is not always clear and in specific instances the decision as to whether a number of banks operating under joint ownership or control should be classified as a group rather than a chain was a close one.

A large amount of the data relating to group banks was obtained from information compiled in connection with applications for voting permits filed by holding company affiliates with the Board of Governors of the Federal Reserve System.

### EXTENT OF GROUP BANKING

Group banking includes banks of all classes and sizes and has developed in practically every section of the country. It varies, however, in the extent of its development in different areas and in the pattern of organization and development of individual groups. On the basis of statistics as of December 31, 1936, there were 52 groups comprehending 479 banks and 1,326 banking offices with loans and investments of \$5,460,000,000 and deposits of \$6,840,000,000.<sup>4</sup> These groups

TABLE 1.—BANKS IN GROUPS AND ALL INCORPORATED COMMERCIAL BANKS, DECEMBER 31, 1936

	Number of banks	Number of banking offices	Loans and investments (in thousands of dollars)	Deposits (in thousands of dollars)
All incorporated commercial banks in the United States	14,929	18,157	\$38,904,029	\$49,869,319
Banks in 52 groups.....	479	1,326	5,458,413	6,841,027
Percentage of banks in groups to total banks.....	3.2	7.3	14.0	13.7

<sup>1</sup> This figure includes only incorporated commercial banks and excludes such institutions among others as trust companies without deposits, industrial and Morris Plan banks, etc.

<sup>3</sup> See p. 98.

<sup>4</sup> Included in the group figures are a few comparatively large banks which dominate the group rather than being subsidiary banks. If the deposits of these banks were eliminated, the aggregate amount of deposits involved would be decreased by approximately \$2,100,000,000.

<sup>1</sup> Official statistics on group banking have been confined to groups comprising 3 or more banks.

<sup>2</sup> Statement of Lyman E. Wakefield, Vice President, First Bank Stock Corporation of Minneapolis, Minn., U. S. Congress, 71st, 2nd Session, Hearings before the Banking and Currency Committee, House of Representatives, April 1930, p. 904.

embraced 3.2 percent of all commercial banks and 7.3 percent of the banking offices, which held 14 percent of the loans and investments and nearly 14 percent of the deposits of all banks in the United States. Table 1 shows these figures in detail.

Table 2 shows that national banks constituted a larger proportion of the banks in groups than all of the other classes of banks combined.

TABLE 2.—CLASSES OF BANKS IN 52 GROUPS, DECEMBER 31, 1936

Class of bank	Number of banks	Loans and investments (in thousands of dollars)	Deposits (in thousands of dollars)
National.....	285	\$3,936,429	\$5,062,937
State member.....	43	1,134,139	1,321,674
Nonmember insured.....	138	335,646	404,523
Nonmember non-insured.....	13	52,199	51,893
Total.....	479	5,458,413	6,841,027

**Size of banks in groups.**—Banks in groups vary in size from those with less than \$100,000 of loans and investments to some of the largest in the country. Table 3 shows that 41 percent of the group banks had between \$500,000 and \$2,000,000 of loans and investments and 39 percent of them had \$2,000,000 or more. Loans and investments, and deposits, however, were concentrated in the larger banks in the groups, 70 percent being in the 22 largest banks.

Only 6 percent of the group banks had loans and investments of less than \$250,000 each, while 13 percent had loans and investments in excess of \$10,000,000 each. This is

TABLE 3.—NUMBER OF BANKS IN GROUPS AND THE AMOUNT OF THEIR LOANS AND INVESTMENTS, AND DEPOSITS, CLASSIFIED BY SIZE OF BANK, DECEMBER 31, 1936

Size group—loans and investments (in thousands of dollars)	Number of banks	Percent of total	Loans and investments (in thousands of dollars)	Percent of total	Deposits (in thousands of dollars)	Percent of total
Under \$100.....	3	.6	\$181	-----	\$268	-----
100-149.....	9	1.9	1,211	-----	1,737	-----
150-249.....	17	3.6	3,476	.1	4,844	.1
250-499.....	70	14.6	26,120	.5	35,038	.5
500-999.....	102	21.3	75,317	1.4	93,807	1.4
1,000-1,999.....	93	19.4	134,129	2.5	168,577	2.5
2,000-4,999.....	83	17.3	251,916	4.6	324,412	4.7
5,000-9,999.....	38	7.9	257,991	4.7	331,027	4.8
10,000-49,999.....	42	8.8	874,673	16.0	1,121,695	16.4
50,000 and over.....	22	4.6	3,833,399	70.2	4,759,622	69.6
Total.....	479	100.0	5,458,413	100.0	6,841,027	100.0

in contrast with the distribution of all commercial banks as of December 31, 1935, which indicated that about 40 percent of all such banks had loans and investments of less than \$250,000 and less than 3 percent had loans and investments of more than \$10,000,000.

**Size of groups.**—From the point of view of the number of banks controlled the groups vary in size considerably, as is shown in table 4. Of the 52 groups covered in this study, each consisting of 3 or more banks, 33 groups each had from 3 to 5 banks, 8 each had from 6 to 9 banks, and 11 each had 10 or more banks.

TABLE 4.—GROUP SYSTEMS CLASSIFIED BY NUMBER OF BANKS IN SYSTEM, DECEMBER 31, 1936

Size classification—number of banks in each group	Number of groups	Number of banks controlled	Loans and investments (in thousands of dollars)	Deposits (in thousands of dollars)
3.....	19	57	\$523,150	\$681,496
4.....	5	20	187,326	280,097
5.....	9	45	894,214	1,007,990
6.....	3	18	111,535	149,005
7.....	4	28	245,047	381,458
8.....	1	9	29,935	63,083
10.....	1	10	171,505	221,769
11.....	1	11	1,313,541	1,488,462
12.....	1	12	54,961	61,199
13.....	1	13	500,201	687,854
14.....	1	14	84,252	102,644
16.....	1	16	206,830	275,432
18.....	2	36	442,283	518,223
20.....	1	20	79,946	100,886
78.....	1	78	301,105	411,660
92.....	1	92	312,582	409,769
Total.....	52	479	5,458,413	6,841,027

**BRANCH BANKING AMONG GROUPS**

A considerable amount of branch banking exists among banking groups. As shown in table 5, 69 of the banks in groups operated 847 branches; 580 of these branches were outside of the head office cities of the parent banks of which 441 were in noncontiguous counties.

TABLE 5.—NUMBER OF BANKS AND BRANCHES OR ADDITIONAL OFFICES IN GROUPS, AND LOCATION OF BRANCHES OR ADDITIONAL OFFICES, DECEMBER 31, 1936

Group banks operating branches.....	69
Branches or additional offices operated by group banks.....	847
In head office city.....	267
Outside head office city.....	580
Head office county.....	43
Contiguous counties.....	96
Noncontiguous counties....	441
Group banks not operating branches.....	410
Total banking offices operated by groups..	1,326

TABLE 7.—NUMBER, LOANS AND INVESTMENTS, AND DEPOSITS OF BANKS IN GROUPS AND ALL INCORPORATED COMMERCIAL BANKS BY STATES AND BY GEOGRAPHIC DIVISIONS, DECEMBER 31, 1936

State and geographic division	Number				Loans and investments			Deposits		
	All banks	Banks in groups	Ratio of banks in groups to all banks	Groups with head office in State	All banks (in thousands)	Banks in groups (of dollars)	Ratio of banks in groups to all banks	All banks (in thousands)	Banks in groups (of dollars)	Ratio of banks in groups to all banks
<b>New England:</b>			(percent)				(percent)			(percent)
Maine.....	70	3	4.3	1	180,954	8,646	4.8	203,710	11,229	5.5
New Hampshire.....	65	4	6.2	1	75,181	8,262	11.0	84,889	8,685	10.2
Vermont.....	77				106,246			105,518		
Massachusetts.....	202	21	10.4	2	1,440,476	625,180	43.4	1,875,367	883,797	47.1
Rhode Island.....	26	3	11.5	1	272,510	107,444	39.4	307,130	128,598	41.9
Connecticut.....	120	3	2.5	1	436,458	29,567	6.8	548,393	36,178	6.6
<b>Total.....</b>	<b>560</b>	<b>34</b>	<b>6.1</b>	<b>6</b>	<b>2,511,825</b>	<b>779,099</b>	<b>31.0</b>	<b>3,125,007</b>	<b>1,068,487</b>	<b>34.2</b>
<b>Middle Atlantic:</b>										
New York.....	752	40	5.3	5	11,651,684	471,445	4.0	14,308,513	533,481	3.7
New Jersey.....	393	9	2.3	3	1,411,172	60,366	4.3	1,736,292	77,773	4.5
Pennsylvania.....	1,103	40	3.6	6	4,012,266	988,942	24.6	4,702,310	1,118,860	23.8
<b>Total.....</b>	<b>2,248</b>	<b>89</b>	<b>4.0</b>	<b>14</b>	<b>17,075,122</b>	<b>1,520,753</b>	<b>8.9</b>	<b>20,747,115</b>	<b>1,730,114</b>	<b>8.3</b>
<b>East North Central:</b>										
Ohio.....	698	14	2.0	1	1,711,536	84,252	4.9	2,218,409	102,644	4.6
Indiana.....	502				597,444			803,031		
Illinois.....	882				2,962,468			4,033,028		
Michigan.....	471	1	.2		1,046,074	6,262	.6	1,430,468	7,662	.5
Wisconsin.....	603	22	3.6	1	693,874	214,206	30.9	863,966	284,117	32.9
<b>Total.....</b>	<b>3,156</b>	<b>37</b>	<b>1.2</b>	<b>2</b>	<b>7,011,396</b>	<b>304,720</b>	<b>4.3</b>	<b>9,348,902</b>	<b>394,423</b>	<b>4.2</b>
<b>West North Central:</b>										
Minnesota.....	688	86	12.5	3	679,563	419,815	61.8	890,519	564,842	63.4
Iowa.....	657	5	.8		458,137	43,550	9.5	613,589	54,570	8.9
Missouri.....	673	7	1.0	2	1,005,527	119,401	11.9	1,441,406	196,165	13.6
North Dakota.....	196	27	13.8		57,766	25,691	44.5	71,639	32,709	45.7
South Dakota.....	191	15	7.9		67,263	28,303	42.1	91,486	35,686	39.0
Nebraska.....	435	10	2.3	1	236,510	54,615	23.1	336,998	81,556	24.2
Kansas.....	707				267,055			420,245		
<b>Total.....</b>	<b>3,547</b>	<b>150</b>	<b>4.2</b>	<b>6</b>	<b>2,771,821</b>	<b>691,375</b>	<b>24.9</b>	<b>3,865,882</b>	<b>965,528</b>	<b>25.0</b>
<b>South Atlantic:</b>										
Delaware.....	46				141,959			166,819		
Maryland.....	187				477,623			622,390		
District of Columbia.....	22				229,767			334,044		
Virginia.....	323				442,205			573,311		
West Virginia.....	187				214,359			281,749		
North Carolina.....	211				291,138			410,742		
South Carolina.....	149	1	.7		97,305	9,347	9.6	155,215	16,682	10.7
Georgia.....	282	17	6.0	2	302,433	99,830	33.0	424,444	145,702	34.3
Florida.....	158	24	15.2	4	220,396	116,180	52.7	334,490	182,455	54.5
<b>Total.....</b>	<b>1,565</b>	<b>42</b>	<b>2.7</b>	<b>6</b>	<b>2,417,185</b>	<b>225,357</b>	<b>9.3</b>	<b>3,303,204</b>	<b>344,839</b>	<b>10.4</b>
<b>East South Central:</b>										
Kentucky.....	434	6	1.4	1	369,541	40,787	11.0	470,253	50,091	10.7
Tennessee.....	315	22	7.0	3	350,092	111,688	31.9	504,630	160,304	31.8
Alabama.....	218				199,471			287,351		
Mississippi.....	208				129,799			205,403		
<b>Total.....</b>	<b>1,175</b>	<b>28</b>	<b>2.4</b>	<b>4</b>	<b>1,048,903</b>	<b>152,475</b>	<b>14.5</b>	<b>1,467,637</b>	<b>210,395</b>	<b>14.3</b>
<b>West South Central:</b>										
Arkansas.....	222				107,993			179,871		
Louisiana.....	146				310,201			463,100		
Oklahoma.....	403				282,733			424,709		
Texas.....	882	10	1.1	2	871,446	94,116	10.8	1,347,357	123,616	9.2
<b>Total.....</b>	<b>1,653</b>	<b>10</b>	<b>.6</b>	<b>2</b>	<b>1,572,373</b>	<b>94,116</b>	<b>6.0</b>	<b>2,415,037</b>	<b>123,616</b>	<b>5.1</b>
<b>Mountain:</b>										
Montana.....	119	26	21.8		91,630	52,095	56.9	138,210	74,475	53.9
Idaho.....	53	7	13.2	1	65,110	24,864	38.2	96,692	38,538	39.9
Wyoming.....	58	3	5.2		38,364	2,195	5.7	64,443	3,817	5.9
Colorado.....	151				203,808			337,483		
New Mexico.....	41				32,763			53,709		
Arizona.....	14				52,096			76,383		
Utah.....	59	7	11.9	3	104,416	54,883	52.6	145,060	81,590	56.2
Nevada.....	10	1	10.0		22,464	15,112	67.3	32,011	22,607	70.6
<b>Total.....</b>	<b>505</b>	<b>44</b>	<b>8.7</b>	<b>4</b>	<b>610,651</b>	<b>149,149</b>	<b>24.4</b>	<b>943,991</b>	<b>221,027</b>	<b>23.4</b>
<b>Pacific:</b>										
Washington.....	183	24	13.1	5	335,203	82,773	24.7	452,328	111,109	24.6
Oregon.....	92	4	4.3		215,166	74,355	34.6	285,841	91,906	32.2
California.....	245	17	6.9	3	3,334,384	1,384,241	41.5	3,914,375	1,579,583	40.4
<b>Total.....</b>	<b>520</b>	<b>45</b>	<b>8.7</b>	<b>8</b>	<b>3,884,753</b>	<b>1,541,369</b>	<b>39.7</b>	<b>4,652,544</b>	<b>1,782,598</b>	<b>38.3</b>
<b>Total United States.....</b>	<b>14,929</b>	<b>479</b>	<b>3.2</b>	<b>52</b>	<b>38,904,029</b>	<b>5,458,413</b>	<b>14.0</b>	<b>49,869,319</b>	<b>6,841,027</b>	<b>13.7</b>

Of the 847 branches among groups 607 were in States permitting branches on a State-wide basis and 227 were in States restricting branches as to location, as is shown in table 6. A few years ago most of the branches among groups were in States restricting branches as to location. Recent changes in laws relating to the operation of branches have increased the number of States permitting branches on a State-wide basis.

TABLE 6.—BANKING OFFICES OF BANKS IN GROUPS, BY GROUPS OF STATES, DECEMBER 31, 1936

States classified according to law (June 1, 1936) regarding branch banking	Number			Total banking offices
	Banks	Banks operating branches	Branch offices	
State-wide branch banking permitted.....	86	26	607	693
Branches limited as to location.....	216	40	227	443
Establishment of branches prohibited.....	137	2	6	143
No provision in law regarding branch banking.....	40	1	7	47
Total—All States.....	479	69	847	1,326

**GEOGRAPHIC DISTRIBUTION OF GROUP BANKING**

Banks belonging to groups are located in many sections of the country. Only sixteen States—Vermont in New England; Delaware, Maryland, District of Columbia, Virginia, West Virginia, and North Carolina in the South Atlantic division; Alabama, Mississippi, Arkansas, Louisiana, and Oklahoma in the South Central division; Kansas in the West North Central division; Colorado, New Mexico, and Arizona in the Mountain division—were without any reported banks in groups of 3 or more. States with the largest number of banks (20 or more) in groups were Massachusetts, New York, Pennsylvania, Wisconsin, Minnesota, North Dakota, Florida, Tennessee, Montana, and Washington.

The 15 States where the proportion (more than 25 percent) of loans and investments controlled by banks in groups was largest were Massachusetts, Rhode Island, Wisconsin, Minnesota, North Dakota, South Dakota, Georgia, Florida, Tennessee, Montana, Idaho, Utah, Nevada, Oregon, and California. Table 7 shows in detail the number, loans and investments, and deposits of banks in groups and all commercial banks by States.

**Extent of areas of operation.**—Banking groups may be divided into State and regional systems. Forty-two groups operated banks within the limits of a single State and 10 operated in more than one State. Forty-five operated within the confines of a single Federal Reserve district, 5 operated in two districts, and 2 operated in three districts. Table 8 shows the groups classified by the number of States and the number of Federal Reserve districts in which they operated and the number of banks and banking offices operated by them.

TABLE 8.—GROUP SYSTEMS CLASSIFIED BY THE NUMBER OF STATES AND FEDERAL RESERVE DISTRICTS IN WHICH THEIR BANKS OPERATED, DECEMBER 31, 1936

Number of States in which group operated banks	Number of groups	Number of banks	Number of banking offices
1.....	42	245	491
2.....	4	38	76
3.....	3	15	43
4.....	1	11	522
5.....	1	78	84
7.....	1	92	110
Total.....	52	479	1,326

  

Number of Federal Reserve districts in which group operated banks	Number of groups	Number of banks	Number of banking offices
1.....	45	343	1,113
2.....	5	41	95
3.....	2	95	118
Total.....	52	479	1,326

**Intrastate group systems—number of towns and counties served.**—Table 9, giving the 42 intrastate groups classified according to the number of towns and counties in which banking offices were operated by them, shows that 7 of the groups served only 1 town each and that 35 others served from 2 to 29 towns each. It shows also that the operations of 16 groups were each limited to 1 county and that the others served from 2 to 20 counties each.

**TABLE 9.—INTRASTATE GROUP SYSTEMS CLASSIFIED BY THE NUMBER OF TOWNS AND COUNTIES IN WHICH THEIR BANKING OFFICES OPERATED, DECEMBER 31, 1936**

Number of towns in which banking offices operated	Number of groups	Number of banks	Number of banking offices
1.....	7	24	25
2.....	6	18	28
3.....	4	16	17
4.....	3	13	14
5.....	7	33	53
6.....	3	16	19
7.....	1	7	24
8.....	1	6	17
9.....	1	9	9
10.....	1	3	17
11.....	1	3	14
12.....	2	16	37
13.....	1	16	28
14.....	1	14	26
19.....	1	13	58
21.....	1	20	24
29.....	1	18	81
Total.....	42	245	491

Number of counties in which banking offices operated	Number of groups	Number of banks	Number of banking offices
1.....	16	56	78
2.....	7	26	30
3.....	3	14	17
4.....	2	9	34
5.....	5	43	123
6.....	2	13	13
7.....	1	4	14
8.....	2	29	33
11.....	1	3	14
12.....	1	16	28
13.....	1	14	26
20.....	1	18	81
Total.....	42	245	491

**Interstate group systems—number of towns and counties served.**—Table 10, classifying the 10 interstate group systems according to the number of towns and counties in which banking offices were operated by them, shows that 6 groups each had banking offices in from 3 to 19 towns, 1 in 25, 1 in 73, 1 in 97, and 1 in 311 towns. It also shows that 6 of these 10 groups operated in from 3 to 16 counties each; that 1 operated in 22 counties, 1 in 67, 1 in 83, and 1 in 86 counties.

**TABLE 10.—INTERSTATE GROUP SYSTEMS CLASSIFIED BY THE NUMBER OF TOWNS AND COUNTIES IN WHICH THEIR BANKING OFFICES OPERATED, DECEMBER 31, 1936**

Number of towns in which banking offices operated	Number of groups	Number of banks	Number of banking offices
3.....	1	3	8
6.....	1	3	6
8.....	1	7	8
13.....	1	7	19
18.....	1	10	28
19.....	1	18	23
25.....	1	5	27
73.....	1	78	84
97.....	1	92	110
311.....	1	11	522
Total.....	10	234	835

Number of counties in which banking offices operated	Number of groups	Number of banks	Number of banking offices
3.....	1	3	8
5.....	1	3	6
7.....	1	7	8
13.....	1	7	19
14.....	1	10	28
16.....	1	18	23
22.....	1	5	27
67.....	1	78	84
83.....	1	11	522
86.....	1	92	110
Total.....	10	234	835

**Size of towns in which banking groups operated.**—Table 11 shows that 90 percent of the banks and 90 percent of the branches operated by group systems were located in towns of 1,000 or over. Branches operated by banks in groups were concentrated in large towns to a greater extent than the banks, 44 percent of the branches being in towns of 100,000 population and over.

**TABLE 11.—NUMBER OF BANKS AND BRANCHES IN GROUPS BY SIZE OF TOWN OF LOCATION, DECEMBER 31, 1936**

Population of town	Number of banks	Number of branches	Percent of total	
			Banks	Branches
Under 250.....	1	10	.2	1.2
250-499.....	8	22	1.7	2.6
500-999.....	37	51	7.7	6.0
1,000-2,499.....	62	113	12.9	13.3
2,500-2,999.....	24	22	5.0	2.6
3,000-4,999.....	44	58	9.2	6.8
5,000-5,999.....	25	16	5.2	1.9
6,000-9,999.....	40	55	8.4	6.5
10,000-24,999.....	79	56	16.5	6.6
25,000-49,999.....	37	27	7.7	3.2
50,000-99,999.....	19	45	4.0	5.3
100,000-499,999.....	79	131	16.5	15.5
500,000 and over.....	24	241	5.0	28.5
Total.....	479	847	100.0	100.0

### ORIGIN AND DEVELOPMENT OF GROUP BANKING

The early development of group banking is obscured because of the failure of early records to distinguish between group and chain banking. Banking literature indicates that group banking was discussed to some extent as early as 1892-1902 as a form of banking but there is no record of the organization of group systems during that period. Chain banking, however, developed considerably in the two decades prior to 1920 and in some respects may be considered as the antecedent of group banking. A few examples of group banking appear to have existed prior to 1920 but extensive development was a product of the late 1920's (1927 to 1930). In this period financial companies were developed on a broad scale in the field of banking to acquire control through stock ownership of corporately independent banking institutions. Many of the principal groups now in existence were established during this period.

As of December 31, 1931, there were 97 groups of 3 or more banks each operating a total of 978 banks with loans and investments of \$8,716,000,000. Of these 97 groups, 34 were described as leading examples of the group movement, each having 6 or more banks and loans and investments of \$25,000,000 or more. A total of 674 banks with \$6,301,000,000 of loans and investments was included in these 34 groups.<sup>1</sup>

### FEDERAL REGULATION OF GROUP BANKING

In 1926 the Federal Reserve Board "addressed a letter to Congressman McFadden recommending that there be incorporated in the pending McFadden bill certain provisions designed to secure adequate information regarding national and State member banks which are closely related in management, operations, or interests to other banking institutions and, in particular, to afford some check upon the abuses frequently occurring from chain banking."<sup>2</sup> These suggestions, however, were not adopted by Congress.

Prior to 1930, the Comptroller of the Currency made but little comment concerning group banking in his annual reports. In his

report for 1930, however, he pointed out that it was his view "that group banking should be brought under the visitorial powers of the Federal Government in those cases where membership in the group is composed in whole or in part of national or State member banks of the Federal Reserve System" and said that legislation to this effect seemed to be necessary in the public interest.

Four bills dealing with group banking were introduced in the House in January 1930.<sup>3</sup> On February 10, 1930, the Committee on Banking and Currency of the House of Representatives was empowered "to make a study and investigate group, chain, and branch banking during the present session of Congress."<sup>4</sup> Hearings were held by the House Committee from February to June 1930. In the latter month Senator Glass introduced in the Senate the first of a long series of bills which led up to the Banking Act of 1933 and which included provisions relating to bank holding companies.

The Banking Act of 1933 recognized group banking and provided for its partial regulation. The Banking Act of 1935 contained certain minor amendments but made no fundamental change in the legislation on this subject. To provide a means to regulate group banking, section 5144 of the Revised Statutes was amended to provide that stock of a national bank controlled by a holding company affiliate shall not be voted unless such organization first obtains a voting permit from the Board of Governors of the Federal Reserve System.<sup>5</sup> Section 9 of the Federal Reserve Act was amended to require a State member bank affiliated with a holding company affiliate to obtain and file with the Board an agreement that such organization shall be subject to the same conditions and limitations as are applicable in the case of holding company affiliates of national banks under section 5144.

Section 5144 provides that the Board may grant or withhold a voting permit as the public interest may require. It further provides that in acting upon an application for a permit—

" . . . the Board shall consider the financial condition of the applicant, the general character of its management, and the probable effect of the granting

<sup>1</sup> As of December 31, 1931, there were 176 chain banking systems with 3 or more banks operating a total of 908 banks with total loans and investments of \$926,733,000.

<sup>2</sup> Statement of Governor Roy A. Young of the Federal Reserve Board before the Banking and Currency Committee of the House of Representatives, U. S. Congress, 71st, 2nd Session, Hearings under H. Res. 141, March 18, 1930, Vol. 1, Part 4, pp. 442-43.

<sup>3</sup> U. S. Congress, 71st, 2nd Session, H. R. 7966, H. R. 8005, H. R. 8366, and H. R. 8367.

<sup>4</sup> U. S. Congress, 71st, 2nd Session, Hearings under H. Res. 141, Vol. 1, Part 1, p. 1.

<sup>5</sup> Under an amendment contained in the Banking Act of 1935, no voting permit is necessary to vote in favor of placing a bank in liquidation or action pertaining to liquidation.

of such permit upon the affairs of such bank, but no such permit shall be granted except upon the following conditions . . ."

The conditions prescribed by the law are designed (1) to authorize the examination of the holding company affiliate, simultaneously with banks affiliated with it, by examiners authorized to examine such banks; (2) to authorize the examination of any bank controlled by the holding company affiliate, both individually and in conjunction with other such banks; (3) to authorize a requirement that individual or consolidated statements of condition of such banks be published; (4) to require that after June 16, 1938, the holding company affiliate possess and/or acquire out of earnings a "reserve" of readily marketable assets and maintain such "reserve"; (5) to make officers, directors, agents, and employees of the holding company affiliate subject to the same criminal penalties for false entries as officers, directors, agents, and employees of member banks; (6) to require the complete divorcement of the holding company affiliate from "securities companies" within five years from the date of its application; and (7) to require the holding company affiliate to declare dividends only out of actual net earnings. As to most of these matters, the law requires that the holding company affiliate execute agreements when it applies for a voting permit.

The law further provides that, after affording the holding company affiliate an opportunity to be heard, the Board may revoke a voting permit if it shall appear that the holding company affiliate has violated any of the provisions of the Banking Act of 1933 or of any agreement pursuant to section 5144. Revocation of its voting permit subjects the holding company affiliate to certain penalties.

Entirely apart from the provisions relating to voting permits, section 23A of the Federal Reserve Act places certain restrictions upon extensions of credit by a member bank to its holding company affiliate and upon the bank's investments in, or advances against, stock or obligations of the holding company affiliate. Also, other provisions of law<sup>1</sup> require national banks and State member banks to obtain and file with the Comptroller of the Currency and the Board, respectively, reports of their holding company affiliates as of the same call dates as condition reports are rendered by the banks. Such

<sup>1</sup> Section 5211, Revised Statutes; section 9, Federal Reserve Act.

reports must be published by the banks in the same manner as their condition reports.

It will be noted that the law deals only with "holding company affiliates." That term is defined<sup>2</sup> as including

" . . . any corporation, business trust, association, or other similar organization—

"(1) Which owns or controls, directly or indirectly, either a majority of the shares of capital stock of a member bank or more than 50 per centum of the number of shares voted for the election of directors of any one bank at the preceding election, or controls in any manner the election of a majority of the directors of any one bank; or

"(2) For the benefit of whose shareholders or members all or substantially all the capital stock of a member bank is held by trustees.

"Notwithstanding the foregoing, the term 'holding company affiliate' shall not include (except for the purposes of section 23A of the Federal Reserve Act, as amended) any corporation all of the stock of which is owned by the United States, or any organization which is determined by the Board of Governors of the Federal Reserve System not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies."

The last paragraph of the definition was added by section 301 of the Banking Act of 1935, in the light of experience in administering the law. It made it clear that an organization such as the Reconstruction Finance Corporation need not obtain a voting permit. However, its principal purpose was to provide a means by which the voting permit requirements might be made inapplicable to "accidental" holding company affiliates, organizations which came within the terms of the definition but not within its intent and purposes. As of December 31, 1936, the Board had made the prescribed determination with respect to 91 organizations, most of which had previously applied for voting permits. While the facts have varied greatly, it may be said that the basic consideration throughout has been whether the organizations were engaged in group banking such as the law was intended to regulate. Thus, in the great majority of the cases the organization in question has controlled only one bank.

**Procedure on voting permit applications.**—Following the enactment of the Banking Act of 1933, the Board received applications for voting permits from a large number of holding company affiliates. In handling such applications the Board found it necessary to adopt the practice of issuing limited voting permits from time to time in many cases, de-

<sup>2</sup> Section 2(c), Banking Act of 1933.

ferring action concerning general voting permits pending the development and analysis of information, the completion of reorganization plans, or the correction of unsatisfactory conditions.<sup>1</sup> A large percentage of the applications was disposed of without the granting of general voting permits. While some general voting permits were granted earlier, it was not until December 1935 that the issuance of such permits to a substantial number of major holding company affiliates was authorized. Since the initial rush in 1933 and 1934, relatively few applications have been received.

It has been a common practice for the Board to authorize the issuance of voting permits, both limited and general, subject to conditions. It is now the Board's policy to require, as a condition to the issuance of any general voting permit, that the holding company affiliate execute a comprehensive standard agreement designed to require the maintenance of a sound financial condition and proper policies and practices by the holding company affiliate and its affiliated banks during the life of the permit. The agreement was prescribed in substantially its present form in December 1935, prior to the issuance of general voting permits to the major holding company affiliates.

**CHANGES AND SUSPENSIONS IN BANKING GROUPS**

During the past decade changes have taken place in the number of active groups and within the groups themselves. Among the important changes has been the dissolution of many group systems because of suspensions of constituent banks, because of conversions of the constituent banks into branches of other banks in the groups, or for other reasons. There also have been important changes within the groups which are still in operation because of conversions of some banks into branches, because of mergers between and among banks within groups, because of disposition of group banks to outsiders, and occasionally because of suspensions.

Data showing changes and suspensions for the entire period 1927 to 1936 are not available. Information for groups, as distinct from chains, was compiled for December 31, 1931 and for December 31, 1936. Statistics of

<sup>1</sup> A limited voting permit authorizes the voting of stock of a bank only at a designated meeting or at a meeting or meetings held within a designated period of time and only for purposes stated in the permit, whereas a general voting permit authorizes the voting of stock of a bank at all meetings and for all purposes.

group bank suspensions are available by years for the seven years 1930 to 1936. Information as to suspensions prior to 1930 is not available separately for banks in groups as distinct from those in chains.

**Decrease in groups, 1931-1936.**—Between December 31, 1931 and December 31, 1936, the number of banking groups which was reported decreased from 97 to 52. The character of this change is shown in table 12.

TABLE 12.—CHANGES IN THE NUMBER OF BANKING GROUPS BETWEEN DECEMBER 31, 1931 AND DECEMBER 31, 1936

	<i>Num- ber</i>
Banking groups, December 31, 1931.....	97
Banking groups as of December 31, 1931, dissolved, decreased below defined size, or not considered group for other reasons, 1932-1936...	55
Banking groups operating both on December 31, 1931 and December 31, 1936.....	42
Banking group counted as one December 31, 1931 and counted as two groups December 31, 1936	1
Banking groups organized, increased to defined size, or now considered group on basis of new information, 1932-1936.....	9
Banking groups December 31, 1936.....	52

Of the 52 groups which appeared in the statistics for December 31, 1936, 42 were listed on December 31, 1931, one was added by dividing a group into two, and 9 other new ones were added. These 9 new groups are included in the current list because of information not previously available, because the number of associated banks was increased to 3 or more since December 31, 1931, or because groups were newly organized by conversion from chains or otherwise since December 31, 1931.

The 55 groups disappeared from the statistical records of groups between December 31, 1931 and December 31, 1936 for a variety of reasons. The dissolution of some resulted from the insolvency of the holding company because of suspensions, or from the fact that the group banks were consolidated with a key bank and operated as branches. Others have been omitted from the current compilation because they consist of less than three banks, or because the systems are no longer considered groups on the basis of information now available. Combination of a number of factors has operated in some cases. A classification of reasons which were compiled from the

best information available is presented below:

Insolvency of holding company because of suspensions .....	24
Conversions of banks into branches.....	17
Reclassified as being not a group on the basis of additional information.....	7
Dissolution of group and sale of banks.....	7
<b>Total .....</b>	<b>55</b>

**Changes in banks in active groups.**—The 42 groups which were in operation both on December 31, 1931 and on December 31, 1936 were operating 611 banks on the first date and 443 banks on the second date. The change in the number of banks between the two dates is accounted for in table 13 below.

TABLE 13.—CHANGES IN THE NUMBER OF BANKS BETWEEN DECEMBER 31, 1931 AND DECEMBER 31, 1936 IN 42 GROUPS OPERATING BOTH ON DECEMBER 31, 1931 AND ON DECEMBER 31, 1936

Number of active banks, December 31, 1931....	611
<b>Decreases:</b>	
Suspensions .....	3
Conversions to branches.....	88
Mergers, absorptions, consolidations, and voluntary liquidations.....	55
Affiliation with groups terminated.....	43
Reclassifications .....	6
<b>Total decreases.....</b>	<b>195</b>
<b>Increases:</b>	
Banks acquired by groups and suspended banks reopened.....	27
Number of active banks, December 31, 1936....	443

Forty-five percent of the gross decrease of banks in these groups was accounted for by the conversion of banks into branches. Such conversions were concentrated in States which changed their laws since 1931 so as to allow the operation of banking branches or so as to extend the areas in which branches could be organized. Six groups which were still in operation in 1936 accounted for 69 of the 88 banks converted into branches.

**Disposition of banks in dissolved groups.**—Of the 367 banks controlled by the 55 groups which disappeared from the group statistics between December 31, 1931 and December 31, 1936, 190 were eliminated directly or indirectly by suspensions, 100 converted to branches, and 34 were merged, absorbed, consolidated, or voluntarily liquidated.

Some of the banks are in independent operation with the same or new names; others are in an affiliation of only two banks which for statistical purposes does not constitute a group. Some of the affiliations were reduced to two banks or were eliminated by the suspension of banks in the group or their conversion into branches.

#### SUSPENSIONS OF BANKS IN GROUPS, 1930-1936

In the period 1930-1933 there were 200 suspensions of banks belonging to 39 groups. There was one suspension of a bank belonging to a group in 1934 and none in 1935 or 1936. These 201 suspensions of group banks during the seven years accounted for \$1,115,916,000 of loans and investments and \$1,011,360,000 of deposits.

**By geographic area.**—Over one-half of the suspended group banks were located in the East North Central and West South Central States. Suspensions in the East North Central States accounted for almost two-thirds of the loans and investments of all group banks which suspended. This concentration was the result of two very large bank suspensions in Detroit, Michigan. These two banks accounted for nearly one-half of the loans and investments, and deposits of all group banks suspended 1930-1936. Table 14 shows group bank suspensions by geographic areas.

TABLE 14.—SUSPENSIONS OF GROUP BANKS BY GEOGRAPHIC REGIONS, 1930-1936<sup>1</sup>

Region	Suspended banks			Percent of total			Number of groups involved
	Number	Loans and investments (In thousands of dollars)	Deposits	Number	Loans and investments	Deposits	
New England.....	21	\$152,654	\$125,950	10.4	13.7	12.5	5
Middle Atlantic...	17	44,205	38,609	8.5	4.0	3.8	9
East No. Central...	55	695,219	657,859	27.3	62.3	65.0	10
West No. Central...	10	28,611	25,654	5.0	2.6	2.5	2
South Atlantic...	3	20,499	14,040	1.5	1.8	1.4	1
East So. Central...	10	88,275	78,994	5.0	7.9	7.8	4
West So. Central...	50	48,164	37,935	24.9	4.3	3.8	5
Mountain.....	11	9,903	9,839	5.5	.9	1.0	2
Pacific.....	24	28,386	22,480	11.9	2.5	2.2	6
<b>Total.....</b>	<b>201</b>	<b>1,115,916</b>	<b>1,011,360</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>240</b>

<sup>1</sup> No group banks suspended in 1935 or 1936.

<sup>2</sup> Suspensions occurred in the same group in two or more geographical areas in some cases. The total eliminates the duplications.

The States with the largest number of group bank suspensions 1930-1936 were Arkansas, Michigan, Illinois, Washington,

Massachusetts, and Idaho. These six States accounted for 64 percent of all group bank suspensions during this period. Michigan accounted for about 60 percent of the loans and investments and of deposits of group banks involved in suspensions during the same period, owing to two large suspensions in Detroit.

**By years.**—Table 15 shows the 201 suspensions of group banks by years. There were 91 suspensions in 1933 compared with 109 in the three preceding years, one in 1934, and none in 1935 or 1936. The group bank suspensions during the seven years involved \$1,011,360,000 of deposits, over three-quarters of which were accounted for in the year 1933.

TABLE 15.—SUSPENSIONS OF GROUP BANKS BY YEARS, 1930-1936<sup>1</sup>

Year	Suspended banks			Percent of total			Number of groups involved
	Number	Loans and investments (In thousands of dollars)	Deposits	Number	Loans and investments	Deposits	
1930.....	53	\$117,332	\$104,007	26.4	10.5	10.3	6
1931.....	21	76,830	70,646	10.4	6.9	7.0	7
1932.....	35	52,127	39,562	17.4	4.7	3.9	9
1933 <sup>2</sup> .....	91	861,847	788,538	45.3	77.2	78.0	29
1934.....	1	7,780	8,607	.5	.7	.8	1
1935-36.....							
Total.....	201	1,115,916	1,011,360	100.0	100.0	100.0	340

<sup>1</sup> No group banks suspended in 1935 or 1936.

<sup>2</sup> Includes 8 banks with \$13,610,000 of loans and investments and \$9,141,000 of deposits which suspended between January 1, 1933 and March 15, 1933; 6 licensed banks with \$26,870,000 of loans and investments and \$22,342,000 of deposits which suspended between March 16, 1933 and December 31, 1933; 44 banks with \$700,760,000 of loans and investments and \$650,300,000 of deposits not licensed following the holiday and subsequently placed in liquidation or receivership; and 33 banks with \$120,607,000 of loans and investments and \$106,755,000 of deposits not licensed by June 30, 1933 but licensed at one time or another after that date.

<sup>3</sup> Suspensions occurred in the same group in two or more years in several cases. The total eliminates the duplications.

**By class of bank.**—Of the 201 group banks which suspended during 1930-1936, 132 were nonmember banks, as shown in table 16. About two-thirds of the suspensions of national banks in groups occurred in 1933 among banks which were not licensed following the banking holiday. National banks

accounted for almost 70 percent of the deposits of all group banks which suspended 1930-1936, as a result of the two large national bank suspensions in Detroit.

TABLE 16.—SUSPENSIONS OF GROUP BANKS BY CLASSES, 1930-1936<sup>1</sup>

Class of bank	Number	Loans and investments (in thousands of dollars)	Deposits (in thousands of dollars)
National.....	57	\$735,692	\$694,787
State member.....	12	125,150	100,472
Nonmember.....	132	255,074	216,101
Total.....	201	1,115,916	1,011,360

<sup>1</sup> No group banks suspended in 1935 or 1936.

**By size of bank.**—For the group banks which suspended in 1930-1936 deposits averaged \$5,030,000. Of the 201 banks, 85, or 42 percent, had loans and investments of \$1,000,000 or more. The suspensions in 1930, however, included many small banks so that only 19 percent of the suspended group banks in that year had loans and investments of \$1,000,000 or more. Table 17 presents details of group bank suspensions by size of loans and investments.

TABLE 17.—SUSPENSIONS OF GROUP BANKS, BY SIZE OF LOANS AND INVESTMENTS, 1930-1936<sup>1</sup>

Size group—loans and investments (in thousands of dollars)	Suspended banks		Percent of total	
	Number	Loans and investments (in thousands of dollars)	Number	Loans and investments
Under \$100.....	20	\$1,271	10.0	.1
100-149.....	15	1,820	7.5	.2
150-249.....	23	4,524	11.4	.4
250-499.....	24	8,308	11.9	.7
500-999.....	34	23,977	16.9	2.2
1,000-1,999.....	27	39,314	13.4	3.5
2,000-4,999.....	25	76,941	12.4	6.9
5,000-9,999.....	12	83,646	6.0	7.5
10,000-49,999.....	19	386,471	9.5	34.6
50,000 and over.....	2	489,644	1.0	43.9
Total.....	201	1,115,916	100.0	100.0

<sup>1</sup> No group banks suspended during 1935 or 1936.