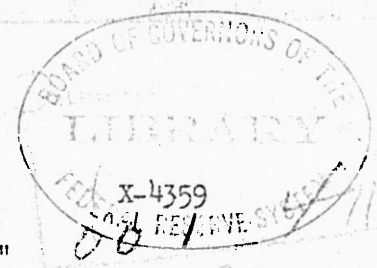


(COPY)

"BRANCH BANKING BEFORE THE CIVIL WAR"

Address to be Delivered by Edmund Platt, Vice Governor of
the Federal Reserve Board, Before the National Bank Section,
New York State Bankers Association at Ithaca, New York,
June 22, 1925.



Platt

Platt
Edmund

Branch banking has sometimes been called un-American, and it is of course true that in every other commercial nation, including Canada and Australia; branch banking is the rule while in the United States it is the exception. It may be interesting to take a look into the history of the early days of banking in the United States to see whether this has always been true. Apart from the two United States banks which were each in existence for 20 years, and the second of which went out of existence as a national institution in 1836, banking before the Civil War was carried on by state banks and by a few private banks. Lists of incorporated banks were published from time to time, and one needs only to glance at them to see that in some sections of the country, particularly in the West and South - sections which have always prided themselves on their Americanism - branch banking was very much in evidence, was in several the states the rule, rather than the exception.

The Bankers' Magazine for February 1848 has a list of "Banks of the United States" from which we find that in Ohio out of 48 banks, 29 were branches of the Ohio State Bank. Indiana lists 17 branches of the State Bank of Indiana and no independent banks, Missouri had one bank and 5 branches, Kentucky 3 banks and 13 branches, Tennessee 3 banks and 17 branches, Virginia 6 banks and 30 branches, North Carolina 4 banks and 14 branches, South Carolina 12 banks and 2 branches, Georgia 13 banks and 7 branches, Delaware 5 banks and 3 branches and Alabama 2 banks and 4 branches. Illinois, Iowa, Mississippi, Florida and Arkansas came under a special

JUL 7 1964

XERO COPY

XERO COPY

Carded

heading as "States and Territories without Banks", while Wisconsin had one bank and Michigan four. It may therefore be said that so far as banking had been developed in the West branch banking was the rule, and was general also in the South. No branches were listed in the eastern states, excepting two in the State of New York - The Bank of Utica is listed as having a branch at Canandaigua, and the Ontario Bank of Canandaigua had a branch in Utica. There were two branches in Maryland - branches of an Annapolis bank, - and appear to have been two in New Jersey, though they are not listed as branches.

The list of banks of the United States in June 1860, published in the Bankers Magazine of that year makes a similar showing, though Illinois appears with 75 banks (only one of which was in Chicago), Iowa with 13, all of which were branches of the State Bank of Iowa, and not only Mississippi, and Florida, but Kansas, Nebraska and Minnesota come on the scene with a few banks. Missouri at this time had 42 banks, of which 33 were classed as branches.

New York's two branch banks shown in the 1848 list had disappeared in 1860, and in fact the Legislature of New York had on April 12, 1848, passed an amendment to the Free Banking Act which has been generally regarded as prohibiting branch banking. Pennsylvania had passed a similar amendment in 1850 and legislation against branch banking had been passed at about the same time in Massachusetts and in Connecticut.

One thing that has puzzled me considerably is the question - Why did these eastern states prohibit branch banking? What motives prompted the amendments? Dr. Davis R. Dewey in his "State Banking Before the Civil War" (p.143) makes the statement that the New York amendment of 1848 was "due to a fear that banks in large cities might monopolize the profits of note issue by organizing branches in small inaccessible towns and thus throw obstacles

in the way of easy redemption of bills", but the evidence he gives in a foot-note supports a very different view - that country banks, sometimes organized in small inaccessible towns, issued their notes and transacted such other business as came in their way through branches or agents in the important cities, evading redemption of their notes in the cities by referring holders to the remote towns where the so-called principal offices were located.

New York

The word "branch" does not appear in the amendment, which provides that "all banking associations or individual bankers, organized under the provisions of the act passed April 18, 1838 * * * shall be banks of discount and deposit as well as of circulation and the usual business of banking of said associations or individual banker shall be transacted at the place where such banking association, or individual banker shall be located." Millard Fillmore was at that time Comptroller of the State of New York and in a circular dated May 2, 1848, announcing that the amendment was now the law and would be enforced, says:

"A practice had grown up under the general banking law, of establishing banks in obscure places, in remote parts of the state where little or no business was done, with a view of obtaining a circulation merely, and doing no other business. This circulation was then redeemed in New York or Albany by the agents of the bank, at one-half of one per cent. discount, and again put in circulation without being returned to the bank, thereby enabling the bank to redeem its own paper at a discount, and then again put in circulation in the same place where it was redeemed. The object of the present law appears to be to break up that practice, and to ensure obedience to its requirements, the legislature have enacted that the president and cashier shall in every report made to this office, state that their business has been transacted at the place required by that act, and that such report shall be verified by their oaths". Bankers' Magazine, June 1848, Vol. 2, page 744.

This explains the amendment, and shows that it was directed not against genuine branch banking, but against wild cat circulation banking. The amendment required that every bank organized under the general banking law must be "a bank of discount and deposit as well as of circulation", and that its usual business - its loans as well as its note issues - must be made in the place

specified in its certificate.

I have not been able to find the slightest evidence that the large well-established banks in New York City had ever attempted to "organize branches in small inaccessible towns", as Dr. Dewey implies, and I think it is reasonably clear that the city banks not only did not oppose the amendment, but were in favor of it. Certainly there was no agitation of the subject of branch banking before the passage of the amendment, such as would surely have been the case if it had been passed at the instance of the country banks, or through fear of the monopolization of note issues by city banks. It is difficult to find any reference to the amendment in any of the publications of the day.

It should furthermore be noted that this so-called anti-branch/^{bank} amendment applied only to the "free banks" and not to the Safety Fund Banks, of which there were about 80 in operation at that time, including several large city banks. An amendment to the Safety Fund Act, passed on the same date as the so-called anti-branch amendment to the Free Banking Act, expressly mentions branches. "But in all cases where a bank has a branch located at another place". The fact that the right of Safety Fund Banks to operate branches was confirmed at the same time that free banks were prohibited from transacting their usual business in any other place than that named in their certificate is direct evidence that there was no opposition of consequence to branch banking, and no fear of banking monopoly through branches.

Branch banking nevertheless scarcely existed in New York in 1848, and it does not appear from the lists published that any of the Safety Fund banks had branches at that time. The lists are doubtless not complete and are not conclusive evidence as to the existence of branches. There had been some branch banking in New York State at an earlier date, mostly by country banks. Not much

information is obtainable about it from banking histories, but I know that the Middle District Bank, one of the early banks in Poughkeepsie, had a branch in Kingston, and through local histories some references can be obtained to branches of other country banks. These were apparently found unprofitable and were nearly all given up long before 1848.

Only one bank in New York City ever had a branch outside the city, so far as I can find out, and that was the Bank of the Manhattan Company, which in 1811 had a branch in Poughkeepsie and one in Utica. There appears to be no record as to just when these branches were given up, but it was almost certainly long before 1848 and before the Manhattan Bank became a Safety Fund Bank.

Banking except in the largest cities was in the early days mostly note issue banking, and the efforts of the legislatures were directed towards the enactment of laws to secure the redemption of notes. Every imaginable expedient was tried somewhere in the United States. The State of New York, out of the turmoil, produced two laws which were destined to be widely copied - one of them in the National Banking Act. These were of course the Safety Fund Act of 1829 and the so-called Free Banking Act of 1838. Certain of the Western and Southern States developed equally sound and perhaps rather better systems through branch banking. The effort was to produce systems which would make the note issues sound, and the notes of the Bank of Indiana, of which Hugh McCulloch was the President, were as sound as those of any of the big banks of New York City. The same was true of the Bank of Ohio.

Certain elements of sound banking seem to have been recognized in such systems which were lost sight of when all the State banks were reorganized as National banks with notes secured by United States bonds. The feeling was that all essential banking problems had been solved when a uniform and sound system of

bank notes had been secured. The note holder was protected by specially segregated assets. Depositors were for the time forgotten, and had less protection than before.

The Bank of Indiana and similar institutions obtained security for their notes through good management and through a wide spread of risks so that they could not be vitally affected by disaster in any one community. These are as essential for the security of depositors today as they were for note holders in the old days. Banks to be safe must be large enough to afford good management and must have opportunity to loan their funds over a territory wide enough to include persons engaged in a variety of industries.