

BANK HOLDING COMPANIES

In connection with the question as to what should be done with bank holding companies, there are two alternatives--dissolution or regulation. Some pertinent facts are set forth below.

Comparative Statistics

The following statistics relate to bank holding company groups ^{1/} as of dates as near to June 16, 1933, and the present as data are readily available:

	1933	Current	Change	
			Increase	Decrease
Number of groups	61	50		11
Group banks:				
Number of				
National	383	271		112
State member	50	45		5
Nonmember insured	0	117	117	
Nonmember uninsured	<u>243</u>	<u>12</u>	—	<u>231</u>
Total	676	445	117	348
Number of branches	881	969	88	
No. of cities served	958	883		75
Deposits	\$5,750,307	\$7,279,205	\$1,528,898	
Capital structure	\$965,330	\$888,293		\$77,037

(Dollar amounts are in thousands)

No new bank holding company groups of importance have been developed since 1933.

1/ These statistics include total deposits of \$2,674,278,000, and capital structure of \$377,312,000 of 30 key or related banks in groups, the stock of which would not have to be distributed in a dissolution program except in those few cases where some of the shares of such banks are owned by the related holding company affiliates. Both the 1933 and current figures are believed to include all cases of any importance generally regarded as group banks, in most cases embracing three or more banks at least one of which was a member bank. There are some groups where only nonmember banks were involved but they are of no particular importance in the present situation.

Comparative summary of currently active cases considered as bank holding company groups, whether technically holding company affiliates or otherwise.^{1/}

	<u>1933</u>	<u>Current</u>	<u>Change</u>	
			<u>Increase</u>	<u>Decrease</u>
Number of groups	40	39		1
Group banks:				
Number of				
National	330	258		72
State member	34	35	1	
Nonmember insured	-	108	108	
Nonmember uninsured	212	9		203
Total	576	410	109	275
No. of branches	659	890	231	
No. towns or cities served	817	847	30	
Deposits	\$4,543,478	\$6,361,871	\$1,818,393	
Capital structure	\$ 761,621	\$ 784,799	\$ 23,178	

(Dollar amounts are in thousands)

^{1/} Current statistics include total deposits of \$1,938,821,000 and capital structure of \$298,516,000 of 20 key or related banks in groups, the stock of which would not have to be distributed in a dissolution program except in those few cases where some of the shares of such banks are owned by the related holding company affiliates. Both the 1933 and current figures are believed to include all cases of any importance generally regarded as group banks, in most cases embracing three or more banks at least one of which was a member bank. There are some groups where only nonmember banks were involved but they are of no particular importance in the present situation.

Principal Cases of Expansion or Contraction in Bank Groups Still in Existence

	<u>Net Increase or Decrease (-) in No. of</u>				<u>Deposits</u>	
	<u>States Served</u>	<u>Cities Served</u>	<u>Banks</u>	<u>Branches</u>	<u>Increase</u>	<u>%</u>
Transamerica Corp. San Francisco, Calif.	3	71	1	122	\$602,000,000	70
Marine Bancorporation Seattle, Wash.	-	3	-3	6	35,000,000	93
U. S. National Corp. Portland, Ore.	-	10	-3	13	47,000,000	67
Marine Midland Corp. Jersey City, N. J.	-	12	0	14	81,000,000	24
Almours Securities Co. Jacksonville, Fla.	-	4	4	--	30,000,000	89
Union Trust Co. Pittsburgh, Pa.	-	--	-1	-1	216,000,000	47
First Security Corp. Ogden, Utah	-	-2	-22	19	23,000,000	60
Old National Corp. Spokane, Wash.	-1	-6	-16	10	13,000,000	84
First Bank Stock Corp. Minneapolis, Minn.	-	-16	-22	5	77,000,000	24
Northwest Bancorporation Minneapolis, Minn.	-1	-12	-29	17	36,000,000	11
Wisconsin Bankshares Corp. Milwaukee, Wisc.	-	-14	-20	3	85,000,000	47

23 PRINCIPAL BANK HOLDING COMPANY GROUPS

(Deposits in Thousands of Dollars)

Group	Controlled Banks (25% to 100%)		Other Key or Related Banks		Aggregate	
	No.	Deposits	No.	Deposits	No.	Deposits
Transamerica Corp. San Francisco, Calif.	8	\$1,479,548	0	0	8	\$1,479,548
Marine Midland Corp. Jersey City, N. J.	22	427,393	0	0	22	427,393
Union Trust Co. Pittsburgh, Pa.	4	427,293	1	\$245,255	5	672,548
First Bank Stock Corp. Minneapolis, Minn.	75	392,226	0	0	75	392,226
Northwest Bancorporation Minneapolis, Minn.	92	379,000	0	0	92	379,000
Wisconsin Bankshares Corp. Milwaukee, Wis.	14	263,744	0	0	14	263,744
Anglo National Corp. San Francisco, Calif.	8	218,980	0	0	8	218,980
BancOhio Corp. Columbus, Ohio	16	112,416	0	0	16	112,416
Mellbank Corp. Pittsburgh, Pa.	17	100,492	0	0	17	100,492
Old Colony Trust Associates Boston, Mass.	11	98,610	1	638,227	12	736,837
Marine Bancorporation Seattle, Wash.	3	72,507	0	0	3	72,507
Almours Securities, Inc. Jacksonville, Fla.	11	64,009	0	0	11	64,009
First Security Corp. Ogden, Utah	5	60,531	0	0	5	60,531
Trustees, First Nat. Bank Louisville, Ky.	6	42,385	0	0	6	42,385
Old National Corporation Spokane, Wash.	2	28,054	0	0	2	28,054
Citizens & Southern Holding Co., Savannah, Ga.	5	22,867	1	78,696	6	101,563
Tr. Co. of Ga. Associates Atlanta, Ga.	5	19,214	1	21,226	6	40,440
Shawmut Association Boston, Mass.	7	15,946	1	202,135	8	218,081
Hamilton Nat. Associates Chattanooga, Tenn.	13	14,949	1	37,096	14	52,045
Atlantic Trust Co. Jacksonville, Fla.	6	11,593	1	40,122	7	51,715
First Securities Corp. Syracuse, N. Y.	10	8,374	1	51,968	11	60,342
Barnett Nat. Sec. Corp. Jacksonville, Fla.	5	5,230	1	24,613	6	29,843
Commerce Trust Co. Kansas City, Mo.	<u>2</u>	<u>3,661</u>	<u>1</u>	<u>170,833</u>	<u>3</u>	<u>174,494</u>
Totals	347	\$4,269,022	10	\$1,510,171	357	\$5,779,193

(NOTE: Deposit figures are the latest available)

Dissolution

- Methods.
1. Distribution of bank stocks to shareholders of holding company.
 2. Sale of bank stocks in the market.
 3. Liquidation of subsidiary banks.
 4. Conversion of banks into branches.

Difficulties. Under either of the first three methods, numerous legal, financial and other difficulties would be encountered. Conversion by bank holding companies of subsidiary banks into branches is not possible under present branch banking laws in many cases, and prospects for changes in such laws are decidedly unfavorable. The magnitude of the difficulties which might be encountered in a program of dissolution of the 50 groups referred to above is further indicated by the following facts:

1. There are deposits of approximately \$4,600,000,000 and capital funds of approximately \$500,000,000 in the 415 controlled banks, and additional deposits of \$2,674,000,000 and capital of \$377,000,000 in 30 other banks which are either holding company affiliates or closely related key banks in certain of the groups.
2. 12 leading companies own more than 5,000,000 shares in both large and small banks.
3. 1 company, which owns only 341 shares of 1 of its smaller subsidiary banks and 1,680,000 shares in its largest bank, has more than 200,000 shareholders of its own.
4. 1 company, which has 18,000 shareholders, has more than 90 banks, both large and small.
5. 1 company, with 17,000 shareholders, has shares in 70-odd subsidiary banks, and other companies with varying numbers of shareholders have shares in from a few to 20-odd banks.

Dissolution would necessitate a definition or a determination as to what constitutes a bank holding company, or control. Actual control is effected

in some cases by a very small percentage of stock, especially if the balance of the stock is held in small quantities by shareholders widely scattered. Without regulation, it would be necessary to base the definition on a very low percentage--say, 10% or 5% ownership--in order to be certain of dissolution in all cases and to avoid evasion. In some cases comparatively large ownership may not mean actual control. Obviously, basing the definition on a low percentage for all cases might include many additional corporations which neither desire nor attempt to control banks but which would be forced to dump their investments on a disturbed market.

In many cases questions would be raised as to responsibility for the determination of evasions, whether by the bank or the company involved. Supervisory authorities might not know whether a company is a holding company if they have no power to examine or regulate, and evasions or violations could go undiscovered in many cases.

Effects of Forced Dissolution. Distribution of bank shares would mean:

1. Continuing or increasing absentee ownership, placing fractional shares of many banks, both large and small, in the hands of thousands of shareholders, widely scattered in many cases.
2. Little or no interest in the management of subsidiary banks by holders of fractional shares or other small shareholders, placing the balance of power in a few persons who might have acquired, on a demoralized market, just enough shares to insure control, more for the purpose of using the bank to their advantage than of protecting the interests of depositors and of the F.D.I.C.
3. Impossibility, in many cases, of holding shareholders' meetings where the vote of a majority or two-thirds of the stock is necessary, as for the purpose of strengthening capital, etc.
4. Financial loss to thousands of shareholders who would attempt to dispose of their fractional or small shares of the various subsidiary banks. This is illustrated

in one case where it was reported sales of the subsidiary bank shares, after distribution of approximately 58%, caused a drop in the price to such extent that it was necessary to "support the market" for such shares.

The sale in the market by bank holding companies of their holdings in subsidiary banks would likewise cause tremendous losses. The market for shares of even the larger metropolitan banks, as well as many of the more representative bank holding companies, has been thin and otherwise unfavorable, especially since the crash and the Banking Holiday of 1933. That private capital is not seeking investment in banks, particularly the smaller "country" banks typical of bank holding company groups, is evidenced by the fact that the R.F.C. continues to hold capital investments of more than \$550,000,000 in more than 5,000 banks.

The liquidation of banks, in the absence of a market for bank shares, would be the only practical alternative in dissolution in many cases.

By far more important effects of any program of dissolution would be:

1. Immediate tightening or discontinuance of credit, or even forcing liquidation of existing loans and securities.
2. Loss of confidence in the banks by depositors and the public, weakening most and possibly wrecking some of the banks.
3. Possible increase of liability of the F.D.I.C.
4. A direct and powerful blow at the strenuous efforts of every interested agency of the Government to inject more capital into the banking structure.

Advantages of Bank Holding Companies

1. Sounder credits and investments and more efficient management, especially for smaller units, as the result of zone supervisors and head office reviews, and operating economies.

2. Adequate facilities for handling credits, fiduciary, and other types of business not ordinarily handled in volume by small town banks.
3. Supervision of subsidiary banks facilitated.
4. Responsibility for and financial assistance rendered to weak units; for example, direct contributions, special deposits, removal of assets and guarantees and endorsements for aid to weak units of over \$100,000,000, in the case of one company, approximately \$38,000,000 in another; \$18,000,000 in another; \$15,000,000 in another; and varying amounts in numerous other cases.

The situation of holding company groups in general is far stronger at present than at the time the Banking Act of 1933 was enacted. There have been no failures of bank groups since 1933. There have been several instances of mergers, consolidations, or conversions into branches of group banks in connection with rehabilitation of capital and strengthening of the positions in general. As compared with numerous instances of strengthening before and since the advent of deposit insurance, there is no group, taken as a whole, in which the probability of loss by the F.D.I.C. has increased, especially since the inception of the permanent fund.

Criticisms of Bank Holding Companies

The criticisms most commonly attributed to bank holding companies are:

1. Used as devices for promotional profits.
2. Great amount of banking funds subject to control by small amount of investment.
3. Tendency to buy up existing banks rather than to establish banks de novo in bankless communities.
4. Difficulty of supervision of subsidiary banks by various agencies.
5. Shifting of criticized assets, split loans, etc.
6. Withhold credits in smaller localities, using deposit funds for advances in larger centers.

7. Inferior form of multiple office banking.
8. Means of expansion of multiple office banking over wide areas and in areas in which branch banking is not permitted by law.
9. Widespread disastrous effects in the case of mismanagement or failure.
10. Monopolies and elimination of competition.

Many of the expressed criticisms are not based upon facts or experiences but rather, to a large extent, upon prejudices associated with holding companies in other fields, particularly public utilities, and are otherwise largely academic. Many criticisms are associated with the exchange of stock of bank holding companies for bank stocks and the sale of some shares for cash at highly inflated figures. Such criticisms and prejudices were more or less crystallized in the period of inflation and subsequent rapid deflation, which was all prior to any attempt at regulation of bank holding company practices either by the Securities Exchange Commission or the Board under the voting permit law, and are out of date now. Whatever remaining criticisms there are could be greatly reduced, if not entirely eliminated, by reasonable regulatory legislation.

Regulation More Practical than Dissolution

In the existing circumstances, any program of dissolution of bank holding companies, which is bound to have a serious demoralizing and deflationary effect, seems entirely unwarranted on the facts. It would appear to be a much more practical program to obtain the necessary legislation to eliminate the weaknesses in the present laws and the causes for criticism of bank holding companies, restrict or prohibit unwarranted expansion or development of group banking in the future, but at the same time preserve the good features or advantages of bank holding companies and avoid the demoralizing and deflationary effects of dissolution.

Principal Weaknesses in Present Law

Regulatory statutes enacted by Congress to guard against potential dangers in bank holding companies have been drawn on the theory that holding companies may not vote stock in their subsidiary banks unless they obtain a voting permit from the Board and submit to supervision by the Board as a condition to the issuance of a permit. These statutes are inadequate and are subject to avoidance.

The definition of a bank holding company is based primarily on majority ownership or control of stock of subsidiary banks. A bank holding company may reduce its holdings in a bank slightly below 50 per cent and still maintain actual control. In other respects the present definition is ambiguous and unsatisfactory.

Bank holding companies are not required to submit to supervision by the Board but they must do so only in order to vote their stock of subsidiary banks. In some cases holding companies have permitted operation of subsidiary banks through the votes of friendly minority stockholders, rather than to submit to supervision.

The Board's supervisory authority is based largely on agreements of holding companies as a condition to the Board's issuance of voting permits rather than on positive regulatory powers in the Board, and supervision on this basis has proved cumbersome and unsatisfactory.

The Board is given insufficient authority to regulate holding companies and to require the maintenance of satisfactory conditions after granting voting permits.

There is no limitation in present law on expansion of group banking.

Proposed Strengthening of Statutes and Limitations upon Expansion

1. Repeal voting permit provisions of the present law and other miscellaneous unnecessary provisions. Require that all bank holding companies furnish Board information relating to their relationships and be subject to supervision by Board.

2. Define a bank holding company as one owning directly or indirectly 20 per cent or more of the voting stock of more than one bank, any one of which is an insured bank. In the case of the ownership of a less amount of stock in banks, authorize Board to determine that a bank holding company relationship exists if it finds that the policy and management of banks are subject to the control of the bank holding company.

3. Prohibit any new bank holding company.

4. Limit future acquisition of bank stocks by a bank holding company to stock of banks located in the State or States in which the bank holding company has a bank which was a subsidiary of the bank holding company on January 1, 1938. Prohibit any bank holding company from acquiring any stock in a bank holding company in which it does not own 20 per cent or more of the stock on January 1, 1938.

5. Where bank stock might be acquired by a bank holding company under the next preceding paragraph, no such stock shall be acquired except under permission of the Board. The Board may authorize such permission only in cases where it finds such acquisition would facilitate the rehabilitation, merger, consolidation, or sale of assets of banks to prevent losses to depositors or the F.D.I.C., or where acquisition of additional stock in banks which were subsidiaries on January 1, 1938, would be in the public interest. Stock in a bank acquired subsequent to January 1, 1938, and prior to the date

of the Act may be retained only with permission of the Board under circumstances where it might be acquired after date of Act.

6. Require all subsidiary banks of bank holding companies to become member banks of the Federal Reserve System.

7. Authorize Board to make such examinations of subsidiary banks and to require submission of such information and reports by such banks as it deems necessary, and to require correction of unsound practices or policies by subsidiary banks under its rules and regulations. Where a bank holding company or a subsidiary company is indebted to, or owned in whole or in part by, a subsidiary bank, authorize Board to make such examinations of such bank holding company or subsidiary and to require submission of such information and reports by such bank holding company or subsidiary as it deems necessary.

8. With certain minor necessary modifications, retain present requirements of law with regard to conservation of resources and profits of each bank holding company while the value of its readily marketable assets, other than bank stocks, is less than the prescribed percentage of bank stocks owned. Exempt any "indirect" bank holding company which does not own directly any bank stock, but has a subsidiary bank holding company, from provisions of the law relating to conservation of assets.

9. Retain provisions in law divorcing "securities" business (giving bank holding companies which have not received general voting permits two years from date of Act to conform to requirements of the law).

10. Prescribe penalties for violation, by a bank holding company or a subsidiary, of the law or the Board's regulations or orders, such as limitation on payment of dividends or fees to a bank holding company or a subsidiary thereof by subsidiary banks, payment of dividends by a bank holding company,

voting of stock in subsidiary banks by a bank holding company, removal of officers or directors of a bank holding company.

11. Eliminate from Section 9 of the Federal Reserve Act and Section 5211 of the Revised Statutes, relating to reports of affiliates of State member banks and national banks respectively, the reference to "holding company affiliates". Amend Section 23A of the Federal Reserve Act relating to extensions of credit to affiliates so as to strike out the reference therein to "holding company affiliates" and to include any company of which a member bank is a subsidiary.