Branch, Chain, and Group Banking

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-FIRST CONGRESS

SECOND SESSION

UNDER

H. Res. 141

AUTHORIZING THE BANKING AND CURRENCY COMMITTEE
TO STUDY AND INVESTIGATE GROUP, CHAIN
AND BRANCH BANKING

FEBRUARY 25, 26, AND 27, 1930

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BRANCH, CHAIN, AND GROUP BANKING

House of Representatives,
Committee on Banking and Currency,
Tuesday, February 25, 1930.

The committee met in the committee room, Capitol Building, at 10.30 o'clock a. m., Hon. Louis T. McFadden (chairman) presiding.

The Chairman. The committee will come to order.

This is the beginning of the hearings on the subjects of branch, group, and chain banking, authorized under House Resolution 141, reported by the Committee on Rules February 3, 1930, and passed by the House on February 10, 1930. So that the record may be clear, the clerk will insert this particular resolution in the minutes at this point unless there is objection.

(The resolution referred to is here printed in full, as follows:)

Resolved, That for the purpose of obtaining information necessary as a basis for legislation the Committee on Banking and Currency, as a whole or by subcommittee, is authorized to make a study and investigate group, chain, and branch banking during the present session of Congress. The committee shall report to the House the results of its investigation, including such recommendations for legislation as it deems advisable.

For such purposes the committee, or any subcommittee thereof, is authorized to sit and act at such times and places in the District of Columbia, whether or not the House is in session, to hold such hearings, to employ such experts and such clerical, stenographic, and other assistants, to require the attendance of such witnesses and the production of such books, papers, and documents, to take such testimony, to have such printing and binding done, and to make such expenditures as it deems necessary.

The Chairman. I would like to say at the outset that this is an important study, and a valuable amount of material will be accumulated during the course of these hearings, and the chairman would like, so far as possible, to keep out extraneous matter and to keep the course of the hearings along the lines of the subjects immediately before the committee.

Of course, as the hearings go along they can not be indexed, but when completed I hope to have a proper index made as to both subjects and persons so that any one who reads or wants to study these hearings may do so with very little trouble as to reference.

I would like to say also at the outset of these hearings that I am going to invoke the rules of the House in the conduct of these hearings and, so far as possible, as the various witnesses appear, I am going to suggest that they be permitted to make an uninterrupted statement of their position, and then, with the cooperation of the committee, I am going to try to work out a plan of questioning by the members in regular order. In that connection, after each member has had an opportunity to interrogate the witness, I am going to suggest that we have more of an open forum if additional questions are necessary. I hope that when the members of the committee want to interrupt a witness they will first address the chairman of the committee and secure such permission. I think that program will tend to smoothen procedure in the committee and make clearer what is taking place, and, so far as possible, I wish the members of the committee would make notes as the witnesses bring questions to their minds, and then propound those questions when they have the opportunity.

I wish it were possible for us to have agenda prepared in advance, of the subjects to be covered, but this matter is pretty well defined and under the rule we are kept strictly to the subject, so that the probabilities are we will be able to get along nicely without that.

Now, if any members of the committee have any suggestions that will tend to make these hearings run along smoothly, I would be very glad to have them at the outset.

Mr. LUCE. In support of the program that the chairman suggested, I want to ask the permission of the committee to read two or three sentences from a letter that I received from ex-Governor Benjamin Strong, of the New York Federal Reserve Bank.

Governor Strong not only had a most beautiful character, but he was one of the most efficient men that ever came before this committee, and I think we all came to trust and admire his judgment.

In one of his periods of convalescence, he wrote me a letter regarding his own experiences before this committee, in which he made certain suggestions, and one of the things he said is this:

> It has seemed to me in all cases where I have appeared before a committee of Congress that much time was wasted and the opportunity to obtain much valuable material was missed by the failure to have agenda in the hands of both members of the committee and those appearing before the committee, so that the witnesses' statements would be consecutive and comprehensive on the one hand, and so that questions by the members of the committee would be directed at the particular part of the subject being discussed. Repeatedly at these hearings questions have been asked me relating to subjects other than those which were in my mind to discuss but for which I had already made preparation, thus interrupting the narrative, so that once or twice it has only been resumed at a later hearing, sometimes a day or two deferred.

Governor Strong then went on to contrast that with the method used in an intricate and important hearing in London, where he appeared before nine members of a commission, the chairman being a member of the House of Commons. In the course of this, he said:

> As there were three of us appearing at the same time, we specified just when questions would be asked, in order that consecutive statements might not be interrupted, and when the question period arrived, the chairman first completed all the questions which he desired to ask and for which he had made notes, and then in turn called on each member of the commission to ask his questions for which he had made notes. At the conclusion of these nine series of questions a somewhat more informal discussion took place when questions were asked promiscuously, all however directed to the particular subject we had just discussed, and under the control of the chairman there was no interruption until the particular line of questioning then under way had been concluded.

Then he says that—

> This particular hearing involved a subject of great complexity; in fact, some very obscure monetary questions indeed, and yet our appearance, which involved hearing three people, was certainly concluded in less than half the time required for my own statement alone at the hearing in Washington, and I confidently believe that the results in the more compact form in which they were so produced were of greater value than when interlarded with a vast amount of immaterial and irrelevant discussion.

I present this consideration, sir, from a man of wide experience in these matters, from the point of view of the witness; and the value of such procedure to the committee and to others is apparent.

So I express my own gratification that your program is to be as announced.

The CHAIRMAN. Are there any other comments by the members of the committee?

Mr. BEEDY. As long as we have witnesses before the committee, I shall not make any further suggestions, but I had mapped out a plan of segregating and grouping our witnesses which I should like to submit to the committee; but perhaps we can do that later in executive session.

The CHAIRMAN. We now have before the committee Hon. J. W. Pole, the Comptroller of the Currency, as the first witness. In accordance with my previous statement, I understand that the comptroller has prepared himself to make an uninterrupted statement, after which he will submit to questioning.

Now, Mr. Comptroller, make yourself comfortable and entirely informal, and be not afraid.

STATEMENT OF HON. JOHN W. POLE, COMPTROLLER OF THE CURRENCY

Mr. POLE. Thank you. I appreciate the action of the committee in permitting me to make this statement uninterruptedly, and, in view of its length, I will beg the committee's indulgence, but by reason of the great importance of the subject I feel that I could not say less.

The CHAIRMAN. Before you proceed with your statement, may I ask if you will embody in your statement a repetition of your recommendations contained in your last report to Congress?

Mr. POLE. There will be a reference to them, but not a repetition.

The CHAIRMAN. I am going to suggest, because of the importance of that recommendation, that it be placed in the record at this point.

Mr. POLE. That is my first suggestion, Mr. Chairman.

The CHAIRMAN. All right, sir.

(The recommendation referred to is here printed in full, as follows:)

LEGISLATION RECOMMENDED

The experience of the postwar period has been of sufficient duration to permit a comprehensive appraisal of the effect of the new economic and social conditions upon our system of banking. Briefly stated, it may be said that banking is following in the wake of the trend of business in general toward larger operating units with stronger capital funds and more experienced and highly trained management. The natural result has been that the larger cities are being favored with banking organizations of great financial stability with the capacity to render a better and more diversified type of service.

In the principal cities, therefore, in various parts of the country, there have grown up through mergers and through increases in the variety and volume of business banking institutions which for strength of capital and management technique were unknown in the pre-war period. There have been no failures of any of these types of metropolitan banks. They are giving the general public a safer and higher type of banking service than has hitherto been known. Their stability rests upon the great diversity of banking business to which they have access and to the further fact that they are able to secure the most highly trained and experienced talent. These banks comprise both unit and branch banking institutions.

The aggregate of all the banking resources in the United States is about $72,000,000,000, held by a little more than 25,000 banks (as of June 29, 1929), but 250 banks hold resources to the aggregate amount of approximately $33,400,000,000.

While the largest and strongest banks with the bulk of the banking resources are in the large cities, about three-fourths of all the banks in number are in the smaller towns and cities and may be classed as country banks. It is these banks which serve directly the agricultural communities. They operate with small capital funds and are very much limited in their ability to employ a trained management. The economic developments of the postwar period have had the effect of decreasing the opportunities of these banks to operate with profit and it is this situation to which I should like to direct your most serious consideration.

We are faced with the fact that during the 9-year period from July 1, 1920, to June 30, 1929, inclusive, about 5,000 banks, nearly all in the agricultural communities, closed their doors and tied up deposits of approximately $1,500,000,000.[1] These failures have not been limited to any one section of the country, although they have been most prevalent in the agricultural districts. Up to November 1, 521 banks with deposits of about $200,000,000 had suspended during the year 1929. The number of failures by States during the fiscal years ending June 30, 1921 to 1929, inclusive, is as follows:

	State and private	National
Maine	3	
New Hampshire	1	
Vermont	1	
Massachusetts	15	1
Rhode Island	1	1
Connecticut	2	1
Total New England States	23	3
New York	10	2
New Jersey		
Pennsylvania	26	11
Delaware		1
Maryland	5	1
District of Columbia		1
Total Eastern States	41	16
Virginia	29	2
West Virginia	21	4
North Carolina	98	12
South Carolina	170	21
Georgia	293	12
Florida	110	13
Alabama	22	4
Mississippi	40	3
Louisiana	33	1
Texas	178	39
Arkansas	80	8
Kentucky	40	
Tennessee	56	3
Total Southern States	1,170	122
Ohio	28	8
Indiana	78	13
Illinois	68	13
Michigan	63	2
Wisconsin	57	8
Minnesota	320	58
Iowa	386	81
Missouri	241	5
Total Middle Western States	1,241	188
North Dakota	385	59
South Dakota	264	51
Nebraska	279	28
Kansas	182	12
Montana	136	55
Wyoming	52	11
Colorado	60	16
New Mexico	40	20
Oklahoma	174	53
Total Western States	1,572	305
Washington	41	8
Oregon	36	7
California	13	16
Idaho	48	25
Utah	13	4
Nevada	2	
Arizona	27	3
Total Pacific States	180	63
The Territory of Hawaii	1	
Total United States	4,228	697

As will be observed from the foregoing table the failures of State chartered banks greatly outnumber those of the national banks, but small national banks have not been immune to the conditions which are causing the failures of small country banks generally. As an illustration of the wide scope of this economic condition, it may be said that in seven States over 40 per cent of all the banks in existence in 1920 have failed and in six States between 25 and 40 per cent. In 26 States, or more than one-half the total, over 10 per cent of the banks that were in operation in 1920 have since failed. When it is considered that no

[1] These figures embrace only those banks which actually went into the hands of receivers. They do not include about 500 banks which suspended business but were later reopened after reorganization, often resulting in depositors and shareholders voluntarily suffering some loss.

important failures have occurred among banks in the larger cities, the ratio of failures in the country districts is even higher.

We have, therefore, a strong contrast between city and country bank operations. Whereas the depositor in a large city bank, whether a wage earner or a business man, has had full protection, the depositor in the small country bank has suffered severely from the inability of so many of these banks to meet their deposit liabilities. The farming communities have not been afforded the protection for their savings which has been available to depositors in the large cities.

It is cause for immediate concern that the operating conditions faced by the country banks show no prospect of improvement under the present system. There are many country banks now operated at a loss and many others operating upon earnings insufficient to justify their capital investment. There is not available to me the earning statements of State banks, but taking the national banks as an illustration and the year 1927 as a typical year (later earning figures not being compiled) 966 national banks operated at a loss and an additional 2,000 earned less than 5 per cent. These constituted about 38 per cent of all national banks in the United States.

Comprehensive study of the banking situation for the past nine years clearly indicates that the system of banking in the rural communities has broken down through causes beyond the control of the individual banker or the local community. These causes are of a basic nature and have many ramifications throughout the great economic and social changes which have occurred in the United States since 1914. I shall not attempt in this report a detailed analysis of this situation except to say that the economic movement away from a large number of independent local utility and industrial operating units toward a stronger and more centralized form of operation in the large cities has curtailed the opportunities of the country bank for diversity and extension of business while broadening those opportunities for the large city bank.

Any attempt to maintain the present country bank system by force of legislation in the nature of guaranty of deposits or the like, would be economically unsound and would not accomplish the purpose intended. If in the free course of business the country bank can not successfully operate as an independent banking corporation, affording ample protection to its depositors and its stockholders, the obligation and responsibility is upon the Government of the United States, at least so far as the national banks are concerned, to set up a system of national banking which will insure the rural communities against the continuing disastrous effects of local bank failures.

There have been no general financial panics in this country since the war—thanks to the Federal reserve system. Any bank can have access, directly or indirectly, to the benefits of the Federal reserve system to the extent of its sound commercial and business loans and the decline of the country banks has taken place notwithstanding the valuable assistance rendered by the Federal reserve system. A Federal reserve bank is not charged with the responsibility of preventing bank failures. It is beyond the power of the Federal reserve system, as it is beyond the power of any governmental agency, to stand between these banks and insolvency.

In the absence of legislation to remedy the conditions above described, private enterprise has within recent months undertaken to meet the economic situation presented by the growing isolation of the country banks. Local holding companies have been formed in many sections of the country for the purpose of bringing together a number of banks into a single operating group. The usual procedure is for the holding company, a State corporation, to purchase a majority of the stock of several banks, one of which would be a large city bank which in effect becomes the parent bank of the group. The management personnel of the central bank becomes in practice the responsible management for the entire group. Through such a group system it appears to be possible to make a close approach to a form of branch banking whereby each operating unit leans for support upon the central bank, or upon the holding company, and receives the benefits of its moral and financial support; its prestige and good will; its extension of the wider type of banking service; and the benefits of its highly trained management.

This holding-company movement is of such recent development that complete statistics are not yet available as to the number of companies in operation or the number of banks taken over. It appears that in many cases some of the most responsible bankers and business men of the community have been instrumental in the organization of these holding companies and this it would seem is a sufficient indication of the seriousness of the purpose behind the movement. However, these holding companies are attempting to do under the sanction of existing laws, which are crudely adapted to the purpose, what should be made possible in a simpler manner by new legislation. If branch banking were permitted to be extended from the adequately capitalized large city banks to the outlying communities within the economic zone of operations of such banks, there would be no logical reason for the existence of the local holding company and it would give way to a system of branches operated directly by the central bank of the group.

These conditions would seem to warrant a further amendment of section 5155 of the Revised Statutes of the United States as amended by the act of February 25, 1927 (U. S. Code, title 12, sec. 36), known as the McFadden Act, to permit national banks, with the approval of the Comptroller of the Currency, to establish branches within the trade areas of the cities in which such banks may be situated. These trade areas may in some cases be coextensive with Federal reserve district lines; in other cases they may be of a more limited extent, but in my judgment they should not extend beyond Federal reserve district boundaries, except to take care of a few exceptional cases where a trade area may extend from one Federal reserve district into another, nor should a bank be permitted to establish a branch in another city in which there is a Federal reserve bank or a branch thereof.

Under such a system of branches there would gradually be extended to the agricultural communities from the large city banks a safe and sound system of banking which would render remote the possibility of bank failures. There would, however, be no compulsion upon unit banks to enter a branch organization. The two systems of banking—unit banking and branch banking—would no doubt operate side by side for an indefinite length of time; that is to say, there would be in every rural section some unit banks well organized, competently managed, and held in high esteem by the community which would continue to operate advantageously.

These suggestions for branch banking are made not with the intention primarily to deal with the question of the decline in the number of national banks through defection from the national to the State systems, but rather as a remedy for what appears to be a serious and fundamental weakness in our systems of banking both national and State. Such a grant of power to the national banks would, however, give them such an outstanding operating advantage that it would seem reasonable to expect that the exodus of banks from the national system would practically cease and that many now under State supervision would return to the national charter which they have forsaken.

Any such legislation, based not upon the theory of equalizing the national with the State bank charter powers but giving a real advantage to the national charter, would be fully justified under existing conditions which seriously jeopardize the maintenance of the national banking system. The State legislatures have for years given to the State banks operating advantages which the national banks did not possess and it is in this situation that we find the motive for the abandonment of national charters. There is appended hereto a list of 127 large national banks which have within the past 10 years given up their national charters for the purpose of operating under State charters.

Name and location of bank	State	Capital	Resources
Year ended Oct. 31, 1920			
Third National Bank of Atlanta	Georgia	$1,000,000	$27,053,000
Merchants National Bank of the City of New York	New York	3,000,000	49,942,000
Security National Bank of Los Angeles	California	600,000	8,358,000
Farmers National Bank of Fresno	do	300,000	6,985,000
Mercantile National Bank of San Francisco	do	2,000,000	20,224,000
Year ended Oct. 31, 1921			
National Reserve Bank of Kansas City	Missouri	1,000,000	11,534,000
Midwest National Bank & Trust Co. of Kansas City	do	1,000,000	12,542,000
Lincoln National Bank of Rochester	New York	1,000,000	22,272,000
First National Bank of Cleveland	Ohio	2,500,000	101,524,000
Union National Bank of Newark	New Jersey	1,500,000	31,372,000
Union Commerce National Bank of Cleveland	Ohio	4,000,000	78,323,000
Canal-Commercial National Bank of New Orleans	Louisiana	500,000	11,863,000
National Bank of Commerce of Toledo	Ohio	1,000,000	16,781,000
Central National Bank of St. Louis	Missouri	1,000,000	27,629,000
National Commercial Bank of Cleveland	Ohio	1,500,000	14,765,000
Liberty National Bank of New York	New York	5,000,000	121,642,000
National Bank of Commerce of Kansas City	Missouri	4,000,000	68,613,000
Union National Bank of Pasadena	California	375,000	5,404,000
Ridgewood National Bank, Ridgewood	New York	300,000	9,224,000
National Bank & Trust Co. of Pasadena	California	300,000	5,490,000

Name and location of bank	State	Capital	Resources
Year ended Oct. 31, 1922			
First National Bank of Fresno	California	$500,000	$9,771,000
First National Bank of Berkeley	do	300,000	6,717,000
First National Bank of Bakersfield	do	400,000	7,127,000
Atlantic National Bank of the City of New York	New York	1,000,000	21,776,000
Bank of New York National Banking Association	do	2,000,000	76,135,000
National State & City Bank of Richmond	Virginia	1,000,000	15,854,000
Year ended Oct. 31, 1923			
Merchants National Bank of San Diego	California	250,000	5,108,000
Lowry National Bank of Atlanta	Georgia	1,000,000	21,350,000
Irving National Bank, New York	New York	12,500,000	297,935,000
Bank of North America, Philadelphia	Pennsylvania	2,000,000	31,490,000
Merchants National Bank of San Francisco	California	1,500,000	15,052,000
First-Second National Bank of Akron	Ohio	1,500,000	22,603,000
Importers and Traders National Bank of New York	New York	1,500,000	43,550,000
Merchants National Bank of Raleigh	North Carolina	300,000	5,576,000
Luzerne County National Bank of Wilkes-Barre	Pennsylvania	400,000	5,018,000
Battery Park National Bank of New York	New York	1,500,000	12,982,000
American National Bank of San Francisco	California	2,000,000	25,623,000
Ninth National Bank of Philadelphia	Pennsylvania	500,000	14,527,000
Year ended Oct. 31, 1924			
Fourth National Bank of Cincinnati	Ohio	500,000	12,418,000
Wells Fargo National Bank of San Francisco	California	6,000,000	93,806,000
National Exchange Bank of Baltimore	Maryland	1,500,000	17,532,000
Lafayette National Bank of Buffalo	New York	1,000,000	9,128,000
Continental National Bank & Trust Co. of Kansas City	Missouri	500,000	6,499,000
Northern National Bank of Toledo	Ohio	1,000,000	15,692,000
Long Beach National Bank, Long Beach	California	200,000	7,112,000
Second National Bank of Toledo	Ohio	1,000,000	16,477,000
Corn Exchange National Bank of Chicago	Illinois	5,000,000	132,302,000
Year ended Oct. 31, 1925			
First National Bank of Oakland	California	1,000,000	11,953,000
Fifth National Bank of the City of New York	New York	1,200,000	25,302,000
Gotham National Bank of New York	do	1,500,000	19,371,000
National Union Bank of Boston	Massachusetts	1,000,000	17,129,000
Year ended Oct. 31, 1926			
Manufacturers & Traders National Bank of Buffalo	New York	2,000,000	61,935,000
Coal & Iron National Bank of the City of New York	do	1,500,000	25,778,000
First National Bank of Hammond	Indiana	250,000	5,433,000
Planters National Bank of Richmond	Virginia	1,000,000	17,547,000
Norwood National Bank of Greenville	South Carolina	250,000	7,085,000
National Exchange Bank of Providence	Rhode Island	1,250,000	20,871,000
First National Bank of Jamaica	New York	200,000	9,862,000
City National Bank of Plainfield	New Jersey	150,000	7,198,000
State National Bank of North Tonawanda	New York	600,000	8,007,000
Pheonix National Bank of Hartford	Connecticut	1,000,000	17,714,000
National Exchange Bank of Lockport	New York	300,000	6,655,000
Second National Bank of Hoboken	New Jersey	700,000	6,653,000
First National Bank & Trust Co. of Utica	New York	1,250,000	19,821,000
National American Bank of New York	do	1,000,000	12,576,000
National Butchers & Drovers Bank of the City of New York.	do	2,000,000	14,447,000
Year ended Oct, 31, 1927			
American Exchange-Pacific National Bank of New York	New York	7,500,000	264,212,000
First National Bank of Albany	do	600,000	15,174,000
West Branch National Bank of Williamsport	Pennsylvania	500,000	9,657,000
Citizens National Bank & Trust Co. of Cincinnati	Ohio	2,000,000	20,330,000
Fifth-third National Bank of Cincinnati	do	3,000,000	53,527,000
Merchants & Manufacturers National Bank of Newark	New Jersey	1,350,000	20,458,000
Commercial National Trust & Savings Bank of Los Angeles	California	2,000,000	25,116,000
Griswold National Bank of Detroit	Michigan	2,000,000	22,733,000
American National Bank of Newark	New Jersey	500,000	17,662,000
Franklin National Bank in New York	New York	800,000	7,263,000
Year ended October 31, 1928			
Union National Bank of Philadelphia	Pennsylvania	1,000,000	23,044,000
City National Bank of Holyoke	Massachusetts	500,000	5,893,000
National Bank of Commerce in Chicago	Illinois	800,000	7,717,000
National Bank of Commerce in Philadelphia	Pennsylvania	500,000	10,732,000
Hamilton National Bank of New York	New York	1,500,000	19,216,000
Bronx National Bank of the City of New York	do	300,000	9,986,000
First National Bank of Bangor	Maine	400,000	8,308,000
Liberty National Bank of Covington	Kentucky	350,000	5,676,000

Name and location of bank	State	Capital	Resources
Year ended October 31, 1928—Continued			
First National Bank in Columbus	Ohio	$500,000	$14,071,000
Massasoit-Pocasset National Bank of Fall River	Massachusetts	650,000	6,752,000
United Capitol National Bank & Trust Co. of New York	New York	5,000,000	53,144,000
Flushing National Bank, Flushing	do	200,000	5,070,000
National Bank of Rochester	do	1,200,000	22,558,000
Broad Street National Bank of Philadelphia	Pennsylvania	500,000	12,293,000
National Bank of North Philadelphia	do	700,000	6,872,000
National City Bank of Los Angeles	California	1,000,000	10,898,000
Year ended Oct. 31, 1929			
First National Bank of Brooklyn	New York	1,000,000	23,025,000
Seventh National Bank of New York	do	1,500,000	14,524,000
American National Bank of Richmond	Virginia	2,000,000	21,774,000
Merchants National Trust & Savings Bank of Los Angeles	California	4,000,000	164,645,000
Northern National Bank of Philadelphia	Pennsylvania	400,000	10,256,000
National Union Bank of Maryland at Baltimore	Maryland	1,000,000	11,052,000
Mercantile National Bank in Dallas	Texas	1,000,000	13,950,000
First National Bank of Long Beach	California	200,000	6,916,000
National Bank of Commerce in New York	New York	25,000,000	684,456,000
First National Trust & Savings Bank of Whittier	California	250,000	5,639,000
Bloomfield National Bank, Bloomfield	New Jersey	300,000	7,457,000
Old National Bank of Grand Rapids	Michigan	800,000	16,666,000
Nanover National Bank of the City of New York	New York	10,000,000	209,026,000
Third National Bank of Syracuse	do	300,000	5,508,000
Liberty National Bank & Trust Co. of Syracuse	do	400,000	5,002,000
Chemical National Bank of New York	do	6,000,000	233,708,000
Chapman National Bank of Portland	Maine	400,000	9,750,000
Louisville National Bank & Trust Co., Louisville	Kentucky	750,000	14,679,000
Merchants National Bank of Detroit	Michigan	2,000,000	26,780,000
Arcadia National Bank & Trust Co. of Newark	New York	200,000	5,666,000
Seaboard National Bank of the City of New York	do	11,000,000	286,954,000
Merchants-Laclede National Bank of St. Louis	Missouri	1,700,000	23,751,000
State National Bank of St. Louis	do	2,000,000	21,667,000
Tenth National Bank of Philadelphia	Pennsylvania	1,000,000	10,746,000
Community National Bank of Buffalo	New York	1,000,000	23,596,000
Fordham National Bank in New York	do	500,000	5,616,000
Thamet National Bank, Norwich	Connecticut	1,000,000	5,218,000
Norwood National Bank	Ohio	200,000	5,157,000
City National Bank of San Antonio	Texas	1,000,000	14,040,000
National City Bank of Akron	Ohio	1,000,000	15,461,000
National Bank of Niagara & Trust Co., Niagara Falls	New York	1,200,000	13,492,000
Citizens National Bank of Raleigh	North Carolina	750,000	8,679,000
Murchison National Bank of Wilmington	do	1,000,000	12,285,000
American National Bank & Trust Co. of Greensboro	do	1,000,000	11,297,000
City National Bank & Trust Co. of Bridgeport	Connecticut	1,000,000	18,351,000

Recapitulation by years

	Number	Capital	Resources		Number	Capital	Resources
1920	5	$6,900,000	$112,562,000	1926	15	$13,450,000	$241,582,000
1921	15	24,975,000	538,978,000	1927	10	20,250,000	456,112,000
1922	6	5,200,000	137,380,000	1928	16	15,100,000	222,230,000
1923	12	24,950,000	500,794,000	1929	35	82,850,000	1,966,789,000
1924	9	16,700,000	310,956,000				
1925	4	4,700,000	73,755,000	Total	127	215,075,000	4,561,148,000

Many smaller national banks during this period also relinquished their charters to go into the State system, but the foregoing list includes only banks of the metropolitan class.

Following the approval of the McFadden Act (act of February 25, 1927) several large State banks were converted into national banks, but this gain has been far more than offset by the recent great loss of national charters. Boards of directors of banks and their stockholders, in giving consideration to the question of whether the corporation should operate under the national or the State charter, are not moved by questions of sentiment or patriotism. The fact that a national bank is an instrumentality of the Federal Government designed to fulfill certain public purposes does not seem to be considered an operating advantage to the bank. The corporation must in the nature of the case be moved almost solely by consideration of the most profitable use of the capital invested in the enterprise. In other words, the question of the choice of charter presents to the corporation a business proposition. In the history of banking in the United States since 1863 banking corporations have switched from State to national and from national to State charters as the business advantages lay with the one or the other. From the standpoint, therefore, of the operating banker the grant of the wider branch banking powers to national banks would be considered by him as an invitation to enlarge the sphere of his business operations to the greater advantage of his stockholders.

The Government of the United States, as distinguished from the national banking corporation, would be concerned primarily with the question of strengthening the national banks as Federal instrumentalities and with the establishment of a sound system of banking throughout the United States. Under the existing trend with the operating advantage in favor of the State banks the development is in the direction of 48 separate and distinct systems of commercial banking each under the supervision, control, and direction of a separate State government with a corresponding disappearance of the national banks from the field.

It has been said that this situation does not present any cause for concern for the reason that the Federal reserve system which embraces State banks in its membership has made the national banking system unnecessary. The Federal reserve act, however, did not set up a system of banks in the United States. It did set up a system of coordination of bank reserves and a flexible currency, which operate advantageously for all banks. The approach to equalization between the State and national banks afforded by the Federal reserve system does not involve a rearrangement of charter powers but an extension of the privileges and the benefits of the Federal system to State chartered banks. If therefore, in addition to these privileges which they derive from the Federal Government, they secure from their respective legislatures charter powers giving them certain operating advantages over national banks, the Federal reserve system thus becomes indirectly the means of forcing national banks to take out State charters.

The announced legislative policy of the so-called McFadden Bank Act of February 25, 1927, was parity between the national and State systems. The purpose of the bill was to make the charter powers of national banks approximately equal in operating advantage to those of the State banks. Nearly three years of operation under that act has demonstrated that it has failed of its purpose in this respect.

The theory of parity between the two systems of banks is, in my opinion, economically unsound. Commerce is interstate and is recognized by the Constitution of the United States as being fundamentally a national question. One of the primary purposes of the national bank act of 1863 was to establish a sound and uniform system of commercial banking throughout the country in order that commercial transactions growing out of the production, the manufacture, and the transportation of goods and commodities from one section of the country to the other might not be hampered by local banking legislation but should have access to a system of banks operating under Federal authority and supervision under a single set of rules and regulations and statutory enactments in order that the free flow of commerce should not be embarrassed by a multiplicity of restrictions having their origin in local political conditions.

The proposal for the extension of branch banking which is here made would have the direct effect of establishing a strong system of banks in the rural districts and indirectly it would lead to the gradual restoration of the national banks as the primary system of commercial banking in the country.

While it would seem to be to the interest of the local bank holding companies to convert their groups of banks into branches after the enactment of legislation as above outlined, there might possibly still remain in operation some of these local companies and some of a wider regional operation. In view of the fact that such companies are outside of all jurisdiction of the Federal Government and that they would be in a position to dictate the policies and operations of such national banks as they controlled through stock ownership, I further recommend to the Congress an amendment to the national banking laws which will bring the operations of such bank holding companies under some degree of Federal supervision where they own the majority of the stock of more than one national bank and a further amendment to safeguard the additional shareholders' liability which each such bank holding company incurs through the ownership of the shares of national-bank stock.

The Chairman. I understand that my recent annual report to Congress will be placed in the record and I shall attempt to refrain from repeating the data given therein. In that report attention was drawn to a condition in our system of bank organization which appears to require legislation to protect the interest of the public. It should, however, be said at the outset that there seems to be no need for emergency legislation but rather for an attempt to reach a normal and fundamental solution.

I will submit for the information of the committee copies of three formal addresses which were made by me last year, namely, the Demand for Professional Bank Management, delivered before the Ohio Bankers' Association, Columbus, Ohio, February 12, 1929; Banking and the New Finance Era, before the Maryland Bankers' Association, Atlantic City, May 23, 1929; and The Need of a New Banking Policy, delivered before the convention of the American Bankers' Association, San Francisco, October 2, 1929. These are marked "Exhibit A," "Exhibit B," and "Exhibit C," respectively.

I shall not attempt to elaborate further the facts which I have given relative to bank failures except to bring some of the figures down to date. In several parts of the country more than one-half of all of the banks in existence in 1920 have closed their doors and many of those which are left have little likelihood of success under present conditions. If such a condition of affairs were localized, that is to say, were confined to one particular section or subject to the conditions of one particular industry, general conclusions would no doubt be unjustified, but such is not the case. During the last 10 years and continuing at the present time bank failures have been a blight in the Mississippi Valley, the South, the Southwest, and Northwest. There are agricultural counties in which every bank has failed. In many cases it has been necessary to assess shareholders in order to keep banks alive and it has often happened that a failure occurred after as many as three such assessments had been paid in vain. The hardship which these failures have imposed upon depositors and upon those who invest their money in country bank stocks, over such a wide geographical area, is an indication that there is something seriously wrong with the system of banking in the rural districts. Surely a great country like ours should not permit the continuation of this suffering on the part of that element of the population least able to bear it if it lies within the power of the National Government to provide a remedy.

The views which I bring before this committee are not primarily the result of recent research and the collection of information. I was myself a country banker. Later, as a national-bank examiner and as chief national-bank examiner, it became my duty to examine the affairs of hundreds of country national banks. For more than 20 years I have been in daily and intimate contact with the operations of our banking system. No one knows any better than I do that there are still strong and profitable country banks, and if I had any prejudices they would naturally be in favor of the system of unit banking to the sustenance of which I have been devoted for so many years. It is with great reluctance that I have slowly come to the conclusion that our small independent unit country banks are no longer fulfilling the purposes of their creation and that there is need for a better, sounder, and stronger system.

In order to avoid the impression that I am interested only in the national banks in this discussion, may I take this occasion to emphasize the fact that the statements I have made with reference to bank failures apply with equal if not greater force to State banks? The conditions which rural banking faces in the United States are the same for both national and State banks, and, as between the two, the statistics will show that the national banks have shown the stronger resistance in the ratio of approximately 3 to 1 during the last nine years. I am confident that your committee will have before it in the course of these hearings ample information which will lead to the conclusion that notwithstanding the fact that it is still possible for many country banks to operate successfully, the system under which rural banking as a whole is carried on does not provide a sufficient safeguard either to the depositors or to the shareholders nor does it offer a type of banking service adequate for modern conditions.

Many of the strong and well-managed country banks have found it necessary at times to discontinue making loans and to build up and carry large cash reserves for long periods of time. Due to the fear of "lack of confidence" and in their efforts to be prepared to withstand sudden withdrawals, some of these banks have restricted their operations to such an extent that they are of little benefit to the community in which they are located, and in some communities have practically ceased to function. Such banks are necessarily experiencing difficulty in earning a sufficient amount to cover operating expenses.

We are faced with a banking situation which applies almost entirely to the rural districts, although it should be borne in mind that there are also a considerable number of small banks in the larger cities, particularly in the outlying districts. There were on June 30, 1929, in the United States, 24,912 incorporated banks. Of this number 20,008 were situated in cities of 10,000 population or less. In other words, more than four-fifths of all the banks in the United States are situated in small towns. The average capital of these banks is about $44,000 and their aggregate capital about $881,000,000. They are all small banks.

I shall submit in this connection, marked "Exhibit D," a statistical table by States showing the distribution of banks in cities of 10,000 population or less as of June 30, 1929.

It is among these small banks that most of the failures have occurred. Figures have not been compiled for the entire decade but for the eight-year period, ending with 1927, 71 per cent of the banks that failed, national and State, were capitalized below $50,000 each and 88 per cent under $100,000. By far the largest number of failures occurred among banks having $25,000 capital or less, these constituting 63 per cent of the failures. The number of failures for this period was 4,513. These figures are embodied in a chart which I shall submit, marked "Exhibit E."

As to the places in which these failures occurred, 2,039—that is to say, a little over 40 per cent—were situated in towns and villages of population less than 500 persons; an additional 1,006, or 20 per cent, failed in towns having between 500 and 1,000 population; an additional 964 banks, or about 20 per cent, failed in towns of from 1,000 to 2,500 population; an additional 584 failures occurred in towns from 2,500 to 10,000 population. In other words, about 92 per cent of the failures were in places having less than 10,000 population. Reference is again made to the fact that there are also a number of banks of small capital in cities above 10,000 population, failures among which go largely to make up the remaining 8 per cent of the total failures.

I feel quite certain that the figures for 1928 and 1929 will upon analysis disclose a situation equally as unfavorable as that of the previous eight years.

I have a charter, "Exhibit F," showing these figures.

During the last decade there were no failures in that class of banks known as metropolitan banks having a capital of more than $2,000,000. There were three failures of State banks and one national bank in the million-dollar-capital class, namely, the Trement Trust Co., Boston, Mass., capital $1,309,000, deposits $15,472,000, which suspended in 1921; the Citizens Bank & Trust Co., Tampa, Fla., capital $1,000,000, deposits $13,737,000, which suspended in 1929; the City Trust Co., New York, N. Y., capital $1,225,000, deposits $7,482,000, which suspended in 1929; and the Exchange National Bank, Spokane, Wash., capital $1,000,000 and deposits $11,717,000, which failed in 1928.

In this connection I desire to state that I am using the term "failure" as synonymous with the term "suspension," although these two terms are not always so used. The statistics of the Federal Reserve Board for bank failures are based upon suspensions; that is to say, a bank suspends when it is unable or unwilling longer to keep open its doors for carrying on the business of banking. It sometimes happens that such a suspension is followed by a reorganization of the bank or a rejuvenation of its capital structure with the result that the bank is able to resume business. However, in many such cases both the shareholders and the depositors are called upon to make voluntary sacrifices in order to avoid a receivership with a resulting burden of loss as great as in some other cases where a receiver is appointed. On the other hand, the office of the Comptroller of the Currency many years ago adopted the practice of listing as a failed bank only those for which receivers have been appointed and leaving out those which have been restored to operations after suspension.

For the purpose of this discussion the Federal reserve figures present a more accurate description of the situation. The two systems of statistics, however, cause certain variations in figures compiled by the Federal Reserve Board and by the Comptroller of the Currency, respectively.

Attention is particularly directed to the circumstances that the failures of country banks is not embraced in a period of time which has been closed and upon which we may look only in retrospect. This error has been made by many writers in making reference to the 5,000 bank failures as though the failures arose out of some past condition, the chief significance of which is to furnish an argument for or against a system of banking. It is true that this period had a somewhat definite beginning which appears to be coterminus with the war period and is no doubt related to many of the changes in our social and economic life caused directly or indirectly by the war. Unfortunately, the period in which these failures have occurred and are occurring has not been brought to a close. In the year 1929 there were 640 bank failures in the United States causing the tying up of about $234,000,000 of deposits, the greatest of any year in the decade except 1926. During the first seven weeks of 1930, there have been

155 additional failures. In other words more than 10 years after the war we are still in the midst of a continuation of a condition which is causing small banks to fail. The 9-year period ending with December 31, 1929, witnessed 5,640 bank failures with aggregate deposits of $1,721,000,000—scattered very largely throughout those small cities of less than 10,000 population to which reference has been made. Of this number 4,877 were State banks and 763 were National banks. I have not the figures for the actual and final losses to the depositors in these banks. Many of them are still in process of liquidation.

I shall submit as a part of my statement a table compiled by the Federal Reserve Board, January 28, 1930, marked "Exhibit G," which gives the bank suspensions by Federal reserve districts, 1921–1929, showing the number of banks, by districts, each year and the deposits of each.

There has been prepared for the use of the committee a chart showing the operating profit and loss of all national banks in the United States, by States, for the year 1927, and there are in course of preparation other charts which will be submitted within a few days, giving the operating profit and loss of all national banks for the year 1928. I have made a study of these preliminary figures and they will undoubetdly emphasize the operating difficulites confronting the small banks.

Your committee knows that a supervisory bank official is always reluctant to close a bank. He would naturally like to see no bank failures. The Comptroller of the Currency goes to the utmost lengths within his power and responsibility—having regard first for the depositors of the bank—to prevent a national bank from failing, and the State bank supervisors naturally have the same attitude toward State banks. Were this not the case and did the Comptroller of the Currency simply as a matter of machine routine permit national banks in bad condition to drift into insolvency, and did the State supervisors take the same attitude, there would, or course, be a great many more failures added to those already recorded than we have seen.

In considering the great flood of statistical information which must be studied in order to discover the causes and effects of bank failures there is the danger of losing sight of the human and social aspect of the situation. Every bank failure presents a distinct phenomenon to the local community. It is a local dramatic event. Whereas the supervising official may in many cases not be surprised that the bank has failed and the executive officers of the bank and perhaps the local board of directors have been struggling for months or years to keep the bank open, the actual failure comes as a complete surprise and a shock to the depositors and in most cases to those shareholders who are not officers or directors of the bank.

There is no more distressing sight than a group of citizens, men and women, clamoring before the closed doors of a bank bewailing the loss of their savings. These losses fall upon the best and most substantial citizens in the community and many of them never recover their previous financial condition. Multiply this local event by nearly 6,000 and scatter it throughout the great agricultural States of the Union and the magnitude of its effect reaches astounding proportions.

It is estimated that 7,264,957 depositors have contributed to the great total of more than $1,700,000,000 of deposits in failed banks during the past nine years and that no less than 114,000 shareholders have suffered losses through these suspensions.

A similar adverse effect is had upon the borrowers of a bank which fails. When a receiver is appointed his duty is to wind up the affairs of the bank and to enforce liquidation. Many of the borrowers may have been doing business with the bank for years and may have been upon intimate terms with the officers of the bank. This is especially true of the so-called character loans where the bank takes an interest in a person who has good character and good prospects but weak in collateral and who is accommodated each year or from time to time covering a considerable period. The character and reputation of such person may be unknown to other banks; therefore, the credit standing of this class of borrower for the time being is destroyed. The receiver must demand payment and if payment is not made he must institute suit and prosecute the case to judgment in order to gain as much as he can for the depositors. Notwithstanding every means is employed to soften the blow which the community has sustained, this enforced liquidation in country banks works a bitter hardship upon the borrowers—the very type of borrowers which it has been claimed the unit system of banking is particularly designed to protect. Failed banks in the United States have caused within the last nine years the enforced liquidation of approximately two billions dollars of loans—chiefly small loans.

Many causes have been assigned for these bank failures; in one section droughts, in another insect pests, in another failure of the cattle market, in another a drop in the price of wheat, and so on. A great many failures have been attributed to mismanagement, incompetent management, or criminal management; some banks have been closed on account of single cases of defalcation and robbery; another cause assigned is that too many rural bank charters have been granted.

While these various factors may have been the immediate occasion for the closing of these banks they do not indicate the basic cause. If one observes the same type of small country bank, situated in various sections of the country, unable to keep open its doors one naturally would seek the reason for the general condition. Can not the basic cause be found in the great economic and social changes which have come over this country within the past 15 years—the war period and the postwar period? We have witnessed a revolution in the method of transportation and communication in the rural districts. Local communities which were at one time economically and socially independent have been put upon arterial highways which have drawn them close to the larger cities. It is now impossible for the country bank to gain that diversification in the banking business which was possible a few decades ago. The business of the small city is becoming more and more an adjunct of the business of the larger commercial centers. Opportunities for independent local financing are becoming fewer and fewer. The commercial business and the trust business are going to the large city bank. The country bank is left largely with real estate and small local loans.

If therefore these fundamental conditions have caused the business of the small bank to shrink to the point where it becomes unprofitable for the bank to operate we are met with a basic condition which can not be cured by palliatives. Several remedies have been proposed to meet these conditions, the principal of which I shall here discuss.

The remedy most frequently suggested as a protection to the depositor is some form of guarantee of bank deposits. This guarantee may take the form of compulsory insurance for the payment of deposits or compulsory contribution on the part of all banks to pay deposit losses in failed banks or a direct governmental guarantee under which the taxing power of the State would be used to pay losses to depositors in failed banks. Several of the States in the Union have enacted guarantee of deposit laws but in every case the operation of the law has proven unsuccessful.

A system of banking with a deposit guarantee superimposed upon the local bank by governmental authority under which some other instrumentality than the bank itself undertakes to insure the safety of deposits, will not prevent the local bank from failing if it can not maintain a successful operation as a business enterprise. If local economic conditions are unfavorable to such a bank and if the loans are not properly made or become frozen after they are made with reasonable care, the bank will have to close its doors. No system of guarantee of deposits under such conditions will serve to keep the bank open. In other words, whereas a system of guarantee of bank deposits might theoretically give the depositor a 100 per cent protection against loss in case of the failure of the bank such a system can not be said to be a remedy for the failure itself.

In the case where the burden of the system of guarantee of bank deposits has been carried by the banks themselves, the result has been that the strong and successfully operated banks have been compelled to assume liability for deposits in weak and unsuccessfully operated banks—a responsibility which the stronger banks were compelled to assume without any power to protect themselves.

It has, I believe, been suggested that the Federal Government, in so far as national banks are concerned, undertake to set up some system of deposit guaranty in order to protect the depositors from the unsuccessful bank administration, either through a governmental subsidy or through a guaranty to be met by the Federal reserve banks. While I have not seen a formulation of such a plan it would appear that any such guaranty would be subject to similar objections to those heretofore adopted by the States. Laws involving the guaranty of deposits of State banks have been in operation in Kansas, Mississippi, Nebraska, North Dakota, Oklahoma, South Dakota, Texas, and Washington, but, with the exception of Nebraska, I understand, such laws have been repealed.

A member of this committee has introduced a bill providing for compulsory insurance for the shareholders' liability in national banks. This is a different question from the guaranty of deposits and I take it that this measure is designed to meet only one particular weakness in our banking system, namely, the frequent inability of the shareholder to meet the financial liability to the creditors of the bank imposed upon him by law to the extent of 100 per cent of the par value of his stock. I shall not attempt here to enter into a discussion of this measure but I wish to make some general observations on the question of shareholders' liability.

The provisions of the national bank act fixing the individual liability of shareholders were enacted in 1864 as a part of the original act. It fixed the individual liability in an amount equal to the par value of the shares held. In other words, the amount of the liability has no relationship to the question of book value or of market value of the shares. This individual liability therefore is not equivalent to the value of the investment of the shareholder in the stock but simply to the original amount paid in by him.

This additional individual liability was designed as a protection to the creditors of the bank but not as a full protection. For example, where the deposit liability of the bank is in proportion to capital of 10 to 1 it will be readily seen that the additional liability was not designed as a guaranty of the payment of bank deposits. The bank with $100,000 paid-in capital and $1,000,000 of deposit liabilities would carry an additional individual liability upon its shareholders of only $100,000. To take an extreme case, if all of the capital and all of the deposits were wiped out by losses, the individual liability if realized in full would net the depositors only 10 cents to the dollar.

It may have been the presumption of the original framers of the national bank act that all the shareholders of the national banks would be persons of substance fully competent to discharge this individual liability. Otherwise it would seem that the act would have provided some safeguards to preserve and maintain it. Apparently it was not foreseen that the shares of national banks would find their way into the hands of persons who were financially irresponsible. Neither was it foreseen that bank stocks of the large city national banks would be actively traded in on the securities markets by investors who had no personal relationship to the bank and little or no thought of their individual liability when they purchased the shares.

As a practical matter the question of enforcement by the Comptroller of the Currency of this individual liability has been confined during the past 65 years almost entirely against the shareholders in small country banks. Most of the shareholders resided in the rural communities and were small business men or farmers. In winding up the affairs of 815 national banks the records of the comptroller's office show that an average of 48.29 per cent has been collected from shareholders under their individual liability. These figures do not include numerous cases of assessments against shareholders to restore the impaired capital of going national banks.

I may take this occasion to say that the enforcement of the individual liability against national bank shareholders is one of the most disagreeable duties which the Comptroller of the Currency is called upon to perform. These shareholders invest in local bank stocks upon the assumption that it will be a profitable enterprise. Some of them even feel that the Government of the United States is responsible for the operations of national banks. Many of them have no appreciation of the responsiblities which they incur under the individual liability clause. When therefore they have lost their original investment and they are called upon to pay in an amount equal to the par value of their stock a great hardship is incurred. In numbers of cases farms have been sold or mortgaged and whole families driven into bankruptcy through the enforcement of the individual liability.

It would seem therefore that the individual liability of the shareholders of national banks has been an inadequate protection to the depositors and where enforcement has been attempted, a great hardship upon the shareholders. Under a system of national banking created and supervised by the Government of the United States should not both the shareholder and the depositor enjoy a greater security?

Several students of the banking situation, recognizing the difficulties under which the small country bank now operates, have suggested as a remedy for the failure of these banks and the improvement of rural banking conditions a Federal statute requiring a minimum capitalization of $100,000 for national banks and a similar provision by the various States. The theory of this proposal is that such a provision will automatically decrease the number of country banks and will compel the formation of stronger banking institutions. Under this plan if the conventional ratio of 10 to 1 is maintained, there would be no banks in the United States with deposits of less than $1,000,000. This proposal is open to several serious objections.

Such a plan to be successful would require complete legislative cooperation on the part of the State governments as the minimum capitalization of national banks has always been higher than that required as a rule by the State laws. The present minimum capitalization of $25,000 for national banks as now required is too high for State banks in many States. In other words, the present capital requirements for national banks has not had the effect of causing State legislatures to require the State banks to adopt a similar standard. On the contrary, Congress, by the act of March 14, 1900, reduced the minimum capital for national banks from $50,000 to $25,000, thus lowering the standard toward that of the States.

One of the most natural effects of such an increase to a $100,000 minimum for national banks would be to cause hundreds of national banks to take out State charters and thus remain in operation. The operating conditions of the banks in the rural districts are the same for both national and State banks and any comprehensive remedy looking to an improvement of the rural banking situation must embrace directly or indirectly both State and national banks.

There is another feature of this proposal which must be considered. A banking institution from the standpoint of the investing shareholder furnishes a vehicle for the employment of capital. Such a shareholder is not required to make his investment with patriotic motives or with a desire to confer a benefit upon the community. His motives are the same as those who employ capital in other business enterprises. In other words, he invests his money in bank stock with the expectation of a reasonable return in dividends. From the standpoint of the Government, however, a bank possesses certain public responsibilities which the Governments, State and national, have attempted to establish and protect by statutory enactment. If in pursuance of this aim the Government requires a minimum capitalization too high for profitable employment in a given local community no bank would be operative there.

There are thousands of communities in the United States where banks are now operating which would be deprived of all local banking services if the minimum capital for country banks were placed at $100,000. This would mean that these local communities would be put to the inconvenience of going considerable distances, especially in the less densely populated agricultural States. Such as situation would naturally result in hoarding of funds and this would be a backward step in the development of the country. Banking develops business in a community and every community should have convenient access to banking services. In our desire to create a sound system of rural banking we must guard against the establishment of safety at the expense of the convenience of hundreds of thousands of citizens who ought to have immediate access to banking facilities.

In this connection permit me to survey the distribution of banking capital in the United States. Taking the figures as of June 30, 1929, there were in the United States 5,468 incorporated banks with capital of less than $25,000. There were an additional 5,357 banks of $25,000 capital; 6,031 banks with capital above $25,000 but not exceeding $50,000; and 1,073 banks with capital above $50,000 and up to but not including $100,000. In other words, there were on June 30, 1929, 17,929 banks in the United States capitalized at less than $100,000 each. The total number of banks was 24,912, which leaves only 6,983 banks in the United States having a capital of $100,000 and above, and nearly half of these have only $100,000 capital. As has been shown, practically all of these small banks are in cities and towns having a population of less than 10,000.

The only method by which the minimum capital could be raised to $100,000 would be to bring about the forced merger or consolidation of about 18,000 country banks, probably reducing their number to about 6,000. In the absence of branch banking these new banks would be in widely separated communities and that community would be favored in which the bank was actually situated whereas the other communities would have to suffer the inconvenience of traveling to and from a distant bank or suffer the deprivation of all banking services. I will submit, marked "Exhibit H," a table showing the distribution of banking capital of all banks in the United States.

In discussing the question of the reduction in the number of country banks there should be borne in mind the danger of giving a single local bank a monopoly upon the banking business of an entire community. If we accept the theory that no country bank should possess less than $100,000 paid-in capital we must immediately face the conclusion that in order to provide enough business to support a country bank of that size it would be necessary in many cases for it to be the only bank in the community. Monopoly of bank credit is more easily attained under our banking system upon a small scale than upon a large one. In a large city there is more likely to be several banks in competition, but the condition has already arrived in several of the small cities where there is only one bank left in the community. This condition never operates to the best interests of the community as a whole. Should we, therefore, adopt the expedient of reducing the number of banks by increasing the minimum to $100,000, the credit of hundreds of separate communities would be in the control, respectively, of single independent local banks which would operate without any local competition.

In connection with proposed remedies for the country bank situation it may be appropriate here to mention some of the aspects of the relationship of country banks to large city banks as correspondents. There have been certain proposals put forward within recent months which recognize the difficulties which small country banks face in attempting to operate alone and independently, and which suggest as a remedy an intensification of the correspondent system. Under this suggestion the country bank would through voluntary cooperation draw closer to the large city banks and receive from them through conferences and contact of personnel the proper guidance in the direction of safe and sound banking. The technical banking experience and approved metropolitan banking methods and services would be made available to all the correspondents of a given metropolitan bank in so far as the country bank could and would receive them, and the metropolitan bank would, as compensation, in return gain a greater volume of banking business by virtue of the acceleration of the contacts with their country correspondents.

There has grown up over a long period of years the present system of bank correspondents in the United States. As a general rule the country bank is a correspondent of some New York bank, as well as of other metropolitan banks in the large commercial centers. It is a business relationship which facilitates the interchange of credit and, with respect to New York City, large deposits of country banks are from time to time carried with the New York banks for temporary investment. Disregarding, however, the operation of depositing money on call in New York, the normal relationship between the country bank and its city correspondent may be reduced to about four elements: First, the deposit carried with the city bank upon which interest is paid to the country bank; second, the opportunity afforded to the country bank to purchase securities from or upon the advice of the city bank; third, the privilege given the country bank of borrowing from the city bank; fourth, the opportunity afforded the country bank of seeking the direction and guidance of the city bank in questions of bank policy and bank management.

It is the last of these relationships which it is now proposed should be developed more concretely to the advantage of the country bank. In this connection, however, it should be observed that a single country bank may have city correspondents in several cities. To which of these correspondents should the country bank attach itself—to New York City for example or to St. Louis?

It should also be observed that the correspondent relationship is purely voluntary and therefore not enforceable as a banking policy. There is no responsibility upon the metropolitan bank for the policies and operating methods of its country correspondents. Neither is there any obligation on the country bank to accept the advice of its city correspondent. On the contrary, experience has shown that the country banks feel completely independent of their city correspondents, being free at all times to change from one bank to another. There is more concern upon the part of the city bank to hold the business of its country correspondents than upon the part of country banks to embrace the tutelage of the city bank.

The system of correspondent banks has been in full force and effect throughout the postwar period in which we have witnessed small bank failures at the rate of more than 500 per year. Each of these failed banks was a correspondent of a New York metropolitan bank and of other metropolitan banks. There was no obligation on these city banks to protect the local depositors of their country correspondents and no such efforts were expected to be made. The correspondent relationship is strictly a business transaction in which each party receives some advantage. It can easily be understood how a constructive intensification of this relationship especially upon the side of bank policy and bank management might prove of great benefit to the country banks, but I do not see how the development of such a relationship would prove any positive protection to country bank depositors in case the country correspondent became insolvent. In such a case the burden would have to be borne, as it is borne now, by the community in which the country bank operates. It would not be transferred to the broader shoulders of the metropolitan city correspondent.

The city banks are naturally interested in the policies and management of their country correspondents but the amount of interest taken and the amount of constructive advice given in each case depends upon the value of the account of the country bank. The credit accommodation extended by the city bank is based largely on the credit balance maintained with it by the country bank.

The remedy most frequently suggested for the failure of small banks is the inauguration of better bank management. The principal advocates of this remedy are those familiar with or engaged in banking as it is carried on by the large city banks. Their study of the small bank situation—especially the small country banks—has shown certain weaknesses in management, such as lack of a sound and definite loan policy; the lack of adequate credit information; the failure to build up an adequate liquid secondary reserve of securities; a lack of adequate knowledge of the securities market; the failure to obtain a diversification of loans, that is to say, too great a proportion of the loans are made upon the same class of security or credit.

No one who has made a comprehensive study of small country banks can deny that the above conditions exist. Their chief significance, however, lies in their comparison with the operations of the metropolitan banks. It has never been convincingly pointed out exactly how these small country banks could adopt these more approved methods of banking. Educational campaigns have been suggested as a means of bringing the situation home to the country banker. In fact, discussion of improving country bank management has been going on for the past 10 years with no very gratifying results.

The truth of the matter is that there has been developed in the United States, under the same banking laws, two definite types of banking, namely, that carried on by the small country bank and that of the large city bank. The independent country bank situated in small towns and villages and serving a limited area, rural in character, is necessarily restricted to only a limited type of banking.

On the other hand, the metropolitan city bank has become a most complex instrumentality of finance. It does everything that the country bank could do and engages in a multitude of activities besides. It employs a large personnel and establishes different departments each under the administration of an expert in that field. The president of a metropolitan bank is in the position of an executive of a great business, supervising and directing the operations of its various departments.

A mere mention of the departments of such a bank conveys some idea of the magnitude of its operations and of the great diversification of its business. There is the commercial department embracing commercial deposits and commercial loans with ramifications of management and procedure including the work of the loan committee and the executive committee; the savings department which embraces the operations of a savings bank; the trust department with all of its complicated mechanism for the administration of every type of fiduciary business and which has in recent years become one of the major activities of modern city banking; the securities department through which eligible securities are bought and sold—a business which has grown to tremendous proportions since the war; the publicity department which takes care of advertising and of giving the public news from time to time with respect to the operations of the bank; the new business department which centers its attention on the question of new business for the bank in all of its departments; the foreign department which issues letters of credit, foreign exchange and conducts other foreign business; some banks have a women's department and a school-savings department.

How can we compare the operations of such a bank, with resources above $50,000,000, in addition to its administration of many millions of trust assets, with a country bank of $250,000 of resources in a town of 1,000 population? To invite the small bank to adopt the efficient methods of the large city bank would be to ask it to lift itself by its own boot straps. As a remedy for country-bank failures the establishment of improved banking methods is theoretically sound but impossible practically of general realization. The business is too small in volume, too limited in diversity, and too circumscribed geographically to create a normal motive for the establishment of the high type of management possessed by the city banks.

In most of the discussions of branch banking the depositor seems to have been lost from view. It is said that branch banking will lead to a restriction upon local loans—that the borrowers will suffer. To this theory I do not subscribe. It is unreasonable to suppose that banks will make substantial investments in branches without any expectation of developing the business of the branch. This can not be done by draining the community of its cash. It can be done only by rendering to that community a scientifically balanced banking service including the making of loans as well as the receiving of deposits. Doubtless it will be developed during the course of these hearings that there are many instances where the necessities of a community have been such that the funds supplied by the parent bank for loaning purposes have far exceeded those which have been received in deposits.

Certainly it would be possible for the parent bank to develop a diversified banking business to protect it against economic depression in any one locality or in any one industrial activity or business enterprise. I am, however, more concerned with the depositor, especially the savings depositor, than with the borrower, and have therefore approached the question of branch banking as a remedy from the standpoint of safety to the depositor and to the local shareholder. It is the importance of this phase of the question which I desire to bring before your committee for further study.

There are great commercial centers in the various regions of the United States. In these commercial centers there have been developed great metropolitan banks among which there have been no failures during the period we have under discussion and no depositor in those banks has suffered a loss. The laboring man and the small wage earner in these cities is receiving a stronger protection and a higher and better type of banking service than is possible for the farmers and small business men who must do business with country banks. I have therefore put forward for further investigation and study by your committee the question of the desirability of bringing these country banks into a more direct and closer relationship to city metropolitan banks than is possible under any voluntary extension or intensification of the correspondent relationship. If there is permitted to grow up, through branch banking strong metrolopitan banks in commercial centers outside of New York City with the right to open offices in the rural economically tributary communities, it would naturally follow that in time these small country banks would to a very large extent become branches or offices of such city banks.

In this connection I wish to discuss for a moment the question of the concentration of banking capital in the large cities. Under our present system of banking there has already occurred a concentration of banking capital in the commercial centers and more particularly in New York City. The growth of our cities in population and in commercial importance has naturally led to the growth of larger and stronger banks. But as your committee knows, it is not only in banking that this concentration has taken place, but rather that banking has followed the concentration of capital and centralization of management in other fields.

The modern city itself is in a much closer relationship to the outlying territory than was the case a few decades ago when communication and contact were dependent upon horse or intermittent railroad transportation. Each one of us here to-day has witnessed the complete obsolescence of the slow and painful travel by horse on country roads which have been replaced by paved highways radiating in every direction from our large cities, upon which travel automobiles at high rates of speed. Communication by telephone is now almost universal, having largely displaced the slower methods of communication by mail and messenger. I do not wish to take up the time of the committee with a sociological discussion of municipal development, but in considering the question of concentration of banking capital in the large cities it is necessary to consider the new relationship which exists between the city and the rural districts.

There were on June 30, 1929, 76 banks in the United States, National and State, having each a capitalization above $5,000,000, and there were an additional 335 banks with capital between one million and five millions, making a total of 411 banks above the $1,000,000 capital class. Under a regional system of branch banking the number of banks in this class would increase through the pooling of the capital of the smaller banks.

At the present time, as I pointed out in my annual report, 250 banks in the United States hold resources to the aggregate amount of about $33,400,000,000. This is nearly one-half of all of the banking resources in the United States. Twenty-four banks, National and State, in New York City alone are capitalized at an aggregate of

$677,014,000 and have combined resources of about $10,791,448,000. This capitalization of the New York banks is almost comparable in total to that of the 20,008 country banks situated in towns of 10,000 population or less.

A comparison of the banking situation in 1900 with the present shows with what rapidity the United States has developed in banking resources. In that year there were 10,672 incorporated banks of all classes. The aggregate capital was about $1,150,000,000 and the total resources about $12,000,000,000—the latter figure being less by more than $4,000,000,000 than the resources of all the banks in New York City to-day. Within the short period of three decades the banking resources of the United States have increased by 600 per cent. This great development in banking resources is reflected in two aspects; first, in the increased number of country banks which remained small, and, second, in the growth in size and diversification of business of the large city banks. The latter are more prosperous to-day than ever in the history of the country, whereas the country banks are in a much less favorable position than they were 30 years ago. The acceleration of the flow of trade to the large cities has been one of the chief causes of the development of the modern form of metropolitan banking.

THE TRADE AREA

In my annual report I suggested that it might be found feasible to permit national banks to extend branches into the trade area of the city in which they may be situated. I realize that while the term "trade area" itself is susceptible of definition, there may be found some practical difficulties in mapping out a given trade area. Theoretically of course every city, no matter how small, might be said to have a trade area but it would prove no solution at all to the rural bank situation to permit small country banks to establish branches in such trade areas.

The trade area which I have in mind may be called the metropolitan trade area. Such an area would circumstance the geographical territory which embraces the flow of trade from the rural communities and small cities to a large commercial center. Branch banking extended by metropolitan national banks into such a trade area would natural give to these outlying rural communities and smaller cities a strong metropolitan banking service.

I am not prepared to attempt to arrive at a legislative formula which would automatically delimit all of the trade areas in the United States. It does not seem possible to meet this situation with such a formula. When the Federal reserve act was before Congress a similar situation arose with respect to the Federal reserve districts. In that act Congress did not attempt to define the boundaries of the districts but provided that the districts should be approtioned with due regard to the convenience and customary course of business and that they should not necessarily be coterminus with any State or States. The Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency acting as a committee were empowered to lay out the districts.

The 12 Federal reserve districts thus laid out and the subdistricts within them as established by the Federal Reserve Board constitute to-day the only areas which have been delimited upon the basis of the relationship of the flow of trade to banking services.

It may be found advisable to adopt a similar procedure with respect to the present situation if it is determined that national banks shall be permitted to have branches in the rural districts. In this connection the question will naturally arise as to how far the Federal reserve districts or subdistricts are applicable to this question of branch banking.

DECENTRALIZED BRANCH BANKING

It has been urged as a consideration against branch banking that legislation permitting its extension to the rural districts would lead to the concentration of all of the banking capital in the United States in the New York banks and under the control of a comparatively small group of financiers.

It might be possible theoretically to conceive of this situation arising if Congress permitted the national banks to engage in nation-wide branch banking at the present time, although many students of banking and many practical bankers are of the opinion that even were nation-wide branch banking permitted by law its spread would be a slow development out from the various commercial centers; that the country is too large and its financial operations on too vast a scale to permit of complete concentration in New York City. The banking resources of the United States are constantly increasing as the country develops industrially and commercially. At the present time they aggregate about $72,000,000,000 and within another decade may approach $100,000,000,000. With great commercial cities developing in various parts of the country outside of New York, it would seem an extravagant prospect to contemplate the control over these resources within a few hands in a single city.

However, the proposal which I have brought for the consideration of your committee would, it seems to me, clearly tend to decentralize banking capital through a system of regional branch banking. The metropolitan banks in the city of New York have always held a preeminent position and under any system of banking which would follow the normal course of business they will continue to increase in size and influence. Notwithstanding this aspect of the matter, branch banking emanating from commercial centers outside of New York City into surrounding trade areas would cause the New York banks to decrease in relative importance. There would be concentration of capital but it would be a regional concentration with local characteristics. Banks in Detroit, Cleveland, Boston, Atlanta, New Orleans, St. Louis, Buffalo, Minneapolis, and other such local commercial centers would grow into institutions fully capable of taking care of the financial requirements of their trade area communities. Instead of nearly all of the largest banks being situated in New York City there would be in every such commercial center banks whose resources would approach or exceed a billion dollars. Instead of being a menace would not such banks become a source of pride to the community in which they are situated, bringing prestige and new business to the city and taking out to the rural communities a strong and highly developed banking service with safety to the depositors there? Would not such a system of branch banking lead to an active competition for business which would naturally result in the local community obtaining cheaper and better banking service?

Some critics of our banking system take the view that we have too many small banks and that one of the chief causes for bank failures has been the issuance of an excessive number of charters by the State and Federal Governments. Theoretically, of course, if no banks were chartered there would be no bank failures. There is no way by which the number of banks can be categorically determined in advance and consequently the laws of all of the States and of the Federal Government have left the discretion to the supervising executive officials. It comes down to a plain question of human judgment. If no more bank charters were issued, for example, in communities where all of the banks had failed the Comptroller of the Currency or the State banking superintendent as the case may be, would have to take the responsibility of denying banking services to such a community even though the new applicants for a charter possess the qualifications required by law and practice to carry on a small bank. In view of this situation it can not be expected of the supervising bank officials to take it into their hands without further legislative sanction to reform the system of banking in the rural communities through the process of denying bank charters. My own point of view is that the rural communities are not supplied with adequate banking facilities. I should like to see the people of every community no matter how small have access to more than one strong bank with the banks competing for business. All persons should have the benefit which comes from a competitive banking service. Our present system of independent unit country banks can not provide it. Would not the system of decentralized branch banking which I have suggested meet this condition?

GOVERNMENT CONTROL

It is recognized that a system of branch banking such as I have suggested would gradually bring about the development of greater banking institutions in the inland commercial centers and in the larger seaports of the country. These banks would be strong enough to resist the ordinary local causes of bank failures on account of the great diversity of their business. The only danger of failure would be in the management personnel and it is conceded that any bank or any sort of business institution can be wrecked through mismanagement and maladministration. There can be no absolute protection by law or otherwise against this condition. It can, however, be so greatly minimized by governmental supervision that the danger of any such failure will be remote.

Should Congress adopt such a branch banking policy there should be an expansion and an intensification of Government supervision. There would have to be a more constant contact with management policies than now obtains. The number of banks would be less and it would be easier for the Government to supervise and examine more closely and more often the operations of such larger institutions. It should be borne in mind that such a bank would have no difficulty in securing capable management and that it would, on account of the great value of good will, be sensitive to public opinion. It would not wish to encounter the just criticism of a Government official.

Congress has always recognized the necessity of maintaining adequate supervision over the national banks. The Comptroller of the Currency now has sufficient power to supervise the national banks in so far as examination into their affairs are concerned. The time and method as to examination is left to his discretion except that he must under the law examine each bank twice a year. What other powers the Government of the United States should exercise over such larger institutions which would come into existence under the extension of branch banking I am not prepared at this time to recommend, but should the committee desire to go further into this question the office of the Comptroller of the Currency will be at its service.

GROUP BANKING

In conclusion I feel it necessary to make some remarks with respect to a comparatively recent banking development which is coming to be known as group banking. Before proceeding further, however, I think that we should attempt to get down to definitions. In current discussions the terms "chain banking" and "group banking" are sometimes used synonymous and sometimes as opposed to one another. Frequently the phrases "chain and group banking" and "chain or group banking" are used.

The term "chain banking" has been in use for many years in this country to describe a condition in which a number of banks were owned or controlled by the same individual or by a group of individuals. These so-called chains were situated very largely in the rural districts and the member banks of the chain were principally small country banks. This condition was and still is quite prevalent in the agricultural regions of the West and South. Many of these chains have come to disaster through the failure of all of the banks which constituted them. During the many years this type of bank ownership has been in existence it was not considered as a trend toward a fundamental change in our banking system nor did it relate itself to the question of branch banking. On account of the failures of several of these chains the term "chain banking" began to carry with it an element of disfavor.

The term "group banking" is of very recent origin and is being used to describe what appears to be a major movement in our banking system. The principal factor in group banking is that each group is centered around a city or metropolitan bank through means of a holding company, which owns the majority of the stock of each bank, thereby creating a system of banks more or less integrated in management with the central bank of the group. Its one common factor with the older type of chain banking is that several country banks may be owned by a single agency. In this discussion, therefore, I shall use the term "group banking" to mean the ownership and some element of operating control of several banks through the medium of a bank holding company.

Official figures have not been compiled which show the number and distribution of these groups. The holding companies are incorporated under State law, and the Government of the United States has no immediate access to information concerning their organization. However, I attach hereto a list of what appears to be the most important corporations which have acquired the stock control of a considerable number of banks and which are operating these banks under a group system. This is marked "Exhibit I."

From the character and standing of the bankers and other business men engaged in some of the principal groups in this new group-banking movement I have no doubt that they will be able to work out a system which will be profitable to the group company and give a safer and better banking service to the communities in which they own banks than was possible under the system of rural unit banking. For reasons heretofore stated, I am not in a position to give to your committee first-hand and authoritative information as to their operations.

I may say, however, that I naturally look upon this movement from the standpoint of a supervising official of the Government rather than from that of an operating banker, that is to say, I am concerned not with the question whether the movement is profitable but rather whether it is desirable from the standpoint of the public as a system of banking. The movement is new—hardly a year old—and your committee may find that it gives promise of better banking than the system of rural banking now generally in force. On the other hand, your committee may find that this new movement may be regarded as a temporary and transitional development, constituting a normal prelude or introduction to branch banking.

While perhaps my views may be immature, in view of the lack of opportunity for an exhaustive study of a movement which is so new, I am inclined to the view that group banking under its existing forms is not desirable as a permanent system of banking. Where a group is composed of both State and national banks, as well as of other types of financial institutions, it becomes practically impossible for any supervising governmental official to ascertain authoritatively and accurately the financial condition of the group as a whole. Each corporation in the group is an independent legal entity, some responsible to State governments, and some, that is, the national banks, to the National Government, while other State bank members of the Federal reserve system are responsible to both State and National Governments, and this creates a situation in which the public is not sufficiently protected, in so far as it can be protected by governmental authority. If a group were all national banks and the holding company were placed under the visitorial powers of the Comptroller of the Currency it would be possible, although difficult, to supervise the operations of the group. I may say, however, that if the Comptroller of the Currency be given visitorial powers over bank holding companies engaged in group banking, the Government would be in a position to obtain information as to their operations and would be in a better position to regulate and control them by subsequent legislation should such action be deemed expedient.

In the case of branch banking the situation is different. Under the regional plan which I have discussed there would be no need of an operating holding company. The parent bank would be the only corporation in operation and it would have offices in various places within the trade area. There would be only one board of directors and one set of corporate minutes. The formulation and initiation of the policy for the bank would be subject to a single responsibility and the Comptroller of the Currency (or the State superintendent in case of a State branch system) could at any time determine the true financial condition of the bank with all its branches.

This concludes the formal remarks which I wished to make to the committee, and I desire to express my appreciation of your consideration. I shall be glad to respond to any questions members of the committee may desire to ask, and I shall be pleased to return at any time your committee may desire. I wish also to offer to your committee all of the facilities of my office which may aid you in these inquiries.

The CHAIRMAN. I want to express, Mr. Pole, the appreciation of the committee for your splendid statement. I shall tell you now that the members of the committee will be given an opportunity to ask you questions, and in all probability, after we have had an opportunity to study your statement, we may ask you to come before this committee again. In the meantime, we appreciate your offer to continue to cooperate with the committee as the hearings proceed and give us any advice that may be of help to us.

Mr. Strong, have you any questions you desire to ask of the comptroller?

Mr. STRONG. I regret I was detained and could not get in until late and, consequently, did not have an opportunity to hear what the comptroller had to say. I just heard his last remarks. However, Mr. Comptroller, your belief is that in a branch bank, with one or two hundred branches, you could accurately examine that bank with the force that you have now?

Mr. POLE. I think not, Mr. Strong. The force would undoubtedly have to be adjusted, to any new system of banking, which would create branch systems all over the United States. However, we do examine two banks now with over 100 branches each, quite satisfactorily.

Mr. STRONG. What do you mean by "quite satisfactorily"? You mean to get an accurate estimate and knowledge of their condition?

Mr. POLE. Yes, sir.

Mr. STRONG. How many men does it require to do that, where there are 100 branches?

Mr. POLE. That would depend entirely on the resources of the bank. I could not answer the question without referring to a bank which is in operation, as a branch system.

Mr. STRONG. Well, take the Bank of Italy.

Mr. POLE. We examine the Bank of Italy with about 40 men.

Mr. STRONG. How many branches has it now?

Mr. POLE. Approximately 300.

Mr. STRONG. How long does it take those 40 men to exmaine that bank?

Mr. POLE. It is what amounts to a continuous examination.

Mr. STRONG. They are there all the time with that bank and its branches?

Mr. POLE. They are there practically all of the time with the various branches; that is, they go from one branch to another, which practically amounts to a continuous examination.

Mr. STRONG. Do you think that is a satisfactory examination, to have to examine one branch and go to another and then to another?

Mr. POLE. That is only part of it.

Mr. STRONG. What is the rest of it?

Mr. POLE. The rest of it is that when we go to a bank we first send our examiners into the head office and the principal branches and we have a form which is sent out to every branch in that system calling for detailed information as to the operation of that particular branch, which is assembled at the head office, and we use that for the purpose of compiling the main report. Having done that, we visit each branch and check the figures back as of the date of the examination and examine it just as though it were an independent bank. I do not mean to say that it is not difficult. It is difficult to examine an independent bank. But all in all, it must be considered that it is easily possible to examine effectively a bank with 100 branches, but not simultaneously.

Mr. STRONG. Well, you say in order to examine them, you have to keep the examiners continuously on the job, going from one branch to another.

Mr. POLE. Correct.

Mr. STRONG. Suppose the bank was not in good condition: Would there be an opportunity to pass money or credit from one branch to another and back to the parent bank during the time that these examiners were passing from one bank to another, which you say, takes the entire time?

Mr. POLE. You mean to send money to the head office of another bank?

Mr. STRONG. Do anything to cover up those conditions which you would like to discover—passing credits, money, or anything in the way of securities.

Mr. POLE. I would say not in any material amount.

Mr. STRONG. How long does it take one of your men to examine a branch bank?

Mr. POLE. It would depend entirely on the size of the branch. If it were $50,000,000, it would take a great many men and a good long time.

Mr. STRONG. Are there many branches with $50,000,000?

Mr. POLE. Yes, sir.

Mr. STRONG. How many of them?

Mr. POLE. I will say very few.

Mr. STRONG. You know what I am trying to get at. I am trying to find out when your examiner goes to the ordinary branch of the Bank of Italy how long it takes him to examine that branch.

Mr. POLE. It is impossible for me to answer that. I do not know what you call an ordinary branch. Some have $200,000 total resources and some $10,000,000 or more.

Mr. STRONG. You know what you call an ordinary branch, do you not?

Mr. POLE. I do not know what you call an ordinary branch. You mean a small country branch?

Mr. STRONG. Of course, a small branch bank—one of the branch banks of the Bank of Italy which exist all over California—one of the 300 or more.

Mr. POLE. Mr. Strong, I do not know whether I understand you exactly. Of course, the Bank of Italy has branches all over the State of California, but they vary in size from $200,000 up.

Mr. STRONG. How long would it take to examine one of the banks with $200,000?

Mr. POLE. That would depend on its condition.

Mr. STRONG. Then you can not give this committee information as to how long it would take to examine one of those ordinary branches of the Bank of Italy——

Mr. POLE. I shall be glad to give this committee categorical information on how long it has taken to examine any one of these branches.

Mr. STRONG. You say you have 40 men who are occupied on this examination?

Mr. POLE. Used in an examination of the large California branch systems.

Mr. STRONG. Forty men spending their entire time examining the Bank of Italy, in this continuous examination.

Mr. POLE. You misunderstood me. I said when we come to make an examination of the Bank of Italy, we probably employ 40 men at the start.

Mr. STRONG. That is a continuous proposition?

Mr. POLE. Not with the 40 men. May I furnish you with a detailed list of the time it takes to examine each one of the branches and the number of men?

Mr. STRONG. I shall be glad to have it.

The CHAIRMAN. Any figures you furnish on this matter will be inserted in the record.

Mr. STRONG. The number of men and time it takes to examine each branch of which I understand there are about 400. The point I want to inquire into——

Mr. WINGO. May I make the suggestion before he gets away from the statement? The comptroller spoke about the resources of the branches. I think it might be wise to include a statement of what he means by "resources," and just what they are.

The CHAIRMAN. Mr. Comptroller, I should like to suggest, apropos of what Mr. Strong said, that you put in a statement of the plan under which the Bank of Italy is being examined by your department, so that the committee may understand just how the examination of one of these large branch banking groups is handled.

Mr. POLE. I understand perfectly, and I shall be very happy to do that.

The CHAIRMAN. Particularly instruction from your office, which have been set up as a plan for examining these banks.

Mr. WINGO. Might it be well—I do not know whether he wants to do it in response to that statement—but in response to Mr. Strong's question, to show the plan they have perfected; what safeguards they have got, in a practical way, by examining, against, say, a conspiracy of a number of officers or employees—take the Bank of Italy for illustration—covering up a shortage by substitution, or a shifting when you are checking one branch and before the time you get to another branch, and have it there on hand.

Mr. POLE. I understand.

Mr. WINGO. I think possibly a great many men who will read the hearings and a great many of the committee would be interested in knowing, from an economic standpoint, how you have developed a system of examination that guards against that difficulty.

Mr. POLE. Yes, sir.

The CHAIRMAN. Might I further supplement that it would be profitable for the committee if you would make a statement also of your present method of examining other big groups of banks.

Mr. Pole. For instance, the National City Bank of New York.

The Chairman. Yes.

Mr. Pole. Of course the National City Bank of New York is not one of the groups to which you refer.

The Chairman. Or a bank similar to that, whose branches are confined to a city, inasmuch as the Bank of Italy is confined to the State.

Mr. Pole. I understand what you would like to have. You would like to have included the method of examination of the National City Bank of New York, whose branches are confined to the city.

The Chairman. Or the Chase National Bank. Or any other of the large banks with many branches in one of our larger cities, so that the committee will have an opportunity to know how your examinations are carried out.

Mr. Pole. I will be happy to do that.

(The information requested will be inserted in the record at a later date.)

Mr. Strong. My purpose, Mr. Comptroller, in pursuing this line of questioning, is that it seems to be a rather difficult proposition. To put a force of men into the examining of a bank of 400 branches, which would preclude their passing of credits and funds and securities from one bank to another if it was in bad condition and the same was necessary to cover up lack of funds. I do not think, of course, the Bank of Italy is in such bad condition—at least I hope not.

Mr. Pole. No.

Mr. Strong. But here: Take a bank that was in failing condition and was perpetrating fraud and doing all kinds of illegal and unjustifiable acts. Now with a big bank of 400 branches, and you go into its examination with, say, 40 men. One bank examiner will take Ine bank and go to another. That would cover but 40 branches. There will be 360 that will not be visited until the 40 are examined. ot seems to me it would be a rather difficult thing to detect any illegal operation of that bank which was going on. That is the reason I am approaching the question, which it would be very interesting to have your conclusions on, together with a statement as to the method of conducting the examinations. I have not had an opportunity to hear your statement and I would like to waive further cross-examination until I have read it. So, with that understanding, Mr. Chairman, I surrender the witness.

The Chairman. Mr. Wingo.

Mr. Wingo. I have no questions at the present time. However, I might remind the comptroller that the question of a satisfactory examination is one that is of a great deal of concern to some gentlemen. For illustration, one of your predecessors testified that he could not satisfactorily examine a bank of the size of the bank of Italy at that time, which had only about two-thirds as many branches as now, and possibly Mr. Strong had in mind that statement of his.

Mr. Strong. Yes; Comptroller Dawes.

Mr. Wingo. He went into that situation some years ago when he was comptroller and took the position that it was almost impossible to prevent these shiftings of assets unless you had a simultaneous examination of the branches and an adequate force to check them up. So, I suggest, in discussing this, that you go into that in detail and show how you overcome that difficulty.

Mr. POLE. Of course there is no doubt that should there be a general extension of branch banking in this country, it would be necessary perhaps to adapt a system of examination to it. However, that would be an operating difficulty and I have no hestitation in saying that, with the experience we have already had in the matter of the examination of branches that, to a reasonable degree, we regard them as satisfactory. It is true it is not as simple as examining an independent bank, but, after all, it is an operating difficulty that can be met. It might be necessary to put on 400 men, to use an extreme illustration, but if we did, the bank pays for it. While it is not easy for me to convey to your committee just precisely the technical details in which we proceed with a bank examination, it is a measure which can be met and satisfactorily so.

Mr. WINGO. In other words, you are satisfied, from your experience, that that is an administrative difficulty that may be overcome satisfactorily?

Mr. POLE. I feel that way, and I feel that our examinations are quite satisfactory. Of course, the banks themselves are very vitally interested in our examinations. In addition to the examinations which we make, the banks themselves have a traveling force of experts spot-checking everything that goes on in the system, and I shall be very glad to furnish the committee with any information along those lines that I think will be enlightening.

Mr. WINGO. Another thing. To-day there is not a very clear conception in my mind—and I think that difficulty may be experienced by some others—of the distinction that you make between group banking and chain banking. Do you, at the moment, recall a distinctive illustration of each that you might use or feel free to use without embarrassment in connection with any individual case?

Mr. POLE. Perfectly so. I would say that in the chain—what we call a chain of banks—there is in the State of Arkansas, as an illustration, a chain of some 55 banks, which, I am informed, are actually controlled by a single individual.

Mr. WINGO. Now, you call that a chain. In other words, here are 55 independent banking corporations that have separate local corporate entities and one individual, whom we both have in mind, owns a controlling interest in those 55 separate corporations. You call that a chain?

Mr. POLE. Yes, sir.

Mr. WINGO. Now, give us an illustration of a group bank, as contradistinguished from the chain.

Mr. POLE. An illustration of the group bank is where a holding corporation is formed and that holding corporation proceeds to purchase independent banks, usually within its trade area, either through an exchange of its stock or for cash and the control of each one of those banks is held through stock ownerships by the corporation.

Mr. WINGO. Now, I do not catch that difference. Take, in the first instance, now, the chain bank: That gentleman owns the control through an ownership of the stock of those 55 different corporations?

Mr. POLE. Individually.

Mr. WINGO. If he were to transfer that to the, let us say, A B C Banking Corporation, and that corporation were to take over the controlling shares of stock of those 55 banks, you would call that a group banking system?

Mr. POLE. Yes, sir; a group banking system.

Mr. WINGO. After all, the mechanics are the same; the ownership is the only difference, in that it is in one individual in one instance or a group of individuals, whereas, in the other instance, the ownership is in the control of a holding corporation?

Mr. POLE. They are similar in characteristics.

Mr. WINGO. Is that the only distinction—that which you have given?

Mr. POLE. That is, I might say, about the only distinction, except as to the methods of operation, which is all important.

Mr. WINGO. What are the differences in methods of operation? Take the banks owned by the individual or controlled by him: What change in the operations of those banks would there be if he would transfer his holdings to a holding corporation and it became, in your definition, a group bank operation? What change would occur?

Mr. POLE. In the case of the individual, who owns as an individual the stock—the controlling stock—of these various banks, these banks are usually—while under his domination to a certain extent—operated independently of each other. In the case of a group-bank system, the holding corporation has usually one main, large metropolitan bank, and the management contact with these various members of the group is very much more vital than in the case of the chain.

Mr. WINGO. Take the case we have in mind: I heard it rumored possibly that the individual had transferred to a corporation that is under his individual control, as a matter of fact—did it not revolve around a Little Rock bank that he controlled and did they not do their business and was not their chief correspondent in Little Rock that he dominated?

Mr. POLE. I think the group to which you have reference did own shares in the bank in Little Rock and probably controlling shares.

Mr. WINGO. As a matter of fact, did not this individual control, with his officers, attorneys, and employees, one big banking corporation in Little Rock—was the president of it?

Mr. POLE. I am not informed as to that.

Mr. WINGO. A trust company?

Mr. POLE. I really do not know.

Mr. WINGO. I think I catch the point of distinction, though. You call it a group system where a corporation, as a holding company, has a metropolitan bank and then controls, through stock ownership, a number of other banks—that while maintaining their separate corporation entities, they also control these other corporations?

Mr. POLE. That is a very nice distinction. The principal difference between a group and a chain is that the group always has some form of central management while the chain has not.

Mr. STEVENSON. And that corporation——

The CHAIRMAN. The gentleman from South Carolina is out of order. He did not address the Chair.

Mr. STEVENSON. Pardon me, Mr. Chairman. May I ask the witness a question?

The CHAIRMAN. You may.

Mr. STEVENSON. The holding corporation maintain a very strong supervisory control by auditors usually which audit at least once every two weeks the transactions of everyone in the group. Is not that the rule?

Mr. POLE. I think that is generally the rule.

Mr. STEVENSON. Where one man merely owns the controlling stock in a great many, which you describe as a chain, that system is not so rigidly enforced, is it?

Mr. POLE. I think that is more or less correct; they run more or less independently.

Mr. STEVENSON. The stock being held by the corporation, which they get from a State, are those corporations so organized as to be liable for a stockholder's liability? You know, a State can grant a charter and, in a great many cases, limit the things for which the corporation can be liable.

Mr. POLE. Of course the national-bank stock in every case is liable for assessment.

Mr. STEVENSON. The stockholder is.

Mr. POLE. Yes, sir; and if it becomes necessary to assess the stock which is in the hands of a corporation, of course, we would assess the corporation as you would an individual.

Mr. STEVENSON. Yes, sir.

Mr. POLE. If the corporation had no assets other than the stock of the banks assessed of course it would be uncollectible.

Mr. STEVENSON. Yes, sir.

Mr. POLE. But a corporation would probably hold, in addition to bank stocks, other securities, and I think a majority of those corporations which have already been formed could readily meet such liability.

Mr. STEVENSON. I want to ask a question which has been referred to here. You discussed pretty fully the question of putting the limitation on stock in banks to such a large amount as it would give a monopoly in any one community; in other words, they would be able to establish more than one bank. We are met with the same argument in the establishment of these branches, that the very strong metropolitan banks could establish branches in all communities where a unit bank, which was trying to operate, would be run out of business and the metropolitan bank, in that way, could acquire a monopoly. That is the principal argument we meet. What is your view about that? Is there a danger of that?

Mr. POLE. There is no doubt, in my mind, that if branch banking were permitted we would eventually have a branch banking system and not very many unit banks. However, I think that is looking pretty well ahead. Branch banking, under the regional system would develop so gradually that it would take many years before the unit bank was entirely out of existence, if it ever went entirely out of existence.

Mr. STEVENSON. This question arises: When they get out will it be the tendency or will it not—that is the argument that is used entirely almost—to have the territory apportioned among the various institutions that have the branches so that there will be a branch of one bank in community A and no other branch of any other bank would be placed there and the branch of another bank would be established in community B. That is going on and I think the comptroller is entirely familiar with it, in my State. The banks have almost all failed except these banks—group and chain.

Mr. POLE. And branch systems.

Mr. STEVENSON. Yes; branches also. We have them all operating, and but for them a large part of our territory would be utterly bereft of banks. They have apparently divided the State among themselves and group A puts a bank in my town and group B puts a branch in Darlington, 30 or 40 miles away, and so on, and they are leaving each community with one bank, and that is the cry that is going to be made, as I see it. However, unless they had done this, we would have been in a terrible fix. It has done more to commit me to some system of the kind you have described than anything I know of—the practical effect.

Mr. POLE. I do not know what would happen, but I can easily understand that in South Carolina the competition between branch banking systems—and the two to which you have referred are branch banking systems—the thing has not arrived at a point where competition is keen enough for banks to go in, each of them, in the same place, because there are locations without banking facilities where the opportunity is better and banking service is needed. Later on, when South Carolina becomes properly covered with branch banks, if it ever does, the arrangement you referred to might not prove attractive. I know in California branch systems are operating side by side in numbers of towns, and there is no trade arrangement between them, but they are in keen competition to give the best banking service that is possible.

Mr. WINGO. Mr. Chairman——

The CHAIRMAN. Mr. Wingo.

Mr. WINGO. I believe I will defer further questions to a later date. I have really forgotten the line I was on.

Mr. DUNBAR. Mr. Pole, the Bank of Italy is an illustration of the branch banking system. I understood you to state to Mr. Wingo that the operation of those banks in Arkansas was an illustration of the chain banking system?

Mr. POLE. That is correct.

Mr. DUNBAR. Now, then, I gathered the impression, when you were talking about Arkansas, that it was controlled by individuals rather than by a partnership or corporation.

Mr. POLE. By an individual.

Mr. DUNBAR. An individual?

Mr. POLE. Yes, sir.

Mr. DUNBAR. Is the Bank of Italy controlled by an individual?

Mr. POLE. No; it is controlled by, as far as stock ownership is concerned, a corporation.

Mr. DUNBAR. Then, that is an illustration of a chain banking system controlled by a corporation?

Mr. POLE. That is a branch banking system.

Mr. DUNBAR. What is the difference between them?

The CHAIRMAN. Will you yield a moment?

Mr. DUNBAR. Certainly.

The CHAIRMAN. You were not here when we opened the hearings. We are proceeding under a regular order. I mention this so that you may know it. I am calling the members, according to their seniority, to question the witness, and you will come on later. I beg your pardon for interrupting you. I did not wish to interrupt you, but I do want to see this program followed.

Mr. DUNBAR. Then you proceed according to the seniority of the members of the committee?

The CHAIRMAN. Yes.

Now, Mr. Goodwin.

Mr. GOODWIN. Mr. Pole, in the establishment of a branch banking system throughout the country, would you require legislation in the several States so as to make them uniform?

Mr. POLE. I would not.

Mr. GOODWIN. You think the National Congress has authority to establish branch banking systems for the national banks without legislation?

Mr. POLE. I understand from my counsel that is correct.

The CHAIRMAN. Mr. Goldsborough.

Mr. GOLDSBOROUGH. Mr. Pole, I understand from you, your view is if the legislation, such as you have in mind, were adopted by Congress, it would tend to disestablish the great concentration of banking resources in New York and tend to concentrate them in various centers, such as New York, Detroit, St. Louis, Baltimore, San Francisco, and Dallas, and other places. You do think, as I understand, that it will tend to a centralization in those various centers?

Mr. POLE. Unquestionably.

Mr. GOLDSBOROUGH. Now, have you considered this question from any other standpoint than the standpoint of bank technique; in other words, have you considered the political implications which would necessarily arise from the concentration of credit in a great center? Have you considered it from that standpoint at all?

Mr. POLE. I have.

Mr. GOLDSBOROUGH. Let us assume, for the purposes of illustration—because I have no reason to suppose this will happen—but let us assume that, in my own State, for instance, the banks of Baltimore were to get control of the resources and credit structure of the rural communities, such as in southern Maryland, western Maryland, and on the Eastern Shore of Maryland, which is the section that I happen to come from. Did you apprehend that the Members of Congress, for instance—I will take Members of Congress for purposes of illustration. Do you have in mind that the Members of Congress from the rural part of Maryland would not be representative of the genius of their communities but would be dominated and controlled by the financial system, which had its root and base in Baltimore city?

Mr. POLE. Well, I would not think so any more than it is the case now. I think on the Eastern Shore of Maryland you have one of the important systems of group banks.

Mr. GOLDSBOROUGH. I did not ask that question, but I do not want to interrupt you. Just proceed, sir.

Mr. POLE. If I understand you, you mean would the interest in the locality in which a branch might be situated be lost—would the interest be less in that locality—is that what you mean?

Mr. GOLDSBOROUGH. I mean what I attempted to say, but I may not have made myself plain. What I have in mind is this, that all the business in this country is done on credit, of course.

Mr. POLE. Yes.

Mr. GOLDSBOROUGH. You can not do business any other way, because there is not enough money to go around.

Mr. POLE. Yes, sir; at least 90 per cent done on credit.

Mr. GOLDSBOROUGH. Now, if this system, which you have in mind, resulted in the concentration of credit and resources in these centers which I have in mind—would not the political conditions in the rural districts—would not those who are supposed to represent the rural districts be controlled not by the sentiment existing in their own communities, but by the powers in these centers of credit which you spoke of?

Mr. POLE. I should say not at all.

Mr. GOLDSBOROUGH. You think not?

Mr. POLE. I should say not at all.

Mr. GOLDSBOROUGH. Why?

Mr. POLE. Because the local touch in these smaller communities is not lost in any way. I thought that is what you had in mind. In almost all instances where branch banks are operated or where group bank are operated in small sections, there is almost always a lot of interest in that local unit of the group or the branch, and there is usually a local advisory committee consisting of two or three people, and I can not feel that there will be any such state of affairs as you speak of.

Mr. GOLDSBOROUGH. You have never had—I beg your pardon. I thought you had finished.

Mr. POLE. I do not know that I am in a position to speak very intelligently on that point, however.

Mr. GOLDSBOROUGH. You have not given that particular question the same mature though as you have the questions which arise more naturally in the mind of a man who has been a banker and who is primarily concerned in the stability of a banking system?

Mr. POLE. I have given a great deal of thought to that and I reply that I do not think there would be any such condition arising as you suggest.

Mr. GOLDSBOROUGH. Now, you remember that two or three years ago the Senate desired to investigate the public utilities, and that by virtue of the enormous control which the public utilities had of the political forces nationally, they, themselves, were able to direct the course of the investigation and transfer it from the Senate to the Federal Trade Commission. That is, when I say they transferred it, they were able to control the situation in the Senate to such an extent that it was transferred from the Senate to the Federal Trade Commission. I do not know whether you are familiar with that condition or not.

Mr. POLE. I understand your point of view there, but as the group bank or branch bank has been developed up to the present point I do not think it can be said that the interests of the local communities have been in any degree lessened; in fact, I think they have been increased by the upbuilding of an institution which is necessarily one which appeals more to the people of that community by way of local pride.

Mr. GOLDSBOROUGH. Now, would you be surprised if the suggestion were made that the influence of the city correspondent banks—even the city correspondent banks—is felt very sharply by those holding public positions, such as an office as Representative in Congress, in the country? That is the condition. I do not want to say that arbitrarily, but you would be surprised if the suggestion were made that that condition was felt already even when the relationship is only that of a correspondent bank.

Mr. POLE. Well, I can not conceive of such conditions as that, Mr. Goldsborough, unless it would be through the channel of what might be called controlled deposits.

Mr. GOLDSBOROUGH. Now, what I have in mind is this—that the point of view of the local bank is dominated very largely by the point of view of the city correspondent bank. That is what I have in mind, and that point of view is always reflected out to the legislators.

Mr. POLE. I think that is one of the points that might be cured by branch banking. At the present time the city correspondent is probably the banking connection of a public utility. That public utility has its plants and offices in various small towns in which correspondents of the same bank may be located. The city correspondent, through a contact or through representation on the board of directors of the utility company, would control that deposit and it would reach out to the small community so that if you did not behave, as a small banker, the city correspondent would probably be able to control that deposit you had been receiving from the local utility and place it elsewhere.

Mr. GOLDSBOROUGH. You say if the local banker did not behave.

Mr. POLE. If the local banker did not meet its wishes.

Mr. GOLDSBOROUGH. That is the idea. You hit the nail on the head the first time.

Mr. STRONG. There is no doubt about that.

Mr. POLE. That, however, I think, would be cured largely by the branch banks, Mr. Goldsborough, because the city bank, which controlled this important deposit, would project itself into this community and it would have no independent unit. It would be a matter of indifference, then, whether the deposit were placed at headquarters or distributed among the local banks in the communities from which it arose.

Mr. GOLDSBOROUGH. Mr. Pole, let us assume that, through a given congressional district, you have these branch banks centered in some great city, like Detroit, St. Louis, Baltimore, or New York, as the case may be, and let us assume that your Representative in Congress from that district—his views about finances were controlled by what he deemed to be the best interests of his Congressional district, and rural life in America. Let us assume that he felt that urbanization was progressing too fast in this country; that he felt a large proportion of city population was unassimilated into what we understand to be American life: Now, then, what would happen to him and his independent thought I am discussing——

Mr. POLE. I am not a politician, Congressman.

Mr. GOLDSBOROUGH. I have not finished the question, and I should like to do so because I think it is important—what would happen to him if he persisted in representing what he thought and believed to be the true sentiment of his district; continued to feel it necessary for the rural districts to be independent politically in order to control this condition in the cities I have mentioned? What do you suppose would happen to him if he asserted himself, in view of the fact that the district was covered by branch banks that represented the city point of view?

Mr. POLE. Mr. Goldsborough, that is a hypothetical question which it would be very difficult for me to answer.

Mr. GOLDSBOROUGH. It is not hypothetical. Those of us who have been in politics know it is a very practical question.

Mr. POLE. I really could not answer that question.

Mr. GOLDSBOROUGH. One more question, and then I think I am through. There is evidently pressure coming from various sources for an extension of branch banking, because these things never become politically acute or never become political issues until there is pressure concentrated on Congress from one source or another.

Mr. POLE. Yes.

Mr. GOLDSBOROUGH. You will be surprised when I tell you that at our first meeting—a thing which never happened before since I have been a member of this committee—every member of the committee was in his seat when the gong sounded, and it was all because of this proposed discussion on branch, group, and chain banking. Would you feel that you could freely give your opinion as to where the pressure is coming from for this extension of branch banking in the rural districts?

Mr. POLE. I think I started a great deal of it myself, Mr. Goldsborough. I think, in addition to that, that the bankers associations and the various bankers in the metropolitan centers——

Mr. GOLDSBOROUGH. Exactly.

Mr. POLE. Have realized that something is necessary to protect the small communities against the bank failures which have occurred in such large numbers over a period of years.

Mr. GOLDSBOROUGH. Then, your aspect of the situation is something like this: That this pressure is coming from the metropolitan banks and not from the rural districts themselves and that the point of view of the metropolitan banks is not selfish at all, but simply for the purpose of helping and assisting the rural communities?

Mr. POLE. In a large measure I would say the latter is true in a very large measure.

Mr. GOLDSBOROUGH. You think——

Mr. POLE. May I answer that?

Mr. GOLDSBOROUGH. Yes.

Mr. POLE. At the same time there is considerable pressure coming from the rural communities. There are many country bankers who are in favor of branch banking.

Mr. GOLDSBOROUGH. That I am not prepared to dispute. I do not know. It does not exist in any locality I am familiar with. I would say, Mr. Pole, as far as I am concerned, that since the beginning of the present Congress I have had a vast amount of correspondence on this general situation, and the only opposition to the general position which I have taken has come from large city banks.

Mr. POLE. Yes.

Mr. GOLDSBOROUGH. Now, the difficulty the rural man has is something like this: He realizes when you control the credit of a community, you control all the capital—and that is the answer—and he is unable to feel that the attitude of the city banker is philanthropic. He is forced to feel that the city banker is conducting his business as a business man should—for honest private purposes. That to me is a very controlling interest. All the pressure, as far as I know, that is significant at all comes from the big metropolitan banks.

Mr. POLE. I think there is pressure from hundreds of country State banks, Mr. Congressman, and also I think if we could take a poll of the number of people interested in a change of the banking system, among those, thousands of people who have lost money in those country banks, it is even more representative than the opinion of the country banker. He is the man who usually bas been lost sight of.

Mr. GOLDSBOROUGH. Don't you think, as a matter of fact, Mr. Pole, there is already too great concentration of bank resources in this country?

Mr. POLE. I would say that there is too much concentration of banking resources. It would be fortunate if it could be decentralized.

Mr. GOLDSBOROUGH. Now, Mr. Pole, I received this morning—I do not want to get into individual cases, because I rather think that is not the standpoint from which I want to approach the subject—but I received this morning from some one in California, a deposit slip which is used by the Bank of Italy and, on the back of it, it says "Bank of Italy covers California," and then it has a map of California with the intersecting lines which show branches that exist in that State. To me that is a very unusual document. I should like the committee to see it, and will you pass it around, please—indicating rather, I am afraid, a position of arrogancy on the part of the Bank of Italy due to its undoubted control of the banking resources of that State. I did not imagine that any institution would have the hardihood to issue a paper of that kind.

The CHAIRMAN. Have you any further questions, Mr. Goldsborough?

Mr. GOLDSBOROUGH. That is all.

The CHAIRMAN. Under the arrangement the committee made the other day, we were to begin these hearings at 10.30 and end at 1 o'clock. It is now 5 minutes to 1. What is the pleasure of the committee?

Mr. FORT. It seems to me before we go on with other witnesses we really ought to finish any questioning by the members of Mr. Pole, and the program on the floor of the House this afternoon is almost insignificant, unless it has been changed since I came out. It is nothing but a bill to change the mileage allowances and per diems allowed witnesses summoned before House committees, and I think the House could get along without us on that, and I wonder if we could not go on this afternoon and get Mr. Pole's views thoroughly developed before we take up the next witness we propose to call?

The CHAIRMAN. There was no intention to take up another witness before the committee until we completed with Mr. Pole. I should like to ask Mr. Pole if it would be convenient for him to come back this afternoon at 2.30 or would he prefer to come back to-morrow morning at 10.30 o'clock.

Mr. POLE. I have some very important engagements this afternoon, Mr. Chairman.

The CHAIRMAN. Under those circumstances, it is probably better to adjourn until to-morrow.

Mr. BEEDY. Mr. Chairman——

The CHAIRMAN. Mr. Beedy.

Mr. BEEDY. Apropos the question asked by the gentleman from Maryland (Mr. Goldsborough) as to where this pressure is coming from for branch banking, do I not understand it to be your position, Mr. Pole, that this pressure is an economic urge, the result of an economic evolution and tendency in all lines of business, which is now being voiced by bankers not only in the cities but in the rural communities as well?

Mr. POLE. Precisely so.

Mr. BEEDY. And referring again to the question about centralization, you say there is already probably too much centralization of credits. I presume you refer to the fact that to-day the great centralization of the credits and financial operations is in the cities of New York and Chicago, possibly.

Mr. POLE. New York, Chicago, and St. Louis.

Mr. BEEDY. And do you not contend that the establishment of other branches by national banks would have a tendency to decentralize the concentration of credits, making more independent of the three centers to which you have referred, the various other natural industrial areas?

Mr. POLE. There is no doubt in my mind that that is what branch banking would result in.

Mr. BEEDY. You would not contend that the policy which you advocate would result in further concentration of power?

Mr. POLE. The policy which I advocate is a policy of further decentralization.

Mr. BEEDY. But whatever you may claim for branch banking, I understand you do not claim for it any guarantee of the reelection of Members of Congress?

Mr. POLE. I think that covers my thought.

Mr. FORT. When will we get the exhibits to which you referred in your testimony?

Mr. POLE. They are not here. I have only the one copy with me.

The CHAIRMAN. In view of the fact that Mr. Pole has only one set of exhibits, which are material to each one of us here, it will be impossible for us, by to-morrow morning, to have an opportunity to look over those exhibits and the fact that to-morrow is Calendar Wednesday and our committee has the call, I want to raise the question with the committee, and I shall be glad to have a suggestion, as to whether or not it would not be better to have the matter go over until Thursday.

(Discussion off the record.)

The CHAIRMAN. Very well; we will adjourn to meet to-morrow morning at 10.30, when the hearings will be resumed and be continued to 12 o'clock.

(Whereupon, at 1 o'clock p. m., the committee adjourned until Wednesday, February 26, 1930, at 10.30 o'clock a. m.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Wednesday, February 26, 1930.

The committee met in the committee room, Capitol Building, at 10.30 o'clock a. m., Hon. Louis T. McFadden (chairman) presiding.

The CHAIRMAN. The committee will come to order.

STATEMENT OF JOHN W. POLE—Resumed

The CHAIRMAN. I would like to repeat what was said in the committee the other day as to procedure, before we began the hearings, and also to state now, the Comptroller of the Currency being in the midst of his testimony, that an invitation has been extended to the Secretary of the Treasury to be here, or any members of his department; also the Federal Reserve Board has been notified of these hearings and they perhaps will have the opportunity to appear next, after which the officers and directors of the 12 Federal reserve banks, and after them, persons connected with group, chain, and branch banking operations. I want to make it perfectly clear, of course, that during the hearings the committee will hear all phases of the question.

Mr. SEIBERLING. You mean in the order in which you name them?

Mr. POLE. Group, chain, and branch, in the order named?

The CHAIRMAN. No; all together, collectively. I want to mention that there are on the committee two outstanding antibranch bankers that we have knowledge of—Mr. Strong, of Kansas, and Mr. Goldsborough, of Maryland.

Mr. STRONG. Guilty as charged.

The CHAIRMAN. I presume there are others, and the chairman would be glad if those members will confer with him as to any possible witnesses against any of the branch, chain, or group banking proposals, or any other members of the committee that have suggestions to make, so that we can get word to the witnesses.

Mr. STEAGALL. Let me submit an inquiry.

The CHAIRMAN. I should like to furnish my statement. There are advocates of branch banking, but I do not know whether there are any advocates of chain or group banking on this committee, and if those or any other members know of persons who would like to be heard, the chairman would be glad to confer with those members, so that their witnesses may be invited to appear before the committee.

Mr. STEAGALL. I want to suggest to the chairman that I thought there were a number of members of the committee—and I say this because the chairman seems to want to discuss the attitude of the committee for the record—I thought it was understood there were a number of members of this committee who were against branch banking, and I thought the chairman of the committee was among those members.

Mr. STRONG. I thought there were 15 or 20.

The CHAIRMAN. The chairman was simply trying to arrange this matter so that the members of the committee can confer with one another and the chairman as to witnesses.

Mr. LETTS. I assume no one would undertake to say that the chairman of the committee had polled those mentioned in favor of branch banking—for myself, I want to say that I want to try to maintain an open mind.

The CHAIRMAN. The chairman desires to state that he is not intending to define the attitude of any member of this committee. I am rather in hopes that the entire membership of the committee will maintain a judicial attitude in regard to this whole matter until these hearings are completed.

Mr. HOOPER. I should like to put myself on record in the same way Judge Letts has done. I came here to gain information and possibly act on that information after it is gained.

Mr. STRONG. I shall reserve my decision until after these hearings have closed, and then I shall render it against branch banking.

Mr. LETTS. That is what we call a truly judicial attitude.

Mr. STRONG. That is an atittude in favor of the people.

Mr. STEAGALL. In that connection, just a word: If members declare their attitude—I do not think it is necessary that this all be said—I think the members of the committee who have served with me here for years will agree that I have an open mind in so far as the information and arguments are concerned, and I hope I shall always be that way. This subject of banking and finance, is, of course, one of the most intricate things in the world and if I know myself, I am the last man in the world that wants to deny himself any information that anyone wants to offer.

The CHAIRMAN. I have a letter from the Secretary of the Treasury in answer to the invitation which the chairman sent him in regard to these hearings which I think should be read at this point. It is dated February 24, 1930.

(The letter is as follows:)

DEPARTMENT OF THE TREASURY,
Washington, February 24, 1930.

MY DEAR MR. CHAIRMAN: I have your letter of February 21 in which you inform me that your committee will be pleased to hear my opinions in respect of the study undertaken by your committee in pursuance of the authority granted under House Resolution 141, covering the subject of group, chain, and branch banking.

In this connection I call your attention to the statement contained in my Annual Report to Congress for the fiscal year 1929, which reads as follows:

"In banking, as in other enterprises of this country, there is increasing evidence of a movement toward larger operating units. The number of branches of banks in operation has increased and more recently there has been a growth also in the number of groups in which several independent banks are operated more or less as a single system. Both of these developments reflect changes in the underlying economic situation.

"Branch banking has always existed in this country to a limited extent in one form or another. At the present time the Federal reserve act and the national bank act, as amended in 1927, authorize national member banks to establish branches in foreign countries and in insular possessions of the United States, and all member banks to establish branches within the corporate limits of the center in which the head office of the parent bank is situated and in which State laws permit State banks to operate branches (with certain restrictions as to the size of centers in which branches may be established by national banks.) At the end of June, 1929, State-wide branch banking was permitted in nine States and in the District of Columbia; branch banking in more limited form was specifically permitted in 11 States; and in 23 States the operation of branch systems was specifically prohibited.

"In June, 1929, out of a total of 8,707 member banks in the Federal reserve system, 354 were operating 2,291 branches. This represents an increase of 130 branches during the year. On the same date 818 banks, including both member and nonmember, were operating a total of 3,440 branches, an increase of 210 for the year. The development of branch banking which is permitted by existing legal arrangements has facilitated the adaptation of banking facilities to requirements of urban areas.

"More recently there has been a rapid increase in the organization of group systems of banks. Such groups comprise one or more banks that are brought under unified control and some degree of centralized management through acquisition by an individual or corporation of controlling interest in their stock issues. Although technically each bank in a group is a separate corporation operating with its own capital funds and under the direct supervision of a local board of directors, a certain degree of unity is achieved for the group as a whole.

At the end of June, 1929, it was authoritatively reported that there were in existence at the time 230 group systems of banks in the United States, which embraced about 2,000 banks. Group banking is a means of accomplishing in a measure the objects of more extensive branch banking systems than are permitted under the Federal reserve act or under existing legal arrangements in most States. Although banking groups may be expected in most instances to strengthen the banks which they control, the organization of such groups places great responsibilities upon the controlling interests, and is a matter of vital interest to State and national supervisory agencies.

"In view of the fundamental economic situation which has given impetus to the organization of group banking systems and to the growth in branch banking, it is desirable that these developments be carefully studied. In the meantime it is hoped that any further extension of group and branch banking organizations will proceed with moderation, and that hasty legislation, either to liberalize or to constrict limitations now in effect, will be avoided. Our banking structure, the product of many years of experience, is part of an intricate economic fabric whose parts are closely adjusted to one another, and a too rapid reorganization would be likely to create serious and costly disturbances that would affect the entire country.

"The time has come when it would seem to be wise to undertake a thorough study of the situation with a view to determining the soundness of the present-day tendencies, and more particularly the limits of the economic units within which branch banking may be advantageously permitted."

I may add that because of the more direct concentration of responsibility I believe that branch banking is on the whole sounder than chain or group banking, but that even branch banking should be limited to definite economic areas. As to what those economic areas should be, I am not prepared to state at this time without further study or thought. I should prefer, therefore, to defer my appearance before the committee until I have had an opportunity to study the facts which I hope your committee will develop.

May I add that I think it fortunate that your committee has undertaken this study at this time, and that I am confident that much good will be derived from a careful ascertainment of all the facts in connection with the movement which has been proceeding with great rapidity in the banking field.

Very sincerely yours,

A. W. MELLON,
Secretary of the Treasury.

Hon. LOUIS T. MCFADDEN,
Chairman Committee on Banking and Currency,
House of Representatives.

Mr. STRONG. I think the Secretary misstates the law at present when he says that in States that permit branch banking the national banks are permitted to have branch banks in the communities. That is not the law. The law is that they are permitted to have branch in the cities in which located.

Mr. GOLDSBOROUGH. Mr. Chairman, I move that we proceed in the order outlined at the beginning of the hearings.

The CHAIRMAN. You had finished, Mr. Goldsborough?

Mr. GOLDSBOROUGH. Yes, sir.

The CHAIRMAN. Mr. Busby.

Mr. BUSBY. I had in mind asking a few questions with regard to the effect of the different methods of banking on the people of the country who use the facilities afforded by banks. My questions will not be directed so much to the security of the stockholder and bank operators and to the depositors as they will be to the borrowers and users of the banks.

The statement of the comptroller gives us the information that 24 banks in New York City——

Mr. FORT. Showed $10,791,000,000 of assets or resources.

Mr. BUSBY. Twenty-four banks, national and State, in New York City alone are capitalized at an aggregate of $677,000,000 and have combined resources of $10,791,000,000. I will ask the comptroller if that is not a considerable concentration of money and banking resources of the country in one center?

Mr. POLE. Very obviously.

Mr. BUSBY. Now, much of the money and much of these resources are gathered into New York City because of the fact that these banks are used as correspondents of the smaller banks throughout the entire Nation, is it not?

Mr. POLE. That is very largely true, Mr. Congressman.

Mr. BUSBY. Most of those funds placed there by banks throughout the country, are used to make what is commonly known as brokers' or call loans by the New York banks, are they not?

Mr. POLE. Not most of them. A very small proportion of the total of the deposits in New York banks is used in brokers' loans. As a matter of fact, I think at the very peak only about two billion dollars of the banks of New York City.

Mr. BUSBY. I find that on October 2, 1929, the brokers' loans in New York City were $6,804,000,000. I find that as the crisis was reached in the bond market or the stock market, that brokers' loans had decreased $3,476,000,000, or 51 per cent of the amount of the loans outstanding in October, 1929. Now I will ask the comptroller if that condition is not due very largely to the fact that the credit and currency of the country is centered at that one point through our system of banking?

Mr. POLE. I would not say that that fact is demonstrated by those figures. It is true that the principal stock market of the country is in New York and necessarily any trading would have to be there; so the six billion of loans you are speaking of, I thank that, as far as my recollection serves me, as much as $3,000,000,000, or 50 per cent of them, were loans for others and loans for others represented funds, of corporations and individuals, which were scattered all over the United States and the world which have found their way to New York for the purpose of being placed by the banks, but not for them, on the stock exchange.

Mr. BUSBY. But for our system of banking and concentrating the money and banking credits in New York City, would it be possible to have the kind of financial catastrophe that we have had in the stock market in recent months?

Mr. POLE. I should say that under any system of banking, it might be possible to have a disastrous calamity on the stock exchange, if the general public were disposed so to invest their funds. I can not imagine that the difference in the system itself, such as I have suggested, would have a great deal of effect on the stock market, because funds may be transferred to New York by corporations and individuals which may represent the major share of funds available, and under any system they may be diverted to any point the holder of such funds may direct them.

Mr. BUSBY. Does not our system of banking, and would not our system of banking, if followed in the course you suggest, tend to funnel the funds of the country into New York City as the center of credit?

Mr. POLE. Our present system of banking, you mean?

Mr. BUSBY. Well; our present system of banking; yes.

Mr. POLE. Yes; I should say that it does, and I have that in mind in suggesting that it might be that this situation would be corrected, if the bank resources of the country were further decentralized through regional branch banking.

Mr. BUSBY. I must say that I can not follow your reasoning in trying to secure the result that you predict from the method that you propose. But to give your proposition due consideration at this point, the branch-banking system or the chain-bank system, which is proposed, and whether these systems, or either of them, suggested by you, would decentralize the currency to several points of the country, and whether or not the situation we are talking about would not be remedied any?

Mr. POLE. I can not imagine that the system of banking would have very much effect on the New York stock market.

Mr. BUSBY. Well, if our system of banking carries money from every bank in the country to the New York banks, it would naturally have a tendency to cause those banks to make broker loans or call loans, and thereby increase the tendency of the people to play the stock market throughout the country.

Mr. POLE. Our present system of banking is conducive to funds flowing to New York, which, of course, is the financial center of the country. My suggestion to the committee in regard to a development of banks in the larger metropolitan centers, would cause the funds in New York to be less concentrated. I would develop very much larger systems all over the country, and the funds would be employed locally.

Mr. BUSBY. Now, another thought: In 1919 to 1921, during the deflating period, Mr. E. H. H. Simmons, in an address before the Chicago Stock Exchange on May 9, 1929, states that the broker loans were deflated to the extent of 60 per cent during that crisis. What I am trying to understand is if the banking system does not tend toward building up those periods of speculation on the New York Stock Exchange, and, through a collapse of the pyramiding of the prices of securities—whether that does not cause the financial situation we find in the country to-day?

Mr. POLE. I should say not, Mr. Busby. I should say it is not the fault of the system of banking which we have at this time.

Mr. BUSBY. I notice that last fall the paper values, within a very short period of time, on the stock exchange depreciated \$35,000,000,000. Now, somebody lost that much financial standing, did they not?

Mr. POLE. Not necessarily.

Mr. BUSBY. That is where the little fellows all got out, is it not?

Mr. POLE. You refer to them as paper profits?

Mr. BUSBY. That is, a bookkeeping status.

Mr. POLE. I should say that it made no difference to a man's actual net worth. He might have lost what he had won on the market, but I would not say that he was any worse off in the end than in the beginning through the loss of paper profits.

Mr. BUSBY. The banks did not lose anything during that period; or, if they lost anything, it was very little during that period of deflation in stock, did they? Do you recall?

Mr. POLE. The banks themselves were not speculating in stocks. They were carrying customers, perhaps.

Mr. BUSBY. And they dropped many customers during that period?

Mr. POLE. Well, I think perhaps the customers dropped the banks.

Mr. BUSBY. Well, you put it that way; but the customer is the one who lost the money. Is not that true?

Mr. POLE. In a great many instances.

Mr. BUSBY. This may not appear to have any connection with the subject the committee is considering, but yesterday you told us of a few small losses by country banks. I say "small" in comparison with the great catastrophe we are passing over—the great catastrophe connected with the stock market collapse we are passing over. Does not that situation grow out of the banking arrangements of our country, and was that situation not just as effectively detrimental to the commerce of the Nation as the losses in the small banks you are talking against?

Mr. POLE. No. I should say by no means.

Mr. BUSBY. If you can explain to me why we have come to this period of financial distress not as a result of the New York Stock Market collapse, and yet it does not affect the people as much as the breaking of a few small banks, I shall be much obliged to you.

Mr. POLE. I think you misunderstand me. I did not say it has not arisen from any such cause. It seems to me that the thousands of small failures can not be brushed aside in any such light phrases.

Mr. BUSBY. I said comparatively, or I mean to say "comparatively."

Mr. POLE. Because that is the basis of my belief that a change in our system of banking in this country, both national and State, becomes necessary, by reason of those failures.

Mr. BUSBY. Just a moment on this: You say it is estimated that 7,264,000 depositors have contributed to the great total of more than $1,700,000,000 of deposits in failed banks during the last nine years?

Mr. POLE. Yes.

Mr. BUSBY. And that 114,000 shareholders have suffered losses through the suspension? Do you have any figures to show the amount of the losses that were passed on to the depositors by reason of these failures? You give the amount of the deposits, but not the amount of the losses.

Mr. POLE. Yes. Of course, that is problematical at the present time because the banks are still in process of liquidation and it would be difficult to forecast any percentage of recovery which the depositors might have.

Mr. BUSBY. That would run to the amount of——

Mr. POLE. I could say that liquidation of the national banks—and of course these are not national banks only; there are many more State banks than national banks—our liquidation of the national banks would be probably 65 or 70 per cent.

Mr. BUSBY. Of the amount involved?

Mr. POLE. Of the amount involved; that is, as 763 is to 4,877, for instance, of national to State banks, and I am not advised as to what the liquidation on the State banks is.

Mr. BUSBY. Sixty-five per cent of the deposits involved in both banks would be lost?

Mr. POLE. No; would be recovered over a period of many years.

Mr. BUSBY. I want to get through and I know the rest of you want me to. Another question that I should like to ask is——

Mr. POLE. You understand that those are national banks?

Mr. BUSBY. Yes. A bank takes the depositor's money and the depositor is at the mercy of the management of the bank—I say mercy in the sense that he is bound to accept their judgment and management. What is your idea about its being fair and proper to require banks to insure the people who deposit their money in the banks against the loss of their money?

Mr. POLE. I think the idea is unsound.

Mr. BUSBY. What do you think about a general insurance to the depositors by the banking institutions against loss where they place their money in the bank for safe keeping?

Mr. POLE. Nothing at all.

Mr. BUSBY. You say it is unsound, having entire management of the institution in the hands of the directors and bank officers—why would it be unsound for them to assure the honest depositor that they will honestly return to him that which he has honestly deposited, when called for? I should like to know why it is unsound.

Mr. POLE. I would point to the practical experience of the States of Mississippi, Kansas, Nebraska, North Dakota, Oklahoma, South Dakota, Texas, and Washington.

Mr. BUSBY. I am not asking about the type of laws they have.

Mr. POLE. It is a form of a guarantee of deposits.

Mr. BUSBY. No; I am not asking about that.

Mr. POLE. The insurance would be a form of guarantee of deposits.

Mr. BUSBY. But not the form we have in my State——

Mr. POLE. I am not speaking particularly of your State. There are no two laws in these States which are similar—yes; similar, but not alike.

Mr. BUSBY. Let me explain the idea that I am trying to convey.

Mr. POLE. And that, without exception the principle has completely fallen down.

Mr. BUSBY. The basis on which these laws were enacted is that the banks, in a body and individually, shall contribute to a central fund which shall be applied to the claims of depositors in failed banks in the order in which the amounts have been adjudged proper claims against the central fund, is it not?

Mr. POLE. A similar law has been in force in some States.

Mr. BUSBY. What I am referring to is a bank capitalized with $50,000 stock and has $200,000 or even a million dollars in deposits, why would it not be perfectly sound for that bank to take out an insurance policy with some reputable insurance company, guaranteeing to the people who put their faith and trust in that bank, that this bank will return to them that which it has received from them? What would be wrong with that type of insurance?

Mr. POLE. What insurance company, in the first place, would insure $57,000,000,000 of deposits? How would you insure the deposits of the Chase National Bank, which has $105,000,000 with $135,000,000 surplus and, roughly figuring, a billion dollars in deposits—you would not discriminate between the large and small banks in regard to the question of additional safeguards.

Mr. BUSBY. You ask a question in answer to my question. I am sure a system could be worked out where the risk would be taken over. But you can not expect people to come up with an insurance proposition before you lay down a plan and provide a premium to carry this, and almost every risk under the sun is being insured, and the smaller banks especially could be cared for in that way, and an inspection of those banks be had by the insurance companies, and you need not say that each bank should stand on a parity in the rate of the risk that should be applied to that bank to insure it against loss.

Mr. POLE. The systems which have been in force which contemplate the protection of the depositor have been universally unsuccessful. The price has to be paid by the going banks and it has often been such a burden on them as to even put them out of business.

Mr. BUSBY. I know that system has been, but the system I am talking about has never been tried.

Mr. POLE. I would not like to express an opinion on any new system which I had not had an opportunity to study.

Mr. BUSBY. My idea was that we would get new ideas on proper procedure and that is the reason I asked the question.

Mr. POLE. I should say that, in the light of experience, any system of insurance of deposits or guarantee of deposits is, in my opinion, entirely unsound.

Mr. BUSBY. Out of respect for the other members of the committee who want to ask questions, I shall desist.

The CHAIRMAN. The gentleman will have another opportunity to ask questions later on.

Mr. Letts, of Iowa.

Mr. LETTS. Mr. Chairman——

Mr. BRAND. Would you object to my asking two questions at this point?

Mr. LETTS. Certainly not. Go ahead.

Mr. BRAND. I just want to ask Mr. Pole first: You can furnish and will furnish to the committee, the amount of the franchise tax paid by each of the 12 Federal reserve banks since the act was passed and the organizations of the banks established, per year, and showing the amount each one of these banks paid down to and including the year 1929?

Mr. POLE. I shall be glad to do so, Judge.

Mr. BRAND. So that we will know what each bank has paid down to and including the year 1929.

Mr. POLE. Yes, sir.

Mr. BRAND. This is a question I want information about: Of course it is well understood by the big bankers and members of the committee who associate with big banking institutions—but will you define briefly the difference between group banking and chain banking as compared with branch banking—either now or later on?

Mr. POLE. I think perhaps it would be very proper if I might use the same language I used yesterday.

Mr. BRAND. I do not want you to do that. I heard that. Clearly define what is chain banking and group banking as compared with branch banking.

Mr. POLE. Chain banking consists of a number of banks in which an interest, not necessarily a controlling interest, is owned by one or more individuals.

Mr. BRAND. Individuals or individual banks?

Mr. POLE. Individuals. They have their separate corporate entity and operate entirely independently, but there is a greater or less control by reason of the interest which is owned by the individual or individuals, which more or less directs the policies of this chain of banks.

The group bank is a number of banks. Fifty-one per cent or more, usually, of the stock of each is owned by a holding corporation, and by reason of the ownership the policies of this group are directed by this corporation. In the corporation there is usually one major bank from which the others radiate and the policies are directed or influenced by the heads of those banks, who are usually the chief interested parties in the corporation. Management control is the principal difference.

Mr. BRAND. And these banks which you refer to own, as I understand, the majority of the stock in all the unit banks?

Mr. POLE. They may own the majority or all the stock except the directors' qualifying shares.

Branch banking is different. A metropolitan bank, usually, with branches scattered over its district. A single corporate entity.

Mr. BRAND. I understand what branch banking is. The other two I did not clearly understand.

Mr. POLE. Have I made that clear, Judge?

Mr. BRAND. I think I understand them now.

Mr. STEAGALL. I was not here yesterday, much to my regret, having been called to appear before the hospitalization board on a matter of great interest to my State, and I did not get the benefit of the proceedings yesterday and I am not informed as to the rule which the committee adopted with respect to the manner in which we should proceed. I have no desire to interfere with the rule, whatever it is. It is all right with me. But I have some questions right in connection with the statement which Mr. Pole has just made. If it is desired to go along on the line of subjects under discussion, I shall be glad to proceed or wait, just as the chairman indicates, which would be more in accordance with the rule.

The CHAIRMAN. The rule we are working under is to call on the members of the committee according to their seniority. We are going ahead under that procedure. In accordance with the rule adopted yesterday, you are the next one on your side to be called. Mr. Letts has now been recognized under that rule.

Mr. STEAGALL. That is all right with me.

Mr. STRONG. Will you yield to me for a short question, Mr. Letts?

Mr. LETTS. Yes; but not for long.

Mr. STRONG. Mr. Brand, I want to suggest, in getting information from the comptroller in regard to the amounts paid in excise or franchise taxes by the national banks—I want to inquire whether it would not be well to put in the record the amount of their earnings and expenses.

Mr. BRAND. That would show the net income.

Mr. STRONG. I think that would be helpful to the committee.

Mr. LETTS. I have two or three lines of inquiry which I should like to indulge in. The gentleman from New Jersey—Mr. Fort—has informed me that he must be away to-morrow and would like to go on to-day with his questions. However, there is one matter that I should like to open up because Mr. Fort undoubtedly knows a great deal about the matter and it is something that I think has a pertinent connection.

Yesterday I was very much interested in the line of questioning of the gentleman from Maryland—Mr. Goldsborough—and the answers of the comptroller. The questions indicated that, in the mind of the gentleman from Maryland, the plan to extend branch banking presented some serious political dangers. I understood, from the answers of the comptroller, that he was not greatly concerned about that matter and that perhaps he felt that the dangers suggested were more apparent than real.

But I want to ask now whether or not the comptroller, upon an assumed state of facts—and I want to get his opinion—assuming that the issue in a State should be the control of the appointment of the supervisor of banks, who would have the power of issuing charters and the power of appointing inspectors and examiners and directing the examinations, and that a banking interest might become so powerful that they could control the nominations in the primaries and elections of officers, and, in that way, secure the person desired for the important position of supervisor of banks. Would you then say that the situation presented a political problem that was a menace and ought to be avoided?

Before answering that question, I will say that I have tried to embody in that question a state of facts that I think has existed. I am told that, at the least gubernatorial election in the State of California, the Bank of Italy made a determined fight for Mr. Young, who is now the governor of that State, upon the issue that they should know that the person in whom they are interested would be the superintendent of banks. I understand he gets a salary of $10,000 a year and I understand that they expressed their desire and made the request of every employee of their banks and of every branch that they should see that Mr. Young was nomniated at the Republican primaries for governor. I am told, too, that they went further than that and made the request of their depositors. I am not so sure of it. I think it can also be shown that, at the general election in the fall, they sent out a ticket in which they expressed their preference for every State office and for every congressional office and for Senator in the United States Congress. The ticket that they espoused was elected. Mr. Young was elected governor and the favored candidate was made superintendent of banking.

Now, perhaps you can tell me how accurate those facts are and whether or not, if it is true, it does not, in fact, present a very serious political problem and show that perhaps there is a real danger, in a political sense, such as was indicated by the gentleman from Maryland in his line of inquiry.

Mr. Pole. I have heard, Mr. Letts, that the appointment of a superintendent of banks in some States is regarded as more or less of a political appointment, but I am sorry I can not answer you as to the status quo of the political situation in regard to——

Mr. Letts. If my facts are substantially correct, would you say that there is presented a serious question as to the advisability of the policy which you advocated toward the extension of the branch banking system?

Mr. Pole. It is a question which would be exceedingly difficult for me to answer.

Mr. Letts. I will excuse you from that. But now, as I understand the matter, we have been talking of the Bank of Italy. Now, there is also what is called the Bancitaly Corporation. I do not know that I have a correct understanding of that and so I want to inquire of you—is that a holding company?

Mr. POLE. It might be called a subsidiary company.

Mr. LETTS. I understand that the Bancitaly Co. holds a large part of the stock of the Bank of Italy and of all of the branches.

Mr. POLE. I have no access to the books of the Bancitaly Co.

Mr. LETTS. Is the Bancitaly Co. a banking institution?

Mr. POLE. It is not.

Mr. LETTS. It is a holding company?

Mr. POLE. Yes. I presume it holds certain securities.

Mr. LETTS. Does it do more than hold stock?

Mr. POLE. I think that their charter gives them rather a wide latitude. I, however, am not informed.

Mr. LETTS. They are not subject to examination?

Mr. POLE. No; they are not subject to examination by the Federal Government.

Mr. LETTS. Are the Bank of Italy and the branches of the Bank of Italy under national charter or State charter or both?

Mr. POLE. The branches are under national charter.

Mr. LETTS. How about the Bank of Italy?

Mr. POLE. The Bank of Italy is a national association and, necessarily, the branches are a part of the Bank of Italy—one branch being just as much a part as any other branch.

Mr. LETTS. Is there just one charter?

Mr. POLE. Just one charter.

Mr. LETTS. And covers all branches?

Mr. POLE. Yes, sir; covers all branches.

Mr. LETTS. Now, I understand that more recently the Bank of Italy people have organized the Trans-American Co. Can you tell me anything about that?

Mr. POLE. Yes. I would not say that the Bank of Italy has formed that. The Trans-American Corporation was formed a number of years ago and is, itself, a holding company.

Mr. LETTS. That is organized, however, and operated by the same group of people?

Mr. POLE. I should say not. I should say that it has entirely a different personnel.

Mr. LETTS. Distinct?

Mr. POLE. Distinct from the Trans-America Corporation—the Bank of Italy personnel; yes.

Mr. LETTS. Is that personnel entirely different?

Mr. POLE. As far as its officers are concerned, I think so.

Mr. LETTS. Of course I have no knowledge of it and am asking for information.

Mr. POLE. As far as my knowledge goes.

Mr. LETTS. My understanding is that the Trans-America Co. is a holding company to put into operation the policies of the Bancitaly Co., by extending beyond the State of California; that they intend to reach out and do the same things in other parts of the country that the Bancitaly has done within the State. Am I correctly informed as to that?

Mr. POLE. I think, in the published statement of their assets, which is made periodically, a number of stocks of banks over the country were included, among them being, for instance, the National City Bank and the Chase National Bank—large banks and small banks in different parts of the country.

The CHAIRMAN. Will you yield to me, Mr. Letts?

Mr. LETTS. Yes.

The CHAIRMAN. I think it might be helpful, at this point, to observe that the Trans-America Corporation is a Delaware Corporation and not only owns sufficient stock of the Bancitaly Corporation, but a sufficient amount of stock in the Bank of America to control the policies of each one of those corporations. The Bank of America includes the Bank of America in New York and the Bank of America in California.

Mr. LETTS. Well, I thank the chairman for that statement, and I want to add this, that I have not very much knowledge about these matters and am seeking information, and I am very happy to have that statement.

The CHAIRMAN. I might add further that my understanding is that the control of these various operations which were formerly vested in the Bancitaly Corporation and the Bank of America, both New York and California, as well as the firm of Blair & Co., are now operated under the Trans-America Corporation or Transameric-Blair Co. control.

Mr. LETTS. I wonder, Mr. Comptroller, if at some later time you could supply us with the information to show whether or not the personnel in these corporations is the same, or just what the facts are in respect to that.

Mr. POLE. I will be glad to go as far as I can. But may I suggest that perhaps you might wish to call a member of the official family of the Bank of Italy and the Trans-America Corporation, and they will be glad, I am sure, to give you full information on their activities. I have no official information in regard to the corporations.

Mr. LETTS. My only thought was——

Mr. POLE. Except the Bank of Italy which is a national association.

Mr. LETTS. I think it would be desirable to know whether or not these companies are advancing along the same policy and whether or not controlled by the same influences. Those are the things I am interested in knowing.

I do not care, Mr. Chairman, to pursue this further at this time. I do have one or two other things that I should like to go into, but I shall be glad to yield to the gentleman from New Jersey, Mr. Fort.

Mr. FORT. I am sorry to ask the committee to break the standing order, but I have an engagement for to-morrow of a year's standing out of the city.

The CHAIRMAN. You may proceed, Mr. Fort.

Mr. FORT. Mr. Pole, there has been some reference to the size of the aggregation of banking resources in the city of New York. Is it not true that in every major country in the world there is a concentration of banking control and banking resources in what is called the financial capital of the nation, usually the same as the political capital, because it is also the largest city?

Mr. POLE. I should say that that is true of the principal countries of the world, as far as I know.

Mr. FORT. You said this morning the banks were not purchasing stocks. It is true, is it not, that many State banks enjoy the power of purchasing stocks?

Mr. POLE. My reference was only to the national banks.

Mr. FORT. It is also true that many, both State and national, banks have what is called security affiliates through which they purchase stocks.

Mr. POLE. That is largely true.

Mr. FORT. Is it not true that some chains of banks exist in States where banks are permitted to own directly the stock of another bank? It know it is true in my own State and I will make that statement.

Mr. POLE. I have no information on that.

Mr. FORT. With reference to the power aggregated in groups, there is a rumor—I do not care to name the Federal reserve district—but there is a rumor that in one Federal reserve district in this country two bank-stock holding companies to-day own enough banks to give them the voting power to elect the directors of the Federal reserve bank in that district. Do you know whether or not that is a fact?

Mr. POLE. My belief would be that it is not the fact.

Mr. FORT. It is possible, however, under our present loose system of permitting groups and bank-stock holding companies, is it not?

Mr. POLE. It is a potential possibility.

Mr. FORT. You have heard the rumor to which I have referred?

Mr. POLE. I have not. I think I know the locality of which you speak.

Mr. FORT. That, if true, would be a very serious danger, would it not, to confer on one banking group the power to control the board of the Federal reserve bank in any district in this country?

Mr. POLE. I rather doubt it. You know how the Federal reserve directors of a bank are elected?

Mr. FORT. If one group could control the majority of banks in two groups, which elect the directors, they would control, would they not?

Mr. POLE. There might be a possibliity of such a thing.

Mr. FORT. And you would regard it as undesirable that that condition should exist?

Mr. POLE. I would.

Mr. FORT. And, in our general consideration of this situation, we should endeavor to avoid that possibility?

Mr. POLE. I think so.

Mr. FORT. I take it in the great bulk of your discussion, Mr. Pole—which I may say parenthetically is the strongest presentation of your position that I have seen anywhere, and is a very fine one—you are assuming that we have the power to permit national banks to extend their branches throughout an economic area?

Mr. POLE. Yes, sir.

Mr. FORT. But no law we could pass could extend the jurisdiction of State banks beyond the States in which they are chartered?

Mr. POLE. No, sir.

Mr. FORT. So your idea looks to the strengthening of the national bank system?

Mr. POLE. That is my one thought.

Mr. FORT. Your main reasoning is that we need larger and stronger banks? Your main desire for having the branch bank system extended——

Mr. POLE. I would not say that. I would say my main reason for suggesting any change in the system is that we need stronger banks and not necessarily larger banks.

Mr. FORT. I was using the two as almost synonymous. We do not need stronger banks in the major cities, do we?

Mr. POLE. I would say that we do.

Mr. FORT. Still larger and stronger than the institutions known as the National City in New York or the Continental-Commercial in Chicago?

Mr. POLE. Not larger in the central reserve cities. I am speaking of the country as a whole.

Mr. FORT. I am speaking of the central reserve cities. The banks are now adequate to handle the banking needs of those communities?

Mr. POLE. As far as I know.

Mr. FORT. The aggregation—just parenthetically—the aggregation of financial resources in New York is, in large part, due to the enormous foreign balances maintained there?

Mr. POLE. You speak of "foreign" as foreign countries? The large part——

Mr. FORT. A large part?

Mr. POLE. I think so.

Mr. FORT. It has been understood that $2,000,000,000 of foreign money has been out on call during the last——

Mr. WINGO. You do not mean foreign nations?

Mr. FORT. Deposited by persons living in foreign nations.

Mr. WINGO. But you did not mean foreign governments?

Mr. FORT. No. I was in a foreign country last year where I was told very nearly every insurance company and banking company had all its loose money on call in New York City. If a single city is attracting practically the entire mass of this foreign money, it might be wise to divert as much as possible of our domestic moneys elsewhere, might it not?

Mr. POLE. I think a decentralization, as far as possible, would be advisable.

Mr. FORT. In connection with the policy you have advocated, there is no general concurrence among the larger banks of the country, is there?

Mr. POLE. I have not made a sufficient survey, Mr. Fort, to answer that question.

Mr. FORT. I am not saying that that is anything against your policy. Indeed, my own view is that we should legislate at this time before there is any such concurrence and the resultant pressure upon Congress.

Mr. POLE. I understand some New York banks are not expressing themselves favorably toward a branch banking system.

Mr. FORT. But some of them are?

Mr. POLE. I know of no recent expression of opinion of a New York metropolitan bank in favor of rural branch banking, and I think there are a great many others that have not expressed themselves favorably, although, taking the metropolitan banks of the country as a whole, I think there is a very strong feeling that some change in the system of banking is necessary, and as far as I get it, the preponderance of opinion is in favor of some system of branches.

Mr. FORT. In connection with your general idea, which is to strengthen the country's bank systems——

Mr. POLE. Yes.

Mr. FORT. Have you given any thought to the idea of limiting the size of the city where the central institution, which might have branches in the country districts, could have its headquarters?

Mr. POLE. I have not given a great deal of thought to that, Mr. Fort, and have deemed it best to leave that to the discretion of the supervising officer under some general principle laid down by Congress.

Mr. FORT. I have noticed in your remarks that in two or three places you speak of larger commercial banks outside of New York,

Mr. POLE. Yes.

Mr. FORT. As requiring strengthening—as desirable places to centralize further banking power?

Mr. POLE. Yes.

Mr. FORT. Did you make the statement "outside of New York" deliberately to exclude New York, or simply——

Mr. POLE. I have made no particular reference to New York.

Mr. FORT. You used that phrase two or three times.

Mr. POLE. Outside of New York, but not in that connection. My recommendation to Congress was that branch banking should be extended within the trade area of a city in which a bank might be located, the effect of which would be to develop a system around the larger metropolitan centers, including the New York City trade area.

Mr. FORT. My own opposition to branch banking legislation three or four years ago was, in large part, based on this: Rather than to permit banks to have a number of branches in the cities, we should forbid branch banking in the cities, but should extend them through the country sections. It has seemed to me—and I wonder how much thought you have given to it—that we might prevent the concentration of banking power—which we are all afraid of—in a few hands, by adopting your suggestion in part; not by permitting the great metropolitan Federal reserve city banks to have branches out through the country, but by working toward the building of stronger banks in the cities of forty or fifty thousand, which are scattered through practically all the States, by permitting them to have branches throughout their trade areas.

Mr. POLE. I should answer that by stating that the area must be large enough to permit of ample diversification.

Mr. FORT. I agree that it must be large enough for such diversification.

Mr. POLE. And I doubt whether limiting it to the areas which you suggested would in many cases enable the bank properly to diversify its investments.

Mr. FORT. That, after all, is the problem that determines whether a bank is sound or not—diversification of investments?

Mr. POLE. I think so.

Mr. FORT. Is there not a complete shifting of what is regarded as good banking, or rather of banking necessity, in the last 20 years, with the enormous growth of corporate enterprises in place of individual enterprises?

I have seen figures somewhere as of a recent date, that only 18 per cent of the loans of all banks were on name paper.

Mr. POLE. I could not say as to the figures, but I know that the loans on corporate securities have increased.

Mr. FORT. So, the banker must know the value of the securities that are used as collateral in connection with the loans rather than the character of the borrower?

Mr. POLE. That is true in the metropolitan banks.

Mr. FORT. But not in the country banks?

Mr. POLE. No, sir.

Mr. FORT. Have you given any thought to the provision that is applied customarily to insurance companies by many States, which requires a company to have not only its capital but surplus funds proportioned to its capital, before it can start operations?

Mr. POLE. There is no law requiring a national bank to have a surplus when it starts operation. As a practical matter, it is rarely that a bank does start without 10 to 20 per cent surplus.

Mr. FORT. I am getting at that now. If that proportion were made larger and were made mandatory, without increasing the loaning limit of the bank, might that not tend to strengthen the country banks?

Mr. POLE. I think that such increase would tend to strengthen the country banks, but it would be equivalent to saying that a bank shall commence business with a larger capital.

Mr. FORT. Except that the capital controls the loaning limit. I am suggesting a requirement for increasing the capital funds without increasing the individual loan limits.

Mr. POLE. I think, regardless of whether the capital funds are expressed as capital, surplus, or profit, it would be necessary, of course, that a fair return should be made on it. There are many communities where banking services are urgently needed that perhaps could not earn a reasonable income on a larger capitalization.

Mr. FORT. Now, about your shareholders' liability: In some European countries, where they have an uncalled capital system, it is required that the stockholder cover his liability for the balance of the call by collateral, and the uncalled capital is then subject to call by the directors without waiting for receivership. Would not something of that sort reinforce our stockholders' liability provisions in this country?

Mr. POLE. I think it would reinforce the stockholders' liability to that extent.

Mr. FORT. And in many cases would it not avoid suspension if the directors exercised their power to call for the capital the moment they were in trouble?

Mr. POLE. In a comparatively few cases, but not generally, I would say, Mr. Fort. I explained yesterday—and I think you were not here—that if the entire assessment on capital were collected, it would only mean 10 cents on the dollar to creditors.

Mr. FORT. On the liability?

Mr. POLE. On the liability.

Mr. FORT. But not 10 cents on the dollar on the total amount of the losses?

Mr. POLE. We have the right of assessing that——

Mr. FORT. But you have collected only 40 per cent?

Mr. POLE. Fifty per cent average, I think, in the cases of insolvencies.

Mr. FORT. You take the view, do you not, Mr. Pole—well, I will put it this way: It is the correct statement, is it not, that under modern conditions, this Congress, through its control of the Federal Reserve system, really has the power, if it sees fit, to lay down a banking code, and the States would have to follow it?

Mr. POLE. There is no doubt in my mind that that is so.

Mr. FORT. We could do it by denying them membership in the system and in other ways.

Mr. STEVENSON. I did not catch that last. What was it? You stated there were a number of ways and you stated one of them.

Mr. FORT. A number of ways of forcing compliance by State banks with any code we chose to enact.

Mr. STEVENSON. I am much obliged.

Mr. FORT. Has not one of the troubles been overpayment for the purchase of other banks, in order to create branches—payments in excess of value?

Mr. POLE. I know of no trouble that has arisen from that source.

Mr. FORT. No trouble?

Mr. POLE. No.

Mr. FORT. When a bank does buy a branch, through the purchase of stock of another bank, does the comptroller's office require them to write off everything down to the capital and surplus of the purchased bank?

Mr. POLE. When a national bank purchases a State bank?

Mr. FORT. Yes.

Mr. POLE. We do not have the authority to prevent a bank from purchasing the assets and assuming the liabilities of a State bank, but do approve consolidations, and we are always very careful to see that the State bank is reasonably clean before we permit the consolidation.

Mr. FORT. Suppose they purchased a State bank at $500 a share value for its stock? The actual capital and surplus value of that bank is $250 and the balance is good will. Do you require them to write those assets down to $250 instantly?

Mr. POLE. When they purchase the assets we have nothing to say as to the arrangement between the banks. There is nothing to prevent a bank from paying for good will.

Mr. FORT. But do you allow them to carry that good will in any form whatever?

Mr. POLE. Not in any form.

Mr. FORT. But some States still do?

Mr. POLE. I do not know that. It is not true as to national banks.

Mr. FORT. You talked somewhat concerning diversification of the activities of modern banking, and made a very strong presentation—that it is spread out into trust powers and security affiliates, and all the rest of the powers that modern banks exercise. Does not that very diversification of power, involving, as it does, through trusteeships, the control of billions of assets in addition to the bank's own resources, make centralization of the control of our banks an extremely dangerous thing in this Nation?

Mr. POLE. It does tend, of course, to increase the responsibility of the larger banks, because the trust business is growing tremendously. However, with a system of branch banking, where great banks would grow up in the metropolitan centers, that it tends to decentralize that responsibility to a very large extent.

Mr. FORT. I have only time for about one more question out of the number I wanted to ask.

If we ever authorize the program which you suggest, or any other of the extension of branch banking, as a practical matter can we ever unscramble it if we do not like it afterwards? For instance, if we permit bank a in St. Louis to establish branches throughout its trade area embracing a large part of the State of Missouri, once established, there is no way that that bank, in justice to the stockholders of the bank, can ever be unscrambled?

Mr. POLE. As a practical matter, it would be difficult.

Mr. FORT. So it involves a very major policy which should be settled by the Congress of the United States rather than by the delegation of the authority to someone else? I mean, whether we should have that?

Mr. POLE. I am thoroughly in accord with that.

Mr. FORT. I think, Mr. Chairman, that is all I have time to ask. We have to adjourn in two minutes, if we have the call to-day. I am sorry, as I have some other questions.

The ACTING CHAIRMAN (Mr. Strong in the Chair). You may proceed a little while longer, Mr. Fort.

Mr. FORT. Mr. Pole, in the failures that you spoke of yesterday, I do not recall that you gave the proportion of failures between State and national banks. Is that in any of your exhibits?

Mr. POLE. Not in any of the exhibits, but I made the statement that it was in the ratio of approximately three to one.

Mr. FORT. In favor of which?

Mr. POLE. In favor of the national banks.

Mr. FORT. That is, the national banks were the one or the three?

Mr. POLE. The national banks were the smaller, in ratio, to the number of banks that failed.

Mr. FORT. What is the proportion between national and State banks throughout the country?

Mr. POLE. About 18,000 State banks and 7,500 national banks.

Mr. FORT. Were the failures in the proportion of 3,000 State banks to 1,000 national banks?

Mr. POLE. Yes.

Mr. FORT. So that the failures—the percentage of failures of national banks was as great as the State banks?

Mr. POLE. There were 763 national and 4,877 State bank failures.

Mr. FORT. Now, that is what I am getting at; in other words, the code of banking and the requirements of banking that we have set up for national banks, have proven more efficacious in preventing bank failures than the general codes of the States?

Mr. POLE. By three to one.

Mr. FORT. So that we can start, in any of these proposals regarding branch, group or chain banking, with the knowledge that one thing that should be done for the banking systems of the nation is to tighten up either the supervision or the regulations or the laws under which the State banks operate?

Mr. POLE. That seems to be necessary.

Mr. FORT. Has the matter of the development of branch banking gone far enough so that it is possible for anyone to venture a guess as to whether the loans made by the branches—that is to say, if a given branch has deposits of 10 per cent of the bank's total resources or deposits, is there any way through which, or could it be discovered whether the depositors in that branch get ten per cent of the loans, or not?

Mr. POLE. Are you including the groups of banks?

Mr. FORT. No; branches.

Mr. POLE. Yes; I should say it has gone far enough to show that. I think the probability is that the California banks will make a very satisfactory showing along that line. In a great many instances, we shall find that there is far more money loaned to the community than it furnishes in deposits, in order to stabilize conditions and advance money to farmers, etc.

Mr. FORT. What would be a way to get at that fact statistically?

Mr. POLE. I should think the way would be to call witnesses from either one of those banks, and I think those statistics will be right on the tips of their fingers.

Mr. FORT. That would be very helpful. Increased capital requirements would accomplish one of the purposes you have in mind, through limiting the number of banks, and thereby reducing overhead and increasing the possibility of profit?

Mr. POLE. Yes.

Mr. FORT. You spoke about the necessity of profit.

Mr. POLE. Limiting the number of banks but increasing the number of banking offices would give the banks a wider opportunity for earnings.

Mr. FORT. And, through the reduction of overhead, enable greater profits. Now, what I have in mind is——

Mr. POLE. Per deposits, for instance.

Mr. FORT. If we have now a small community struggling to keep three $25,000 banks going and, by making the minimum capital limit $50,000 or $75,000—the limit of capital in such a community—the one resulting bank would have a far better chance of profit than the three banks now?

Mr. POLE. Undoubtedly.

Mr. FORT. And, therefore, that would, to some extent, solve this problem?

Mr. POLE. I think to some extent. Of course, those communities would be denied what is very helpful, namely, competitive banking facilities, we should not have a monopoly of the banking business even in the small communities.

Mr. FORT. If we are going to suggest the idea of permitting branch banks all through the trade areas of such a city as St. Louis, should not we simultaneously prevent the consolidation of banks in St. Louis, if you are after competition through the branches?

Mr. POLE. That is a big question, Mr. Fort.

Mr. FORT. I appreciate it, but I am trying to think through these problems. If our object in permitting branch banking through the trade area—and I am not hostile to your proposition—if our object is to produce competitive banking in the smaller towns and cities through having the branches of two different St. Louis banks located there, and decentralizing these resources, should we permit two St. Louis banks having branches in those towns to consolidate in St. Louis?

Mr. POLE. I am inclined to think in that case that the natural economic development should be permitted to find the solution to such a problem. I should like, however, to give further consideration to that question.

Mr. FORT. Mr. Pole, there is a great deal of belief—and I do not know whether there is any real foundation for it; it might only be gossip—that if the stock, market deflation had not come just about when it did the New York banks would have been reduced to approximately five or possibly four groups or individual institutions?

Mr. POLE. Through consolidations?

Mr. FORT. Through consolidations, purchases, mergers, and so forth. I am not ordinarily afraid of large organizations, but would you feel that we ought to, in establishing any such system of branch banking through the trade areas, permit the banking of America, by any chance, to get down into so few hands as that might involve?

Mr. POLE. I doubt very much if that condition would prevail for very many years to come.

Mr. FORT. Should we adopt machinery that would permit it ever to prevail?

Mr. POLE. I am not prepared to go into that at this time. That is too large a question to answer without further study.

Mr. FORT. I appreciate your desire not to commit yourself to a proposition until you have reached a conclusion. I would not want to do it, if I were in your place.

In connection with this matter of setting up branch systems, chains, or whatever they may be, through purchase or absorption of smaller banks by larger banks, have you given any thought to the wisdom of requiring that absorption to be by the exchange of stock and not permitting cash purchases?

Mr. POLE. I think that that might be quite desirable.

Mr. FORT. That would remove the incentive to speculative profit to individual insiders of the larger banks?

Mr. POLE. I think so. Of course, the methods now used are frequently by the exchange of stock.

Mr. FORT. They are frequently, but there is a tendency to consider the possibility of speculative profits to be made out of the smaller banks through a sale for cash.

Mr. POLE. That is true.

Mr. FORT. And it would, in the long run, make those purchases be considered solely from their economic worth, if all speculative deals could be eliminated?

Mr. POLE. Yes, sir; if they could be eliminated.

Mr. FORT. In connection with all of this, does the comptroller's office feel that there should be any distinction between the requirements for the investment of savings deposits from those of commercial deposits?

Mr. POLE. I think that the comptroller's office has never expressed itself on that point. However, my own opinion is that inasmuch as banks are privileged to require of a savings depositor as much as 30 or 60 days' notice of withdrawal, occasionally the 60-day clause is invoked, which has the effect of giving the demand depositor a preference over the savings depositor. My feeling has always been that since the banks are privileged to require 60 days' notice on savings, that the investment of such savings should be segregated for their benefit.

Mr. Fort. That is my idea, plus the idea that we have educated the American people, in some States, at least, to the idea that a savings bank is the ultimate of responsibility, and where the word "savings" is used, we should not allow it to be depreciated in the public mind by the possibility of savings depositors losing their thrift money.

Mr. Pole. I think that is a very sound theory.

Mr. Fort. Have you given any thought, in connection with this whole thing, to the major question of security affiliates and their propriety in connection with modern banking?

Mr. Pole. A great deal.

Mr. Fort. Have you reached a final conclusion? If not, I do not want to ask you to express any.

Mr. Pole. I have reached the conclusion that the comptroller's office feels that it should have some supervisory powers over affiliated corporations.

Mr. Fort. I have not reached a final conclusion myself, but I am asking this question simply to develop the idea.

Mr. Pole. It is possible that had we visitorial powers, we might suggest some legislation.

Mr. Fort. Is it customarily the fact that the affiliated corporation does its borrowing with the bank which it has the affiliation?

Mr. Pole. I think that is sometimes true.

Mr. Fort. If it is true that modern banking is increasing in loans on collateral, is there not, in the combination of the security affiliate and the bank—is there not danger in that situation of using the national bank's resources for speculation in stock—through the affiliate?

Mr. Pole. By loaning to the securities company?

Mr. Fort. Yes.

Mr. Pole. Of course, the loaning limit of the national bank would be applicable to the securities company as well as to any other corporation or individual.

Mr. Fort. On collateral?

Mr. Pole. On collateral; yes, sir.

Mr. Fort. And that loaning limit would be proportionate to its capital?

Mr. Pole. The capital of the national bank.

Mr. Fort. The thing that is stirring in my mind—and I do not know that I can make it clear—is this: Is there not danger from the consolidation of the security affiliate and the bank, in the fact that the market value of the security affiliate is directly reflected in the market value of the bank stock, quite a tendancy psychologically, to transform a banker into a man who considers the fluctuations of the security market?

Mr. Pole. Of course, the bare fact that the stock of a securities company is frequently tied up with the stock of a national bank—the connection, of course, is very close, and I think that the public recognizes that condition.

Mr. Fort. I do not want to talk about myself, but I happen to be the president of a security affiliate owned by certain insurance companies of which I am the manager. Is there not a psychological danger of the bank taking off the security affiliate's hands, perhaps, its syndicated obligations that have not gone very fast to the public?

Mr. POLE. It might be possible.

Mr. FORT. I have seen it happen. You have spoken of the 10-to-1 relation between deposits and capital. In the customary acceptation, that is what it is assumed to be. Is there any necessity for the change of that proportion in the case of branch banks—either way—any necessity or propriety?

Mr. POLE. I should regard that as a fair capital requirement.

Mr. FORT. If your theory of branch banking, through the trade area, is adopted, do you feel that the liability of sudden withdrawals of deposits from a bank is greater or less?

Mr. POLE. I should say that they would be infinitely less.

Mr. FORT. Therefore, it might be possible for the bank properly to increase the total of its deposits in reference to its capital?

Mr. POLE. I would not be in favor of that. I think, as a maximum, 10 per cent of the deposit liabilities should be required as capital funds.

Mr. FORT. Capital and surplus?

Mr. POLE. Capital and surplus; yes, sir.

Mr. FORT. I think that is all.

Mr. STEVENSON. May I ask Mr. Fort to ask just this question on that point—whether it is contemplated in the branch banking organizations, such as he refers to, to segregate a certain amount of capital to each branch, and allocate it so that the capital represents——

Mr. FORT. I do not think that would be possible.

Mr. POLE. That would not be my idea.

Mr. STEVENSON. My own State has that provision. It is not in our national act.

Mr. FORT. I want to apologize for taking so much time.

The ACTING CHAIRMAN (Mr. Strong in the chair). The committee will stand adjourned until to-morrow morning at 10.30 o'clock a. m.

(Whereupon, at 12.20 o'clock p. m., the committee adjourned until Thursday, February 27, 1930, at 10.30 o'clock a. m.)

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Thursday, February 27, 1930.

The committee met in the committee room, Capitol Building, at 10.30 o'clock a. m., Hon. Louis T. McFadden (chairman) presiding.

The CHAIRMAN. The committee will come to order.

STATEMENT OF HON. JOHN W. POLE, COMPTROLLER OF THE CURRENCY (Resumed)

The CHAIRMAN. Mr. Pole, you have, I understand, something you want to put into the record in response to questions that were asked of you yesterday.

Mr. POLE. Mr. Brand asked me for the earnings and expenses of each Federal reserve bank and the franchise tax which had been paid to the Government from 1914 to and including 1929.

Mr. STRONG. Is that gross income?

Mr. POLE. Gross income and net income, and the amount of franchise tax which has been paid to the Government.

The CHAIRMAN. Without objection, it will be placed in the record at this point.

(There was no objection, and the statements referred to are here printed as follows:)

Earnings and expenses of Federal reserve banks—Gross and net earnings of Federal reserve banks, and disposition made of net earnings, 1914–1929

[Figures for each Federal reserve bank are given in Table 83]

Year	Earnings		Disposition of net earnings			
	Gross	Net	Dividends paid	Transferred to surplus [1]	Franchise tax paid to U. S. Government [1]	Profit (+) or loss (−) carried forward
1914–15	$2, 173, 252	−$141, 459	$217, 463			−$358, 922
1916	5, 217, 998	2, 750, 998	1, 742, 774			+1, 008, 224
1917	16, 128, 339	9, 579, 607	6, 801, 726	$1, 134, 234	$1, 134, 231	+509, 413
1918	67, 584, 417	52, 716, 310	5, 540, 684	48, 334, 341		−1, 158, 715
1919	102, 380, 583	78, 367, 504	5, 011, 832	70, 651, 778	2, 703, 894	
1920	181, 296, 711	149, 294, 774	5, 654, 018	82, 916, 014	60, 724, 742	
1921	122, 865, 866	82, 087, 225	6, 119, 673	15, 993, 086	59, 974, 430	
1922	50, 498, 699	16, 497, 736	6, 307, 035	−659, 904	10, 850, 605	
1923	50, 708, 566	12, 711, 286	6, 552, 717	2, 545, 513	3, 613, 056	
1924	38, 340, 449	3, 718, 180	6, 682, 496	−3, 077, 962	113, 646	
1925	41, 800, 706	9, 449, 066	6, 915, 958	2, 473, 808	59, 309	
1926	47, 599, 595	16, 611, 745	7, 329, 169	8, 464, 426	818, 150	
1927	43, 024, 484	13, 048, 249	7, 754, 539	5, 044, 119	249, 591	
1928	64, 052, 860	32, 122, 021	8, 458, 463	21, 078, 899	2, 584, 650	
1929	70, 955, 496	36, 402, 740	9, 583, 912	22, 535, 597	4, 283, 231	
Total	904, 628, 021	515, 215, 982	90, 672, 459	277, 433, 949	147, 109, 574	

[1] Amounts paid as franchise tax for 1922 includes additional franchise tax payments for prior years withdrawn from surplus account on December 31, 1922, as follows: For 1920, $270,389; for 1921, $3,129,673.

The CHAIRMAN. Mr. Seiberling, you are next on the list.

Mr. LETTS. I had not concluded, Mr. Chairman.

The CHAIRMAN. I beg your pardon. You had yielded to some one.

Mr. LETTS. Yes; I yielded to Mr. Fort.

The CHAIRMAN. Very well; suppose you continue with your questions.

Mr. LETTS. Mr. Pole, yesterday I asked you something about the Bank of Italy and the Bancitaly Co. Do you regard the system out there as a branch system, or is it a group system?

Mr. POLE. Branch system, sir.

Mr. LETTS. How do you distinguish between the two systems?

Mr. POLE. Between the branch and the group systems?

Mr. LETTS. Yes.

Mr. POLE. The group system is a number of individual, separately incorporated institutions, the stock of which is owned by a holding corporation. A branch bank is a bank with branches located at various points over the State, and the entire resources of the parent bank are carried to any point where there may be a branch. These branches are a part of the bank itself.

Mr. LETTS. To make it clear, the group system is composed of separate identities, but the stock is controlled by one holding company—is that correct?

Mr. POLE. That is correct.

Mr. LETTS. Would you say, then, that the system in California is a pure branch system, or is it a mixture? Is it not true that most of the stock, or a large part of the stock, of the Bank of Italy is held by the Bancitaly Co.?

Mr. POLE. I am not informed as to where the stock of the Bank of Italy is, but I think it may be chiefly held by the Trans-America Corporation.

Mr. LETTS. Assume that some considerable part is held by either; assume that the control is held by the Bancitaly Co. or the Trans-America Co., would you not say that it is in effect a group system just as much as if each of these branches were separate entities?

Mr. POLE. I would say not, because the stock of the Bank of Italy may be held by as many as 16,000 or 20,000 different people and in part by the Trans-America Corporation.

Mr. LETTS. I am assuming that the control is so held.

Mr. POLE. That is the control of a single bank.

Mr. LETTS. I understand, but that single bank involves the consideration of many branches.

Mr. POLE. You must regard that as a single bank.

Mr. LETTS. Yes; that is true.

Mr. POLE. A single corporate entity.

Mr. LETTS. But, as to the practical effect, is it not the same as if the branches of the Bank of Italy were separate entities controlled by the policies of the Bancitaly Co.?

Mr. POLE. It might be said that there are some similar characteristics, but different in that a bank, the stock of which is held as a member of a group, has a separate board of directors; it has a separate set of minutes; it has a separate set of officers and is operated to all intents and purposes as an independent unit, whereas the Bank of Italy is a corporation in San Francisco, which has its various offices scattered over the State, but just as much a part of the organization as the head office itself is.

Mr. LETTS. The group system, to be effective, however, would place the control of the stock of the members in the holding company?

Mr. POLE. Yes; usually.

Mr. LETTS. And that places the power, the directing policy, with that holding company?

Mr. POLE. That would not be admitted by the groups, I think. They claim that each group is an independent unit and acts independently through its local directors.

Mr. LETTS. I can see that there would be a great advantage in that, in having the policies of the members controlled as far as possible by those that are familiar with conditions in the country or community, but that independence could only exist so long as it did not come in conflict with the policy of the holding corporation.

Mr. POLE. It could not exist indefinitely. Of course, the board of directors is elected by the shareholders, and if the corporation held the majority of the shares at the annual meeting, they could elect their own directors, who would elect their officers, and their policies would thereby be enforced.

Mr. LETTS. Assuming that the holding corporation buys up the controlling stock, it would always have the power to control the election of directors, would it not?

Mr. POLE. Yes; undoubtedly.

Mr. LETTS. And in that way they get this power.

Mr. POLE. Yes.

Mr. LETTS. And that power could be political, as I indicated yesterday, or it could be economic, and reach out in a great many ways.

Mr. POLE. And be quite effective.

The CHAIRMAN. Would you yield there, Mr. Letts?

Mr. LETTS. Yes.

The CHAIRMAN. I would like to ask Mr. Pole whether there is not an embodiment in this particular situation that you referred to of unit banking, branch banking, chain banking, and holding company banking?

Mr. POLE. There is in what might be called the trans-America group, Mr. Chairman, but I am speaking of the Bank of Italy as a separate corporation.

The CHAIRMAN. In that you have national banks and you have State banks.

Mr. POLE. In the Trans-America Corporation?

The CHAIRMAN. Yes; and you have international banking as well.

Mr. POLE. I am informed that that is true. Of course, I have no means of knowing officially what the Trans-America Corporation holds in the way of bank stocks.

The CHAIRMAN. In other words, here is an illustration of the different forms of banking which this committee are inquiring into; this is a typical instance where all the elements that enter into our inquiry are embodied in one group.

Mr. POLE. Within the Trans-America Corporation?

The CHAIRMAN. Within the Trans-America Corporation.

Mr. POLE. Yes.

The CHAIRMAN. That is all.

Mr. POLE. That may be correct, but not within the Bank of Italy.

Mr. LETTS. The point I want to make clear is this, that when we see the Bank of Italy and its operations and its policies, we have not seen the whole picture; we still have to go back of the screens and see the Bancitaly Corporation or the Trans-America Co. and understand the policies that control from those sources?

Mr. POLE. There is a picture back of the Bank of Italy, undoubtedly.

Mr. LETTS. You have advocated the extension of the branch-banking system. Would you safeguard that in any way to prevent the policies of the parent bank and the policies of the branches to be controlled by an inner group, somebody back of the screens, in that manner?

Mr. POLE. I would recommend some such authority be given.

Mr. LETTS. And could that be safeguarded in some such way?

Mr. POLE. I think it would be possible to work out a plan.

Mr. LETTS. Is there any way to prevent any stockholder from selling his stock to whom he might wish?

Mr. POLE. There is no way I know of, Mr. Congressman.

Mr. LETTS. Then a holding corporation could acquire it, if the possessor of the stock were willing to sell?

Mr. POLE. Yes.

Mr. LETTS. So at this time at least we have that danger before us. In other words, if there is a danger in group banking, we ought to avoid that danger if we are going to branch banking as a system to be preferred.

Mr. POLE. I have suggested in my report to Congress that there should be given to the comptroller some supervision over these holding corporations.

Mr. LETTS. The holding corporations are not under national charter.

Mr. POLE. That is true.

Mr. LETTS. And so Congress could not give you that supervision.

Mr. POLE. Well, I think that in so far as they held stocks of a national corporation, it might be possible for Congress to do so.

Mr. LETTS. Now; just to follow that thought a little further, I am aware of the tendencies of the times, I think, toward centralization of power, political, economic, and financial. We see it in the control of the power resources of the country; we see it in the distribution of foodstuffs and merchandise; is it not quite conceivable that some very small group could control the policies of the power corporations, such as the American Gas & Electric Co., for instance, and control the policies of the great food distributing companies and other merchandising corporations? Now, while you feel that the system that you advocate, of extending branch banking, would decentralize banking resources, is it not quite apparent that we are centralizing in a very much greater degree the power to control production, to control distribution and price, and are we not putting the consuming public at the mercy of a comparatively small group of persons that may financially be able to do the very thing that I am speaking of by uniting their forces?

Mr. POLE. Through a branch banking system?

Mr. LETTS. The control of the banking policies of the country, the control of power, the control of the distribution of foods and all that sort of thing always cause me to think back to the time of Roosevelt; he became a great hero because he went out with the "big stick" to break up combinations, which he did in the interests of the consuming public; and, now, are we not drifting very rapidly in the other direction, and is it a wholesome indication?

Mr. POLE. I think, under the plans I have suggested to Congress, that the result of the extension of the branch-banking privilege would cause to spring up all over the country large organizations, and what might be termed local centralization.

Mr. LETTS. I understood that to be your recommendation.

Mr. POLE. I think it would be decentralized as far as the largest cities of this country are concerned.

I do thing, also that consideration might be given to the question of consolidations of these large units after they had been formed.

Mr. LETTS. And to interlock their directorates?

Mr. POLE. And to interlock their directorates. I think it is an important phase of it.

Mr. LETTS. I understand your thought in that connection, but as soon as you have decentralized by encouraging the development in St. Louis, Kansas City, Omaha, and other places over the country, would not some one come forward immediately and combine those large units?

Mr. POLE. That is what I have in mind, that perhaps some restrictions should be put on such consolidations. Of course, that is going n now, in the form of group banking.

Mr. LETTS. Now; can you tell me what the fee system is that is employed by holding companies—if I make that clear by the question?

Mr. POLE. What the fee system is?

Mr. LETTS. Yes. I do not know that I have a clear understanding of it, but I think that some such system as this prevails, that they not only realize upon the stock of their subsidiaries which they hold, but they charge their subsidiaries a fee for service and in that way make the holding companies really profit-taking devices and they can be so operated as to permit the subsidiaries to show only moderate earnings and to make the big money flow into the holding company. I understand that is accomplished by some kind of a fee system. They charge for some kind of service, but what that service is I do not know; I do not know whether it is a convenient device or just what it is, but I would like to have some light on that.

Mr. POLE. I know of no such arrangement, Judge.

Mr. LETTS. Mr. Pole, you have advocated diversification. How is that accomplished among the members of a group or in the branches of a banking system? Is it by shifting the paper from one institution to another?

Mr. POLE. I think that is one way it is done among members of a group; the sale of paper by one bank to another.

Mr. LETTS. Every bank would have a reasonable amount of paper of this character and of the other character so as not be loaded up, as in my part of the country, with real/estate loans entirely, or something of that kind; that would make the paper of the bank more diversified and more liquid?

Mr. POLE. Such funds are shifted in a group system. Of course, there is not much doubt but what the management corporate of these groups would see to it that nothing happened to any member of the group, and in that respect it has something of the protection of the branch banking system.

Mr. LETTS. Now; the members of groups could be both national banks and State banks, and be located in various States?

Mr. POLE. Yes.

Mr. LETTS. And subject to different States' laws?

Mr. POLE. Yes.

Mr. LETTS. And the Comptroller of the Currency would have jurisdiction over some, but not over others?

Mr. POLE. Yes.

Mr. LETTS. Is that a wholesome situation?

Mr. POLE. Quite unwholesome.

Mr. LETTS. Can it be corrected?

Mr. POLE. I think it can not except with difficulty. We do enter into arrangements with the superintendents of banks of the States in which members of a group or chain may be situated, and arrange to examine these banks at the same time with the State authorities. Having done that, we compare notes and arrive at our conclusions after consultation, but it is difficult to make these arrangements.

Mr. LETTS. At least it would be possible to shift good paper from a bank in one State to a weak bank in another State, and perhaps from a national bank to a State bank, or the reverse of that, so that you would not have the power to examine fully nor would a State examiner have the necessary power to do that?

Mr. POLE. That is correct. That is particularly true of the chain banks.

Mr. LETTS. And it could be of the groups?

Mr. POLE. It could be of the groups. If we suspect anything of that kind going on, and there are usually evidences of these things, we arrange to take care of such a situation but it is subject to those very difficulties to which you refer.

Mr. LETTS. And that would operate, in a group system or a chain system, to prevent an examiner, whether from your office or from a State department, really to find that a bank is in fact insolvent?

Mr. POLE. It might operate that way. However, in justice to these important groups, I might say that I think the majority of them endeavor to operate their system either under the national law or the State law, and if they are not all under one system, when they acquire them, they usually have it in mind to convert them so as to operate under a single system as far as possible.

Mr. LETTS. In the conduct of banks under the group system, and the chain system, where paper is shifted from one bank to the other, does the bank which transfers the paper indorse it or not?

Mr. POLE. The custom is not to indorse it. However, there is usually a moral responsibility recognized.

Mr. LETTS. But that is not a responsibility that could be enforced in the interest of creditors?

Mr. POLE. There might be such an arrangement.

Mr. LETTS. You would have to show an agreement, either express or implied, in order to do that?

Mr. POLE. Yes.

Mr. LETTS. Or negotiations of some character if they did indorse?

Mr. POLE. Yes.

Mr. LETTS. Then there would be a contingent liability would there not?

Mr. POLE. Yes.

Mr. LETTS. And what relation would that contingent liability have to the matter of rediscounts?

Mr. POLE. That would be limited—an indorsement of that kind would be limited to the capital stock of the bank under section 5202. The bank could not become liable to another bank in excess of its capital.

Mr. LETTS. Now, in these systems, is it recognized that a member bank will have the power to reject undesirable paper that is offered to it, or would the parent organization have power to thrust that paper upon the member bank?

Mr. POLE. It would have no power to thrust paper onto a bank. It would be within the power of the bank to refuse any paper, because it is a separate corporation and acting under a separate board of directors, and the practice to which you refer is not at all a common practice except under perfectly legitimate proceedings.

Mr. LETTS. I am leading to this point: If in a system of that kind, group system or chain system, it was found that some part of the system was going to fail, that some banks were going to fail, they would have the power of strengthening some and making a selection as to which ones would fail and which would survive. In other words, they would be able to determine what communities would suffer the loss and what ones would gain by the manipulation, would they not?

Mr. Pole. Technically that is correct.

Mr. Letts. But you do not apprehend that such a thing would happen?

Mr. Pole. As a matter of practice, I can not conceive of any member of a group failing unless the group as a whole failed.

Mr. Letts. That would be true of chains, but it is not necessarily true of groups, is it?

Mr. Pole. Not necessarily, but it is quite likely that the group could not permit any of its members to fail without endangering them all.

Mr. Letts. In other words, is it not possible that the group plan might be a matter of convenience to the strong and result in disadvantage to the weak, and that applies not only to the banks but to the communities which they serve?

Mr. Pole. Of course, the group system of banking is more or less new. I think it has only been in effect not to exceed two years, and nothing like that has so far developed.

Mr. Letts. That reminds me of something I overlooked. I intended to ask you how long the Bank of Italy has been in building itself up to its present proportions?

Mr. Pole. Oh, 15 years. I reserve the right to correct that.

The Chairman. Will the gentlemen yield?

Mr. Letts. Yes.

The Chairman. Might I suggest that the real coming-out party of the Bank of Italy was at the time of the earthquake disaster in San Francisco, in 1906?

Mr. Letts. At any rate, it showed a very rapid development, did it not?

Mr. Pole. Quite rapid development.

Mr. Letts. In the examination of a branch bank, will the public have detailed information with respect to the condition of the branches, or will they get aggregate results of all the branches?

Mr. Pole. The statement which is issued by the Bank of Italy exhibits the condition of the bank as a whole, without reference to any particular branch.

Mr. Letts. Suppose that the banks out in Iowa were in a system of that kind, a branch bank system; would it be possible for the people to Iowa to know the real condition of the Iowa bank?

Mr. Pole. Of an individual branch?

Mr. Letts. Yes.

Mr. Pole. No, I think there would be no such information available to the public.

Mr. Letts. Do you think there would be no occasion for it?

Mr. Pole. I do not think there would be the slightest occasion for it. The full strength of the bank would be carried to the farthest hamlet in Iowa.

Mr. Letts. In your prepared statement of a few days ago, you in effect made a statement that a supervising bank official is always reluctant to close a bank, and you intimated that your office operated along that line, and that State bank supervisors naturally have the same attitude toward State banks, and further on in your statement you made the statement that oftentimes supervising officials are surprised that the bank has failed.

Mr. POLE. Did I say that?

Mr. LETTS. No, I am mistaken. You said that "The supervising official may in many cases not be surprised that the bank has failed, and the executive officers of the bank and perhaps the local board of directors have been struggling for months or years to keep the bank open, and the actual failure comes as a complete surprise and a shock to the depositors, and in most cases to the shareholders who are not officers or directors of the bank."

That is some of your language; is it not?

Mr. POLE. Yes.

Mr. LETTS. Now, I think that is the stand taken by banking departments, but I have never been able to see the philosophy of it. I have seen cases where banks have been kept open, where the examiner and the members of the board and the officers of the bank all knew that the bank ought to close, and yet up to the very hour of closing such banks took such deposits as were offered by the public. I have seen cases where it has been found that banks ought to be closed, and yet they were reluctant to do it and struggled along, as you indicate here, for months or years to keep them open. Is this fair treatment to the public?

Mr. Pole, I notice that in some part of your formal statement you stated that your principal concern and interest is in the depositor, but does a policy of this kind operate to the advantage of the depositor? I have seen a number of little banks out in Iowa fail after they had paid two and sometimes three assessments of 100 per cent in the endeavor to keep the bank open, and they finally had to lose them.

Mr. POLE. Yes.

Mr. LETTS (continuing). Very much to the disadvantage of the shareholders, and conducted in a manner that kept the public in ignorance of the condition, and the bank would go on accepting the public's money, to the ruin of the depositors, and I have often wondered how a policy of that kind really can be justified. In other words, why should a banking institution, when it is found by the examiner to be weak and insolvent and unable to go ahead, not be closed? Why is not that the fair thing to do, having in mind the interests both of the shareholder and the public?

Mr. POLE. Of course, if a bank is found insolvent by our department it is closed. However, banks fail through many different causes. It may be that the assets of a bank are in the opinion of the board of directors and in the opinion of the examiners good but slow. The directors will frequently come down in a body to Washington and insist that the examiner is too drastic in his classifications, that these loans are collectible, that they understand the people of the community, that they know all about them and that we do not. That means that the bank is probably in a very frozen condition, but not insolvent. There may be an unusual demand for funds, but by reason of the frozen condition of that bank they are unable to realize fast enough to meet the demands and the bank has to close regardless of the fact that it may be considered by us and by its own board of directors as solvent, as a going institution.

Mr. LETTS. Do your examiners inquire into the policies of banks, or only as to the assets of banks?

Mr. POLE. We go into every phase of the bank's operation.

Mr. LETTS. I am unable to speak concerning national banks, but I know the policy prevailed for many years in my State of State institutions hiring someone to run the bank who could not live on the pay that was given him, and where he was encouraged by the directors to take on every kind of a side line that is imaginable, to write insurance, fire and life, to negotiate loans on land with the insurance companies, to connect himself with some automobile agency, to the point where in a comparatively short time he would have personal transactions that he as a bank official must deal with and where his opportunity for personal gain was entirely at variance with the welfare of the institution that he represented.

In other words, say that a man wanted to buy a farm, and he wished to borrow more than the farm could reasonably carry; he would be permitted first to negotiate a loan with some insurance company, and the bank official would get a commission, doing that as an individual, and then perhaps he would tell the borrower that he did not have security enough and that he ought to have more fire insurance, and then he writes the fire-insurance policy and tells the borrower that he had better carry more life insurance, and he writes that policy and gets fees and commissions all along the line. Some customer of the bank may be buying an automobile, and a bank official finds it convenient to accommodate that customer at the bank if he buys the right kind of an automobile, and all that sort of thing.

Now, is there not some way that we can protect the public against that kind of banking?

Mr. POLE. In the course of our examinations, if we find that the outside duties of any officer interfere with the proper conduct of the bank, it is naturally a matter of criticism, and we try to have those matters of criticism corrected.

Mr. LETTS. Would it not be a wholesome thing if we had something in the law, and also in our State laws, that would prevent officials to pass upon loans and deal with the public who may be engaged in any business that would give them an interest which is contrary to the welfare of the bank?

Mr. POLE. I doubt whether that would be a practical thing in a very small bank. In the more important banks, I think that is a usual policy.

Mr. LETTS. Mr. Chairman, that is all I have to ask at this time. Some time later I may wish to examine Mr. Pole a little with respect to his analysis of land depreciation in the agricultural sections of the country, but I do not care to do that at this time, if I may have that opportunity at some later time.

The CHAIRMAN. Yes; the members will be given a chance to do that after we have carried out this routine.

Mr. Steagall is next.

Mr. STEAGALL. Mr. Pole, the picture drawn by Mr. Letts respecting the small realizations going to depositors in insolvent banks hardly represents the situation as applied to the national system, does it?

Mr. POLE. The liquidation of national banks, I think the report of insolvent division shows, is about 65 per cent.

Does that answer your question?

Mr. STEAGALL. Well, that is the average?

Mr. POLE. Oh, yes, that is the average.

Mr. STEAGALL. So I guess that answers that question.

Somewhere I saw—maybe in one of your recent reports—that the liquidations completed of national banks that were insolvent showed a realization of 79 per cent, leaving a loss of 21 per cent on eight hundred and some odd number of banks liquidated during the past 10 years. Is that right?

Mr. POLE. I do not carry that figure in my mind. I will be glad to insert that in the record, Mr. Steagall.

Mr. STEAGALL. What I was attempting to do is to refresh your memory on that point. I may be in error about it, but somewhere in a hurried looking over of your report or something else—unless I am confused in my recollection—I saw those figures, that the losses in the banks where liquidation had been completed were 21 per cent. It impressed me very much. And, if that is true, 65 per cent would not quite do justice to the situation, would it?

Mr. POLE. On that hypothesis, you are correct.

Mr. STEAGALL. Now, since my reference to your report was made—if it was your report—would you adhere definitely to the statement that only 65 per cent had been realized?

Mr. STEVENSON. Here are the exact figures. It is 70 per cent.

The CHAIRMAN. I would suggest at this point that the statement appearing in the comptroller's report on this matter be placed in the record, and without objection that will be done.

(There was no objection, and the excerpt referred to is reproduced below.)

NATIONAL BANK FAILURES

During the past year receivers were appointed for 79 national banks. Of this number, 72 were failures and 7 appointments of receivers were made in order to enforce stock assessments necessary to be paid under contract to succeeding institutions which purchased the assets of the bank, sold under a guarantee from stockholders, paying creditors in full. Of the 72 actual failures, 2 were restored to solvency, leaving 70 to be liquidated by receivers. This compares with 54 actual failures for the previous year, 2 of which were restored to solvency, and the appointment of receivers for 7 banks to enforce stock assessments. The capitalization of the 79 banks for which receivers were appointed during the past year was $6,575,000, compared with the capitalization of the 61 banks for which receivers were appointed during the previous year of $4,135,000.

The total of assets of the 79 banks for which receivers were appointed during the past year, including additional assets acquired after suspension, was $62,612,500. Stock assessments in the amount of $5,440,000 had been levied as of September 30, 1929, by the comptroller against the shareholders of these banks.

The records of the division of insolvent national banks of the comptroller's office do not show as a failure the suspension of the First National Bank of Lagrange, Tex., with assets of $1,213,812.02. The suspension occurred April 30, 1929, and the bank remained in the hands of an examiner in charge until May 20, 1929, on which date it resumed business.

During the past year two banks, each with assets of over $12,000,000, became insolvent, and the receivers were appointed. Immediately arrangements were made with local institutions for the purchase, at par and interest, of such of the assets of the failed banks as were considered acceptable to the purchasing banks. The results were that in the first institution 50 per cent was made immediately available to its creditors, and in the second 60 per cent was immediately paid, thus relieving the local financial situation at once. Since such sales of assets, funds have been accumulated for payment of additional dividends of 25 per cent to the creditors of the first-mentioned bank, who received a first dividend of 50 per cent, and funds have been accumulated for payment of additional dividends of 30 per cent to the creditors of the second-mentioned bank, who received a first dividend of 60 per cent, thus assuring the payment of 75 per cent and 90 per cent, respectively, to the creditors of these banks within 12 months after their failure.

This new method of liquidation has been followed in several smaller failures, and has proved most effective in relieving at once the acute financial situations which follow bank failures.

From the date of the first failure of a national bank in the year 1865 to October 31, 1929, 1,313 national banks were placed in charge of receivers. Of this number, 72 were restored to solvency and permitted to resume business, leaving 1,241 to be administered by receivers. Of these so administered, 426 (26 less than reported at the close of 1928) are still in process of liquidation and 815 have been entirely liquidated and the trusts closed.

The capital of the 1,313 insolvent national banks at the date of failure was $143,670,420. The capital of the 72 banks that were restored to solvency was $12,180,000. The capital of the 426 banks that are still in receiverships is $32,524,500, and the capital of the 815 banks that have been completely liquidated was $98,965,920.

The book value of the assets of the 1,241 administered receiverships, including assets acquired after suspension, aggregated $853,993,969, in addition to which there were levied against shareholders assessments aggregating $92,315,740. Total collections by receivers to September 30, 1929, from these assets, including offsets together with collections from stock assessments, amounted to 56.01 per cent of the total of such assets and stock assessments. The disposition of such collections was as follows:

Collections:	
Collections from assets, including offsets	$485, 442, 981
Collections from stock assessments	44, 614, 817
Total	530, 057, 798
Disposition of collections:	
Dividends paid to creditors on claims proved aggregating $464,838,227	279, 772, 948
Payments to secured and preferred creditors, including offsets allowed and payments for the protection of assets	200, 336, 130
Payment of receivers' salaries, legal and other expenses	33, 259, 329
Cash returned to shareholders	4, 167, 798
Cash balances with the comptroller and receivers	12, 521, 593
Total	530, 057, 798

In addition to this record of distribution there were returned to shareholders, through their duly elected agents, assets of a book value of $16,211,624.

The 426 banks that were as of October 31, 1929, still in charge of receivers and in process of liquidation had assets, including assets acquired subsequent to their failure, aggregating $339,517,557. The capital of these banks was $32,524,500, and there had been levied by the Comptroller of the Currency to September 30, 1929, stock assessments against their shareholders in the amount of $28,924,500. The collections from these assets, including offsets, together with collections from stock assessments, amounted to 52.24 per cent of such assets and stock assessments as shown by receivers' last quarterly reports under date of September 30, 1929. The disposition of such collections was as follows:

Collections:	
Collections from assets, including offsets	$178, 488, 168
Collections from stock assessments	13, 999, 442
Total	192, 487, 610
Disposition of collections:	
Dividends paid to creditors on claims proved aggregating $189,388,731	86, 493, 085
Payments to secured and preferred creditors, including offsets allowed and payments for the protection of assets	82, 323, 457
Payment of receivers' salaries, legal and other expenses	10, 799, 475
Cash returned to shareholders	350, 000
Cash balances with comptroller and receivers	12, 521, 593
Total	192, 487, 610

From the date of the first failure of a national bank in 1865 to the close of October 31, 1929, 887 receiverships were liquidated and the trusts closed, or the affairs thereof restored to solvency. Included in this number are the 72 banks restored to solvency (2 in 1929) and 103 that were liquidated during the year 1929. These 815 banks had assets, including assets acquired subsequent to their failure, aggregating $514,476,412. The capital of these 815 banks was $98,965,920 and there were levied by the Comptroller of the Currency stock assessments against their shareholders in the amount of $63,391,240. The collections from these assets including offsets, together with collections from stock assessments as shown by receivers' final reports amounted to 58.41 per cent of such assets and stock assessments. The disposition of such collections was as follows:

Collections:	
Collections from assets, including offsets	$306, 954, 813
Collections from stock assessments	30, 615, 375
Total	337, 570, 188
Disposition of collections:	
Dividends paid to creditors on claims proved aggregating $275,449,496	193, 279, 863
Payments to secured and preferred creditors, including offsets allowed and payments for the protection of assets	118, 012, 673
Payment of receivers' salaries, legal and other expense	22, 459, 854
Cash returned to shareholders	3, 817, 798
Total	337, 570, 188

The average percentage of dividends paid on claims proved against the 815 receiverships that have been finally closed, not including the 72 restored to solvency, which paid creditors 100 per cent, was 70.19 per cent. If offsets, loans paid, and other disbursements were included in this calculation, the disbursements to creditors would show an average of 79.13 per cent.

Expenses incident to the administration of the 815 closed trusts, such as receivers' salaries, legal and other expenses, amounted to $22,459,854, or 3.88 per cent of the book value of the assets and stock assessments administered, or 6.65 per cent of collections from assets and stock assessments. The assessments against shareholders averaged 64.05 per cent of their holdings and the total collections from such assessments as were levied were 48.29 per cent of the amount assessed. The outstanding circulation of these closed receiverships was $38,060,477, secured by United States bonds on deposit with the Treasurer of the United States of the par value of $40,506,920.

During the year ended October 31, 1929, 103 receiverships were closed in addition to which 2 banks were restored to solvency. The total assets of the 103 receiverships, including assets acquired subsequent to suspension, aggregated $44,924,790. The capital of these banks was $5,225,000, and the total assessments against shareholders levied by the Comptroller of the Currency aggregated $5,225,000. The collections from these assets, including offsets, together with collections from stock assessments as shown by receivers' final reports, amounted to 54.72 per cent of such assets and stock assessments. The disposition of such collections was as follows:

Collections:	
Collections from assets, including offsets	$24, 911, 473
Collections from stock assessments	2, 532, 490
Total	27, 443, 963
Disposition of collections:	
Dividends paid to creditors on claims proved aggregating $25,714,590	12, 653, 830
Payments to secured and preferred creditors, including offsets allowed and payments for the protection of assets	12, 561, 313
Payment of receivers' salaries, legal and other expenses	2, 224, 420
Cash returned to shareholders	4, 400
Total	27, 443, 963

The average percentage of dividends paid on claims proved against the 103 receiverships that were finally closed in the year ending October 31, 1929, not including the 2 banks restored to solvency which paid creditors 100 per cent, was 49.2 per cent. If offsets, loans paid, and other disbursements were included in this calculation, the payment to creditors would show an average of 65.86 per cent. Expenses incident to the administration of these 103 trusts, such as receivers' salaries, legal, and other expenses, amounted to $2,224,420, or 4.43 per cent of the book value of the assets and stock assessments administered, or 8.1 per cent of collections from assets and stock assessments. The assessments against shareholders averaged 100 per cent of their holdings and the total collections from such assessments as were levied were 48.46 per cent of the amount assessed.

The financial operations of the division of insolvent national banks from September 30, 1928, to September 30, 1929, were as follows:

Collections:	
Cash on hand Sept. 30, 1928	$13, 158, 682
Collections during the year, including offsets	46, 802, 886
Total	59, 961, 568
Disposition of collections:	
Dividends paid	28, 939, 840
Secured and preferred claims paid	15, 863, 280
Expenses paid	2, 632, 455
Returned to shareholders in cash	4, 400
Cash on hand	12, 521, 593
Total	59, 961, 568

Mr. POLE. May I answer categorically? [Reading:]

If offsets, loans paid, and other disbursements were included in this calculation, the payment to creditors would show an average of 65.86 per cent.

Mr. STEVENSON. I read it [reading]:

If offsets, loans paid, and other disbursements were included in this calculation the disbursements to creditors would show an average of 79.13 per cent.

Mr. POLE. What are you reading from?

Mr. STEAGALL. That is in the report of the Comptroller of the Currency for December, 1929. That is where I got my figures. Since seeing this, I remember definitely where it was.

Mr. POLE. What page is that?

Mr. STEAGALL. On page 24, in the third paragraph from the bottom of the page.

Mr. STEVENSON. That includes offsets, and the other excludes them; that is the only difference. The actual payment in cash was 65 per cent.

Mr. POLE. I will be glad to insert the facts in the record. I think we may assume, for the purposes of your inquiry, however, that it is between 65 and 70 per cent.

Mr. STEAGALL. Mr. Pole, I would not for a moment attempt to put my judgment about technical matters of this kind against yours, but I think I was justified in the conclusion I reached from the statement in this report. I suggest that you read it again.

Mr. WINGO. If the gentleman will yield, may I read this statement and possibly it will show where Mr. Steagall got his idea?

On page 24 of the Report of the Comptroller of the Currency of December 2, 1929, about the middle of the page, under that tabulation of figures, there is this statement:

If offsets, loans paid, and other disbursements were included in this calculation, the disbursements to creditors would show an average of 79.13 per cent.

Possibly that is what the gentleman from Alabama has in mind. It illustrates the old story that you can take figures to prove anything.

Mr. STEAGALL. That statement includes everything, and means that the creditors got 79.13 per cent.

Mr. POLE. In 815 banks which have been liquidated, 70.19 per cent was paid to general creditors. If preferred and secured claims are included the average would be 79.13 per cent.

Mr. STEAGALL. That is right.

Mr. POLE. And the other figure which I read has reference to the more recent closing of receiverships during 1929.

Mr. STEAGALL. I am speaking of the 815 banks completely liquidated out of 1,300 and some number?

Mr. POLE. Roughly, yes.

Mr. STEAGALL. The fact is, Mr. Pole, that the best standard or guide that could be found on that question, that is to say, on the question of the amounts realized to creditors of national banks that are insolvent and liquidated, is the actual experience gained in liquidations and so the record shows that national banks, insolvent and liquidated completely, have paid 79.13 per cent.

Mr. POLE. Yes, sir.

Mr. STEAGALL. According to your report.

Mr. POLE. Yes.

Mr. STEAGALL. Of course, that report was carefully compiled?

Mr. POLE. Yes.

Mr. STEAGALL. And is better than off-hand recollection?

Mr. POLE. Yes; of course, that includes offsets, the debtor's own deposit as against his own loan, loans paid, and so forth. Otherwise it would be 70 per cent.

Mr. WINGO. May I interrupt and point out that that statement also includes the payment of receivers' salaries and legal and other expenses of $22,459,854, does it not?

Mr. POLE. That is correct.

Mr. WINGO. Of course, it is fair to say upon the other side that it included a stock assessment of $30,615,375, less cash returned to shareholders of $3,817,798, which I suppose represented the amount of the assessment which was in excess of the actual requirements.

Mr. POLE. That is right.

Mr. STEVENSON. But the creditors themselves got 79.13 per cent. The man who owed $100 and had on deposit $1,000 got the offset; he received $900.

Mr. POLE. In the course of time. In some cases it covered a period of years.

Mr. STEAGALL. In that calculation, the expense of liquidation amounted to 6 per cent plus, did it not?

Mr. POLE. Six per cent plus.

Mr. STEAGALL. So that my statement that the losses were only 21 per cent was correct.

Mr. STEVENSON. Will the gentleman yield?

Mr. STEAGALL. Yes.

Mr. STEVENSON. You mean the loss to the depositors, do you not?

Mr. STEAGALL. Yes. I am not talking about the stockholders. We are talking about those who dealt with these stockholders; and we are not worrying about them.

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I want to ask you, first, in order to refresh my own recollection, how far back these liquidations go?

Mr. POLE. That is from the beginning of time.

Mr. STEAGALL. That is my understanding.

Mr. STEVENSON. Since 1865.

Mr. STEAGALL. That is what I understood to be the fact.

Now, how much was the total loss during that time to depositors in the banks completely liquidated?

Mr. POLE. May I supply those figures later?

Mr. STEAGALL. Yes.

(The figures referred to are as follows:)

Dividends paid to creditors on claims proved, aggregating $275,449,496, amounted to $193,279,863, showing a loss to general creditors of $82,169,633.

Mr. STEAGALL. Mr. Pole, I dislike to repeat matters that have been discussed here extensively day before yesterday when I could not be present. I had to attend a meeting of the hospitalization board. I will try to avoid things that I feel sure have been covered and will read the record on those things in the hearings later; but I want to ask you this: There has been an increase in the number of insolvent banks during recent years, has there not?

Mr. POLE. Quite a marked increase. I can give you the exact figures, if you would like to have them.

Mr. STEAGALL. If they have not been inserted in the record, I should very much like to have them. I want to avoid repetition; but if they have not been put in, I would like to have them.

Mr. POLE. They are in the exhibit.

Mr. STEAGALL. If they are, it is not necessary to encumber the record, and I do not desire to do that; but there has been a large increase.

How long has this increase existed or how long since it began?

Mr. POLE. There appeared to be rather a definite beginning, which was about 1920, I should say.

Mr. STEAGALL. Let me ask you this: Do you mean to say there was an increase in 1920 as compared to the entire period of national banking experience prior to that time?

Mr. POLE. Commencing about 1920 to 1921.

Mr. STEAGALL. Yes, sir. How did the percentage of the failures run during the years after the inauguration of the Federal reserve system down to this period of 1920?

Mr. POLE. Before 1920—much less pronounced than since 1920.

Mr. STEAGALL. I do not believe I made myself quite clear in my question. What I was seeking to develop in the question was this: Whether or not there was an immediate increase of insolvencies following the inauguration of the Federal reserve system or was there a decrease for the first six years prior to this period of 1920, in which you say the increase began.

Mr. POLE. I would say there was a normal number of failures up to 1920.

Mr. STEAGALL. And what you mean when you say a normal number is that the national bank system moved along about as usual?

Mr. POLE. Yes, sir.

Mr. STEAGALL. In that regard?

Mr. Pole. Yes, sir. I shall be glad to furnish detached list of failures.

Number of bank failures each year ended June 30, 1904–1920, inclusive

	State and private	National	Total		State and private	National	Total
1904	102	20	122	1914	96	21	117
1905	57	22	79	1915	110	14	124
1906	37	8	45	1916	41	13	54
1907	34	7	41	1917	35	7	42
1908	132	24	156	1918	25	2	27
1909	60	9	69	1919	42	1	43
1910	28	6	34	1920	44	5	49
1911	56	3	59				
1912	55	8	63	Total	994	176	1,170
1913	40	6	46				

Mr. Steagall. One of the prime purposes and thoughts back of the enactments of the Federal reserve law was to furnish a reservoir and supply of credit that would make bank failures less frequent, was it not?

Mr. Pole. I do not think that was one of the purposes of the Federal reserve system to make bank failures less frequent. It was to give banks greater latitude in their loaning power and greater ability to serve the needs of the country. As to bank failures, I do not think it contemplated that the Federal reserve banks would undertake to keep the banks from becoming insolvent.

Mr. Steagall. No; I do not mean that it was the business of the Federal reserve system to keep banks from becoming insolvent, but it was my understanding always that the philosophy underlying the Federal reserve act was that we would have a credit reservoir to which resort could be had in time of emergency and that one of the benefits to follow would be that a bank in distress would have somewhere to go to get relief and tide over the period of difficulty?

Mr. Pole. It did serve such a purpose.

Mr. Steagall. Now, I understood you to say it did not; that following the enactment of the Federal reserve law, things moved along as they had and there had been no effect on the national bank system in that regard.

Mr. Pole. If we had not had the Federal reserve system I do not know what would have happened. There is no doubt the Federal reserve system did render great assistance to banks which, of necessity, would have had to go to their correspondents and there is a question whether they could have been accommodated. The Federal reserve funds were used quite liberally, as I am quite sure you know.

Mr. Steagall. That is the thought I had. I have some limited information, I think, regarding the benefits extended by the Federal reserve system in its early operations—cases of emergency, which, as I have thought must have saved banks from failures in many instances which otherwise would have gone to the wall.

Mr. Pole. The Federal reserve banks of the various districts put many banks in funds which enabled them to stay open, whereas, otherwise, they might have closed.

Mr. Steagall. It has been one of my reasons for my devotion to the Federal reserve law, that it has granted relief in emergencies, so often, and, I thought, in a very helpful way. Such was true for a while, I am sure.

Well, that brings us down to this point, that the fact that we had this increase in failures or insolvencies certainly is not due to defects inherent in the Federal reserve system itself?

Mr. POLE. By no means.

Mr. STEAGALL. It has grown out of conditions, whatever they may be, that have brought about these insolvencies, notwithstanding the relief facilities afforded by the Federal reserve banks in time of emergencies.

Mr. POLE. That is true.

Mr. GOLDER. Will you bring out, if you please, the relationship of the failures of the number of banks, other than member banks, compared with State banks, during the same period?

Mr. STEAGALL. That is some information we ought to have in this record. I suppose, in some of these reports somewhere it is to be found. I would imagine that had been developed before now.

The CHAIRMAN. Will you yield to me?

Mr. STEAGALL. Yes, sir.

The CHAIRMAN. Can you furnish that information, Mr. Comptroller?

Mr. POLE. Yes.

The CHAIRMAN. Then, without objection, it will be put in the record at this point.

Number and deposits of all banks in United States[1] *at the end of June, 1920, and number and deposits of banks that suspended from January 1, 1921, to December 31, 1929*

	Total all banks	Member banks		Nonmember banks
		National	State	
NUMBER OF BANKS				
Total number of banks in operation at the end of June, 1920	30, 079	8, 025	1, 374	20, 680
Number of banks that suspended from Jan. 1, 1921, to Dec. 31, 1929	5, 640	763	231	4, 646
Ratio of banks that suspended during 1921-1929 to total banks in operation in June, 1920 (per cent)	18. 8	9. 5	16. 8	22. 5
DEPOSITS				
Total deposits of all banks in operation at the end of June, 1920	$41, 445, 376, 000	$17, 148, 231, 000	$8, 224, 105, 000	$16, 073, 040, 000
Deposits of banks that suspended from Jan. 1, 1921, to Dec. 31, 1929	1, 721, 402, 000	355, 780, 000	138, 450, 000	1, 227, 172, 000
Ratio of deposits of banks that suspended during 1921-1929 to deposits of all banks in operation in June, 1920 (per cent)	4. 2	2. 1	1. 7	7. 6

[1] Exclusive of Alaska and island possessions (60 banks).

Mr. GOLDER. Mr. Steagall was bringing out the fact that the Federal reserve was in nowise responsible for the increase in failures and I think if we can show an equal number of failures outside of the——

Mr. STEAGALL. I think it properly comes in line with the suggestion you made.

Mr. WINGO. You mean other than member banks?

Mr. GOLDER. Other than those connected with the Federal reserve system.

Mr. STEAGALL. As I remember your testimony yesterday—and I will ask you to repeat it because there is no harm in repeating that—what is the proportion of failures of national banks, in the national system, as compared with the State banks?

Mr. POLE. During the period——

Mr. STEAGALL. Take the last 10-year period, since this failure situation has been so accentuated.

Mr. POLE. There were 750 national banks against 4,700 State banks. The ratio, in proportion to number of banks, was approximately three to one.

Mr. STEAGALL. Now, do you mean to say that the proportion—that the failures would be about one national bank out of seven State banks that failed?

Mr. POLE. Between six and seven. If you do not consider the fact that there are twice as many or nearly three times as many State banks as national banks——

Mr. STEAGALL. I am leaving that out of the first question. There is about one national bank to six or seven State banks to fail?

Mr. POLE. Yes; about one to six or seven.

Mr. STEAGALL. What proportion of the national banks have failed as compared to the proportion of State banks that have failed; in other words, what percentage of the national banks have failed in this 10-year period or 9 years or whatever it is?

Mr. POLE. Approximately 9 per cent over the 9-year period ending 1929.

Mr. STEAGALL. Here is what I am talking about: You have given me the percentage of the national banks that have failed as 9 per cent. That is what I want. What per cent of the State banks have failed during that same period?

Mr. BUSBY. I call your attention to page 4 of your first statement, in which you have that all figured out. The answer is 71 per cent.

Mr. STEAGALL. 71 per cent? No; those figures are not right.

Mr. BUSBY. Seventy-one per cent that failed were State banks.

Mr. WINGO. That is not the question he asked.

Mr. STEAGALL. What I want to know is what per cent of the State banks have failed?

Mr. STEVENSON. That is a very important item.

Mr. POLE. Twenty-two per cent of all State banks in existence June 30, 1920.

Mr. STEAGALL. About twice the percentage of State banks have failed as compared with national banks?

Mr. GOLDSBOROUGH. Will you find out at this point, what percentage of the banking resources failed?

Mr. STEAGALL. I am coming to that. What was the percentage of the resources involved in the national banks that failed as compared with the resources of the State banks that failed? If you can put the figures in the record—I think it would be more direct to ask, What were the resources of the national banks that failed, and what were the resources of the State banks that failed.

Mr. POLE. Your former question—there were 9 per cent of the national banks that failed over the period in question and 22 per cent of the State banks. That is in answer to your former question.

Mr. STEAGALL. My next question is, What were the resources of the national banks to fail first, and next, What were the resources of the State banks that failed?

Mr. POLE. I shall have to furnish that.

Mr. STEAGALL. Then, when you furnish the amount in dollars and cents of resources of the national banks that failed and the State banks that failed, in that connection give also the amount of resources of the entire national system and the entire State system.

Mr. WINGO. And also reduced to a percentage basis in both instances.

Mr. POLE. We have that information but I do not happen to carry it in my head.

Mr. GOLDER. I think on page 28 you will find the requested information in this report.

Mr. STEAGALL. Just let Mr. POLE furnish that information.

Mr. POLE. I will be glad to furnish it.

Mr. STEAGALL. Mr. Pole, we have had, this year, I believe you said, 155 failures.

Mr. POLE. We have had 155 up to February 21. There were three additional national-bank failures this week and several additional State banks.

Mr. STEAGALL. At that rate, how many bank failures will we have this year?

Mr. POLE. Well, that would be about 100 a month, would it not?

Mr. WINGO. I figure, if you take the first seven weeks of the year and continue at that ratio, it would be 1,140 for the year.

Mr. POLE. Yes.

Mr. STEAGALL. What proportion of these failures down to the 21st, I believe you said it was, are national banks? In other words, how many national banks have failed this year up to that time?

Mr. POLE. Twenty-one.

Mr. STEAGALL. How many of these 155 were banks of less than $100,000 capital? Have you those figures?

Mr. POLE. One hundred and thirty of them.

Mr. STEAGALL. We had two in my State of more than $100,000 this year.

Mr. POLE. I will be glad to furnish that information.

Classification of banks suspended during the period January 1 to February 21, 1930, according to capital stock

Number of banks with capital stock of—	Total, all banks	National banks	State bank members	Non-member banks
Less than $100,000	130	14	3	113
$100,000	8	4		4
Over $100,000	15	4	1	10
Not available	[1] 2			[1] 2
Total	155	22	4	129

[1] Private banks.

Mr. WINGO. If the gentleman will yield——

Mr. STEAGALL. Yes.

Mr. WINGO. The fact remains that the great bulk of failures this year, like they have been for the last nine years—for the immediate nine years preceding—are mostly small country banks?

Mr. POLE. Almost entirely small banks.

Mr. WINGO. That is the striking fact that I think would interest us, that the largest part of the failures are among what you class as country banks.

Mr. POLE. Yes.

Mr. WINGO. And very few large banks failed?

Mr. POLE. Very few.

Mr. STEAGALL. I want to ask you where these failures have occurred, speaking geographically?

Mr. POLE. This year, you are speaking of?

Mr. STEAGALL. We are discussing now the whole thing—this nine-year period we are talking about.

Mr. POLE. Taking the total number of banks on June 30, 1920, as a basis, in the State of Vermont, there were no failures.

In the District of Columbia there were no failures.

In the State of New Hampshire there was one failure.

In the State of New Jersey there were three failures.

In the State of Massachusetts there were six failures, or 1.3 per cent.

In the State of Connecticut there were three failures, or 1.4 per cent.

In the State of Maine there were three failures, or 1.9 per cent.

In the State of New York there were 26 failures, or 2.5 per cent.

In the State of Pennsylvania there were 40 failures, or 2.6 per cent.

In the State of Maryland there were 11 failures, or 3.9 per cent.

In the State of California there were 31 failures, or 4.3 per cent.

In the State of Delaware there were two failures, or 4.3 per cent.

In the State of Ohio there were 55 failures, or 4.8 per cent.

Of all the banks which were in existence in 1920 in the State of Rhode Island three banks failed, or 6.3 per cent.

In the State of Kentucky there were 43 failures, or 7.4 per cent.

In the State of Wisconsin there were 75 failures, or 7.7 per cent.

In the State of Illinois there were 138 failures, or 8.6 per cent.

In the State of Alabama there were 32 failures, or 9.1 per cent.

In the State of Nevada there were 3 failures, or 9.1 per cent.

In the State of Virginia there were 45 failures, or 9.2 per cent.

In the State of Michigan there were 66 failures, or 9.4 per cent.

In the State of Mississippi there were 34 failures, or 9.6 per cent.

In the State of West Virginia there were 34 failures, or 10 per cent.

This is of all banks in existence, State and national, June 30, 1920. This number has failed:

In the State of Indiana there were 115 failures, or 10.9 per cent.

In the State of Tennessee there were 66 failures, or 12.1 per cent.

In the State of Louisiana there were 34 failures, or 12.7 per cent.

In the State of Utah there were 18 failures, or 13.5 per cent.

In the State of Washington there were 56 failures, or 14.2 per cent.

In the State of Oregon there were 43 failures, or 15.5 per cent.

In the State of Kansas there were 223 failures, or 16.5 per cent.

In the State of Missouri there were 296 failures, or 17.9 per cent.

In the State of Texas there were 299 failures, or 18.9 per cent.

In the State of Arkansas there were 95 failures, or 19.5 per cent.

In the State of North Carolina there were 125 failures, or 20.1 per cent.

In the State of Colorado there were 89 failures, or 22.1 per cent.

In the State of Minnesota there were 411 failures, or 27 per cent.

In the State of Oklahoma there were 266 failures, or 27.7 per cent.

In the State of Nebraska there were 339 failures, or 29.3 per cent.

In the State of Iowa there were 528 failures, or 29.9 per cent.

In the State of Arizona there were 27 failures, or 31 per cent.

In the State of Idaho there were 72 failures, or 32.4 per cent.

In the State of Wyoming there were 60 failures, or 30.5 per cent.

In the State of Georgia there were 319 failures, or 43.2 per cent.

In the State of Montana there were 203 failures, or 47.1 per cent.

In the State of North Dakota there were 429 failures, or 47.8 per cent.

In the State of South Carolina there were 227 failures, or 49.2 per cent.

In the State of New Mexico there were 62 failures, or 50 per cent.

In the State of South Dakota there were 394 failures, or 56.8 per cent.

In the State of Florida there were 190 failures, or 71.7 per cent, of all the banks which were in existence June 30, 1920 to 1929, inclusive.

Mr. Steagall. I do not suppose you are prepared, at the moment, to give the figures on the last year and this year, geographically, and if you will put them in your statement, I will be glad to have them.

Mr. Pole. These figures for the last year?

Mr. Steagall. For the last year; yes, sir.

Mr. Pole. I can give you them now.

Mr. Steagall. Very well, sir. I did not suppose you had them on hand.

Mr. Pole. Six hundred and forty banks failed in 1929. By Federal reserve districts, none of them failed in the first district; 6 banks failed in district No. 2, 3 banks failed in district No. 3, 14 banks failed in district No. 4, 59 banks failed in district No. 5, 117 banks failed in district No. 6, 93 banks failed in district No. 7, 44 banks failed in district No. 8, 84 banks failed in district No. 9, 193 banks failed in No. 10, 11 banks failed in No. 11, 16 banks failed in the twelfth Federal reserve district, making a total of 640 banks.

Mr. Wingo. May I interrupt the gentleman right there?

Mr. Steagall. Certainly.

Mr. Wingo. In connection with these statistics, at this point, I want the record to carry a citation to your exhibits E and F. Exhibit E shows that the bank suspensions during the 8-year period, 1921 to 1928, inclusive—that 88.6 per cent of those failures or suspensions were in banks of $100,000 and less capitalization, and as to sizes of towns in that same period, 87.7 per cent of those failures occurred in towns of 5,000 and less in population; in other words, 88 per cent plus were banks of $100,000 and less capitalization, and 87.7 per cent were in towns of 5,000 and less population.

In other words, the great bulk of failures were small banks in small towns.

Mr. Pole. That is correct.

Mr. Golder. I should like to ask if the principal causes of most of these failures were loans—mortgages on land values?

Mr. STEAGALL. The gentleman asks, or desires me to ask, if the principal cause of the failures was loans on land values. You spoke of frozen assets and, of course, we understand to some extent, at least, that is covered by loans on real estate or tied up in real estate.

Mr. POLE. I referred to frozen assets in the particular illustration which I drew at that time.

Mr. STEAGALL. Yes, sir.

Mr. POLE. I would not say that the causes of the bank failures are in large part, or in an important part, on account of real estate loans or loans based on real estate. This is not the controlling factor.

Mr. STEAGALL. Are you familiar—I am sure you are—with the legislation passed two years ago, or about that time—I will not give the date—in which we permitted national banks to increase the amounts of their loans on real estate?

Mr. POLE. That was under the McFadden bill?

Mr. STEAGALL. Yes. Do you remember the increases permitted by that act? The figures escape my mind. Some of us favored it and some did not, but finally the legislation went through. I do not mean to play the role of "I told you so," but I was one of those who did not think it was the proper thing to do.

Mr. POLE. There was no change in the law with respect to the appraisals of real estate or its loaning value. There was a difference in the length of time for which a loan on real estate might run and the aggregate amount of loans on real estate which might be made with respect to the savings deposits, the amendment being to allow a bank to loan up to 50 per cent, whereas formerly it was 33⅓ per cent.

Mr. STEAGALL. I though the former amount was 25 per cent, but I am sure you remember the figure better than I do.

Mr. POLE. Yes.

Mr. STEAGALL. So evidently we did not help the situation with that legislation. Mr. Pole, as I understand you, you regard the independent unit banking system, as compared to branch banking, chain banking, or group banking, as the best banking system for our country in so far as the system can function efficiently and meet the demand for banking facilities.

Generally speaking, you think that is the banking system to be desired? If I understand your position, you do not think that the system, as we have it, has worked successfully and you think there should be some changes?

Mr. POLE. That is my recommendation to Congress.

Mr. STEAGALL. Yes; but fundamentally you regard the unit system as the best system, do you not?

Mr. POLE. Not fundamentally. I have a sentimental attachment for it.

Mr. STEAGALL. But so far as it is practicable, that is the system you prefer? In other words, we want to adhere to it and get away from it only so far as developments make it necessary to do so.

Mr. POLE. The reason I want to get away from the present rural banking system is that it does not offer protection to the rural communities.

Mr. STEAGALL. But you would not want to get away from it any further than it is necessary to do so in your judgment, in order to take care of the situation?

Mr. POLE. If it properly took care of the situation I would be in favor of it.

Mr. STEAGALL. Putting it bluntly, if I understand your view—and I am not finding fault with you for that view—but you have certain reasons for your attitude. Whether those reasons are conclusive I do not know, but there are some reasons for the view that you have that the present unit banking system, in the smaller communities, as manifested in our smaller banks, is defective, to say the least, from some cause. I agree with you as to that, and it is to remedy that that you would depart from the system, and, as I understand you, only so far as necessary.

Mr. POLE. That is the basis of my recommendation.

Mr. STEAGALL. That being the case, would not this be the logical course to follow in our legislation—the unit system being the preferable plan—as you suggest, certainly for sentimental reasons among others, it is the system to which we have been accustomed and it is the system we have been taught to believe in and I think everybody agrees, is preferable if it can be kept sound and practicable and made to meet the requirements of the country—but that being true, I agree with you in that there are defects in the present system, but the unit system being preferable, should not we follow this course in our legislation—that of trying, if we can, to perfect the unit system or at least remove its defects and wherever it can be done to cure inefficiencies as far as possible and abandon the system only to the extent that we find ourselves unable to save it and make it operate successfully?

Mr. POLE. I would not be able to answer that question, Mr. Steagall, unless I knew what plan you had in mind for perfecting it.

Mr. STEAGALL. I am not speaking about plans. I do not know that I have any. I have some thought about it, but I should hesitate to say that I have a plan to remedy a situation which is regarded as so difficult. It might be presumptuous. I have some suggestions in that connection which I think might be helpful. I would not say I have a plan that would save it, but if we could eliminate the defects and restore it I should think it the thing to do. Evidently the unit system of banking worked for many years all right, but somehow recent developments have brought about difficulties that did not exist for a long time, certainly difficulties out of proportion to the difficulties encountered for a long period—if we can find these defects and remedy them and get them out of the way, I think we might say that we would all agree that is the preferable thing to do.

Mr. POLE. If we could make the unit system effective——

Mr. STEAGALL. That is what I had in mind.

Mr. POLE. I think there would be no reason for any change.

Mr. STEAGALL. Let me ask you this: How do you account for the increase in our difficulties in our unit banking system during this recent period of years, since 1920, about which we have talked?

Mr. POLE. One of the important basic reasons is the fact that the small country bank is not able to earn sufficient to take care of its normal losses, its increasing expenses, and its diminishing business.

Mr. STEAGALL. It is a difficulty, however, that seems to have manifested itself only during these recent years?

Mr. POLE. It has been accentuated since the war.

Mr. STEAGALL. The system worked all right down to the period about which you were talking?

Mr. POLE. I would not say so. I would not say that any system is working all right with the bank failures in any circumstances running into the hundreds. I think the difficulties of earning a proper return on invested banking capital in small communities have greatly increased since the war, but for a number of years before the war, there was a tendency toward diminishing opportunities for the small bank to make earnings. The cost of operations was getting heavier and heavier as time went on and net earnings were decreasing, so that the trend was not in the right direction. If a bank can not earn a fair return on its capital investment, that bank is eventually going to fail.

Mr. STEAGALL. Of course the system which has that inherent difficulty in it will bring trouble.

Mr. POLE. Undoubtedly.

Mr. STEAGALL. Now, you have answered my own thought, in my own language. Unquestionably, generally speaking, the difficulty which has brought about the increase in failures, grows out of the fact that banks have been unable to make the proper earnings—these banks that have failed.

Mr. POLE. Sufficient to pay its increasing operating expenses and its losses.

Mr. STEAGALL. What has brought about that changed condition? How do you account for their inability to make sufficient earnings?

Mr. POLE. Well, there are a great many things.

Mr. STEAGALL. Let us talk about them. That is what I wanted you to discuss.

Mr. POLE. In the first place, rates of interest in country banks have not increased.

Mr. STEAGALL. You mean by that, of course, the interest received by the banks on loans?

Mr. POLE. The interest received by the banks on loans have not increased because, in small country banks, they have, for years, been about as high as they could very well be.

The expenses of operating banks have been materially—very materially—increased. The opportunities of the country banks have diminished in that the small town has become less of a factor by reason of the improvement in roads and the quick transportation which takes people to the cities to do their business and their banking, frequently, instead of doing it in the small town.

Heretofore, in years gone by, a community has been more or less independent, with its locally operated utilities, its light plants, ice plants, and wagon factories, and so forth, all of which have been removed and those things have gone to the cities and now are controlled by large corporations and those opportunities have been removed.

There has been a change in corporate financing within the last 10 years. Heretofore large corporations and small corporations, similarly, would borrow seasonally, whereas now they have financed themselves through reorganization of their capital structures. That has removed the opportunities from the banks and such things as that have made it very difficult for a bank to stay on an even keel.

Mr. STEAGALL. You would not say that the difficulty has grown out of the inability of the banks to make loans?

Mr. POLE. No, sir; they do not have any trouble in making loans, but they generally have to be satisfied with loans of a different quality——

Mr. STEAGALL. That is what you mean—not that they are not able to make loans enough, but the loans they have now are not as satisfactory as previously?

Mr. POLE. Banks in small communities have to be satisfied with small local loans and real-estate loans which frequently are slow and unsatisfactory, resulting in a greater percentage of losses than in years gone by.

Mr. STEAGALL. I remember having discussed with Mr. Williams, who was Comptroller of the Currency, the matter of interest rates which were being received by national banks. He issued some stubborn orders regarding the enforcement of the law which prohibited a national bank from receiving interest in excess of the law of the State in which the bank did business, and that was back at the time of the inauguration of the Federal reserve system.

Mr. POLE. Yes; later than that; about 1918.

Mr. STEAGALL. Mr. Williams did that in 1915. That is a matter about which I have some recollection, because I came to Congress that year and I remember the first time I discussed it. A bank in my district liquidated on account of that order and paid everybody in full, including the stockholders. Many thought it was an unreasonable thing, but it was not. There has been no change in the interest rates that banks receive since that order, as I have been advised. Is not that right? So that that order fixing the limitation on interest charges by the national banks went into effect some years prior to the time that these increased insolvencies developed?

Mr. POLE. I think that order, Mr. Steagall, was not an important factor in the return which a bank receives on its invested capital. I think it had reference, as I recall it—and I do remember it very well—as to whether or not a bank should be permitted to make a minimum charge of a $1 or 50 cents.

Mr. STEAGALL. I am speaking about the interest rates. I have not yet reached the matter of charges on collection of checks. He put into effect an order that the banks must observe the law. The law did provide, long before that, that the banks should not charge an interest rate above the interest rate charged in the State in which it was doing business, and it had been discovered that it was violated, and he put that order into effect in 1915.

Mr. STEVENSON. That did not affect State banks at all.

Mr. STEAGALL. No; but it did affect the national banks, all national banks that were members of the Federal reserve system.

Mr. POLE. I would not say that that was a material factor. I do not think the small banks generally observed it, and if they had, I do not think it would have been an important factor.

Mr. STEAGALL. The deposits have substantially increased all along, have they not?

Mr. POLE. They have not materially increased in the rural districts. They have, in the metropolitan districts.

Mr. STEAGALL. But not in the rural districts?

Mr. POLE. No; not anything like the proportion of increase in the larger centers.

Mr. STEAGALL. You referred a moment ago to the matter of charges that the little banks impose for the collection of checks. That right was taken away from the banks about—now, when was it? You remember it better than I do.

Mr. POLE. That was when the par collection system was put into effect by the Federal reserve banks, two or three years after the system went into operation.

Mr. STEVENSON. About 1917.

Mr. STEAGALL. What amount of earnings did that take away? How did that affect the situation? That is certainly one factor entering into this matter of the ability of these banks to make sufficient earnings to succeed properly.

Mr. POLE. I think it was the contention of a great many small banks, Mr. Steagall, that it affected their earnings.

Mr. STEAGALL. That was a considerable item with the little country banks, was it not?

Mr. POLE. It was probably a considerable item.

Mr. STEAGALL. That is what I had always thought. I have had this statement made to me, and I do not say it is true, because I am not sufficiently informed to pass on it, but the statement is often made that many of these little banks get enough out of their collection charges to pay their salary accounts and a big part of their running expenses.

Mr. POLE. I think that would be true in very few instances, and if they did, they were probably making exorbitant charges.

Mr. STEAGALL. I think that was true in some cases. I think that wherever that was the case their charges should be regulated, but evidently the taking away of collection privileges was one of the things that entered into the calculation, out of which grows their ability to make earnings. Personally, I always thought that that right should not have been taken away from the little banks. Maybe I was unduly sympathetic and maybe my views were not always sound, but I thought there should be a statutory regulation of the matter to protect the public against unfair charges but not deny them any aid and make them do the work for nothing, which was generally for larger banks and wholesale houses.

Mr. POLE. Yes.

Mr. STEAGALL. There is a long story in that connection with reference to the legislation which was passed, which finally gave authority to the Federal Reserve Board to enforce its will in that matter, but I do not care to enter into that discussion now. I wanted to ask you this: How much—and this is a matter I should not have to ask you about, but I do not have the figures before me—how much of the earnings of the Federal reserve system have gone in the Federal Treasury since the inauguration of the system?

Mr. POLE. I supplied that information for the record this morning.

Mr. STEAGALL. Did you?

Mr. POLE. Yes.

Mr. STEAGALL. Then, I will not ask you to repeat it. Of course, it will be true, will it not, that the small return that a member bank receives from the Federal reserve bank, which is limited to 6 per cent, on its stock, is one of the items that enters into the matter of their inability to make sufficient earnings?

Mr. POLE. I should say by no means.

Mr. STEAGALL. You think not?

Mr. POLE. I think not. Federal reserve bank stock is one of their securities upon which they get 6 per cent and on which the yield is better probably than the average yield on their total investments.

Mr. STEAGALL. They have to carry, in addition to that stock——

Mr. POLE. That is another matter. I am merely speaking from the standpoint of the investment in the Federal reserve stock.

Mr. STEAGALL. In addition to that, they carry 7 per cent of their demand deposits and 3 per cent of their time deposits——

Mr. POLE. In the Federal reserve banks; that is true.

Mr. STEAGALL. And on which they get nothing?

Mr. POLE. On which they get nothing.

Mr. STEAGALL. That would be one item, or course.

Mr. POLE. Yes.

Mr. STEAGALL. And it ought to be taken into the calculation and in connection with their earnings?

Mr. POLE. Yes; that is a consideration.

Mr. STEAGALL. That, of course, would apply only to banks that are members of the Federal reserve system?

Mr. POLE. Yes, sir.

Mr. STEAGALL. And our greatest failures, of course, are not in the Federal reserve system?

Mr. POLE. The greatest number of failures are of banks not in the Federal reserve system.

Mr. STEAGALL. However, this is true, we are striving—those of us who have responsibilities as legislators or otherwise—for the improvement of the national banking system. Of course we would not attempt to treat the State system as our pattern or anything like that, and we, of course, are pleased that the national system can make a better showing. It has many advantages.

You discussed yesterday, with Mr. Busby, the matter of the guarantee of deposits. I believe he suggested that an insurance method might be advisable, but that did not appeal to your judgment.

Mr. POLE. Not at all.

Mr. STEAGALL. Would there be insurance facilities sufficient to meet the requirements if we should attempt to say to the national banks of the country that they should insure their deposits?

Mr. POLE. I could not say about that.

Mr. STEAGALL. There would be at least some question about that, would there not?

Mr. POLE. I am not informed as to what the insurance companies can do.

Mr. STEAGALL. This difficulty would occur, however, would it not, that if we put a law into effect now—now or six months or a year from now—saying that all national banks must insure their deposits, the practical effect would be to automatically close every bank that was not able to get insurance, would it not?

Mr. POLE. I think that there are many banks over this country which enjoy such confidence on the part of their patrons that it would make no difference to them whether they were insured or not.

Mr. STEAGALL. But if the law should require them to insure and insurance companies would not take them, they would have to go out of business?

Mr. POLE. Yes.

Mr. STEAGALL. There could be no law passed compelling insurance companies to take them.. So, the practical effect would be those banks that were unable to pass muster before the insurance companies, would have to go out of business? And in that situation, we would not have the friendly, helpful hand of the Comptroller of the Currency, with his constructive and sympathetic attitude in dealing with banks, to say whether or not a national bank should close or not, but some inexperienced representative of an insurance company in New York would go down to South Carolina or Alabama and look into a bank and decide whether it should be closed or insure its deposits and keep open.

Mr. POLE. They would have to decide whether or not it was a good risk. I imagine there would be a few banks whose risk they might not care to assume.

Mr. STEAGALL. You discussed yesterday the guarantee system as it had been attempted in certain States. I do not care to go into that in detail. I am taking so much of your time and so much of the time of the committee I want to hurry along, but this is true, is it not, that the State, as a unit, would afford much weaker facilities for putting into effect a guarantee system established and borne by the banks themselves, than would be the case if the whole United States should be made the unit and the guarantee system undertaken by the national banks of the whole country with its vast resources; it would necessarily, of course, be stronger and beetter able to undertake that burden and responsibility. That necessarily would be ture, would it not? I am not attempting to commit you to the idea that they should do it. That is another matter, but certainly they would be very much better able to do it than the weak little banks in what some one said in one of the Senate debates—in one of our "backward" States?

Mr. POLE. Yes.

Mr. STEAGALL. Of course, in that event, you would have the entire area of the United States, and a crop failure in one State would not pull down the whole system, which can happen in a small State unit. You would have all the big national banking system back of it which would, of course, make it much less hazardous and burdensome for them than would be the case where it was limited to the individual States.

Mr. POLE. Are you speaking of a guarantee of the funds by the United States Government to cover all the States and all the banks?

Mr. STEAGALL. I am speaking of a guarantee system patterned after those in the States.

Mr. POLE. That would be of the National Government?

Mr. STEAGALL. If the national banks themselves attempted to guarantee their deposits as the State banks have attempted to guarantee their deposits. I am not saying it is a desirable thing. Of course there would be a vast difference with the vast United States as compared with the small banks of small States.

Mr. POLE. I rather doubt that for the reason that if you are going to penalize national banks any further they might go into the State systems.

Mr. STEAGALL. I am not talking about that phase of it.

Mr. GOLDER. What do you mean by "guaranteeing deposits"?

Mr. STEAGALL. A guarantee system patterned after the State systems, and their systems had—and most of them with which I have had any acquaintance—a plan by which each bank was assessed so much annually to set up a fund out of which to realize sufficient to take care of depositors when the bank was closed or something like that. As a rule it seems not to have worked well in some of the States.

Mr. POLE. That is true.

Mr. STEAGALL. I share the view——

The CHAIRMAN. Will you yield to me?

Mr. STEAGALL. Yes.

The CHAIRMAN. I understand the State guarantee plan has failed in every State in which it has been put into operation, and they have discontinued it in every State except Nebraska, and Nebraska's governor is calling a special session of the legislature now to repeal that law.

Mr. STEAGALL. I have never had faith in the guaranty system as the States have adopted it and I am not surprised that it has not worked well. I am not fully informed as to how it has worked in the various States and therefore I do not care to go into details about that.

Mr. STEVENSON. Before you leave that point, would you mind one question? I shall not be able to be in another of these meetings for a couple of weeks.

Mr. STEAGALL. I am glad to yield.

Mr. STEVENSON. On that very question yesterday the comptroller, being asked about depositors requiring or being given security by banks, the comptroller expressed the opinion that it is not a sound policy, with which I agree. But I want to ask the comptroller this: Is it not the rule that the United States Government requires for every one of its deposits, the bank to put up absolute security for its money and pay interest on it?

Mr. POLE. That is true as far as the United States Government is concerned.

Mr. STEVENSON. And we have our Government which supervises this whole business insisting on a preferential provision for itself, which is admittedly unsound for the other depositors. Is not that true?

Mr. POLE. Of course every depositor in every bank is interested in the safety of a Government deposit.

Mr. STEVENSON. To a small extent—a very small extent.

Mr. POLE. If you were to require the banks to give security to its depositors that it would be very impracticable.

Mr. STEVENSON. It would simply force the banks to loan out every bit of their deposits in order to have the securities in order to place the securities; in other words, the bank would simply become a loaning agency for the depositor and take the security and turn it over to him. It is not a sound policy, and I have questioned, for a long time, the justice of the United States Government stepping in here and having an absolute preference over the small depositors when they require absolute gilt-edged security for every deposit they make, and make them pay interest on it.

Mr. POLE. It is the custom to secure public funds of all character—not only the United States Government, but also municipal, State, and county funds.